TOPIC 1: ACCOUNTS OF MANUFACTURING FIRMS

Nature of Manufacturing firms.

- Manufacturing businesses have a more complex sequence of operations, whereby raw materials are purchased and converted into finished goods and then sold.
- The relevance of manufacturing accounts is in the analysis of the results of a business in such a way as to identify the profitable and non-profitable areas of production.
- This will enable managers responsible for each area to take appropriate measures where necessary, to reduce costs and increase profitability.

The Concept of Cost.

- Cost may be regarded as the amount of expenditure, whether actual or notional, incurred or attributable to, a product, process or operation.
- Cost is made up of two components namely: quantity used and prices and they are related thus: Cost = Quantity*Price.
- When cost expires, it becomes expenses.

Elements of Cost and Their Classification.

- Basically the elements of cost comprise material costs, labour costs and expenses.
- Their classification fall into direct and indirect costs.
- Thus, we have direct and indirect material cost, labour cost and expenses.

Direct Costs(Prime Cost).

- Direct costs are those costs which can be traced to or identified with a particular product, and comprise direct materials, direct labour/wages and direct expenses.

- Direct Material Costs: Consists of all those materials that can be physically and economically identified with a specific cost object. They include raw materials used in a product, bought in parts and assemblies incorporated into the finished product. An example is wood that is used in the manufacture of a furniture desk.

Direct Costs(Prime Cost) Contd.

- Direct Labour Cost/Wages: These are wages paid to employees who are directly engaged in the production process. The remuneration of the human effort of workers that can be physically traced to or identified with a particular cost object. Examples are: salaries paid to factory workers, wages of operatives who assemble parts into finished product or machine operatives engaged in the manufacturing process.

Direct Costs(Prime Cost) Contd.

- Direct Expenses: These are costs other than materials and wages that can be directly associated with a production unit. They are expenses incurred specifically for a particular product, job, batch or service. Examples are: royalties paid for the right to produce the finished product, the cost of any special drawings and sub-contracted work, the cost of hiring a plant or a tool for a particular job, royalties paid for copyright or patent.

Prime Cost.

- The sum of all direct material, direct labour and direct expense costs.
- Prime cost = Direct materials + Direct Labour+ Direct Expenses.

Indirect Costs(Overheads).

- They are all material costs, labour costs and expenses which cannot be traced to a cost object or a particular product. They comprise: factory/production/manufacturing overheads, selling and distribution overheads, and administrative overheads.

- Indirect Material Costs: Items of materials that cannot be identified with any one product, because they are used for the benefit of all products rather than for any one specific product. Examples are lubricating oil, stationery and consumable materials.

Indirect Costs(Overheads) contd.

- Indirect Labour Cost: Includes wages of all employees who do not work on the product itself but who assist in the manufacturing operation. Examples are the salaries of factory supervisor or staff in the stores departments. Wages paid to foremen, supervisors, managers, cleaners, maintenance staff , etc…are all indirect wages.

Indirect Costs(Overheads) contd.

- Indirect Expenses: They are cost of services that cannot be traced to a product, job, or service. Examples are: rent and rates, depreciation and insurance of plant and equipment.

- The sum of all indirect materials cost, indirect labour costs and indirect expenses is termed as overheads.
- Overheads=Indirect material cost+ indirect labour cost+ Indirect expenses.

Further classification of overheads.

- Manufacturing/Production Overheads: These include indirect material costs, indirect labour costs and indirect expenses which relate to the production process. Examples are lubricants and supplies of materials for repairs and maintenance, salaries and wages of inspectors, time keepers and supervisors, heating, lighting, power and depreciation of factory buildings, plant and equipment.

Further classification of overheads.

- Non- manufacturing overheads: These are costs which are not included in the cost of manufacturing the product, and they are not included therefore in the cost of sales. They are period costs rather than product costs and can also be classified into:

- Administrative overheads: They are the cost of formulating policies, directing the organization and controlling the operations of an undertaking which are not related directly to production. Also known as cost of management. Examples are: directors' salaries, depreciation of office equipment, stationery, rates and rent of office building.

- Selling and Distribution Overheads: Those overheads incurred in obtaining orders, promoting sales and final distribution of goods to customers. They include: advertising and selling costs, warehousing, packing and delivery costs.

Cost of Manufacturing

- The purpose of manufacturing account is :
  - To find the cost of goods manufactured
  - To ascertain the amount of any profit on manufacturing process
- The main components of total cost of manufacturing are classified in the manufacturing process as Prime Cost and Total Cost of Production

- Prime cost consist of all direct expenses
- Total cost of production consist of the Prime cost and the Overhead expenses/factory overheads

Types of Inventory.

- A manufacturing business has a number of different categories of inventory as follows:
- Inventory of raw materials: composed of raw materials and components that have been purchased but not put into production.
- Inventory of work in progress: refers to goods that are partly completed and would still require further production to get them completed.
- Inventory of finished goods: consists of goods that have been produced/purchased. These goods have gone through the production process and are ready for sale but which are unsold.

Adjusting for Work in Progress.

- There are two main methods in use:
- Method 1

a. To find the total production cost of goods completed in the period the value of work in progress at the beginning must be brought into account as an addition to the total production cost incurred in the current period.

b. On the other hand, work in progress at the end of period must be carried forward to the next period for completion. This value is therefore shown as deduction from the total production cost ascertained.

Thus,

Production costs	xxx
Add work in progress at start	xxx
	xxx
Less: work in progress at end	(xxx)
Production cost of goods completed	xxx

Adjusting for Work in Progress contd..

- Method 2.
- If the opening inventory of work in progress is greater than the closing figure the difference is added to the cost of production to arrive at the production cost of goods completed. The implication is that costs absorbed into the total amount of completed goods is more than costs held back at the period end.
- Where the opening inventory of work in progress is less than the closing figure, the difference is deducted from the cost of production to arrive at the production cost of goods completed. The implication is that more cost is held back at the period end than were absorbed into the total amount of completed goods.

Adjusting for Work in Progress contd..

- Thus:

Production costs	xxx
Add/Less: Net Work in Progress	xxx
Production Cost of goods completed	xxx

The production cost of goods completed is transferred to the trading account in place of "purchases" in a non-manufacturing business.

Determination of Manufacturing Profit.

- In some businesses, manufactured goods are transferred from the factory to the warehouse at market prices, or an approximation thereof in the form of cost plus a given percentage. This intended to represent the price that the manufacturer would have to pay if he/ she had purchased the goods on the market before sales.
- Market value of goods manufactured = Total cost of production + manufacturing profit
- An unrealized profit is therefore profit on unsold inventory where the inventory has been valued at market value.
- To determine the unrealized profit within any market value of inventory, the markup rate must be changed to margin.

Provision for unrealized profit.

- Where there are any quantities of unsold inventory of finished goods in the business at the end of a financial period, the profit margin related to them described as unrealized profit should be ascertained and charged in the firm's profit and loss account.

- This treatment is intended to set off the amount of unrealized profit on the goods yet unsold against the credit for profit loaded on all completed goods manufactured in the financial period.

- The amount of provision for unrealized profit and unsold inventory in the first year of operation must be fully charged to the profit and loss account and credited to the provision account. In the second and subsequent years appropriate adjustments required for increases or reduction in inventory over the previous year must be adjusted accordingly to the provision account.

Provision for unrealized profit Cont.

Illustration

- The Opening inventory of finished goods at market value as at 1st Jan, 2019 is GHS 20,000. Compute the unrealized profit if goods are transferred to the warehouse at cost plus 33 1/3%.
- The following information relates to Koo Nsiah Manufacturing Enterprise.

  Opening inventory at market value (1/01/2018) GHS22,000

  Closing inventory at market value (31/12/2018) GHS36,000

  Compute the unrealized profit if goods are transferred to the warehouse at cost plus 33 1/3%

Illustration.

- The following balances relate to Oti Manufacturing Enterprise as at 31st December, 2014.

	Gh¢
Inventory on 1st January, 2014:	
Raw materials at cost	300,000
WIP at factory cost	200,000
Finished goods at factory cost	400,000
Purchase of raw materials	2,150,000
Manufacturing wages	3,250,000
Factory expenses	900,000
Office expenses	450,000
Factory fuel and power	250,000
Depreciation of plant and machinery	350,000
Salesmen's salaries and commissions	700,000
Salesmen's expenses	200,000
Advertising	150,000
Rates and Insurance	200,000
Electricity	400,000
Sales	9,500,000

Required: Prepare a manufacturing trading, profit and loss account for the year ended 31st December, 2014.

END OF TOPIC 1

TOPIC 2:
SINGLE ENTRY AND INCOMPLETE RECORDS

LEARNING OBJECTIVES

- Understand the concept of single entry and incomplete records
- Explain why some accounting records are regarded as incomplete.
- Appreciate the features and limitations of single entry and incomplete records.
- Explain and prepare Statement of Affairs.
- Determine profit or loss comparing differences between capitals of two given periods.
- Determine the set of missing figures in the accounts especially sales and purchases figures.
- Prepare final accounts from a set of incomplete records

Nature of Single Entry and Incomplete Records.

- Incomplete records is a general term given to a situation where the transactions of an organization have not been recorded based on the double entry principle of accounting, and thus there is not a full set of records of the organization's transactions.
- It is often too expensive for small businesses to maintain a complete system of double entry bookkeeping.

Forms of Single Entry and Incomplete Records.

- Where no records are kept at all: This is where no basic documents or no records of transactions are kept, or where the records kept are inadequate. In this case, it is not possible to prepare a complete set of financial statements. However, it may still be possible to ascertain the profit for the period provided there is information available relating to the assets and liabilities at start and end of relevant period.

Forms of Single Entry and Incomplete Records.

- Where single entry records are kept: Refers to a situation where the business transactions have only been entered in a book of prime entry, usually a cash book, and not in the ledger.
- Where records are destroyed: This is a situation where records are kept on double entry basis but as a result of a disaster, part or all of the records are accidentally destroyed by fire, flood or any natural disaster.

Reasons for single entry and incomplete records

- Some business see no need to keep proper books of accounts.
- High rate of illiteracy is a factor. A business owner may not be able to read and write and, therefore, cannot maintain any book of accounts.
- Records might have been destroyed or stolen.
- A business owner may not have the funds to engage the services of an accountant or an accounts officer.
- A business owner who is not knowledgeable enough may keep records in a diary.

Problems of Single Entry/Incomplete Records.

- A trial balance cannot be drawn up and this makes it difficult to verify the arithmetical accuracy of the records of transactions.
- It becomes difficult to detect or correct errors.
- The situation facilitates misappropriation of funds, fraudulent deals among others.
- It could lead to tax evasion and or overpayment of taxes.
- It makes it difficult to assess the performance of the business in detail and on a timely basis

Advantages to the Owner

- Simpler and easier system of keeping records
- Less expensive, or at no cost at all

Disadvantages of Single Entry and Incomplete Records.

- Impossible to extract trial balance-Effect on arithmetical accuracy of entries and investigation of errors
- Single entry and incomplete records system of book keeping is not accepted by the tax authorities.
- Errors are very difficult to detect when records are not properly kept.
- As real accounts are not kept, it is difficult to prepare a statement of financial position.
- It gives room for misappropriation and fraudulent deals.
- It makes planning and decision making difficult.

Determining the profit or loss from single entry and incomplete records.

Statement of profit or loss for the period.

Closing capital		xxx
Add drawings		xxx
Less: capital introduced	xxx	
opening capital	xxx	(xxx)
Net profit/loss		xxx

The opening and closing capital are ascertained by preparing statement of affairs.

Statement of Affairs.

- This statement lists the assets and liabilities at a given date. The difference between the assets and liabilities represents capital. This is based on the accounting equation.
- Capital at the end of a period less capital at the start of the period equals profit or loss for the period.
- Adjustments for capital introduced and drawings made during the period have to be made in order to ascertain the actual profit or loss for the period.

Illustration

- Mr. Suleman has the following assets and liabilities as at 1 January, 2015: Machinery GHS13,500; Inventory GHS2,500; Debtors GHS4,800; Creditors GHS4,500; Loan GHS3,800; Bank GHS7,000; Accrued Rent GHS1,500

Required:

Compute the opening Capital for Mr. Suleman

Solution

Statement of affairs as at 1 January, 2015

Assets	GHS	GHS
Machinery		13,500
Inventory		2,500
Debtors		4,800
Bank		7,000
		27,800
Less Liabilities:		
Loan	3,800	
Creditors	4,500	
Accrued rent	1,500	(9,800)
Capital		**18,000**

Steps used in preparing the final accounts from a set of incomplete records.

- Determine the credit sales and credit purchases using control accounts. Alternatively, use mark-up and margin to determine purchases and sales
- Scrutinize the summarized cash book for expenses.
- Adjust for accruals and prepayments at the end of the period.
- Make provisions for depreciation and bad debts as required.
- Prepare the statement of affairs at the beginning of the period to determine the opening capital.
- Open T accounts form the opening statement and complete the double entry from the cash book.
- Any fall in value of the non-current assets should be treated as depreciation.
- Prepare the income statement and the statement of financial position.

Calculation of purchases.

- If the business has no opening and closing creditor's figures, then the payments to suppliers of goods can be taken as the purchases.
- If the business has creditors at start and end of the period, then the change in the creditor's figures will have to be considered. A summary or control account can be used to calculate the purchases for the year.
- The cash purchases derived from the cash book will then be added to the credit purchases determined to arrive at the total purchases which will be used in the trading account section of the income statement.

Calculation of sales.

- To determine credit sales, the opening debtors and closing debtors will have to be considered in addition to the receipts from debtors during the period.
- The debtors account or sales ledger control account can be used. The receipts from debtors plus the closing debtors balance less the opening debtors balance will result in the figure for credit sales.
- The cash sales derived from the cash book will then be added to the credit sales determined to arrive at the total sales which will be used in the trading section of the income statement.

END OF TOPIC 2

TOPIC 3: ACCOUNTING FOR NON-PROFIT MAKING ORGANIZATIONS

LEARNING OBJECTIVES

- Identify and explain the nature and feature of non profit organization
- Subscription and other source of income for NPO
- Trading activities of NPO
- Prepare Receipts and payments account
- Prepare final account of NPO
- Accounting for NGOs

Nature and Purpose of NPOs

- A not-for-profit-making organization is one whose primary aim is to provide services to its members and the community within which it operates.
- Examples of this type of organizations are: sport clubs, churches, social clubs, associations, fellowships, charitable societies.
- One of its main financial objectives is therefore not to earn profit but often simply to break even. In the final accounts of such organizations, the income statement is replaced with an income and expenditure account prepared using the matching and accrual of revenues principles.
- Excess of income over expenditure is termed surplus while excess of expenditure over income is termed as a deficit.

Nature and Purpose Cont.

- NPOs are quite small and may have few assets liabilities other than cash
- Capital account is replaced by an Accumulated Fund
- Final account may include Receipt and Payment account
- Funds are usually raised through contributions by members in the form of Subscriptions or dues
- It is needful to run/manage it on business lines to ensure effective and efficient use of resources and accountability, so same accounting principles are applied
- May engage in other activities to make profit/surplus as a way of raising additional funds/subsidizing other functions

Sources of Income of Non-Profit Making Organizations.

- The sources of raising funds will depend upon the type of organization but some of the most common sources are:
  a. Payments for life membership
  b. Membership subscriptions or dues for annual membership in the club(including initial admission fee for new entrants)
  c. Receipts from fund-raising activities such as sponsored walks
  d. Profits from social events such as dance and end of year parties
  e. Profit from operation of trading ventures, such as bar and transport
  f. Interest received on investments and bank deposits.
  g. Donations and grants from internal and external sources

Accounting Terminologies of Non-profit Making Organizations

1. **Receipts and Payment account:** This is a summary of the cash and bank balances and the total amount received and spent over an accounting period. It is prepared on the cash basis, and therefore only shows monies received and paid during the year. Therefore it does not meet the requirements of accrual accounting. No distinction between capital and revenue items.
2. **Accumulated Fund:** This is the capital of the club or society at any given point in time. Where the amount of this fund at the beginning of the period is not provided, it can be found in the same manner as opening capital which is determined by preparing a statement of affairs. The accumulated fund at start of any year is represented thus by the value of net asset which is the excess of assets over liabilities. The surplus at the year end is added to this fund, and deficit deducted from it.

Accounting Terminologies of Non-profit Making Organizations

3. **Statement of affairs**: This is just like the statement of financial position. It is used to ascertain accumulated fund at a given point in time.

4. **Subscription:** This is the regular contributions made by members of the club or society to finance its operations. It is accounted for based on the accrual basis.

5. **Income and expenditure account**: This is the income statement of the club or society. If the income exceeds expenditure, it is termed as surplus, and if the expenditure exceeds the income it is termed as deficit. No item of a capital nature must appear in this account.

Computation of Accumulated Fund

- Illustration.

The assets and liabilities at the start of the year,1st January, 2023 for Friends Club were:

	¢
Club house	40,000
Tennis court	5,000
Bar inventory	12,000
Prepaid property rate	1,500
Cash in hand	500
Cash at bank	4,500
Creditors for bar purchases	6,500
Sundry club expenses accrued	1,000

Using the statement of affairs, we will determine the accumulated fund of Friends club.

Computation of Accumulated Fund Contd.

Statement of affairs as at 1st January, 2023.

Assets	¢	¢
Club house		40,000
Tennis court		5,000
Bar Inventory		12,000
Prepaid property rate		1,500
Balance at bank and cash in hand		5,000
		63,500
Less:		
Creditors for bar purchase	6,500	
Sundry club hse exps. accrued	1,000	(7,500)
Accumulated Fund as at 1st Jan. 2023		56,000

Receipts and Payment Account Format.

Hill Top Club

Receipts and Payments Account for the year ended 31st Dec 2022.

Receipts	¢	Payments	¢
Bank Balance	xxx	Secretary's exp	xxx
Subscription	xxx	Committee exp	xxx
Proceeds from		Travelling exp	xxx
fund raising	xxx	Printing and stat	xxx
		Clos. Bank bal	xxx
	xxx		xxx

Income and Expenditure Format.

New Trend keep Fit Club.

Income and Expenditure Account For The Year Ended 31st March, 2023.

Income:	GHS	GHS
Subscriptions		xxx
Annual Dinner	xxx	
Less: catering exp	(xxx)	xxx
Donations		xxx
		xxx
Less Expenditure:		
Receptionist’s wages	xxx	
Rates	xxx	
Insurance	xxx	
Printing and Stationery	xxx	
Depreciation	xxx	(xxx)
Excess of Income over Expenditure		xxx

Differences Btn Receipts and Payment and Income and Expenditure Accounts

Receipts and Payments Account	Income and Expenditure Account.
1. It is a real account.	1. It is a nominal account.
2. It is the organization's cash book	2. It is the organization's income statement.
3. Balance at the beginning represents cash in hand at the beginning.	3. Has no opening balance.
4. Contains receipts and payments of both capital and revenue expenditure.	4. Contains income and expenditure of revenue nature only.
5. Prepared on cash accounting basis	5. Prepared on the accrual basis.

Trading Activities of Non-Profit making Organizations.

- Clubs may notwithstanding the original purpose of the organization, engage in a trading activity for example, operating a bar, and organizing dinner dances and parties.
- When a trading activity is undertaken, it is useful to prepare a trading account for each trading activity in order to ascertain the net profit made, or loss incurred. This will usually be shown as a supporting statement to the income and expenditure account and the net profit or loss on trading is transferred to that income and expenditure account.

Bar Trading Account

If a club operates a bar or restaurant, a separate trading account will be prepared for its trading activities. A bar account will consist of:

- Bar takings (sales)
- Cost of bar sales (reconstruction of opening stocks, purchases and closing stocks of goods)
- Gross profit
- Deductions for expenses directly relating to the bar
- Net profit

Bar Trading Account

Note the following when preparing the bar trading account:

- Where sufficient information is not supplied, the bar purchases and sales may have to be ascertained as balancing figures through the purchases and sales control account.
- Any amount owed to suppliers, and by debtors(members for unpaid supplies) may be determined from control accounts.
- Care must be taken to include closing stock of supplies in the statement of financial position. Amounts owed to suppliers will appear as current liabilities, and amounts owed by members for supplies yet unpaid will appear as current asset.

Bar Trading Account Format.

Susuka Association

Bar Trading Account for the year to 31st December 2023.

	¢	¢
Sales		xxx
Less cost of Bar sales:		
Opening bar inventory	xxx	
Add Purchases	xxx	
Less Closing bar inventory	(xxx)	(xxx)
Gross Profit		xxx
Less:		
Barman's wages	xxx	
Barman's commission	xxx	(xxx)
Net Profit (taken to I&E)		xxx

The Subscriptions Account

- Many non-profit organizations require their members to pay an annual subscription or dues towards the funding for the club's activities. These are usually accounted for on the accrual basis. Thus, the amount which is credited to the income and expenditure account in respect of subscriptions is the amount due for the year, irrespective of whether this has all been received.
- Subscriptions paid in advance by members should be adjusted for in arriving at total subscriptions for the year.
- Where some members have failed to pay their subscriptions by the due date or at the end of a given accounting year, these are referred to as subscription in arrears and the usual practice is to include the amount owing as part of the total subscriptions for the year and show the amount unpaid as current asset(receivables) in the SOFP.
- Where some members have paid for their subscriptions in advance, they are treated as current liability(payables) in the SOFP.
- Sometimes subscriptions are recorded in the I&E account on a strict cash accounting basis and not on accrual basis. Here, there will be no subscriptions in arrears or advance in the final accounts. This is said to be the application of the prudence concept. The use of the cash basis is however not common in exam questions and should only be applied where specifically required.

The Subscriptions Account Format.

Subscriptions Account.

	¢		¢
Bal.b/f(arrears at beg.)	xxx	Bal.b/f(advance at beg.)	xxx
Transfer to I&E	xxx	Subscriptions received	xxx
Subscriptions written off	xxx		
Bal.c/f(advance at end)	xxx	Bal.c/f(arrears at end)	xxx

Treatment of Special Items

- Membership/Entrance fees
- Life membership fees
- Donations, bequests and gifts
- Legacies
- Prize funds/education funds

Preparing The Final Accounts of Non-Profit Making Organizations

- The logical steps are outlined as follows:

1. Establish the opening accumulated fund as at start of the current period by preparing statement of affairs.
2. Open the ledger accounts deemed necessary to determine the amount of cash payments made or received. Eg: bar total debtors and total creditors account, petty cash account.
3. Redraft the subscriptions(and other revenue) accounts to ascertain the amount of cash receipts from members, and of the total income transferrable to the I&E account.
4. Prepare the receipts and payments account as a summary of the cash and bank transactions for the period, and ascertain the closing balance for cash and bank to be included in the SOFP
5. Prepare a trading account for any permanent trading activity engaged in by the society. Eg: Bar trading account
6. Prepare the income and expenditure account, making the necessary adjustments for accrued and prepaid expenses, and proceeds of income to ascertain the surplus of income over expenditure or excess of expenditure over income.
7. Prepare the SOFP.

END OF TOPIC 3

TOPIC 4: PARTNERSHIP ACCOUNTING

ACC 102: Intro. to Financial Reporting II

Nature and Formation of Partnership

- As business grows in size and variety of activities, there would be the need to bring other people on board to contribute resources to meet the level of growth since the sole proprietor may not be able to provide all those resources and the corresponding risk.
- The coming together of these individuals to do business with the aim of making profit is known as partnership
- A partnership must have a minimum of two (2) partners and a maximum of twenty (20)

Definition of Partnership

- The law regulating the operations of partnerships in Ghana is embodied in the 'Incorporated Private Partnership Act (Act 152)'.
- The Act defines partnership as 'an association of two or more individuals carrying on business jointly for the purpose of making profits.'
- The Act refers to a partnership registered under it as a 'firm.'

Definition of Partnership

However the Act does not consider the following as partnerships:

- A company registered under the Companies Act 2019(Act 992)
- A company, body corporate or unincorporated association form under any other enactment
- A body corporate formed in accordance with the law of anr foreign country whether carrying on business in Ghana or not
- A joint venture without a firm name for one or more specific operations
- Family ownership or co-ownership of property

Characteristics of Partnership

- Membership: A partnership business must have a minimum of two partners and a maximum of twenty partners; but in the case of professional firms such as accountants and solicitors, there is no maximum number.

- Mutual Agreement: The partnership firm must be governed by an agreement which is reached when all partners come into consensus. In the absence of this agreement, the provisions of the Partnership Act would be applied.

- Mutual Contribution: All partners are expected to contribute to the resources of the partnership firm. Therefore, one cannot be a partner without contributing to the firm.

Characteristics of Partnership

- Share of Profit and losses: All partners have a part in the outcome of the firm, whether profit or loss.

- Co-ownership of contributed assets: All assets contributed by the individual partners into the partnership are owned by the partnership. As a result, all partners jointly own the assets and not just the partner who contributed it.

- Mutual agency: the act of one partner binds the rest of the other partners if that partner acts within his express or limited authority.

- Limited life: The duration or span of a partnership is limited

- Unlimited liability: all partners, except limited partners are personally liable for all debts incurred by the partnership

Registration of Partnership.

A firm cannot carry on business as a partnership unless it is registered under the Incorporated private partnership Act 152. The procedure for registering a partnership is as follows:

A copy of the partnership agreement and a statement on a prescribed form signed by all the partners, containing the following particulars is sent to the Registrar.

- The name of the firm or partnership.
- The general nature of the business
- The address and post office box number of

  i. The principal place of business of the partnership

  ii. All other places in Ghana at which the business is carried on.
- The names and any former names, residential address and business occupation of the partners.
- The date of commencement of the partnership- unless the partnership has commenced more than 12 months prior to the date of the statement.

Registration of Partnership.

Particulars of any charges requiring registration under section 25 of Act 152 or statement that there are no such charges and where particulars of any charge require registration under section 25 of the act, the statement shall be accompanied by the documents required by that section.

Differences between a Partnership and a sole proprietorship.

Partnership	Sole Proprietorship
Minimum number of members is two and the maximum number is twenty.	Has just one person as member who is the owner.
Profits and losses are shared by all partners.	Enjoys all profits and bears the whole amount of losses the business sustains.
Capital is provided by the partners involved thereby leading to a larger pool of resources.	Provides his or her own capital to finance the business; thereby resulting in a relatively smaller amount of resources.
Decisions are collectively made by all partners and responsibility and risks are shared by all partners.	Decisions are made by the sole owner without consulting any other person. Any associates risks and responsibilities are borne solely by the owner.
The final accounts of a partnership business, apart from the income statement and SOFP, include profit and loss appropriation account, partners' capital, and current accounts.	The final accounts of a partnership business, apart from the income statement and SOFP, does not include profit and loss appropriation account, partners' capital, and current accounts.
Regulated by the Incorporated Private Partnership Act(Act 152).	Regulated by the Registration of Business Names Act 1962(Act 151)

Differences between a Partnership and a Company.

Partnership	Company
Must have a minimum of two partners and a maximum of twenty partners; but in the case of professional firms such as accountants and solicitors, there is no maximum number. Members are known as partners.	Minimum number is one and the maximum number is fifty for a private company and for a public company the maximum number is infinity. Members are referred to as shareholders.
Does not have a separate legal identity unless it is an incorporated partnership firm.	Has a separate legal identity which allows it to sue and be sued in its own rights.
The liability of partners for the debts and obligations of the firm is unlimited.	The liability of shareholders is limited to the amount of shares or guarantee respectively held by them.
Regulated by the Incorporated Private Partnership Act(Act 152).	Regulated by the Companies Act 2019 (Act 992)
Ownership is not entirely separate from management because each partner has a right to take part in the management of the business. Usually, partners manage their own business.	Ownership is entirely separate from management because shareholders do not directly take part in the management of the company. Management is usually delegated to a Board of Directors.

Advantages of Partnership.

- There is a larger pool of resources, both financial and otherwise, as compared to a sole proprietorship. The capital required is provided by more than one person.
- Allows individuals with diverse skills and expertise to team up and bring their expertise to bear on the partnership business.
- Business risks are shared by more than one person. The risk that the partnership business may fail does not rest with one person
- The goodwill attached to certain individuals is enjoyed by the partners in the partnership business.

Disadvantages of Partnership.

- Partners may be engulfed in disputes over some matters relating to the business of the firm such as partners drawings, nature of business and secret profits.
- Capital contributed could be limited compared to the capital available to a company.
- An action by a partner that leads to the firm being sued will mean that all the other partners are jointly and severally liable. In most cases, partnerships have unlimited liability.
- The death, resignation or retirement of a partner implies that technically the partnership firm is dissolved. Partnerships therefore do not have perpetual succession.

Kinds of Partners.

- Active Partner: One who actually takes part in the day to day activities of the partnership business. He may be entitled to remuneration.
- Inactive Partner: Not actually engaged in the day to day activities of the partnership business. Also known as a dormant or sleeping partner. He only contributes capital.
- Limited Partner: Usually dormant or sleeping partners. Not liable for the debts of the partnership business. His liability ends with the amount of capital he has contributed or guaranteed to contribute.

Kinds of Partners cont'd

- Unlimited Partner: Liable for the debts of the partnership firm. His liability for the partnership debts extends beyond his capital contribution. Unlimited partners are usually active partners. He's also known as a general partner.
- Nominal Partner: This person holds himself out or has allowed himself to be held out as a partner for the purposes of his goodwill in the partnership business. He is not usually entitled to a share of profit.
- Quasi Partner: A partner who has retired from active partnership but has left his capital in the firm.

The Partnership Agreement.

- Otherwise referred to as a partnership deed.
- The document which contains the terms and conditions under which a partnership is to be operated. It spells out the rules and regulations binding the partners in the business.
- The general provisions which a partnership agreement may contain include the following:

The Partnership Agreement contd.

- The name of the firm and the kind of business to be undertaken.
- The amount of capital to be contributed by each partner
- The ratio in which profit and losses are to be shared among the partners.
- Whether any partner is to be paid a salary and if so, the amount to be paid to him.
- Whether interest is to be allowed on capital and current account balance, and charged on drawings. If so, the applicable rates should be specified.

The Partnership Agreement contd.

- The keeping of books of accounts.
- How disputes between partners are to be settled.
- The method to be employed in valuing assets especially goodwill, on the admission of new partners, the dissolution of the partnership or the exit of partners due to retirement, insanity, or anything that terminates his contractual capacity.
- Whether capitals are to be fixed and drawings, salaries, and other appropriations of that nature, and profits and losses are to be adjusted on current accounts or on the capital accounts if capitals are fixed.
- The method of determining the amount due to the estate of a deceased partner.

Applicable rules in the absence of an Agreement

- All partners shall be entitled to share equally the profit and losses of the firm
- All partners shall contribute equal capital
- No partner shall be entitled to interest on capital
- Where interest is to be paid, it shall be paid out of profit
- Any advances (loan) made by partner(s) shall attract an interest of 5% per annum
- Every partner may take part in the management of the business of the firm
- No partner shall be entitled to remuneration for acting in the firm’s business
- No interest is charged on drawings
- No admission of a partner without his consent and the consent of all existing partners
- The partnership books and accounts shall be kept ar the principle place of business of the firm
- Disagreements and disputes may be decided by a majority of the partners
- No change may be made in the nature of the firm’s business without the consent of all existing members

Accounts of Partnership Firms.

- The partnership act requires every partnership firm to keep proper books of accounts with respect to its financial position and changes, performance and control.
- The firm is required to keep at least the following books and schedules:
  - A cash book
  - A purchases and sales day book
  - Ledger accounts
  - An asset schedule.

Final accounts of Partnership Firms

Usually consist of:

- A manufacturing account(for manufacturing firms)
- A statement of profit or loss and other comprehensive income
- A profit and loss appropriation account
- The statement of financial position

Statement of Profit or Loss Appropriation Account.

- Used to distribute the profit or losses of the partnership(because there is more than one owner) to the partners in accordance with the terms stated in the partnership deed.
- Interest on capital, partners' salary and interest on drawings are treated in the appropriation account

Nb: Interest on partners' loan is an expense which is debited to the income statement and credited to the current account of the partner who advanced t he loan. It is not an appropriation item.

The Capital Accounts of Partners

- Used to record the amount of initial and additional capital contributed by each partner. The amount of capital, whether cash or other assets, contributed by each partner is credited to his capital account.
- The capital account is debited with any capital withdrawn.
- The capital accounts are of two types:
  - Fixed capital
  - Fluctuating capital

Fixed: Records only initial and additional capital as well as capital withdrawals. Where the partners keep fixed capital account, the partners current accounts have to be prepared to cater for the fluctuating interest to partners

Fluctuating: A combination of fixed capital account and current account.

The Current Account.

- It's prepared to take care of items of recurring nature such as drawings , interest on partner's loan, interest on capital, partners' commission, and share of profit or losses.

- It should be noted that where partners keep fixed capital accounts, then the partners' current account have to be prepared to take care of the fluctuating interest to partners.

- Where partners maintain a fluctuating capital account, the current account is not kept.

The Statement of Financial Position

- The SOFP of a partnership is similar to that of a sole proprietorship business except that the capital accounts of each partner are shown separately in the SOFP.

Goodwill in Partnership Firms.

- Simply the good name a business earns for itself.
- The extra amount paid for the existing business in case of sale of business.
- The difference between the value of the business as a whole and the fair value of its net separable assets.
- The value of a business as a whole and how much it will be sold for in its entirety as a going concern.
- The fair value of its net separable assets refers to how much the individual or identifiable assets could be sold for separately, and if there are liabilities, part of the proceeds would be used to settle these liabilities.

Factors contributing to Goodwill.

- Advantageous location
- Large number of loyal customers
- Reputation of the business owner
- Competent, motivated and dedicated staff
- Good contacts with suppliers
- Experienced and efficient management team
- Quality goods and services.

Types of goodwill

- Purchased goodwill: Arises when an existing business is purchased at a value greater than the value of its net assets .
- Non-purchased goodwill: Internally generated in the business when certain circumstances occur; circumstances such as:
  - Changes in partners’ profit and loss sharing ratio
  - Admission of new partner
  - Retirement and death of a partner
  - Amalgamation of partnerships

Methods of valuing goodwill

- Purchase of number of years' average net profit method: Under this method, goodwill is calculated on the basis of the average of some agreed number of past years . The average is then multiplied by the agreed number of years
- Goodwill= Average net profit x Number of years of purchase.
- This is the simplest and most commonly used method of valuation of goodwill.

Methods of valuing goodwill.

- Super Profit method: Here, goodwill is computed as the capital value of an annuity for an agreed number of years of the super profits of the business. Super profits are profits earned above the normal profits. That is, profits in excess of the amount necessary to pay a fair return upon the capital invested in the business and reasonable remuneration for the services of the partners or the proprietor who work within the business.
- The super profits may therefore be multiplied by the number of years required to arrive at the value of goodwill.

Treatment of goodwill on admission of a new partner.

- When a new partner is admitted, it is customary for him or her to pay into the firm a certain amount of money as his or her contribution towards the capital of the business.
- Where the new partner pays cash into the firm, it will normally consist of two elements:
  - part in respect of his capital
  - partly for his share of goodwill

The total of these two elements will, in the first place, be credited to his capital account.

Accounting treatment of goodwill on admission of a new partner.

Two ways can be used to do this:

1) Raise an account for goodwill in the firm's books.

Dr. goodwill account with full value of goodwill

Cr. old partners capital account with the amount in proportion of their old profit and loss sharing ratio.

Accounting treatment of goodwill on admission of a new partner.

2) Write off goodwill immediately after admission.

Dr. goodwill account with full value of goodwill

Cr. old partners capital account with the amount in proportion of their old profit and loss sharing ratio.

Dr. capital account of all partners (both old and new) with the amount proportion of their new profit and loss sharing ratio.

Cr. goodwill account

Conditions for valuing goodwill

- Admission of a new partner
- Changes in profit and loss in sharing ratio
- Retirement of a partner
- Death of a partner
- Amalgamation of partnership firms
- Conversion of a partnership firm to a company

Revaluation account and admission of a partner.

- Revaluation is the assessment of the value of asset s and liabilities of a firm to reflect its current market value or fair value.
- A revaluation account, in its simplest form is a miniature profit and loss account in which all capital profits(increase in assets and decrease in liabilities) are credited and all capital losses(increase in liabilities and decrease in assets) are debited with their corresponding entries appearing in the appropriate account.

Revaluation account and admission of a partner.

- The balance on the revaluation account if any is shared among partners in their old profit and loss sharing ratio and credited or debited to their capital accounts accordingly.

Conditions for revaluation of assets and liabilities.

- Admission of a new partner
- Changes in profit and loss in sharing ratio
- Retirement of a partner
- Death of a partner
- Amalgamation of partnership firms
- Conversion of a partnership firm to a company

Dissolution of a Partnership

- A partnership is dissolved when the firm ceases to carry on business or ceases to be in existence. By the provisions of the Act, a firm may be dissolved on the occurrence of any of the following,
  - Death of a partner
  - Retirement of a partner
  - Disagreement among partners
  - Insanity on the part of a partner
  - Insolvency or bankrupt
  - Court order
  - Voluntary liquidation

Dissolution of a Partnership

- The dissolution usually involves the sale of assets and settlement of liabilities.
- Any profit or loss on realization is transferred to partners' capital account
- The remaining cash after paying trade payables is pad to partners to close all books of accounts

- The realization account is used to record assets sold and liabilities settled. Accounts to be settled on realization include the following;
  - Monies owed to employees
  - Expenses incurred on realization
  - Settlement between partners

END OF TOPIC 4

TOPIC 5: INTRODUCTION TO COMPANY ACCOUNTS

ACC 102: Intro. to Financial Reporting II

Nature and formation of a company

- A company in Ghana, is a body corporate formed by any one or more persons and registered in compliance with the provisions of the Companies Act of 2019 (Act 992).
- The owners of a company are known as its shareholders. In Ghana, one person can form a company. In most countries, however, there must be at least two shareholders.
- All companies must be registered with the registrar of companies to whom financial reports must be sent each year. The accounts submitted are available for inspection by any member of the public.

Documents required in the registration process

- Regulations: This refers to the principles or rules employed in the controlling, directing or managing the activities of the company. It is made up of the Article of Association and the Memorandum of Association.
- Prospectus: A formal legal document, which is required by and filed with the Registrar of companies, that provides the details about the company.

Registration of limited liability companies.

The following procedures need to be followed:

- Filing of documents with the registrar.
- The Regulations of the company should be attached to the completed forms. The promoters must pay stamp duty and registration fees.
- The registrar scrutinizes the documents.
- The Registrar will issue a certificate known as Certificate of Incorporation under his or her signature.

Characteristics of a company.

- Separate legal Entity
- Limited liability
- Perpetual Existence
- Ownership separate from the management
- Voting rights

Types of companies.

- Companies with unlimited liability: may be registered with or without a share capital. They are so rare that, bare mention of their existence is enough.

- Companies limited by guarantee: may be registered with or without a share capital. Each member guarantees in the event of the company being wound up, to contribute a stated sum for the purposes of winding up.

- Companies limited by shares: These are companies which have the liability of their shareholders limited to the amount of shares respectively held by them. Of these, there are two kinds. Thus: Private companies and public companies.

Differences between private company and public company.

Private	Public
Membership: limits the number of its members and debenture holders to fifty, excluding existing employees and former employees.	Has unlimited number of members. It only requires a minimum of one and a maximum of infinity
Transfer of shares: Restriction on transfer of shares. A shareholder cannot transfer shares without the consent of the other shareholders.	There is no restriction on transfer of shares in a public company. A shareholder can easily transfer shares without the consent of the other shareholders.
Invitation to the public for shares and debentures: A private company is prohibited from making any invitation to the public to acquire any shares or debentures of the company.	It is not prohibited from making any invitation to the public to acquire any shares or debentures of the company.

Differences between private company and public company.

Private	Public
Invitation to the public to deposit money: prohibited from making any invitation to the public to deposit money for fixed periods or payable at call, whether bearing or not bearing interest.	It is not prohibited from making any invitation to the public to deposit money for fixed periods or payable at call, whether bearing or not bearing interest.
Publication of accounts: is not required by the companies Act to publish its accounts.	Required by the companies Act to publish its accounts.

Advantages of limited liability companies.

- More capital than partnerships or sole traders. It is easier to raise capital through share issues and it is often easier to raise finance from financial institutions.
- More permanent as it has continuous existence
- Greater specialization or division of labour because it is possible to employ specialists.
- The company name is protected by law.
- Suppliers feel more confident about trading with legally established bodies.
- Shareholders have limited liability.

Disadvantages of limited liability companies.

- Corporate activities are limited by the regulations of the company.
- Decision making can be slow and bureaucracy can be a problem.
- Management and ownership is separate, so there might be a lack of motivational spirit.
- The financial accountability of a company is less private than for other forms of organization. Companies are governed by the Companies Act of 2019(Act 992), which states that financial records and annual returns must be audited.
- There are a number of legal requirements to fulfill which can be expensive and cumbersome.

Nature of a company's capital.

- Nominal, Registered or Authorized capital: This is the amount of capital mentioned in the company's regulations. It is the maximum amount of capital that a company is authorized to issue and the amount on which the capital duty is assessed.

- Issued capital: The nominal value of capital which in fact a company has offered, either to the public, and / or to vendors as consideration for property acquired by the company. It is made out of the authorized capital.

- Subscribed capital: The amount of the issued capital taken up and subscribed for by prospective shareholders.

- Called-up capital: The amount of the subscribed capital that has actually been called up by the company for the shareholders(subscribers) to make payment.

Nature of a company's capital.

- Paid-up Capital: The total amount paid up or credited as paid up on the issued capital.
- Uncalled capital: The amount of subscribed capital that has not been called up. That part of issued capital which has not been demanded by the company from the shareholders.
- Unissued capital: The amount of the authorized capital which the company has reserved for issue at some future time.
- Working capital: Denotes the excess of the cash and other assets quickly realizable in cash over the current liabilities of a company.
- Human Capital: The human effort exerted in production of goods or the rendering of services in an organisation.

Nature of a company's capital.

- Stated Capital: The capital of the company that has been provided by the owners. Same as paid up capital.
- Loan Capital: Known as debentures or long term loan to the business
- Shares of no par value: These are shares that do not have any fixed face value.
- Par Value shares: : These are shares which have fixed face value. Could be issued at premium or discount.
- Calls in arrears: The part of called up capital which has not been paid by the subscribers(shareholders)

Shares.

- Shares represent the interest of members of a body corporate.
- Signifies part ownership of a company depicting the proportion of a member's interest in a company.

Types of Shares.

The two broad categories of shares are:

- Ordinary (equity) shares
- Preference shares

Ordinary Shares.

- Also known as common stock.
- Holders of these types of shares have voting rights and are the risk bearers of the company.
- The type of share that carries no fixed rate of dividend.
- Dividend payment depends on available profits. Ordinary shareholders are only paid dividends after preference shareholders have been paid their dividends(including any arrears).

Preference Shares.

- Shares which entitle the holder to a fixed amount of dividend on the shares before any dividend is paid to other classes of shares.
- A holder of preference shares is not entitled to any right to participate beyond a specified amount in any distribution whether by way of dividend, or on redemption in a winding up or otherwise.

Issue of Shares.

- The main source of capital of companies is through the issue of shares. A share represents part ownership in a company.
- All shares issued in Ghana should be shares of no par value. Thus, they do not have nominal value
- This means, whatever the shareholder pays in exchange for the shares is in no way an indication of the degree of ownership.
- The extent of ownership is determined by the number of shares held.
- When a company is being registered it is required to indicate the total number of shares authorized by its regulations out of which the company can issue to the public for subscription.

Issue of Shares.

- Capitalization Issue

This is another way a company can issue shares.

A company may, by special resolution, issue shares and credit them to existing shareholders as fully paid.

Such an issue of shares, called capitalization issue or bonus issue, is considered as a payment for shares otherwise than in cash, and is effected by a transfer from the income surplus account to the stated capital account.

Issue of Shares.

- Right Issue

  This is where a company issues shares to its existing shareholders in proportion to the amount of shares already held by the respective shareholders. Unlike capitalization issue, with the right issue, the shareholders will have to pay for the shares in cash or other form.

Accounting for issue of shares.

- Shares could be issued in a number of ways. There could be a public invitation to apply for shares , offer for sale, issue by prospectus, issue by tender, a placing, rights issue, an introduction, and/or a bonus issue.
- Accounting for the issue of shares involves the making of the necessary entries in the accounts needed to record the issues of shares in respect of the following: receipt of monies for applications, the allotment of shares to successful applicants and the making of calls for the unpaid balance of the consideration .

Accounting for issue of shares.

The accounts necessary to record the issue of shares are the following:

- Application Account
- Allotment Account
- Calls Account
- Cash book
- Stated Capital Account
- Share Deals Account.

Illustrations.

- 1.Glogeo Limited invited applications for 500,000 ordinary shares at 3 cedis per share. The issue was fully subscribed and all monies were paid on application. Write the journal entries in the books of the company recording the above transaction.

- The Directors of ABC ltd issued 100,000 ordinary shares of 10 cedis each payable as follows:

  On application: 3cedis per share

  On allotment: 5cedis per share

  On call: 2cedis per share

Required: Write the necessary ledger accounts recording the above transactions and extract a statement of financial position immediately after the issue assuming no other transaction took place.

Oversubscription of shares.

- `When a company's shares are oversubscribed, it may:
- Reject the excess applications and the amount involved refunded to the unsuccessful applicants or
- Allot the shares on pro rata basis or
- Set it against allotment and future calls. (such amount should not be transferred to the share capital account until the calls(amount) become due.)

Oversubscription of shares.

Illustration:

- The directors of Ataram Ltd. Issued 50,000 ordinary shares, at 10cedis each payable as follows:
- On application: 2 cedis
- On allotment: 3 cedis
- First Call: 4 cedis
- Second and final Call: 1 cedi

75000 shares were applied for,

The directors decided to allot the shares on pro rata basis among the applicants

The excess application monies were held against allotment. All installments were met when due.

Required: Write down the relevant ledger accounts recording the above transactions.

Issue of shares at a premium.

- When a share is issued at a premium, it means it has been issued for an amount which is higher than its face, nominal or par value.
- The premium paid for the share is credited to an account called share premium account.
- The premium is normally paid with the installment due on allotment. The entries are:
- Dr. allotment account
- Cr. share premium account with the premium on issue of shares.
- Nb: The share premium account is a capital reserve account.

Issue of shares at a premium.

Illustration.

- XYZ Ltd. issued 50,000 ordinary shares of 20 cedis each at 25 cedis per share payable as follows:
- 5 cedis per share on application
- 10 cedis per share on allotment(including premium)
- 10 cedis per share on the first and final call.
- All monies were received on the due dates.

Required: Write up the necessary ledger accounts and show the relevant part of the company's statement of financial position.

Shares issued at a discount.

- Shares are said to be issued at a discount if issued below the nominal or face or par value.
- The discount must appear as a fictitious asset in every statement of financial position.

The entries are:

- Dr. Discount on shares account(with the amount of discount)
- Dr. Application and Allotment account(with amount received from subscribers)
- Cr. Share capital account(with the full value of shares[nominal])
- Dr. Discount on shares account
- Credit Application and Allotment account with the discount on issue.

Shares issued at a discount.

Illustration

- On 31/12/2014, ABC Ltd had the following balances in its statement of financial position:

Issued ordinary shares of 1cedi each	80,000
Reserves	25,000
Debentures	15,000
Current liabilities	10,000
Fixed assets	60,000
Bank	5,000
Other current assets	65,000

On 1/1/2015, the director decided to issue 20,000 ordinary shares of 1 cedi at 0.90cedis payable as follows:

0.40cedis on application

0.30 cedis on allotment and

0.20cedis on first call.

The shares were fully subscribed and subsequently alloted.

Required: Show the ledger entries and the sofp immediately after the issue.

Calls in Arrears

- It is possible for some allottees to default in the payment of some of the calls made on shares allotted to them when due. The amount outstanding is referred to as calls in arrears.
- Calls in arrears should be credited to the call account and debited to the calls in arrears account.
- The balance in the calls in arrears account is subtracted from the issued share capital balance on the statement of financial position.
- When the shareholder pays the call, calls in arrears account will be credited and cash account debited.

Calls in Arrears.

Illustration

- The directors of CUA Ltd. Issued 25,000 5% preference shares of 40cedis each at par payable as follows:
- On application: 10 cedis per share
- On allotment: 12 cedis per share
- On first call: 9 cedis per share
- On second and final call: 9cedis per share
- Applications were received for 32,000 shares and the directors decided to:

a. Refuse allotment for 2,000 shares
b. Allot the remaining on pro rata basis
c. To carry over to allotment excess application fees.

All installments were met when due except Kofi Babone who refused to pay the first, and second and final call fees on 800 shares allotted to him.

Required: Write up the relevant ledger accounts to record the above transactions.

Calls in Advance.

- Sometimes a shareholder may pay for calls before they are due. The amount so paid is referred to as calls in advance.
- In this instance, the first call account is debited and call in advance account is credited with the amount prepaid.
- When the subsequent calls fall due, the call in advance account is debited and call account concerned is credited with the amount involved.
- On the statement of financial position, the balance on the calls in advance will be grouped together with the issued capital on the liability side.

Calls in Advance.

Illustration.

- Using the previous illustration, assuming Kofi Babone paid for the 800 shares allotted to him in advance when the first call was made,

Required: Write up the necessary ledger accounts recording the transactions and show the statement of financial position.

Forfeiture of Shares.

- The directors of a company may be empowered to forfeit the shares of a shareholder when a share subscriber fails to pay for calls due after persistent warnings.
- Until forfeited shares are reissued, the balance on forfeited shares account should appear in the statement of financial position as a separate item under the heading reserves.
- The following are the entries for forfeited shares:

a. Dr. Share Capital account

   Cr. Forfeited Shares Account with the total nominal amount payable on the shares forfeited on the day of forfeiture.

b. Dr. Forfeited Shares account

   Cr. Calls in Arrears account with the nominal value unpaid on the shares forfeited.

c. Dr. Share premium Account

   Cr. Calls in arrears account with unpaid premium

d. Dr. Forfeited shares account

   Credit Discount on issue of forfeited shares with the amount of forfeited shares.

Forfeiture of Shares.

Illustration.

- A company issued 5,000 ordinary shares of 10 cedis each issued at 12.50 cedis payable at 4.50 cedis on application, 8 cedis on allotment inclusive of premium. 5,200 shares were applied for and the excess application monies held against allotment fees. Manu, who was allotted 1,000 shares, failed to pay the allotment fees and the shares were forfeited.
- Required: Show the relevant ledger entries.

Final Accounts of Limited liability companies.

- The final accounts comprise:
- The income statement and income surplus account(statement of retained earnings)
- The statement of final position
- The cash flow statement.

Final Accounts of Limited liability companies.

Format for income statement.	¢
Revenue	x
Cost of Sales	(x)
Gross Profit	x
Other income	x
Administrative expenses	(x)
Distribution costs	(x)
Other expenses	(x)
Profit before tax	x
Income tax expense	(x)
Profit after tax	x

Final Accounts of Limited liability companies.

- Format for Income Surplus Account

		¢
Balance b/d		x
Net profit after tax		x
		x
Less: Dividends paid	x	
Transfers	x	(x)
Balance c/d		x

Final Accounts of Limited liability companies.

Non-Current Assets:	¢	¢
PPE		x
Intangible Assets		x
Investment Properties		x
Long term investments		x
Current Assets:		
Inventories	x	
Receivables	x	
Prepayments	x	
Current Asset investments	x	
Bank and cash balances	x	

Final Accounts of Limited liability companies.

Current Liabilities		
Trade payables	x	
Accrued expenses	x	
Bank Overdrafts	x	
Taxation liability	<u>x</u>	<u>(x)</u>
Net Current Asset		x
Non Current Liabilities		
Debentures	x	
Other long term liabilities	<u>x</u>	<u>(x)</u>
Net Assets		xx
Financed by:		
Stated Capital		x
Capital Surplus		x
Share Deals		x
Income Surplus(Retained Earnings)		<u>x</u>
Shareholders Fund/Net Worth		<u>xx</u>

Terminologies.

- Stated Capital: It consists of the sum of the total amount received from the issue of shares for cash including amounts received from calls made on shares issued with an unpaid liability, without any deductions for expense or commissions; total value received in kind for the issue of shares; total amount transferred from surplus including the credit balance on the share deals account.

Terminologies.

- Share Deals Account: The account prescribed by section 63 of the Companies Code for companies with shares to utilize in redeeming or purchasing their own shares, and for reissuing treasury shares.
- Surplus: Section 69 of the Companies Code defines the surplus of a company with shares as the amount by which its assets other than unpaid calls and other sums payable in respect of its shares, and not including treasury shares, less its liabilities, as shown in its audited accounts, exceed its stated capital. Simply put, surplus is the excess of the book value of net assets over stated capital .

Terminologies.

- Income Surplus: This is the retained earnings of a company. It is simply the undistributed profits of a company. Income surplus is also the total of the accumulated profits, including the profits for the year in perspective less all distributions in the form of dividends, capitalization issues, transfers to share deals account and transfer to stated capital.

Terminologies.

- Capital Surplus: The surplus that arises from revaluations of the value of non-current assets. It is also known as revaluation reserve account.
- Treasury Shares: Shares, which were once issued but have been recalled through forfeiture, purchase, acquisition, or redemption, may be reissued by the company unless they are cancelled. Until such shares are reissued or cancelled, they are referred to as treasury shares.

Purchase of a sole proprietorship business by a company.

- The process of transferring ownership of a business from a person or a group of people to another for a consideration(return/reward) is known as acquisition.
- In most acquisitions, the acquiring entity takes control over the net assets of the acquired company.
- The transfer of control from one group of owners to another affects the economic interest of many people including the owners, employees, trade creditors and customers of both the acquiring entity and the acquired entity.

Mode of Payment for Acquisitions.

- There are two methods namely:
- An acquisition of net assets for cash
- Acquisition of net assets for shares

Reasons for acquisition.

- To utilize efficient business methods
- To gain access to new technology
- To gain access to new clients
- To gain access to new markets
- To raise more capital or access cheaper financing that will lead to a bigger company
- Hire more experts or specialists to manage the business
- Ensure continuity in business generation

Acquisition of net assets for cash.

- This is where the acquisition of the net assets of the acquiree entity is effected in cash by the acquirer entity.
- The acquiring company records the detailed assets and liabilities acquired to reflect the cash paid.
- Excess payment for net assets will be considered as goodwill and will be recognized in the acquirer's books as such.

Acquisition of net assets for shares

- This is where the acquisition of the net assets of the acquiree entity is effected in shares by the acquirer entity .
- In this case, the acquirer entity issues shares to the owners of the acquiree entity.
- After the acquisition process, the owners of the acquired entity become shareholders of the acquirer entity.

Accounting Entries for Purchase of Business.(in the books of the acquired entity)

- The book values of the assets transferred to the acquirer entity are debited to a realization account and credited to the respective assets account to close them.
- The carrying values of liabilities transferred to the acquirer entity are credited to the realization account and debited to the respective liabilities accounts to close them.
- Expenses relating to the acquisition or purchase are debited to the realization account and credited to the cash book(if paid) or expense creditor(if unpaid).
- The agreed transfer value which represents the purchase consideration is credited to the realisation account and debited to an account titled 'the acquirer entity account'

Accounting Entries for Purchase of Business.

- The balance on the realization account represents profit or loss on the acquisition and is transferred to the capital account.
- Where some assets were revalued as part of the acquisition process, the resultant revaluation surplus or deficit is transferred to the capital account.
- If the purchase consideration is paid by shares, the owner of the sole proprietorship business will own shares in the acquiree entity as ordinary shares.

Accounting entries in the books of the acquirer entity. (the company)

- The acquirer entity would take over the assets and liabilities at agreed values by crediting the purchase of business account with the assets and debiting it with liabilities and/or the purchase consideration.
- The difference in the purchase of business account represents 'capital surplus' (credit balance) or goodwill (debit balance).
- The assets and liabilities, as taken over from the sole proprietorship business, plus the balancing figure in the purchase of business account are represented in the statement of financial position.

TOPIC 6: INTRO. TO DEPARTMENTAL AND BRANCH ACCOUNTS

ACC 102: Intro. to Financial Reporting II

Nature of Departmental Accounts.

- A departmental organization is a large business organization with separate sections, known as departments, that deals in different product line like stationery, groceries, clothing, and cosmetics.
- Departmentalization calls for preparation of separate accounts for each department.
- A departmental account is a separate final account for each unit of a business entity that has been divided according to its function.

Reasons for preparing Departmental Accounts.

- To know the performance of each department.
- To give a fair share of common expenses to each department of the organization.
- To appraise the efficiency of respective managers for each department.
- To enable management take useful decision in terms of shutting down a department or not.

Presentation of departmental final accounts.

Income Statement for the period ended 31/12/14

	Dept.A	Dept.B	Total
Sales	xxx	xxx	xxx
Less Cost of Sales	(xxx)	(xxx)	(xxx)
Gross Profit	xxx	xxx	xxx
Less Expenses	(xx)	(xx)	(xx)
Net Profit	xxx	xxx	xxx

Allocation of Expenses

- One of the most significant features of departmentalization of accounts is the allocation of expenses. The two most common methods are:
  - To apportion the expenses between the departments in proportion to the area or floor space taken up by the departments concerned.
  - To apportion the expenses in proportion to the sales(turnover)

Allocation of Expenses

Other acceptable bases of apportionment of expenses include:

- Number of persons in each department. This basis is relevant when apportioning canteen costs.
- Number of vehicles or machinery in each department. This basis is relevant when apportioning depreciation charges of motor vehicles, plant and machinery.
- Expenses that relate exclusively to particular departments must be fully allocated to the departments concerned. Examples are salaries and commission of departmental managers.

Allocation of Expenses

- It is also important to note that since expenses in the income statement now have to be allocated to departments, any item requiring adjustments must be adjusted accordingly before allocation to the departments concerned, to ensure that the correct amount is charged in that account.

Managers' Commission.

- There are two typical bases for the calculation of managers' commission on the profit:

- Commission based on profit before deducting the commission: Involves the direct application of the rate of commission on the profit figure. Thus, if the rate is 5% of the profit before deduction is made of the commission and the pre-commission profit figure is 20,000, the manager's commission is determined as (10,000x5%)=500

Managers' Commission

- Commission based on profit after deducting the commission: Requires the calculation of the manager's commission with a percentage rate that is to be applied on the profits before any deduction is made of the manager's commission. Therefore, the given percentage rate must be converted to a pre-commission rate that can be applied directly on the related pre-commission profit given, or ascertained from the profit and loss account.
- Formula to determine the correct commission is:
- (Percentage commission)/(100+percentage commission)x Profits before commission.

Illustration.

- nocraM ventures runs a business which has two departments. The following balances were extracted from his books on 30/6/14.

	Dept.A	Dept.B	Total
Op. Inv.(1/7/13)	12000	13000	25000
Comm. Payable			1500
Purchases	24520	36544	61064
Salaries			15100
Sales	86030	89070	175100
Advert			2500
Clos. Inv.	12100	13300	25400
Rates			1450
Wages	22800	21200	44000
Insurance			400
Returns inwards	1030	4070	5100
Repairs			800
Returns outwards	520	544	1064
Light and heat			2000

Illustration.

- You are required to set out a departmental trading profit and loss account for the year ended 30/6/14 after taking into account the following information:
- Salaries of 400cedis are due but haven't been paid
- Rates of 250cedis have been paid in advance
- Insurance of 80cedis is prepaid
- Commission, salaries and advert are to be charged to the departments in proportion to net turnover; all other expenses are to be apportioned ¼ to dept. A and ¾ to dept.B

Procedures for recording inter-departmental transfer of goods and services.

- Purchases made for one department may be subsequently sold in another department.
- In such a case, the items should be deducted from the figure for purchases of the original purchasing department,
- And added to the figure for the purchases for the subsequent selling department.

Statement of financial position.

- The statement does not usually show assets and liabilities split between different departments.
- Assets, liabilities and capital are combined into one unit.

Nature and Preparation of Branch Accounts.

- A business producing and selling certain kinds of goods at a certain main place may locate the same type of business some distance away to which it may totally or partially supply materials or goods for production or sale.
- Such a location set up is referred to as a branch of the original business.
- The original business which sets up the branch is also known as the head office of the branch.

The need for branch accounts.

Branch accounts are prepared in order to:

1. Know the performance of each branch
2. Enable management to make decisions
3. Control the operations of each branch
4. Know the avenues for further expansions due to the performance of branches.

Accounting for branch operations.

- Where the accounting records of the branch are kept at the office:
- Centralising the accounting function allows the head office to exercise a greater control over the operations of the branch creating lesser room for fraud by branch employees.
- Centralisation may allow economies of scale in terms of number of accounting staff required.

Accounting for branch operations

- Controls: Where there is centralising of the accounting function, one would expect the head office to implement the following control:
- There should be a rule to the effect that all cash takings are banked intact on a daily basis. All wages and other expenses should be paid by the head office. Each branch should be expected to maintain the imprest system to cater for minor expenses.
- The policy to allow credit facilities should be spelt out by the head office. A sales ledger should be maintained at the office where a large proportion of sales are on credit. Each branch can be responsible for its own sales ledger where the credit sales are of a small proportion. The head office then has to maintain a control account.

Accounts to prepare for non-autonomous branches.

- Branch Stock Account
- Goods Sent To Branch Account
- Branch Stock Adjustment Account
- Branch Profit and loss Account
- Branch Debtors Account
- Branch Expenses Account
- Defalcation Account

Mode of transferring goods to the branch by the head office.

- There are three methods and these are:
- Cost Price: Allows very little control by the head office. It is therefore only suitable for businesses trading in perishable goods or where selling prices are susceptible to severe fluctuations.

Mode of transferring goods to the branch by the head office.

- Cost Plus Percentage: If the head office mark up goods sent to branches, then effectively the branch staff are being set a target for performance. Failure to achieve this target gross profit figure would be an indicator of pilferage or excessive wastage. This method prevents branch staff from handling the cost of goods being sold and preserve secretly with regards to profit.

Mode of transferring goods to the branch by the head office.

- Selling Price: All transfers are also valued at selling price. It is therefore possible to calculate the selling price of the stock at any branch at any moment in time. This makes it possible to exercise total control over each branch by comparing the 'book stock figures' for each branch with those recorded from the stock counts.

Transfer of goods to the branch at cost price by the head office.

- Explanation of major accounts kept under this method.
- Branch Stock Account: Records the goods received from the head office and the sales made by the branch. This account is a nominal account because it records income and expenditure

Transfer of goods to the branch at cost price by the head office.

- Goods Sent To Branch Account: Records all transactions involving goods sent between the head office and the branch. Any outstanding balance in this account at the end of the year must be transferred to either the purchases account or the trading accounts of the head office.
- Defalcation Account: Records all the abnormal losses incurred by the branch. If the loss incurred has been insured, this account is credited with the sum paid as indemnity. Any outstanding balance is transferred to the head office profit and loss account.

Transfer of goods to the branch at cost price by the head office.

- Sales Ledger Control Account: Sales on credit are debited to this account and the corresponding entry would be found at the credit side of the branch stock account. In sum, all transactions involving credit sales, sales returns by branch customers, discount allowed to branch customers, bad debt, etc. must be recorded in this account.
- Branch Expenses Account: All expenses incurred by the branch must be recorded in this account. At the end of the financial year, the total amount is transferred to the profit and loss account of the head office.

Transfer of goods at cost plus percentage.

- In this case, there are two ways of treating branch transactions in the books of the head office. These are:
- Branch stock adjustment method
- Memorandum column method

Branch Stock Adjustment Method

- The major accounts under this method are branch stock adjustment account, goods sent to branch account, branch debtors account and branch profit and loss account.

a. Branch Stock Account: This account is prepared by using the invoiced price (cost plus percentage) of the goods sent to branch. It acts as a control and any differences existing in this account must be transferred to branch stock adjustment account. It is also based on the principle that the goods sent to branch at cost plus percentage must be equal to sales plus closing stock.

Branch Stock Adjustment Method

b. Branch Stock Adjustment Account: This account records the profit element on the opening stock and goods sent to branch at the credit side and any transaction that reduces the profit is debited to it. Transactions such as profit on goods returned to the head office by branch, returns to head office by branch debtors, returns to branch by debtors, closing stock are all catered for here.

Branch Stock Adjustment Method

c. Goods Sent to Branch Account: All transactions must be entered in this account at their cost price.

Inter-branch transfer of goods require the following entries:

1. Debit the transferee's branch stock account

   Credit transferor's branch stock account

   With the invoiced price of the goods transferred.

2. Debit the transferor's G.S.T.B account

   Credit the transferee's G.S.T.B account

   With the cost price of the goods transferred

3. Debit the transferor's Branch Stock Adjustment

   Credit the transferee's Branch Stock Adjustment

   With the profit loading on goods transferred

Treatment of adjustments (deficiency)

- Any deficiency in branch stock account may be due to factors such as goods lost or stolen or it may be cash stolen or lost. The treatment of the deficiency would depend on whether it is normal or abnormal.
- Normal Deficiency: Any deficiency expected by management, therefore uncontrollable. It should be credited to branch stock account and debited to branch stock adjustment account. Eg: allowance off selling price.
- Abnormal Deficiency: The treatment would depend on whether the deficiency is in the form of goods and cash.

i. Cash stolen or lost: The implication is that the profit has been made on the goods as a result of sales. Thus, credit branch stock account and debit defalcation account with the value of the cash stolen or lost.

Treatment of adjustments (deficiency)

- Goods Stolen: The implication is that the anticipated profit was never made. In that case, credit branch stock account with the invoiced price of the goods and debit defalcation account with the cost price of the goods and debit Branch Stock Adjustment Account with the profit element on the goods stolen.

- The amount to be transferred from the defalcation account to the profit and loss account would depend on whether the cash or goods were insured or uninsured.
- If they were insured, the business would be indemnified by the insurance company. Any difference existing in the defalcation account after the insertion of the indemnified value must be transferred to the profit and loss account.

Illustration

Lafia Baamu Alla, a dealer in bicycles has a branch in Salaga and the head office is situated in Takoradi.

All purchases are made by the head office and the goods sent to branch are invoiced at cost plus 20% which is the selling price. All sales are on credit terms and branch expenses are paid by the head office and all cash received by branch is remitted to the head office. All branch transactions are recorded in the head office books. The following balances were in the head office ledger as at 1/1/2014.

Branch stock at invoiced price	3600
Branch stock adjustment	600
Branch Debtors	33780
Transactions during the year to 31/12/14	
Goods sent to branch	32460
Returns from branch to head office	642
Branch credit sales	33780
Returns from customers to branch	354
Cash Received from branch debtors	32848
Branch stock at December 31, 2014	1962

Show the account relating to the branch in the ledger of the Lafia for the year ended 31/12/14

Memorandum Column Method

- This method uses double columns. The two columns are selling price column and cost price column. The memo column does not form part of the double entry system.
- Branch Stock Account

The Selling Price Method

- Under this method, the head office sends the goods to the branch(es) at the selling price fixed by the head office. No percentage margin or mark-up is given.
- The main objective of this method is to ascertain the sales during the year by the branch. The sales figure is in the Goods sent to branch account.

Accounting Entries.

1. Debit branch stock

   Credit goods sent to branch with selling price of the goods sent to branch

2. Debit goods sent to branch

   Credit branch stock with amount of goods returned directly to the head office by the branch debtors

3. Debit goods sent to branch

   Credit branch debtors with amount of goods returned directly to the head office by the branch debtors

4. Debit Branch Stock

   Credit branch debtors with amount of goods returned to branch by branch debtors

5. Debit cash

   Credit branch stock with amount of cash sales

6. Debit branch debtors

   Credit branch stock with amount of credit sales

7. Debit goods sent to branch

   Credit branch stock with the selling price of closing stock

Adjustments.

- The treatment of adjustments depends on whether the goods had been sold or not since the main objective of this method is to ascertain the sales made by the branch.
  - Goods stolen: The amount of goods stolen is credited to branch stock account and debited to the goods sent to branch account at the selling price. Allowances off selling price is credited to branch stock and debited to the goods sent to branch

Adjustments.

- Cash sales stolen: Since the goods had already been sold, it must not debited to the goods sent to branch but branch stock is credited and defalcation account debited.

- Stock Difference: At the end of the financial year, the physical stock is counted and valued at invoiced price and this is used in place of the book value of the closing stock.

If there is any difference between the debit and the credit side of the branch stock after the closing stock had been credited, that difference must be transferred to goods sent to branch.

Any outstanding balance in the goods sent to branch after the closing stock had been debited is the sales of branch for the period and this is transferred to the credit of the general trading account.

NB: The selling price method does not reveal profit but sales of the branch.

END OF COURSE