**FINANCIAL ACCOUNTING**

|  |  |
| --- | --- |
| WEEKS | TOPICS |
| 1 | REVISION |
| 2 | Accounting Errors   * Definition, types of errors (Book-keeping errors and extraction errors) * Errors the trial balance cannot disclose * Errors the trial balance can disclose * Suspense Account |
| 3 | Corrections of errors with journal proper, working exercises on corrections of errors with journal proper   * Effects of errors on profit declared |
| 4 | Control Account and sel-balance ledger   * Reasons for control account * Limitations of control account * Sales ledger of control account * Meaning, uses/purpose, definitions of terminologies of contra settlement * Format and working exercises |
| 5 | Purchases ledger control account   * Meaning, uses/purpose, definition of terms format and working exercise |
| 6 | Manufacturing account – reasons, terminologies, format and working exercise |
| 7 | Manufacturing account – trading, profit and loss account and balance sheet with working exercises |
| 8 | Manufacturing account - treatment of manufacturing profit (market value) with trading, profit and loss account and balance sheet |
| 9. | Introduction to partnership accounts – meaning, types of partners and partnership, format, partnership deeds/agreement and types of account and terminologies |
| 10 | Partnership accounts – working exercises on appropriation account, current account, capital account and balance sheet |
| 11 | REVISION |
| 12 | EXAMINIATION |

WEEK TWO

1.0 ACCOUNTING ERRORS

1.1 ERRORS NOT AFFECTING THE TRIAL BALANCE.

This category of error does not prevent the trial balance to talk from balancing, meaning that inspite of their existence in the trial balance (if any), the trial balance totals will agree. The errors are as follows:

1. Error of omission
2. Error of commission
3. Error of original entry
4. Error of transposition
5. Error of reversal of entry
6. Error of principle
7. Compensating error

ERROR OF OMISSION: This error when there is a complete omission of a transaction from the ledger. It therefore, means that both the debit and the credit entries of a transaction were not recorded in the books. A common reason for this is the loss or misplacement of the source document for the transaction involved.

ERROR OF COMMISSION: This error occurs when a transaction is entered in the wrong account within the correct class of accounts. Put simply, the error occurs through the entry made in the correct class of account but affecting a person different from the person intended. An instance is when an amount received from **X** is wrongly credited to the personal account of **Y** instead that of **X**.

ERROR OF ORIGINAL ENTRY: this error occurs whenever the double entry of a transaction is correctly made, but the original account amount of the transaction is wrongly recorded. It means a wrong amount entirely different from the correct amount is debited and credited to the appropriate accounts. An example is when a credit sale is recorded in the sales day book at a wrong amount and the wrong amount debited to the buyers account and credited to the sales account.

ERROR OF TRANSPOSITION: This is the error committed whenever a mistake is made by changing the arrangement of a transaction. For example, if the amount #556 and posted wrongly taken as #565 and posted into the ledger as such.

ERROR OF REVERSAL OF ENTRY: This error occurs when entry for a transaction resulting in situation where an account that should have been debited is credited and another account that should have been credited is debited. For instance, if cash paid to creditor is debited in cash account and the same amount is credited to the creditor’s account.

COMPENSATING ERROR: This type of error occurs when an error of error occurs when an error in one account is cancelled out by another error in another account. It may occur in the form of overstatement or understatement of amounts in accounts. For example, if sales account is understated by #1000 and rent and rates account is also understated by #1000.

1.2 ERRORS THAT AFFECT THE TRIAL BALANCE

This is the category of errors that cause disagreement between the totals of the two sides of the trial balance. Some of these errors are as follows:

1. Arithmetic errors committed in balancing ledger accounts
2. One sided omission
3. Errors in transfers of totals of subsidiary book
4. Two entries on the same side
5. Under-casting or overcasting of balances
6. Mis-posting of figures to the account
7. Trial balance errors

1.3 CORRECTION OF ERRORS

There are two approaches available to correct errors in the accounts. The approach to use at any particular time depends on the effect of the error on the trial balance.

For those errors that do not affect the agreement of the total of the two sides of the trial balance, there will always be two affected accounts and on which the errors will be corrected and for those errors that affect the agreement of the two sides of the trial balance, only one ledger account will be affected thereby requiring another account for the correction of the error(s).

This other necessary account is called the suspense account. The suspense account is an account created for the correction of errors to be effected. It is used to record the net difference in trial balance totals pending the rotation and correction of the errors causing a difference in the trial balance. Errors are corrected through the use of journal.

LOCATION OF ERRORS

Generally, errors not affecting the agreement of the trial balance are usually detected through complaints from affected third parties such as customers, suppliers, while those that affect the trial balance totals are more easily discovered. However, the following steps should be taken to locate and correct either type of balance.

1. Re – compute the addition of the trial balance
2. Check for any omission in the trial balance
3. Ensure that the ledger balances are appearing on the correct side of the trial balance, that is assets, expenses, purchases and drawing should be on debit side, while income, capital, sales and liabilities should appear on the credit sale.
4. Check for any omission in the trial balance
5. Check the arithmetical calculation in the ledger
6. Check the double entries needed in the ledger
7. Carefully observe the entries in the ledger to see if a figure close to the difference in the trial balance can be found.

Illustration I

The trial balance of IGI Nigeria Limited on 31st Dec., 201x showed a difference of #3,090. A thorough review of the ledger revealed the following errors.

1. A debit note of #1,260 received from a customer had posted to the wrong side of his account
2. The sum of #360 in a creditor’s account was omitted from the balance of creditors
3. The payment side of the cash account had been undercast by #1,950
4. An item if asset purchased for #2,880 had been debited to repairs.
5. Mr. Munir, whose debt of #1,560 had been written off paid during the year. His personal account credited but no corresponding entry was made.
6. The total of the sales day book had been carried forward as #6,462, whereas the corrected amount was #7,542.

You are required to show the following:

1. Journal entries necessary to correct the errors
2. Suspense account duty balanced

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | DR | CR |
|  |  | # | # |
| 1 | Suspense account dr.  Cr. Debtor’s account  Being correction of a debit note wrongly posted to the wrong side of a customer’s account | 1,260 | 1,260 |
| 2 | Suspense account dr.  Cr. Creditor’s account  Being entry in respect of omitted creditor’s balance | 360 | 360 |
| 3 | Suspense account dr.  Cr. Cash account  Being correction of the undercasting of cash book payment | 1,950 | 1,950 |
| 4 | Asset account dr.  Cr. Repair account  Being correction of the purchase of assets wrongly debited to repair account | 2880 | 2880 |
| 5 | Cash account dr.  Cr. Suspense account  Being entry of recovered debt omitted from cash account | 1560 | 1560 |
| 6 | Suspense account dr.  Cr. Sales account  Being correction of wrong amount carried forward on page of sales day book | 1.080 | 1,080 |

DR SUSPENSE ACCOUNT CR

Trial balance differences 3090

Creditors 360 Cash 1560

Cash 1950

Sales 1080

Debtors 1260

4,650 4,650

CFAO Enterprises book-keeping extracted a trial balance on June 30, 2009.He discounted the total of the debit side balance to be more than the credit side by #756.25 and transferred this figure to a suspense account.

However, the cause of this disagreement of the two sides were discovered to be because of the following:

1. A credit note sent to JK Ogun for#206.25 had been entered in the returns inward book at #195 and posted to his account as #195.
2. Commission received account amounting to #1,136.80 had been omitted from trial balance even though it was duly recorded in the cash book and posted into the ledger
3. Equipment sold for #1,250 had been credited to the sales account
4. The purchases day book had been overcast by #250
5. Goods of about #250 sold to Omot had been credited to his account
6. Goods with the value of #130.63 returned by Desuola had been duly credited to his personal account but no entry was made in the returns inward account.

You are required to:

1. Prepare the journal entries necessary to correct these errors
2. Prepare the suspense account

Solution

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | DR | CR |
|  |  | # | # |
| 1 | Dr. returns inwards account  Cr. J.K Ogun account  Being correction of compensating error | 11.25 | 11.25 |
| 2 | Dr. suspense account  Cr. Commission received account  Being correction of error of extraction from ledger to the trial balance | 1136.80 | 1136.80 |
| 3 | Dr. Sales account  Cr. Equipment account  Being correction of error of principle | 1250 | 1,250 |
| 4 | Dr. suspense account  Cr. Purchases account  Being correction of the overcast in the purchase book | 250 | 250 |
| 5 | DR. Omot account  Cr. Suspense account  Bing correction of error of posting of items to the wrong side | 500 | 500 |
| 6 | Dr. Returns inward account  Cr. Suspense account  Being correction of partial error on the posting of returns inward items | 130.65 | 130.65 |

DR SUSPENSE ACCOUNT CR

Commission received 1136.68 Bal b/f 756.25

purchases 250 Omot 500

Returns Inward 130.63

1,386.88

1,386.88

EFFECT OF ERRORS ON PROFIT AND LOSS ACCOUNT AND BALANCE SHEET

When errors are discounted after the final account have been prepared a statement of corrected profit and revised balance sheet must be prepared to show the adjusted profit.

Format of statement of profit

N N

Profit per account x

Add: Sales undercast x

Returns inwards overcast x

Returns outwards undercast x

Purchases overcast x

Expenses overcast x

Income undercast x

xx

xx

Less: purchases undercast x

Expenses undercast x

Income overcast x

Sales overcast x xx

Corrected net profit xx

Illustration 3

An inexperienced book-keeper has produced the following balance sheet at 31st Dec., 2000 for a Retailer, Ojola Enterprises.

DR CR

Fixed assets 108,312

Capital 75,336 Current assets

12% loan: Bola 30,000 Stock 28,239

Creditors 39,423 Debtors 39.924

Bank overdraft 12,951 Drawings 12,390

Profit and loss 27,600 Suspense a/c 1,050 85,998

194,310 194,310

Mr. Olojo is surprised at the balance sheet and asks you to revise it.

Your investigation show:

1. The suspense account balance represents the difference in trial balance
2. Stock sheets were overcast by N3000
3. Cash in hand should be N165
4. The purchase day book totals for November of N12,360 was posted to purchase account as N12,630
5. Fixture and fittings account balance of N6,900 has been omitted from the balance sheet
6. An invoice for N750 had been included in stock and purchases but not posted to the personal account.
7. Interest for half a year on the loan account had not been paid and no provision made for it.
8. A sales return of N300 had been entered on the debit side of the account of Ade

You are required to:

1. Write the suspense accounts

ii. Drawing up a revised balance sheet as at 31st Dec., 2000

Solution

DR CR

Bal b/f 4395 Furniture and fittings 6900

Purchase (12,630-12,360) 270

Cash (1,050 – 165) 885

Creditor 750

Ade (300 x 2) 600

6,900 6,900

Statement of Profit

Net profit 27,600

Purchase overcast (12630 – 12360) 270

27,870

Less: Interest due 1,800

Stock overcast 3,000 4,800

Corrected Net profit 23,070

Workings: Interest = 12% x 30,000 x ½ ( ½ yrs)

Interest paid = N1,800

Interest owing = N1,800( ½ yearly)

DR Balance sheet as at 31st Dec. 2000 CR

Fixed asset (wk 1) 115,212

Capital 75,336 Current asset

Net profit 23,070 Stock (wk2) 25,239

98,406 Debtors 39,324

Less: Drawings 12,390 Cash (wk4) 165

86,016

Current liabilities

Creditor (wk3) 40,173

Bank overdraft 12,951

Account interest 1,800

Loan 30,000

179,940 179,940

Workings:

1. Fixed asset 108,321

Add furniture 6,900

115,212

1. Stock: N28,239 – N3000 = 25,239
2. Creditors: N39, 423 + N750 = N40,173
3. Debtors: N39,924 – N600 = N39,324

ASSIGNMENT

PAGE 159 question 4

WEEK FOUR

4.0 CONTROL ACCOUNT AND SELF BALANCING LEDGER

4.1 MEANING

a. A control account is an account which records in total what has been entered in detail in the ledger account to which it relates.

b. A control account is a special account put in place to reflect the aggregate balances of many related subsidiary account that are part of the double entry system. It is a mere memorandum account only. It does not form part of the double entry system of accounting.

Control accounts can be kept for the following ledgers

1. Sales ledger ----------------------- customers
2. Bought / purchases ledger ------------------ suppliers
3. Inventory ledger -------------------- stocks
4. Fixed assets ledger control ------------------------ fixed assets

USES OF CONTROL ACCOUNT

1. Location of errors
2. Prevention of fraud
3. Aids management control
4. Internal check on ledgers clerk
5. Easy detection of omissing figures
6. Ascertainment of debtors and creditors balances
7. Preparation of inform final account
8. Saves time
9. Grouping of account

CLASSIFICATION OF CONTROL ACCOUNT

* Sales ledger control account
* Purchases ledger control account

1. SALES LEDGER CONTROL ACCOUNT: The sales ledger control account is sometimes called total debtors control account. It is the control account for sales or debtors ledger. This will represent all the entries posted to the sales ledger as if only one debtor existed.

DR Sales ledger control account CR

Balance b/f x

Sales (credit) x Cash received from debtor x

Interest charges x Cheque from customer x

Dishonoured bill x Discount allowed x

Carriage outwards x Bill receivable x

Allowances x

Discount disallowed x Bad debt x

Debit note issued x Return inwards x

Payment to debtors for claim x Credit not issued x

Service charges x Contral settlement/entry x

Bal c/d xx

xx xx

2. PURCHASES LEDGER CONTROL ACCOUNT; The purchases ledger control account is referred to as total creditor control account. It is the control account for purchases or creditors ledger. This will represent all the entries posted to the ledger as if only one creditor existed.

DR Purchases ledger control account CR

Cheque to creditors x Bal b/f x

Cash to suppliers x Purchases (credit) x

Discount received x Cash refunds x

Bill payable x Discount withdrawn x

Credit not received x

Returns outwards x

Contra entry/ set off x

Bal c/d x

xx xx

Illustration

Extract from the books of JKO Ltd, show the following balances for the month of June.

Sales ledger balance – 1 June 19x3 47,020

Purchases ledger balance – I June 19x3 27,570

Purchases journal balances – 30 June 19x3 374,370

Purchases journal balance – 30 June 19x3 408,000

Returns inwards 9,100

Returns outwards 7,490

Receipts from customers – cash 385, 290

Discount allowed 13,450

Payment to customers 354,150

Discount received 7460

Bad debt written off 1150

Sales ledger set – off 2090

Purchases ledger set – off 1100

On 30th June 19x3, it was discovered that a supplier was paid twice in error for N1,570. The amount was refunded on that date.

You are required to determine the sales and purchases ledger balances at 1 July 19x3.

JKO LTD

DR Sales ledger control account CR

1/6 Bal b/d 47,020 30/6 Cash receipts 385,290

30/6 Sales 374,370 30/6 Returns inwards 9,100

30/6 Discount allowed 13,450

Bad debt 1150

Set – off 2090

Bal c/d 10,310

421,390 421,390

JKO LTD

DR Purchase ledger control account CR

Bal b/d 27,570

Returns outwards 7,490 Purchases 408,000

Cash payment 354,150 Cash refund 1,570

Discount received 7,460

Set – off 1,100

Bal c/d 66,940

437,140 437,140

Bal b/d 66,940

Illustration 2

Bethings Enterprises maintains self balancing ledgers. From the details given below you are required to prepare the control accounts for purchases and sales ledgers for the year ended 31st December, 19x5.

#

Purchases 15,327

Bad debts written off 220

Bills payable accepted 2,170

Bills receivable drawn 5,020

Interest charged to customers 7

Purchases returns 89

Payment to creditors 12,538

Receipts from debtors 14,308

Bills receivable dishonoured 575

Discount allowed 528

Discount receivable 327

Sales returns 301

Cash refund to debtors 75

Cheque from debtors returned unpaid 25

Sales and purchases ledger control 1017

Bills payable returned for non-payment 150

Sales 20,051

Bad debts recovered (individual in cash from debtors) 8

Creditors ledger balance as at 31st Dec., 19x5 5086

Debtors ledger balance as at 31st Dec., 19x5 6818

Purchase ledger control balance at Jan 19x5 5,750

Sales ledger control account at 1 Jan. 19x5 7,471

Solution

Bettings Enterprises

DR Sales ledger control account CR

Bal b/d 7,471 Bad debts 220

Dishonoured bills 575 Bills receivable 5,020

Cash refund 75 Receipts from debtors 14,308

Returned cheques 25 Discount allowed 528

Sales 20051 Sales returns 301

Bad debts recovered 8 Purchases ledger contra 1017

Interest charge 7 Bal c/d 6818

28212 28212

Bal b/d 6,818

Bettings Enterprises

DR Purchases ledger control account CR

Bills payable 2170

Purchases return 89 Bal b/d 5,750

Payment to creditor 12,538 Purchases 15,327

Discount received 327 Bills repayable returns 150

Sales ledger control 1,017

Bal c/d 5,086

21,227 21,227

NOTE: Bills receivable discounted has nothing to do with the control account because the company can as well wait till the bill is matured for payment instead of discounting it, provisions of any kind should not also be posted into the control account, even when it is given in the question.

ASSIGNMENT

Page 247 question 7

WEEK 6

MANUFACTURING ACCOUNTS

INTRODUCTION

The manufacturing account is an account that is prepared so as to identity all the manufacturing costs incurred in bringing the product to a marketable state.

Manufacturing is the process of making goods by hand or by machine. The costs involved in manufacturing process are principally in two main divisions.

* The cost of raw materials; and
* The cost of coverting raw materials into finished goods and this cost is in two main categories

1. Manufacturing costs and
2. Non – manufacturing costs

MANUFACTURING COSTS: Manufacturing costs are of two main types

1. Direct costs; and
2. Indirect costs (also called factory overheads)

Direct costs applies to these costs which can be readily tractor to the products and is further broken down into:

1. Direct material cost
2. Direct labour cost
3. Direct expenses

DIRECT MATERIAL COST: Direct materials are basic substances or raw materials form which a product is made. Examples Soya beans for vegetable oil, palm oil for soaps, animals skin for shoe etc.

Cost that are directly associated with these raw materials in the finished product is called the direct material cost.

DIRECT LABOUR COST: It will take human effort to change the form on direct materials into finished goods. the wages of those employees (factory workers who perform this task is considered as a direct labour cost). Example of a direct labour cost is the wage of a machine operator.

DIRECT EXPENSES: There are expenses other than direct materials cost and direct labour cost that are incurred solely in producing the goods. They include the cost of special designs and line of specialised equipment for a particular job.

INDIRECT COSTS: These are costs which cannot be traced directly to the product but which all the same are part of the cost of the product. In determining which costs to treat as direct costs materiality of such items must be taken into cognisance.

Manufacturing overhead cost include indirect material costs such as give used in furniture making, lubricate and supplies of materials for repairs and maintenance. Indirect labour costs such as the wages of factory foremen and supervisors.

NON – MANUFACTURING COSTS: These are administrative and marketing costs and are not included in the cost of manufacturing the product. These costs are not relevant in the manufacturing section of the account but are approximately treated in the profit and loss section.

TERMINOLOGIES USED IN MANUFACTURING ACCOUNTS

1. PRIME COST: This is the total cost of direct materials direct wages and direct expenses.
2. Total factory cost (cost of production): This represent prime cost plus indirect factory costs (manufacturing overheads)
3. Inventory: This refers to stock. A manufacturing concern has three categories of inventories:
   1. Stock of raw materials: This is the quantity of unused portion of raw materials bought.
   2. Stock of work-in-progress: These are partly finished goods, semi-manufactured goods and incomplete work at the end of a financial period. They are goods that have not been completed in the factory at the time of preparing the final accounts. there could be opening work-in-progress and or closing work-in-progress. This is valued at start and at the end of the trading period
   3. Stock of finished goods: This is the quality of completed goods. it is also valued at the beginning and at the end of the trading period.
   4. Consumables: These are supplies and components purchased for incorporation into the final products and maintenance of machines.
   5. Financial charges: These are expenses and interest incurred in servicing loans e.g. interest on overdraft, discount allowed and interest on loan
   6. Total cost: This represents all the costs involved in bringing the finished goods down to the consumers which include prime costs, factory overheads, administrative, selling and distribution expenses and financial charges.

NOTE

The costs involved can be summarised as follows:

Direct materials

Direct labour Prime cost Total cost

Direct expenses

PLUS

Factory overheads

PLUS

Administrative expenses

Selling and distribution expenses

Financial charges

NOTE

The following items are included in manufacturing or factory overheads

* Indirect wages
* Heat and power
* Lubricants
* General factory expenses
* Rent and rates on factory
* Depreciation of plant and machinery
* Depreciation of factory buildings and tools
* First and expenses
* Factory consumable or supplies
* Indirect materials
* Small tools used
* Grease and oil
* Other utilities

PREPARATION OF THE MANUFACTURING ACCOUNT

The accounting divisions of manufacturing concerns are in three main segments which are:

1. Manufacturing account or production account section: Under this section the three main components of cost of goods manufactured can be seen at a glance. It is therefore used in ascertaining the cost of production for the period.
2. Trading account section: This is principally used for determining the gross profit resulting from trading operations during the period.
3. Profit and loss account section: This is prepared mainly for ascertaining the net profit of the enterprises for the given period.

FORMAT

A B C

Manufacturing, trading, profit and loss account for the year ended 31st March

Raw materials (RM) Cost of production b/d xx

Opening stock xx

Add: Purchases xx

Carriage inwards xx

xx

Less: returns outwards (xx)

xx

Rm available for used xx

Less closing stock RM xx

Cost of R.M consumed xx

Direct wages xx

Royalties xx

Direct expenses xx

PRIME COST xx

Factory overheads (Nite) xx

xx

Add: Opening in. I. P xx

Cost of production xx xx

Finished goods Sales xx

Opening stock xx les: Returns inwards xx

Add cost of production xx xx

Goods available for sale xx

Less closing stock xx

Cost of sales xx

Gross profit c/d xx

xx xx

Gross profit b/d xx

Administrative Expenses

Admin salaries xx

Maintenance of building xx

Depreciation of accounting machine xx

Manager salaries xx

Legal charges xx

Accounting charges xx

xx

Selling and distribution expenses

Commission on sales xx

Advertising xx

Salaries of salesmen xx

Depreciation on delivery van xx

Carriage outwards xx

Bad debts xx

Provision for doubtful debts xx

Financial charges xx

Interest on loan xx

Bank charges xx

Discount allowed xx xx

Net profit xx

xx xx

Illustration 1: The following shows the figures extracted from the books of Ojolo, a manufacturer for the year ended 31st December, 1999.

Stock of finished goods #

January 1st 2,532

December 31st 3,569

Stock of raw materials

January 1st 1,608

December 31st 1,432

Sales 92,800

Office rent 525

Office rates 200

Purchases of raw materials 19,000

Carriage inward on raw materials 471

Manufacturing wages 26,430

Factory expenses 1,828

Depreciation

Plant and machinery 3250

Delivery vans 625

Stock of work in progress

January 1st 874

December 31st 947

Factory fuel 1,835

Advertising 517

Van running expenses 2,315

Sales men’s commission 713

Maintenance of factory equipment 10,800

Lighting (3/5 factory)

(2/5 office) 8,000

Salaries (factory 1,500) 5,000

Insurance (factory 3,200) 4,480

You are required to prepare the manufacturing, trading, profit and loss account for the year ended 31st December 1999.

TRANSFER PRICING MARKET VALUE OF GOODS MANUFACTURED

The usual practice is to transfer the goods produced to the trading account at cost price. But the firms may decide to transfer to the trading account at current market price irrespective of cost. The manufacturing account will show a balance (profit or loss) which will be transferred to profit and loss account. The goods may also be transferred to trading account at cost price plus a fixed percentage.

Illustration 2

BODMAS LTD is a manufacturing firm of kitchen furniture. The following information was extracted from the books of the company for the year ended 31st Dec., 1998.

DR CR

Plant and Machinery 72,000

Capital 148,800

Motor vehicle 36,000

Loose tools at cost (office) 10,800

Sales 204,000

Purchases of raw materials 51,000

Factory wages 48,800

Light and power 6,000

Machinery repairs 9,120

Motor vehicles running expenses 14,400

Rent and insurance 13,920

Administrative expenses 10,800

Debtors 19,800

Creditors 13,440

Distribution staff salaries 15, 600

Cash in hand 15,000

Drawings 7,200

Stock of raw materials 600

366,240 366,240

Additional information

1. Light and power charges accrued at 31st Dec., 1998 amounted to #1000 and insurance prepared at the same date totalled #960.
2. Stocks were valued at cost on 31st Dec., 1998 as follows

Raw materials #8,400

Finished goods #12,000

1. Goods manufactured during the year are to be transferred to the trading account at #114,000
2. Motor vehicle expenses are to be allocated equally to factory expenses and general and general administrative expenses.
3. Plant and machinery and motor vehicle are to be depreciated at the rate of 10% and 25% respectively

You are to prepare:

1. Manufacturing, trading, profit and loss account for the year ended 31st Dec., 1998
2. Balance sheet as at that date

Solution

BODMAS LTD

Manufacturing, trading, profit and loss account for the year ended 31st Dec. 1998

Opening stock of R.M 600 Goods transferred to trading 114000

Add: purchases of R.M 51,000

51,600

Less: closing stock R.M 8,400

Cost of RM consumed 43,200

Add: Factory wages 46,800

PRIME COST 90,000

Factory Overhead

Machine repairs 9,120

Motor running exp. 7,200

Depreciation

Plant and machinery 7,200

23,520

Cost of production 113,520

Profits on goods manufactured 480

114,000 114000

Goods transferred sales 204,000

Less: closing stock F.G 12,000

Cost of goods sold 102,000

Gross profit 102,000

204,000 204000

Expenses Gross profit b/d 102000

Light & power 7000 Profit on manufacture 480

Motor running expenses 7200 Net loss 2080

Rent and insurance 12,960

Administrative staff salaries 37,200

Administrative expenses 10,800

Distributive staff salaries 15,600

Depreciation

Motor vehicle 9,000

Loose tools 4,800

104,500 104500

BODMAS LTD

Balance sheet as at 31st December, 1998

Capital 148,800 Fixed Assets

Less: Net loss 2080 Motor Vehicle (36,000 – 7,200) 27,000

146,720

Less: drawings 7,200 P & M (72,000 – 7,200) 64800

139,520

Current liabilities

Creditors 13,440 Loose tools (10,800 – 4,800 6000 97800

Light and power accrued 1,000

Current Assets

Stocks: R.M 8400 , Furnished goods 12000 Debtors 19800 Cash in hand 15000 Insurance 960

153,960 153960

Workings

1. Light and power = 6000 + 1000 = #7000
2. Insurance = 13,920 – 960 = #12,760
3. Motor expenses = factory = ½ x 14440 = #7,200

General Administrative expenses

½ x 14,440 = #7,200

1. Loose tools cost 10,800

Depreciation 4,800

Loose tools in hand 6,000

1. Depreciation: plant and machinery = 10% x 72,000 = 7,200
2. Motor vehicle = 25% x 36,000 = #9000

ASSINGNMENT

Page 310 question 2x

PARTNERSHIP ACCOUNTS

Under the partnership Act of 1890, partnership is defined as the relationship which exists between persons carrying on a business in common with a view of profit.

It is an association between two and twenty persons who have agreed to share the profits who have agreed to share the profits of a business carrying on by all or any of them for benefit of all of them.

TYPES OF PARTNERS

There are three principal types of partners namely:

1. Active partner: This type of partner participates actively in management of the partnership’s business
2. Sleeping or Dormant partner: this type of partner does not take any active part in the management of the partnership business. All he does is to contribute money into the partnership and then wait to receive his share of profit
3. Nominal partner: This is a partner that has not capital contribution into the business but partners in the share of the profit. This is because, he has allowed his name to be used by other partners as a result of his good image,

REASONS FOR THE FORMATION OF PARTNERSHIP

There are several reasons that make people opt for partnership business and some of them are:

1. Where the capital need of the business cannot be adequately supplied or make available by a person.
2. Where the experience and knowledge needed to carry on the business cannot be provided by an individual singlehandedly
3. Where people are afraid of bearing all the risks associated with the business alone
4. Where they want to make it a family business.

FEATURES OF PARTNERSHIP

1. Capital is from members contribution
2. Unlimited liabilities for partners
3. Not a legal entity
4. Limited membership
5. Motive is profit
6. Common participation in management
7. Each partner is an agent of the business
8. No special formalities in formation.

DEEDS OF PARTNERSHIP

This is a document drawn up by the partners which will clarify the respective positions and duties of the partners in a business.

CONTENTS OF DEED OF PARTNERSHIP

1. Name of the partners and other particulars
2. Name of the business
3. Signatories to the account
4. Duration of the partnership
5. Amount of capital to be contributed
6. Right of each partner
7. Duties of each partner
8. Amount of salary to be paid
9. The nature of the business
10. Method of admission of a new partner
11. Dissolution of partnership
12. Registered office
13. Partnership account procedures
14. Terms and conditions
15. Profit and loss sharing ratio
16. Rate of interest on capital
17. Rate of interest on drawings
18. Valuation of goodwill

PARTNERSHIP ACCOUNTS

CAPITAL ACCOUNT: The amount contributed by each partner into the business will be credited to his capital account. The firm can maintain or use either a fixed capital or fluctuating capital.

(i) FLUCTUATING CAPITAL ACCOUNT: The partners can maintain a fluctuating capital account, profit, interest on capital and salaries will be credited to the capital account and drawings and interest on drawings debited. In short, the balance of this account will change each year.

A B C

A B C

**Drawings x x x Bal b/f x x x**

Int. on drawings x x x Current bal x x x

Share of profit x x x

Int on capital x x x

Bal c/d x x x Salary x x x

x x x x x x

Bal b/d x x x

(ii) Fixed Capital account and current account: The balance of capital will remain at the same figure during the partnership profit, interest on capital and salaries will be credited to a separate current account. Drawings and interest on drawings are debited.

NOTE: Examiners often ask for separate current and capital account.

Capital Account

A B C A B C

Bala b/f x x x

A B C A B C

Drawings x x x Bal b/f x x x

Int. on drawings x x x Int. on capital x x x

Bal c/d x x x Int. on salary x x x

Share of profit x x x

xx xx xx xx xx xx

Partners Loan: A partner may introduce cash by way of loan to the partnership. Any cash introduced will be credited to a loan account,

Partners Salaries: The agreement may provide that any of the partners who devote his time to the running of the business shall receive a fixed salary in addition to a share in the profits. Salary will be credited to the current account.

Interest on Capital: The partner may be paid interest on capital when they have contributed unequal amount. This is debited to profit and loss appropriation account and credited to current account.

Drawings: This is the amount withdrawn or taken out of the business by partners during the year. The drawings can be in cash or kind. It must be debited to the current account.

Interest on Drawings: Interest on drawings is introduced to prevent the partners from withdrawing cash unnecessarily from the business. This is calculated from the date of withdrawal to the end of the financial year. This is debited to the current account.

FINAL ACCOUNTS OF PARTNERSHIP

The trading, profit and loss account are exactly the same as that of a Sole trader. But a partnership would have an extra section called “Appropriation account”

Partnership, Trading, Profit and loss account for the year ended 31st Dec. 1967

Sales x

Opening stock x less: Sales returns x

Add: purchases x

x x

less: closing stock x

cost of goods sold x

Gross profit x

xx xx

Gross profit b/d x

Discount received x

Expenses

Rent x

Salaries and wages x

Depreciation x

Motor expenses x

Stationery x

Bad debts x

Interest on loans x

Sundry expenses x

Net Profit x

xx xx

Profit and loss appropriation account

Interest on capital Net profit b/d x

Ojo x Interest on drawings

Ajayi x x Ojo x

Salary Ajayi x

Ojo x

Ajayi x x

Share of profit

Ojo 2/3 x

Ajayi 1/3 x

xx xx

Balance sheet

Fixed Assets

Capital Motor van x

Ojo x sF & F x

Ajayi x x Land & building x

Premises x x

Current Account Current Assets

Ojo x Stock x

Ajayi x x Debtors x

Current Liabilities Bills receivable x

Bills payable x

Loan x x Bank x

Creditors x Cash in hand x

Income in advance x Income in arrears x

Expenses accrued x Expenses are paid x x

xx xx

ASSIGNMENT

Page 363 question 4