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**

**FIRST TERM E-LEARNING NOTE**

**SUBJECT: FINANCIAL ACCOUNTING CLASS: SS3**

## **SCHEME OF WORK**

**WEEKS TOPIC**

1 Partnership Accounts

2 Final Accounts of a Partnership

3 – 4 Admission of Partners

5 - 6 Dissolution of Partnership

7 Introduction to Company Accounts

8 Final Accounts of Limited Liability Companies

9 - 10 Issue of Shares and Debentures

**WEEK ONE**

**PARTNERSHIP ACCOUNTS**

1. Partnership Agreement
2. Capital and Current Account

**INTRODUCTION**

PARTNERSHIP can be defined as the relationship which exists between two or more persons who are carrying on business in common with a view to making profit. The rules governing the conduct of a partnership business is contained in the document known as the Deed of Partnership or Articles of Partnership or Partnership Agreement.

**CONTENTS OF THE DEED OF PARTNERSHIP**

The partnership Deed contains among others, the following.

1. Name of the partnership
2. Names of the partners
3. Capital contribution
4. Nature of the partnership business
5. Profit and loss sharing ratio
6. Interest on capital contribution
7. Interest chargeable on drawings
8. Duration of the partnership
9. Rules regarding admission or retirement of a partner
10. Rules on dissolution of the partnership

**WHEN THERE IS NO AGREEMENT**

Where there is no specific arrangement concerning the partnership agreement, section 24 of the Partnership Act 1890 laid down the rules that should be applied as follows:-

1. No interest to be paid on capital contributed by each partner
2. No partner should receive salary or remuneration.
3. No interest is to be charged on drawings
4. Profits and losses are to be shared equally.
5. 5% interest should be allowed on any loans made by any partner in excess of the agreed capital contribution.

**FIXED CAPITAL ACCOUNT**

The capital accounts of partners are usually regarded as fixed so as to provide a permanent evidence of the initial amount with which the partnership is commenced. Where capital is regarded as fixed, a current account must be opened for each of the partners.

**PARTNERS CURRENT ACCOUNT**

The current account of each partner is prepared to show what such a partner is entitled to withdraw from the business at any point in time. It is credited with salary, commission, share of profits, interest on capital, and debited with drawings, interest on drawings, etc.

**EXERCISE 1**

Obi and Oba are partners in a firm of chartered accountants with initial capital contributions of N50,000 and N40,000 respectively which are to be kept fixed in the partnership books. You are required to show the cash account, partners’ capital accounts and balance sheet extracts.

**SOLUTION**

**CASH ACCOUNT (EXTRACTS)**

N

Capital: Obi 50, 000

Oba 40, 000

**PARTNERS CAPITAL ACCOUNT**

Obi Oba

NN

Cash A/c 50, 000 40, 000

**BALANCE SHEET (EXTRACTS)**

Capital A/c N N

Obi 50, 000

Oba 40, 000 Cash in hand 90, 000

**FIXED CAPITAL ACCOUNT WITH CURRENT ACCOUNT**

As illustrated above where capital account will remain fixed according to agreement, current account must be opened for each partner. It is debited with drawings, interest on drawings and credited with interest on capital, share of profit and partner’s salary.

**ILLUSTRATION II**

DR  **FIXED CAPITAL ACCOUNT** CR

A B A B

N N

Balance b/d 100, 000 20, 000

**CURRENT ACCOUNT**

DR CR

A B A B

N N N N

Drawings 4, 000 3, 500 Balance B/f 3,000 6, 000

Interest on drawings 400 350 Int. on capital 10, 000 20, 000

Share of profit 5, 000 6, 000

Balance c/d 14, 600 30, 150 Salary 1, 000 2, 000

19, 000 34, 000 19, 000 34, 000

However, there are instances where the partners in accordance with the partnership deed, maintain floating or fluctuating capital account.

**FLOATING CAPITAL WITHOUT CURRENT ACCOUNT**

This is simply a combination or mixture of the capital and current accounts of each partner in a capital account hence such a capital account is referred to as “floating” or “fluctuating” because the balance can increase or decrease at any time depending on how much is paid in and how much is withdrawn.

**ILLUSTRATION 3**

**FLUCTUATING CAPITAL ACCOUNT**

DR CR

A B A B

N N N N

Drawings 4, 000 3, 500 Bal of capital b/f 100, 000 200, 000

Interest on drawings 400 350 Bal of current b/f 3, 000 6, 000

Balance c/d 114, 600 230,150 Interest in capital 10, 000 20, 000 Share of profit 5, 000 6, 000

Salary 1, 000 2, 000

119, 000 234, 000 119, 000 234, 000

**EVALUATION**

1. Define Partnership
2. List seven items that should be contained in a partnership deed.

**READING ASSIGNMENT**

Essential Financial Accounting by O.A. Longe Page 249-251.

**WEEKEND ASSIGNMENT**

1. Where there is no partnership agreement the Partnership Act 1890 section \_\_\_\_\_\_\_ should be applied (a) 20 (b) 25 (c) 24 (d) 34
2. Which of the following is not true where there is no laid down agreement for the partnership? (a) Profits and losses to be shared equally (b) No interest on drawings (c) No interest in capital (d) Members of the public can invest in the shares of the business.
3. Which of the following increases the profit of a partnership? (a) Drawings (b) Interest on capital (c) Interest on drawings (d) Partnership salary
4. Which of the following statements is NOT true? (a) When we keep fixed capital accounts for partners we open their current accounts (b) When losses are made they are to be shared by the partners (c) When we keep floating capital account no current account is kept (d) A partnership can exist forever.
5. Which of the following can represent capital contributed by a partner to a partnership? (a) Cash only (b) Cheques only (c) Cash and cheques only (d) Cash, cheque and other assets.

**THEORY**

1. List the rules approved by the Partnership Act 1890 to be applied where there is no partnership agreement.
2. Prepare the capital and current accounts of the following partners:-

N

Capital accounts Obi 50, 000 cr.

Oba 20, 000 cr.

Interest in capital 5% p.a.

Salaries Obi 5, 000

Oba 6, 000

Interest on drawings 5%

Drawings Obi 2, 000

Oba 1, 500

Current accounts balances b/f

Obi 3, 000 cr.

Oba 500 dr.

**GENERAL EVALUATION**

1. Differentiate between accounting concepts and convention
2. Explain four classifications of cost found in manufacturing accounts
3. State five reasons why a trial balance may not balance
4. State five limitations of the Receipts and Payments Account
5. Explain five events that may lead to the dissolution of a partnership

**WEEK TWO**

**FINAL ACCOUNTS OF A PARTNERSHIP BUSINESS**

i. **Profit & Loss Appropriation Account of a partnership**

ii. **Balance Sheet of a Partnership**

**PROFIT AND LOSS APPROPRIATION ACCOUNT OF A PARTNERSHIP**

This, as the name implies, is the account where either the profit or loss of the partnership business is shared between or among the partners as stipulated in the partnership agreement. The profit and loss appropriation account marks the beginning of the difference between the final accounts of a sole trader and that of a partnership. This is because while the sole trader does not share his profit with any-body, the profit of the partnership must be shared by the partners.

**Some Terminologies in profit & Loss Appropriation Account of a partnership**

**1.** **Drawings:-** Partners can withdraw at regular or irregular intervals, from the sum they are entitled to at the end of the year. The total drawings is credited to the cash book and debited to current accounts.

**2.** **Interest on drawings:-**This is the interest charged on drawings made by the partners. In order to discourage or reduce the amount of cash withdrawn, a fixed sum or % will be charged as interest. The interest on drawing will increase net profit and discourage drawings. It can be calculated on monthly basis.

Interest is calculated from the date the amount is withdrawn to the end of the financial year.

**3.** **Partners’ Salary: -** The agreement made provision for salary to be paid to active partners. It is desirable to compensate the active partner for the day-to-day running of the business.

**4.** **Interest on Capitals:** Partners contribute different amounts as capital. In order to compensate the partners for capital contributed, interest on capital is allowed.

**BALANCE SHEET OF A PARTNERSHIP BUSINESS**

There is no significant difference between the balance sheet of a sole trader and that of a partnership. The only difference is on the display of capital accounts and current accounts of partners which will be illustrated in the formats below:-

**Format 1**

**Trading, profit and loss of A and B Enterprises for the year ended 31st December 2006**

N N N N

Opening stock x Sales x

Add Purchases x less Returns inwards x x

Add Carriage inwards x

**X**

Less Returns Outwards x x

**Cost of goods available for sale** x

Less Closing stock x

**Cost of goods sold**  x

**Gross profit c/d** x

**X x**

**Expenses**

Wages and salaries x **Gross profit b/d** **x**

Depreciation of assets x Discounts received x

Sundry expenses x

Bad debts x

Interest on loan x

Discount allowed x

Carriage outwards x

**Net profit c/d**  **x**

**X X**

**Format 2**

**Profit and Loss Appropriation account A and B**

N N N N

Partners salary x Net profit b/d x

Interest on capital: A x Interest on drawings:

B x x A x

Share of profit B x x

A (½ x) x

B (½ x) x x \_\_

X x

**Format 3**

**Balance sheet of A and B Enterprises as at 31st Dec 2006**

N N N N

**Capital accounts Fixed assets**

A x Furniture & fitting x

B x x Less depreciation x x

**Current accounts** Motor vanx

A x

B x x **Current assets**

**Current liabilities** Stock x

Loan x Debtor x

Creditors x Bank x

Expenses owing x x Cash in hand x x

**X x**

**Example**

O and D are in partnership sharing profit and loss in the ratio 3:2. The following is the Trial Balance as at 31 December 2005

DR CR

Capital O 100,000

D 50,000

Drawings: O 6,000

: D 5,000

Purchases 120,000

Sales 200,000

Sales returns 4,000

Purchases returns 2,000

Stock at 1st January 2005 10,000

Carriage inwards 1,200

Salaries and wages 15,000

Bad debts 1,000

Office expenses 2,400

Loan-Okafor 14,000

Provision for doubtful debts 300

Discounts allowed 1,150

Discounts received 1,100

Building at cost 30,000

Machinery at cost 109,000

Cash at bank 8,000

Motor van at cost 50,000

Electricity 50

Provision for dep. on motor van 10,000

Debtors 20,000

Creditor 10,000

Bills payable 9,000

Bills receivable 17,500

Carriage outwards 500

Currents account: O 1,500

D 3,000

400,900 400,900

**Additional Information**

i. Stock at close N 15,000

ii. Salaries and wages accrued N 1,000

iii. Electricity prepaid N 20

iv. Interest on capital at 10%

v. Interest on drawings at 5%

vi. Depreciate motor can 10% on cost

vii. Partnership salary: O N 2,000

viii. Provision for doubtful debts to be reduced to N 200

viiii. O withdrew N 7,000 goods for own use

**You are required to:**

a. Prepare the Trading, Profit and loss account for the year ended 31 Dec, 2006.

b. Partners’ capital account

c. Balance sheet as at 31st Dec. 2006

**Solution**

**Trading, Profit and Loss of O and D for the year ended 31st December 2006.**

N N N N

Opening stock 10,000 Sales 200,000

Add purchases 120,000 Less Returns inward s 4,000

Add carriage inwards 1,200

121,200

Less Ret outwards 2,000

119,200

Less Goods withdrawn 7,000 **112,200**

Cost of Goods available for sale 122,200

Less closing stock 15,000

Cost of goods sold 107,200

**Gross profit c/d** 88,800

**196,000** **196,000**

**Expenses Gross profit bld** 88,800

Salaries and wages (wk 1) 16,000 Discount received 1,100

Decrease in provision for

Bad debts 1,000 bad debts (wk 3) 100

Office expenses 2,400

Discount allowed 1,150

Electricity (wk 4) 30

Carriage outwards 500

Depreciation-motor can (wk 2) 5,000

**Net profit c/d**  **63,920**

**90,000** **90,000**

**Appropriation account**

N N N N

Net profit 63,920

Partner salary – O 2,000 **Interest on drawings:**

**Interest on capital:**  O 300

O 10,000 D 250 550

D 5,000 15,000

**Share of profit:**

D 18,988

O 28,482 47,470

**64,470** **64,470**

**Partnership Columnar current account**

O D O D

N N N N

Drawings 6,000 5,000 Balance b/f 1,500 3,000

Int on drawings 300 250 Share of profit 28.482 18,988

Goods withdrawn 7,000 - Interest on capital 10,000 5,000

Balance c/d 28,692 21,738 Salary 2,000 -\_\_\_\_

**41,982 26,988** **41,982 26,988**

**Bal b/d 28,692 21,738**

**Balance sheet as at 31st December 2006**

N N N NN

Capital: O 100,000

D 50,000 150,000 Fixed assets

Building 30,000 30,000

Current account: Machinery 109,100 109,100

O 28,682 Motor van 50,000 139,100

D 21,738 50,420 Less Depr. 15,000 35,000

174,100

**Current liabilities** **Current assets**

Loan Okafor 14,000 Stock 15,000

Creditors 10,000 Bank 8,000

Bills payable 9,000 Debtors 20,000

Wages owing 1,000 34,000 Less provision 200 19,800

Bills receivable 17,500

Electricity prepaid 20 60,320

**234,420 234,420**

**Workings**

1. Salaries and wages

Amount paid 15,000

+ Owing 1,000

Profit and loss 16,000

2. Depreciation: Motor van

10% x 50,000

Profit and loss 5,000

Accumulated depreciation = 10,000 + 5,000 = 15,000

3. Provision for bad debts 4. Electricity 50

Old provision 300 Less Prepaid 20

Less New provision 200 Profit and loss 30

Profit and loss 100

5. Interest on capital: 6. Share of profit

O : 10% x 100,000 O = 3/5 x 47,470 = 28,482

= 10,000 D = 2/5 x 47,470 = 18,988

D : 10% x 50,000

= 5,000

7. Interest on drawings:

O : 5% x 6,000

= 300

D : 5% x 5,000

= 250

**EVALUATION**

1. Explain (a) appropriation account (b) Balance sheet

2. What is interest on capital?

**READING ASSIGNMENT**

Essential Financial Accounting by O. A. Longe, Page 249 – 258

**WEEKEND ASSIGNMENT**

Use the following information to answer questions 1 – 5. A, B, and C are in partnership sharing profits and losses in the ratio 3:2:1 respectively. Their capital accounts are A: N60,000 B. N40,000 and C: N 30,000. Interest on capital is agreed at 5% p.a. interest on drawings is also agreed at 5% p.a. Their drawings for the year are: A: N 6,000 B: N 4,000 and C: N 3,000. The profit for the year before appropriation is N 30,000 C is entitled to a partnership salary of N2,000 p.a

1. What is the total of A and B’s interest on capital? (a) N4,000 (b) N3,000 (c) N5,000

(d) N10,000

2. What is the total of B and C’s interest on drawing? (a) N350 (b) N250, (c) N450

(d) N400

3. Total interest on the partners’ capital for the year is (a) N7,000 (b) N6,000 (c) N6,500 (d) N5,500

4. Total credit entries in the appropriation account is (a) N550 (b) N30,000 (c) N35,500

(d) N30,550

5. Which of the following is not debited to the profit and loss appropriation account?

(a) C’s salary (b) Partner’s interest on capital (c) Share of profit (d) Share of loss

**THEORY**

1. Write short notes on (a) Interest on capital (b) Interest on drawing

2. Give the double entries for the following in the final account of a partnership. (i) Interest on drawings N500 (ii) Partnership salary N3,000 (iii) Interest on capital N5,000 (iv) Share of profit N10,000

**GENERAL EVALUATION**

1. List five items that are debited in the sales ledger control account
2. List five items that are credited in the purchases ledger control account
3. List five subsidiary books from which the sales ledger control is compiled
4. State five contents of the Appropriation Account of a partnership
5. List five characteristics of depreciable assets

**WEEK THREE AND FOUR**

**ADMISSION OF PARTNERS, GOODWILL AND REVALUATION OF ASSETS**

**CONTENTS**

1. **Admission of a new partner** – meaning and reason for admission
2. **Goodwill admission of a new partner** (a) meaning of goodwill (b) reasons for paying for goodwill (c) treatment of goodwill (d) example
3. **Revaluation of asset on admission of partnership** (a) introduction (b) accounting entries (c) example

**ADMISSION OF NEW PARTNERS**

This occurs when a new partner is admitted into an existing partnership business. The reasons for such admission usually are: expiration of old partnership agreement, to inject in more fund, bring in a specialist, death of an old partner, etc.

However, it will be unfair to the existing partners for a new person to come in and take part in the established prosperous business without any reward to the old partners. This compensation to the old partners is goodwill.

**GOODWILL ON ADMISSION OF A PARTNER**

**Definition of Goodwill:** Goodwill is the benefit and advantage attached to an old established business as a result of its good name, efficient management good connection, good location, etc which make it to earn more profit.

**REASONS FOR PAYMENT FOR GOODWILL**

Thus, a partner of an existing business or an incoming partner will be induced to pay for goodwill because of:

1. quality of goods and services (ii) favourable business location (iii) efficient and loyal work force (iv) efficient management (v) possession of monopoly power (vi) patents and trade marks (vii) successful research and development (viii) good public image, etc.

**TREATMENT OF GOODWILL**

Then goodwill will be brought into the business. This will be dealt with as follows:

1. **Raising and retaining Goodwill account in the books**: Here, the value of goodwill is debited to goodwill account and credited to the capital accounts in the partners old profit and loss sharing ratio.

Accounting Entries: Dr. Goodwill A/c

In partners’ OLD P & L sharing ratio

Cr. Partners capital A/c

Any cash introduced by the new partner as capital, Dr Cash A/c; Cr. Capital A/c

1. **Goodwill is written off**: If the business does not desire to retain the goodwill in the books, it will be necessary to write it off to the capital account of the partners in their NEW P&L sharing ratio

Accounting Entries – goodwill written off

In partners NEW P&L sharing ratio

Dr. Capital A/c; Cr. Goodwill A/c

**EXAMPLE:**

A and B are Partners who share profit equally. They decide to admit C by agreement, goodwill valued at N60,000 is to be introduced into the books. C is required to provide capital equal to that of B after he has been credited with his share of goodwill. The new profit sharing ratio is to be 4:3:3 to A, B and C respectively.

The partner’s balance sheet before the admission of C is as follows

**Balance sheet**

Capital: A 80,000 Building 80,000

B 40,000 Motor Vehicle 30,000

Furniture 40,000

Creditors 30,000 Cash 20,000

Other liabilities 20,000

170,000 170,000

**Prepare the following:**

1. Journal and Ledger entries for the admission of C if goodwill account is to be retained.
2. The new balance sheet as a result of admission of C and the retention of goodwill account.
3. Journal and Ledger entries for the admission of C if goodwill account is not retained.
4. New balance sheet showing C admission and goodwill not retained.

**Solution**

1. **Journal entries – goodwill account retained**

**JOURNAL**

Debit Credit

Good will Account 60,000

Capital Account – A 30,000

-- B 30,000

*Being goodwill introduced and shared based*

*on old profit sharing ratio*

Cash Account 70,000

Capital Account C 70,000

*Being capital contributed by C*

*Note:* Since B’s capital was N40,000 before the goodwill of N30,000, then B’s capital will now be N70,000. Hence, C must contribute same amount as stated in the question.

Ledger – goodwill account retained

**Goodwill Account**

N N

Capital: A 30,000

B 30,000 Bal c/d 60,000

60,000 60,000

Bal b/d 60,000

**Capital Account**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **A** | **B** | **C** |  | **A** | **B** | **C** |
| Bal c/d | N  110,000  110,000 | N  70,000  70,000 | N  70,000  70,000 | Bal b/d  Cash  Goodwill  Bal b/d | N  80,000  -  30,000  110,000  110,000 | N  40,000  -  30,000  70,000  70,000 | N  70,000  -  70,000  70,000 |

**Cash Account**

NN

Bal b/d 20,000

capital 70,000 Bal c/d 90,000

90,000 90,000

Bal b/d 90,000

**A, B and C**

**Balance Sheet**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | N | N | N |
| Goodwill |  |  |  | 60,000 |
| Fixed Assets |  |  |  |  |
| Building |  |  | 80,000 |  |
| Furniture |  |  | 40,000 |  |
| Motor vehicle |  |  | 30,000 | 150,000 |
|  |  |  |  | 210,000 |
| Current asset |  |  |  |  |
| Cash |  |  | 90,000 |  |
| **Current liabilities** |  |  |  |  |
| Creditors |  | 30,000 |  |  |
| Other liabilities |  | 20,000 | 50,000 |  |
| Net current asset |  |  |  | 40,000 |
|  |  |  |  | 250,000 |
| **Financed by** |  |  |  |  |
| Capital account |  |  |  |  |
| A |  |  |  | 110,000 |
| B |  |  |  | 70,000 |
| C |  |  |  | 70,000 |
|  |  |  |  | 250,000 |

**Journal entries – goodwill account not retained**

**JOURNAL**

|  |  |  |
| --- | --- | --- |
|  | Debit | Credit |
|  | N | N |
| Goodwill Account | 60,000 |  |
| Capital – A |  | 30,000 |
| B |  | 30,000 |
| Being creation of goodwill as agreed on |  |  |
| Admission of C |  |  |
| Cash account | 70,000 |  |
| Capital Account – C |  | 70,000 |
| Being Capital contributed by C |  |  |
| Capital Account – A | 24,000 |  |
| B | 18,000 |  |
| C | 18,000 |  |
| Goodwill Account |  | 60,000 |
| Being goodwill written off using new |  |  |
| Profit sharing ratio |  |  |

**Cash Account**

N N

Bal b/d 20,000

C’s – Capital 70,000 Bal c/d 90,000

90,000 90,000

Bal b/d 90,000

**Goodwill Account**

Capital Account – A 30,000 Capital Account – A 24,000

Capital Account – B 30,000 Capital Account – B 18,000

Capital Account – C 18,000

60,000 60,000

**Capital Account**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **A** | **B** | **C** |  | **A** | **B** | **C** |
|  | N | N | N | N | N | N | N |
| Goodwill  Bal c/d | 24,000  86,000  110,000 | 18,000  52,000  70,000 | 18,000  52,000  70,000 | Bal b/d  Cash  Goodwill  Bal b/d | 80,000  -  30,000  110,000  86,000 | 40,000  -  30,000  70,000  52,000 | -  70,000  -  70,000  52,000 |

**A, B and C**

**Balance Sheet**

|  |  |  |  |
| --- | --- | --- | --- |
| **Capital Account:** |  | **Fixed Assets** |  |
|  | N |  | N |
| A | 86,000 | Building | 80,000 |
| B | 52,000 | Furniture | 40,000 |
| C | 52,000 | Motor vehicle | 30,000 |
|  | 190,000 |  | 150,000 |
| **Current liabilities** |  | **Current asset** |  |
| Creditors | 30,000 | Cash | 90,000 |
| Other liabilities | 20,000 |  |  |
|  | 240,000 |  | 240,000 |

**EVALUATION**

1. Explain the term Goodwill.

2. List five circumstances that can give rise to the valuation of goodwill in partnership accounts.

**REVALUATION OF ASSETS ON ADMISSION OF A NEW PARTNER INTO A PARTNERSHIP**

The assets of a partnership should be revalued to show their current value in any of the following circumstances: (i) admission of a partner (ii) retirement of a partner (iii) changes occur in P & L sharing ratio of partners.

**ACCOUNTING ENTRIES**

1. **Open a Revaluation A/c;** 
   1. Dr. Assets A/c; Cr. Revaluation A/c with increase in value of asset
   2. Cr. Assets A/c; Dr. Revaluation A/c with reduction in value of assets.
   3. Dr. Revaluation A/c; Cr. Liabilities A/c with increase in value of liabilities
   4. Cr. Revaluation A/c; Dr. liabilities with reduction in the value of liabilities
2. **If Goodwill is introduced**

Dr. Goodwill A/c; Cr Revaluation A/c with the amount of the Goodwill

1. **Transfer of profit on revaluation to the old partners capital account:**

Dr. Revaluation A/c in the old P & L sharing ratio

Cr. Capital A/c in the P & L sharing ratio

1. **Transfer of loss on revaluation**

Cr. Revaluation A./c in the P & L sharing ratio

Dr. Capital A/c in the P & L sharing ration

1. **Goodwill to be written off**

Cr. Goodwill A/c in the NEW P & L sharing ration

Dr. Capital A/c in the P & L sharing ratio

In revaluation of assets, the following accounts will be prepared.

1. Revaluation b. Capital accounts of partners c. Balance sheet

**Example**

S & O are in partnership, sharing profits and losses equally. On 1/1/1995 they decided to admit J, who would be entitled to one quarter of any future profits, the balance being shared equally between S and O.

The financial position of the business before the admission of J was a follows:-

Freehold premises: N75, 000, Fixtures and fittings: N26, 000, Stock in trade: N105, 000 Debtors: N45, 000, Cash in hand: N12, 640, Creditors: N58, 940.

Additional information:

1. It is agreed to value and retain goodwill at N30,000, b. Revalue the other assets as follows: Freehold premise: N100,000, Fixtures and fittings: N24, 000, Stock: N103, 000, c. Provision for bad debts of N3, 000 is to be made d. Capital is contributed by S and O equally e. J is to bring N80, 000 into the business as capital. You are required to prepare: i. Revaluation account ii. Partners capital accounts in columnar form iii. Opening balance sheet of the new partnership of S, O and J.

**Solution**

The closing balance sheet of the partnership must be prepared to show the capital contributed by J and S.

**Balance Sheet**

N N

Capital: S 102,590

O 102,590 205, 180 Freehold premises 75, 000

Fixtures & fittings 26, 000

Creditors 58, 940 Stock 105, 480

Debtors 45, 000

Cash in hand 12, 640

264, 120 264, 120

Note: The question states that capital is contributed equally by S and O.

Dr. **Revaluation account**  Cr

N N

**Decrease invalue of assets Increase in value of asset**

Fixture and fittings 2,000 Freehold premises 25,000

Stock 2,480 Goodwill 30,000

Provision for bad debts 3,000

Share of profit:

S 23,760

O 23,760 47,520

55,000 55,000

Dr **Partners’ capital accounts** Cr

S O J S O J

Balance c/d 126,350 126,350 80, 000 Bal. b/f 102,590 102,590 -

Cash - - 80,000

Share of profit 23,760 23,760 -

126,350 126,350 80,000 126,350 126,350 80,000

Share of profit S (1/2 x 47,520)=23,760 O (1/2 x 47, 520)=23,760

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Balance Sheet as at 1st January, 1995** | | | | | | |
|  |  | N |  |  | N | N | N |
| **Capital:** |  |  |  | **Fixed Assets** |  |  |  |
|  | S | 126,350 |  | Goodwill |  | 30,000 |  |
|  | O | 126,350 |  | Freehold Premises |  | 100,000 |  |
|  | J | 80,000 | 332,700 | Fixtures and fittings |  | 24,000 | 154,000 |
|  |  |  |  | **Current Assets** |  |  |  |
| Creditors |  |  | 58,940 | Stock |  | 103,000 |  |
|  |  |  |  | Debtors | 45,000 |  |  |
|  |  |  |  | Less Provision | 3,000 | 42,000 |  |
|  |  |  |  | Cash balance |  | 92,640 | 237,640 |
|  |  |  | 391,640 |  |  |  | 391,640 |

**EVALUTION**

1. What is a revaluation account?

2. List five assets that may be revalued in partnership accounts.

**READING ASSIGNMENT**

Essential Financial Accounting by O.A. Longe, Pages 278-281

Financial Accounting with Ease by OnafowokanYombo, Pages 247-251

Simplified Bookkeeping & Accounting by F.L. Olatunji, Pages 303-307

**Weekend Assignment**

1. The double entry for the N5,000 salary paid to partner A is (a) Dr. Appropriation A/c N5,000, Cr A’s current A/c N5,000 (b) Dr. A’s Capital A/c N5,000,

Cr Appropriation A/c N5,000 (c) Cr Revaluation A/c N5,000; Dr. Salary A/c N5,000

(d) None of the above

2. Goodwill is (a) Fixed Asset (b) Current Asset (c) Current Liability (d) Intangible Asset

3. Goodwill can be classified into (a) Liquid (b) tangible (c) intangible (d) Inherent and purchased

4. \_\_\_\_\_\_\_\_\_ A/c is credited with increase in values of assets (a) goodwill

(b) capital (c) revaluation (d) current

5. For a reduction in the value of an asset \_\_\_ the asset A/c and debit Revaluation A/c (a) debit (b) credit (c) deduct (d) Add

**Theory**

1. Explain clearly but briefly the terms goodwill and revaluation of assets. Why and when are they necessary in accounting?

2. Give the journal entries for each of the following transactions:

(a) Goodwill A/c of N50,00 is to be retained in the books of A& B who share profits and losses in ratio 2:1 respectively.

(b) A&B admitted C and the new P & L sharing ratio is 2:2:1 respectively. Write of the goodwill A/c in (a) above

(c) N4,000 provision for bad debt is to be made on revaluation of assets.

(d) Reduction in provision for bad debt of N7,000 on revaluation

**GENERAL EVALUATION**

1. List six accounts found in the nominal ledger
2. State four reasons for the need for a bank reconciliation
3. Mention six items which must be contained in a partnership agreement
4. Mention four features of not-for-profit making organizations
5. Differentiate between adjustments and closing entries

**WEEK FIVE AND SIX**

**DISSOLUTION OF PARTNERSHIP**

**CONTENT**

1. Meaning of partnership Dissolution
2. Reasons for Dissolution
3. Accounting entries
4. Illustration
5. **Meaning:** To dissolve a partnership means to bring an existing partnership business to an end. This entails selling the assets of the business, paying its creditors and other liabilities and sharing the balance of cash left between or among the partners in the agreed ratio.
6. **Reasons for Dissolution**

Any of the following reasons can lead to the dissolution of a partnership.

1. Retirement of partner i.e a partner gives notice of his intention to retire from the partnership
2. Admission of a new partner
3. A partner giving notice to other partners of his opinion that the business be dissolved.
4. Insanity of a partner i.e a partner’s problem of unsound mind.
5. Bankruptcy or inability of a partner to pay his debt.
6. Death of a partner
7. A joint decision by the partners to dissolve the partnership
8. If any time agreed upon expires
9. The business can no longer make profit
10. If it becomes illegal to continue to trade on the main object the business was established.

**MAIN ACCOUNTS OPENED:** They are:

1. **Cash/Bank A/c:** To record the receipt of cash/cheque for assets disposed of, payments to creditors, expenses of dissolution and fund disbursements to the partners.
2. **Realization:** To record book value and sales proceeds of assets sold, dissolution expenses, assets taken over by partner and the share of profit or loss on dissolution.
3. **Partner’s Capital A/C:** To record share of profit or loss, goodwill, assets taken over, amount paid to partners or amount paid by a partner as a result of deficit, etc.

**ACCOUNTING ENTRIES**

1. Book value of assets to be realized (excluding bank and cash)

Dr. realization A/c

Cr. Assets A/c.

b. Assets sold

Dr. Cash or bank A/c

Cr. Realization A/c with cash proceeds

1. Assets taken over by a partner

Dr. The capital A/c of partner

Cr. Realization A/c with the value of such an asset(s).

1. Settlement of liabilities

Dr. liability A/c

Cr. Cash or bank A/c with amount involved

1. Dissolution expenses

Dr. Realization A/c

Cr. Cash or Bank A/c

1. Discount received from creditors

Dr. Creditor(s) A/c

Cr. Realization A/c

1. Settlement of a creditor

Dr. Creditor A/c

Cr. Cash or Bank A/c

1. Paying off a partner’s loan A/c

Dr. loan A/c

Cr. Cash or Bank A/c

1. Profit on realization

Dr. Realization a/c

Cr. Partners A/c

1. Loss on Realization

Dr. Partners’ capital A/c

Cr. Realization A/c

1. Cash or Cheque paid in by a partner who has a debit balance

Dr. cash or Bank A/c

Cr. The capital a/c of partner concerned

1. Final settlement of cash to partners

Cr. Cash or Bank A/c

Dr. each partner’s capital A/c

The double entry in item (L) above marks the end of the dissolution process, and the cash or bank balance must be the same as the amount required to be paid to each partner.

**FORMATS**

**Realization A/c**

**N** **N**

**Book Value of Assets** **Amount from Sales**

Business premises x Business premises x

Motor vehicle x Motor vehicle x

Furniture and fittings x Furniture and fittings x

Plant & machinery x Plant & machinery x

Debtors x Debtors x

Stock x Stock x

Dissolution expenses x Discount received x

**Share of profit**

A x

B x

C \_x\_

Xxx xxx

Dr **Cash Book** Cr

**N** **N**

Balance b/f x Dissolution cost x

Realization account Creditors x

Plant and machinery x Settlement of loan x

Debtors x Capital:

Motor Vehicle x K x

Stock x O x

Equipment x P \_x\_ x\_

XX XX

Dr **Partners Capital Accounts** Cr

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | A | B | C |  | A | B | C |
|  | **N** | **N** | **N** |  | **N** | **N** | **N** |
| Cash book | X | X | X | Balance b/f | X | X | X |
|  |  |  |  | Share pf profit | X | X | X |
|  | xx | xx | xx |  | xx | xx | xx |

**Ledger entries**

Dr. **Plant and machinery account** Cr.

N N

Balance b/f x Realization account x

Dr. **Motor vehicle account** Cr.

N N

Balance b/f x Realization account x

Dr. **Furniture account** Cr.

N N

Balance b/f x Realization account x

Dr. **Stock account** Cr.

N N

Balance b/f x Realization account x

Dr. **Creditors account** Cr.

N N

Bank X Balance b/f x

**Evaluation question**

1. What is the dissolution of partnership?

2. Give five reasons why a partnership may be dissolved.

**Example:**Ronke and Yetunde are in partnership, sharing profits and losses 3:2 respectively. The balance sheet as at 31st December 2000 when it was dissolved appeared as follows:

**Balance Sheet Assets**

Capital:

Ronke 5,500 Fixture and fittings 1,050

Yetunde 3,500 Plant and machinery 650

Creditors 1,650 Equipment 1,000

Debtors 900

Bank 7,050

10,650 10,650

a. The following assets were realized:

N

Furniture and fittings 1, 500

Plant and machinery 700

Equipment 1, 900

Debtors 850

b. Dissolution expenses 250

c. The creditors were settled with 1, 500

**Required:** Prepare the necessary accounts on dissolution

**Solution**

Dr **Realization account** Cr.

N N

Book value of assets Amount realized from sales

Furniture and fittings 1,050 Furniture and fitting 1,500

Plant and machinery 650 Plant and machinery 700

Equipment 1,000 Equipment 1,900

Debtors 900 Debtors 850

Dissolution expenses 250 Disc Rec. 150

Share of profit

Ronke (3/5 x 1,250) 750

Yetunde (2/5 x 1,250) 500 1,250

5,100 5, 100

Discount on creditor = N1, 650 – N1, 500 = N150

Dr. **Capital account** Cr.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Ronke | Yetunde |  | Ronke | Yetunde |
|  | N | N |  | N | N |
| Cash | 6, 250 | 4, 000 | Balance b/f | 5, 500 | 3, 500 |
|  |  |  | Share of profit | 750 | 500 |
|  | 6, 250 | 4, 000 |  | 6, 250 | 4, 000 |

Dr. **Creditor account**  Cr.

N N

Cash 1,500 Balance b/f 1, 650

Discount 150

1,650 1, 650

Dr. **Cash book** Cr.

N N

Balance b/f 7,050 Creditors 1,500

Furniture and fittings 1,500 Cost of dissolution 250

Equipment 1,900 Capital:

Debtors 850 Ronke 6,250

Plant and machinery 700 Yetunde 4,000 10,250

12,000 12,000

Dr. **Furniture and fittings account** Cr.

N N

Balance b/f 1,050 Realization 1,050

Dr. **Plant and machinery account** Cr.

N N

Balance b/f 650 Realization 650

Dr. **Equipment account** Cr.

N N

Balance b/f 1,000 Realization 1,000

Dr. **Debtor account** Cr.

N N

Balance b/f 900 Realization 900

**EVALUATION QUESTION**

1. What is goodwill?

2. Explain the terms revaluation and realization in partnership accounts

**READING ASSIGNMENT**

Simplified Bookkeeping and Accounting by F.L Olatunji, Page 315-324.

**WEEKEND ASSIGNMENT**

1. The double entry for discount received from creditors on dissolution is (a) Cr. creditor A/c Dr. Cash A/c (b) Cr. Creditors A/c, Dr. Cash (c) Cr. realization A/c; Dr. Creditors (d) Dr. Bank, Cr. Capital A/c
2. Loss on an asset realized is debited to realization A/c and credited to \_\_\_\_\_\_\_\_ A/c (a) Cash (b) Asset (c) Realization (d) Revaluation
3. Assets taken over by partners on dissolution are credited to realization A/c and debited to \_\_\_\_\_\_\_\_\_\_ (a) asset A/c (b) cash A/c (c) Capital A/c (d) all of the above
4. Discount allowed is debited to \_\_\_\_ A/c (a) capital (b) realization (c) current (d) P & L
5. For goodwill on dissolution debit \_\_\_\_\_\_\_\_\_ A/c and credit \_\_\_\_\_\_\_\_\_ A/c respectively (a) cash and capital (b) goodwill and realization (c) realization and goodwill (d) capitasl and cash

**THEORY**

1. Explain how the proceeds of assets realized is applied in partnership dissolution.

2. Provide the double entries for the following on dissolution of the partnership of XYZ.

(a) Discount allowed to debtors N500

(b) Cars taken over by Z N50, 000

(c) Share of loss by X N1000

(d) Y brings cash to meet his deficit N5000

(e) Discount received N2000

**GENERAL EVALUATION**

1. State five differences between cash discount and trade discount
2. Identify any seven prime books of account and highlight the uses of each of

them where necessary

1. List five advantages of using the imprest system to record petty cash transactions
2. Explain the following types of errors (a) omission (b) principle (c) commission

(d) original entry (e) complete reversal of entry (f) compensating error

1. Explain how the following items are treated in Profit and Loss Account and Balance

Sheet (a) provision for doubtful debts (b) depreciation on fixed assets (c) accrued

income (d) accrued expenses (e) prepaid expenses

**WEEK SEVEN**

**COMPANY ACCOUNTS**

**CONTENT**

1. Definition of Company
2. Kinds of company
3. Formation of Company & its statutory requirement

**NOTE:**

A Company is a business owned, managed, controlled and financed by association of people which possess legal entity with the usual motive of maximizing owners’ wealth.

**KIND OF COMPANIES**

There are three kinds of companies. They are:

1. **Company Limited by Share:** This is a company whose owners liabilities is limited to the value of share subscribed in the company.
2. **Company Limited by Guarantee:** These are companies whose owners liabilities is limited to the value of share subscribed in the company plus additional fund

they undertake to pay into the company in case of liquidation.

1. **Unlimited Company:** This is a company whose liabilities of the owner are unlimited.

**Characteristics of limited companies**

1. It is a separate legal entity.
2. The liabilities of the owners are limited
3. The company enjoys continuity.
4. The company objective is to maximize owner’s wealth.

**Types of Limited Companies**

Basically there are two types of limited companies. They are:

1. **Private Limited Company:** Section 21 of Companies and Allied Matters Act of 1990 defined it as a company which by its articles.
2. Restricts the right to transfer its shares.
3. Limits the number of its members to fifty.
4. Prohibit invitation to subscribe for its shares.
5. End the name of the company with the word ‘Limited’
6. **Public Limited Companies:** These are companies which can invite the public to subscribe for its shares. The minimum number of shareholders to form the business is seven. There is no restriction on the maximum number of shareholders. The name of the company ends with the word “PLC” or public Limited liability Company.

**Formation of Company and its statutory requirement**

In the formation of a limited liability Company, the following procedures must be followed.

* 1. Get the promoters who have the idea of a company and undertake to fulfill legal requirements of the company.
  2. Having done that, the following documents should be sent to Register of Companies Corporate Affairs Commission (C.A.C), Abuja.

1. Articles of Association.
2. Memorandum of Association.
3. Statement of Nominal share capital.
4. Directors list and their particulars.
5. Statement to show that the Company will always obey the rules and regulation of the Commission as amended.
6. Documents stamped duties paid.

c. If the Registrar of companies perused the documents mentioned above and is satisfied with them, he will issue the Certificate of Incorporation. Meaning that the company is registered.

**DEFINITION OF TERMS**

1. **Articles of Association:** This is a document which states the internal regulations of limited company. It states the regulations which govern the internal management of the company affairs. It contains the following:
2. The rights and responsibilities of shareholders.
3. The duties and powers of directors.
4. The company borrowing power.
5. How directors and auditors can be appointed.
6. The voting rights of the shareholders, e.t.c
7. **Memorandum of Association:** This is a document which interacts the company with outside world. It contains the following:
8. The name of the company ending with the words ‘Ltd’ or ‘Plc’.
9. The address of the registered office of the company.
10. The object clause of the company.
11. A declaration that it is a limited liability company.
12. The amount of authorized share capital.
13. **Prospectus:** This is a document issued by limited companies, inviting the public to subscribe to it shares. Its contains the following:
14. Brief history of the company.
15. Chairman and director speech.
16. Names of the directors and their particulars, etc.
17. **Certificate of Incorporation**: This is a document which gives legal authority to the company to operate as a legal entity.

**EVALUATION**

1. What is a Company?

2. Mention and explain three types of companies.

**Major accounts kept by company**

1. Trading profit & loss account.
2. Appropriation account.
3. Balance sheet.

**Format of Trading Profit & Loss account**

**Trading Profit & Loss account for the year ended 31/12/9x**

Opening Stock x Stock x

Add purchases x Less return inward x

Less return outward x x Gross loss x

Cost of goods available x

Less closing stock x

Cost of sales x

Gross profit c/d x

X x

**Expenses**  Gross profit b/d x

Wages & salaries x Income from quoted In. x

Rent & Rate x Rent receivable x

Depreciation of assets x Discount received x

Directors remuneration x Other incomes x

Auditors remuneration x x

Advertising x

Hire of plant x

Debenture interest x

Insurance x

Other expenses x

Net profit x

X x

**Appropriation account**

Corporate tax x Balance b/f from last year x

General reserve x Net profit b/d x

Revenue reserve x

Dividend interim x

Proposed dividend x

Goodwill written off x

Retained profit c/d x

X x

**Balance sheet format**

**Authorized capital** N Fixed asset

Cost Dep. NBN

Ordinary share @ N1 each x Land & build X (x) X

10% Preference Share @ N 1 each x Furniture x (x) x

X Machinery x (x) x

**Issued share capital** Premises x (x) x

Ordinary share @ N 1 each x Goodwill x

10% preference share @ N 1 each x **investments**

**Reserves**  Quoted x

Share premium x Unquoted x

General reserve x **Current assets** x

Retained profit x Stock x

Capital redemption reserve x Debtors x

**Long-term liabilities** Cash x

10% Debenture x Bank x

Current liabilities Bill receivable x

Bill payable x Prepayment x

Income in advance x Accrued income x x

Corporate tax x Preliminary expenses x

Creditors x

Proposed dividend x

Accruals x x

X x

**EVALUATION**

* 1. List five documents that are used in the formation of companies.
  2. State six contents of the Memorandum of Association.

**READING ASSIGNMENT**

Essential Financial Accounting pags 299-319.

**WEEKEND ASSIGNMENT**

1. When a company can sue in its own name and right, we say it possesses (a) legal entity (b) legal jargons (c) legal portfolio (d) legal value
2. The company whose liabilities of its owners are limited to the value of share bought in the company is called (a) limited by share (b) limited by guarantee

(c) unlimited by share (d) limited by decree

1. The amount of capital a company is allowed to raised in the capital market is
   1. authorized capital (b) issue capital (c) called up capital (d) un-issued capital
2. The name of private limited company ends with (a) Ltd (b) Plc (c) & co (d) Ent.
3. The name of public limited company ends with (a) Corporation (b) Ltd (c) Plc (d) Authority

**THEORY**

1. Mention four documents that must be sent to Corporate Affairs Commission before a company can be register.
2. What is a prospectus.

**GENERAL EVALUATION**

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

**WEEK EIGHT**

**THE FINAL ACCOUNTS OF LIMITED LIABILITY COMPANIES**

The final accounts of limited liability companies comprises the following:

1. Trading, Profit and Loss Account.
2. Appropriation Account.
3. Balance Sheet.

**Format of Trading Profit & Loss account**

**Trading Profit & Loss account for the year ended 31/12/9x**

Opening Stock x Stock x

Add purchases x Less return inward x

Less return outward x x Gross loss x

Cost of goods available x

Less closing stock x

Cost of sales x

Gross profit c/d x

X x

**Expenses**  Gross profit b/d x

Wages & salaries x Income from quoted In. x

Rent & Rate x Rent receivable x

Depreciation of assets x Discount received x

Directors remuneration x Other incomes x

Auditors remuneration x x

Advertising x

Hire of plant x

Debenture interest x

Insurance x

Other expenses x

Net profit x

X x

**Appropriation account**

Corporate tax x Balance b/f from last year x

General reserve x Net profit b/d x

Revenue reserve x

Dividend interim x

Proposed dividend x

Goodwill written off x

Retained profit c/d x

X x

**Balance sheet format**

**Authorized capital** N Fixed asset

Cost Dep. NBN

Ordinary share @ N1 each x Land & build X (x) X

10% Preference Share @ N 1 each x Furniture x (x) x

X Machinery x (x) x

**Issued share capital** Premises x (x) x

Ordinary share @ N 1 each x Goodwill x

10% preference share @ N 1 each x **investments**

**Reserves**  Quoted x

Share premium x Unquoted x

General reserve x **Current assets** x

Retained profit x Stock x

Capital redemption reserve x Debtors x

**Long-term liabilities** Cash x

10% Debenture x Bank x

Current liabilities Bill receivable x

Bill payable x Prepayment x

Income in advance x Accrued income x x

Corporate tax x Preliminary expenses x

Creditors x

Proposed dividend x

Accruals x x

X x

**EVALUATION**

1. List five items that features in the Appropriation Account of a limited liability company.

2. Explain the following terms:

a. Debentures

b. Authorised share capital

c. Issued capital

d. Proposed dividend

e. Revenue reserve

**ILLUSTRATION**

The following Trial Balance was extracted from the books of Johnson Nigeria Limited as at 31st December,1990.

|  |  |  |
| --- | --- | --- |
|  | Dr | Cr |
| Issued and fully paid 20,000 shares of ₦1 each |  | 20,000 |
| Share premium |  | 10,000 |
| General reserve |  | 8,000 |
| Profit and loss account |  | 3,000 |
| Stock 1/1/90 | 8,000 |  |
| Salaries and wages | 5,000 |  |
| Discount | 200 | 400 |
| Carriage inwards | 160 |  |
| Loans |  | 24,000 |
| Interest on loan | 1,000 |  |
| Carriage outwards | 560 |  |
| Provision for bad depth |  | 2,000 |
| Preliminary expenses | 12,000 |  |
| Motor vehicle expenses | 1,800 |  |
| Director’s salaries | 6,000 |  |
| Repairs to premises | 250 |  |
| Rates | 1,600 |  |
| Premises at cost | 20,000 |  |
| Motor vehicle at cost | 23,000 |  |
| Plants and machinery cost | 25,000 |  |
| Purchases and sales | 45,000 | 91,740 |
| **Provisions for depreciation** |  |  |
| Plants and machinery |  | 2,500 |
| Debtors & creditors | 12,390 | 8,000 |
| Sundry expenses | 3,500 |  |
| Cash in hand | 300 |  |
| Cash in bank | 4,000 |  |
| Returns | 240 |  |
|  | 170.000 | 170,000 |

Additional information

* Stock at close ₦12,500
* Expense unpaid: motor expenses - ₦ 20

Insurance - ₦ 450

Sundry experiences - ₦400

* Prepaid expenses: Rate - ₦ 320

Sundry expenses - ₦ 250

* Provision for bad debts to be increased to - ₦2,800
* Part of the premises is sublet at ₦2,400 per annum
* Bad debts at 31st December, ₦600
* Monthly salaries and wages bill ₦400
* Loan interest is 5% per annum
* Provide for depreciation on a straight line method: premises 2% ,plant & machinery 25%,motor vehicle 10%
* Write off preliminary expenses
* Transfer to general reserves ₦5,000 and ₦5,000 to revenue reserve.

Prepare :

* Trading, Profit and Loss and Appropriation Account of the year ended 31st December ,1990
* a Balance Sheet as at that date.

**Solution:**

**Johnson Nigeria Limited**

**Trading,profit and loss for the year ended 31st December ,1990**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | ₦ |  | ₦ |
| Opening stock |  | 8,000 | Sales | 91,740 |
| Add purchases | 45,000 |  | Less return inward | (240) |
| Add carriage inwards | 160 |  |  | 91,500 |
|  | 45,160 |  |  |  |
| Less returns outward | (360) | 44,800 |  |  |
| Costs of goods available |  | 52,800 |  |  |
| Less closing stock |  | (12,500) |  |  |
| Cost of good sold |  | 40,300 |  |  |
| Gross profit c/d |  | 51,200 |  |  |
|  |  | 91,500 |  | 91,500 |
| Operational expenses |  |  | Gross profit b/d | 51,200 |
| Discount allowed |  | 200 | Discount received | 400 |
| Salaries and wages(400×12) |  | 4,800 | Rental income | 2,400 |
| Carriage outwards |  | 560 |  |  |
| Interest on loan(0.05×24,000) |  | 1,200 |  |  |
| Motor on vehicle exp.(1,800+200) |  | 2,000 |  |  |
| Director’s salaries |  | 6,000 |  |  |
| Repairs to premises |  | 250 |  |  |
| Rates (1,600-320) |  | 1,280 |  |  |
| **Provision of depreciation** |  |  |  |  |
| Premises (0.02×20,000) |  | 400 |  |  |
| Plant and machinery(0.25×25,000) |  | 6,250 |  |  |
| Motor vehicle (0.1×23,000) |  | 2,300 |  |  |
| Sundry expenses(3,500 + 400)= |  |  |  |  |
| 3,900 – 250 |  | 3,650 |  |  |
| Insurance |  | 450 |  |  |
| Bad debts |  | 600 |  |  |
| Provision for bad debts |  | 800 |  |  |
| Net profit c/d |  | 23,260 |  |  |
|  |  | 26,260 |  | 26,260 |
| General reserves |  | 5,000 | Net profit b/d | 23,260 |
| Revenue reserves |  | 5,000 | Profit brought forward | 3,000 |
| Preliminary expenses written off |  | 12,000 |  |  |
| Undistributed profit c/d |  | 4,260 |  |  |
|  |  | 26,260 |  | 26,260 |

**Balance sheet as at 31st December ,1990**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Authorized share capital ₦ | | | | Fixed assets ₦ | | | | | | |
| 20,000 ordinary shares of ₦1 each | | 20,000 | | |  | | Cost | Dep. | | NBC |
| Issued share capital | | | | | Premises | | 20.000 | (400) | | 19,600 |
| 20,000 ordinary shares for ₦1 each | | 20,000 | | | Motor vehicle | | 23,000 | (2,300) | | 20,700 |
|  | | | | | Plant and machinery | | 25,000 | (8,750) | | 16,250 |
| Reserves | | | | | Current Assets | | | | | |
| General reserves(5000+8,000) | | 13,000 | | | Cash in hand | | | | | 300 |
| Revenue reserves | | 5,000 | | | Debtors (12,390 – 600)= | | | | |  |
| Share premium | | 10,000 | | | 11,790 – 2,800 | | | | | 8,990 |
| Retained profit | | 4,260 | | | Stock | | | | | 12,500 |
| Long term liabilities | |  | | | Bank | | | | | 4,000 |
| Loans | | 24,000 | | | Rent receivable | | | | | 2,400 |
| Current liabilities |  | | Prepaid : | | | Rates | | | 320 | |
| Creditors | 8,000 | |  | | | Sundry expense | | | 250 | |
| Loan interest owing | 200 | |  | | | Wages and salaries | | | 200 | |
| Motor expenses owing | 200 | |  | | |  | | |  | |
| Insurance accrued | 450 | |  | | |  | | |  | |
| Sundry expenses owing | 400 | |  | | |  | | |  | |
|  | 85,510 | |  | | |  | | | 85,510 | |

**Evaluation**

1. What is fixed assets and give five examples of fixed assets.
2. Define intangible assets and mention three examples

**Reading assignment**

Essential Financial Accounting page 265-282

**Weekend Assignment**

1. Net purchase in trading account is ---------------- (a)purchases –return outwards (b) purchases – return inward (c)purchases – carriage inwards (d) purchases - sales
2. Net sales in trading account is -------------- (a)purchases – sales (b)sales – return inwards (c)sales – return outwards (d) sales + purchases
3. Working capital is --------------- (a)current assets – current liabilities ( b) current liabilities – current assets (c) total current assets (d) current assets + stock
4. Capital owned is --------------- (a)current assets – total liabilities (b) total assets – total liabilities (c) total assets + total capital (d) current assets + stock
5. Capital employed is ----------- (a)total assets – current liabilities (b)total assets – total liabilities (c ) total liabilities + all assets (d) current assets + current liabilities

**THEORY**

1. What is bonus issue?
2. Enumerate five features of private limited company.

**GENERAL EVALUATION**

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

**WEEK NINE AND TEN**

**ISSUE OF SHARES**

**CONTENT**

* Definition of shares
* Classes of shares
* Issue of shares
* Explanation of issue of shares
* Shares payable in full on application at par
* Shares issued at a premium
* Shares issued at a discount

**Definition of shares**

Shares can be defined as units of capital of ownership of a limited company. It is an ownership right in a company. A company cannot commence business until it raises capital by selling shares to the public for subscription.

**CLASSES OF SHARES**

There are three classes of shares in a limited liability company, they are:

* Ordinary shares
* Preference shares
* Founder’s shares
* **ORDINARY SHARES**: The shareholders of these are entitled to dividend after preference shareholders have settled. They are the owner’s of the company because they bear company risk and their dividend is not fixed. No wonder during the period of prosperity, they receive more dividends. They are often known as equities.
* **PREFERENCE SHARES**: The shareholders of these shares are entitled to fixed dividend and they are treated preferentially. They received dividend before any other class of shares. A company can issue redeemable or irredeemable, participating or non-participating, cumulative or non- cumulative preference shares.
* **FOUNDER’S SHARE**: These are also called deferred shares. These are shares issued to promoters of the company to compensate them for job well done. And they are entitled to dividend.

**ISSUE OF SHARES**

Shares can be issued in the following terms:

* Shares issued at a discount
* Shares issued at a premium
* Shares issued at par

**EXPLANATION OF ISSUE OF SHARES**

* **Shares issued at a discount**: Shares of limited liability companies are said to be issued at a discount, when the company share is issued at a price value less than the nominal value of the company share. For example if XYZ plc’s share nominal value is ₦1 but the company share is issued for subscription at 50k per share, the share is said to be issued at discount. The discount is 50k
* **Shares issued at a premium**: shares of limited liability companies are said to be issued at a premium, when the company share is issued at a price value above the nominal value of the company’s share. For example if XYZ plc’s share nominal share value is ₦1 but the company share is issued for subscription at ₦2 per share, the share is said to be issued at a premium. The premium is ₦1.00
* **Shares issued at par**: Shares of limited liability companies are said to be issued at par, when the company’s share is issued for subscription at the shares nominal value i.e issued at a price value equal to the nominal value. For example XYZ plc shares nominal nominal value is ₦1, and the company issue the share for subscription at ₦1 per share, the share is said to be issued at par.

**EVALUATION**

* Define the term shares.
* Explain the following: Cummulative and non cumulative preference share.

**ISSUE OF SHARES**

**NOTE**

Shares issued at par, payable in full on application.

**ACCOUNTING ENTRIES**:

On receipt of application of money

**DEBIT**: Bank Account

**CREDIT**: Application Account

On allotment:

Debit Application Account

Credit Ordinary Share CapitalAccount

**Example**: On the 1st January 1980 XYZ plc made an issue of 13,000 ordinary shares of ₦2 each at par Application together with total amount received for exactly 13,000 shares and the shares were allotted to the applicants. Show the journal entries and ledger accounts

**Solution:**

**Journal**

|  |  |  |
| --- | --- | --- |
| Bank Account  Application Account  Being money collected on application | Dr  26,000  26,000 | Cr  26,000  26,000 |
| Application Account  Share capital account  Allotment 13,000 ordinary shares at ₦2 |

**Ledger accounts:**

|  |  |
| --- | --- |
| ₦  Application 26,000 |  |

**Bank account**

**Application Account**

|  |  |
| --- | --- |
| ₦  Share capital 26,000 | ₦  Bank 26,000 |

|  |  |
| --- | --- |
|  | ₦  Application 26,000 |

**Ordinary Share Capital Account**

**Shares issued at a premium payable in full on application**: Share can be issued at apremium and paid in full application. This will necessitate the opening of share premium account. The value of the share premium is credited to the share premium account.

Accounting entries:

On receipt of application money:

Debit Bank Account

Credit Application Account

On allotment:

Debit Application Account

Credit Share Premium Account

Credit Ordinary Share Capital Account

**Example 2**: On 1st January 1980 XYZ plc made an issue of 13,000 ordinary shares of nominal value of ₦2 at ₦3. Application money were received for exactly 13,000 ordinary share.Show the journal entries and the ledger account.

**Solution:**

**Journal**

|  |  |  |
| --- | --- | --- |
|  | Dr | Cr |
| Bank account  Application account  Being ₦3 collected on 13,000 shares  Application account  Share premium account  Ordinary share capital account  Allotment of 13,000 ordinary shares at a premium | ₦  39,000  39,000 | ₦  39,000  13,000  26,000 |

**Ledger Accounts:**

|  |  |
| --- | --- |
| ₦  application 39,000 |  |

**Bank Account**

|  |  |
| --- | --- |
| ₦  Share premium 13,000  Ordinary share capital 26,000  39,000 | ₦  Bank 39,000  39,000 |

**Application Account**

**SharePremium Account**

|  |  |
| --- | --- |
|  | ₦  Application and allotment a/c 13,000 |

**Ordinary Share Capital Account**

|  |  |
| --- | --- |
|  | ₦  Application 26,000 |

* **Share issued at a discount payable in full on application**: Here, the share is issued at a discount. The difference is debited to discount account opened.

**Accounting entries:**

On receipt of application money:

Debit Bank Account

Credit Application Account

**On allotment:**

Debit Application Account

Credit Ordinary Share Capital Account

**Example 3**: On 1st January 1980 XYZ plc made an issue of 13,000 ordinary shares of nominal value of ₦2 at ₦1 each. Application money was received in full,show the journal and ledger account entries.

**Solution**:

**Journal**

|  |  |  |
| --- | --- | --- |
|  | Dr | Cr |
| Bank Account  Application Account  Being money collected on 13,000 shares  Application Account  Share discount account  Ordinary share capital account  Allotment of 13,000 shares at a discount | ₦  13,000  13,000  13,000 | ₦  13,000  26,000 |

**Ledger accounts:**

**Bank Account**

|  |  |
| --- | --- |
| ₦  Application 13,000 |  |

**Application Account**

|  |  |
| --- | --- |
| Ordinary Share Capital 26,000  26,000 | Bank 13,000  Share discount 13,000  26,000 |

**Ordinary Share Capital Account**

|  |  |
| --- | --- |
|  | ₦  Application 13,000 |

* **Under subscription**: this is where fewer shares are applied for than available for sale e.g A company issued out 300 shares but only 250 shares were applied for.
* **Over subscription**: This is when the number of shares applied for are more than that number actually offered for subscription.

**Evaluation**

* What is meant by over-subscription
* Explain the term under subscription

**READING ASSIGNMENT**

Essential Financial Accounting page 321-332

**GENERAL EVALUATION**

1. What is the effect of understatement of closing stock on : (a) cost of sales (b) gross

profit (c) net profit

1. State five causes of a decline in the net profit of a business
2. Differentiate between ‘‘Discount Allowed” and ‘’Discount Received”
3. State five characteristics of the imprest system of keeping petty cash records
4. List four characteristics of each of the following (a) fixed assets (b) current assets

(c) intangible assets

**WEEKEND ASSIGNMENT**

1. When a company received application for shares fewer than available for sale, the share is said to be a) oversubscribed b) under-subscribed c)subscription at par (d) forfeited
2. When a company received application for more than available shares for sales, the share is said to be (a) ever-subscribed (b) under- subscribed (c) over- subscribed (d) cancelled
3. On shares issued at par on application and fully paid, the accounting entries on receipts of money are (a) debit bank and credit application (b)debit application and credit bank (c) debit premium and credit bank (d) debit ordinary shares credit bank
4. Based on question 3 above ,the accounting entries on allotment of shares are (a) debit ordinary share capital account and credit application account (b)debit application account and credit ordinary shares capital account (c) debit premium and credit application account(d) debit ordinary shares credit bank
5. A share issued below the nominal value is said to be issued at (a) discount (b) premium (c) at par (d) loss

**THEORY**

On 1st February 1989 ABC plc makes an issue of 15,000 ordinary shares of nominal value of ₦2 at ₦3. Application money were received for exactly 15,000 shares.

Show:

a. Journal entries

b. Ledger accounts