**SS1**

**FINANCIAL ACCOUNTING**

**SIGMA – TERM**

**SCHEME OF WORK**

**WEEK**

1. Revision of 1st term’s work
2. Partnership Accounts – Admission of new partners. Terminologies Goodwill accounts, valuation of assets, treatment of goodwill according to profit sharing ratio.
3. Dissolution of partners reasons for dissolution, entry requirements in closing the firm’s books of account (settlement account).
4. Accounting Ratio

Introduction to ratio, types with working exercise.

1. Single entry/incomplete records – Determination of profit and loss from statement of affairs, preparation of trading, profit and loss accounts and Balance sheet from incomplete records.
2. Accounts of non-profit making organization – meaning, terminologies, features of receipts and payments account and format.
3. Receipts and payments account, income and expenditure account – meaning, rules, similarities and differences between receipts and payments account and income and expenditure account.
4. Treatment of subscriptions other nominal ledgers in arrears and in advance.
5. Preparation of income and expenditure account and balance sheet with working exercise.
6. Revision
7. Examination

**WEEK ONE**

**GOODWILL**

Goodwill is the amount by which the value of a business as a going concern exceeds the value of its net assets, if they were sold separately. It is an intangible asset because it cannot be touched or seen physically. Goodwill may not be shown in the balance sheet for reasons that will be explained later. Nevertheless, it must be considered when a partnership change occurs.

Factors that can give rise to goodwill are as follows:

* The location of the company.
* The quality of the product and services.
* The quality of the employees willing to continue after the business changes hand.
* Monopolistic advantage of the company.
* Possession of trademarks and patent rights to be used by the buyer.
* Opportunity for the buyer to retain the same name.
* Quality of the research and development that can be taken over.
* Good public image and reputation build by organization over the years.

**Introduction of Goodwill**

Goodwill may be introduced if any of the following situations occur:

* Admission of a new partner
* Change in profit-sharing ratio of partners
* Retirement or death of a partner
* Dissolution of partnership business
* Business purchase

**Types of Goodwill**

* Inherent goodwill
* Fugitive goodwill
* Purchased goodwill

The first two are non-purchased goodwill. Value cannot be placed on them. These types of goodwill exist in a business but will disappear immediately as the business changes hand. Examples include goodwill attached to the owner of the business, location, employees and so on. When any of these are not taken over, the goodwill will be vanished.

However, purchased goodwill arises as a result of one company acquiring another. This type of goodwill remains in the business even if the ownership changes. The value of goodwill is the difference between the purchase price (purchase consideration) and the book value of the assets.

**Valuation of Goodwill**

There are many methods of valuing goodwill, the method adopted is the sole responsibility of the partnership. The common methods are as follows:

* Purchase of average profit
* Purchase of average gross fee income
* Purchase of average super profit
* Excess of purchase price of a business over value of tangible net assets taken over.

**Accounting for Goodwill in the Books of a Partnership Business**

Irrespective of the method of a valuation of goodwill used, the value of goodwill can be retained in the books or written off immediately. Goodwill account is opened and credited to partners in their old profit-sharing ratio.

**How to account for goodwill when no goodwill account is opened.**

Partner often do not wish to record goodwill in their books for two reasons:

* The value placed on goodwill is usually very difficult to justify being a matter of opinion; it may not even exist.
* If goodwill is shown in the balance sheet, it would be difficult to persuade a prospective purchaser of the business to pay more, even if the value had increased since goodwill was first introduced into the books.

When there is a partnership change and the partners decide not to open a goodwill account, the procedure to be followed is as follows:

**Step 1:** Credit the partner’s capital accounts with their share of goodwill in their old profit-sharing ratio

**Step 2:** Debit the partners’ capital accounts with their share of goodwill in their new profit-sharing ratio.

**Apportionment of Profit**

Partnership changes often occur in the middle of a firm’s financial year. If a profit and loss account is not prepared at the time of the change, the profit and loss for the financial year must be apportioned between the periods before and after the change. If the profit and loss is assumed to have been earned evenly throughout the year, it should be divided between the old and new partnership on a time basis. However, any expenses not incurred on time basis must be allocated to the period to which they belong. The profit and loss account can be prepared in columnar form to show the apportionment of profit.

**Illustration 4: Change in profit-sharing ratio**

Shola and Shogo are partners sharing profits and losses equally after allowing Shola a salary of N10,000 p.a. On 1 January 2010, their capital and current accounts balances were as follows:

|  |  |  |
| --- | --- | --- |
|  | **Shola** | **Shogo** |
| N | N |
| Capital accounts  Current accounts | 25,000  7,500 | 20,000  5,000 |

On 1 July, 2010, the partners agree to the following revised terms of partnership.

1. Shola to transfer N5,000 from his capital accounts to a loan account on which he would be entitled to interest at 10% per annum.
2. Shogo to bring his private car into the firm at a valuation of N12,000
3. Shogo to receive a salary of N5,000 per annum.
4. Profits and losses to be shared: Shola – , Shogo-

Additional information for the year ended 31 December, 2010 is as follows:

|  |  |
| --- | --- |
|  | N |
| Sales (spread evenly throughout the year)  Cost of Sales  Rent  Wages  General expenses | 200,000  87,500  25,000  35,000  15,000 |

Of the general expenses, N5,000 was incurred in the 6 months to 30 June 2010.

Shogo’s car is to be depreciated over four years on the straight line basis and is assumed to have no value at the end of that time.

All sales produces a uniform rate of gross profit.

**Required:**

1. Prepare the trading, profit and loss and appropriation accounts for the year ended 31 December 2010.
2. Prepare the partners current accounts for the year ended 31 December 2010.

**Solution**

**Shola and Shogo**

**Trading, Profit and Loss and Appropriation Account for the**

**Year Ended 31 December 2010**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Sales  **Less:** cost of sales  Gross profit c/d |  | | | | | N  200,000  87,500  112,500 | |
| **6 months**  **30/06/2010** | | **6 months**  **31/12/2010** | | **Year to**  **31/12/2010** | | |
| **N** | **N** | **N** | **N** | **N** | | **N** |
| Gross profit b/d |  | 56,250 |  | 56,250 |  | | 112,500 |
| Rent | 12,500 |  | 12,500 |  | 25,000 | |  |
| Wages | 17,500 |  | 17,500 |  | 35,000 | |  |
| General expenses | 5,000 |  | 10,000 |  | 15,000 | |  |
| Interest loan |  |  | 250 |  | 250 | |  |
| Depreciation - Car |  |  | 1,500 |  | 1,500 | |  |
|  |  | (35,000) |  | (41,750) |  | | (76,750 |
| Net profit |  | 21,250 |  | 14,500 |  | | 35,750 |
| **Less:** Salary – Shola    Shogo |  | 5,000 |  | 2,500 |  | | 5,000  2,500 |
| Net profit b/f |  | **16,250** |  | **12,000** |  | | **28,250** |
| **Share of profit** |  |  |  |  |  | |  |
| Shola ( ), ( ) | 8,125 |  | 7,200 |  | 15,325 | |  |
| Shogo ( ), ( ) | 8,125 |  | 4,800 |  | 12,925 | |  |
|  |  | **16,250** |  | **12,000** |  | | **28,250** |

**(b) Partners Current Account**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Shola | Shogo |  | Shola | Shogo |
|  | N | N |  | N | N |
| Bal. c/d | 27,825 | 20,425 | Bal. b/d  Salary  Share of profit | 7,500  5,000  15,325 | 5,000  2,500  12,925 |
|  | **27,825** | **20,425** |  | **27,825** | **20,425** |
|  |  |  | Bal. b/d | 27,825 | 20,425 |

**WEEK TWO - THREE**

**ADMISSION OF NEW PARTNER AND RETIREMENT OF AN EXISTING PARTNER IN CONTINUING BUSINESS**

Partnership changes usually occur during a financial year and the accounting records are contrived without interruption. Final accounts are prepared at the end of the financial year. When a partner leaves the firm or a new partner joins, it marks the end of one partnership and the beginning of a new one. No records and entries are made in the books as at the period of change until the end of the financial year. In the process, revaluation of asset, valuation of goodwill and changes in the profit/loss sharing ratio may occur.

**Illustration 5: Admission of a new partner**

Dami and Lola have shared profits and losses in the ration of 3:2. On 1 October 2010, they decided to admit Bola as a partner. No entries to record Bola’s admittance as a partner were made in the books before the end of the financial year on 31 December 2010.

Information extracted from the books for the year ended 31 December 2010 include the following:

|  |  |
| --- | --- |
|  | N |
| Turnover  Cost of sales  Wages  Rent  General expenses  Deprecation of fixed assets:  1 January to 30 December 2010  1 October to 31 December 2010 | 400,000  240,000  40,000  8,000  9,600  6,000  4,350 |

(based on the asset revaluation as shown below)

At December 2009, the balances on Dami and Lola’s capital and current accounts were as follows:

|  |  |  |
| --- | --- | --- |
|  | Capital Accounts | Current Accounts |
| N | N |
| Dami | 50,000 | 2,000 |
| Lola | 30,000 | 3,000 |

On 1 October 2010, the partnership assets were revalued as follows:

|  |  |
| --- | --- |
|  | N |
| Freehold premises  Other fixed assets  Current assets | 50,000 increase  14,000 decrease  3,000 decrease |

The partners agreed the value of goodwill on 1 October 2010 at N40,000 and decided that no goodwill account should be opened in the books.

On 1 October 2010, Bola paid N20,000 into the firm’s bank account as capital. On the same day, Dami lent the partnership N20,000. He is entitled to interest at a rate of 100% per annum on the loan.

The balances on the partners drawings account at 31 December 2010 were as follows:

|  |  |
| --- | --- |
|  | N |
| Dami  Lola  Bola | 23,000  17,000  3,000 |

The new partnership agreement provided for the following as from 1 October 2010.

1. Interest was allowed on the balances on capital accounts on 31 December each year at a rate of 5% per annum.
2. Lola was entitled to a salary of N12,000 per annum.
3. The balance of profits and losses were to be shared. Dami - , Lola and Bola -

**Required:**

1. Prepared the capital accounts of Dami, Lola and Bola as at 31 December 2010.
2. Prepare the partnership trading, profit and loss and appropriate account for the year ended 31 December 2010.
3. Prepare the partners current accounts as at 31 December 2010.

**Solution**

**Workings**

1.

**Revaluation a/c**

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | N | Particulars | N |
| Other fixed assets  Current asset  Profit to capital a/c  Dami ( x 33,000) =  Lola ( x 33,000) = | 14,000  3,000  19,800  13,200  **50,000** | Freehold premises | 50,000  **50,000** |

1. Goodwill: Since the partners agreed that no goodwill account should be opened, then working of the share of goodwill to capital account is only shown as follows:

Value of goodwill N40,000 as at 1 October 2010 share to Dami and Lola in their old profit-sharing ratio as follows:

Dami ( x 40,000) = 24,000

Lola ( x 40,000) = 16,000

Goodwill to be written off immediately from the books as follows using new profit-sharing ratio:

Dami ( x 40,000) = 16,000

Lola ( x 40,000) = 16,000

Bola ( x 40,000) = 8,000

1. **Partners Capital Account**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Dami  (N) | Lola  (N) | Bola  (N) |  | Dami  (N) | Lola  (N) | Bola  (N) |
| Goodwill w/off  Bal c/d | 16,000  77,800  **93,800** | 16,000  43,200  **59,200** | 8,000  12,000  **20,000** | Bal. b/d  Bank  Profit on Revaluation Goodwill  Bal b/d | 50,000  19,800  24,000  **93,800**  77,800 | 30,000  13,200  16,000  **59,200**  43,200 | -  20,000  -  -  **20,000**  12,000 |

1. **Dami, Lola and Bola**

**Trading, Profit and loss and Appropriation Account for the Year Ended 31 December, 2010**

N

Turnover 400,000

**Less:** Cost of Sales 240,000

**Gross profit c/d 160,000**

9 months to 30 3 months to 31 year to

September 2010 December 2010 31 December 2010

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | N | N | N | N | N | N |
| Gross profit b/d |  | 120,000 |  | 40,000 |  | 160,000 |
| Wages | 30,000 |  | 10,000 |  | 40,000 |  |
| Rent | 6,000 |  | 2,000 |  | 8,000 |  |
| General expenses | 7,200 |  | 2,400 |  | 9,600 |  |
| Interest on loan | - |  | 500 |  | 500 |  |
| Depreciation | 6,000 | (49,200) | 4,350 | (19,250) | 10,250 | (68,450) |
| **Net profit** |  | **70,800** |  | **20,750** |  | **91,550** |
| Interest on capital at 5% p.a. |  |  |  |  |  |  |
| Dami - |  |  | 973 |  | 973 |  |
| Lola - |  |  | 540 |  | 540 |  |
| Bola - |  |  | 150 |  | 150 |  |
|  |  |  | **1,663** |  | **1,663** |  |
| Salary – Lola |  |  | 3,000 |  | 3,000 |  |
|  |  |  |  | **(4,663)** |  | **(4,663)** |
|  |  | **70,800** |  | **16,087** |  | **86,887** |
| **Share of profit** |  |  |  |  |  |  |
| Dami (3/5), (2/5) | 42,480 |  | ( ½ ) 6,435 |  | 48,915 |  |
| Lola (2/5), (2/5) | 28,320 |  | ( ) 6,435 |  | 34,755 |  |
| Bola (1/5) |  |  | ( ) 3,217 |  | 3,217 |  |
|  |  | **70,800** |  | **16,087** |  | **86,887** |

1. **Partners’ Current Account**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Dami | Lola | Bola |  | Dami | Lola | Bola |
|  | **N** | **N** | **N** |  | **N** | **N** | **N** |
| Drawings | 23,000 | 17,000 | 3,000 | Bal. b/d | 2,000 | 3,000 | - |
| Bal. c/d | 29,388 | 24,295 | 367 | Loan interest | 500 | - | - |
|  |  |  |  | Int. on capital | 973 | 540 | 150 |
|  |  |  |  | Salary | - | 3,000 | - |
|  |  |  |  | Share of profit | 48,915 | 34,755 | 3,217 |
|  | **52,388** | **41,295** | **3,367** |  | **52,388** | **41,295** | **3,367** |
|  |  |  |  | Bal. b/d | **29,388** | **24,295** | **367** |

**Essay Type Questions**

1. (a) Define ‘partnership’.

(b) Is it possible for a partnership to exist without agreement? If so, why do you consider a written agreement to be desirable?

(c) Is it possible for a person

(i) To receive a share in the profits of a business without being liable as a partner therein;

(ii) To be liable as partner without receiving a share of the profits of a business?

1. The following trial balance has been extracted from the books of Sam and Dan at 30 April 2011.

|  |  |  |
| --- | --- | --- |
|  | N | N |
| Sales |  | 425,000 |
| Purchases | 200,000 |  |
| Stock at 1 May 2010 | 30,000 |  |
| Wages | 98,000 |  |
| Rent | 25,000 |  |
| Heating and lighting | 16,000 |  |
| Office expenses | 12,600 |  |
| Vehicle expenses | 5,510 |  |
| Advertising | 3,500 |  |
| Bad debts written off | 416 |  |
| Plant & machinery at cost | 125,000 |  |
| Provision for depreciation plant & machinery |  | 36,000 |
| Motor vehicle at cost | 41,000 |  |
| Provision for depreciation of motor vehicle |  | 22,000 |
|  |  | 18,000 |
| Trade debtors and creditors | 45,750 |  |
| Provision for doubtful debts |  | 1,000 |
| Bank balance | 15,724 |  |
| Loan from Sam |  | 60,000 |
| Capital a/c - Sam  - Dan  Current a/c - Sam  - Dan  Drawings a/c - Sam  - Dan | 30,000  13,500 | 50,000  40,000  7,000  3,000 |
|  | **662,000** | **662,000** |

**Additional Information**

1. Stock at 30 April, 2011 is valued at N27,000
2. Sam is to be credited with interest on the loan at a rate of 10% per annum.
3. The bank reconciliation shows that bank interest of N314 and bank charges of N860 have been debited in the bank statements. These amounts have not been entered in the cash book.
4. On 30 April 2011, rent of N1,500 and advertising of N2,000 have been paid in advance.
5. Depreciation is to be provided as follows:
   * 1. Plant and machinery 10% per annum on cost.
     2. Motor vehicles 20% per annum on their written down values.
6. The partners are to be charged interest on drawings and allowed interest on capital at a rate of 10% per annum.
7. Partnership salaries are to be allowed as follows: Sam N10,000 per annum, Dan N8,000 per annum.
8. The balance of profits and losses is to be shared as follows: Sam – 3/5; Dan 2/5.

**Required:**

1. Prepare the partnership trading, profit and loss and appropriate accounts for the year ended 30 April 2011.
2. Prepare the partners’ current accounts for the year ended 30 April 2011.
3. Prepare the balance sheet as at 30 April 2011.
4. Bose, Bukky and Biola are partners sharing profit and losses in ratio 3:2:1 respectively.

The partners’ trial balance as at 31 December 2010 is as follows:

|  |  |  |
| --- | --- | --- |
|  | **Dr (N)** | **Cr (N)** |
| Capital account   * Bose * Bukky * Biola   Current account   * Bose * Bukky * Biola   Premises  Plant  Vehicles  Furniture  Loan – Biola  Creditors  Stock  Debtors  Bank | 5,018  180,000  74,000  30,000  4,000  125,758  69,960  **487,736** | 170,000  130,000  70,000  7,428  9,356  56,000  38,072  6,880  **487,736** |

Biola retires on 31 December 2010 and Shola was admitted as a partner on that date.

The following matters were agreed on:

1. Assets revalued – premises N24,000 plant N60,000 and stock N108,358.
2. Goodwill of N84,000 is to be recorded in the books on the day Biola retires.
3. Provision is to be made for doubtful debts of N 6,000.
4. The partners in the new firm do not wish to maintain goodwill account
5. Bose and Bukky are to share profits in the same ration as earlier and Shola is to have the same share of profit as Bukky.
6. Biola is to take over car at its book value of N7,800 in part payment and the balance of all she is owed by the firm in cash except N40,000 which she is willing to leave as a loan.
7. The partners in the new firm are to start on an equal footing so far as capital and current accounts are concerned.
8. Shola is to contribute cash to bring the capital and current accounts to the same amount as the original partner from the old firm who has the lower investment in the business.
9. The original partner in the old firm who has the higher investment will draw out cash so that his capital and current account balances equal those of his new partners.

**Required:**

1. Prepare account for the above transactions including goodwill and retiring partners account.
2. Balance sheet of the new partnership of Bose, Bukky and Shola as at 31 December 2010.

**WEEK FOUR**

**ACCOUNTING RATIOS AND INCOMPLETE RECORDS**

Under a situation whereby a firm or business accounting records were destroyed as a result of fire, flood or any other forms of natural disasters, such firm or business could still prepare its final account despite the facts that the information available will be very inadequate.

In order to prepare the final accounts under such situation, the accountant need to see his or her past experience and ingenuity to prepare the account. In addition, the accountant can make use of some accounting ratios such as the following:

* Mark – up
* Margin
* Rate of turnover
* Manager’s commission

**Mark – up**

This is the ratio that expressed profit against the cost price of goods. The profit will be expressed as a percentage or fraction or decimal to the cost price.

Profit

Cost Price

x 100

Mark – up =

**Illustration 5**

A business made N10,000 profit from goods cost N50,000. You are required to calculate the mark-up.

**Solution**

Profit

Cost Price

x 100

Mark-up =

10,000

50,000

x 100

=

= 20% or 0.2 or

**Margin**

This is the ratio of profit to sales or selling price. It can as well be expressed as a percentage or fraction or decimal to sales.

Profit

Sales

x 100

Profit

Sales

x 100

Magin =

**Illustration 6**

A firm made N15,000 profit from a sales of N60,000. You are required to calculate the margin.

**Solution**

Margin =

15,000

60,000

x 100

=

= 2.5% or 0.25 or ¼

In a situation whereby the mark-up is given, as well as, the selling price then the mark-up must be converted to margin. This can be explained as follows:

SP = Selling price

CP = Cost price

Profit = P

SP = CP + P (i)

SP = CP = P (ii)

SP – P = CP (iii)

Mark-up = =

Margin = =

**Conversion of mark-up to margin**

Mark-up = to margin ==

Mark-up = to margin = =

Mark-up = to margin = =

**Conversion of margin to mark-up**

Margin = to mark-up = =

Margin = to mark-up = =

Margin = to mark-up =  =

**Illustration 7**

A business cost price is 100% and profit is 10%. Calculate mark-up and margin.

**Solution**

Mark-up = = = = 0.1

Margin = = = = = 0.091

**Illustration 8**

The following data were extracted from the books of God Grace Venture.

Opening stock 16,000

Sales 400,000

Closing stock 20,000

The business uses a uniform mark-up rate of 33 %

You are required to calculate:

1. Profit
2. Purchases
3. Prepare the trading account

**Solution**

Mark-up 33 % =

Mark-up = = 25%

Margin = =

4P = 400,000

P = 400,000 ÷ 4

P = N100,000

Cost of sales = N400,000 – N100,000 = N300,000

Purchase = 300,000 + 20,000 – 16,000 = N304,000

**God Grace Trading Account**

|  |  |  |
| --- | --- | --- |
|  | N | N |
| Sales  **Less: Cost of Sales**  Opening stock  **Add:** Purchases  **Less: Closing stock**  Profit | 16,000  304,000  **320,000**  (20,000) | 400,000  300,000  **100,000** |

**Stock Turnover**

This is also called the rate of turnover. This is the number of times a business stock will be turned over within a given period of time. It is computed as follows:

Rate of turnover = Cost of goods sold

Average of stocks

It can also be expressed in numbers of days as follows:

Average stocks (x 365 days)

Cost of goods sold

Average stock is computed as follows:

Opening stocks + Closing stocks

2

**Manager’s Commission**

This is an allowance granted to a business manager for a good performance and to encourage him or her to work harder in future. It is usually computed as follows:

Percentage of commission x Profit before commission

100 + Percentage of commission

**Illustration 9**

The following information was extracted from Folarin Ventures books in 2008.

|  |  |
| --- | --- |
|  | N |
| Stock at 01/01/2008  Stock at 31/12/2008  Creditors at 01/01/2008  Creditors at 31/12/2008  Cash paid for goods during the year  Mark-up 25%  Selling expenses | 130,000  110,000  80,000  100,000  400,000  55,000 |

You are required to calculate:

1. Margin
2. Purchase
3. Stock turnover in days
4. Gross profit
5. Sales
6. Margin
7. Prepare the trading, profit and loss account for the year ended 31 Dec. 2008.

**Solution: FOLARIN VENTURES**

1. Margin = or = 20% or 0.2
2. Purchase

**Creditors Ledger Control Account**

|  |  |  |  |
| --- | --- | --- | --- |
|  | N |  | N |
| Bal c/f  Cash paid | 100,000  400,000  **500,000** | Bal. b/f  Purchases (credit) | 80,000  420,000  **500,000** |

130,000 +110,000

2

x 365

440,000

= 120,000

x 365

440,000

= 99.5 days = 100 days

**Folarin Ventures**

**Trading and Profit and Loss Account for the period Ended 31 December 2008**

|  |  |  |
| --- | --- | --- |
|  | N | N |
| Sales |  | 550,000 |
| Opening stock | 130,000 |  |
| **Add:** Purchase | 420,000 |  |
|  | **550,000** |  |
| **Less:** Closing stock |  |  |
|  |  | 440,000 |
| Gross profit |  | 110,000 |
| **Less:** Expenses |  | (55,000) |
| **Net profit** |  | 55,000 |

Percentage of gross profit to sales = 110,000 x 100 = 20%

550,000

Percentage of Net profit to sales = 55,000 x 100 = 10%

550,000

**Illustration 10**

Madam Adeotun produces the following data from her books.

N

Stock at the beginning 30,000

Purchases 27,000

The mark-up on cost of sales is 50%. Her average stock during the year was N20,000. You are required to calculate:

1. Closing stock
2. Prepare trading, profit and loss account
3. Ascertain the total amount of profit and loss expenditure that she must not exceed if she is to maintain a net profit on sales of 10%

**Solution**

Let x represent closing stock

1. Closing stock = x + 30,000 = 20,000

2

= x + 30,000 = 40,000

= 40,000 – 30,000

Closing stock = x = N10,000

1. **Madam Adeotun Trading, Profit and Loss Account**

|  |  |  |
| --- | --- | --- |
|  | N | N |
| Sales (290,000 + 145,000)  **Less: Cost of sales**  Opening prayer  **Add:** Purchases  **Less:** Closing stock  Gross profit (0.5 x 290,000)  **Less:** Expenses  Net profit (0.1 x 435,000) | 30,000  270,000  300,000  (10,000) | 435,000  290,000  145,000  (101,500)  **43,500** |

**Exercise**

**Objective Questions**

1. A firm’s average stocks is N50,000 while the closing stock is N30,000. Calculate the opening stock:
   1. N40,000
   2. N30,000
   3. N70,000
   4. N50,000
2. The ratio between profit and sales is called
   1. Gross profit
   2. Net profit
   3. Mark-up
   4. Margin
3. The excess of opening capital over closing capital represents
   1. Gross profit
   2. Net profit
   3. Loss
   4. Sales
4. A business stock turnover time is 9, its average stocks is N60,000. Calculate its cost of goods sold
   1. N54,000
   2. N27,000
   3. N60,000
   4. N540,000
5. The record or book where credit sales could be generated is
   1. Cash book
   2. Creditors ledger
   3. Debtors ledger
   4. Statement of affairs

**Fill in the Blanks**

1. The number of times a business stock could be replenished is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
2. If a business operational margin is 0.2. calculate the mark-up \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
3. The act of recording a business transaction one in the book is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
4. The financial summary prepared to ascertain a firm’s opening capital is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
5. If a manager is qualified for 7½% commission on profit before the commission is N15,000. Calculate the commission that would accrue to the manager.

**Assignment**

**Essay Type Questions**

1. The following information was extracted from the book of Olaoni.

|  |  |
| --- | --- |
|  | N |
| Sales  Opening stock  Closing stock  Expenses  Purchases | 45,000  20,000  30,000  15,000  25,000 |

You are required to calculate the following:

* + 1. Cost of goods sold
    2. Net profit
    3. Net profit percentage
    4. Gross profit percentage
    5. Stock turnover

1. The following is a summary of the bank account of Mary Parker, a retail trader for the year 2008.

|  |  |  |
| --- | --- | --- |
| **Receipts** | **N** | **N** |
| Balance b/f  Shop takings  **Payments**  Creditors  Rent and rates  drawings |  | 1,448  34,722  28,364  1,488  5,816 |

You are given the following additional information:

|  |  |  |
| --- | --- | --- |
|  | 01/01/2008 | 31/12/2008 |
| N | N |
| Furniture  Stock  Debtors  Creditors | 1,000  5,260  2,900  3,750 | 1,000  4,380  3,270  3,946 |

During the year, wages amounting to N1,300 and N220 general expenses were paid in cash out of shop takings. All the remaining shop taking were paid into the bank and all other payments were made by cheque.

You are required to prepare:

1. Trading, profit and loss account for the year
2. A balance sheet as at 31 December, 2008 (SSCE, June 1993).

**WEEK FIVE – SIX**

**SINGLE ENTRY AND INCOMPLETE RECORDS**

**Introduction**

This topic is about how to prepare trading, profit and loss account under an incomplete record or single-entry accounting system.

**Meaning**

This is system of accounting of financial transactions that are recorded without conformity with the rule of double entry’.

The records so prepared based on a single entry or one-leg entry by any bookkeeper or record keeper is hence incomplete or inadequate for proper accounting system. In order to prepare a normal accounting report, an accountant has to use one of his or her mental experience and ingenuity to prepare the accounts or financial reports from the incomplete records.

**Features of Single Entry/Incomplete Records**

* Final accounts are prepared by comparing financial data of two or more years.
* Accounting information is grossly inadequate.
* Accounting records or books are not in existence or not well organized.
* Mostly, records are kept on loose sheet or only cash book is kept.
* There is no any accounting system in such an organization.
* Record keeping is flexible.

**Areas Where Single-Entry Accounting Systems Are Used**

Areas where single accounting systems are used are as follows:

* Schools
* Government parastatals and agencies
* Club association, unions (not-for-profit organization) and so on.
* Sole traders, or small-scale business
* Organizations that have no finance or accounting unit
* Business or companies that are victims of artificial or natural disasters.
* Business where records are kept on loose sheets.

**Preparation of Statement of Affairs**

A statement of affairs is the summary of a firms’ or a business’ assets, liabilities and owners stake at any given time.

It could be drawn at the beginning or at the end of every accounting year or period. The statement is drawn to ascertain any growth or increases in the components of the statements at any point in time. The information required to prepare this statement are: all fixed assets, total of debtors and creditors, owing and prepaid expenses, cash in hand and at bank and so on.

When two statements of affairs for different periods are compared, it will help to ascertain the followings:

The format for the statement of affairs is given in the following:

**(a) Opening Statement of Affairs**

|  |  |
| --- | --- |
|  | N |
| Fixed assets  Current assets  **Less:** Liabilities  Opening Capital | XXX  XXX  XXX  (XXX)  XXX |

Opening capital = Total assets – Liabilities

**(b) Closing Statement of Affairs**

|  |  |
| --- | --- |
|  | N |
| Fixed assets  Current assets  **Less:** Liabilities  Closing Capital | XXX  XXX  XXX  XXX  XXX |

**Computation of profit Between the Two Profits**

|  |  |  |
| --- | --- | --- |
|  | **N** | **N** |
| Closing capital |  | XXX |
| **ADD:** Drawings |  | XX |
| **Less:** Opening Capital | XX |  |
| Additional Capital | XX | (XX) |
| Net Profit |  | XX/(XX) |

Profit or loss can as well be computed as follows:

(a) Opening capital + Profit – Drawings + Additional capital = New or closing capital

(b) Profit = New capital + Drawing – Opening Capital – Additional Capital

**Illustration 1**

Abraka Ventures statements of affairs components as at 1 January, 2016 are given below.

|  |  |
| --- | --- |
|  | N |
| Creditors  Bills payable  Plants and equipment  Stock  Debtors  Bills receivable  Cash | 40,000  12,000  60,000  20,000  10,000  20,000  2,000 |

On 31 December, 2010, the following information was extracted from the business. Creditors N30,000, bill payables N16,000 equipments N50,000, stock N10,000 Debtors N20,000, Bills receivable N14,000, Cash N200 and drawings for the period were N16,000.

You are required to:

1. Calculate the opening capital
2. Show the closing capital and net profit

**Illustration 2**

Olaore Supermarket records all its financial transaction in a notebook. The following are extracts from the notebooks:

|  |  |  |
| --- | --- | --- |
| Stock  Creditors  Debtors  Cash in hands  Bank overdraft  Fixtures and fittings  Motor van | **Notebooks** | |
| **31 December, 2008** | **31 December 2009** |
| N  33,000  30,000  40,000  500  50,000  15,000  20,000 | N  46,000  28,800  35,000  4,000  38,000  15,000  20,000 |

The drawings during the year amounted to N5,000. Depreciation on furniture and fittings to be 10%, while N2,000 to be written off motor van. N1,000 of the debtors are irrecoverable and a general provision of 5% should be made on the debtors balance.

You are required to:

1. Ascertain the profit and loss for the year ended 31 December 2009.
2. Prepare a statement of affairs as at that date.

**PREPARATION OF FINAL ACCOUNTS FROM INCOMPLETE RECORDS:**

**Conversion of Single Entry to Double Entry**

An organization that keeps single entry or incomplete records of accounting may decide to prepare its annual final accounts from the inadequate information. It is possible under this incomplete records situation to prepare such final accounts by merely converting the single entry records to double entry records given the available information. The following are the necessary books that need to be opened for such conversion:

* Cash book
* Sales ledger
* Purchases ledger
* Assets and liabilities account
* Nominal accounts

If such conversion is done properly, a trial balance could be drawn to test the arithmetical accuracy of the records. For the purpose of the conversion and the preparation of final accounts from this situation, the following procedure should be adopted.

**Step 1:** Prepare the opening statement of affairs purposely to ascertain opening capital.

**Step 2:** Prepare the cash book with the details. This must include both the cash and bank accounts as the case may be either separately or in a cash book.

**Step 3:** Prepare both debtors and creditors ledger control accounts to ascertain the total credit sales and total credit purchases.

**Step 4:** Prepare a schedule or summary for total sales and purchases by adding the total credit sales and purchases with the cash sales and cash purchases.

**Step 5:** Prepare control accounts for the nominal items that have outstanding or prepaids either at the beginning or at the end of the period in question.

**Step 6:** Prepare any other required working schedules.

**Step 7:** Prepare trading, profit and loss accounts from steps 1 – 6 above.

**Step 8:** Prepare the balance sheet.

**Illustration 3**

Arsenal ventures had the assets and liabilities as at 1 January 2008.

|  |  |
| --- | --- |
|  | N |
| Delivery van | 120,000 |
| Machine | 180,000 |
| Debtors | 70,000 |
| Bank | 100,000 |
| Stocks | 25,000 |
| Creditors for expenses | 10,000 |

They do not keep proper records for their business transactions but the following were extracted from sketch books.

|  |  |
| --- | --- |
|  | N |
| Opening cash balance | 100,000 |
| Receipts from debtors | 85,000 |
| **Payments** |  |
| Materials | 52,000 |
| Repairs of van | 20,000 |
| Telephones | 2,500 |
| Creditors for expenses | 10,000 |

On 31, December 2008, debtors were owning N150,000 and closing stock was valued at N10,000

The following additional information was available:

|  |  |
| --- | --- |
|  | N |
| Provision for depreciation  Delivery van  Machine  Accrued telephone expenses  Provision for doubtful debts | 10,000  20,000  4,000  3,000 |

You are required to prepare:

1. Statement of affairs as at January 2008.
2. Trading, profit and loss account for the year ended 31 December 2008 and the balance sheet as at that date.

**Solution**

**Opening Statement of Affairs as at 1 January 2008.**

|  |  |
| --- | --- |
|  | N |
| Delivery van  Machine  Debtors  Stocks  Bank  **Less:** Liabilities  Creditors for expenses  Opening capital | 120,000  180,000  70,000  25,000  100,000  495,000  (10,000)  485,000 |

**Bank Account**

|  |  |  |
| --- | --- | --- |
| **Receipts** | **N** | **N** |
| Opening cash balance  Receipts from debtors  **Less:** Payments  Materials  Repairs of van  Telephone  Creditors for expenses  Closing cash balance | 52,000  20,000  2,500  10,000 | 100,000  85,000  185,000  84,500  100,500 |

**Debtors Ledger Control Account**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **N** |  | **N** |
| Balance b/f  Credit sales a/c  Balance b/f | 70,000  165,000  235,000  150,000 | Bank a/c  Balance c/f | 85,000  150,000  235,000 |

**Accrued Expenses Account**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **N** |  | **N** |
| Balance a/c  Balance c/f | 10,000  4,000  14,000 | Balance b/f  P & L  Balance b/f | 10,000  4,000  14,000  4,000 |

**Arsenal Ventures**

**Trading Profits and Loss Account for the Period Ended 31 December 2008**

|  |  |  |
| --- | --- | --- |
|  | **N** | **N** |
| Sales  **Less: Cost of sales**  Opening stock  Purchases  Closing stock  Gross Profit  **Less: Expenses**  Repairs of van  Telephone (2,500 + 4,000)  Provision for doubtful dents  Depreciation:  Delivery van  Machines  Net profit | 25,000  52,000  77,000  (10,000)  20,000  6,500  3,000  10,000  20,000 | 165,000  (67,000)  98,000  (59,500)  38,500 |

**Arsenal Ventures**

**Balance Sheet as at 31 December 2008**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Cost** | **Depreciation Net** | **NET Book Value** |
| **N** | **N** | **N** |
| Delivery van  Machine  **Current assest**  Stock  Debtors (150,000 – 3,000)  Bank | 120,000  180,000  300,000 | (10,000)  (20,000)  (30,000)  10,000  147,000  100,500  257,500 | 110,000  160,000  270,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| **Less:** Accrued expenses  *Financed by*  Capital  Profits |  | (4,000) | 253,500  523,500  N  485,000  38,500  523,500 |

**Illustration 4**

Wayne Salako Enterprises could not keep proper book for their business transactions during the year 2004. The following were extracted from the books.

|  |  |
| --- | --- |
|  | N |
| **Purchases:**  Cash  Credit  Cash received from debtors  Purchases of furniture  Cash Sales  **Expenses Paid:**  Salaries  Electricity  Rent  Insurance  Rate  Advertisement | 300,000  500,000  1,300,000  48,000  500,000  144,000  24,000  48,000  80,000  12,000  24,000 |

The following additional information was available:

(a)

|  |  |  |
| --- | --- | --- |
|  | 01/01/2009  N | 31/12/2009  N |
| Stock  Outstanding electricity  Rent owing  Insurance Prepaid  Debtors  Creditors  Rates In advance | 100,000  1,600  4,000  3,600  50,000  30,000  3,000 | 140,000  2,400  3,600  4,000  64,000  44,000  2,400 |

(b) Fixed assets on 1 January 2009 are as follows:

|  |  |
| --- | --- |
|  | N |
| Furniture  Motor vehicle  Building  Cash at bank on 1 January 2009 | 72,000  500,000  700,000  200,000 |

(c) Fixed asset should be depreciated as follows:

Furniture and building 5%

Motor vehicle 20%

You are required to prepare trading, profit and loss accounts for the year ended 31 December 2009.

**WEEK SEVEN – TEN**

**ACCOUNTS FOR NOT-FOR-PROFIT ORGANIZATIONS**

**LEARNING OBJECTIVES**

**At the end of this topic, the students should be able to:**

* Distinguish between the final accounts of the organizations that are not-for-profit and those that are profit-oriented.
* Define receipts and payments account and income and expenditure account as well as show the differences between the two forms of accounts.
* Prepare the following accounts:
  + Receipts and payments accounts
  + Income and expenditure accounts
  + Subscription accounts
  + Accumulated fund.

**Introduction**

There are several organizations that are established and run for the purposes of meeting the social, cultural, health and , at times, educational needs of the citizens. Such organizations are not set-up for the purpose of making profits from their activities and are thus called not-for-profit organizations. Examples include government-owned hospitals, voluntary health and welfare organizations, social clubs and organizations, religious bodies and so on.

These organizations even though are not for profit-making, but need to prepare accounts so as to be able to tell their stakeholders and other donors how they have utilized the contributed funds.

The legal status of such organizations is usually well defined in club (or association) rules and regulations. It is important that external financial information provided by such organization must conform to the generally accepted account principles.

Usually, the accounts of non-for-profit organizations consist of the following:

* Receipts and payments account
* Income and expenditure account
* Balance sheet

**Receipts and Payments Account**

The receipts and payments account is a summarized cash book (i.e. it incorporates the cash and bank transactions of a non-profit organization).

In other words, it is a statement of cash actually received and paid during a given period. It commences with the opening balance of either cash in hand or at the bank. It is debited with all sums of money actually received and credited with all cash paid during the period.

The receipts and payments account include all cash paid or received in a period, whether they relate to capital or revenue items and whether or not they belong to the period when the transactions occur. The final balance of cash in hand and the credit or debit balance at the bank at the end of the period.

**Format of Receipts and Payments Account**

**Hypothetical Example of Receipts and Payments Account for the year Ended…**

|  |  |  |  |
| --- | --- | --- | --- |
| **Receipts** | **N** | **Payment** | **N** |
| Opening balance at the beginning of the period | x | Purchase of fixed assets | x |
| Donation | x | Management expenses | x |
| Membership subscription | x | Stationeries | x |
| Sundry income | x | Utilities (e.g. electricity, water rates etc.) | x |
| Sales of fixed assets | x |  |  |
| Income from club’s activities | x | Balance at the end of period | x |
|  | xxx |  | xx |

**Note:** The opening balance represents the cash balance either in hand or at bank for the period, while other items appearing on the debit side of the account are sources of revenue to the club or associations.

The items appearing on the credit side represent items on which cash were expended during the period. They include capital and revenue items. The list of items appearing on both sides are, however, not exhaustive as there could be other items that can appear on either side depending on the activities being carried out by the club.

**Income and Expenditure Account**

The income and expenditure account represents the profit and loss account of a non-profit-making organization. It contains only revenue items. It is debited with all expenditure incurred which are of revenue in nature, and credited with all incomes of a period whether or not they have actually been paid or received in the period.

The final balance of an income and expenditure account represents the excess of income over expenditure or the excess of expenditure over income as the case may be for any particular period. Thus, the final balance is similar to the net profit (i.e. excess of income over expenditure) or net loss (i.e. excess of expenditure over income) or a trading organization. It is important to pint out to the students that:

* The receipts and payments account and the income and expenditure account are used by non-profit-making organizations to present their financial position to their members and other stakeholders.
* The two accounts are different from each other in forms and contents.

Difference between receipts and payments account and income and expenditure account are as follows:

|  |  |
| --- | --- |
| **Receipts and payment account** | **Income and expenditure account** |
| Contains opening balance which will represent the amount of cash in hand or at the bank in the beginning of the year. | It has no such item as it records only cash spent. |
| It is used to record cash transactions only. | It records cash transactions and also includes accrued transactions (i.e. it is prepared on ‘accrual basis’). |
| It records and includes capital receipts (i.e. cash from sale of fixed asset) and capital payments (i.e. cash spent to purchase fixed asset). | All inflows (incomes) are credited while all outflows (expenditure) are debited into this account. |
| The balance in this account at the end of the period (year) represents cash in hand, cash at bank or bank overdraft as the case may be. | The balance in this account will represent surplus (i.e. when income is more than expenditure) or deficit (i.e. when the expenditure is more than income) in any period (year). |

**Membership Subscription**

Clubs, societies and association receive payments from members for benefits which members enjoy in the form of subscriptions usually on an annual basis. Membership subscription is one important source of income to clubs and/or associations. It is usually payable one year in advance. Such payments in advance by members are shown as liability in the balance sheet of clubs; this because the year’s membership still has to run as at the balance sheet date.

However, in practice, a large number of members will never pay their subscription at the appropriate time and will be owing the club, making a substantial amount of subscriptions to be in arrears. As it mostly happens, these subscriptions are never received by the clubs or association.

The treatment of subscriptions in arrears poses a problem in the preparation of clubs’ account as decision has to be made whether to show subscriptions in arrears as debtors in the balance sheet or not, as the balance sheet could be distorted by a fictitious asset of debtors; where subscription in arrears are recognized and included in the balance sheet and are never paid by affected members.

The points to note are as follows:

* Recognizing subscriptions in arrears and treating them as debtors (assets) in the balance sheet is inappropriate due to the application of the accrual concept. It is recognized that subscriptions in arrears are incomes that have been earned for a particular accounting years, but for which cash has not been received.
* On the other hand, excluding subscription in arrears from the balance sheet is the application of prudence concept. The exclusion is due to the fact that subscriptions that are owed by the members for a long time end up not being paid eventually.

Irrespective of the method adopted, treatment of subscriptions in arrears by a club in the balance sheet should be applied on a consistent basis and changes made where the club or association conditions justify the change

**Illustration 1**

The Barca fans club had the following transactions in their subscription account for the year ended 31 December, 2008.

(a) Cash received for subscription N290,000

(b) Subscription owing by member as at 31 December 2007 amounted to N40,000

(c) Subscription owing by members as at 31 December, 2008 was N60,000

(d) Subscription paid in advanced by members for 2008 amounted N10,750, while subscription in advance for 2009 was N54,500.

You are required to prepare the subscriptions account as it would be at the end of 31 December 2006.

**Solution**

**Subscriptions Account for the Year Ended 2008**

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **N** | **Particulars** | **N** |
| Subscriptions owing at 01/01/2008  Amount transferred to  income and expenditure  account as income for  the year  Subscription paid in  advance for 2009 | 40,000  266,250  54,500  360,750 | Subscription paid in  Advance at 01/01/2008  Cash received from  members for subscription  payment in 2008  subscription owning at  31/12/2008 | 10,750  290,000  60,000  360,750 |
|  |  | Subscription paid in  Advance b/d | 54,500 |

i

The carrying forward subscription in advance means the application of matching concept. In the illustration, the payment of N54,500 included in the amount received for subscription for 2009 represents income meant for 2009 accounting year. This must be removed from the current year’s payment of cash received for subscription in the year. Hence, the debit carry forward of the amount of N54,500 on the subscription account. This will be shown in the balance sheet as a liability.

**Life Membership**

At times, subscriptions are received from life members pay a once-and-for-all subscription which entitles them to use of club facilities for the rest of their lives. This once-and-for-all payment from life members are not income relating to the year in which they are received by the club, because the payment is for the life of the members which can last a very long time to come.

In practice, if life membership subscriptions are small, they are credited to income account as received, but if they are significant in amount, they should be credited in equal proportion over the estimated active club membership of such members.

**Accumulated Fund**

The accumulated fund represents the opening capital of a non-profit-making organization. It has the same meaning with the capital account of a sole trader and partnership.

It is calculated as the difference between total assets and liabilities in a particular period. In situation where a club keeps an incomplete records or single entry, the accumulated fund is derived through preparation of statement of affairs.

**Illustration 2**

The Swagger Youth Club prepared the following information relating to the club activities for the year ended 31 December 2009.

|  |  |  |
| --- | --- | --- |
|  | N | N |
| Cash in hand  Subscription: 2008  2009  Receipts for use of club facilities  Receipts from refreshing guests  Payments:  Repairs  Salaries and wages  Printing and stationeries  Refreshment materials  Electricity expenses  Vehicle running expenses  Caretaker wages  Creditors for repairs  Creditors for vehicle expenses  Creditors for refreshment materials  Subscription owning for 2009 | 120,000  500,000  80,000  58,000  18,000  11,000  3,000  2,000  400  3,000  50,000 | 900,000  1,000,000  4,500,000  1,000,000  100,000 |

You are required to prepare:

1. Receipts and payments account
2. Income and expenditure account for the year ended 31 December 2009.

**Bar Trading Account**

As part of the activities to partly provide relaxation and enjoyable moments for members and to partly generate additional income for effectiveness running of a club, a club may engage in running a bar alongside other activities which can generate profit. The profit will not be distributed among members, but rather used for the purpose of the club.

Thus, if a club has a bar, a separate trading and profit and loss account will be prepared for its trading activities. The net profit arising from the bar activities is then included as income in the income and expenditure account, and may loss from the bar trading is included in the expenditure side of the income and expenditure account.

**Illustration 3**

The Financial Secretary of chop-1-chop Fun Club presented you with the following summary of receipts and payments account of the club for the year ended 31 December, 2007.

**Receipts and Payments Account for the Year Ended 31 December 2007**

|  |  |  |  |
| --- | --- | --- | --- |
| **Receipts** | **N** | **Payments** | **N** |
| Bal. b/f  Membership subscription  Entrance fees  Bar receipts  Sundry receipts | 49,000  57,600  8,400  75,000  38,000  228,000 | Rent and rates  Bar purchases  General wages  Bar wages  Social activities  Expenses  Equipment  Electricity expenses  Postage  Bank charges  Insurance  Bal. c/f | 8,040  35,800  25,600  11,040  30,000  57,200  2,080  3,520  1,160  6,040  47,520  228,000 |

Other additional information includes the following balances:

|  |  |  |
| --- | --- | --- |
|  | 31/12/2016 | 31/12/2007 |
| 1. Furniture and fittings 2. Premises 3. Bar stocks 4. Subscription in arrears 5. Wages owning 6. Subscription in advance 7. Insurance prepaid | 44,000  600,000  10,400  800  1,800  4,000  1,360 | 28,400  600,000  14,200  1,200    1,800 |

Depreciation to be provided on equipment at 20%

You are required to prepare:

1. Bar trading accounts
2. Income and expenditure account for the year ended 31 December 2007
3. Balance sheet as at that date.

**Solution**

**Bar Trading Account for the Year Ended 31 December 2007**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **N** | **N** |
| Sales  Opening stock bar  Add: Bar purchases  Less: Closing stock of bar  Add bar wages  Bar profit transfer to income and exp. Account | 10,400  35,800  46,200  14,200  32,000  11,040 | 75,000  (43,040)  31,960 |

**Income and Expenditure Account for the Year Ended 31 December 2007**

|  |  |  |  |
| --- | --- | --- | --- |
| **Expenditure** | **N** | **Income** | **N** |
| Rent & rated  General wages (25,600 – 1,800)  Social activities expenses  Postage  Electricity expenses  Insurance  Bank charges  Furniture & fixture  (44,000 – 28,400)  Equipment (20 x 57,200)  100  Excess of income over  Expenditure | 8,040  23,800  30,000  3,520  2,080  5600  1,160  15,600    11,440  39,120  140,360 | Membership subscription  Entrance fees  Bar profits  Other income | 62,000  8,400  31,000  38,000  140,360 |

**Chop-1-chop Fun Club**

**Calculation of Accumulated Fund as at 1 January 2007**

|  |  |  |
| --- | --- | --- |
| **Assets** |  | **N** |
| Premises  Furniture and fittings  Bar stock  Insurance prepaid  Subscription in arrears  Bank balance  Liabilities  Wages owing  Subscription in advance | 1,800  4,000 | 600,000  (5,800)  31,960 |

This calculation of the accumulated fund is done in order to derive total opening capital of the club as the beginning of the year. Thus, the addition of the total assets of the club at the beginning of the year from which we deduct the total liabilities of the club again at the beginning of the year give us the accumulated fund.

**Balance Sheet as at 31 December 2007**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **N** | **N** |
| **Fixed Assets**  Premises  Furniture and fittings  **Less:** depreciation  Equipment  **Less:** depreciation  **Current Assets**  Bar stock  Subscription in arrears  Insurance prepaid  Bank  Represented by  Accumulated fund  Add: excess of income over  expenditure | 44,000  (15,600)  57,200  (11,440)  14,200  1,200  1,800  47,520 | 600,000  28,400  45,760  674,160  64,720  738,880  699,760  39,120  738,880 |

**Workings**

**Subscription Account**

Dr Cr

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **N** | **Particulars** | **N** |
| Bal. b/f  Income and  Expenditure  Bal. b/f | 800  62,000  62,800  1,200 | Bal. b/f  Receipts and  Payment  Bal. c/f | 4,000  57,600  1,200  62,800 |

**Insurance Account**

Dr Cr

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **N** | **Particulars** | **N** |
| Bal. b/f  Receipt and  payment a/c | 800  6,040  7,400 | Income and  expenditure a/c  Bal. c/f | 5,600    1,800  7,400 |

**Use the Data Below to Answer Questions 1 to 5:**

**Receipts and payments account for the year ended 31 December 2008**

|  |  |  |  |
| --- | --- | --- | --- |
| **Receipts** | **N** | **Payments** | **N** |
| Bal. b/f  Subscriptions  Receipt and  payment a/c | 16,000  6,040  7,400 | Equipment  Bar purchases | 18,000  60,000    1,800  7,400 |