Name: ____ Class: ___________

SECOND TERM E-LEARNING NOTE

SUBJECT: FINANCIAL ACCOUNTING **CLASS: SS 2**

SCHEME OF WORK

WEEK	**TOPIC**
1 – 2	Departmental Accounts
3 - 4	Manufacturing Accounts
5	Capital and Revenue Expenditure
6 - 7	Disposal of Fixed Assets
8	Accounting Concepts and Conventions
9 - 10	Introduction to Accounting Ratios

WEEK ONE AND TWO **DATE: _____________**

TOPIC: DEPARTMENTAL ACCOUNTS

CONTENT

Meaning of Departmental Accounts

Expenses and Apportionment

Final Accounts

MEANING OF DEPARTMENTAL ACCOUNTS

Usually in a large organizations, the operations is divided into separate departments. This is because such organizations have a large volume of transactions coupled with a wide range of lines of product and as such finds it convenient and for accounting purpose to separate or divide its operations into different departments. This affords the organization easy operations and accountability.

In departmentalized organizations, the accounting process entails keeping separate journal and ledger books for each of the departments such as separate cashbook separate purchases and sales books, separate stocks, separate returns and personal ledgers e.t.c.

At the end of the financial year, the accountants bring together the separate journal and ledger books to integrate, compare and determine the department that performs better than the other (see final accounts).

FINAL ACCOUNTS OF A DEPARTMENTALIZED ENTERPRISE

The trading, profit and loss accounts of each of the departments in a departmentalized organization are drawn separately but in a combined format called ***DEPARTMENTAL, TRADING, PROFIT AND LOSS ACCOUNT.***

The aim of departmental, trading, profit and loss account is to compare trading result and to assist the owner of the business in formulating policies, having known the departments that perform better and those that perform worse.

NB: The Balance sheet follows normal procedure: not in a combined format.

Format

Departmental Trading, Profit and loss Account for the year ended 31st Dec. 19xx

Name: ____ Class: ____________

	A	B	C	Total		A	B	C	Total
	N	N	N	N		N	N	N	N
Opening stock x	x	x	x		Sales	x	x	x	x
Add purchases x	x	x	x		Returns I.R	x	x	x	(x)
Inter dept. T/f x	x	x	-						
	X	x	x	x					
Less clo. Stock	(x)	(x)	(x)	(x)					
Cost of sales	x	x	x	x					
Gross profit c/d	x	x	x	x					
	X	x	x	x		x	x	x	x
Expenses					G/P b/d	x	x	x	x
Wages & Salaries	x	x	x	x	Dis. Rec.	x	x	x	x
Rent	x	x	x	x					
Commission	x	x	x	x					
Depreciation	x	x	x	x					
Motor expenses	x	x	x	x					
Net profit c/d	x	x	x	x					
	X	x	x	x		x	x	x	x

INTER DEPARTMENTAL TRANSFER AND APPORTIONMENT OF EXPENSES

Inter Departmental Transfer: Sometimes goods purchased by one department may be transferred to another department by reason of sales and such purchases transferred is deducted from the department giving it out and is added to the department receiving it.

Apportionment of Expenses: Expenses are usually not separated to reflect expenses incurred by each department. As a result of this, there is need for apportionment (i.e division). Expenses must therefore be adjusted and then apportioned for each of the departments.

Methods

a. **Turnover Basis:** This is the use of sales (i.e Turnover as a basis of sharing (i.e sharing ratio).
b. **Floor Space Basis:** This uses the area of floor space occupied as the basis of sharing i.e sharing ratio.
c. **Number of Articles Sold Basis:** Ratio used is the items sold.
d. **Direct Analysis Basis:** Ratio used here is specified.
e. **Equality Basis:** The ratio used here is the number of departments existing.

EVALUATION

1. What is departmental account?.
2. State four reasons why organizations separate their operations into different departments.

ILLUSTRATION

Below is the trial balance of Akinbode Electronic shop for the year end 31st December, 2006.

	N	N
Sales: Dept E		30,000
Dept F		20,000

Stock (1/1/2006): Dept E	800
Dept F	750
Purchases: Dept E	22,000
Dept F	18,500
Commission	1,500
Salaries	800
Insurance premium	1,000
Stationery	450
Discount allowed	100
Discount received	350
Sundry expenses	110
Stock at close: Dept E	1,100
Dept F	900

NOTE

i. The total floor area occupied by each departments is Dept: E (2/5) F (3/5)
ii. Apportionment basis are:
a. Commission, discount allowed – sales ratio
b. Discount received – purchases ratio
c. Insurance – floor area
d. Other – equal apportionment

Name: ____ Class: ____________

Solution

AKINBODE'S DEPARTMENT TRADING, PROFIT AND LOSS ACCOUN FOR THE YEAR END 31SY DEC. 2006

	DEPT E	DEPT F		DEPT E	DEPT F
Stock (1/1/2006)	800	750	Sales	30,000	20,000
Purchases	22,000	18,500			
Cost of goods avail.	22,800	19,250			
Less stock (31/12)	(1,100)	(900)			
Cost of sales	21,700	17,350			
Gross profit c/d	8,300	2,650			
	30,000	20,000		30,000	20,000
Expenses			G/P b/d	8,300	2,650
Commission	900	600	D/R	190	160
Salaries	400	400			
Insurance	400	600			
Stationeries	225	225			
Discount allowed	60	40			
Sundry expenses	55	55			
Net profit	6,450	890			
	8,490	2,810		8,490	2,810

Apportionment Basis

a. Sales Ratio
   Dept. E: 30,000: Dept. F: 20,000 = 50,000
   = 30,000/50,000 = 20,000/50,000

b. Purchases Ratio
   Dept. E: N22,000 Dept. F: 18,500 = 40,500
   = 22.000/40.500 = 18,500/40,500

c. Floor area already given Dept. E 2/5; Dept. 3/5

d. Other expenses = equally = (÷ 2) or 50%; 50%

Evaluation

1. Discuss the term inter-departmental transfer.
2. Explain any four bases of apportionment of common expenditure in a profit and loss account of a department store.

READING ASSIGNMENT

1. Essential Financial Accounting by O.A. Longe page 160-171
2. Comprehensive Accounting for S.S. by J.U. Anyaele

GENERAL EVALUATION QUESTIONS

1 Explain five errors that would affect the agreement of the trial balance
2 List and explain three classifications of ledger accounts
3 List ten accounts found in the nominal ledger
4 State the purpose of departmental accounts
5 List six items each found in the asset and liability sides of the balance sheet of a sole trader

WEEKEND ASSIGNMENT

Use the information provided below to answer question 1 – 4

Name: ____ Class: ____________

WB LTD is departmentalized as follows:

	DEPARTMENT			
	W	X	Y	Z
Purchases	625,000	375,000	125,000	325,000

The company use purchases figure to apportion the following expenses to the various departments' expenses:

	Amount
	₦
Commission paid	9,000
Salaries	60,000
General expenses	20,000
Insurance	1,000

1. What is the proportion of commission paid to be charged to dept W?
   (a) ₦3,879 (b) ₦,2328 (c) ₦ 2,017 (d) ₦776
2. How much of the commission paid shall be charged to dept Z? (a) ₦ 431 (b) ₦ 776
   (c) ₦ 2,017 (d) ₦ 2,328
3. What is the proportion of salary to be charged to dept X? (a) ₦25,862
   (b) ₦15,517 (c) ₦13,448 (d) ₦5,173
4. What is the proportion of general expenses to be charged t dept "Y"
   (a) ₦8,621 (b) ₦5,172 (c) ₦1,724 (d) ₦776
5. Insurance premium on business premises should be apportioned on the basis of (a) sale
   (b) purchases (c) carriage outwards (d) floor space occupied per department

THEORY

1. List six items of expenses and their basis of apportionment into departments.
2. State and explain four advantages of department accounts.

WEEK THREE AND FOUR **DATE: _______________**

TOPIC: MANUFACTURING ACCOUNTS

CONTENT

- Meaning of Manufacturing Accounts
- Purpose of Manufacturing Account
- Element of Cost of Production
- Layout of Manufacturing Account
- Transfer Pricing
- Practical Illustration

MEANING OF MANUFACTURING ACCOUNTS

Manufacturing can simply be described as the transformation of raw materials into finished goods e.g. manufacturing companies like Nestle, Cadbury, PZ e.t.c. These manufacturing firms do manufacture their goods or product before they are sold to their customer. They do not buy to sell but produce what they sell.

There manufacturing companies prepare a final accounts called Manufacturing Account.

PURPOSE OF MANUFACTURING ACCOUNTS

Manufacturing Account are prepared to ascertain the cost of goods manufactured during the financial

Name: ____ Class: ___________

year. Therefore manufacturing accounts have the following purposes.

a. To ascertain the cost of production
b. To determine the profit on the manufacturing process.

ELEMENTS OF COST OF PRODUCTION

1. **COST OF PRODUCTION:** This is the total expenditure incurred in the production of goods. Production costs include **PRIME COST + FACTORY OVERHEADS**
2. **PRIME COST:** These are cost directly related in the production process. It is also called Direct Cost which include: Direct materials, direct labour, direct expenses and any other direct expenditure.
   - **a.** Direct materials cost: These are cost of raw materials
   - **b.** Direct labour cost: These are cost of labour wages paid
   - **c.** Direct expenses: These are cost of other expenditure incurred in the production process.

3. **FACTORY OVERHEADS:** These are cost incurred in the running of the factory but not directly related to the production process. It is also called **INDIRECT COST.** They include; factory rent and rates, depreciation of plant and machinery. Indirect wages, upkeep of factory building

Format of Manufacturing Trading Profit and Loss Account

	N	N				N
Opening stock of raw material	x			Cost of production	x	
Add purchases of raw material	x					
Carriage inward of raw material	x	x				
			X			
Loss closing stock or raw material net		(x)				
Cost of raw material consumed		x				
Add direct wages	x					
Royalties	x					
Direct expenses	x					
Prime cost	x					
Factory overheads:		x				
Factory power	x					
Factory rent & rates		x				
Indirect wages	x					
Factory insurance	x					
Depreciation of P & M	x					
Fuel and power	x					
Lubricants	x	x				
			X			
Add opening stock W.I.P	X					
		X				
Less closing stock W.IP	X					
Cost of production	**x**				x	

Name: ____ Class: ____________

Manufacturing Trading, Profit and loss Account contd

		N	N		N	N
Opening stock of finished goods		x		sales	<u>x</u>	
Add cost of production			x			
Cost of good available for sale		x				
<u>Less</u> closing stock of finished goods			<u>(x)</u>			
Cost of goods sold		x				
Gross profit c/d		<u>X</u>				
			<u>X</u>			<u>x</u>
Expenses				Gross profit b/d	x	
Selling & distribution				Discount received		<u>x</u>
Carriage outward	x				<u>x</u>	
Commission sales	x					
Salesmen salaries	x	x				
Administration exp						
Admin salaries		x				
Office rent	x					
Office insurance	x					
Office lighting		x				
Depreciation of						
Office machinery	x	x				
			X			
Net profit c/d			x			
			<u>X</u>			<u>x</u>

TRANSFER PRICING

In the trading account, the cost of production is charged to determine profit on sales. The changing of cost of production of goods may be done in two ways.

i. Actual factory cost
ii. Current market values

When goods manufactured are charged at the current market value to the trading account, the main objective is obtain profit on the manufacturing process. The manufacturing accounts will then have to show a balance which represents a profit or loss on production and this is transferred to profit and loss account.

EVALUATION

1. State four classifications of costs revealed by manufacturing accounts.
2. State two reasons for the preparation of manufacturing accounts.

Name: ____ Class: ____________

PRACTICAL ILLUSTRATIONS

The following information was extracted from the books of Tasty Enterprises for the year ended 31st December 1991

	N
Manufactured goods	9,740
Raw materials	3,000
Discount allowed	3,740
Depreciation on plant and machinery	13,000
Printing and stationery	930
Purchases: Manufactured goods	12,740
Carriage inwards	500
Debtors	21,740
Cash at bank	1,710
Purchases of raw material	87,260
Office rent and rates	6,500
Repairs to machinery	2,500
Plant and machinery	75,200
Factory electricity	5,790
Carriage inwards (raw materials)	3,410
Office salaries	9,400
Carriage outwards	2,330
Factory rent and rates	22,710
Cash in hand	570
Manufacturing wages	110,290
Sales	299,420
Capital	77,820
Creditors	21,790

Additional

(a) Stock on 31st Dec 1991

Manufactured goods N27,940

Raw material N 2,000

(b) Goods manufactured to be posted to the sales department at net realizable value of N271,500

You are required to prepare manufacturing trading profit and loss account for year ended 31st Dec. 1991.

Name: ____ Class: __________

SOLUTION: **TASTY ENTERPRISES**

Manufacturing Trading Profit and Loss Account for the year ended 31st December, 1991.

Dr	**N**	**N**		**N**	**N**
Opening stock of r.m		3,000	Transfer cost	271,500	
Add. Purchases of r.m	87,260				
Carriage of raw mat.	3,410	90,670			
		93,670			
Less closing stock of r.m		2,000			
		91,670			
Manufacturing wages		110,290			
Prime cost		201,960			
Factory overheads					
Depreciation p&m	13,000				
Repair to machinery	2,500				
Electricity	5,790				
Factory rent and rates	22,710	44,000			
Production cost		245,960			
Gross profit on production		25,540			
		271,500		**271,500**	
Opening stock of finished gds		9,740	Sales	299,470	
Add: Transfer cost 271,500					
Purchases of finished gds		12,740			
Carriage inwards	500	284,740			
Cost of goods available for sales		294,480			

TASTY ENTERPRISES

Manufacturing Trading Profit and Loss Account for the year ended 31st December, 1991.

	₦	₦		₦	₦
Cost of goods available for sale b/f	294,480		Sales b/f	299,420	
Less closing stock		27,940			
Cost of goods sold	266,540				
Gross profit c/d		32,880			
		299,420		299,420	
Expenses			Gross profit b/d	32,880	
Discount allowed		3,740	Profit on manufacture	25,540	
Office rent & rates	6,500				
Office salaries		9,400			
Carriage outward		2,330			
Printing & stationary	930				
Net profit		35,520			
		58,420		58,420	

EVALUATION

1. What is factory overhead?
2. What is prime cost?

3. Define cost of production by way of formula

GENERAL EVALUATION QUESTIONS

1 Explain three differences between a trial balance and a balance sheet
2 State four reasons for disagreement between a bank statement balance and cash book balance
3 List five methods of providing for depreciation
4 State five reasons for making provision for depreciation
5 List six factors to be considered in computing the depreciation on fixed assets

READING ASSIGMENT

Essential Financial Accounting for S.S. by O.A. Longe page 160-171

WEEKEND ASSIGNMENT

1. The following is the main objective of a manufacturing account (a) to ascertain gross profit (b) to ascertain net profit (c) to ascertain profit on asset (d) to ascertain cost of production
2. The cost components of manufacturing directly related in the per unit of good produced is called (a) factory cost (b) cost of production (c) prime cost (d) fixed cost.
3. Cost of production is also called (a) factory overhead (b) factory expenses (c) manufacturing cost (d) prime cost
4. Prime cost can also be described as (a) indirect cost (b) direct cost (c) fixed cost (d) variable cost
5. Royalties is an example of ________ cost (a) factory cost (b) indirect cost (c) prime cost (d) selling and distribution

THEORY

1. Write short note on:
   a. Prime cost
   b. Factory overhead
2. Distinguish between
   a. Work in progress (W.I.P) and finished goods
   b. Prime cost and factory overhead.

WEEK FIVE **DATE: ______________**

TOPIC: CAPITAL AND REVENUE EXPENDITURE

CONTENT

- Definition of Capital and Revenue Expenditure
- Distinct between Capital and revenue expenditure
- Effects of Overstatement and Understatement of Capital and Revenue Eexpenditure
- Statement of Capital and Revenue Expenditure

a. **Capital Expenditure:** Capital expenditure are payment made on items of capital nature. They are expenses which add to the value of fixed assets. Capital expenditure therefore can simply be described as the expenditure that consist of cost of fixed assets and other associated costs.

E.g: (a) Cost of purchase (b) Cost of delivery
(c) Installation cost (d) Legal costs of purchase
(e) Architect fees. (f) Cost of demolition before new building is sited

(g) Cost of inspection and test of fixed asset before use.

b. **Revenue Expenditure:** Revenue expenditures are payments made on running the daily activities of business enterprises. They are expenses which do not add to the value of fixed assets but are for maintenance and repairs of fixed assets and to generally run the business on daily basis.

c. Eg: (a) Cost of maintenance of fixed assets (b) Cost of repairs
(c) Payment of rents and rates (d) Payment of wages and salaries
(e) Cost of transportation etc.

Distinction between Capital and Revenue Expenditure

CAPITAL EXPENDITURE	**REVENUE EXPENDITURE**
1. Capital expenditure consist of cost of fixed assets and other associated cost.	Revenue expenditure consist of cost of maintenance or repairs of fixed assets
2. Capital expenditure are incurred in long term projects	Revenue expenditure are incurred daily weekly, monthly and yearly and are better describe as Recurrent
Capital expenditure are expenses that result in increases of value of fixed assets in the balance sheet	Revenue expenditure are expenses chargeable to the profit and loss accounts
Capital expenditure are made on capital items which are long term and have enduring influence on profit of the organization	Revenue expenditure are made on revenue items which are shore term and have a temporary influence on the profit of the organization

EFFECTS OF OVERSTATEMENT AND UNDERSTATEMENT OF CAPITAL AND REVENUE EXPENDITURE.

Capital and revenue expenditure when wrongly posted or interpreted or wrongly mistaken for each other, will have a great effect of overstatement or understanding on profit.

Example

Capital expenditure overstated has the following effect

i) Overstatements of profit because revenue expenditure must have been understand.
ii) Overstatement of value of fixed asset

Revenue Expenditure understated has the following effects:

i. Understatement of profit
ii. Understatement of value of fixed assets

STATEMENTS OF CAPITAL AND REVENUE EXPENDITURE

These are prepared to show the distinction between them mostly in government office.

Name: ____ Class: ___________

ILLUSTRATION

The Federal Ministry of Health incurred in 1989 the following:

	₦
Construction of hospital ward	28, 500, 000
Purchase of beds	920, 000
Repairs of ambulances	25, 000
Salaries and wages	31, 000, 000
Maintenance of vehicles	7, 500, 000
Purchases of petrol and lubricants	800, 000
Purchase of theater equipment	7, 920, 000
Construction of boreholes	1, 200, 000
Purchases of drugs	10, 550, 000
Purchases of vaccines	1, 330, 000
Maintenance of mortuary buildings	670, 000
Purchase of incubators	3, 800, 000
Purchase of X-ray machines	4, 200, 000

Prepare statements of

i. Capital expenditure

ii. Revenue expenditure

Solution

Statement of Capital Expenditure

Particulars		₦
Construction of hospital ward		28, 500, 000
Purchase of beds		920, 000
Purchase of theater equipment		7, 920, 000
Construction of boreholes		1, 200, 000
Purchase of incubators		3, 800, 000
Purchase of X-ray machines		4, 200, 000
	Total	46, 540, 000

Statement of Revenue Expenditure

Particulars		₦
Repairs pf ambulances		25, 000
Salaries and wages		31, 000, 000
Maintenance of vehicles		7, 500, 000
Purchases of petrol and lubricants		800, 000
Purchases of drugs		10, 550, 000
Purchases of vaccines		1, 330, 000
Maintenance of mortuary buildings		670, 000
	Total	51, 875, 000

Reading Assignment

Essentials Financial Accounting for S.S by A.O Longe page 186-192

GENERAL EVALUATION QUESTIONS

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

Name: ____ Class: ____________

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

WEEKEND ASSIGNMENT

1. Purchase of lubricant oil is an example of (a) Revenue expenditure (b) Capital Expenditure (c) Accrued Expenses (d) Running cost
2. Purchase of Fixed Assets is an example of (a) running cost (b) accrued expenses (c) revenue expenditure (d) capital expenditure
3. Revenue expenditure can better be described as (a) recurrent expenses (b) ordinary expenses (c) general expenses (d) yearly expenses.
4. Revenue expenditure when understated has the following effects on the profit (a) understatement of profit (b) overstatement of profit (c) set profit of equilibrium to expenses (d) results in negative profit.
5. The followings are example of capital expenditure except _______ (a) cost of fixed assets (b) installation cost of equipments (c) maintenance cost of assets (d) delivery cost of fixed assets

THEORY

1. Define revenue expenditure and give ten example
2. What is capital expenditure? Give ten examples.

WEEK SIX AND SEVEN **DATE: ______________**

TOPIC: DISPOSAL OF FIXED ASSETS

CONTENT

- Meaning and definition of disposal of fixed asset
- Methods of disposal of fixed assets and their format.
- Practical illustration.

MEANING AND DEFINITION OF DISPOSAL OF FIXED ASSETS.

Fixed assets can be sold in the course of the business due to one reason or the other. The sale of fixed assets is recorded in an account called Assets Disposal Account and it is meant to show the profit or loss made on the sales of such a fixed asset. The accounting procedures on the sale of fixed asset are shown below.

METHOD OF DISPOSAL OF FIXED ASSET

There are two methods of recording disposal of fixed asset. They are the old and new methods of depreciation, on the asset sold

The old method:

Which depreciation has been credited to the asset account and the asset is disposed, then:

a. For sale of asset:
   i. Debit cash book
   ii. Credit asset account
b. If there is profit on sale:
   i. Debit asset account
   ii. Credit profit and loss account
c. If here is loss on sale:
   i. Debit profit & loss account
   ii. Credit asset account.

Name: ____ Class: __________

Example

DR		Asset account		CR
	₦			₦
19xx Bal b/d	x	19xx Cash book	x	
Profit	x			
	xx			xx

DR		Cash book	CR
		₦	₦
19xx Asset	x		

DR		Profit & Loss Account		CR
		₦		₦
19xx Loss on sale of asset	x	Profit on sale of asset	x	

New method

Where depreciation has been carried to provision for depreciation account. It is best dealt with by opening a disposal account to which the original cost of assets and accumulated depreciation are transferred.

a. For cost price of assets:
   i. Debit asset disposal account
   ii. Credit asset account
b. For accumulated depreciation:
   i. Debit provision for depreciation account
   ii. Credit asset disposals account
c. For cash or cheque received on sale:
   i. Debit cash book
   ii. Credit asset disposal
d. For profit on sale:
   i. Debit asset disposal account
   ii. Credit profit and loss account
e. For loss on sale:
   i. Debit profit and loss account
   ii. Credit asset disposal account

Example

DR			Asset Account		CR
		₦			₦
19xx	Cash	x	19xx Asset disposal	x	

DR		Provision for depreciation account		CR
19xx	Asset disposal	x	19xx Accumulated Bal b/d	x

DR			Asset Disposal Account			CR
			₦			₦
19xx	Cost of asset	x	19xx	Cash realized	x	
19xx	Profit		x	19xx Prov. For dep.		x
			X			x

DR	**Cash Book**		**CR**
	₦		₦
19xx Asset disposal	x		

DR	**Profit & Loss Account**		**CR**
	₦		₦
		Profit on sale of asset	x

EVALUATION

1. State seven methods of charging depreciation on fixed assets
2. Explain five factors that are taken into consideration in determining annual depreciation charge.

Practical illustration

A motor car was bought for N30,000, it is to be depreciated at 25% on cost for 3 years and was sold for N10,000 at the end of the 3rd year. Prepare necessary account for the asset disposed off.

Solution

Using the straight line method of depreciation

Motor van.	N30,000
Yr 1 dep. (25%)	7,500
	N 22,500
Yr 2 dep. (25%)	7,500
	N15,000
Yr 3 dep. (25%)	7,500
Net Book Value (NBV)	N7,500

Old Method

DR		**Motor van account**			**CR**
		₦			₦
Year 1	Cash	30,000	Year 1	Depreciation	7,500
				Bal c/d	22,500
		30,000			30,000
Yr 2	Bal b/d	22,500	Yr 2	Depreciation	7,500
				Bal c/d	15,000
		22,500			22,500
Yr 3	Bal b/d	15,000	Yr 3	Depreciation	7,500
				Bal c/d	7,500
		15,000			15,000
Yr 4	Bal b/d	7,500	Yr 4	Cash book	10,000
Profit sal		2,500			
		10,000			10,000

DR	**Cash Book**	**CR**
	₦	₦
Yr 4 Motor van	10,000	

Name: ____ Class: ____________

Profit And Loss Account

DR	₦		CR ₦
Yr 1 Depreciation	7,500	Profit on sales	2,500
Yr 2 Depreciation	7,500		
Yr 3 Depreciation	7,500		

The Modern Method

Motor van Account

DR		₦			CR ₦
Yr 1	Cash	30,000	Yr 3	Asset disposal	30,000

Provision for depreciation account

DR		₦			₦	CR
yr 1	Bal c/d	7,500	Yr 2	Profit & Loss		7,500
yr 2	Bal c/d	15,000	Yr 2	Bal b/d	7,500	
				Profit & loss		7,500
		15,000				15,000
Year 3	Bal c/d	22,500	Yr 3	Bal b/d	15,000	
				Profit & loss		7,500
		22,500				22,500
Yr 4	Asset disposal	22,500		1/1Yr 4 Balance b/d	22,500	

Asset Disposal Account

DR	₦		CR ₦
Yr 1 Cost of assets	30,000	Yr 4 Cash	10,000
Profit	2,500	Prov. For dep.	22,500
	32,500		32,500

Profit and loss account

DR	₦		CR ₦
Yr 1 Depreciation	7,500	Profit on sal e.	2,500
Yr 2 Depreciation	7,500		
Yr 3 Depreciation	7,500		

EVALUATION

1. Define disposal of fixed assets.
2. Mention the two methods of disposal of fixed assets.

READING ASSIGNMENT

1. Essential Financial Accounting for S.S. by O.A. Longe Page 115 - 127
2. Business Accounting 1 by Frank Wood, Page 82 - 93
3. Financial Accounting with Ease by Yomi Onafowokan, Page 65 – 73

GENERAL EVALUATION QUESTIONS

1 What is the difference between depreciation and amortization
2 Give two examples each of assets associated with depreciation and amortization
3 Differentiate between adjustments and closing entries
4 State seven benefits of keeping accounting records in a business

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5 List five source documents used in preparing the cash book

WEEKEND ASSIGNMENT

1. When fixed assets are sold, it is recorded in ________ (a) depreciation accounts (b) disposal account (c) sales account (d) deposits account
2. The following is a method of treating disposal of asset (a) good method (b) bad method (c) old method of depreciation (d) cash book method
3. In the old method, depreciation is ________ in the asset account.
   (a) debited (b) credited (c) both debited and credited (d) all of the above
4. The double entry posting for profit on sale of fixed asset in the provision method affects the following accounts (a) asset account and provision for depreciation account (b) asset account and profit & loss account (c) assets account and profit & loss account (d) disposal account and profit & loss account
5. Profit and loss account records profit on sale of asset on _________ side (a) debit (b) credit (c) left (d) right

THEORY

1. What is disposal of fixed assets?
2. What are the necessary entries needed to record profit on sale of asset ?

WEEK EIGHT **DATE: ______________**

TOPIC: ACCOUNTING CONCEPTS AND CONVENTIONS

CONTENT

- Definition of Concepts and Conventions
- Accounting Concepts
- Accounting Convention

ACCOUNTING CONCEPTS AND CONVENTIONS

Accounting concepts and convention are a set of rules or principles that are taken into consideration in the preparation of financial statements. The financial statements include: Trading, profit and loss account as well as the balance sheet. For uniformity of purpose, a generally accepted rules or principles in the form of assumption for its preparation and presentation are adopted, and these are called accounting concepts and conventions.

ACCOUNTING CONCEPTS

(1) **BUSINESS ENTITY CONCEPT:** The rule here is that the owner and the business are treated separately. Therefore in the preparation of financial statement, the business is recognized as separate and distinct entity, only things that affect the business are recorded and not wealth of the owner(s) apart from those invested.

(2) **GOING CONCERN CONCEPT:** Going concern means continuity and not liquidation. That is no reason or fear of discontinuity exists.

(3) **MONEY MEASUREMENT CONCEPT:** This concept states that financial statements must reflect only transaction and entries that are capable of being expressed in monetary terms.

(4) **COST CONCEPT:** In the preparation of financial statements. Assets are value at cost. It is on cost and not market value because the business is not for sale.

(5) **ACCRUAL CONCEPT:** This concept states that expenses and revenue are recognized and reported in the profit and loss account as they are incurred and earned respectively and not as they are paid or received.

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(6) **MATCHING CONCEPT:** This concept explains that all expenses must be matched and reported against revenue generated at that period to determine the net profit. NB: This is the same as accrual concept

(7) **DUAL ASPECT CONCEPT:** This explains the principle of double entry.

(8) **REALIZATION CONCEPT:** This concept explains that income in recognized as soon as goods are exchanged for valuable consideration.

EVALUATION

1. Explain the term "Accounting Concepts".
2. Explain the following accounting concepts:
   (a) going concern (b) money measurement (c) accrual

ACCOUNTING CONVENTIONS

(9) **MATERIALITY CONVENTION:** This convention states that amount of materials significant n value must be recorded in the preparation of financial statement. This explains why certain economic events are not reported when the amount of their value are insignificant as to affect the financial statement e.g. depreciations of calculator, wall clock e.t.c.

(10) **CONVENTION OF CONSERVATISM:** The convention of conservatism states that the principles of treating income and losses as well as valuation of assets.

- (i) Income should not be anticipated
- (ii) All possible losses must be provided for
- (iii) When more than one method of valuing an asset is evolved, choose the method with less value (i.e. lower of cost) and or market value.

(11) **CONSISTENCY CONVENTION:** This states that there should be consistency in the treatment of similar transactions. This implies that similar transaction within the same period and between one period and another must be treated alike, any changes of method may distort the profit calculation.

EVALUATION

1) Define the terms accounting concepts and convention
2) Write short notes on the following concepts
   a. Business entity concept b. Matching concept

READING ASSIGNMENT

Essentials Financial Accounting for SS by O. A. Longe, Page 198-205

GENERAL EVALUATION QUESTIONS

1 List five items expenses related to a departmental account and a base of apportioning each item

2 State eight uses of the General Journal

3 Explain the principle of double entry system

4 Explain the following errors giving an example of each (a) principle (b) compensation (c) omission

5 What is a bank reconciliation statement

WEEKEND ASSIGNMENT

(1) A generally accepted points of opinion on ways of doing a thing is called ___ (a) concepts and conventions (b) ideal (c) theories (d) opinion

(2) The accounting concept that states the rule of double entry book-keeping is known as ____(a) matching concept (b) accrual concept (c) dual concept (d) cost concept.

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(3) Going concern assumes that an enterprise continues (a) for life (b) for a short time (c) for relatively long time (d) liquidate.

(4) In the case of accounting convention of conservatism, income should _____ (a) be anticipated (b) not be anticipated (c) should be overestimated (d) written off

(5) The following are examples of accounting concept and convention except (a) dual concept (b) single entry system (c) cost concept (d) money measurement concept.

THEORY

1. Explain the following accounting concept (a) Business entity concept (b) Dual concept
2. Explain the following accounting convention (a) Accounting conventions (b) materiality (c) consistency

WEEK NINE AND TEN **Date: __________**

TOPIC: INTRODUCTION TO ACCOUNTING RATIOS

(i). **Margin and Mark Up**

The ability to calculate margin and mark up may be necessary to solve some incomplete record problems.

MARGIN

When gross profit is expressed as a fraction or percentages of selling price it is known as margin.

Example:	N
Cost price of goods	100
Profit	25
Selling price	125

Then the margin $= \frac{\text{profit}}{\text{Selling price}} \times \frac{100}{1} = \frac{25}{125} \times \frac{100}{1} = 20\%$ 0r $^1/_5$

MARK-UP

When gross profit is expressed as a percentages or fraction of cost of sales it known as mark – up.

In the above example, mark – up is $\frac{\text{profit}}{\text{Cost of goods sold}} \times \frac{100}{1} = 25\%$ or ¼

Relationship between margin and mark –up

Examples

If mark – up Margin

Is (i) $\frac{2}{5}$ then $\frac{2}{5+2} = \frac{2}{7}$

(ii) $\frac{1}{4}$ then $\frac{1}{4+1} = \frac{1}{5}$

If margin mark -up

Is (i) $\frac{2}{5}$ then $\frac{2}{5-2} = \frac{2}{3}$

(ii) $\frac{1}{3}$ then $\frac{1}{3-1} = \frac{1}{2}$

(iii) $\frac{1}{7}$ then $\frac{1}{7-1} = \frac{1}{6}$

NB:- making-up is always greater than margin

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FURTHER EXAMPLES:

1. Cost of sales: N3000. Margin 25%. Calculate sales revenue.
   Solution: margin is $\frac{1}{4}$ therefore Mark-up = $\frac{1}{4-1} = \frac{1}{3}$

   N 3000 X $\frac{1}{3}$ = PROFIT = N1000

   Therefore Sales revenue = cost + profit = N (3000 + 1000)
   = N 4000

   NB: it is mark-up that is a percentage of cost hence the margin given in the question must be converted to mark-up to solve the above problem.

2. Sales revenue: N7000. Make-up is 40%. calculate the gross profit.
   Solution: mark – up ;. is $\frac{2}{5}$ therefore Margin is $\frac{2}{5+2} = \frac{2}{7}$

   Therefore Gross profit = $\frac{2}{7}$ x N7000 = N2000

3. Maheen provides the following information for the year ended 31st Dec. 2003.

	N
Stock at 1st Jan. 2003	9000
Stock at 31st Dec. 2003	11,000
Sales in the year ended 31st	84,000

Maheen sells her goods at a make – up of $33^1/_3$. prepare Maheen's trading account for the year ended 31st Dec. 2003 in as much details as possible.

Solution: This is a good example of a problem that is solved by working backwards

MAHEEN
Trading account for the year ended 31 Dec. 2003

	N	N
Sales (given)		84,000
Less cost of sales		
Opening stock 1st Jan (given)	9000	
Step 4 purchases (balance figure 3)	65000	
Step 3 Gods available for sales (balancing figure 2)	74000	
Less closing stock at 31 Dec. (given)	11000	
Step 2 cost of sales (balancing fig 1)		63,000
Step 1 gross profile ($^1/_4$ x N84,000)		21,000

iii. **STOCK LOST IN FIRE OR BY THEFT**

The methods used for preparing account from incomplete records are also used to calculate the value of stock lost in a fire or by theft when detailed stock records have not been kept, or have been destroyed by fire.

You can solve this type of problem by preparing a pro forma "trading Account' (It is described as "pro forma because it is not prepared like a normal Trading account by transferring balances from ledger accounts.)

EVALUATION

1. Define the following accounting terms

(a) Mark-up (b) Margin

2. State the relationship between mark-up and margin.

Example

Uwa's warehouse was burgled on 10th April 2004. the thieves stole most of the stock but left goods worth N1250. Uwa supplies the following information:

Extracts from Uwa's Balance Sheet at 31 Dec. 2003

Stock	₦ 30,000
Debtors	₦ 40,000
Creditors	₦ 20,000

Extracts from cash Book, 31 Dec. 2003 to 10 April 2004

Receipts from debtors	₦ 176,000
Payments to suppliers	₦ 120,000

Other information

Debtors at 10th April 2004	₦ 24000
Creditors at 10th April, 2004	₦ 26,000

Uwa sells his goods at a mark-up of 25%

Required: calculate the cost of the stolen goods

Solution: **UWA**

Pro forma Trading Account for the period 1st January, to 10th April 2004

	N	N
Sales (see wk 1 below)		160,000
Less cost of sales		
Stock 1st Jan. 2004	30,000	
Purchases (see wk 2 below)	126,000	
	156,000	
Less closing 10/4/04		
(Balancing figure)	28,000	
Cost of sales		128,000
Gross profit (mark-up is 25% so margin Is 20%, (N160,000 x 20%		32,000

Therefore Cost of stock stolen = N(28,000 – 12500 = N26,750 i.e. closing stock – stock left after burglary.

Workings (1) Debtors Control A/C

	N		N
1 Jan. Balance b/f	40,000	10 April Cash	176,000
10 April Sales (balanced fig)	160,000	Debtors out-standing	24,000
	200,000		200,000

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Workings (2) Creditors Control A/C

	N		N
		1 Jan. Bal b/f	20,000
10 April, cash	120,000	10 April purchases	
		(balancing fig.)	126,000
	146,000		146,000

EVALUATION

Differentiate between margin and mark-up.

READING ASSIGNMENT

Financial Accounting with, Ease by Onatowokan Oluyombo pages 183 – 167

GENERAL EVALUATION QUESTIONS

1 State five features of capital expenditure
2 State five characteristics of depreciable asset
3 List five advantages and three disadvantages of the straight line method of calculating depreciation
4 List ten users of financial accounting information
5 List six causes of depreciation of fixed assets

WEEKEND ASSIGNMENT

1. If mark-up is 40%, then margin is (a) $^1/_8$(b) 45% (c) $^1/_7$ (d) $^2/_7$
2. if margin is 25% and cost of sales is N30,000 then sales revenue is (a)N25,000 (b) N20,000 (c) N35,000 (d) N30,000
3. If margin of a business is $33^1/_3$% then its mark-up is (a) 60% (b) 25% (c) 50% (d) $^1/_3$
4. If the sales of a business is N8400 and the business mark-up is $33^1/_3$% then the cost of sales is (a) N5000 (b) N6300 (c) N7000 (d) N84000
5. If margin is 1/7 then mark-up is (a) $^1/_8$ (b) $^1/_9$ (c) $^1/_6$ (d) 25%

THEORY

1. The sales of a business is N16,000. Its mark-up is ¼. What is its cost of goods sold?
2. If the closing stock of the business in question one above is N2,800, what is the cost of goods available for sale?