

**SECOND TERM E-LEARNING NOTE****SUBJECT: FINANCIAL ACCOUNTING****CLASS: SS 3****SCHEME OF WORK**

<b>WEEK</b>	<b>TOPIC</b>
1	Purchase of Business
2 - 3	Accounting Ratios and Interpretation of Financial Statements
4 - 5	Public Sector Accounting
6 - 7	Public Sector Accounting
8 - 9	Branch Accounts
10	Introduction to Data Processing

**WEEK ONE****TOPIC: PURCHASE OF BUSINESS****CONTENT**

- **TERMINOLOGIES IN PURCHASE OF BUSINESS**
- **ACCOUNTING ENTRIES ILLUSTRATION**

**INTRODUCTION**

Purchase of business is the activity of buying or acquiring a business as a going concern. This means acquiring an existing business with the intention of continuing its operations. This acquisition can be in any of the following ways

- I. A sole trader acquiring the existing business of a sole trader
- II. A partnership acquiring the business of another partnership or a sole trader
- III. A company may be buying another or a partnership business.

In any of the acquisitions above, the assets and liabilities taken over by the purchasing businesses will be recorded in the same way.

**TERMINOLOGIES IN PURCHASE OF A BUSINESS**

1. **Vendor.** This is the person or partnership or company that sold the business to another. The vendor may be paid cash, cheque or in shares of the new company
2. **Purchase consideration.** This is the price which a purchaser would pay to the vendor in order to acquire his business
3. **Goodwill.** This is the excess of the purchase consideration over the net value of assets taken over. Net assets means total assets less liabilities. It is also called the net worth of the business.
4. **Capital reserve.** Where the purchase consideration is lesser than the net worth of the business, the difference is referred to as capital reserve.

**ACCOUNTING ENTRIES:**

1. Agreed purchase price  
Dr. Business Purchase A/C  
Cr. Vendors A/C
2. Take over value of assets  
Dr. Assets Account  
Cr. Business Purchase A/C
3. Agreed value of liabilities taken over  
Dr. Business Purchase A/C  
Cr. Liabilities A/C
4. Excess of purchase consideration over net asset  
Dr. Goodwill  
Cr. Business Purchase A/C
5. Excess of asset over purchase consideration.  
Dr. Business Purchase A/C  
Cr. Capital Reserve A/C
6. Settlement of the vendor's A/C with cash  
Dr. Vendor's A/C  
Cr. Cash A/C

Name \_\_\_\_\_

Date \_\_\_\_\_

7. Settlement of Vendor's A/C with shares  
 Dr. Vendor's A/C  
 Cr, Share Capital A/C

**Journal entries:**

**JOURNAL**

	Dr	Cr
	N	N
Assets : fixtures	X	
Motor vans	X	
Debtors	X	
Stock	X	
Goodwill	X	
Liabilities: creditors		x
Purchase consideration		x
Assets and liabilities taken over		
Purchase of business account	X	
Vendor account		x
Agreed purchase price of the business		
Vendor's account	X	
Bank account or share capital account		x
Cash or share paid in full settlement		x

**EVALUATION**

- Explain the following terms:
  - Goodwill
  - Capital reserve
  - Purchase consideration
  - Vendor
- List six factors which can create goodwill for any firm or organization.

**ILLUSTRATION**

Lanka had taken over the business of Olaiya on 31/1/99 on the basis of the last balance sheet as follows:

**Balance sheet**

	₹		₹
Capital	180,000	Premises	100,000
Creditors	60,000	Fixtures	45,000
Accruals	10,000	Motor car	55,000
		Debtors	15,000
		Stock	5,000
		Bank	30,000
	<u>250,000</u>		<u>250,000</u>

**ADDITIONAL INFORMATION:**

- The purchase consideration to be N200,000
- All assets and liabilities were taken over with the exception of bank
- Assets to be re-valued are as follows :
 

Premises	140,000
Fixtures	40,000
Motor car	57,000
Debtors	13,000
Stock	10,000
- The purchase price was paid on January 10<sup>th</sup>, 1999.

You are required to prepare

- Journal entries in respect of the acquisition
- ledger A/C
- balance sheet

Name \_\_\_\_\_

Date \_\_\_\_\_

**SOLUTION:**

**JOURNAL**

DR	N	CR	N
Premises	140,000		
Fixtures	40,000		
Motor van	57,000		
Debtors	13,000		
Goodwill	10,000		
		Creditors	60,000
		Accruals	10,000
		Purchase of Business.	200,000
Assets and liabilities taken over			
Purchase of business A/C	200,000		
Vendor A/C			200,000
Purchase price per agreement			
Vendor A/C	200,000		
Bank A/C			200,000
Cash or share paid in full settlement			

**B. LEDGER ACCOUNTS:**

**Business Purchase Account**

N	N
Liabilities taken over	Asset taken over
Creditors	Premises
60,000	140,000
Accruals	Fixtures
10,000	40,000
Purchase price	Motor van
200,000	57,000
	Debtor
	13,000
	Stock
	10,000
	Goodwill
	<u>10,000</u>
<u>270,000</u>	<u>270,000</u>

**Bank Account**

	Vendor	200,000
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**Vendor Account**

Bank	200,000	Purchase Consideration	200,000
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**Goodwill Account**

Purchase of business	10,000
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**Balance Sheet**

Name \_\_\_\_\_ Date \_\_\_\_\_

	N		N
Capital A/C	200,000	goodwill	10,000
		Premises	140,000
		Fixtures	40,000
Creditors	60,000	Motor van	57,000
Accruals	10,000	debtors	13,000
		Stock	<u>10,000</u>
	<u>270,000</u>		<u>270,000</u>

### EVALUATION

Explain the following: i. vendor ii. Purchase consideration

### GENERAL EVALUATION/REVISION QUESTIONS

1. State six characteristics of depreciable assets
2. Explain three differences between a trial balance and a balance sheet
3. List seven errors that will affect the agreement of the trial balance
4. Explain the following : (i) real account (ii) nominal account (iii) personal account
5. List eight items that cause disagreement between Cash Book and bank statement balance

### READING ASSIGNMENT

Essential Fin. Accounting by O.A Longe page 299-307.

### WEEKEND ASSIGNMENT

1. Goodwill is a ----- (a) current asset ( b) intangible asset( c) current liability( d)fictitious asset
2. Vendor means the seller of the (a) business (b) asset (c) liabilities (d) capital
3. Capital reserve is( a) current assets( b) fixed assets (c) liabilities (d) equity
4. The double entry for payment of cheque to vendor is (a) Dr. vendor A/C, Cr. bank (b) Cr. Vendor,Dr. bank (c) Cr.cheque Dr. vendor (d) Dr. Vendor Cr. Cash
5. The double entry for agreed purchase price is (a) Dr.purchase of business A/C,Cr. Vendor (b) Dr. asset Cr. liabilities (c) Dr. Cash Cr. Vendor (d) Dr. Asset Cr. Cash

### THEORY

1. Explain the accounting entries in purchase of a business by a partnership from a sole trader.
2. Explain i. Capital reserve ii. Goodwill on purchase of a business

### WEEK TWO AND THREE

#### TOPIC: ACCOUNTING RATIOS AND INTERPRETATION OF FINANCIAL STATEMENTS

#### CONTENT

- Introduction
- Uses of ratio
- Disadvantages of using ratio
- Types of ratio – explanation
- Illustration

### INTRODUCTION

To interpret accounts is to try to gain insight into the information value of financial statements , this can be done through analysis, evaluation ,criticism and comparison and all this is done by the use of accounting ratios. A ratio can be defined as the relationship that exists between two figures.

#### USES OF RATIO

1. Ratios are used in preparing industrial averages.
2. They can be used to interpret financial statements.
3. They help in comparing performances between and among related organizations.
4. Ratios help to measure the ability of a given entity to meet its short-term obligations.
5. They are used in evaluating the performance of companies in the same business

#### DISADVANTAGES OF USING RATIO

1. Ratios can easily be affected by inflation
2. They can be manipulated upon or abused
3. Different accounting policies affect ratio calculation

**TYPES OF RATIO**

1. Profitability and efficiency ratio
2. Liquidity ratio
3. Investment ratio

**PROFITABILITY AND EFFICIENCY:**

Profitability and efficiency ratios measure the effectiveness of the management as shown by the returns obtained on sales and capital invested. This can be broken down into the following.

1. Net profit%
2. Gross profit%
3. Returns on capital employed
4. Assets turnover ratio
5. Individual expenses items to sales ratio e.g advertising carriage outwards etc

Formulae:

$$1. NP\% = \frac{\text{NET PROFIT}}{\text{SALES}} \times \frac{100}{1}$$

$$2. GP\% = \frac{\text{GROSS PROFIT}}{\text{SALES}} \times \frac{100}{1}$$

3. Returns on capital employed ROCE. This measures management ability to utilize effectively the organizations resources.

It is  $\frac{\text{PROFIT}}{\text{CAPITAL EMPLOYED}} \times \frac{100}{1}$

Where capital employed can be:

- a) total asset b) total assets to current liabilities

**4. ASSETS TURNOVER RATIO:**

This ratio measures the turnover generated by assets and show how fully a company is utilizing its assets.

Formula:  $\frac{\text{SALES}}{\text{CAPITAL EMPLOYED}}$

**5. INDIVIDUAL EXPENSE TO SALES:**

This helps to reveal the reason for improvement or reduction in the net profit to sales.

Formula:  $\frac{\text{INDIVIDUAL EXPENSES}}{\text{SALES}} \times \frac{100}{1}$

**6. LIQUIDITY RATIOS:**

These ratios help in measuring the ability of an organization to meet its obligations as they fall due. Ratios under this heading are:

1. Current ratio or working capital ratio
2. Average stock
3. Stock to net current assets
4. Debtors ratio
5. Creditors ratio

1. Current ratio or working capital ratio: This ratio indicates the ratio of current assets to current liabilities. It shows the extent the firm can meet up with its short-term creditors. Low ratio implies lack of working capital while high ratio suggests too much of working capital or capital tied up.

Formula:  $\frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}} = \frac{CA}{CL}$

**2. ACID- TEST/LIQUID RATIO:**

This ratio provides measures of the firm's ability to meet its current liability. Should it fall below 1:1, the firm may have some difficulty in paying its debt.

Formula:  $\frac{\text{CURRENT ASSETS} - \text{STOCK OR INVENTORY}}{\text{CURRENT LIABILITIES}}$

**3. STOCK TURNOVER RATIO:**

This is used to measure the number of times stocks are replaced during a given period.

Name \_\_\_\_\_

Date \_\_\_\_\_

Formula:  $\frac{\text{COST OF GOODS SOLD}}{\text{AVERAGE STOCK}}$

4. AVERAGE STOCK:  $\frac{\text{OPENING STOCK} + \text{CLOSING STOCK}}{2}$

**N.B:** Where there is no opening stock, average stock could be calculated by adding closing stock to purchases and dividing by 2

5. STOCK TO NET ASSET. This ratio is used to express the stock as a percentage of net assets.

Formula: =  $\frac{\text{STOCK}}{\text{NET ASSET}} \times \frac{100}{1}$

6. DEBTORS RATIO: Debtors ratio measures the average collection period from debtors. It shows the average credit period given to debtors.

Formula:  $\frac{\text{DEBTORS}}{\text{CREDIT SALES}} \times 365 \text{ DAYS}$

Long collection dates indicate poor credit policy.

7. CREDITORS RATIO: This ratio shows the average credit period received from suppliers.

Formula:  $\frac{\text{TRADE CREDITORS}}{\text{CREDIT PURCHASES}} \times 365 \text{ DAYS}$

8. INVESTMENT RATIOS : These ratios used by investors to evaluate the return, which they receive from their investments, they cover the following:

1. Earnings per share ratio
2. Price earning ratio
3. Earning yield
4. Dividend yield
5. Dividend cover

I. **EARNINGS PER SHARE RATIO:** This ratio compares the net earnings attributable to the shares to the number of shares issued.

Formula:  $\frac{\text{PROFIT AFTER TAX(PAT)} - \text{LESS PREFERENCE DIVIDEND.}}{\text{NOS. OF EQUITY SHARE}}$

II. **PRICE EARNING RATIO:** This ratio considers the average price of the share to the reported earnings per share.

Formula:  $\frac{\text{MARKET VALUE PER SHARE}}{\text{EARNINGS PER SHARE}}$

III. **DIVIDEND YIELD:** This ratio measures the current actual returns on the shareholders investment.

Formula:  $\frac{\text{DIVIDEND PER SHARE}}{\text{SHARE PRICE}} \times \frac{100}{1}$

IV. **DIVIDEND COVER:** This ratio compares the earnings per share to the dividend per share.

Formula:  $\frac{\text{EARNING PER SHARE}}{\text{DIVIDEND PER SHARE}} = \frac{\text{EPS}}{\text{DPS}}$

Dividend cover is also called payout ratio.

### EVALUATION

1. State three limitations to the use of accounting ratios in evaluating and comparing business organizations
2. List five uses of accounting ratios.

### ILLUSTRATION:

The following was extracted from the books of capital ltd for two years, 31/12/001/002.

	2001		2002	
	N	N	N	N
Sales		60,000		90,000
Less				
cost of sales				

Name				Date
Opening stock	18,750		16,875	
Add purchases	37,500		68,250	
	56,250		85,125	
Less closing stock	11,250	45,000	13,125	72,000
Gross profit		15,000		18,000
Less expenses		7,500		6,750
Net profit		7,500		11,250
<b>Balance sheet</b>				
Fixed asset				
Motor car		15,000		10,500
Current asset				
Stock	11,250		13,125	
Debtors	18,750		15,000	
Bank	3,750		1,875	
		33,750		30,000
Less current liability				
Creditors	3,750	30,000	7,500	22,500
		31,500		33,000
Financed by:				
Capitals		28,500		27,000
Add net profit		7,500		11,250
		36,000		38,250
Less drawing		4,500		5,250
		31,500		33,000

You are required to calculate the following ratios.

- i. Gross profit ii. Net profit iii. Expenses as a % of sales iv. Stock turnover v. Current ratio vi. Acid – test ratio  
vii. Rate of returns on capital employed viii. Creditors /Purchases ratio ix. Debtors/sales ratio ix. Average stocks

**Solutions:**

$$I. \text{ GP\%} = \frac{\text{GP}}{\text{SALES}} \times \frac{100}{1}$$

$$2001 = \frac{15,000}{60,000} \times \frac{100}{1} = 25\%$$

$$2002 = \frac{18,000}{90,000} \times \frac{100}{1} = 20\%$$

$$II. \text{ NET PROFIT\%} = \frac{\text{NP}}{\text{SALES}} \times \frac{100}{1}$$

$$2001 = \frac{7,500}{60,000} \times \frac{100}{1} = 12.5\%$$

$$2002 = \frac{11,250}{90,000} \times \frac{100}{1} = 12.5\%$$

$$III. \text{ EXPENSES AS A \% OF SALES} = \frac{\text{EXPS.}}{\text{SALES}} \times \frac{100}{1}$$

$$2001 = \frac{7,500}{60,000} \times \frac{100}{1} = 12.5\%$$

$$2002 = \frac{6,750}{90,000} \times \frac{100}{1} = 7.5\%$$

$$IV. \text{ STOCK TURNOVER} = \frac{\text{COST OF GOODS SOLD}}{\text{AVERAGE STOCK}}$$

$$2001 = \frac{45,000}{(18750 + 11,250)^{1/2}} = \frac{45,000}{15,000} = 3 \text{ TIMES}$$

Name \_\_\_\_\_

Date \_\_\_\_\_

$$2002 \quad \frac{72,000}{(16,875 + 13,125)^{1/2}} = \frac{72,000}{15,000} = 4.8 \text{ TIMES}$$

$$\text{V. CURRENT RATIO} = \frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}}$$

$$2001 = \frac{33,750}{3,750} = \frac{9}{1} = 9:1$$

$$2002 = \frac{30,000}{7,500} = \frac{4}{1} = 4:1$$

$$\text{VI. ACID TEST RATIO} = \frac{\text{CURRENT ASSET} - \text{STOCK}}{\text{CURRENT LIABILITIES}}$$

$$2001 = \frac{33,750 - 11,250}{3,750} = \frac{22,500}{3,750} = \frac{6}{1} = 6:1$$

$$2002 = \frac{30,000 - 13,125}{7,500} = \frac{1,687}{7,500} = \frac{225}{10}$$

$$= 2.25$$

#### VII. RETURNS ON CAPITAL EMPLOYED

$$= \frac{\text{NP}}{\text{CAPITAL EMPLOYED}} \times \frac{100}{1}$$

**N.B:** Capital employed is total assets less current liabilities.

$$2001 = \frac{7,500}{31,500} \times \frac{100}{1} = 23.8\%$$

$$2002 = \frac{11,250}{33,000} \times \frac{100}{1} = 34\%$$

$$\text{VIII. CREDITORS/PURCHASES RATIO} = \frac{\text{CREDITORS}}{\text{PURCHASES}}$$

$$2001 = \frac{3,750}{37,500} \times 365 \text{ DAYS} \quad 365 \text{ DAYS OR (12 MOS.)}$$

$$= 36.5 \text{ DAYS OR 1.2 MONTHS}$$

$$2002 = \frac{7,500}{68,250} \times 365 \text{ DAYS}$$

$$= 40.11 \text{ DAYS OR 1.3 MONTHS}$$



Name \_\_\_\_\_

Date \_\_\_\_\_

IX. **DEBTORS/SALES RATIO** =  $\frac{\text{DEBTORS}}{\text{SALES}} \times 365 \text{ DAYS}$

$$2001 = \frac{18750}{60,000} \times 365 \text{ DAYS}$$

$$= 114 \text{ DAYS OR 3-8 MONTHS}$$

$$2002 = \frac{15,000}{90,000} \times 365 \text{ DAYS}$$

$$= 60-8 \text{ DAYS OR 2 MONTHS}$$

X. **AVERAGE STOCK** = (OPENING STOCK + CLOSING STOCK)  $\frac{1}{2}$

$$2001 = \frac{18750 + 11250}{2} = 15000$$

$$2002 = \frac{16,875 + 13,125}{2} = 15000$$

### EVALUATION

1. What is the formula for stock turnover
2. What is the other name for stock turnover

### GENERAL EVALUATION/REVISION QUESTIONS

1. What is depreciation
2. Explain the following methods of calculating depreciation (i) straight line (ii) reducing balance (iii) sum of the years digit
3. What is the difference between depreciation and amortization
4. State ten uses of the general journal
5. Explain the principle of double entry system

### READING ASSIGNMENT

Essential Financial Accounting page 308-317

### WEEKEND ASSIGNMENT

1. Which of the following formulae is for average stock? (a)  $(\text{sales} - \text{returns}) \frac{1}{2}$  (b)  $(\text{opening stock} + \text{purchases}) \frac{1}{2}$  (c)  $(\text{opening stock} + \text{closing stock}) \div 2$  (d)  $\text{net profit} \div 2 + \text{opening stock}$
2. What is the formula for stock turnover?  
(a)  $\frac{\text{cost of goods sold}}{\text{average stock}}$  (b)  $\frac{\text{sales} - \text{returns}}{\text{inwards}}$  (c)  $\text{sales} \div \text{returns}$  (d)  $\text{profit} + \text{sales} - \text{returns}$
3. ROCE is calculated thus  
(a)  $\frac{\text{NP}}{\text{SALES}} \times 100$  (b)  $\frac{\text{SALES}}{\text{PURCHASES}} \times 100$  (c)  $\frac{\text{NP}}{\text{NET ASSETS}} \times 100$  (d)  $\text{GP} + \text{NP} / \text{SALES}$
4. Acid – test ratio is obtained by (a)  $\frac{\text{current assets} - \text{stock}}{\text{current liabilities}}$  (b)  $\frac{\text{total assets} - \text{stock}}{\text{current liability}}$   
(c)  $\text{current assets} - \text{current liability}$  (d)  $\text{current assets} + \text{current liabilities}$
5. When current asset is less than current liability it means (a) over trading (b) under trading (c) optimum trading (d) counter trading

### THEORY

1. Explain a) debtors /sales ratio b) creditors/purchases ratio
2. What will be revealed to a business when the above ratios are compared?

### WEEK FOUR - SIX

#### TOPIC: PUBLIC SECTOR ACCOUNTING

#### CONTENT

- Meaning of Public Sector Accounting
- Differences between Public Sector Accounting and Private Sector Accounting
- Government sources of revenue
- Accounting procedures for revenue allocation/illustration
- Cost budget preparation and illustration

Name \_\_\_\_\_

Date \_\_\_\_\_

**Meaning of Public Sector Accounting**

Public Sector Accounting is the process of recording the financial transactions concerning the receipts and payments of government funds, in a systematic way, as well as their analysis and interpretation so as to guide governments and their agents in various financial decisions.

**Differences between Public Sector Accounting and Private sector Accounting**

	Public Sector Accounting	Private Sector Accounting
1.	Accounting procedure is based on provision of services	It is based principally on profit maximization
2.	It does not show creditors	It shows creditors for goods
3.	Revenues are derived from tax, fees, fines, etc.	Revenues are derived from sales of goods
4.	The cost of assets are written off in one year	The cost of assets are spread over the useful life of the assets
5.	It is prepared on cash basis	It is prepared on accrual basis
6.	Public sector accounting is based on the constitution of the country	It is governed by the companies and Allied Matters Act.
7.	Public sector accounting report is to the general public	Private sector accounting report is to the shareholder.

**Governments Sources of Revenue**

Government revenue means the total income accruing to the government of a country. This can be classified under different tiers of government.

**a. Federal Government:** At the Federal level revenue sources are:

- i. Direct and indirect taxes: e.g Personal income tax, withholding tax, corporation tax, capital gains tax, capital transfer tax, petroleum tax, tax export duties, tariffs, sales tax, purchase tax, excise duties etc.
- ii. Mining: Royalties, sales of crude oil, rent on oil wells, quarrying licenses
- iii. Fees and Licenses: Visa fees, passport fees, court fees, club registration, church and mosque registration, company registration etc.
- iv. Income from investments and dividends from corporate organization
- v. Rent from government properties
- vi. Revenue from armed forces external assignment, armed forces equipment rentage etc.

**b. State Government:** A state’s major sources of revenue are:

- i. Statutory allocation
- ii. Investment earnings
- iii. Rent on government properties
- iv. Rent of government offices, vehicles etc
- v. Special grants
- vi. Personal income tax
- vii. Fees from hospitals schools, courts
- viii. Licences, motor, sales of liquors, patent medicine and motorcycle

**a. Local Government:** A local Government’s major sources of revenue are:

- a. Statutory allocation
- b. Special grant
- c. Radio and television license
- d. Tenement rates
- e. Fines
- f. Licences on sign post, market stall and liquors
- g. Loan from state
- h. Income from street naming etc.

**Accounting procedures for revenue allocation**

Statutory allocation is the grant from Federal Government to the States and Local Governments. Apart from the statutory allocation various formulae have been devised on various occasions to ensure fair sharing of the total revenue among the three levels of government. The principle usually adopted are:

- a. Derivation basis
- b. Equality basis
- c. Population basis

## d. Independent revenue

**ILLUSTRATION**

The government of Nigeria approved N18,000,000 to six local government areas. The allocation was distributed as follows:

- a. Equity basis 75%
- b. Population basis 25%

Local government	Population
A	6,000,000
B	4,000,000
C	7,000,000
D	1,000,000
E	3,000,000
F	2,000,000
	<b>23,000,000</b>

B. Local government generated the following additional revenue:

	₦
Radio and television licences	100,000
Court fines	250,000
Liquor licences	400,000
Sign post	20,000
Tenement rates	50,000
Expenses salaries	1,150,000
Transport	20,000
Repairs	200,000
Maintenance of cars	60,000
Stationery	25,000
Medical expenses	15,000
Medical expenses	7,600
Park Fees	60,000

You are required to prepare:

- i. A statement showing the allocations made to each local government
- ii. Receipts and payments accounts of B Local Government for the year ended 31<sup>st</sup> December 1999.

**Solution**

Statement of Allocation of Fund

- a. Equity Basis 75% = 75% x 18,000 = N13,500,000  
Equity allocation =  $\frac{13,500,000}{6} = 2,250,000$

Therefore each of the local government will receive **N2,250,000**

- b. Population Basis 25% = 25% x 18,000,000  
**= 4,500,000**

$$\text{Local government A} = \frac{\text{A's Population}}{\text{Total population}} \times 4,500,000 = \frac{6,000,000}{23,000,000} \times 4,500,000$$

$$= \frac{6,000,000}{23,000,000} \times 4,500,000$$

$$= \frac{6,000,000 \times 4,500,000}{23,000,000} = \mathbf{N1,173,913}$$

$$\text{Local government B} = \frac{\text{B's population}}{\text{Total population}} \times 4,500,000$$

$$= \frac{4,000,000}{23,000,000} \times 4,500,000$$

$$= \frac{4,000,000 \times 4,500,000}{23,000,000} = \mathbf{N782,609}$$

$$\text{Local government C} = \frac{\text{C's population}}{\text{Total population}} \times 4,500,000 = \frac{7,000,000}{23,000,000} \times 4,500,000$$

$$= \frac{7,000,000 \times 4,500,000}{23,000,000} = \mathbf{N1,369,565}$$

$$\text{Local government D} = \frac{\text{D's population}}{\text{Total population}} \times 4,500,000 = \frac{1,000,000}{23,000,000} \times 4,500,000$$

$$= \frac{1,000,000 \times 4,500,000}{23,000,000} = \mathbf{N586,957}$$

$$\text{Local government E} = \frac{\text{E's population}}{\text{Total population}} \times 4,500,000 = \frac{3,000,000}{23,000,000} \times 4,500,000$$

$$= \frac{3,000,000 \times 4,500,000}{23,000,000} = \mathbf{N5586,957}$$

$$\text{Local government F} = \frac{\text{F's population}}{\text{Total population}} \times 4,500,000 = \frac{2,000,000}{23,000,000} \times 4,500,000$$

$$= \frac{2,000,000 \times 4,500,000}{23,000,000} = \mathbf{N391,304}$$

**Statement of allocation of Fund**

Local Government	Population Basis	Equity Basis	Total
	N	N	N
A	1,173,913	2,250,000	3,423,913
B	782,609	2,250,000	3,032,609
C	1,369,565	2,250,000	3,619,565
D	195,652	2,250,000	2,445,652
E	586,957	2,250,000	2,836,957
F	391,304	2,250,000	2,641,304
	4,500,000	13,500,000	18,000,000

**B. Local Government Receipt and payments Account**

Receipts	₦	Payments	₦
Allocation	3,032,609	Salaries	1150,000
Radio and TV	100,000	Transport	20,000
Tenement rates 50,000		Electricity	200,000
Court	250,000	Repairs	60,000
Liquor	400,000	Maintenance	25,500
Sign post	20,000	Stationery	15,000
Park fees	60,000	Medical expenses	7,600
		Balance c/d	2,434,509
	<u>3,912,609</u>		<u>3,912,609</u>

**EVALUATION**

1. List eight sources of revenue available to a state government.
2. State five differences between private sector accounting and public sector accounting.

**PREPARATION OF PERSONNEL COST BUDGET**

Budget: A budget is quantitative statement of income and expenditure.  
 The personnel cost budget is prepared to show the analysis of the basic salary and allowances of the staff members of each government ministry department in a particular year.

**PROCEDURES FOR PREPARING THE COST BUDGET**

1. Identification of different positions in the ministry or parastatals
2. Calculation of the number of staff in each post
3. Identification of grade level.
4. Calculation of the basic salary, allowances, etc.

**ANNUAL INCREMENTAL RATE**

- I. If the officers are not on first step of their salary; the formula below will be used for calculating staff total emolument

Formula (new stop 1 ) incremental rate) + basic salary

**Illustration**

Position	No	Grade Level	Salary
Director General	1	17	300,000 x 50,000
Director	4	16	200,000 x 30,000

Assume the staff are on step 3

**Solution**

Director general:	=	(New step – 1) incremental rate + basic salary
	=	(3 – 1) 50,000 + 300,000
	=	2(50,000) + 300,000
	=	<b>N400,000</b>
4 Director	=	(New step – 1) incremental rate + basic salary
	=	(3 -1) 30,000 + 200,000
	=	2(30,000) + 200,000
	=	60,000 + 200,000
	=	<b>N260,000</b>

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2. When employees are on step one

Illustration: The following information was extracted from the ministry of finance on 31/10/99.

Post	Grade Level	No. in post	Rate
DG	17	1	40,000 x 4000 – 60,000
Directors	16	3	32,000 x 3600 – 53,600
Chief Accountant	14	4	28,000 x 2400 – 44800

Additional information

Grade Level	Housing	Transport
12 and above	8400 P.A	6250 P.A
07 and 11	3600 P.A	2500 P.A.

Workings

One DG's Basic salary	=	40,000	
Housing allowance	=	8400	
Transport allowance	=	6250	
<u>3 Directors' basic</u>	=	32000 x 3 = 96,000	
Housing allowance	=	8400 x 3 = 25,200	
Transport allowance	=	6250 x 3 = 18,750	
<u>4 Chief Accountants</u>			
Accounts' Basic Salaries	=	28,000 x 4 = 112,000	
Housing allowance	=	8400 x 4 = 33,600	
Transport allowance	=	6250 x 4 = 25,000	

**Solution**

**PERSONNEL COST BUDGET**

Post	Grade	No	Basic	Housing	Transport	Total
			N	N	N	N
Director General	17	1	40,000	8400	6250	54650
Directors		16	3	96000	25200	18750
Chief Accounts	14	4	112,000	33600	25,000	170,600
			<u>248,000</u>	<u>67,200</u>	<u>50,000</u>	<u>365,200</u>

Total Personnel Emolument = N365,200

**EVALUATION**

1. Define Public sector accounting
2. List seven items of government expenditure.

**GENERAL EVALUATION QUESTIONS**

1. What is depreciation?
2. Explain the following methods of calculating depreciation (i) straight line (ii) reducing balance (iii) sum of the years digit
3. What is the difference between depreciation and amortization?
4. State ten uses of the general journal
5. Explain the principle of double entry system.

**READING ASSIGNMENT**

1. Essential Financial Accounting by O.A. Longe, Pages 376-388
2. Simplified Bookkeeping and Accounting by Femi Olatunji, Pages 489-513

**WEEKEND ASSIGNMENT**

1. Public sector accounting is done on -----basis (a)credit (b)cash (c)hire purchase (d)installmental payment
2. Government parastatal accounting system is on -----basis (a)cash (b)accrual (c)General (d)all of the above
3. Public sector accounts reports are to the -----(a)shareholders (b)directors (c)public (d)customers
4. The chief accounting officer to the government ministries is (a)auditor general (b)minister of finance (c)secretary to the federal government (d)accountant general of the federation

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5. The formula for calculating emolument where employees are on step 4 is  
(a)  $(4-1) \times \text{salary}$  (b)  $(4+1) \times \text{salary}$  (c)  $(4-1)$  incremental rate (d)  $(4-1)$  incremental rate + basic salary.

### THEORY

1. State the formula to apply for (i) calculating emolument when employees are step 1 and (ii) when employees are on step 3
2. State seven differences between the public and private sector accounting

### WEEK SEVEN

#### TOPIC: INTRODUCTION TO BRANCH ACCOUNTS

#### CONTENT

- Meaning of Branch Accounts
- Division of Branch Accounting
- Formats and Illustration

#### Meaning of Branch Accounts

A branch Account is a system of accounting adopted to record the transactions of a small part of a business organization which has or has not some degree of independence.

#### Divisions of Branch Accounting

The divisions can be:

- a. Where the head office keeps all the accounts:** This happens where the branch is fully dependent on the head office. In this case the following accounts are kept.
  - i. Branch stock A/C
  - ii. Goods sent to branch A/C
  - iii. Branch stock adjustment A/C
  - iv. Branch debtors A/C (where credit sales are allowed)
  - v. Branch bank A/C
  - vi. Branch profit & loss A/C
- b. Where the branches keep separate accounts:** This happens where a branch is semi-autonomous. In this situation the following accounts are kept to show the relationships:
  - a. Branch current A/C in head office books
  - b. Head office current A/C in branch books

#### **Pricing Methods**

Three different pricing methods are available for charging goods to branches. They are:

- a. **At cost Price:** This is used when the goods concerned are perishable so that branch managers can use their discretions to avoid losses.
- b. **At cost plus a percentage:** This helps the head office to exercise control over the branch by stating the required percentage profit.
- c. **At selling price:** This is a measure of control also where the branch has no choice but to sell the goods at the selling price given.

**Note:** Where the cost plus a percentage method of pricing is used, two method of accounting can be used also:

- i. Double column or a memorandum column method
- ii. Branch adjustment method.

#### **Memorandum or double column method.**

This method combines two accounts:

- i. Branch Stock Account which appears in the invoice price column and
- ii. Branch Stock Adjustment Account which appears in the "cost price" column However the use of this method requires some items or transactions to be shown at the same price in the two separate columns. These items are:
  1. Cash sales
  2. Credits sales
  3. Cash remitted to head office
  4. Cash in transit
  5. Sundry expenses from takings (ie sales)
  6. Sundry expenses paid out of cash
  7. Cash taken stolen.

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Thus, the adoption of the memorandum or double column method, in cost plus percentage pricing system, requires the following accounts:

- Branch stock A/C with double column i.e. memorandum branch A/C
- Goods sent to branch A/C (entries in this A/C are made at cost price only)
- Branch P & L A/C//

Formats of the three Account above:

Memorandum Branch Stock A/C					
Invoice cost			Invoice cost		
	Price N		Price N		Price N
Stock at start	X		X	Rent to head office	X
Goods sent to Branch	x	x		credit sales	x
Gross profit C/D		x		cash sales	x
				Allowance of selling price	x
				Goods stolen	x
				Cash stolen	x
				Expenses paid	
				Out of takings	x
				Normal loss	x
				stock at close	x
	— X —		— x —		— X —
	—		—		— X —

Goods sent to branch A/C (at cost)				
	N		N	
Returns to branch	x	branch stock	x	A/C
Transport to head Office				
Trading A/C	x			
	— X —			— x —
	—			—

Branch profit & Loss A/C			
	N		N
Branch stock A/C		Gross profit	x
Sundry expenses	x	(from memo. Branch Stock A/C)	
Stock stolen at cost price	x		
Cash stolen	X		
Net profit	x		
	— X —		— x —
	—		—

### EVALUATION QUESTIONS

- What is a branch accounts
- State the pricing methods in branch accounts

### ILLUSTRATION

Suzi Ltd operates a head office in Lokoja and branch office in Lagos. All goods are purchased by Lokoja and sent to Lagos at cost plus 25%. The following information were given for the year ended 31/12/04.

	₦
Credit sales	3,500
Goods sent to branch at cost	50,000
Returns to head office at cost	500
Cash takings remitted to H.O.	10,000
Stock at close at cost price	12,500
Cash takings stolen	150
Sundry expenses paid out of takings	950
Goods stolen at cost	40
Allowances off selling price	100

You are required to prepare

- Branch A/C in the head office books including the necessary A/Cs
- The P & L A/C for the ended 31/12/04

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The system of accounting the head office uses is the memorandum column method.

Solution

Step 1: Calculate the selling price (or invoice price) using the mark-up of 25% on cost

1. Selling price of goods sent to branch  
 Profit = mark-up x cost price  
 =  $25/100 \times 50,000 = \underline{N12500}$
  
2. Selling price = cost + profit  
 =  $50,000 + 12500$   
 = N623,500
  
3. Selling price of returns to Head office  
 = cost + mark-up  
 =  $N500 + (25/100 \times 500)$   
 S. P =  $N500 + 125 = \underline{N625}$
  
4. Selling price of stock at close  
 = cost + mark-up  
 =  $N12500 + (25/100 \times 12500)$   
 S. P =  $N12500 + 3,125 = \underline{N15,625}$
  
5. Selling price of goods stolen  
 = cost + mark-up  
 =  $N40 + (25/100 \times N40)$   
 S. P. =  $N40 + 10 = \underline{N50}$

step II: Preparation of branch stock A/C using memorandum column

**Memorandum branch stock A/C**

	Invoice cost Price N	Price N		Invoice cost Price N	Price N
Goods sent to branch	62,500	50,000	Rent to head office	625	500
Gross profit C/D	-	9140	credit sales	3500	3500
			x cash remitted to H. Office	10,000	10,000
			cash takings stolen	150	150
			sundry expenses	950	950
			goods stolen	50	40
			Allowance off selling price	100	-
			stock at close	15624	12500
	62500	59140		62500	59140

**Profit & loss A/C**

	N		N
Sundry expenses	950	Gross profit B/D 9140	
Cash stolen	150		
Goods stolen at cost	40		
Net profit	8000		
	9140		9150

**EVALUATION QUESTIONS:**

1. State four objectives of Branch Accounting.
2. State five reasons why branches may decide to keep their accounts rather than the Head office doing so.

**GENERAL EVALUATION QUESTIONS**

1. State five characteristics of depreciable assets
2. Explain three reasons why an accountant will consider end- of- year adjustments
3. Differentiate between bad debts and provision for bad debts



Name \_\_\_\_\_ Date \_\_\_\_\_

- Differentiate between bank statement and bank reconciliation statement
- State four reasons for making provision for depreciation

### READING ASSIGNMENT

Simplified and Amplified Financial Accounting – page 466-487

Essential financial Accounting by O.A. Longe and others pages 375-379

### WEEKEND ASSIGNMENT

- If the cost of goods is N10,000 and there is a 25% mark-up on it, then the selling price is -----  
(a)N10,000 (b)N10,200 (c)N12,500 (d)N13,500
- If the cost of an article is N500 the company's profit margin is 20% then the selling price is -----  
(a)N6250 (b)5000 (c)72250 (d)6000
- If the margin allowed by a business is 25% then the business mark-up is -----(a)20% (b)30%  
(c)311% (d)50%
- If the profit on cost price is  $\frac{1}{5}$  then the profit on selling price is -----(a) $\frac{1}{2}$  (b) $\frac{1}{3}$  (c)5%  
(d) $\frac{1}{4}$  (e) $\frac{1}{6}$
- The margin on sales of a trader is 15% therefore the trader's mark-up is -----(a) $\frac{12}{7}$  (b) $\frac{15}{17}$   
(c) $\frac{3}{20}$  (d) $\frac{3}{17}$

### THEORY

- Fill the following gaps

	<u>Mark-up</u>		<u>Margin</u>
If	i. 10%	i.	Then -----?
	ii. -----?	ii.	If 30%
	iii. $\frac{3}{7}$	iii.	Then-----?

- State the main pricing methods in branch accounting.

### WEEK EIGHT AND NINE

#### TOPIC: PREPARATION OF BRANCH ACCOUNT

#### CONTENT

- Branch Adjustment Method
- Accounting Entries
- Formats and Illustration
- Where branches keep separate Accounts

#### Branch Adjustment Method of Branch Accounting

Unlike the memorandum or double column method, under this method, the profit loading will be taken to a separate A/C called "Branch adjustment A/C". Under this method the following are the main A/C that will be prepared:-

- Branch stock A/C – at invoice price
- Branch stock adjustment A/C showing profit loading
- Goods sent to branch A/C – based on cost price
- Debtors A/C (where goods are sold or credit)
- Branch P & L A/C

#### Accounting Entries

- When goods are sent to branch Dr. Branch stock A/C at invoice price Cr. Goods sent to branch A/C (at cost)
- When there are sales – cash or credit Dr. Cash A/C with cash sales Dr. Debtors A/C with credit sales Cr branch stock A/C with cash or credit sales.
- Stock at start.  
Dr. branch stock A/C – (with invoice price) Cr. Branch stock adjust A/C (profit loading)
- Stock at close  
Dr. Branch stock adjust A/C (profit loading)  
Cr. Branch stock A/C with invoice price
- Returns to head office.  
Cr. Branch stock A/C at invoice price  
Dr. Goods sent to branch A/C at cost price

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6. Dr. Branch stock adjustment A/C with profit loading  
Transfer to other branch  
Cr. Branch stock A/C at invoice price
7. Dr. Goods sent to branch A/C at cost price  
Dr. branch stock adjustment A/C with profit loading  
Allowances of selling price or reduction in selling price  
Dr. branch stock adjustment A/C (total allowance )  
Cr. Branch stock A/C (total allowance)
8. Goods in transit  
Dr. branch stock adjustment A/C (with profit loading)  
Cr. Branch stock A/C (with invoice price)
9. Goods lost in transit  
Dr. Branch stock adjustment A/C (with profit loading)  
Dr. Goods lost in transit A/C (at cost price and write it off to P & L A/C)  
Cr. Branch stock A/C (at invoice price)
10. Goods stolen or deficiencies  
Cr. Branch stock A/C (invoice price)  
Dr. Branch stock adjustment A/C (profit loading)  
Dr. Goods stolen A/C (with cost price)
11. Cash Stolen  
Cr. Branch stock A/C (Total amount)  
Dr. Defalcation A/C (total amount) to be written off to P & L A/C
12. Goods returned by customers to head office  
Cr. Debtors A/C (invoice price)  
Dr. goods sent to branch A/C (cost price)  
Dr. Branch stock adjustment A/C (profit loading)
13. Balance of adjustment A/C will be transferred to branch profit and loss A/C
14. The goods sent branch A/C will be closed by transferring the balance to H.O. trading A/C. Formats

**Branch Stock Account (invoice price)**

	₦		x	₦
Stock at start	x	goods transferred to another branch	x	
Goods sent to branch	x	cash sales	x	
		Credit sales		x
		Expenses paid out of takings	x	
		Reducing in selling price		x
		Goods in transit	x	
		Returns to H.O.	x	
		Cash stolen (pilferage)	x	
		Normal loss		x
		Cash in hand	x	
		Bal c/d stock at close	x	
	<u>xx</u>			<u>xx</u>
		Goods sent to Branch A/C (cost price)		
Return to H.O	x	Branch stock A/C	x	
Transfer to other branch				
Bal C/D transp. To H.O				
Trading A/C	x			
	<u>x</u>			<u>x</u>

Name \_\_\_\_\_ Date \_\_\_\_\_

**Branch stock adj. or branch mark-up Account profit loading**

	₦		₦
Profit on return to H. O	x	Profit on opening stock	x
Profit on stock at close	x	profit on goods sent to branch	x
Profit on goods returned By customers to H.O	x		
Profit on goods in transit	x		
Normal loss (selling price)	x		
Profit on goods stolen	x		
Profit on return to other Branch	x		
Reduction in selling price	x		
GP to branch & P&L A/C c/d	x		
	<hr/> xx <hr/>		<hr/> xx <hr/>

**Branch P & L A/C**

	₦		₦
Cost of goods stolen	x	Branch stock Adj A/C b/d	x
Sundry expenses	x		
Cost of goods lost in transit	x		
Cost stolen	x		
Net profit c/d	x		
	<hr/> xx <hr/>		<hr/> xx <hr/>

**EVALUATION QUESTIONS**

1. What are the entries involved in selling goods on credit by a branch?
2. What is the purpose of preparing branch stock accounts?

**ILLUSTRATION**

Suzuki Ltd has a head office in Lagos and a branch in Ibadan. All goods are purchased by the head office and sent to Ibadan at cost plus mark-up of 1/3 of the selling price. During the year to 31/12/05 the following transaction took place at Ibadan.

	N
Goods received from Lagos	360,000
Goods returned to Lagos	3360
Bad debt	1192
Cash received from debtors	137248
Cash discount given	3616
Cash sales	201600
Credit sales	144,000

The following additional information is relevant

	1/1/05	31/12/05
	N	N
Stock in hand at selling price	32160	42000
Debtors	13216	15160

You are required to prepare

- a. Branch stock A/C
- b. Goods sent to Branch A/C
- c. Branch stock adjustment A/C
- d. Branch debtors A/C

Name \_\_\_\_\_

Date \_\_\_\_\_

Solution:

**Suzuki Ltd**

Branch stock A/C (invoice price)

		N			N
a.	balance b/f	32160		cash sales	201600
	Goods sent to branch			branch debtors	
	At cost (2/3 x 360,000)	240,000	credit sales	144,000	
	Branch stock adj.			goods return	
	Profit loading (1/3 x 360,000)	120,000	to H.O.		
				Cost – (2/3 x 3360)	2,240
				Branch stock	
				Adjust-profit	
				Loading (1/3x3360)	1,120
				Branch stock	
				(The difference)	1,200
				bal (c/d stock	
				at close	<u>4,200</u>
		<u>39216</u>			<u>39216</u>
b.	<u>Goods sent to branch A/C (cost price)</u>	N			N
	Goods returned to H.O			Branch stock	
	Cost (2/3x3360)	2240		A/C (2/3x360,000)	240,000
	Transferred to				
	H.O. trading A/C				
	(Balancing figure)	<u>237,760</u>			
		<u>240,000</u>			<u>240,000</u>

		N			N
c.	<b><u>Branch stock adjustment A/C (profit loading)</u></b>				
	Branch stock A/C			bal b/f (1/3x32,160)	10,720
	Less in stock	1200		branch stock A/C	120,000
	Returns to H.O			(profit on G.S.B	
	(profit on it 1/3x3360	1120		(1/3x360,000)	
	Profit on closing				
	Stock (1/3x42000) c/d	14,000			
	Branch P&L A/C GP c/d	114,400			
		<u>130720</u>			<u>130720</u>
				Bal b/d	<u>14000</u>

		N			N
d.	<b><u>Branch debtors A/C</u></b>				
	Bal b/f	13216		cash received from debtors	137248
	Credit sales	144,000	Discount allowed	3616	
			Bad debt	1192	
			Bal c/d	15,160	
		<u>157216</u>			<u>157216</u>
	Bal b/d	15160			

**EVALUATION QUESTIONS**

- Explain the following pricing methods used in preparing branch accounts  
(a) cost price (b) cost plus a percentage (c) selling price
- List any five items that may feature in the Branch stock Adjustment Account.

**GENERAL EVALUATION QUESTIONS**

- List five source documents used in preparing the Cash Book
- State five factors to be considered in determining the depreciation charge for a fixed asset
- State five differences between capital expenditure and revenue expenditure

Name \_\_\_\_\_ Date \_\_\_\_\_

4. State three features of each of the following (a) cash book (b) trading account (c) profit and loss account
5. Differentiate between prime costs and overhead costs

### READING ASSIGNMENT

Essential Financial Accounting O. A. Longe, Pages 379-383

### WEEKEND ASSIGNMENT

1. Branch stock A/C is prepared to show:
  - a. cost price of goods sent to branch
  - b. Gross profit in goods sent to branch
  - c. Invoice price of goods sent to branches
  - d. None of the above
2. In branch accounting, the entries for bad debt written off are:
  - a. Dr. Branch stock A/C Cr. Debtors A/C
  - b. Cr. Bank A/C Dr. debtors A/C
  - c. Cr. Debtors A/C, Dr. branch P&L Mc to branch A/C
3. If the margin of a trader is 30% then the mark-up of the trader is  
(a)25% (b)33% (c)40% (d)43%
4. The balancing figure in the goods sent to branch A/C is (a)transfer to branch debtors A/C (b)credit to branch stock A/C (c)transfer to branch P&L A/C (d)transfer to head office trading A/C
5. A branch sold goods on credit for N5000. The accounting entries are debt branch debtors A/C N5000 and credit.  
(a) goods sent to branch A/C N5000 (b)branch stock adjustment A/C N5000 (c)branch stock A/C N5000 (d)branch profit & loss A/C N5000

### THEORY

1. What purpose does each of the following serve?
  - i. Branch stock A/C
  - ii. Branch stock adjustment A/C
  - iii. Goods sent to branch A/C
2. Show a comprehensive format of a branch stock A/C

### WEEK TEN

#### TOPIC: INTRODUCTION TO DATA PROCESSING

#### CONTENT

- Definition of terms
- Stages of Data Processing
- Methods of Data Processing
- The Electronic Computer

Data Processing is the process of producing meaningful information from raw data. It describes the series of actions taken to produce useful information by collecting all items of data together and performing operations on them. The aim of data processing is to convert raw data into information.

**Data:** Data represent the raw unprocessed input element introduced into a system from which useful information is extracted. Data is used to describe the facts and figure obtained which have not been grouped, related or evaluated in any way.

**Information:** Information consist of data which have been recorded organized classified and processed into useful and meaningful form. It is the output element of a data processing system.

#### QUALITIES OF A GOOD INFORMATION

- (i) Accuracy
- (ii) Timeliness
- (iii) Completeness
- (iv) Relevance
- (v) Up to date
- (vi) Cost effectiveness

**DATA PROCESSING STAGES**

- (i) Origination
- (ii) Preparation/Sorting
- (iii) Input
- (iv) Processing
- (v) Output
- (vi) Storage
- (vii) Distribution

**METHODS OR TECHNIQUE OF DATA PROCESSING**

- (a) Manual Data Processing
- (b) Mechanical Data Processing
- (C) Electronic Data Processing

**EVALUATION**

- 1. Differentiate between data and information.
- 2. List five qualities of a good information.

**THE ELECTRONIC COMPUTER**

Characteristics of a Computer

- i. Speed – high speed of operation
- ii. Storage – Large storage volume
- iii. Versatility – Can be used to perform wide range of tasks
- iv. Diligence – It can perform similar operations at the same speed and accuracy at all times.
- v. Automatic – Tasks are performed automatically based on the programme (instructions) given to the computer.

**ELEMENTS OR COMPONENTS OF A COMPUTER**

- 1. **INPUT DEVICES** – i. e. the unit through which data are fed into the computer e.g. keyboards, terminals, optical mark readers optical character readers, magnetic ink character readers.
- 2. **CENTRAL PROCESSING UNIT** – This is the part of the computer that carry out the computations and calculations. It is made up of
  - (a) The control unit
  - (b) The Arithmetic and Logic Unit
  - (c) The Internal Memory or Storage
- 3. **OUTPUT DEVICES** – These are used to transmit processed data to the users e.g printer, visual display units, plotters.
- 4. **STORAGE DEVICES** – These are external storage devices used to hold information that would be required by the users of the computer e.g. diskettes, magnetic tapes, punched cards etc.

**APPLICATION OF COMPUTERS IN AN ACCOUNTING ENVIRONMENT**

Computers are used in finance and accounting for such applications as

- 1. Payroll system
- 2. Nominal Ledger (or General Ledger) system
- 3. Stock Control System
- 4. Maintenance of Fixed Assets Register
- 5. Reconciliation of Accounts/Auditing
- 6. Automatic cheque clearing system
- 7. Purchase Ledger System
- 8. Sales Ledger System
- 9. Financial Planning Services
- 10. Preparation of Management Reports
- 11. Financial Forecasting/Projections and Budgeting
- 12. Computation of job cost estimates
- 13. Electronic fund transfer e.g. from one bank to another.

**EVALUATION**

- 1. What is a Computer?
- 2. List and explain three methods of data processing

Name \_\_\_\_\_

Date \_\_\_\_\_

### GENERAL REVISION QUESTIONS

1. List six accounts found in the nominal ledger
2. List six accounts found in the general ledger
3. State two uses of the trial balance
4. List five examples of accounts that have debit balances
5. List four examples of accounts that have credit balances

### READING ASSIGNMENT

Simplified Book-keeping and Accounting page 487-501

### WEEKEND ASSIGNMENT

1. The fourth stage of the accounting information system is \_\_\_\_\_  
(a) recording (b) interpreting (c) summarizing (d) classifying
2. In the permanent storage device, DASD means \_\_\_\_\_  
Direct Access Systems Device (b) Direct Access Storage Device (c) Data Access System Device (d) Data Access Storage Device
3. The input output and central processing units are the basic components of a computers \_\_\_\_\_  
(a) memory (b) software (c) printer (d) skill
4. The computer that functions by taking discrete numbers and performing mathematical calculation is called \_\_\_\_\_  
(a) mainframe (b) digital (c) hybrid analogue
5. Which part of the computer system does the keyboard device belong to \_\_\_\_\_  
(a) output unit (b) logic unit (c) input unit (d) control unit

### THEORY

1. Mention and explain with diagrams, the stages of data processing.
2. State four reasons why some firms still use manual data processing instead of electronic data processing.