

## MAY/JUNE 2006 FINANCIAL ACCOUNTING

1. Explain briefly the following terms
- i. Bank statement
  - ii. Bank reconciliation statement
  - iii. Uncredited cheques
  - iv. Unpresented cheques
  - v. Dishonoured cheques.

Answers:

- i. Bank statement: This is the periodic statement of account which a commercial bank sends to its customers. It states the various deposits and withdrawals including the balances in customers' accounts. It is usually sent to current account holders.
- ii. Bank Reconciliation statement: This is the method used by the cashier in an organisation to make both the operations of the bank and that of the office come into an agreement. It is usually headed "Bank Reconciliation Statement as at 31<sup>st</sup> Dec.....".
- iii. Uncredited cheques: These are cheques which have been received by the bank which have not been entered in the customers accounts. This cause disagreements between Cash Book Balance and Bank Balance.
- iv. Unpresented cheques: these are cheques drawn in favour of some people which have not been taken to bank for collection by those who have received such cheques. They cause disagreement between Cash Bank and Bank.
- v. Dishonoured cheques:- These are cheques which when they are presented to the bank for collection, the bank refuse to pay the amount written on such cheques. This may be due to lack of fund in the account, irregular signature, alteration on the cheque, notice to stop payment, lack of date on the cheque and differences between the amount in words and that written in figures.

2. Explain the following terms
- i. Account sales
  - ii. Consignor
  - iii. Consignment
  - iv. Consignee
  - v. Del Credrel Agent

Answers:

- i. Account sales: This is a document which states the total sales made, less the expenses and commissions due to the consignee. The balance will be remitted to the consignor by bank draft.
- ii. Consignor: This is the person who sends goods to the consignee along with a proforma invoice, which states the quantity, price and value of goods sent.
- iii. Consignment: It is the goods sent to the consignee or agent abroad.

- iv. Consignee: This is the person to whom goods are sent to. He is the person who will sell the goods (consignment) and remit account sales to the consignor.
  - v. Del Credel Agent: This is an agent who guarantees the payments of debts owned by customers. He receives an additional commission known as 'Del Credel Commission'
- 3.
- a. Define the term "Goodwill"
  - b. Mention Four items that are contained in a partnership agreement
  - c. Mention Two types of partners and explain them.

Answers:

- a. Goodwill: This is the good reputation which a business earned for quality products or services produced. It is an intangible asset and it is usually written off every year by certain percentage. It is the amount which an incoming partner pays to the existing partners.
  - b. Items that are contained in partnership agreement are as follows:
    - i. The name of the partners
    - ii. The amount that each partner will contribute
    - iii. The method of sharing profits and losses
    - iv. Methods of admitting new partner
    - v. Remuneration to be paid to active partner
    - vi. The name of partnership and its address
    - vii. How goodwill will be shared among partners
  - c. Types of partners are:
    - i. General partner, limited partner, active partners, sleeping or dormant partner and quiz partner or Nominal partner.
    - ii. General partner: This is a partner who is entitled to take full share in the administration and management of the partnership. He has unlimited liability.
    - iii. Limited partner; This is a partner who is prevented from taking any active part in the management of the business. He is a partner whose liability is limited to the extent of his shares.
    - iv. Active partner: This is a partner who has invested capital sum in the business and also take an active part in the daily conduct of the business for its success.
    - v. Sleeping or Dormant partner: A sleeping or dormant partner is one who has capital invested in the firm, but takes no actual part in the conduct of the business. His name may or may not appear in the list of partners in the business name.
    - vi. Quiz or Nominal partner: This is a partner who contributes only his name to the formation of the business in order to enhance the goodwill and reputation of the firm. He must not take part in the management of the business.
- 4.
- a. Distinguish between subscription in advance and subscription in arrears.
  - b. List FOUR features of an income and Expenditure Account.
  - c. Mention THREE features of a receipt.

Answers:

- a. Subscription in advance is the amount which members of club paid over and above the stipulated fee that should be paid as annual fees by members. It is a liability in the Balance Sheet, where as subscription in arrears is the amount which members of a club have not

paid for by the time when the final account of such club is prepared. It is an asset in the Balance Sheet.

- b. Features of an Income and Expenditure Account are:
- i. Only incomes meant for the year of accounting whether actually received or not will be accounted for
  - ii. Only expenditures meant for the current year whether paid or not will be accounted for in the account
  - iii. It is usually headed "Income and Expenditure Account for the year ended 31<sup>st</sup> December 20....."
  - iv. It has expenditure at the left hand side and income at the right hand side.
  - v. It is a nominal account
  - vi. The difference between the income and expenditure figures is the surplus or deficit as the case may be.
  - vii. The surplus or deficit in the account will be added or subtracted from the accumulated fund figure in the Balance Sheet.
- c. Features of a receipt are:
- i. The name of the Company
  - ii. The date
  - iii. The serial number
  - iv. The quantity and description columns for the goods or money paid
  - v. The total amount paid written in words and figures.
  - vi. Signature of the person who prepares the receipt.
  - vii. Signature of the customer.

5. Chukwu operates an Ibadan Departmental Store selling provisions, clothing and hardware. The following details relate to the business for the year ended 31<sup>st</sup> December 2003.

Stock at 1<sup>st</sup> January 2003:

Provisions	10,000.00
Clothing	30,000.00
Hardware	45,000.00
Sales for 2003:	
Provisions	2,800,000.00
Clothing	4,800,000.00
Hardware	4,400,000.00
Purchases for 2003:	
Provisions	480,000.00
Clothing	790,000.00
Hardware	950,000.00
Rent and rates	635,000.00
Lighting and cooking	1,200,000.00
Insurance	450,000.00
Carriage inwards	300,000.00
Carriage outwards	45,000.00
Administrative expenses	105,000.00
Wages and salaries	206,000.00
Fixed assets	4,500,000.00

Additional information

- a. Closing stock was 20% more than the closing stock of 2002
- b. Carriage outwards expenses are to be apportioned  $\frac{1}{2}$  to hardware, the remainder equally between provisions and clothing.
- c. Rent and Rater, Administrative expenses and wages and salaries are to be appropriated on the basis of sales
- d. All other expenses are to be appropriated equally.
- e. Fixed Asset are depreciated at 10% per annum. You are required to prepare departmental, Trading, Profit and Loss Account to show departmental and total profit.

Answer

**CHUKWU DEPARTMENTAL STORE TRADING, PROFIT & LOSS ACCOUNT  
FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER, 2003.**

	PROVISION ₦	CLOTHING ₦	HARD WARE ₦	TOTAL ₦	SALES	PROVISION ₦	CLOTHING ₦	HARDWARE ₦	TOTAL ₦
Opening stock	10,000.00	30,000.00	45,000.00	85,000.00		280,000.00	4,800,000.00	440,000.00	120,000.00
Add purchases	480,000.00	790,000.00	950,000.00	2,220,000.00					
	<b>490,000.00</b>	<b>820,000.00</b>	<b>995,000.00</b>	<b>2,305,000.00</b>					
Less closing stock	12,000.00	36,000.00	941,000.00	102,000.00					
Goods available for sales	478,000.00	784,000.00	1,041,000.00	2,203,000.00					
Add carriage inwards	100,000.00	100,000.00	100,000.00	300,000.00					
Cost of goods sold	578,000.00	884,000.00	1,041,000.00	2,503,000.00					
Gross profit c/d	2,222,000.00	3,916,000.00	3,359,000.00	9,497,000.00					
	<b>2,800,000.00</b>	<b>4,800,000.00</b>	<b>4,400,000.00</b>	<b>12,000,000.00</b>		<b>2,800,000.00</b>	<b>4800000.00</b>	<b>4400000.00</b>	<b>12,000,000.00</b>
Rent & rates	148,167.00	254,000.00	232,833.00	635,000.00					
Light & working	400,000.00	400,000.00	400,000.00	1,200,000.00	Gross profit b/d/	2,222,000.00	3,916,000.00	3,309,000.00	9,499,000.00
Insurance	150,000.00	150,000.00	150,000.00	450,000.00					
Carriage outwards	11,250.00	11,250.00	22,500.00	45,000.00					
Adin. Expenses	24,500.00	42,000.00	38,500.00	105,000.00					
Wages & Salaries	48,067.00	82400.00	75,533.00	206,000.00					
Depreciation (fixed Asset)	150,000.00	150,000.00	150,000.00	450,000.00					
Net Profit c/d	1,290,016.00	2,826,350.00	2,289,634.00	6,406,000.00					
	<b>2,222,000.00</b>	<b>3,916,000.00</b>	<b>3,359,000.00</b>	<b>9,767,000.00</b>		<b>2,222,000.00</b>	<b>3,916,000.00</b>	<b>3,359,000.00</b>	<b>9,497,000.00</b>

6. An inexperienced book-keeper prepared a Trial Balance which failed to agree. The difference of ₦85.00 credit was kept in a suspense account. The following errors were later discovered.
- A cash payment of ₦180.00 had been posted as a receipt in the Bank column of the cash book.
  - The Sales Account was over cast by ₦350.00 and Purchases Account was also overcast by ₦350.00.
  - A return inward of ₦190.00 was not recorded in the books
  - Bank charges of ₦185.00 had been posted into the cash book .No entry was made else where in the books.
  - The Opening balance of the debtors account had been brought down as ₦1785.00 instead of ₦1875.00.
  - An item of fixed asset sold for ₦2500.00 had been debited to cash and included in sales.
- You are required to:
- Prepare journal entries to effect the necessary corrections

ii. Write up the Suspense Account

Answer

i.

s/N	DETAILS	DEBIT ₦	CREDIT ₦
a.	Suspense A/C Cash Book Being the amount wrongly posted to the debit side of the cash book	360.00	
			360.00
b.	Sales A/C Purchases A/C Being the amount overstated both in purchases and sales A/C	350.00	
			350.00
c.	Returns inwards A/C Debtors A/C Being the amount of returns inwards of ₦190.00 omitted in the books of A/C	190.00	
			190.00
d.	Bank Charges A/C Suspense A/C Being the amount of ₦185.00 that was not posted into the bank charges A/C	185.00	
			185.00
e.	Debtors A/C Suspense A/C Being the amount understated in the debtors A/C	90.00	
			90
f.	Sales A/C Sales of fixed Asset A/C Error of principle now corrected	2500.00	
			2500.00

SUSPENSE A/C

Dr.		Cr.
Cash Book	360.00	
		Difference as per
		Trial balance
		Bank charges
		Debtors
	<u>360.00</u>	85.00
		185.00
		<u>90.00</u>
		<u>360.00</u>

7. Samuel Galadima operates an imprest system with analyzed petty cash books. There are columns for stationery, transport, postage and medical expenses. A float of 200,000.00 is maintained by the petty cashier who is reimbursed as and when necessary. The following transactions were recorded in the month of September, 2003.

		₦
Sept. 2 <sup>nd</sup>	balance on hand	200,000.00
" 6 <sup>th</sup>	bought postage stamps	28,000.00
" 7 <sup>th</sup>	paid medical expenses	48,000.00
" 12 <sup>th</sup>	bought stationery	28,500.00
" 16 <sup>th</sup>	paid transport expenses	68,000.00
" 20 <sup>th</sup>	paid medical expenses	40,800.00
" 22 <sup>nd</sup>	paid for postage stamps	6,200.00
" 22 <sup>nd</sup>	paid transport expenses	18,800.00
" 24 <sup>th</sup>	bought stationery	6,800.00
" 24 <sup>th</sup>	paid transport expenses	32,600.00
" 28 <sup>th</sup>	bought postage stamps	8,500.00
" 30 <sup>th</sup>	paid medical expenses	26,500.00

You are required to enter the details in a columnar petty cash book.

Answer

**SAMUEL GALADIMA PETTY CASH BOOK  
FOR THE MONTH OF SEPTEMBER**

Date	Particular	CB	₦	Date	Particular	PV. No.	Total ₦	Stationery ₦	Transport ₦	Postage ₦	Medical Expenses ₦
Sept 2nd	Bank balance		200,000.00	Sept. 6th	Postage		28,000.00			28,000.0	
			312,700.00	Sept. 7 <sup>th</sup>	Medial		49,000.00				48000.00
				Sept. 12 <sup>th</sup>	Stationery		28,500.00	28,500.00			
				Sept. 16 <sup>th</sup>	Transport		68,000.00		68000.00		
				Sept. 20 <sup>th</sup>	Medical		40,800.00				40800.00
				Sept. 22 <sup>nd</sup>	Postage		6,200.00			6200.00	
				Sept. 22 <sup>nd</sup>	Transport		18,800.00		18800.00		
				Sept. 24 <sup>th</sup>	Stationery		6,800.00	6800.00			
				Sept. 24 <sup>th</sup>	Transport		32,600.00		32600.00		
				Sept. 28 <sup>th</sup>	Postage		8,500.00			8500.00	
				Sept. 30 <sup>th</sup>	Medical		26,500.00				26500.00
					Total		312,700.00	35300.00	119400.00	42700	115300.00
					<b>Bal.</b>	<b>c/d</b>	<b>200,000.00</b>				
Sept. 30 <sup>th</sup>	Bal	c/d	512,700.00				512,700.00				

8. The following balance were extracted from Bolu Enterprises on 31<sup>st</sup> December 2003.

	₦
Freehold Property	50,500.00
Capital	81,445.00
Trade debtors	28,750.00
Trade Creditors	26,150.00
Furniture & Fittings (Cost ₦22,50.00)	16,250.00
Rent	950.00
Electricity	675.00
Provision for bad debt (1/1/03)	288.00
Office Equipment (cost ₦ 20,000.00)	15,500.00
Stock (1/1/03)	7,750.00
General expenses	2,350.00
Rates	625.000
Cash in hand	137.00
Bank overdraft	4,475.00
Bank charges	373.00
Sales	74,000.00
Purchases	60,750.00
Carriage inwards	395.00
Salaries	1,700.00
Discount allowed	485.00
Discount relieved	332.00



- a. Closing stock ~~N~~6,635.00
- b. Salaries in arrears ~~N~~875.00
- c. Prepaid expenses: Rent ~~N~~150.00, Rates ~~N~~138.00
- d. Provision for bad debt to be reduced to ~~N~~225.00
- e. All fixed assets are to be depreciated at 5% on credit

You are required to prepare a:

- i. Trial Balance as at 31/12/03
- ii. Trading, Profit and Loss Account for the year ended 31/12/03

Answer

**B. BOLU ENTERPRISES**  
**TRIAL BALANCE AS AT 31<sup>ST</sup> DECEMBER, 2003**

Particulars	Credit #	Debit #
Freehold property	50,000.00	
Capital		81,445.00
Trade debtors & Creditors	28,750.00	26,150.00
Furniture & Fittings (cost 22,500.00)	16,250.00	
Rent	950.00	
Electricity	675.00	
Provision for bad debts (1/1/03)		288.00
Office equipment (cost <del>N</del> 20,000.00)	15,500.00	
Stock (1/1/30)	7,750.00	
General expenses	2,350.00	
Rates	625.00	
Cash in hand	137.00	
Bank overdraft		4,475.00
Bank charges	373.00	
Purchases and sales	60,750.00	74,000.00
Carriage inwards	395.00	
Salaries	1,700.00	
Discount allowed	485.00	
Discount received		332.00
<b>TOTAL</b>	<b>186,690.00</b>	<b>186,690.00</b>

ii.

**BOLU ENTERPRISES**  
**TRADING PROFIT AND LOSS ACCOUNT FOR**  
**THE YEAR ENDED 2ST DECEMBER, 2003**

	#			#
Opening stock	7,750.00	sales		74,000.00
Add purchases	<u>60,750.00</u>			
	68,500.00			
Less closing stock	<u>6,635.00</u>			
Goods available for sales	61,865.00			
Add carriage inwards	395.00			
Cost of goods sold	62,260.00			
Gross profit c/d	<u>11,740.00</u>			
	<u>74,000.00</u>			<u>74,000.00</u>
Rent (950-250)	800.00	Gross profit b/d		11,740.00
Electricity	675.00	Reduction in provision		
		For bad debts	63.00	
		Discount received	332.00	
General expenses	2,350.00			
Rates (625-138)	478.00			
Bank Charges	373.00			
Salaries (1,700 +875)	2,575.00			
<u>Depreciation</u>				
Furniture & Fittings	1,125.00			
Office equipment	1,000.00			
Discount allowed	485.00			
Net Profit	<u>2,265.00</u>			
	<u><b>12,135.00</b></u>			<u><b>12,135.00</b></u>

9. Ohisco Trading Company operates self balancing ledgers. Extracts from the year ended 31<sup>st</sup> January 2004, shows the following:

		#
Sales ledger balances 1/2/03, Dr.	2,450	
Cr.		390
Purchases ledger balances 1/2/03 Dr.	217	
Cr.		1,947
Credit Purchases		15,800
Cash sales		20,000
Credit sales		37,600
Bad debts		188
Provision for bad debts	245	
Discount received		683
Discount allowed		168
Returns inwards		207

Returns outward		175
Cheques from debtors	22,150	
Cash from debtors		14,000
Cheques drawn fro creditors	15,500	
Sales ledge balances 31/1/04 Cr.		470
Purchases ledge balances 31/1/04 Dr.	240	

You are required to prepare

- a. Sales ledger control account
- b. Purchases ledger Control Account.

**OHISCO TRADING COMPANY**

**Dr SALES LEDGER (DEBTORS) CONTROL ACCOUNT Cr**

Dr		Cr	
	R		R
Balance b/f	2,450	Balance b/f	390
Sales	37,600	Cash	20,000
Bal. b/d	17,768	Bad debts	188
		Provision for bad debt	245
		Discount allowed	168
		Returns inwards	207
		Cheques	22,150
		Cash	14,000
		Balance c/d	470
	<u>57,818</u>		<u>57,818</u>
Bal. b/d	470	Bal. b/d	17,768

b.

**OHISCO TRADING COMPANY**

**PURCHASES LEDGER (CREDITORS) CONTROL ACCOUNT**

**DR. CR.**

DR.		CR.	
	R		R
Bal. b/f	217	Balance b/f	1,747
Discount received	683	purchases	15,800
Return outwards	175	Bal c/d	240
Cheques from creditors	15,500		
Balance c/d	1,312		
	<u>17,887</u>		<u>17,887</u>
Bal c/d	240	Bal c/d	1,312