

BHM 657: PRINCIPLE OF ACCOUNTING



NATIONAL OPEN UNIVERSITY OF NIGERIA

BHM 657: PRINCIPLE OF ACCOUNTING

COURSE GUIDE



NATIONAL OPEN UNIVERSITY OF NIGERIA

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Introduction

Principles of Account is a one semester course, 30 units 100 level second semester course, It will be available to all students to take towards the core module of their B.Sc. in Cooperative Management. It will also be suitable as a one-off course for anyone who does not intend to complete NOUN qualification but want to learn the Principles of Account.

The course will consist of Thirty Units. The materials have been developed to suit students in Nigeria by adapting more practical examples from local environment.

There are no compulsory pre-requisites for this course, although prior to commencing study of this course you are advised to have taken a course in `Introduction to Accounting.

This course guide tells you briefly what the course is about, what course materials you will be using and how you can work your way through these course materials.

It suggest some general guidelines for the amount of time you are likely to spend on each unit of the course in order to complete it successfully. It also gives you some guidance on your tutor-marked assignments. Detailed information on tutor-marked assignment is found in the Separate Assignment File: There are regular and surgery classes that are linked to the course. You are advised to attend these sessions. You will be advised on time and location of tutorial surgeries.

What you will learn in this course.

The overall aim of this course Principles of Account is to teach you how the accounts of organizations are kept. During this course you will learn about the Principles of Account and how accounts of organizations are kept.

Accounting is vital to the efficient management of organizations. You will learn how accounts of organizations profit making and non-profit making organizations are kept.

Course Aims

The aims of the course can be summarized as follows: This course aims to give you an understanding of accounting principles.

This will be achieved by aiming to:

- Teach you the principles of account
- Teach you how accounts of various organizations are prepared.

Course Objectives

To achieve the aims set out above, the course sets overall objectives. In addition each Units also has specific objectives. The unit objectives are always included at the beginning of a unit; you should read them before you start working through the unit.

You may want to refer to them during your progress. You should always look at the unit objectives after completing a unit. In this way you can be sure that you have done what was required of you by the unit.

Set out below are the wider objectives of the course as a whole. By meeting these objectives you should have achieved the aims of the course as a whole.

On successful completion of the course, you should be able to:

- I. explain the different methods for the collection of data for final accounts from incomplete records.
2. prepare manufacturing accounts.
3. prepare the accounts of non-trading organizations.

4. explain and prepare bill of exchange accounts.
5. prepare joint venture accounts.
6. explain consignment goods on sales or return.
7. prepare royalties accounts.

Working through this course

To complete the course you are required to read the study units, read set books i.e. further readings and read other materials provided by the NOUN. You will also need to undertake practical exercises for which you need access to established cooperative unions or societies. Each unit contains self assessment exercise and also you are expected to submit assignments for assessment purpose. At the end of the course there is a final examination. The course should take you about 42 weeks in total to complete. Below you will find listed components of the course, what you have to do and how you should allocate your time to each unit in order to complete the course successfully on time.

Course Materials

Major components of the course are:

1. Course Guide
2. Study Units
3. Textbooks
4. Assignment File
5. Practical field work

In addition, you must obtain the set books (textbooks). These are not provided by NOUN, obtaining them is your own responsibilities. You may contact your tutor if you have problems in obtaining the required textbooks.

Study Units

- | | |
|---------|---|
| Unit 1 | Incomplete Records |
| Unit 2 | Adjustment before preparing final accounts |
| Unit 3 | Adjustment Treatment in account I |
| Unit 4 | Adjustment Treatment in account II |
| Unit 5 | Manufacturing account I |
| Unit 6 | Manufacturing account II |
| Unit 7 | Account of non-trading concern I |
| Unit 8 | Account of non-trading concern II |
| Unit 9 | Account of non-trading concern- Peculiar items I |
| Unit 10 | Account of non-trading concern - Peculiar item II |
| Unit II | Account of non-trading concern III |
| Unit 12 | Account of non-trading concern IV |
| Unit 13 | Bills of enhancing instrument of credit I |

Unit 14	Bills of enhancing instrument of credit II
Unit 15	Bills of enhancing instrument of credit III
Unit 16	Bills of enhancing instrument of credit IV
Unit 17	Bills of enhancing instrument of credit V
Unit 18	Joint Venture accounts
Unit 19	Joint Venture accounting treatment I
Unit 20	Joint Venture accounting treatment II
Unit 21	Concepts of Consignment
Unit 22	Important terms in consignment account
Unit 23	Consignment account I
Unit 24	Account Treatment (Books of consignment)
Unit 25	Consignment account II (Unsold stock)
Unit 26	Consignment account III (Unsold stock)
Unit 27	Consignment account IV (Loss of goods)
Unit 28	Consignment account V (Price)
Unit 29	Consignment account VI (Loading)
Unit 30	Royalties accounts I
Unit 31	Royalties accounts II

The first units concentrate on incomplete account i.e. -uncompleted records. The next three units on Adjustment and the Treatments in account, the next two units on manufacturing accounts while the next six units deals with account of non-trading organization, the next five units on bills of exchange, the next three units is on joint venture account, the next seven units on consignment account and finally the last two units is on royalties account.

The course is divided into 6 modules consisting of about 5 or 6 units. Each study module consist of about three to four weeks work and includes specific objectives, direction of study, reading materials commentaries and readings in set books from other sources. additional materials and summaries of key issues. The units direct you to work on exercises related to the required readings. Each exercise questions is based on the materials you have just covered. Together with tutor marked assignments, these exercises will assist you in achieving the stated learning objectives of the individual units and the course.

Set textbooks

You are advice to acquire the following books and any other that could assist you.

Frankwood - Business Accounting 1 & 2

O..M. Oyinlola - principles of Account, Made Simple

Assignment File

The assignment file will be posted to you in due course. In this file you will find all the details of the work you must submit to your tutor for marking. The marks you obtain for these assignments has a bearing with the final mark you obtain from this course.

There will be five assignments in this course. The five course assignments may cover any area of the course.

Presentation Schedule

The presentation schedule include in your course materials gives you the important dates for the year for completion of tutor-marked assignments and attending tutorials. Remember, you are required to submit all your assignments by the due date. You should guard against falling behind in your work.

Assessment

Assignment	40%
Examination	60%

Examination:

The final examination will be of three hours duration and have a value of 60% of the total course grade. Te examination will consist of questions which reflecting the types in the exercises and tutor-marked assignment you have previously encountered. All area of the course will be assessed.

BHM 657: PRINCIPLES OF ACCOUNTING

COURSE DEVELOPMENT

Course Developer

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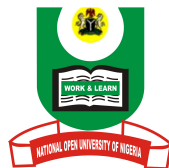
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NATIONAL OPEN UNIVERSITY OF NIGERIA

INCOMPLETE RECORD

Table of Content	
1.0	Introduction
2.0	Objective
3.1	Incomplete Records
3.2	Disadvantages
4.0	Conclusion
5.0	Summary
6.0	Further Reading
7.0	Tutor-Marked Assignment

1.0 INTRODUCTION

It is very essential for all transactions of every business unit to be kept in proper records. This is common and traditionally presented in double entry. However, this is not always the case especially in small business units that employ incompetent book-keepers to man the recording of the business activities. What is common to such is keeping the records by entering the transactions once only-single entry. As a result, some items of transaction may be missing. This therefore brings about incomplete records.

AFTER STUDYING THIS UNIT YOU SHOULD BE ABLE TO

- Explain the term incomplete record:
- Explain the different methods of collecting data for preparation of Final account from incomplete records
- Prepare final account of enterprises from incomplete records.

3.1 INCOMPLETE RECORDS

The implication of an incomplete record therefore is lack of proper record-keeping, profits is rarely shown, total sales figure and even total purchases figure may be missing. The profit can, thus be calculated if the opening capital and the closing capital are known. As peculiar to small scale business, profit realised is usually ploughed back which will in turn increase the capital base.

For instance, if the opening capital is ₦5,000 and the closing capital reads ₦ 6, 250 (assuming that there is no drawing). The profit generated for the period in question will be calculated as thus:

	₦
Closing Capital	6250
Less Opening Capital	5000

Now, lets assume that there is a drawing of ₦350. The net profit will be calculated as:

₦	₦
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Closing Capital		6250	
Add Drawings	350		6600
Less Opening Capital			<u>5000</u>
Net profit			1660

Illustration 1:

The book-keeper of Garba Mini Market had the following details as at 31st December, 1990 and 31st December, 1991.

	Dec. 31, 1990		Dec. 31, 1991	
	₦		₦	
Delivery Van	2000		1700	
Furniture & Fittings		350		315
Stock		2946		3000
Debtors		3794		4500
Cash & Bank		5411		6800
Rent Payment		119		-
Creditors		4000		3995
Outstanding Insurance		120		50
Drawings		-		500

You are required to ascertain the net profit realized within the business periods

N.B: The statement showing the financial position, which is prepared base on single entry is called a statement of affairs. If it is prepared on the basis of double entry, then it will be called a balance sheet.

Solution:

Statement of affairs of Garba Mini Market

Capital (Difference)	₦	10500	Fixed Assets	₦	
			Delivery Van		2000
			Furniture & Fittings	<u>350</u>	
					2350
Current Liabilities			Current Assets		
Creditors		4000	Stock		2946
Outstanding Insurance	<u>120</u>	4120	Debtors		3794
			Cash & Bank		5411
			Rent Prepayment	119	
					<u>12,270</u>
		<u>₦ 14,620</u>			<u>₦14,620</u>

Statement of affairs as at 31st Dec., 1991

Capital	₦	10500	Fixed Assets	₦	
Add: Net Profit		2270	Delivery Van		2000
		<u>12770</u>	Less pror. For Dep.	<u>300</u>	1700

Less Drawings	500	Furniture & Fittings	350	
	12270	Less pror. For Dep.	<u>35</u>	<u>315</u>
				2015
Current Liabilities		Current Assets		
Creditors	3995	Stock	3000	
Outstanding	4045	Debtors	4500	
Insurance	<u>50</u>	Cash & Bank	6800	<u>14300</u>
	<u>₦16315</u>			<u>₦16315</u>

The closing capital ₦12270 in the statement in the statement of affairs as at 31st December, 1991 is derived by deducting current liabilities from total assets. To get the net profit therefore, the following formula is adopted.

$$\begin{aligned} \text{Opening capital} + \text{profit} - \text{drawing} &= \text{closing capital} \\ \text{By making the profit a subject of formula, it gives this} \\ \text{Profit} &= \text{Closing Capital} + \text{Drawing} - \text{Opening Capital} \\ &= \text{₦12,270} + 500 - 10,500 = \text{₦ 270.} \end{aligned}$$

Generally speaking, this method of ascertaining profit is adopted if and only if there is inadequate information to prepare the trading, profit and loss accounts where this is available the method of calculating profit may be unsatisfactory for it will be more preferable to locate the profit through the preparation of profit and loss account. To do this therefore, requires that all the missing figures relating to the profit or loss should be found. This is usually done by drawing up the account for such missing items. For instance, in case where the sales figure and purchases figure are missing, the two can be located by drawing up the total debtors and total creditors control account respectively. Once all related items have been considered, the balancing figure in the creditors control a/c will request the credit purchases. If there are cash sales, the cash sales figure will be in the sales a/c to arrive at the total sales made during the period. The same things are applicable to the purchase a/c when there are cash purchases. The amount of individual expenses will be prepared as well, where necessary.

Exercise

Taiwo Owolabi started business on 1 April, 1983 with the sum of ₦ 8000 which he paid into bank A/C. In the first three months of the trading year ended 30 June, 1983. The following transactions took place.

- i) The sum of N 10000 was borrowed from the Rosy Lam Society on a long term mortgage. The money was paid into the bank immediately.
- ii) Free hold premises costing N16000 were bought by cheque.
- iii) Purchase of stock-in-trade were made on credit totalling N6960
- iv) Credit sales were N7,100
- v) Payment by cheque were as follows:

	₦
Furniture & Fittings	900
Rate & Insurance	284
Alteration to premises	92
Salaries	290
Private expense	600
Trade credits	<u>4400</u>
	<u>6566</u>

- iv) Receipts from trade debtors paid into the bank week -N6240

Required:

- (a) Calculate the amount of Taiwo Owolabi's
(1) Capital expenditures
(2) Revenue expenditures
For the quarter ended 30 June, 1983

(b)

- (1) The gross profit
(2) The cost of goods sold for the quarter ended 30 June, 1983. If Owolabi adds 25% to his purchases price to ascertain his selling prices. .

(c)

- (2) Bank balance
(2) Fixed Assets
(3) Current Asset
(4) Current liabilities at 30 June 1983

4.0 CONCLUSION

The lack of proper record-keeping which result to many important figure missing in the record like purchase figure missing, rarely showing of profit as a result of an inexperience book-keeper resulted to the provision of an incomplete record.

5.0 SUMMARY

Financial record keeping by an inexperience book-keeper i.e. single entry book keeping is known as an incomplete record. In this type of record profit is rarely shown, total sales figure and even total purchases may be missing.

6.0 FURTHER READING

Frankwood -Business Accounting I & 2

O..M. Oyinlola -principles of Account, Made Simple

7.0 TUTOR-MARKED ASSIGNMENT

Emmy Super stores have its book prepared in single entry and because of the fact that some items of transactions are missing. The book is assessed as incomplete record. The Proprietor therefore, wished the book to be converted into double entry and the final accounts to be prepared at the end of the year. The summary of its Cash and Bank transactions.

UNIT 2

ADJUSTMENT BEFORE PREPARING FINAL ACCOUNTS I

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3.1	Prepayment
3.2	Accruals
3.2.1	Accrued Income
3.2.2	Income received in advance
3.3	Bad Debt
3.3.1	Bad Debt recovered
3.4	Discount
3.4.1	Discount allowed
3.4.2	Discount receivable
4.0	Conclusion
5.0	Summary
6.0	Further Reading
7.0	Tutor-Marked Assignment

1.0 INTRODUCTION

In preparing the final accounts i.e. trading profit and loss Accounts and balance sheet that shows a meaningful operational and financial position of a business of an organization, some adjustment have to be made. The adjustments may be in respect of prepayment, accruals, bad debts, discount and depreciation.

In this unit, you will learn about all this adjustments. Because of the importance of these adjustments, the study of how to make this adjustment before preparing the final accounts is very important.

This is the second unit of this course and it covers a period of one hour.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- Explain what prepayment, accruals, bad debt and discount and be able to make adjustments for them.
- Distinguish accruals from prepayment.
- Identify discount payable and receivable.
- Explain accruals income.

3.1 Prepayment

The term prepayment is used to denote any expenses which has been paid for in advance. That is the expenses have been paid but the benefit of the payments are usually made for expenses like insurance, rents and rates, wages and salaries etc.

If on the other hand, a payment made now is for the benefit enjoyed in the prior period such a payment is regarded as payment in arrears.

3.2 Accruals

Any expenses that is due for payment but which remains unpaid is called an accrual or accrued expenses.

It is thus a liability which needs to be settled within one year (i.e. current liability).

The fact that an expense is due but it has not been paid does not means that it should not be charged against the profit of the year in which it is due.

If this is not done, it implies that the matching concept has not been exercised and so the profit would be overstated in the light of this, the accrued has to be added to the expenses paid to determine the amount of the expense to be transferred to the profit and loss account for the year .

3.2.1 Accrued Income

An accrued income is that which is due for collection but which has not be received. For example, if a building is let out on monthly basis and after the last day of the month the rent due is not yet received, the rent receivable will be classified as accrued rent income.

However, an accrued income is an asset which should have a debt entry. In short, when there is an accrued accounting entry is to debit the accrued income account and credit the income account.

3.2.2 Income Receive Advance

Just as organization or individuals pays in advance, so they at times, receive in advance. The income received in advance may be termed prepaid income. It is thus a liability because benefit enjoyed is one for which the service for the income received has not been provided. The prepaid income is therefore a liability. To enter any prepaid income that occurs in the book of account debit the income account and credit the prepaid income account.

3.3 **Bad Debt**

A debt is regarded as being bad if the debtor for one reason or the other can no longer settle his debt. In other words, if the debtor is declared insolvent or bankrupt and so, the debt becomes irrecoverable, then such a debt is referred to as a bad debt. Specifically, bad debts may occur in the situations of death, bankruptcy and sometimes incapacitation. An outstanding debt may either be partly or entirely bad. It is partly bad when part of it is recovered and the balance is not. It is entirely bad when the whole of the debt is irrecoverable.

Whenever a debt is declared bad, there is a need to close the debtors account by writing off the debt.

3.3.1 **Bad Debt Recovered**

Sometimes a debt which had been written off may become recoverable some years later. When the debt is now settled, it is called a bad debt recovered. When such a situation arises, the best way of recording the bad debt recovered is by debiting cash account and crediting the bad debt recovered account then the value of the bad debt recovered would be transferred to the credit side of the profit and loss account as revenue thus closing the bad debt recovered account.

3.4 **Discount**

This is an inducement offered by a creditor to debtors to pay promptly (cash discount).

- A deduction from the selling price of an article generally allowed by a wholesaler to a retailer, that is, trade discount.
- With reference to bill of exchange, to discount a bill means to acquire it by purchase for a sum less than its face value, the amount of this discount depending partly on the length of the unexpired term of the bill and partly on the amount of risk involved.
- When a recently issued stock falls below its issued price, it is said to stand at a discount.

3.4.1 **Discount Allowed**

Discount allowed is an incentive given to encourage the debtors to settle their account or debts promptly. On the other hand, the provision for discounts allowed is the amount set aside from the profit to cater for the discounts allowed in case the need to give such discounts arises.

However, the major reason behind the creation of the provision for discounts allowed is similar to that behind creating provision for bad debts. No wonder the accounting treatments of the two are closely similar.

3.4.2 **Discount Receivable**

Discount received is a rebate from a supplier when he is paid within a stipulated period. If it is envisaged that discount will be received from a supplier as a result of the credit purchase made now, then a provision would be for discounts receivable (i.e. discounts on creditors). However, such a provision is regarded as an asset because a certain amount of money is estimated to be received in future. Thus, unlike the other provision earlier discussed, the provision is then credited in the profit and loss account for the year in which it is made because it increases the profit.

Exercise:

- Distinguish between Discount allowed and Discount Receivable.
- What is Bad debt?
- Distinguish between Accruals and prepayment.

(d) What is an Accrual Income?

4.0 CONCLUSION

In this second unit of the course you have learned about the importance of adjustments in preparing trading profit and loss account and the balance sheet without which a true and fair position of an organization financial position can not be know.

You have also learned about the concept of accruals and prepayment. Discount allowed and discount receivable and bad debt which must all be adjusted for before preparing the final accounts.

5.0 SUMMARY

In this unit we have dealt with the adjustment necessary before the preparation of final accounts which the future and fair position of the organization can not be ascertain. We have also learned about the concepts of accruals, prepayment, discount payable and receivable.

6.0 FURTHER READINGS

- Frankwood -Business Accounting I & 2
- Book-keeping & Accounts made Simple
- O..M. Oyinlola -principles of Account, Made Simple

7.0 TUTOR-MARKED ASSIGNMENTS

In 1993 Ogga Limited paid total rent of ₦35,000, made up of ₦ 2,000 for 1992 and ₦ 3,000 for 1994. You are also informed that ₦ 4,000 is still outstanding for the current year while ₦ 5000 was prepaid last year toward the current year.

Required

Show by calculation, the amount of expenses that will be debited to profit and loss account

UNIT 3

ADJUSTMENT BEFORE PREPARING FINAL ACCOUNTS II

Table of Content	
1.0	Introduction
2.0	Objective
3.1	Prepayments
3.2	Accruals
3.3	Bad Debt
4.0	Conclusion
5.0	Summary
6.0	Further Reading
7.0	Tutor-Marked Assignment

1.0 INTRODUCTION

In unit two you learnt about the necessary adjustments needed to be made before preparing the final accounts. Having understood all these adjustments and the reasons why the adjustments were made, there is the need for you to know how to treat these adjustments in the book of account.

In this unit, you will learn how these adjustments are treated in the book of account. That is when to debit and credit an account and why the accounts are credited or debited in respect of prepayment, accruals and bad debts.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Explain Prepayment, Accruals and Bad Debts.
- Record in the above in the Journal proper and the Ledger.

3.1 PREPAYMENTS

The term prepayment is used to denote any expense which has been paid for in advance. That is, the expenses have been paid but the benefit of the payment has not been enjoyed. Prepayments are usually made for expense like insurance, rent and rates, wages and salaries, such a payment as a payment in arrears.

When prepayment is made for an expense:

Debit prepaid Expenses A/C	}	with the amount of prepayment
Credit Expenses A/C		

When the actual expense due for a period is transferred to the profit and loss account:

Debit Profit & Loss A/C	}	with the balance transferred
Credit Expenses A/C		

The above method of treating prepayment is regarded as separate accounts methods because there are separate accounts for both the expenses and prepaid expense (asset). There is however, a mixed account method where the accounting treatment is made for an expense and prepaid expense on a single account.

3.2 ACCRUALS

The fact that an expense is due for payment but it has not been paid does not mean that it should be charged against the profit of the year in which it is due. If this is not done, it implies that the matching concept has not been exercised and so, the profit would be overstated. In the light of this, the accruals have to be added to expense paid to determine the amount of the expense to be transfer to the profit and loss account for the year.

Summarily, the accounting treatment for accruals is:

When expense is paid for:

Debit the expenses A/C } with the amount paid
 Credit the Cash bank A/C }

When accruals arises:

Debit the expense A/C } with the amount of the accrued
 Credit accrued expenses A/C }

When the actual balance of the expense due for the year is transferred to the profit and loss account:

Debit Profit & Loss A/C } with the amount transferred
 Credit Expense A/C }

3.3 BAD DEBT

Whenever a debt is declared bad, there is a need to close the debtor's account by writing off the debt. This is done by debiting the bad debt account and crediting the debtor's account. At the end of the period, the bad debt total would be transferred to the debt side of the profit and loss account as a loss incurred during the year in which the bad debt occurs.

Illustration I :

On January 1, 1992, the debt balance of the account of Kunle in the book of Yemisi was ₦3990. Kunle left the country and it was decided that his account be written off as bad debt at the end of the year .

Write up the necessary accounts in the book of Yemisi, using the above information

Solution :

Kunle A/C

1992	₦	1992	₦
Jan 1 Balance b/f	3900	Dec 31 Bad debt	3900
	=====		=====

Bad Debt A/C

1992	₦	1992	₦
Dec 31 Kunle	3900	Dec 31 P&L A/C	3900

=====

Profit & Loss A/C (Extract)

=====

1992 Bad Debts	3900.
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Bad Debts Recovered

Of course the method illustrated in unit 1 for dealing with the above is good but the better way of recording the event is by first re-instating the bad debt recovered in the concerned debtor's account. This is necessary in order to have the detailed history of the debtor's account as a guide for granting further credits in future.

The summary of the steps involved in recording a bad debts recovered especially when it occurs some years after the occurrence of the bad debt, is shown below.

Debit Debtors A/C

Credit Bad Debts Recovered A/C (to re-instate the debt recovered in the debtors A/C)

Debit Cash A/C

Credit Debtor's A/C (when cash is received from the debtor)

Debit Bad Debt Recovered A/C

Credit Profit & Loss A/C (to close the balance of the P & L A/C at the end of the year)

This therefore indicate that necessary accounts involved when bad debts are recovered are: Debtor's A/C, Bad Debt's A/C, cash A/c, Bad Debts Recovered A/C and the P & L A/C. Sometime, sales A/C may be prepared especially when the sales transaction takes place in the year under consideration.

However, the recoverability of a bad debt may be in the year within which the debt is written off. This calls for different accounting treatments.

Illustration 2:

When a bad debt is recovered some years later, Adeniyi started a new period on January 1, 1980 with a debit balance of ₦5820 on the account of Tokunbo. On February 8, Tokunbo paid ₦3500 he made before he was declared insolvent. His account was therefore written at the end of the year . On June 15, 1981, Tokunbo restores properly his business and paid the balance which was formerly written off his account. Enter the transactions above in the above years 1980 and 1981.

Solution:

In the book of Adeniyi:

Tokunbo A/C

1980		1980	
	₦		₦
Jan 1 Balance b/f	5820	Dec 3	Bad debt 3500
Dec 31 Bad Debts	2320		
	5820		
	=====		
			5820
			=====
1981			
1981		1981	
	₦		₦

June Bad debts recovered	2320	June 15 Cash	2320
	<u>=====</u>		<u>=====</u>

Cash A/C

1980	N		
Feb 8 Tokunbo	3500		
1981			
June 15 Tokunbo	2320		

Bad Debt A/C

1980	N	1980	N
Dec 31 Tokunbo	2320	Dec 31 P & L A/C	2320
	<u>=====</u>		<u>=====</u>

Bad Debts Recovered A/C

1981	N	1981	N
Dec 3 I P & L A/C	2320	June 15 Tokunbo	2320
	<u>=====</u>		<u>=====</u>

Profit & Loss A/C

1981	N	1981	N
1980 Bad Debts	2320	1981 Bad debts recovered	2320

Illustration 3:

When bad debt is recovered during the year, it is written off.

The book of K. Balogun showed a balance of –N 1270 on the account of Taiwo on January 1, 1990. The account was entirely written off as bad debt on August 20. On 25th December, Taiwo settle his account by issuing cheque.

Enter the above in the necessary ledger accounts of K. Balogun at the end of the year. 1990.

Solution:

Taiwo A/C

1990	N	1990	N
Jan 1 Balance b/f	1,270	Aug 20 Bad debt	1270
	<u>=====</u>		<u>=====</u>
Dec 25 Bal debts	1270	Dec 25 Bank	1270
	<u>=====</u>		<u>=====</u>

Bad Debt A/C

1990	N	1990	N
Aug 20 Taiwo	1270	Dec 25 Taiwo	1270
	<u>=====</u>		<u>=====</u>

Profit & Loss A/C

1990 Dec 25 Taiwo	₦ 1270		1990 ₦
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Explanatory Note:

Bad debts recovered account is not opened because the bad debts account had not been closed to the profit and loss account by the time the bad debt was recovered. Similarly, bad debts account was not closed to profit and loss account because the debt was not recovered on December 25th while the profit & loss account is to be drawn on 31st December.

The treatment is merely to reverse the entries made in the bad debts account and the debtors account.

Illustration 4

When a bad debt is recovered with an interest received. From the bad debt that occurred in the previous year, ₦2,150 was recovered including an interest of ₦50 on July 4, 1992.

Record the above detail in:

- (a) The journal proper
 - (b) The necessary ledger account at the end of the year
- Solution:

The Journal Proper

Date	Particulars	F.L	DR	CR	
1992 July 4	Debtors A/C Dr To bad Debt recovered A/C To Interest Income A/C (Being the bad debt recovered with interest)			2,150	2,100 50
	Cash A/C Dr To Debtors A/C Being the Cash received from Debtor			2150	2,150
Dec. 4	Bad debts recovered A/C Interest Income A/C To profit and loss A/C the interest income transferred to the P & L A/C			₦ 2100 50 2,150	₦ Being the
	<i>Debtor A/C</i>				

bad debt recovered and

1992	₦	1992	₦
July Bank debt recovered	2100	July 4 Cash	2,150
“Interest Income	<u>50</u>		
	<u>2,150</u>		<u>2,150</u>

Bad Debts Recovered A/C

1992	₦	1992	₦
Dec' 31 Profit & Loss A/C	<u>2100</u>	July 4 Debtors	<u>2,100</u>

Interest Income A/C

1992	₦	1992	₦
Dec' 31 Profit & Loss A/C	<u>50</u>	July 4 Debtors	<u>50</u>

Profit and Loss A/C

		₦
	Bad Debts recovered	2 100
	Interest income	50

Exercise

The outstanding balance on the debtor's account in the book of Adeniyi motors Ltd, as at 1st January, 1996 was ₦ 59,630. Abbey who was one of the debtors, owing ₦ 7,000 paid ₦2810 cash on February 3,1996. Abbey died in a plane-crash and his debts was completely written off on March 31, 1996.

As at December 31, 1996 the total amount taken from the debtors read ₦45,280.

Required

- Journalise the above details
- Write up the necessary ledger account for the year 1996
- Show the extract of a balance sheet as at 31st December, 1996.

4.0 Conclusions

Prepayments, Accruals and Bad debts are an integral part of account which must be understood before advancing in account, without which understanding the principle of account will be very difficult.

5.0 Summary

Prepayments are payments made now for the benefit to be enjoyed tomorrow such payments are regarded as payments in arrears, while Accruals are expenses that are due for payment now but which remains unpaid, these are called accruals or accrued expenses. Bad debts is regarded as being bad if the debtor for one reason or the other refused to settle his debts.

In account, prepayment is deducted from the payment concerned in the profit and loss account and added to the current assets in the balance sheet, accrual is an expenses in P & L account which is added to the expenses concerned and shown in the balance sheet as a current liability. Bad debt is treated in the same way as accrual in the profit and loss account and the balance sheet.

6.0 **Further Readings**

Frankwood: Business Accounting I & 2
O. M. Oyinlola Principle of Account Made Simple

TUTOR MARKED ASSIGNMENT

7.0 Deborah owed Lek-Bay Ventures an amount of ₦ 2000 on 1st January 1998, on June 10, she paid 1,000 not, discount allowed was ₦ 50. On 15th June, Deborah left the country and her account was written off as bad debt. On February 20th, the following year, Deborah returned and settled her outstanding debt;

Required

Journalise the above details and post to ledger. (Re- instate the bad debt recovered in the debtor's account).

UNIT 4

ADJUSTMENT TREATMENTS IN ACCOUNT II

Table of Content	
1.0	Introduction
2.0	Objective
3.1	Discount
3.1.1	Discount Allowed
3.1.2	Discount Receivable
3.2	Provision for Discounts Allowed
3.3	Provision for Discounts Receivable
4.0	Conclusion
5.0	Summary
6.0	Tutor-Marked Assignment

1.0 INTRODUCTION

In Unit 3 you studied, prepayment accrual and bad debt and how they are treated in account. In this unit you will learn about Discount, Discount allowed and Discount Receivable and their accounting treatment.

2.0 OBJECTIVE

After studying this unit you should be able to:

- explain what is meant by discount, discount allowed and discount receivable and their provision.
- Record discount allowed and discount received in the book of account.

3.1 DISCOUNT

This is an inducement offered by a creditor to a debtor to pay promptly or buy in Large quantity. That is the debtor being encouraged to buy more because of the reduced price.

3.1.1 DISCOUNT ALLOWED

This is the discount given to our customer i.e. our debtors for buying more (buying in quantity) or pay in on time (paying promptly). This is an expenses in the profit and loss account.

3.1.2 DISCOUNT RECEIVABLE

This is the discount given to us by our supplier for paying them on time or buying in larger quantity. This is an income in the profit and loss account and it is thus debt to the P & L account.

3.2 PROVISION FOR DISCOUNTS ALLOWED

Discount allowed is an incentive given to encourage the debtors to settle their debts promptly. On the other hand, the provision for discounts allowed is the amount set aside from the profit to cater for the discount allowed in case the need to give such discount arises. However, the major reason behind the creation of the provision for bad debts. No wonder, the accounting treatments of the two are closely similar. As it is done with the provision for bad debts, two methods can be used to treat the provision for discounts allowed on debtors.

Note that the value of the discount allowed is calculated on the total debtor's loss bad debt that occurred and the discount allowed in a particular period. ,

Illustration 1 :

On January I, 1984, the provision for discount allowed account had a balance of ₦ 500. During the year, the total discount allowed amounted to ₦ 390. On 31st December, the balance on the debtors account stood at N15,000 and on the date, a provision for discount allowed was decided to be created at 2%.

Write up from the above:

- (a) Provision for discount allowed account
- (b) Discount allowed account
- (c) Profit and loss account (extract)
- (d) Balance sheet (extract)

Solution:

Provision for Discount allowed A/C

1984		1984	
	₦		₦
Dec 31 P & L (Decrease)	200	Jan 1 Balance b/f	500
Balance c/d	<u>300</u>		<u>500</u>
	<u>₦ 500</u>		<u>₦ 500</u>
		1985	
		Jan 1 Balance b/d	300

Discount Allowed A/C

1993		1993	
	₦		₦
Dec 31 Debtors	390	Dec 31 Profit & Loss A/C	390

Profit & Loss A/C (Extract)

	₦		₦
Discount Allowed	390	Pro. For disc. Allowed (decr)	200

Balance Sheet Extract A/C

	₦		₦
Dec 31 Debtors	390	Current Assets	
		Debtors	15000
		Less Prov. For disc allowed	<u>300</u> 14700

Note:

That if there is a provision for bad debts at the end of the period, it must also be deducted from the debtor's in the balance sheet.

3.3 PROVISION FOR THE DISCOUNTS RECEIVABLE

Discounts received is a rebate received from a supplier when he is paid within a stipulated period.. If it is envisaged that discount will be received from a supplier as a result of the credit purchase made now, then a provision would be made for discount receivable (i.e. discounts on creditors). However, such a provision is regarded as an asset because a certain amount of money is estimated to be received in future. Thus, unlike the other provisions earlier discussed, the provision for discount receivable accounts has a debit balance. This same provision is then credited in the profit and loss account for the year in which it is made because it increases the profit.

Illustration 2:

On January 1, 1993, Bajepade has the balance of ₦240 on his provision for discounts receivable account. During the year, the amount of the discounts actually received was ₦5000. At the end of the year, the creditors was valued at ₦20,000. It was decided that the provision for the discounts receivable be maintained at 2% on sundry creditors.

Required:

Write up all necessary ledger accounts at the end of the year using the above information.

Solution in the books of Bajepade:

Provision for Discounts Receivable A/C

1993	₦	1993	₦
Jan 1 Balance b/f	240	Dec 31 Balance c/d	400
Dec 31 A/C (Increase)	<u>160</u>		<u>=====</u>
	400		
	<u>=====</u>		
1994			
Jan 1 Balance b/f	400		

Provision for Discount allowed A/C

Dec 31 P & L A/C	₦	Dec 31 Creditors	₦
	560		560

Profit & Loss A/C (Extract)

	₦
Pro. For disc. Receivable (Incr)	160
Discounts received	560

Balance Sheet (Extract)

	₦	₦	₦
Current Liabilities			
Creditors	20,000		
Less Provision for			
Discount receivable	400	19600	

Exercise:

What is the difference between the provision for discount allowed and the provision for the discounts receivable?

4.0 CONCLUSION

Provision for discount allowed is the benefits allowed to debtors which is a loss to the business and it is debited to profit and loss account while provision for discounts received is an income i.e. deducted from total debt to be paid by the business. It credited to profit and loss account.

5.0 SUMMARY

In this unit, we have successfully explained what discount, discount receivable, discount allowed and their provision meet to a business; and their accounting treatment. Discount received on creditors is an income to the profit & Loss account while discount allowable on debtors is an expense to the firm and are thus debited to the profit and loss account.

6.0 FURTHER READINGS

Frankwood: Business Accounting I & 2

O. M. Oyinlola Principle of Account Made Simple

7.0 TUTOR-MARKED ASSIGNMENT

A firm maintain provision for discount on debtors at 2 ½ %. It also maintains a reserve for discounts on creditors at 2%. From the following particulars, write up the provision accounts: Balances on the 1st January 1990: provision for discounts allowed ₦500: provision for discount received ₦800. During the year, discount allowed and received were ₦300 and ₦450 respectively. The balances of debtors and creditors at the end of the year were ₦15,000 and ₦12,000 respectively.

UNIT 5

MANUFACTURING ACCOUNTS I

Table of Content	
1.0	Introduction
2.0	Objective
3.1	Manufacturing Accounts
3.2	Summary of the Analysis
3.3	Illustration 1
3.4	Illustration 2
3.5	Storing manufacturing goods at market value
4.0	Conclusion
5.0	Summary
6.0	Further Reading
7.0	Tutor-Marked Assignment

1.0 INTRODUCTION

The significance of the final accounts of a business can not be overlooked in that the main purpose of a business is to make profit and so the operational results and their functional position of business is best disclosed via the final accounts. However, the final accounts which have been treated so far i.e. in your 1st semester (introduction to accounting) are those of a trading company which only buys and resells goods. There are some other businesses whose activity is to manufacture and then sell the goods so produced. The final accounts of such a manufacturing company have an inclusion of manufacturing account.

2.0 OBJECTIVES

After studying this unit you should be able to:

- Distinguish between manufacturing account and the trading account.
- Understand the terms used in manufacturing account, trading account and the balance sheet for a manufacturing concern.
- Prepare manufacturing Account, trading Account and balance Sheet for a manufacturing concern.

3.1 MANUFACTURING ACCOUNT

The manufacturing account simply put is the account employed to show the cost of goods manufactured. The account gives the analysis of the costs in terms of the prime cost, factory overhead expenses and total manufacturing or production cost. Components of the prime cost are: direct materials, direct wages and discount expenses.

- Direct materials cost is the cost of raw materials that can be traced directly to the goods manufactured. To compute the cost of raw materials consumed, in the production process; the following items need to be considered
 - (a) opening stock of raw materials
 - (b) purchase of raw materials
 - (c) carriage inward of raw materials
 - (d) returns outward of raw materials (if any)
 - (e) materials rejected or used in another production time (if any)

- cost of raw materials consumed is calculated this:
- $a + b + c + d - e - f$

The calculation follows the procedure involved in calculating the cost of goods sold in the trading accounting of trading business.

- * Direct wages is the cost of labour which can be directly identified with the production. The wages paid to a machine operative is a direct wage for this is traceable to the goods manufactures. This is unlike the remuneration of a factory supervisor or factory cleaner which are indirect expenses. .
 - * Direct expenses are those identifiable with particular units of production.
- (a) Cost of hiring a special plant or machine for production of a special order.
 - (b) Cost of chemical materials differing from direct raw materials.
 - (c) Royalties paid e.g. those paid to investor(s) for use of a patent in respect of goods produced.

The summation of the direct cost of materials wages and expenses (prime costs) does not give the total manufacturing cost. This is because there are some other costs incurred in the factory which can not be directly traced to the goods produced. These are termed the factory overhead expenses. The factory overhead expenses include remuneration of factory supervisor and factory manager, works power, factory rent and rate, lighting, depreciation of machinery installed in the factory, works interval transport, repairs to works. materials store keeping, cleaners wages and other indirect expenses relating to the factory. More often than not, at the end of a particular period, there will be a stock of partly completed goods. This is what is termed work-in-progress. The opening stock of . work-in-progress less than closing stock of work-in-progress gives the change in work-in-progress. The addition of the prime cost, factory overhead expenses and the change in work-in-progress gives the total manufacturing cost.

3.2 SUMMARY OF THE ANALYSIS

- Prime cost = Direct materials + Direct labour expenses
- Production or manufacturing cost = Prime cost + factory overhead expenses + work-in-progress

However, all these costs analysis are debited to the manufacturing account. When the total cost is ascertained, the manufacturing account is closed by transferring the cost to the trading account by debiting the trading account and crediting the manufacturing account with the production cost. Then, the trading, profit and loss account and the balance sheet of the company can be prepared in the usual form. Meanwhile. The operating expenses in the profit and loss account may be necessarily classified under:

- Administrative expenses including administrative and secretarial workers salaries, legal and accountancy charges, depreciation of office fixed assets, office rent and so on.
- Selling and distribution expenses, consisting of all expenses incurred in the course of selling the goods.
- Financial expenses comprising bank charges. interest on loan, discounting charges etc.

3.3 Illustration 1 :

Global manufacturing company produces plastic materials. The information below gives analysis of the costs incurred in the production of the month ended 31st October,1994.

	₹
Stock as at 1 st October 1994	
Raw materials	2400

Work in progress	800
Raw materials purchase	11600
Production wages	2000
Carriages inward on raw materials	400
Royalty	1100
Other manufacturing expenses	300
Factory rent & rates	600
Factory power 240	
Stock as at 31/10/94	
Raw materials	1800
Work in progress	560

Additional information:

- (i) The company hired plant at a cost of ₦ 1000
- (ii) The existing machinery valued ₦ 12000 is to be depreciated at 10% per annum.

You are required to prepare the manufacturing account of the company as at 31st October 1994.

Solution to illustration I:

In the book of Global manufacturing company

<i>Global Manufacturing Company</i>			
Manufacturing Account for the month ended 31/10/94			
Opening stock of Raw materials	₦	2400	₦ ₦
			Production cost

Add Purchase of Raw materials	1600	of finished goods	18,180
Less: Carriages inward on raw materials	<u>400</u>		
			<u>1200</u>
Cost of Raw Materials available			14400
Less Closing Stock of raw material			<u>1800</u>
Cost of Raw Material Consumed			12600
Production wages			2000
DIRECT EXPENSES:			
Cost of plant hiring	1000		
Royalty	1100		
Other manufacturing expenses	<u>300</u>		
Prime Cost			<u>2,400</u>
			17000
FACTORY OVERHEAD EXPENSES:			
Depreciation: Machinery	100		
Rent & rates	600		
Power	240	940	
			17940
Opening Stock for W.I.P	800		
Less Closing stock of W.I.P	560		
Change in stock of W.I.P			<u>240</u>
Production cost of finished goods	18180		<u>18,180</u>

3.4 **Illustration 2:**

The book keepers of Textiles PLC had extracted a trial balance but had not prepared the manufacturing and other final accounts of the company before he fell sick. You are therefore approached to draw the final accounts of the company for the period.

The trial balance is as presented below:

	DR	CR
Stock as at 31/5/93		
Raw materials	9190	
Work in progress	5520	
Finished goods	2500	
Manufacturing wages	800	
Plant hiring Cost	400	
Raw Materials purchase	15770	
Carriages inward on raw materials	230	
Plant & Machinery (N6000 at cost)	5150	
Office Furniture- (1/6/93)	200	
Sundry expense (factory)	200	
Lighting	145	

Rent & rates	300	
Factory manager's salary	1200	
Administrative manager's salary	4000	
Sales Commission 350		
Loan from Niyi (10%)		3000
Bank Charges	100	
Discount received	280	
Discount Allowed 150		
Factory Power	220	
Carriage outward 185		
Sales		38990
Debtors	660	
Creditors		1800
Cash	7800	
Bank	1000	
Drawings	8000	
Capital 31/5/93		30,000
	<u>74070</u>	<u>74070</u>

Additional Information:

- 1) Closing stocks: Raw materials N8000, W.I.P N3536, Finished goods N2490.
- 2) Provide for depreciation on plant and machinery, and office furniture at 10% per annum on cost.
- 3) Apportion lighting expenses and rent and rates expenses in the following ratio: Factory 80%, Administrative 20%

Solution to illustration 2:

Textile PLC Manufacturing, Trading and P & L AIC as at 30/6/93

	N-	N		N
Opening Stock of Raw materials	9190		Production cost	
Add: Raw Materials purchase	15770		of finished goods .	
Carriages inward on raw materials	<u>230</u>		c/d	2240
Not purchase raw materials		16000		
Cost of raw materials available		25190		
Less closing stock of raw materials		<u>8000</u>		
Cost of raw materials consumed		17190		
Manufacturing wages		800		
Direct expense plant hiring		<u>400</u>		
Prime Cost		18390		
FACTORY OVERHEAD EXPENSES:				
Dep. Plant & machinery (note i)	50			
Lighting (note ii)	116			
Rent & rates (note iii)	240			
Sundry expense	200			
Manager's salary	1200			
Power	<u>220</u>			
		<u>2026</u>		
		20416		

Opening Stock of W,I,P	5520		
Less Closing Stock of W.I.P	<u>3536</u>		
Charge I Stock of W.I.P	<u>1984</u>		
Production cost of Finished goods	22,400		<u>22400</u>
Opening Stock of Finished goods	2500	Sales	
Add: Production cost of Finished goods	22400		
Cost of goods available for sale	24900		
Less CI Stock of Finished goods	2490		
Cost of goods sold	22410		
Gross profit c/d	16500		
	38990		

ADMINISTRATIVE EXPENSES:

Lighting (note i)	29	
Rent & rates (note ii)	60	
Dep. On office furniture	10	
Manager's salary	<u>4000</u>	
		4099

SELLING & DISTRIBUTION EXPENSES:

Sales Commission	350
Carriages Outward	185

FINANCIAL EXPENSES:

Interest on Loan	25	
Bank Charges	100	
Discounts Allowed	150	
		272

Total Operating expenses	4909		
Net profit		<u>11951</u>	
		<u>16860</u>	<u>16860</u>

Balance Sheet as at 30/6/93 .

N		N	
Capital	30000	Fixed Assets:	
Add: Net profit	<u>11951</u>	Plant & Mach.	600
	41951	Less Prov. For Dep.	<u>900</u>
Less Drawings	<u>8000</u>		5100
	33,951		

Long Term liabilities		Office furniture	1200	
Loan	3000	Less Prov. For Dep.	10	
Current liabilities				<u>1190</u>
Creditors	800	Current Assets:		6290
Accrued Loan Int.	<u>25</u>	Stock: Raw Mat.	8000	
	825	W.I.P	3536	
		Finished goods	2490	
		Debtor	660	
		Bank	10000	
		Cash	<u>7800</u>	
				<u>N32486</u>
	<u><u>N38,776</u></u>			<u><u>N38,776</u></u>

* Working Note:

- (i) Depreciation on plant & machinery = 10% of 6000 x $\frac{1}{2}$ 2 = N50
- (ii) Factory Lighting = 80% of 145 = N 116 Office lighting = 20% of 145 = N29
- (iii) Factory rent and rates = 80% of 300 = N29 Office rent and rates = 20% of 300 = N6

Go through these two illustrations carefully and if you have any problem contact your tutor via the University who will explain further to you.

3.5 STORING MANUFACTURING GOODS AT MARKET VALUE

Obviously, a company decide to be buying and selling goods instead of manufacturing and selling. But the main aim of profit maximization as encouraged some investors to engage in production activities. The idea is that if a company decides to produce certain items the production cost of such items may be less than the purchase price if the company is to buy them from Outside suppliers.

In order that the manufacturing account could show the profit realized in the course of production ~the manufactured of finished goods are usually transferred to store at the cost plus a mark up representing the profit realized by producing the items. This will have no effect on the net profit realized if on the other hand, the goods are transferred purely at cost.

The only effect of this system of recording is that the gross will be split into two, one in respect of the mark up, the other in respect of the trading.

Exercises:

- 1) What is prime cost?
- 2) Explain the difference between direct and indirect cost.

4.0 CONCLUSION

In this unit, you have learnt about manufacturing account, the important terms in manufacturing account like direct materials, principles, work-in-progress and how to calculate them.

You have also learnt about the preparation of manufacturing account. trading, profit and loss accounts and the balance sheet. You also learnt about storing manufacturing goods at the market price.

5.0 SUMMARY.

Prime Cost = Direct materials + Direct Labour + Direct Expenses

Production or Manufacturing Cost = Prime Cost + Factory overhead expense + work- in-progress

However, all these costs analyzed are debited to the manufacturing account when the total cost is ascertained, the manufacturing is closed by transferring the cost to the trading account by debiting the trading account and crediting the manufacturing accounting production cost. Then the trading, profit and loss account and the balance sheet of the company can be prepared in the usual form.

6.0 TUTOR-MARKED ASSIGNMENT

The following particular were extracted from the final account of Kupson Nig. Ltd for the year ended 31st Dec. 1983.

	₦
Stock raw materials, 1 st Jan 1983	5568
Stock raw materials 31 st Dec 1983	4642
Purchase raw materials	19752
Sales of finished goods	49400
Stock of finished goods Ist Jan 1983	
Valued at selling price	6574
Stock of finished goods 31 st Dec 1983	
Valued at selling price	5890
Factory power	212
Factory heat and light	68
Factory rent and rates	1680
Factory wages	1570
Gross profit for the year)	10206
Net profit for the year	3740
Capital	1700

Required:

From the above figures given:

- (1) The turnover for the year
- (2) The cost of raw materials used during the year
- (3) The cost production of goods manufactures during the year
- (4) The percentage of the net profit on capital
- (5) The value at selling price of goods manufactured during the year

UNIT 6

MANUFACTURING ACCOUNTS II

Table of Content

1.0	Introduction
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3.1	Cost of Raw Materials
3.2	Cost of conversion
3.3	Some important points
3.3.1	Scrap
3.3.2	Work-in-progress
3.3.3	Stock of finished goods
4.0	Conclusion
5.0	Summary
6.0	Further Readings
7.0	Tutor-Marked Assignment

1.0 INTRODUCTION

In unit 5. you learnt about manufacturing account including the calculation of prime cost and production or manufacturing cost . In this unit you will learn further about manufacturing account and related important points.

In case of trading concerns, you can find out the cost of goods and the gross profit by preparing trading account. But a manufacturing concern has to first prepare another account called manufacturing account with the help of which it works out the cost of goods produced. The cost of goods produced is then transferred to the Trading Account for ascertaining the cost of goods sold and the gross profit. A manufacturing concern purchases raw materials from the market and converts them into finished goods for sale. The cost of goods produced thus includes two major cost; (i) cost of raw materials consumed and (ii) Cost of conversion.

2.0 OBJECTIVE

After studying this unit, you should be able to:

- * Prepare manufacturing account and calculate cost of goods produced.

3.1 COST OF RAW MATERIALS CONSUMED:

This represents the cost of raw material used in course of manufacturing which can be worked out by adjusting the opening and closing of raw materials. For example, a firm purchased raw materials worth ₦ 650,000 during 1997 and its stock of raw materials on January 1, 1987 opening stock was ₦70,000 and on December 31, 1987, the cost-of- raw materials consumed during 1987 will be worked out as follows:-

Opening stock of raw materials	70,000
Add: Purchase of Raw materials	<u>650,000</u>
	720,000
Less Closing stock of raw materials	<u>90,000</u>
Cost of raw materials consumed	630,000

The direct expenses incurred on the purchases of raw materials such as freight, import duty, dock, dues, cartage, import duty, also be included in the cost of raw materials consumed. But the usual practice is to show them separately on the debit side of the Manufacturing Account.

3.2 COST OF CONVERSION

This includes all expenses incurred in the factory such as wages paid to labour. Salaries of supervisory staff, factory rent and rates, motive power, repairs to plant and machinery, depreciation on plant and machinery etc. All these expenses are debited to the Manufacturing Account.

Look at the figure I for the T. Format of a Manufacturing Account.

Figure 1

Manufacturing Account of.....for the period ended.....

DR			CR		
Particulars	Amount	Amount	Particulars	Amount	Amount
To work –in Progress at the Beginning	₦	₦	By Sales of scrap	₦	₦
To raw materials Consumed: Opening stock of Raw materials Add purchases Of raw Materials Less closing Stock of raw Materials To carriage Inwards To freight Import duty, Dock dues etc To Manufacturing Wages To motive power To coal, gas & Water To oil and Grease To factory			By work-in- Progress at the end By cost of goods Produced (transfer To trading account)		

Lighting and Heating To factory Insurance To repairs to Factory building To repairs to plant & machinery To depreciation On factory Buildings To depreciation On plant & Machinery					
--	--	--	--	--	--

3.3 SOME IMPORTANT POINTS

3.3.1 SCRAP

The term 'Scrap' is used for waste materials coming out of the manufacturing process. Cutting of cloth in readymade garments factory and metal cutting in engineering factories are some examples of scrap. Any amount realised from the sale of scrap must be adjusted in the cost of goods produced. Hence, it is credited to the Manufacturing Account.

3.3.2 WORK-IN-PROGRESS :

It is quite likely that at the end of the year, there may be certain goods which are still in the process of manufacture. Such goods are called 'semi-finished goods' or 'work. in-progress'. There will always be some work.in-progress at the beginning as well as at the end of the accounting year. Their cost must be adjusted while working out the cost of goods produced. Hence, the opening work-in-progress is shown on debit side of the manufacturing account while the closing work-in-progress is shown on its credit side.

3.3.3 STOCK OF FINISHED GOODS

Besides the stock of raw materials and semi-finished goods every firm will have the stock of finished goods. This is to be adjusted in the cost of goods produced, Hence, it is not shown in the manufacturing account. As you learnt earlier, it will be shown in the trading account.

Exercise:

I. Distinguish between:

- (a) Cost of goods sold and cost of goods processed
- (b) Direct expenses and indirect expenses
- (c) Trading account and manufacturing account

2. Find out the cost of goods sold from the following figures extracted from the books of Allied Ltd. for the year 1987.

	₹
Stock (I: I: 1987)	50000
Purchases	1000000
Sales	1,500,000

Purchases Returned	50,000
Stock (31:1:1987)	70,000
Direct Expenses	60,000
Indirect Expenses	100,000
Answer: ₦	990,000

4.0 CONCLUSION :

You have learnt that a manufacturing concern has to prepare manufacturing account before preparing the trading and profit and loss account. Though considered desirable but many firms do not do so because it is not compulsory. You will also generally be asked to prepare only the trading account without preparing such manufacturing account. In such a situation you will show all items of manufacturing account in the trading account itself. In other words, cost of raw materials consumed, expense on purchases of raw materials, all manufacturing expense. the opening and closing work- in-progress, sale of scrap, etc will also be shown in the common practice i.e. the items like depreciation and repairs to plant and machinery and factory building will be shown in the profit and loss account and not in the trading account.

5.0 SUMMARY

The manufacturing concern may also prepare a manufacturing account for ascertaining the cost of goods produced which is then transferred to the trading account for ascertaining the cost of goods sold and the gross profit, this however is not compulsory.

Most manufacturing concern prepare trading account directly by showing all expenses incurred in the factory (including cost of raw materials consumed), in the trading account itself.

6.0 FURTHER READINGS

Frankwood: Business Accounting I & 2

O. M. Oyinlola Principle of Account Made Simple

7.0 TUTOR-MARKED ASSIGNMENT

Prepare manufacturing account from the following particulars relating to the year 1987.

	₦
Purchase of raw materials	100000
Stock on 1/1/1987	
Raw materials	10000
Work-in-progress	5000
Finished goods	25000
Factory wages	15000
Factory rent	5000
Fuel & Power	25000
Carriage inwards	1000
Repairs of plants	2000
Depreciation on plant	5000
Sale of scrap	500
Stock on 31/12/1987	
Raw materials	20000
Work-in-progress	7,500
Finished goods	30000

UNIT 7

ACCOUNTS OF NON- TRADING CONCERNS I

Table of Content	
1.0	Introduction
2.0	Objective
3.1	Accounting Records of non-trading organizations
3.2	Final Accounts
3.3	Receipts and Payments Account
4.0	Conclusion
5.0	Summary
6.0	Further Readings
7.0	Tutor-Marked Assignment

1.0 INTRODUCTION

The accounting system you have studied so far relates to the organization, which engages in some kinds of business activities. The accounting records are equally important for welfare organization, which may not be doing any business such as clubs, societies, educational institutions, hospitals etc. they are basically charitable organization which function without any profit motives. They are usually termed as non-trading concerns. Such organizations also have to keep proper records of their receipt and payment and match their expense with incomes. This is a legal.

2.0 OBJECTIVE

After studying this unit, you should be able to:

- * explain the accounting records maintained by non-trading concerns
- * prepare receipts and payment account

3.1 ACCOUNTING RECORDS OF NON-TRADING ORGANIZATIONS

The non-trading organizations like clubs, societies etc. differs from the trading organization in several respects. They normally do not indulge in buying and selling of goods and accepting or receiving bills of exchange. The major sources of their income usually are subscriptions from members; donations etc and most of their transaction are cash transactions. Hence, they need not maintain as many books of account as the trading organizations do. The main objective of keeping records in such organization is to meet the statutory requirement and exercise control over the utilization of funds. Hence, they usually maintain a cash book to record all receipts and payments (or separate cash receipt journal and cash payment journal to provide the necessary details) and other books like members register, minute book stock register, etc. You are fully conversant with cashbook. Let us have a brief idea about the other books.

- * **Members Register:** Most charitable institutions are organised as society which are registered with the registrar of societies. They are requires to keep full record of their subscribers (called members) Hence, they maintain a members register which show their names, addresses, date of admission.
- * **Minutes' books:** The societies function on the basis of decisions taken by the general body of members and their managing committee. They have to keep the proceedings of the meeting of general body and that of the managing committee. Minutes book is a permanent record of the decisions taken from time to time.
- * **Stock Register:** Every society possesses fixed assets like furniture office equipment etc they have to keep complete record of these items in-a register called 'stock register' which shows date of purchase, quantity purchased, and the amount at which purchased etc. Similarly, they also keep a stock register for consumable items like stationery, sport materials etc which in addition to the details of purchases will also show their consumption and balances. The non-trading organization also maintain ledger containing the account of all incomes expense, assets and liabilities. This facilitates the preparation of final accounts at the end of the accounting year.

3.2 FINAL ACCOUNTS

You know the final accounts usually consist of a profit and loss account and a balance sheet. In case of non-trading organizations however, this include: (i) Receipts and Payments Account (ii) Income & Expenditure Account, and (iii) balance Sheet.

You will notice that non-trading organization has to prepare a receipts and payments account in addition to the income & expenditure account (it is similar to profit and loss account) and the balance sheet. You know that the profit & loss account and the balance sheet are usually prepared with the help of trial balance. But in case of non-trading organization the practice is to prepare the income and expenditure account and the balance sheet straight from the receipts and payments account is very important for the non-trading concern and should be prepared very carefully. It does not mean however that the non-trading organization should not prepare the trial balance at all. In fact, if the organization has followed double entry system they must prepare a trial balance for checking the arithmetic accuracy of postings into ledger accounts. This would also help preparation of receipts and payments account.

3.3 RECEIPTS AND PAYMENTS ACCOUNT

While preparing the final accounts from incomplete records (in your previous studies) you had some idea of the receipts and payments account. So you know that it is simply a summary of cash bank transactions for the year. It gives full information about all receipts and payments under

different heads and prepared with the help of the cash book. The cash book contains a record of all receipts and payments in a chronological order but the receipts and payments account will simply show the total amount received or paid under each head. For example, a club receives subscribers from its members on different dates in a year. These are recorded in the cash book separately on those dates. But in receipts and payments account, the total amount of subscriptions received during the year will appear as one item on its debit side. Similarly, salaries paid to the staff will appear in cash book every month whereas the receipts and payments will simply show the total amount salaries paid during the year on its credit side. You will recall that the opening balance in receipts and payments account represents the cash and bank balances at the beginning of the year whereas the difference between the totals of the two sides reflects the closing cash and bank balances. Look at illustration I and see how receipts & payments account is prepared for a club.

Illustration 1 :

From the following information of lion club for the year ended Dec. 31 1987, prepare a receipt & payments account

DR		CR	
Particulars	Amount	Particulars	Amount
	₦		₦
Balances on 1/187		Lighting & Heating	4600
Cash in hand	600	Secretary's	
Cash at bank	6400	Honorarium	3700
20150		General Expense	20,150
Subscriptions		Life membership	
1986 -2400		Subscriptions	3000
1987 -36700		Furniture purchase	3000
1988- 300	39400	Wages	34,000
Restaurant and Bar		Balances on	
payment	100000	31/12/87	
Restaurant & Bar sales	120000	Cash in hand	500
Interest on investment	1050	Cash at bank	4500

Solution:

Receipts and Payments Accounts for the year ending December 31, 1987

DR

CR

Receipts	Amount	Payments	Amount
To balance b/d	₦		₦
Cash In hand 600		By Restaurant and Bar	100000
Cash at bank 6400	7000	By Wages	3400
To Annual Subscriptions		By Lighting & Heating	4600
1986 - 2400		By Secretary's Honorarium	3700
1987- 36700		By General Expenses	20150
1988- 300	39400		
To Restaurant & Bar sales	12,000		
Interest on investment	1,050		

To life membership subscriptions	3000	Furniture purchase)	3000
		balance c/d	
		Cash in hand 500	
		Cash at bank 4500	5000
	<u>₦170,450</u>		<u>₦170,450</u>

Main Features:

- (i) It is a real account
- (ii) It is a summary of cash book. All receipts are shown on the debit side and all payments on the credit side
- (iii) No distinction is made whether the payment has been made in cash or by cheque. In other words, cash and bank items are merged except in case of opening and closing balances.
- (iv) It includes all receipts and payments whether they are of revenue or capital nature.
- (v) It shows total receipt and total payment under each head irrespective of the year to which it relates. For example in illustration I subscriptions related to 1986 as well as 1988 have been included because the amount were actually received during 1987.
- (vi) The closing balance represents the cash and bank balances at the end of the year.

Exercise:

State whether the following statements are True or false.

- (a) The non-trading concerns mainly refer to welfare organizations which function without profit.
- (b) The major sources of income for non-trading concerns are subscription donation etc.
- (c) The main objective of keeping accounts for a non-trading concern is to find out its profit or loss.

4.0 CONCLUSION

The non-trading concerns like solicitors, clubs, educational institution, hospitals etc also maintain a proper record of their financial transactions. It is not only a legal requirement for all registered bodies. But it is also considered desirable for effective control of funds.

5.0 SUMMARY

The accounting records of the non-trading concerns are based on the same Principles as those applicable to trading concerns. However, the nature of their incomes and expenses is slightly different and most of their transactions are cash transaction. Hence, their main book of original entry is cash book. They also maintain ledger which shows all the concerned accounts.

6.0 FURTHER READINGS

Frankwood: Business Accounting 1 & 2

O. M. Oyinlola Principle of Account Made Simple

7.0 TUTOR-MARKED ASSIGNMENT

- (a) What is a member's register?
- (b) What do you understand by minute's book?
- (c) Explain what it meant by stock register
- (d) Explain what final account of a non trading concern consists of.



ACCOUNTS OF NON- TRADING CONCERNS II

Table of Content	
1.0	Introduction
2.0	Objective
3.1	Income and Expenditure Accounts
3.2	Difference between Receipts and payments Account and Income and
3.3	Expenditure
	Balance Sheet
4.0	Conclusion
5.0	Summary
6.0	Further Readings
7.0	Tutor-Marked Assignment

1.0 INTRODUCTION

In unit 7, you learnt about the accounting records of non-trading organization, final account of non-trading organization and the receipts and payments account of same. In this unit, you will learn about the income and expenditure account, the difference between receipts and payments account and income and expenditure account and the balance sheet of a non-trading organization.

2.0 OBJECTIVE

After studying this unit, you should be able to:

- * explain and prepare the income and expenditure account of a non-trading concern.
- * Explain the difference between receipt and payment account and the income and expenditure account.
- * Explain the balance sheet of a non-trading organization.

3.1 INCOME AND EXPENDITURE ACCOUNTS

The income and expenditure account serves the same purpose for non trading organization as the profit and loss account for a trading organization. It is also prepared exactly in the same manner as the profit and loss account i.e. all income are shown on the credit side and all expense and losses on the debit side. However, in case of non-trading concerns, the excess of income over expenses losses is not termed as profit. It is called Excess of Income over Expenditure or Surplus, in case of cooperative society, similarly the excesses of expense and losses over income is termed as Excess of Expenditure over Income or Deficiency.

As stated earlier, the income and expenditure account is prepared with the help of receipts and payments account and the additional information available. You know the income and expenditure account will show incomes and expenses only for the period to which it relates and that too on accrual basis. Hence, while taking figures from receipts and payments account, you will have to make the necessary adjustments. For example, if the amount of subscriptions received during 1987 includes ₦200 relating to 1986. It should be deducted for purposes of computing the income from subscriptions. Similarly, if certain amount of subscriptions relating to 1987 is still to be received (outstanding), it would not appear in the receipts and payments account. But, it has included in the income from subscriptions for 1989 and so added thereto. Another precaution you have to take relates to the distinction between capital and revenue items. In the income and expenditure account, you are to include only the revenue items, the capital items will be ignore. Then, you will also have to provide the necessary amount of depreciation on all fixed assets and make provisions for doubtful debts. The items do not appear in the receipts and payments account. Let us now list the steps to be followed for preparing the income and expenditure account from the receipts and payments account.

- Go through the receipts side for ascertaining all items of income and the payment side for all items of expenses and losses.
- Ignore opening and closing balances
- Ignore capital receipts and capital payments
- Ignore receipts and payment relating to the preceding and the following years. If however a receipt or payment includes any amount which relates to the preceding or the following year, the same should be deducted.
- Add the outstanding amounts to the respective items of income and expense.
- Provide for depreciation and doubtful debts if required.
- If any fixed asset has been sold during the year, complete the amount of profit or loss on such a sale and show the same in the income and expenditure account. Note that the sale of old sports materials is not to be regarded as sale of a fixed asset. The total amount received from such sale is an income.

Let us prepare the income and expenditure account from the receipts and payments account given in illustration 1.

Income & Expenditure Account for the year ending December 31, 1987

DR .

CR

Expenditure	Amount ₦	Income	Amount ₦
To Restaurant & Bar expense	100000	By Subscriptions	36900
To wages	34000	By Restaurant & Bar sales	120000
To lighting and heating	4600	By Interest on investment	1050
To secretary's Honorarium	3700	By excess of	
To general expenses	20150	Expenditure over income	4700
	₦162,450		₦162,450

You will observe that, in addition to opening and closing balances, the following items of receipts and payment have been ignored.

- * Annual subscriptions for 1986
- * Annual subscription for 1988
- * Life membership subscriptions (it is regarded as capital receipt)
- * Purchase of furniture

3.2 DIFFERENCE BETWEEN RECEIPTS AND PAYMENTS ACCOUNT AND INCOME AND EXPENDITURE-

While preparing the receipts and payments account and the Income and expenditure account, you must have noticed that they differ in many ways. The various points of difference can be summarized as follows:

<i>Receipts and Payment A/C</i>	<i>Income and Expenditure A/C</i>
* It is the summary of the cash book	It is like a profit and loss account.
* It is a real account and records cash transactions only	It is a nominal account and records cash as well as non-cash transaction. It is prepared on accrual basis.
* Includes opening cash and bank balances	Does not include the opening cash and bank balance.
* Also includes capital receipts and capital payments	Includes only the revenue items.
* Shows receipts on the debit side and payments on the credit side	Shows income on the credit side and expense the debit side.
* Includes items relating to preceding or succeeding year	Concerns only with the amounts related to the current year .
* Ignores the outstanding expenses and income	Includes all income and expenditure which are due but not received or paid.
* Does not include depreciation	Includes depreciation
* Closing balance represent cash in hand and cash at bank (or overdraft)	Closing balance represents surplus or deficiency of Income over expenditure.

3.3 BALANCE SHEET

The balance sheet of a non-trading organization is prepared in the same manner as that of the other organizations. It shows all assets and liabilities as at the end of the year in the usual way. However, the excess of assets over liabilities in their case is termed as Capital Fund or General Fund and not capital as in case of the trading concerns. The capital fund actually comprise the excess of income over expenditure and other incomes like life- membership fees, entrance fees,

etc which have been capitalized from time to time. Effectively it constitutes the capital of the institution. Sometimes you may also have to prepare the balance sheet as at the beginning. This is required mainly to ascertain the opening balance of capital fund. .

Exercise: List the steps you will follow in preparing the income and Expenditure Account from the Receipts and Payments Account.

4.0 CONCLUSION

The non-trading concerns like societies club, educational institutions, hospitals etc also maintain a proper record of their financial transactions. It is not only a legal requirement for all registered bodies. But it is also considered desirable for effective control of funds. The accounting records of the non-trading records are based on the same principles as those applicable to trading concerns. However, the nature of their income and expenses is slightly different and most of their transactions are cash transaction. Hence, their main book of original entry is cash book. They also maintain ledger which shows all the concerned accounts.

5.0 SUMMARY

The final accounts of non-trading organization consists of (i) receipts and payments accounts (ii) Income and expenditure accounts (iii) balance sheet. The receipts and payments account is simply a summary of all cash transactions relating to the accounting year which begins with the opening cash and bank balances and ends with their closing balances. The income and expenditure accounts on the other hand like profit & loss account, is prepared for ascertaining the surplus (excess of income over expenditure) or deficiency (excess of expenditure over income). The Balance Sheet is prepared in the usual manner which shows the assets and liabilities of the organization including the capital fund.

6.0 FURTHER READINGS

Frankwood: Business Accounting I & 2
 O. M. Oyinlola Principle of Account Made Simple
 L.Akinkuole. Book-keeping and Accountancy, Question and Answer

7.0 TUTOR-MARKED ASSIGNMENT

From the receipt and payment account given below, prepare the income and expenditure account for the year 1988.

DR

CR

Receipts	Amount ₦	Payments	Amount ₦
To Balances b/d		By Salaries paid	12400
Cash in hand	2000	By Additions to library	2700
Cash at bank	10000	By typewriter purchases	2600
To entrance fees	10400	By repairs	1000
To Subscriptions		By electric fittings	18000
1986 -6000		By printing and stationery	3800
1987- 26000		By miscellaneous expense	600
1988- 2000	34,000	By balance c/d	800
To sales of old newspaper	240	Cash in hand	1300
To rent of library hall	4160	Cash at bank	
To proceed from entertainment	12000		
To special subscriptions for Governor's party	6400		
	<u>₦79,200</u>		<u>₦79,200</u>

UNIT 9

SOME PECULIAR ITEMS IN ACCOUNT'S OF NON-TRADING ORGANIZATION

Table of Content

1.0	Introduction
2.0	Objective
3.1	Subscriptions
3.2	Donations
4.0	Conclusion
5.0	Summary
6.0	Further Readings
7.0	Tutor-Marked Assignment

1.0 INTRODUCTION (THIS UNIT MUST BE STUDIED WITH UNIT 10) .

You have learnt that the final accounts of non-trading concerns are prepared almost in the same manner as those of other. Of course, the nature of their incomes and expenditure is slightly different from those of the trading concerns. There are those of the trading concerns, there are a number of items which are peculiar to non-trading concerns and their treatment in final accounts need to be clarified. In this unit you will hear about two of those peculiar items i.e subscriptions and donations.

2.0 OBJECTIVE

(After studying this unit, you should be able to:

- * explain and record subscription in the final accounts.
- * explain donation and record it in the final account.

3.1 SUBSCRIPTIONS

In case of trading concerns the subscriptions refer to the annual charges paid for journals or for the membership of some organization and so are treated as an expenditure. But in case of non-trading concerns, subscriptions paid by their members are a source of income. They are first shown as a receipt in receipts and payment account and then as an income in the income and expenditure account. The receipts and payment accounts however shows the amount of subscriptions actually received during the current year. But the income and expenditure account include only that amount of subscriptions which relate to the current year, whether received or not. Let us clarify this point with the help of an example. A club received ₦10000 as subscriptions during 1988 of this, ₦200 relate to 1987 and ₦ 1000 to 1989 (received in advance). Then the subscriptions amount to ₦ 4000 relating to 1988 were still outstanding. In this case, the receipts and payments account will show a receipt of ₦ 10000 for subscriptions. But the Income and Expenditure account will show ₦ 11000 as income from subscription worked out as follows.

	N
Subscriptions Received	10000
Less Subscriptions relating to 1989 (Outstanding at the beginning)	<u>2000</u>
	8000
Less Subscriptions relating to 1989 (Received in advance)	<u>1000</u>
	7000
Add Subscriptions relating to 1988	

Not yet received (Outstanding at the end)	<u>4000</u>
Income from Subscription from 1988	<u>11000</u>

Thus you find that a number of adjustment have to be made to the amount of subscriptions received in order to work out the amount of income from subscriptions for the current year which is to be shown in the income and expenditure account.

ILLUSTRATION 1:

From the following, extract receipt & payments account and some additional information, compute the income from subscriptions from the year ended December 31, 1988 and show how subscription will be recorded in the final account.

Receipts and Payments Account (Extract)

Dr	CR
N Subscriptions	13500

Additional Information:

- i) Subscriptions outstanding on 31/12/87 ₦ 1000
- ii) Subscriptions outstanding on 31/12/88 ₦ 1250
- iii) Subscriptions received as on 31/12/87 ₦ 750
- iv) Subscriptions received in advance as on 31/12/88 ₦ 1050

Solution:

Income & Expenditure Account for year ended December 31, 1988

DR		CR
	N	N
	By Subscriptions	13500
	Add Subscriptions outstanding on 31/12/88	1250
	Add Subscriptions received as on 31/12/87	<u>750</u>
		15500
	Less Subscriptions Outstanding on 31/12/87 1000	14500
	Less Subscriptions received in advance as on 31/12/88	<u>1050</u>
		13450

Balance Sheet as on December 31, 1988

DR			CR
Liabilities	N	Assets	N
Less Subscriptions received in advance as on 31/12/88	1,050	Less Subscriptions outstanding on 31/12/88	1250

ILLUSTRATION 4

From the following ,extract receipts & payments account and the additional information given below, compute the amount of subscriptions and show how they would appear in the income and expenditure account for the year ended December 31, 1988 and the balance Sheet as at that date.

Additional Information

- i) Subscriptions outstanding on 31/12/87 ₦3500
- ii) Subscriptions outstanding on 31/12/88 ₦ 4700
- iii) Subscriptions received in advance as at 31/12/87 ₦ I 500

Solution:

Income & Expenditure Account for year ended December 31, 1988

DR			CR
	₦		₦
		By Subscriptions	12000
		Add Subscriptions outstanding on 31/12/88	4000
		Less Subscriptions received in advance as on 31/12/87	<u>15000</u>
			17500

Balance Sheet as at December 31, 1988

DR			CR
Liabilities	N	Assets	N
Less Subscriptions received in advance as on 31/12/88	2000	Less Subscriptions outstanding on 31/12/88	
		for 1987	700
		for 1988	<u>4000</u>
			4700

Note:

- i) Subscriptions received for the year 1988 are given separately in the receipts and payments account. The amount does not include any subscription received for previous year or next year so no adjustments need be made in respect thereof.
- ii) Subscription outstanding as at 31/12/88 amounts to ₦4,700. It includes ₦700 for subscriptions still outstanding for 1987. hence, the subscription outstanding for 1988 are taken as ₦4,700

3.4 DONATIONS

The charitable institutions often receive voluntary contributions from various sources. They are termed as donations and are a source of income for the institutions.

All donations are recorded on the receipt side of the receipt & payment account. But whether they will be shown as income and expenditure account or not depends upon whether the amount received for a specific purpose or is in the nature of general donations. If it is received for a specific purpose like construction of a building or giving prizes to sportsmen, it will not be shown in the income & expenditure account. It is taken to the Balance Sheet and shown on the liabilities side as an addition to the building fund or prizes fund, as the case may be. If however, it is a general donation of recurring nature and the amount received is small, it may be recorded as income in the income & expenditure account. But if the amount received is large and is of non-recurring nature, it may be capitalized and added directly to the capital fund (general fund) on the liabilities side of the balance sheet. The size and nature of the Institution will help you to decide whether the amount of general donation is small or big. In most of the cases the treatment may be clearly indicated in the question.

Exercise:

Select the most appropriate alternative.

- (a) Subscription received in advance are shown on the:
 - (i) Credit side of the income and expenditure account
 - (ii) Assets side of the balance sheet
 - (iv) Liabilities side of the balance sheet
- (b) Subscription due but not yet received are shown on the:
 - (i) On the liabilities side of the balance sheet
 - (ii) On the asset side of the balance sheet
 - (iii) On the credit side of the balance sheet -

4.0 CONCLUSION

There are a number of items which are peculiar to a non-trading organization these peculiar items are equally important to these organizations as they are paramount to preparing their annual final account.

5.0 SUMMARY

Certain items (peculiar items) need special care while preparing the final account of non-trading organization, these items includes subscriptions and donations which are dealt with in this unit. The remaining peculiar items shall be dealt with in the following units.

6.0 FURTHER READINGS

Frankwood: Business Accounting I & 2

0. M. Oyinlola Principle of Account Made Simple

As unit 9 and 10 must be studied together, please see i.e T.M.A of unit 21 (Relevant to both units)

UNIT 10

SOME PECULIAR ITEMS IN ACCOUNT'S OF NON-TRADING ORGANIZATION II

Table of Content	
1.0	Introduction
3.0	Objective
3.1	Entrance Fees
3.2	Life membership Fees
3.3	Legacies
3.4	Special Funds
3.5	Sale of old newspapers
3.6	Sport materials used
3.7	Honorarium
4.0	Conclusion
5.0	Summary
6.0	Further Readings
7.0	Tutor-Marked Assignment

1.0 INTRODUCTION

In unit 9, you learnt about donation and entrance fee, this unit you will be thought about entrance fee, membership fees, legacies, special funds, sale of old newspaper, sport materials used and honorarium. These are some of the peculiar items in accounts of non-trading organization. Note this unit must be read in conjunction with unit 20.

2.0 OBJECTIVE

After studying this unit, you should be able to:

- * explain the peculiar items in the account of non-trading organization and deal with the accounts proper.

3.1 **ENTRANCE FEES**

It is a common practice in clubs and societies to charge entrance fee (admission fees) from the new members at the time of their admission, It is usually treated as income and shown as such In the Income and expenditure account But some clubs charge exorbitant amount as entrance fee to limit admission of new members. In such a situation, It is argued that the entrance fees is in the nature of premium charged from new members towards the capital cost incurred on the establishment of the club by old members and therefore it should be capitalized. However, this argument is not applicable to educational institution in the absence of any specific instruction in the question the entrance fees should be treated as a routine income and shown on the credit side of the income and expenditure account. In case it is to be capitalized, it should be added straight to the capital fund as shown in the balance sheet.

3.2 **LIFE MEMBERSHIP FEES**

Certain institutions also provide for life members and charge fees from persons who opt for it. The amount of subscription received from them is termed as life membership fees and it is treated as capital receipt. In other words, the life membership fee is not shown in the income and expenditure account It is directly added to the capital, fund as shown in the balance sheet.

3.3 **LEGACIES**

Legacy denotes the amount (or property) received as per the will of the deceased donor. This type of donation is not a recurring phenomenon. It happens once in a while and the amount received is generally large. Hence, the practice is to capitalize it and show straight in the balance sheet. However, the small amounts of legacies received from time to time may be shown in the income and expenditure account.

3.4 **SPECIAL FUNDS.**

The institutions often create special fund for special purposes such as .Prize Fund, 'Sport Fund', etc. any income received on account of special fund investments should be added to the fund concerned. Similarly any expense incurred on such specific purpose should also be deducted from the special fund. These transactions are not shown in the income & expenditure account For example a club may maintain a special fund for meeting expenses on sports activities. In such a situation, the interest income on sports fund investments should be added to the sports fund and all expense on sport should be deducted there-from. The same thing is applicable to endowments created for specific purpose. But endowment may also represent a general fund. In that case, the income from endowment funds is treated as normal incomes and credited to the Income & expenditure account

3.5 **SALES OLD NEWSPAPERS**

The sale of old newspapers is of a recurring nature and is credited to the Income & expenditure account.

3.6 **SPORT MATERIALS USED**

In case of sports clubs, the expenditure on sports materials is a common item. But you know the materials purchased in accounting year may not be fully consumed. Some materials may still be in stock. Hence, to ascertain the exact amount of expenditure chargeable to the income and expenditure account of the year, you have to work out the amount of materials consumed by adjusting the opening and closing stock of such materials in their purchases. For example, sport club has an opening stock of sport materials amounting to ₹2000 on January 1, 1988. It purchased

sports materials for ₦ 8000 during the year and had a stock material worth ₦ 3000 on December 31, 1988. This means the club consumed sport materials amounting to ₦ 7000 during the year worked out as follows:

	₦
Sport materials consumed during 1988	
Opening stock	2000
Add purchase	<u>8000</u>
	10000
Less closing stocks	<u>3000</u>
	<u>7000</u>

The amount charged to the income and expenditure account for 1988 on account of sports materials will be ₦7,000. It is also possible that the club receives certain amount by selling the used sports materials like bats and balls. This will be an income of the club and should be credited to the income & expenditure account. You must remember that such income is not taken into account while working out the amount of sports materials consumed because such income arises out of the consumed materials themselves. Similar treatment may be adopted for ascertaining the amount of stationery and printing materials consumed by such organizations or tinned provisions consumed in the restaurant.

3.7 HONORARIUM

The Institutions often take the help of outsiders (who are not employees of the institutions) for some work of the organization. For example, inviting academicians or professional for special lectures or some artists to give performances. The amount paid to them for such services is termed as honorarium, which is shown as an expense in income and expenditure account. The remuneration paid to the secretary or treasurer may be termed as honorarium because they are not the employees of the organization.

Exercise:

From the following information, compute the amount to be debited to the income and expenditure account in respect of printing and stationery.

	₦
Opening stock	30000
Purchase of printing & stationery	50000
Closing stocks	20000

4.0 CONCLUSION

In this unit, you have learnt about a number of items which are peculiar to non- trading concerns and their treatment in final account, this items includes: entrance fees, life membership fees, legacies, sales of old newspapers, sport materials used and honorarium. You should keep what you learn about these items in your memory for further studies.

5.0 SUMMARY

The non-trading organization may prepare a trail balance, but the receipts & payments account constitute the major source for the preparation of income & expenditure and balance sheet. Certain items like subscriptions, entrance fees, donations, legacies, special funds etc need special care while preparing the final accounts of such organization.

6.0 FURTHER READINGS

Frankwood: Business Accounting I & 2

0. M. Oyinlola Principle of Account Made Simple

L.Akinkuole. Book-keeping and Accountancy, Question and Answer

7.0 TUTOR-MARKED ASSIGNMENT

From the following receipts and payments account of Rotary Club, prepare the income & expenditure account for the year ended December 31, 1988 and the balance sheet as at that date.

Receipts & Payments Account for the year ended December 31, 1988

DR	N	CR	N
To Balances on 1/188	10000	By expense	
To Subscriptions		1987- 1400	
1987 -380		1988 -2400	3400
1988 -2100		By household land	4000
1989 -150	2630	By interest paid	400
To entrance Fees	800	By refreshment	
To Locker rent	700	expenses	2000
To income from		By balance on	
refreshment	4000	31/2/88	8330
	N 18130		N18130
	<u> </u>		<u> </u>
<i>Balance Sheet as on December 31,1987</i>			
DR		CR	
Liabilities	N	Assets	N
Capital Fund	33620	Building	30000
Subscriptions		Subscriptions	
received in advance	600	outstanding	380
Outstanding expenses	1400	Outstanding locker	240
Loan	5000	rent	
		Cash in hand	10000
	N 40620		N 40620
	<u> </u>		<u> </u>
	<u> </u>		<u> </u>
<i>Adjustments:</i>			

- i) Expenses Outstanding as on31/12/88 were N 500
- ii) Subscription Outstanding on 31/12/88 were N 800
- iii) Salary due but not paid up to 31/12/88 were N 200
- iv) Depreciation of N2000 is to be charged on buildings
- v) Entrance fees are to be capitalized

UNIT 11

ACCOUNTS OF NON-TRADING ORGANIZATION III

Table of Content	
1.0	Introduction
2.0	Objective
3.1	Preparation of Income & Expenditure Account and Balance Sheet
3.2	Preparation of Receipts & Payments Account from Income & Expenditure Account
4.0	Conclusion
5.0	Summary
6.0	Further Readings
7.0	Tutor-Marked Assignment

1.0 INTRODUCTION

In unit 10, you learnt about the preparation of final accounts of non-trading concerns which consists the receipts & payment accounts, the income & expenditure account and the balance sheet. In most cases, you are given the receipts and payments account and you have to prepare the income & expenditure account and balance sheet. But, sometimes you are given the income & expenditure account with some additional information from which you have to prepare the receipts & payments account and the balance sheet. In some cases, you are given the receipts & payments account as well as the income & expenditure and you may be required to prepare the opening and closing balance sheet. In this unit, you will learn how the required statements are to be prepared from the given information.

2.0 OBJECTIVE

After studying this unit, you should be able to:

- * prepare income & expenditure account and balance sheet from a trial balance.
- * Prepare receipts & payments account from income & expenditure account.

3.1 PREPARATION OF INCOME & EXPENDITURE ACCOUNT AND BALANCE SHEET

You have learnt that the income & expenditure account and the balance sheet is usually prepared with the help of a receipts & payments account and some additional information. You have also learnt about the treatment of various items of income and expenditure which are peculiar to non-trading concerns. Look at illustration I. This will help you to revise the preparation of income & expenditure account and balance sheet from the receipts & payments account and additional information.

Illustration I :

From the following receipts & payments account and additional information supplied, prepare the final accounts of a club for the year ended December 31, 1988.

Receipts & Payments Account for the year ending December 31, 1988

	₦		₦
To Balances b/d	14000	By Tournament expenses	2200
Donation for building	16000	By Furniture purchased	4000
General donation	400	By Curtains	1600
Legacies	12000	By Crockery	800
Sale of old furniture (book value ₦ 160)	150	By Sport materials	2400
To Endowment fund	20000	By Salaries	2600
To Sale of newspaper	800	By Honorarium	5200
To Sale of old sport materials	160	By Charities	16000
To Advertisement in the		By Advertisements	500
		By Rent & taxes	2800

year book	3800	By Advances for construction of building	10000
To Proceeds of concerts	2400	Entertainment expenses	2900
To Subscription:		By Payment of creditors of last year	800
1987- 1200		By Electric installation expenses	6000
1988 -28000		By Library books	1600
1989- <u>1600</u>	30800	By Newspapers	2600
By Tournament fund	3000	By Postage	1400
		Bar purchases and expense	3200
		By 7% investment purchased on July 1. 1988	20000
		By Balance c/d	16910
	<u>₦ 103510</u>		<u>₦ 103510</u>
Additional Information:			

i)	Balance on December 3 I, 1988	
	Sport materials	200
	Bar Stock	240
	Postage	40
	Furniture	3160

- ii) Subscriptions outstanding on December 31, 1988 were ₦1400 and salaries outstanding on the same date were ₦100.
 iii) Salaries paid include ₦160 for 1987 and ₦20 for 1989.
 iv) Investment included investments out of building donations ₦16000.
 v) Furniture is to be depreciated by 10%.

<i>Income & Expenditure Account for the year ending December 31, 1988</i>			
DR			CR
	₦		₦
To loss on sale Furniture	10	General donation	400
To Salaries 2600		Sale of newspaper	800
Add Salaries Outstanding for 1988 <u>100</u>	2700	Sale of old sport materials	160
Less salaries Outstanding for 1987 160		Advertisement in the year book	3800
Less Salaries prepaid In 19888 20	2520	Proceeds of concerts	240
Honorarium	5200	Add Subscription outstanding for 1988 - 1400	29400
Charities	16000	By interest on investment (7% for 6 months on ₦ 40000)	140
Depreciation on furniture	700	By excess of expenditure over income	2650
Advertisements	500		
Rent & taxes	2800		
Entertainment expenses	2900		
Newspapers	2600		
Postage 140			
Less stock <u>40</u>	1360		
To Bar purchases 3200			
Less Bar stock <u>240</u>	2960		
To sport Materials 2400			
Less stock <u>200</u>	2200		
	<u>₦ 39750</u>		<u>₦39750</u>
	=====		=====

Balance Sheet as at December 31, 1988

DR		N	CR		N
Capital Fund	17400		Cash		
Less Excess of Expenditure over income	<u>2650</u>	14750	Furniture	7160	
Endowment fund		20000	Less Sale	<u>160</u>	
Building fund	1600			7000	
Add interest on investment from building fund	<u>560</u>	16500	Less Depreciation	700	6300
Legacies		12000	Crockery	—	800
Tournament fund	3000		Curtains	1600	
Less Tournament Expense	2200	800	Advance for construction of building	10000	
Subscriptions, received in advance		1600	Electric Installations	6000	
		100	Library Books	1600	
			Investments	20000	
			Stock of sport Materials		200
			Bar stock		240
			Postage		40
			Subscription Outstanding	1400	
			Salaries paid in Advance		20
			Interest accrued on Investment		700
Salaries Outstanding		<u>N 65810</u>			<u>N 65810</u>

Balance Sheet as at December 31, 1987

DR		N	CR		N
Creditor		800	Cash in hand		14000
Salary Outstanding		160	Subscription Outstanding		1200
Capital Fund			Furniture		3160
Less Excess		17400			

DR

CR

Repairs	N 1468	Subscriptions	N
Salaries & wages	4524	Received <u>21120</u>	
Rent and telephone	6388	Add Outstanding 500	21620
Fuel & Light	3236		
Sundries 3200			
Annual dinner	1520	Sale of tickets	6468
Entertainment	4380	sundry receipts	3486
Depreciation		Entrance fee	896
Furniture 500			
Billiard Table - <u>500</u>	1000		
Excess of income over expenditure	6754		
	<u>N32470</u>		<u>N32470</u>
	=====		=====
Balance Sheet of Allahabad Club as at December 31, 1987			
DR			CR

	N		N
Sundry Creditor	5200	Cash in hand	348
Capital Fund		Cash at bank	9600
Opening Balance 8000		Debtors	2340
Add Excess of income over expenditure <u>6754</u>	14754	Subscriptions Outstanding	500
		Furniture 5000	
		Less Depreciation <u>500</u>	4500
		Billiard Table 2500	
		Less Depreciation <u>500</u>	
		China glass & cutlery	666
	<u>N 19954</u>		<u>N 19954</u>
	=====		=====

3.2 PREPARATION OF RECEIPTS & PAYMENTS ACCOUNT FROM INCOME & EXPENDITURE

You have learnt that the receipts & payments account is the summary of cash book. It commences with the opening cash and bank balances, shows all receipts and payments made during the year, and ends with the closing cash and bank balances while recording the receipts and payments in this account, no distinction is made between capital and revenue items as both are to be included. Similarly, whether amount received or paid relates to the current year, the preceding years or the following year it is fully recorded in the receipts and payments account. You know it is prepared normally with the help of cash book and ledger (or the trial balance). But sometimes you may be asked additional information. In such a situation, you must remember that the income and expenditure account shows those items which are of revenue nature and records only such amounts which relates to the current year. The capital items and receipts and payments relating to the proceeding and the following years are to be excluded. Then, it also includes the amount of expense and incomes which are yet to be paid or received (outstanding). Hence, while calculating the amount of each receipt and payment on the basis of the respective income and expenditure as

given in the income and expenditure account, you will have to make necessary adjustments in their amounts. Let us clarify this with the help of an example. Suppose, the income and expenditure account for the year ending December 31, 1988 shows the income from subscriptions as ₦9000 which includes ₦800 for subscription outstanding at the end and ₦600 for subscriptions received in advance during 1987. It is also observed that during 1988 ₦ 700 was received for subscriptions relating to 1989 and ₦ 400 for subscriptions outstanding at the end of 1987. Now the amount on account of subscription during 1988 will be worked out as follows:

	₦
Income from subscriptions	9000
Less Outstanding at the end	<u>800</u>
	8200
Add Outstanding at the beginning	<u>400</u>
	8600
Less subs. Received in advance during 1987	<u>600</u>
	8000
Add Subs. Received in advance during 1988	<u>700</u>
	₦8700

Thus, you will notice that for calculating the amount of subscriptions received we make adjustments in the income from subscriptions which are just the reverse of what we would do while calculating the income from subscriptions with the help of the figure given in the receipts and payments account and the additional information. This applies to all items of receipts and payments.

Exercise:

- 1) The income & expenditure account shows an income from subscription at ₦20000, subscriptions accrued at the beginning of the year and at the end of the year were ₦ 2000 and ₦3000 respectively. The figure of the subscription received appearing in the receipts and payments account will be
 - (a) ₦ 2300
 - (b) ₦ 24000
 - (c) ₦ 22000

- 2) The Income and Expenditure Account shows salaries and wages at ₦24000 . salary paid for the previous year rounding to ₦2000 and outstanding for the current year amounted ₦3000. The amount of the salaries and wages shown in Receipts and payments Account will be.
 - a) N22,000
 - b) N24,000
 - c) N22,000

4.0 CONCLUSION

In this unit, you have learnt about the preparation of income & expenditure account and the balance sheet from a trial balance. And the preparation of receipts and payments account from income and expenditure account.

5.0 SUMMARY

In case of non-trading organization, we normally prepare the income and expenditure account and balance sheet from the receipts and payments account and other information. These statements can also be prepared from a trial balance if given. Sometimes however, the receipts and payments

account itself may have to be prepared from the income an expenditure account and other information. In such a situation, each item of receipt and payment will have to be worked out by making necessary adjustment in the respective incomes and expenses. The capital receipts and capital payments will also have to be found out and included in the receipts and closing payments account. The opening and closing balances of cash and bank may be taken from the opening and closing balance sheets.

6.0 FURTHER READINGS

Frankwood: Business Accounting I & 2

O. M. Oyinlola Principle of Account Made Simple

L. Akinkuole. Book-keeping and Accountancy, Question and Answer

7.0 TUTOR-MARKED ASSIGNMENT

The income and expenditure account of Lion's Club, Lagos for the year ended December 31, 1988 is given below

Income & Expenditure Account. for the year ending December 31, 1988

DR			CR
Income	Amount ₦	Expenditure	Amount ₦
To salaries	4000	By Subscriptions	7500
To general expense	1250	By entrance fees	500
To audit fees	250	By special	
To Secretary's allowance	1000	contribution for annual dinner	1000
To printing and stationery	450	By profit on special show.	500
To annual dinner expense	1200		
To interest and other charges	150		
To depreciation on sports equipment	300		
To excess of income over Expenses	900		
	₦9500		₦9500

The following adjustments were made while preparing the foregoing account.,

	N
Subscriptions outstanding on 1/1/88	500
Subscriptions outstanding on 31/12/88	250
Subscriptions received in advance as on 1/1/88	400
Subscriptions received in advance as on 31/12/88	600
Salaries outstanding on 1/1/88	500
Salaries outstanding on 1/1/88	300

Insurance prepaid (included in general expense) on 31/12/1988 was ₦100. The audit is for 1988 is still unpaid and the audit fee for 1987 amounting to ₦100 has been paid during 1988.

The Club owned Freehold premises valued at ₦10000. The Club also had sport equipment valued at ₦2500 as on 1/1/88. The sports equipment in stock as on 31/12/88 was for ₦2700. During 1988, the Club had taken a loan of ₦2000 from a bank which was unpaid till the end of the year. Cash in hand amounted to ₦31 00 at the end of the year .

Required:

Prepare the receipts and payments account for the year ended December 31, 1988 and the balance sheet as at the beginning and at the end of the year 1988.

Unit 12

Accounts of Non-Trading Organization IV

Table of Content	
1.0	Introduction
2.0	Objective
3.1	Preparation Balance Sheet from Receipts & Payments Account and Income & Expenditure Accounts
3.2	Final Accounts of Professionals
4.0	Conclusion
5.0	Summary
6.0	Further Readings
7.0	Tutor-Marked Assignment

1.0 INTRODUCTION

In unit 11, you learnt how the required statements are to be prepared from the given information. This unit (unit 12) intend to build on what you learnt in unit 11 i.e in addition you will also learn about the preparation of the final accounts of professionals like doctors, solicitors etc whose main job is to provide some personal services as consultants and not involved in trading of goods in this unit.

2.0 OBJECTIVE

After studying this unit, you should be able to:

- * prepare opening and closing balance sheets from Receipts & Payments and Income & Expenditure Accounts.
- * Prepare final accounts of professionals.

3.1 PREPARATION OF BALANCE SHEET FROM RECEIPTS & PAYMENTS ACCOUNT AND INCOME & EXPENDITURE ACCOUNTS

Sometimes, the receipts & payments account as well as the income & expenditure Account are given and you may be required to prepare the opening and closing balance sheets. In such a situation, you will have to ascertain the opening and closing balances of various items by making item-wise comparison of the receipts and payments account and income & expenditure account. This will help you mainly to ascertain the amounts of various outstanding and prepaid expense and income. As for the fixed assets, the opening balances are generally given under additional information. Their closing balances can be easily ascertained by taking into account the additions (and disposal, if any) made during the year as given in the Receipts & payments Account and after adjustment the amount of depreciation as given in the income & expenditure account.

3.2 FINAL ACCOUNTS OF PROFESSIONALS

The professionals like doctors, solicitors, etc whose main job is to provide personal service as consultants and not trading in goods, maintain books of account like a non-trading concern. They prepare their final accounts also in the same manner. The only difference relates to the Income and Expenditure Account which in case of professionals is term as receipts and payments account. It is so, because they account for their income on cash basis, though the expense are included on accrual basis. In other word, they take into account the outstanding expense but not the outstanding income. They adopt cash basis recording income on the ground that their debtors are of a very uncertain nature so that a fee may not be considered as earned until the cash is received, not only that the professional can not file suit for recovery of their fees.

There are two methods which can be adopted with regard to the outstanding fees of the professionals: (i) Ignore the amount of outstanding fees altogether i.e. do not include it in the incomes at all; or (ii) Include it first in the income as outstanding fee and then make provision for doubtful debts equal to 100% of this amount. The second method is considered better because the outstanding fees is duly brought into account. As for the balance sheet, the outstanding fees are shown on the assets side and 100% provision for doubtful debts is deducted there from thus reducing its amount to nil. Look at the illustration below and see how the final accounts of a professional are prepared.

Illustration:

Dr. Dapo Kupoluyi, a medical practitioner has furnished the following information for the year ended March 31, 1988. He requests you to ascertain his income for the year and also to prepare a balance sheet as on that date..

Balances	As on 1/4/87	As on 31/3/88
	N	N
Outstanding bills of patients	100	250
Provision for doubtful debts	100	250
Furniture	1200	1300
Equipment	3500	4600
Scooter	4000	3600
Stock of medicines	600	450
Supplier bill outstanding	200	500
Dispensary expenses unpaid	300	400

Receipts and Payments Account for the year ending March 31, 1988

DR

		CR	
		₦	₦
To Balance on b/d	300	By supplier bill paid	3200
To visiting fees	600	By Dispensary expenses	1600
To consultations fees	1000	By furniture purchased	150
To receipt from patents	9600	By Equipment purchased	1200
		By Scooter expenses	800
		By Private expenses	4000
		By Balance c/d	550

₦11,500

₦11,500

The scooter was used for private purposes also. Half of the expenses (including depreciation) on scooter is to be as professional expenses. Medicines costing ₦=50 were donated to refuge relief fund and medicines costing twenty Naira (=N=20) were used for private purposes.

Solution:

Receipts and Payments Account for the year ended March 31,1988

DR			CR
Cost medicines used	3580	=N=	Receipts from
Dispensary expenses	1700		Patents 9600
Depreciation			Add outstanding at
Furniture 50			The end 250
Equipment 100	150		Less Outstanding 9850
Scooters expenses	600		At the beginning 100 9750
Donation	50		Visiting fees
Provision for doubtful debts 250			Consultation fees
Less old provision 100 150			
Surplus(income) 5120			
	=N=11,350		=N=11,350
	=====		=====

<i>Balance Sheet as on March 31, 1988-</i>			
DR			CR
	₦		₦
Suppliers bill	600	Cash in hand	500
Outstanding	300	Outstanding bill of Patents 250	
Expenses outstanding 250		Doubtful debts 250	
Capital 9100 2000	Less prove. of		
Add Surplus 5120		Stock of medicine	450
14,220		Furniture	1300
Less Drawing 4620	9,600	Equipments	4600

	Scooter	3600
<u>₹=10,500</u>		<u>₹=10,500</u>

1. Working of medicines used :
 (a) Calculation of medicines purchased

DR	₹	CR
Cash received from Supplier	3200	Balance b/d 200
Balanced c/d	500	Purchases
	_____	(Balancing Figure) 3500
	<u>₹=3700</u>	_____
	<u>₹=3700</u>	<u>₹=3700</u>

(b) Calculation of cost of medicines used :

	₹=
Opening Stock	600
Add Purchases	3500
	<u>4100</u>
Less Closing	450
	<u>3,580</u>
Less Medicine donated 50	
Less Medicine used personally 20	70

	<u>3,580</u>

2. Calculation Dispensary expenses

	₹=
Paid	1600
Add Outstanding at the end	400
	<u>2000</u>
Less outstanding at the beginning	300
	<u>1700</u>

3. Calculation of Depreciation:

	<i>Furniture A/C</i>	
DR		CR
Balance b/d	N 1200	N 50
	Depreciation	

	(balancing figure)	
Cash (purchase)	1300	_____
	Balance c/d	
	=N=1350	=N=1350
	=====	=====

(b) **Equipments A/C**

DR			CR
Balance b/d	N 3500	Depreciation (Balancing figure)	N 100
Cash (Purchase) 1200		Balance c/d	4600
	N4700		N4700
4. Calculation of scooter expenses charged to Receipt and Expenditure Account			

	N	
Cash Expenses	800	
Add Depreciation (4000-3600)	<u>400</u>	1200
Less ½ for private use		<u>600</u>
Charged to Receipts and Expenditure account	<u>600</u>	

5. Provision for doubtful debts is to be equal to the outstanding bills of patients For N 250. Since the provision for doubtful debts are already N100 therefore, it has been raised to N 250 by creating additional provisions for N 150. The outstanding bills at the beginning are treated as received.

6. Calculation of opening capital:

Opening Balance Sheet

DR CR

Suppliers bill due	N 200	Cash in hand	N 300
Expenses unpaid capital	300	Outstanding bills of patients	100
(Balancing figure)	9100	Less prov. Of Doubtful debts	100
		Stock of medicines	600
		Furniture	1200
		Equipments	3500
		Scooter	4000
	<u>N 9600</u>		<u>N9600</u>

Exercise:

Dr. Iodine commenced practice an eye-specialist investing N25000 in equipment on January 1, 1987. the receipts and payments account for the year was as follows

Receipts and Payments Account

DR

CR

	N				N
Fees	50000	By	Rent	3000	
Miscellaneous receipts	100	By	Salaries to assistance	7500	
Equipment sold	2000	By	Journals	1000	
			By Library books	3000	
			By Equipment purchased	4000	
			By Drawings	12000	
			By Balance at bank	21500	
			Cash in hand	100	
	<u>N52,100</u>			<u>N52,100</u>	

=N=1500 of the fees was still outstanding. Equipment was sold and purchased on October 1, 1987; the cost of the equipment sold being =N=3000. Depreciation on equipment is 20% and on library book 5%. Salaries to assistant outstanding =N=1000.

Requires:

Prepare the Receipts and Expenditure A/C and balance sheet relating to 1987.

(Answer : Surplus =N=31,850; total of balance sheet =N=45,850).

4.0 Conclusion

In this unit, you have learnt about the preparation of balance sheet from receipts and payments and income & expenditure accounts and various illustrations were given.

5.0 Summary

In case of non-trading concern in some cases, the Receipts and Payments accounts as well as the income & expenditure account are given and the opening and closing balance sheets may have to be prepared . This would require a comparison of each item of Receipt and Payment with each respective item of Income and Expenditure so as to work out the outstanding amounts and the advance payments.

The professional like doctors, solicitors etc also keep their account records in the same manner as the non-trading concerns do. Of course, instead of Income and Expenditure Account they prepare the Receipt and Expenditure Account because the account for their professional fees on cash basis not on accrual basis as they do for expenses.

6.0 Further Readings

Frankwood: Business Accounting 1 & 2

O.M Oyilola Principle of Account Made Simple

L. Akinkuole. Book=keeping and Acoountancy, Question and Answer

7.0 Tutor-Marked Assignment

As at March 31, 1988 the following balance have been extracted from the books of the Ibadan Tennis Club ((Recreation Club) and you are asked to prepare (i) Trading Account for ascertaining gross profit derived from running bar & dinning room and (ii) Income & Expenditure Account for the year ended March 31, 1988 and (iii) A balance sheet as at March 31, 1988.

DR

CR

Income	Amount	Expenditure	Amount
	N		N
Stock in hand		Receipts- Bar	39150
Bar-(1/4/87)	90	Dinning Room	48510
Dinning Room (1/4/87)	1080	Subscriptions	9450
Purchase – Bar	24660	Billiard Receipt	7300
Dinning Room	32370	Sundry receipts	410
Rent	10470	Interest of fixed deposit	270
Wages	18690	Sundry creditors	5370
Repairs & renewal	5400	Grant from institute (permanent)	42000
Fuel & Light	5280	Income & Expenditure A/C (1/4/87)	1380
Misc.expenses	4050		
Cash in hand	560		
Cash at bank	2760		
Fixed Deposit	8500		
Sundry Debtors	2250		
China glass,Cutlery & Linen	600 2070		
Billiard Table	870		
Furniture	4140		
Club Premises	30000		
	<u>153,840</u>		<u>153,840</u>
<p>ON March 31 1988 stock of Bar and Dinning room are considered as =N=900 and =N=60 respectively. Provide depreciation =N=6- on fixture & Fittings, =N=390 on billiard table and =N=560 on furniture .</p>			

Answer: Excess of income over expenditure - =N=2950, Total of balance sheet =N=1700.

UNIT 13

TYPES OF INSTRUMENTS OF CREDIT

Table of content	
1.0	Introduction
2.0	Objective
3.1	Types of instruments of credit
3.2	Bill of exchange
3.3	Promissory note
3.4	Distinction between bill of exchange and promissory note
4.0	Terms and due date of a bill
5.0	Conclusion
6.0	Summary
7.0	Further readings Tutor marked assignment

1.0 INTRODUCTION:

In your previous unit you learnt about various subsidiary books commonly used in the business for recording certain transactions. The businessman can also maintain separate subsidiary books for the transactions relating to bills of exchange. But the number of such transaction is usually small and therefore one may prefer to record them in the Journal itself. In this unit, we shall first discuss the nature of various instruments of credit including bills of exchange and promissory notes.

2.0 OBJECTIVE

After studying this unit, you should be able to:

- ❖ Identify various instrument of credit.
- ❖ Define bill of exchange
- ❖ Define promissory note
- ❖ Distinguish between bill of exchange and promissory note.

3.1 TYPE OF INSTRUMENTS OF CREDIT

Selling goods on credit has become a very common phenomenon in business. The producer takes raw material on credit and supplies the finished goods to the wholesalers on credit. The wholesalers in turn provide the credit facilities to the retailers. The retailers also sell on credit to some of the ultimate consumers. Credit may also be granted by a money lender, a bank or a financial institution. Credit is generally provided by obtaining a written document called instrument of credit. This serves as a proof for existence of credit. The most commonly used instruments of credit are:

- i) Bills of Exchange
- ii) Promissory Notes and

3.2 BILL OF EXCHANGE

When a seller grants credit to his customers, he would like to have some written document from the buyer to pay the amount on a specified date, on otherwise the payment may not be made on time. Such a written undertaken generally takes the form of a bill of exchange or a promissory note. A bill of exchange is drawn by the seller (a creditor) on the buyer (a debtor) asking him to pay the specified amount after a specified period to him or his order, or to a person named in bill, according to the negotiable instrument Act 1882, a bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a person to pay a certain sum of money only to, or to the order of a certain person, or to the bearer of the instrument.

The above definition makes it clear that there are three parties to a bill of exchange. They are:

- ❖ Drawer: a person who draws the bill
- ❖ Drawee: a person who accepts the bill
- ❖ Payee: a person who is to receive the payment.

Suppose A Sells goods to B and draws on him a bill for N1000 for two months payable to C. In this example “A” is the drawer, “B” is the drawee and “C” is the payee. In most of the cases, however, the drawer himself is the payee, look at figure 1.1 for specimen of a bill of exchange. In this case Dapo draws a bill on Leke for two months for N1000 payable to himself.

Figure 1.1 Bill of Exchange

		Lagos August 1, 1987	
N1000			
<div style="border: 1px solid black; padding: 5px; display: inline-block;">Revenue Stamp</div>			
Two months after date pay to me or my order, The sum of One thousand Naira only, for Value received.			
To Leke Ibadan		K. Dapo Signature	

When the bill of exchange is drawn it is sent to the drawee for his acceptance. The drawee has to affix his signature across the bill as a mark of his acceptance and return it to the drawer. Thus, a bill of exchange has the following features

- ❖ It must be in writing
- ❖ It must contain an order
- ❖ The order must be unconditional
- ❖ It must be signed by the maker of the instrument.
- ❖ It is made by the creditor
- ❖ It must be for a specified amount and specified period
- ❖ It should be duly accepted by the debtor.

3.3 PROMISSORY NOTE

As stated earlier a written undertaken by the buyer to make payment on a specified date can take the form of a bill of exchange or as promissory note. You have learnt that a bill of exchange is drawn by the seller and accepted by the buyer. A promissory note, on the other hand, is written by the buyer promising the seller to pay a specified amount after a specified period to him, or his order. It can be defined as “An instrument in writing (not being a bank note or a currency note) containing an unconditional undertaking. Signed by the maker to pay a certain sum of money to, or to the order of a certain person, or to the bearer of the instrument . In case of a promissory not there are only two parties they are:

- ❖ Maker a person who makes the note and promises to pay the amount.
- ❖ Payee – a person who is to receive the amount.

Suppose A sells the goods to B and B writes a promissory note in favour of A. In this example B is the maker and A is the payee. You should note that no acceptance is required in case of a promissory note because it is made by the person who has to make the payment.

Look at figure 1.2 for the specimen of a promissory note. In this cases Leke promises to pay N1000 to Dapo.

Figure 1.2 Promissory Note

N1000	Lagos August 1, 1987
Revenue Stamp	
Two months after date I promise to pay Dapo or Order, the sum of One thousand Naira only for Value received.	
To Dapo Lagos	Leke Signature

Thus a promissory not has the following features:

- ❖ It must be in writing
- ❖ It must be an undertaken to pay
- ❖ The undertaken must be unconditional
- ❖ It must be signed by the maker of the instrument
- ❖ It is made by the debtor
- ❖ It must be for a specified amount and period

3.4 DISTINCTION BETWEEN BILL OF EXCHANGE AND PROMISSORY NOTE

Keeping in view the features of a bill of exchange and a promissory note, following distinctions can be made between the two:

BILL OF EXCHANGE	PROMISSORY NOTE
❖ It is an unconditional order to pay	It is an unconditional promise to pay
❖ It is made by the creditor	It is made by the debtor
❖ Acceptance by the debtor is necessary	No acceptance is required
❖ There are three parties to a Bill of exchange	There are only two parties to a Promising note
❖ When the bill is dishoured It is better to get it noted by the Notary public.	Noting is not necessary

A bill of exchange is a bill receivable (B/R) for the drawer or the payee and a bill payable (B/P) for the drawee. Similarly a promissory note is a bill receivable for the payee and a bill payable for the maker. A bill receivable is an asset for the business whereas a bill payable is a liability. For accounting purposes no distinction is made between bill of exchange and the promissory note.

3.5 TERM AND DUE DATE OF A BILL

A bill is generally written for a defined period of time say two months (60 days), three months (90 days). Etc. The period of a bill is called 'Term' or 'Tenor' of a bill, the date of which the bill falls due is called 'the due date' or the 'date of Maturity'. The due date is calculated by adding three days of grace to the actual period of the bill' for example, a bill drawn on April 1 for a period of three months will be come due for payment on July 4 (add three months and three days to April, you arrive at July 4th.

If the due date is a public holiday, the bill becomes due on the previous working day. In the above example, if July 4 were to be a public holiday, July 3 would be treated as the due date.

EXERCISES

1. State whether each of the following statement is true or false.
 - i. Bill of Exchange is drawn only when money is lent by money lender.
 - ii. Negotiable Instruments can be easily transferred to the third party.
 - iii) In case of a public holiday the due date falls on the next working day.
 - iv) Bill of exchange is an unconditional promise to pay.
 - v) For a bill drawn on April 1 for two months, the due date falls on June
 - (vi) Acceptance is necessary in case of a promissory note.
2. On January 1, Laxman draws on Ben a bill for three months for N500 payable to Paul. It is duly accepted by Ben and sent to Laxman. States the names of the drawer, drawee and the payee.

4.0 CONCLUSION

In this unit you have learnt about the types of instruments of credit, that is bill of exchange and promissory note and the term and due date of a bill, you also learnt about the distinction between a

bill of exchange and a promissory note. This unit is very important for your understanding of bill of exchange in Account.

5.0 SUMMARY

The Instrument of credit are mainly two the Bill of exchange which is an unconditional order in writing signed by the marker, directing a person to pay a certain sum of money to or to the order of a certain person or bearer. There are three parties to a bill, the drawer, the drawee and the payee. The drawer is the person that write the bill, the drawee is the person to pay and the payee is the person to receive payment. The second instrument of credit is the promissory note: This is an instrument in writing containing an unconditional undertaking, signed by the maker, to pay a certain sum of money to or to the order of a certain person or bearer. There are two parties to a promissory note:- The maker, a person who make the note and the payee: the person who receive money.

6.0 FURTHER READING

Frank wood: business accounting 1 and 2

O. M. Oyinlola: principle of account made simple.

7.0 TUTOR MARKED ASSIGNMENT

- (a) What is a bill of exchange
- (b) What are the distinction between bill of exchange and Promissory Note.

UNIT 14

BILL OF EXCHANGE

Table of content	
1.0	Introduction
2.0	Objective
3.1	Treatment of bill by the holder and its accounting
3.1.1	Retaining the bill
3.1.2	Discounting the bill
3.1.3	Endorsing the bill
3.2	Treatment of bill by the acceptor and its accounting
3.2.1	Dishonouring the bill
4.0	Conclusion
5.0	Summary
6.0	Further readings
7.0	Tutor marked assignment

1.0 INTRODUCTION

In unit 13, you have learnt about the types of instruments of credit i.e. Bill of exchange, promissory note, distinction between bill of exchange and promissory note and the terms and due date of a bill. In this unit, we shall first identify the type of transaction which usually take place in connection with bills and study how they are to be recorded in the books of various parties.

2.0 OBJECTIVE

After studying this unit, you should be able to:

- Record transaction relating to bills in the journal of drawer, drawee and endorse.

3.1 TREATMENT OF BILL BY THE HOLDER AND ITS ACCOUNTING

As pointed out earlier no distinction is made between a bill of exchange and a promissory note for accounting purpose when a bill or a promissory note is received by the person who is entitled to receive its payment, he becomes a holder of the bill. It is a bill receivable for him. He will pass the following journal entry in his book at the time of receiving the bill or promissory note drawn in his favour.

Bills Receivable A/C	DR
To Drawee	
(Being acceptance received from the drawee)	

The holder of the bill can deal with it in the following three ways:

- ❖ He may retain it till the date of maturity
- ❖ He may discount it with his banker and receive the amount less discount, immediately.
- ❖ He may endorse it in favour of his own creditor
- ❖ Let us now study what journal entries are to be passed in each case.

3.1.1 RETAINING THE BILL

When the holder of the bill decides to retain the bill till the date of maturity no further entry is required till that date. If on the date of maturity the bill is dis honoured he will pass the following entry.

Bank A/C	DR
To Bills Receivable A/C	
(Bill payment received)	

3.1.2 DISCOUNTING THE BILL

If the holder of the bill needs fund he can approach the bank for encashment of the bill before due date. The bank will make the payment of the bill after deducting some interest. The process of encashing the bill with the bank before the date of maturity is called discounting a bill' and the interest charged by bank is called 'discount'.

When a bill is discounted the holder of the bill (drawer) will pass the following journal entry in his books.

Bank A/C	DR
Discount A/C	DR
To Bill receivable A/C	
(Being bill discounted)	

On the date of maturity, payment of a discounted bill will be received by the bank and not by the drawer.

Hence, at the time of payment, the drawer will not pass any entry in his book.

3.1.3 ENDORSING THE BILL

When the holder of the bill endorses the bill to a third party, the bill is said to be endorsed. He is called the endorser and the party to whom it is endorsed is called endorses. At the time of

endorsement, the following journal entries will be passed in his books of the endorser and the endorsee.

Books of Drawer (Endorser)		Books of Endorsee	
(Creditor)	DR	Bills receivable A/C	DR
	To Bill Receivable A/C (Being bill endorsed)		To Endorser (Drawer) (Being bill received)

Endorsee

On the date of maturity, the payment will be received by the endorsee. Hence, at the time of payment the endorser will not pass any entry in his books. However endorsee will pass the following entry in his books.

Bank A/C	DR
To Bill Receivable A/C (Being payment received)	

3.2 TREATMENT OF BILL BY THE ACCEPTOR AND ITS ACCOUNTING

For the person who accept a bill of exchange or makes a promissory note, it is a bill payable. He will pass the following journal entry in his books when he accepts a bill or make a promissory note.

Drawer (Creditor)	DR
To Bills payable A/C (Being bill accepted)	

When a bill is discounted or endorsed by the holder of the bill, the drawee is not required to pass any entry in his books. He comes into picture only when the bill becomes due for payment, when he makes the payment on due date, he will pass the following journal entry in his book irrespective of the fact whether the bill is retained, discounted or endorsed.

Bills payable A/C	DR
To Bank A/C (Being bill paid)	

Look at illustration 1 and study how journal entries are passed in the books of various parties concerned with the bill.

ILLUSTRATION 1

On January 1, 1987 A sold to B goods worth N1500 on the same date he drew on B three bills for N600, N500 and N400 for one month, two months and three months respectively. B accepted all the three bills and sent them back to A. A retained the first bill discounted the second bill with the bank for N495 on January 5, and endorsed the third bill to C on January 6, on the due date B met his acceptances. Record the above transaction in the books of A, B and C.

SOLUTION
BOOK OF A (DRAWER)
JOURNAL

DATE 1987	PARTICULARS	L.F	DR AMOUNT	CR AMOUNT
Jan " 1	B To Sale A/C Dr (Being goods sold to B)		N 1500	N 1500
Jan 1	Bills Receivable A/C Dr To B (Being first bill received for one month)		600	600
Jan 1	Bills Receivable A/C Dr To B (Being second bill received for two months)		500	500
Jan 5	Bills Receivable A/C Dr To B (Being third bill received for three months)		400	400
Jan 5	Bank A/C Dr Discount A/C Dr To Bills Receivable A/C (Being second bill discounted)		495 5	500
Jan 6	C Dr To Bills Receivable A/C (Being third bill endorsed)		400	400

	to C)			
Jan 4	Bank A/C Dr To Bills Receivable A/C (Being first bill honoured on due)		600	600

**BOOK OF B (DRAWER)
JOURNAL**

DATE	PARTICULARS	L.F	DR	CR
1987 Jan 1	Purchase A/C Dr To A. (Being goods purchased on credit)		₹ 1500	₹ 1500
“ 1	A Dr To Bills payable A/C Being first bill accepted for One months)		600	600
“ 1	A DR To Bills Payable A/C (Being second bill accepted for two months)		500	500
“ 1	A Dr To Bills payable A/C (Being third bill accepted for three months)		400	400
Feb 4	Bills payable A/C Dr To Bank A/C (Being first bill honoured)		600	600
Mar. 4	Bills payable A/C Dr To Bank A/C (Being second bill honoured)		500	500
Apr. 4	Bills Payable A/C’ To Bank A/C Being third bill honoured		400	400

**BOOK OF C (ENDORSEE)
JOURNAL**

<u>DATE</u>	<u>PARTICULARS</u>	<u>L.F</u>	<u>DR AMOUNT</u>	<u>CR AMOUNT</u>
1987 Jan 6	Bill Receivable A/C Dr To A (Being a bill received from A)		400	400
Apr 4	Bank A/C To Bills Receivable A/C (Being bill honoured)		400	400

3.2.1 DISHONOURING THE BILL

When due to some reason the drawee (the person who has to make the payment) is not in a position to make the payment of the bill on the due date, the bill is said to be dishonoured. In such a situation the holder of the bill gets an endorsement from the Notary Public. The purpose of such notation is to establish the facts of presentation and the dishonour. The endorsement is done either on the bill or on a separate paper attached to the bill called 'allonge'. The holder of the bill has to pay a small charge for service of the Notary Public. It is called 'noting charges'. These noting charges are to be borne ultimately by the drawee. The journal entries for the dishonour of the bill and noting charges in the book of the drawer, drawee and the endorsee are as follows:

Books of Drawer	Books of Drawee	Books of Endorsee
(i) if the bill is retained Drawee <div style="text-align: right;">Dr</div> To Bill Receivable A/C To cash A/C (Being bill dishonoured and noting charges paid)	The drawee passes the Following entry in his Books irrespective Of the fact whether the Bill is retained, Discounted or endorsed. Bills payable A/C DR Noting charges A/C DR To Drawer (Being bill accepted dishonoured, nothing charges involved)	-
(ii) If the bill is discounted Drawee <div style="text-align: right;">Dr</div> To Bank A/C (Being discounted bill dishonoured) (Note: The amount will be inclusive of noting charges)		-
(iii) If the bill is endorsed Drawee <div style="text-align: right;">Dr</div> To Endorsee (Being endorsed bill dishonoured) (Note: The amount will be inclusive of noting charges)		Endorser DR To Bills Receivable A/C To cash A/C (Being bill dishonoured and noting charges paid)

If the drawee is declared Insolvent on or before the due date, the bill is deemed to have been dishonoured and all entries for dishonour will have to be passed in the books of the concerned parties as given above.

EXERCISE

1. What do you mean by discounting of a bill.
2. On January 1, 1988 a bill is drawn on Jack for N2000 payable after one month. State the Journal entries to be passed in the books of the drawer if:
 - (a) the bill is retained
 - (b) the bill is discounted with the bank for N1975
 - (c) the bill is endorsed to James

4.0 CONCLUSION

In this unit you have learnt about the treatment of bill by the holder and its accounting, retaining the bill, endorsing the bill, treatment of bill by the acceptor and its accounting, dishonouring bill and discounting the bill. All what you have learnt here is very important and you must not forget most importantly the journal entries required in the books of the drawer, the drawee and the endorser.

5.0 SUMMARY

For accounting purposes no distinction is made between the bill of exchange and a promissory note. When the businessman receives a promissory note or an acceptance to a bill he may deal with it in three ways. He may retain it, discount it with the bank, or endorse it to his own creditor when a bill or a promissory note becomes due for payment, the drawee of a bill or the maker of a promissory note may deal with it in four ways: he may honour it, dishonour it, renew it or retire it. All transactions with regard to bills and promissory notes are recorded in the journal.

6.0 FURTHER READINGS

Frank wood: business accounting 1 and 2

O. M. Oyinlola principle of account made simple

7.0 TUTOR MARKED ASSIGNMENT

1. Three bills for N2400, N2500, and N2600 were drawn for two months, three months and four months respectively. First was discounted with the bank for N2300. The second bill was endorsed to a creditor in settlement of a debt and the third bill was retained by the drawer. What will be the journal entries in the books of drawer, drawee and endorsee if:
 - (a) the bills are honored on the due date
 - (b) the bills are dishonoured on the due date and noting charges N20 are paid in all the three cases by the holder of the bill

UNIT 15

BILL OF EXCHANGE

Table of content	
1.0	Introduction
2.0	Objectives
3.1	Renewal of the bill
3.2	Retiring the bill
3.0	Conclusion
5.0	summary
6.0	further reading
7.0	tutor marked assignment

1.0 INTRODUCTION

In unit 14 you have learnt about identifying the types of transaction which usually take place in connection with bills and you have also studied how they are recorded in the books of the drawer, the drawee and the endorsee, in the unit you will study renewal of the bill and retiring the bill and all the journal entries that are peculiar to them.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- ❖ Explain renewal of a bill and its journal entry.
- ❖ Explain retiring the bill and the necessary entries.

3.1 RENEWAL OF THE BILL

There are certain instances when the drawee is in a position to foresee that he would not be able to honour the bill on the due date. In such a situation the drawee can request the drawer for extension of time. If the drawer agrees to such a request the old bill is treated as dishonoured and a new bill is drawn in lieu thereof. This process is called 'Renewal of Bill'. In case of renewal, the drawer

will charge some interest for the period of the new bill. This interest may be paid in cash or included in the amount of the new bill. There is no need for getting the bill noted since the drawee himself make a request for cancellation of the bill.

The journal entries passed at the time of renewal of the bill are as follows:

BOOK OF DRAWER	BOOK OF DRAWEE
i) For dishonour of the bill Drawee Dr To B/R A/C Bnak A/C Endorsee A/C	i) Bill Payable A/C Dr To Drawer
ii) For interest due Drawee Dr To interest A/C	(ii.) Interest A/C To Drawer
iii) For drawing nee bill Bills Receivable A/C Dr To Drawee	(iii.) For accepting new bill Drawer Dr To Bills Payable A/C

NOTE: Dishonour entry is passed keeping in view whether the bill is retained, discounted or endorsed.

ILLUSTRATION 1

Ram drew a bill on Tom for ₦1000 on April, 1988 for two months. On May 15 Tom requested Ram to renew the bill for two months. Ram agreed to renew the bill and charged interest @ 6% p.
 a. A new bill was drawn for N1010 including interest. The bill was honoured on due date.
 Record all this in the book of Ram and Tom.

SOLUTION

RAM'S JOURNAL

<u>DATE</u>	<u>PARTICULARS</u>	<u>L.F</u>	<u>DR AMOUNT</u>	<u>CR AMOUNT</u>
			<u>₹</u>	<u>₹</u>
1988 Apr. 1	Bill Receivable A/C Dr To Tom CR (Being bill receivable)		1000	1000
May 15	Tom Dr To Bills Receivable A/C (Being bill dishonoured on Account of renewal)		1000	1000
“ 15	Tom Dr To interest A/C (Being interest due for two months)		10	10
“ 15	Bills Receivable Dr To ‘Tom’ (Being a new bill received inclusive of interest)		1010	1010
July 18	Bank A/C Dr To Bills receivable A/C (Being bill honoured on due date)		1010	1010

TOM JOURNAL

DATE	PARTICULARS	L.F	DR AMOUNT ₦	CR AMOUNT ₦
1988	Ram To Bills Payable A/C (Being bill accepted)	Dr CR	1000	1000
May 15	Bills payable A/C To Ram (Being bill dishonoured on account Of renewal)		1000	1000
“ 15	Interest A/C To Ram (Being interest due to Ram for two months)		10	10
“ 15	Ram To Bills Payable A/C (Being new bill accepted together with interest)		1010	1010
July 18	Bills Payable A/C To Bank A/C (Being bill honoured on due date)		1010	1010

ILLUSTRATION 2

James drew on Paul a bill for ₦1500 for 3 months on June 1, 1987. The bill was endorsed to Peter. On July 19, Paul approaches James to renew the bill for a period of three months and charges ₦25 as interest. James agrees to renew the bill. Paul pays the amount for interest in cash and accepts a new bill for ₦1500. The bill is honoured on the due date. Record this transactions in the books of various parties.

JAMES JOURNAL SOLUTION

<u>DATE</u>	<u>PARTICULARS</u>	<u>F. L</u>	<u>DR AMOUNT</u>	<u>CR AMOUNT</u>
1987 June 1	Bills receivable A/C Dr To Paul (Being bill received for three months)		₱ 1,500	₱ 1,500
“ 1	Peter Dr To Bills receivable A/C (Being bill endorsed to Peter)		1,500	1,500
July 15	Paul Dr To Peter (Being bill dishonoured on account of renewal)		1,500	1,500
“ 15	Paul Dr To interest A/C (Being interest due from Paul)		25	25
“ 15	Cash A/C Dr To Paul (Being cash received from Paul for interest)		25	25
“ 15	Bills receivable A/C Dr To Paul (Being bill renewed for three months)		1,500	1,500
Oct 18	Bank A/C Dr To bills receivable A/C (Being bill honoured on due date)		1,500	1,500

PAUL'S JOURNAL

DATE	PARTICULARS	F.L	DR AMOUNT	CR AMOUNT
			₪	₪
1987 June 1	James Dr To Bill Payable A/C (Being bill accepted for three months)		1500	1500
July 15	Bills payable A/C Dr To James (Being bill dishonoured on account of renewal)		1500	1500
“ 15	Interest A/C Dr To James (Being cash paid for interest)		25	25
“ 15	James Dr To cash A/C (Being cash paid for interest)			
“ 15	James Dr To Bills Payable A/C (Being new bill accepted for three months)		25 1500	25 1500
Oct 18	Bills payable A/C Dr To Bank A/C (Being bills payable honoured)		1500	1500

PETER'S JOURNAL

DATE	PARTICULARS	F.L	DR AMOUNT	CR AMOUNT
			₪	₪
1987 June 1	Bill Receivable A/C Dr To James (Being bill received from James)		1500	1500
July 15	James Dr To Bills Receivable A/C (Being bill dishonoured)		1500	1500

ILLUSTTRATON 3

On January 1, 1988 B owes to A ₦1000. A draws on him a bill for ₦1000 for three months. The bill for ₦1000 for three month. The bill is discounted for ₦980 on the date of maturity B request A for renewal of the bill. A agrees to his request and the following arrangement is made.

B pays ₦400 in cash and request for the renewal of the balance for two months charging interest at 6% p.a. to be included in the new bill.

B becomes insolvent on June 2, 1988 and only 1/3 of the amount could be recovered from his estate.

Record the above transactions in the books of A & B.

SOLUTION

A'S JOURNAL

<u>DATE</u>	<u>PARTICULARS</u>	<u>F.L</u>	<u>DR AMOUNT</u>	<u>CR AMOUNT</u>
			₹	₹
1988 Jan 1	Bill Receivable A/C Dr TOB (Being bill received)		1000	1000
			980	
			20	1000
“ 1	Bank A/C Dr Discount A/C Dr To Bills Receivable A/C (Being bill discounted)			
Apr 4	To B Dr To Bank A/C (Being bill cancelled)		1000	1000
			6	6
“ 4	To B Dr To interest A/C (Being Interest due from B)		400	400
“ 4	Cash A/C Dr To B Being part payment received in respect of the cancelled bill)		606	606
“ 4	Bills Receivable A/C Dr To B (Being renewal of the bill for three month)			
			606	606
June 2	To B To Bills Receivable A/C (Being B became insolvent and bill treated as dishonoured)			
“ 2	Cash A/C Dr Bad Debt A/C		202	
	Bad Debt A/C Dr To B (Being recovery of one third of the amount due)		404	606

B'S JOURNAL

DATE	PARTICULARS	F.L	DR AMOUNT ₦	CR AMOUNT ₦
1988				
Jan 1	To A Dr To Bills Payable A/C (Being bill accepted)		1000	1000
Apr 4	Bills Payable A/C Dr To A (Being bill cancelled)		1000	1000
Apr 4	To A Dr To Cash A/C (Being part payment made in respect of cancelled bill)		400	400
Apr 4	Interest A/C Dr To A (Being interest due at 6% p.a. on ₦600)		6	6
Apr 4	To A Dr (To Bills Payable A/C (Being acceptance for the renewed bill for three months)		606	606
June 2	Bills Payable A/C Dr To A (Being bill treated as dishonoured at the time of insolvency)		606	606
June 2	To A Dr To Cash A/C To Deficiency A/C (Being 1/3 payment made for the amount due)		606	202 404

3.2 RETIRING THE BILL

You have already learnt that the drawee can approach the drawer before the due date for the renewal of the bill. Sometimes he may offer the payment before the due date. In that case the bill is said to have been returned. The drawee is allowed some discount on account of early payment such a discount is termed 'rebate'. Rebate is nothing but interest for unexpired period of the bill. The following entries are passed in the books of concerned parties in case of retiring the bill.

BOOKS OF DRAWER	BOOKS OF DRAWEE	BOOKS OF EDORSEE
i. When the bill is retained Bank A/C Dr Rebate A/C Dr To Bills Receivable A/C	The following entry is made irrespective of the fact whether the bill is retained, discounted or endorsed. Bills Payable A/C Dr To Bank A/C	
	To Rebate A/C	Bank A/C Dr Rebate A/C Dr To Bills Receivable A/C
ii. When the bill is discounted No entry		
iii. When the bill is endorsed No entry		

EXERCISE

Niyi owed Tope N2400 on January 1, 1988 he accepted two bills of N1200 each for one month and two months respectively. First bill was retained whereas the second was endorsed to Dayo in settlement of a debt. Both bills were dishonoured on the due date and noting charges N10 were paid in each case. A new bill for the full amount was drawn for four months and was accepted including interest at 6% p.a. Before the due date of the renewed bill Niyi was declared insolvent and only 50k in a Naira was received from his estate.

Require:

Journalise the above transactions in the books of Niyi, Tope and Dayo.

4.0 CONCLUSION

In this unit you have learnt in details the Renewal of the Bill and Retiring of the bill including all the journal entries in the books of all the concerned parties that is the drawer, the drawee and the endorsee.

5.0 SUMMARY

When the drawee foresee that he would not be able to honour the bill on the due date and thus requested the drawer for extension of time and the drawer agree to such a request the old bill is treated as dishonoured and the new bill is draw in replacement of the old. This process is known as 'Renewal of Bill'. In this case the drawer will charge some interest for the period of the new bill. Furthermore, sometimes he i.e. the drawee may offer the payment before the due date. In that case, the bill is said to have been retired and the drawee is allowed some discount on account of early payment and such a discount is termed as 'Rebate'.

6.0 FURTHER READING

Frankwood: business accounting 1 and 2

O. M. Oyinlola: principle of account made simple

7.0 TUTOR MARKED ASSIGNMENT

On April 1, 1987 Y owes X N1200. On the same date X draw two bills for N800 and N400 for two months and three months respectively. The first bill was endorsed to Z on April 5 and the second bill was retained. Both the bills were retired on May 1, 1987; Y got a rebate of 6% p.a. on both the bills.

Required:

Record the above transaction in the books of X, Y and Z.

X'S JOURNAL

DATE	PARTICULARS	F.L	DR AMOUNT ₦	CR AMOUNT ₦
1987				
Apr 1	Bills Receivable A/C Dr To Y (Being first bill received for two months)		800	800
Apr 1	Bill Receivable A/C Dr To Y (Being second Bill received for three months)		400	400
Apr 5	To Z Dr To Bills Receivable A/C (Being first bill endorsed to Z)		800	800
May 1	Bank A/C Dr Rebate A/C Dr To Bills Receivable A/C (Being second bill retired before due date)		396 4	400

Y's JOURNAL

DATE	PARTICULARS	F.L	DR AMOUNT	CR AMOUNT
			₦	₦
1987				
	To X Dr To Bills Payable A/C (Being first bill accepted for two months)		800	800
Apr 1				
May 1	To X Dr To Bill Payable A/C (Being second bill accepted for three months)		400	400
May 1	Bills Payable A/C Dr To Bank A/C To Rebate A/C (Being first bill accepted one month before due date)		800	796 4
“ 1	Bills Payable A/C Dr Bank Rebate A/C (Being second bill retired two months before due date)		400	390 4

Z'S JOURNAL

DATE	PARTICULARS	F.L	CR AMOUNT	DR AMOUNT
			₦	₦
1987				
April 1	Bills Receivable A/C Dr To X (Being bill received from X)		800	800
May 1	Bank A/C Dr Rebate A/C To bills Receivable A/C (Being payment received before due date)		796 4	800

NOTE: Rebate is calculated as follows:

First bill was paid one month before due date –

$$\frac{6}{100} \times \frac{1}{12} \times 800 = \text{₦4} \quad \left. \vphantom{\frac{6}{100}} \right\} \frac{6}{100} \times \frac{1}{12} \times 800 = \text{₦4}$$

Second bill was paid two months before due date

$$\frac{6}{101} \times \frac{2}{12} \times 400 = N4$$
$$\frac{6}{100} \times \frac{1}{12} \times 400 = \cancel{N4}$$

UNIT 16

BILL OF EXCHANGE

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1.0	Introduction
2.0	Objectives
3.1	Accommodation bills
3.2	Bills sent for collection
4.0	conclusion
5.0	summary
6.0	further readings
7.0	tutor marked assignment

1.0 INTRODUCTION

In Unit 15 you have learnt about renewal of the bill' i.e. when the drawee foresee that he would not be able to honour the bill on due date and requested the drawer to draw a new bill in lieu thereof, you also learnt about retiring of the bill i.e when the drawee offer the payment before the due date. In this unit, you will study about accommodation bills and bills sent for collection and how they are treated or recorded in the books of accounts.

2.0 OBJECTIVE

After studying this unit, you should be able to:

- Explain the nature of accommodation bills and their accounting treatment
- Explain bills sent for collection and their accounting treatment.

3.1 ACCOMODATION BILLS

Normally a bill is drawn by the seller on the buyer by the lender on the borrower. In other words, a bill is drawn for some debt. Sometimes, a bill is drawn even when no debt is involved. This is done primarily to help or accommodate a fellow businessman and is called an accommodation bill. When such a bill is drawn and accepted, the drawer discount it with the bank and the money so raised is either fully utilized by him or share with the drawee before or on the due date, the drawer remits the amount utilized by him to the drawee and the drawee meets the acceptance on the due date by making payment to the bank with which the bill had been discounted. The parties can also draw separate bills on each other. In such a situation, each party discount his own bill with the bank and utilizes the payment. When the bills become due for payment they meet their acceptances and settle their accounts. From the above discussion it is clear that there can be three types of arrangements in case of accommodation bill. They are as follows:

- i) A bill is drawn for accommodation of the drawer only.
- ii) A bill is drawn and the proceeds are shared by drawer and drawee.
- iii) One bill each is drawn by both the parties on each other i.e two bills are drawn. The accounting treatment of accommodation bill is similar to the treatment of normal bills. However, in, case of accommodation bills you should remember that if the amount of the bill is shared by both the parties, the amount of discount charged by the bank is to be borne by both parties. It is shared in the same proportion as the amount utilized by each party. A suitable entry for proportionate amount of discount shall also be passed in the journals of both parties. Look at illustration I below and see how entries are passed when the bill is drawn and accepted for mutual accommodation.

ILLUSTRATION 1

On January 1, 1988 Woolmer draw a bill on Steele for ₦600 for three months. Steele accepts the bill and returns it to Woolmer who discounts it for N585 and remits one third of the proceeds to Steele. On March 30 Woolmer sends the requisite amount to Steele who meets the bill, on the due date. Required.

Pass the necessary journal entries in the books of Woolmer and Steele.

SOLUTION
WOOLMER'S JOURNAL

<u>DATE</u>	<u>PARTICULARS</u>	<u>F.L</u>	<u>DR AMOUNT</u>	<u>CR AMOUNT</u>
1988			₦	₦
Jan 1	Bills Receivable A/C Dr To Steele (Being bills receivable)		600	600
“ 1	Bank A/C Dr Discount A/C Dr (Being bill discounted with the bank)		585 15	600
“ 1	Steele Dr Bank A/C Discount A/C (Being one third amount to Steele)		200	195 5
Mar 30	Steele Dr To Bank A/C (Being amount utilized remitted to Steels)		400	400

STEELE'S JOURNAL

<u>DATE</u>	<u>PARTICULARS</u>	<u>F.L</u>	<u>DR AMOUNT</u>	<u>CR CREDIT</u>
Jan 1	Woolmer Dr Bills Payable A/C (Being bill accepted)		₦ 600	₦ 600
“ 1	Banks A/C Dr Discount A/C Dr Woolmer (Being one third of the proceeds received)		195 5	200
Mar 30	Bank A/C Dr Woolmer (Being money received from Woolmer)		400	400
Apr 4	Bills Payable A/C Dr Bank A/C (Being bill met on maturity)		600	600

3.2 BILLS SENT FOR COLLECTION

When bill becomes due for payment, the holder of the bill usually presents it to the drawee through the bank. In other words the bills are sent for collection to the bank as and when they fall due. The bank will credit the account of the drawer when it receives the payment of the bill. Generally, no entries are passed when bills are sent for collection. An entry is made in the cash book when an intimation about the payment is received from the bank. But, some accountants prefer to record the entries even when the bills are sent for collection. In that case the following entries will have to be made in the journal of the holder for the bill sent for collection.

- Bills sent for collection A/C Dr
To Bills Receivable A/C
Being bill sent for collection
- On receipt of intimation from the bank
That the payment has been received
against the bill, the journal will be:

Bank A/C
To Bills sent for collection A/C Dr
(Being bill sent for collection honoured)
- If the bill is dishoured, the journal entry will be:
 - i) Bills Receivable A/C Dr
To bills sent for collection A/C
(Being bill sent for collection dishonoured)
 - ii) Drawee Dr

To Bills Receivable A/C
(Being bill dishonoured)

Note that no entry is passed in the books of the drawee for bills sent to bank for collection. He will make the entries in his books in the usual manner when he makes the payment.

EXERCISES

1. What is accommodation Bill
2. What do you understand by Bills sent for collection.

4.0 CONCLUSION

In this unit, you have learnt about accommodation bill i.e when an assistance is given to a fellow business man to help him financially. You have also learnt about Bill sent for collection that is, the bills that are sent for collection to the bank as and when they fall due including their accounting treatments when sent for collection, on receipt of intimation and when dishonoured.

5.0 SUMMARY:

Accommodation bill is done primarily to help or accommodate a fellow businessman when no debt is involved, when such a bill is drawn and accepted, the drawer discount it with the bank and the money so raised is either fully utilised by him or shared with the drawee before or on due date, the drawer remits the amount utilised by him to the drawee and the drawee meets the bill on due date by making payment to the bank. In relation to bill sent for collection, when bill becomes due for payment the holder of the bill usually present it to the drawee through the bank as and when it fall due. This is known as collection. The account of the drawer will be credited when the bank receives the payment for the bill. Generally no entries are passed when the bills are sent for collection.

6.0 FURTHER READING

Frankwook. Business accounting 1 and 2

O. M. Oyinlola. Principle of account made simple

7.0 TUTOR MARKED ASSIGNMENT

A drew on B a bill for ₦1000 on January 1, 1988 for four months for mutual accommodation. After receiving B's acceptance the same day, A discount it with the bank @ 5% and remitted half the proceeds to B, ₦663 on February 1, 1988 B draw a bill on A for ₦1500 for three months and after obtaining A's acceptance, he discounted it @ 8%p.a and remitted one-third of the proceeds to A on April 30, 1988 B became insolvent and only 50% was received from his estate.

Required:-

Write journal entries and prepare A's A/C in B's books and B's A/C in A'S books

BILL OF EXCHANGE

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1.0 INTRODUCTION

In unit 16, you have learnt about the nature of accommodation bills and their accounting treatment you also learnt about bills sent for collection and their accounting treatment. In this unit you will learn about the preparation of Bills receivable and Bills payable books and study how various details relating to bills are recorded in these books and how postings are done.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Explain Bill books
- Record in the Bills receivable account and post relating Journal
- Record in the Bills payable account and post relating Journal

3.1 BILL BOOKS

You have learnt how transactions relating to bills can be recorded in the Journal. But if the dealings in bills are numerous, it is better to maintain separate books both for bills receivable and bills payable. A book in which we record all bills receivable, by the firm is called ‘Bills Receivable, Journal’ and the books in which we record all bills accepted and payable –by the firm is called ‘ Bill Payable Journal’. Look at figure 1.0 and figure 1;1 for rulings of these two books.

FIGURE 1.0 BILLS RECEIVABLE JOURNAL

Sl No	Date of acceptance	Drawn by	Payee	Date of bill	Term	Due date	Where payable	Amount	F.L	How dispose of	remarks
								N			

FIGURE 1.1 BILLS PAYABLE JOURNAL

Sl	Date	Payee	Date	Term	Due	Where	Amount	F.L	Remarks
----	------	-------	------	------	-----	-------	--------	-----	---------

No	of		of bill		date	payable					
							N				

3.2 RECORDING IN BILLS RECEIVABLE JOURNAL AND ITS POSTING

As and when promissory notes or bills of exchange are received, the particulars are noted in the Bills receivable Journal as per the columns given in Figure 1.1. Note that entries in Bills Receivable Journal are made only at the time of receiving the bills from drawee. The entries for their realization and discounting are made in the cash book. Similarly the entries for endorsement and dishonour of bills are made in Journal Proper. However, if a discounted bill is dishoured, the entry for dishonour will be made in the cash book, not in the Journal proper.

All entries made in Bills receivable Journal are posted to the credit side of the individual accounts of the parties from whom the bills were received. Periodic total of the Bills receivable Journal is posted to the debit of bills receivable Account by writing 'To Sundries – as per B/R Journal'.

3.3 RECORDING IN BILLS PAYABLE JOURNAL AND ITS POSTING.

As and when the firm accepts the bills they are entered in the bills payable Journal as per columns given in Figure 1.1. Note that entries for the payment of these bills are made in the cash book and those for dishonoured in the journal proper.

All entries made in the Bills Payable Journal are posted to the debit side of the individual accounts of the parties at whose request the acceptances have been given. Periodical total of the Bills payable Journal is posted to the credit side of the Bill Payable Account by writing by Sundries – as per B/P Journal.

Look at Illustration 1 and study how transactions are recorded in Bills Receivable Journal and Bills Payable Journal.

ILLUSTRATION 1

1987

Aug. 3. A bill is drawn on Ram Narayan of Lagos, payable after three months for ₦5000. It was duly accepted by him on the same day, payable at Union Bank of Nigeria, Lagos. Aug. 5 Accepted a bill dated August 1, 1987 drawn by B Agarwal of Kano, payable after 60 days for ₦3000.

Aug. 8, Drew a bill on Peter Paul of Enugu for ₦4000 payable after two months at National Bank Ibadan. The bill is receivable on August 16, duly accepted.

Aug. 12 Accepted a bill dated August 6, 1987 drawn by Niyi Ola of Abuja payable after one month for ₦2500.

Aug. 18 Received on acceptance dated August 12, 1987 from James of Kaduna payable at UBA Ife, 90 days after date for ₦6000. It was endorsed to John K. of Ilesha on the same day.

Aug 22 Accept the bill dated July 14, 1987 drawn by S. Okoh Nat. Oyo for ₦3500. payable after 2 months.

Aug. 23 A bill in drawn on B. Okoro of Oweri for ₦9000 payable at Alaba Bank Oweri , 90 days after date. The bill was received duly accepted on August 28, 1987 and was discounted with first bank osogbo on the same day.

Aug. 30 Accepted the bill dated August 25, 1987 by Alex of Jos for ₦2800 payable 30 days.

NOTE: All the above transactions are the bill transactions OA ABC Agencies, Ikeja. All bills accepted by ABC Agencies are payable at the Wema Bank, Ikeja.

Required prepare Bills Receivable and bills payable Journals.

BILLS RECEIVABLE JOURNAL

S1 No	Date of receipt	From whom received	Acceptor	Date of bill	Term	Due date	Where payable	Amount	F.L	How disposed of	Remarks
1	1987 Aug. 3	Ram Narayan Lagos	Ram Narayam Lagos	Aug. 3	3 Months	Nov. 6	Union Bank of Nig. Lagos	₦ 5000			
2	" 16	Peter Paul	Peter Paul Enugu	" 8	2 months	Oct. 11	National Bank Ibadan	4000			
3	" 18	James Kaduna	James Kaduna	" 12	3 months	Nov. 15	UBA Ife	6000		Endorsed to John K Ilesha	
4	" 28	B. Okoro Oweri	B. Okoro Oweri	" 23	3 months	" 26	First Bank Osogbo	9000		Discounted	
						TOTAL		24,000			

BILLS PAYABLE JOURNAL

S1	Date of Acceptance	Drawn by	Payee	Date of Bill	Term	Due Date	Where Payable	Amount	F. L	Remark
1	1987 Aug 5	B. Agarwal Kano	B. Agarwal Kano	Aug 1	2 months	Oct. 4	Wema Bank Ikeja	₦ 3000		
2	Aug 12	Niyi Ola Abuja	Niyi Ola Abuja	Aug. 6	1 month	Sept. 9	- do -	2500		
3	" 22	S.Okoh Nat Oyo	S. koh Nat Oyo	July 14	2 months	" 17	- do -	3500		
4	" 30	Alex Jos	Alex Jos	Aug 25	1 month	" 28	- do -	2800		
							TOTAL	11800		

EXERCISE

On Nov 1, 1987 the debtor and creditors of a firm were as follows:

Debtors ₦		Creditors	₦
Amita	5,000	Aisha	6,000
Sunita	10,000	Usha	8,000
Kavita	13,000	Varsha	7,000

During Nov., the following transactions to bills of exchange took place.

Nov. 6. Received a bill dated Nov. 1, duly accepted by Amita of Kano, payable at UBA Kano, after 3 months for ₦5,000

Nov. 9. Accepted a bill dated Nov. 3 of Aisha of Mina, payable at Union Bank, Lokoja, after one month for ₦6000

Nov. 11. Drew a bill on Sunita of Kaduna for ₦10,000 payable after 90 days. The bill was duly accepted. It is payable at Bank of the North Kaduna. Bill was discounted with Union Bank of Lokoja on the same date.

Nov. 15. Sent our acceptance to Usha on Nov. 10, payable at Union Bank, Lokoja 2 months after date for ₦8000.

Nov. 21. Accepted a bill for ₦7000 drawn by Varsha of Jos dated Nov. 12, payable after three months at Union Bank Lokoja.

Nov. 25. Drew a bill on Kavita for ₦13000, payable after two months. The bill was returned duly accepted on Nov. 30, payable at Wema Bank Jos. It was endorsed to Sohan and Sons, Funtua.

Required

Prepare: Bill receivable Journals and show their posting into ledgers.

4.0 CONCLUSION

In this Unit you have studied the bill book, that is a book in which all bills receivable and payable by the firm is recorded, you have all learnt how to record in the Bills Receivable Journal and the Bills payable Journal and their postings into the ledger.

5.0 SUMMARY

Dealing in bills is common in business and the record of these bills transactions have to be kept. A book in which we record all bills receivable by the firm is called Bills Receivable Journal and the book in which Bills payable are recorded is called Bills Payable journal. All entries made in the Bills Receivable Journal are credit entries in the individual account of the part from whom the bills are received and the total of the Bills Receivable Journal is posted to the debit of Bills Receivable Account periodically, and vice-versa for Bill payable Journal.

6.0 FURTHER READINGS

Frankwood: business accounting 1 and 2

O. M. Oyinlola: principle of account made simple

7.0 TUTOR MARKED ASSIGNMENT

POST ALL THE TRANSACTIONS OF ABC AGENCIES UNDER ILLUSTRATION 1.1 INTO THE LEDGER

UNIT 18

JOINTS VENTURES ACCOUNTS

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1.0	Introduction
2.0	Objective
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3.2	Joint venture and consignment
3.3	Joint venture and partnership
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7.0	Tutor – marked assignment

1.0 INTRODUCTION

In the 15, 16 and 17, you have studied how various transactions related to consignment are recorded in the books of the concerned parties. The basic objective of preparing the consignment Account is to ascertain the profit or loss on each consignment. Similarly, when some persons join hands to carry out a specific job or a project (called joint venture) each person called co-venture would like to ascertain his share of profit or loss from the joint venture business. For this purpose they record the transactions related to the joint venture business in their own books or prepare a separate set of books altogether. In this unit you will learn how various transactions related to the joint venture business are recorded when separate set of books are prepared and when the co-venturer decide to record them in their own books without preparing a separate set.

2.0 OBJECTIVES

After studying this unit you should be able to:

- Explain the meaning and importance of joint venture.
- Distinguishing joint venture from partnership and consignment.

3.1 JOINT VENTURE

When two or more person join together to carry out a specific business venture and share the profit on an agreed basis it is called a 'Joint Venture'. Each one of them who join as a party to the joint venture is called co-ventures' No firm name is normally used for the Joint Venture Business because it's duration is limited to a short period. During this period, the co-venturers are free to carry on their own business as usual, unless agreed otherwise. The business relationship amongst the co-venturer come to an end as soon as the venture is completed. Thus a joint venture is some kind of a temporary partnership between two or more persons who have agreed to jointly carry out a specific venture. The joint venture are quite common in construction business, consignment, sale and purchase of property. Underwriting of shares and debentures etc. for example, A and B agreed to construct a college building for which they pooled their resources and skills. A provides ₦600,000 and B ₦400,000 as capital. In this example, joining hands by A and B to construct a building is a Joint Venture. A and B are co-venturers . They will share the profits in the ratio of 6 and 4 (same as the ratio of their Capital).

From the above discussion the essential features of a joint venture can be listed as follows:

- It is formed by two or more persons
- The purpose is to execute a particular venture or project
- No specific firm name is used for the joint venture business
- It is of a temporary nature. Hence, the agreement regarding the venture automatically stands terminated as soon as the venture is completed.
- The co-venturers share profit and loss in the agreed ratio. However, in the absence of any other agreement between the co-venturers, the profits and losses are to be shared equally.
- During the tenure of joint venture, the co-venturers are free to continue with their own business unless agreed otherwise.

The main advantages of a joint venture are:

3.1.1 ADVANTAGES

- Sufficient Resources: Since two or more persons pool their resources, there is sufficient capital available.
- Ability and Experience: In joint venture the different venturers may be having different skills and experience. The benefit of their common wisdom will be available to the venture.
- Spreading of Risk: The co-venturers agree to share the profits and losses in a particular ratio. This implies that the risk is also borne by them in that ratio.

3.2 JOINT VENTURE AND CONSIGNMENT

Even though both consignment and joint venture are in the nature of an agreement between different parties, there are many points of differences between the two. The main points of differences are as follows.

CONSIGNMENT	JOINT VENTURE
<ul style="list-style-type: none"> Normally two persons are involved, the consignor and the consignee. 	Number of co-venturer is usually two, but it may also be more than two.
<ul style="list-style-type: none"> The relationship between the consignor and the consignee is that of principal and agent. 	The relationship between co-venturers is that of partnership.
<ul style="list-style-type: none"> The arrangement may continue for a long time 	The relationship comes to an end as soon as the venture is completed.
<ul style="list-style-type: none"> The funds are provided by the consignor 	
<ul style="list-style-type: none"> The consignee acts merely as an agent and he has to follow the instruction of the consignor 	<p>All the co-venturers contribute to a common pool.</p> <p>The co-venturers have equal authority to take decisions.</p>
<ul style="list-style-type: none"> Consignment is generally concerned with the sale of movable goods 	<p>Joint Venture may be for sale of goods or for carrying on any other activity like construction of building, investment in shares etc.</p>
<ul style="list-style-type: none"> The profit belongs to the consignor only. The consignee is entitled only to his commission 	The profit is shared by all the co-venturers.
<ul style="list-style-type: none"> The consignor owns the goods 	There is joint ownership.
<ul style="list-style-type: none"> There is only one method of maintaining the account of consignment transactions. 	There are four methods of maintaining accounts for the Joint Venture.

3.3 JOINT VENTURE AND PARTNERSHIP

Though Joint Venture is in the nature of a temporary partnership but in the strict legal sense, it is not a partnership. Both in joint venture and partnership some business is carried on by two or more persons and the profits are shared by all of them. But there are some basic differences between the two.

PARTNERSHIP	JOINT VENTURE
<ul style="list-style-type: none"> • A partnership firm always has a name. 	There is no need for firm name.
<ul style="list-style-type: none"> • It is of a continuous nature. 	It comes to an end as soon as the work is completed.
<ul style="list-style-type: none"> • Separate set of books have to be maintained. 	There is no need for a separate set of books, the accounts can be maintained even in one of the co-venturers books only.
<ul style="list-style-type: none"> • No partner can carry on a similar business. 	The co-venturers are free to carry on the business of a similar nature.
<ul style="list-style-type: none"> • Though the registration of partnership is not compulsory but it is considered desirable. 	There is no need for registration at all.
<ul style="list-style-type: none"> • A minor can also be admitted to the benefit of the firm. 	A minor cannot be a co-venturers as he is incompetent to enter into a contract.

3.4 ACCOUNTING TREATMENT

Broadly speaking, account of a joint Venture business can be kept in any one of the following four ways:

- In the books of one co-venture. In case the business is not very large, only one of the Venturers may be entrusted with the task of recording the transactions in his books. In that case all other co-venturers will send their contribution to such venturer and he will open a Joint Venture Account and the personal accounts of other co-venturer in his books.
- In the books of all the co-venturers: when all co-venturers are working actively, each one of them shall open a Joint Venture Account and the personal accounts of other co-venturers in his books. In such a situation each co-venturer informs others about the transactions undertaken by him so that they can incorporate them in their books.
- Memorandum Joint Venture Account: Sometimes each co-venturer records only such transactions as are directly concerned with him. In that case he cannot work out the profit or loss because his books do not include all transactions of the joint venture. Hence, for calculating the profit or loss of the joint venture, a memorandum joint venture account has to be prepared by incorporating all transactions related to the joint venture. Thereafter the Joint Venture Account is completed and closed.
- Separate set of Books: Sometimes for the sake of convenience, a Separate set of books are maintained for the joint venture. Under this system a, Joint Bank Account, a Joint Venture Account and the personal accounts of all the co-venturers are to be opened in the independent set of books of account.

EXERCISES

State whether each of the following statement is True or False.

1. A joint venture is a partnership formed under the Nigeria Partnership Act.
2. A joint venture has a definite life.
3. Joint venture is the same thing as consignment.
4. Joint venture agreement must be registered.
5. Co-venturers share the profits in the agreed ratio.

4.0 CONCLUSION

In this unit you learnt about Joint Venture as when two or more person join together to carry out a specific business venture and share the profit on an agreed basis. You also learnt about the difference between joint venture and partnership and the difference between Joint Venture and Consignment.

5.0 SUMMARY

Joint Venture is a temporary partnership between two or more persons who have agreed to undertake jointly a specific project or job. On the completion of the project or the job, the joint venture will automatically come to an end. The joint venture differ from consignment and partnership in many ways.

The accounts for the joint venture business can be kept in four ways: (i) all recording be done in the books of one co-venturer only (ii) the accounting records be maintained by each one of them in their own books (iii) each co-venturer record his own transaction relating to the joint venture and on the completion of the project a memorandum Joint Venture Account is prepared to find out the profit or loss or (iv) separate set of books of account may be maintained for the joint business and joint account be opened in the bank.

Under the first method only one co-venturer records the joint venture transactions who opens a Joint Venture Account and the personal accounts of other co-venturers. Under the second method each co-venturer opens a Joint Venture Account and the personal accounts of other co-venturer. The Joint Venture Account serves the purpose of profit and Loss Account under their method, no Joint Venture Account is maintained. Each Co-Venturer simply opens the personal accounts of other co-venturers and for ascertaining the profit or loss of the venture, a memorandum Joint Venture Account is prepared.

6.0 FURTHER READING

Frank wood: business accounting 1 and 2

O. M. Oyinlola: book keeping and account made simple

L.Akinkkuole: book keeping and accountancy diploma & certificate on cooperative studies. Question and answer.

7.0 TUTOR MARKED ASSIGNMENT

A & B enter into a Joint Venture for the construction of a building. They contributed ₦200,000 and ₦300,000 respectively, they agreed to share the profits or loss in the ratio of their contribution to capital. The profit for the Joint Venture is N45,000. State:

- (a) The name of the Co-Venture.
- (b) Each Co-Venturer's Share of profit.
- (c) Calculate each Co-Venturer's profit.

UNIT 1

JOINT VENTURE. ACCOUNTING TREATMENT 1

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7.0	Tutor marked assignment

1.0 INTRODUCTION

In Unit 18 you have learnt about Joint Venture and Consignment, Joint Venutre and Partnership, the ways of Keeping Joint Venture Account. In this Unit you will learn how various transactions relating to the Joint Venture business are recorded and when the Co-Venturers decide to record them in their own books without preparing a separate set of books.

2.0 OBJECTIVE

After studying this Unit you should be able to:

- Record Joint Venture transaction in the books of one Joint Venturer.
- Record Joint Venture transaction in the books of all Joint Venturer.
- Prepare memorandum Joint Venture Account.

3.1 RECORDING IN THE BOOKS OF ONE CO-VENTURER

If Joint Venture business is not very large, the task of recording transactions can very well be entrusted to one of the Co-Venturers. He will prepare a Joint Venture Account and personal accounts of other co-venturers. The Joint Venture Account is prepared for ascertaining the profit or loss of the joint venture. The personal account of other co-venturers are prepared to find out the amount due from them. As stated earlier, each co-venturers is also entitled to carry on his own business and these transactions will be in addition to what he records in respect of his own business. The following journal entries are passed in his books before preparing the necessary accounts of the joint venture.

- When the Co-venturers send their contribution

Cash / Bank A/C	DR
To Co-Venturer's Personal A/C	

- When the goods purchased for the Joint Venture:

Joint Venture A/C	DR
To Cash / Bank A/C	

- When the goods are supplied form his own stock by the Co-Venturer who is recording the transactions:

Joint Venture A/C	DR
To purchases A/C	

Here we are crediting Purchases Account because he is supplying the goods from his own stock at cost. But if the goods are supplied by him at a price other than the cost price, we shall credit the Sales Account instead of the Purchases Account.

- When the goods are supplied by other coventurers

Joint Venture A/C	DR
Co-Venturers Personal A/C	CR

- When some expenditure is incurred on account of the Joint Venture.

Joint Venture A/C	DR
Cash / Bank A/C	

But, if expenses are paid by a Co-Venturer other than the one-who is recording the transactions, then the entry will be:

Joint Venture A/C	DR
Co-Venturer's Personal A/C	

Here we have debited the Joint Venture Account because it is an expenditure on account of the Joint Venture business.

- When the Co-Venturer recording the transaction sells the goods.

(a) For cash

Cash / Bank A/C	DR
To Joint Venture A/C	

(b) For Credit Sales

Debtor's Personal A/C	DR
Joint Venture A/C	

- When Cash is received from debtors:

Cash / Bank A/C	DR
Debtor's Personal A/C	

- When some cash discount is allowed to the debtor making payment, or some bad debt are incurred:

Joint Venture A/C	DR
Debtor's Personal A/C	

- When sales are made by other co-venturers:

Co-Venturer's Personal A/C	DR
Joint Venture A/C	

- When some cash or bills receivable are received from other co-venturers. On account of sales made by them.

Cash / Bank / Bill Receivable A/C	DR
Co-Venturer's Personal A/C	

- When the co-venturer's recording the transactions is entitled to some commission or salary.

Joint Venture A/C	DR
Commission/Salary A/C	

Joint Venture Account is debited as it is an expenditure related to the Joint Venture business.

- When unsold stock of joint venture is taken over by the co-venturer recording the transactions:

Purchases A/C	DR
Joint Venture A/C	

If the unsold stock is taken over by some other Co-Venturer, the journal entry will be:

Co-Venturer's personal A/C	DR
Joint Venture A/C	

After passing the above entries, the Joint Venture Account is prepared. The balance of this account will show either profit or loss which is to be shared by all the coventurers in their profit sharing ratio. This will required the following further entries:

- (a) If it show profit:
Joint Venture A/C
(his own share)
To Co-Venturer's personal A/C
(Individually for their share)
- (b) If it result in loss
Profit & Loss A/C
(his own share of loss)
Co-Venturer's Personal A/C
(Individually for their shares)
Joint Venture A/C

After closing the Joint Venture Account, we have to find out the amount due to other Co-Venturers. When this amount is sent to them we record the following entry.

Co-Ventruer's Personal A/C	DR
Cash / Bank A/C	

3.2 REOCRDING IN THE BOOKS OF ALL CO-VENTURES

Under the second method, all transactions relating to the joint venture are recorded in the books of all the co-venturers. In order to complete the joint venture account in the books of all co-venturers, each co-venturer sends the necessary information about his dealings to the other co-venturers. There is not much of a difference in the recording of transactions between the first and the second method. We will be having similar entries in the joint venture accounts in each co-venturer's books who shall all open the personal accounts of other co-venturers. See recommended text book to clearly understand the recording of transactions under the first and the second method.

3.3 MEMORANDUM JOINT VENTURE ACCOUNT METHOD

In the method discussed above each co-venturer records all transactions relating to the joint venture in the Joint Venture Account opened in his books. But, under the memorandum Joint Venture Account method each co-venturer will record only those transaction relating to the joint venture which are directly concerned with him, and not those of others. Under this method each co-ventruer opens a Joint Venture Account including the name of the other co-venturer. For example, if A and B are partners in a joint venture, then, in the books of A it will be termed as 'Joint Venture with B Account. Each co-venturer will record only such transactions which are

actually effected by him. For example if goods are purchased by A, for the joint venture it will recorded only by A and not other co-ventures. Similarly, if co-venturers goods are sold by B, it will be recorded in the books of B only. This account is in the nature of a personal account and therefore, will not disclose the profit or loss of the venture. For that purpose we prepare an additional account called 'MEMORANDUM JOINT VENTURE ACCOUNT' This is like profit and loss A/C.

Let us say A and B enter into a Joint Venture and certain transactions have taken place for which the following entries will be passed in each co-venturer's books.

- A purchases goods for cash:

This transaction shall be recorded in the books of A only. The entry will be:

Joint Venture with B A/C	DR
Cash A/C	

- A incurs some expenditure on account of the joint venture:

Joint Venture with B A/C	DR
Cash A/C	

- B Sells goods for cash:

No entry will be made in A's books. But the following entry will be made in B's books:

Cash Account	DR
Joint Venture (with A) A/C	

- B Sends money to A:

(a) It shall be recorded in B's book as follows:

Joint Venture with A A/C	DR
Cash / Bank A/C	

(b) It shall be recorded in A's book as follows:

Cash / Bank A/C	
To Joint Venture with B A/C	

As stated earlier, for ascertaining the profit or loss on the joint venture, we prepare a memorandum joint venture account. This account is prepared exactly on the pattern of profit and loss account. Since this account does not form part of the double entry system, the word 'memorandum' is prefixed.

The method of preparing this account is very simple. It is prepared on the basis of information supplied by all the co-venturers. The debit entries appearing in the personal accounts of all co-venturers are written on the debit side of the memorandum account and the entries appearing on the credit side of those account are shown on the credit side of the memorandum joint venture account. However, you should remember that the transaction which do not relate to an item of expense or income are to be excluded from this memorandum account. The difference in the total of the debit side and the credit side represents profit or loss. The profit or loss thus calculated is then shared by the co-ventruers in the agreed profit sharing ratio.

Each co-ventruer will record only his share of profit or loss. In the event of profit, the entries shall be;

- In the book of A

Joint Venture with B A/C	DR
Profit & Loss A/C	

- In the book of B

Joint Venture with A A/C	DR
Profit & Loss A/C	

In the event of loss the entries shall be reversed as follows:

In the book of A

Profit and Loss A/C	DR
Joint Venture (with B) A/C	

In the book of B

Profit and Loss A/C	DR
To Joint Venture with A A/C	

In the end each Venturer balances the 'Joint Venture with ... Account in his book and settles the account by paying or receiving cash.

EXERCISE

Arvind and Babloo entered into a joint venture agreeing to share profit and losses equally. The following transaction took place during the course of venture.

	₹
Arvind bought goods for cash	2550
Babloo bought goods for cash	7000
Arvind paid storage charges	500
Babloo paid freight and insurance	800
Babloo sold goods for cash	7000
Sales made by Arvind	5000
Commission payable to Arvind	150
Babloo took over the unsold stock	560
Babloo received 3% commission on sales	

Required

Prepare the necessary ledger accounts in the book of Arvind and Babloo assuming that the accounts are finally settle between them.

4.0 CONCLUSION

The accounts of joint venture business are kept in four ways, the four ways include the following: In the books of one co-venturer, in the books of all the co-venturer, memorandum Joint Venture Account and separate set of books. In this unit you have covered the first three way. You will be learning about the last way which is separate set of books in next unit.

5.0 SUMMARY

The accounts for the joint Venture business can be kept in four ways (i) all recording be done in the books of one co-venture only (ii) the accounting records be maintained by each one of them in their own books, (iii) each co-ventruer records his own transactions relating to the joint venture and on the completion of the project a memorandum Joint Venture Account is prepared to find out the profit or loss.

6.0 FURTHER READING

Frankwood: business accounting 1 and 2

O. M. Oyinlola: principle of account made simple

7.0 TUTOR MARKED ASSIGNMENT

Rajesh and Suresh entered into a contract to construct a building for N400,000. Rajesh and Suresh contributed N200,000 and N150,000 respectively. They agreed to share profit and losses in ratio of 4:3. It was decided that the work will be look after by Rajesh who will be paid 5% commission on contract price in addition to his share of profits. Rajesh purchased the necessary materials for N320,000 and paid N9000 for expenses. Rajesh also contributed building materials from his own stock work N20,000, N5000 remained to be paid for wages. Suresh took over the stock of materials for an agreed valuation of N16000. The building was completed and the contract money was duly received.

Required

Record the above transactions in the books of Rajesh and show the Joint Venture Account and Suresh's Account assuming that the outstanding wages were paid by Rajesh.

UNIT 20

JOINT VENTURE. ACCOUNTING TREATMENT II

Table of content

1.0	Introduction
2.0	Objectives
3.1	Interest in joint venture transactions
3.2	Separate set of books
3.3	Treatment of cash discount
4.0	Conclusion
5.0	Summary
6.0	Further readings
7.0	Tutor marked assignment

1.0 INTRODUCTION

In the previous Units on consignment you have studied how various transactions relating to the consignment are recorded in the books of the concerned parties. The basic objectives of preparing the consignment Account is to ascertain the profit or loss on each consignment. Similarly, where some persons join hands to carry out a specific job or a project (called joint venture) each person called co-venturer) would like to ascertain his share of profit or loss from the joint venture business. For this purpose they record the transactions related to joint venture business in their own books or prepare a separate set of books altogether. In this unit you will learn about interest in joint venture transaction, treatment of cash discount and when and how separate set of books are prepared

2.0 OBJECTIVE

After studying this unit, you should be able to:

- Prepare and explain separate set of books for the joint venture business.

3.1 INTEREST IN JOINT VENTURE TRANSACTION

When the co-venturers invest money in Joint Venture business and receive back the amount on different dates. It is quite usual for them to agree to calculate interest at a certain rate. Each co-venturer is entitled to receive interest on the amounts invested by him and pay interest on the amounts received by him. You should remember that only the net interest receivable from, or payable on to, the co-venturer is recorded in the Joint Venture Account. Thus, the net amount of interest is also taken into account before ascertaining the profit or loss on joint venture

3.3 SEPARATE SET OF BOOKS

So far you have studied the methods of recording joint ventures transactions where no separate set of books were maintained. Now we shall study another method where co-venturers agree to keep separate set of books for recording the joint venture transaction. When separate set of books are maintained, the joint venture transactions are recorded as a separate accounting entity on the basis of double entry principles. Under this method the following accounts are opened:

1. Joint Bank Account

2. Joint Venture Account
3. Personal accounts of each co-venturer

Joint Bank Account is a real account like the ordinary Bank Account. All co-venturers pay or deposit their contribution in this account. The joint venture Account is like a profit & loss account which shows all the expenses and incomes of the joint venture. The personal accounts of the co-venturers simply show their contributions in the form of goods, cash or expenses and the amounts received by them.

Let us now see the various journal entries which are normally recorded under this method.

- When co-venturers contribute their share of capital:

Joint Bank A/C	DR
To co-venturers Personal A/Cs	

- When a co-venturer contributed in the form of goods:

Joint Venture A/C	DR
To co-venturer's Personal A/C	

- When purchases are made for joint venture:

If on Cash	DR
Joint Venture A/C	
To Joint Bank A/C	

- If on Credit:

Joint Venture A/C	DR
To Creditor's Personal A/C	

Note that when goods are purchased for the joint venture business, you will debit the joint venture account not the purchases account.

- When expenses are incurred on account of joint venturer:

(a)	If paid out of Joint Bank A/C	DR
	Joint Venture A/C	
	To Joint Bank A/C	

(b)	If paid by a Co-Venturer:	
	Joint Venture A/C	DR
	To Co-venturer's Personal A/C	

- When goods are sold:

(a)	For cash sales:	
	Joint Bank A/C	DR
	To Joint Venture A/C	

(b)	For credit sales:	
	Debtor's Personal A/C	DR
	To Joint Venture A/C	

- When Creditors are paid:

Creditor's Personal A/C	DR
To Joint Bank Account	

- When amounts are received from debtors:

In this unit you have learnt about, interest in joint venture transactions, separate set of books of account i.e on completion of the project a memorandum joint venture account is prepared to find out the profit or loss or separate set of books of accounts may be maintained for the joint business and a joint account be opened in the bank. You also learnt about the treatment of cash discount.

5.0 SUMMARY

The joint venture account serves the purpose of Profit and Loss Account, under the third method no Joint Venture Account is maintained each Co-Venturers simply opens the personal Accounts of other co-venturers and for as-certaining the profit or loss of the venture a memorandum Joint Venture is prepared. When any of the methods is followed no separate books are maintained for the Joint Venture business. All transactions are recorded in the books of the co-venturers themselves. Under the fourth method of separate set of books are prepared for the joint venture business treating it as a separate according entity, and all transactions are recorded strictly accounting to the double entry system. The main accounts prepared under this method are:

- (1) Joint Ventures Account (2) Joint Banking Account and (3) The Personal Accounts of the co-venturer. In this case also the Joint venture Account serve the purpose of a Profit and Loss Account.

6.0 FURTHER READING

Frankwood: Business Accounting 1 And 2

O. M. Oyinlola: Bookeeping And Account Made Simple

L. Akinkuolie: Book Keeping And Accountancy

Questions and Answers

7.0 TUTOR MARKE ASSIGNMENT

A & B enter into Joint Venture to guarantee the subscription at par of 1,000,000 shares of ₦10 each of a limited company, and sharing profit and loss in the ratio of 2:3. The terms with the company are: 4 ½ % commission payable in cash and 6000 fully paid shares of the company. They agreed to pay expenses in connection with the issue of shares. The expenses incurred are advertisement ₦5000; printing and stationery ₦2000 and postage ₦600. All expenses are paid by A. The public subscribed to 88000 shares only. The remaining shares under the agreement were duly taken up by A & B when provided the necessary cash equally. The commission is received in cash and its shared by the co-venturers in the ratio 4:5. The entire holding of the joint venture is then sold in the market through brokers as follows: 25% at a price of ₦8.75 per share. 15% at a price of ₦8.50 per share and the remaining 10% is taken over by A and B equally at an agreed price of ₦8 per share.

Required:

Prepare the Joint Venture Account

Joint Bank Account, Shares Account, and the accounts of A & B showing the final settlement.

UNIT 2

CONCEPTS OF CONSIGNMENT

Table Of Content	
1.0	Introduction
2.0	Objectives
3.1	What Is Consignment
3.2	Parties To Consignment
3.3	Features Of Consignment
3.4	Distinction Between Sale And Consignment
4.0	Conclusion
5.0	Summary
6.0	Further Readings
7.0	Tutor Marked Assignment

1.0 INTRODUCTION

The producers often make use of Selling Agent and 'Distributors' in their channel of distribution. This is particularly true of the agricultural goods. The Selling Agents/Distributors act in various ways. One of the methods used is to receive the goods on consignment basis.

Under this system the agent receives the goods and undertakes to sell it on behalf of the consignor. He often settles the account of the consignor after all the goods received from him have been sold. This involves certain peculiarities in accounting. In this Unit you will learn about various concepts relating to consignment and basic framework of accounting for consignment transactions in the books of the consignor and the consignee.

2.0 OBJECTIVE

After studying this unit, you should be able to:

- Explain the meaning of consignment
- Distinguish it from sale
- Identify the parties involved in consignment and describe their relationship
- Explain the distinction between sale and consignment

3.1 WHAT IS CONSIGNMENT

You know that goods are often sent by the producer on consignment basis to the selling agents or distributors. Let us now understand what exactly we mean by consignment, how does it differ from sales and what kind of relationship exist between the consignor and the consignee.

When goods are sent by a manufacturer or a trader to an agent to be sold by him on commission basis and at the risk and account of the former, they are said to be sent on consignment. In other words a producer/trader forwards his products to his selling agents, appointed at different places, to sell them on his behalf for an agreed commission the process of sending goods on this basis by one firm to another for sale is known as “consignment” and this transaction is called a “consignment Transaction”. The consignment is “Outward Consignment” for the person who sends the goods and an “Inward consignment” for the person who receives the goods for sale.

3.2 PARTIES TO CONSIGNMENTS

You know that in consignment the goods are sent by one person to another for sale by the latter on behalf of the former. Therefore, there are two parties involved: the person who sends the goods and, the person to whom the goods are sent. The person who send the goods to the agent is called the consignor and the person to whom the goods are sent for sale is called the consignee.

If ‘X’ sends goods to ‘Y’ for sale, ‘X’ is known as consignor and ‘Y’ consignee. The consignor is the principal and the consignee is the agent. The mutual relations are governed by the law of Agency and of course by the terms of the contract between themselves. The consignee is a special kind of agent who is in possession of the goods. He passes the title of the goods to those who buy from him even if he sell the goods in contravention to the principals instructions. Suppose, the consignor instructs the consignee not to sell the goods below a certain price. If the consignee sells the goods below the stipulated price, the buyer will have more advantages to the goods. The consignor may, of course ask the consignee to pay damages for braking the terms of the contract with him. Like all agents, the consignee must render true accounts to the consignor, be faithful to him, and act according to his instructions. He is entitled to remuneration and reimbursement of expenses incurred by him on behalf of the consignor.

3.3 FEATURES OF CONSIGNMENT

- Goods are forwarded by the consignor to the consignee with an objective of sale at a profit.
- Under the consignment, goods are to be treated as the property of the consignor and to be sold at his risk entirely. The consignee does not buy the goods, he merely undertakes to sell them on behalf of the consignor. He is not responsible for any loss or even for any destructions or damage to the goods. But the consignee should not show any negligence.
- The consignor does not sell the goods to the consignee. Therefore, he cannot ask the consignee to pay the price of the goods unless they are sold and the sale proceeds are actually realized.
- The consignee agrees to sell the goods for an agreed rate of commission and is allowed to deduct his commission due from the sale proceeds.

- The agent enters into the picture only when he sells the goods and realizes the amount. He becomes indebted for amounts realized on behalf of the principal. The relationship between the consignor and the consignee is that of a principle and an agent.
- As it is not a sale, whatever the consignee does is on behalf of the consignor and therefore, all legitimate expenses incurred by the consignee for receiving and selling the goods should be reimbursed.
- Any stock remaining unsold with the consignee belongs to the consignor.
- As the consignee acts on behalf of the consignor the profit or loss on sale of good sent on consignment belongs to the consignor.

3.4 **DISTINCTION BETWEEN SALE AND CONSIGNMENT**

Although the possession of goods is transferred from one person to the other both in case of sale and in case of consignment, they differ from each other in various ways. The difference between an out right sale and the goods sent on consignment has been explained as follows:

No and Item	Sale	Consignment
1. Parties	Seller and Bur	Consignee and consignor
2. Ownership and title of goods.	Buyer takes title of the goods & becomes the owner even before sales	The consignor is still the owner of the goods even though the consignee is in possession of the goods consignor takes title of the goods until they are bought from the consignee Expenses incurred by the consignee in connection
3. Expenses	Expenses incurred after sale of goods and borne by the buyer	with the goods consigned to him are borne by the consignor. The relationship between the consignor and the consignee is that of a principal and an agent. The
4. Relationship	The relationship between the seller and the buyer of the goods is that of a creditor and debtor Risk attached to the goods sold	consignee is to sell goods on behalf of the consignor Risk attached to the goods consigned lies with the consignor till the goods consigned are sold. In case their goods are destroyed
5. Risk	is transferred to the buyer of goods as soon as goods are sold. In case, the goods are destroyed after sale, the loss is suffered by the buyer.	the loss is borne by the consignor. Goods can be returned if
6. Return of Goods	Return of goods is not possible as goods once sold are not returnable	they are not sold by the consignee. Account sale has to be submitted by the consignee
7. Account sales	No account sale is required to be submitted by the buyer to the seller.	to the consignor from time to time Unsold goods with the consignee will be treated as stock of the consignor.
8. Unsold Goods	The seller has nothing to do with the goods which could not be sold	

EXERCISES

Read the following carefully and tick or mark the correct answer.

- a) The relationship between the consignor and the consignee is that of:
- (i) Buyer and Seller
 - (ii) Principal and Agent
 - (iii) Debtor and Creditor
- b) The term used for consignee's remuneration is
- (i) Commission
 - (ii) Brokerage
 - (iii) Discount
- (c) The party responsible for the risk attached to the goods in consignment is
- (i) Consignee
 - (ii) Consignor
 - (iii) Both
- (d) The legal ownership of the goods is not transferred till the goods are sold in case of:
- (a) Sales
 - (b) Consignment
 - (c) Both

4.0 CONCLUSION

Consignment is a kind of arrangement where the manufacturer or a trade sends goods to his agents for sale to small traders or consumers. The agents sell goods on behalf of the manufacturer or the trader. The person to whom the goods are sent is called the consignee and the sender of the goods is called the consignor.

The relationship between the consignor and the consignee is that of principle and agent.

5.0 SUMMARY

In this unit, you have successfully been introduced to the concept of consignment i.e sending goods from one party to the other. The sender of the goods is the consignor while the person to whom the good is sent is known as the consignee. The relationship between the two is a principal and agent relationship under the consignment, goods are to be treated as the property of the consignor and to be sold at his risk entirely. There is a fine distinction between sale and consignment.

6.0 FURTHER READING

Frankwook: Business Accounting 1 And 2

O. M. Oyinlola: Principle Of Account Made Simple

7.0 TUTOR MARKED ASSIGNMENT

Explain the following terms in relation to consignment Account.

Consignment, consignor and consignee.

UNIT 22

IMPORTANT TERMS IN CONSIGNMENT ACCOUNT

Table Of Content	
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2.0	Objectives
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3.2	Account Sale
3.3	Commission
3.4	Expenses
3.5	Advance
4.0	Conclusion
5.0	Summary
6.0	Further Readings
7.0	Tutor Marked Assignment

1.0 INTRODUCTON

There are few terms relating to consignment which are commonly used. They are proforma Invoice, account sales, non-recurring and recurring expenses, and commission advance. etc. These are going to be explained in this unit.

2.0 OBJECTIVES

After studying this unit you should be able to:

Explain the Important terms in consignment account

3.1 PROFORMA INVOICE:

Since the goods are sent on consignment cannot be treated as sales, the consignor does not prepare proper invoice. He simply prepare a Proforma Invoice and sends it to the consignee along with the goods dispatched. This is prepare with a view to inform the consignee about the price of goods, expenses incurred, Mode or transportation and Minimum sale price at which the goods are to be sold.

3.2 ACCOUNT SALES:

As the Consignee is an agent and he's selling the goods on behalf of consignor, he has to furnish the details of sale proceeds, expenses, commission, etc, to the consignor. He furnishes all these details by means of a statement called 'Account Sales'. This shows the quality and description of goods sold, sale proceeds realized, the expenses incurred by the consignee, commission due to him, and the balance amount payable by him to the consignor. While preparing the Account Sales, the consignee will deduct all expenses incurred by him in relation to the consignment and the commission due to him. The remittance made in advance, if any, are also to be deducted from the balance so obtained. The consignee will send a bank draft or his acceptance for the balance due to the consignor.

3.3 COMMISSION:

It is the remuneration paid to the consignee by the consignor in consideration of the services rendered by the former in selling the goods consigned. This Commission can be divided into two types (i) Ordinary Commission and (ii) Special Commission.

- (i) Ordinary Commission: It is a commission usually paid as a fixed percentage on gross sale proceeds. The term commission normally denotes ordinary commission, unless specified otherwise. The consignee is not responsible for any bad debts and he does not guarantee the payment from all those who buy on credit so long as he is getting ordinary commission only.
- (ii) Special Commission: This is the Commission which the consignee gets over and above the ordinary commission. It can be sub-divided into two categories (a) over-riding commission, (b) Del Credre Commission
 - (a) Over – riding Commission: This is an extra Commission allowed over and above the normal Commission and is generally offered when the agent is required to put in hard work either in introducing a new product in the Market or where he is entrusted with the act of supervising the performance of other agents in a particular area. This Commission is also given for sales at prices higher than the price fixed by the consignor.
 - (b) Del Credre Commission: usually, all the losses are borne by the Consignor. Sometimes the Consignor expects that the consignee should also be responsible for recovering the debts and bear the loss on account of bad debts if any. In order to Compensate him for this responsibility, he is given some extra Commission called 'Del Credre Commission'. Such Commission is calculated on the total sales, unless there is special agreement to the effect that it is to be paid only on the amount of credit sales. Payment of this Commission imposes extra liability on the consignee and induces him to deal in a prudent and caution manner.

3.4 EXPENSES:

Expenses relating to consignment of goods are divided into two categories:

- (i) Non-recurring Expenses: All the expenses which are incurred for bringing goods to the consignee are nonrecurring in nature such expenses are generally incurred on the consignment as a whole. The non-recurring expenses will be incurred partly by the consignor and partly by the consignee.
- (ii) Recurring Expenses: These expenses are incurred after the goods have reached the consignee's place. They are recurring in nature because they may be incurred repeatedly by the consignor and the consignee. The examples of recurring expenses incurred by the consignor are: advertising, discount on bills, commission on collection of cheques, traveling, expenses of salesman, bad debts, etc. The example of recurring expenses incurred by consignee are; rent, insurance, sales promotion, etc.

3.5 ADVANCE:

It is a common trade practice for the consignor to demand some advance from the consignee as security for the goods dispatched to him. It may be in the form of cash or bank draft or in form of a bill of exchange. The consignee will send some amount as an advance before or after he receives the goods from the consignor. The advance received from the consignee should not be credited to consignment account as it is not a part of the sale proceeds. The advance will be adjusted against the amount due from the consignee when the accounts are finally settled. In some cases, a bill may be drawn on the consignee if he is not in a position to pay advance money. The consignor can discount the Bill with his bankers. In such a case the value of the bill (as advance) so accepted will be deducted from sale proceeds. The discount paid to the bank can be straight away charged to the profit and loss Account as it represent cost of raising finance.

EXERCISES

1. Explain the Relationship between the consignor and the consignee.
2. What is a consignment
3. What are the features of consignment

4.0 CONCLUSION

In this unit you have learnt about the important terms in consignment account these terms are very important in understanding consignment account. As the terms are used frequently in consignment. Such terms are Performa invoice, account sales, ordinary commission, special commission, del-credre commission, recurring and non-recurring expenses. Understanding these terms is paramount to understanding consignment account.

5.0 SUMMARY

While sending goods to the consignee, the consignor sends a proforma invoice which gives full details about the goods consigned. After the goods have been sold, the consignee prepares an Account sales, given full details about the number of units sold, the price at which they have been sold, and the expenses and commission due to him. The consignee is entitled to commission for the services rendered to the consignor. The commission can be ordinary or special commission.

6.0 FURTHER READINGS

Frank Wood: Business Accounting 1 & 2

7.0 TUTOR MARKED ASSIGNMENT

Kupson Ltd sent 2000 Radio Tapes costing N50 each for sale on consignment basis to ABC Ltd. Normal selling price per Tape is N60 consignee is entitled to commission at (i) 5% on normal selling price (ii) 10% additional commission on excess sales and (iii) 1 ½ % Del credere commission on total sales for guaranteeing collection of credit sales. ABC Ltd reported sales of 500 tapes at N60 each and 200 tapes at N75 each on cash basis and 400 tapes at N75 each and another 400 at N80 each on credit basis compute consignee's commission.

UNIT 23

CONSIGNMENT ACCOUNT 1

Table Of Content	
1.0	Introduction
2.0	Objectives
3.1	Books Of The Consignor
3.2	Consignment Account
3.3	Good's Sent On Consignment Account
3.4	Consignee's Account
4.0	Conclusion
5.0	Summary
6.0	Further Readings
7.0	Tutor Marked Assignment

1.0 INTRODUCTION

The transaction relating to each consignment can be worked out separately. For this purpose the consignor prepares a consignment account relating to each consignment to which all concerned expenses including the cost of goods consigned are debited and the sales proceeds and the closing stock are credited. In addition, he also maintain a consignee's account in order to complete the amount due from him.

2.0 OBJECTIVE

After studying this unit you should be to:

- * record various consignment transaction in the Journal.

3.1 BOOKS OF THE CONSIGNOR

You know each transaction is recorded first in a subsidiary book and then posted to the respective account in the ledger. All transactions related to consignment therefore, are first recorded in the Journal. The entries passed in respect of various transactions are as follows:

- i. Goods dispatched to the consignee: As you know the consignment of goods cannot be treated as a sale of goods. Therefore, sales Account will not be credited. In its place, an account called 'Goods sent consignment Account will be credited and the consignment account is debited with the cost of the goods consigned. Thus the journal entry will be as follows:

If consignments have been sent to more than one consignee, the consignment accounts may be distinguished by adding the names of the places to the consignment account (for example consignment to calcuta Account, consignment to Gonda Account, etc.)

- ii) Expenses incurred by the consignor: All expenses incurred by the consignor on consignment of goods are debited to the consignment Account and are thus added to cost of goods consigned. The entry would be:

Consignment A/C	DR
To Cash/Bank A/C	
(Being the expense incurred on the consignment)	

- iii. Advance made by the consignee: The amount of advance received from the consignee cannot be treated as sale proceeds, and so should not be credited to the consignment Account. It is treated as follows.

Cash/Bank/Bills Receivable A/C	DR
To consignee's A/C	
(Being an advance from the consignee)	

- iv. Bill received from the consignee discounted with the bank: If the consignor gets the bill receivable discounted from his bankers, the entry will be:

Bank A/C	DR
Discount A/C	DR
To Bills Receivable A/C	
(Being bill discounted with the bank)	

- v. Receipt of account sales from the consignee: when the goods are sold out, the consignee will send the Account sales to the consignor intimating him the total sales to the amount of his expenses and commission. The following three entries will be recorded in this connection.

- (a) For sales made by the consignee:

Consignee's A/C	DR
To consignment A/C	
(Being gross proceeds of sales)	

- (c) For consignee's expenses:

Consignment A/C	DR
To Consignee's A/C	
(Being expenses incurred by the consignee in dealing with consignment)	

- (d) For consignee's Commission:
 Consignment A/C DR
 To Consignee's A/C
 (Being Commission Payable on sale Proceeds)
- vii. Goods returned by the Consignee: Sometimes defective or obsolete goods are returned by the consignee to the consignor. When such goods are received, the journal entry will be:
 Goods sent on consignment A/C DR
 To consignment A/C
 (Being goods returned by the consignment)
- vii. Bad debts incurred: When the consignee is entitled to del credere commission no entry for bad debts is to be passed as such loss is to be borne by the consignee himself. But when del credere commission is not paid, the loss on account of bad debt is to be borne by the consignor
 Consignment A/C DR
 To Consignee's A/C
 (Being Value of Bad debts)
- viii. Remittance by the consignee in full settlement: The balance amount will have to be remitted by the consignee to the consignor on settlement. The following entry will be recorded, when the consignee remits to the consignor.
 Cash/Bank/Receivable A/C DR
 To consignee's A/C
 (Being balance due from the consignee received)
- ix. Profit loss on consignment: when you balance the consignment Account, it reveals profit or loss. If the total of credit side is more than the total of debit side, it is a profit and if the total of debit side is more than that of the credit side, it is a loss. The profit or loss is transferred to the profit and loss Account and thus the consignment Account is closed.
 The following entries will be recorded:
 a. If there is a profit:
 Consignment A/C DR
 Profit and Loss A/C
 (Being profit on consignment)
- b. If there is loss:
 Profit & Loss A/C DR
 Consignment A/C
 (Being loss on consignment)
- (x) Closing entry for goods sent on consignment: Goods sent on consignment Account is closed to the Trading Account. The entry is as follows:
 Goods sent on consignment A/C DR
 Trading A/C
 (Being goods sent on consignment account closed)
- (xi.) Unsold stock with the consignee: It is quite possible that all the goods sent on consignment are not sold by the consignee up to the date on which final

account and the goods returned by the consignee are debited to this account. The balance represents the cost of goods with consignee for sale, and is transferred to the Trading Account.

GOODS SENT ON CONSIGNMENT ACCOUNT

DATE	PARTICULAR	AMOUNT	DATE	PARTICULAR	AMOUNT
	To consignment A/C (Goods returned)	XXX		By consignment (Goods consigned)	
	To trading A/C (Balance Transferred)	XXX			
		XXX			XXX

3.4 CONSIGNEE'S ACCOUNT:

It is a personal account of consignee, it is prepared for ascertaining the amount due from the consignee. The consignees account is debited with all cash and credit sales effected by the consignee. The various expenses incurred by the consignee, the commission charged by him as well as the advance remitted by him are credited to this account. This account usually shows a debit balance indicating the amount due from the consignee. At times it may show credit balance, if the advance given by the consignee is more than the sale effected by him. The balance reveal by this account is shown in the balance sheet of the consignor, debit balance on the assets side, and credit balance on the liabilities side, unless the account is settled by the required remittance.

EXERCISE

Show the entries passed in respect of the following (in the Journal)

- (1) Goods dispatched to the consignee.
- (2) Advance made by the consignee.
- (3) For consignee's expenses.
- (4) Bad debts incurred
- (5) If there is a profit

4.0 CONCLUSION

In this unit you have learnt about the journal entries required in respect of various transaction in the Books of the consignor, such as when goods are dispatched to the consignee, when expenses are incurred by the consignor, when consignee made an advance etc.

5.0 SUMMARY

Every transactions relating to consignment requires different journal entries. The entries passed for various transaction varies according to situations.

6.0 FURTHER READING

Frankwook: business accounting 1 and 2

O. M. Oyinola: principle of account made simple

7.0 TUTOR MARKED ASSIGNMENT
(SEE UNIT 7)

UNIT 24

ACCOUNTING TREATMENT (BOOK OF CONSIGNMENT)

Table Of Content	
1.0	Introduction
2.0	Objectives
3.1	Books Of The Consignee
3.2	The Consignee's
4.0	Conclusion
5.0	Summary
6.0	Further Readings
7.0	Tutor Marked Assignment

1.0 INTRODUCTON

This Unit and the previous unit i.e unit 6. Should be studied together. In unit 6 you learnt about the Journal entries required for various transactions in consignment. In this unit you will study the account that are prepared in the consignment transaction such as consignor's A/C, Bad debt A/C, commission A/C and the entries that are needed to be passed in the book of the consignee.

2.0 OBJECTIVE

After study in this unit you should be able to:

- * record all transactions relating to the consignment in the journal and then post them to the relevant accounts including consignors' Accounts including consignors Account in the book of the consignee.

3.1 BOOKS OF THE CONSIGNEE

The Consignee mainly prepare a consignor's account in his book to find out what is finally due to the consignor. He record all transactions relating to the consignment first in the Journal and then post them to the relevant account (including consignor's account) in the ledger. The Journal entries passed by the consignee are:

- * Receipt of goods from the consignor: No entry is passed by the consignee when he receives goods from the consignor because receipt of goods on consignment does not amount to purchases of goods by him. He keeps them on behalf of the consignor for which he usually maintain an inwards consignment book.

- * Expenses incurred by the Consignor: No entry is passed by the Consignee.

- * Advance made by the consignee

Consignor's A/C	DR
To Bank / Bill Payable A/C	
(Being advance made by the Consignee)	

- * Bill discounted by the Consignor with the bank: No entry is passed by consignee.

- * Sale of goods by the consignee

Cash A/C (Cash Sales)	DR	
Consignment Debtor's A/C		DR
(Credit Sales)		
To Consignor's A/C		
(Being goods Sold)		

- * Expenses Incurred by the consignee: Being an agent of the consignor, all legitimate expenses incurred by the consignee related to the consignment are to be reimbursed by the consignor, the entry will be:

Consignor's A/C	DR
Cash / Bank A/C	
(Being expenses incurred on consignment)	

- * Commission due to the consignee: This should include all types of commission due to the consignee: The entry will be

Consignor's A/C	DR
Commission A/C	
(Being Commission due on sales)	

- * Return of goods to consignor: No entry will be passed in the books of the consignee as no entry was passed at the time of receipt of the goods.

- * Payment Received from Debtors

debited with bad debts if the consignee is to bear such loss because of del credere commission

FORMAT

DR

COMMISSION ACCOUNT

DR

		N			N
	To Bad debts A/C	XXX		By consignors A/C (Consignment Commission)	XXX
	To Profit & Loss A/C (balance)	XXX			
		<hr/> XXXX			<hr/> XXXX

EXERCISE

- (1) Explain why the consignee does not pass any entry for
 - (a) Goods sent on consignment
 - (b) Profit or loss on consignment
 - (c) Closing Stock
- (2) Explain the importance of del credere commission.

4.0 CONCLUSION

The Relationship between the consignor and the consignee is that of a principal and an agent. While sending goods to the consignee the consignor sends proforma invoice which gives full details about the goods consigned. After the goods has been sold, the consignee prepares an Account sales, giving full details about the number of units sold and price plus the expenses incurred.

5.0 SUMMARY

In other to work out the profit or loss on each consignment and amount due from consignee, the consignor prepares consignment Account, Goods sent on consignment Account and consignee's personal account in his ledger for each consignment. The consignee on the other hands, mainly prepares two accounts in sin his books. Commission Account and consignor personal Account. This helps him to know the amount due to the consignor and his income from commission.

6.0 FURTHER READING

- Frank wood: business accounting
- O. M. Oyinola: book keeping account made simple

7.0 TUTOR MARKED ASSIGNMENT

Bush Radio & Co Osun sent on consignment to Lagos & Co, Ikeja 100 radio sets, invoiced at ₦100 each on January 6 1986. Bush Radio & Co. paid ₦1000 on the same day for dispatching goods to the consignee. Consignee remitted ₦5000 as an advance by Bank draft on January 14.

The consignee is entitled to a commission of 10% on the sale proceeds. On receipt of goods the consignee paid ₦1000 for freight and N500 for warehouse charges.

On January 28, Lagos & Co sent an Account sales showing that the radio sets have realized N200 each. He remits the amount due to Bush Radio & Co.

Required:

Pass Journal entries and prepare Ledger accounts in the book of the consignor.

UNIT 25

CONSIGNMENT ACCOUNT II (UNSOLD STOCK)

Table Of Content	
1.0	Introduction
2.0	Objectives
3.1	Direct Recording In The Ledger
3.2	Valuation Of Unsold Stock
4.0	Conclusion
5.0	Summary
6.0	Further Readings
7.0	Tutor Marked Assignment

1.0 INTRODUCTION

In the previous unit you learnt about the basic accounting frame work relating to the goods sent on consignment basis i.e the entries to be passed in the books of consignor and the consignee. You know the methods of working out the profit on each consignment when all the goods are sold out. In practice you will find that at the time of submitting the account sales, some goods may remain unsold. Then there is also a possibility of loss while the goods are in transit or while they are lying in the warehouse of the consignee. Such loss may occur due to normal or abnormal causes. In this unit you will learn how the value of unsold goods is worked out and recorded in books of account.

2.0 OBJECTIVES

After studying this unit you should be able to:

- * Record consignment transaction directly in the ledger account of the * consignor and the consignee.
- * Compute the value of unsold stock.

3.1 DIRECT RECORDING IN THE LEDGER

You know for each consignment the consignor prepares the consignment account, the goods sent on consignment account and the commission account in his books. In unit 24 you learnt that all transaction relating to consignment are first recorded in the Journal and then posted into the above mentioned ledger accounts. Sometimes, you may be asked to prepare the ledger account directly

i.e without passing any journal entries. You should therefore learn how to prepare these account directly.

You should debit the consignment Account with the cost of goods Consigned, expenses incurred by the consignor, expenses incurred the consigned' commission; and credit it with sales (both cash and credit) and the goods returned by the consignee by the consignee. The consignee's Account will be debited with the sales made by him and credited with his expenses commission and remittance made to the consignor.

The consignor Account in the books of consignee is just the reverse of consignee's Account in consignor's books. It is debited with the expenses ,incurred by the consignee, the commission due to him and the remittance made to the consignor on account; and credited with the total amount of sales.

3.2 VALUATION OF UNSOLD STOCK

In practice, you will find that at the time of submitting the account sale, a part of goods consigned will still be unsold and will be lying with the consignee. In order to calculate the true profit or loss on consignment the unsold stock should be valued and accounted for. Let us therefore learn first how the unsold stock is valued. You know that valuation of unsold stock is usually done at cost. Cost in case of consignment stock would include the cost at which the goods are consigned plus the proportionate non recurring expenses i.e all those expenses incurred till the goods reach the warehouse of the consignee. You should note that all non-recurring expenses, whether incurred by the consignor or by the consignee, are to be taken into account. In the absence of details of expenditure incurred by the consignee, all expenses incurred by him are to be taken as recurring expenses and thus are not to be considered in the calculation of closing stock in other words, while valuing the closing stock we add such proportionate expenses to the cost price that have been incurred up to the time the goods are brought to the place of the consignee. Any other expenses paid by the consignor or the consignee after the point will not be considered, as these expenses do not add to the value of the goods. Such expenses are warehouse rent, selling expenses, carriage outwards, warehouse insurance, discount etc.

- Following expenses are usually added for calculation of closing stock

Carriage and Freight
Loading Charges
Customs Duty
Clearing Charges
Dock dues
Carriage paid up to the warehouse unloading charges

- Following are the expenses which are not considered or calculation of closing stock

Warehouse rent
Discount
Bad Debt
Insurance of the goods in the warehouse selling and distribution expenses.

You will notice that all expenses incurred by the consignor are considered for valuation of the closing stock. The problem arises only in case of consignee's expenses. The consignee expenses which are to be included in the value of closing stock are those expenses which are incurred till the goods reach the warehouse of the consignee. Any other expenses incurred thereafter are ignored for purposes of closing stock

ILLUSTRATION

A sent goods worth ₦10,000 to B and paid ₦1200 for packing and ₦800 for Insurance. B took delivery of the goods and paid ₦2000 for freight ₦400 for cartage and unloading ₦600 for warehouse rent, ₦400 as selling expenses and ₦800 Insurance. B sold three fourth of the goods for N1800.

Required

Calculate the value of closing stock

EXERCISE:

On Jan, 1980 Olufemi Consigned 180 packs of Lux Soap to Adewale costing ₦25 each. Olufemi paid the following expense bills on the consignment transport service, ₦130, insurance, ₦150. After the voyage, it was ascertained that 5 packs were lost in transit for which he received a compensation from the insurer on Jan. 15. As at 31st Jan., the expenses insurance incurred by Adewale include: import duty N100; selling expenses, N90, storage N80, where house wages ₦45. He had sold 160 pack at ₦32 before he fell sick after recovery, he resumed transactions on Feb by Feb 20, he sold everything at ₦35 per pack. Incurring selling expenses, N20 commission of 5% was agreed on sale (Round the figures up to the nearest naira)

Required

Calculate the value of unsold stock at 31st January 1980.

4.0 CONCLUSION

Sometimes the consignee is not able to sell all goods consigned to him. He is left with some unsold stock, the cost of which must be shown on the credit side of the consignment Account before calculating the profit on consignment. The cost of unsold stock shall include proportionate amount of non-recurring expenses.

5.0 SUMMARY

In this unit you have learned about the valuation of non sold stock in order to calculate the true profit or loss on consignment and that the unsold stock should be valued and accounted for.

You also learned about the expenses that are included in the calculation of closing stock such as carriage and freight, clearing charges, loading charges etc and expenses which are not considered in the calculation of closing stock like discount, bad debt, selling and distribution expenses etc. The accounting treatment of unsold stock is also covered in this unit.

6.0 FURTHER READING

Frank Wood: Business Accounting 1 & 2

O.M.Oyinlola Book Keeping & Account Made Simple

7.0 TUTOR – MARKED ASSIGNMENT

On January 1, 1988 Universal Sports, Lagos consigned 180 cases of sport goods costing N360 each to Genini Sports Kano. They paid N360 for Insurance and N1800 for freight. Genini Sports are entitle to a commission of 10% on gross sales.

Genini Sports received the consignment on January 15 and sent a 60 days bill for N10,000 to Universal sports. The bill was discounted for N9900. On opening the cases the consignee found 10 cases of wrong description and returned them, paying return freight of ₦400.

Genini Sports sold 120 cases at ₦600 each for cash and 20 cases at ₦700 each on credit. Genini Sport Spent ₦720 on clearing charges and ₦600 on carriage outwards. They incurred bad debts amounting to ₦400. The accounts were settled on June 30, and the balance remitted by cheque.

Required – Show necessary ledger account in the books of both parties.

UNIT 26

CONSIGNMENT ACCOUNT III (UNSOLD STOCK)

Table Of Contents

1.0	Introduction
2.0	Objective
3.1	Accounting Treatment Of Unsold Stock
3.2	Working Notes
4.0	Conclusion
5.0	Summary
6.0	Further Readings
7.0	Tutor Marked Assignment

1.0 INTRODUCTION

In Unit 25 you learnt about direct recording of Consignment transaction in the ledger and the valuation of Unsold Stock. In this Unit you will learn about the accounting treatment of Unsold Stock since the value of Unsold Stock affect the profit and loss on any consignment.

2.0 OBJECTIES

After studying this Unit you should be able to:

- Compute the value of Unsold Stock
- Record the Unsold Stock in the book of the Consignor

3.1 ACCOUNTING TREATMENT OF UNSOLD STOCK

Since the value of Unsold Stock affects the profit or loss on any consignment, its valuation and recording in the books of consignor is very import. It is shown on the Credit side of consignment Account for which the following journal entry will be passed.

Consignment Stock A/C	DR
To Consignment A/C	
(Being the value of closing stock)	

The consignee, however, will not pass any entry for the closing stock, it is because he is not the owner of the goods and does not pass any entry even when he receives or returns the goods.

3.2 WORKING NOTES

- Closing Stock Valuation

Number of closing Units X Cost Price Per Unit

$$\left[\begin{array}{l} + \text{ Non – recurring Expenses X } \frac{\text{Closing Stock Units}}{\text{No of Units}} \\ \text{Consigned} \end{array} \right]$$

(Non-recurring Expenses include all the expenses of Consignor and clearing charges paid by the Consignee)

Goodluck Cooperative Consumer
Society Limited

ILLUSTRATION 2

On 1st July, 1991 Kupson of London sent 100 cases of goods to Oakland of Melbourne Australia, on Consignment. Terms. Kupson paid N80 per case for these goods, and it was agreed that he should bear all the expenses of the Consignment. He paid freight N40 and insurance N100.

On December, 1991, Kupson received on account sales from Oakland showing that 60 cases had been sold for N6,900.00. Oakland had paid duty charges N120 and Landing charges N100 on the Consignment. His selling expenses were N70 and he is entitled to a Commission of 5% on the goods and a Del Credre commission of 1%. Oakland enclosed with the account sale a remittance for the account due from him to Kupson. You are required to set out the ledger account in the books of Consignor and the Consignee.

SOLUTION:

GOODS ON CONSIGNMENT ACCOUNT

	N	Consignment to Oakland A/C	N 8,000.00
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CONSIGNMENT TO OAKLAND ACCOUNT

KUPSON:			
Goods on Consignment	8,000	Sales	6,900
Freight	140	Closing Stock	3,384
Insurance	100		
OAKLAND			
Duty Charges	120		
Landing Charges	100		
Selling expenses	70		
Commission	345		
Del Credre commission	69		
Net Profit	1,340		
	-----		-----
	<u>10,284</u>		<u>10,284</u>

		ACCOUNT SALES	
DR	N		CR
Sales	6,900	Selling expenses	N 70
		Commission	345
		Del Credre Commission	69
	-----	Draft	<u>6,416</u>
	<u>6,900</u>		<u>6,900</u>

Stock Working:

Total direct Cost = N8,460

$$\frac{40}{100} \times \frac{8460}{1} = \text{N}3,384$$

Computation of Total Direct Cost

	₦	₦
	=	8,000
1) Freight	140	
2) Insurance	100	
3) Duty charges	120	
4) Landing charges	100	<u>460</u>
Total Direct Cost:		<u>8,460</u>

EXERCISES

1. Tick the correct alternative
 - a) The cost of Consignment is the Cost at which the goods are Consigned plus.
 - b) i. The non-recurring expenses
 - c) ii. Proportionate non-recurring expenses
 - iii. All the recurring expenses
 - (b) Non-recurring expenses are the expenses incurred.
 - i) After the goods reach the warehouse of the consignee.
 - ii) In Transportation
 - iii) Till the goods reach the warehouse of the Consignee.
 - C Consignment Stock is show on
 - i) Credit side of Consignee’s Account
 - ii) Credit side of consignment Account
 - iii) Debit side of Consignor’s Account
 - d) Goods returned by the Consignee should be charged to the Consignment Account at
 - i) Cost price
 - ii) Market price
 - iii) Cost or Market price which ever is lower
 - e) Expenses incurred in forwarding goods should be debited to
 - i) Profit and Loss Account
 - ii) Consignment Account
 - iii) Goods sent on Consignment Account

4.0 CONCLUSION

In this Unit you have studied the accounting treatment of unsold stock i.e. the value of unsold stock is shown on the credit side of the Consignment Account.

5.0 SUMMARY

The value of Unsold Stock is shown on the Credit side of the Consignment account and it is reflected in the Journal.

Consignment Stock A/C	DR
To Consignment A/C	
(Being the value of closing stock)	
Unsold Stock =	
d	
Cost price + $\frac{\text{Qty Unsold}}{\text{Qty Consigned}} \times \frac{\text{Total attributable Expenses}}{\text{Total attributable Expenses}}$	

6.0 FURTHER READING

Frankwood – Business Accounting 1 And 2

7.0 TUTOR MARKED ASSIGNMENT

On 1st February, 1992, Olu, a Lagos Trader Consigned 120 cases of goods to Obi, an agent in Calabar. The cost of the goods was N25 a case, Olu paid to the port N147 and Insurance N93. On 31st March, 1992. Olu received an account sales from Obi, showing that 100 cases had been sold for ₦3,500 and Obi has paid freight at the rate of ₦2 a case, and N186 as part charges. Obi was entitled to a commission of 5% on sales. A sight draft for the amount due was enclosed with the Account Sales.

Require:

Prepare the Account Sales and show the account for the above transaction in the ledger of Olu.

UNIT 27

CONSIGNMENT ACCOUNT IV (LOSS OF GOODS)

Table Of Contents	
1.0	Introduction
2.0	Objectives
3.1	Normal Loss
3.2	Abnormal Loss
3.2.1	Effect Of Abnormal Loss On Valuation Of Closing Stock
1.3	Where Normal And Abnormal Losses Occur Simultaneously
4.0	Conclusion
5.0	Summary
6.0	Further Readings
7.0	Tutor Marked Assignment

1.0 INTRODUCTION

In this unit you will learn about the treatment of normal and abnormal losses which may take place in transit or in the warehouse of the consignee and their impact on valuation of stock and the profit on consignment.

Under consignment arrangement, when goods are transferred from one place to another, there is a possibility of loss in transit. The loss can also take place in the warehouse of the consignee. The

loss may occur due to factors like evaporation, leakage, mishandling e.t.c. or due to some accident or theft. Such losses can be broadly divided into two types – normal and abnormal losses.

2.0 OBJECTIVES

After studying this unit you should be able to:

- Explain the Nature of normal and abnormal losses
- Computer the value of unsold goods in case of normal loss
- Explain the treatment of normal and abnormal losses of goods and their impact on profit.

3.1 NORMAL LOSS

Let us discuss the exact nature of this loss and its accounting treatment, normal loss is a loss which is due to the inherent nature of the goods consigned. It may arise in the process of loading and unloading of goods, breaking of bulk piece into smaller ones, weighing or due to evaporation, processing etc. for example while loading or unloading or weighing coal, some part is bound to fall down in powdered form. Similarly the petroleum products are bound to loose weight due to evaporation or leakage. This type of loss is unavoidable. It can be reduced to some extent but cannot be eliminated altogether since this loss occurs in the ordinary course of business and as on account of inner characteristics of the goods, it is called a normal loss.

Normal loss is not shown separately in the books of accounts. The cost of normal loss is spread over the remaining units, thereby increasing the cost par unit of the goods. For example 10,000 tons of coal is sent on consignment costing N100 each. The normal wastage is 2% i.e. 200 tons. Let us see how normal loss leads to an inflated cost price per unit.

Total cost of 10,000 = N1,000000 (10,000 x 100)

Total Units = 10,000 tons

Normal loss = 200 tons

Remaining Units = 9,800 tons

N1,000000 will no be the cost of (9,800) tons as the cost of normal loss is borne by the remaining units. The cost per unit will therefore

be $\frac{1,000000}{9,800} = \text{N}102.04$

Approximately.

As stated earlier, no separate entry is passed for the normal loss. The effect of this is reflected in the valuation of closing stock only.

If the consignee is able to sell all the goods so that there is no stock left unsold, the question of normal loss becomes irrelevant. The problem arises only when some goods are left unsold with the consignee, In that case we shall first calculate the inflated cost per unit as explained above and then the closing stock shall be valued by multiplying the number of units in Stock with the inflated cost per unit. The value of closing stock can also be computed directly (without calculating the inflated cost per unit) with the help of the following formula.

Total cost of Goods consigned x $\frac{\text{Unsold Units}}{\text{Remaining Units}}$

Remaining Units = Total consigned – Normal loss
 Unsold = Remaining Unit - Unit Sold.

3.2 ABNORMAL LOSS

The loss which occurs due to negligence, inefficiency or some accident is treated as abnormal loss. For example loss of goods due to fire, floods, earth quakes, riots, war theft etc. such a loss does not occur on account of inherent nature of the product but on account of the operation of certain external forces.

Abnormal loss is calculated in the same manner as the value of closing stock. In other words, in order to calculate the abnormal loss all the proportionate non-recurring expenses incurred up to the point of loss are also added to the cost of abnormal loss units. The formula for calculation of abnormal loss is as follows:

$$\begin{aligned} \text{Cost of Abnormal Loss Units} = & \\ \text{No of Abnormal Loss Units X Cost Per Unit} + & \\ \text{Non – recurring Expenses up to the point of loss} & \\ \text{X } \frac{\text{No of Abnormal Loss Units}}{\text{No of Units Consigned}} & \end{aligned}$$

Since the abnormal loss is not incidental to the consignment. It should be shown separately in the books of accounts. The total abnormal loss is credited to the Consignment Account.

The following entry is passed in the books of the consignor.

Abnormal Loss A/C	DR
To consignment A/C	
Being loss on account of ...	

Such an abnormal loss may be

- i) Uninsured
- ii) Partially Insured
- (iii) Fully Insured

- ❖ When the loss is uninsured: In case the abnormal loss is not insured with an insurance company, the total amount of the loss is transferred to Profit & Loss Account by passing the following entry.

Profit & Loss A/C	DR
To Abnormal Loss A/C	
(Being Abnormal Loss transferred to P & L A/C)	

- ❖ When the loss is partially insured: In case the abnormal loss is insured and the claim following entry is passed.

Insurance Company's A/C	DR
Profit & Loss A/C	DR
To Abnormal Loss A/C	
(Being partial claim admitted)	

Insurance company will be debited with the amount of claim admitted and only the balance amount (total loss minus the claim) is transferred to Profit and Loss Account.

- ❖ When the loss is fully insured: In case the loss is fully insured and the total "Claim" is admitted by the Insurance company, the following entry will be passed.

Insurance Company's A/C	DR
To Abnormal Loss A/C	
(Being claim fully admitted)	

Nothing is transferred to the profit and Loss Account as the claim for the whole amount of loss had been admitted by the insurance company. No loss is to be borne by the consignor.

3.2.1 EFFECT OF ABNORMAL LOSS ON VALUATION OF CLOSING STOCK:

The value of closing stock is also effected in case of abnormal loss. Abnormal loss may occur either in the warehouse of the consignee or in transit. Let us see the effect of abnormal loss on the closing stock under both situations.

When the abnormal loss occurs in the warehouse of the consignee the valuation of closing stock is not affected because the expenses incurred after reaching the warehouse of the consignee are not to be taken into account for the purpose. Hence, the normal formula will be followed for the valuation of closing stock.

You have learnt that when abnormal loss occurs in the warehouse of the consignee the closing stock valuation is not affected. But it is not so when the abnormal loss occurs in transit. The closing stock valuation is also affected due to abnormal loss in transit because some non-recurring expenses may be incurred after the loss has taken place. Hence, when such loss occurs in transit, you will have to distinguish between the non-recurring expenses incurred before the loss and the non-recurring expenses incurred after the loss. The non recurring expenses incurred before the loss relate to the total units.

Consigned whereas the non-recurring expenses incurred after the loss relate to the remaining units (total units minus abnormal loss units) only. So, the expenses before the loss will be proportionately divided amongst the total units, whereas the expenses incurred after the loss will be proportionately divided amongst the remaining units.

3.3 WHERE NORMAL AND ABNORMAL LOSSES OCCUR SIMULTANEOUSLY

In your earlier study, you learnt about the normal loss and the abnormal loss on the consignment. But it is quite possible that both normal and abnormal losses occur simultaneously in connection with the same consignment. In such a situation, the abnormal loss will be calculated in the same consignment.

In such a situation, the abnormal loss will be calculated in the same manner as discussed in section 3.2. But, the valuation of closing stock needs special attention as the normal loss is also involved. In order to calculate the value of closing stock the following procedure will be followed:

- ❖ i) Take the total lost of goods consigned and add all the non-recurring expenses incurred by the consignor as well as the consignee.
- ❖ ii) Deduct the quantity and cost of abnormal loss from the total number of goods consigned and the cost as obtained in (i) above respectively
- ❖ iii) Deduct the quantity of normal loss from the quantity worked out in (ii) Above without making any adjustment in cost.
- ❖ iv) Now you will be left with the cost of goods of the good units with the consignee.

Calculate cost per unit of these units by dividing the cost (remaining after deducting the cost of abnormal loss) by the number of good units.

- ❖ v) Multiply the number of unsold units with the cost per unit obtained in (iv) above to arrive at the value of unsold stock

EXERCISES

How will you treat abnormal loss if

- (a) Loss is fully Insured
- Loss is uninsured
- Loss is partly insured
- Define Normal Loss
- Explain Abnormal Loss

4.0 CONCLUSION

When goods are consigned, it is possible that some are lost in transit or destroyed while it is lying in the consignee's warehouse. Such losses may occur either due to the inherent nature of goods or due to some accident. The first is called normal loss and the second abnormal loss.

5.0 SUMMARY

In this unit you have learnt about Normal and abnormal loss. The normal loss is not shown anywhere in the bills of account. It simply inflates the cost per unit of goods consigned and therefore affects the revaluation of closing stock and the profit. But the abnormal loss requires special treatment in the books of account of the consignor. The cost of such loss is worked out in the same manner as the cost of unsold stock and credited to the consignment Account.

Any amount received from the insurance company must be subtracted from the abnormal loss before it is transferred to the profit and loss Account.

6.0 FURTHER READING

Frank Wood – Business Account 1 And 2

O. M. Oyinlola – Book Keeping And Account Made Simple

7.0 TUTOR MARKED ASSIGNMENT

On June 10, 1988, Modi & Co Lagos consigned 500 cases of goods costing N150 each to Sethi & Co Ibadan. On same date, the consignor paid N2500 for freight and carriage, N1000 as loading charges, and N1200 for Insurance. On July 1, 1988 the consignee paid N1800 for clearing charges N1750 for warehousing and storage charges and N900 for packing and selling expenses. He also remitted a bank draft for N15,000 as an advance against the consignment. On July 5, 1988 he sold 275 cases at N200 each. Sethi & Co are entitled to 5% commission on the gross proceeds of sales. It is found that 50 cases have been lost in transit. Sethi and Co submitted an account sale on July 10, 1988.

Required:

Prepare the necessary ledger account in the books of the consignor.

UNIT 28

CONSIGNMENT ACCOUNT V (PRICE)

TABLE OF CONTENTS	
1.0	Introduction
2.0	Objective
3.1	Concepts Of Invoice Price
3.2	Calculation Of Cost Price And Invoice Price
4.0	Conclusion
5.0	Summary
6.0	Further Readings
7.0	Tutor Marked Assignment

1.0 INTRODUCTION

In Units 26 and 27 you have learnt about the recording of transactions relating to consignment in books of both the consignor and the consignee. You know that the goods sent on consignment are recorded in consignment Account at cost price. Sometimes, the consignor does not want to reveal the cost of goods to the consignee and , therefore, invoices the goods at a price which is higher than cost price. Such price is know as invoice price. In this unit you will learn about the concepts of invoice price and how to calculate the cost price and the invoice price.

2.0 OBJECTIVE

After studying this Unit you should be able to:

- Explain the meaning of invoice price and the reasons for consigning goods at Invoice price.
- Compute cost price and invoice price in different situations.

3.1 CONCEPTS OF INVOICE PRICE

In Unit 26 you learnt that when the consignor sends goods on consignment to the consignee, he records it in his books at cost and the same is reflected in the proforma invoice. Sometimes, the consignor does not want the consignee to know the actual cost of goods sent to him, in that case he would consign the goods at a price other than the cost price. Such price would generally be higher than the cost. It is called the invoice price in other words the invoice price is equal to the cost price plus a certain amount of profit. Apart from the intension of not revealing the cost of goods to the consignee there are a number of other reasons why the consignor consigns the goods at invoice price. These are :

- i) The consignee will not be able to assess the profit earned on consignment and therefore may not demand a higher commission.
- ii) If the consignee knows about the actual cost of goods he may resort to some dishonest practices such buying goods for himself at a lower price and then selling them at a higher price in the market.
- iii) It would give a fair idea to the consignee of the minimum price at which he is to sell the goods.

You should know that invoice price is not the same thing as selling price. The invoice price the price at which the consignor sends the goods to the consignee whereas the selling price is the price at which the consignee sells the goods to the customers. Let us take an example in order to clearly understand the difference between the three prices i.e. the cost price, the invoice price and the selling price. Suppose Gopel consigns goods worth N15000 to his agent Ashok at an invoice price of N18,000.

Ashok sells the goods at N20,000. In this example the cost price (CP) of the goods is N15,000, the invoice price (IP) of the goods is N18000 and the selling price (SP) of the goods N20,000.

You will observe that the IP is higher than CP whereas SP is higher than the CP as well as the IP, and that the SP and the IP are not same. If however, the consignor directs the consignee to sell the goods at invoice price itself, then the SP and the IP will be the same.

3.2 CALCULATION OF COST PRICE AND INVOICE PRICE

You know the relationship between the invoice price (IP) the cost price (CP) and profit.

This can be expressed in the form of an equation as follows.

$$\text{IP} = \text{CP} + \text{Profit}$$

With the help of the above equation, you can find out the missing figure i.e. If any two figures are given the third one can be worked out for example, if the CP is given as 150 and the profit as N50, the invoice price will be

$$\begin{aligned} \text{IP} &= \text{CP} + \text{Profit} \\ &= 150 + 50 \\ &= \text{N}200 \end{aligned}$$

Similarly, if invoice price and profit are given as N200 and N50 respectively the cost price will be

$$\begin{aligned}
 \text{IP} &= \text{CP} + \text{Profit} \\
 200 &= \text{CP} + 50 \\
 \text{CP} &= 200 - 50 \\
 &= \text{N}150
 \end{aligned}$$

In the above examples the profit is given as an absolute figure. But, in many cases the profit may be given in the form of a percentage either on cost price or on invoice price. In that case, the calculation of missing price may become difficult of course, if the percentage of profit is based on the price the figure of which is given, you may not face much problem. But if the percentage of profit is based on the price, the figure of which is not given, you may find it difficult to work out the profit and so also the missing price. Let us take different situation where the profit is given in the form of a percentage and we have to work out the missing price. These situations are:

- 1) CP is given and profit is given as a percentage of CP, you have to work out IP.
- 2) CP is given and profit is given as a percentage of IP, you have to work out IP.
- 3) IP is given and profit is given as a percentage of IP, you have to work out CP.
- 4) IP is given and profit is given as a percentage of CP, you have to work out CP.

Let us take them one by one and find out the missing figure with the help of examples.

1. CP is given and the profit is given as a percentage on CP.
 Suppose the CP of a product is N200 which is invoiced at 20% profit on cost.
 The IP will be calculated as follows:

$$\begin{aligned}
 \text{IP} &= \text{CP} + \text{Profit} \\
 \text{IP} &= 200 + \left[\frac{20}{100} \times \frac{200}{1} \right] \\
 \text{IP} &= 200 + 40 \\
 \text{IP} &= \text{N}240
 \end{aligned}$$

2. CP is given and the profit is given as percentage on IP.
 Suppose CP of a product is N200 which is invoiced at 20% profit on IP, IP will be calculated as follows.

Let us assume that the IP is X

$$\begin{aligned}
 \text{IP} &= \text{CP} + \text{Profit} \\
 X &= 200 + \left[\frac{20}{100} \times X \right] \\
 X &= 200 + \frac{20}{100} X \\
 X - \frac{20}{100} X &= 200 \\
 \frac{100 X - 20 X}{100} &= 200 \\
 80 X &= 200
 \end{aligned}$$

100

$$x = \frac{200 \times 100}{80} = \text{N}250$$

So the IP is N250 and the Profit is N50 Now you can verify that the profit is 20% on invoice price.

$$\begin{aligned} \text{Profit} &= \frac{20}{100} \text{ of IP} \\ &= \frac{20}{100} \times 250 \\ &= \text{N}50 \end{aligned}$$

1. IP is given and the profit is given as percentage of IP:

Suppose the IP of a product is N500 and profit is 25% on IP. The missing figure i.e. the CP is worked out as follows;

$$\begin{aligned} \text{IP} &= \text{CP} + \text{Profit} \\ 500 &= \text{CP} + 25\% \times 500 \\ 500 &= \text{CP} + 125 \\ \text{CP} &= 500 - 125 \\ \text{CP} &= \text{N}375 \end{aligned}$$

2. IP is given and the profit is given as a percentage of CP:

Suppose the IP is N600 and profit 20% on CP then CP will be calculated on follows: CP

Let us assume CP to be X

$$\begin{aligned} \text{IP} &= \text{CP} + \frac{20\% \times \text{CP}}{100} \\ 600 &= \frac{100\% \times X + 20\% \times X}{100} \\ 600 &= \frac{120\% \times X}{100} \\ X &= \frac{600 \times 100}{120} \\ X &= \text{N}500 \end{aligned}$$

So the CP is N500 and profit is N100. Now you can verify that profit is 20% on cost.

$$\begin{aligned} \text{Profit} &= \frac{20}{100} \times \text{CP} \\ &= \frac{20}{100} \times 500 \\ &= \text{N}100 \end{aligned}$$

EXERCISE

Indicate whether the following statements are True or False

- a) Consignor always consigns goods at invoice price
- b) Invoice price is always equal to selling price
- c) Consignor consigns the goods at invoice price to conceal the actual profit earned on consignment.

3.0 CONCLUSION

Sometimes, in order to conceal the actual profit earned on consignment the consignor invoices the consignee at a price which is higher than the cost. This is called invoice price. The invoice price is equal to the cost price plus a certain amount of profit. There are a number of reasons why the consignor consigned goods at invoice price these included concealment of profit to prevent the consignee from demanding higher commission etc.

4.0 SUMMARY

In the Unit you have learnt about the concepts of invoice price i.e. consignor consigning good to the consignee at a price higher than the cost, and the reasons why the consignor engage in the practice. You also learnt about the calculation of cost price (CP) and invoice price (IP) with different variables.

5.0 FURHTER READING

O. M. Oyinlola: Book Keeping And Account Made Simple

Frank Wood: Business Accounting 1 And 2

L. Akinkuolie: Book – Keeping And Accountancy

6.0 TUTOR MARKED ASSIGNMENT

On 2nd February, 1997 Cowboy International invoiced goods proforma to Hatmen at N39,500 being cost plus 25%. Expenses met by Cowboy were freight, N1600, Insurance N2,000.

Hatmen too spent N500 on handling charges; N398 on transport and N1000 on selling and distribution expenses. He was also to take 6% Commission on the sales at invoice price and 25% on any surplus prices realized. He was also to be given a credit for 2.5% on the gross sales as a del – Credre Commission.

Up to March 31, 1997 Hatmen has sold for N37,880 and goods in his hands unsold at that date had an invoice value of N8,130. The original cost of the unsold stock, including all attributable expense amounted to N6,390.

Cowboy had drawn a one-month bill for 60% of the invoice price of goods consigned on 15th March. This was accepted by Hatmen on 31st March and he sent a bankers draft for the balance of remittance with the account sales on 31st March.

- Required – Calculate
- (a) Cost price of the goods consigned
 - a. Sales at Invoice price
 - b. Surplus price realized

UNIT 29

CONSIGNMENT ACCOUNT VI (LOADING)

TABLE OF CONTENTS	
1.0	Introduction
2.0	Objectives
3.1	Definition Of Loading
3.2	Items Which Involve Loading
3.3	Adjustment Of Loading
3.4	Accounting For Goods Sent At Invoice Price
4.0	Conclusion
5.0	Summary
6.0	Further Readings
7.0	Tutor Marked Assignment

1.0 INTRODUCTION

In Unit 28 you learnt about the cost price and the invoice price, the difference between the invoice price and the cost price is called 'loading'. In a situation where goods are sent to the consignee at invoice price, the entry for the goods sent on consignment is also recorded at the invoice price which would need an adjustment for loading at the time of computing the profit on consignment.

In this unit you will learn about items which involve loading and the adjustment for loading.

2.0 OBJECTIVE

After studying this Unit you should be able to:

- Explain the meaning of loading and pass necessary entries for its adjustment in Consignment Account.
- Prepare books of the consignor and the consignee based on Invoice price.

3.1 DEFINITION

You know that the invoice price is obtained by adding a certain amount of profit to the cost price. The amount of profit which is added to the cost in order to arrive at the invoice price is called loading. In other words, loading is the difference between the invoice price and the cost price.

$$\text{Loading} = \text{IP} - \text{CP}$$

For example, if the invoice price is N10,000 and the cost price is N7500, the amount of loading will be

$$\begin{aligned} \text{Loading} &= \text{IP} - \text{CP or} \\ &\text{Number of Units} \times (\text{IP per Unit} - \text{CP per Unit}) \\ &= 10000 - 7500 \\ &= \text{N}2500 \end{aligned}$$

If the invoice price or the cost price is given and the profit (loading) is given in the form of a percentage either on IP or CP, the loading can be worked out directly in the same manner as we worked out the IP or CP in the example under 3.2 in Unit 27.

3.2 ITEMS WHICH INVOLVE LOADING

Loading is usually involved in all such items which are recorded at the invoice price in the consignment Account. These items are:

- Opening Stock
- Goods sent on Consignment

- Goods Returned by the consignee
- Closing Stock

You have to compute the loading in respect of all the above items and make necessary adjustments in books of the consignor.

3.3 ADJUSTMENT OF LOADING

You know the profit is the difference between selling price and cost price. In consignment Account prepared earlier, the goods sent on consignment and the other related items were shown at cost. Hence you had no problem in computing the profit. But, when the goods on consignment and other related items are shown in the consignment account at Invoice price, it becomes necessary to adjust the loading in the consignment Account so as to bring down the invoice price to the level of cost. If such adjustment is not done, the profit figure will be incorrect. There is also a possibility that the consignment Account shown loss because the difference between the selling price and the invoice price is generally small which cannot cover all expenses. Look at the illustration below and see the difference between the actual profit and the profit without adjustment. The profit thus calculated will be the difference between sales and invoice price.

Cost Price	15,000	}	N		
Invoice Price	18,000		N3,000	Loading	}
Sale Price	20,000		N20,000	Adjustment	
			Profit without		Actual profit

From the above illustration it is clear that if no adjustment is made the profit will be N2,000 whereas the actual profit is N5000. Therefore, in order to calculate the actual profit earned on any consignment all the items shown at invoice price are to be brought down to the level of cost by adjusting the amount of loading on each of them. Let us now take the items involving loading one by one and see how the necessary adjustments are made.

OPENING STOCK:

Opening Stock is always shown on the debit side of consignment Account. In case the stock is at invoice price, the difference between the Invoice price and the cost price of the stock will be shown on the credit side of the consignment Account by passing the following journal entry

consignment A/C DR
 To Consignment A/C
 (Being the unloading on the goods sent on consignment)

Goods sent on Consignment:

Goods sent on Consignment are shown on the debit of consignment Account. In order to nullify the effect of invoice price, the difference between the invoice price and the cost price in respect of goods sent on consignment will be shown on the credit side of the consignment account by passing the following journal entry.

Goods sent on consignment A/C DR
 To Consignment A/C

(Being unloading of goods sent on consignment)

Goods returned by the consignee:

As the return of goods is shown on the credit of consignment Account, the adjustment for the loading will be made on the debit of Consignment Account with the help of the following journal entry

Consignment	A/C	DR
To Goods sent on consignment	A/C	
(Being loading on goods returned)		

Closing Stock:

Since Closing Stock is shown on the credit side of consignment Account, the adjustment for the loading will be made on the debit side with the help of the following journal entry.

Consignment A/C	DR
To Stock Reserve	
(Being unloading on Closing Stock)	

Thus you will observe that the adjustment entry for loading in the consignment Account made on the opposite side of the original entry. For example the closing stock is shown on the credit side of the consignment Account. Whereas its adjustment is shown on the debit side of the consignment Account. This is how the effect of loading in consignment Account is centralized and the invoice price is brought down to the cost level. You should remember that the adjustment for loading is to be made in the book of the consignor only. The consignee does not record any entries for the items involving loading. Therefore no adjustment is needed in his books.

ACCOUNTING FOR GOODS SENT AT INVOICE PRICE

You have learnt about the concept of invoice price, the calculation of loading involved and adjustment entries to be passed in respect of all items involving loading. As for the recording to transaction for goods consigned at invoice price, the treatment in books of the consignee is not affected at all. Even in the books of the consignor all entries remain the same. But, the amounts with which the four items involving loading (opening stock, goods sent on consignment, goods returned by the consignee, and closing stock) will reflect the invoice price. Then, at the time of working out the profit on consignment, you will have to pass the necessary adjustment entries for the loading involved in respect of all the four items as stated earlier.

EXERCISE

Indicate whether the following statement are True or False.

- (i) Sending goods at invoice price shall result in less profit in the consignment Account, if no adjustment is made for the loading.
- (ii) Loading on closing stock will be nullified by debiting stock reserve Account and crediting closing stock account.
- (iii) All the entries of adjustment for loading are recorded in the books of consignee.
- (iv) What is loading
Name the items that involve loading

4.0 CONCLUSION

The difference between the invoice price IP and the cost price CP is called loading. This affects four items shown in the consignment Account Viz; (i) goods sent on consignment (ii) goods returned by the consignee (iii) opening consignment stock and (iv) closing consignment stock. In order to work out the actual profit, the effect of loading on all these items has to be nullified, otherwise the consignment account will show profit which is less than the profit actually earned.

5.0 SUMMARY:

Loading can be found out by subtracting CP from IP, the calculation of loading is simple when both CP and IP are given. But it needs special attention when the loading is given as a percentage of CP or IP and only the figure of IP or CP is given. In such a situation, the formula $IP = CP + P$ is used for the calculation of loading or the cost price, invoice price which ever is not given. For the adjustment of loading involved in different items, we have to pass the necessary journal entries in the books of the consignor. However, the books of the consignee are not affected by loading because his books do not include any entry in respect of the four items involved.

6.0 FURTHER READINGS:

Frank Wood – Business Accounting 1 And 2

O.M Oyinlola – Book Keeping & Account Made Simple

L. Akinkuole – Book – Keeping And Accountancy Diploma And Certificate In Cooperative Studies Question And Answer.

7.0 TUTOR – MARKED ASSIGNMENT

Ram Das of Lagos Consigned goods costing N72,000 to Prakash of Kano at a proforma invoice price which is cost plus a profit of $\frac{1}{6}$ th on invoice price. The consignor paid N1800 as Insurance and other charges. Prakash received the goods and paid N3,000 for freight and other charges. He was allowed 3% commission on gross sales. Half of the balance was stolen, but the stock being insured, a claim was lodged for N8000 and was settled for N7,000. Balance of stock was valued at proforma invoice price.

Required:

Write up the consignment and the Abnormal Loss Accounts.

UNIT 30

ROYALTIES ACCOUNTS 1

TABLE OF CONTENTS	
1.0	Introduction
2.0	Objective
3.1	Types Of Royalties
3.2	Accounting Treatment For Royalties
3.3	Explanatory Note
4.0	Conclusion
5.0	Summary
6.0	Further Readings
7.0	Tutor Marked Assignment

1.0 INTRODUCTION

In the last unit i.e unit 29 you learnt and concluded Bill of exchange and its accounting treatment. In this unit you will study the Royalties accounts. Simply put, the term royalty is defined as the payment to a person/organization for the use of asset, right or privilege belonging to such a person/organization.

2.0 OBJECTIVE

After studying this unit you should be able to:

- Explain royalties
- Identify various types of royalties
- Record transactions relating to royalties account i.e. accounting treatment for royalties.

3.0 TYPES OF ROYALTIES

The major types of royalties include mining royalty, patent royalty and copy right royalty.

- Mining Royalty: Payment for an extraction of minerals from the ground.
- Patent Royalty: Payment for the use of patent right
- Copy Right Royalty: Payment made by a publisher of a book to another

The royalty may take the form of fixed amount per unit of output produced. (Though this is very rare). The common form is that a certain minimum amount (called minimum rent) is payable per annum even if the actual amount for the use of right or asset is lesser than the minimum rent established. But if the use of the asset results in higher value of royalty payable, the higher value will be considered.

However, in a situation where the minimum amount is paid despite the low activities that results in an actual amount of royalty lesser than the minimum set, the excess of the minimum over and above the actual amount is technically called short workings. It should be understood that the agreement between the owner and the user of a right may provide that the short workings could be recouped in the following year(s). This is to reduce the royalty payable where the activities result in royalty being in excess of the minimum rent in the subsequent periods as a way of setting off part or all the short workings that might arise in the previous periods. Sometimes a time limit may be set for the recoupability of the short workings so that when the time given (say three years) elapses, the short-workings will no longer be recoupable. Hence it will be regarded as a loss transferable to the profit and loss account of the year in which the short workings become recoupable.

It is pertinent to note that royalty, being an expense traceable to the number of units produced, is a direct expense and so, it is transferred to the debit side of the operating or manufacturing account as applicable.

It should also be noted that at the end of an operational period, the balance of recoupable short workings will appear in the balance sheet as a current asset item.

3.2 ACCOUNTING TREATMENT FOR ROYALTIES

The accounting treatment for a royalty is as follows:

- When the royalty becomes payable,

Debit Royalty A/C]	with the amount of
Credit minimum Rent A/C]	the royalty payable

- When the short workings occur;

Debit short workings A/C	}	with the amount of short workings
Credit Minimum Rent A/C		

that occur

- To make account for the landlord,

Debit minimum Rent A/C	}	with the minimum rent or actual royalty payable (which ever is higher)
Credit Landlords A/C		

- When the Land lord is paid,

Debit Lands A/C } with the actual amount paid
 Credit Cash/Bank A/C }

- When the Short workings are recouped

Debit Minimum Rent A/C } with the amount at
 Credit short workings A/C }

- When the short workings become recoupable

Debit profit and Loss A/C } with the amount of short workings regarded
 Credit Short workings A/C } irrecoupable

- When the royalty payable is transferred to the operating/manufacturing A/C

Debit Operating/Manufacturing A/C } with the amount of the royalty
 Credit Royalty A/C }

ILLUSTRATION

International Quarry Limited Obtained a lease of land from Abula State Government (A.S.G) on January 1, 1988. The terms of agreement state that a royalty of N2 is payable for every ton of stones extracted with a minimum rent N1250. The lessee reserved the right to recoup the short workings for four years commencing from the date of the lease.

The following is the analysis of tons raised

Year	Tons	Year	Tons
1988	570	1991	770
1989	442	1992	820
1990	625	1993	610

If all payments were made by cheques, prepare the necessary accounts in the book of Lease. In the book of International Quarry Ltd.

MINIMUM RENT ACT			
	N	N	N
1988			
Dec. 31 Abula State Govt.	1250		1988
	<u>1250</u>		Dec. 31 Royalties
			“ “ Short workings
1989			1140
Dec. 31 Abula State Govt.	1250		<u>110</u>
	<u>1250</u>		<u>1250</u>
1989			1989
Dec. 31 Abula State Govt.	1250		Dec. 31 Royalties
	<u>1250</u>		“ “ Short workings
			884
			<u>336</u>
			<u>1250</u>
1990			1990
Dec. 31 Abula State Govt.	<u>1250</u>		Dec. 31 Royalties
			<u>1250</u>
1991			1991
Dec. 31 Abula State Govt	1250		Dec. 31 Royalties
“ “ Short workings			
(Recouped)	<u>290</u>		1540
	<u>1540</u>		<u>1540</u>
1992			

Dec. 31 Abula State Govt. 1640	1992	
1993	Dec. 31 Royalties	1640
Dec. 31 Abula State Govt 1250		
	1993	
	Dec. 31 Royalties	1220
	“ “ Short workings	30
		<u>1250</u>

ABULA STATE GOVERNMENT A/C (LAND LORD)

	₦		₦
1988		1988	
Dec. 31 Cash	<u>1250</u>	Dec. 31 Minimum rent	<u>1250</u>
1989		1989	
Dec. 31 Cash	<u>1250</u>	Dec. 31 Minimum rent	<u>1250</u>
1990		1990	
Dec. 31 Abula State Govt.	<u>1250</u>	Dec. 31 Minimum rent	<u>1250</u>
1991		1991	
Dec. 31 Cash	<u>1250</u>	Dec. 31 Minimum rent	<u>1250</u>
1992		1992	
Dec. 31 Cash	<u>1640</u>	Dec. 31 Minimum rent	<u>1640</u>
1993		1993	
Dec. 31 Cash	<u>1250</u>	Dec. 31 Minimum rent	<u>1250</u>

ROYALTIES A/C

	N		N
1988		1988	
Dec. 31 Minimum rent	<u>1140</u>	Dec. 31 Operating A/C	<u>1140</u>
1989		1989	
Dec. 31 Minimum rent	<u>884</u>	Dec. 31 Operating A/C	<u>884</u>
1990		1990	
Dec. 31 Minimum rent	<u>1250</u>	Dec. 31 Operating A/C	<u>1250</u>
1991		1991	
Dec. 31 Minimum rent	<u>1540</u>	Dec. 31 Operating A/C	<u>1540</u>
1992		1992	
Dec. 31 Minimum rent	<u>1640</u>	Dec. 31 Operating A/C	<u>1640</u>
1993		1993	
Dec. 31 Minimum rent	<u>1220</u>	Dec. 31 Operating A/C	<u>1220</u>

SHORT WORKINGS A/C

N	N	N	N
1988		1988	
Dec. 31 Minimum rent	110	Dec. 31 Balance c/d	110
1989		1989	
Jan. 1 Balance b/d	110	Dec. 31 Balance c/d	476
Dec. 31 Minimum rent	<u>336</u>		
	<u>476</u>		<u>476</u>
1990		1990	
Jan. 1 Balance b/d	<u>476</u>	Dec. Balance c/d	476
1991		1991	
Jan. 1 Balance b/d	<u>476</u>	Dec. 31 Min. rent (Recouped)	290
	<u>476</u>	“ “ P & L A/C (Recoupable)	186
			<u>476</u>
1993		1993	
Dec. 31 Minimum rent	<u>30</u>	Dec. 31 P & L A/C Recoupable)	30

CASH A/C (EXTRACT)

	N
1988	
Dec. 31 Abula State Govt.	1250
1989	
Dec. 31 Abula State Govt.	1250
1990	
Dec. 31 Abula State Govt.	1250
1991	
Dec. Abula State Govt.	1250
1992	
Dec. Abula State Govt.	1640
1993	
Dec. 31 Abula State Govt.	1250

OPERATING A/C (EXTRACT)

	₦	₦
Royalties	1988	
Royalties	1140	
Royalties	1989	
Royalties	884	
Royalties	1990	
Royalties	1250	
Royalties	1991	
Royalties	1540	
Royalties	1992	
Royalties	1640	
Royalties	1993	
Royalties	1220	

PROFIT AND LOSS A/C (EXTRACT)

	₦	₦
1991 Short Workings	186	
1993 Short Workings	30	

BALANCE SHEET (EXTRACT)

	₦	₦
		Current Assets
		1988 Short working recoupable
		1989 Short working recoupable
		1990 Short working recoupable
		110
		476
		476

3.3 EXPLANATORY NOTE

- The royalty payable is transferred to operating account because the business is not a manufacturing firm but a mining or quarrying firm. If it had been a manufacturing firm, the royalty payable would have been transferred to the manufacturing account.
- Summarily the necessary accounts to be prepared under royalties, especially where there is no sub-lease, include:

(a) Minimum rent A/C

(b) Landlord or Lessor A/C

(c) Royalties A/C

(d) Short workings A/C

(e) Cash A/C (Extract)

(f) Operating A/C (Extract)

(g) Profit & Loss A/C

(h) Balance Sheet (Extract)

4.0 CONCLUSION

In this unit you have learnt about Royalty i.e the payment to a person or organization for the use of an asset, right or privilege belonging to such a person or organization. And the types of Royalties which are mainly, Mining Royalty, Patent Royalties and copy Right. You also studied the accounting treatment for Royalties in a given situation.

5.0 SUMMARY

Royalty is the payment to a person or organization for the use of an asset, right or privilege belonging to such a person or organization. It may take the form of fixed amount per unit of output produced. The common for is that certain minimum amount called (minimum rent) is payable per annum even if the actual amount for the use of right or asset is lesser than the minimum rent established. Royalty is an expense traceable to the number of units produced and it is a direct expenses and so it is debited to the operating or manufacturing to the operating or manufacturing account as applicable.

EXERCISE

OLA Limited holds the Patent rights for a new type of red bricks. On 1st January 1981 Ola Limited granted to Kupson Limited, a license to manufacture and sell red bricks. The agreement provided the Kupson Ltd was to pay a royalty of 20k per red brick sold subject to a minimum annual rent payment of N1,250 to be paid annually at 31st December. Should the royalties calculated on the number of red bricks sold be less than N1250 in any year, the deficiency could be set off against royalties in excess of the minimum in the rent year; but not after wards.

The number of red bricks sold was as follows:

1981	4000
1982	7500
1983	5750

The payment due to Ola Ltd. Under the term of the license were made on 31st December in each year. The account of Kupson Ltd are made up to 31st December in each year.

Required:

Show the entries in the ledger of Kupson Ltd for: (a) Royalties A/C
(a) Royalties A/C (b) Ola Ltd A/C short workings A/C (b) Ola Ltd A/V
(c) Short workings
A/C

6.0 FURTHER READING

Frankwood: Business Accounting 1 And 2

O. M. Oyinlola – Principle Of Account Made Simple

7.0 TUTOR MARKED ASSIGNMENT

T. Jimoh leased a Machine to Baruwa, a plastic Manufacturer, on 31December, 1991 on the terms that a royalty of N2 would be paid for every 100 units produced with a minimum payment of N350. Any short workings is recoupable into two years following that in which it occurs.

The units produced yearly were:

Period	Units	Period	Units
1992	10,300	1995	18,000
1993	13,300	1996	20,000
1994	17,500		

The first three years royalties were paid in cash all others were by cheques.

Required:

Prepare all necessary accounts in the books of Barnwa.

UNIT 31

ROYALTIES ACCOUNTS 2

Table Of Contents	
1.0	Introduction
2.0	Objective
3.1	Sub-Lease
3.2	Accounting Treatment Under Sub-Lease
3.3	Explanatory Note
4.0	Conclusion
5.0	Summary
6.0	Further Readings
8.0	Tutor Marked Assignment

1.0 INTRODUCTION

In Unit 30 you learnt about types of royalties and the accounting treatment for royalties. In this unit you will learn about sub-lease and the accounting treatment under sub-lease. Sometimes, a lessee may be given a privilege to sub-lease part of the right to somebody sub-lease. In this case, the accounting treatment for royalties of the sub-lease requires a modification.

2.0 OBJECTIVES

After studying this unit you should be able to:

- Explain sub-lease and its modification
- Record the accounting transaction i.e. accounting treatment under sub-lease.

3.0 SUB-LEASE

For clarity sake, the royalties in respect of lease will be called royalties payable while that in respect of sub-lease will be called royalties receivable. The short workings in respect of the lease will be called short working recoverable while called short workings allowable or royalty suspense. Similarly, minimum rent in respect of the lease will be called minimum rent payable and that in respect of the sub-lease will be called minimum rent receivable. If on the order hand the sub-lease rate is higher than the lease rate the excess must be transferred to the credit side of the Profit and loss account as profit.

Generally, it will be unreasonable for a sub-lease to be at the a rate lower than the lease rate. Rather, it is usually higher or maintained at the same rates. If the royalties payable and royalties receivable are at the same rate, the royalties receivable will be transferred to royalty payable

account at the end of the period so that the net royalties payable will be transferred to the operating account.

3.2 ACCOUNTING TREATMENT UNDER SUB-LEASE

The concise accounting treatment for royalties under sub-lease are as follows.

- When royalties become receivable
 - Dr. Minimum Rent Receivable A/C
 - Cr. Royalty Receivable A/C
- } with the actual amount receivable
- When the short workings allowable occurs.
 - Dr. Minimum Rent Receivable A/C
 - Cr. Short workings A/C
 - To make account for the Sub-lease
 - Dr. Sub-lessee's A/C
 - Cr. Minimum Rent Receivable A/C
- } with the minimum rent or actual royalties receivable (which ever is higher)
- When the sub-lessee pays.
 - Cr. Cash / Bank A/C
 - Dr. Sub-lessee's A/C
 - When short workings are allowed
 - Dr. short workings Allowable A/C
 - Cr. Minimum Rent Receivable A/C
 - When short workings become unallowable
 - Dr. short workings Allowable A/C
 - Cr. Profit and Loss A/C
 - When Royalties become payable
 - Dr. Royalty Payable A/C
 - Cr. Minimum Rent Payable A/C
- } with the total royalties payable by both sub-lessor and sub-lessee
- When Royalties receivable are transferred to the royalties payable
 - Dr. Royalties Receivable A/C
 - Cr. Minimum Rent payable A/C

It could, however, be noted that the treatment of royalties under lease agreement is directly opposite to that under sub-lease.

ILLUSTRATION

Sile Mantex obtained a lease of land from a landlord for the extraction of minerals on Jan. 1, 1990. Agreement provides that a royalty of N2 per ton with a minimum of N2000. Short workings recoupable for three years commencing from the date of the lease. Part of he land was sub – let to Samson on the same date at N2 per ton with a minimum of N500 short workings recoupable for three years commencing from the date of sub – lease. All payments are made by cheque on the last day each year.

The tons of ore extracted were as follows:

Year	Silemantex	Samson	Total Production
1990	840	150	990
1991	800	170	970
1992	1250	380	1630
1993	700	360	1060

Required:

Prepare all necessary accounts including an extract of balance sheet in the book of lessee.

SOLUTION:

In the book of Silemantex (Lessee)

MINIMUM RENT RECEIVABLE A/C

1990	₦	1990	₦
Dec. 31 Royalties receivable	300	Dec. 31 Samson	500
“ “ Short workings allowable	<u>200</u>		<u>500</u>
	<u>500</u>		
1991		1991	
Dec. 31 Royalties receivable	340	Dec. 31 Samson	500
“ “ Short workings allowable	<u>160</u>		<u>500</u>
	<u>500</u>		
1992		1992	
Dec. 31 Royalties receivable	760	Dec. 31 Samson	500
	<u>760</u>	“ “ Short working allowable	
		(Allowable)	<u>260</u>
			<u>760</u>
1993		1993	
Dec. 31 Royalties receivable	<u>720</u>	Dec. 31 Samson	<u>720</u>

SAMSON A/C (SUB-LESSEE)

1990		N	1990		N
Dec. 31 Min. rent receivable	<u>500</u>		Dec. 31 Bank	<u>500</u>	
1991			1991		
Dec. 31 Min. rent receivable	<u>500</u>		Dec. 31 Bank	<u>500</u>	
1992			1992		
Dec. 31 Min. rent receivable	<u>500</u>		Dec. 31 Bank	<u>500</u>	
1993			1993		
Dec. 31 Min. rent receivable	<u>720</u>		Dec. 31 Bank	270	<u> </u>

SHORT WORKING A/C

1990	₦		1990	₦	
Dec. 31 Balance c/d	200	<u> </u>	Dec. 31 Min. Rent receivable	200	<u> </u>
1991			1991		
Dec. 31 Balance c/d	360	<u> </u>	Jan. 1 Balance c/d	200	<u> </u>
	360	<u> </u>	Dec. 31 Min. Rent receivable	160	<u> </u>
				360	<u> </u>
1992			1992		
Dec. 31 Min. Rent Receiv. (allowed)	260		Jan. 1 Balance b/d	360	
“ “ P & L A/C (disallowed)	100				
	360	<u> </u>		360	<u> </u>

ROYALTIES RECEIVABLE A/C

1990	₹	1990	₹
Dec. 31 Royalty payable	300	Dec. 31 Min. Rent receivable	300
	<u> </u>		<u> </u>
1991		1991	
Dec. 31 Royalty payable	340	Dec. 31 Min. Rent receivable	340
	<u> </u>		<u> </u>
1992		1992	
Dec. 31 Royalty payable	760	Dec. 31 Min. Rent receivable	760
	<u> </u>		<u> </u>
1993		1993	
Dec. 31 Royalty payable	720	Dec. 31 Min. Rent receivable	720
	<u> </u>		<u> </u>

MINIMUM RENT PAYABLE A/C

1990	N	1990	N
Dec.31 landlord	2000	Dec.31 Royalty Payable	1980
“ “ S/workings recoverable	20		
	<u> </u>		<u> </u>
			2000
1991		1991	
Dec.31 Landlord	2000	Dec.31 Royalty Payable	1940
“ “ S/workings recoverable	60		
	<u> </u>		<u> </u>
	2000		2000
1992		1992	
Dec,31 Landlord	3180	Dec,31 Royalties Payable	3260
“ “ S/workings recoverable (Recouped)	80		
	<u> </u>		<u> </u>
	3260		3260
1993		1993	
Dec,31 Landlord	2120	Dec, 31 Royalties Payable	2120
	<u> </u>		<u> </u>
ROYALTIES PAYABLE A/C			

1990	₦		1990	₦
Dec. 31 Min. rent Payable	1980		Dec. 31 Royalties receivable	300
			“ “ Operating A/C	<u>1680</u>
	1980	<u> </u>		1980
		 		
1991			1991	
Dec. 31 Min. rent Payable	1940		Dec. 31 Royalties receivable	340
			“ “ Operating A/C	<u>1600</u>
	1940	<u> </u>		1940
		 		
1992	₦		1992	₦
Dec,31 Min rent payable	3260		Dec,31 Payable receivable	760
			“ “ operating A/C	<u>2500</u>
	3260	<u> </u>		3260
		 		
1992		N	1993	N
Dec, 31 Landlord	2120	<u> </u>	Dec, 31 Royalties Payable	2120
		 		

SHORTWORKINGS RECOVERABLE A/C

1990	₦		1990	₦	
Dec,31 Min rent payable	20	<u> </u>	Dec,31 Balance c/d	20	<u> </u>
		 			
1991			1991		
Jan 1 Bal b/d	20		Jan 1. Balance c/d	80	
Dec,31 Min rent payable	60	<u> </u>		<u> </u>	
		 		 	
1992			1992		
Jan 1 Balance b/d	80		Dec, 31 Min rent payable	80	<u> </u>
					
		<u> </u>			
		 			

LAND LORD A/C

1990	₦	1991	₦
Dec, 31 Bank	2000	Dec, 31.min rent payable	2000
1991		1991	
Dec, 31 Bank	2000	Dec,31 Min rent payable	2000
1992		1992	
Dec, 31 Bank	3180	Dec, 31 min rent payable	3180
1993		1993	

Dec, 31 Bank 2120

Dec 31, min rent payable 2120

OPERATING A/C (ENACT)

		₦	₦
1990	Royalties Payable	1680	
1991	Royalties Payable	1600	
1992	Royalties Payable	2500	
1993	Royalties Payable	1400	

BANK A/C (ENTRACT)

1990 Dec 31, Samson 500	₦	Dec,31	1990 Landlord	2000	₦
1991 Dec. 31 Samson 500		Dec.31	1991 Landlord	2000	
1992 Dec.31 Samson500		Dec.31	Landlord	3180	
1993 Dec.31 Samson500		1993 Dec.31	landlord	2120	

PROFIT AND LOSS A/C (EXTRACT)

₦	₦
	1992 Short workings allowable 100

BALANCE SHEET (EXTRACT)

N	N
Current Liabilities	Current Assets
1990 Short working allowable 200	1 1990 Short working Recover. 20
1991 Short working allowable 360	1991 80

Explanatory Note

- The royalties receivable should be transferred to the royalties payable account in order to determine royalties payable that is going to be transferred to the business operating account.
- Where there is sub-lease , the following are the necessary accounts that need to be prepared in the books of lessee, except otherwise instructed.

- * Minimum Rent Receivable Account
- * Sub-lessee Account
- * Short working Allowable Account
- * Royalties Receivable Account
- * Minimum Rent Payable Account
- * Royalties Payable Account
- * Short working Recoverable Account
- * Landlord/Lesser Account
- * Operating/Manufacturing Account
- * Bank/Cash Account
- * Profit and Loss Account
- * Balance Sheet (Extract)

EXERCISE:

Waves Quarry was licensed by Osun State Government to extract Iron Ore from an area of land on April, 1991. The term of agreement provided that ;

- (a) N5 to be paid on every ton of Ore extracted with a minimum payment of N10,000.
- (b) If the tons extracted result to royalty less then N10,000 waves Quarry is entitled to recoup the short falls from royalties payable in excess of the minimum rent in two years following that in which they occur.

On 1st January, 1992 Waves Quarry sub-leased part of the land to Rocket Plc on the terms that Rocket is to pay N6 on each ton of Ore extracted with a minimum rent of N7200. any short workings is allowable for the first three years.

Both payments and receipts are made by cheque of 15th January of the year Following the business year.

The following is the details of activities undertake by the two companies.

Count of Exercise:

Year	Ton produced by Rocket PLC	Combine tons Produced
1991	-	1,000
1992	800	2,600
1993	1, 000	3,400
1994	2, 000	4,000
1995	1, 100	4, 100
1996	1, 800	5, 800

Required:

Enter all the above details in the necessary ledger accounts of sub-lessor and show the relevant- portions of the balance sheet as al- the end of each year.

4.0 Conclusions

in this unit, you have learnt – about sub-lease i.e a lessee given a privilege to sub-lease or sub-let part of the right- to somebody else. You also learnt the accounting treatment for royalties under sub- lease.

5.0 Summary

Sub- lease is the right given to a sub-lessee to sub- let part of the right- given to him under the lease to somebody else. The short workings in respect of the lease will be called short-workings allowable or royally suspense. Similarly, minimum rent- in respect of the lease will be called minimum rent payable and that in respect of the sub -lease will be called minimum rent receivable. It will be unreasonable for a sub-lease to be at a rate lower than the lease rate. Rather it is usually higher or maintained at the same rate.

6.0 FURTHER READING

Frankwood : Business Accounting 1 & 2

O.M Oyinlola: Principles Of Account Made Simple

7.0 TUTOR-MARKED ASSIGNMENT

Megaluck Investments Ltd, obtained a lease of land from a landlord for the extraction of minerals on January 1, 1990. Agreement provides that a royalty of N2 per ton with a minimum of N2000. short workings recoupable for three years commencing from the date of the lease.

Part of the land was sub-lease to Compa Plc on the same date at N3 per ton with a minimum rent of N600. Short workings are allowable for three years counting from wthe date of the sub-lease. All payment are made through bank on the last day of every year.

The tons of Ores extracted were as follows:

Year	Megaluck	Compa	Total/Production
1990	840	150	990
1991	800	170	970
1992	1250	380	1630
1993	700	360	1060

Required:

Prepare all necessary ledger account including an extract of balance sheet in the book of sub-leaser for the relevant years.