FINANCIAL ACCOUNTING – MAY JUNE 2009

Question 1

a. Differentiate between authorized capital and issued capital.
b. List any FIVE items that can be found in the memorandum of association of a public company.
c. Classify the following items into Personal, Real and Nominal account
   i. Plant and machinery
   ii. Motor lorries
   iii. Rent and rates
   iv. Insurances
   v. Speed post delivery
   vi. Glo calls
   vii. Debtors
   viii. Creditors
   ix. Leased hold premises
   x. M. bala and company limited.

Answers:

1a. Authorized capital: is the highest amount of capital stated in the memorandum of association and approved by the registrar of the company considered as enough to run a company. It is also known as a registered or nominal capital.

While

Issued capital is part of the authorized capital given out to member of the public for subscription.

1b. Items in the memorandum of association of public company.

i. Name of the company
ii. Registered office of the company
iii. The objectives of the company
iv. The amount of authorized capital
v. A statement to the effect that the liability of the company is limited
vi. The names of the company promoters, their respective business and the amount of shares taken by each of them
vii. The life span of the company that is, if the company is formed to last for a limited time or as an ongoing concern.
viii. Conditions under which the memorandum of association can be amended.

1c.

Personal A/C	Real A/C	Normal A/C
M. bala company Ltd	Plant & machinery	Rent and rate
Debtors	Motor lorries	Insurance
Creditors	Leased hold premises	Speed post delivery

Question 2

a. Explain the following terms in relation to a company
   i. Memorandum of association
   ii. Articles of association
   iii. prospectus

b. Mention six items that are usually found in the Appropriation account of a limited liability company

Answer

i. Memorandum of association is a document forming the constitution of a company and defining its objective and power with regards to its dealing with the outside word. It is a document containing the rules sand regulation which govern the external relationship of a company with outsiders.

ii. Articles of Association is a document in which the regulation which govern the internal management of the company affairs the duties, rights and power of the shareholders are stated.

iii. Prospectus is a document issued by the public limited companies inviting the public to subscribe for shares of the company

2b. Items in the appropriation account of a company.
   i. Net profit b/d
   ii. General reserve
   iii. Preferences dividend
   iv. Corporation tax
   v. Ordinary dividend
   vi. Retain profit carried forward
   vii. Balance /d (profit for last year)

Question 3a.

State the account to be debited (DR) the ones to be credited (CR) in each of the following cases.

Description of items	account to be debited and credited	
	DR	CR
a. Bought goods on credit from tayo		
b. Started business with cash		
c. Withdraw cash from bank		
d. Sold assets on credit to wema bank		
e. Withdraw cash for personal visa		
f. Paid Dan Musa's loan		
g. Paid cheque to Oludele		
h. Received cheque from B & Y Co. Ltd		
i. Paid carriage with cash		

b. List Ten items found in the Balance Sheet of a Sole trade

Description of items	account to be debited and credited	
	DR	CR
a. Bought goods on credit from tayo	purchases	Tayo
b. Started business with cash	cash	capital
c. Withdraw cash from bank	cash	bank
d. Sold assets on credit to wema bank	wemabank	assets disposal account
e. Withdraw cash for personal visa	drawing	cash
f. Paid Dan Musa's loan	Dan Musa	loan
g. Paid cheque to Oludele	Oludeleb	bank
h. Received cheque from B & Y Co. Ltd	bank	B & Y Co. ltd.
i. Paid carriage with cash	carriage	cash

3b. List Ten items found in the Balance Sheet of a Sole trader.

i. Capital
ii. Net profit
iii. Net loss
iv. Drawing
v. Creditors
vi. Debtors
vii. Cash at hand
viii. Cash at bank
ix. Motor vehicle
x. Stock
xi. Furniture & fittings
xii. Computer/typewriter

Question 4

a. Explain the purpose of the income and expenditure account
b. State FOUR features of capital expenditure
c. Differentiate the term Deficit and Surplus in the account of non-profit-making concern.

Answer:

a. Income and expenditure account is aimed at determining the surplus of income over expenditure or deficit or expenditure over income of a non-profit making organisation.

b. Features of capital A/C
   i. They are expenditure on fixed assets
   ii. Benefits of capital expenditure are not fully derived within the accounting period. They are long term expenditure
   iii. It results in increase figures for fixed assets in the balance sheet.
   iv. Capital expenditure is used to earn income for business.

c. A deficit is a loss while a surplus is gain or profit in a non-profit making organisation.

Question 5.

The following were extracted from the ledger of JACEY limited for the month of September, 2005

		₦
1/9/2005	Debit balance in the Sales ledger	5,000
	Debit balance in the Bought ledger	120
30/9/2004	Sales of goods	30,000
	Returns inwards	2,000
	Bad debt written off	400
	Discount allowed	200
	Purchases	18,000
	Cash received	10,000
	Return outwards	8,000
	Costumers cheques dishonoured	1,000
	Discount received	500
	Interest charge to customers account	50

You are required to prepare for the month of September, 2005

a. Sales ledger control account
b. Purchase ledger control account

Answer:

5a. Sales Ledger Control A/C

DR	₦	CR	₦
Debit bal. in the sales ledger	50,000	return inward	2,000
Sales	30,000	bad debts	400
Costumer cheque Dishonoured	1,000	discount allowed	200
		bal. c/d	5,350
	36,000		36,000
Bal. b/d	5,350		

5b.

Purchase Ledger Control A/C

DR	₦	CR	₦
Cash pad	8,000	debit balance	120
Return outward	400	purchases	18,000
Discount received	500		
Bal c/d	9,220		
	18,120		18.120
		Bal b/d	9,220

Question 6

a. Use the following information from the books of Chukumerije & sons to answer the question below.

	₦
Sales	50,000
Opening stock	20,000
Closing stock	30,000
Expenses	10,000
Fixed Assets	40,000
Debtors	10,000
Creditors	5,000
Purchases	30,000

Calculate:

a. Cost of goods sold
b. Net profit percentage
c. Acid-test-ratio
d. Current ratio
e. Working capital
f. Gross profit percentage

Answer:

6a. Cost of goods sold = opening stock + purchases – less closing stock

	₦	
Opening stock	20,000	
Purchases	30,000	
	50,000	
Less closing stock	30,000	
Cost of goods sold	20,000	>>> cost of goods sold

6b. Net profit percentage $= \frac{\text{net profit}}{\text{Sales}} \times \frac{100}{1}$

	₦	
Opening Stock	20,000	
Purchases	30,000	
	50,000	Sales 50,000
Less closing stock	30,000	
Cost of sales	20,000	
Gross profit	30,000	
Less expenses	10,000	
Net profit	20,000	
	50,000	50,000

Net profit percentage $= \frac{20,000}{50,000} \times \frac{100}{1} = \frac{200}{5} = 40\%$

6c Acid test ratio: = current Assets : current liabilities

Closing stock + debtors : creditor

30,000 + 10,000 : 5,000
∴ 40,000 5,000
∴ 40 5
: 8 1

6d. Current ratio = current asset/current liability
Current asset = closing stock + debtors

₦30,000 + ₦40,000
= ₦70,000

Current liabilities = creditors

₦5,000

Current ratio ₦70,000/5000
14 times

6e. Working capital = current asset – current liability
= ₦70,000 – ₦5,000
= ₦65,000

6f. Gross profit percentage = gross profit/sales x 100/1

₦30,000/50,000 x 100/1
300/5 = 60%

Question 7a.

Bala and Udok, trading in partnership agreed to dissolve the partnership on the 31st December, 2004 and on which date the balance sheet was as follows:

Capital Account	₦		₦
Bala	748,827	plant & Machinery	142,165
Udok	51,025	Goodwill	100,00
	799,852	Stock	491,642
Loan Bala	200,000	Sundry debtors	361,524
Sundry Creditors	271,781	Cash	176,450
	1,271,681		1,271,781

Additional information

a. Profit and losses are shared in the ratio 3:2 respectively
b. The assts were realized as follows

	₦
Sundry debtors	320,425
Stock	411,552
Plant and machinery	171,653
Goodwill	35,000
c. Realization expenses	4,728

You are required to prepare:

a. Realization account
b. Partner account
c. Cash account

Answer

REALIZATION A/C

Plant & machinery	142,165	Debtors	320,425
Goodwill	100,000	Stock	411,552
Stock	491,642	plant & Machinery	171,653
Debtors	361,524	goodwill	35,000
Realization exp.	4,728	loss on realization	
		Bala	96,857.40
		Udok	65,571.60
	1,100,059		1,100,059

7b. **PARTNER A/C**

	BALA	UDOK			₦
			Bal b/f	748,827	51,025
Loss in realization	96,857.40	64,571.60	Bal c/d	21,970.40	13,546.60
	96,857.40	64,571.60		96,857.40	64,571.60

7c.

CASH A/C

Bal b/d	176,450	creditor	271,929
Realization asset		capital: Bala	748,827
Sold: debtors	320,425		
Stock	411,552		
Plant & machinery	171,653		
Goodwill	35,000		
	1,115,080		1,115,080

Question 8.

The following information relates to Garri-processing company limited for the year ended 30th June, 2003.

	₦
Purchases of raw materials	120,000
Direct wages	100,000
Rent and rates	30,000
Carriage inwards	1,200

Opening stock: 1st July 2002	
Raw materials	20,000
Finished goods	15,000
Work-in-progress	5,000
Closing stock: 30th June, 2003	
Raw materials	25,000
Finished goods	33,000
Work-in-progress	16,000
Cost of factory supervision	10,000
Royalty	3,000
Sales of finished goods	400,000
Distribution expenses	20,000

You are to prepare:

a. Manufacturing Account
b. Trading and Profit and loss account for the year ended 30th June, 2003

Answer

Garri Processing company ltd.

Manufacture trading and profit & loss account for year ended 39th june, 2003

Opening stock 30/01/02	20,000	factory cost of production	218,000
Add purchases	120,000		
Add carriage inwards	120		
	141,000		
Less closing stock	25,000		
Cost of raw materials consumed	116,000		
Direct wage	100,000		
Royalty	3,000		
	219,000		
Factory overhead			
Cost of factory supervision	10,000		
	229,000		
Add w.i.p at ist	5,000		
	234,000		
Add w.i.p at loss	16,000		
	218,000		1,115,080
Finished goods			
Stock at start	15,000		
Add factory cost of production	218,000		
b/d	233,000	sales	400,000
less closing stock	33,000		
cost of sales	200,000		
gross profit	200,000		
	400,000		400,000
Rent and rate	30,000	Gross profit b/d	200,000
Distribution expenses	20,000		
Net profit	150,000		
	200,000		200,000

Question 9.

Usman and Chinyere entered into a joint venture to buy and sell cement products. They agree to share profit equally. A summary of their transaction is as follows

	₦
Usman bought cement	3,000
Chinyere bought cement	4,000
Usman paid revocation expenses	1,500
Chnyere paid selling expenses	500
Usman received cash from sale	8,000
Chinyere sold cement on credit	5,000
Chinyere received cash from debtors	3,000
Usman retained some bags of cement	
For personal use value at	1,000

You are required to prepare a memorandum joint venture account and show the entries in each of the ventures books necessary to record only their respective transactions regarding the joint venture

USMAN AND CHINYERE MEMORANDUM JOINT VENTURE ACCOUNT

	₦	₦		₦
Materials			sales	13,000
Cement				
Usan bought cement	3,000			
Chenyere bought cement	4,000	7,000		
Revocation expenses		1,500		
Selling expenses		500		
Net profit Usman (½ x 4000)		2,000		
Chinyere (½ x 4000)		2,000		
		13,000		13,000

USMAN JOIN VENTURE WITH CHINYERE

Purchases (m)	3,000	Sales	8,000
		Cash to Chineyere	1,000
Revocation expenses	1,500	Stock taken over	1,000
Share of profit	2,000		
Chas remitted to Chinyere (diff)	2,500		
	9,000		9,000