NATIONAL BUSINESS AND TECHNICAL EXAMINATION BOARD

FINANCIAL ACCOUNTING

QUESTION 1

(a) Differentiate between preference shares and ordinary shares of a company.
(b) Explain the following terms in relation to issuing of shares.
  (I) At par.
  (II) At premium.
  (III) At discount.

ANSWER

(a) Preference shares: These are units of a company's capital which have a fixed rate of dividend. Holders of this class of shares are first when declaring dividends. This classes of shares are of four types namely; participating preference shares, cumulative preferences shares, redeemable and unredeemable preference shares. Whereas ordinary shares are otherwise known as "Equity share". It does not have a fixed rate of dividends, holders of this class of shares usually receive dividends after the preference shareholders have been paid fully. There are many types of ordinary shares namely, deferred ordinary shares, preferred ordinary shares, founder shares e.t.c. holders of ordinary shares are usually refereed to as "Risk bearers" of the company.

(b) (i) Issuing shares at par: This means that the amount a shareholder pays for a share will actually appears on the share certificate. Share used at the normal value.

(ii) Issuing share at premium: This means that a shareholder will pay more than what it appear on the share certificate. This means the face-value of the share is lower than what a shareholder pays. Selling of shares above the par value.

(iii) issuing share at discount: This means that the amount written on the share certificate is higher than what the shareholder pay. Selling of shares below the par value .

QUESTION 2

(a) (i) Define cash book.

(ii) State THREE features of a cash book.

(b) Mention THREE documents that are needed by a company before it can be registered.
(c) Explain briefly each of these document

ANSWER

(a) (I) A cash book is an account in which all cash transactions are recorded. It is also a ledger and does not record credit transactions.

(ii) The feature of a cash book are:

(a) It records only cash or bank transactions.
(b) No credit transactions are recorded
(c) It has debit and credit sides represented as Dr on the left and Cr. on the right hand side.
(d) All receipts or incomes are recorded on the debit side while all payment are recorded on the credit side.
(e) The data, particulars, folio and amount columns are stated on both sides of the cash book.
(f) The difference between the debit and the credit sides is the balance.

(b) (I) The memorandum of association.

(ii) The articles of association.

(iii) The prospectus.

(c) The memorandum of association is the document that manages the external affairs of a company e.g. the name of the company, the objectives clause etc.
The article of association is a document that takes care of the internal affairs of a company. E.g. issue and transfer of shares, procedures for calling meeting.
The prospectus: This is an invitation to the general public to subscribe for the shares of the company. This is done through commercial and merchant banks.

QUESTION 3

(a) List TWO errors that a trial balance will reveal and THREE errors that will not affect the trial balance.
(b) State FIVE subsidiary books of account.
(c) Differentiate Gross profit from Net profit.

ANSWER

(a) Errors that a trial balance will reveal are
(i) Errors undercast.
(ii) Errors of omission of one entry or aspect of account.
(iii) Reversal of an entry.
(iv) Error of overcast.
(v) Single entry
Three errors that will not affect the trial balance are
(i) Compensating error
(ii) Error of principle.
(iii) Errors in the books of original entry.
(iv) Error of commission.
(v) Complete reversal of entries.
(vi) Error of omission.

(b) The subsidiary books of account are
   (i) Sales journal.
   (ii) Purchases journal.
   (iii) Return inward journals.
   (iv) Return outward journals.
   (v) The petty cash book.
   (vi) The cash book.
   (vii) Journal proper.

(c) Gross profit: This is the excess of sales over the cost of goods sold, where as Net profit is the excess of gross profit over the expenses of a business.

QUESTION 4

(a) List FOUR sources of income to a non-profit making concern.
(b) Explain any two of the sources mentioned above.
(c) Give THREE limitations of Receipt and payment account.

ANSWER:

(a) Sources of Income to a Non profit making concern are:

(i) Subscriptions.

(ii) Donations.

(iii) Sale of tickets.

(iv) Loan from banks.

(v) Dance proceeds.

(b) Subscriptions: These are the amount that a club asks its members to pay for a specific period of time.

Donations: This refers to the money received from different people by a club.

Sales of Tickets: This is the amount collected as entrance fees from people who attend social engagements organized by the club.

Sale of Drinks: This refers to the profit that a club realizes from the sales of deinks during a concert party.

Loan: This refers to the amount which a club borrows from banks for a specific purpose.

QUESTION 5

The following list of balance were extracted from books of Oluwole and Sule on 31st December, 1998.

	₦
Capital- Oluwale	19,500
- Sule	19,500
Drawings – Oluwale	1,800
- Sule	900
Bills payable	5,400
Bills receivable	1,200
purchasers	16,500
Sales	29,322
Carriage inwards	120
Carriage outwards	60
Sundry debtors	24,000
Sundry creditors	20,000
Wages	10,500
Salaries	3,100
Commission received	300
Mortgage on premises	6,300
Premises	12,000
Plant & machinery	6,000
Current account – OLUWALE(CR)	1,500
- SULE(DR)	300
Office furniture	600

Cash at bank	2,592

Opening stock	21,000
Rent in advance	750
Advertising	350
Discount allowed	150

Additional information:

(a) Profit and losses are shared equally
(b) Provide ₦400 for bad debts.
(c) Insurance prepaid ₦80.
(d) Commision due and not received ₦120.
(e) Depreciation plant and machinery by 3%.
(f) Stock at 31st December, 1998 was valued at ₦28,500
(g) No interest is to be charged on capital or drawings received.
  (a) Prepare trading, profit and loss account for the year ended 31st dec, 1998.
  (b) A balance sheet as at that date.

ANSWER

A) Oluwale & Sule TRADING, PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st DECEMBER, 1998

		₦		N
Opening stock	2,100		Sales	29,322
Add purchase	16,500	37,500		
Less closing stock		28,500		
		9,000		
Add carriage inwards		120		
Add wages		10,500		
		19,620		
Gross profit c/d		9,720		29,322
		29,322		
Carriage outwards		60	Gross Profit b/d.	9,703
Salaries		3,100	Commission Received (300 + 120)	420
Provision for bad depts.		400		
Depreciation plant & Machinery		180		
Discount allowed		150		
Advertising		350		
Net Profit		5,882		
		10,122		10,122
				5,882
Share of profit				
Oluwole		2,941		
Sule		2,94		
		5,882		5,882

CURRENT ACCOUNT

Oluwole Sule Oluwole Sule

		₦	₦			₦	₦
Balance	c/d		300	Balance			
						1,500	
Drawings		1,800	900	Share of profit	c/d		
Balance	c/d	2,641	1,741			2,941	2,941
		4,441	2,941	Profit	c/d	4,441	2,941
					b/d	2,641	1,741
				Balance			

OLUWOLE & SULE

	₦	₦		₦	₦
Capital			Fixed Asset:		
Oluwole	19,500		Premises	12,000	
Sule	19,500	39,00	Plant & Machinery	5,820	
			Office Furniture	600	18,420
Current A/C					
Oluwole Cr	2,641		Current Assets		
			Stock		28,420
Sule Cr	1,741	4,382	Debtors	24,000	
			Less provision (bad debt)	400	23,600
Long term liabilities		6,300	Bank		2,572
			Bill receivable		1,200
Mortgage premises			Rent prepaid		750
Mortgage premises			Insurance prepaid		50
			Suspense account		60
Current liabilities					
Sundry creditors	20,000				
Bills payable	5,400				
Commission due	120	25,520			
		75,202			75,202

QUESTION 6

A summary of the primus football club of iseyin is shown below.

CASH BOOK SUMMARY

		₦		₦
Balance	1:1:98	1800	Purchase of equipment	1250
Collectional matches		16500	rent of football field	3000
Profit on sale of refreshment		3150	Printing & stationery	650
			Secretary' expenses	1440
			Repairs of equipment	460
			Ground smiths wages	5200
			Miscellaneous Expenses	660
			Balance as at 31: 12: 98	8790
		21450		2145

Additional information

(I) At 1:1:98 equipment was valued at ₦5000

(II) Depreciate all equipment by 20% for the year 1998.

(III) At 31:12:98 rent paid in advance was ₦600

(IV) At 31:12:98 there was ₦330 owing for printing.

Required

Prepare an income and expenditure account for the year end 31st December, 1998 and a balance sheet as at that date.

ANSWER

PRIMUS FOOTBALL CLUB OF ISEYIN INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER 1998

	₦		₦
Rent (3000-600)	2,400	Collectional matches	16,500
Printing & Stationary (650-330)	980	Profit on sales of	
Secretary's expenses	1,440	Refreshments	3,150
Repairs of equipment	460		
Gound smith wages	5,200		
Miscellaneous expenses	600		
Depreciation of equipment	1,250		
Surplus of income over expenses	7,260		
	19,650		19,650

BALANCE SHEET AS AT 31ST DECEMBER 1998

	₦			₦
Accumulated fund 1:1:98	6,800	Fixed Assets		
Add surplus	7,260	Equipment		6,250
	14,060	Less depreciation		1,250
Current liabilities				5,000
Printing owing	330	Current Assets		
		Rent Prepaid	600	
		Cash balance	8,790	9,390
				14,390

ACCUMULATED FUND AS AT 1:1:98

	₦	
Balance 1:1:98	1,800	
Equipment	5,000	
	6,800	

QUESTION 7

7. The following information extracted from the books of osawue and Johnson manufacturers in Lagos; prepare Trading, Profit and Loss Account for the year ended, 31st Dec, 1999 to show:

(a) Cost of raw material available for production.

(b) Cost of raw materials consumed.

(c) Prime cost.

(d) Cost of production.

(e) Cost of manufactured goods sold.

(f) Gross profit on manufactured goods.

(g) Gross profit on sales.

(h) Net profit.

	₦
General expenses	2,250
Manufacturing wages	10,400
Carriage outward	225
Sales	49,000
Carriage on raw materials	140
Discount allowed	225
Depreciation of factory machinery	450
Discount received	280
Sales return	1,000
Office salaries	2,650
Office rent and rates	455
Opening stock:	
Raw materials	4,250
Work in progress	2,500
Finished goods	15,000
Purchase of raw material	15,000
Factory expenses	4,000

Selling expenses	4,500

Additional information

(a) Depreciation of machinery is to be charged to the manufacturing accounts.

(b) Closing stock as at 31st December , 1999 were valued as follows:

- i. Raw materials ₦3.250
- ii. Work in progress ₦3,490
- iii. Finished goods ₦ 4,000

(c) Goods manufactured are charge to the sales department at the current market value of ₦32,500

OSAWUE AND JOHNSON MANUFACTURER IN LAGOS

Manufacturing, Trading, Profit and loss account for the year ended, 31st December, 1999

		₦		₦
Opening stock of Raw materials		4,250	Market Value	32,500
Add purchases of Raw Materials		15,000		
Add carriage on R/materials		140		
Cost or R/Material available		19,390		
Less closing stock		2,250		
Cost of raw material consumed		16,140		
Add manufacturing wages		10,400		
PRIME COST		26,540		
Works overheads:				
Dep. of factory	₦			
Machinery	450			
Factory expenses	4,000	4,450		
		30,990		
WIP at start		2,500		
		33,490		
Less WIP at close		3,490		
Cost of production		30,000		
Profit on manufacture c/d		2,500		
		₦32,500		₦32,500
Opening stock-finished goods		3,000	Sales	49,000
Add market value		32,500	Less Returns inwards	1,000
Less closing stock		4,000		
Cost of goods sold		31,500		
Gross profit c/d		16,500		
		₦48,000		₦48,000
General expenses		2,250		
Carriage outwards		225		

	₦		₦
Discount allowed	140	Profit on manufacture b/d	2,500
Office salaries	2,650	Gross profit b/d	16,500
Office rent & rates	455	Discount received	280
Selling expenses	4,500		
Net profit c/d	9,060		
	₦19,280		₦19,280

QUESTION 8

Prepare a purchase ledger control account and the sale ledger control account from the following opening balance:

November 1 balance on purchase ledger ₦20,652

“ 1 balance on sales ledger 29,028 “

30 purchase the during the month 240,931

“ ” sale return outward 350,753

” “ return in ward 473

“ “ return out ward 247

“ “ cash paid to suppliers 2,329,035

“ “ cash received from customer 339,179

“ ” Discount received 4,763

“ “ Discount allowed 5,932

“ “ bed debt written off 278

“ ” purchase ledger credit transferred to sales ledger 3,827

Closing balances:

November 30 purchase ledger balance ₦23,711

Sales ledger balance ₦30,092

Answer

	₦		₦
Balance b/f	29,038	Return inwards	473
Sales	350,753	Cash	339,179
Balance c/d	30,092	Discount allowed	5,932
		Bad debts written of	278
		Purchases ledger contra	3,827
		Balance c/d	60,184
	₦409,874		₦409,874
Balance c/d	60,184	Balance b/d	30,092

DR Purchases ledger control (TOTAL CREDITORS) Account ½

	₦		₦
Returns Outwards	247		
Cash paid	229,035	Balance b/f	20,652
Discount received	4,763	Purchases	240,931
Sales ledger contra	3,827	Balance c/d	23,711
Balance c/d	47,422		
	₦85,294		₦285,294
Balance b/d	₦23,711	Balances b/d	47,422

Question 9

Abdul and co. limited was registered with an authorized capital of #30,000.

During the year ended 31st December 1998 a new issue of ordinary share had been made . after the establishment of the profit the year, the following balance remain in the book.

	Dr	Cr
	#	#
Ordinary share capital		25,000

Cumulative preference:		
Share capital (7%)		50,000
Share premium		10,000
Profit and loss account balance-1 January		6,000
General reserve		18,000
Freehold premises at cost	195,000	
Equipment and tool (cost #160,000)	112,600	
Motor lorries(cost#49,000)	34,500	
Debtor	18,000	
Stock	36,000	
Prepaid expenses	400	
Cash at bank	36,200	
Preliminary expenses	1,000	
First and final call A/c	400	
Provision for doubtful		900
6% debenture		50,000
Creditors		11,800
Accrued expenses		1,800
Trade investment at cost	14,500	
Profit for the year to 31st Dec.		51,000
	449,500	449,500

Addition information:

a. The preference share dividends for the year to be paid and a dividend of 12% to be paid on the ordinary share. The article of association of a company provide that dividends shall be calculated on the amount paid on the share.
b. #500 should be written off as preliminary expenses
c. #10,000 should be transferred to general reserve.

Required

Prepare the appropriation account, profit and loss account and a balance sheet for the year ended 31st December 1998.

Answer

Abdusalam & co. Ltd profit and loss Appropriation

Account for the year ended 31st December, 2998

	₦		
Preliminary expenses	500	Net profit b/d	51,000
General reserve	10,000	Profit & loss b/f	6,000
Dividends:-			
	₦		
Ordinary shares	30,000		
7% Pref. Shares	3,500		
Balance c/d	13,000		
	₦57,000		₦57,000

ABULSALAAM & CO. LTED.

Balance sheet as at 31st December, 1998

		₦					
Authorized Capital:			Fixed Assets				
						Acct	
250,000 ordinary shares		250,000					
					Cost	dep.	NVB
50,000 7% pref. shares		50,000	Freehold Premises		195,00	–	195,000
		300,000	Equipment & Tool		160,000	47,400	112,600
Issued and fully paid up capital			Motor vehicles		49,000	13,000	35,400
250,000 ordinary shares 250,000					404,00	61,000	343,000
			Current Assets:				
50,000 preference shares 50,000							
			Trade Investment			14,500	
Reserves Capital							
			Stock			36,000	
General Reserves 28,000							
			Debtors	18,000			
Share premium 10,000							
			Less provision	900		17,100	
P & I c/f	13,000	51,000					
			Prepaid expenses			400	
Long term Liabilities:							
			Cash at bank			36,200	
6% Debenture		50,000					
			Preliminary			500	
Current Liabilities							
			First and final call			400	105,100
Creditors	11,800						
Accrued expenses	1,800						
Dividends:-							
Ordinary share 30,000							
Preference shares	3,500	47,100					
		448,100					448,100