**SS2 FINANCIAL ACCOUNTING LESSON NOTES**

**FIRST TERM**

1. Profit and Loss Appropriation Account
2. Partnership Capital Account
3. Partnership Current Account
4. Current Account in Partnership Accounting
5. Midterm Examination
6. Admission of a New Partner And Goodwill Account
7. Midterm Break
8. Receipts and Payments Account / Income and Expenditure Account
9. Single Entry (Incomplete Records)

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## WEEK 1: PROFIT AND LOSS APPROPRIATION ACCOUNT

### Profit and Loss Appropriation Account

Profit and Loss Appropriation Account is a continuation of the Profit and Loss Account. It is only prepared by partnership businesses, and shows how the net profit or net loss is distributed among partners based on the partnership agreement or deed. It is not used by sole traders or companies.

### Differences between Profit and Loss Account and Appropriation Account

| Basis | Profit and Loss Account | Profit and Loss Appropriation Account |
|---|---|---|
| **Purpose** | To calculate net profit or loss | To show distribution of net profit/loss |
| **Prepared by** | All types of businesses | Partnerships only |
| **Items Included** | General expenses and incomes | Partners' salaries, interest on capital, etc. |
| **Final Result** | Net profit or net loss | Profit share for each partner |

### Items Included in the Appropriation Account

1. **Net Profit**: Brought down from the Profit and Loss Account.
2. **Interest on Capital**: Reward for partners' capital contribution.
3. **Partners' Salaries**: Compensation for active work in the business.
4. **Interest on Drawings**: Penalty for early withdrawal of funds.
5. **Share of Profit or Loss**: Based on agreed profit-sharing ratio.
6. **Remaining Profit**: After adjustments, shared among partners.

### Format of the Profit and Loss Appropriation Account

### Profit and Loss Appropriation Account for the Year Ended 31st December 20XX

| Dr (Appropriations) | Amount (₦) | Cr (Sources) | Amount (₦) |
|---|---|---|---|
| Interest on Drawings | xxx | Net Profit b/d | xxx |
| Partners' Salaries | xxx | | |

| | | | |
|---|---|---|---|
| Interest on Capital | xxx | | |
| Share of Profit: | | | |
| Partner A | xxx | | |
| Partner B | xxx | | |
| **Total** | xxx | **Total** | xxx |

**Worked Example**

**Given:**

- Net Profit = ₦100,000
- Partner A: Capital ₦60,000, Salary ₦10,000
- Partner B: Capital ₦40,000, Salary ₦8,000
- Interest on Capital = 10% per annum
- Profit Sharing Ratio = 3:2

**Interest on Capital**

| Partner | Capital (₦) | Rate (%) | Interest (₦) |
|---|---|---|---|
| A | 60,000 | 10% | 6,000 |
| B | 40,000 | 10% | 4,000 |
| **Total** | | | **10,000** |

**Appropriation Account**

**Profit and Loss Appropriation Account for the Year Ended 31st December 20XX**

| Dr (Appropriations) | Amount (₦) | Cr (Sources) | Amount (₦) |
|---|---|---|---|
| Partners' Salaries: | | Net Profit b/d | 100,000 |
| A | 10,000 | | |
| B | 8,000 | | |

| | | | |
|---|---|---|---|
| Interest on Capital: | | | |
| A | 6,000 | | |
| B | 4,000 | | |
| Share of Remaining Profit (₦72,000): | | | |
| A (3/5 × 72,000) | 43,200 | | |
| B (2/5 × 72,000) | 28,800 | | |
| **Total** | **100,000** | **Total** | **100,000** |

**Evaluation**

1. What is a Profit and Loss Appropriation Account?
2. List **three** items included in the appropriation account.
3. State **two** differences between a Profit and Loss Account and an Appropriation Account.
4. Calculate the interest on capital for a partner who contributed ₦80,000 at 10% per annum.

**Assignment**

**Prepare a Profit and Loss Appropriation Account using the following:**

- Net Profit = ₦120,000
- Partner C: Capital ₦50,000, Salary ₦12,000
- Partner D: Capital ₦70,000, Salary ₦15,000
- Interest on Capital = 10%
- Sharing Ratio = 2:3

**Tasks:**

1. Calculate the **interest on capital** for each partner.
2. Prepare the **appropriation account**.
3. Determine the **final share of profit** for each partner.

**WEEK 2: PARTNERSHIP CAPITAL ACCOUNT**

**Meaning of Partnership Capital Account**

- The capital account shows how much each partner has contributed to the business.
- It also reflects changes such as drawings, additional capital, interest, and profit shares.

**Types of Capital Account Systems**

| Method | Explanation |
|---|---|
| **Fixed Capital Method** | – Capital remains unchanged. – All other activities go into a current account. |
| **Fluctuating Method** | – All transactions (drawings, interest, salary, profit share) are recorded in the capital account. – The balance changes often. |

**Formats of Capital Accounts**

◆ ***Fixed Capital Account Format***

| **Dr** | | | **Cr** | | |
|---|---|---|---|---|---|
| Date | Particulars | Amount (₦) | Date | Particulars | Amount (₦) |
| | | | xxxx | Capital Introduced | xxxx |

◆ ***Fluctuating Capital Account Format***

| **Dr** | | | **Cr** | | |
|---|---|---|---|---|---|
| Date | Particulars | Amount (₦) | Date | Particulars | Amount (₦) |
| xxxx | Drawings | xxxx | xxxx | Capital Introduced | xxxx |
| xxxx | Interest on Drawings | xxxx | xxxx | Interest on Capital | xxxx |
| xxxx | Balance c/d | xxxx | xxxx | Salary | xxxx |
| | | | | Share of Profit | xxxx |

**Worked Examples**

***Example 1 – Fixed Capital Account***

**Given:**

- Partner A: Capital ₦100,000
- Partner B: Capital ₦80,000

**Partner A's Capital Account**

| **Dr** | | | **Cr** | | |
|---|---|---|---|---|---|
| | | | Date | Particulars | Amount (₦) |
| | | | xxxx | Capital | 100,000 |

**Partner B's Capital Account**

| **Dr** | | | **Cr** | | |
|---|---|---|---|---|---|
| | | | Date | Particulars | Amount (₦) |
| | | | xxxx | Capital | 80,000 |

***Example 2 – Fluctuating Capital Account***

**Given:**

- Capital Introduced = ₦60,000
- Drawings = ₦10,000
- Salary = ₦12,000
- Interest on Capital = ₦6,000
- Share of Profit = ₦20,000

**Partner A's Capital Account**

| **Dr** | | | **Cr** | | |
|---|---|---|---|---|---|
| Date | Particulars | Amount (₦) | Date | Particulars | Amount (₦) |

| | | | | | |
|---|---|---|---|---|---|
| xxxx | Drawings | 10,000 | xxxx | Capital Introduced | 60,000 |
| xxxx | Balance c/d | 88,000 | xxxx | Interest on Capital | 6,000 |
| | | | | Salary | 12,000 |
| | | | | Share of Profit | 20,000 |
| | **Total** | **98,000** | | **Total** | **98,000** |

**Evaluation**

1. What is a partnership capital account?
2. Differentiate between fixed and fluctuating capital methods.
3. List three items found in a fluctuating capital account.

**Assignment**

**Task:** Using the fluctuating method, prepare a capital account for **Partner C** with the following:

- Capital Introduced: ₦90,000
- Drawings: ₦20,000
- Interest on Capital: ₦9,000
- Salary: ₦15,000
- Share of Profit: ₦18,000

**Requirement:**

Calculate the **closing balance** of Partner C's capital account.

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## WEEK 3: PARTNERSHIP CURRENT ACCOUNT

### Introduction

In a partnership, apart from the capital each partner invests, what happens when partners take money or are paid salaries? Where are those recorded?

Such transactions are recorded in a **current account**, which keeps track of partners' ongoing dealings with the business apart from capital.

### Meaning of Current Account

- A **partnership current account** is used to record **frequent or recurring transactions** between the partner and the partnership apart from capital.
- It is maintained **only when partners use the fixed capital method**.

### Purpose of the Current Account

1. Tracks items like **drawings**, **interest on drawings**, **interest on capital**, **partners' salaries**, and **share of profit**.
2. Keeps capital account stable when fixed method is used.
3. Shows the **net amount owed to or by each partner**.

### Features of the Current Account

- Each partner has a separate current account.
- It may have either a debit or credit balance.
- The account is updated regularly, often at the end of the accounting period.

### Items in the Current Account

### Credit Side (Increases partner's entitlement):

- Interest on capital
- Partner's salary

- Share of profit

**Debit Side (Reduces partner's entitlement):**

- Drawings
- Interest on drawings

**Format of a Current Account**

**Partner's Current Account**

| Dr | | | Cr | | |
|---|---|---|---|---|---|
| **Date** | **Particulars** | **Amount (₦)** | **Date** | **Particulars** | **Amount (₦)** |
| xxxx | Drawings | xxxx | xxxx | Interest on Capital | xxxx |
| xxxx | Interest on Drawings | xxxx | xxxx | Salary to Partner | xxxx |
| xxxx | Balance c/d | xxxx | xxxx | Share of Profit | xxxx |

**Example**

**Given:** Partner A:

- Drawings = ₦10,000
- Interest on Drawings = ₦500
- Interest on Capital = ₦6,000
- Salary = ₦12,000
- Share of Profit = ₦20,000

**Solution:**

**Partner A's Current Account**

| Dr | | | Cr | | |
|---|---|---|---|---|---|
| **Date** | **Particulars** | **Amount (₦)** | **Date** | **Particulars** | **Amount (₦)** |
| xxxx | Drawings | 10,000 | xxxx | Interest on Capital | 6,000 |

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| | | | | | |
|---|---|---|---|---|---|
| xxxx | Interest on Drawings | 500 | xxxx | Salary to Partner | 12,000 |
| xxxx | Balance c/d | 27,500 | xxxx | Share of Profit | 20,000 |
| | | | | **Total** | **38,000** |
| **Total** | | **38,000** | | | |

**Evaluation**

1. What is a current account in partnership?
2. List two items on the debit and credit side of a current account.
3. Why is a current account maintained separately from capital?

**Assignment**

Using the information below, prepare Partner B's current account:

- Drawings = ₦8,000
- Interest on Drawings = ₦400
- Interest on Capital = ₦4,000
- Partner's Salary = ₦10,000
- Share of Profit = ₦15,000

**Tasks:**

1. Record the items appropriately.
2. Calculate the closing balance.
3. State whether the account ends with a credit or debit balance.

## WEEK 4: CURRENT ACCOUNT IN PARTNERSHIP ACCOUNTING

### Introduction

In partnership accounting, each partner contributes capital to the business and may also engage in other financial interactions such as earning salaries, withdrawing funds (drawings), or receiving interest on capital. These regular, often recurring transactions between the partners and the partnership firm are not recorded directly in the capital account when the **fixed capital method** is adopted. Instead, they are documented in a separate ledger account known as the **Current Account**.

The **Current Account** plays a vital role in reflecting the *dynamic financial relationship* between a partner and the partnership, outside of the initial capital invested.

### Purpose of the Current Account

The primary purpose of maintaining a **Current Account** in a partnership firm is to:

1. **Track Routine or Regular Partner Transactions**: These include the partner's drawings (withdrawals for personal use), salaries paid to partners for their work in the business, interest on capital, interest on drawings, and the partner's share of profit or loss.
2. **Separate Operational Transactions from Capital Investment**: In partnerships that adopt the *fixed capital method*, the capital account remains unchanged unless there is a clear addition or withdrawal of capital. All routine financial exchanges between the partner and the firm are managed through the current account.
3. **Measure Each Partner's Entitlement or Obligation**: At any given point, the current account shows whether a partner is owed money by the business (credit balance) or owes money to the business (debit balance).

### Items Included in the Current Account

The current account reflects both income and expenses related to the partner during the accounting period.

**Credit Entries (Increases in Partner's Entitlement):**

These entries reflect amounts owed *to* the partner and are recorded on the credit side:

- **Interest on Capital**: A reward for investing capital in the firm.
- **Partner's Salary or Commission**: As compensation for managing or contributing services to the partnership.
- **Share of Net Profit**: The portion of business profits due to the partner, based on the agreed profit-sharing ratio.

**Debit Entries (Reductions in Partner's Entitlement):**

These entries reflect amounts *owed by* the partner to the firm and are recorded on the debit side:

- **Drawings**: Withdrawals made by the partner for personal use.
- **Interest on Drawings**: A charge on the partner for early withdrawals from the business fund.
- **Share of Loss** (if any): Deducted if the firm incurs a loss and it is to be borne by the partner.

**Format of a Partner's Current Account**

The current account is maintained in a **T-account format** with two sides:

**Partner's Current Account**

| **Dr** | | | **Cr** | | |
|---|---|---|---|---|---|
| **Date** | **Particulars** | **Amount (₦)** | **Date** | **Particulars** | **Amount (₦)** |
| xxxx | Drawings | xxxxx | xxxx | Interest on Capital | xxxxx |
| | Interest on Drawings | xxxxx | xxxx | Salary | xxxxx |
| | Balance c/d | xxxxx | xxxx | Profit Share | xxxxx |
| | **Total** | **xxxxx** | | **Total** | **xxxxx** |

The **debit side** reduces the partner's entitlement, while the **credit side** increases it. At the end of the period, the **closing balance** of the current account is carried forward and added to the capital account on the balance sheet.

**Relationship Between Capital Account and Current Account**

In the **fixed capital method**, the capital account shows only the original capital introduced by the partner and any additional capital introduced or withdrawn over time. It remains largely unchanged throughout the accounting period.

All other financial transactions involving the partner (except capital contributions or withdrawals) are recorded in the **current account**. This system provides clarity and neat separation between long-term investments (capital) and operational transactions (current account).

Conversely, in the **fluctuating capital method**, both capital contributions and day-to-day transactions are recorded in a single capital account. There is no need for a separate current account under this method.

**Evaluation**

1. What is the main purpose of maintaining a current account for each partner in a partnership firm?
2. State two differences between the capital account and the current account under the fixed capital method.
3. List three credit items and three debit items you would find in a partner's current account.
4. Explain the effect of each of the following on a partner's current account:
   a. Drawings
   b. Interest on Capital
   c. Interest on Drawings
5. Prepare a simple format of a partner's current account showing at least two credit entries and two debit entries.

**Assignment**

1. Define the **fixed capital method** and explain how it relates to the current account in partnership accounting.
2. In your own words, distinguish between **fixed** and **fluctuating** capital methods in partnership accounting.
3. Prepare a Current Account for **Partner B** using the following details:
    - Interest on capital – ₦10,000
    - Salary – ₦5,000
    - Drawings – ₦7,000
    - Interest on drawings – ₦1,000
    - Share of profit – ₦12,000

Show all workings neatly in a **T-account format**.

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## WEEK 6: ADMISSION OF A NEW PARTNER AND GOODWILL ACCOUNT

### Introduction

A partnership is a dynamic business form that allows for flexibility in its composition. As the business grows, it may become necessary to **admit a new partner** to bring in additional capital, fresh ideas, or special skills. However, the admission of a new partner impacts various aspects of the partnership, including the **valuation of assets**, **distribution of profits**, and the recognition of **goodwill**.

### 1. Reasons for Admitting a New Partner

There are several business and strategic reasons for bringing a new partner into an existing partnership:

- **To raise additional capital** for expansion or to meet business obligations.
- **To introduce new expertise, skills, or business connections** that can enhance operations or productivity.
- **To share the workload and responsibilities** in managing the business.
- **To replace a retiring or deceased partner**.
- **To improve creditworthiness** or attract new clients or markets.

Admitting a new partner often results in **changes in profit-sharing ratios**, **revaluation of assets and liabilities**, and **recognition of goodwill**.

### 2. Revaluation of Assets and Liabilities

Before admitting a new partner, the existing partners may decide to **revalue the business's assets and liabilities** to reflect their true (fair market) value. This ensures that:

- Existing partners gain or bear the benefit or loss from the revaluation.
- The incoming partner does not benefit from previous undervaluation of assets or suffer from overstatements of liabilities.

The difference between the old and new valuations is recorded in a **Revaluation Account** (also called Profit or Loss on Revaluation).

**Format of a Revaluation Account**:

**Revaluation Account**

| **Dr** ***(Losses/Expenses)*** | **Amount (₦)** | **Cr** ***(Gains/Incomes)*** | **Amount (₦)** |
|---|---|---|---|
| Decrease in Assets | xxxx | Increase in Assets | xxxx |
| Increase in Liabilities | xxxx | Decrease in Liabilities | xxxx |
| | | Profit on Revaluation (to old partners' capital a/cs in old ratio) | xxxx |
| **Total** | xxxx | **Total** | xxxx |

The profit or loss on revaluation is shared only among the old partners, in their old profit-sharing ratio.

**3. Goodwill: Meaning and Treatment**

**Goodwill** is the **reputation or brand value** of the business that enables it to earn more profits than others in the same industry. When a new partner is admitted, they are required to compensate existing partners for the goodwill of the business if they are going to benefit from it.

**Treatment of Goodwill:**

There are several methods for handling goodwill when admitting a new partner:

**Goodwill Brought in Cash by New Partner**

- The new partner pays a premium (goodwill) to existing partners.
- This amount is shared **among the old partners** in the **sacrificing ratio**.

**Sacrificing Ratio** = Old Ratio – New Ratio

**Journal Entry: Goodwill Brought in by New Partner**

| Date | Particulars | Dr (₦) | Cr (₦) |
|---|---|---|---|
| | Cash/Bank A/C..... Dr | xxxx | |
| | To Old Partners' Capital A/Cs | | xxxx |
| | *(Being goodwill brought in by the new partner and distributed among old partners in their sacrificing ratio)* | | |

**Goodwill Raised in Books and Credited to Old Partners**

- The business's goodwill is recorded as an asset.
- Old partners' capital accounts are credited.

**Journal Entry: Raising Goodwill and Crediting Old Partners**

| Date | Particulars | Dr (₦) | Cr (₦) |
|---|---|---|---|
| | Goodwill A/C..... Dr | xxxx | |
| | To Old Partners' Capital A/Cs | | xxxx |
| | *(Being goodwill raised and credited to old partners in their old profit-sharing ratio)* | | |

**Goodwill Raised and Immediately Written Off**

- Goodwill is first raised and credited to old partners.
- Then, it's written off against all partners' capital accounts in **new profit-sharing ratio**.
- Certainly! Below is the **structured journal format** for the two transactions involving goodwill in a partnership:

**Journal Entries:**

1. **To Raise Goodwill**

| Date | Particulars | Dr (₦) | Cr (₦) |
|---|---|---|---|
| | Goodwill A/C..... Dr | xxxx | |
| | To Old Partners' Capital A/Cs | | xxxx |
| | *(Being goodwill raised and credited to old partners in their old ratio)* | | |

2. **To Write Off Goodwill**

| Date | Particulars | Dr (₦) | Cr (₦) |
|---|---|---|---|
| | All Partners' Capital A/Cs..... Dr | xxxx | |
| | To Goodwill A/C | | xxxx |
| | *(Being goodwill written off among all partners in the new ratio)* | | |

**4. New Profit Sharing Ratio and Adjustments**

The **new profit-sharing ratio** must be agreed upon when a new partner is admitted. The new ratio depends on:

- The portion of profit the new partner is entitled to.
- Whether existing partners are sacrificing equally or unequally.
- Any special agreements regarding sharing of future profits.

**Types of Adjustments:**

- **Sacrificing Ratio**: Used to determine how goodwill is shared.
- **Gaining Ratio**: Used when a partner retires or dies (in future lessons).
- **Reallocation of Profits**: Ensures fairness and accurate records.

**Example:**

Old Ratio of A and B = 3:2

C is admitted and takes 1/5 share

New Ratio = A: 3/5 of 4/5 = 12/25, B: 2/5 of 4/5 = 8/25, C: 1/5

New Ratio = A: B: C = 12:8:5

**5. Journal Entries on Admission of a New Partner**

**i. For Capital and Goodwill Brought in:**

Cash/Bank A/C..... Dr

To New Partner's Capital A/C

To Old Partners' Capital A/Cs (Goodwill)

**ii. For Revaluation Profit or Loss:**

- Profit:

Revaluation A/C..... Dr

To Old Partners' Capital A/Cs

- Loss:

Old Partners' Capital A/Cs..... Dr

To Revaluation A/C

**iii. For Raising Goodwill (if applicable):**

Goodwill A/C..... Dr

To Old Partners' Capital A/Cs

**iv. For Writing off Goodwill:**

All Partners' Capital A/Cs..... Dr

To Goodwill A/C

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**Evaluation**

1. List **two reasons** why a new partner may be admitted into a partnership.
2. Explain what a **Revaluation Account** is and its purpose during admission of a new partner.
3. Define **goodwill** in the context of partnership accounting.
4. State and briefly explain **two methods** of treating goodwill during the admission of a new partner.
5. What is the **sacrificing ratio** and how is it calculated?

**Assignment**

**Theory**

1. Describe the purpose of raising goodwill and writing it off during a new partner's admission.
2. Given the old profit-sharing ratio of partners A and B is 3:2, and C is admitted with 1/5 share of profits, calculate:
   a. The new profit-sharing ratio.
   b. The sacrificing ratio of A and B.

**Practical**

Using the following information, pass the journal entries for the admission of Partner C:

- A and B share profits in the ratio 3:2.
- C is admitted and brings in ₦60,000 as capital and ₦20,000 as goodwill.
- Goodwill is to be shared by A and B in their sacrificing ratio.

**Required:**

1. Journal entries to record capital and goodwill.
2. Working notes showing the calculation of the sacrificing ratio.

## WEEK 8: RECEIPTS AND PAYMENTS ACCOUNT / INCOME AND EXPENDITURE ACCOUNT

### Introduction

Non-profit organisations such as schools, clubs, associations, and religious bodies do not aim to make profits like businesses. Instead, their objective is to provide services to their members or the public. Because of this, they prepare **Receipts and Payments Accounts** and **Income and Expenditure Accounts**—not Trading, Profit and Loss Accounts.

These two accounts serve similar roles in nonprofit accounting as the Cash Book and Income Statement do in commercial enterprises, but they have distinct purposes, formats, and accounting bases.

### Receipts and Payments Account

A **Receipts and Payments Account** is a summary of all **cash and bank transactions** of a non-profit organisation during a particular period, usually a financial year.

It is prepared on a **cash basis**, meaning it records **all actual cash received and paid**, regardless of the period to which they relate.

**Features:**

- Similar to a **cash book** (cash + bank column).
- Includes both **capital and revenue items**.
- Records both **current and previous/future period** transactions.
- No distinction between **recurring and non-recurring** items.
- Does **not show surplus or deficit**—just cash movement.

**Receipts and Payments Account for the Year Ended 31st Dec 20XX**

| **Dr (Receipts)** | | | **Cr (Payments)** | | |
|---|---|---|---|---|---|
| **Date** | **Particulars** | **Amount** | **Date** | **Particulars** | **Amount** |

| | | (₦) | | | (₦) |
|---|---|---|---|---|---|
| | Balance b/d (Cash) | xxx | | Rent | xxx |
| | Subscriptions | xxx | | Salaries | xxx |
| | Donations | xxx | | Purchase of Equipment | xxx |
| | Entrance Fees | xxx | | Electricity | xxx |
| | Sale of Assets | xxx | | Balance c/d | xxx |
| **Total** | | **xxx** | | | **xxx** |

**Income and Expenditure Account**

An Income and Expenditure Account is similar to the Profit and Loss Account of a business. It is prepared to determine the surplus (excess of income over expenditure) or deficit of a non-profit organisation for a specific period.

It is prepared on an accrual basis, meaning only incomes earned and expenses incurred during the year are recorded—regardless of whether cash was received or paid.

**Features:**

- Records only **revenue items** (no capital receipts/payments).
- Includes **only income and expenses relating to the current year**.
- Adjustments are made for **prepaid and accrued incomes and expenses**.
- Aims to calculate **surplus or deficit**, not profit or loss.
- Does **not include opening or closing balances**.

**Income and Expenditure Account for the Year Ended 31st Dec 20XX**

| Dr (Expenditure) | Amount (₦) | | Cr (Income) | Amount (₦) |
|---|---|---|---|---|
| Salaries | xxx | | Subscriptions | xxx |
| Electricity | xxx | | Donations (revenue) | xxx |

| | | | | |
|---|---|---|---|---|
| Depreciation | xxx | | Entrance Fees (if revenue) | xxx |
| Printing & Stationery | xxx | | Interest Received | xxx |
| Surplus c/d (Excess Income) | xxx | | | |
| **Total** | **xxx** | | **Total** | **xxx** |

If **Income > Expenditure**, the balance is called a **Surplus**.

If **Expenditure > Income**, it is a **Deficit**.

**Key Differences between the Two Accounts**

| Basis | Receipts and Payments A/C | Income and Expenditure A/C |
|---|---|---|
| Accounting Basis | Cash basis | Accrual basis |
| Type of Items | All cash receipts/payments | Only revenue items |
| Capital Items | Included | Excluded |
| Opening and Closing Balances | Shown | Not shown |
| Purpose | To track cash flow | To determine surplus/deficit |
| Adjustments | Not required | Necessary for accruals/prepaids |

**Steps in Preparing the Accounts**

**Receipts and Payments Account**

1. Summarise all cash and bank transactions.
2. Use cashbook records.
3. Include capital and revenue transactions.

**Income and Expenditure Account**

1. Start from Receipts and Payments A/C.

2. Remove capital items.
3. Adjust for accrued and prepaid income and expenditure.
4. Include depreciation on assets.
5. Prepare the account to determine surplus/deficit.

**5. Example**

**Given the following for ABC Club:**

**Cash Receipts:**

- Opening Balance: ₦10,000
- Subscriptions: ₦50,000
- Donations: ₦20,000
- Sale of old chairs: ₦15,000

**Cash Payments:**

- Salaries: ₦30,000
- Stationery: ₦5,000
- Electricity: ₦4,000
- Purchase of furniture: ₦25,000
- Closing balance: ?

**Prepare:**

**A. Receipts and Payments Account**

**ABC Club – Receipts and Payments Account for the Year Ended 31st Dec 20XX**

| | **Amount (₦)** | | **Cr (Payments)** | **Amount (₦)** |
|---|---|---|---|---|
| Opening Balance | 10,000 | | Salaries | 30,000 |
| Subscriptions | 50,000 | | Stationery | 5,000 |
| Donations | 20,000 | | Electricity | 4,000 |

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| | | | | |
|---|---|---|---|---|
| Sale of Old Chairs | 15,000 | | Furniture Purchased | 25,000 |
| | | | Closing Balance | 31,000 |
| **Total** | **95,000** | | **Total** | **95,000** |

**B. Income and Expenditure Account (after adjustments)**

(Assume ₦20,000 of Donations is capital, and ₦5,000 of Subscriptions relate to previous year)

**ABC Club – Income and Expenditure Account for the Year Ended 31st Dec 20XX**

| Dr (Expenditure) | Amount (₦) | | Cr (Income) | Amount (₦) |
|---|---|---|---|---|
| Salaries | 30,000 | | Subscriptions (₦50,000 – ₦5,000 in arrears) | 45,000 |
| Stationery | 5,000 | | | |
| Electricity | 4,000 | | | |
| Surplus c/d (Excess Income) | 6,000 | | | |
| **Total** | **45,000** | | **Total** | **45,000** |

**Evaluation**

1. State **two key differences** between a Receipts and Payments Account and an Income and Expenditure Account.
2. Explain why capital receipts are excluded from the Income and Expenditure Account but included in the Receipts and Payments Account.
3. From the ABC Club example, calculate the closing cash balance in the Receipts and Payments Account.

**Assignments**

1. Prepare a Receipts and Payments Account from the following information:

- Opening cash balance: ₦5,000
- Subscriptions: ₦30,000
- Donations: ₦10,000
- Purchase of equipment: ₦15,000
- Salaries: ₦12,000
- Stationery: ₦3,000
- Closing cash balance: ₦?

2. From the Receipts and Payments Account you prepared in Assignment 1, construct the Income and Expenditure Account assuming:
    - ₦10,000 of donations is capital
    - ₦2,000 of subscriptions relate to the previous year
    - Include a depreciation charge of ₦1,000 on equipment

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## WEEK 9: SINGLE ENTRY (INCOMPLETE RECORDS)

### Introduction

Most well-established businesses maintain a complete set of double-entry records, where every transaction affects two accounts — a debit and a credit. However, **some small businesses** or individuals may not maintain full double-entry records due to lack of knowledge, resources, or deliberate choice. These are referred to as maintaining **Single Entry or Incomplete Records**.

This lesson introduces students to the nature of single entry, its limitations, and how accountants convert it into usable double-entry information.

### 1. Meaning of Single Entry (Incomplete Records)

**Single entry** refers to an incomplete method of bookkeeping where **only partial records** of financial transactions are maintained. Typically, the business records:

- Cash and bank transactions
- Personal accounts of debtors and creditors

But omits:

- Complete ledger accounts (e.g., capital, expenses, income)
- Nominal accounts and real accounts
- Systematic balancing and posting

This makes it difficult to prepare accurate final accounts directly.

### 2. Features of Single Entry / Incomplete Records

- No double-entry principle is applied consistently.
- Only personal accounts (debtors and creditors) and cash/bank transactions may be maintained.
- Real and nominal accounts (like assets, liabilities, expenses, and incomes) are not recorded in full.

- Trial Balance cannot be prepared.
- Final accounts (e.g., Trading and Profit & Loss) cannot be prepared without adjustments.

**3. Reasons Why Some Businesses Use Single Entry**

- Lack of accounting knowledge
- Small scale of operation
- Intention to reduce accounting costs
- Informal business arrangements
- Lack of legal obligations for detailed reporting

**4. Limitations of Single Entry**

1. Inability to detect errors or fraud easily
2. Cannot prepare a reliable trial balance
3. Difficult to assess actual financial position
4. Inadequate for planning and decision-making
5. Not acceptable under accounting standards or for tax purposes

**5. Conversion of Single Entry into Double Entry**

To obtain useful financial information from single entry, accountants must reconstruct missing data by:

**A. Using the Statement of Affairs Method**

This is used to determine the opening and closing capital positions in order to calculate the **profit or loss** for the period.

**Formula:**

**Profit/Loss = Closing Capital – Opening Capital + Drawings – Additional Capital Introduced**

**B. Reconstructing Missing Accounts**

Using available information to prepare:

- Total Debtors Account
- Total Creditors Account
- Cash/Bank Book
- Statement of Affairs (Net Worth Statement)

**6. Example – Statement of Affairs Method**

**Given:**

- Opening Capital: ₦100,000
- Closing Capital: ₦130,000
- Drawings during the year: ₦15,000
- Additional capital introduced: ₦5,000

**Required:** Calculate the profit or loss for the year.

**Solution:**

Profit = Closing Capital – Opening Capital + Drawings – Additional Capital
Profit = ₦130,000 – ₦100,000 + ₦15,000 – ₦5,000 = ₦40,000

So, the profit for the year is **₦40,000**.

**7. Comparison: Single Entry vs Double Entry**

| Basis | Single Entry | Double Entry |
|---|---|---|
| Principle | Incomplete | Complete (debit = credit) |
| Trial Balance | Cannot be prepared | Can be prepared |
| Accuracy | Less reliable | Highly reliable |
| Error Detection | Difficult | Easy with self-checking mechanism |
| Acceptance | Not accepted by law | Required for legal and tax purposes |

**Evaluation**

1. Define single entry or incomplete records.
2. List three limitations of the single entry system.
3. Mention two reasons why small businesses may adopt single entry.
4. What is the formula for calculating profit using the statement of affairs method?
5. From the following data, calculate the profit or loss:
    - Opening Capital: ₦80,000
    - Closing Capital: ₦120,000
    - Drawings: ₦10,000
    - Additional Capital: ₦5,000

**Assignment**

You are given the following details of a trader:

- Opening Capital as at Jan 1: ₦60,000
- Closing Capital as at Dec 31: ₦85,000
- Drawings during the year: ₦12,000
- Additional Capital introduced: ₦8,000

**Tasks:**

1. Calculate the profit or loss for the year.
2. List three items that are usually missing in single entry records.
3. Differentiate between Statement of Affairs and a Balance Sheet.

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**SS2 FINANCIAL ACCOUNTING LESSON NOTES**

**SECOND TERM**

1. Formation of a Company
2. Private and Public Companies
3. Quoted and Unquoted Companies
4. Financial System
5. Midterm Examination
6. Issue of Shares
7. Midterm Break
8. Loan Capital

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## WEEK 1: FORMATION OF A COMPANY

### Introduction

A company is a legal entity formed to carry out business with the aim of making profits. It has its own legal identity, separate from its owners. Before a company can begin operations, it must go through a series of legal and procedural steps known as the **formation of a company**.

This lesson introduces students to the **stages involved in company formation**, the **documents required**, and the relevant legal processes that ensure its incorporation and legitimacy.

### Definition of a Company

A **company** is an artificial person, created by law, having a separate legal identity from its owners (called shareholders), and having perpetual succession. It can own property, sue and be sued in its own name.

### Meaning of Formation of a Company

**Formation of a company** refers to the **process of registering a company** with the **Corporate Affairs Commission (CAC)** in Nigeria (or relevant authority in other countries), and taking necessary steps to give it legal status and allow it to begin operations.

This process involves several **stages and legal documents**, which are essential to comply with statutory regulations.

### Stages in the Formation of a Company

There are generally **four main stages** involved in forming a company:

### A. Promotion

- This is the first stage where the idea of forming a company is conceived.
- The **promoters** carry out the preliminary work, such as:
    - Identifying the business opportunity

- Arranging for capital
- Engaging professionals (lawyers, accountants)
- Drafting formation documents

**B. Incorporation (Registration)**

- The company is registered with the **Corporate Affairs Commission (CAC)** in Nigeria.
- Key documents to be submitted include:
  - Memorandum of Association (MoA)
  - Articles of Association (AoA)
  - Form CAC 1.1 (Application form)
  - Statement of share capital and return of allotment
  - Payment of prescribed fees

Once approved, the company is issued a **Certificate of Incorporation**, making it a legal entity.

**C. Capital Subscription**

- Applies to **public companies**.
- Involves the company issuing a **prospectus** to the public to subscribe for shares.
- The aim is to raise the required **minimum capital** before commencing operations.

**D. Commencement of Business**

- After successful incorporation and capital subscription (for public companies), the company applies for a **Certificate of Commencement of Business**.
- For **private companies**, this is not mandatory as they can commence business immediately after incorporation.

**Key Documents Used in Formation**

**A. Memorandum of Association (MoA)**

This defines the company's **external relationships** and includes:

- Name of the company
- Registered office address
- Objectives of the company
- Liability of members
- Share capital structure

**B. Articles of Association (AoA)**

This defines the company's **internal regulations**, including:

- Rules on the appointment of directors
- Meetings and voting rights
- Dividend distribution
- Transfer of shares

**C. Certificate of Incorporation**

- Issued by CAC upon successful registration.
- Confirms the company's legal existence.

**D. Prospectus (for public companies)**

- An invitation document to the public to subscribe for shares.
- Contains information about the company's operations, management, and financial projections.

**Types of Companies Based on Formation**

| Type | Description |
|---|---|
| Private Company Ltd by Shares | Minimum 2 members, cannot invite public to buy shares |
| Public Company Ltd by Shares | Can invite public to subscribe for shares via stock exchange |
| Company Limited by Guarantee | Usually for non-profits (e.g., charities, associations) |
| Unlimited Company | Members have unlimited liability for the company's debts |

**Advantages of Forming a Company**

- **Separate Legal Entity**: The Company exists independently of its shareholders.
- **Limited Liability**: Shareholders are only liable up to their shareholding.
- **Perpetual Succession**: The Company continues even if shareholders change or die.
- **Access to Capital**: Especially public companies can raise large capital from the public.
- **Transferability of Shares**: Shares can be transferred to others (especially in public companies).

**Evaluation**

1. What is meant by the formation of a company?
2. List the four major stages in company formation.
3. Name three documents required for company incorporation.
4. What is the difference between the Memorandum and Articles of Association?
5. State two features of a public limited company.

**Assignment**

1. State and explain any three stages involved in the formation of a company.
2. Define and list the contents of the Memorandum of Association.
3. A group of individuals wish to form a tech company in Nigeria. Outline the legal steps they must follow to get the company legally registered and operational.

## WEEK 2: PRIVATE AND PUBLIC COMPANIES

### Introduction

In the formation and classification of companies, one of the most important distinctions is between **private** and **public companies**. Both types of companies operate under the Companies and Allied Matters Act (CAMA) in Nigeria but have different legal characteristics, operations, and regulatory requirements.

This lesson explains the meaning, features, differences, and advantages of private and public companies.

### Meaning of Private Company

A **private company** is a company that restricts the transfer of its shares and does **not** invite the general public to subscribe to its shares. It is often family-owned or controlled by a small group of people.

**According to CAMA**, a private company must include the word **"Limited"** (or "Ltd") at the end of its name.

### Features of a Private Company

1. **Number of Members**: Minimum of 2 and maximum of 50 shareholders.
2. **No Public Share Offer**: Cannot sell shares or debentures to the general public.
3. **Restriction on Share Transfer**: Shares cannot be freely transferred without approval.
4. **Minimum Capital**: Must have a minimum share capital (e.g., ₦100,000 in Nigeria).
5. **Quicker Registration Process**: Fewer legal formalities compared to public companies.
6. **Can Start Business Immediately** after incorporation (no need for a certificate of commencement).
7. **Less Public Disclosure**: Not required to publish detailed financial reports publicly.

### Meaning of Public Company

A **public company** is a company that can offer its shares to the general public and can be listed on a stock exchange. It has more legal obligations and greater access to capital.

**It includes "Plc" (Public Limited Company)** at the end of its name.

**Features of a Public Company**

1. **Number of Members**: Minimum of 7, no maximum limit.
2. **Public Share Subscription**: Can invite the public to buy shares and debentures.
3. **Transferability of Shares**: Shares can be freely transferred without restriction.
4. **Certificate of Commencement**: Must obtain this before starting business operations.
5. **Publication of Accounts**: Must submit annual reports and accounts for public viewing.
6. **Listed Companies**: May be quoted on the Nigerian Stock Exchange.
7. **Regulatory Oversight**: Heavily regulated by CAC, SEC, and other bodies.

**Differences between Private and Public Companies**

| Basis | Private Company | Public Company |
|---|---|---|
| Minimum Shareholders | 2 | 7 |
| Maximum Shareholders | 50 | No limit |
| Public Share Offer | Not allowed | Allowed |
| Share Transfer | Restricted | Freely transferable |
| Commencement of Business | Immediately after incorporation | After obtaining Certificate of Commencement |
| Disclosure Requirements | Minimal | Extensive reporting to public/regulators |
| Name Suffix | Ltd (Limited) | Plc (Public Limited Company) |

**Similarities between Private and Public Companies**

- Both are legal persons (can sue and be sued).
- Both must be registered with the Corporate Affairs Commission (CAC).

- Both may own property in their name.
- Both may issue shares (only public companies to the public).
- Both have limited liability for shareholders.

**Advantages of Each Type**

**Private Company Advantages:**

- Greater control among owners
- Quicker decision-making
- Lower cost of formation
- Confidentiality of business affairs

**Public Company Advantages:**

- Can raise large amounts of capital
- Public recognition and credibility
- Shares are easily tradable
- Enables broad ownership and expansion

**Disadvantages**

**Private Company Disadvantages:**

- Limited access to capital
- Shares are difficult to transfer
- Owners bear more risk

**Public Company Disadvantages:**

- Subject to heavy regulation
- Disclosure of sensitive information
- Slower decision-making due to large ownership

**Evaluation**

1. Define a private company and state three of its features.
2. List four features of a public company.
3. State three differences between private and public companies.
4. Why is a Certificate of Commencement of Business required for public companies?
5. Give two advantages of a private company.

**Assignment**

1. Briefly describe the legal identity of both a private and a public company.
2. With examples, distinguish between public and private companies.
3. A group of seven people wants to start a business and raise funds by selling shares to the public. What type of company should they form? Justify your answer.

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## WEEK 3: QUOTED AND UNQUOTED COMPANIES

### Introduction

Companies in Nigeria and around the world can be categorized based on whether their shares are traded on a recognized stock exchange. These classifications are known as quoted and unquoted companies. Understanding this distinction is essential when studying how companies raise funds, operate in public markets, and maintain regulatory compliance.

This lesson explores the meaning, features, advantages, and differences between quoted and unquoted companies.

### Meaning of Quoted Companies

A quoted company is a public limited company whose shares are listed and actively traded on a recognized stock exchange, such as the Nigerian Exchange Group (NGX).

These companies meet the strict listing requirements of the exchange and are publicly owned by shareholders who buy and sell shares on the open market.

### Features of Quoted Companies

1. **Shares are Publicly Traded**: On stock exchanges (e.g., NGX).
2. **Public Ownership**: Large number of shareholders.
3. **High Level of Disclosure**: Must publish financial reports and other filings regularly.
4. **Regulation**: Monitored by the **Securities and Exchange Commission (SEC)** and the **Nigerian Exchange Group (NGX)**.
5. **Liquidity**: Shares can be bought and sold easily.
6. **Valuation and Visibility**: Market-driven value of the company is publicly known.

### Meaning of Unquoted Companies

An unquoted company is a public or private company whose shares are not listed on any stock exchange.

While they can still raise capital (especially private companies), they do not enjoy the visibility, liquidity, and regulatory recognition of quoted companies.

**Features of Unquoted Companies**

1. **Shares Not Traded Publicly**: No access to stock exchange market.
2. **Private Ownership**: Often owned by a small group of individuals or family.
3. **Lower Disclosure Requirements**: Not required to publish financial reports to the public.
4. **Limited Liquidity**: Selling or transferring shares may be more difficult.
5. **Less Regulatory Oversight**: Not subject to stock exchange rules, but still regulated by CAC and possibly SEC.

**Key Differences between Quoted and Unquoted Companies**

| Basis | Quoted Companies | Unquoted Companies |
|---|---|---|
| Listing | Listed on a recognized stock exchange | Not listed on a stock exchange |
| Share Trading | Shares are publicly traded | Shares are not publicly traded |
| Ownership | Broad public ownership | Ownership usually restricted or private |
| Disclosure | High (must publish audited financials) | Limited or minimal |
| Regulation | By CAC, SEC, and NGX | Mainly by CAC (and SEC for public ones) |
| Capital Access | Easy access to public capital | Limited to private placements |

**Advantages of Quoted Companies**

- Access to large capital from public investors
- Increased visibility and corporate image
- Liquidity for shareholders
- Public confidence and trust

- Ability to use shares for mergers and acquisitions

**Disadvantages of Quoted Companies**

- Subject to strict regulations and public scrutiny
- Cost of listing and maintaining compliance is high
- Vulnerable to market fluctuations
- Loss of control due to dispersed ownership

**Examples**

| Quoted Companies | Unquoted Companies |
|---|---|
| Zenith Bank Plc | Dangote Industries Ltd |
| MTN Nigeria Plc | Coscharis Group |
| Guinness Nigeria Plc | Emzor Pharmaceutical Industries Ltd |
| First Bank Holdings Plc | SLOT Nigeria |

**Evaluation**

1. Define a quoted company.
2. Mention four features of unquoted companies.
3. State three differences between quoted and unquoted companies.
4. List two advantages and two disadvantages of being a quoted company.
5. Give two examples each of quoted and unquoted companies in Nigeria.

**Assignment**

**Task:**

1. A company wants to raise capital quickly by selling part of its ownership to the public. What type of company should it become, and what are the benefits?
2. List and explain three regulatory obligations of a quoted company.

3. Find and list **five quoted companies** currently listed on the Nigerian Exchange Group (NGX).

## WEEK 4: FINANCIAL SYSTEM

### Introduction

Every modern economy requires an organized structure that allows funds to move from those who have excess (savers) to those who need funds (investors or borrowers). This structure is called the **financial system**.

The financial system is essential for economic development, capital formation, business growth, and government financing. It connects **lenders** and **borrowers** through a network of institutions, markets, instruments, and rules.

### Meaning of Financial System

A **financial system** is a **network of institutions, markets, instruments, laws, and procedures** that facilitate the flow of money and the allocation of financial resources in an economy.

It mobilizes savings from individuals and institutions and channels them into productive investments.

### Components of the Financial System

The financial system comprises the following four major components:

#### A. Financial Institutions

These are intermediaries that help to mobilize and allocate financial resources.

**Types:**

1. **Depository Institutions**: Accept deposits and lend money
    - Commercial Banks
    - Microfinance Banks
    - Mortgage Banks
2. **Non-Depository Institutions**: Provide financial services but do not accept deposits

- Insurance Companies
- Pension Funds
- Investment Banks

3. **Regulatory Institutions**: Ensure proper conduct and stability
    - Central Bank of Nigeria (CBN)
    - Securities and Exchange Commission (SEC)
    - Nigerian Deposit Insurance Corporation (NDIC)

**B. Financial Markets**

These are platforms where financial assets (money, stocks, bonds) are bought and sold.

**Types:**

1. **Money Market**: Short-term funds (less than 1 year)
    - Treasury bills
    - Certificates of deposit
2. **Capital Market**: Long-term funds (more than 1 year)
    - Stocks (equities)
    - Bonds (debt instruments)
3. **Foreign Exchange Market**: For buying and selling foreign currencies
4. **Derivatives Market**: For trading in futures, options, etc.

**C. Financial Instruments**

These are contracts or documents used to raise funds or invest money.

**Examples:**

- Shares (equity instruments)
- Bonds (debt instruments)
- Treasury bills
- Commercial papers
- Mutual fund units

**D. Financial Regulations and Laws**

These are legal frameworks and rules that govern the operation of the financial system.

**Examples:**

- CBN Act
- BOFIA (Banks and Other Financial Institutions Act)
- Investment and Securities Act
- Pension Reform Act

These laws protect investors, maintain financial stability, and ensure transparency.

**Functions of the Financial System**

1. **Mobilization of Savings**: Encourages people to save and makes those funds available for investment.
2. **Efficient Allocation of Capital**: Directs funds to sectors where they are most productive.
3. **Facilitation of Payments**: Provides a mechanism for smooth and safe transactions (e.g., through banks).
4. **Risk Management**: Offers tools like insurance and derivatives to manage risks.
5. **Monitoring and Regulation**: Ensures ethical practices and prevents systemic failures.
6. **Promotes Economic Growth**: By supporting business, trade, and infrastructure development.

**Importance of a Sound Financial System**

- Encourages investment and innovation
- Reduces poverty through financial inclusion
- Enhances trust in the economy
- Facilitates international trade and currency exchange
- Supports government fiscal policy (through bond markets)

**Evaluation**

1. Define a financial system.
2. List the four major components of a financial system.
3. Distinguish between capital market and money market.
4. Name three types of financial institutions with examples.
5. Explain two functions of the financial system in economic development.

**Assignment**

**Tasks:**

1. Differentiate between financial markets and financial institutions.
2. Draw a diagram showing the flow of funds between savers, financial institutions, and borrowers.
3. Research and list five financial instruments commonly used in Nigeria, and state their purpose.

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## WEEK 6: ISSUE OF SHARES

### Introduction

In corporate finance, a **share** represents a unit of ownership in a company. Companies often need to raise funds to start operations, expand their activities, or finance special projects. One common method is through the **issue of shares** to investors. This process allows a company to obtain capital without incurring debt, in exchange for giving investors a stake in the business. Shares are issued by **limited liability companies** and are usually purchased by members of the public or existing shareholders. The process and method of issuing shares are governed by the **Companies and Allied Matters Act (CAMA)** in Nigeria and similar company laws elsewhere.

### Meaning of Share Issue

The issue of shares refers to the process by which a company allocates new shares to individuals or entities in exchange for payment. The money received from the sale of shares becomes part of the company's capital, which is used to fund its activities.

Shares can be issued for:

1. **Cash** – where investors pay money in exchange for shares.
2. **Non-cash consideration** – where shares are issued in exchange for assets or services.

### Types of Shares

1. **Ordinary Shares** – Carry voting rights and dividends are paid depending on profits.
2. **Preference Shares** – Have preferential rights to dividends and repayment in case of liquidation.
3. **Deferred Shares** – Dividends are paid after all other classes of shares have been paid.
4. **Redeemable Shares** – Shares that the company can buy back in the future.

**Methods of Issuing Shares**

The main methods of issuing shares include:

**1. Offer for Subscription (Public Issue)**

- The company invites the general public to apply for shares via a prospectus.
- Applications are submitted along with application money.
- The company allots shares after reviewing applications.
- This is common for companies seeking large-scale funding.

**2. Offer for Sale**

- The company sells all its shares to an issuing house (e.g., a stockbroker or investment bank).
- The issuing house then sells the shares to the public.
- This method reduces administrative burden on the company.

**3. Right Issue**

- Existing shareholders are given the right to purchase more shares in proportion to their existing holdings.
- Usually offered at a price lower than the market price.
- Used to raise additional capital while giving preference to current investors.

**4. Private Placement**

- Shares are sold to selected individuals or institutions, not to the general public.
- Usually quicker and involves fewer regulatory processes.

**5. Bonus Issue (Scrip Issue)**

- Existing shareholders are given free shares in proportion to their existing holdings.
- No new money is raised; it is a capitalization of reserves.

**Steps in Issuing Shares for Cash**

1. **Authorisation** – The Company's Articles of Association must permit share issuance.
2. **Prospectus or Offer Document** – Published if the shares are offered to the public.
3. **Application** – Investors submit applications with the application money.
4. **Allotment** – The Company decides how many shares each applicant will receive.
5. **Calls on Shares** – The company may request further payments in instalments (e.g., on application, allotment, first call, final call).

**Illustration: Journal Entries for Share Issue**

**Example:** XYZ Plc issues 100,000 ordinary shares of ₦1 each at par, payable 50k on application, 30k on allotment, and 20k on final call.

1. **On Application**

   Dr Bank ₦50,000

   Cr Share Application A/c ₦50,000

2. **Transfer to Share Capital**

   Dr Share Application A/c ₦50,000

   Cr Share Capital A/c ₦50,000

3. **On Allotment**

   Dr Bank ₦30,000

   Cr Share Allotment A/c ₦30,000

4. **Transfer Allotment to Share Capital**

   Dr Share Allotment A/c ₦30,000

   Cr Share Capital A/c ₦30,000

5. **On Final Call**

   Dr Bank ₦20,000

   Cr Share Call A/c ₦20,000

6. **Transfer Call to Share Capital**

   Dr Share Call A/c ₦20,000

   Cr Share Capital A/c ₦20,000

**Over-subscription of Shares**

Over-subscription occurs when the number of shares applied for by the public exceeds the number offered by the company.

- **Pro-rata allotment** is made to applicants.
- Excess application money may be refunded or adjusted to allotment.

**Under-subscription of Shares**

Under-subscription occurs when the number of shares applied for is less than the number offered.

- If the number of shares subscribed is less than the minimum subscription required by law, the issue is considered unsuccessful and money is refunded.

**Evaluation**

1. Define the term issue of shares.
2. Mention three reasons why a company may issue shares.
3. List and explain four methods of issuing shares.
4. State two differences between ordinary shares and preference shares.
5. Explain over-subscription and how it is treated in accounting.
6. Record the journal entries for issuing shares in three instalments.
7. State two advantages and two disadvantages of issuing shares instead of taking loans.

**Assignment**

1. XYZ Plc offered 80,000 shares of ₦2 each, payable ₦1 on application and ₦1 on allotment. The company received applications for 100,000 shares. The directors allotted the shares on a pro-rata basis to all applicants and surplus application money was applied to allotment.

   **Required:**

   a) Prepare the journal entries to record the transactions.

   b) Show the ledger accounts involved.

## WEEK 8: LOAN CAPITAL

### Introduction

To fund large-scale projects, meet operational needs, or expand into new markets, companies require long-term finance. While issuing shares is one option, another common method is to raise money through **loan capital**.

Loan capital represents **borrowed funds** that must be **repaid with interest** over a specified period. It is a vital part of a company's capital structure and differs from equity financing in many ways.

This lesson will explore the meaning, types, features, advantages, disadvantages, and accounting treatment of loan capital.

### Meaning of Loan Capital

**Loan capital** refers to **money borrowed** by a company from external sources (such as individuals, banks, or financial institutions) which must be repaid at an agreed date with **interest**.

Unlike share capital, loan capital does **not** give the lender ownership rights in the company.

Loan capital is often used for **long-term financing**, and it usually comes in the form of **debentures, bonds, loans**, or **mortgages**.

### Features of Loan Capital

- **Debt Obligation**: Must be repaid by the company regardless of profit or loss.
- **Interest Payment**: Fixed or variable interest is payable at agreed intervals.
- **No Ownership Rights**: Lenders are not part owners of the company.
- **Priority in Repayment**: In the event of liquidation, lenders are paid before shareholders.
- **Fixed Term**: Usually repayable over a long-term period (e.g., 5, 10, or 15 years).
- **Security/Collateral**: May be secured (backed by company assets) or unsecured.

### Types of Loan Capital

**A. Debentures**

- A written acknowledgment of debt issued by the company under its seal.
- Can be secured or unsecured.
- May be redeemable or irredeemable.
- Interest is paid regardless of profits.

**B. Bonds**

- Similar to debentures but more common in international markets.
- Can be government or corporate bonds.

**C. Term Loans**

- Loans from banks or financial institutions for a specified period.
- Repaid in installments or at maturity.

**D. Mortgages**

- Long-term loans secured on real estate (land or buildings).

**Differences between Share Capital and Loan Capital**

| Basis | Share Capital | Loan Capital |
|---|---|---|
| Ownership | Represents ownership | Represents borrowing |
| Voting Rights | Shareholders may vote | Lenders have no voting rights |
| Repayment | No fixed repayment | Repaid on agreed terms |
| Dividend/Interest | Dividend is optional | Interest is compulsory |
| Risk | Higher risk for investor | Lower risk due to legal protection |
| Liquidation Priority | Paid after loan holders | Paid before shareholders |

**Advantages of Loan Capital**

1. **No Dilution of Control**: Lenders have no voting rights in the company.

2. **Fixed Obligation**: After repayment, the company retains full profits.
3. **Tax Deductibility**: Interest paid on loans is tax-deductible.
4. **Flexible Terms**: Can be structured to suit the company's repayment ability.

**Disadvantages of Loan Capital**

1. **Repayment Obligation**: Must be repaid regardless of the company's financial state.
2. **Interest Burden**: Regular interest payments reduce profits.
3. **Risk of Over-Leverage**: Excessive borrowing can strain the company's liquidity.
4. **Collateral Requirement**: May require pledging assets as security.

**Accounting for Loan Capital**

**Example:**

A company borrows ₦1,000,000 from a bank at 10% interest per annum, repayable in 5 years.

**Journal Entry at Borrowing:**

Bank A/C..... Dr ₦1,000,000
To Loan Payable A/C..... ₦1,000,000
(Being amount borrowed from bank)

**Journal Entry for Interest Payment (Yearly):**

Interest Expense A/C..... Dr ₦100,000
To Bank A/C..... ₦100,000
(Being interest payment on loan)

**Evaluation**

1. What is loan capital?
2. List and explain two types of loan capital.
3. Differentiate between share capital and loan capital (mention 3 differences).

4. State two advantages and two disadvantages of loan capital.
5. A company borrows ₦500,000 at 12% interest. What is the interest expense for one year?

**Assignment**

**Instructions: Answer the following in your notebook:**

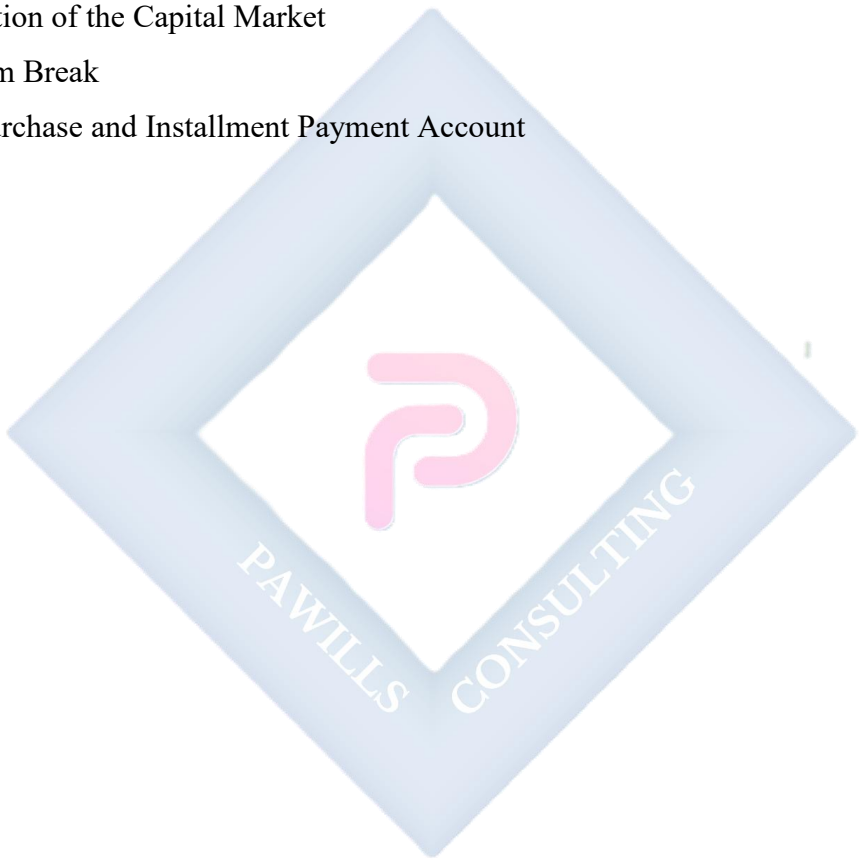
1. Define loan capital and explain why companies may choose it over equity financing.
2. Differentiate between debenture holders and shareholders.
3. A company issues ₦2,000,000 in bonds at 8% interest. Calculate the annual interest payable.
4. State two risks of excessive reliance on loan capital in business.

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**SS2 FINANCIAL ACCOUNTING LESSON NOTES**

**THIRD TERM**

1. Methods of Raising Funds from the Capital Market
2. Requirements for Accessing the Capital Markets
3. Benefits of Capital Market
4. Final Accounts
5. Midterm Examination
6. Regulation of the Capital Market
7. Midterm Break
8. Hire Purchase and Installment Payment Account



## WEEK 1: METHODS OF RAISING FUNDS FROM THE CAPITAL MARKET

### Introduction

To finance growth, development, or specific projects, companies and governments need to raise large amounts of long-term capital. One of the most efficient platforms for this purpose is the **Capital Market**.

The capital market provides various methods and instruments through which funds can be mobilized from investors. This lesson will explore the **different methods used by companies and governments to raise funds** in the capital market.

### Meaning of Capital Market

The **capital market** is a part of the financial system that deals with **long-term borrowing and lending of funds**, typically beyond one year. It serves as a platform for the issuance and trading of **securities** like shares and bonds. Entities that participate in the capital market include:

- Public and private companies
- Government institutions
- Investment banks
- Stockbrokers
- Institutional and retail investors

### Methods of Raising Funds from the Capital Market

There are several ways organisations and governments can raise capital in the capital market. These include:

#### 1. Public Offer

- A company issues new shares to the general public through a **prospectus**.
- Investors subscribe to the offer by applying for a specific number of shares.
- This is commonly used by public limited companies to increase capital.

**Example**: MTN Nigeria Plc offering shares to the public on the Nigerian Exchange.

**2. Rights Issue**

- This method involves offering new shares to **existing shareholders** in proportion to their current holdings.
- It ensures current owners have the **first opportunity** to buy more shares before outsiders.
- Usually offered at a **discounted price** to encourage uptake.

**Benefit**: Protects shareholder control and prevents dilution.

**3. Private Placement**

- Involves offering shares to a **specific group of investors**, such as institutional investors, private equity firms, or selected individuals.
- Faster and less expensive than a public offer.
- Used when companies want to raise capital **without going public**.

**Common among**: Private companies or startups.

**4. Offer for Sale**

- In this method, **existing shareholders** (not the company) sell their shares to the public.
- Typically handled through an issuing house.
- The company does not receive any new capital, but ownership changes hands.

**5. Debenture and Bond Issues**

- These are **debt instruments** used by companies and governments to borrow money from the public for a fixed period and interest rate.
- Investors receive periodic interest and principal at maturity.
- Bonds and debentures are traded in the capital market.

**Example**: Federal Government Bonds issued via the Debt Management Office.

### 6. Initial Public Offering (IPO)

- The **first time** a private company offers its shares to the public.
- Marks the transition from a private to a public company.
- Usually a major event, with regulatory scrutiny and marketing campaigns.

### 7. Government Securities

- Government issues long-term securities (e.g., bonds) to finance projects or reduce deficits.
- Considered **low-risk investments** and are backed by the credit of the government.

### 8. Venture Capital and Private Equity

- Startups and growing companies raise funds by offering equity to **venture capitalists** or **private equity investors**.
- Investors provide funding in exchange for ownership and often strategic involvement.

### Role of Intermediaries in Capital Market Fund Raising

These include:

- **Stockbrokers** – Buy and sell securities on behalf of clients.
- **Issuing Houses** – Help companies prepare and manage public offers.
- **Registrars** – Maintain share registers and handle investor relations.
- **Securities and Exchange Commission (SEC)** – Regulates the capital market and protects investors.

### Advantages of Using Capital Market for Fund Raising

1. Access to **large volumes** of long-term capital
2. Enhances the **public image** and credibility of the company
3. Improves **liquidity** and shareholder value
4. Reduces dependence on bank loans
5. Enables **diversified ownership**

**Disadvantages**

1. High cost of issuance (underwriting, legal, listing fees)
2. Disclosure requirements may expose company strategy to competitors
3. Dilution of control if new shareholders enter
4. Exposure to **market volatility**

**Evaluation**

1. What is the capital market?
2. List and explain any four methods of raising funds from the capital market.
3. Distinguish between public offer and private placement.
4. What is a rights issue, and why is it offered at a discount?
5. Mention two advantages and two disadvantages of raising funds from the capital market.

**Assignment**

1. Differentiate between bond and debenture as capital market instruments.
2. A company plans to raise ₦5 billion from investors but wants to avoid going public. Which method should it consider and why?
3. In a tabular format, compare **rights issue**, **public offer**, and **private placement** under the following headings:
    - Target investors
    - Regulatory burden
    - Speed of transaction
    - Cost of issuance

## WEEK 2: REQUIREMENTS FOR ACCESSING THE CAPITAL MARKETS

### Introduction

The **capital market** provides opportunities for companies and governments to raise long-term funds for expansion, investment, and infrastructure development. However, before any organisation can access the capital market, it must meet certain **legal, financial, regulatory, and procedural requirements**.

This lesson discusses the essential conditions companies must satisfy to be eligible for participation in the capital market, particularly for listing on a stock exchange like the **Nigerian Exchange Group (NGX)**.

### Meaning of Capital Market Access

Accessing the capital market means that a company has met the necessary conditions to **raise capital** through the **sale of shares, bonds, or other securities** to the public or institutional investors through the stock exchange or over-the-counter (OTC) platforms.

This process is not automatic — it requires transparency, legal compliance, and financial readiness.

### Regulatory Authorities Involved

Before accessing the capital market, a company must be approved by relevant regulatory bodies including:

- **Securities and Exchange Commission (SEC)** – Overall regulator of the capital market in Nigeria.
- **Nigerian Exchange Group (NGX)** – Oversees the listing and trading of securities.
- **Corporate Affairs Commission (CAC)** – Registers companies and ensures compliance with company law.

### Key Requirements for Accessing the Capital Market

1. **Legal Incorporation**

- The company must be **registered with the Corporate Affairs Commission (CAC)** as a public limited company (Plc).
- It must have a valid **Certificate of Incorporation**.
- The **Memorandum and Articles of Association (MoA and AoA)** must contain provisions authorizing the issuance of shares to the public.

2. **Minimum Share Capital**

- The company must meet the **minimum paid-up capital** required by the SEC and NGX.
- For main board listing in Nigeria, this is often **₦300 million or more**, depending on sector and category.

3. **Financial Performance**

- The company must demonstrate **profitable operations** over a specified period (usually 2–3 years).
- It must prepare and present **audited financial statements**, signed by licensed professionals.

4. **Corporate Governance Standards**

- The company must have a **functioning Board of Directors**, including independent directors.
- It must comply with the **Nigerian Code of Corporate Governance**, ensuring transparency, accountability, and fairness.

5. **Disclosure and Documentation**

The company must submit the following documents to SEC and NGX:

- Audited financial statements (3 years minimum)
- Application form and prospectus or information memorandum

- Details of board members and top management
- Capital structure and shareholding details
- Compliance with tax obligations

**6. Appointment of Professional Advisers**

Companies must engage **authorized capital market operators** such as:

- **Issuing houses** (to manage the offer)
- **Stockbrokers** (to interface with the exchange)
- **Registrars** (to manage shareholder records)
- **Auditors, solicitors, and financial advisers**

**7. Prospectus Preparation**

- A **prospectus** is a legal document that describes the investment offering to the public.
- It must contain full disclosures about the company's history, financials, risks, and governance.
- Must be vetted and approved by the SEC.

**8. SEC and Exchange Approval**

- The offer must be **registered and approved by the SEC**.
- The NGX also conducts a review of the company's documentation before approving listing.

**9. Ongoing Compliance Requirements (Post-Access)**

Once listed, companies must continue to meet certain obligations:

- Regular submission of financial reports (quarterly, annual)
- Public disclosure of material information (e.g., board changes, mergers)
- Annual General Meetings (AGMs)
- Dividend declarations and transparency in operations

**Importance of Meeting Capital Market Requirements**

- Ensures **investor protection**
- Builds **public confidence**
- Encourages **long-term investment**
- Improves **corporate discipline and transparency**
- Provides access to **diverse and cheaper capital**

**Evaluation**

1. Mention three regulatory authorities involved in accessing the capital market.
2. List and explain four key requirements a company must meet to access the capital market.
3. Why is a prospectus important in public offerings?
4. Identify two professional advisers a company must engage before going public.
5. State two post-listing obligations companies must meet after accessing the capital market.

**Assignment**

1. A company wishes to raise funds through a public offering. Outline the step-by-step requirements it must meet before approval.
2. Differentiate between legal and financial requirements for accessing the capital market.
3. Explain the role of the Securities and Exchange Commission (SEC) in capital market operations.

## WEEK 3: BENEFITS OF THE CAPITAL MARKET

### Introduction

The capital market is an essential part of every economy. It not only provides a platform for raising long-term funds but also contributes to the economic development of a country. Both **companies and governments**, as well as **investors and the general public**, benefit from the effective functioning of the capital market.

This lesson explores the **multiple benefits of the capital market**, especially for business organizations, investors, and the economy at large.

### Meaning of Capital Market (Recap)

The capital market is a **segment of the financial market** that deals with the issuance and trading of **long-term financial instruments** such as **shares**, **bonds**, and **debentures**. It includes institutions such as the **Nigerian Exchange Group (NGX)**, **Securities and Exchange Commission (SEC)**, stockbrokers, issuing houses, and other capital market operators.

### General Benefits of the Capital Market

### A. For Companies and Governments

1. **Access to Long-Term Funds**
    - Provides companies and governments with capital for expansion, infrastructure, or innovation.
2. **Cost-Effective Financing**
    - Capital raised from the market is often cheaper than bank loans, especially for large projects.
3. **Business Growth and Expansion**
    - Companies can finance new products, hire more staff, and enter new markets.
4. **Improved Corporate Governance**
    - Listing on the capital market compels companies to operate transparently and responsibly.

5. **Public Confidence and Credibility**
    - Listed companies enjoy more trust from investors, banks, and the public.
6. **Liquidity for Owners**
    - Existing shareholders can sell their shares in the open market, turning ownership into cash.

**B. For Investors**

1. **Investment Opportunities**
    - Provides various investment vehicles such as equities, bonds, and mutual funds.
2. **Capital Gains**
    - Investors can earn from the **increase in value of securities** over time.
3. **Dividend and Interest Income**
    - Investors earn regular income from dividends (shares) and interest (bonds/debentures).
4. **Portfolio Diversification**
    - Investors can spread their risks across different sectors and instruments.
5. **Ownership in Companies**
    - Buying shares gives investors a stake in the companies they invest in.

**C. For the Economy**

1. **Economic Development**
    - Capital raised from the market is used for **productive investments**, creating jobs and increasing GDP.
2. **Mobilization of Idle Funds**
    - The capital market channels savings from individuals and institutions into economic activities.
3. **Efficient Allocation of Resources**
    - Resources are directed to businesses and sectors with the highest potential for growth.
4. **Reduction in Overdependence on Government Borrowing**

- Private sector participation in funding relieves pressure on government finances.

5. **Stimulation of Foreign Investment**
    - A strong capital market attracts foreign investors, boosting foreign direct investment (FDI).

**Specific Benefits to the Nigerian Economy**

- Supports infrastructure financing through **Federal Government Bonds**
- Facilitates privatization of public enterprises
- Enhances transparency and investor education through the **SEC** and **NGX**
- Encourages youth participation through tech startups accessing equity funding
- Helps in inflation and interest rate management indirectly by influencing investment decisions

**Limitations or Challenges**

While the capital market has many benefits, it may face:

- Low awareness among rural populations
- Market volatility and risk of loss
- Poor regulatory compliance by some companies
- Limited investor protection in some developing markets

Despite these, the **benefits outweigh the risks** when the market is properly regulated.

**Evaluation**

1. State three benefits of the capital market to companies.
2. How does the capital market benefit individual investors?
3. Explain two ways in which the capital market contributes to national development.
4. Why is capital market financing often better than taking loans from banks?
5. List four benefits of capital markets to governments.

**Assignment**

1. Write an essay on “How the Capital Market Promotes Economic Development in Nigeria.”
2. In a table, compare the benefits of the capital market to:
    - Companies
    - Investors
    - The Economy
3. Explain how portfolio diversification benefits an investor.

## WEEK 4: FINAL ACCOUNTS

### Introduction

Every business—whether small, medium, or large—needs to summarize its financial activities at the end of an accounting period. This summary is presented in what is called the **Final Accounts**.

Final accounts show the **financial performance** (profit or loss) and the **financial position** (assets, liabilities, and capital) of a business. This lesson introduces the structure, components, and purpose of final accounts in accounting.

### Meaning of Final Accounts

**Final Accounts** are a set of financial statements prepared at the end of an accounting period (usually a year) to determine the **profit or loss** of a business and to show its **financial position** at a specific date.

They are prepared from the **trial balance** and **adjusted ledger balances**, and they serve as a formal summary of the business's transactions and status.

### Objectives of Preparing Final Accounts

- To determine the **net result** of business operations (profit or loss).
- To ascertain the **financial position** of the business.
- To assist in **decision making** by stakeholders.
- To meet legal, regulatory, and taxation requirements.
- To provide **information to investors, lenders, and management**.

### Components of Final Accounts

The final accounts of a sole trader or partnership usually include three key statements:

### A. Trading Account

- Shows the **gross profit or loss** made from buying and selling goods.

- Compares **Sales Revenue** with **Cost of Goods Sold (COGS)**.

**Format:**

**Trading Account for the Year Ended 31st Dec 20XX**

| Dr | Amount (₦) | Cr | Amount (₦) |
|---|---|---|---|
| Opening Stock | xxx | Sales | xxx |
| Purchases | xxx | Less: Returns Inwards | (xx) |
| Carriage Inwards | xxx | | |
| Less: Closing Stock | (xxx) | | |
| **Cost of Goods Sold** | xxx | | |
| **Gross Profit c/d** | xxx | | |
| | | **Net Sales** *(Sales – Returns)* | xxx |
| **Total** | xxx | **Total** | xxx |

**B. Profit and Loss Account**

- Calculates **net profit or loss** by subtracting all operating expenses from the gross profit.
- Includes indirect incomes and expenses such as salaries, rent, electricity, depreciation, etc.

**Format:**

**Profit and Loss Account for the Year Ended 31st Dec 20XX**

| Dr | Amount (₦) | Cr | Amount (₦) |
|---|---|---|---|
| Salaries | xxx | Gross Profit b/d | xxx |
| Rent | xxx | Discount Received | xxx |
| Stationery | xxx | Commission Received | xxx |
| Depreciation | xxx | | |
| **Net Profit c/d** | xxx | | |
| **Total** | xxx | **Total** | xxx |

**C. Balance Sheet**

- A statement of **assets**, **liabilities**, and **owner's equity** on a specific date.
- Shows the **financial position** of the business.
- Assets = Liabilities + Capital

**Format (Vertical Style):**

Balance Sheet as at 31st Dec 20XX

Assets:
Fixed Assets ₦xxx
Current Assets:
- Cash ₦xxx
- Debtors ₦xxx
- Stock ₦xxx

Total Assets ₦xxx

Liabilities:
- Creditors ₦xxx
- Bank Overdraft ₦xxx

Capital:
- Opening Capital ₦xxx
- Add: Net Profit ₦xxx
- Less: Drawings ₦xxx

Closing Capital ₦xxx

**Adjustments in Final Accounts**

Before finalizing accounts, adjustments must be made for:

- **Accrued expenses/income**

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- **Prepaid expenses/income**
- **Depreciation of fixed assets**
- **Provision for bad debts**
- **Closing stock**
- These adjustments affect both the Profit and Loss Account and the Balance Sheet.

**Importance of Final Accounts**

- Reveals whether the business made a **profit or loss**
- Shows how much the business **owns and owes**
- Helps in **tax assessment and compliance**
- Guides **management planning and control**
- Useful to **banks, investors, creditors**, and other stakeholders

**Evaluation**

1. What are final accounts?
2. List and explain the three main components of final accounts.
3. Differentiate between gross profit and net profit.
4. State two reasons for preparing final accounts.
5. Prepare a simple trading account using the following information:
    - Sales: ₦200,000
    - Opening Stock: ₦30,000
    - Purchases: ₦100,000
    - Carriage Inwards: ₦10,000
    - Closing Stock: ₦20,000

**Assignment**

1. Define each of the following:
    - Trading Account
    - Profit and Loss Account
    - Balance Sheet

2. Using the information below, prepare a simple Balance Sheet:
    - Capital: ₦150,000
    - Drawings: ₦10,000
    - Net Profit: ₦40,000
    - Creditors: ₦20,000
    - Cash: ₦50,000
    - Debtors: ₦60,000
    - Stock: ₦70,000
    - Furniture: ₦30,000
3. List four users of final accounts and explain what each may be interested in.

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## WEEK 4: FINAL ACCOUNTS

### Introduction

Every business—whether small, medium, or large—needs to summarize its financial activities at the end of an accounting period. This summary is presented in what is called the **Final Accounts**.

Final accounts show the **financial performance** (profit or loss) and the **financial position** (assets, liabilities, and capital) of a business. This lesson introduces the structure, components, and purpose of final accounts in accounting.

### Meaning of Final Accounts

**Final Accounts** are a set of financial statements prepared at the end of an accounting period (usually a year) to determine the **profit or loss** of a business and to show its **financial position** at a specific date.

They are prepared from the **trial balance** and **adjusted ledger balances**, and they serve as a formal summary of the business's transactions and status.

### Objectives of Preparing Final Accounts

- To determine the **net result** of business operations (profit or loss).
- To ascertain the **financial position** of the business.
- To assist in **decision making** by stakeholders.
- To meet legal, regulatory, and taxation requirements.
- To provide **information to investors, lenders, and management**.

### Components of Final Accounts

The final accounts of a sole trader or partnership usually include three key statements:

### A. Trading Account

- Shows the **gross profit or loss** made from buying and selling goods.

- Compares **Sales Revenue** with **Cost of Goods Sold (COGS)**.

**Format:**

Trading Account for the Year Ended 31st Dec 20XX

| Dr | | Cr | |
|---|---|---|---|
| Opening Stock | ₦xxx | Sales | ₦xxx |
| Purchases | ₦xxx | Less: Returns Inwards | ₦(xx) |
| Carriage Inwards | ₦xxx | | |
| Less: Closing Stock | ₦(xxx) | | |
| Cost of Goods Sold | ₦xxx | | |
| Gross Profit c/d | ₦xxx | | |

**B. Profit and Loss Account**

- Calculates **net profit or loss** by subtracting all operating expenses from the gross profit.
- Includes indirect incomes and expenses such as salaries, rent, electricity, depreciation, etc.

**Format:**

Profit and Loss Account for the Year Ended 31st Dec 20XX

| Dr | | Cr | |
|---|---|---|---|
| Salaries | ₦xxx | Gross Profit b/d | ₦xxx |
| Rent | ₦xxx | Discount Received | ₦xxx |
| Stationery | ₦xxx | Commission Received | ₦xxx |
| Depreciation | ₦xxx | | |
| Net Profit c/d | ₦xxx | | |

**C. Balance Sheet**

- A statement of **assets**, **liabilities**, and **owner's equity** on a specific date.

- Shows the **financial position** of the business.
- Assets = Liabilities + Capital

**Format (Vertical Style):**

Balance Sheet as at 31st Dec 20XX

Assets:
Fixed Assets ₦xxx
Current Assets:
- Cash ₦xxx
- Debtors ₦xxx
- Stock ₦xxx
Total Assets ₦xxx

Liabilities:
- Creditors ₦xxx
- Bank Overdraft ₦xxx

Capital:
- Opening Capital ₦xxx
- Add: Net Profit ₦xxx
- Less: Drawings ₦xxx
Closing Capital ₦xxx

**Adjustments in Final Accounts**

Before finalizing accounts, adjustments must be made for:

- **Accrued expenses/income**
- **Prepaid expenses/income**
- **Depreciation of fixed assets**

- **Provision for bad debts**
- **Closing stock**
- These adjustments affect both the Profit and Loss Account and the Balance Sheet.

**Importance of Final Accounts**

- Reveals whether the business made a **profit or loss**
- Shows how much the business **owns and owes**
- Helps in **tax assessment and compliance**
- Guides **management planning and control**
- Useful to **banks, investors, creditors**, and other stakeholders

**Evaluation**

1. What are final accounts?
2. List and explain the three main components of final accounts.
3. Differentiate between gross profit and net profit.
4. State two reasons for preparing final accounts.
5. Prepare a simple trading account using the following information:
    - Sales: ₦200,000
    - Opening Stock: ₦30,000
    - Purchases: ₦100,000
    - Carriage Inwards: ₦10,000
    - Closing Stock: ₦20,000

**Assignment**

1. Define each of the following:
    - Trading Account
    - Profit and Loss Account
    - Balance Sheet
2. Using the information below, prepare a simple Balance Sheet:
    - Capital: ₦150,000

- Drawings: ₦10,000
- Net Profit: ₦40,000
- Creditors: ₦20,000
- Cash: ₦50,000
- Debtors: ₦60,000
- Stock: ₦70,000
- Furniture: ₦30,000

3. List four users of final accounts and explain what each may be interested in.

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## WEEK 6: REGULATION OF THE CAPITAL MARKET

### Introduction

For a capital market to function effectively, fairly, and transparently, there must be rules, laws, and institutions in place to **regulate and supervise its operations**. These regulations protect investors, ensure market confidence, and promote financial stability.

This lesson explains the **regulation of the capital market**, focusing on the **regulatory bodies**, their functions, and the importance of market regulation to the economy.

### Meaning of Capital Market Regulation

**Capital market regulation** refers to the **laws, rules, institutions, and procedures** designed to supervise, control, and direct activities in the capital market to ensure:

- Investor protection
- Fair and transparent operations
- Financial system stability
- Prevention of fraud, insider trading, and market manipulation

### Objectives of Capital Market Regulation

1. **Ensure Market Integrity**: Prevent fraudulent and unfair practices.
2. **Protect Investors**: Safeguard public and institutional investors from exploitation.
3. **Promote Confidence**: Encourage participation by ensuring fairness and transparency.
4. **Facilitate Development**: Create a stable environment for capital formation and economic growth.
5. **Ensure Compliance**: Enforce standards for disclosure, reporting, and ethical conduct.

### Regulatory Bodies in Nigeria's Capital Market

#### A. Securities and Exchange Commission (SEC)

- The apex regulator of Nigeria's capital market.

- Established under the Investment and Securities Act (ISA).
- **Functions:**
    - Registers and licenses capital market operators.
    - Approves public offers, mergers, and takeovers.
    - Monitors trading to prevent manipulation.
    - Enforces compliance and penalizes violators.
    - Promotes investor education and awareness.

**B. Nigerian Exchange Group (NGX)**

- Formerly Nigerian Stock Exchange (NSE).
- A self-regulatory organization that facilitates the buying and selling of securities.
- **Functions:**
    - Provides trading platforms and listing services.
    - Ensures companies meet listing requirements.
    - Suspends or delists non-compliant companies.
    - Monitors trading activities and reports irregularities.

**C. Central Bank of Nigeria (CBN)**

- While primarily a monetary authority, it indirectly regulates parts of the capital market.
- **Functions:**
    - Supervises banks involved in capital market operations.
    - Ensures financial system stability.

**D. National Pension Commission (PenCom)**

- Regulates pension fund investments in the capital market.
- Ensures safe investment of retirement savings.

**E. Corporate Affairs Commission (CAC)**

- Registers companies and ensures compliance with the Companies and Allied Matters Act (CAMA).

- Ensures proper incorporation and corporate governance.

**Instruments of Regulation**

- Investment and Securities Act (ISA)
- Companies and Allied Matters Act (CAMA)
- NGX Listing Rules
- SEC Guidelines and Circulars
- Code of Corporate Governance
- Anti-Money Laundering Acts

**Importance of Regulation in the Capital Market**

1. Prevents Fraud and Insider Trading
2. Builds Investor Confidence and Participation
3. Promotes Stability in Financial Markets
4. Protects Minority Shareholders
5. Enforces Financial Disclosure and Transparency
6. Encourages Ethical Business Practices

**Challenges in Capital Market Regulation**

- Weak enforcement of laws
- Insider trading and unethical practices
- Lack of investor awareness
- Slow judicial processes
- Technological gaps in monitoring

**Solution:** Continuous reform, education, and digital surveillance can strengthen regulation.

**Evaluation**

1. Define capital market regulation.
2. Name four bodies responsible for regulating Nigeria's capital market.

3. State three objectives of capital market regulation.
4. Mention two functions of the Securities and Exchange Commission (SEC).
5. Explain two ways regulation protects investors in the capital market.

**Assignment**

1. Briefly describe the role of the Nigerian Exchange Group (NGX) in regulating the market.
2. Outline five reasons why regulation is important to capital market development.
3. Create a table comparing the roles of SEC and CAC in the regulation of the capital market.

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## WEEK 8: HIRE PURCHASE AND INSTALLMENT PAYMENT ACCOUNT

### Introduction

In today's economy, many individuals and businesses acquire goods without paying the full price upfront. Two common methods of deferred payment are **hire purchase** and **installment payment**. These methods allow buyers to possess goods immediately while paying over time. However, the **ownership structure**, **interest calculation**, and **accounting treatment** differ between the two.

This lesson explains the **meaning**, **features**, **differences**, and **accounting procedures** of hire purchase and installment payment systems.

### Meaning of Hire Purchase

Hire Purchase is a system of buying goods where the buyer takes possession immediately but becomes the legal owner only after the final payment is made.

- Payments are made in installments.
- Interest is usually charged.
- If the buyer defaults, the seller has the right to repossess the goods.

*Legal Title passes only after the last installment is paid.*

### Features of Hire Purchase

1. Ownership is retained by the seller until full payment.
2. The buyer enjoys use of the asset while paying.
3. Buyer can return the goods before full payment.
4. Interest is charged on unpaid balance.
5. Regulated by Hire Purchase Act in many jurisdictions.

### Meaning of Installment Payment

Installment Payment (also known as credit sale) is a system where the buyer takes ownership immediately but pays for the goods in agreed installments.

1. The legal title is transferred immediately.
2. The seller cannot repossess the goods if the buyer defaults.
3. The seller can only sue for payment.

*Ownership passes at the point of sale, even though payment is made over time.*

**Features of Installment Payment**

- Immediate transfer of **ownership** to buyer.
- Full use and risk of asset lie with the buyer.
- Goods cannot be returned unless defective.
- Interest may be charged.
- Default leads to legal action, not repossession.

**Differences between Hire Purchase and Installment Payment**

| Feature | Hire Purchase | Installment Payment |
|---|---|---|
| Transfer of Ownership | After final payment | Immediately after agreement |
| Right to Repossess Goods | Seller can repossess | Seller cannot repossess |
| Buyer's Obligation | Can terminate contract early | Must complete payment or be sued |
| Risk and Responsibility | Shared until last payment | Buyer bears all risk after delivery |
| Legal Regulation | Governed by Hire Purchase laws | Treated as regular sales |

**Components of Hire Purchase Agreement**

1. **Cash Price** – Price of the item if paid fully at once.
2. **Deposit** – Initial payment made by the buyer.

3. **Hire Purchase Price** – Total amount to be paid (Cash price + Interest).
4. **Installments** – Payments made periodically (monthly, quarterly, etc.).
5. **Interest** – Extra cost for spreading payment over time.
6. **Balance Due** – Amount left to be paid after deposit.

**Accounting Entries for Hire Purchase (Buyer's Books)**

Assume a buyer purchases equipment for a cash price of ₦200,000, pays ₦50,000 deposit and agrees to pay ₦50,000 in each of the next 3 years (₦150,000 includes interest).

**A. At Purchase (for full cash price):**

Equipment A/C..... Dr ₦200,000
To Hire Vendor A/C ..... ₦200,000

**B. At Deposit Payment:**

Hire Vendor A/C..... Dr ₦50,000
To Bank/Cash A/C ..... ₦50,000

**C. At Each Installment Payment (including interest):**

Hire Vendor A/C..... Dr ₦50,000
To Bank/Cash A/C ..... ₦50,000

**D. At Year End (for interest included in installment):**
If interest is separated, post:

Interest Expense A/C..... Dr ₦x
To Hire Vendor A/C ..... ₦x

**Accounting Entries for Installment Purchase (Buyer's Books)**

Since ownership transfers immediately:

**A. At Purchase:**

Asset A/C..... Dr ₦Total Price

To Creditor A/C..... ₦Total Price

**B. At Each Installment Payment:**

Creditor A/C..... Dr ₦x

To Bank A/C ..... ₦x

**C. At Year End (for interest paid):**

Interest Expense A/C..... Dr ₦x

To Creditor A/C ..... ₦x

**Advantages and Disadvantages**

**Hire Purchase**

**Advantages:**

- Immediate use of asset
- Spreads payment over time
- Suitable for individuals with low initial capital

**Disadvantages:**

- Higher total cost due to interest
- Risk of repossession
- Ownership delayed

**Installment Payment**

**Advantages:**

- Immediate ownership

- Fixed repayment schedule
- Useful for creditworthy buyers

**Disadvantages:**

- Buyer bears all risk from day one
- Legal action for default
- Cannot return goods

**Evaluation**

1. Define hire purchase.
2. State three features of installment payment.
3. Mention two differences between hire purchase and installment payment.
4. Why might a seller prefer installment sales over hire purchase?
5. Prepare journal entries for a hire purchase of ₦120,000 with a ₦40,000 deposit and two annual installments of ₦40,000.

**Assignment**

1. Explain the accounting treatment of interest under hire purchase.
2. Draw a table comparing hire purchase and installment payment under five headings:
    - Ownership
    - Default Consequence
    - Payment Terms
    - Legal Protection
    - Accounting Treatment
3. A business acquires furniture worth ₦180,000 on installment with ₦60,000 down payment and three yearly installments. Calculate the interest if the total payment becomes ₦210,000.