SS3 FINANCIAL ACCOUNTING LESSON NOTES

FIRST TERM

WEEK 1: CONSIGNMENT ACCOUNT – MEANING AND FEATURES

1.1 MEANING OF CONSIGNMENT

Consignment is a business arrangement where one person, the **Consignor**, sends goods to another person, the **Consignee**, who acts as an agent to sell the goods on the Consignor's behalf. The Consignee receives a commission for their services.

It is **NOT** a sale. It is a "sale or return" arrangement. The key feature is that **ownership** (title) and **risk** (e.g., from fire or theft) of the goods remain with the Consignor until the Consignee sells them to a final customer.

1.2 PARTIES INVOLVED

1. **The Consignor (Principal):** The owner of the goods. They send the goods and bear all the risks associated with them. Their motive is to reach a wider market and increase sales.
2. **The Consignee (Agent):** The agent who receives the goods, stores them, and sells them on behalf of the consignor. Their motive is to earn a **commission**.

1.3 KEY FEATURES OF A CONSIGNMENT

1. **Relationship:** The relationship is that of a **Principal and Agent**, not a Debtor and Creditor.
2. **Ownership:** Ownership of the goods remains with the Consignor until the Consignee sells them.
3. **Risk:** All risks of loss or damage to the goods (e.g., from theft, fire, or spoilage) are borne by the Consignor, *unless* the Consignee is negligent.
4. **Unsold Stock:** Any unsold goods (Closing Stock) at the end of the period still belong to the Consignor and will be shown in their Balance Sheet as "Stock on Consignment."

5. **Expenses:** All expenses incurred by both the Consignor (e.g., freight) and the Consignee (e.g., storage, advertising) are ultimately paid by the Consignor.
6. **Remuneration:** The Consignee is paid a commission (a percentage of sales) for their services.

1.4 KEY DOCUMENTS IN CONSIGNMENT

1. **Proforma Invoice:**
    - **Who sends it?** The Consignor sends this to the Consignee when the goods are dispatched.
    - **What is it?** A document that *looks* like an invoice but is "for form only." It is **not a sales invoice** and does not create a debt.
    - **Purpose:** It details the goods being sent (quantity, description, price) so the Consignee knows what to expect and what price to sell at.
2. **Account Sales:**
    - **Who sends it?** The Consignee sends this to the Consignor (e.g., at the end of the month).
    - **What is it?** This is the *most important* document. It is a periodic summary report from the agent to the principal.
    - **Purpose:** It details all transactions for the period:
        - Total sales made (Gross Proceeds).
        - *Less:* Expenses paid by the Consignee.
        - *Less:* Commission earned by the Consignee.
        - *Equals:* The net amount due to the Consignor, which is usually sent with the report as a bank draft (remittance).

1.5 DIFFERENCE BETWEEN CONSIGNMENT AND SALES

Feature	Consignment	Sales
Relationship	Principal and Agent.	Debtor and Creditor.
Ownership	Stays with the Consignor until the agent sells the goods.	Transfers immediately to the buyer.

Risk	Stays with the Consignor.	Transfers immediately to the buyer.
Key Document	Proforma Invoice (sent with goods). Account Sales (sent by agent).	Sales Invoice.
Unsold Goods	Belongs to the Consignor.	The buyer's problem (cannot be returned unless faulty).
Remuneration	Consignee earns a commission.	Seller earns a profit.

1.6 TERMS USED IN CONSIGNMENT

1. **Ordinary Commission:** A standard percentage of the *total sales* (Gross Proceeds) paid to the consignee for their service of selling.
2. **Del Credere Commission:** An *additional* commission paid by the consignor to the consignee. In return, the consignee **guarantees** all credit sales.
    - **If Del Credere *is* paid:** The Consignee is responsible for any **Bad Debts**. Bad Debts become the *Consignee's* personal expense.
    - **If Del Credere *is not* paid:** The Consignor is responsible for any **Bad Debts**. Bad Debts are an *expense of the consignment*.
3. **Expenses:**
    - **Non-Recurring Expenses:** One-time costs incurred to get the goods from the consignor's factory to the consignee's warehouse. These are added to the cost of stock.
        - *Examples:* Freight/Carriage, Insurance-in-transit, Import/Customs Duties, Dock Dues.
    - **Recurring Expenses:** Costs incurred *after* the goods have arrived at the consignee's warehouse. They are *not* added to the cost of stock.
        - *Examples:* Storage/Warehouse rent, Advertising, Sales staff salaries.
4. **Losses:**
    - **Normal Loss:** A loss that is expected, unavoidable, and inherent to the nature of the goods (e.g., evaporation, weight loss from drying, leakage).

        - *Accounting Treatment:* The loss is not given a value. Instead, the *cost* of the lost units is absorbed by the *remaining* good units (i.e., the cost per unit of the good units is inflated).
    - **Abnormal Loss:** A loss that is unexpected and avoidable (e.g., fire, theft, flood, accident).
        - *Accounting Treatment:* The loss *must* be valued (at cost + proportionate non-recurring expenses) and removed from the Consignment Account (credited). It is then transferred to the P&L Account as a loss. This is done to show the *true* profitability of the consignment itself.

EVALUATION (WEEK 1)

1. Define Consignment and state the two parties involved.
2. Differentiate between a "Proforma Invoice" and an "Account Sales."
3. List three (3) major differences between a consignment and a sale.
4. What is a "Del Credere" commission, and what is its accounting implication for Bad Debts?
5. Explain the difference between a "Normal Loss" and an "Abnormal Loss."

ASSIGNMENT (WEEK 1)

1. Create a table. Classify the following expenses as either "Recurring" or "Non-Recurring":
    - (a) Carriage outwards (delivery to final customer)
    - (b) Freight paid by consignor to ship goods to Lagos
    - (c) Customs duty paid by consignee at the port
    - (d) Warehouse rent paid by consignee
    - (e) Insurance on the goods while in the consignee's shop
    - (f) Insurance-in-transit from consignor to consignee

WEEK 2: CONSIGNMENT ACCOUNT – ACCOUNTING TREATMENT

2.1 INTRODUCTION

To determine the profit or loss from a consignment, the **Consignor** prepares a set of ledger accounts. The **Consignee** keeps simpler records.

2.2 LEDGER ENTRIES (IN THE BOOKS OF THE CONSIGNOR)

The Consignor is the owner and wants to know the profit. They open three main accounts:

1. Consignment Account (e.g., "Consignment to Abuja Account")

- **Purpose:** This is the main account. It is a special *Trading and Profit & Loss Account* for the *specific venture*. Its final balance represents the profit or loss on that consignment.
- **Double Entry:**
    - **DEBIT** this account with all *Costs and Expenses*:
        - Cost of goods sent (from Goods Sent on Consignment A/c)
        - All expenses paid by Consignor (from Cash/Bank A/c)
        - All expenses paid by Consignee (from Consignee's A/c)
        - All commissions (Ordinary and Del Credere) (from Consignee's A/c)
    - **CREDIT** this account with all *Income and Abnormal Gains*:
        - Total sales proceeds (from Consignee's A/c)
        - Value of any Abnormal Loss (from Abnormal Loss A/c)
        - Value of Unsold Stock (Closing Stock) (from Stock on Consignment A/c)
    - **Balancing Figure:** A debit balance is a **Net Loss**. A credit balance is a **Net Profit**.

2. Consignee's Account (e.g., "Mr. B (Abuja) Account")

- **Purpose:** This is a **Personal Account** (a Debtor/Creditor). It shows how much the Consignee *owes* the Consignor (or vice versa) at any point in time.
- **Double Entry:**
    - **DEBIT** the Consignee with what he *owes* the Consignor:

        - Total Sales (Gross Proceeds). This is the total amount the Consignee is responsible for.
    - **CREDIT** the Consignee with what he *has paid* or is *entitled to*:
        - Expenses paid on behalf of the consignor.
        - Commission(s) earned.
        - Any Bad Debts (if *no* del credere commission is paid).
        - Any advance payment or bank draft (remittance) sent.
    - **Balancing Figure:** The balance (usually debit) is the amount still owed by the Consignee. After the final remittance, this account should be zero.

3. Goods Sent on Consignment Account

- **Purpose:** A temporary "holding" account to record the *cost* of goods sent.
- **Double Entry:**
    - **CREDIT** with the cost of goods sent (the corresponding debit is in the Consignment A/c).
    - **At year-end,** this account is closed by transferring its balance to the **Purchases Account** or **Trading Account** (to show that these goods were not normal sales).

2.3 VALUATION OF UNSOLD STOCK (CLOSING STOCK)

This is the most critical calculation. Stock must be valued at **Cost + Proportionate Non-Recurring Expenses**.

- **Principle:** The value of the stock should include its original cost *plus* all costs incurred to get it to its *present location and condition*.
- **Formula:**
    1. Total Cost of Goods = Cost of all units sent
    2. Total Non-Recurring Expenses = (Consignor's Expenses) + (Consignee's *Non-Recurring* Expenses)
    3. Total Cost to Warehouse = (1) + (2)
    4. Cost per Unit = (Total Cost to Warehouse) / (Total Units Sent)
    5. Value of Closing Stock = Cost per Unit × Units Unsold

2.4 TREATMENT OF ABNORMAL LOSS

- **Principle:** Abnormal losses (theft, fire) are not part of the normal cost of the venture. They must be removed from the Consignment Account so they don't distort the profit.
- **Valuation:** The loss is valued *exactly the same way* as closing stock (Cost + Proportionate Non-Recurring Expenses).
- **Double Entry:**
    - Dr. Abnormal Loss Account
    - Cr. Consignment Account
    - If insured: Dr. Insurance Claim Account, Cr. Abnormal Loss Account (for the amount recovered). The remaining balance is a loss to the P&L.

2.5 WORKED EXAMPLE

- **On 1st Jan:** Tunde (Consignor) in Lagos sent 100 boxes of soap to Emeka (Consignee) in Abuja, at a cost of ₦200 per box.
- **Tunde paid:** Freight ₦2,000 and Insurance ₦1,000.
- **Emeka paid:** Customs Duty ₦1,500, Advertising ₦500, and Warehouse Rent ₦800.
- **Emeka sent an Account Sales on 31st Jan showing:**
    - Sold 75 boxes @ ₦300 per box.
    - 5 boxes were destroyed by fire (Abnormal Loss).
    - **Commission:** 5% ordinary, 2% del credere.
- **Task:** Prepare the Consignment Account, Emeka's Account, and value the closing stock.

1. Calculate Closing Stock (100 - 75 sold - 5 lost = 20 boxes):

- Cost of Goods (100 boxes @ ₦200) = ₦20,000
- **Non-Recurring Expenses (NRE):**
    - Tunde's Freight = ₦2,000
    - Tunde's Insurance = ₦1,000
    - Emeka's Customs = ₦1,500
    - *(Advertising & Rent are RECURRING)*
- Total NRE = ₦4,500

- Total Cost to Warehouse = ₦20,000 + ₦4,500 = ₦24,500
- **Cost per box = ₦24,500 / 100 boxes = ₦245**
- **Value of Closing Stock = 20 boxes × ₦245 = ₦4,900**

2. Calculate Abnormal Loss (5 boxes):

- **Value of Abnormal Loss = 5 boxes × ₦245 = ₦1,225**

3. Calculate Commission:

- Gross Sales = 75 boxes × ₦300 = ₦22,500
- Commission (5% + 2% = 7%) = 7% of ₦22,500 = ₦1,575
- *(Note: Del credere is paid on total sales. Any bad debts would be Emeka's problem, but there are none here.)*

4. Prepare Ledger Accounts (in Tunde's Books):

Consignment to Abuja Account

Dr.	**₦**	**Cr.**	**₦**
Goods Sent on Consignment	20,000	Emeka (Sales)	22,500
Bank (Tunde's Expenses)	3,000	Abnormal Loss	1,225
Emeka (His Expenses)	2,800	Closing Stock (Value)	4,900
Emeka (Commission)	1,575	Profit on Consignment (Bal.)	1,250
Total	**27,375**	**Total**	**28,625**

Emeka (Consignee) Account

Dr.	**₦**	**Cr.**	**₦**
Consignment A/c (Sales)	22,500	Consignment A/c (Expenses)	2,800
		Consignment A/c (Commission)	1,575
		Bank (Remittance) (Bal.)	18,125
Total	**22,500**	**Total**	**22,500**

Verification of Profit Calculation

- **Dr. side of Consignment A/c:**
  (20,000 + 3,000 + 2,800 + 1,575 = 27,375)
- **Cr. side of Consignment A/c:**
  (22,500 + 1,225 + 4,900 = 28,625)
- **Profit on Consignment =**
  (28,625 - 27,375 = ₦1,250)

Final Profit on Consignment: ₦1,250

EVALUATION (WEEK 2)

1. What is the purpose of the "Consignment Account" in the consignor's books?
2. What is the purpose of the "Consignee's Account"?
3. Why are recurring expenses (like advertising) *excluded* from the valuation of unsold stock?
4. In the worked example, what would be the value of the Closing Stock if *no* del credere commission was paid? (Trick question: it's the same, ₦4,900. Commission doesn't affect stock value).
5. What is the double entry for an Abnormal Loss?

ASSIGNMENT (WEEK 2)

1. From the worked example, prepare the **Abnormal Loss Account** and the **Goods Sent on Consignment Account** as they would appear in Tunde's ledger.
2. If Tunde's Gross Profit from normal sales was ₦50,000, what total profit/loss would his final P&L Account show? (Hint: P&L = Gross Profit + Consignment Profit - Abnormal Loss).

WEEK 3: JOINT VENTURE ACCOUNT

3.1 MEANING AND FEATURES OF JOINT VENTURES

- **Meaning:** A **Joint Venture (JV)** is a short-term, temporary business arrangement where two or more persons (called "Co-Venturers") agree to combine their resources to execute a *specific* project or transaction.
- **Example:** Two car dealers (A and B) might pool their money to buy a batch of 50 imported cars, sell them, and split the profits. Once the 50 cars are sold, the venture is over.
- **Features:**
    - **Specific Purpose:** It is for a single, defined venture, not a continuous business.
    - **Temporary:** The agreement is dissolved once the project is complete.
    - **Profit/Loss Sharing:** Co-venturers share profits and losses based on their agreed-upon ratio (or equally, if no ratio is set).
    - **Resource Pooling:** Venturers can contribute cash, goods, or even just their skills.

3.2 DIFFERENCES BETWEEN JOINT VENTURE AND PARTNERSHIP

Feature	Joint Venture	Partnership
Duration	**Temporary.** Ends when the specific venture is complete.	**Continuous.** Long-term, ongoing business.
Scope	**Limited** to a single project or transaction.	**Broad.** Covers the general business of the firm.
Members	Called **Co-Venturers**.	Called **Partners**.
Governing Law	Governed by the specific **JV Agreement**.	Governed by the **Partnership Act (1890)** or local law.
Name	Usually has no formal business name.	Operates under a formal **Firm Name**.
Accounting	Often has no separate books (Method 2).	*Must* have a separate, permanent set of books.

3.3 ACCOUNTING PROCEDURE 1: SEPARATE SET OF BOOKS METHOD

This is the "full" accounting method, used for large JVs.

- **How it works:** The JV is treated as a separate entity. A new, separate **Joint Bank Account** is opened, and a full set of books is kept for the venture.
- **Ledger Accounts to be Opened:**
    1. **Joint Venture Account:** The P&L account for the venture.
    2. **Co-Venturer Accounts:** The "capital" accounts for each member.
    3. **Joint Bank Account:** The cash book for the venture.
- **Double Entry:**
    - **1. Venturers contribute capital:**
        - Dr. Joint Bank
        - Cr. Co-Venturer's A/c (with their contribution)
    - **2. JV buys goods or pays expenses:**
        - Dr. Joint Venture A/c (it's an expense)
        - Cr. Joint Bank (money is paid out)
    - **3. Venturer supplies goods from their own stock:**
        - Dr. Joint Venture A/c (it's a "cost" to the venture)
        - Cr. Co-Venturer's A/c (the venture "owes" them for it)
    - **4. JV makes a sale:**
        - Dr. Joint Bank (money comes in)
        - Cr. Joint Venture A/c (it's income)
    - **5. Find Profit/Loss:**
        - Balance the **Joint Venture Account**.
        - Dr. Joint Venture A/c (with the profit)
        - Cr. Co-Venturer's A/c (share the profit)
    - **6. Final Settlement:**
        - Pay back the venturers.
        - Dr. Co-Venturer's A/c (to close their account)
        - Cr. Joint Bank (the final payout)

3.4 ACCOUNTING PROCEDURE 2: MEMORANDUM JOINT VENTURE ACCOUNT METHOD

This method is used for smaller JVs. **No separate books are kept.** Each venturer records *only their own* transactions.

- **How it works:**
    - **Step 1:** Each venturer keeps a single account in their *own* personal ledger, titled "Joint Venture with [Other's Name] Account."
        - **In Venturer A's Books: "JV with B Account"**
            - Dr. with all *his own* costs (purchases, expenses).
            - Dr. with his *share of the profit*.
            - Cr. with all *sales he made*.
            - Cr. with the final *remittance* he receives (or Dr. if he pays).
    - **Step 2 (The "Memo"):** To find the profit, one person (or both) prepares a **"Memorandum Joint Venture Account."**
        - This is *not* a ledger account. It's a *worksheet* (a simple T-account) that combines *all* venturers' costs and sales to find the profit/loss.
    - **Step 3:** The calculated profit is then shared, and each venturer makes the final entry (Step 1, profit entry) in their own books.

EVALUATION (WEEK 3)

1. What is a Joint Venture?
2. List three (3) differences between a Joint Venture and a Partnership.
3. When is the "Separate Set of Books" method used?
4. What is the purpose of the "Memorandum Joint Venture Account"? Is it part of the double-entry system?
5. In the "Separate Books" method, what is the "Joint Venture Account" used for?

ASSIGNMENT (WEEK 3)

1. Ade (A) and Ben (B) enter a JV, sharing profits 2:1. A contributes goods (₦5,000) and Ben contributes cash (₦8,000) to a Joint Bank Account. The JV buys more goods for ₦4,000. All goods are sold for ₦20,000.
2. Prepare the **Joint Venture Account**, **Joint Bank Account**, and **Co-Venturer Accounts** using the "Separate Set of Books" method and show the final settlement.

WEEK 4: CONTRACT ACCOUNT

4.1 MEANING AND FEATURES

- **Meaning:** A **Contract Account** is a specialized ledger account used in **Contract Costing**. Contract Costing is a system used by companies (contractors) that engage in long-term, large-scale construction or engineering projects.
- **Examples:** Building a bridge, a highway, a stadium, or a ship.
- **Features:**
    - **Long-Term:** The projects (contracts) usually span *multiple* accounting years.
    - **On-Site:** The work is done at the *client's* (contractee's) site, not in the contractor's factory.
    - **High Value:** The projects are very expensive.
    - **Payments:** The contractor is paid in *installments* (progress payments) as work is completed.

4.2 DIFFERENCE BETWEEN CONTRACT AND JOB COSTING

Feature	Contract Costing	Job Costing
Project Size	Very large, high value.	Usually small, lower value.
Duration	Long-term (months or years).	Short-term (days or weeks).
Location	Work done at the client's site.	Work done in the factory/workshop.
Examples	Building a dam, highway.	Printing 1,000 calendars, repairing a car.

4.3 IMPORTANT TERMS IN CONTRACT ACCOUNTING

1. **Contract Price:** The total, fixed price agreed upon for the entire project.
2. **Contractor:** The company *doing* the work (e.g., Julius Berger).
3. **Contractee:** The *client* who is paying for the work (e.g., the Government).
4. **Work-in-Progress (WIP):** The total *cost* of work done on a contract *so far*.
5. **Architect's Certificate (or Surveyor's Certificate):** A certificate issued by the client's architect or surveyor *certifying* the *value* of the work completed to date. This is the "proof" that the work is satisfactory.

6. **Value of Work Certified:** The value of the work approved by the architect. This is the "sales" figure for the period.
7. **Progress Payment (or Cash Received):** The amount of cash the client pays to the contractor. This is usually the Value of Work Certified *minus* a retention fee.
8. **Retention Money:** A percentage (e.g., 10%) of the value of work certified, which is *held back* by the contractee (client) as a security deposit. It is released at the end of the contract after a "defects liability period" to ensure the contractor has fixed all faults.
9. **Notional Profit:** The "on-paper" profit for an *incomplete* contract.
    - Notional Profit = Value of Work Certified - Cost of Work to Date

4.4 ACCOUNTING TREATMENT FOR CONTRACTS

A. Completed Contracts (Simple)

When the contract is finished:

- **Contract Account:**
    - DEBIT all costs (materials, wages, plant) incurred *over the entire life* of the contract.
    - CREDIT the *full Contract Price*.
- The balancing figure is the final, total profit (or loss) on the contract.

B. Incomplete Contracts (The Main Challenge)

The contract is 60% complete at the end of Year 1. We must calculate how much (if any) of the "notional profit" we can safely take.

Step 1: Prepare the Contract Account for the Year

Contract Account (Work-in-Progress)

Dr.	**₦**	**Cr.**	**₦**
Materials on Site	xxx	By Work-in-Progress c/d:	
Wages Paid	xxx	– Value of Work Certified	xxx

Plant Hire	xxx	– Cost of Work Uncertified	xxx
Overheads	xxx	Less: Materials on Site c/d	(xxx)
Notional Profit c/d (Bal.)	xxx		
Total	**XXX**	**Total**	**XXX**

Dr.	**₦**	**Cr.**	**₦**
To Profit & Loss A/c (Profit Taken)	xxx	By Notional Profit b/d	xxx
To Work-in-Progress A/c (Profit Reserve) (Bal.)	xxx		
Total	**XXX**	**Total**	**XXX**

Step 2: Calculate the Notional Profit. Notional Profit = Value of Work Certified - Cost of Work to Date *(Note: Cost of Work to Date = All debits on the account, less any closing stock of materials)*

Step 3: Calculate the Profit to be Taken to the P&L Account. This depends on the **Stage of Completion** (Value of Work Certified / Total Contract Price).

- **If Contract is in Early Stages (e.g., < 25% complete):**
  - **Profit Taken = ₦0.** (The Prudence Concept - it's too early to claim a profit).
- **If Contract is Reasonably Advanced (e.g., 25% - 50% complete):**
  - **Profit Taken = (1/3) × Notional Profit × (Cash Received / Work Certified)**
- **If Contract is in Late Stages (e.g., > 50% complete):**
  - **Profit Taken = (2/3) × Notional Profit × (Cash Received / Work Certified)**
- **If Contract is showing a Loss:**
  - If a *loss* is projected, the **full expected loss** must be recognized immediately.

EVALUATION (WEEK 4)

1. What is Contract Costing, and why is it used?
2. Explain the following terms: (a) Retention Money, (b) Value of Work Certified.
3. What is "Notional Profit"?

4. Why is ₦0 profit taken on a contract that is only 10% complete? (What accounting concept applies?)
5. A contract is 60% complete. Notional Profit is ₦300,000. Cash Received is ₦900,000. Work Certified is ₦1,000,000. Calculate the profit to be taken to the P&L account.

ASSIGNMENT (WEEK 4)

1. ABC Construction is building a road for ₦20 Million. At the end of Year 1, their records show:
    - Materials: ₦3.0 M
    - Wages: ₦2.0 M
    - Overheads: ₦1.0 M
    - The architect certified 40% of the contract. The client paid ₦7.2 M.
2. **Calculate:**
    - (a) Cost of Work to Date
    - (b) Value of Work Certified
    - (c) Notional Profit
    - (d) The Profit to be taken to the P&L in Year 1.

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WEEK 5: MIDTERM TEST

This week is for assessment of all topics covered in Weeks 1-4.

- **Topics:** Consignment (Theory & Accounting), Joint Venture (Theory & Methods 1/2), Contract Account (Theory & Profit Calculation).

PAWILLS CONSULTING

WEEK 6: DEPARTMENTAL ACCOUNT

6.1 MEANING AND PURPOSE

- **Meaning:** Departmental Accounts are accounts prepared by a business that has been divided into two or more distinct **departments**.
- **Example:** A large store like Shoprite, which has a "Grocery" department, a "Butchery" department, a "Bakery," and an "Electronics" department.
- **Purpose:** The main purpose is to find the **profit or loss for each department separately**. This is done by preparing a single **Columnar Trading, Profit and Loss Account**.

6.2 REASONS FOR DEPARTMENTAL ACCOUNTS

1. **Performance Evaluation:** To see which departments are profitable and which are making a loss.
2. **Decision Making:** Helps management decide whether to expand a profitable department, change the strategy for a losing one, or shut it down.
3. **Remuneration:** To calculate the commission or bonus for the staff and managers of each department based on their specific performance.
4. **Stock Control:** Helps in controlling the stock levels for each different type of product.
5. **Information:** Provides detailed information on the sales, costs, and profitability of each product line.

6.3 ALLOCATION AND APPORTIONMENT OF EXPENSES

This is the *main challenge* in preparing departmental accounts.

1. **Allocation (Direct Expenses):**
    - These are expenses that can be *directly* and *exclusively* traced to one department. They are easy to account for.
    - **Examples:**
        - Purchases for Dept A.
        - Sales of Dept A.

- Salary of the Dept A manager.
- Advertising *specifically* for Dept A's products.

2. **Apportionment (Indirect/Shared Expenses):**
    - These are *common expenses* that benefit *all* departments and must be *split* or *shared* among them using a fair and logical basis.
    - **The "Basis of Apportionment"** is the rule used to split the cost.

6.4 COMMON BASES OF APPORTIONMENT (CRITICAL)

Shared Expense	Logical Basis of Apportionment
Rent & Rates, Building Repairs, Building Insurance	**Floor Space (Area)** occupied by each department.
Lighting & Heating	**Floor Space (Area)** (or sometimes by number of light points).
General Manager's Salary, General Advertising, Canteen Expenses	**Sales (Turnover)** of each department.
Depreciation of General Assets	**Sales (Turnover)** of each department.
Depreciation of *Specific* Assets	**Value of Assets** in each department (if known).
Insurance of Stock	**Value of Stock** in each department.

6.5 PREPARATION OF DEPARTMENTAL TRADING, P&L

- A single T-Account is used, but the "Amount" columns are split.
- **Inter-departmental Transfers:** If Dept A (Bakery) transfers bread to Dept B (Restaurant) at *cost price*, it is treated as:
    - Cr. Purchases (Dept A)
    - Dr. Purchases (Dept B)
- If the transfer is at a *selling price*, it is treated as:
    - Cr. Sales (Dept A)
    - Dr. Purchases (Dept B)

- *(This can create an "unrealised profit" in the closing stock, which requires an adjustment.)*

EVALUATION (WEEK 6)

1. What is the main *purpose* of preparing a departmental account?
2. Differentiate between "Allocation" and "Apportionment" of expenses.
3. What is the *most appropriate* basis for apportioning the following expenses:
   - (a) Rent of the building
   - (b) General Manager's salary
   - (c) Insurance of stock

ASSIGNMENT (WEEK 6)

1. A business has 3 departments: A, B, and C.
   - **Floor Space:** A (60m²), B (30m²), C (10m²)
   - **Sales:** A (₦200,000), B (₦300,000), C (₦100,000)
2. **Apportion** the following general expenses:
   - (a) Rent: ₦50,000
   - (b) General Salaries: ₦120,000
3. (Show your calculations).

RAWILLS CONSULTING

WEEK 7: MIDTERM BREAK

This week is for the midterm break.

WEEK 8: BRANCH ACCOUNT

8.1 MEANING AND TYPES OF BRANCHES

- **Meaning:** A **Branch** is a section of a business that operates at a different geographical location from the **Head Office (HO)**, but is under the same ownership and control.
- **Purpose:** To expand sales, cover a wider territory, and serve more customers.
- **Types of Branches:**
    1. **Dependent Branch (our focus):**
        - Does *not* keep its own full set of accounts.
        - It is like a simple sales office.
        - All goods are supplied by the HO.
        - All expenses are (usually) paid by the HO.
        - All cash received from sales is remitted (sent back) to the HO.
        - The HO does all the bookkeeping.
    2. **Independent Branch:**
        - A large branch (e.g., a "Lagos HO" with a "London Branch") that is big enough to act as an independent business.
        - It *does* keep its own full set of books.
        - It just sends a Trial Balance to the HO at year-end for consolidation.

8.2 SYSTEMS OF BRANCH ACCOUNTING (FOR DEPENDENT BRANCHES)

1. **Debtors System:** The simplest method. Used when the branch is small. The HO treats the branch as a *single Debtor*.
2. **Stock and Debtors System:** A more complex, "control" system designed to monitor stock movements in detail (at *selling price*) to prevent fraud or theft.
3. **Final Accounts System:** Used by the HO to incorporate the Trial Balance of an *independent* branch.

8.3 PREPARATION OF BRANCH ACCOUNTS (DEBTORS SYSTEM)

This is the most common method for SS3 level.

- **Core Idea:** The Head Office opens *one single ledger account* for the branch, e.g., **"Kano Branch Account"**.
- **Purpose:** This *one account* is a "memo" account that acts as *both* a P&L Account *and* an Asset/Liability Account.
- **Goods at Cost:** We will assume the HO sends goods to the branch *at cost price*.

How to Prepare the Kano Branch Account (in HO Books):

- **This account is like a "snapshot" of the branch. Debit what the Branch *has* (assets) or *cost* the HO. Credit what the Branch *owes* or *earned*.**

Kano Branch Account

Dr.	**₦**	**Cr.**	**₦**
To Balance b/d (Opening Assets):		**By Balance b/d (Opening Liabilities):**	
– Opening Stock (at cost)	xxx	– Opening Creditors (if any)	xxx
– Opening Debtors	xxx		
– Opening Petty Cash	xxx	**By Bank (Remittances):**	
To Goods Sent to Branch (at cost)	xxx	– Cash Sales remitted to Head Office	xxx
To Bank (Expenses paid by H.O.):		– Cash from Debtors remitted	xxx
– Rent, Salaries, etc.	xxx	**By Goods Returned to H.O. (at cost)**	xxx
To Balance c/d (Closing Assets):		**By Balance c/d (Closing Liabilities):**	
– Closing Stock (at cost)	xxx	(If a Net Loss)	xxx
– Closing Debtors	xxx		
– Closing Petty Cash	xxx	(If a Net Profit) *(Balancing Figure)*	xxx
Total	**XXX**	**Total**	**XXX**

Notes:

1. The **Kano Branch Account** acts as a **nominal account** used to determine the branch's profitability within the Head Office books.
2. **Debit side** shows:

    - Opening assets
    - Goods sent to branch
    - Expenses incurred by Head Office
    - Closing assets
3. **Credit side** shows:
    - Opening liabilities
    - Remittances to Head Office
    - Goods returned to Head Office
    - Closing liabilities
4. The **balancing figure** represents **branch profit or loss**, which is transferred to the **General Profit & Loss Account** of the Head Office.

- **Net Profit:** If the Credit side is larger, the balancing figure is a **Net Profit** (debited).
- **Net Loss:** If the Debit side is larger, the balancing figure is a **Net Loss** (credited).

To find figures like "Closing Debtors" or "Closing Stock," the HO often needs to prepare "memorandum" (working) accounts on the side.

EVALUATION (WEEK 8)

1. What is a "Branch Account"?
2. What is the main difference between a "Dependent Branch" and an "Independent Branch"?
3. What is the "Debtors System" of branch accounting?
4. In the "Debtors System," what single account does the Head Office open?
5. In the "Branch Account," state two items that are *debited* and two items that are *credited*.

ASSIGNMENT (WEEK 8)

1. A Head Office in Lagos sends goods costing ₦50,000 to its Kano branch.
2. The HO pays ₦5,000 for rent for the branch.
3. The Kano branch makes ₦70,000 in cash sales, which it remits to Lagos.
4. There is no opening or closing stock.
5. Prepare the "Kano Branch Account" in the HO's books and find the profit or loss.

WEEK 9: PUBLIC SECTOR ACCOUNTING

9.1 MEANING AND OBJECTIVES

- **Meaning:** Public Sector Accounting is the accounting process used by the **Government** (Federal, State, LGA) and its various ministries, departments, and agencies (MDAs).
- **Objectives:** The primary objective is **NOT profit**. The objectives are:
    1. **Accountability:** To show the public (taxpayers) that the funds entrusted to the government were used *properly*, *legally*, and for their *intended purposes*.
    2. **Stewardship:** To demonstrate that the government has been a good "steward" (caretaker) of public resources.
    3. **Transparency:** To provide clear, open, and accessible financial reports.
    4. **Planning & Budgeting:** To provide a basis for planning the next year's budget.

9.2 SOURCES OF REVENUE AND TYPES OF EXPENDITURE

- **Sources of Government Revenue:**
    - **Federal:**
        - **Oil Revenue:** (Royalties, Petroleum Profit Tax, NNPC proceeds) - The largest source.
        - **Non-Oil Revenue:** Company Income Tax (FIRS), Customs & Excise Duties, VAT.
    - **State:**
        - **Internally Generated Revenue (IGR):** Personal Income Tax (PAYE), Land Use Charge.
        - **Federal Allocation (FAAC):** The state's share of the national oil revenue.
    - **Local Government:**
        - **IGR:** Market rates, tenement rates, business registration fees.
        - **Federal/State Allocation.**
- **Types of Government Expenditure:**
    - **Recurrent Expenditure:** Day-to-day "running costs." They are consumed within the year.

        - *Examples:* Salaries & Wages, purchase of stationery, fuel for vehicles, travel, office maintenance.
    - **Capital Expenditure:** Spending on long-term "assets" that last for more than one year.
        - *Examples:* Construction of a new road, building a new hospital or school, buying a new computer or bus.

9.3 DIFFERENCES: PUBLIC VS. PRIVATE SECTOR ACCOUNTING

Feature	Public Sector (Government)	Private Sector (Business)
Primary Objective	**Accountability & Stewardship**	**Profit Maximization**
Basis of Accounting	Traditionally **Cash Basis** (Income is recorded when cash is *received*; Expenses recorded when *paid*).	**Accrual Basis** (Income is recorded when *earned*; Expenses recorded when *incurred*).
Primary Reports	Statement of Revenue & Expenditure.	Trading, Profit & Loss Account.
Profit / Loss	**Surplus** (Revenue > Exp.) or **Deficit** (Exp. > Revenue).	**Net Profit** or **Net Loss**.
Governing Rules	Constitution, Finance Acts, Financial Regulations.	Companies & Allied Matters Act (CAMA).
"Owner"	The citizens (The Public).	Shareholders, partners, sole proprietor.

9.4 STRUCTURE OF GOVERNMENT ACCOUNTING

- **Consolidated Revenue Fund (CRF):** The "main bank account" of the Federal Government. The Constitution states that *all* revenues collected (unless specified otherwise) must be paid into this fund. No money can be withdrawn from it *except* by an **Appropriation Act (The Budget)** passed by the National Assembly.

- **Accountant-General of the Federation:** The "Chief Accountant" of the government. They manage the CRF, make payments, and prepare the government's financial statements.
- **Auditor-General for the Federation:** The "External Auditor" of the government. They are independent and check the accounts prepared by the Accountant-General. Their job is to report to the National Assembly on whether the government spent the money *legally* and *correctly*.

9.5 PREPARATION OF SIMPLE PUBLIC SECTOR ACCOUNTS

The main account is the **Statement of Revenue and Expenditure**. It is prepared on a **Cash Basis**.

Example: Anyiam-Osigwe LGA - Statement of Revenue & Expenditure for the year ended 31 Dec 2024

	₦	₦
Revenue (Inflows):		
Federal Allocation		25,000,000
Tenement Rates		4,000,000
Market Fees		1,500,000
Total Revenue		**30,500,000**
Expenditure (Outflows):		
Recurrent Expenditure:		
Staff Salaries	15,000,000	
Office Stationery	500,000	
Fuel for Vehicles	1,200,000	
Total Recurrent		(16,700,000)
Capital Expenditure:		
Construction of new Health Centre	8,000,000	
Purchase of 1 Grader	4,000,000	

Total Capital		(12,000,000)
Total Expenditure		**(28,700,000)**
Surplus / (Deficit) for the Year		**1,800,000**

EVALUATION (WEEK 9)

1. What is the primary *objective* of Public Sector Accounting?
2. Differentiate between "Recurrent Expenditure" and "Capital Expenditure," giving one example of each.
3. What is the "Cash Basis" of accounting?
4. What is the "Consolidated Revenue Fund (CRF)"?
5. What is the role of the "Auditor-General for the Federation"?

ASSIGNMENT (WEEK 9)

1. Using the evaluation table from section 9.3, list three (3) other major differences between public sector and private sector accounting.
2. Research the **"Accrual Basis"** vs. **"Cash Basis"** of accounting. Write a short paragraph explaining the difference.

WEEK 10: REVISION & EXAMINATION

- **Comprehensive Review:** This week is dedicated to a full review of all topics from the First Term.
- **Key Topics Checklist:**
    - **Consignment (Wk 1-2):** Terms (Del Credere, Proforma, Account Sales), Accounts (Consignment A/c, Consignee A/c), *Valuation of Stock* (non-recurring expenses), *Abnormal Loss*.
    - **Joint Venture (Wk 3):** JV vs. Partnership, Separate Books Method (Joint Bank), Memo JV Method (no separate books).
    - **Contract (Wk 4):** Terms (Retention, Certified Work), *Notional Profit*, and *Calculation of Profit Taken* (1/3, 2/3 rules).
    - **Departmental (Wk 6):** Allocation vs. Apportionment, *Bases of Apportionment* (Floor space, Sales).
    - **Branch (Wk 8):** Dependent vs. Independent, *Debtors System* (preparing the Branch Account).
    - **Public Sector (Wk 9):** Public vs. Private, Cash Basis vs. Accrual, Revenue/Expenditure (Recurrent/Capital).
- **Exam Strategy:**
    - **Format:** Expect long, multi-part calculation questions.
    - **Practice:** Redo all the worked examples and assignments from this term. The calculations for *Unsold Stock*, *Abnormal Loss*, *Profit on Incomplete Contract*, and *Apportionment* are the most complex and are *guaranteed* to be tested.
    - **Time Management:** Allocate your time. Do not get stuck on one large question.