**NATIONAL BUSINESS AND TECHNICAL EXAMINATION BOARD**

**NBC MAY/JUNE 2005 FINANCIAL ACCOUNTING**

**QUESTION 1**

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

**ANSWER**

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

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

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

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

**QUESTION 2**

(a) (i) Define cash book.

(ii) State THREE features of a cash book.

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

**ANSWER**

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

(ii) The feature of a cash book are:

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

(b) (I) The memorandum of association.

(ii) The articles of association.

(iii) The prospectus.

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

**QUESTION 3**

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

**ANSWER**

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

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

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

**QUESTION 4**

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

**ANSWER:**

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

(i) Subscriptions.

(ii) Donations.

(iii) Sale of tickets.

(iv) Loan from banks.

(v) Dance proceeds.

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

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

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

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

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

**QUESTION 5**

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

| | ₦ |
|---|---|
| Capital- Oluwale | 19,500 |
| - Sule | 19,500 |
| Drawings – Oluwale | 1,800 |
| - Sule | 900 |
| Bills payable | 5,400 |
| Bills receivable | 1,200 |
| purchasers | 16,500 |
| Sales | 29,322 |
| Carriage inwards | 120 |
| Carriage outwards | 60 |
| Sundry debtors | 24,000 |
| Sundry creditors | 20,000 |
| Wages | 10,500 |
| Salaries | 3,100 |
| Commission received | 300 |
| Mortgage on premises | 6,300 |
| Premises | 12,000 |
| Plant & machinery | 6,000 |
| Current account – OLUWALE(CR) | 1,500 |
| - SULE(DR) | 300 |
| Office furniture | 600 |
| Cash at bank | 2,592 |

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

Additional information:

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

**ANSWER**

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

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

**CURRENT ACCOUNT**

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

OLUWOLE & SULE

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

**QUESTION 6**

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

CASH BOOK SUMMARY

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

Additional information

(I) At 1:1:98 equipment was valued at ₦5000
(II) Depreciate all equipment by 20% for the year 1998.
(III) At 31:12:98 rent paid in advance was ₦600
(IV) At 31:12:98 there was ₦330 owing for printing.

Required

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

**ANSWER**

**PRIMUS FOOTBALL CLUB OF ISEYIN INCOME AND EXPENDITURE ACCOUNT**

**FOR THE YEAR ENDED 31ST DECEMBER 1998**

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

**BALANCE SHEET AS AT 31ST DECEMBER 1998**

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

**ACCUMULATED FUND AS AT 1:1:98**

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

**QUESTION 7**

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

(a) Cost of raw material available for production.

(b) Cost of raw materials consumed.

(c) Prime cost.

(d) Cost of production.

(e) Cost of manufactured goods sold.

(f) Gross profit on manufactured goods.

(g) Gross profit on sales.

(h) Net profit.

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

Additional information

(a) Depreciation of machinery is to be charged to the manufacturing accounts.
(b) Closing stock as at 31st December , 1999 were valued as follows:
    i. Raw materials ₦3.250
    ii. Work in progress ₦3,490
    iii. Finished goods ₦ 4,000
(c) Goods manufactured are charge to the sales department at the current market value of ₦32,500

**OSAWUE AND JOHNSON MANUFACTURER IN LAGOS**

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

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

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

**QUESTION 8**

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

| | |
|---|---|
| November 1 balance on purchase ledger | ₦20,652 |
| " 1 balance on sales ledger | 29,028 |
| " 30 purchase the during the month | 240,931 |
| " " sale return outward | 350,753 |
| " " return in ward | 473 |
| " " return out ward | 247 |
| " " cash paid to suppliers | 2,329,035 |
| " " cash received from customer | 339,179 |
| " " Discount received | 4,763 |
| " " Discount allowed | 5,932 |
| " " bed debt written off | 278 |
| " " purchase ledger credit transferred to sales ledger | 3,827 |

Closing balances:

| | |
|---|---|
| November 30 purchase ledger balance | ₦23,711 |
| Sales ledger balance | ₦30,092 |

Answer

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

DR Purchases ledger control (TOTAL CREDITORS) Account ½

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

Question 9

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

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

| | Dr | Cr |
|---|---|---|
| | # | # |
| Ordinary share capital | | 25,000 |

Cumulative preference:

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

Addition information:

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

Required

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

Answer

Abdusalam & co. Ltd profit and loss Appropriation

Account for the year ended 31st December, 2998

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

ABULSALAAM & CO. LTED.

Balance sheet as at 31st December, 1998

| | | ₦ |
|---|---|---|
| Authorized Capital: | | |
| 250,000 ordinary shares | | 250,000 |
| 50,000 7% pref. shares | | 50,000 |
| | | 300,000 |
| Issued and fully paid up capital | | |
| 250,000 ordinary shares 250,000 | | |
| 50,000 preference shares 50,000 | | |
| Reserves Capital | | |
| General Reserves 28,000 | | |
| Share premium 10,000 | | |
| P & I c/f | 13,000 | 51,000 |
| Long term Liabilities: | | |
| 6% Debenture | | 50,000 |
| Current Liabilities | | |
| Creditors | 11,800 | |
| Accrued expenses | 1,800 | |
| Dividends:- | | |
| Ordinary share 30,000 | | |
| Preference shares | 3,500 | 47,100 |
| | | 448,100 |

| Fixed Assets | | Cost | Acct dep. | NVB |
|---|---|---|---|---|
| Freehold Premises | | 195,00 | – | 195,000 |
| Equipment & Tool | | 160,000 | 47,400 | 112,600 |
| Motor vehicles | | 49,000 | 13,000 | 35,400 |
| | | 404,00 | 61,000 | 343,000 |
| Current Assets: | | | | |
| Trade Investment | | | 14,500 | |
| Stock | | | 36,000 | |
| Debtors | 18,000 | | | |
| Less provision | 900 | | 17,100 | |
| Prepaid expenses | | | 400 | |
| Cash at bank | | | 36,200 | |
| Preliminary | | | 500 | |
| First and final call | | | 400 | 105,100 |
| | | | | 448,100 |