

**CLASS: SS 2**

**SUBJECT: FINANCIAL ACCOUNTING**

**TERM: THIRD TERM**

**WEEK 1**

**TOPIC: COMPANY ACCOUNT**

**SUB- TOPIC: FORMATION OF A COMPANY**

**SPECIFIC OBJECTIVES:** At the end of this lesson, I should be able to:

1. Define a company
2. List types of companies
3. List key terminologies in the formation of a company
4. Mention the steps in the formation of a company

**DEFINITION OF A COMPANY**

A company can also be defined as a business owned by an association of people and operated as a legal person on behalf of its owners with the motive of profit.

**EXAMPLES OF COMPANIES**

Examples of companies in Nigeria includes;

- A. Cadbury Plc
- B. Nestle Plc
- C. Dangote Sugar Refinery Plc
- D. Guinness Nig. Plc
- E. Okomu Oil Palm Plc
- F. Julius Berger Nig. Plc
- G. Access Bank Plc. Etc.....

### **KINDS OF COMPANIES**

There are three kinds of companies which may be constituted under the Companies Act 1968;

1. Company Limited by Shares: these are companies in which the liability of the members is limited to amount invested in the business. In the case of liquidation, the shareholders will only be liable to the full extent of their shares contributed as capital.

2. Unlimited Company: in unlimited company, the liability of a member is unlimited and may be liable to the full amount of the company's debts in case of liquidation
3. Company Limited by Guarantee: they are not formed with the object of engaging in trading activities.

#### **FEATURES OR CHARACTERISTICS OF LIMITED LIABILITY COMPANY**

1. Objective: the major objective is to make profit.
2. Ownership: The business is owned by shareholders; for private companies- two to fifty, while for Public companies- seven to infinity.
3. Legal Entity: The business is a separate legal entity from its owners. The business is regarded as a person; it can sue or be sued in its own name.
4. Limited Liability: The liabilities of members is limited to the amount invested in the business, in the event of liquidation.
5. Continuity/ Perpetual Existence: There is continuity of business operations into unforeseeable future. The death of a shareholder may not affect the continuous existence of the business.

#### **TYPES OF COMPANIES**

Limited liabilities company can be divided into two;

1. Private limited Liability Company
2. Public Limited Liability Company.

#### **RELEVANT TERMINOLOGIES TO THE FORMATION OF A COMPANY**

The key terms in the formation of a company includes;

1. Promoters
2. Memorandum of Association
3. Articles of Association
4. Certificate of Incorporation
5. Certificate of Trading
6. Prospectus
7. Share Capital, etc.

**The following steps will be considered in the formation of a Company;**

Step1: Get the promoters. They conceive ideas for setting-up a business and performs various formalities required for starting up a company.

Step2: The Promoter(s) secure the services of a solicitor to prepare the documents to be filed with the registrar of companies. The documents are; memorandum of association, articles of association and statement of nominal/ registered capital.

Step3: The documents are stamped and lodged with the registrar of companies.

Step4: The registrar issues a certificate of incorporation.

### **EVALUATION**

1. What is a company?
2. Mention 3 kinds of companies.
3. Mention 2 types of company.
4. List 4 terminologies in the formation of a company.
5. State the steps in the formation of a company.

### **ASSIGNMENT**

1. State five differences between private and public limited liability company.
2. Write short note on the following: (a) Prospectus (b) Memorandum of association (c) Articles of association (d) Certificate of incorporation (e) Certificate of trading.

## **WEEK 2**

### **TOPIC: QUOTED AND UNQUOTED COMPANIES**

#### **SUB- TOPIC: FEATURES**

**SPECIFIC OBJECTIVES:** At the end of this lesson, I should be able to:

1. Define quoted company
2. State the features of quoted company
3. Define unquoted company
4. State the features of unquoted company

### **QUOTED COMPANY**

Quoted company can be defined as a company whose shares can be bought or sold on the Stock Exchange. Firm whose shares are listed(quoted) on a stock exchange for public trading.

### **EXAMPLES OF QUOTED COMPANIES**

Examples of quoted companies includes;

- i. Zenith Bank Plc
- ii. Dangote Cement Plc
- iii. Cadbury Nigeria Plc
- iv. PRESCO PLC
- v. Total Nigeria Plc, etc.

#### **FEATURES OF QUOTED COMPANIES**

1. They are listed on the floor of the stock exchange for public trading.
2. They are owned by shareholders.
3. Their shareholders have limited liability.
4. Their shares are easily transferable.
5. Quoted companies have separate legal entity. The business can sue and be sued.

#### **UNQUOTED COMPANY**

This is a company that does not trade its shares on the Stock Market and so the shares are not listed.

An unquoted company is a firm that has issued equity shares that are no longer traded on a stock exchange. It can also be referred as unlisted public company.

#### **EXAMPLES OF UNQUOTED COMPANIES**

The following are examples of unquoted companies;

- i. NAMPAK PLC
- ii. United Nigeria Textile Plc
- iii. ALUMAKO PLC
- iv. A.G. Leventis Plc

#### **FEATURES OF UNQUOTED COMPANIES**

1. Its shares are not traded in the stock market.
2. The firm's owner can operate the business more like a private company.
3. Their shares are not easily transferable.
4. Unquoted companies have legal entity.

## **EVALUATION**

1. Define a quoted company.
2. Mention 3 examples of quoted companies.
3. Mention 3 features of quoted companies'
4. Define unquoted company.
5. Mention 3 features of unquoted companies.

## **ASSIGNMENT**

State five differences between quoted and unquoted companies.

## **WEEK 3**

### **TOPIC: COMPANY ACCOUNT**

#### **SUB- TOPIC: FINANCIAL SYSTEM**

**SPECIFIC OBJECTIVES:** At the end of this lesson, I should be able to:

1. Define financial system
2. List the components of financial system
3. State the functions of financial system
4. State the features of money market

## **MEANING OF FINANCIAL SYSTEM**

Financial system can be defined as a system that allows the exchange of funds between financial market participants such as lenders, investors and borrowers.

## **COMPONENTS OF FINANCIAL SYSTEM**

The following are components of financial system:

1. Financial institution: they bring firms, investors and borrowers together.
2. Financial market.
3. Financial instruments.
4. Financial services.

## **FUNCTIONS OF FINANCIAL SYSTEM**

1. **Capital Formation:** financial system helps to mobilize savings which leads to capital formation. These are made available through banks, households and different financial institutions.
2. **Pooling of Funds:** in a financial system, the savings of people are transferred from households to business organizations. With these, production increases and better goods are manufactured, which increases the standard of living of people.
3. **Facilitates Payment:** the financial system offers convenient modes of payment for goods and services. Payment options like credit cards, debit cards, cheques, etc. facilitate quick and easy transactions.
4. **Provides Liquidity:** liquidity means the ability to convert into cash. The financial market provides the investor the opportunity to liquidate their investments, which are in instruments like shares, debentures, bonds, etc.

## **MONEY MARKET**

Money market deals in short term loans, generally for a period of less than or equal to one year.

## **FUNCTIONS OF MONEY MARKET**

1. To maintain monetary balance between demand and supply of short term monetary transactions.
2. It makes funds available to many units or entities engaged in diversified field of activities be it agriculture, industry, trade, commerce or any other business.
3. By providing funds to developing sectors it helps in growth of economy.
4. It provides discounting of bills of exchange which facilitates growth of trade.

## **EVALUATION**

1. What is financial system?
2. Mention 4 components of financial system.
3. State 3 functions of financial system.
4. State 3 features of money market.
5. State 3 functions of money market.

## **ASSIGNMENT**

State four functions of capital market.

### **WEEK 4**

#### **TOPIC: METHODS OF RAISING FUNDS FROM THE CAPITAL MARKET**

##### **SUB- TOPIC: CAPITAL MARKET**

**SPECIFIC OBJECTIVES:** At the end of this lesson, I should be able to:

1. Define capital market
2. State the functions of capital market
3. List four methods of raising funds from the capital market.

#### **DEFINITION OF CAPITAL MARKET**

Capital market can be defined as the for long term finances/ loans.

Capital market can also be defined as a financial market in which long-term debt or equity-backed securities are bought and sold.

#### **TYPES OF CAPITAL MARKET**

**PRIMARY MARKET:** the primary market is also known as New Issue Market. Primary market deals with the issue of new securities/ shares.

**SECONDARY MARKET:** the secondary market is also known as stock market or stock exchange. This is the market for trading already existing securities.

#### **FUNCTIONS OF CAPITAL MARKET**

1. It makes trading of securities easier for investors and companies.
2. It helps minimize transaction costs and information costs.
3. It mobilizes the savings of parties from cash and other forms to financial market.
4. It offers insurance against market risk. They achieve this by offering insurance against market or price threat, through imitative trading.

#### **METHODS OF RAISING FUNDS FROM THE CAPITAL MARKET**

The following are methods by which a company can raise funds;

1. Offer through Prospectus: prospectus is a document used by companies to invite members of the public/ investors to invest in their company. It is a method used in the

primary market to raise funds. After a prospectus is issued, the public subscribes to shares, debentures, etc.

2. Offer for sale: by this method, issue of shares is allotted to an issuing house which offer the securities to the public by means of a document called; offer for sale. The issuing house(s) can be finance house(s) or merchant bank.
3. Rights issue: a company can raise further funds by issuing shares to existing members(shareholders) on favourable terms.
4. Private Placement: under private placement, the company will sell its shares to financial institutes, banks, insurance companies and some select individuals.
5. By Introduction: a company can apply to the stock exchange for sale of its shares to the public. The offer for a new issue of shares will be done through the stock exchange.

### **EVALUATION**

1. What is capital market?
2. Mention two types of capital market.
3. State four functions of capital market.
4. List four methods of raising funds from the capital market.

### **ASSIGNMENT**

- (a) State four differences between debentures and shares.
- (b) State four features of capital market.

## **WEEK 5**

### **TOPIC: BENEFITS OF CAPITAL MARKET**

#### **SUB- TOPIC: BENEFITS TO INVESTORS AND GOVERNMENT**

**SPECIFIC OBJECTIVES:** At the end of this lesson, I should be able to:

1. State the benefits of capital market to individual investor.
2. State the benefits of capital market to government.

### **INDIVIDUAL INVESTORS**



1. Benefit of earning additional income: investors benefit from the potential to earn additional income from the assets they purchase.
2. Benefit of higher liquidity from investment: when investors purchase stocks, bonds and other securities, they benefit from higher liquidity in their investment portfolio.
3. Benefit of regular returns: investors benefit from regular and fixed returns on the assets they purchase. It may be in the form of yearly dividends from shares purchased.
4. Risk benefit: investor also benefit because the financial assets they purchase in capital markets are risk free. The potential for loss is nearly zero.
5. Benefit of right issue: investors in shares also benefit in right issues floated by companies.

### **BENEFIT OF CAPITAL MARKET TO GOVERNMENT**

The following are benefits derived by Government from the capital market:

1. Access to funds for projects: government can access further funds from the capital market to execute some capital projects.
2. Access to cash: capital market provide government with easy access to cash for short-term use. E.g. For recurrent expenditure such as payroll expenses.
3. Tax benefits: companies that participate in the capital market pay taxes.
4. Budget financing benefit: government can also raise certain amount from the capital market that will help in financing part of the budget.

### **EVALUATION**

1. Mention 4 benefits of the capital market to individual investors.
2. Mention 3 benefits of capital market to government.

### **ASSIGNMENT**

State two differences between stock and bond

## **WEEK 6**

### **TOPIC: ISSUES OF SHARES**

#### **SUB- TOPIC: CLASSES OF SHARES**

**SPECIFIC OBJECTIVES:** At the end of this lesson, I should be able to:

1. Define shares
2. List classes of shares
3. List issuing prices of shares.
4. List key ledger accounts

## **DEFINITION OF SHARES**

Shares can be defined as the units of capital or ownership of a limited liability company.

## **CLASSES OF SHARES**

### **1. ORDINARY SHARES**

This class of shares makes the holders the real owner of the business. This class of shares has no fixed rate of returns. They rank after preference shares as regards dividends and returns on capital but carry voting rights. Ordinary shares is also called Equities and a key component of balance sheet.

**Ordinary shares can be divided into; Deferred shares and preferred ordinary shares.**

(a) **Deferred Ordinary Shares:** this is also known as Founders' Shares. They are usually issued to the founders or promoters of the business.

(b) **Preferred Ordinary Shares:** this class of ordinary shares confer on the holders the right to receive dividends after the preference shares have been paid.

### **2. PREFERENCE SHARES**

This is a class of shares that have fixed rate of returns.

## **ISSUING PRICES**

Shares can be issued on the following terms:

1. Shares issued at par
2. Shares issued at premium
3. Shares issued at discount

### **SHARES ISSUED AT PAR**

Shares are issued at par when the nominal price is equal to the issuing price. shares are issued at the actual price. For example; shares of #1 nominal value was issued at #1. ABC Limited makes an issue of #5000 ordinary shares of #1 each at #1.

### **SHARES ISSUED AT PREMIUM**

Shares are issued at premium when the issuing value is more than the nominal value.

### **SHARES ISSUED AT DISCOUNT**

Shares are issued at discount when the issuing value is less than the nominal value. Example; shares of #1 nominal value was issued at 80 kobo. The difference of 20 kobo is regarded as Discount.

### LEDGER ACCOUNTS

Under issue of shares, the following accounts will be prepared;

1. Cash book/ Bank Account
2. Application Account
3. Allotment Account
4. First Call Account
5. Second and Final Call Account
6. Share Capital Account, etc.

### ILLUSTRATION

ABC Limited registered with an Authourised Share Capital of #200,000, consisting of 200,000 ordinary share of #1 each. The shares were issued and payable on the following terms:

- (a) #0.40 on application
- (b) #0.35 on allotment
- (c) 25 kobo on first and final call.

All the shares were fully subscribed and paid for.

You are required to prepare relevant ledger accounts.

### SOLUTION

#### Workings:

Application:  $0.40 \times 200,000 = 80,000$

Allotment :  $0.35 \times 200,000 = 70,000$

First & final call:  $0.25 \times 200,000 = 50,000$

### EVALUATION

1. What is shares?
2. List two classes of shares.
3. Mention three issuing prices of shares.

4. List three ledger accounts under issue of shares account.

#### ASSIGNMENT

1. State three differences between ordinary shares and preference shares.
2. State three features of ordinary shares.
3. BMX Limited issued out 30,000 ordinary shares of #2 each payable as follows;
  - (a) 70K on application
  - (b) 90K on allotment
  - (c) 30K on first call
  - (d) 10K on second callYou are required to make the necessary entry in the company's book.

#### WEEK 7

##### TOPIC: ISSUES OF SHARES

##### SUB- TOPIC: PREPARATION OF SHARE ACCOUNT

**SPECIFIC OBJECTIVES:** At the end of this lesson, I should be able to:

1. Prepare cash book
2. Prepare application and allotment account
3. Prepare share premium account
4. Prepare share capital account

#### ILLUSTRATION

ABC Nig. Ltd. issue 200,000 ordinary shares of #1.00 each at #1.20 per share payable as follows:

- (a) 25k per share on application
- (b) 40k per share on allotment (including the premium)
- (c) 35k per share on first call
- (d) 20k per share on second and final call

Required: Show the ledger accounts to record the above transactions.

#### SOLUTION

**Workings:**  $25+40+35+20= 1.20$ . Rate of premium=  $1.20 - 1.00= 20k$  or N 0.20

**Application:**  $0.25 \times 200,000= N 50,000$

**Allotment:**  $0.40 \times 200,000= N 80,000$  (including premium)

**Share premium:**  $0.20 \times 200,000= N 40,000$

**First call:**  $0.35 \times 200,000= N 70,000$

**Second call:**  $0.20 \times 200,000= N 40,000$

#### CASH BOOK

Application	50,000	Balance c/d	240,000
Allotment	80,000		
First Call	70,000		
Second Call	40,000		
	<u>240,000</u>		<u>240,000</u>
Balance b/d	240,000		

Dr APPLICATION AND ALLOTMENT ACCOUNT Cr

Share Premium	40,000	Bank(Application)	50,000
Ordinary share capital	90,000	Bank(Allotment)	80,000
	<u>130,000</u>		<u>130,000</u>

Dr SHARE PREMIUM ACCOUNT Cr

Balance c/d	40,000	Application & Allotment	40,000

<u>40,000</u>	<u>40,000</u>
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Dr FIRST CALL ACCOUNT Cr

Share Capital	70,000	Bank	70,000
	<u>70,000</u>		<u>70,000</u>

Dr SECOND CALL ACCOUNT Cr

Share Capital	40,000	Bank	40,000
	<u>40,000</u>		<u>40,000</u>

Dr SHARE CAPITAL ACCOUNT Cr

Balance c/d	240,000	Application and Allotment	90,000
		First Call	70,000
		Second Call	40,000
	<u>240,000</u>		<u>240,000</u>
		Balance b/d	240,000

## EVALUATION

1. Mention three items in cash book.
2. How do you ascertain share premium rate?
3. Share premium account has what kind of balance.

## ASSIGNMENT

Prosperity PLC issued 600,000 ordinary shares of N1 each of N1.20 payable as follows;

- (a) 35k on application
- (b) 55k on allotment (including premium)
- (c) 20k on first call
- (d) 10k on final call

All the shares were fully subscribed and paid for.

You are required to prepare:

- (1) Cash Book
- (2) Application and Allotment Account
- (3) First Call Account
- (4) Final Call Account
- (5) Share Premium Account
- (6) Ordinary Shares Capital Account.

## **WEEK 8**

### **TOPIC: LOAN CAPITAL**

#### **SUB- TOPIC: ISSUE OF DEBENTURES**

**SPECIFIC OBJECTIVES:** At the end of this lesson, I should be able to:

- 1. Define debentures
- 2. List types of debentures
- 3. List issue prices of debentures
- 4. List relevant ledger accounts

#### **DEFINITION OF DEBENTURES**

A debenture is a medium to long-term debt that is used by companies to borrow money. A bond acknowledging a loan to a company under the company's seal, bearing a fixed rate of interest is also known as Debenture. Debenture is a long term liability.

## **TYPES OF DEBENTURES**

There are various types of debentures based on certain classifications. They includes;

1. Redeemable Debentures
2. Irredeemable/ Perpetual Debentures
3. Convertible Debentures
4. Non-convertible Debentures
5. Secured Debentures
6. Unsecured Debentures
7. First Mortgage Debentures
8. Second Mortgage Debentures
9. Registered Debentures
10. Bearer Debentures

The types of debentures mentioned above can be classified as follows;

### **(A) Redemption / Tenure**

(a1) REDEEMABLE DEBENTURES: These are debentures which are redeemable (i.e. repayable) at a specified future date.

(a2) IRREDEEMABLE DEBENTURES: This is also known as perpetual debentures. Irredeemable debentures do not carry any date of redemption.

### **(B) Convertibility**

(b1) CONVERTIBLE DEBENTURES: Convertible debenture holders have an option of converting their holdings into equity shares.

(b2) NON-CONVERTIBLE DEBENTURES: These are debentures with no such option of getting converted into shares/ equity.

### **(C) Security**

(c1) SECURED OR MORTGAGE DEBENTURES: A secured debenture is secured by the charge on some asset or set of assets of the company.

(c2) UNSECURED DEBENTURES: It is also known as simple or naked debenture. These are debentures which carry no charge on the assets of the company.

### **(D) Transferability / Registration**



(d1) REGISTERED DEBENTURES: These are debentures that are registered with the company. In the case of registered debentures, the name, address, and other holding details are registered with the issuing company and whenever such debenture is transferred by the holder; it has to be informed to the issuing company for updating in its records.

(d2) UNREGISTERED / BEARER DEBENTURES: This type of debenture can be transferred by mere delivery to the new holder. They are not recorded in the register of the company.

#### ISSUE PRICE

Debenture may be issued at par, at premium or at a discount.

I. Debentures issued at par: in this type of issue, the debentures are issued at the nominal value. For example, N100 debentures are issued at N100.

II. Debentures issued at a premium: debentures are issued at premium when the issue price is above the nominal price. The premium is the excess of the issue price over the nominal value. For example, debentures of N 100 are issued at N 120. Premium =  $N\ 120 - N\ 100 = N\ 20$ .

III. Debentures issued at a discount: this means that the debentures are issued at a price below the nominal value. For example, debentures of N 100 are issued at N 90. Discount =  $N\ 100 - N\ 90 = N\ 10$ .

#### RELEVANT LEDGER ACCOUNT

- I. Cash Book / Bank Account
- II. Debenture Application and Allotment Account
- III. Debenture First and Final Call Account
- IV. % Debenture Account.
- V. Discount Account.
- VI. Premium Account, etc.

#### ILLUSTRATION

Mibal Limited issued 10,000 5% debentures of N1.00 each payable as follows:

30k on Application

50k on Allotment

20k on First and Final Call

All the debentures were applied for and allotted.

Required: Show the necessary ledger entries.

## SOLUTION

Workings:

Application:  $0.30 \times 10,000 = \text{N}3,000$

Allotment:  $0.50 \times 10,000 = \text{N}5,000$

First and Final Call:  $0.20 \times 10,000 = \text{N} 2,000$

### Cash Book

	N		N
Debentures Application	3,000	Balance c/d	10,000
Debentures Allotment	5,000		
Debentures First and Final Call	2,000		
	<u>10,000</u>		<u>10,000</u>
Balance b/d	10,000		

### Debenture Application and Allotment Account

	N		N
5% Debentures	8,000	Bank	3,000
		Bank	5,000
	<u>8,000</u>		<u>8,000</u>

### Debentures First and Final Call Account

	N		N
5% Debentures	2,000	Bank	2,000
	<u>2,000</u>		<u>2,000</u>

## Debentures Account

N		N	
Balance c/d	10,000	Application and Allotment	8,000
		First and Final Call	2,000
	<u>10,000</u>		<u>10,000</u>
		Balance b/d	10,000

## EVALUATION

1. What is debenture?
2. Mention four types of debentures.
3. Mention three issue prices of debentures.
4. List four ledger accounts under issue of debentures.

## ASSIGNMENT

1. List the ledger accounts for issue of debentures.
2. State three differences between shares and debentures.
3. Jones Plc issued 15,000 8% debentures of N1.00 at N1.20 each payable as follows:
  - 40k on application
  - 60k on allotment (including premium)
  - 20k on first and final call.

Required: Show the necessary ledger and journal entries.

## WEEK 9

### TOPIC: COMPANY ACCOUNT

#### SUB- TOPIC: FINAL ACCOUNT

**SPECIFIC OBJECTIVES:** At the end of this lesson, I should be able to:

1. List the components of final account of a company.
3. List items in the layout of trading, profit and loss account.
4. List items in the layout of appropriation account of a company.

#### COMPONENTS OF FINAL ACCOUNT OF A COMPANY

The final account of a limited liability company is made up of;

1. The trading account
2. Profit and loss account
3. Appropriation account
4. Balance sheet.

#### Appropriation Account for the year ended 31st December, 19XYZ

	N		N
Corporation Tax	X	Net Profit b/d	X
General Reserve	X	Profit from last year	X
Revenue Reserve	X		
Interim Dividend	X		
Proposed Dividend	X		
Preliminary expenses written off	X		
Goodwill written off	X		
	X		
Retained profit c/d	X		
	X		X

#### ILLUSTRATION

The following information was extracted from the books of ZEST Nigeria Ltd. on 31st December, 1997.

		CR
	₦	₦
Authorised & Issued Shares Capital;		

20,000 ordinary shares of ₦ 1 each		20,000
5,000 8% preference shares of ₦ 1 each		5,000
Purchases	61,450	
Sales		78,210
Stock at 1st January	6024	
Returns	320	410
Carriage Inwards	630	
Carriage Outwards	470	
Wages and salaries	2,688	
Lighting and heating	730	
Rates	1,200	
Repairs and maintenance	648	
Motor expenses	2,335	
Furniture and fittings at cost	8,000	
Office equipment at cost	900	
Premises at cost	15,000	
Motor van at cost	4,000	
Provision for Depreciation:		
Furniture and fittings		3,000
Office equipment		250
Motor van		2,000
Discounts allowed	265	
Directors' remuneration	2,400	
Auditors' remuneration	320	
Share premium account		2,000
General reserve		2,000
Debtors	9,050	
Creditors		2,120
Profit and loss balance last year		2,440
Cash at bank	1,000	
	<b><u>117,430</u></b>	<b><u>117,430</u></b>

Additional Information:

(a) Stock at 31<sup>st</sup> December N 7,434

(b) Electricity bill in outstanding N70

Rates prepaid N 240

Wages owing N 112

(c) Depreciate Motor van at 25% on the reducing balance system

Fixtures and fittings 10%, Office equipment at 10% on cost

(d) Transfer N 1,000 to general reserve

(e) Provide for the final preference dividend and for a recommended final ordinary dividend of 8%

(f) Corporate tax to be N 1,750.

You are required to prepare:

- (i) Trading, Profit and Loss Account for the year ended 31<sup>st</sup> December, 1997.
- (ii) Appropriation Account for the year ended 31<sup>st</sup> December, 1997.

**ZEST NIGERIA LTD.**

**Trading, Profit and Loss Account for the year ended 31st December, 1997.**

N		N	
Opening stock		6,024	
Purchases	61,450		
Carriage inwards	<u>630</u>		
	62,080		
Returns outwards	<u>(410)</u>	<u>61,670</u>	
Cost of goods available for sale		67,694	
Closing stock		<u>(7,434)</u>	
Cost of sales		60,260	
Gross profit		17,630	
		<u>77,890</u>	
			<u>77,890</u>

<b>Expenses:</b>		<b>Gross profit b/d</b>	<b>17,630</b>
Carriage outwards	470		
Wages and salaries(2,688 + 112)	2800		

Lighting (730+70)	800	
Rates (1,200 – 240)	960	
Repairs	648	
Motor expenses	2,335	
Discount allowed	265	
Directors remuneration	2,400	
Auditors remuneration	320	
Depreciation:		
Motor van(25% ×2000)	500	
Furniture and fittings(10% ×8000)	800	
Office equipment(10% × 900)	<u>90</u>	
	12,388	
Net profit	<u>5,242</u>	
	<b><u>17,630</u></b>	<b><u>17,630</u></b>

## Appropriation Account for the year ended 31st December,1997

	N		N
Corporation Tax	1,750	Net profit b/d	5,242
General reserve	1,000	Profit and loss bal. from last year	2,440
Preference dividend	400		
Ordinary dividend	1,600		
Retained profit c/d	<u>2,932</u>		
	<u>7,682</u>		<u>7,682</u>

## EVALUATION

1. List the components of final account of a company.
2. Mention six items in trading profit and loss account of a company.
3. Mention four items in appropriation account of a company

## ASSIGNMENT

1. State three uses of share premium
2. List six items in the balance sheet of a company.

## WEEK 10

### TOPIC: COMPANY ACCOUNT

#### SUB- TOPIC: BALANCE SHEET

**SPECIFIC OBJECTIVES:** At the end of this lesson, I should be able to;

1. Define balance sheet
2. List the components of a balance sheet of a company
3. List items in the layout of balance sheet.
4. Prepare balance sheet

## DEFINITION

Balance sheet can be defined as the statement that shows the financial position of a business for a given period. Balance sheet is also known as statement of financial position.

## COMPONENTS OF THE BALANCE SHEET

The common features of a limited liability company balance sheet are as follows:

(A) Share Capital and the Liabilities Side: under the conventional format system, they are arranged at the left hand side of the balance sheet. Items in the share capital section includes;

(i) Authorised Share Capital

(ii) Issued Share Capital.

(iii) Capital Reserves e.g. share premium, capital reserve, etc.

(iv) Revenue Reserves e.g. retained profit, debenture premium, etc.

On the liabilities section we have;

(i) Long-term liabilities e.g. Debentures, bank loan.



(ii) Current Liabilities e.g. Trade creditors, debenture interest, proposed dividend, accrued expenses, bills payable, etc.

(B) Assets Side. They are items at the right hand side of the balance sheet. Such items are majorly grouped into Fixed and Current Assets.

#### ILLUSTRATION

The following list of balances was extracted from the books of Zink Nigeria Limited as at 31st December, 1994.

	N	N
<b>200,000 Ordinary shares of N1 each</b>		<b>200,000</b>
<b>50,000 8% preference shares of N1 each</b>		<b>50,000</b>
<b>10% debentures</b>		<b>50,000</b>
<b>Share premium</b>		<b>8,000</b>
<b>General reserve</b>		<b>10,000</b>
<b>Profit and Loss Account 1/1/94</b>		<b>2,500</b>
<b>Freehold premises</b>	<b>150,000</b>	
<b>plant and machinery (cost N300,000)</b>	<b>180,000</b>	
<b>stock 1<sup>st</sup> January, 1994</b>	<b>23,800</b>	
<b>Purchases and Sales</b>	<b>281,600</b>	<b>409,641</b>
<b>Returns inwards and outwards</b>	<b>10,300</b>	<b>17,350</b>
<b>Discounts allowed and received</b>	<b>6,450</b>	<b>9,250</b>
<b>Debtors and creditors</b>	<b>30,030</b>	<b>20,020</b>
<b>Provision for bad debt 1/1/94</b>		<b>905</b>
<b>Wages and Salaries</b>	<b>21,400</b>	
<b>Postages and telephone</b>	<b>5,800</b>	
<b>Directors fees</b>	<b>15,600</b>	
<b>Insurance expenses</b>	<b>2,000</b>	
<b>Interim dividends: Preference</b>	<b>3,000</b>	
<b>Ordinary</b>	<b>5,000</b>	
<b>Cash and Bank balances</b>	<b><u>39,686</u></b>	

777,666

777,666

Additional information:

- (a) The authorised share capital of the company is N400,000 ordinary shares of N1 each and 100,000 8% preference shares of N1 each.
- (b) Stock on 31st December, 1994 was N27,280
- (c) During the year, goods worth N 6,500 were lost to theft. No entry had been made in the books to reflect this.
- (d) Insurance prepaid was N 200.
- (e) During the year, a plant originally costing N50,000 and on which N30,000 depreciation had been provided was sold for N22,000. This transaction had been included as sales.
- (f) Depreciation has been and it is to be provided on plant and machinery at 10% on cost.
- (g) Provision for bad debt is to be maintained at N 2,500.
- (h) The directors wish to provide for : (i) a final preference dividend; (ii) a final ordinary dividend of 5%.

You are required to prepare: balance sheet as at 31st December, 1994.

SOLUTION

Appropriation Account for the year ended 31st December,1994.

Interim dividend:		Net Profit b/d	45,176
Preference	3,000	Profit b/f	2,500
Ordinary	5,000		
Proposed Dividend:			
Preference	1,000		
Ordinary	10,000		
Retained Profit c/d	<u>28,676</u>		
	<u>47,676</u>		<u>47,676</u>

ZINK NIGERIA LIMITED

Balance Sheet as at 31st December, 1994

		Cost	Dep.	NBV
Authorized Capital:	Fixed Assets:	N	N	N

400,000 Ordinary Shares of		Freehold premises	150,000		150,000
N1 each	400,000	Plant & machinery	250,000	115000	<u>135,000</u>
100,000 8% preference					285,000
Shares of N1 each	<u>100,000</u>				
	<u>500,000</u>				
<b>Issued Share Capital:</b>		<b>Current Assets:</b>			
200,000 Ordinary Shares of		Stock			27,280
N1 each	200,000	Debtors	30,030	2,500	27,530
50,000 8% Preference		Prepaid insurance			200
Shares of N1 each	50,000	Cash and bank bal.			39,686
Reserves:					
Share premium	8,000				
General reserve	10,000				
Retained profit	28,676				
Long-term liabilities:					
10% Debentures					
Current Liabilities:					
Creditors	20,020				
Accrued debenture interest	2,000				
Proposed preference dividend	1,000				
Proposed ordinary dividend	10,000				
	<u>379,696</u>				<u>379,696</u>

## EVALUATION

1. What is balance sheet?
2. Mention four components of a balance sheet.
3. Mention six items in a balance sheet.

## ASSIGNMENT

The trial balance of Miba Nigeria Limited as at 31st December 1995 is given below:

	Dr	Cr
	N	N
Land and building at cost	500,000	
Depreciation ---- land and building		84,000
Fixtures	40,000	
Bills receivable	50,000	
12% debentures		130,000
Reserves		180,000
7% preference share of N 1 each		100,000
Plant at cost	32,000	
Depreciation – plant		17,000
Stock	164,000	
Bank		16,000
Debtors and Creditors	183,000	102,000
Prepayments and accruals	26,000	14,000
Electricity	1,400	
Postage and stationery	2,855	
Furniture and fittings at cost	18,000	
Plant and machinery at cost	4,900	

Premises at cost	15,000	
Motor van at cost	6,000	
Provision for Depreciation:		
Furniture and fittings		4,500
Plant and machinery		1,250
Discounts	910	2,200
Directors' fees	2,300	
Audit fees	3,100	
Bank	14,000	
General reserve		700
Profit from last year		4000
Debenture interest	2100	
Debtors and creditors	39,875	1,000
	229,610	229,610
Ordinary shares of N 1 each		200,000
Company tax		35,000
Proposed dividend		27,000
Bills payable		90,000
	995,000	995,000

You are required to prepare the balance sheet as at 31st December,1995.

## **WEEK 11**

### **TOPIC: REGULATION OF CAPITAL MARKET**

#### **SUB- TOPIC: REASONS FOR REGULATION**

**SPECIFIC OBJECTIVES:** At the end of this lesson, I should be able to;

1. Define regulation
2. State reasons for regulation of the capital market
3. List types of regulations.

#### **DEFINITION**

Regulation of the capital market refers to the rules and modalities set by the capital market to promote just and equitable principles of trade and sound business practices in accordance with global best practices.

**NOTE:** The capital market is regulated by the Securities and Exchange Commission (SEC), which is the apex regulatory body of the Nigerian Capital Market.

#### **REASONS FOR REGULATIONS OF THE CAPITAL MARKET**

The following are reasons for the regulation of the capital market:

1. To protect investors. Investors are key element in the growth of companies and also the expansion of the company.
2. To ensure the markets are fair, efficient and transparent. Transparency in the market will boost the confidence of investors and other players in the market.
3. To ensure financial stability. It helps in the continuity of returns on investment and this will also enhance economic growth.
4. To promote economic recovery and development.
5. To reduce systematic risk. This is to ensure that investors are protected and adequately covered.

#### **TYPES OF REGULATIONS**

There are two types of regulations in the capital market. They are;

1. Statutory Regulation
2. Self Regulation.

**STATUTORY REGULATION:** this refers to modalities put in place by government to ensure orderliness in the capital market. These are laws created by a legislative enactment.

**SELF REGULATION:** It is also known as non-statutory regulation. This refers to the internal rules and guidelines set in place by the Nigerian Stock Exchange.

#### **EVALUATION**

1. What is capital market
2. Mention two reasons for regulation of the capital market
3. List the types of regulations.

#### **ASSIGNMENT**

State four functions of the capital market.