

CLASS: SS 1

SUBJECT: FINANCIAL ACCOUNTING

TERM: THIRD TERM

WEEK 1

TOPIC: PROFIT AND LOSS ACCOUNT

SUB- TOPIC: PREPARATION AND ADJUSTMENT

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

1. Mention rules of accruals and prepayments
2. Mention how to post adjustments of bad debts and provision for bad debts
3. List items in trading account
4. List items in profit and loss account

RULES FOR ACCRUALS

Accrued expenses refers to benefits enjoyed but not yet paid for.

RULES:

1. Less accrued expenses at the beginning of the year.
2. Add accrued expenses at the end of the year. Accrued expenses in additional information will be added to the expenses in focus.

Example: Rent paid N1,200.

additional information; Accrued rent N300

Solution:

Rent figure in the profit and loss account will be; $1200 + 300 = \text{N}1,500$.

RULES FOR PREPAYMENT

Prepaid expenses refers to benefits not yet enjoyed but paid for.

RULES:

1. Add prepaid expenses at the beginning of the year.
2. Less prepaid expenses at the end of the year. Less prepaid expenses in the additional information from the expenses in focus

Example: electricity N1,800. prepaid electricity N500.

Solution: Electricity in profit and loss account

$$= 1,800 - 500 = N1,300.$$

Mention how to post adjustments of bad debts and provision for bad debts:

Bad debts will be posted at the debit side of profit and loss account. Bad debts in the additional information must be added to the bad debts in the trial balance.

Increase in provision for bad debt will be debited while decrease in provision for bad debts will be credited in profit and loss account.

ITEMS IN TRADING ACCOUNT

The following are items in trading account;

1. Opening stock.
2. Purchases.
3. Sales
4. Carriage inwards.
5. Returns inwards.
6. Returns outwards.
7. Closing stock.
8. Cost of goods sold.
9. Gross profit. Etc.

ITEMS IN PROFIT AND LOSS ACCOUNT

1. Gross profit b/d
2. Discount received
3. Rent received
4. Discount allowed
5. Carriage outwards
6. Provision for bad debts
7. Wages and salaries

8. Rent and rates
9. Lighting and heating
10. Depreciation of fixed assets. Etc.

EVALUATION

1. Mention the rules for accruals.
2. Mention the rules for prepaid expenses.
3. How do you treat bad debts and its provision in profit and loss account?
4. Mention five items in trading account.
5. Mention five items in profit and loss account.

ASSIGNMENT

Give a comprehensive format of final account

WEEK 2

TOPIC: PROFIT AND LOSS ACCOUNT

SUB- TOPIC: PREPARATION AND ADJUSTMENT

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

1. Prepare trading account
2. Prepare profit and loss account
3. Calculate value of depreciation

KEY ADJUSTMENT ITEMS IN PROFIT AND LOSS ACCOUNT

1. Prepayment; benefits not yet enjoyed but paid for.
2. Accruals; benefits enjoyed but not yet paid for.
3. Depreciation
4. Provision for bad/ doubtful debts.

ILLUSTRATION:

The following balances were extracted from the books of Bola John Enterprises for the year ended 31st December, 201

Purchases	104,020
Sales	242,320
Warehouse expenses	3,200
Office salaries	18,000
Returns inwards	3,620
Returns outwards	3,020
Stock- 1 st January,2010	63,320
Furniture and equipment	16,400
Motor vehicles	14,000
Debtors	55,000
Creditors	34,000
Bad debts	750
Stationery	1,660
Advertising	3,770
Lighting and heating	5,720
Rates	2,480
Commission paid	1,200
Delivery expenses	1,000
Postage and telephone	1,000
Insurance	600

Discount allowed	2,460
Discount received	4,180
Motor vehicle expenses	3,940
Sundry expenses	540
Provision for bad debts	1,250

The following additional information also relates to the account;

- The stock at December 31st, 2010 was valued at #44290
- $\frac{3}{4}$ of the expenses for rates, light and heating is to be charged to the warehouse and the remainder to the office.
- Furniture and equipment is to be depreciated by 10% and the motor vehicle by 20%.
- Insurance paid in advance amount to #100.
- The provision for bad debts at December 31st, 2010 is to stand at 2% of the trade debtors at that date.

You are required to prepare Trading, Profit and Loss account for the year ended 31st December, 2010.

EVALUATION

1. How do you calculate value of gross profit?
2. How do you calculate value of net profit?
3. How do you post depreciation in profit and loss account?

ASSIGNMENT

Exercise 20:7A, page 295, the books of DELE from essential financial accounting.

Prepare trading, profit and loss account.

WEEK 3

TOPIC: BALANCE SHEET

SUB-TOPIC: ASSETS AND LIABILITIES

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

1. Define balance sheet.
2. State the features of a balance sheet
3. Define assets
4. Define liabilities

SSCE 2006, 2012, 2014,

MEANING OF BALANCE SHEET

Balance sheet can be defined as a statement of financial position of a business that shows the lists of assets, liabilities, and owner's equity at a particular time. Balance sheet is also known as **statement of financial position**.

FEATURES OF BALANCE SHEET

1. A balance sheet is a statement and not an account.
2. Balance sheet does not have debit or credit side.
3. It has two sides; left hand side known as asset side and right hand side known as liability side.
4. It shows the financial position of a business.

Asset can be defined as the properties own by a business.

Examples includes; land, building, motor vehicle, office equipment, plant and machinery, stock/inventory, cash in hand, cash at bank, debtors, etc.

TYPES OF ASSETS

1. Fixed Assets/ Non-current Assets. These are assets that last for a long period of time and their benefits to the business exceeds one year. Examples; Land, Building, Furniture, motor van, office Equipment, Plant, Machinery, etc.
2. Current Assets: these are assets that will be used-up within a year. Examples; inventory, debtors, prepaid expenses, accrued income, cash in hand, cash at bank, etc.
3. Intangible Assets: they are assets of value but cannot be seen and touched. Examples; goodwill, trade mark, copy right, licenses, patent right, etc.
4. Wasting Assets: these are assets in the form of natural resources. Examples; coal, zinc, timber, deposits of oil, etc.
5. Fictitious Assets: these are assets that cannot be converted to cash. Example; preliminary expenses, etc.

LIABILITIES

Liabilities can be defined as the indebtedness of a business to individual(s), businesses or firm(s). it is a claim on the assets of a business/ firm.

TYPES OF LIABILITIES

1. Non-current liabilities/ Long-term liabilities: these are debts or obligations that are due after a year or more. Examples; debentures, long-term loans capital leases, bonds payable, deferred tax liabilities, etc.
2. Current liabilities: these are obligations or debts that need to be paid within a year. Examples; creditors/ account payable, interest payable, short-term loans, bank overdraft, accrued expenses, etc.

EVALUATION

1. What is balance sheet?
2. State 4 features of balance sheet.
3. Mention 5 types of assets.
4. Mention 3 types of liabilities.

ASSIGNMENT

- State 3 differences between assets and liabilities.
- State 3 uses/ importance of balance sheet.

WEEK 4

TOPIC: BALANCE SHEET

SUB-TOPIC: PREPARATION OF BALANCE SHEET

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

1. Determine value of gross profit
2. Determine value of net profit
3. Prepare balance sheet

LLUSTRATION:

The following transaction Trial balance was extracted from the books of Goodman as at 31st december, 2009.

DR

CR

	#	#
Capital		75,000
Drawings	5,334	
Purchases	78,660	
Loan		15,000
Returns outwards		3,516
Sales		132,816
Returns inwards	252	
Freehold premises	30,000	
Plant and machinery	26,220	
Furniture and fittings	3,888	
Motor car	9,150	
Wages and salaries	20,355	
Sundry expenses	5,826	
Opening stock	29,628	
Rates	573	
Debtors	38,580	
Creditors		15,336
Cash in hand	828	
Bank overdrafts		15,000
Lighting	1,194	
Motor expenses	963	
Travelling expenses	2,616	
Carriage inwards	882	
Provision for bad deb		
(1st Jan.)		1,440
Discounts	1,000	726
Bad debt	1,152	
Insurance	337	

Land and building	1,396	
	258,834	258,834

Additional information:

- (a) Stock on hand as at 31st December,2009 was #37,458.
- (b) Make provision for bad debt up to #1,800.
- (c) Depreciation were to be charged as follows: plant and machinery 10%, motor car 20%, furniture and fittings 5%.
- (d) Insurance prepaid #114.
- (e) Salaries and wages accrued #810.
- (f) Interest on loan 6% due had not been entered in the books.
- (g) After the trial balance had been prepared, it was found that an amount of #150 representing motor expenses had been debited to motor car account.
- (h) It was decided to write off additional #300 as bad debts.

You are required to prepare:

- (i) Trading, Profit and Loss account for the year ended 31st December,2009.
- (ii) Balance sheet as at date.

#		#	
Opening stock	29628	Sales	132,816
Purchases	78660	Less: Returns inwards	<u>252</u>
Carriage inward	<u>882</u>	Net sales	132,564
	109,170		
Less: Returns outwards	3516		
Cost of goods available for sale	105,654		
Less: Closing stock	37,458		
Cost of sales	68,196		
Gross profit	64,368		
	<u>132,564</u>		<u>132,564</u>
<u>Expenses:</u>		Gross profit b/d	64,368
Discount allowed	1000	Discount received	726
Wages and salaries(20,355-810)	21,165		
Sundry expenses	5,826		
Rates	573		
Lighting	1,194		
Motor expenses(963+150)	1,113		
Travelling expenses	2,616		

Bad debt (1152+300)	1,452	
Insurance (337-114)	223	
Increase in prov. For bad debt(1800-1440)	360	
Interest on loan($6/100 \times 15,000$)	900	
Depreciation:		
Plant & Machinery($10/100 \times 26,220$)	2,622	
Motor car($9150-150=9000 \times 20/100$)	1800	
Furniture and fitting($3888 \times 5/100$)	194	
	41,038	
Net profit	24,056	
	65,094	65,094

Balance Sheet as at 31st December, 2009.

Capital	75,000	Fixed Assets:	Cost	Dep. NBV
Net profit	<u>24,056</u>	Land and Building	1,396	- 1,396
	99,056	Freehold Premises	30,000	30,000
Less: Drawings	<u>5,334</u>	Plant and Machinery	26,220	2,622 23,598
	93,722	Furniture and Fittings	3,888	194 3,694
Long-term liability:		Motor Car	9,000	1,800 <u>7,200</u>
Loan	15,000			65,888
Current liabilities:		Current Assets:		
Creditors	15,336	Stock		37,458
Bank overdraft	15,000	Debtors	38,580	2,100 36,480
Accrued salaries and wages	810	Insurance prepaid		114
Interest on loan	<u>900</u>	Cash in hand		<u>828</u>
	<u>140,768</u>			<u>140,768</u>

EVALUATION

1. Mention 6 items of assets in a balance sheet.
2. Mention 6 items in the liability side of a balance sheet.

ASSIGNMENT:

OKORO is a sole trader. The business trial balance as at 31st December, 2013 is given below:

	DR	CR
	#	#
Stock	6,812	
Capital Account		44,000

Motor vehicles	6,000	
Purchases	72,734	
Sales		92,000
Provision for bad debts		162
Debtors	10,556	
Drawings	3,000	
Creditors		11,600
Freehold premises	16,500	
Cash	9,526	
Insurance	1,422	
Returns inwards	628	
Returns outwards		1,022
Discount allowed	684	
Discount received		1,018
Interest on deposit account		1,074
Carriage inwards	236	
Salesmen salaries and commission	2,444	
Wages	3,202	
Transport expenses	260	
General expenses	3,012	
Office salaries	5,000	
Furniture and fittings	2,000	
Tenement rate	424	
Advertisement	2,842	
Bank deposit	3,600	
	<u>150,882</u>	<u>150,882</u>

Additional information:

1. The stock in hand on 31st December, 2013 was #8,636.
2. Insurance of #260 was outstanding.
3. An employee took salary advance of #220.
4. The provision for bad debts should be increased to #510.
5. Depreciation: (i) Motor vehicle #900. (ii) Furniture and fittings 10% per annum.

You are required to prepare:

- (a) Trading, Profit and Loss account for the year ended 31st December, 2013.
- (b) The balance sheet as at that date.

WEEK 5

TOPIC: CONTROL ACCOUNT

SUB-TOPIC: USES OF CONTROL ACCOUNT

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

1. Define control account
2. State the features of control account
3. State the uses of control account
4. List types of control account SSCE 1999, 2004,

DEFINITION OF CONTROL ACCOUNT

Control account is an account which contains the debit and credit totals of other accounts, and is used to prepare financial statements. It is also known as Total or controlling account.

USES OF CONTROL ACCOUNT

1. Control account can be used to determine value of credit sales.
2. Control account can be used to determine value of credit purchases.
3. Control account can be used to determine debtors balance.
4. Control account can be used to ascertain creditors balance.
5. Control account can be used to detect missing figures.

TYPES OF CONTROL ACCOUNT

There are two common types of control account;

1. Sales ledger or Debtors Ledger Control Account.
2. Purchases Ledger or Creditors Ledger Control Account.

SALES LEDGER OR DEBTORS LEDGER CONTROL ACCOUNT

Debtors ledger control account shows the total amount owed by all the individual debtors of a business.

FORMAT OF DEBTORS LEDGER CONTROL ACCOUNT

Opening debtors/Balance b/f	x	Cheque from debtors/ customers	x
Sales day book/ credit sales	x	Cash from debtors/customers	x
Dishonoured cheque	x	Sales returns/ Returns inwards	x
Discount disallowed	x	Discount allowed	x
Interest overcharge/ overdue	x	Bad debt written off	x
Refund to customers	x	Bills receivable	x
Carriage outwards	x	Contra entry/ control settlement	x
Debit note issued	x	Promissory note	x
Bad debt recovered	x	Credit note issued	x
		Closing debtors/ Balance c/d	x
	<u>xx</u>		<u>xx</u>

ILLUSTRATION:

The following information were extracted from the ledgers of Musa Shehu Ltd. for the month of January,1986

1/1/86 Debit balance in the Sales ledger	4,002
Debit balance in the Bought ledger	78
31/1/86 Sales of Goods	10,000
Returns inwards	800
Bad debts written off	120
Cash received	4,990
Discount allowed	110
Purchases	6,780
Cash paid	3,240
Returns outwards	200

Customers cheques dishonoured	400
Discount received	220
Interest charged to customers on overdue accounts	20

Prepare for the month of January 1986:

Debtors Ledger Control Account.

MUSA SHEHU LTD

Debtors Ledger Control Account

#	#
Balance b/f 4,002	Returns inwards 880
Sales 10,000	Bad debts 120
Dishonoured cheque 400	Cash received 4,990
Interest on overdue account 20	Discount allowed 110
	Balance c/d 8,322
<u>14,422</u>	<u>14,422</u>
Balance b/d 8,322	

EVALUATION

1. What is control account?
2. State 3 features of control account.
3. State 4 uses of control account.
4. List two types of control account

ASSIGNMENT

List four items and the source from which they are transferred into each of the following accounts;

- (a) Sales Ledger Control Account.
- (b) Purchases Ledger Control Account.

WEEK 6

TOPIC: CONTROL ACCOUNT

SUB-TOPIC: USES OF CONTROL ACCOUNT

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

1. Define creditors ledger control account
2. List five items in the layout of creditors ledger control account
3. Prepare creditors ledger control account

FORMAT OF CREDITORS LEDGER CONTROL ACCOUNT

#		#	
Cheque to creditors/ suppliers	x	Opening creditors/ Balance b/f	x
Cash to creditors/ suppliers	x	Purchases day book/ credit purchases	x
Purchases returns/ Returns outwards	x	Discount received subsequently withdrawn	x
Discount received	x	Cash refund by suppliers	x
Bills payable	x	Debit notes received	x
Contra entry/ control settlement	x	Suppliers cheque dishonoured	x
Credit note received	x		
Closing creditors/ Balance c/d	x		

	<u>xx</u>	<u>xx</u>
Balance b/d	x	

ILLUSTRATION:

The following information were extracted from the ledgers of Musa Shehu ltd. for the month of January,1986

1/1/86 Debit balance in the Sales ledger	4,002
Debit balance in the Bought ledger	78
31/1/86 Sales of Goods	10,000
Returns inwards	800
Bad debts written off	120
Cash received	4,990
Discount allowed	110
Purchases	6,780
Cash paid	3,240
Returns outwards	200
Customers cheques dishonoured	400
Discount received	220
Interest charged to customers on overdue accounts	20

Prepare for the month of January 1986:

Creditors Ledger Control Account.

MUSA SHEHU LTD

Creditors Ledger Control Account

	#		#
Balance b/f	78	Purchases	6,780
Cash paid	3,240		
Returns outwards	200		
Discount Received	220		

Balance c/d	3,042	
	6,780	6,780
	Balance b/d	3,042

FURTHER EXERCISE

The following balances were extracted from the books of Useni Stores on 31st December, 1993.

	#
Returns outwards	190
Cash payment to creditors for goods supplied	11,250
Returns inwards	410
Cash received from debtors for sales	17,784
Bills payable	3,404
Discount received	1,054
Bills receivable	2,400
Discount allowed	1,092
Bad debts	506
Balance of sundry creditors for goods supplied as at 1/1/92	2,452
Balance of sundry debtors for sales as at 1/1/92	4,260
Balance of creditors for goods supplied as at 1/1/93	2,678
Balance of debtors for sales as at 31/12/92	5,720

You are required to determine by Control Accounts the amount of:

- (a) Sales as at 31st December 1993 and
- (b) Purchases as at that date. (SSCE JUNE 1995)

EVALUATION

1. List three items on the debit side of creditors ledger control account.
2. List three items on the credit side of creditors ledger control account.

ASSIGNMENT

Prepare creditors ledger control account from the following information:

Opening creditors #5000, discount received #200, purchases day book #10,500, purchases returns # 210, cheque to creditors #6100, bills payable #4500, suppliers cheque dishonoured #300, control settlement #50, credit note issued #160.

WEEK 7

TOPIC: DEPRECIATION ACCOUNT

SUB-TOPIC: REASONS FOR CHARGING DEPRECIATION

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

1. Define depreciation
2. List examples of depreciable assets
3. State reasons for charging depreciation
4. Mention characteristics of depreciable assets.

DEFINITION OF DEPRECIATION

Depreciation can be defined as the reduction in the value of tangible(fixed) assets.

EXAMPLES OF DEPRECIABLE ASSETS

The following are examples of assets associated with depreciation;

1. Buildings
2. Motor vehicles
3. Plant and machinery
4. Office equipment
5. Furniture
6. Fixtures and fittings, etc.

EXAMPLES OF DEPRECIABLE ASSETS

The following are examples of assets associated with depreciation;

1. Buildings
2. Motor vehicles
3. Plant and machinery
4. Office equipment
5. Furniture
6. Fixtures and fittings, etc.

REASONS FOR CHARGING DEPRECIATION

The following are reasons for charging depreciation;

1. To help the firm spread the cost of the asset over its useful life.
2. It helps to determine a realistic value of an asset at its disposal.
3. It helps in the determination of a fair profit.

CHARACTERISTICS OF A DEPRECIABLE ASSET

1. Acquired primarily for use in production of goods and services.
2. It must have a useful life of over one year.
3. It is not intended for sale in ordinary course of the business.

CAUSES OF DEPRECIATION

1. Wear and Tear: continuous usage of an asset will lead to wear and tear of the asset. Erosion, rust, decay, chemical reaction, will lead to wear and tear and also result in decrease in value of tangible assets.
2. Effluxion / passage of time: the value of asset decreases/ goes down whether utilized or not. With the passage of time, effective life of assets keeps decreasing. Passage of time can also affect leaseholds, copyrights and patent rights. Such assets have a certain legal life.
3. Obsolescence: an asset can become obsolete due to new inventions and loss of demand due to change in technology. Example; the replacement of typewriter by computer.
4. Depletion: wasting assets decrease in value as a result of continuous usage. Assets such as coal, mines, oil wells, forest, etc.

EVALUATION

1. What is depreciation?

2. Mention four examples of depreciable assets.
3. Mention three reasons for charging depreciation.
4. Mention two features of a depreciable asset.
5. Mention three causes of depreciation.

ASSIGNMENT

1. List three elements of depreciation.
2. State the differences between depreciation and amortization.

WEEK 8

TOPIC: DEPRECIATION ACCOUNT

SUB-TOPIC: STRAIGHT LINE METHOD

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

1. Define straight line method
2. State the formula for straight line method
3. Calculate the value of depreciation

DEFINITION OF STRAIGHT LINE METHOD

Straight line method is also known as fixed instalment method. This method of depreciation charge equal amount as depreciation for each year till the end of its useful life.

FORMULA FOR STRAIGHT LINE METHOD

$$\text{Annual depreciation} = \frac{C-S}{N}$$

OR

$$\frac{\text{Cost}-\text{Scrap value}}{\text{Years of useful life}}$$

ILLUSTRATION

A machine bought for N 7,000 was estimated to have a useful life of 4 years and a scrap value of N 4,500.

Required: calculate the value of annual depreciation charge.

SOLUTION

$$\text{Annual depreciation} = \frac{N7000 - N4500}{4} = \frac{N2,500}{4} = N 625$$

Method 2

Firstly, determine the rate of depreciation;

$$\frac{100}{4} = 25\%$$

$$\begin{aligned}\text{Annual depreciation} &= 25\% (N 7000 - N 4,500) \\ &= 25\% (N 2,500) = N 625\end{aligned}$$

ILLUSTRATION 2

The following data relates to the Equipment of Gold Enterprise;

Cost of machines = N 1000

Residual value = N 125

Rate = 20%

Required: Calculate the amount of depreciation charge for the second year.

SOLUTION

Depreciation charge for the second year = N 1000 - N 125 = N 875

Introduce the 20% ;

$$\text{Year 1} = \frac{875 \times 20}{100} = N 175$$

$$\text{Year 2} = N 175$$

EVALUATION

1. What is straight line method?
2. State the formula for straight line method.

ASSIGNMENT

A vehicle cost N 12,000 with a life span of 4 years and the residual value after the period was N 400.

Required:

Using fixed installment method, calculate the annual depreciation charge.

WEEK 9

TOPIC: DEPRECIATION ACCOUNT

SUB-TOPIC: REDUCING BALANCE METHOD

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

1. Define reducing balance method
2. State the formula for reducing balance method
3. Calculate the value of depreciation

DEFINITION OF REDUCING BALANCE METHOD

Reducing balance method is also known as diminishing balance method. Under this method, depreciation is calculated per annum at a fixed percentage rate on the net book value.

FORMULA FOR REDUCING BALANCE METHOD

The formula is given thus; $1 - \sqrt[n]{\frac{s}{c}}$

Where; n = estimated number of years

s = scrap value of the asset

c = cost of the asset

ILLUSTRATION

On 1st January 1997, James Watt Limited acquired office furniture at a cost N32,000. The furniture is expected to have a useful life of 4 years. The office furniture is expected to have scrap value of N4200. It is the policy of the company to depreciate office furniture on reducing balance method.

Required: Calculate (a) the depreciation rate;

(b) annual depreciation charge.

SOLUTION

(a) Depreciation rate = $1 - \sqrt[n]{\frac{s}{c}}$

$$1 - \sqrt[4]{\frac{4200}{32000}}$$

$$= 1 - \sqrt[4]{0.13125}$$

$$= 1 - 0.60$$

$$= 0.40 \text{ or } 40\%$$

Annual depreciation charge;

	N
1/1/97 Cost of Office furniture	32,000
Year 1(Dec.1997) Depreciation (0.40 × 32000)	<u>12,800</u>
Net Book Value	19,200
Year 2(Dec.1998) Depreciation (0.40 × 19,200)	<u>7,680</u>
Net Book Value	11,520
Year 3(Dec.1999) Depreciation (0.40 × 11520)	<u>4,608</u>
Net Book Value	6,912
Year 4(Dec.2000) Depreciation (0.40 × 6912)	<u>2765</u>
Net Book Value	4,147

EVALUATION

1. What is reducing balance method of depreciation?
2. State the formula for reducing balance method.
3. How do you ascertain net book value?

ASSIGNMENT

A vehicle costs N12,000 with a life span of 4 years and the residual value after the period was N400.

Required: calculate the rate of depreciation and yearly depreciation charge using reducing balance method

WEEK 10

TOPIC: ADJUSTMENT

SUB-TOPIC: BAD AND DOUBTFUL DEBT

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

1. Define bad debt
2. Define provision for doubtful debt
3. Calculate value of bad debt
4. Calculate value of provision for doubtful debt

DEFINITION OF BAD DEBT

Bad debt can be defined as debt that cannot be recovered. It is also known as irrecoverable debt.

PROVISION FOR BAD AND DOUBTFUL DEBTS

This refers to an estimated amount set aside for doubtful debts which cannot be accurately calculated. Doubtful debts are debts that are likely to be collected.

ILLUSTRATION

The total debtors account of a trading concern is N13,000. Out of this, 2 percent is irrecoverable; 5 percent of the balance is unlikely to be collected.

Required: (i) calculate the value of bad debt (ii) calculate the value of provision for doubtful debt.

SOLUTION

$$\text{Bad debt} = \frac{2}{100} \times 13000 = \text{N } 260$$

$$\text{Provision for doubtful debt} = 13000 - 260 = \text{N } 12,740$$

$$= \frac{5}{100} \times 12740 = \text{N } 637$$

ILLUSTRATION 2

	N
Provision for bad debt	1,000 Cr
Bad debt	500 Dr
Debtors	50,000 Dr
Additional bad debts to be written off	500

New provision for bad debts to stand at 5% of debtors

Required: (i) find the total amount of bad debts to be charged as expense in the profit and loss account.

(ii) find the net figure for debtors.

SOLUTION

(i) Bad Debt = 500 + 500 = N 1,000

(ii) Debt	N 50,000
Less bad debt	<u>500</u>
	49,500
New provision (5% × 49,500)	<u>2,475</u>
	<u>47,025</u>

OR

$$\begin{aligned}\text{Net Debtors} &= \text{Debtor} - \text{Bad Debt} - \text{new provision for bad debt} \\ &= \text{N } 50,000 - 500 - 2475 = \text{N } 47,025\end{aligned}$$

EVALUATION

1. What is bad debt?
2. What is provision for doubtful debt?
3. How do you determine value of provision for doubtful debt?
4. How do you determine net debtors?

ASSIGNMENT

Debtors value as at 1st January 2000 was N 40,000. Bad debts written off during the year was N 5,000. Provision for bad debt was 5%.

Required: Find the amount debited to profit and loss account as provision for the year.