

SS2 Accounting Lesson Note (Third Term) [year]

FINANCIAL ACCOUNTING

SS2 OMEGA TERM

SCHEME OF WORK

WEEK

TOPIC

1. REVISION
2. Acquisition/purchases of business
 - purchase consideration, goodwill.

--Meaning, Reasons for acquisition, format and working capital

3. Purchase of business—Format, preparation of new business account.
4. Company Amalgamation –Reasons, process and working exercises
5. Company formation, private, public companies, quoted and unquoted companies.
6. Nigeria Financial system—Meaning, component, features, operators, money market and capital market functions
7. Types of shares, issue of shares, distinction between classes of shares, issue of shares at par, Discount and Premium.
8. Preparation of accounts for issue of shares at par, discount, and premium bonus shares, Right issues
9. Loan capital-Debenture types, Distinction between shares and Debentures, preparation of accounts relating to issue of all classes of shares.

Distinction between shares and Debenture, preparation of accounts relating to issue of all classes of shares

10 .Capital market—Requirement for enlisting in capital market, Second—Tier Security Market. Advantages of capital market to:

1. Individuals

2. Investors
3. Government
4. Economy.
5. Individual

11&12 Revision

NOTES

WEEK 1

TOPIC: Acquisition /Purchase of Business

Meaning: Purchase of business is the system of acquiring a business as a going concern by another business.

TERMINOLOGIES:

GOODWILL: Goodwill is the excess of the purchase consideration over the net value of assets .The difference will be posted to the Goodwill account

CAPITAL RESERVE: This is the excess of identifiable assets or net value of assets over the purchase consideration .the difference will be posted to capital reserve account.

PURCHASE CONSIDERATION: This can be defined as the price which a purchaser will pay to the vendor in order to acquire his business .The purchase of a business must involve agreement between parties.

VENDOR: The person or firm that sells its business to another firm or company is referred to as the Vendor .In some cases, the vendor may be given shares in the new company to be found.

ACCOUNTING ENTRIES

1. Agreed purchase price

DR Business purchase account

CR Vendor account

2. Take over value of assets

DR Assets account

CR Business purchase account

3. Agreed valuation of liabilities taken over

DR Business purchase account.

CR Liabilities account

4. Excess of purchase consideration over net assets.

DR Goodwill account

CR Business purchase account.

5. Excess of assets over purchase consideration

DR Business purchase account.

CR Capital reserve account.

6. Settlement of the vendors account with shares

DR Vendor account

CR Bank account

7. Settlement of the vendors account with shares

DR Vendor account

CR Share capital account.

| DR | Business purchase account | CR | |
|------------------------|----------------------------------|--------------------------|----------|
| Liab taken over | x | Assets taken over | x |
| Goodwill | | x | |
| Purchase price | | x | |
| Capital reserve | | x | |
| --- | | --- | |
| xx | | xx | |
| --- | | --- | |

| | | | |
|---------------|----------|---------------------------|-----------|
| DR | | Vendor account | CR |
| # | | | |
| Bank | x | purc consideration | x |
| Shares | x | | |
| ---- | | ---- | |
| Xx | | xx | |
| ----- | | ----- | |

| | | | |
|-----------|--|------------------------------|-----------|
| DR | | Liabilities Account | CR |
| | | | |
| | | Business purc account | x |

| | | | |
|-----------|--|--------------------------|-----------|
| DR | | ASSETS ACCOUNT | CR |
| | | | |
| | | BUSINESS PURC A/C | X |

Bank ACCOUNT

| | | | | |
|---------------|--|----------|----------|-----------|
| DR | | | # | CR |
| | | | | |
| VENDOR | | X | | |

| | | | |
|-----------|--|------------------------------|-----------|
| DR | | SHARE CAPITAL ACCOUNT | CR |
|-----------|--|------------------------------|-----------|

AMOUNT PAID TO VENDOR X

Goodwill account CR

DR #

Business purc a/c x

DR CAPITAL RESERVE ACCOUNT CR

#

PURCHASE ACCOUNT X

BALANCE SHEET

CAPITAL X FIXED ASSETS X

CURRENT

ASSETS X CAPITAL

RESERVE X

X GOODWILL X

CREDITORS X

----- --

XX XX

JOURNAL ENTRIES

#

| | | | |
|--|------------------|----------|----------|
| ASSETS: | FIXTURE | | X |
| MOTOR VAN | | X | |
| DEBTOR | | X | |
| STOCK | | X | |
| GOODWILL | | X | |
| LIABILITIES: | CREDITORS | | X |
| PURCHASE CONSIDERATION | | X | |
| ASSETS & LIABILITIES TAKEN OVER | | | |
| Purchas of business account | | x | |
| Vendor account | | | x |
| Vendor account | | x | |
| Bank account | | | x |
| Or | | | |
| Share capital account | | | x |
| Cash or share paid in full settlement | | | |

NB: Students should note that the assets to be debited or liabilities to be credited would depend on the information given in the question.

SETTLEMENT OF THE VENDOR ACCOUNT WITH CASH

ILLUSTRATION: Oando had taken over the business of Arik on 31st January 1998 on the basis of the last balance sheet which is as follows;

#

Capital 180000 premises 100000

Fixtures 45000

Motor car 55000

Creditors 60000 Debtors 15000

Accruals 10000 stock 5000

Bank 30000

| | |
|--------|--------|
| 250000 | 250000 |
|--------|--------|

Additional information

- 1. The purchase consideration to be #200000**
- 2. All the assets and liabilities were taken over with the exception of bank**

3. Assets to be revalued are as follows ; #

Premises 140000

Fixtures 40000

| | |
|------------------|--------------|
| Motor car | 57000 |
| Debtors | 13000 |
| Stocks | 10000 |

5, The purchase price was paid on January 10th 1998

You are required to prepare.

- 1. Journal entries in respect of the acquisition.**
- 2. ledger entries**
- 3. balance sheet.**

SOLUTION

1. JOURNAL

#

DR

| | | |
|----------------|------------------|---------------|
| ASSETS: | Premises | 140000 |
| | Fixtures | 40000 |
| | Motor car | 57000 |
| | Debtors | 13000 |
| | Stock | 10000 |
| | Goodwill | 10000 |

LIABILITIES:

creditors 60000

| | |
|--|--------|
| Accruals | 10000 |
| Purchase consideration | 200000 |
| Assets and liabilities | |
| Purchase of business account | 200000 |
| Vendor account | 200000 |
| Purchase price as per agreement | |
| Vendor account | 200000 |
| Bank account | 200000 |
| Cash or share paid in full settlement | |
| Business purchase account | |

| LIABILITIES TAKEN OVER | | ASSETS TAKEN OVER | |
|-------------------------------|--------|--------------------------|--------|
| Creditors | 60000 | Premises | 140000 |
| Accruals | 10000 | Fixtures | 40000 |
| Purchase price | 200000 | motor car | 57000 |
| Debtors | 13000 | | |
| Stock | 10000 | | |
| Goodwill | 10000 | | |
| ----- | | ----- | |
| - | 270000 | | 270000 |
| ----- | | ----- | |

Workings: calculation of goodwill : #

| | | |
|-----------|----------|--------|
| Assets | premises | 140000 |
| Fixtures | 40000 | |
| Motor car | 57000 | |

| | | |
|--------------|---------|--------|
| Debtors | 13000 | |
| Stock | 10000 | |
| Liabilities: | | ----- |
| - | | 260000 |
| Creditors | (60000) | |
| Accruals | (10000) | |
| ----- | | 190000 |

Goodwill = purchases consideration – net assets

#200000-190000= 10000

Bank Account

| | | | |
|--------|--------|---|----|
| Dr | | # | cr |
| Vendor | 200000 | | |

Vendor account

| | | | | | |
|------|--------|---|--------------------|--------|----|
| Dr | | # | | # | cr |
| Bank | 200000 | | purc consideration | 200000 | |

| | | |
|----------------------|------------------|----|
| dr | Goodwill account | cr |
| # | | |
| purchase of business | 10000 | |

Balance sheet

| | | | |
|-----------|--------|-----------|--------|
| Capital | 200000 | premises | 140000 |
| Creditors | 60000 | fixtures | 40000 |
| Accruals | 10000 | motor car | 57000 |
| Debtors | 13000 | | |
| Stock | 10000 | | |
| Goodwill | 10000 | | |

| | | | |
|--------|--|--------|--|
| ----- | | ----- | |
| 270000 | | 270000 | |
| ----- | | ----- | |

AMALGAMATION OF SOLE TRADING

Two sole trading business can emerge together to form a partnership firm .The sole trader must prepare their respective balance sheets at the of amalgamation.Adjustment will be made in the books and a new balance sheet will be prepared.

Steps to be followed;

- 1.Adjust the assets and liabilities of the first sole trader in order to calculate his capital.
2. Adjust the assets and liabilities of the second sole trader in order to calculate his capital.
3. Prepare a combined balance sheet of the new business.

Illustration;Kunle and Dare have been friends and they both agreed to amalgamate their sole trading business and form a partnership with effect from 31st march 2000. Their balance sheet are as follows.

Kunle,s balance sheet

| | | | |
|-----------|--------|----------|-------|
| Capital | 129000 | fixtures | 90000 |
| Creditors | 9000 | stock | 24000 |
| Debtors | 21000 | | |
| Bank | 3000 | | |

| | |
|---------------|---------------|
| ----- | ----- |
| 138000 | 138000 |

Dare,s balance sheet

| | | | |
|------------------|---------------|--------------------------|--------------|
| Capital | 111000 | land and building | 60000 |
| Creditors | 15000 | fixtures | 15000 |
| Stock | 18000 | | |
| Debtors | 27000 | | |
| Bank | 6000 | | |
| ----- | ----- | | |
| 126000 | 126000 | | |
| ----- | ----- | | |

Additional information:

- 1. kunle is to be credited with goodwill of #21000**
- 2. Dare land and building to be valued at #75000, stock at #16500**
- 3. Kunle, s fixture to be valued at #99000, Debtors #19200, stock #21600**
- 4. All other assets and liabilities are taken as per the balance sheet.**

You are required to prepare the opening balance sheet of the new partnership

Step1. Adjust Kunle, s balance sheet.

| dr | Balance sheet | | cr |
|-----------|---------------|----------|-------|
| Capital | 154800 | goodwill | 21000 |
| Creditors | 9000 | fixtures | 99000 |
| Debtors | 19200 | | |
| Stock | 21600 | | |
| Bank | 3000 | | |
| ----- | | ----- | |
| 163800 | | 163800 | |
| ----- | | ----- | |

Computation of capital =total assets-liabilities

$$\#139500 - \#15000 = 124500$$

Step:2 Dare,s adjusted balance sheet;

Balance sheet

#

| | | | |
|-----------|--------|---------------|-------|
| Capital | 124500 | land building | 75000 |
| Creditors | 15000 | fixtures | 15000 |
| stock | 16500 | | |
| Debtors | 27000 | | |
| Bank | 6000 | | |
| ----- | | ----- | |
| 139500 | | 139500 | |
| ----- | | ----- | |

Capital computation: Total assets-liabilities

$$\#139500 - 15000 = 124500$$

Step. 3 prepared a combined balance sheet

Balance sheet of the partnership of Dare & Kunle

| | | | |
|-------------------------------|---------------|-------------------------------|---------------|
| Capitals: | | goodwill | 21000 |
| Dare | 154000 | land building | 75000? |
| Kunle | 124500 | fixtures (99000+15000) | 114000 |
| Creditors (9000+15000) | 24000 | stock (16500+21600) | 38100 |
| Debtors (19200+27000) | 46200 | | |
| Bank (3000+6000) | 9000 | | |
| ----- | | ----- | |
| 303300 | | 303300 | |
| ----- | | ----- | |

Evaluation: briefly explain the following terms

- 1. Purchase consideration**
- 2. Capital reserve**
- 3. Goodwill**

ASSIGNMENT: Take assignment from book-keeping & accounting textbook revision question 5 page 486

WEEK 5

COMPANY FORMATION, PRIVATE, PUBLIC COMPANIES, QUOTED AND UNQUOTED COMPANIES.

INTRODUCTION:This topic is about the formation , registration and natures of a company as form of business organization.

Definition:A company can be defined as a legal and artificial person or entity formed by group of people in accordance with the law for a defined objective.As a result of its legal entity , it can sue be sued .(Salmon v Salmon).Examples of companies in Nigeria are Cagbury plc, Dangote flour plc, Nigerian bottling co. plc and so on

KINDS OF COMPANIES

There are three kinds of companies which may be incorporated under the companies act;

.Unlimited companies:

In an unlimited company ,the liability of the members (shareholders) for the debts of the company is unlimited.Section21(1) of the companies and allied matters Act 2004 as amended

Companies limited by shares

This is a company whose liabilities or debts are limited to the amount invested in the business by the company,s members (shareholders) and as contained in the memorandum of Association .section 21 (1) of the companies and allied matters Act of 2004 as amended

Company limited by guarantee

These are companies whose liabilities or debts is limited to the amount guaranteed by the members (shareholders) in the event of liquidation e.g. clubs, unions and so on

The most common kind of company in Nigeria is the limited companies by shares

These companies have profit as their motive of operation and are of two types ,namely;

1. Private limited companies.
2. Public limited companies

Private limited companies

Section 28 of the companies Act defined such company by its articles as those ones that

1.Restrict the right to transfer its shares

2. Limits the number of its members to fifty
3. Prohibits any invitation to the public to subscribe to its shares .
4. The name of the private company must end with “Limited “for example ,Midgal Nigeria Limited.

Characteristics of Private Limited Liability Company

Ownership

Such business is owned by shareholders who may be between two and fifty persons in number

Objectives

The main aim of such business is to make profits for its members.

SOURCES OF CAPITAL

The required capital for such business are normally raised through the issue of shares , loan capital ,bank finances and so on .Shares are not sold to the the public

Liability

The shareholders of such companies have limited liability .In the event of liquidation , the amount a shareholder can lose is limited to the fully paid –up value of his share or the capital he has invested in the business.

Legal entity

The business is a separate legal entity and is different from the owners of the business .It can sue or be sued

Continuity

There is continuity of business operations as the withdrawal or death of a shareholder may not affect the existence of the company.

Management

Such company,s management is elected by the board of directors.

Shares not transferable

Shares cannot be resold to other persons except with the consent of other shareholders

Public Limited Companies

Public limited liability company is defined by the provisions of the company law as one which by its articles

- 1. Allow the public to subscribe to its shares**
- 2. Must have a minimum of seven persons , but no maximum number prescribed.**

3. Allow the shares to be transferred

4. Its name must end with "plc." for example, zenith bank Plc., UBA PLC, and so on

KINDS AND TYPES OF COMPANIES

Company

coy ltd by shares

coy ltd by

Guarantee

Unlimited

Company's private coy

public coy

Characteristics of Public Limited Liability Company

Public Limited Liability Company can also be referred to as joint stock companies. The word public is used to imply that any member of the public is free to purchase shares in the business when shares are advertised for sale.

It features are as follows;

Ownership

It has minimum of seven members but there is no maximum number

Legal entity

It has a distinct personality from that of its owners .It can sue and be sued in its own name.

Perpetual existence

The death or withdrawal of any member will not bring an end to the company .It enjoys continuous existence.

Limited liability

The liability of shareholders is limited to the amount contributed to the company .The private properties of the shareholders will not be touched in the event of liquidation.

Formation

A public limited liability company must follow some special formalities before registration .They are registered by filling some statutory documents with the registrar of companies

Annual accounts

It is statutorily required that such company must keep certain prescribed books of accounts .The accounts must be audited and published annually

Ultra vires

A public limited liability company is authorized by law to carry on business specified in the object clause.

Ownership separated from management

Ownership is separated from management .The shareholders are regarded as owners of the company, while the management of the company is the responsibility of board of directors.

FORMATION OF A COMPANY

In order to form a company, the following steps should be followed;

Step 1.Group of individual or persons who have the same vision or conceive the idea to form a company will come together to undertake and fulfil this mission .They are called “PROMOTERS”

Step2. The promoters are required to secure the services of a solicitor to prepare certain documents to be filed with the registrar of companies at the corporate affairs commission (CAC). The documents are as follows;

- 1. Memorandum of association**
- 2. Articles of association**
- 3. Statement of nominal capital**
- 4. Filling of forms C01-C08**

A chartered accountant is required to prepare documents to raise capital and ascertain the degree of feasibility of the business. The documents are as follows

- 1. Feasibility study**
- 2. Prospectus**
- 3. Financial projection report**

Step3. All the above documents are to be stamped and lodged with the registrar of companies at the CAC

Step 4; Process of certificate of incorporation. This certificate is the artificial document that gives birth to the company.

Step5.Process of certificate of operation .This certificate authorizes the company to start its operation.

QUOTED AND UNQUOTED COMPANIES

When a company can issue its shares, through the stock exchange market by the given approval ,such a company is described as being QUOTED OR LISTED while those who cannot raise capital through the stock exchange are described as being UNQUOTED OR UNLISTED

A quoted company is any company that has been authorized to raise its long –term capital through and on the stock exchange (i.e. capital market) .Examples are UBA PLC, DANGOTE SUGAR PLC, and ZENITH BANK PLC and so on

Unquoted company is any company that has no authority to raise its long –term capital through the stock exchange .Examples are Midgal Nigeria ltd, Adebowale Electronic stores Nigeria ltd and so on

Features of quoted company

- 1. Such companies can raise its capital from the stock exchange**
- 2. Quoted companies are expected to publish its annual audited accounts for public**

Consumption

- 3. Its shares are traded with or transferable from one holder to the other.**
- 4. Its shares are listed on the stock exchange.**
- 5. All its operations must be in conformity with laid down of security Exchange commission (SEC)**

Features of unquoted company

- 1. It cannot raise its shares on the stock exchange**
- 2. Its shares are not transferable.**
- 3. Unquoted companies run its affairs privately and confidentially**

4. Value of such company's shares is difficult to ascertain.
5. Such companies are mostly private companies

EVALUATION:

1. Differentiate between quoted company and unquoted company.
2. State four steps involved in the formation of a company.

ASSIGNMENT: State five contents each of the under listed;

1. Memorandum of association

B .Articles of Association

C .Prospectus

2. Differentiate between certificate of incorporation and certificate of operation

WEEK 6

FINANCIAL SYSTEM

INTRODUCTION:

This topic explains what makes a financial system in an economy .It also explains the components of the financial system .In addition, the functions and roles of the components (markets) are also detailed in the topic.

Meaning;

Financial system can be defined as an integrating system that consists of financial institutions, instruments, markets, dealers, and the regulatory authorities that interact to finance the real sectors and other sectors of the economy .Both the financial system, the productive and commercial systems jointly make up what is called an economic system

Financial system, therefore, is an organized system whereby finances, short, medium and long term, could be raised to any economic activities.

A financial system consists of:

1. Financial markets
2. Financial institutions

3. Financial instruments

4. Regulatory authority

COMPONENTS OF FINANCIAL SYSTEM

Regulatory

System

institution

Financial system

instrument

markets

Real sector

Financial

Economic

Commercial

system

system

Sector

INTERACTION OF THE FINANCIAL SYSTEM

The interacting system between the sub-systems that make up an economic system is in dual ways. There is always an exchange with a feedback. The degree of those exchange and feedback determines the level of an economy.

FINANCIAL INSTITUTIONS

Under the financial system, there are basically two types of markets:

A. Money market

B.Capital market

Money market

This is an organized market structure where money or finances could be raised on a short – term basis. The components of this market are as follows:

- 1. Banks and other financial institutions**
- 2. Financial instruments**
- 3. Regulatory authority**

BANKS AND OTHER FINANCIAL INSTITUTIONS

BANK: This is a commercial institution which performs various financial activities for example accepting and handling of deposits of its customers.

INSURANCE: It can be defined as an agreement, whereby one party promises to indemnify or pay another party a sum of money in the event of his suffering a specified loss or damage.

FOREIGN EXCHANGE: This is an organization structure under the banking system that makes available foreign currencies for individual or corporate outfits to buy or sell foreign currencies. The foreign currencies could be in form of cheques, bankers, cheques, currencies and so on

FINANCIAL INSTRUMENTS

There are many kinds of financial instruments being traded with by any of the above mentioned institutions under the money market

Banks

The financial instruments under the banks are as follows:

- 1. Money in form of cash, cheques, drafts, foreign currencies, travelers' cheque.**
- 2. Credit facilities in form of bank overdraft, loans, leasing, etc.**

INSURANCE

The financial instruments under the insurance in forms of insurance policy are as follows;

- 1. Bad debts**
- 2. Goods on transit**
- 3. Group insurance**
- 4. Cash in transit**

5. Fidelity guarantee
6. Export credit guarantee
7. Plate glass
8. Agricultural insurance
9. Burglary, theft, robbery
10. Consequential loss
11. Contractor's all risk
12. Employers' liability
13. Aviation insurance
14. Accident glass
15. Motor vehicle
16. Marine glass
17. Life assurance
18. Fire

Regulatory Authority

The regulatory authority in the money market is the Central Bank of Nigeria (CBN)

Features of money market

Money market has the following features

1. It is a market where money and other money instruments can be raised or deployed in short term
2. The price of borrowing and lending money as a stock in this market is interest.
3. Money market is being represented in Nigeria as the banking sector
4. The products in the money market are money, currencies, treasury bills treasury certificates, deposits, foreign currencies, and so on
5. The regulatory authority in this market is the Central Bank of Nigeria.
6. Banks and insurance companies that represent the institutions in the market are commercial in activities and for profit motive.

EVALUATION;

- 1. Mention the components of the financial system.**
- 2. Mention four financial instruments traded under each of the following;**

a.Banks

- 1. Insurance companies**

ASSIGNMENT:

- 1. What is capital market?**
- 2. State five functions of the regulatory authority in the money market**

WEEK 7

TYPES SHARES, ISSUE OF SHARES, DISTINCTION BETWEEN CLASSES OF SHARES, ISSUE OF SHARES AT PAR, DISCOUNT, AND PREMIUM

TYPES OF SHARES:

A company share can be classified mainly into:

- 1. Preference shares**
- 2. Ordinary shares**

TYPES OF SHARES

Shares

Preference shares

Ordinary shares

Redeemable

Irredeemable

Convertible **founders share** **preferred shares** **stocks**

Cumulative

Non-cumulative

Participating

Non-participating

PREFERENCE SHARES: It is a type of share which has priority in terms of dividend payment and repayment of capital in the event of winding up .They have a fixed rate of dividends. Preference shares are classified into convertible, cumulative, etc.

ORDINARY SHARES: They are also called equities. The ordinary shareholders are the real owners of the business .The holders are the risk bearers and they receive their dividend only after all other shares have been paid. They can vote be voted for.

SIMILARITIES BETWEEN ORDINARY SHARES AND PREFERENCE

1. They are types of company's shares
2. They are sources of long –term capital to companies
3. They could be floated on the stock exchange.
4. The returns of each types of shareholders is called dividend
5. Their returns (dividend) are charged against profit after tax.

DIFFERENCES BETWEEN ORDINARY SHARES AND PREFERENCE SHARES

| PREFERENCE SHARES | ORDINARY SHARES |
|------------------------------|---------------------------------|
| Amount of dividend | fixed fluctuation |
| Dividend & profit | dividend are paid whe- |

ther profit is made or

Not dividend is paid if there is

Profit

Priority to dividend take dividend before take dividend after

Ordinary shares preference shares

Voting right has no voting right has voting rights

Capital redemption it is a redeemable capital it is not redeemable

Risk not a risk bearer a risk bearer

Debentures:

It is a bond acknowledging a loan ,generally under the company's seal and bearing a fixed rate of interest and usually giving security for the repayment of interest.

Features of debentures:

1. A debenture is a special loan under the company's seal deed
2. It is usually a secured loan
3. The interest on debenture is usually fixed
4. The return receivable or payable on such loan stock is called interest.
5. The interest return is charged against profit before tax
6. A debenture could be of various kinds, such as mortgage debenture, naked debenture, redeemable debenture, irredeemable debenture ,cumulative, non-

Cumulative, convertible, participating debenture and so on

NB: Mortgage debenture is a type of debenture secured on the properties or assets of the company .It gives a charge upon the whole or part of the company's assets upon the liquidation.

Differences between debentures and shares

| Debenture | shares |
|--|--|
| Holders are creditors to the company | Holders are owners of a company |
| They receive interest as return | they receive dividend as return |
| Holders have no voting right | Holders have voting rights |
| Holders have prior rights before share- Holders | holders take dividend after the |
| Debenture interest | |
| Holders have fixed rate of return | Holders have no fixed rate of return |
| Secured loan capital | Unsecured and risk bearer |
| Holders cannot become director of the Company | Holders can become director of The company. |

Similarities between debenture and shares

1. They are the sources of company's long –term capital
2. They are paid returns at the end of every financial year
3. Some forms of debentures and shares are irredeemable
4. The two sources of finance have cost or or opportunity cost for their usage
5. They can be issued to the public for subscription

EVALUATION:

Objective Questions

1. How many markets make up financial system in Nigeria?

(a) 5 (b) 3 (c) 4 (d) 2

2. The regulatory authority of the capital market is (a) Central bank (b) Stock exchange (c) bank (d) security exchange commission

3. The regulatory authority of the money market is

(a) Central bank (b) stock exchange (c) bank (d) security exchange commission

4. The money market where foreign currencies could be bought and sold is called

(a) Capital market (b) CBN (c) bank (d) foreign exchange

5. Another name for capital is

(a) Money market (b) foreign exchange (c) stock exchange (d) stock market

ASSIGNMENT:

Fill in the blanks

1. Another name for Government security is-----

2. The registration of securities on the capital market is carried out by -----

3. How many components make up a financial system? -----

4. The period of raising finances in the money market is -----

5. Another name for capital market is -----

WEEK 8 & 9

PREPARATION OF ACCOUNTS FOR ISSUE OF SHARES AT PAR, DISCOUNTS, AND PREMIUM, BONUS SHARES, RIGHT ISSUES

Shares Payable in Full on Application

This will be treated with respect to the terms; at par, premium, or discount. The amount will be paid on application

Shares issued at par

In this case, shares will be issued at the nominal price stated in the memorandum of association and will be paid for in full on application.

Accounting entries-journal

| | |
|---|----|
| 1. Bank a/c | xx |
| Application a/c | xx |
| (Being money paid for shares on application) | |
| 2. Application | xx |
| Share capital | xx |
| Being allotment of shares after receipts of the application | |

Illustration: Anikulapo Ltd issue shares at #1 (at par) on 1 July 2009 .Application together with the money for the shares was received.

You are required to record the above transactions through journal and ledger entries

Solution:

Value of shares =50000x1=#50000

| | | | |
|----|------------------------|-----------|-----------|
| 1. | Journal entries | Dr | Cr |
|----|------------------------|-----------|-----------|

| | | |
|--|-------|-------|
| Application a/c | 50000 | |
| Being money received on application for shares | | |
| Application a/c | 50000 | |
| Share capital a/c | | 50000 |

(Being allotment of shares on receipts of application money)

1. ledger entries

Bank a/c

| | |
|-------------|-------|
| Application | 50000 |
|-------------|-------|

Application a/c

| DR | # | | # | CR |
|---------------|-------|------|-------|----|
| Share capital | 50000 | Bank | 50000 | |

| | | |
|----|-------------------|----|
| DR | SHARE CAPITAL A/C | CR |
|----|-------------------|----|

#

| | |
|-------------|-------|
| Application | 50000 |
|-------------|-------|

Shares Issued at a premium

Shares are issued at premium when it is issued at a price above the company's nominal price .It can also be fully paid on application

Accounting entries

| | |
|----|----|
| DR | CR |
|----|----|

| | | |
|--|-----------|-----------|
| BANK | XX | |
| Application (being money received on application) | | xx |
| Application | xx | |
| Share capital | | xx |
| Share premium (being allotment of shares) | | xx |

Illustration 2

On 1 July 2009 ,Adenuga ltd issued 50000 shares of #1 each at #1.30. Application and money for the shares were received and fully paid.

You are required to raise the appropriate entries using journal and ledgers.

Solution:

Workings:

Premium:=0.3x50000= #50000

| Journal entries | DR | CR |
|---|-----------|--------------|
| Bank a/c | | 65000 |
| Application a/c | | 65000 |
| Being money received on application for shares) | | |
| Application a/c | | 65000 |
| Share capital a/c | | 50000 |
| Share premium a/c | | 15000 |
| Being allotment of shares on application) | | |

Shares issued at a discount

In this case, shares are issued at a discount and payable in full on application. Shares are issued at a discount when it is issued at a price below the nominal price of the shares.

Accounting entries –journal

DR CR

| | | |
|---|----|----|
| BANK A/C | XX | |
| Application a/c (being money received) | | XX |
| Application a/c | XX | |
| Shares discount a/c | XX | |
| Share capital a/c (being money received on allot of share | | XX |

ILLUSTRATION 3:On 31st July 2009 ,Ubah ltd issued 50000 shares of #1 each at #0.80.Application and money for the shares were received and fully paid.

You are required to raise the appropriate entries using the journal and ledgers.

Solution

Workings

Discount=0.2x50000=#10000

Journal entries

DR CR

| | | |
|---|-------|-------|
| 1 Bank (0.8x50000) | 40000 | |
| Applications | | 40000 |
| (Being money received on application for shares) | | |
| 2. Application | 40000 | |
| Shares discount | 10000 | |
| Share capital | | 50000 |
| Being allotment of shares based on nominal price) | | |

LEDGERS ENTRIES

| | | |
|---------------|--------------------|---------------------------|
| DR | Bank a/c | CR |
| # | | |
| Application | 40000 | |
| | | |
| DR | Application a/c | CR |
| bank | 40000 | |
| Share capital | 50000 | share discount 10000 |
| | | |
| DR | share discount a/c | CR |
| Application | 50000 | |

(Being money received on application)

| | | |
|----------------------|-----------|-----------|
| Allotment a/c | xx | |
| Share capital | | xx |

(Being allotment of shares on application)

| | | |
|--------------------------|-----------|-----------|
| Application a/c | xx | |
| Share capital a/c | | xx |

(being money received on application for share capital)

| | | |
|----------------------|-----------|-----------|
| Bank a/c | xx | |
| Allotment a/c | | xx |

(being money received on allotment of shares)

| | | |
|-----------------------------------|-----------|-----------|
| Application/ allotment a/c | xx | |
| Bank a/c | | xx |

(Being money refunded to the unsuccessful applicants)

| | | |
|--------------------------|-----------|-----------|
| Calls a/c | xx | |
| Share capital a/c | | xx |

(Being entries on making)

| | | |
|------------------|-----------|-----------|
| Bank a/c | xx | |
| Calls a/c | | xx |

(Being money received on making calls)

Illustration: TCC LTD issued 40000 shares of #1 each payable as follow

10k on application

20k on allotment

40k on first call

30k on allotment

55000 applications were received and money returned to all unsuccessful applications. Shares are allotted on 4 shares for every 5. The excess application money is set – off against allotment money. All calls were made and payments were paid

You are required to record the above transactions using journal and ledger entries

Solution:

Workings

1. Total application money=55000at 10k=#5500
2. Allotment =(50000X4/5)at 20k =#8000
3. Refunds =(55000-40000) at 10k =#1500
4. First call =(50000 x4/5) at 40k =#16000
5. Second call =(50000 x 4/5)at 30k =#12000

ISSUED OF DEBENTURES

The procedure for issuing debentures is similar to that of shares except that debentures are to be redeemable on due date. The redemption of debentures is provided for by appropriating a predetermined sum against the yearly profits over the period the debenture will be on. On due date, the company will pay the debenture with the accrued interest.

| Accounting entries for issue of debentures | DR | CR |
|---|----|----|
| 1. Bank a/c | | xx |
| Debenture a/c | | xx |
| (Being issue of debentures) | | |
| 2. p & L a/c | | xx |
| Deb .redemption a/c | | xx |
| (Being amount set aside annually to redeem the debenture) | | |

| | |
|-----------------------------------|----|
| 3. deb. Redemption investment a/c | xx |
| Ded redemption a/c | xx |

Being amount set aside for investment to redeem the deb. a/c

Illustration: Lisabi Ltd issued 2000 stocks of debenture at par which is usually #100. The debenture is repayable over 4 years with 10% p.a. interest .You are required to show the journal entries for this transaction.

Solution

Workings

1. Amount of the debenture = $2000 \times 100 = \text{\#}200000$
2. interest payable per year=10% at #200000= #20000 for 4 years= $20000 \times 4 = \text{\#}80000$
3. Amount to be set aside per year= $\text{\#}200000 + \text{\#}80000 = \text{\#}280000/4$

4

| Journal entries | DR | CR |
|---|----|--------|
| 1. Bank a/c | | 200000 |
| 10% debenture a/c | | 200000 |
| (Being issue of debentures) | | |
| 2. p&L a/c | | 70000 |
| Debenture redemption a/c | | 70000 |
| (Being amount to be set aside yearly for 4 years (incl interest)) | | |
| 4. Red debenture investment a/c | | 70000 |
| Bank a/c | | 70000 |

Being amount of yearly investment provided for to redeem the

Debenture for 4 years annually).

| | |
|--|---------------|
| 10% debenture a/c | 280000 |
| Debenture redeem a/c | 280000 |
| (Being redemption of 10% debentures | |
| 5. Bank a/c | 280000 |
| Red. Investment a/c | 280000 |
| (Being proceeds from the sale of redemption deb inv.a/c | |
| 6. deb. Red a/c | 280000 |
| Bank a/c | 280000 |
| (Being red. Of the debenture | |
| Fund a/c | 280000 |
| Capital a/c | 280000 |
| (Being capitalization of red. Funds in the books) | |