EDO UNIVERSITY IYAMHO

Department of Accounting

ACC 211: FINANCIAL ACCOUNTING I

COURSE CODE: ACC 211
COURSE TITLE: **FINANCIAL ACCOUNTING I**
NUMBER OF UNITS: 3 Units
COURSE DURATION: Three hours per week

COURSE LECTURER: Dr Alexander Dabor

INTENDED LEARNING OUTCOMES

At the completion of this course, students are expected to:

1. define underpinning concept of financial accounting;
2. understand all the underlying accounting convention and policies with to regard reporting;
3. differentiate between IFRSs and IASs; and
4. apply the IFRS in preparation of financial reports

COURSE DETAILS:

Week 1-2: Introduction to International reporting Standards and it road map
Week 3-4 Accounts for not-for- profit making organizations
Week 5-6: *Farmer's accounting*
Week 7-8*: Bill of Exchange*
Week9-10: Stock valuation
Week 11: *Final accounts.*
Week 12 *Revision*

RESOURCES

• **Lecturer's Office Hours:**
• Dr. Alexander Dabor, Tuesdays 12:30-2:30pm.
• Course **lecture Notes: http://www.edouniversity.edu.ng/oer/compsc/cmp122.pdf**

• **Books:**
• Dabor,E.L. (2011) Basic Business Accounting Edition, 2nd Benin City: Godhead press
• Igben. R. (2016) Financial Accounting Made Easy. Lagos: EL-Toda venture.

Assessments:
• Homework + assessments ~ 30% of final grade.
Exams:
• Final, comprehensive (according to university schedule): ~ 70% of final grade

Assignments & Grading

• **Academic Honesty:** All classwork should be done independently, unless explicitly stated otherwise on the assignment handout.
• You may discuss general solution strategies, but must write up the solutions yourself.
• If you discuss any problem with anyone else, you must write their name at the top of your assignment, labeling them "collaborators".
• **NO LATE HOMEWORKS ACCEPTED**
• Turn in what you have at the time it's due.
• All homeworks are due at the start of class.
• If you will be away, turn in the homework early.
• Late submission of assignments will not be accepted, but penalized according to the percentages given on the syllabus.

PREAMBLE:

What are IFRS Standards?

IFRS Standards constitute a globally recognised set of standards for the preparation of financial statements by business entities. IFRS Standards prescribe:

i. the items that should be recognised as assets, liabilities, income and expenses;
ii. how to measure those items;
iii how to present them in a set of financial statements; and
iv. related disclosures about those items.

I	IFRS Standards	Year of issue
IFRS 1	First-time Adoption of International FinancialReporting Standards	2003
IFRS 2	Share-based Payment	2004
IFRS 3	Business Combinations	2004
IFRS 4	Insurance Contracts*	2004

IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	2004
IFRS 6	Exploration for and Evaluation of Mineral Resources	2006
IFRS 7	Financial Instruments: Disclosures	2005
IFRS 8	Operating Segments	2006
IFRS 9	Financial Instruments	2014
IFRS 10	Consolidated Financial Statements	2011
IFRS 11	Joint Arrangements	2011
IFRS 12	Disclosure of Interests in Other Entities	2011
IFRS 13	Fair Value Measurement	2011
IFRS 14	Regulatory Deferral Accounts	2014
IFRS 15	Revenue from Contracts with Customers	2014
IFRS 16	Leases	2014
IFRS 17	Insurance Contracts	2017

for SMEs
The IFRS for Small and Medium-sized Entities
(IFRS for SMEs) 2015

How are standard developed ?

IFRS Standards are developed by the Board,which:

1. is an independent standard-setting board, overseen by a geographically and professionally diverse body of Trustees of the Foundation, which is publicly accountable to a Monitoring Board of public capital market authorities.

2.has (at 1 April 2017) 13 full-time members drawn from 12 countries and a variety of professional backgrounds. The members are appointed by, and accountable to, the Trustees of the Foundation, who are required to select the best available combination of technical expertise and diversity of international business and market experience.3. has a staff of approximately 150 people from 30 countries and is based in London, United Kingdom, with a small Asia-Oceania coordination office located in Tokyo, Japan.

4 is supported by the external IFRS Advisory Council, the Accounting Standards Advisory Forum (the ASAF), composed of national standard setters, and the IFRS Interpretations Committee (the Interpretations Committee) to offer guidance when divergence in practice occurs.

5. follows a thorough, open, participatory and transparent due process. engages with investors, regulators, business leaders and the global accountancy profession at every stage of the process.

well as all of the comments received from interested parties. • collaborates with the worldwide standard-setting community.

Accounts of Not-for – profit Organizations:

Definition not-for-profit organisations

The primary objective of any business organization is to make profit. However, there are some organisations that noncommercial and whose objective is beyond profit making but rather to promote the welfare of their members this types of organisations are known as Not-for-profit organistions. Examples of this kind of organization include: Churches, Boys, sports clubs, trade unions, consumer societies, political associations.

Accounts maintained by Not-for-organisations are-

1. **Receipt and payments account**: This account shows the cash and cash balances of the orgaanisation. Bank and cash balances are combined in this account. A receipt and payment account is a summarises cash book (cash and bank) for a given period. It is basically a picture of the cash dealings as in the cash book, analyzed and categorised under appropriate headings such opening and closing balances.

2. Income and expenditure account: This account is similar profit or loss. It reveals the surplus where the income is more than expenditure. The income and expenditure account excludes capital transaction but includes apportionment of capital transactions like deprecation

Trading Account: A trading account will be required where the not-for-profit is engaged in trading. The gross profit or loss is transferred and expenditure account. A gross loss is debited to the income and expenditure account while gross profit is credit.

Subscription account- The subscription account records due from members. Subscription is a compulsory by member of the organization

Proforma of subscription Account

Subscription account

	₦		₦
Balance b/d	A	Balance b/d	B
Income and expenditure	F	Cash	C
Balance c/d	E	Balance b/d	G
Balance b/d	D	Balance b/d	E

Illustration 1
Below is the cash book of oduduwa people's club

cash

	₦		₦
Balance b/d		Electricity	1,270
15,000		Equipment	11,130
Subscription	15,520	Wages	6,520
Donations	10500	Bank	10,000
Sales of tickets		Repair	1,480
4500		Communications	2,600
Loan-UBA	10,000	Stationary	400
Bank	8,000	Balance c/d	30,120
	.		63,520
	63520		

The bank statement showed a balance of ₦40,000 Cr as 1st November 2016 and the following deposit and withdrawals

	₦
Deposits:	
Donations	12,000
Disposal of fixture	3,000
Building fund	2,000
Cash	10,000

Withdrawals

Insurance	1,200
Motor vehicles	6,000
Cash	8,000
General expenses	2,000
Electricity	730

Solution

Prepared the Receipt and payment account

Oduduwa people

	₦		₦
Balance b/d(15000 +40,000)	55,000	Electricity(1270+730)	2,000
Subscription	15,520	Equipment	11,130
Donations(10,500+12,000)	22,500	Wages	6,520
Sales of tickets	4,500	Bank	10,000
Loan-UBA	10,000	Repair	1,480
Building fund	2,000	Communications	2,600
Disposal	3,000	Stationary	400
		Insurance	1,200
		Motor vehicle	6,000
		General expenses	2,000
		Balance c/d	79,190
			112520
	112520		

Illustration 2

Given the receipt and payment accounts of Oduduwa people's club in illustration 1 and with the following information. You are required to subscription account

	₦
Subscription in arrears at 1st November 2015	2,500
Subscription in advance at 31st October 2016	1,000
Subscription in arears at 31st October 2016	750
Subscription in advance at 1st November 2015	250

Subscription account

2015	₦	2015	₦
Nov 1 Balance b/d 0)	2,500	Nov 1 balance	250
Income and exp (bal fig)	13020	cash	15,520
Balance c/d	1,000	Balance c/d	750
	16520		16520
2016		2016	
Nov1 balance b/d	750	Nov 1	1,000

INVENTORY VALUATION

Definition: This is the process by which stocks or inventory are calculated. The major challenge in stock valuation is the various methods used in valuation such as expected selling, net realizable value NRV), historical cost and replacement cost.

The Institute of Chartered Accountants of India (ICAI) defines in Accounting Standard 2 inventories as tangible properties held :

a) For sale in the ordinary course of business, or

(b) In the process of production for such sale; or

(c) For consumption in the production of goods or services for sale, including maintenance supplies and consumables other than machinery parts

The inventory valuation is done at the end of each financial year in order to assess the operating performance (i.e., to find out profit or loss) and the financial position of the business (along with others of the business through the balance sheet).

Inventory method

There basically two most widely used inventory accounting system and they are:

1. **Perpetual**: The system involves accounting records to show the amount of inventory on hand at a point in time. It upholds a different account in the subsidiary ledger for each good in stock, and the account is updated each time a quantity is added or taken out.

Under this method separate stock ledgers are prepared for each of the items of inventory e.g., stores ledger, work in progress ledger, finished goods ledger. The inventory purchases and issues are recorded in these ledgers on a continuous basis.

2. **Periodic***:* In this system, physical inventory are taken at the end of the year to determine the cost of goods. It also refers to a system where stocktaking is usually done periodically; say once or twice in a year. It is actually done holding up purchases and sales for a day or two or a week. Under this method, the items of inventory are physically counted, weighed and verified thoroughly depending upon the nature of items.

Valuation of Inventory:

The method of inventory valuation is very important because it determines the amount of firm's investment in inventory and it influences the firm's reported income. In Financial accounting, the inventory is traditionally valued at lower of the cost or market value. On the other hand, in Cost accounting it is valued at cost of production.

Hence, the valuation of socks in two sets of books will be different and there will be difference in profits shown by financial and cost accounting records. This difference will be reconciled through a Reconciliation Statement.

Historical Cost:

The actual cost of raw materials, Work in Progress, and Finished Goods is the most logical method of valuing inventory. Cost Accounting (Records) Rules also provide that the inventory should be valued 'at cost'. Historical cost of inventories is the expenditure incurred for bringing inventory in a saleable condition.

Lower of the Cost or Market Price (LCM):

Under this method, the inventory is valued at cost or market price whichever is lower. The market price may be lower than the cost when the price levels of declining (during deflation) and the inventory may become obsolete because of technological and other changes, it is a conservative method. It shows a lower income than the income shown under the cost method.

However, when prices fluctuate, this method switches to period by period from cost to market price and vice versa. This reduces the usefulness of cost data for managerial analysis. It expects only losses but not gains.

Net Realizable Value Method:

This method is used for inventories, which are damaged or partly obsolete. Net realizable value means the estimated selling price less cost of completion. Normally the stock is valued at historical cost as the selling price will be less.

The loss incurred by writing down the stock to the net realizable value is adjusted to the profit and loss account. The inventory value, under this method, should not exceed the expected realizable value.

Stock pricing

Stock record shows the purchase price and the issue and the issue price of stock and the resulting balance. At what price should stock be issued and given variation in the purchase price of the same item of stock? There many methods for pricing stock. However, in this lecture we are restricted to three of the method to three, namely :

1.FIRST-IN-FIRST-OUT(FIFO)
2. LAST-IN-FIRST.OUT((LIFO
3. SIMPLE WEIGHTED AVERAGE

BILL OF EXCHANGE

A bill of change is an unconditional order in writing addressed by one to another, signed by the person giving it requiring the person to whom it is given to pay on demand or at a fixed or determinable future time, a sum certain in money to or to order of a specified person to bearer (Bill of Exchange Acts, 1882)

Drawer: This is the person who writes out the bill
Drawee: This the person to whom the bill is sent.

Types of bills
Inland Bill- This is drawn and payable without same country. It is used for domestic trade.
Foreign Bill- Foreign are used for international trade. They take form of documentary bills ie Bills with the shipping document
Accommodation bill- This is a bill is drawn one person to another not in return for consideration or value received by but merely to enable the drawer or some other person to raise money on the account of the good name of the acceptor. The drawer will on acceptance by the drawee discount the bill. They are also known as fictitious bill or windmill.

Dishonoured Bill – On maturity the holder of the bill present to acceptor. If the acceptor refuses to pay or is unable to pay, the bill is termed dishonor bill. A dishonoured bill restores the debt back to the debtor. A dishonoured bill will attract a noting charge to the debtor.

Discounted bill- A bill is said to be discounted where the holder sells it to his banker or a discount house before the date of maturity. Usually, the bank pays the holder an amount less than the face value of the bill. The difference between the amount received by the holder and the face value the bill is the discounting charge.

Bill payable - This is a liability in the books of the acceptor. It arises when the debtor accepts the bill. The acceptance of the bills transfer the liability “creditor” to another liability- bills payable “. When paid it is referred to bills payable.
Bill Receivable- This is an asset. When the bill is accepted, it is treated as a payment by the debtor. He is therefore credited and the bills received account is credited.

Retired Bill- A bill is said to be if it withdrawn on agreement of drawer and acceptor, before maturity. This may be because the acceptor is ready to pay before maturity. This may be because the acceptor is ready to pay before maturity or because he wants to avoid dishonouring the bill on the due day.When a bill is retired, it brings the books to the position before the acceptance of the bill.

Entries in the books of the creditor (Drawer)

1. On sale of goods on credit
   Dr Debtor
   Cr Sales
2. When the debtor accept the bill
   The entry (2) shows that an acceptance by the debtor of the bill is treated as if the debtor

actually paid

3. The holder(Who is also the creditor or the drawer) at this point can do any of the three things with the bill accepted. He may hold it to maturity, discount it or negotiate it with a third party

a) Where the creditor hold the bill to maturity.

i. On maturity

Dr. Bank

Cr. Bill receivable

If the acceptor honour the bill no further entry is required. However if he dishonours the bill, in addition to 3a(i) above an entry is required for the dishonoured of the bill.

ii) **On dishonor of the bill**

Dr debtor

Cr bank

This entry bring the books back to the situation before acceptance.

b) The creditor may negotiate the bill to a third party(the creditor of the drawer)

i) On negotiation of the bill

Dr. Third party

Cr. Bill receivable

If the bill is met by acceptor, no further entry is required. However if the bill is dishonored a further entry is required.

ii) On dishonor of the bill

Dr. Creditor (transferer)

Cr. Third party (transfee)

c. The creditor may discount the bill

i) *On discounting the bill*

Dr. Bank

Cr. Bill receivable

ii) Dr. Discounting charge

Cr. Bank (with the discounting charge)

iii) **. On dishonor of the bill discounted**

Dr Debtor

Cr Bank (with face value of the bill)

4. When bill is discounted it attracts a noting charge. This is the expense incurred by the bank to notify its customer of the dishonor of the bill. It is charge to customer by the banker but the customer transfer it to the debtor. The treatment of meeting charge would depend on whether the bill has been discounted, negotiated or held to maturity.

i) Where the bill is held to maturity and dishonoured, noting charge

Dr *Debtor*

Cr. *Bank*

ii) ***Where the bill and dishonored, for noting charge***

Dr. *Debtor*

Cr. *Transfee*

iii) *For noting charge where bill is discounted or dishonoured*

Dr. debtor

Cr. Bank

Note that in the books of the transferee or third party

Dr. Transferor

Cr. Noting charge for noting charge

5. The dishonor of a bill reverts the position of the bill to what it was before acceptance of the bill. However it is possible for the creditor to enter into a new arrangement with the debtor.

The new arrangement would normally requires the debtor to pay a part of the balance due and an interest charged on the remaining part. The balance is converted to bill of exchange.

	₦	
Balance due before dishonor of bill	x	
Add: Noting charge	x	
		x
Less: part payment in new arrangement		(x)
Balance due before interest		
Add: Interest charged		x
Value of new bill		x

6. *For interest on new arrangement*

   Dr. Debtor

   Cr. Interest income

7. For discount allowed

   Dr. Discount allowed

   Cr. Debtor

8. For discount written back on dishonoured bill

   Dr. Debtor

   Cr. Discount received

9. For discount received from third party

   Dr. Thirty party

   Cr. Discount received

10. For discount received withdrawn on bill negotiated.

    Dr. discount received

    Cr. Third party

Entries in the books of the acceptor

11. On purchase of credit

Dr. Purchase
Cr. Creditor

12. On acceptance of the bill
    Dr. Creditor
    Cr. Bills payable
13. For bill dishonored
    Dr. Bill payable
    Cr. Bank
14. On meeting the bill
    Dr. Bill payable
    Cr. Bank
15. For noting charge
    Dr. Noting charge
    Cr. Creditor(drawer)
16. For interest charge on new arrangement
    Dr. Interest expense
    Cr. Creditor
17. Note that the discounting of endorsement of the bill is the sole prerogative of the creditor and is not part of the agreement with the debtor. Hence, no entry is made in the book of the debtor for endorsement or discounting of the bill.
18. For discount received on acceptance of bill
    Dr. Discount allowed
    Cr. Creditor (drawer)
19. For discount received withdrawn on dishonor of bill
    Dr. Discount received
    Cr. Creditor

Illustration 1

Enter the following transaction in the journal of Ade

Jan1. Bought goods from Iyanu ₦10,000

Jan5. Sold goods from James ₦5,000

Jan6 Accepted bill from Iyanu for value received

Jan10. Iyanu accepted bill for ₦4,000 drawn by Ade

Jan 13. Ade discounted the bill of ₦10,000 and received ₦9,500

Jan 14 James accepted further ₦1,000 bill for balance of goods sold to him by Ade

Jan 21 The ₦4000 bill was discounted and amount received by Ade is ₦3800

Jan 30 The bill on the 14th was due for payment but was dishonoured James and a noting charge of amounted to ₦120

Feb.10. Bill of ₦4,000 discounted was dishonoured . Noting charge ₦100

Feb. 10 James paid half of amount with 5% interest per annum on the balance.

Feb. 10 Ade draw up a new bill on the balance due from James which he accepted.
It is in three month bill.

April 10. Endorsed the bill to Audu in full settlement of a debt of ₦3000

May 10. Bill on 10th April was dishonoured by James and noting charge of ₦120

May 10. James paid balance due by cash.

May 16. Met bill of the 6th of January.

Solution

Ade
General Journal

	Dr	Cr
Jan1 Purchase Iyanu Being purchase of goods from Iyanu on credit	₦10,000	₦10,000
Jan2 James Sales Being sale of goods to James	₦5,000	₦5,000
Jan6 Iyanu Bills payable Being acceptance of bill for value received	₦10,000	₦10,000
Jan10 Bill received James Being sale of goods to James	₦5,000	₦5,000
Jan13 No entry is required		
Jan14 Bill received James Being acceptance of bill by James	₦1,000	₦1,000

Jan21 Bank Bill Being bill discounted	₦4,000	 ₦4,000
Jan21 Discounting charge Bank Being discount charge	₦2,00	 ₦2,00
Jan30 Bank Bill received Being bill dishonor of N1000 and charge of N120 being dishonor of bill	₦1,000	 ₦1,000
Jan 30 James Bank Being bill dishonor of N,1000 and noting charge N120 being dishonored of bill	₦1,120	 ₦1,120
Feb10 James Bank Being bill dishonored	₦4,000	 ₦4,000
Feb10 James Bank Being noting charge for bill dishonor	₦100	 ₦100
Feb10 Bank James Being part payment of half the debt due	₦2,610	 ₦2,610
Feb 10 James Interest income Being interest charge on balance	₦326.5	 ₦326.25
Feb10 Bill receivable James Being acceptance of new bill by James	₦2936.25	 ₦2936.25
April 10 Audu Bill receivable	₦2,936.25	 ₦2,936.25

Being bill endorsed to Audu		
April 10 Audu Discount received Being discount recieved	₦63.75	₦63.75
May10 James Audu Being sale of goods to James	₦2,936.25	₦2,936.25
May10 Discount received Audu Being discount written back	₦63.75	₦63.75
May 10 James Bank Being noting charge	₦120	₦120
May 10 Cash James Being sale of goods to James	₦3,056.25	₦3,056.25
May 16 Bills payable Banks Being bill payable met	₦10,000	₦10,000