## **MINISTRY OF GENERAL EDUCATION**

# **KITWE DISTRICT**

# **PRINCIPLES OF ACCOUNTS**

### ---- TWELVE-----

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- 1. INCOMPLETE RECORDS OR SINGLE ENTRY
- 2. PARTNERSHIP ACCOUNTS
- 3. MANUFACTURING ACCOUNTS
- 4. ETHICS IN ACCOUNTING
- 5. INTERPRETATION OF FINAL ACCOUNTS

#### **INCOMPLETE RECORDS OR SINGLE ENTRY**

**Single entry** is a system of accounting in which only one aspect of a transaction is recorded. Some of the information is missing.

In find missing information, the following techniques can be used:

- ✓ The accounting equation (statement of affairs or balance sheet)
- ✓ Debtors and creditors control accounts
- ✓ The cash book
- ✓ The gross profit percentages.

Single entry records of accounts are records that have not observed the double entry system of book-keeping. Recorded only one side of account without observing the rule of double entry e.g sales of goods to Kalu recorded in Kalu's account.

Double entry is where records of accounts observes the rule of "debit the receiver and credit the giver". These are records that go through the prime entry books, the ledger and then extraction of Trial balance.

(1) The position of Mr Hakasenke as at 31<sup>st</sup> December 2016 was as follows

Premises	5 000
Plant and Machinery	3 000
Stock	6 500
Debtors	8 750
Cash at bank	1 500
Creditors	9 375

On 1<sup>st</sup> January 2016, his capital was 27 000 and during the year his drawings amounted to 2 500. He paid into his business 1 000 which was the sale proceeds of his private car.

Prepare the statement of affairs and ascertain his profit or loss for the year.

#### **Solution**

Statement of affairs as at 31 <sup>st</sup> December, 2016 (Balance Sheet)						
FIXED ASSETS	COST	DEP	NBV			
Premises	5 000	00	5 000			
Plant and machinery	3 000	00	3 000			

#### Mr Hakasenke tatement of affairs as at 31<sup>st</sup> December, 2016 (Balance Sheet)

	8 000	00	8 000
CURRENT ASSETS			
Stock			
Debtors		6 500	
Cash at bank		8 750	
		1 500	
		16 750	
CURRENT LIABILITIES			
Creditors		9 375	
Working Capital		-	7 375
			15 375
FINANCED BY	27 500		
Opening capital	27 500		
Add additional capital	1 000		
Loss Net Loss		28 500	
Less Net Loss		17 075	
Loss Drawings		1/ 8/5	
		2 500	15 275
		•	13 373

Profit as an increase in capital

This year's capital last year's capital

Net profit = K3,000 K2,000

Therefore the profit will be **<u>K1,000</u>** 

If drawings hand been for instance K700

The profit must have bee K1700

Last year capital + profits - drawings = this year capital

K2,000 + X - 700 = K3,000

K2,000 = X - 700 = K3,700

= 2,000 + X = 3,700

= X = 3,700 - 2,000

= X = 1,700

The statement of affairs is a balance sheet at the beginning of a Trading period. Prepared using the word equation;

Opening Capital + Profit – Drawings = Closing Capital

Calculation of purchases and sales J. Kawaya lost the whole of his stock in fire on 17<sup>th</sup> March 2017.

The last time that a stock taking had been done was on 31<sup>st</sup> December 2016. The last balance sheet date, when stock was valued at cost @1950, purchases from then until 17<sup>th</sup> March 2017 was 6,870 and sales in that period were K9,600. All sales were made at a uniform gross profit margin of 20 per cent.

The fracing account can be drawn norm known			
	<u>K</u>	<u>K</u>	<u>K</u>
Sales			9,600
Less: <u>Cost of Sales</u>			
Opening stock		1,950	
Purchases		6,870	
Less: Closing stock		8,820	
Cost of sales		C ( )	
Gross profit			В()
			A?
Workings			
(a) Gross profit = $\frac{20}{100} \times 9,600$			
= 1,920			
(b) 9,600 – 1,920 = 3,680			
(c) Closing stock = 8,820 – 7680 =		1,140	
Cost of goods avails able – cost of sales			
	•		

#### The Trading account can be drawn from known

#### **GROSS MARGINS AND MARK UPS**

Some incomplete records questions involve the relationship between sales, cost of sales and gross profit. Using this relationship and provided the gross profit percentage is given any of the three items can be computed.

#### **Gross Profit Percentages**

Gross profit can be written or expressed either as percentage of sales or as a percentage of cost of sales. When gross profit is expressed as a percentage of sales, it is known as the **Margin**. Whereas when gross profit is expressed as a percentage of cost of sales, it is known as the Mark Up.

- Margin is gross profit percentage on sales
- Mark up is gross profit percentage on cost price i.e cost of sales

#### Relationship between margin and mark up

Both mark up and margin are profit percentages of difference amount. Therefore if one is known then the other can be calculated or found. e.g Mark up then margin

Where 1/4 + 1 = 1/5 or 1/4 = 1/5 - 1

Convention to margin from mark up and the vice versa

#### <u>Example</u>

Moonga a sole Trader has provided you with the following information relating to the year ended 31-12-2014.

(a) He has not made a note of cash drawings or cash receipt/received. The following items were paid from taking profit prior to banking.

Purchases760Sundry expenses400

(a) Moonga as estimated that his gross profit percentage is 25% on cost. Calculate Moonga's profit for fee year.

Calculate Moonga's net profit for the year.

#### Moonga's Income statement for the year ended

	<u>K</u>	<u>K</u>	<u>K</u>
Sales			950
Less: Cost of sales			
Purchases			760
Gross profit			190
Less: Expenses			
Sundry expenses			400
Net loss			(210)

#### PARTNERSHIP ACCOUNTS

A partnership business is a business run by two or more like minded individuals with a view of making profit. The people (individuals) who own the partnership are called partners.

#### Purpose for individuals entering into partnership

- (i) Increased capital
- (ii) Sharing of business ideas
- (iii) Divisions of labour/sharing of responsibilities.

#### **Partnership Agreement:**

- When a partnership business is to be formed the parties involved should draw up an agreement which should stipulate the concerns on how the partnership should be formed and run. The concerns that need to be addressed in this agreement may include
  - Partners capital contributions
  - Interest on capital to be earned by the partners if any
  - Interest on drawing if any
  - Salaries if any to partners
  - Procedures to follow when
    - (i) Admitting a new partner
    - (ii) When a partner dies
    - (iii) When a partner retires

Thus a partnership agreement or partnership deed is an agreement made by the partners stipulating the conditions regarding the running of the business.

• Where partners do not want to draw up their own partnership agreement, they can follow the partnership Act of 1890.

#### Where no Partnership agreement Exists:

In partnership business where no partnership agreement exists the following occurs

- (i) Profit and loss are to be shared equally
- (ii) There is to be no interest on capitals
- (iii) No interest is to be charged on drawings
- (iv) Salaries are not allowed.

#### Final accounts for partnership business

- Income statement (Trading and profit and loss Account)
- Profit and loss appropriate Account
- Balance sheet
- > The income statement for the partnership is exactly the same as the one you already know for the sole trader.
- The balance sheet for the partnership business is also same as for the sole trader with a small difference only on the financed by.

#### **New Items**

The only new items on partnership is the preparation of the partnership profit and loss appropriation Account and the partners current accounts.

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#### **Profit and Loss appropriation Account.**

This is an account in which the profit or loss made in the partnership business are distributed/shared amongst the partners.

#### Contents of profit and loss appropriate Account

- (i) Profit for the year
- (ii) Interest on drawings
- (iii) Interest on capitals
- (iv) Salaries to partners
- (v) Share of residues

#### **Drawings:**

These are goods, money, expenses taken out of business for personal use. Drawing reduces the capital of the business. If partners are making unnecessary drawings the partnership business may eventually collapse as all the capital may be finished. Thus to prevent unnecessary drawings, interest on drawings are charged.

#### **Interest on Drawings**

This is a charge to partners on the drawings made which is usually a percentage (%) on the drawings made or a fixed figure. The purpose of the interest on drawings is to deter/prevent unnecessary drawings. All the partners that have made drawings should be charged with interest on drawings if it is the firms policy to charge.

#### **Interest on Capitals:**

This is a reward that partners earn for the capital contribution they made in firm. The interest on capital is usually a percentage (%) of the capitals each partner contributed. Interest on capitals is earned by all the partners.

#### Salaries to partners:

There are basically two types of partners, an active partner and sleeping partner/dormant partner. An active partner is one who is actively involved in the running of the business and for his/her active involvement in the running of the business gets a salary, while a sleeping partner is not actively involved in the running of the business and should not get any salary. Only active partners get a salary.

#### Share of residues:

The remaining profits after are the rewards/earnings have been appropriate is what are called residues and these are shared in the given profit and loss sharing ratios. In an event where profit and loss sharing ratios are not given the partners should share the residues according to the capital contributed by each partners. All the partners get a share of residues.

#### A and B Partnership Profit and Loss appropriation Account For the year ended 31 Dec 2016

For the year chue	u 31 Dec 2010			
Details		Dr	Cr	
Not profit				
Interest in drawing	s A		Х	
	В		Х	a=K100000
Interest on capitals	А	x		5
	В	x	·	b=К70 000
	В	x		
Salary		-		
Share of residues	А			
	В			
		70 000	<u>100 000</u>	

The partners A and B shares profit and loss in the ratio 3:2 and assuming the total Cr side (a) = K100 000 and the total Dr side (b) = 70 000.

Complete the tables by calculating what each person will get as a share of residue.

#### **Calculations**

Residues =  $100\ 000 - 70\ 000 = K30\ 000$ A's share of residues =  $\frac{3}{5} \times 30\ 000 = K18\ 000$ B's share of residues =  $\frac{2}{5} \times 30\ 000 = K12\ 000$ 

Details		F	Dr	Cr
Net profit		b/d		Xx
Interest on drawings	А			Х
	В			XX
Interest on capitals	А		XX	
	В		XX	
Salary	В		XX	
Share of residues	А		18000	
	В		12000	
			100 000	100 000

#### **Question one**

Niza and Taonga were in partnership sharing profits and losses equally. The following Trial Balance was extracted from their books on 31 December 2008.

	Dr	Cr
	Κ	Κ
Capitals: Niza		28 000
Taonga		14 000
Drawings: Niza	6 800	
Taonga	4 400	
Rent received		156
Furniture and Fittings (cost K1 759)	1 360	
Opening Stock	21 000	
Trade debtors/Trade creditors	16 328	14 380
Purchases/Sales	152 000	206 000
Wages and Salaries	25 454	
Freehold property	18 500	
General expenses	9 832	
Discounts	4 154	
Cash at Bank	2 408	
Rates	300	
	262 536	262 536

The following information was also available on 31 December 2008:

- (a) Closing stock was valued at K23 500;
- (b) Interest on capital was to be credited to the partner's Current Accounts at 5% per annum.
- (c) Interest on drawings was to be charged as follows:
  - Niza K170
  - Taonga K110
- (d) Wages and salaries due amounted to K304;
- (e) Rent received included K26 for the following year
- (f) Furniture and fittings were to be depreciated at 10% per annum on cost.
- (g) Niza is entitled to a salary of K2000 per annum
- (h) Provision for bad debts is to be 10% of debtors.

#### Required:

- (i) The partnership Trading and Profit and Loss Accounts
- (ii) The partnership Appropriation Account for the year ended 31 December 2008, and the Current Accounts.
- (iii) The Balance Sheet as at 31 December 2008.

#### Niza and Taonga Partnership Trading and Profit and Loss Account

For the year ended 31 Dec 2008			
Details	K	К	К
Sales			206 000
Less: Cost of Sales			
Opening Stock		21 000	
Add: purchases		152 000	
Total cost of goods available for sale		173 000	
Less: closing stock		23 500	
Cost of sales			<u>149 500</u>
Gross profit			56 500
Add: other gains			
Rent received		156	
Less: rent received in advance		26	130
Total Income			56630
Less : Expenses			
Wages and Salaries	25 454		
Add: wages and salaries due	304	25 758	
General expenses		9 832	
Discount allowed		4 154	
Rates		300	
Furniture and fittings $[^{10}/_{100} \times 1759]$		175.9	
Provision for Bad debts		1 632.8	
Total expenses			41 852.7
Net profit			14 777.3

#### **Profit and loss appropriation accounts**

Net profit		b/d		14 777.3
Interest on drawings: Niza				170
Taonga				110
Interest on capitals: $(5/100 \times 28000)$ Niza			1 400	
: ( <sup>5</sup> / <sub>100</sub> x 14000 ) Taonga			700	
Salary	Niza		2 000	
Sharing residues	Niza		7 304.87	
	Taonga		3 652.43	
			<u>15 057.3</u>	<u>15 057.3</u>

#### **Current Accounts**

		Niza		Taonga	
Details		Dr	Cr	Dr	Cr
Drawings		6 800		4 400	
Interest on drawings		170		110	
Interest on capitals			1 400		700
Salary			2 000		
Share of residues			7 304.87		3 652.43
Balances	c/d	3 734.87			157.57
		10 704.87	10 704.87	4 510	4 510
Balance	b/f		3 734.87	157.57	

Workings Share of residues

Niza <u>28 000</u> x 10 957.3 = **K3 734.87** 42 000

Taonga <u>14 000</u> x 10 957.3 = **K3 652.43** 42 000

#### NIZA AND TAONGA PARTINERSHIP BALANCE SHEET AS AT 31<sup>ST</sup> DECEMBER, 2008

Details	Cost	Dep	NBV
Non – Current Assets			
Fee lad Premises	18 500		18 500
Furniture and fittings	<u>1 759</u>	<u>574.9</u>	<u>1 184.1</u>
	<u>20 759</u>	<u>574.9</u>	19684.10
Current Assets:			
Stock		23500	
Debtors	16328		
Less: provision for Bad debts	<u>1632.8</u>	14695.2	
Bank		<u>2408</u>	

Total current Assets		40603.2	
Less: Current Liabilities			
Creditors	14380		
Wages and Salaries due	304		
Rent received due	<u>26</u>	<u>14710</u>	<u>25893.2</u>
Working capital		-	45577.3
Net assets			
Financed by	<u>NIZA</u>	TAONGA	
Fixed Capitals	28 000	14 000	
Current accounts	3734.87	(157.57)	
	31 734.87	13842.43	
Capital employed			45577.3

#### **Question 2**

Mvula and Mubanga are in partnership. The following is extracted from their books at 31/12/09.

	K
Premises	6 000 000
Fixtures and fittings	4 500 000
Capital accounts: Mvula	6 000 000
Mubanga	6 000 000
Current Accounts: Mvula (DR)	100 000
Mubanga (CR)	150 000
Drawings: Mvula	800 000
Mubanga	900 000
Creditors	5 000 000
Provision for bad debts bf	250 000
Debtors	8 000 000
Net Profit	5 000 000
Cash in hand	700 000

The following additional information is made available at 31/12/09:

- (i) Stock at 31/12/09 was K2 800 000.
- (ii) Depreciate fixtures and fittings at 10 percent per annum.
- (iii) Interest on partners' capitals to be at 5 percent.
- (iv) Mvula is entitled to a salary of K500 000.
- (v) Wages accrued K400 000.
- (vi) Partners to share profits equally.
- (vii) Provision for bad debts to be equal to 10 per cent of debtors

#### **Required:**

- (a) Prepare the profit and loss appropriation account for the year ended 31/12/09
- (b) Show the current accounts for the partners as they would appear at that date. These accounts may be shown separately in table form.
- (c) Prepare the partnership balance sheet as at 31/12/09

#### Solution

#### Mvula and Mubanga Partnership Profit and loss appropriation account For the year ended 31 December 2009

Details	Dr	Cr
Net profit		5 000 000
Interest on capitals : Mvula $({}^{5}/{}_{100} \times 6\ 000\ 000)$	300 000	
Mubanga ( <sup>5</sup> / <sub>100</sub> x 6 000 000)	300 000	
Salary: Mvula	500 000	
Share of residues : Mvula $\left(\frac{3\ 900\ 000}{2}\right)$	1 950 000	
$Mubanga\left(\frac{3900\ 000}{2}\right)$	1 950 000	
	5 000 000	5 000 000

#### Mvula Current Account

Details		Mvula	
		Dr	Cr
Balances	b/f	100 000	
Drawings		800 000	
Interest on capitals			300 000
Salary			500 000
Share of residues			1 950 000
Balances	c/f	<u>1850 000</u>	
		2 750	2 750
Balances	b/d		1 850 000

#### Mubanga Current Account

Details		Mubanga	
		Dr	Cr
Balances	b/f		150 000
Drawings		900 000	
Interest on capitals			300 000
Salary			
Share of residues	10		1 950 000
Balances	c/f	<u>1 500 000</u>	
		2 400 000	2 400 000
Balances	b/d		1 500 000

#### Mvula and Mubanga Partnership Balance sheet As at 31 Dec 2009

Detaile	COST	DED	NDV
Details	COST	DEP	
Fixed Assets			
Premises	6 000 000	-	6 000 000
Fixtures and Fittings	4 500 000	450 000	4 050 000
	1 050 000	450 000	10 050 000
Current Assets			
Stock		28 000 000	
Debtors	8 000 000		
Loss:Provision for Bad debts (10/100 x 8000	800 000	7 200 000	
000)		2 100 00	
Cash		10 700 000	
Total Current Assets			
Less Current Liabilities	5 000 000		
Creditors	400 000		
Wages and Salary accrued	100 000	5 400 000	
Total Current Liabilities		<u>5 400 000</u>	5 300
Working conital			<u>5 500</u> 15 350
Working Capital			<u>13 330</u>
Net assets.		14.1	
	<u>Mvula</u>	<u>Mubanga</u>	
Financed by:	6 000 000	6 000 000	
Capital	<u>1 850 00</u>	<u>1 500 000</u>	
Current accounts	7 850 000	7 500 000	
Capital employed			<u>15 350</u>

#### NOTE:

(i) Salary to partners need not be shown in the profit and loss and Balance but only shown in the profit and loss appropriation account.

#### MANUFACTURING ACCOUNTS

**Def**. Manufacturing accounts is an account that collects together all cost involved in production to determine the production costs of goods completed.

#### **1.1. Explain the type of costs**

Summarily, there are two types of costs in the manufacturing accounts namely,

- i. **Direct Costs** these are costs that can be directly identified with each unit of production
  - Direct materials ( raw materials),
  - Direct labour (e.g. wages paid to those working on machinery or assembly of products) and
  - Direct expenses (direct expenses like carriage inwards on raw materials), implying (all those costs involved in production that are traceable to units of goods produced)

The total direct costs incurred in a year is called Prime Cost

ii. Indirect cost – these are other costs that cannot be identified with each unit of production.
 Production overheads are all cost incurred in the factory but can't be easily traced to the units of goods produced.

Prime costs are added to production overheads to give us the Production Cost.

#### **1.2. Identify Types of Manufacturing Goods.**

- i. **Raw materials** (e.g. opening stock, purchases)
- ii. **Finished goods** (refer to goods produced)
- iii. Work-In-Progress (goods partly completed at the start of the of the accounting period is called **opening work-in-progress** and the at the end of the accounting period called **closing work -in- progress**)

#### **1.3.** Prepare manufacturing accounts

#### **Question 1**

Trial balance as at 31 December 2014

	Dr	Cr
	Κ	Κ
Stock of raw materials 01/01/2014	2,100	
Stock of finished goods 01/01/2014	3,890	
Work in progress	1,350	
Wages (direct K18,000; factory indirect K14,500)	32,500	
royalties	700	
Carriage inwards	350	
Purchases of raw materials	37,000	
Productive machinery (cost K28000)	23,000	
Office equipment (cost K2000)	1,200	
General factory expenses	3,100	
Lighting	750	
Factory Power	1,370	
Administrative salaries	4,400	
Salesman salaries	3,000	
Commission on sales	1,150	
rent	1,200	

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insurance	420	
General administrative expenses	1,340	
Bank charges	230	
Discount allowed	480	
Carriage outwards	590	
Sales		100,000
Debtors and creditors	14,230	12,500
bank	5,680	
cash	150	
drawings	2,000	
Capital 01/01/2014		29680
-	<u>142,180</u>	<u>142,180</u>

#### Notes at 31<sup>st</sup> December 2014

- 1. Stock of raw materials K 2,400, stock of finished goods K4,000, work in progress K 1,500
- 2. Lighting, rent and insurance are to be apportioned: factory5/6, administration 1/6
- 3. Depreciation on productive and office equipment at 10% per annum on cost.

#### Required:

- i. Prepare the manufacturing account
- ii. Trading profit and loss account for the year ended December 2014
- iii. The balance sheet as at 31<sup>st</sup> December 2014

#### Manufacturing, trading, profit and loss account for the year ended 31<sup>st</sup> December 2014

	Κ	K	Κ
Opening stock of raw materials		2,100	
Purchases of raw materials	37,000		
Add: carriage inwards	<u>350</u>		
Net purchases of raw materials		<u>37,350</u>	
Raw materials available for the period		39,450	
Less: closing stock of raw materials		2,400	
Cost of raw materials consumed			37,050
Direct labour			18,000
Royalties			<u>700</u>
Prime cost			55,750
Factory Overheads Expenses			
General factory expenses		3,100	
Lighting 5/6		625	
power		1,370	
Rent 5/6		1,000	
Insurance 5/6		350	
Depreciation of plant		2,800	
Indirect labour		<u>14,500</u>	
			23,745
			79,495
Add opening work in progress			<u>1.350</u>
			80,845
Less closing work in progress			<u>1,500</u>
Production cost of goods completed			<u>79,345</u>

Trading and Profit and loss account For the year ended

Sales			
Opening stock of finished goods		3,890	
Add production cost of goods completed		79,345	
		83,235	
Less closing stock of finished goods		<u>4,000</u>	
Cost of goods sold			<u>79,235</u>
Gross profit			20,765
Less expenses			
Administration expenses			
Administrative salaries	4,400		
Rent 1/6	200		
Insurance 1/6	70		
General expenses	1,340		
Lighting 1/6	125		
Depreciation of accounting machine	200		
		6,335	
Selling and distribution expenses			
Salesmen salaries	3,000		
Commission on sales	1,150		
Carriage outwards	<u>590</u>		
-		4,740	
Financial charges			
Bank charges	230		
Discount allowed	<u>480</u>		
		710	
			<u>11,785</u>
Net profit			<u>8,980</u>

#### Balance sheet as at 31.12.2014

	К	Κ	K
Fixed assets	Cost	Dep.	N.B.V
Production machinery at coast	28,000	7,800	20,200
Accounting machinery at cost	2.000	1,000	<u>1,000</u>
	30,000	8,800	21,200
Current assets			
Stock-raw materials		2,400	
Stock- finished goods		4,000	
Work in progress		1,500	
Debtors		14,230	
bank		5,680	
cash		<u>150</u>	
		27,960	
Less current liabilities			
Creditors		12,500	
Working capital			<u>15,460</u>
			<u>36,660</u>

Less: drawings	<u>2,000</u>
	38,660
Add: net profit	8,980
Capital	29,680
Financed by:	

#### **Question 2**

The following information has been extracted from the books of major manufacturing company for the year to 30<sup>th</sup> September 2015:

Stock at 1 <sup>st</sup> January 2015:	
Raw materials	7,000
Work in progress	5,000
Finished goods	6,900
Purchases of raw materials	38,000
Direct labour	28,000
Factory overheads:	
variable	1,600
Fixed	9,000
Administrative expenses:	
Rent and rates	1,900
Heat and light	6,000
Stationary	2,000
Staff salaries	19,380
sales	192,000
Plant and machinery:	
At cost	30,000
Provision for depreciation	12,000
Motor vehicles (for sales delivery)	
At cost	16,000
Provision for depreciation	4,000
creditors	5,500
debtors	28,000
drawings	11,500
Balance at bank (Dr)	16,600
Capital at 1 <sup>st</sup> January 2015	48,000
Provision for unrealised profit at 1 <sup>st</sup> January 2015	1,380
Motor vehicle running costs	4,500

#### Additional information:

- 2. The factory is transferred to the trading account at the factory cost plus 25% for factory profit. The finished goods stock is valued on the basis of amount transferred to the debit of the trading account.
- 3. Depreciation is provided annually at the following percentages of the original cost of fixed assets held at the end of each financial year.

Plant and machinery..... 10%

Motor vehicles..... 25%

4. Amount accrued due on 31<sup>st</sup> December 2004 for direct labour amounted to K3,000 and rent rates prepaid at 31<sup>st</sup> 2004 amounted to K 2,000

#### Required

Prepare the manufacturing, trading, profit and loss account for the year ended 31<sup>st</sup> December 2004, and the balance sheet as at that date.

Note: the prime cost and factory cost should be clearly shown.

#### Manufacturing, trading profit and loss account for the year ended 31st December 2004

Raw materials:		
Opening stock	7,000	
Purchases	<u>38,000</u>	
Total stock available	45,000	
Less: closing stock	<u>9.000</u>	
Cost of raw materials consumed		36,000
Direct labour:		
Wages	28,000	
Add: wages accrued	<u>3,000</u>	
		<u>31,000</u>
Prime cost		67,000
Add: factory overheads:		,
Variable	16,000	
Fixed	9,000	
Depreciation- plant and machinery	3,000	
		28,000
		95,000
Add: opening work in progress		5,000
		100,000
Less: closing work in progress		8,000
Factory cost		92,000
·		
Market value		115,000
Less: factory cost		92,000
Manufacturing profit		23,000
sales		192,000
Opening stock	6,900	
Market value	115,000	
	121,900	
Less: closing stock	<u>10,350</u>	
-		<u>111,550</u>
Gross profit on trading		80,450

Add: profit on manufacturing

<u>86,380</u>

			105,450
Less: expenses:			
Rent and rates	19,000		
Less: prepayments	<u>2,000</u>		
		17,000	
Provision for unrealised profit (w1)		690	
Heat and light		6,000	
Stationery and postage		2,000	
Staff salaries		19,380	
Depreciation – motor vehicles		4,000	
Motor vehicle running costs		4,500	
Total expenses			<u>53,570</u>
Net profit			<u>49,880</u>
Balance sheet as at 31 <sup>st</sup> December 2	2004		
	COST	DEP.	N.B.V
Fixed assets			
Plant and machinery	30,000	15,000	15,000
Motor vehicles	16,000	8,000	8,000
	46,000	23,000	23,000
Current assets			
Stock- raw materials		9,000	
Work in progress		8,000	
Finished goods	10,350		
Less: provision for unrealised profit	2,070		
· ·		8,280	
Debtors		28,000	
Cash at bank		16,600	
Rent and rates prepaid		2,000	
		71,880	
Less: current liabilities		·	
Creditors	5,500		
Direct labour accrued	<u>3,000</u>		
		8,500	

Working capital	<u>63,380</u>
Net assets	<u>86,380</u>
Financed by:	
capital	48,000
Add net profit	<u>49,880</u>
	97,880
Less drawings	<u>11,500</u>

#### Working s 1

#### Provision for unrealised profit account

Balance c/d k	K 2,070	Balance b/d	K 1,380
		Profit and loss account	<u>K 690</u>
	<u>K 2,070</u>		<u>K 2,070</u>

#### 4 ACCOUNTING ETHICS

Explain the ethics in accountancy?

<u>Ethics</u> – Ethics are the set of moral principles that guide a person behavior. The word ethics is commonly used interchangeably with morality and sometimes it is used to mean the moral principles of a particular tradition, group or individual.

Ethics in accountancy refers to a set of beliefs about what is right and wrong in the accountancy professional. There are a number of them to which professional accountants should comply with such as:

- (1) <u>Integrity</u> This is an important fundamental element of the accountancy profession. It imposes an obligation on all professional accountants to be straight forward and honest in professional and business relationship. Integrity also implies fair dealing and truthfulness. Accountants should avoid or restrict themselves from personal gain and intentional opportunity to deceive and manipulate financial information.
- (2) <u>Trustworthy</u>: trust is a fundamental relationship between client and the professional accountant. A trustworthy person is someone in whom you can place your trust and rest assured trust shall not be betrayed.
- (3) Discipline

These are impositions of obligations on an accountant to comply with relevant laws and regulations

- (4) Honnest Allows investors and other stakeholders to trust the information received.
- (5) Accountability a answering or accounting for your actions
- (6) <u>Confidenciality</u> the accountant should not disclose any important information to third parties.

#### **IDENTIFY EFFECTS ON NON ADHERENCE TO ETHICS**

The following are the effects

- i. Corruption
- ii. Fraud
- iii. Money laundering
- iv. Embezzlement
- v. Breach of confidentiality
- vi. Betrayal of trust

#### Corruption

This is the abuse of entrusted power for private gain

Fraud

This is intentional manipulation of financial statement to create a positive picture to deceive people.

#### **Money laundering**

Process of making illegally earned money appear clean by carrying out certain cleansing activities

#### Embezzlement

Misappropriation of company funds by a person entrusted to be the custodian of funds.

#### **Breach of confidentiality**

The accountant gives confidential information to competitors.

#### Questions

- 1. Which of the following is one of the ethics in accounting?
  - a) Trustworthy
  - b) Double entry
  - c) Consistency
  - d) Realisation
- 2. Which of the following is one of the effects of non-compliance to accountancy ethics
  - a) Embezzlement
  - b) Contra entry
  - c) Objectivity
  - d) Dual aspect
- 3. Explain the benefits of the company of adherence to ethics in accountancy [5]

Objectivity Contra entry

#### INTERPRETATION TO FINAL ACCOUNTS

#### **INTERPRETATION OF FINAL ACCOUNTS**

- > Explain the importance of accounting ratios and percentages
- Explain the various accounting ratios and percentages
- Calculate various ratios/ percentages

#### 1.0. Importance of Accounting Ratios /Percentages

- i. Both ratios and percentages are critical to help understand financial statements,
- ii. Determining whether the business is moving in right direction and ascertain the business profitability
- iii. For identifying trends overtime
- iv. For measuring the overtime
- v. For measuring the overall financial state of the business.
- vi. In addition, lenders and potential investors often rely on ratio analysis when lending and investing decisions.

#### **1.1. Various Accounting Ratios**

#### a) Return On Capital Invested (ROCE)

This is the percentage amount that a company is making for every percentage point over the cost of capital or is the percentage that a business makes over its investments capital.

#### b) Return on Capital Employed

This is the profitability ratio that measures how efficiently a company can generate profits from its company employed by comparing net operating profit to capital employed.

#### c) Acid Test Ratio

This is a measure of how well a business can meet its short term financial liabilities.

#### d) Liquidity Ration

This is an indicator of whether a company's current assets will be sufficient to meet the company's obligations when they become due.

#### e) Capital Employed

The total capital collected in a firm's fixed and current assets viewed from the funding side, it equals stock holders' funds (equity capital) plus long term liabilities (loan capital), viewed from the assets side, it equals fixed assets plus working assets.

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#### f) Working Capital

This is the cash available for day to day operations of an organisations. It is also called current capital.

#### g) Creditors/ Purchases Ratio

Determines the rate at which a business pays off its creditors. It is sometimes called creditors turnover ratio

#### h) Debtors/ Sales Ratio

It is s the relationship between net sales and average debts. It is also called debtors turnover ratio.

#### i) Rate of Stock Turn or Turnover

Is stock metric that measures the rate at which the stock is used

j) Turnover

Is the number of times an asset (such as cash, stock, raw materials) is replaced or revolved during an accounting periods.

#### **1.2.** Calculate The Following Ratios

1.2.1.	Gross profit percentage of sales	$=\frac{315,000}{555,000} \times \frac{100}{1} = 56.8\%$
1.2.2.	Net profit as a percentage of sales	$=\frac{100,000}{555,000} \times \frac{100}{1} = 18\%$
1.2.3.	Expenses as a percentage of sales	$=\frac{215,000}{555,000} \times \frac{100}{1} = 38.7\%$
1.2.4. Av	Rate of stock return $\left(\frac{cost \ of \ goods \ sold}{average \ stock}\right)$ erage stock = $(closing \ stock + opening)$ 2	$= \frac{240,000}{(100,000+60,000)/2} = 4.4 \text{ Times}$

#### Example

#### KIMS Trading Profit and Loss Account for The Year Ended 31,12,2012

Sales		555,000
Opening stock	100,000	
Add: purchase	<u>200,000</u>	
Total goods available	300,000	
Less: closing stock	<u>60,000</u>	
Cost of sales		<u>240,000</u>
Gross profit		315,000
Less: expenses		
Depreciation	5,000	
Wages, salaries & commissions	105,000	
Other expenses	45,000	
-		215,000

#### KIMS balance sheet at that date

Fixed Assets	Cost	Dep	NBV
equipment	<u>50,000</u>	<u>40,000</u>	10,000
Current assets			
Closing stock		60,000	
debtors		125,000	
Bank		25,000	
		210,000	
Less: Current Liabilities			
Creditor		104,000	
Working capital			<u>106,000</u>
Net assets			<u>116,000</u>
Financed By:			
capital		76,000	
Net profit		100,000	
		176,000	
Less: Drawings		<u>80,000</u>	
Capital owned			9,600
Add: Long Term Liabilities			
Loan			20,000
Capital employed			<u>116,000</u>

1.2.5.	Rate of Return On Capital EmployedI.E.net profit100	$=\frac{100,\ 000\ x\ 100}{(76,000+96,000)} \div 2 = \underline{104.2\ \%}$
	capital employed $\div$ 1	
1.2.6.	Current Ratio I.E. <u>current assets</u> current liabilities	$=\frac{210,000}{104,000}=\underline{2.02}$
1.2.7.	Acid Test Ratio I.E. $\frac{current \ assets - closing \ stock}{current \ liabilities}$	$=\frac{210,000-60,000}{104,000}=\underline{1.4}$
1.2.8.	<b>Debtor / Sales Ratio</b> <b>I.E.</b> $\frac{debtors \ x \ 12 \ moths}{sales}$	$=\frac{125,000}{555,000}=\underline{2.7 \text{ months}}$

1.2.9. Creditors / Purchases Ratio I.E.  $\frac{creditors \ x \ 12 \ months}{purchases}$   $=\frac{104,000 \ x \ 12 \ months}{200,000} = \underline{6.24 \ months}$