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## Section A: Theory of Financial Accounting

### Question 1

1. Identify **three** books of account from which entries are made into control accounts.
2. State **two** uses of control accounts.
3. List **four** items **each** which would be recorded on the debit side of:
  - (i) *Purchases Ledger Control Account;*
  - (ii) *Sales Ledger Control Account.*

---

## Observation

The 1(a) and 1(b) aspect of the question on control account candidates gained reasonable marks as they were able to provide some reasonable answers to the question. Thus, candidates who attempted this question performed fairly. However, candidate mixed up their responses in 1(c) as they could not adequately separate items on the debit side of purchases ledger control account from that of the sales ledger control account.

Some of the expected responses were:

1. (a) ***Books of account from which entries are made into control accounts:***
  - Sales Day Book or Sales Journal or Sales Book;
  - Purchases Day Book or Purchases Journal or Purchases Book;
  - Returns Inwards Book or Sales Returns Journal;
  - Returns Outwards Book or Purchases Returns Journal;
  - Cash book;
  - Petty cash book;

- General Journal or Journal Proper;
- Bills Payable Book;
- Bills Receivable Book;
- General Ledger.

**(b) Uses of Control Accounts**

*They are used to:*

- i. locate errors easily;
- ii. check the work performed by the accounts clerks;
- iii. show the arithmetical accuracy of the individual accounts in the ledgers;
- iv. prepare interim accounts;
- v. group homogenous accounts;
- vi. detect missing figures;
- vii. ascertain total debtors balances;
- viii. ascertain total creditors balances;
- ix. provide a means for preventing fraudulent practices;
- x. aid in the preparation of final accounts;
- xi. enhance internal control;
- xii. set off account (contra entry);
- xiii. ascertain total credit sales;
- xiv. ascertain total credit purchases.

**1 (c) (i) Items recorded on the debit side of Purchases Ledger Control Account:**

- Balance b/for Opening debit balance;
- Set offs or transfers to sales ledger;
- Bills payable;
- Discount received;
- Cash paid to suppliers;
- Cheque paid to suppliers
- Credit transfer to suppliers or credit notes received;
- Returns outwards;
- Balance c/d (closing balance).

**(ii) Items recorded on the debit side of Sales Ledger Control Account:**

- Balance b/for Opening balance of debtors;
- Bad debts recovered;
- Credit sales;
- Interest charged on overdue accounts;
- Dishonoured cheques;
- Refund to customers;
- Balance c/d;
- Debit notes issued;
- Discount disallowed;
- Bills receivable dishonoured;
- Noting charges.

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## Question 2

- a. What is goodwill?
- b. List **four** items of recurrent expenditure for a local government.
- c. Explain the **three** types of inventory in manufacturing account.

---

## Observation

Candidates gained reasonable marks in this question as they were able to provide some reasonable answers to the question. But in 2(a) aspect of the question, some candidates could not correctly state defining features of goodwill.

The responses expected from the candidates are:

2(a) **Goodwill:** It is the reputation, connection or other advantages possessed by a business which enables it to earn greater profits than normal.

OR

**Goodwill:** It is the excess of the purchase consideration or price over the net assets of an entity.

2(b) **Items of recurrent expenditure for a local government:**

- i. Stationery;
- ii. Salaries and wages;
- iii. Training expenses;
- iv. Meeting expenses;
- v. Fuel for vehicles;
- vi. Bank charges;

- vii. Purchase of drugs;
- viii. Sanitation expenses;
- ix. Payments for utilities;
- x. Payments for scholarship schemes;
- xi. Payments for administrative or office expenses;
- xii. Travelling and transportation;
- xiii. Maintenance of vehicles;
- xiv. Postal charges;
- xv. Rent and rates;
- xvi. Honorarium;
- xvii. Interest on loan and overdraft;
- xviii. Medical expenses.

2(c) **Explanation of the three types of inventory in manufacturing account:**

- i. Stock of raw materials: These are materials acquired for processing into completed goods for sale.

OR

These are unprocessed materials that constitute the initial inputs in the manufacturing process.

- ii. Stock of work-in-progress: These are partially completed materials that are awaiting further processing before completion.

OR

These refer to raw materials which have been processed but not yet completed.

- iii. Stock of finished goods: These are fully completed products that are being held for sale.
- iv. Stock of goods purchased for resale: These are completed goods or stock purchased from other businesses and brought in for sale.

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## Question 3

- a. Explain the following terms:
  - (i) *Accumulated fund*;
  - (ii) *Statement of Affairs*.
- b. List **five** sources of income for a not-for-profit-making organization.
- c. State **three** differences between *Receipts and Payments Account* and *Income and Expenditure Account*.

---

## Observation

Generally in question 3, the candidates were well disposed in answering the question and their attempts were quite impressive. The overall highest score for those who attempted was gained in this question.

Some of the suggested answers are:

### 3(a) **Explanation of terms:**

- i. Accumulated fund: It is the equivalent of capital for a not-for-profit making organization.  
OR

It is the difference between an organization's total assets and total liabilities.

- ii. Statement of Affairs: It is a statement drawn from incomplete records depicting assets, liabilities and capital at a point in time.  
OR

It is the statement prepared at a point in time to determine the accumulated fund or capital of an organization.

### 3(b) **Sources of income for a not-for-profit making organization:**

- i. Subscriptions or Dues;
- ii. Donations;
- iii. Interest on bank deposits or investments;
- iv. Fine on members;
- v. Entrance fees;
- vi. Life membership fees;
- vii. Proceeds from sales of items – fixed assets e.t.c;
- viii. Locker fees;
- ix. Proceeds from income generating activities – bar operations, telephone, rentals, dance, bazaars, funfair e.t.c;
- x. Grants or subvention;
- xi. Gifts.

3(c)

	<b><i>Receipts and Payments Account</i></b>	<b><i>Income and Expenditure Account</i></b>
1.	It is a real account.	It is a nominal account.
2.	It is prepared on cash basis.	It is prepared on accrual basis.
3.	The balance on the account represents cash or an overdraft.	The balance on the account represents surplus or deficit.
4.	It is equivalent to the cash book.	It is equivalent to the profit and loss account.
5.	It records both capital and revenue items.	It records only revenue items.
6.	Receipts are debited and payments credited.	Income are credited while expenditure are debited subject to adjustments.
7.	It is usually prepared on daily basis.	It is usually prepared periodically.
8.	The balance on the account is carried to the next period.	The balance on the account is transferred to the accumulated fund at the end of the period.

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## Question 4

- (a) List **three** accounts prepared by the head office for the branch.
- (b) Explain **two** methods of accounting for goods sent to branch.
- (c) State **four** reasons for preparing departmental accounts.

## Observation

The 4(a) and 4(b) aspect were on branch accounting while the 4(c) aspect was on reasons for preparing departmental accounts. Their attempts in 4(a) were just fair as only few candidates could list the accounts prepared by the head office for the branch. Only few candidates could explain the methods of accounting for goods sent to branch as required in question 4(b). However, for question 4(c) majority of the candidates that attempted the question scored good marks.

Some of the suggested answers are:

### **4(a) Accounts prepared by the Head Office for the Branch:**

- i. Goods Sent to Branch Account;
- ii. Branch Stock Account;
- iii. Branch Debtors Account;
- iv. Branch Expenses Account;
- v. Branch Stock Adjustment Account/ Branch Adjustment Account;
- vi. Branch Profit and Loss Account;
- vii. Branch Current Account.

### **4(b) Explanation of methods of accounting for goods sent to branch**

- i. When a branch keeps its own record (Independent Branch): The branch prepares the account of the whole activities at the branch and only remits the balances and statement of account to the head office for consolidation.
- ii. Where the head office keeps account and sends goods to the branch (Dependent Branch): Under this arrangement, the accounts of the branch are kept by the head office as well as its own accounts.

**4(c) Reasons for preparing departmental accounts**

*They are prepared in order to:*

- i. compare results of various departments;
- ii. provide basis for rewarding a department;
- iii. ensure overall effective supervision;
- iv. apportion a share of common expenses to the various departments;
- v. ascertain the profit or loss of each department;
- vi. guide management in the formulating and taking of strategic decisions;
- vii. put in place constructive actions to help a failing department;
- viii. determine which department to close down or expand;
- ix. provide a means of controlling departmental sales and costs;
- x. stimulate healthy competition among various departments thereby leading to efficiency;
- xi. monitor the progress of each department;
- xii. assist in regulating policies.

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## Question 5

In this question, candidates were required to prepare:

- (a) Adjusted Cash Book;
- (b) Bank Reconciliation Statement.

---

## Observation

Majority of the candidates avoided this question and those who attempted the question performed averagely. Candidates' weakness to this question was evident in the wrong entry of N 513,626 where few candidates could not get this because of how the cheque of N 256,813 received from a customer was required to be doubled in the Adjusted Cash Book.

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## Question 6

In this question, candidates were required to prepare:

- (a) Subscriptions Account;
- (b) Competition Prizes Suppliers Account;
- (c) Competition Trading Account;
- (d) Income and Expenditure Account.

---

## Observation

Majority of the candidates attempted this question and the performance was excellent with many of them scoring high marks in the question by avoiding mix up of competition prizes suppliers' account with competition trading account as expected by the examiner.

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## Question 7

In this question, candidates were required to prepare:

- (a) Trading, Profit and Loss and Appropriation Account;
- (b) Balance Sheet.

---

## Observation

Majority of the candidates avoided this question but those who attempted this question performed poorly. Only few candidates scored pass marks while majority of them mixed the profit and loss section items with that of the appropriation section items, hence this muddled up their solution to the question.

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## Question 8

In this question, candidates were required to prepare:

- (a) Statement of Capital Expenditure;
- (b) Statement of Revenue Expenditure.

---

## Observation

The performance of candidates who attempted this question was generally commendable except for few candidates that prepared the T- format which was not a requirement for the question. The question required candidates to prepare "Statements" and not T- format account.

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## Question 9

In this question, candidates were required to prepare:

- (a) The individual creditors account;
- (b) The total creditors account.

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## Observation

Majority of the candidates attempted this question and the performance was extremely good with many of them scoring high marks in the question. However, only few candidates could not prepare the total creditors control account required in 9(b) which they only needed to extract the individual creditors balances required in 9(a) for 9(b).

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