

COURSE GUIDE

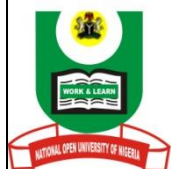
CRD 405 ACCOUNTING AND AUDITING FOR COMPARATIVES

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INTRODUCTION

Accounting and Auditing for cooperatives (CRD 405) is a semester course of two credit units made available for four hundred (400) level students in the School of Management Sciences of the National Open University of Nigeria.

The course is made up of 16 Units featuring the Overview of Accounting, Basic Book Keeping, The Cash book and the Imprest System, Trial Balance and Suspense Accounts, Controls Accounts, Bank Reconciliation, Overview of Cooperative Accounting, Preparation of the Final Account of a Cooperative Society, Accounts of Non – Profit Making Organisations, Financial Statements, Accounts from Incomplete Records, Basics of Cooperative Auditing, Qualities & Duties of Auditor of a Cooperative Society, Error and Fraud in the Audit of A Cooperative Society, Cooperative Audit Reports, The Registrar/ Directors Report etc.

COURSE AIMS

The aims of this course are to take you to the general broad areas of accounting and auditing for cooperatives. The scope of accounting and auditing is wide and technical; it will equip you with the practical knowledge of how to apply the principles of accounting and auditing to cooperatives.

COURSE OBJECTIVES

At the end of this course, you should be able to:

- explain the meaning of accounting;
- enumerate and explain accounting concepts and conventions;
- discuss the users of accounting information.
- discuss the objectives of book-keeping and discuss the books of account.
- explain the accounting information generating process.
- describe and apply the principles of double entry system of book-keeping.
- discuss the nature and uses of the cash book;
- demonstrate the columnar cashbooks;
- define a petty cash book and the imprest system;
- discuss the nature and purpose of trial balance
- identify errors that occur in a trial balance
- balance a suspense account.
- explain the meaning of control accounts and discuss how control accounts are written-up.
- give accounting treatment to certain items in the control accounts.

- discuss the need for bank reconciliation statements;
- prepare the bank reconciliation statements to agree the two balances.
- explain the concept of cooperatives/cooperative society;
- explain cooperative accounting;
- enumerate and explain the various reports in cooperative accounting;
- discuss the importance of accounting in cooperatives.
- prepare the final accounts of a cooperative society.
- define auditing and discuss the different types audit
- explain the scope of cooperative auditing
- enumerate and explain the qualities of a cooperative auditor and
- identify and briefly explain fraud risk factors and enumerate different types of frauds
- outline the responsibilities of a cooperative auditor relating to fraud and error
- identify the different types of audit reports
- enumerate the responsibilities of a director of cooperatives
- discuss the role of the director in the audit of cooperatives.

COURSE MATERIALS

The main features of the course materials are:

1. Course guide which is a blue print that explains the constituents of the course itself.
2. Study Unit: this provides an overview of the course contents and number of units covered.
3. Assignment files: These files contain challenging Self-Assessment Exercises and Tutor-Marked Assignment/s (TMAs) that will enable you evaluates your understanding of the course.

The total score you obtain in the TMAs will account for 30% of your overall course mark.

Assignments	30%
Examination	70%

Total **100%**

FINAL EXAMINATION AND GRADING

At the end of the course, you will write the final examination. The examination will account for the remaining 70% of your overall course mark. The examination questions will test your ability to apply the information, knowledge and techniques you gained from the course.

You are advised to organize yourself properly for the examination as you will be tested on the general broad outline of the course.

Relevant text books have been recommended at the end of each study unit.

STUDY UNITS

The study units are 16 in number as listed below:

Module 1

Unit 1	Overview of Accounting
Unit 2	Basic Book-keeping
Unit 3	The Cash book, Petty Cash Book, and the Imprest System
Unit 4	Trial Balance and Suspense Accounts
Unit 5	Control Accounts
Unit 6	Bank Reconciliation

Module 2

Unit 1	Overview of Cooperative Accounting
Unit 2	Preparation of the Final Account of a Cooperative Society
Unit 3	Accounts of Non – Profit Making Organisations
Unit 4	Financial Statements
Unit 5	Accounts from Incomplete Records

Module 3

Unit 1	Basics of Cooperative Auditing
Unit 2	Qualities & Duties of Auditor of a Cooperative Society
Unit 3	Error and Fraud in the Audit of A Cooperative Society
Unit 4	Cooperative Audit Reports
Unit 5	The Registrar/Directors Report

Each study unit has Self-Assessment Exercises and Tutor-Marked Assignments [TMAs]. The sources of information are given in the references and where further readings are required or where you need to consult are also indicated. All these would assist you to accomplish the learning objectives as expected.

TEXTBOOKS AND REFERENCES

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COURSE OVERVIEW

Unit	Title of Work	Week's Activity	Assessment
	Course Guide	1	
	Module 1		
1	An Overview of Accounting	2	Assignment 1
2	Basic Book Keeping	2	Assignment 2
3	The Cashbook, Petty Cashbook And The Imprest System	2	Assignment 3
4	Trial Balance and Suspense Account	2	Assignment 4
5	Control Accounts	1	Assignment 5
6	Bank Reconciliation Statements	2	Assignment 6
	Module 2		
1	Overview of Cooperative Accounting Contents	2	Assignment 7
2	Preparation of the Final Account of a Cooperative Society	2	Assignment 8
3	Accounts of Non – Profit Making Organisations	2	Assignment 9
4	Financial Statements	2	Assignment 10
5	Accounts from Incomplete Records	2	Assignment 11
	Module 3		
1	Basics of Cooperative Auditing	2	Assignment 12
2	Qualities & Duties of a Cooperative Auditor	1	Assignment 13
3	Error and Fraud in the Audit of A Cooperative	2	Assignment 14
4	Audit Reports of Cooperative	2	Assignment 15

	Societies		
5	The Registrar/Directors Report	2	Assignment 16
Total		31	

The above table gives the outline of CRD, the units, the number of weeks to dedicate to each unit and the associated assignments.

HOW TO GET THE MOST FROM THIS COURSE

In the National Open University of Nigeria (NOUN), there is no lecturer unlike the Conventional University. It counts on your maturity, independence and initiatives. Your drive is the force that propels you and you are the major determinant on when and how to complete the course in Accounting and Auditing for Co-operative Studies successfully. You should regard the reading of the study materials as if you are listening to lectures. Indeed you are listening to the lecturer indirectly. Every study unit has the same pattern. The introduction followed by the learning outcomes/objectives. Thereafter, you are given the course content. Conclusion is made, followed by the Self-Assessment exercises. You have to carefully go through the exercises as they assist you to recapitulate what you have learnt in the unit.

SUMMARY

Accounting and Audit for co-operatives gives you the basic knowledge that will put you steadily on B.Sc. Co-operative and Rural Development. Having completed the course, you would have known what accounting and auditing for co-operative is and can separate it from other forms of accounting and audit operations. You will also know how the account of a cooperative is being kept and audited if you are an accountant in a co-operative. You will also be able to identify the financial activities of a co-operative and how records are kept to achieve transparency and accountability in co-operatives.

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MODULE 1

Unit 1	An Overview of Accounting
Unit 2	Basic Bookkeeping
Unit 3	The Cashbook, Petty Cashbook and the Imprest System
Unit 4	Trial Balance and Suspense Account
Unit 5	Control Accounts

CONTENTS

1.0	Introduction
2.0	Objectives
3.0	Main Content
3.1	An Overview of Accounting
3.2	Definition of Accounting
3.3	Accounting: “A Science or an Art”
3.4	The Accounting Cycle
3.5	Accounting Concepts and Conventions
3.6	Purpose/Uses of Accounting
4.0	Conclusion
5.0	Summary
6.0	Tutor Marked Assignments
7.0	References/Further Readings

1.0 INTRODUCTION

This unit will introduce you to the meaning of Accounting, and consider whether Accounting is a science or an art. In addition, the accounting cycle will be explained before considering the concepts and conventions which guide accounts preparation. Lastly, the purpose and uses of accounts will be discussed with emphasis on the categories of user groups of accounting or financial information.

2.0 OBJECTIVES

At the end of this unit, you will be able to:

- explain the meaning of accounting;
- say whether accounting is a science or an art;
- explain the accounting cycle;
- enumerate and explain accounting concepts and conventions;
- discuss the users of accounting information.

3.0 MAIN CONTENT

3.1 An Overview of Accounting

3.2 Definition of Accounting

Accounting can be viewed from different perspectives by authors, teachers and practitioners, but can best be thought of as a process of handling information which is economic or financial in nature. This accounting information forms the basis for financial reporting. The process could be seen in the light of the following:

- As an activity performed by Accountants and their supporting staff;
- As a system comprising several interrelated and interdependent parts;
- As a technique of management for planning and control purposes, and
- As a discipline of study.

Accounting is basically a service function designed to inform management and other interested parties like analysts, investors, creditors, shareholders, about the financial implications and their effects on the organisation.

From the foregoing, therefore, Accounting can be said to be the language of business; it can be seen as a management tool, as their reports provide the basis for planning, and initiating control measures.

A generally accepted definition of Accounting has it that it is “the art of recording, classifying and summarising in a significant manner and in terms of money, transactions and events which are, in part at best, of a financial character, and interpreting the result thereof”.

At this point, let us mention the two major branches of accounting, which are:

- Financial accounting
- Management accounting.

SELF-ASSESSMENT EXERCISE

Explain the meaning of Accounting.

3.3 Accounting: A Science or an Art?

Arguments exist as to whether Accounting is a science or an art. Interestingly, these arguments reveal some features of accounting which may be of benefit, especially, to a new entrant into the discipline, to understand its methodology. Accounting is not a natural science like chemistry or physics, although by the benevolence of more modern definitions of science, it is scientific to the extent that it applies scientific methods of observation, experiment and measurement in the course of processing financial information for use by management.

On the other hand, art stresses the human attributes of imagination and judgment.

Accounting tends to draw from both science and art, but cannot be said to belong to either one. As a science, it is a body of organised knowledge and uses systematic procedures to obtain results. However, it is not an exact science because its results are not conclusive. For example, given the same set of economic data, two Accountants can reach different conclusions. On the other hand, it is not an exact art because it employs a great deal of human skill rather than judgment.

From the foregoing, accounting can be referred to as a management science because it is a tool of management for planning and control. It can be called a social science as well. In conclusion, therefore, accounting is neither a science nor an art in the strictest sense of it.

SELF-ASSESSMENT EXERCISE

Accounting is a science not an art. Discuss.

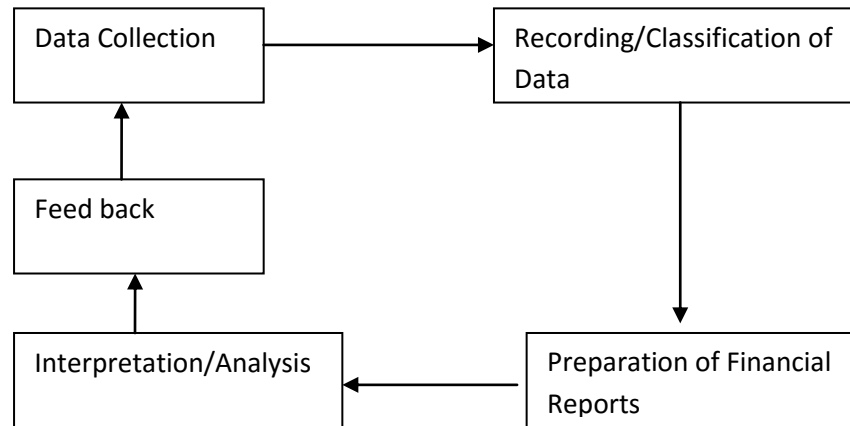
3.4 The Accounting Cycle

From the generally accepted definition of accounting in 3.1 above, we derive the Accounting Cycle, which refers to series of stages necessary to produce the financial reports. The stages are:

- Collection of Data
- Recording/classification of Data
- Preparation of reports, interpretation and analysis

Please, note that the objective of the Accounting system is to produce financial reports about the organisation for decision making purpose.

The accounting cycle can be explained diagrammatically as follows;



Source: Developed by Author

SELF-ASSESSMENT EXERCISE

Explain the Accounting Cycle.

3.5 Accounting Concepts and Conventions

There are eight basic concepts or principles in Accounting, modified by four conventions, which have been adopted as a general guide to practice. These basic rules and procedures guiding the accounting profession are also known as Generally Accepted Accounting Principles (GAAP).

3.5.1 The Business Entity Concept

This concept suggests that the business is separate from the owner. Therefore, all accounts are kept in respect of the business entities which are distinct from persons who own or manage them. It then follows that the personal financial affairs of the owners are never intermingled with those of the business for which the accounting is being performed.

3.5.2 Money as a common unit of Account

This concept speaks to the fact that accounts are expressed in monetary terms which can be added or subtracted. This gives a meaningful financial description. The implication of this concept is that any information that cannot be measured in naira terms, such as the quality and experience of workers, is usually not included in the financial statements.

3.5.3 The Cost Concept

The historical cost concept, as this may be called, says that assets

(resources acquired by a business) are reflected at cost, which means that for their subsequent treatment in the measurement of the income of the business, the price paid on such acquisitions form the basis instead of their real or market values.

3.5.4 The Going Concern Concept

This concept assumes that the business will continue operations for the foreseeable future, that is, it has no plans to either liquidate or cut down significantly any major line of its operations in the nearest future.

3.5.5 The Accrual Concept

The concept accommodates all revenues and expenses to be received or charged in a given accounting period irrespective of what is actually received or paid. It is also known as matching concept whereby all earned revenue and incurred costs that generated the revenue must be matched and reported for the period.

3.5.6 The Concept of Duality

The duality concept determines that the financial situation of the enterprise be represented in terms of the basic accounting equation. Thus, it recognizes that each transaction involves two entries in the same set of accounts, that is, every credit must have a corresponding debit and vice versa. This will be treated in details under the Double Entry system.

3.5.6 Realization Concept

The realization concept assumes that revenue is earned on the day which it is realized, and that is, when goods are transferred to the customer in exchange for a valuable consideration.

3.5.6 Historical Cost Concept

This concept states that cost of acquisition should be recognized as the basis of accounting for assets as well as liabilities and not the current market value.

3.5.7 Accounting Conventions

You will recall that we said that there are four conventions which guide the application of the concepts in practice; they are refer to the norms and practices of an accountant. The following are the four accounting convention:

- **Conservatism/Prudence**

Here, the profit is understated while all anticipated losses are recognized and taken into the books. All possible future profits will be ignored.

- **Consistency**

There is sometimes more than one acceptable accounting method for treating an item. There should be consistency in the use of a particular accounting method for a reasonable period of time so that comparisons between accounting periods will be meaningful. For example, depreciation of non-current (fixed) assets.

- **Materiality**

The size of an amount will influence its treatment in the books of account, depending on individual entities. An amount which is material to small organization is likely to be immaterial to a big one.

Therefore, what may be considered material in any circumstance is judgmental.

- **Objectivity**

This is based on the believe that, an accountants judgment should not be subjective but based on facts and figures.

SELF-ASSESSMENT EXERCISE

Name and discuss five accounting concepts and three conventions.

3.6 Purpose/Users of Accounting Information

We can categorize the various users of accounting information into their user groups as follows:

- **Direct Users**

The direct users of accounts include the managers and shareholders who use them for the purpose of planning and control purposes. While the managers use accounting information to assess the viability of the business and to make future decisions, shareholders require the information to know whether the business is doing well or not, profit-wise.

- **Indirect Users**

Those in this group include financial analysts, creditors, investors, tax authorities, employees and customers. For example, the prospective investor would like to be assured of the security and profitability of his investment; the creditor will determine whether a business will be able to pay its debt as and when due; the employees will even use the information to bargain for a better package; and the tax authorities will be able to calculate the tax liabilities.

SELF-ASSESSMENT EXERCISE

Discuss the user groups of accounting information.

4.0 CONCLUSION

Accounting can be regarded as the language of business. The information, when generated, serves both a tool for planning and control, and an evidence of financial position. Share holders, managers, financial analysts, creditors, investors and the tax authorities, use accounting information for their benefit.

5.0 SUMMARY

In this unit, we have defined accounting and classified it into two major branches. We have also explained that Accounting is neither a science nor an art, but can best be regarded as a management science discipline. The accounting cycle was illustrated. Also, we discussed the eight accounting concepts and four conventions. Lastly, the users of accounting information were discussed under the categories of the direct and indirect users.

6.0 TUTOR-MARKED ASSIGNMENTS

1. Define accounting and explain its major processes.
2. Identify the major users of accounting information and explain the types of decisions for which each group may require accounting information.
3. Explain any five Generally Accepted Accounting Principles (GAAP).

7.0 REFERENCE/FURTHER READINGS

Anao, A.R. (1989). *An Introduction to Financial Accounting*. Ibadan: Longman Nigeria Limited.

Flynn, David et. Al. (2000). *Fundamental Accounting* 4th Edition, Kenwyn: Juta & Co. Limited.

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Yusuf, B. R. (2016). *Concepts and Practices of Accounting*. Lagos, Rakson Publishers.

UNIT 2 BASIC BOOKKEEPING

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- 1.0 Introduction
- 2.0 Objectives
 - 3.0 Main Content
 - 3.1 Basic Book-keeping
 - 3.2 Meaning of Book-Keeping
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 - 3.5 Accounting Information Generating Process
 - 3.6 The Double Entry System
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignments
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1.0 INTRODUCTION

In this unit you will be introduced to recording procedures in Accounting – Basic Book-keeping and the Double Entry System. Also, we shall discuss the meaning and objectives of book-keeping. What are books of account? How do we explain the Accounting Information Generating Process? These questions will be answered in this unit. In addition, we will explain and apply the principles of the double entry system in recording business transactions.

2.0 OBJECTIVES

At the end of this unit, you will be able to:

- define book-keeping;
- discuss the objectives of book-keeping;
- discuss the books of account;
- explain the accounting information generating process;
- describe and apply the principles of double entry system of book-keeping.

3.0 MAIN CONTENT

3.1 BASICBOOK-KEEPING

3.2 Definition of Book-Keeping

Book-keeping this resulted from a practical business need, can be

said to be a subset of Accounting or a record-making place of the accounting process. It can be defined as “the act of recording all money transactions so that the financial position of an undertaking and its relationship to both its proprietors and to outside persons can be readily ascertained”. It is important to note that book-keeping lays emphasis on regular and systematic method of recording, how the records are maintained in the books, the right classification and summarisation so that the users of accounts can find the information contained in the books meaningful. The transactions for which records are maintained and the nature and scope of the records themselves differ from one business to another business.

SELF-ASSESSMENT EXERCISE

What is book-keeping?

3.3 Objectives of Book-Keeping

From the meaning of book-keeping given in 3.1 above, the objectives of book-keeping include the following:

- To provide information about the conduct and position of the business;
- To provide a permanent and systematic record of financial transactions;
- To provide record for the value of various items of transactions;
- To ensure the arithmetical accuracy of financial records;
- To ascertain the financial worth of an undertaking at any given time;
- To provide records of profit or loss at any given time;
- To assist in the detection of fraud and other irregularities;
- To provide financial records for comparative purposes;
- To provide aid to planning and control;
- To provide a basis for taxation.

SELF-ASSESSMENT EXERCISE

Discuss the objectives of Book-keeping.

3.4 Books of Account

The Books of account consist of the subsidiary books and the ledger. Recording of transactions start from the subsidiary books to the ledger.

3.5 Subsidiary Books

The subsidiary books, the Day books, books of original entry, and the books of prime entry all mean one and the same thing. These books exist to provide periodic totals for posting into the ledger. Please, note that transactions are not normally posted from the source documents (invoices, receipts, etc.) directly to the ledger.

Subsidiary books are books into which transactions are recorded on a daily basis from the source documents and from which postings are made periodically to the relevant accounts in the ledger. This practice prevents the ledger from containing too many details.

The subsidiary books normally used in financial accounting are:

- Sales Day book (or sales journal) for recording credit sales.
- Purchase Day book (or purchases journal) for recording credit purchases.
- Returns Inward Day book (or returns inward journal or sales returns day book) for recording returns from customers.
- Returns Outward Day book (or returns outward journal or purchases returns day book) for recording returns to suppliers.
- Cash book for recording receipt and payment of money.

Journal proper for recording other transactions like:

-
- the purchase and sale of fixed assets on credit;
- opening entries
- correction of errors;
- transfer from one account to another;
- taking of goods by the owner from the business for his private use;
- end-of-period adjustments; and
- any other transaction which cannot be recorded in any of the other subsidiary books.

Journal

The format for a journal can be seen below:

Date	Description	Folio	Dr ₦	Cr ₦

Illustration I: Purchase of fixed asset on credit

Noun Cooperative Society Limited purchased a motor vehicle on credit at a cost of ₦1.8 million from Coscharis Motors on 31st October, 2015.

The journal entry to record this transaction will appear as follows:

	DR	CR
	₦	₦
Motor Vehicle Account	1,800,000	
Coscharis Account		1,800,000

Being cost of motor vehicle purchased on credit from Coscharis Motors on 31st October, 2015.

Illustration II:

Oludimu incorporated Femi Limited on 1/6/16. He brought in cash of ₦4,000,000 into the business on 4/6/16 he offered the business building that valued ₦6,000,000. The amount on the building was to be taken as an additional capital. The business banked ₦3,500,000 on 5/6/16 and on 8/6/16, the business furniture worth ₦100,000 from Abdullahi Ahmed and on 10/6/16, ₦80,000 cash was paid to Abdullahi Ahmed.

Required: Journalise and post above transactions in the book of Otoks Limited.

SOLUTION

Date	Narrations	Dr	Cr
		₦	₦
1/6/16	Cash Capital Being Capital introduced by the proprietor	4,000,000	4,000,000
4/6/16	Building Capital Being value of building introduced as Capital by the proprietor	6,000,000	6,000,000
5/6/16	Bank Cash Being amount lodged in the bank	3,500,000	3,500,000
8/6/16	Furniture Abdullahi Ahmed	100,000	100,000

	Being value of furniture purchased on credit		
10/6/16	Abdullahi Ahmed Cash Being cash paid to Abdullahi Ahmed as part settlement	80,000	80,000

Ledger

The ledger is the main or principal book of account where accounts are maintained for income, assets, expenses as well as individuals (or organisations) who may be debtors or creditors to the firm. Entries made or posted into the ledger (usually in summarized form) are expected to be preserved over a reasonable period. As we said earlier, the ledger is written-up periodically, and is the ultimate destination of all entries made in the subsidiary books.

Below is an example of a Ledger Account:

Date	Particular	Folio	Amount	Date	Particular	Folio	Amount

Illustration III: Ledger Account for the Journal entries in Illustration II

CASH ACCOUNT

N		N	
1/6/16	Capital	5/6/16	Bank
4,000,000		3,500,000	
		10/6/16	Abdullahi Ahmed
		80,000	
		30/6/16	Balance c/d*
4,000,000		420,000	
1/7/16	Balance b/d	4,000,000	
	420,000		

CAPITAL ACCOUNT

N		N	
30/6/	Balance c/d*	1/6/16	Cash
10,000,000		4,000,000	
		4/6/16	Building
		6,000,000	
10,000,000		10,000,000	
		1/7/16	Balance b/d
		10,000,000	

ABDULLAHI ACCOUNT

₦			₦		
10/6/16	Cash	80,000	8/6/09	Furniture	100,000
30/6/16	Balance c/d*	20,000			
		100,000			100,000
			1/7/09	Balance b/d	20,000

BANK ACCOUNT

₦			₦		
5/6/16	Cash	3,500,000	30/6/16	Balance c/d*	3,500,000
		3,500,000			3,500,000
1/7/16	Balance b/d	3,500,000			

FURNITURE ACCOUNT

₦			₦		
8/6/16	Abdullahi	Ahmed	30/6/16	Balance c/d*	100,000
		100,000			
1/7/16	Balance b/d	100,000			

BUILDING ACCOUNT

₦			₦		
5/6/16	Capital	6,000,000	30/6/16	Balance c/d*	
		6,000,000			6,000,000
1/7/16	Balance b/d	6,000,000			6,000,000

SELF-ASSESSMENT EXERCISE

Discuss the Books of Account with emphasis on the relationship/correlation between the books of original entry and the ledger.

3.6 The Double Entry System

The Double Entry system of book-keeping hinges on the “Duality Concept” which we explained in Unit 1. Recognising that every transaction involves the “receiving” and the “giving” of values, the double entry system (or principle) requires that the dual effect of every transaction should be recorded. For every debit entry, there is a corresponding credit entry and vice versa. Let us note here that credit is given to the giver of the value always while the receiver is debited.

Therefore, every transaction has to be recorded twice between accounts in the same set of books to ensure that a complete record is

obtained. This principle has its origin from the Italian merchants of the 14th century.

Let us illustrate with the following example:

Olabisi & Company Limited sells a generator to Mrs. A.J. Thompson for ₦2,000 only. This is a sales transaction where there is a purchaser and a seller. The company is parting with a generator and receiving cash in return; Mrs. Thompson is giving away cash and getting a generator in return. With the double entry rule in mind – “debit the receiver, credit the giver”, we shall record the sales transaction as follows:

In Thompson’s Books:

Dr.	Purchases Account		Cr.
Olabisi & Co	12,000.00	(Cash)	

Dr.	Cash Account		Cr.
Olabisi & Co	12,000.00	(Purchases)	

In Olabisi’s Books:

Dr.	Cash Account		Cr.
Thompson	12,000.00	(Sales)	

Dr.	Sales Account		Cr.
Thompson	12,000.00	(Cash)	

In double entry system of recording, it is necessary to analyse the effect of each transaction in respect of “who gives and who receives” to determine who to debit and who to credit. As a guide in posting ledger account, entries on the DEBIT side increases in assets, expenses and losses while entries on the CREDIT side increases in liabilities, income and profits.

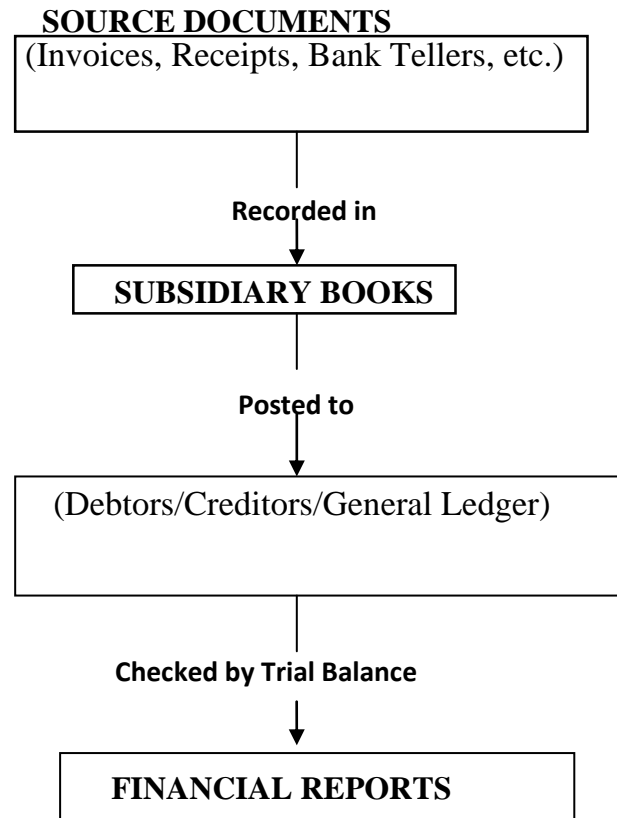
SELF-ASSESSMENT EXERCISE

Describe the double entry system of book-keeping.

3.7 Accounting Information Generating Process

This process involves a sequence of activities from gathering,

sorting and extracting data, from the source documents, to the preparation of financial reports. This process is clerical, fairly routine and at times mechanistic. The figure below says it all about the nature and sequence of the activities involved:



THE LEDGER

The Information Generating Process

SELF-ASSESSMENT EXERCISE

Explain the Accounting Information Generating Process.

4.0 CONCLUSION

Book-keeping can be seen as a record-making phase of the accounting process, the activity of which, amongst others, provides meaningful information about the conduct and position of the business to users of accounts. Entries made in both the books of original entry and the ledgers, should obey the double entry principle of book-keeping which identifies the “giver” and “receiver” in every transaction and “debits” or “credits” accordingly. The double entry system has the added advantage of maintaining a complete record of transactions both from the viewpoint of the business and those the business deals with.

5.0 SUMMARY

We have seen book-keeping as laying emphasis on the regular and systematic method of recording that provide information to users of accounts. We also considered the objectives of book-keeping in details. In addition, we were able to explain the accounting information generating process. The principle of double entry has told us that for every debit, there must be a corresponding credit entry, and this forms the basis of recording economic transactions to show the effect which is either an increase or a decrease in the particular account concerned. Finally, the books of account consisting of the subsidiary books and the ledger were illustrated.

6.0 TUTOR-MARKED ASSIGNMENTS

1. Define book-keeping and explain any five objectives.
2. Explain the double entry system of recording transactions.
3. Indicate which account should be debited or credited in the following transactions:
 - (i) Cash paid into business by owner;
 - (ii) Rent paid by owner of business;
 - (iii) Purchase of goods for cash;
 - (iv) Sale of goods on credit to OKC;
 - (v) Purchase of motor vehicle on credit from OMOBA Motors Ltd;
 - (vi) Payment of electricity expenses;
 - (vii) Cash withdrawn from business by owner;
 - (viii) Receipt of loan from Benevolent Bank;
 - (ix) Cash received from OKC (Credit customer);and
 - (x) Remittance to OMOBA Motors Ltd.(Creditor).
4. Draw the format of (i) a journal (ii) a ledger.

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UNIT 3 THE CASHBOOK, PETTY CASHBOOK AND THE IMPREST SYSTEM

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 The Cash Book, Petty Cash Book and the Imprest System
 - 3.2 Nature and Uses of the Cash Book
 - 3.3 Treatment of items in the Cash Book
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- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignments
- 7.0 Reference and Further Readings

1.0 INTRODUCTION

In Unit 2, we listed the cash book as one of the books of prime entry. It is also a ledger. The existence of the cash book in any organisation, be it profit-making or non-profit making, needs not be overstressed because of dealings with money (cash-in-hand or cash-at-bank). This unit will deal with the nature and uses of the cash book as well as the treatment of items in the cash book. Columnar cashbook will be explained and demonstrated also. Furthermore, the petty cash book and the imprest system will not be left out.

2.0 OBJECTIVES

At the end of this unit, you will be able to:

- discuss the nature and uses of the cash book;
- distinguish between the treatments given to various items in the cash book;
- demonstrate the columnar cashbooks;
- define a petty cash book and the imprest system;

3.0 MAIN CONTENT

3.1 The Cash book, Petty Cashbook and the Imprest System

3.2 Nature and Uses of the Cash Book

One of the main books of account is the cash book. You will recall that we had said earlier that the cash book is both a subsidiary book and a ledger. It is a book of prime entry where cash receipts and payments are recorded immediately after transactions have taken place and on daily basis, and a ledger where the daily recorded transactions are summarised periodically and transferred to the final accounts. From the foregoing, it means that the cash book is not posted into the ledger but balanced directly and the relevant figures carried to the balance sheet. Usually, the cashier maintains the cash book. The operation of a cash book is very important in accounting because it provides a means of controlling the amount held at all times. The dual use of the cash book in an organisation becomes clear when we consider or take cognisance of the fact that cash constitutes the most fluid form of asset of the organisation which is easily prone to losses or abuses.

SELF-ASSESSMENT EXERCISE

Explain the dual use of the cash book.

3.3 Treatment of items in the Cash Book

Contra Entry

Contra entry is when the double entry for a transaction appears on both sides of the cash book. Therefore, contra entries do not require recording in another account because entry has taken place within the cash book. These entries are made when surplus cash is transferred to the bank or the withdrawal of cash from the bank for use. The entries here will be to credit cash and debit bank or debit cash and credit bank in the columnar cash book which we shall consider in 3.3.

Cash

Cash receipts are debited in the cash column while payments are credited in the cash column.

Cheques

Cheques received from customers are debited in the bank column while cheques issued to suppliers or third parties are credited.

Cash Discounts

Cash discounts are rebates granted to a buyer or debtor for making cash payments within a shorter time period than the normal credit period. This implies that the seller accepts an amount smaller than the invoice value in full settlement of the account. If it is a two – column cash book (to be considered shortly), they are posted directly to the ledger but if it is 3 three – column cash book, they will be recorded in the cash book.

SELF-ASSESSMENT EXERCISE

Explain the treatment of any two items in the cash book.

3.4 Columnar Cash Books

Single – Column Cash Book

Dr.				Cash Account				Cr.			
Date	Particular	Folio	Amount	Date	Particular	Folio	Amount	Date	Particular	Folio	Amount

The above is a format for the single – column cash book, which is like a ledger account with one column each for debit and credit; thus, making provision for cash transaction only. This is used to record the receipts and payments of cash, typical of small businesses whose transactions do not involve cheques/bank.

Two – Column Cash Book

This is the commonest form of cash book. As the name implies, the two– column cash book makes provision for two columns, one each for cash and bank transactions. The format is shown as follows:

Dr.					Cash Account					Cr.				
Date	Particular	Folio	Cash	Bank	Date	Particular	Folio	Cash	Bank	Date	Particular	Folio	Cash	Bank

Date	Particular	Folio	Cash	Bank	Date	Particular	Folio	Cash	Bank
1/7/14	Balance b/f		2,000	13,000.00	6/7/14	Rent		3,500	
2/7/14	Cheque			11,500.00	7/7/14	Bank Cheque			17,700.00
3/7/14	Sales Cash		8,200		23/7/14	Cash Wages		5,000	
7/7/14	Sales			5,000.00	29/7/14	Balance c/d			12,000.00
14/7/14	Bank			12,000.00	31/7/14			11,800.00	4,000.00
								1,900.00	0
			22,200.00	33,700.00				22,200.00	33,700.00
1/8/14	Balance b/d		1,900.00	4,000.00					

Here, all cash and cheque receipts are debited in the appropriate column while payments by cash and cheque are credited accordingly. The cash book is usually balanced at the end of the month.

Example

Bello Trading Company brought forward balances of ₦2,000 and ₦13,200 for cash and bank respectively, from June, 2014 account. The following transactions took place:

		₦
July 2	Cheque received	11,500.00
July 3	Cash sales	8,200.00
July 6	Paid rent by cash	3,500.00
July 7	Banked part of cash	5,000.00
July 14	Cash sales (paid through the Bank)	4,000.00
July 23	Paid by cheque	17,700.00
July 29	Cash withdrawal for use	12,000.00
July 31	Wages paid in cash	11,800.00

You are required to write-up a two-column cash book for this company and balance off at the end of July, 2014.

Solution**Bello Trading Company**

Dr.	Cash Account	Cr.
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Three – Column Cash Book

A three-column cash book, as the name suggests, makes provision for a third column (in addition to the two columns for cash and bank) for recording cash discounts allowed to customers and received from suppliers. Discounts allowed to debtors are listed as debits while those received from creditors' are credited.

The discount columns save time although they are not part of the double entry system because they are not expected to balance. Total debits, at the end of the period, are debited to the Discount Allowed account while the total credits are transferred to the Discount Received account. The corresponding entries are usually made in the various personal ledger accounts of debtors and creditors. We shall illustrate the three-column cash book now.

Example

Mike started a small business with ₦80,000 on January 2, 2015 which he paid into a bank account for the business on the same date. His transactions for the rest of the month were as follows:

5/1/15 Purchases by cheque ₦27,300.

6/1/15 Credit purchases ₦25,200, Electricity paid by cheque ₦500; Rent ₦700 by cheque

7/1/15 Drew cash for office use ₦1,200, Sales by cheque ₦42,520, Sales by cash ₦480, Sales on credit ₦50,000.

8/1/15 Paid creditors by cheque ₦15,100 and received discount of ₦300.

9/1/15 Cash sales ₦17,115; cash wages paid ₦500.

10/1/15 Paid into bank the sales made on

9/1/05 Stationery bought by cash ₦50.

12/1/15 Received from customers cheques for ₦39,200 and allowed discount of ₦800.

15/1/15 Drew cash from bank for office use ₦200.

16/1/15 Servicing and repairs by cash ₦120, Purchases by cash ₦20,000, Purchases by cheque ₦5,000 Purchases on credit ₦45,000.

20/1/15 Sales by cash ₦37,500 Sales by cheques ₦17,000

22/1/15 Paid creditors ₦27,900 by cheque and received discount of ₦100, Cash sales ₦2,000 which was immediately lodged into the bank.

24/1/15 Payments by cheque: Rent ₦1,200, Rates ₦300, Wages ₦2,000

28/1/15 Salaries by cheque ₦3,600 30/1/05 Cash lodged into bank
 ₦10,000.00
 31/1/15 Drew cheque for petty cash ₦200

Required

Three – column cash book of Mike for the month of January, 2015.

Solution

Mike Trading Company

Dr.

Cashbook

Cr

Date	Particular	Disc. All'd	Cash	Bank	Date	Particular	Disc. Rec'd	Cash	Bank
		₦	₦	₦			₦	₦	₦
2/1/15	Capital			80,000	5/1/15	Purchases			27,300
7/1/15	Bank		1,200	42,520	6/1/15	Electricity			500
7/1/15	(contra)		480	17,115	6/1/15	Rent			700
9/1/15	Sales		17,115	39,200	7/1/15	Cash(Contra)			1,200
10/1/15	Sales				8/1/15	Trade	320		15,100
12/1/15	Cash (contra)	800			9/1/15	Creditors		500	
15/1/15	Trade Debtors				10/1/15	Wages		17,115	
20/1/15	Bank (contra)				10/1/15	Bank		50.00	
22/1/15	Sales		200	17,000	15 /1/15	Stationery			200
30/1/15	Sales			2,000	16 /1/15	Cash (contra)		120.00	
31/1/15	Cash		37,500	10,000	16 /1/15	Rep airs		20,000	5,000
	Bank		200		22 /1/15	Purchases	100		27,900
					24 /1/15	Trade			1,200
					24 /1/15	Creditors			300
					24 /1/15	Rent			2,000
					28 /1/15	Rates			3,600
					30 /1/15	Wages		10,000	
				207,835	31/1/15	Salaries			200
					31/1/15	Bank (contra)		8,910	122,635
		800	56,695			Cash	420	56,695	207,835
						Bal. c/d			

SELF-ASSESSMENT EXERCISE

Discuss the columnar cash books, pointing out their major differences.

3.5 The Petty Cash Book and Voucher

It is certain that in almost every organisation, there will be a great deal of small cash payments to be made. Records of these payments could be kept separate from the main cash book. The petty cash book is a record, in columnar format, of small cash payments made on a day-to-day basis.

The columnar ruling of the petty cash books is designed to enable small

payments to be analysed according to expenditure head and posted in totals to the ledger periodically. This book is maintained by the petty cashier under the supervision of the main cashier.

The petty cash voucher shows the amount of money required the purpose and nature of expenditure involved, and the account to be charged. The petty cash voucher is required before making any payment. It must be duly authorised before payment is made out of the petty cash float. The format of the voucher varies from organisation to organisation. However, it is the instrument from which posting is done to the petty cashbook.

SELF-ASSESSMENT EXERCISE

Explain the petty cash book and the petty cash voucher.

3.6 The Imprest System

This is basically a system of funding petty cash which reimburses the petty cashier with the total amount expended. By this, the total amount which the petty cashier has is restored to the float (fixed amount) with which he started. Therefore, total payments added to the imprest balance will, at all times, remain equal to the float.

SELF-ASSESSMENT EXERCISE

What is the Imprest System?

3.7 Posting the Petty Cash Book

We shall use the following exercise to illustrate posting into the petty cash book:

The following is a summary of petty cash transactions of a business organisation for the month of June, 2004. The business maintains a petty cash float of ₦5, 000.

	₦
June 1 Petty cash float given to petty cashier	
June 3 Postages	200
June 5 Transport fare	450
June 8 Cleaning materials	350
June 9 Stationery	170
June 14 Petrol for delivery van	880
June 16 Taxi fare	390
June 20 Postages	180
June 21 Disinfectant for cleaning toilet	280

June 23	Petrol for general managers car	660
June 24	Service of delivery van	400
June 28	Writing materials	310
June 30	Transport fare	120

You are required to rule up a petty cash book with columns for Postages, Transport, Travelling, Cleaning, Stationery and Motor Expenses and enter the month's transactions, entering the reimbursement on 30th June, 2014 necessary to restore the imprest.

Solution

Dr. PETTY CASHBOOK Cr.

Receipts	Date	Details	PAYMENTS					
			Total	Postages	Transport & Travel	Cleaning	Stationery	Motor Expenses
5,000	1/6/14	Cash float						
	3/6/14	Postages	200	200				
	5/6/14	Transport	450		450			
	8/6/14	fare	350			350		
	9/6/14	Cleaning	170				170	
	14/6/14	materials	880					880
	16/6/14	Stationery	390		390			
	20/6/14	Petrol for	180	180				
	21/6/14	delivery	280			280		
	23/6/14	van Taxi	660					660
	24/6/14	fare	400					400
	28/6/14	Postages	310					
	30/6/14	Disinfectant	120		120			
	30/6/14	Petrol for GMs car						
5,000		Service of						
610	1/7/14	delivery van	4,390	380	960	630	480	1,940
		Writing materials	610					
4,390	1/7/14	Transport fare	5,000					
		Balance c/d						
		Balance b/d						
		Reimbursed						

The double entry for the disbursements during June, 2014 will be

completed by posting the total of each of the payments columns to the debit of the appropriate ledger accounts. For example, ₦380 will be debited to postages account, ₦960 debited to transport and travelling account and so on.

SELF-ASSESSMENT EXERCISE

Explain how posting is made in the petty cash book.

4.0 CONCLUSION

The cash book is both a book of original entry and a ledger. Entries into the cash book must obey the double entry principle. The cash book provides a means of controlling cash. To take care of sundry small day-to-day cash payments in an organisation, the petty cash book becomes relevant. It plays the role of a subsidiary book. The funding of petty cash is through the imprest system.

5.0 SUMMARY

We have discussed the nature and uses of the cash book as well as distinguished between the treatments given to various items in the cash book. Also, we explained and demonstrated the use of the columnar cash books. Furthermore, we considered the usefulness of the petty cash book and voucher, as well as the imprest system. The imprest system enables control to be kept over the series of frequent small expenditure of the organisation because all petty cash disbursements must be duly authorized /approved.

6.0 TUTOR-MARKED ASSIGNMENTS

1. Discuss the advantages of the imprest system.
2. Gbadeges in Cooperative operates its petty cash account on the imprest system. It maintains its imprest at a figure of ₦56,000 on the first day of each month. At 31 May, 2016, the petty cashier had a balance of ₦3,100 at hand.

During the month of June, 2016, the following petty cash transactions arose:

		₦
1st	Paid bus fares	900
2 nd	Bought stationery	4,800
7 th	Bought trade journals	2,400
8 th	Bus fare	1,280
11 th	Bought stationery items	2,320
12 th	Bought printer ribbon	740

14 th	Postage	1,160
15 th	Paid for newspapers	1,800
16 th	Repair of giant stapling machine	700
18 th	Bought postage stamps	4,000
20 th	Bought wrapping paper	1,100
22 nd	Biro pens	3,600
25 th	Paperclips	1,440
28 th	Repair of computer printer	1,200
29 th	Transport fare	2,300

You are required to draw up a petty cash book with analysis columns for transport and travelling, stationery, journals, and newspapers, postage, and general expenses.

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UNIT 4 TRIAL BALANCE AND SUSPENSE ACCOUNT**CONTENTS**

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Trial Balance and Suspense Account
 - 3.2 Nature and purpose of Trial Balance
 - 3.3 Errors that do not affect trial balance
 - 3.4 Errors that affect the trial balance
 - 3.5 Corrections of Errors/ Suspense Account
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor marked assignment
- 7.0 Reference and further readings

1.0 INTRODUCTION

In Unit 2, we discussed the preparation of the ledger. This unit will examine the trial balance which consists of the balances in the ledger account at a particular time. Errors that affect the trial balance will also be discussed as well as the correction of these errors.

2.0 OBJECTIVES

At the end of this unit, you will be able to:

- discuss the nature and purpose of trial balance
- identify errors that occur in a trial balance
- differentiate between errors that affect the trial balance and errors that do not affect the trial balance
- balance a suspense account.

3.0 MAIN CONTENT**3.1 Trial Balance and Suspense Account****3.2 Nature and Purpose of Trial Balance**

The trial balance is a list of all the balances in the ledger. It is expected that the total of debit balances should equal the total of credit balances. This is due to the double entry principle that for every debit balance, there should be a corresponding credit balance.

Purpose of Trial Balance include:-

- It serves as a check on arithmetical accuracy of the entries
- It serves as a check on errors of posting
- It serves as a basis for the preparation of financial statements.

However, the fact that a trial balance balances does not imply that there are no errors in the postings.

FORMAT OF TRIAL BALANCE

Particulars	Dr. ₦	Cr. ₦

SELF-ASSESSMENT EXERCISE

Discuss the nature and purpose of a trial balance

3.3 Errors that do not affect the Trial Balance

As earlier mentioned, there are some errors which do not prevent the two sides of the trial balance from being equal. These include:

1. **Error of Omission:** These errors arise when a transaction is completely omitted from the books. e.g Cash sales of ₦1,000,000 completely omitted.
2. **Error of Commission:** This error occurs where a wrong account in the same ledger is debited or credited i.e. correct amount is entered but in the wrong book e.g. debiting or crediting P. Ojukwu Account instead of the account of T. Okoro.
3. **Errors of Original entry:** This arise when the equal debit/credit figure recorded in the books is different from the actual amount in the source document e.g. a purchase of ₦3,000,000 but recorded as ₦300,000 in both purchases and suppliers account.
4. **Compensating Errors:** This arises where errors in one account canceled out by error of other account e.g. sales and purchase overstated by the same account.
5. **Errors of Principle:** This occurs where there is an entry in the wrong class of account e.g. Purchase of equipment is debited to equipment expense account.
6. **Complete reversal of entries:** Here correct accounts are used but each item is shown on the wrong side of the account e.g. cash sales made is recorded as a debit and cash is credited.

SELF-ASSESSMENT EXERCISE

Explain any four errors that do not affect the trial balance

3.4 Errors that affect the Trial Balance

These are errors which when they occur lead to a disagreement in the balance totals of the two sides of the trial balance. They include:

1. Error in computing the account balance(s) in the ledger
2. Incorrect addition of trial balance
3. Errors of wrong posting i.e. posting a debit as credit or vice versa on the trial balance
4. Transposition error which is created by incorrect arrangement of the order of two (2) digits in a number e.g. a debtor's account balance is ₦5,204,000 but in copying the figure into the trial balance is written as ₦5,240,000
5. Slide Error: This result when a digit or more is left or added to a number or the decimal point is placed incorrectly e.g. writing ₦9,000,000 and ₦900,000
6. Error due to omission of account(s): This error arises where there is an omission of account(s) already balanced in the ledger in the process of extracting the trial balance.

SELF-ASSESSMENT EXERCISE

Explain the various errors that affect the trial balance.

3.5 Suspense Account

A suspense account is a temporary account. It is opened in order to agree the Trial balance pending the time the error would be detected. A suspense account is a temporary account that is used to correct errors that affects the trial balance.

Correction of Errors: It is only errors that affect trial balance that requires the use of suspense account. However, every correction is done through the general journal.

Illustration I

Trial balance of ABC Ltd. For the year ended 30th June 2008 has suspense account with a credit balance of ₦140,000. On further investigation, you ascertain that the balance is made up of the following items:

X		4,000
1/6/08	Balance	2,000
	Cash (incorrect)	4,000
		2,000
		4,000

Local Travels Account

	₦	
	30/6/08	Suspense
	19,000	

SELF-ASSESSMENT EXERCISE

Discuss the use of Suspense Account in the treatment of errors

4.0 CONCLUSION

In this unit, you were introduced to the nature and purpose of the trial balance and errors that affect the trial balance as well as errors that do not affect the trial balance. The role of suspense account in the correction of errors was also discussed.

5.0 SUMMARY

The role of the trial balance in ensuring that financial records are free from errors was discussed in this unit. The role of the suspense account in correcting errors that affect the trial balance was also examined.

6.0 TUTOR MARKED ASSIGNMENT

1. Prepare a trial balance from the following information extracted from the books of Lasgidi Cooperative Society

2. ~~₦~~

Sales	22,000
Capital	16,000
Creditors	1,005
Discount received	25
Bank overdraft	2,620
Discount allowed	63
Bad debts	55
Purchases	7,200
Wages	18,000
Stock	2,000
Motor vehicle	850
Drawings	2,500
Buildings	7,000
Furniture	2,100

Expenses	1,050
Debtors	1,200
Returns outwards	400
Return inwards	32

Trial balance of **Lasgidi Cooperative Society** as at 31st December 2014 shows difference of ~~₦~~8,500 being a shortage on the debit side debited into suspense account opened. On further investigation, the following were discovered on 31st January 2015.

1. Sales account had been overstated by ~~₦~~6,000.
2. Salaries and wages had been undercast by ~~₦~~1,000.
3. ₦4,000 cash paid to Lasgidi has been entered in cash book but yet to be debited into Lasgidi account.
4. Purchases account has been overstated by ~~₦~~2,500.
5. Cash sales of ~~₦~~10,000 was not recorded.

You are required to correct the errors.

7.0 REFERENCES/FURTHER READINGS

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UNIT 5 CONTROL ACCOUNTS

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1.0 INTRODUCTION

The whole process of book-keeping revolves around the idea that the records “balance”, that is, every transaction has a credit and a debit, and the total of the debits equals the total of the credits. In other words, if there are no errors in the records, the trial balance will balance.

When a trial balance does not balance, it shows that errors have been made in the accounting entries which may be difficult and time-consuming to trace, especially in a large business organisation. The problem of errors can be solved by having a control account for each ledger that shall act as a check on the accuracy of the entries in that ledger. Most notable of control accounts are the debtors and creditors control accounts. These are ledger accounts which summarize a large number of transactions, and should be free from errors if the trial balance must agree. Sometimes, a ledger that has a control account is referred to as a self-balancing ledger.

In this unit, therefore, apart from looking at the meaning of control account, we shall consider how control accounts are written-up. Also, we shall explain what advantages control accounts have. And lastly, we shall go into the treatment of certain items in the control account.

2.0 OBJECTIVES

At the end of this unit, you will be able to:

- explain the meaning of control accounts;

- discuss how control accounts are written-up;
- explain the advantages of control accounts;
- give accounting treatment to certain items in the control accounts.

3.0 MAIN CONTENT

3.1 Control Accounts

3.2 Meaning of Control Accounts

A control account is an account which contains the summary of entries in the individual accounts in each ledger. Put in another way, a control or total account is a replica, in summarized form, of the accounts in the ledger to which it relates. By logic of extension, therefore, the balance on this account, all things being equal, will be equal to the total of all individual balances in the ledger. The principle of control accounts can be applied to all ledgers but it is often restricted to sales ledger and purchases ledger.

SELF-ASSESSMENT EXERCISE

What do you understand by a control account?

3.3 Writing Control Accounts

From the explanation above, we understand that a control account contains the summary of entries in individual accounts. However, the figures posted to the control account are not obtained from the individual accounts themselves. For example, the figures posted to the debtors control account are not obtained from the individual debtors accounts while the figures posted to the creditors control account are not obtained from the individual creditors accounts.

Instead, the total credit sales, total returns from customers, and total discounts allowed figures posted to the debtors control account are obtained from the sales day book, returns inwards day book and discount allowed column of the 3 – column cash book respectively. Similarly, the total credit purchases, total returns to suppliers and total discount received figures posted to the creditors control account are obtained from the purchases day book, returns outwards day book and the discounts received day book of the 3 – column cash book respectively.

It has to be mentioned that the control accounts are memoranda records which implies that the entries in them are not made on the basis of double entry. The double-entries are the ones made in the individual

accounts.

At this point, let us summarise the sources of the entries posted to the control accounts:

RECEIVABLES' CONTROL ACCOUNT

Debit Entries

Total credit sales
Dishonoured cheques from customers
Interest charged to customers
Bill receivable dishonoured

Source

Sales day book
Cashbook
Journal book
Journal book

Credit Entries

Cheques and cash received from customers
Discount allowed

Journal book
Bills receivable accepted by customers
Returns inwards
Purchases ledger contrast (set-off)

Source

Cashbook
Discount allowed column of 3-
column cash book Bad debt
Column of 3 – column cash book
Journal book
Returns inwards day
Journal book

CREDITORS CONTROL ACCOUNT

Debit Entries

Cheques and cash paid to suppliers
Discount received

Bills payable accepted in favour of suppliers
Returns outwards
Sales ledger contrast (set-off)

Source

Cashbook
Discount received column of 3-
column cash book
Journal book
Returns outwards daybook
Journal book

Credit Entries

Total credit purchases
Dishonoured cheques
Interest charged by suppliers
Bills payable dishonoured

Source

Purchases day book
Cashbook
Journal book
Journal book

FORMAT OF CONTROL ACCOUNTS

Receivables' Control Account/Sales Ledger Control Account

₦		₦	
Balance brought down	x	Balance brought down	x
Credit sales	x	Discount allowed	x
Dishonoured cheques		Bad debts	x
Interest charged to customers	x	Bills receivable	x
Bills receivable dishonoured	x	Cheques received from customers	x
Transfer of credit balances to Payables		Cash received from customers	x
Control Account **	x	Returns inwards	x
Transfer of debit balances from payables		Contra - Purchase ledger(set-off)*	x
Control Account **	x	Balance carried down	xxxx
Balance carried down	x_xx	Balance brought down	x
Balance brought down	x		

SELF-ASSESSMENT EXERCISE

Discuss how control accounts are written-up. Give specific examples of entries and sources.

Payables' Control Account/Purchases Ledger Control Account

₦		₦	
Balance brought down	x	Balance brought down	x
Discount received	x	Credit Purchases	x
Bills Payable	x	Dishonoured Cheques	x
Cheques paid to Suppliers	x	Interest charged by suppliers	x
Cash paid to Suppliers	x	Bills payable dishonoured	x
Return outwards	x	Transfer of credit balances from	
Sales ledger contra (set-off)*	x	Receivables' Control Account**	x
Balance carried down	x-xx	Transfer of debit balances to	Receivables'
Balance brought down	x	Control Account**	x
		Balance carried down	x_xx_x
		Balance brought down	x

3.4 Advantages of Control Accounts

From our discussions so far, let us highlight the merits of control accounts as follows:

- A control account serves as a check on the accuracy of the entries in the ledger to which it relates. Thus, control accounts make it possible to localize errors to specific ledgers so that precious time is not wasted checking ledgers which have no errors.
- Control accounts are usually put under the charge of a senior official; they serve as a check against error and fraud by the juniors who keep the ledgers.
- For management purposes, the balance on the sales ledger control account can be taken to be the total amount owed to creditors.

This saves the time and efforts of drawing up the debtors and creditors schedules, thereby, aid the timely preparation of draft periodic accounts.

SELF-ASSESSMENT EXERCISE

Discuss the advantages of control accounts.

3.5 Accounting Treatment of Certain Items in Control Accounts

3.5.1 Debtors Control Account

1. Bills receivable – where bills receivable and bills receivable accepted are both given, the later should be used because the obligation of the debtor on a bill arises only when he accepts the bill. However, when only bills receivable is given, it should be interpreted to mean bills receivable accepted.
2. Bills receivable discounted should be disregarded. When a bill is discounted, no entry goes to the debtors account, and invariably, no entry in respect of that would go to the debtors control account.
3. Bills receivable honoured should be disregarded. When a debtor honours a bill receivable, no entry is made to the debtors account, and therefore, no entry need be made to the debtors control account.
4. Bad debt recovered should be ignored unless it had earlier been credited to the debtors control account along with the other sums collected from debtors. In that case, it should be debited to the debtors control account.
5. Provision for bad/doubtful debt and discount allowable should be disregarded because they do not affect the debtors account at all. Therefore, no entry need be made to the debtors control account in respect of these provisions.
6. Cash sales should be disregarded. The entry for cash sale is to debit the cash book and credit the sales account. Since no entry is made to the customer s account, it would not be necessary to make any entry to the debtors control account in respect of cash sales.

3.5.2 Creditors Control Account

1. Where “bills payable” and “bills payable accepted” are both given, the latter should be used because the right of the creditor on a bill arises only when the debtor accepts the bill. However, where only “bills payable” is given, it should be interpreted to mean “bills payable accepted”.

2. Bills payable honoured should be ignored because when a bill payable is honoured, no entry is made to the creditors account and, of course, no entry need be made to the creditors control account.
3. Provision for discount receivable should be disregarded because it does not affect the creditors control account.
4. Cash purchases should be disregarded because the related entries have nothing to do with either the creditors account or the creditors control account.

EXAMPLE

Mahmud the Financial Secretary of Ikeja Cooperative Society keeps his books so that a Sales Ledger Control Account and a Purchases Ledger Control Account are shown in his general ledger and balanced at the end of the month. From the following details, show how these two control accounts will appear in the general ledger for the month of December, 2014.

At December, 2014	₦
Dr. Balances in the sales ledger	27,000
Dr. Balances in the purchases ledger	830
Cr. Balances in the sales ledger	600
Cr. Balances in the purchases ledger	24,000
For the month of December, 2014	
Total credit purchases	35,000
Total credit sales	40,000
Sales returns and allowances	720
Purchase returns and allowances	400
Cash received from trade debtors	15,000
Cheques received from trade debtors	30,000
Discounts received from creditors	240
Payments made to trade creditors	32,800
Discounts allowed to trade debtors	720
Bad debts written-off	100
Provision for doubtful debts	400
Bills of exchange accepted by trade Receivables of Ikeja co.	8,600
Sales ledger credit balances transferred to purchases ledger	160
Cash purchases	6,000
Dishonoured bills payable	260
Dishonoured bills receivable	300
Cr. balances in the sales ledger	390
Dr. balances in the purchases ledger	360

SOLUTION**Ikeja Cooperative Society**

Sales Ledger		Control Account	
₦		₦	
Balance brought down	27,000	Balance brought down	600
Sales	40,000	Sales returns and allowance	720
Purchase ledger control	160	Cash	15,000
Bills receivable dishonoured	300	Bank	30,000
Balance carried down	390	Discount allowed	720
	<u>67,850</u>	Bad debts	100
Balance brought down	<u>12,110</u>	Bills receivable	8,600
		Balance carried down	<u>12,110</u>
			<u>67,850</u>
		Balance brought down	195

Ikeja Cooperative Society**Payables' Control Account/Purchases Ledger Control Account**

Payables' Control Account		Purchases Ledger Control Account	
₦		₦	
Balance brought down	830	Balance brought down	24,000
Discount received	240	Purchases	35,000
Bills Payable	13,200	Sales ledger Control	160
Bank	32,800	Bills payable dishonoured	260
Discount Received	240	Balance carried down	<u>360</u>
Balance carried down	<u>12,310</u>		<u>59,780</u>
	<u>59,780</u>	Balance brought down	<u>12,310</u>
Balance brought down	360		

SELF ASSESSMENT EXERCISE

Explain the accounting treatment of the following items in the control accounts:

- i. Bills receivable discounted Bills receivable honoured Cash sales
- ii. Bills payable accepted
- iii. Provision for discount receivable
- iv. Cash purchases
- v. Total credit sales
- vi. Provision for doubtful debts Discounts received from creditors

4.0 CONCLUSION

Having a control account for each ledger that act as a check on the accuracy of the entries in that ledger is a sure way to solve problems which arise from wrong entries. The notable control accounts are the

debtors and creditors control accounts. A control account as the advantage of serving as a check on the accuracy of the entries in the ledger to which it relates.

5.0 SUMMARY

We have seen the control (or total) account as one which contains the summary of entries in the individual accounts in each ledger. We have also observed that the figures posted to the control accounts are not obtained from the individual accounts themselves.

Mention was made that the control accounts are memoranda records which means that the entries in them are not made on the double-entry principle. We have also considered the various advantages which control accounts can offer as well as the accounting treatment given to certain items in the control accounts.

6.0 TUTOR-MARKED ASSIGNMENTS

1. (a) Explain the concept of Control Account.
(b) What advantages do Control Accounts offer?
2. Enter the following amounts in the purchases ledger control and sales ledger control accounts in the general ledger of Kajose Credit & Thrift Cooperative Society, and obtain balances at the end of the period:

1st Jan.	₦
Purchases ledger control balances	8,650
Sales ledger control balances	12,390
Summary of transactions during the period:	
Purchases journal total	43,270
Sales journal total	72,680
Sales returns journal total	1,460
Purchases returns journal total	1,320
Cash rebate given	240
Cash and cheques received from debtors	69,350
Cash and cheques paid to creditors	45,190
Discounts allowed	150
Discounts received	170
Bad debts written-off	490
Dishonoured cheque received	2,300

7.0 REFERENCES/FURTHER READINGS

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UNIT 6 BANK RECONCILIATION STATEMENTS

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Bank Reconciliation Statements
 - 3.2 Bank Statements and Reconciliation
 - 3.3 The Bank Reconciliation Statement
 - 3.4 Methods of Bank Reconciliation
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignments
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1.0 INTRODUCTION

In Unit 3, we considered the Two-Column Cash Book which provides two columns, one each for cash and bank transactions. Therefore, this cash book brings together the cash and bank accounts maintained by an organisation. Usually, the business transacts with the bank while the bank transacts with the business. The cash book records all the business transactions with the bank, and for all the bank's transactions with the business, a bank statement records the proceedings. However, the balance on the cash book is rarely if ever the same as the balance on the bank statement. Therefore, in this unit, we shall examine the need to agree our bank balance obtained from the cash book to the bank statement balance issued by the bank. Also, we shall consider the factors that are responsible for the differences in balances, how they are treated and how reconciliation statements are prepared.

2.0 OBJECTIVES

At the end of this unit, you will be able to:

- explain why the bank balance obtained from the cash book differs from that of the bank statement
- discuss the need for bank reconciliation statements
- prepare the bank reconciliation statements to agree the two balances.

3.0 MAIN CONTENT

3.1 Bank Reconciliation Statements

3.2 Bank Statements and Bank Reconciliation

Banks send monthly or periodical statements to their customers – individuals, associations, corporate entities, etc. A bank statement shows details of bank's transactions (deposits, withdrawals and charges) with their customers during a given period. At the end of the period to which the statement relates, it would indicate the balance in the account taking note of the credits (deposits) and debits (withdrawals and charges).

Earlier in the introduction, we noted that it is difficult for the cash book balance to agree with the balance on the bank statement, why? One reason can be attributed to timing differences. For example, a cheque payment may be recorded in the cash book when it is issued. The bank only records such a cheque when it is paid by the bank, which may be several days or even weeks later (unpresented cheque). Other examples are outstanding deposits and uncredited lodgements.

Secondly, some items may appear in the bank statement but are yet to be entered in the cash book, and these include bank charges, bank interest paid (on overdrafts) or received (on deposits), standing orders and direct debts, credit transfers (where a receipt has been paid direct into the organisation's bank account), cheques returned unpaid, and unauthorised debits due to genuine mistakes or fraud. Therefore, bank reconciliation is the process of investigating the difference in both balances and attempting to agree them.

SELF-ASSESSMENT EXERCISE

Explain why the cash book balance is rarely if ever the same as the balance on the bank statement.

3.3 The Bank Reconciliation Statement

This is a statement prepared to agree the balances of both the bank statement and the cashbook. Apart from this function, the bank reconciliation statement helps to ensure that: All deposits and withdrawals have been entered correctly. No unauthorized debits have been made in the account. Frauds and errors are detected early and corrected.

The reconciliation process is to verify the entries by ticking the credit

side of the bank statement to the debit side of the cash book and vice versa. Any unticked entries in either the statement or the cashbook represents items given as examples in explaining the reasons why balances in the statement and the cash book do not agree. The items could be treated as follows:

Unpresented cheques have been deducted in the cashbook already but not in the bank statement. Either we add it back to cash book balance or deduct from bank statement balance.

Direct debits are either added to cash book balance or deducted from bank statement balance.

Uncredited lodgements are either added to the statement balance or deducted from cash book balance. Frauds and errors should be investigated and corrected.

SELF-ASSESSMENT EXERCISE

- i. Define the bank reconciliation statement.
- ii. Discuss the bank reconciliation process.

3.4 Methods of Bank Reconciliation

There are two methods of bank reconciliation:

1. Update the cash book by recording items in the bank statement not in it, and then, reconcile the adjusted cash book balance to the statement balance.
2. Do straight reconciliation.

We shall demonstrate both methods in the following illustration:

On 31 July, 2014, Kotangora Cooperative Society received a bank statement which showed a balance of ₦198,000 whereas the bank column of the cash book showed a balance of ₦140,000. After comparing the entries in both, the following items were revealed as accounting for the difference:

29 July 2014	Dividend received from ABC Ltd. credited by bank not yet recorded in the cash book amounts to ₦16,000.
30 July 2014	Payment of ₦10,000 by standing order not yet recorded in the cash book.
30 July 2014	Transfer charges (₦300) and bank commission (₦700) not yet recorded in the cash book.
31 July 2014	Interest of ₦24,000 credited by bank not yet entered into the cash book.

31 July 2014 Cheque Nos. 311, 316 and 317 in favour S. Kasali, John Dans and Dennis Kay for ₦6,000, ₦16,000 and ₦7,000 respectively, have not been presented for payment.

You are required to prepare a bank reconciliation statement.

Method I: Kotangora Cooperative Society

Dr. Adjusted Cash Account (Bank Column)

Cr.

Date	Particular	Folio	Amount (₦)	Date	Particular	Folio	Amount (₦)
29/7/14	Balance as given		140,000	30/7/14	Payment by Order		10,000
31/7/14	Dividend (ABC Ltd)		16,000	30/7/14			300
	Interest (Bank)		24,000	30/7/14	Transfer Charges		700
	Balance b/d		180,000		Bank Commission		169,000
			169,000		Balance c/d		

Bank Reconciliation Statement

₦	₦
Balance as per Bank Statement	
Less:	198,000.00
Unpresented cheques:	6,000.00
S. Kasali (311)	16,000.00
John Dans (316)	7,000.00
Dennis Kay (317)	29,000.00
Balance as per adjusted Cash Book	169,000.00

Method II: A Straight Reconciliation

₦	₦
Balance as per Bank Statement	198,000.00
Add: Direct Debits:	300.00
Transfer charges	700.00
Bank Commission	10,000.00
Payment by order	11,000.00
	209,000.00
Less: Unpresented cheques	29,000.00
Less: Direct Credits:	16,000.00
ABC Ltd. Dividend	24,000.00

	Particular	Folio	Amount	Date	Particular	Folio	Amount
1/6/15	Balance b/f		12,000	2/6/15	Cheque		800
3/6/15	Cash		1,000	2/6/15			300
5/6/15	Cheque		170	6/6/15	Owen Cheque		210
7/6/15	Konb Cheque		440	8/6/15			730
9/6/15	Ladi Cheque		310	10/6/15	Peter Cheque		2,240
11/6/15	Micha		720	12/6/15	Bello Cheque		13,360
	Cheque		<u>169,000</u>				14,640
			<u>14,640</u>		Smart Cheque		169,000
	Balance b/d				Thom		
					Balance c/d		

Bank Interest

69,000.00

Balance as per Cash Book**₦140,000.00****SELF-ASSESSMENT EXERCISE**

Prepare a bank reconciliation statement using the following particulars:

30 April 2015 Bank statement balance	₦780,000
Cashbook balance	₦680,000
Cheques drawn not presented for payment	₦300,000
Cheques paid into bank not yet credited	₦200,000

4.0 CONCLUSION

You must have realised that usually, the balance on the cash book and the bank statement do rarely agree with each other, due to timing differences as well as the fact that some items may appear in the bank statement but yet to be recorded in the cashbook. A process of bank reconciliation which involves investigating the differences in both balances is employed to agree the balances. This leads to the generation of a bank reconciliation statement.

5.0 SUMMARY

In this unit, we have examined the need to agree our cash book balance to the bank statement balance. We considered, also, reasons for the differences in both balances, and how they could be reconciled. Two methods were employed to illustrate/demonstrate how bank reconciliation statements are drawn.

6.0 TUTOR-MARKED ASSIGNMENTS

1. Discuss the need for bank reconciliation.
2. The following cash book and bank statement relates to the firm Onitsha Cooperative Society for the month of June 2015.

Bank Statement as at 12th June 2015

Dr.	Cr.	Balance
1/6 Balance		12,000.00Cr.
2/6 Cheque No.5554800.00		11,200.00Cr
3/6 Cash	1,000.00	12,200.00Cr.
4/6 COT	40.00	12,160.00 Cr.
5/6 Cheque deposits	170.00	12,330.00Cr.
6/6 Cheque No.5555	300.00	12,030.00 Cr.
7/6 Cheque deposit	440.00	12,470.00 Cr.
8/6 Cheque deposit (by Yinka)	1,200.00	13,670.00Cr.
9/6 Cheque dishonoured	170.00	13,500.00 Cr.
11/6 Standing Order (Insurance Prem)	1,120.00	12,380.00 Cr.
12/6 Cheque No.5556	210.00	12,170.00Cr.

You are required to:

- a. Adjust the Cash Book
- b. Prepare a Bank Reconciliation Statement.

7.0 REFERENCES/FURTHER READINGS

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MODULE 2

Unit 1	Overview of Cooperative Accounting
Unit 2	Preparation of the Final Account of a Cooperative Society
Unit 3	Accounts of Non – Profit Making Organisations
Unit 4	Financial Statements
Unit 5	Accounts from Incomplete Records

UNIT 1 OVERVIEW OF COOPERATIVE ACCOUNTING**CONTENTS**

1.0	Introduction
2.0	Objectives
3.0	Main Content
3.1	Concept of Cooperatives/Cooperative Society
3.2	Cooperative Accounting
3.3	Purpose/Need for Cooperative Accounting
3.4	Merits of Preparing and Maintaining Records
3.5	Books of Account
3.6	Various Reports in Cooperative Accounting
4.0	Conclusion
5.0	Summary
6.0	Tutor-Marked Assignment
7.0	References/Further Reading

1.0 INTRODUCTION

Financial reports are used to evaluate past operations and are the basis for management and operating decisions on future projects. The boards of directors use the reports for feedback on the financial status of the cooperative, to evaluate progress and to make informed decisions about future operations. Managers need accurate and timely information to run the day-to-day operations. Creditors examine the financial reports when considering loans to the cooperative and accountants need accurate records to prepare tax documents. Accurate and current records are also important to members of the cooperative. Records should show the net profit, the level of each member's patronage account and the amount of equity members hold in the cooperative. This facilitates distribution of patronage refunds and ensures that the cooperative is operating according to cooperative principles.

In this unit, therefore, we shall look at the concept of cooperatives/the cooperative society as well as make an overview of cooperative accounting.

2.0 OBJECTIVES

At the end of this Unit, you should be able to:

- explain the concept of cooperatives/cooperative society;
- explain cooperative accounting;
- enumerate and explain the various reports in cooperative accounting;
- discuss the importance of Accounting in Cooperatives.

3.0 MAIN CONTENT

3.1 Concept of cooperative/Cooperative Society

There are certain organizations which undertake business activities with the prime objective of providing service to the members. Although some amount of profit is essential to survive in the market, their main intention is not to generate profit and grow. They pool available resources from the members, utilize the same in the best possible manner, and the benefits are shared by the members.

The term “co-operation” is derived from the Latin word “co-operari”, where the word “co” means “with” and “operari” means “to work”. Thus, co-operation means working together. So, those who want to work together with some common economic objective can form a society which is termed “co-operative society”. It is a voluntary association of persons who work together to promote their economic interest. It works on the principle of self-help as well as mutual help. The main objective is to provide support to members. Nobody joins a cooperative society to earn profit. People come forward as a group, pool their individual resources, utilize them in the best possible manner, and derive some common benefit out of it.

A cooperative is a society of people with its main objects as promotion of economic and social interests of its members by means of common undertaking. It operates based on mutual aid and conforms to cooperative principles; it is established for the purpose of facilitating operations of societies.

The International Cooperative Alliance’s Statement on the Cooperative Identity defines a cooperative as “*an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise*”.

It is a business organization owned and operated by a group of

individuals for their mutual benefit. A cooperative may also be defined as “a business owned and controlled equally by the people who use its services or who work at it”. A cooperative can be seen as a legal entity owned and democratically controlled equally by its members. Members have a close association with the enterprise as producers or consumers of its products or services, or as its employees.

Types of cooperative societies include the following:

- (i) Consumers’ Cooperative Society
- (ii) Producers’ Cooperative Society
- (iii) Cooperative Marketing Society
- (iv) Cooperative Credit Society
- (v) Cooperative Farming Society
- (vi) Housing Cooperative Society

SELF-ASSESSMENT EXERCISE

Briefly explain the concept of Cooperative Society.

3.2 Cooperative Accounting

The cooperative Society’s accounting system is a method of recording and reporting the financial results of its business transactions. The bookkeeper records the business transactions of the cooperative in a daily journal. These records are then used to generate various financial reports that provide an historical record of the cooperative’s business activity.

Three financial reports commonly used in business are the balance sheet (financial position), income statement, and the statement of cash flows. They report the financial position of the cooperative, its performance over a given time period, and its ability to meet cash obligations. They are the basis for planning future operations. Each report contains different, but interrelated information that together give a complete picture of the financial operations of the cooperative. Managers, bookkeepers and board members should be able to understand and interpret these reports so they can make informed business decisions about the future of the cooperative.

The Statement of Financial Position is used to report the financial position of the cooperative at a given point in time, usually at the end of a month, quarter, or year. It shows the assets owned by the cooperative balanced against its liabilities and member equity. Assets are listed on the left-hand side of a balance sheet while liabilities and member equity are listed on the right-hand side. Total assets, or resources owned by the cooperative, must always equal the total liabilities and equity, or

obligations of the cooperative.

Assets = Liabilities + Equity

Assets: Resources owned by the cooperative.

Liabilities: Debts owed by the cooperative

Equity: Member's interest in the cooperative

Self Assessment Exercise

What are the basis of Cooperative Accounting

3.3 Purpose/Need for Cooperative Accounting

The relevant information contained in the annual report of a cooperative society should provide the following information:

- i. The performance of the society throughout the year.
- ii. The value of the entire non-current assets (fixed assets) showing the cost and accumulated depreciation.
- iii. The total estimated investments and anticipated returns.
- iv. The total loan granted to members and the accrued interest.
- v. The value of inventory at the end of the year
- vi. The income and expenditure account of the society.
- vii. The report of the audit committee.
- viii. The amount of dividend payable to each members of the society.
- ix. The savings of members during the year.

SELF ASSESSMENT EXERCISE

Is there really a need for Cooperative Accounting? Explain

3.4 Merits of Preparing and Maintaining Records

- i. It provides a basis for the measurement of the cooperative performance.
- ii. Adequate records disclose the financial position of the society.
- iii. It helps to instill discipline on those saddled with the responsibilities of running the society.
- iv. It provides accurate business reports.
- v. To provide information to other stakeholders.

3.5 Books of Account

The essential books of account of a typical cooperative society include but not limited to the following:

1. Cash Receipt Book
2. Cash Book
3. General Ledger
4. Personal Ledger
5. Payment Vouchers
6. Analysis Book
7. Journal Book.

3.6 Various Reports in Cooperative Accounting

Here, we wish to highlight the sample reports in cooperative accounting as follows:

- (i) Operational Reports
 - Daily collection report
 - Summary of Daily collection report
 - Monthly collection report
 - Summary of booklets
 - Pre-collection list
 - Collection efficiency report
 - Daily cash disbursement report
 - Over-payment/withdrawal report
 - Monthly loan released report
 - Schedule of delinquents report
 - Schedule of payments report
 - Repayment report
- (ii) General Ledger Reports
 - Trial balance report
 - Financial condition report
 - Financial condition monthly comparative
 - Financial condition yearly comparative
- (iii) Subsidiary Ledger Reports
 - Members master list
 - Members statement of account
 - Members subsidiary ledger statement
 - Subsidiary ledger status
- (iv) Computation Reports
 - Savings interest computation report
 - Distribution of dividend and patronage refund report

4.0 CONCLUSION

The effective administration of the cooperative requires the maintenance of an adequate recording system which must be tailor made to the need of the management. These records are needed to prepare the final account of the cooperative for stewardship purpose. Also, the usefulness

of adequate accounting records cannot be overemphasized because it will facilitate auditing of the financial reports submitted by the management.

5.0 SUMMARY

In this unit, we have introduced you to the concept of cooperative society and the necessary books of account needed by a typical cooperative society. Therefore, you are expected to have developed knowledge on those account records for each peculiar transaction of a cooperative business.

6.0 TUTOR-MARKED ASSIGNMENT

Mention and explain the various reports in Cooperative Accounting.

7.0 REFERENCES/FURTHER READINGS

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UNIT 2 PREPARATION OF THE FINAL ACCOUNT OF A COOPERATIVE SOCIETY

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content – Final Account of Cooperative Society
 - 3.1 Contents of Final Accounts
 - 3.2 Formats of Final Accounts
 - 3.3 Illustration of Final Accounts
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Reading

1.0 INTRODUCTION

Cooperative societies are saddled with the responsibilities of rendering essential services to members who in most cases are financial members. This is to say that the bulk of the revenue of the society is coming from members' contribution, savings and patronages. In order to ensure effective and judicious use of these resources, competent and trusted members of the society are usually been nominated to manage the affairs of the society at the Annual General Meetings (AGM). Therefore, for the purpose of transparency and accountability, there is need for the submission of the cooperative final accounts giving information about the financial performance of the society within the last calendar year.

This unit seeks to equip the students with the skills and knowledge necessary for the preparation of the final account of the cooperative societies.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- outline the basic final accounts required of a typical cooperative society.
- prepare the Final Accounts of a Cooperative society.

3.0 MAIN CONTENT

3.1 Final Accounts of a Cooperative Society

3.2 Contents of Final Accounts

Basically, the final accounts of a cooperative society include that which will provide information about the financial performance of the society and the one that will provide information about the financial position of the society. Therefore, the final accounts of a typical cooperative society include:

- i. **Income & Expenditure Account:** this account is prepared to show the surplus or deficit recorded in a particular reporting period. On the credit side of the account is the income while the debit side contains the expenditures incurred in a particular year. The excess of the income over expenditure represent surplus otherwise it is a deficit.
- ii. **Statement of Financial Position as at the year end:** this statement shows the financial position of the society as the end of the year. It has the assets and the liabilities sides. The right hand side of the statement represents the Assets of the society while the left hand side represents the liabilities and these two sides are expected to balance at the end of the day.

Assets are shown as Current Assets and Non-Current (Fixed) Assets. Current Assets include cash and those assets that are expected to be converted into cash within one year, such as saleable inventory and accounts receivable. Non-Current Assets are items the cooperative will use during normal operations, such as Buildings, Machinery, and Equipment. Liabilities are shown in two categories-Current or Non-Current. Current Liabilities are those paid within 1 year such as Accounts Payable, Short-Term operating loans, or the current portion of Long-Term loans. Those due beyond the next 12 months, such as Mortgages, are non-current liabilities. The equity section of the Statement of Financial Position shows the amount of capital the members have invested in the cooperative through Stock Purchases, allocated Reserves, and per-unit retains.

The income statement (Profit or Loss Account) reports the results of all business transactions of the cooperative that occurred during a certain time period, such as month, quarter or year. It shows the total Naira revenue of the cooperative, the total Expenses, and the resulting Net Income (or loss). Revenue is the Naira amount earned by the cooperative from operations. It can come from several sources, such as selling merchandise in a supply cooperative, charging members for

services or marketing their products. In multi-functional cooperatives it is useful to separate the revenue from each function on the income statement.

Gross Revenue is the total profit the cooperative received from providing goods and services to members that can be used for business expenses. Expenses are the costs incurred to provide services to members. They vary according to the services provided, and structure of the cooperative. They should be categorized to determine the costs incurred to operate each phase of the cooperative. Administrative costs include the salaries of sales staff, management, and office personnel. Others are office supplies, insurance, accountant fees, and advertising. These expenses are not directly linked to operations, but are the support services it provides. Some are considered fixed costs of operations because they do not vary with the level of output.

In respect of statement of cash flows, only those accounts that result in cash flowing in or out of the cooperative during the accounting period are included on the statement of cash flows. This report shows the change that occurred in amount of cash from the opening to the closing of the cooperative's financial position (balance sheets). Three categories on the statement of cash flows are: operations, investment transactions, and financing transactions. Cash flow from operations gives the net cash from providing goods and services to members and all other cash flows not from investment or financing transactions. This includes net income, adjustments to net income, and changes in balance sheet items. Adjustments to net income offset the non-cash items included on the income statement that do not result in an actual inflow or outflow of cash, such as depreciation, a gain (loss) from the sale of an asset, and deferred taxes. Changes in balance sheet items are assets and liabilities where changes result in positive or negative cash flows, such as accounts receivable, accounts payable, patronage refunds payable, or other accrued expenses. Cash flow from investment transactions includes the purchase or sale of property and equipment, the purchase or redemption of equity in other organizations, and payments from long-term investments. Cash flow from financing transactions includes the acquisition or redemption of loans, the sale of capital stock, redemption of member equities or payment of patronage refunds.

In summary, the financial statements that are prepared in the cooperative accounting are same with financial statements that are made in other companies.

SELF-ASSESSMENT EXERCISE

What are the differences between Account of Profit oriented

organizations and non-profit oriented organizations

3.3 Format of a Typical Final Account

SOFT CO-OPERATIVE SOCIETY

INCOME & EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2016.

Income:	₦	₦
Entrance Fees		X
Dividend from Investment		X
Rebates on Bulk Purchases		X
Fines		X
Interest on Bank Deposit		X
Donations		X
Rent Received		X
Receipt from Farming Operations		X
Result of Consumer Operations		X
Result of Thrift and Credit Operations		X
Processing Operations		X
Total Income		XX
Expenditures		
Subscription to Unions	X	
Printing & Stationery	X	
Bank Charges	X	
Entertainment	X	
Donations	X	
Transportation Fares	X	
Salaries and Wages	X	
Interest Paid on Loans	X	
Depreciation	X	
Meeting Expenses	X	
Repair and Maintenance Expenses	X	
Other Expenses	X	
Total Expenditure		XX
Surplus/(Deficit) of Income Over Expenditure		XX

Adopted from Akeju (2010)

DISPOSAL OF SURPLUS FUNDS

	₦	₦
Surplus		XX
Less:		
Reserve Fund	X	
Education Fund	X	
Members Fund	X	
Honoraria	X	
Provision for Meeting Expenses	X	
General Reserve	X	
Gratuity	X	
Training	X	
		XX
		Nil

Adopted from Akeju (2010)

SOFT CO-OPERATIVE SOCIETY
STATEMENT OF FINANCIAL POSITION AS AT 31ST
DECEMBER 2016

Assets Employed:	Cost	ACC. Depr	NBV
Non-Current Assets	₦	₦	₦
Land & Building	X	X	X
Fixtures & Fittings	X	X	X
Motor Vehicles	X	X	X
Equipment	X	X	X
	XX	XX	XX
Investments – Quoted			X
- Unquoted			X
Current Assets			
Inventory		X	
Account Receivable & Payment		X	
Loans to Members		X	
Short-Term Investment		X	
Bank		X	
Cash		X	
		XX	
Current Liabilities			
Account Payable & Accruals	X		

Short-Term Loans	X		
Other Liabilities	X		
		(xx)	
Capital Employed			xx
Long Term Liabilities			
Long Term Loans			(x)
Net Assets			XX
Financed by:			
Ordinary Savings			XX
Deposit from Members			X
Reserve Fund			X
Education Fund			X
General Reserve			X
Unappropriated Surplus			X
			xx

Adopted from Akeju (2010)

ORDINARY SAVINGS STATEMENT

	₦
Balance b/f	X
Savings during the year	X
Total Savings	X
Withdrawals during the year balance c/f	Xx

Adopted from Akeju (2010)

MOVEMENT OF LOAN STATEMENT

	₦
Balance b/f	X
Granted during the year	X
	XX
Refund during the year	(xx)
Balance b/f	Xx

Adopted from Akeju (2010)

3.3 Illustration 1

The list of balances of SOFT Co-operative Society of Lagos transactions for the year ended 31st December, 2016 include the following:

	₦
Entrance Fees 1	147,500
Fine Received from members	37,000
Interest on Bank Deposit	20,500
Postage and Stationery	5,000
Bank Charges	12,000
Entertainment Expenses	28,000
Wages & Salaries of Staff	150,000
Transportation Costs	40,000
Rent Received	16,000
Interest on Loan to Member	55,000
Members Contribution Received	231,500
Fine paid to Lagos State Govt	21,000
Office Maintenance	13,000
Cost of Seminar Organized	175,000
General Expenses	1,000
Furniture and Fittings	850,000
Rent and Rates	15,000
Investment	100,000
Investment Income	20,000
Long-Term loan from bank	580,000
Deposit from members	2,000,000
Stabilization Fund	7,500
Reserves	5,000
Bank	650,000
Bank Deposit	60,000
Motor Vehicle	1,000,000

Additional information:

1. The following were accrued at year end

	₦
Wages and Salaries	25,000
General Expenses	10,000
Rent Received	12,000
Investment Income	5,000
2. The following were prepaid at year end

	₦
General Expenses	500
Office Maintenance	3,000
Contribution from members	1,500
3. Audit Expenses of ₦4,000 were Outstanding as at 31st December 2016
4. Assets are to be Depreciated at the following rates:
 - Furniture and Fittings 5%
 - Motor Vehicles 7.5%

You are required to prepare:

- a. Income & Expenditure Account for the year ended 31st December 2016.
- b. Statement of Financial Position as at that date.
(Adapted from Akeju, 2010).

SOLUTION

SOFT CO-OPERATIVE SOCIETY INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2016.

Income	₦	₦
Entrance Fee		147,000
Fine Received		37,000
Interest on Bank Deposit		20,500
Interest on Loan to members		55,000
Investment Income (w3)		25,000
Rent Received (w4)		28,000
Contribution from Member (w6)		230,000
		543,000
Expenditure		
Wages & Salaries (w1)	175,000	
Depreciation of F & F	42,500	
Depreciation of MV	75,000	
Postage and Stationery	5,000	
Bank Charges	12,000	
Entertainment Expenses	28,000	
Transportation Costs	40,000	
Fine paid	21,000	
Cost of Seminar	175,000	
Rent and Rates	15,000	
General Expenses (w2)	10,500	
Office Maintenance (w5)	10,000	
Audit Expenses (w7)	4,000	613,000
Excess of Expenditure over Income		(70,000)

SOFT CO-OPERATIVE SOCIETY Statement of Financial Position as at 31st December 2016.

	Cost	Acc. Depr	NBV
Non-Current Assets	₦	₦	₦
Motor Vehicles	1,000,000	75,000	925,000
Furniture & fittings	850,000	42,500	807,500
		117,500	1,732,500

Investment			100,000
Bank Deposit			60,000
Current Assets			
Prepaid General Expenses		500	
Prepaid office Maintenance		3,000	
Accrued Rent Received		12,000	
Accrued Investment Income		5,000	
Bank		650,000	
		670,500	
Current Liabilities			
Accrued Audit Expenses	4,000		
Accrued Wages & Salaries	25,000		
Accrued General Expenses	10,000		
Prepaid Contribution	1,500		
		(40,500)	630,000
			2,522,500
Non- Current Liabilities			
Bank Loan			(580,000)
			1,942,500
Equity Financed by:			
Deposit from members			2,000,000
Stabilization Fund			7,500
Reserves			5,000
Excess of Expenditure over Income			(70,000)
			1,942,500

Working Notes

1. Wages and Salaries	150,000
Accrual	25,000
	175,000
2. General Expenses	1,000
Balance as per Account	10,000
Accrual	500
	11,500
3. Investment Income	20,000
Balance as per Account	5,000
	25,000
4. Rent Received	16,000
Balance as per Account	12,000
Accrual	28,000
5. Office Maintenance	13,000
Balance as per Account	(3,000)
	10,000
6. Subscription from member	231,500

Balance as per Account	(1,500)
Prepayment	230,000
7. Audit Expenses	-
Balance as per Account	4,000
	4,000
8. Calculation of Annual Depreciation	
Furniture & Fittings (5/100 x N850,000)	42,500
Motor Vehicles (7.5/100 x N1,000,000)	75,000
	117,500

SELF-ASSESSMENT EXERCISE

Below is an extract of the trial balance of Unity Staff Cooperative Thrift Credit Society Ltd:

Particular	Dr	Cr
Entrance Fees		15,000
Ordinary Savings		55,000
Loan Account	5,000	
Loan Interest		6,000
Stationery	5,000	
Meeting Expenses	4,000	
Transport	2,000	
Cash at Hand	60,000	
	76,000	76,000

Required: Prepare the Final Accounts of the society.

4.0 CONCLUSION

The main objective of the cooperative form of business organization is to provide service rather than to earn profit. The cooperative society is the only alternative to protect the weaker sections of the society and to protect the economic interest of the people. In certain situations when it is not possible to achieve the target by individual effort, collective effort in the form of cooperative society is preferred. Cooperative accounting is not different from the accounting for non-business organizations.

5.0 SUMMARY

In this Unit, we have been able to consider that:

- A cooperative society is a voluntary association of individuals having common needs who join hands for the achievement of common economic interest. Its aim is to serve the interest of the poorer sections of society through mutual help;

- The cooperative's accounting system is a method of recording and reporting the financial results of its business transactions;
- Cooperative accounting is not different from the accounting for non-business organizations and other business organizations.

6.0 TUTOR-MARKED ASSIGNMENT

Illustrate the format of the various reports prepared in cooperative societies.

7.0 REFERENCES/FURTHER READINGS

Akeju, J.B. (2010). Financial Accounting Volume 2. JBA Associate Ltd, Lagos, Nigeria.

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UNIT 3 ACCOUNTS OF NON – PROFIT MAKING ORGANISATIONS

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.1 Main Content
 - 3.1 Accounts of Non-profit Organisations
 - 3.2 Characteristics of Non-profit Organisations
 - 3.3 Clubs and Associations – Accounting Requirements
 - 3.4 Receipts and Payments Accounts
 - 3.5 Income and Expenditure Accounts
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignments
- 7.0 References/Further Readings

1.0 INTRODUCTION

Accounting, as a tool for measurement and communication, is relevant to both business and non-business situations, to all forms of organisations, whether they exist to make profit or not. So far in this course, we have assumed accounting situations where the primary goal is profit-making.

A non-profit organisation such as a church association, school, social club, sports club or charitable institution is one which is funded by members' subscriptions or donations and such funds are used to achieve the objectives of the organisations. In its book-keeping, although the basic principles appear the same, the kind of final accounts prepared by a non-profit organisation tend to differ from those prepared by a profit-making outfit.

Therefore, this unit will attempt to explore into the nature of non-profit organisations, their accounting requirements as well as the nature of final accounts prepared by them.

2.0 OBJECTIVES

At the end of this unit, you will be able to:

- explain the characteristics of non-profit organisations;
- explain the accounting requirements of clubs and associations;
- prepare receipts and payments accounts;
- prepare income and expenditure accounts.

3.0 MAIN CONTENT

3.1 Accounts of Non-Profit Organisations

3.2 Characteristics of Non-Profit Organisations

It is the nature of non-profit organisations, as their name implies, to carry on their activities without the profit motive. They may trade or carry on any other type of business but with the aim of rendering service at the minimum cost. This suggests that they may charge for the services just to recover costs with little or no surplus. The surplus (not profit) they may make could be regarded as a by-product.

Usually, by way of capital, there is little permanent investment by members. Any permanent fund is usually the outcome of periodic surpluses of receipts over payments or income over expenditure accumulated over a number of years. Non-profit organisations usually have “Accumulated Fund” (as we shall see later) in place of “Capital”, and as a result, members have no proprietary right which they may withdraw or transfer upon cessation of membership.

The usual sources of revenue for non-profit concerns are fees, periodic subscriptions and donations. At times, some trading activities may be carried out and a little margin made there from, for example, sale of magazines or journals, sale of food and drinks in a club house, etc. Also, fund-raising activities like exhibitions and variety nights may be organised, from time to time, to get money.

The kind of final accounts prepared by non-profit organisations are either Receipts and Payments accounts or Income and Expenditure accounts.

SELF-ASSESSMENT EXERCISE

Discuss the features of non-profit organization.

3.2 Cooperative, Clubs and Associations – Accounting Requirements

The final accounts which are presented to members of non-profit organisations usually reports to what extent incomes from all sources were enough to meet the expenses incurred during a particular period. Here, “income” can be viewed or adopted either on cash basis or accrual basis. When the cash basis is adopted, a receipts and payments account is prepared but if situation warrants adopting the accrual basis, an income and expenditure account is prepared. We shall explain these

statements shortly.

A Statement of Financial Position, as in the case of profit-making concerns, is also usually prepared which shows the summarised values of assets, liabilities and the accumulated fund being carried forward to the next period.

SELF-ASSESSMENT EXERCISE

What are the Accounting requirements of Non-Profit Organization.

3.3 Receipts and Payments Accounts

Receipts and payments accounts are merely a summary of the cash book for the period. In other words, it is a summary of all the cash transactions carried out during a period. This may be adopted when a very small non-profit concern carries out transactions on cash basis and does not feel the need for more sophisticated information other than merely being interested in assessing the entity's liquidity position.

As a measure of success or otherwise of the activities of the period, the receipts and payments accounts suffer some drawbacks arising mainly from the exclusive reliance on receipts and payments (cash movements) as the evidence that the transaction has taken place. Thus, they do not adequately disclose the results of the organisations activities during a period because: they do not take account of credit transactions – debtors and creditors are not disclosed; they fail to make a distinction between capital and revenue items; they take no account of accruals and prepayments.

SELF-ASSESSMENT EXERCISE

Discuss the disadvantages inherent in adopting the receipts and payments accounts as a measure of the performance of non-profit organizations activities during a period.

3.4 Income and Expenditure Accounts

The limitations of the receipts and payments accounts make it necessary for many non-profit organizations to present reports which are prepared on the accrual basis and in accordance with the principles of double entry. Income is recognised once it is realised whether or not proceeds have actually been received. In like manner, all costs would be taken into account once they have been incurred whether or not they have actually been paid. In effect, income and expenditure accounts have to be prepared on the basis of systematic standard procedures of book-

keeping. The income concept, as disclosed by the income and receipts and payments account. Note that income and expenditure account, and the profit and loss account are the same in form and structure, but differ conceptually, for example:

In the Income and Expenditure Account of a Cooperative, revenue refers to members savings or contribution, fees, subscriptions, donations received as against “Sales” in the profit or loss account.

The difference between revenue and expenditure is known as “surplus” or “deficit” as against “profit” or “loss”.

Illustration 1

ON 31ST DECEMBER 2015, YOU ARE GIVEN THE FOLLOWING REGARDING IBADAN COOPERATIVE SOCIETY.

	₦
Accumulated Fund at 1 st January 2015	44,160
Cash in Hand	600
Cash at Bank	11,040
Equipments	40,800
Postages & Stationery	1,440
Sale of Tickets	38,760
Hire of equipment	3,960
Members Contributions – 2015	11,880
Members Contributions – 2016	480
Donations Received	1,800
Royalties Paid	2,520
Rent of Hall	36,720

Provisions are expected to be made for the following items, which have not passed through the books of the Cooperative.

- i. Outstanding contributions for 2015 amount to ₦720.
- ii. 10% depreciation should be provided on Equipment.
- iii. Rent paid in Advance amounted to ₦480.

You are required to prepare:

- a. Income & Expenditure Account for the year ended 31st December 2015.
- b. Statement of Financial Position as at 31st December 2015.

SOLUTION

IBADAN COOPERATIVE SOCIETY
INCOME & EXPENDITURE ACCOUNTS For the year ended 31st
December 2015.

	₦		₦
Postages & Stationery	1,440	Contributions (11,880 + 720)	12,600
Hire of Equipment	3,960	Donation	2,520
Royalties	2,520	Sale of Tickets	38,760
Rent of Hall (36,720 - 480)	36,240		
Depreciation	4,080		
Surplus of Income Expenses	4,920		
	53,160		53,160

IBADAN COOPERATIVE SOCIETY
STATEMENT OF FINANCIAL AS AT 31ST DECEMBER 2015

Financed by:	₦	Non-current assets	₦
Accumulated Fund	44,160	Equipment	40,800
Add: Surplus for 2015	4,920	Less: Depreciation	4,080
	49,080		36,720
Current Liabilities		Current Assets	
Contributions in Advance	480	Rent in Advance	480
		Contributions Outstanding	720
		Cash at Bank	11,040
		Cash in Hand	600
	49,560		49,560

Example 2

The following is the Receipts and Payments Accounts of the Sambisa Cooperative Society in respect of the year ended 31 December 2014.

RECEIPTS & PAYMENTS FOR THE YEAR ENDED 31 DECEMBER 2014.

	₦		₦
Balb/f	2,050	Salaries	4,160
Members Contributions:		Stationery	800
2013	80	Rates	1,200
2014	4,220	Telephone	200
2015	160	Investments	2,500

Restaurants Profits	3,100	Sundry Expenses	1,850
Dividends on Investments	2,000	Bal c/f	900
	11,610		11,610

In addition to the information contained in the above account, the following facts are also ascertained:

1. There are 450 members each paying an Annual contribution of ₦10.
2. Stock of stationery at 31 December 2013 was ₦100 and at 31 December 2014 was ₦180.
3. At 31 December 2014, the rates were prepaid to the following 31 March, the yearly charge being ₦1,200.
4. A Quarter's charge for telephone is outstanding the amount accrued being ₦70. Expenses accruing at 31 December 2013 were ₦140.
5. At 31 December 2013, the Building stood in the books at ₦20,000 and it is required to write off Depreciation at 5% Per Annum. Investment at 31st December 2013 were ₦40,000.

You are required to prepare an Income and Expenditure Account or the year ended 31 December 2014 and a Statement of Financial Position as at that date.

SOLUTION

First we compute the Accumulated Funds at 1 January, 2014 as follows:

Assets	₦
Buildings	20,000
Investments	40,000
Stock of Stationery	100
Subscriptions in Arrears	80
Prepaid Rates	300
Cash	2,050
	62,530
Liabilities	
Accrued Expenses	(140)
Accumulated Fund – January 1, 2007	62,390

**SAMBISA COOPERATIVE SOCIETY
INCOME & EXPENDITURE ACCOUNT FOR THE YEAR
ENDED 31ST DECEMBER 2014.**

	₦		₦
Stationery (100+800-180)	720	Contributions (450x 10)	4,500
Rates (300+1,200-300)	1,200	Restaurants Profits	3,100
Telephone (200+70)	270	Dividends on Investments	2,000
Sundry Expenses (1,850-140)	1,710		
Salaries	4,160		
Depreciation	1,000		
Surplus of Income over Expenditure	540		
	9,600		9,600

**SAMBISA COOPERATIVE SOCIETY
STATEMENT OF FINANCIAL POSITION AS AT 31
DECEMBER 2014.**

Non-Current Assets	₦	₦	₦
Buildings	20,000	(1,000)	19,000
Investment	40,000	2,500	42,500
			61,500
Current Assets			
Stock of Stationery		180	
Contributions in Arrears		280	
Rates Prepaid		300	
Cash Balance		900	
		1,660	
Current Liabilities			
Contributions in Advance	160		
Outstanding Telephone Charge	70		
		230	1,430
			62,930
Financed by:			
Accumulated Fund as at 1 January			62,390
Add Surplus			540
			62,930

SELF-ASSESSMENT EXERCISE

Distinguish between Receipts and Payments Account and Income and Expenditure account in relation to Non-Profit Organisations.

4.0 CONCLUSION

You would have realized that non-profit organisations, as the name suggests, exist not for profit-making but to achieve the objectives for

which they are established. They could be churches, sports clubs, charitable organizations etc. What appears to be profit at the end of their accounting period is regarded as surplus which results from receipts in excess of payments. Between the profit-making and non-profit organisations, although they adopt similar basic principles of book-keeping, they prepare different final accounts. Non-profit organisations prepare receipts and payments account or income and expenditure account instead of profit or loss account. Also, they have “accumulated fund” in place of “capital” in the financial position(balance sheet).Receipts and payments accounts are not actually accounts but summary statements – summarises all cash transactions carried out during the period. Their major limitation lies on their being prepared on cash basis hence they do not adequately disclose the organisations results at the end of the period.

On the other hand, the income and expenditure accounts are prepared on accrual basis and according to the principles of double entry. Therefore, cognisance is taken of credit transactions (debtors and creditors), accruals and prepayments as well as the distinction between capital and revenue items.

5.0 SUMMARY

In this unit, you have been exposed to the nature of non-profit organisations and their accounting requirements. We have also considered the preparation of their final accounts – receipts and payments accounts, income and expenditure accounts, and the balance sheet. However, because of the limitations of the receipts and payments accounts, income and expenditure accounts are better preferred.

6.0 TUTOR-MARKED ASSIGNMENTS

1. Compare & Contrast the Accounts of a Non-Profit Organizations and the Profit Making Organizations.
2. State the various Sources of Income to a typical Non-Profit Making Organization.

7.0 REFERENCES AND FURTHER READINGS

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UNIT 4 FINANCIAL STATEMENTS

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- 3.0 Main Content
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1.0 INTRODUCTION

In Module 1, we learnt that accounting is a service function which is designed to inform management and other interested parties (like the investors, analysts, creditors, shareholders) about the financial implications and their effects on the organisation. Therefore, the generated accounting information is presented to various interested parties for their respective decisions. How are the accounting information presented?

This will be the focus of this Unit. We will find out that accounting information are presented through the medium of periodic financial statements or financial reports, done in consonance with specified accounting and legal standards relating to the style and content of presentation. We will look at the objectives and structure of financial reports, and discuss the Trading and Profit and Loss Account, and the Statement of Financial Position. We will also look at capital and revenue components of the structure. Finally, we shall consider the treatment of account receivable and payable items of the reports.

2.0 OBJECTIVES

At the end of this unit, you will be able to:

- discuss the objectives and structure of financial reports;
- discuss the components, and demonstrate the formats of the statement of profit or loss and other comprehensive income as

- well as the statement of financial position
- distinguish between the capital and revenue items of the financial statements; and
- discuss the difference between accounts receivable and accounts payable.

3.0 MAIN CONTENT

3.1 Financial Statements

3.2 Objectives and Structure of Financial Reports

The periodic financial reports comprise two major statements – Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position (Balance Sheet). While the Statement of Profit or Loss and Other Comprehensive Income measures the net income or surplus arising from the operations during the period under review, in order to know how actual profits compared with the expected, the Statement of financial position (balance sheet) discloses the financial position of the enterprise (relating to the assets, liabilities and capital) as at a particular date, usually the last day of the accounting period.

The Trading, Profit or Loss account provides the yardstick for measuring the extent to which an organisation has succeeded in attaining its profit making objective. It also shows the relationship between costs and revenues which serve as basis for decisions aimed at improving future performance. In a cooperative society, Trading, Profit or Loss account is prepared to show the business activities of the society.

SELF-ASSESSMENT EXERCISE

Discuss the objectives of the two major types of financial reports.

3.3 Trading, Profit or Loss Account

The Statement of Profit or loss and Other Comprehensive Income matches' period revenue with the costs associated with generating those revenues.

Two components of the trading, profit or loss account are:

- Trading account which discloses gross profit;
- Profit or Loss account which discloses the net profit.

Gross profit is the difference between sales proceeds and the cost of goods sold in a trading account while net profit is the gross profit less the

expenses of the business in the profit or loss account. The trading, profit or loss account of a trading outfit (concerned with buying and selling) using the vertical format would appear as follows:

Statement of Profit or Loss account and Other Comprehensive Income for the period ended 30/6/xx

N	N
Sales Revenue (net of sales returns)	X
Less: Cost of Sales	
Opening Inventory	X
Purchases (net of purchases returns)	X
Carriage inwards	X
Costs of goods available for sale	X
Closing Inventory	(X)
Costs of goods sold	X
Wages**	X
Cost of Sales	X
Gross Profit	X
Other Incomes (e.g. interest, rent, commission, discount & Decrease in Provision for bad/doubtful debts)	X
Administrative Expenses	
Salaries	(X)
Rent and Rates	(X)
Printing and Stationery	(X)
Depreciation	(X)
Other admin. Expenses	(X)
Distribution costs	(X)
Sales commissions	(X)
Salaries	(X)
Advertising and marketing	(X)
Depreciation	(X)
Other distribution costs	(X)
Finance costs (e.g. interest on loans and overdraft)	(X)
Net profit/(loss) for the year	X
<i>Other comprehensive income</i>	
Gain on revaluation of non-current assets	X
Total comprehensive income of the year	X

3.4 The Statement of Financial Position (Balance Sheet)

The Statement of financial position (balance sheet), which is often

prepared on the historical cost basis, can be seen as a collection of the residual values of assets, liabilities and capital carried over from one accounting period into the next, to continue the running of the enterprise as a going concern. Thus, the balance sheet lists a business's assets, liabilities and capital at a particular point in time.

Assets are stated at book value, which may be historical or market value, but not at realisable value (Book value is the amount of money that was paid to acquire a particular asset while the net realizable value of an asset is the money that might be possible to get by selling the asset).

Non-Current asset (Fixed Asset) is any asset, tangible or intangible, acquired for retention by an entity for the purpose of providing a service to the organisation, and not held for resale in the normal course of trading.

The Statement of financial position (balance sheet) of a sole trader using the vertical format would appear as follows:

Statement of Financial Position (Balance Sheet) as at 30/6/xx

N		N	
Cost		Accum.	
NBV		Depn.	
ASSETS			
Non-current assets			
Land and Buildings	X	X	X
Plant and machinery	X	X	X
Furniture and fittings	X	X	X
Motor vehicles	X	X	X
Long-term investments			X
Current Assets			
Inventory			X
Trade Receivables (net of provision for bad debt)			X
Short-term Investments			X
Prepayments			X
Accrued Income			X
Cash at bank			X
Cash in hand			XX__
Total assets			X__

EQUITY AND LIABILITIES**Owner's Equity**

Capital at 1 st January 20X4	X
Additional capital introduced	X
Net profit for the year	X
Drawings	(X)
Owner's equity at 31 st December 20X4	X

Non-current liabilities

Bank loans	X
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Current Liabilities

Trade Payables	X
Accrued expenses	X
Income received in advance	X
Bank overdraft	X_X_
Total equity and liabilities	X_

Let us look at an example

The following trial balance was extracted from the books of Alajetan Cooperative Society on 31st December, 2014

Dr.	Cr.
₦	₦
Purchases	368,400
Sales	517,900
Drawings	14,100
Returns inwards	7,300
Returns outwards	6,200
Discount allowed	10,200
Discount received	8,400
Receivables	45,000
Payables	57,100
Inventory	34,300
Freehold Premises at cost	46,000
Motor Vehicles at cost	12,000
Furniture at cost	2,500
Provision for depreciation on motor vehicles	4,500
Provision for depreciation on furniture	1,000
Cash at bank	5,000
Cash in hand	1,900
Salaries	40,600
Carriage inwards	22,200
Carriage outwards	10,300
Printing Stationery	3,600
Electricity and water	14,900

Insurance	6,800
General Expenses	34,800
Provision for bad debt	200
Bad debt written off	400
Accumulated fund	70,000
Rent received	3,800
Commission received	11,200
	680,300
	680,300

The following information should be taken into account:

- (i) Inventory 31st December, 2014 was valued at ₦31,800
- (ii) Accrued expenses at 31/12/04 were salaries ₦1,800 and electricity ₦80
- (iii) Prepaid expenses at 31/12/04 were insurance ₦400 and general expenses ₦500
- (iv) Adjust provision for bad debt to 2% of debtors and create provision for discount allowable at 1% of debtors.
- (v) Commission due but yet to be received on 31/12/04 amounted to ₦800
- (vi) Charge depreciation on fixed assets as follows:
- (vii) Furniture 20% on cost
- (viii) Motor vehicles 10% on cost
- (ix) Rent received in advance at 31/12/04 amounted to ₦200
- (x) Goods costing ₦2,200 were taken by owner for private use. This was yet to be recorded in the cashbook.
- (xi) Following the recommendations of a professional value, Alajetan intends to revalue freehold premises at ₦60,000

You are required to prepare:

- (a) Trading Account and the Income & Expenditure Account for the year ended 31st Dec. 2014.
- (b) Statement of Financial Position as at that date.

SOLUTION

Alajetan Cooperative Society

Trading Account for the year ended 31st December 2014

₦	₦
Sales	517,900
Less Returns inwards	(7,300)
Net sales	510,600

Less: Cost of sales		
Opening Inventory (Note 1)	34,300	
Purchases (368,400- 1,200)	367,200	
Returns outwards	(6,200)	
Carriage inwards	22,200	
Cost of goods available for sale	417,500	
Closing Inventory	(31,800)	
Gross Profits	385,700	
	124,900	
Add other incomes		
Discount Received		8,400
Profit from Trading activities		<u>133,300</u>

Alajetan Cooperative Society

Income & Expenditure Account for the year Ended 31st December 2014

₦		₦
Profit from trading activities		133,300
Rent received (3,800 -200)		3,600
Commission (11,200 +800)		12,000
		148,900
Less Administrative Expenses		
Salaries (40,600 + 1,800)		42,400
Printing & Stationery		3,600
Electricity and water (14,900 + 80)		14,980
Insurance (6,800 – 400)		6,400
General expenses (34,800 – 500)		34,300
Depreciation:		
Motor vehicles (10% x 12,000)		1,200
Furniture (20% x 2,500)		500
		(103,380)
Less: Distribution Costs		
Discount allowed		10,200
Carriage outwards		10,300
Bad debt		400
Increase in provision for bad debts		700
Provision for discount allowable (1% x (45,000 - 9000)		441
		(22,041)
Net profit for the year		23,479
Other Comprehensive Income		
Gain on revaluation of freehold premises (60,000-46,00)		14,000

Total comprehensive income for the year 37,479

Alajetan Cooperative Society

Statement of Financial Position as at 31st December 2014

₱	₱	₱	₱
ASSETS Non-Current Assets	Cost/Accum.	NBV	Valuation Depn
Freehold Premises	60,000	-60,000	
Motor Vehicles	12,000	5,700	6,300
Furniture	2,500	1,500	1,000
	74,500	7,200	67,300
Current assets			
Inventory			31,800
Receivables			45,000
Provision for bad debt			(900)
Provision for discount allowable			(441)
			43,659
Prepayments (400 +500)			900
Accrued income			800
Cash at bank			5,000
Cash in hand			1,900
			84,059
Total Assets			151,359

EQUITY AND LIABILITIES

Accumulated Fund at 1/1/2014	70,000
Add: Total comprehensive income for the year	37,479__107,479
Less: Drawings (14,100 + 1,200)	15,300__92,179
Current Liabilities	
Payables	57,100
Accruals (1,800 + 80)	1,880
Interest Received in Advance	200__
	59,180__
Total accumulated fund and liabilities	151,359_

The following points should be noted regarding the solution above:

1. Unless otherwise stated, the inventory shown on the trial balance is the opening inventory while the closing inventory is disclosed as additional information to the trial balance.
2. The adjustments required per the additional information to the trial balance are as follows:

Additional Nature of adjustment Information No

- (i) Closing Inventory
- (ii) Accrued expenses (or accruals)
- (iii) Prepaid expenses (or prepayments)
- (iv) Provision for bad debts and provision for discount on Receivable
- (v) Accrued income
- (vi) Depreciation of non-current assets
- (vii) Income received in advance
- (viii) Drawings
- (ix) Gain on revaluation of asset

SELF-ASSESSMENT EXERCISE

The following is the trial balance of Trading Outfit of Bayelsa Cooperative as at 31st December 2016

Dr.	Cr.
₦	₦
Accumulated Fund	5,000
Loan	1,000
Bank Overdraft	1,000
Plant and Machinery	4,000
Furniture and Fittings	1,000
Sales	30,000
Purchases	17,500
Carriage Inwards	500
Inventory (Opening Balance)	1,000
Returns Inwards (Sales Returns)	400
Returns Outwards (Purchases Returns)	300
Discounts Allowed	800
Discounts Received	600
Rent	250
Telephone	120
Wages and Salaries	6,000
Lighting and Power	100
Insurance Premium	360
Sundry Expenses	50
Cash at Bank	3,000
Cash on Hand	380
Provision for Bad and doubtful debts	300
Payables	2,880
Provision for Depreciation:	
Plant and Machinery	800
Furniture and Fittings	120

42,000

42,000

Additional information

- (i) Inventory as at 31 December 2016 was ~~₦~~1,300
- (ii) Rent Outstanding as at December 2016 was ~~₦~~50
- (iii) Insurance Premium relating to 2017 was ~~₦~~120
- (iv) Write off bad debts amounting to ~~₦~~400 and increase provision for doubtful debts to ~~₦~~500.
- (v) Provide 10 percent for depreciation on plant and machinery for the current year.
- (vi) Provide 5 percent for depreciation on furniture and fittings for the current year.

REQUIRED

- a) Prepare the Operating Statement for the year 2016
- b) Extract a Statement of financial position (Balance Sheet) for Bamijoko Enterprises as at 31st December 2016.

3.5 Capital and Revenue Items

The ability to measure capital and revenue as well as the inter-relationship between them, is very important in accounting practice because capital generates revenue and it is this ability to generate revenue that gives value to capital. There are capital and revenue items of receipts as well as capital and revenue expenditure items. It is very important to distinguish between these items as their treatment differs in the books of account. It is also necessary in the determination of profit made by the enterprises and explains why certain items go to the Trading and Profit and Loss account and others go to the Balance Sheet.

Capital and revenue receipts

Capital receipts comprise the initial capital paid by the owner(s) of the business as well as loans and proceeds of sale of any of the assets. On the other hand, revenue receipts are the cash received from sales of goods, discounts received, commission, interest on investment and all such monies arising from rendering services or in the normal course of business transactions in the current period.

Capital and revenue expenditure

“Capital expenditure consists of expenditure, the benefit of which is not fully consumed in one period, but spread over several periods”. These

are fixed assets like land and buildings and new factory which are acquired for the purpose of earning income or increasing the earning capacity of the business.

Revenue expenditure are those incurred in one period of account and whose full benefit is consumed within the same period. Examples include travelling and fuelling expenses, repairs, postages, interest on loan and salaries and wages. Usually, it is the revenue expenditure that is charged against revenue receipts to determine the profit made by a business in a given accounting year.

SELF-ASSESSMENT EXERCISE

- i. What do you understand by capital receipts? Give two examples.
- ii. Distinguish between capital and revenue expenditures and give three examples of each.

3.6 Treatment of Account Receivable and Payable

Accounts receivable, also known as “Debtors”, is given rise to when allowance is made for payments to be effected sometime later after the sales transactions have been concluded and the goods changed ownership for the reasons that buyers need goods and services that they cannot pay for immediately, and sellers sell more through credit sales. Credit sales are recorded in the sales journal and accounts receivables are current assets to the organisation.

Accounts payable, on the other hand, are normally current liabilities to the enterprise. They are also known as “Creditors” which arise as a result of credit purchase transactions. Accurate record of accounts payable is important to avoid an omission that will lead to an overstatement of profit. Credit purchase transactions are recorded in the purchase journal.

SELF-ASSESSMENT EXERCISE

Distinguish between accounts receivable and accounts payable.

4.0 CONCLUSION

Financial reports – basically, the Statement of Profit or Loss and Other Comprehensive Income account and the Statement of Financial Position – are necessary to inform management and other interested external parties about the performance as well as the financial position of the enterprise which form the basis for their respective decisions. Capital and revenue items would need to be distinguished or categorized

properly to enable the financial reports give a true reflection of the financial affairs. Also, due care should be taken in deciding on, and recording matters, relating to accounts payable and accounts receivable in order to have a good relationship between current assets, current liabilities and profit.

5.0 SUMMARY

We have seen and discussed how accounting information is presented to all interested parties by focusing on the Statement of Profit or Loss and Other Comprehensive Income account as well as the Statement of financial position (Balance Sheet). While the Statement of profit or loss and Other Comprehensive Income account ascertains the gross profit on sales and the net profit or loss for the period, the Statement of financial position (balance sheet) ascertains the financial status of the business at the end of the accounting period. Also, the capital and revenue items of the financial reports have been discussed with emphasis on their proper distinction, recognition and recording. Lastly, we considered the treatment of account receivable and account payable items.

6.0 TUTOR-MARKED ASSIGNMENTS

The following trial balance is drawn from the books of Tukur Mills, a sole proprietorship.

Dr.	Cr.
₦	₦
Capital	21,000
Drawings	7,100
Sales	86,400
Purchases	55,500
Rent (Office)	2,520
Travelling Expenses	940
Insurance on purchases	240
Carriage inwards	130
Carriage outwards	150
Insurance (Fire, etc.)	120
Salaries	6,260
Wages	920
Bank charges	33
General expenses	108
Payables	5,300
Motor vehicle	9,800
Furniture and fixtures	3,600
Inventory (at the beginning of period)	5,900

Receivables	7,200
Cash at bank	12,084
Cash on hand	95
	112,700
	112,700

Additional information:

- a) The value of closing stock is ~~N~~6,400
- b) Accrued salaries of N366 have not been paid as at December 31, 2016 and not yet recorded in the books
- c) Sales of N1,200 made on account of Yaro Stores on December 20 were omitted in the record keeping process.
- d) You are to ignore depreciation on motor vehicle, and furniture and fixtures.

REQUIRED

- a. Prepare a Statement of Profit or Loss and Other Comprehensive Income account for Tukur Mills.
- b. Extract a Statement of Financial Position for Tukur Mills as at December, 2016

7.0 REFERENCES AND FURTHER READINGS

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UNIT 5 ACCOUNTS FROM INCOMPLETE RECORDS**CONTENTS**

- 1.0 Introduction
- 2.0 Objective
- 3.0 Main Content
 - 3.1 Accounts from Incomplete Records
 - 3.2 Meaning of Incomplete Records
 - 3.3 Situation of No Records
 - 3.4 Situation of Partial Records
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor Marked Assignments
- 7.0 References/Further Readings

1.0 INTRODUCTION

“Incomplete accounting records” refers to a situation where the accounting system do not apply the principles of double entry, thus, making it difficult or impossible to draw up the normal trading and profit and loss account as well as produce a trial balance. Two distinguishable situations of this are where no records are kept at all and where partial records are maintained usually in the form of real accounts (cash or fixed assets) but personal and expense accounts are omitted.

This unit will concentrate on the above situations. The essence, if not the quintessence, is to explore the possibility or feasibility of creating something out of nothing – having some idea of the trading results with scanty accounting information.

2.0 OBJECTIVES

At the end of this unit, you will be able to:

- Give meaning to the term incomplete records;
- Compute the trading results where no records are kept;
- Compute the trading results and net investments in the business where partial records are kept.

3.0 MAIN CONTENT

3.1 Accounts from Incomplete Records

3.2 Meaning of Incomplete Records

From our introduction above, we can say that “incomplete records” denotes varying degrees of deviation from the standard accounting records which are kept on the complete principle of double entry. In other words, it describes records which the trader has not fully completed or where no records at all have been kept of transactions. However, it may still be possible to prepare periodic financial statements if the relevant basic documents are made available from which the required additional information can be obtained. The matter of incomplete accounting records is more often associated with the sole proprietorships.

SELF-ASSESSMENT EXERCISE

Explain what you understand by the term “incomplete records” under two distinct situations.

3.3 Situation of No Records

Where no records have been kept, the accountant will fall back to a great extent on basic source documents such as receipts, invoices, and bank tellers/statements as well as the entity’s transaction files. Some information relating to opening/closing stocks, cash balances, fixed assets, debtors, creditors and the opening capital position can be gotten from the proprietor through interviews.

Also, where there are no reliable records to lay hands on, further interviews with the proprietor may reveal the extent and frequency of cash withdrawals from the business to meet personal obligations as well as cash or assets introduced into the business during the year, to enable the accountant make appropriate estimates.

A statement of affairs may be prepared as at the start of the period and another as at the close of period if the aim is just to let the proprietor have some approximate idea of the period’s trading results and the closing net worth. A statement of affairs which is the name given to what would have been called a balance sheet if it had been drawn from a set of records, is a summary of an entity’s assets, liabilities and capital at a particular date. It contains approximate values rather than values disclosed by books of account which have been kept systematically.

A comparison of the net asset position on the two dates (start and close of periods) will show the amount by which the proprietor's capital had increased/decreased during the intervening period. If there were no withdrawals and no new capital introduced during the period, this difference must be of the nature of profit or loss.

To calculate the amount of profit (or loss) realised between the intervening periods from the relevant statements of affairs would require, firstly, that we find the net increase in the net asset and then add back drawings (if any) and deduct new capital introduced (if any).

EXAMPLE

The statement of affairs of Emeka, a sole proprietor, disclosed capital as at 31st December, 2015 and 2016 as ₦450,000 and ₦600,000 respectively. During the year, Emeka introduced an old delivery van valued at ₦100,000 but total drawings in cash and goods amounted to ₦200,000. Compute the net profit for the year.

SOLUTION

Net change in net worth (Capital):	₦
Closing Balance	600,000
Opening Balance	450,000
Difference	150,000
Add: Drawings	200,000
Less: Capital introduced 100,000	
Net profit for the year	250,000

Let us Look at another Example

The following information is disclosed in respect of Rachael & Co., who did not maintain a set of accounting records during the year 1st July, 2015 to 30th June, 2016.

You are required to prepare a set of accounts, highlighting the company's profit for the year as well as the closing networth.

Estimated Values As at 1/7/15 as at 30/6/16

		N	N
Land and Buildings	25,000	24,000	
Plant and machinery	34,000	30,000	
Office furniture	6,000	7,000	
Motor vehicles	-	4,000	
Stocks	12,000	15,000	
Sundry Debtors	8,000	12,000	
Sundry Creditors	13,000	15,000	
Cash	2,000	3,000	

During the year, Racheal withdrew cash and goods amounting to ~~N~~4,500 for his personal use. He, however, brought in sundry assets valued at ~~N~~3,000. Prepare statement of affairs for Rachael & Co. highlighting the trading results and the financial position of the firm.

SOLUTION

Dr. Statement of Affairs as at 1st July, 2015 Cr.

Date	Particular	Folio	Amount	Date	Particular	Folio	Amount
	Networth (Capital)		74,000		Land and Buildings		245,000
	Creditors		13,000				34,000
							6,000
					Plant and Machinery		12,000
							8,000
							2,000
			87,000		Office Furniture		87,000
					Stocks		
					Debtors		
					Cash		

Dr. Statement of Affairs as at 30th June, 2016 Cr.

Date	Particular	Folio	Amount	Date	Particular	Folio	Amount
	Networth (Capital)		80,000		Land and Buildings		240,000
	Creditors		15,000				30,000
							7,000
					Plant and Machinery		15,000
							12,000
							3,000
			95,000		Office Furniture		95,000
					Stocks		
					Debtors		
					Cash		

Computation of Net Profit

	₦
Net worth at 30/6/13	80,000
Less: Networth at 1/7/12	74,000
Net increase	6,000
Add: Drawings	4,500
Less: New capital introduced	3,000
Net profit for the year	7,500

SELF-ASSESSMENT EXERCISE

- i. Explain the difference between statement of affairs and balance sheet relative to accounts from incomplete records.
- ii. Explain the computation of trading results in a situation of No records.

Situation of Partial Records

Where partial records are kept (which may be referred to as single entry accounts), some concerns are able to keep a cash book for much of their transactions that are carried out in cash or through the bank. However, cash book entries are usually not posted as few or no ledger accounts are kept. In this circumstance, the accountant will have to fall back on basic documents relating to sales, purchases, cash transactions, etc. which may be filed, as well as the management for additional information. It is important to obtain information relating to fixed assets inventory, inventory values, accruals and prepayments. Also, the accountant may have to convert the entire system into a double entry system first before

embarking on the preparation of the final accounts.

When the books are kept on the single entry principle, a common problem which arises is the determination of purchases and sales figures in the absence of accounts maintained for these items. However, the total amounts of sales and purchases for a period can be derived once information is given in respect of the outstanding debtors and creditors at the beginning and close of the period, and also, on the total cash movement during the period between the firm and its customers and suppliers.

Example:

Derive the total sales figure from the following information extracted from a cooperative cash book and other relevant records:

	₦
Total debtors b/f	5,600
Total cash receipts from debtors and cash sales	153,000
Total debtors c/f	6,800

Dr.				Total Debtors Account				Cr.			
Date	Particular	Folio	Amount	Date	Particular	Folio	Amount				
	Balance b/f		5,600		Cash		153,000				
	Sales (balancing figure)		154,200		Receipts		0				
			0		Balance c/f		6,800				
			_____				_____				
	Balance b/f		159,800				159,800				
			6,800				0				

Dr.				Sales Account				Cr.			
Date	Particulars	Folio	Amount (₦)	Date	Particular	Folio	Amount (₦)				
					Total Debtors Account		154,200				

SELF-ASSESSMENT EXERCISE

From the following information relating to a cooperative, you are required to determine the year's purchases:

Total creditors b/f	7,200
---------------------	-------

Total cash paid to suppliers	98,800
Total creditors c/f	8,400

4.0 CONCLUSION

The concept of “Incomplete accounting records” describes two distinct situations where either no records have been kept at all or where partial records are being maintained. In either case, there is a deviation from the double entry principle. The situations make it difficult or impossible to produce a trial balance or draw up the final accounts at the end of a period. The task of the accountant, given the situations, is to explore all possible avenues to obtain information in order to create something out of nothing.

5.0 SUMMARY

In this unit, we have discussed “Accounts from incomplete records” that denotes deviation from the accounting records which are kept on the complete principle of double entry. We have considered situations where no records are kept and where partial records are maintained with emphasis on the job of the account to attempt to make good the situations.

6.0 TUTOR MARKED ASSIGNMENTS

The management of Katsina Cooperative, keeps a cash book and a ledger containing personal accounts for debtors and creditors. At 31st December, 2014 and 31st December, 2015, its assets and liabilities were as follows:

	2014	2015
Petty cash balance	100	125
Bank balance	2,000	5,000
Debtors	10,000	12,000
Creditors	15,000	13,000
Inventory	5,000	6,000
Equipment at carrying value	5,000	7,500

The following additional information is ascertained:

- (i) ~~₦~~50,000 had been paid to creditors for purchases.
- (ii) Receipts from debtors amounted to ~~₦~~75,000. All sales were on credit.
- (iii) An amount of ~~₦~~1,000 must be written-off as bad debts.
- (iv) Depreciation is to be provided for at 10% on carrying value.
- (v) Additional equipment was purchased on 1st July, 2014.

You are required to prepare in respect of Trading Outfit of Katsina Cooperative.

- a) The Trading, Profit or Loss account for the year ended 31st December, 2015 to show the gross profit as well as the net profit.

7.0 REFERENCES AND FURTHER READINGS

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MODULE 3

Unit 1	Basics of Cooperative Auditing
Unit 2	Qualities & Duties of a Cooperative Auditor
Unit 3	Error and Fraud in the Audit of a Cooperative
Unit 4	Audit Reports of Cooperative Societies
Unit 5	The Registrar/Directors Report

UNIT 1 BASICS OF COOPERATIVE AUDITING**CONTENTS**

1.0	Introduction
2.0	Objectives
3.0	Main Contents
3.1	Meaning of Auditing
3.2	Types of Audit
3.3	Nature of Cooperative Audit
3.3.1	Scope of cooperative audit
3.3.2	Need for Cooperative Audit
3.3.3	Objectives of Cooperative Audit
4.0	Conclusion
5.0	Summary
6.0	Tutor-Marked Assignment
7.0	References/Further Readings

1.0 INTRODUCTION

This unit introduces you to the fundamentals of auditing in cooperative management. Cooperatives play developmental roles in different economies. It is in this regard that Mahatma Gandhi affirmed that the cooperative movement is a tool for eradication of poverty when he said that: “Cooperation is a gateway to economic freedom”. Consequently, governments, the world over, through appropriate agencies, keep tabs on their operations and activities. Cooperative audit focuses on regulation of cooperative societies.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define auditing
- briefly discuss different types audit
- explain the scope of cooperative auditing.

3.0 MAINCONTENTS

3.1 Meaning of Auditing

The term audit is derived from the Latin verb “audre” which means “to hear”. The origin of audit dates from ancient times when the landowners allowed tenant farmers to work on their land whilst the landowners themselves did not become involved in the business of farming. The landlords relied upon an overseer who listened to the accounts of stewardship given by the tenants. In those eras, the emphasis was on detection of fraud and irregularities. Further developments, however, in the discipline have changed the forms of auditing and made it more demanding and sophisticated.

Audit of accounts (end products of Stewardship function) are used by managers of businesses and organizations to communicate how their businesses have been managed. An unqualified or favourable or clean audit report communicates to stakeholders that their business interests have been managed well and that they can rely on the picture that the financial statements portray. Auditing is therefore a very onerous and demanding task and a high sense of competence, integrity, skill, experience and technical knowledge must be brought to bear on the process of auditing.

Conceptually, audit is described below:

“The independent examination and expression of opinion on the financial statements of an enterprise by an appointed auditor in pursuance of that appointment and in compliance with any relevant statutory obligation and professional requirements”.

“It is an independent examination of the financial statement by an appointed person called auditor in order to express a professional opinion on whether or not the financial statement examined present or show a true and fair view”

It is also a process, carried out by an appointed qualified person or body, whereby the records and financial statements of an entity are subjected to independent examination in such detail as will enable the auditor form an opinion as to the truth and fairness of the financial statements”

Key elements from the above definitions are as follows:

- Independent examination

- Financial Statement
- A qualified person appointed pursuant to relevant statutory and professional requirements
- Expression of opinion

Cooperative organizations of various sizes and types, take decisions bothering on auditing of financial statements. The need to provide managers, shareholders, auditors and other users with true and fair view information necessary to take quality decisions cannot therefore be over-emphasized. It is pertinent to add that auditing is viewed as a core course in the accounting profession that draws from many other disciplines like financial accounting, law, information technology, etc.

SELF-ASSESSMENT EXERCISE

Identify the key elements of auditing

3.2 Types of Audit

i. EXTERNAL AUDIT

External audit involves the examination of the truth and fairness of the financial statements of an entity by an external auditor who is independent of the organization in accordance with a reporting framework such as the IFRS. Company law in most jurisdictions requires external audit on annual basis for companies above a certain size. External auditors are required to comply with professional auditing standards such as the International Standards on Auditing and ethical guidelines such as those issued by IFAC in order to maintain a level of quality and trust of all stakeholders in the auditing exercise

ii. INTERNAL AUDIT

Internal audit is an appraisal activity undertaken by an organization to provide assurance over the effectiveness of internal controls, risk management and governance to facilitate the achievement of organizational objectives. Internal audit is performed by employees of the organization who report to the audit committee of the board of directors as opposed to external audit which is carried out by professionals independent of the organization and who report to the shareholders via audit report.

iii. FORENSIC AUDIT

Forensic Audit involves the use of auditing and investigative skills to situations that may involve legal implications. Forensic audits may be

required in the following instances: Fraud investigations involving misappropriation of funds, money laundering, tax evasion and insider trading; Quantification of loss in case of insurance claims. Findings of a forensic audit could be used in the court of law as expert opinion on financial matters.

iv. TAX AUDIT

Tax audits are conducted to assess the accuracy of the tax returns filed by a company and are therefore used to determine the amount of any over or under assessment of tax liability towards the tax authorities. In some jurisdictions, companies above a certain size are required to have tax audits after regular intervals while in other jurisdictions random companies are selected for tax audits through the operation of a balloting system.

v. INFORMATION SYSTEM AUDIT

Information system audit involves the assessment of the controls relevant to the IT infrastructure within an organization. Information system audits may be performed as part of the internal control assessment during internal or external audit. Information system audit generally comprises of the evaluation of the following aspects of information system:

- design and internal controls of the system
- information security and privacy

vi. ENVIRONMENTAL & SOCIAL AUDIT

Environmental & Social Audits involve the assessment of environmental and social footprints that an organization leaves as a consequence of its economic activities. The need for environmental auditing is increasing due to higher number of companies providing environment and sustainability reports in their annual report describing the impact of their business activities on the environment and society and the initiatives taken by them to reduce any adverse consequences.

vii. COMPLIANCE AUDIT

Companies are sometimes required to conduct specific audit engagements other than the statutory audit to comply with the requirements of particular laws and regulations.

Examples of such audits include: Verification of reserves available for distribution to shareholders before the declaration of interim dividend

and audit of the statement of assets and liabilities submitted by a company at the time of liquidation

viii. VALUE FOR MONEY AUDIT

Value for money audits involves the assessment of the efficiency, effectiveness and economy of an organization's use of resources.

SELF-ASSESSMENT EXERCISE

Explain any five types of Audit

3.3 Nature of Cooperative Audit

Co-operative Audit is an audit conducted under the statute and therefore, it is statutory in character. The Government, today, is a major partner in a majority of Co-operative undertakings and the former has acknowledged the agency of Cooperatives as an instrument of economic growth. The government as such, takes active part in the administration and management of Cooperatives.

It is therefore interested in getting the accounts of Cooperative Society audited regularly. The success of Co-operative movement depends on proper management of Societies. There are chances of the funds of the societies being mismanaged if the relevant transactions are not properly and promptly checked and prompt follow-up action taken on the findings of Audit. Control exercised through audit thus serves a very valuable purpose and enables effective weeding out of the unscrupulous and undesirable elements from the Co-operative movement.

As defined above, a cooperative is a society of people with its main objects as promotion of economic and social interests of its members by means of common undertaking. This society is managed by members (usually regarded as “Executives”) who are usually appointed by other members. The appointed members constitute the Executive body who are charged with the responsibility of managing the affairs of the Cooperative in order to ensure the attainment of the goals and objectives of the association. Other non-executive members would need assurance about how well their economic and social interests are protected and advanced by the management. It is in this context that Cooperative Audit is required. What then is Cooperative Audit?

It is a process carried out by an appointed person or body, whereby the financial and non-financial records of a cooperative society are subjected to independent examination in such detail as will enable the auditor form an opinion as to the truth and fairness of the financial

records as well as the realisation of the social objectives of the association.

SELF-ASSESSMENT EXERCISE

What are the features of a cooperative Audit?

3.3.1 Scope of Cooperative Audit

The audit of a Co-operative Society is different from that of a company because the objects of a Co-operative Society are quite different from those of a Company. While the main object of a Company is to earn profit, the object of a Co-operative Society is to render service to its members. Service rather than profit is the motto of a Co-operative Society.

Co-operative Audit extends somewhat beyond the fundamental requirements of the law and embraces an enquiry into all the circumstances which determine the general position of the association. It is the duty of the Co-operative Auditor to notice any instance in which the Act, rules or byelaws have been infringed, to verify the cash balance and certify the correctness of the accounts, to ascertain that loans are made fairly for proper periods and objects and on adequate security to examine repayments in order to check book adjustments and improper extensions and generally to see that the society is working on sound lines and that the committee, the officers and the ordinary members understand their duties and responsibilities.

Co-operative Audit should include scrutiny of the extent of benefit accruing to the weaker sections of the Society's members. Thus a Co-operative Auditor should not confine his enquiry to the books of accounts but should go beyond the books and make enquiries into the working and general functioning of the society. His enquiry should embrace all circumstances which determine the general position of the Society and should aim at seeing that the society is working on sound lines.

The audit of Co-operative Society has to be conducted specially in the background of Co-operative Principles, and guidance is to be given by the Co-operative Auditor for improvement of the Co-operative institution in the light of this background. Therefore, Co-operative Audit is thus not merely a financial audit. It can be said to also involve Administrative Audit.

Specifically, cooperative audit covers the following areas:

- a. Adherence to Co-operative Principles
- b. Observance of provisions of Act, Rules and bye-laws.
- c. Valuation of assets and Liabilities and Verification of Cash Balance and Securities.
- d. Verification of balances of Depositors and Creditors.
- e. Examination of overdue debts and classification of bad debts.
- f. Personal verification of members and examination of their pass books.
- g. In addition to financial audit, cooperative audit also includes Propriety audit and Examination of the transactions of the Board.
- h. Certification of profit actually realized or loss actually incurred

3.3.2 Need for Cooperative Audit

Cooperative audit is usually undertaken to avail the association the following benefits:

- 1) The members of the Society are to be satisfied that the affairs of the society are managed properly and on sound business principles. This is possible by the Co-operative Auditor undertaking a detailed check of the voluminous transactions taking place during the entire year and making a report of his findings as a result of this check, to the members.
- 2) A large number of societies borrow funds from outside. The creditors would be keen to satisfy themselves of the financial soundness and credit worthiness of the society. For this purpose they would depend upon the Co-operative Auditor's report.
- 3) A large number of persons are employed by Co-operatives for managing their affairs. In order to ensure that there is proper check on efficiency and integrity of employees, the managements would require a systematic and thorough check of their accounts. This purpose is served by Co-operative Audit.
- 4) Non-members who deposit their funds with the Co-operative Banks would like to satisfy themselves that their funds are safe with the Bank, This is possible by the Co-operative Auditor's report.

3.3.3 Objectives of Cooperative Audit

The objectives of cooperative audit are as follows:

- 1) Verification of the accuracy of the books of accounts and ascertaining correctness of accounts.
- 2) Detection of clerical errors and errors of principles and

- prevention of such errors.
- 3) Detection and prevention of frauds.
 - 4) Examination of the affairs of the society in order to ascertain whether they have been carried on in accordance with the provisions of the Cooperative Law and the Principles of Co-operation and on sound business principles.
 - 5) Assessment of the extent to which the conditions of the members, particularly their economic conditions, have improved by the operations of the society.

4.0 CONCLUSION

Cooperative audit is not merely a financial audit, it also involves administrative audit. Co-operative Audit is an audit conducted under the statute and therefore, it is statutory in character. The Government, today, is a major partner in a majority of Co-operative undertakings. Cooperative audit is usually undertaken to assure members of the Society that the affairs of the society are managed properly and on sound business principles.

5.0 SUMMARY

In this unit, you have learnt that:

- A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise
- An audit is an independent examination of the financial statement by an appointed person called auditor in order to express a professional opinion on whether or not the financial statement examined present or show a true and fair view
- Cooperative audit is a process carried out by an appointed person or body, whereby the financial and non-financial records of a cooperative society are subjected to independent examination in such detail as will enable the auditor form an opinion as to the truth and fairness of the financial records as well as the realisation of the social objectives of the association
- Cooperative audit covers the following areas:
 - i. Adherence to Co-operative Principles
 - ii. Observance of provisions of Act, Rules and bye-laws.
 - iii. Valuation of assets and Liabilities and Verification of Cash Balance and Securities.

6.0 TUTOR-MARKED ASSIGNMENT

1. What are the main objectives of Cooperative Audit?
2. Discuss the benefits of Cooperative Audit to various stakeholders

7.0 REFERENCES/FURTHER READINGS

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UNIT 2 QUALITIES & DUTIES OF A COOPERATIVE AUDITOR

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Qualities of a Cooperative Auditor
 - 3.2 Duties of a Cooperative Auditor
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

This is the second unit in this module. The unit discusses the qualities of a cooperative auditor as well as their duties. Why do you have to learn about the qualities and duties of cooperative auditor? This is because the auditors' attributes affect their abilities to effectively carry out their duties. For instance, one of the qualities of a cooperative auditor is technical competence. With this quality, he is well armed to issue an appropriate audit opinion.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- enumerate and explain the qualities of a cooperative auditor and
- discuss the duties of a cooperative auditor

3.0 MAINCONTENT

3.1 Qualities of Cooperative Auditor

A cooperative auditor is expected to be above-board in a number of ways. This is because he is to carry out his professional assignment with due care, skills and competence. A cooperative auditor should therefore exhibit the following attributes:

1. Integrity
2. Objectivity
3. Confidentiality
4. Technical Competence
5. Professional behaviour

6. Professional Scepticism
7. Independence

These qualities are explained below:

1. INTEGRITY

Integrity is to be straightforward and honest in all professional and business relationships.

2. OBJECTIVITY

Objectivity means that the cooperative auditor should not allow bias, conflict of interest or undue influence of others to override professional or business judgments.

3. CONFIDENTIALITY

Confidentiality attributes mean to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.

4. PROFESSIONAL COMPETENCE AND DUE CARE

The cooperative auditor is to maintain professional knowledge and skill at the level required to ensure that a cooperative management receives competent professional services based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.

It is a basic quality of an auditor. He must have a complete and thorough knowledge of the accountancy. To understand the accounting details he can apply his knowledge and skill. It is only possible if he has a sound background in accountancy and he is professionally competent.

5. PROFESSIONAL BEHAVIOUR

Professional behaviour means to comply with relevant laws and regulations and avoid any action that discredits the profession.

6. PROFESSIONAL SCEPTICISM

It is also very essential quality of the auditor. He should examine the

statements critically. He should ask the various questions from the client and try to find contradictions. This includes an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.

7. INDEPENDENCE

The auditor should be impartial. He should not have such relations with the cooperative which may affect his independence. He should give his opinion independently. Independence quality is of two strands:

- (a) Independence of mind-This has to do with the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional scepticism.
- (b) Independence in appearance-This is the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's, integrity, objectivity or professional scepticism had been compromised.

SELF-ASSESSMENT EXERCISE

Discuss five qualities expected of a Cooperative Auditor

3.2 Duties of a Cooperative Auditor

In undertaking an audit, a cooperative auditor is expected to:

- Carryout procedures designed to obtain sufficient appropriate audit evidence, in accordance with auditing standards
- Determine with reasonable confidence and assurance, whether the financial statements are free of material misstatement due to error or fraud
- Evaluate overall presentation of the financial statements in order to ascertain whether they have been prepared in accordance with relevant legislation and accounting standards
- Issue a report containing a clear expression of their opinion on the financial statements.
- Assess the accounting principles used and significant estimates made by management,
- Determine whether proper accounting records have been kept by the cooperative
- Report on whether proper returns adequate for their audit have

been received from branches of the cooperative not visited by the auditor and

- Issue a report on the extent to which the cooperative's Statement of Financial Position and its Statement of Income and Expenditure are in agreement with the accounting records and returns, and such information and explanations as he thinks necessary.

4.0 CONCLUSION

A cooperative auditor is expected to be above-board in a number of ways. This is because he is to carry out his professional assignment with due care, skills and competence. A cooperative auditor should have integrity and always put up behaviour that will not put the profession into disrepute. His duties includes carrying out procedures designed to obtain sufficient appropriate audit evidence, in accordance with auditing standards, while also determining with reasonable confidence and assurance, whether the financial statements are free of material misstatement due to error or fraud.

5.0 SUMMARY

In this unit, you have learnt that:

- The qualities of a cooperative auditor include: independence, integrity, professional competence.
- One of the key duties of a cooperative auditor is carrying out procedures designed to obtain sufficient appropriate audit evidence, in accordance with auditing standards.

6.0 TUTOR-MARKED ASSIGNMENT

What are duties expected of a cooperative auditor?

6.0 REFERENCES/FURTHER READINGS

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UNIT 3 ERROR AND FRAUD IN THE AUDIT OF A COOPERATIVE

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Definition of Fraud and Error
 - 3.2 Fraud Risk Factor
 - 3.3 Types of Fraud
 - 3.4 Duties of Cooperative Auditor Relating to Fraud and Error
 - 3.5 Frauds and Error Detection in various Sizes and types of Cooperatives
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

In unit 2, you have learnt that one of the duties of a cooperative auditor is to determine with reasonable confidence and assurance, whether the financial statements are free of material misstatement due to error or fraud. It is only when this is done that the cooperative auditor would be able to issue appropriate audit report containing audit opinion. The question now is, what are errors and how are they different from fraud? What audit procedures should the cooperative auditor perform on matters relating to errors and fraud? These, and other cognate matters, are discussed in this unit.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define fraud and errors
- identify and briefly explain fraud risk factors
- enumerate different types of frauds
- outline the responsibilities of a cooperative auditor relating to fraud and error.

3.0 MAIN CONTENT

3.1 Definition of Frauds and Errors

The incidence of financial fraud, particularly in a computer

environment, is increasing and has been a central feature in a number of financial scandals in recent years. This fact, together with the increasing sophistication of fraudsters, creates difficult problems for management and auditors of cooperatives. There are some who argue that the detection of fraud should be the auditors' principal function. This prevailing attitude clearly gives rise to a public expectation which is neither shared nor fulfilled by the profession.

When planning and performing audit procedures and in evaluating and reporting the results thereof, the auditor should consider the risk of material misstatements in the financial statement resulting from fraud and error.

The term fraud refers to an intentional act by one or more individuals among management, employees or third parties, which results in a misrepresentation of financial statements. According to International Standards on Auditing (ISA) 240 titled "*Auditor's Responsibilities relating to Fraud in an Audit of Financial Statements*", fraud is defined as an "intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage". Frauds are typically caused by some events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. These events or conditions are referred to as Fraud Risk Factors.

The term "error" refers to unintentional mistakes in financial statements such as:

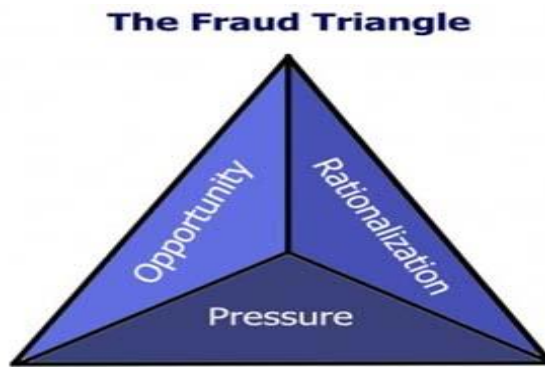
- i. Mathematical or clerical mistakes in the underlying records and accounting data
- ii. Misapplication of accounting policies
- iii. Oversight or misinterpretation of facts

SELF-ASSESSMENT EXERCISE

What is the difference between Fraud and Error?

3.2 Fraud Risk Factors

Fraud Risk Factors rest on three key pillars of Incentive, Pressure and Opportunity. The incentive pillar can also be called "Rationalisation". These pillars are popularly referred to as Fraud Triangle in literature on fraud. This is diagrammatically presented below:



Source: Wells, J. T., (2005). Principles of fraud examination. Hoboken, New York: John Wiley and Sons.

3.2.1 Opportunity

Opportunity is the element over which business owners and managers have the most control. Fraudsters must first find an opportunity and then be able to use the opportunity. The opportunity to commit fraud is possible when employees have access to assets and information that allows them to both commit and conceal fraud. Windows of opportunity exist for wrongdoing when organizations have poor internal controls, weak processes and procedures, unauthorized or unchecked access to assets by employees, or ineffective management review and oversight.

3.2.2 Pressure

Financial pressure is reportedly the most common pressure that results in people committing fraud. The perception of a need or a pressure is the key factor. It does not matter whether the pressure makes sense to others or is based on reality. Individuals may be facing problems such as gambling, drugs, alcohol addiction, or extreme medical bills. Fraud motivators can also be non-financial. There may be high pressure for good results at work or a desire to cover up poor performance. A classic example is the employee who suddenly boasts about purchasing luxurious items such as a new car, a large suburban home, rings or jewelry for a spouse, etc.

3.2.3 Rationalization

Employees may rationalize their behavior by believing that they have genuine reasons for committing fraud. Researchers have found that the perpetrators of fraud are most often just ordinary people who think of themselves as otherwise morally upright, law-abiding citizens. Familiar rationalizations include making up for being underpaid or the company "deserves" to have money stolen because of bad treatment of employees,

or replacing a bonus they believed was deserved but not received.

SELF-ASSESSMENT EXERCISE

Explain the three pillars of the Fraud Triangle

3.3 Types of Fraud

Fraud can be broadly classified into two:

- a. Fraudulent Financial Reporting
- b. Misappropriation of assets

Examples of fraudulent financial reporting and misappropriation of assets are provided below:

- Manipulation, falsification or alteration of records or documents.
- Misappropriation of assets.
- Suppression or omission of the effects of transactions from records or documents.
- Misapplication of accounting policies
- Recording of transaction without substance
- By not recording the receipt of sale of a casual nature for example sale of scrap, sale of old newspapers
- By adopting the method of "teeming and lading" or "lapping process". Under this method cash received from one debtor is misappropriated and deficiency in that debtors account is made good when another payment is received from second debtor by crediting the second debtors account less by that amount. This process is carried out round the year.

3.4 Duties of a Cooperative Auditor Relating to Fraud and Error

The responsibilities of a cooperative auditor relating to fraud are as follows:

- a) To identify and assess the risks of material misstatement of the financial statements of the cooperative due to fraud and error. The auditor shall identify and assess the risks of material misstatement due to fraud at the financial statement level, and at the assertion level for classes of transactions, account balances and disclosures.
- b) To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud and error, through designing and implementing appropriate responses; and
- c) To respond appropriately to fraud and error or suspected fraud

and error identified during the audit. In determining his responses to address the assessed risks of material misstatement due to fraud at the financial statement level, the auditor shall:

- i. Assign and supervise personnel taking account of the knowledge, skill and ability of the individuals to be given significant engagement responsibilities and the auditor's assessment of the risks of material misstatement due to fraud and error for the engagement;
 - ii. Evaluate whether the selection and application of accounting policies by the entity, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from management's effort to manage earnings; and
 - iii. Incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures.
- d) He shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud and error could exist, notwithstanding the auditor's past experience of the honesty and integrity of the cooperative's management.
- e) The engagement team is required to have a discussion which shall place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud and error, including how fraud and error might occur. The discussion shall occur setting aside beliefs that the engagement team members may have that management and those charged with governance are honest and have integrity.
- f) The cooperative auditor shall evaluate whether unusual or unexpected relationships that have been identified in performing analytical procedures, including those related to revenue accounts, which may indicate risks of material misstatement due to fraud and error.
- g) The auditor shall evaluate whether the information obtained from the other risk assessment procedures and related activities performed indicates that one or more fraud risk factors are present. While fraud risk factors may not necessarily indicate the existence of fraud, they have often been present in circumstances where frauds have occurred and therefore may indicate risks of material misstatement due to fraud.

SELF-ASSESSMENT EXERCISE

What are the duties of a Cooperative Auditor in relation to Fraud and Errors.

3.5 Prevention of Fraud and Error

Prevention of fraud and error can be mitigated or ameliorated through any of the following procedures:

- i. Reinforcement of control system
- ii. Adequate number of staff and separation of duties.
- iii. Periodic rotation of staff
- iv. Strict disciplinary actions to deter staff
- v. Effective use of police personnel
- vi. Moving in company of good friends
- vii. Managers showing interest in the life of staff without necessarily policing
- viii. Sequential numbering of cheques or document
- ix. Staff to be screened before employment (use of reference/referees)
- x. Installation of machine or mercury light that are capable of detecting forged notes.

In planning the audit the auditor should assess the risk that fraud and error may cause the financial statements to contain material misstatements and should inquire of management as to any fraud or significant error which has been discovered.

3.6 Frauds and Errors Detection in various Sizes and types of the Cooperatives Societies

The Detection of Fraud and Error in various sizes and types of the cooperative societies can be done through any of the following procedures:

- i. Observation of sudden change in living standard of staff and members of the cooperative societies.
- ii. Volunteered information either resulting from disgruntled participant.
- iii. Use of security dogs.

4.0 CONCLUSION

This unit discusses the definition of Frauds and Errors; The possibility of occurrence of different types of fraud as well as errors were highlighted; and Frauds and Errors Detection in various sizes and types of the cooperatives societies were also explained.

5.0 SUMMARY

In this unit, you have learnt about:

- The definition of frauds and errors,
- Fraud risk factors and the three pillars that underpin them.
- Frauds and errors detection in various sizes and types of the cooperatives societies.

6.0 TUTOR-MARKED ASSIGNMENT

1. Illustrate with examples the two categories of fraud
2. The main responsibility of an auditor is to detect fraud. Discuss.

7.0 REFERENCES/FURTHER READINGS

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UNIT 4 AUDIT REPORTS OF COOPERATIVE SOCIETIES

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Introduction - Definition of Audit report
 - 3.2 Objects of Audit Report
 - 3.3 Essential Features of Audit Report
 - 3.4 Types of Audit Report
 - 3.5 Classification of Modified Opinion
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

At the completion of an audit process comes an end product. This end product is called audit report. This report contains the cooperative auditor's opinion about whether the financial statements show, in all material respect, the truth and fairness of the views conveyed by the financial statement of the cooperative. The cooperative, guided by professional judgment informed by the circumstances of the audit engagement, is at liberty to issue any modified, unmodified, qualified, and adverse or disclaimer reports. I am sure you are wondering which one you are to issue? By the end of the unit, you should be able to categorically and professionally answer this question.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- enumerate the objectives of a cooperative auditor at the end of an audit engagement
- identify the different types of audit reports
- list the essential features of an audit report.

3.0 MAIN CONTENTS

3.1 Introduction - Definition of Audit Report

At the end of an audit engagement, a cooperative auditor has to achieve two objectives. These objectives are:

- a) to form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and
- b) to express clearly that opinion through a written report that also describes the basis for that opinion.

In achieving the above, it is instructive to note that there are two fundamental aspects of an audit. One is to establish the facts and the other is to report materials facts fairly and truthfully to members. The audit report is a means by which auditors express their opinion on truth and fairness of a company's financial statement for the benefits principally of the shareholders, but also for other users.

Statute has consistently recognized its importance by requiring that certain mandatory statements appear in the report. International Auditing Guidelines (IAG 13) was the first step taken by Audit Practice Board towards closing the "expectation gap" which represents "the difference between the apparent public perceptions of the responsibilities of a auditors on one hand and the legal and professional reality on the other hand.

SELF-ASSESSMENT EXERCISE

What is an Audit Report?

3.2 Objects of Audit Report

The primary purpose of an audit report is to serve as the medium through which the auditor communicates his findings at the end of his review of the financial statements to members of the cooperative. The end product of an audit exercise is audit report. The audit report is normally attached to the financial statement and is therefore, available for inspection by users of the financial report. It usually entails the final opinion of the auditor as to credibility of the view presented by the financial statements. With audit report, members of the cooperative will be able to know if the executive is running its affairs in accordance with their best interest.

3.3 Essential Features of Audit Report

The essential features of audit report as per International Auditing Guidelines (IAG 13) include the following:

- i. Title
- ii. Those to whom the report is addressed
- iii. The financial statements to which the report refers

- iv. A reference to the statute and professional standards under which the audit was carried out;
- v. The auditor's opinion
- vi. The auditor's signature
- vii. The date of the report
- viii. The auditor's name and address.

Under Schedule 6 of CAMA 1990 (as amended), the features of audit report relate to those in his report and these include the following matters:

1. Whether he has obtained all the information and explanations which he considers necessary for the purpose of his audit;
2. whether in his opinion, proper books of account have been kept by the company and proper returns adequate for the purpose of the audit obtained from branches not visited;
3. whether the financial statements are in agreement with the books of account and returns;
4. whether in his opinion the financial statements give a true and fair view of the state of affairs, profit or loss and where applicable cash flow;
5. whether the financial statements have been prepared in accordance with the provisions of the Companies and Allied Matters Act 1990 and any other statute.

SELF-ASSESSMENT EXERCISE

What are the features of an Audit Report?

3.4 Types of Audit Report

These are broadly of two types. These are:

- i. Unmodified report
- ii. Modified report.

Modified reports are further classified into the following:

- Qualified audit report
- Disclaimer audit report
- Adverse audit report

These types of reports are explained below:

i. Unmodified report

When a cooperative auditor is able to satisfactorily conclude that the financial statements and other cognate statements of the cooperative are free from material misstatements whether due to error or fraud, he expresses an unmodified opinion. An example of unmodified report is given below:

To: members of the Cooperative

Introduction

We have examined the financial statement set out on pages xx to yy and have obtained all the information and explanations which we considered necessary.

Responsibilities of the Directors and Auditors

The company's directors are responsible for the preparation of the financial statements. It is our responsibility, as auditors, to form an independent opinion, based on our audit, on these statements and to report our opinion to you.

Basis of Opinions

We conducted our audit accordance with generally accepted auditing standards.

An audit includes examination, on test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors, in the preparation of the financial statements, and of whether the company's accounting policies are appropriate to its circumstances, consistently applied and adequately disclosed.

We planned and performed our audit in such a way as to obtain all the information and explanations, which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion:

In our opinion, the financial statements, which have been prepared on the basis of the accounting policies set out on page xx, give a true and fair view of the state of financial position of the cooperative at xx December, 20xx and income and expenditure and cash flow statement for the year ended on that year. The books of account have been properly kept and the financial statements, which are in agreement therewith, comply with the Companies and Allied Matters Act 2004, the Nigerian Cooperative Societies Act and conform with Generally Accepted Accounting Principles in Nigeria.

Lagos, Nigeria

(Name of Audit firm)

(Date)

i. Modified report

A modified report is issued under two circumstances. These are:

- When the financial statements are not free from material misstatement and the executive of the cooperative disagrees with the cooperative auditor on its correctness. This is otherwise called “disagreement”.
- When the auditors have been unable to obtain sufficient appropriate evidence. This situation is otherwise called “limitation in scope”.

In either case, the audit matter which affects the type of audit report may be material or immaterial and pervasive or non-pervasive. Pervasiveness or non-pervasiveness relate to whether the audit matter is isolated to specific components of the financial statements, or whether the matter pervades many elements of the financial statements, rendering them unreliable as a whole.

If the auditor believes that the financial statements may be relied upon for decision making and *material misstatements are confined to certain elements or components of financial statements*, then the matter is material and not pervasive. If, however, they believe the financial statements should not be relied upon **at all** for making decisions then the matter is pervasive.

3.5 Classifications of Modified Opinion

- **Qualified Report**

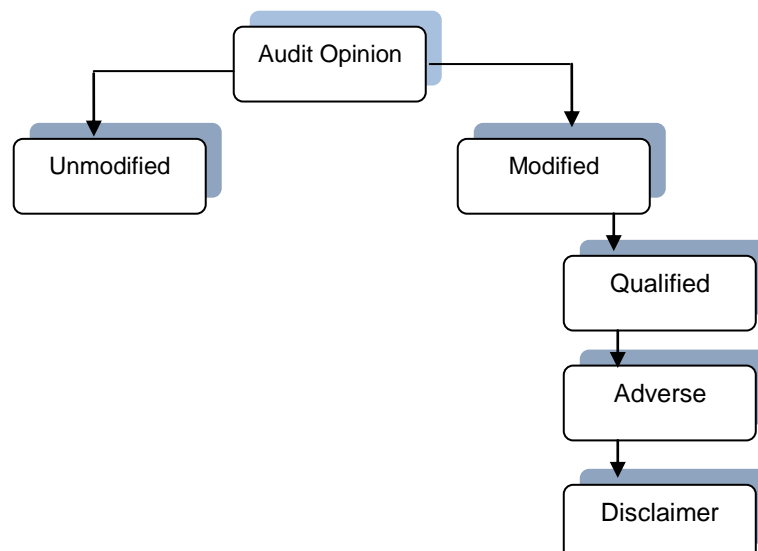
A qualified opinion is expressed when the cooperative auditor concludes that the effect of any disagreement with management on any subject matter, or limitation on scope is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion. A qualified opinion is typically expressed using the phrase “*except for*”.

- **Disclaimer Report**

A disclaimer of opinion is usually expressed when the auditor has not been able to obtain sufficient appropriate audit evidence which then constitutes a limitation in scope in the audit and the effect of this is material and pervasive. In effect, he is unable to express an opinion.

- **Adverse Report**

A cooperative auditor expresses adverse opinion when the effect of a disagreement is very material and pervasive to the financial statements. The above types of report are diagrammatically presented below:



(Source: Designed by the Author, 2017)

4.0 CONCLUSION

The unit explained the types of audit report of cooperative societies. It categorizes audit reports into modified and unmodified, while further breaking modified reports into qualified, disclaimer and adverse reports. The Audit Report is the output from an auditor's examination of a cooperatives financial statements.

5.0 SUMMMARY

In this Unit, you have learnt that:

- Cooperative auditor has to achieve two objectives at the end of an engagement. These are:
 - a) to form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and
 - b) to express clearly that opinion through a written report that also describes the basis for that opinion.
- Audit reports are broadly of two types. These are
 - i. Unmodified report
 - ii. Modified report.
- Modified reports are further classified into the following:
 - i. Qualified audit report
 - ii. Disclaimer audit report
 - iii. Adverse audit report.

6.0 TUTOR-MARKED ASSIGNMENT

1. Why are audit reports important to a cooperative auditor?
2. Briefly discuss the different types of audit report.

7.0 REFERENCES/FURTHER READINGS

Adeniji, A. A. (2010). *Auditing and Investigation*. Lagos Value Analysis Consult Publications

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UNIT 5 THE REGISTRAR/DIRECTORS REPORT

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Who is a Director of Cooperatives?
 - 3.2 Responsibilities of a Director of Cooperatives
 - 3.3 The Director and the Auditing of Cooperatives
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

In the last unit, we looked at the auditor's report. When the audit of a cooperative society is finalised, the audited reports are not to be warehoused on the premises of the society. Rather, under the law, the executive of the cooperative are expected to file the reports, for review, with the Department of Cooperatives under the Ministry of Labour and Productivity. The Department of Cooperative is headed by a Director who is vested with wide-ranging powers which are to be judiciously exercised to ensure that cooperative societies are well run and operated in line with the law. This unit, therefore, discusses the overall responsibilities of the director, including that of accounting and audit of Cooperatives.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- enumerate the responsibilities of a director of cooperatives
- discuss the role of the Director in the audit of cooperatives.

3.0 MAIN CONTENT

3.1 Who is a Director of Cooperatives?

A Director of Cooperatives is any person appointed by the Government either at the Federal or State level to superintend over the activities, operations and processes of cooperative societies in Nigeria. In other climes such as India, the nomenclature used is a "Registrar". What the Governor of the Central Bank of Nigeria is to banks is what a Director is to Cooperatives in Nigeria. At the Federal level, he is referred as Federal

Director of Cooperatives and appointed by the Federal Government of Nigeria. At the State level, however, he is called the State Director and he is appointed by the Governor.

Section 1 & 2 of the Nigerian Cooperative Societies Act, 2004 provides for the appointment of a Director of Cooperative. While section 1 requires that the President may appoint a person to be a Federal Director of Co-operatives and also appoint persons to assist him; and confer all or any of the powers of a Director under this Act on any such person, Section (2) vests the power to appoint a Director of Cooperative and other persons to assist him at the state level on the Governor of a State. The section further provides that such persons so appointed will be conferred with, all or any of the powers of a Director under this Act.

As mentioned earlier, it is the duty of the Director to supervise the activities of cooperative including accounting and the auditing. This is to ensure that the Cooperative are operated in consonance with the Act, their abiding byelaws, including other cognate regulations in the beneficial interests of members. What then are the functions of a Director?

SELF-ASSESSMENT EXERCISE

How is the Director of Cooperatives appointed?

3.2 Responsibilities of a Director of Cooperatives

The responsibilities of a Director are as provided below:

- i. When a question arises as to age, residence or occupation of land constituting the qualification of any person who has connection with a cooperative, that question shall be decided by the Director of Co-operatives whose decision shall be final.
- ii. It is the person to whom a registration fee of N100 or such other sum as may be prescribed by the Minister or Commissioner shall be paid.
- iii. The application to register a cooperative shall be accompanied by such number of copies of the proposed bye-laws of the society and any other information as prescribed by the Director
- iv. Director may make such alteration in a society's proposed byelaws as he may deem necessary to bring them into conformity with the provisions of this the Nigeria Cooperative Societies Act, 2004.
- v. It the responsibilities of Director to register a cooperative society after he must have satisfied himself that the proposed bye-law of the cooperative is not contrary to the provisions of the Nigeria Cooperative Societies Act, 2004.

- vi. The Director may, by order in writing, cancel the registration of a primary society if, at any time, it is proved to his satisfaction that the number of the members of the society has been reduced to less than ten or in the case of an industrial society, to less than six and the order shall take effect from the date it is made
- vii. Where the registration of a society is cancelled by an order due to lack of membership, it is the responsibility of the Director to appoint a suitable person, subject to his direction and control, to be the liquidator of the society who will be subject to his guidance and control.

SELF-ASSESSMENT EXERCISE

List any five (5) responsibilities of a Director of Cooperatives?

3.3 The Director and the Auditing of Cooperatives

In relation to the audit of cooperative societies, the Director is vested with the following powers:

- i. The Director or any person authorised by him in writing shall, at all reasonable times, have access to all the books, accounts, papers and securities of a registered society and shall be entitled to inspect the cash in hand, and every office of the society and shall furnish such information in regard to the transactions and workings of the society as the person requesting the inspection may require.
- ii. The Director may give directions prescribing the returns to be submitted by a registered society to the him and the persons by whom and the time in which such returns shall be submitted, and these directions shall apply to all or any of the registered societies
- iii. The Director may, and shall, on the application of a simple majority of the members of the committee, or of not less than one-third of the members of a registered society, hold an inquiry or direct any other person authorized by him in this behalf, by order in writing, to hold an inquiry into the constitution, working and financial state of a registered society.
- iv. All officers and members of the society shall furnish such information relating to the affairs of the society and caused to produce such books, accounts, papers and securities of the society as the Director or the person authorised by him may require for the purpose of the inquiry.
- v. The Director shall, on the application of a creditor of a registered society, inspect or direct any other person authorised by him in writing to inspect the books of the society, if the creditor:

- (a) proves that an ascertained sum of money is then due to him and that he has demanded payment thereof and has not received satisfaction within a reasonable time; and
 - (b) deposits with the Director such sum as security for the costs of the proposed inspection as the Director may require.
- vi. The Director shall communicate the results of an inspection held under (v) above to the creditor and to the society into whose books the inspection was made.

Section 36 of the Nigerian Cooperative Societies Act, 2004 made provisions for the audit of cooperative societies in Nigeria. This section, inter alia, requires that the Director or any person authorised by him in writing shall, at all reasonable times, have access to all the books, accounts, papers and securities of a registered society. They shall also be entitled to inspect the cash in hand, and every office of the society and shall furnish such information in regard to the transactions and workings of the society as the person requesting the inspection may require. The Director is therefore duty-bound to ensure compliance of cooperative societies with this provision.

As it is the standard practice, however, the audited accounts of the societies are filed for the review of the Department of Cooperatives. Consequent upon the review, a Director's report is issued. This report is discussed at the Annual general meeting of the society.

4.0 CONCLUSION

This Unit was able to establish that it is the duty of the Director of Cooperative to supervise the activities of cooperatives including accounting and the auditing. This is to ensure that the Cooperative Societies are operated in consonance with the Act, their abiding by laws, including other cognate regulations in the beneficial interests of members.

5.0 SUMMARY

In this unit, you have learnt that:

- a Director of Cooperatives is any person appointed by the government either at the Federal or State level to superintend over the activities, operations and processes of cooperative societies in Nigeria.
- As it is the standard practice, however, the audited accounts of the societies are filed for the review of the Department of Cooperatives. Consequent upon the review, a Director's report is

issued. This report is discussed at the Annual general meeting of the society.

6.0 TUTOR-MARKED ASSIGNMENT

1. Who is a Director of Cooperatives?
2. In relation to accounting and audit of cooperatives, what are the statutory responsibilities of a Director of Cooperatives?

7.0 REFERENCES/FURTHER READINGS

Adeniji, A. A. (2010). Auditing and Investigation. Lagos Value Analysis Consult Publications

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