# INTERMEDIATE FINANCIAL ACCOUNTING AND REPORTING II(ACT312)

LECTURE NOTES PREPARED BY:
OYELAKUN OYETOLA-TAU/SSPF/164
DEPARTMENT OF ACCOUNTING

# Company Account

**Definition:** A company can be defined as a business owned by an association of people, and operated as a legal person on behalf of its owners with the usual motive of profit maximization.

**Types of Company**

- Private company
- Public company

# Company Account

**Private Companies**

A private company is defined as a company which by its articles:

- Restricts the right to transfer its shares
- Limit the number of its members to fifty
- Prohibits any invitation to the public to subscribe to its shares
- The private company end their names with the word "Limited".

# Company Account

**Public Companies**

These are companies which invite the public to subscribe to its shares. The minimum number of shareholders required to form a public limited company is given. There is no restriction on the maximum number of shareholders. The shares are transferable to other persons without informing other shareholders. The name of the company must end with “PLC or Public Liability Company”. Examples are Lever Brothers PLC, Nestle PLC, Total PLC etc.

# Company Account

**Kinds of Company**

- **Company Limited by Shares:** This is a company whose liabilities are limited to the amount invested in the business in the event of liquidation.
- **Company Limited by Guarantee:** These are companies whose liabilities are limited to the amount guaranteed by the members in the event of liquidation e.g Clubs.

# Company Account

**Kinds of Company**

- **Unlimited company:** This is a company whose members liabilities for the debt of the company is unlimited.

**Characteristics of a Limited Company**

- **Legal entity:** A company as an artificial person can sue and be sued. Its personality is distinct from the owners.
- 2. **Limited Liability:** The liabilities of members are limited to the amount invested in the business.

# Company Account

**Characteristics of a Limited Company**

- **Perpetual existence:** The ownership of a company can change without changing the company.
- It is authorized by law to carry on a specific line of business.

# Company Account

**Differences between Private and Public Companies**

| **Private Companies** | **Public Companies** |
|---|---|
| 1. The minimum number of members is 2 and the maximum is 50 | The minimum number of members is 7 and there is no maximum |
| 2. There is restriction on transfer of its shares | There is no restriction |

# Company Account

**Differences between Private and Public Companies**

| **Private Companies** | **Public Companies** |
|---|---|
| 3. The name ends with "Ltd" | The name ends with "Plc" |
| 4. Doesn't hold statutory meeting | Holds statutory meetings |
| 5. It is owed and controlled by the owners | It is owned by the shareholders and controlled by the Board of Directors. |

# Company Account

**FORMATION OF A COMPANY**

- The first step is to get the promoters. They are individuals who conceive the idea of a company and undertake to fulfil all legal requirements of the venture.
- The following documents will be filled with the Registrar of Companies. These are Memorandum and Article of Association and Statement of Nominal Capital.

# Company Account

**FORMATION OF A COMPANY**

- The documents are stamped and submitted to the Registrar of Companies for verification.
- When the Registrar of Companies receives and approves the necessary documents, the registrar issues a certificate of incorporation.

# Company Account

**MEMORANDUM OF ASSOCIATION**

The memorandum of Association of a company limited by shares contains the following clauses:

- The name of the company, followed by the word 'limited'.
- The domicile of the company (i.e where its registered office is situated). 3. The object of the company.
- A declaration that the liability of the members is limited.
- The amount of authorized capital.

# Company Account

**ARTICLES OF ASSOCIATION**

This is a document which states the internal regulations of a limited company. It contains the regulations which govern the internal management and running of the company's affairs The clauses deal with:

- The transfer and transmission of shares
- The forfeiture and surrender of shares.
- The holding, notice of, and procedure at general meetings.

# Company Account

**ARTICLES OF ASSOCIATION**

- The voting rights of members, pills and proxies
- The appointment and power of managing directors.
- The proceedings and powers and duties of the board of directors.

# Company Account

**STATUTORY BOOKS OF A COMPANY**

- The register of the venture
- The register of directors
- The register of members
- Minute books for directors meeting and shareholders general meeting

# Issue of Shares

**SHARES**

Shares are units of company's capital allocated to individuals known as shareholders.

**Share Capital**

It is the fund or capital raised by a company from the sales or issues of company's shares.

**Methods of Issuing Shares**

- **Shares issued at a discount:** this is the case where shares are quoted below the nominal value. An example is when a company issues out 100,000 ordinary shares of ₦1.00 each at 50k per share.

# Issue of Shares

**Methods of Issuing Shares**

- **Shares issued at a premium:** this is the case where shares are quoted above the nominal value. An example is when a company issues out 100,000 ordinary shares of 50k each at ₦1.00 per share.
- **Shares issued at par:** this is the case where shares are quoted at a price equal to the nominal value. It is neither quoted at discount or premium. An example is when a company issues out 300,000 ordinary shares of ₦1.00 each for the same ₦1.00

# Issue of Shares

**Types of Share Capital**

- **Authorized Share Capital:** This is also known as nominal or registered capital. This is the amount of capital stated in the memorandum of association of the company that can be issued out.
- **Issued Capital:** This is the total number of shares the company actually issued out to the public from the authorized capital.

# Issue of Shares

**Types of Share Capital**

- **Paid-up Capital:** This is the amount actually paid or payable on the shares issued out to the public.
- **Called-Up Capital:** This is the total amount of shares called for by the public from the issued shares.
- **Uncalled-Up Capital:** This is the total amount that was not asked for from the issued share capital.

# Issue of Shares

**Types of Share Capital**

- **Call in advance:** This is the money received on shares before the payment is being requested.
- **Call in Arrears:** This is the amount called for but not yet received.

# Issue of Shares

**Types/Classes of Shares**

**Preference shares:** entitles the holders to a fixed rate of dividend before any dividend is paid on other classes of shares.

**Ordinary shares:** These are shares held by the real owners of the company. They are also referred to as equity capital. They share in the profit of the company in the form of dividend after all other types of shareholders have been settled.

# Issue of Shares

**Methods of Collecting Money When Shares are Issued**

- Payable in full on application
- Payable by installment.

**ACCOUNTING ENTRIES FOR SHARES PAYABLE IN FULL ON APPLICATION**

**a) Shares issued at par**

On receipt of application money

- Debit: Bank account
- Credit: Application account ·

# Issue of Shares

**ACCOUNTING ENTRIES FOR SHARES PAYABLE IN FULL ON APPLICATION**

On allotment

- Debit: Application account
- Credit: Ordinary share capital account

# Issue of Shares

**ACCOUNTING ENTRIES FOR SHARES PAYABLE IN FULL ON APPLICATION**

**Shares issued at a premium**

On receipts of application money:

- Debit: Bank account
  Credit: Application account

# Issue of Shares

**ACCOUNTING ENTRIES FOR SHARES PAYABLE IN FULL ON APPLICATION**

On allotment:

- Debit: Application account
- Credit: Share premium account
- Credit: Ordinary share capital account

# Issue of Shares

**METHODS OF ISSUING NEW SHARE**

- **An Offer for Subscription:** It is also referred to as prospectus issues; it involves the company directly issuing shares to the public to purchase by advertisement. This method of issuing new shares can take any of the following form:

# Issue of Shares

**METHODS OF ISSUING NEW SHARE**

- **Initial Public Offer:** Where the company is issuing its shares to the public for the first time.
- **Public Offer:** Where the company is issuing additional shares after it initial public offer.

# Issue of Shares

**METHODS OF ISSUING NEW SHARE**

- **Offer for sale:** Here the company sells all the shares to an issuing house, usually a financial institution which in turn sells them to the public at profit.
- **Private Placement:** It is an arrangement whereby shares are offered and sold to selective individuals or institutions in other words; the shares are not available for the public to buy. It is usually bought through the issuing houses and stockbrokers. His reward is called brokerage

# Issue of Shares

**METHODS OF ISSUING NEW SHARE**

- **Right Issue:** This occurs where the company is issuing additional shares to already existing shareholders to subscribe to on pro-rata basis. The price of issue is usually lower than the existing market price. The shareholder has the option to take up the offer, sell the right or renounce it.

# Issue of Shares

**METHODS OF ISSUING NEW SHARE**

- **Bonus Issue:** This is a situation whereby a company issues shares to existing shareholders without asking for payment. It is also referred to as Scrip Issue. The consideration involves transfer surplus to stated capital.

# Issue of Shares

**METHODS OF ISSUING NEW SHARE**

- **Underwriting:** It involves providing advice on the issue, buying a new issue from issuing company and reselling it to the public. In some case, the underwriter or syndicate enters into fixed commitment and deals with the issue on "Best effort or all-or-none basis,"

# Issue of Debenture

- **Definition:** A debenture is a written acknowledgement of a debt by a company, usually under seal and generally. A company may raise loan by issue a debenture or debenture stock. A debenture holder is a special creditor who is entitled to fixed interest whether profit is made or not. Debenture is shown as long term-liability in the Statement of Financial Statement. Debenture may be issued at par, discount or premium.

# Issue of Debenture

**Provisions for payment of Interest and Repayment of capital;**

- **Simple or naked debenture: This** carries no charge on assets.
- **Secured debenture:** This carries either a fixed charge on a specific asset or a floating charge on all or some of the assets.

# Issue of Debenture

**Types of debenture**

- Redeemable or perpetual debenture
- Convertible debenture
- Secured or naked debenture

# Issue of Debenture

**Types of Issue of Debenture**

- The mode of issue of debenture and the method of collecting money on issued debenture are similar to that of shares (On Application, Allotment, Call etc) and the accounting entries are the same except the change in account names. Thus substitute the word "debenture" for the word "shares" in the accounting entries and also, substitute the word "debenture specific account" for the word "application account"

# Issue of Debenture

**Method of Collecting Money on Issued Debenture**

Debenture may be:

- Payable full on application
- Payable on installment basis.

**Accounting Entries for Debenture Payable Full on Application**

**Debentures issued at a premium**

Receipts of debenture application money:

- Debit: Bank account
  Credit: Debenture specific account

# Issue of Debenture

Debenture premium

- Debit: Debenture specific account
  Credit: Debenture premium account

For example;

Example: GHs20,000 20% debenture issue at 102

Hint: the issuing price per unit=102%

# Issue of Debenture

**Debentures issued at a discount**

Receipts of debenture application money:

- Debit: Bank account
  Credit: Debenture specific account

Debenture discount

- Debit: Debenture discount account
  Credit: Debenture specific account

For example;

GHs20,000 20% debenture was issued at 98 to the public. Hint: the issuing price per unit=98%

# Issue of Debenture

**Debentures issued at par**

Receipts of debenture application money:

- Debit: Bank account
  Credit: Debenture specific account

For example;

GHS20,000 20% debenture was issued at par to the public payable on application.

Hint: the issuing price per unit=100%

# Final Account of A Limited Company

**Statutory Requirements of Company Accounts**

- Apart from the normal accounting practices and procedures which are followed when final accounts are prepared, there are a number of legal and other requirements which have to be observed when the final accounts of limited companies are being prepared for publication purposes.

# Final Account of A Limited Company

**PECULIAR FEATURES OF A COMPANY'S FINANCIAL STATEMENT**

- **Director's fee/remuneration and auditors' fees:** These should be deducted before arriving at the profit before tax.
- **Reserve Capital:** This is a kind of capital that is kept to meet contingencies. By special resolution sets apart certain amount of share capital that is not called-up except in the event of winding up or for payment of meeting contingencies.

# Final Account of A Limited Company

**PECULIAR FEATURES OF A COMPANY'S FINANCIAL STATEMENT**

- **Taxation:** The taxation provision on current year's profit is deducted from the profit before tax and shown in the published Statement of Financial Position under the heading, "creditors: amounts falling due within one year".

# Final Account of A Limited Company

**PECULIAR FEATURES OF A COMPANY'S FINANCIAL STATEMENT**

- **Appropriation account:** This is the account where the profit after tax is shared (i.e. appropriated). Items normally found in this account include transfer to reserves, interim dividend paid and proposed dividend.

# Final Account of A Limited Company

**PECULIAR FEATURES OF A COMPANY'S FINANCIAL STATEMENT**

- **Reserves:** Reserves are amounts set aside out of profits earned by the company which are not designed to meet any liability, contingency, commitment or diminution in value of assets known to exist at the balance sheet date.

# Final Account of A Limited Company

**FEATURES OF A COMPANY FINAL ACCOUNT FOR INTERNAL USERS**

- The trading account of a Limited liability Company is the same as any other business. However, the Statement of Comprehensive Income of a limited liability company contains. items which would not be found in the Statement of Comprehensive Income of a Sole Trader and Partnership.

# Final Account of A Limited Company

**FEATURES OF A COMPANY FINAL ACCOUNT FOR INTERNAL USERS**

These items are:

- Directors fees and salaries
- Interest on debentures
- Auditors fees
- Taxation

# Final Account of A Limited Company

**ACCOUNTS PREPARED**

The following accounts are prepared for a limited company:

- Trading, Profit and Loss Account (Statement of Comprehensive Income)
- Appropriation Account
- Statement of Financial Position (Balance Sheet)

# Final Account of A Limited Company

**Appropriation of profit:** This section involves no difficulty since it covers the normal appropriations which are made after the net profit has been established. Two of these are:

- Amount charged for corporation tax.
- Dividend paid and proposed.

# Final Account of A Limited Company

**Vertical Format (Internal Use)Statement of Profit or Loss Account for the period ended 31st March 20xx**

| | |
|---|---|
| Net sales(Turnover-Return Inward) | xx |
| Less Cost of sales | (xx) |
| Gross Profit | xx |
| And Other Incomes | xx |
| Total income | xx |
| Less Expenses | (xx) |
| Profit for the Period | xx |

# Final Account of A Limited Company

**Vertical Format (Internal Use)Statement of Profit or Loss Account for the period ended 31st March 20xx**

| | |
|---|---|
| Turnover | xx |
| Less returns inward | (xx) |
| **Net sales** | **xx** |
| **Less Cost of sales** | **(xx)** |
| **Gross Profit** | **xx** |
| **And Other Incomes** | **xx** |
| **Total income** | **xx** |
| **Less Expenses** | **(xx)** |

# Final Account of A Limited Company

**Statement of Financial Position as at 31st March 20xx**

| | | |
|---|---|---|
| **Non-Current Assets** | **xx** | |
| **Current Assets** | **xx** | |
| Total Assets | | xx |
| | | |
| Current Liabilities | xx | |
| Non-current Liabilities | xx | |
| Total Liabilities | | (xx) |
| **Equity and Liabilities** | | xx |

# Final Account of A Limited Company

**FORMAT FOR EXTERNAL USERS (Published Account)**

A complete set of published financial statement will include the following:

- Statement of financial position (formally known as balance sheet).
- Statement of profit or loss and other comprehensive income
- Statement of changes in equity

# Final Account of A Limited Company

**FORMAT FOR EXTERNAL USERS (Published Account)**

- Statement of cash flows
- Statement of value added (not compulsorily required by the IFRS).
- Accounting policies and explanatory notes.

# Final Account of A Limited Company

**TO BE CONTINUED……………………..!**