

UNIT TRUST

A Unit trust is an organisation whose objective is the Collective Investment of money subscribed by its members. There are three parties to a unit trust: the managers, the Trustees and the Holders.

The manager is an individual employed by the trustee(s) to manage the funds of the unit trust. He will usually be someone with experience in investment in various kinds of securities (for example an investment banker, a stock trader, a finance expert etc.). And his main responsibility is to seek out the best investment opportunities from time to time that will yield the best returns for the funds he has been asked to manage. He is the equivalent of a manager in any typical firm. It is possible to have multiple managers.

The trustee is an individual appointed by the unit holders to oversee the unit trust. He has oversight responsibility over the activities and decisions of the manager. While he is not the owner of the funds generated by the unit trust, he has been appointed to oversee the utilisation and performance of the funds. There is a possibility as well that there could be more than one trustee. In such a case they will work hand in hand, and they are all answerable to the unit holders. The trustees are the equivalent of the Board of directors in a typical firm.

Unit Holders are the owners of the unit trust. They contribute funds by paying subscriptions from time to time based on laid down agreements. They own units in the organisation, and a unit is the token of ownership in a unit trust. The units controlled by a holder signify how much of the unit trust they control. Hence a unit holder and the units owned are the equivalent of shareholders and shares, respectively, in a typical company.

Units in a unit trust are usually value-based; that is, their value is made up of the current value of the portfolio plus cash in hand and at bank (uninvested funds). However for the first set of subscribers, the value of a unit will be such an amount as agreed by the unit holders.

Accounts Required

- a. Bank A/c
- b. Unit Capital A/c
- c. Investment A/c
- d. Statement of Valuation
- e. Statement of Financial Position

Accounting Entries

- a. **Dr:** Bank A/c
Cr: Unit Capital A/c (with money lodged on the subscription of units by unit holders)
- b. **Dr:** Investment A/c
Cr: Bank A/c (with purchase of securities)
- c. **Dr:** Bank a/c
Cr: Investment A/c (with dividends/income received on investment)
- d. **Dr:** Unit Capital A/c
Cr: Bank A/c (with the payment to a resigning member)

Illustration

a. 40 people formed **Perk Unit Trust**, where every member subscribes for one unit per month. A unit shall be ₦5,000 at the first monthly meeting. The trust portfolio is value based. Any member who wishes to resign is paid in cash, the value of the units he/she has subscribed for up to date. The value for this purpose is the current unit value, fixed at the meeting at which he gives his attention to withdraw.

At the first monthly meeting, the members agreed to purchase 8,000 **UAC PLC** Ordinary Shares at ₦22.50 each. At the next meeting, these shares were quoted at ₦24.50; and they bought 16,000 **Dangote PLC** shares at ₦14 each. At the third meeting **UAC PLC** shares were quoted at ₦24 and **Dangote PLC** shares at ₦12.50; and they bought 60,000 shares of **Oando PLC** at ₦3 each. Two members resigned at this meeting, and they were given refund of their units as agreed. On the day of the fourth meeting the trust's portfolio were quoted as follows: **UAC PLC** ₦24; **Dangote PLC** ₦13; and **Oando PLC** ₦3. On that day ₦5,000 and ₦7,000 were received as dividends on **UAC PLC** and **Dangote** shares respectively. **Required:**

- i. Show the statement of Valuation
- ii. The statement of financial position
- iii. All entries in the books of the trustee

Solution

| Statement of Valuation | | | Statement of Financial Position | | | |
|------------------------|-------------------------------|---------|---------------------------------|-------|---------------------------------------|-----------|
| Month | Description | ₦ | Units | Month | Description | ₦ |
| 1 | Value/Unit | 5,000 | 40 | 1 | Subscriptions: 40 Units @ 5,000 | 200,000 |
| 2 | 8,000 UAC Shares@24.50 | 196,000 | | | Purchases: 8,000 UAC Shares @ 22.50 | (180,000) |
| | Month 1 Balance | 20,000 | | | Cash Balance | 20,000 |
| | | 216,000 | 40 | 2 | Subscriptions: 40 Units @ 5,400 | 216,000 |
| | Value/Unit (216,000/40) | 5,400 | | | Purchases: 16,000 Dangote Shares @ 14 | (224,000) |
| 3 | 8,000 UAC Shares@24.00 | 192,000 | | | Cash Balance | 12,000 |
| | 16,000 Dangote Shares @ 12.50 | 200,000 | 38 | 3 | Subscriptions: 38 Units @ 5,050 | 191,900 |
| | Month 2 Balance | 12,000 | | | Purchases: 60,000 Oando Shares @ 3 | (180,000) |
| | | 404,000 | | | Refund 4 units@5,050 | (20,200) |
| | Value/Unit (404,000/80) | 5,050 | | | Cash Balance | 3,700 |
| 4 | 8,000 UAC Shares@24.00 | 192,000 | 38 | 4 | Subscriptions: 38 Units @ 5,120 | 194,560 |
| | 16,000 Dangote Shares @ 13 | 208,000 | | | Dividends | 12,000 |
| | 60,000 Oando Shares @ 3 | 180,000 | | | Cash Balance | 210,260 |
| | Month 3 Balance | 3,700 | | | | |
| | | 583,700 | | | | |
| | Value/Unit (583700/114) | 5,120 | | | | |

| Bank | | | | | |
|---------|---------------|----------------|---------|--------------|----------------|
| Month 1 | Unit Capital | 200,000 | Month 1 | Investment | 180,000 |
| Month 2 | Unit Capital | 216,000 | Month 2 | Investment | 224,000 |
| Month 3 | Unit Capital | 191,900 | Month 3 | Investment | 180,000 |
| Month 4 | Unit Capital | 194,560 | Month 4 | Unit Capital | 20,200 |
| Month 4 | Invest Income | 12,000 | | Bal. c/d | 210,260 |
| | | <u>814,460</u> | | | <u>814,460</u> |

| Investment | | | | | |
|------------|------|----------------|--|----------|----------------|
| Month 1 | Bank | 180,000 | | Bal. c/d | 584,000 |
| Month 2 | Bank | 224,000 | | | |
| Month 3 | Bank | 180,000 | | | |
| | | <u>584,000</u> | | | <u>584,000</u> |

| Unit Capital | | | | | |
|--------------|----------|----------------|---------|------|----------------|
| Month 4 | Bank | 20,200 | Month 1 | Bank | 200,000 |
| | Bal. c/d | 782,260 | Month 2 | Bank | 216,000 |
| | | | Month 3 | Bank | 191,900 |
| | | | Month 4 | Bank | 194,560 |
| | | <u>802,460</u> | | | <u>802,460</u> |

| Investment Income | | | | | |
|-------------------|--------|---------------|---------|------|---------------|
| Month 4 | P or L | <u>12,000</u> | Month 4 | Bank | <u>12,000</u> |