INTRODUCTION TO FINANCIAL ACCOUNTING I

ACC203

Course Guide

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INTRODUCTION

What you have in your hand is the course guide for ACC203 (Introduction to Financial Accounting 1). The purpose of the course guide is to relate to you the basic structure of the course material you are expected to study as a B.Sc. Accounting Student in National Open University of Nigeria. Like the name 'course guide' implies, it is to guide you on what to expect from the course material and at the end of studying the course material.

COURSE CONTENT

The course content consists basically of the treatment of accounting transactions according to the provisions of relevant accounting standards. Specifically, the nature and scope of accounting, the functions of accountants in business organisations, the accounting function and its relationship with the information system of organizations, users and uses of accounting information, basic accounting concepts and conventions, source documents and subsidiary books, double entry book-keeping systems, trial balance, correction of errors, capital and revenue expenditures, final accounts of a sole trader, control accounts and bank reconciliations were the main focus of this course material.

COURSE AIM

The aim of the course is to introduce you to basic principles of accounting and to understand how financial documents are posted into accounting record in order to determine the profit or loss of an organisation. It also includes practical treatment of accounting transactions conducted through the bank and how errors in accounting are treated.

COURSE OBJECTIVES

At the end of studying the course material, among other objectives, you should be able to:

1. Explain the source documents used in posting accounting records;
2. Explain and prepare books of original entries;
3. Understand the double entry book-keeping systems.
4. Explain the concept of revenue and capital expenditures, and how they are classified.
5. Prepare the statement of profit or loss of a sole trader.
6. Explain types of errors and how they are corrected.
7. Prepare the statement of financial position of a sole trader.
8. Explain and prepare bank reconciliation statement.

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COURSE MATERIAL

The course material package is composed of:

The Course Guide

The Study Units

Self-Assessment Exercises

Tutor Marked Assignment

References/Further Reading

THE STUDY UNITS

The study units are as listed below:

Unit 1	The Nature and Scope of Accounting
Unit 2	The Functions of Accountants in Business Organisations.
Unit 3	The Accounting Function and its Relationship with the Information System of Organizations.
Unit 4	Users and Uses of Accounting Information
Unit 5	Basic Accounting Concepts and Conventions
Unit 6	Source Documents and Subsidiary Books: Sales Day Book
Unit 7	Subsidiary Books: Purchases Day Book
Unit 8	Subsidiary Books: Returns Inwards and Outwards Day Book
Unit 9	Subsidiary Book: Journal
Unit 10	Subsidiary Books: Single and Two Column Cash Book
Unit 11	Subsidiary Books: Three Column and Petty Cash Book
Unit 12	Double Entry Book-keeping Systems
Unit 13	Trial Balance
Unit 14	Types and Correction of Errors
Unit 15	Classification of Expenditure between Capital and Revenue
Unit 16	Methods of Recording Accounting Data: Manual and Mechanical
Unit 17	Final Accounts of a Sole Trader 1. Statement of Profit or Loss
Unit 18	Final Accounts of a Sole Trader 2. Statement of Financial Position
Unit 19	End of Year Adjustments in Final Accounts, e.g. Prepayment, Accruals, Provisions and Reserves etc.
Unit 20	Accounting Treatment of Control Accounts
Unit 21	Bank Reconciliations

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ASSIGNMENTS

Each unit of the course has a self assessment exercise. You will be expected to attempt them as this will enable you understand the content of the unit.

TUTOR MARKED ASSIGNMENT

The Tutor Marked Assignments (TMAs) at the end of each unit are designed to test your understanding and application of the concepts learned. Besides the preparatory TMAs in the course material to test what has been learnt, it is important that you know that at the end of the course, you must have done your examinable TMAs as they fall due, which are marked electronically. They make up to 30 percent of the total score for the course.

SUMMARY

It is important you know that this course material consists of both academic and professional materials. This provides you the opportunity of obtaining a BSc. degree in Accounting and preparation for your professional examinations. Therefore, it is very important that you commit adequate effort to the study of the course material for maximum benefit.

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Main Content

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UNIT 1: THE NATURE AND SCOPE OF ACCOUNTING

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1.0 INTRODUCTION

Like any other discipline or course, accounting did not evolve suddenly, but the beginning of accounting was stewardship, where a person is employed in someone else's property and the employee is expected to give a report of his activities to the employer from one period to the other because it is required in stewards that a man be found faithful.

Basically, stewards are to give report or account, but not yet satisfied with just giving report, a system was developed later to incorporate the keeping of these records from one period to another in a form and manner that is easy to understand, which is called book keeping. This means that some forms of permanent records should be created whereby both the steward and the owner can have access to present and past events.

The earliest known originator of book keeping system was Rev. Father Lucas Pacioli, a clergyman and mathematician and it was stated in his book "Summa de Arithmeticl, Geometria, Proportioi et Proportionalita" (Everything about Arithmetic, Geometry and Proportion) published in 1494 at Venice.

2.0 OBJECTIVES

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

i. Define accounting
ii. Explain nature of accounting
iii. Discuss the qualities of a good accounting information
iv. Understand the branches of accounting and their scope

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3.0 MAIN CONTENT

3.1 ACCOUNTING DEFINED

Accounting consists of the process in designing and operating an efficient accounting information system for collection, recording, measuring, summarising, analysing and communicating the results of financial transactions for a particular period to users of financial information for them to make informed decisions.

Accounting is a discipline involved with the recording, classification and interpretation of financial information for both trading and non-trading organisations about the economic activities of an organisation so that accurate decisions can be made based on the accounting information provided.

Accounting can be defined as the process of collecting, recording, presenting, analysing and interpreting financial information for the users of financial statements. It involves accurate book-keeping, records, measuring and interpreting the financial results of the business by the preparation of accounting ratios and communicating these results to management and other interested parties or users.

3.2 NATURE OF ACCOUNTING

Accounting possesses different nature when examined thoroughly. These natures are discussed below.

3.2.1 Accounting as a Profession

A profession is a known career that requires an identified path for the acquisition of specialised and/or formal education or training before rendering any service. Accounting falls into this definition of a profession because it requires the acquisition of a specialised knowledge over a given period of time which involves the combination of theory and practice. Accounting is a body of knowledge that was developed with the advent of formal trade many centuries ago. Accounting as a profession enables people to make a career in accounting at different levels.

Accounting as a profession in Nigeria has grown considerably with formal educational training by tertiary and professional institutions. In addition to other recognised international accounting professional bodies, the professional accounting bodies in Nigeria are the Institute of Chartered Accountants of Nigeria (ICAN) and Association of National Accountants of Nigeria (ANAN).

3.2.2 Accounting as a Language

Language is a means of communication. Accounting is a language because is a means of communicating business information.

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Accounting is usually referred to as the language of business because it is used in reporting and communicating financial information about organisations. Language makes use of rules and symbols, likewise, accounting has its own rules (e.g. debit the receiver, credit the giver) and symbols (e.g. Dr, Cr) that must be strictly adhere to. Furthermore as language is learned overtime, accounting also require learning and practice in order to communicate financial information to different users of the information.

3.2.3 Accounting as an Information System

The acquisition of key business information that includes income, expenditure, profit, assets and liabilities are made available from financial statement prepared by accountants. Tangible business information is not possible without accounting because the raw data from different source documents (discussed in chapter 7) do not make any meaning until its processed and analysed through accounting process with the end result being a reliable information system that are dependable for decision making process.

3.2.4 Accounting as a Service Activity

Accounting does not have physical products that can be bought and sold like the manufacturing companies. However, accounting is a service centre that provides auxiliary services to different types of organisations. Accounting produces information that individuals and organisations can use to create wealth. Although accounting provides services, the effect of the service cut across all the sector of an economy for both private and government organisations.

3.2.5 Accounting as a Science

Accounting is a science because it follows a systematic and organised body of knowledge. Though accounting is not a pure science like Chemistry and Physics, Accounting is a management science because it is also based on some fundamental principles which are applicable worldwide. One of the accounting principles is the double entry system, which means that all accounting transactions have two parts to them (i.e. debit and credit).

The maintenance and recording of the books of accounts in a systematic manner similar to procedures in a laboratory make accounting a science. Furthermore, the award of Bachelor of Science (B.Sc) degree to accounting graduates in Nigeria universities and other universities in different nations is an affirmation that accounting is a science.

3.3 QUALITIES OF GOOD ACCOUNTING INFORMATION

The release of accounting information is not a guarantee that such report is correct. There are basic tests to which any accounting report could be subjected. These tests are the qualities expected to be displayed in any good accounting information, and these are:

3.3.1 Relevance

Good accounting information should be relevant to the purpose for which it is prepared. It should include enough facts and figures to satisfy the need of the users. Without this, the information is like an ordinary plain piece of paper.

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3.3.2 Objectivity

Accounting information should be free from thoughts and feelings of the person preparing the report. Ability to trace all accounting transactions in a report to the source documents is important for objectivity to be realised. Objectivity also require that bias and window dressing should not be introduced and the information provided must comply with relevant principles and regulations governing the preparation of financial statements.

3.3.3 Completeness

The report should be complete enough to give the user full information with which decision could be reached. Enough information or details for good understanding of the user is important for accounting information to be complete.

3.3.4 Timeliness

Accounting information should be on time. It should be ready as at when needed. If not, it will be a useless effort preparing the report. The accounting information requires by company's management on daily, weekly or monthly basis for effective running of the organisation must be provided as at that period. If it comes late it would be useless.

3.3.5 Comparable

Comparing accounting report for one period to another should be possible with ease. It means that the report should be prepared in a way that allows for quick and easy comparability from one period to another. It means that the basis for the preparation of the accounting information from period to period must not change. If for any reason a change occurs, it must be clearly stated with the effect of such change.

3.3.6 Clarity

The information provided should be clear enough for the user to understand to the extent that the user will not need a third party to interpret it to him.

3.3.7 Accuracy

The report should be exactly right and free from all forms of errors, mistakes, and omissions.

3.3.8 Flexible

Flexibility means that accounting reports should be easy to change, adjust and adaptable to suit different kinds of users.

3.4 BRANCHES OF ACCOUNTING

Accounting as a form of knowledge and profession consist of different branches as explained below.

3.4.1 Financial Accounting

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Financial accounting started from stewardship duty and is concerned with the keeping of books of accounts and preparation of financial statement for the entire organisation on historical basis. The reports prepared by a financial accountant are both for internal and external use.

The financial statement prepared through financial accounting is to ascertain the profit or loss of an organisation during a particular period. Financial accounting is also used to determine the financial position of an organisation which shows the company's assets and liabilities at a particular date.

3.4.2 Cost Accounting

Cost accounting is a branch of accounting that is concerned with how to find out the cost of goods produced or services rendered in an organisation. It also helps organisation in controlling and minimising their costs.

Financial accounting and cost accounting principles and techniques are applied to ascertain and control cost in order to determine increase and/or reduction between budgeted cost and actual cost for management planning, control and decision making.

Cost accounting also include the use of accounting double entry book keeping methods to ascertain cost. This is accomplished through the collection of cost data in an organised pattern from accounting information systems.

3.4.3 Management Accounting

Management accounting is a branch of accounting that uses different quantitative analysis tools to project for the future of an organisation. It is the provision of timely and reliable information for planning, control and decision making by organisation's management.

Management accounting is also referred to as managerial accounting because this branch of accounting is basically to provide information for organisation management to take decisions and effect controls.

3.4.4 Auditing

Auditing is an independent examination of the books of accounts, records and financial statement of an organisation by an independent person called an auditor. Auditing is a branch of accounting because the role of an auditor is performed by accounting professionals who chooses to be an auditor instead of financial accountant, cost accountant or management accountant.

The auditing of company's financial records and accounts is to ensure that complete and reliable financial statements are published or released to the public by companies so that creditors, government, investors and other users can rely on it for decision making. The auditor is expected to form an independent opinion on the audited financial statement after gathering various forms of audit evidence from the audit exercise. The auditor's report should

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show the 'true and fair' view of the financial statements audited and the scope of work carried out.

3.4.5 Public Sector Accounting

Public sector accounting refers to accounting services carried out at the local, state and federal government ministries and parastatals. It is a class of accounting that is prepared in compliance with the laws regulating government finances. It is also called government accounting because government has some executive responsibility over it. It is the process of recognising and recording government generated revenue and disbursed expenditure in the appropriate books of accounts.

4.0 CONCLUSION

Accounting includes the collection, recording, presenting, analysing and interpreting financial information for the users of financial statements. It involves accurate book-keeping, records, measuring and interpreting the financial results of the business by the preparation of accounting ratios and communicating these results to management and other interested parties or users. Accounting has the nature of profession, science, language, service activity and information systems. The branches of accounting include financial accounting, cost accounting, auditing, public sector accounting and managerial accounting.

SELF ASSESSMENT EXERCISE

1. List and explain four qualities of a good accounting information system.
2. Discuss the nature of accounting as a service activity.

5.0 SUMMARY

The nature of accounting as a profession, language, information system, service activity and science were explained in this unit. The unit also discussed qualities of good accounting information to include relevance, objectivity, completeness, timeliness, comparable and clarity. Branches of accounting were not left out in the unit.

6.0 TUTOR-MARKED ASSIGNMENT

1. List and explain four branches of accounting.

2. Discuss the following nature of accounting
   i. Accounting as a science.
   ii. Accounting as a profession.
   iii. Accounting as an information system.
   iv. Accounting as a language.

3. What do you understand by 'qualities of good accounting information? List and discuss five of such qualities.

4. Which of the following is not a nature of accounting?
   a. Accounting as a profession

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b. Accounting as a language
c. Accounting as an art
d. Accounting as a science

5. There are _____ professional accounting bodies in Nigeria.
   a. 2
   b. 3
   c. 4
   d. 5

6. The acquisition of key business information that includes income, expenditure, profit, assets and liabilities are made available from _____ prepared by accountants.
   a. Book keeping
   b. Stewardship
   c. Source documents
   d. Financial statement

7. The qualities of good accounting information system do not include
   a. Timeliness
   b. Cost
   c. Objectivity
   d. Relevance

8. Which of the following is not a branch of accounting?
   a. Auditing
   b. Investment
   c. Financial accounting
   d. Managerial accounting

7.0 REFERENCES/FURTHER READINGS

Accounting Technicians Scheme West Africa (2009).Basic Accounting Processes and System Part 1, Study Pack ABINA Publishers

Oluyombo, Onafowokan (2016) Financial Accounting With Ease (3rd Edition). Magboro: Kings & Queen Associates

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UNIT 2: THE FUNCTIONS OF ACCOUNTANTS IN BUSINESS ORGANISATIONS

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1.0 Introduction
2.0 Objectives
3.0 Main Content
  3.1 Who is an Accountant?
  3.2 Essential Features of a Business Organisation
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1.0. INTRODUCTION

Every business organisation is expected to keep its financial records accurately and in an orderly manner. This task is expected to be performed by an accountant engaged for such purpose by the organisation.

2.0. OBJECTIVES

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

v. Define who an accountant is.
vi. Understand the essential features of business organisations.
vii. Explain what accountant does.
viii. Discuss how accountants add value to business organisations

3.0 MAIN CONTENT

3.1 WHO IS AN ACCOUNTANT?

An accountant can be defined from broad perspective as a person who carries out accounting functions for or within an organisation. Since accounting includes financial accounting, cost accounting, managerial accounting and auditing, it means therefore that accountants also include financial accountants, cost accountants, management accountants and auditors.

Accounting been a profession also make it that there are professional accountants who are members of one or more accounting professional bodies such as the Institute of Chartered Accountants of Nigeria (ICAN) and Association of National Accountants of Nigeria (ANAN) in Nigeria. Accountants are those with necessary professional accounting qualifications who have been certified as fit and qualified to practice accounting by government approved accounting professional bodies.

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Accountants render their services to business organisations. Business can be seen as a regular activity between two or more parties which leads to the creation of utility that satisfies human wants in form of goods and services. From economist point of view, utility is the satisfaction derived from consuming a particular product or accepting a service.

3.2 ESSENTIAL FEATURES OF A BUSINESS ORGANISATION

The followings are the essential features of a business organisation

i. The need to make profit and ensure adequate return for the owners no matter how small it may be.

ii. There is an element of risk. It has been said before that business is a risk. There is an inherent risk in every business transaction irrespective of the amount involved. Although, some businesses are more risky than the other, but the ability to handle and manage risk is part of business. In essence, any person that is not interested in taking risk can not be involved in business activities.

iii. Business is done with the sole aim of continuity. It is not one-off event, but there should be regularity and consistency in the trade. This will enable present customers to refer new customers to the business. Business is not started with the intention of selling or trading for a single period or time but for present and the future purposes.

iv. Where business is involved, there must be an exchange between the parties. The parties in a business must let go of one thing as a price for another. In such cases there will be exchange of goods or services for money.

Nigeria is a mixed economy country where private sector participant is allowed in selling of goods and provision of services in addition to public enterprises. The private participants are sole proprietorship, partnership and limited liability company.

3.3 FUNCTIONS OF ACCOUNTANTS

The functions of accountants are multi facet because it covers all the process involve in the conception of business idea, the birth of the business, its sustenance and possibly the winding-up of the business if need be.

3.3.1. Maintenance of Books of Accounts

This function include the preparation of all the subsidiary books of account namely sales day book or journal, purchases journal or day book, returns inwards day book or journal, returns outwards day book or journal, cash book, petty cash book and journal proper. The above records are prepared and transferred to the appropriate accounts in the ledgers by the accountant prior to the preparation of the trial balance.

The accounting records above are kept to know the amount of cash and cheques received and paid so that the organisation will know how much money it has at any particular time. It's

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also to reveal the goods purchased and sold on credit and for cash. This enables the organisation to know who owes it money, those whom it owes money and how much.

3.3.2 Preparation of Financial Statements

One of the functions of an accountant is to prepare financial statements that can be relied upon by business organisation and other third parties. The financial statement prepared by accountants should include the statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows.

The above statements provide required information of business income, expenses, profit, assets, liabilities and capital. It's the accountant that prepares these statements at regular interval but it must be timely and accurate.

3.3.3 Interpretation of Financial Statements

In addition to the preparation of financial statements, accountants function include the analysis and interpretation of the prepared statements to different groups of users of the statement because not all users of financial statements have the required technical expertise to understand or decode the accounting language with which financial statements are prepared.

The contents of financial statements that are prepared in accordance with appropriate laws and regulations are further broken down into simple language and calculations to explain the statements to different users by the accountant. This function enables non accountant to understand what financial statements contain and their implications for business organisation in both the short and long runs.

Without the accountants, financial statements will not make any meaning to many people. Accountants therefore prepare some analysis such as returns on investment, cash ratio, liquidity ratio, leverage ratio, returns on capital employed, average stock, cost of capital and return on equity from the financial statements. These analysis will show profitability of the business, whether the business will be able to pay its debts or not, level of activity and productivity, and the effect of loans on the organisation profitability and financial stability.

3.3.4 Statutory Audit

As explained in chapter one that auditing is a branch of accounting, this can be auditing carried out to meet stated laws and regulation which is referred to as statutory audit. Accountants that choose to be auditors provide external auditing services as external auditors to both trading and non-trading organisation in compliance with government regulations.

The external auditing service provided by accountants is to ensure that complete and reliable financial statements are published or released to the public by companies so that creditors, government, investors and other users can rely on it for decision making. The auditor is expected to form an independent opinion on the audited financial statement after gathering various forms of audit evidence from the audit exercise. The auditor's report should show the 'true and fair' view of the financial statements audited and the scope of work carried out.

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3.3.5 Assets Safeguarding

One of the accountant functions is to safeguard the assets of an organisation through proper documentation and internal control mechanism such that the correct amounts of money are paid to those entitled to them at the right time and collection of the company's debts as at when due.

3.3.6 Tax Services

Companies are required by law to pay levies and taxes at different period to the local, state and federal governments depending on the nature of the organisation business and the sector the company belongs. The calculation, preparation and remittance of appropriate tax payable to the government are the function of the accountant. Accountants therefore ensure that they are conversant and versatile in taxation in order to represent the interest of their organisation accurately so that the company will not be subjected to tax penalty for non-compliance with relevant tax laws either in full or in part.

Accountants also engage in tax planning for organisation with the possibility of minimising the tax payable. The government also engage the services of accountant to investigate the adequacy of tax paid by organisations.

3.3.7 Financial Advisory Services

Financial advisory services are not too common unique services provided by experienced accountants for different organisations. These services include share registration with company's registrar and the stock exchange. Formation and liquidation of companies, investment analysis and appraisal for current and new investments, and business expansion consultancy service which include loan packaging from financial institutions.

3.3.8 Management Advisory Services

Many organisations rely heavily on the multi-disciplinary and extensive knowledge of accountants to provide management advisory services to them. Accountants render professional advice in the area of mergers, takeover and acquisition between two or more companies. Any organisation that want to issue shares to the public also need a reporting accountant as provided for by government regulation. There is no end to the services that accountants render in their capacity as management advisor. The services include recruitment, assurance, outsourcing as company's representative, installation and training on the computer based accounting system to adopt and advice if an organisation should enter a new line of business or divest.

3.3.9. Investigation Services

Internal control systems are instituted by men and there are people in organisations that want to commit fraud and therefore look for ways to subvert the control system. Since no organisation is immune to fraud, the services of accountants are engaged to investigate fraud

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at different levels in organisations because of their technical competence to trace financial transactions from the beginning to the end. Accountants also provide services to investigate any other matter in addition to fraud for which investigation services are required by an organisation.

SELF ASSESSMENT EXERCISE

1. Who is an accountant?
2. What are the functions of accountants in a business organization?

4.0 CONCLUSION

An accountant is a person who carries out accounting functions for or within an organisation. Accountants include financial accountants, cost accountants, management accountants and auditors. In addition to the preparation of financial statements, accountants function include the analysis and interpretation of the prepared statements to different groups of users of the statement because not all users of financial statements have the required technical expertise to understand or decode the accounting language with which financial statements are prepared.

5.0 SUMMARY

This unit was used to define who an accountant is and explained what accountant does. The ways by which accountants add value to business organisations which include the maintenance of books of accounts, preparation of financial statements, statutory audit, tax services and other financial advisory services were also discussed.

6.0 TUTOR-MARKED ASSIGNMENT

1. _____ reports on the true and fair view of an organisation's financial statements.
   a. Financial accountants
   b. Government agencies
   c. The Auditor
   d. Public users

2. Every business organisation is expected to keep its _____accurately and in an orderly manner.
   a. business
   b. accountants
   c. focus
   d. financial records

3. The two government recognised accounting professional bodies in Nigeria are:
   a. Association of National Accountants of Nigeria and Chartered Institute of Accountants of Nigeria
   b. Association of National Accountants of Nigeria and Institute of Chartered Accountants of Nigeria

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c. Association of Nigeria National Accountants and Chartered Institute of Accountants of Nigeria
d. Association of Nigeria National Accountants and Institute of Chartered Accountants of Nigeria

4. What are the essential features of a business organisation?
5. List and explain three functions of an accountant.
6. Write short notes on the following
   a. Statutory audit.
   b. Financial advisory service
   c. Assets safeguarding
   d. Tax services

7.0 REFERENCES/FURTHER READINGS

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UNIT 3: THE ACCOUNTING FUNCTIONS AND ITS RELATIONSHIP WITH THE INFORMATION SYSTEM OF ORGANISATIONS

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1.0 INTRODUCTION

Accounting consists of all the processes in designing and operating an efficient accounting information system that leads to collection, recording, measuring, summarising, analysing and communicating the results of financial transactions for a particular period to users of financial information to make informed decisions.

Accounting is a discipline that is involved with the recording, classification and interpretation of financial information for both profit and not-for-profit organisations about the economic activities of the organisation so that accurate decisions can be made based on the accounting information provided. This unit focuses on the accounting functions and how it relates to the organisation.

2.0 OBJECTIVES

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

i. Know how accounting function in an organisation information systems
ii. Explain the relationship that exist between accounting and organisation information system
iii. Understand the role of accounting in an organisation.

3.0 MAIN CONTENT

3.1 Accounting Functions in Organisation Information System

The functions of accounting as it relates to the information system of an organisation include:

i. Decision making

Accounting is a veritable tool that provides relevant information for profit and not-for-profit organisations and other users of financial statements to make informed decisions.

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ii. Recording

Accounting deals with the preparation of all the subsidiary books of account namely sales day book or journal, purchases journal or day book, returns inwards day book or journal, returns outwards day book or journal, cash book, petty cash book and journal proper. The recording function of accounting includes the completion of the double entry principles in the ledgers and onward transfer of the closing balances of the ledgers to extract a trial balance.

The accounting recording above helps to know the amount of cash and cheques received and paid so that the organisation will know how much money it has at any particular time. It's also to reveal the goods purchased and sold on credit and for cash. This enables the organisation to know who owes it money, those whom it owes money and how much.

iii. Measurement

Accounting is used to measure the financial performance of an organisation to show the income, expenses, profit, assets, liabilities and financial position at a given time period.

iv. Control

Accounting brings internal and external control process and management to organisation after identifying weaknesses in an operational system. With accounting, effective measures to rectify operational weaknesses in an organisation are implemented.

v. Forecasting

Accounting makes use of historic or past financial data in forecasting future performance and financial position of different organisations.

vi. Government regulation

Accounting functions in a way that provides necessary information to the government and its agencies at local, state and federal levels for the government to be able to exercise control on the organisation which include the collection of both direct and indirect taxes and levies.

vii. Classifying

Accounting is concerned with the proper and logical analysis of the recorded accounting information to accumulate financial transactions of similar type in one account. The ledger is therefore used in accounting to record and accumulate accounting transactions of similar type in an account.

viii. Summarising

Accounting helps to summarise financial recording into financial statements that can be relied upon by business organisation and other third parties. The summarising done in accounting leads to the preparation of statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows.

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ix. Interpreting

In addition to summarising financial records, accounting is used in interpreting financial statements to different groups of users of the statement because not all users of financial statements have the required technical expertise to understand or decode the accounting language with which financial statements are prepared.

The contents of financial statements that are prepared in accordance with appropriate laws and regulations are further broken down in accounting into simple language and calculations to explain the statements to different users by the accountant. This function enables non accountant to understand what financial statements contain and their implications for business organisation.

Accounting is used in preparing some analysis such as returns on investment, cash ratio, liquidity ratio, leverage ratio, returns on capital employed, average stock, cost of capital and return on equity from the financial statements. These analysis will show profitability of the business, whether the business will be able to pay its debts or not, level of activity and productivity, and the effect of loans on the organisation profitability and financial stability.

x. Assets Safeguarding

The accounting function through the creation and use of assets register which including the labelling of organisation assets for proper identification help to safeguard company's assets. This is also useful for stock taking and management can rely on it for proper decision in asset acquisition and disposal.

xi. Tax Services

The information system requirement of an organisation requires that a company knows how its obligation to the government in the collection of different taxes on behalf of the government and payment of same to it can be accomplished. The accounting function in the determination of taxes such as pay as you earn and value added tax help the organisation to comply with relevant tax regulations.

SELF ASSESSMENT EXERCISE

1. What is accounting information?
2. What are the relationship that exists between accounting functions and organisation information system?

4.0 CONCLUSION

The relationship that exists between accounting functions and organisation information system helps in proper recording, planning, forecasting and control such that management are able to comply with relevant government regulations and make useful decision to safe guard the organisation assets.

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5.0 SUMMARY

This unit discussed the relationship between accounting function and information systems of an organisation under different headings such as decision making, recording, forecasting, summarising, measurement, control, government regulation, classifying, interpreting, and assets safeguarding.

6.0 TUTOR-MARKED ASSIGNMENT

1. Explain how the following accounting functions relate with organisation information system.
   i. Recording
   ii. Interpreting
   iii. Measurement
   iv. Forecasting

2. Can accounting functions in an organisation be performed outside the information system of the organisation? Justify your answer with appropriate explanation.

7.0 REFERENCES/FURTHER READINGS

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UNIT 4: USERS AND USES OF ACCOUNTING INFORMATION

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1.0 Introduction
2.0 Objectives
3.0 Main Content
    3.1 Users of Accounting Information
    3.2 Uses of Accounting Information
4.0 Conclusion
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1.0 INTRODUCTION

The reports generated by the financial and management accountants are useful to different groups of people depending on what they need from the report. This unit focuses on the uses of accounting information and users of accounting information such as business owners, government, suppliers, employees, loan providers, and investors.

2.0 OBJECTIVES

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

i. Understand the importance of accounting information
ii. Identify and explain users of accounting information
iii. Discuss the uses of accounting information

3.0 MAIN CONTENT

3.1 Users of Accounting Information

The users of accounting information can be grouped into two categories. The first category is the direct users while the second category is indirect users.

The direct users are members of the organisation that relied on the accounting information to make daily, routine and other decisions. These users are the shareholders, managers,

The indirect users are the third party to the organisation who relate with the company either directly such as suppliers and customers, or indirectly such as financial analysts and prospective investor and tax authorities.

The main users of accounting information are discussed below.

3.1.1 Shareholders

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Shareholders are the owners of a company and they are interested in the performance of the company, which includes the profit earned, dividends to be paid and net worth of the business. They also like to compare the performance of the company with a similar organisation.

3.1.2 Government

The government is interested in accounting information to determine the company income tax to be paid, compliance with government rules and regulations governing the operation of the business. And also to ensure that the interests of the public are protected within the company activities.

3.1.3 Employees

The aim of employee is to be sure of continuous existence of the organisation which will guarantee their employment. They also use the financial statement to compare their remuneration in total with other comparable companies in the same industry.

3.1.4 Investors

Investors are those who intend to invest in a company and they will compare the returns on their investments and shareholders fund with companies of same nature before investing their money in such company because they want to maximise wealth.

3.1.5 Loan Providers

Loan providers are banks and other financial institutions. The liquidity position of the company is of paramount importance to this group to ensure the repayment of their loans as at when due. The liquidity position of a company is derived from the accounting information.

3.1.6 Suppliers

Companies rely on suppliers for different input such as raw materials, work-in-progress and finished goods on credit. The concern of the suppliers is to know how stable the company is financially in order to meet their bills and invoices as at when due. They want to be sure that their debt will be paid at the required time by the company.

3.2 Uses of Accounting Information

Accounting information is put into different uses as explained below.

i. Accounting information is useful to predict and evaluate company's cash flows which creditors, loan providers and those in similar category can relied on.

ii. The use of accounting information helps in business analysis especially when there is need to predict, evaluate and compare financial performance of a company

iii. Accounting information provides the required essential financial information that is useful for making economic decisions at different levels for individuals and

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organisations.

iv. Accounting information is used to determine financial ability of company's management. This explains and reveals how the company's resources are channelled towards the firm objectives.

v. Accounting information is used by the government to determining the tax payable by companies on their profits, and for individuals such as pay as you earn, and other tax payable such as VAT. All these are used by the government to formulate fiscal policy.

vi. Accounting information is used by company's management for daily and routine planning and control of the company's resources to achieve the company's objectives.

vii. The activities of organisation as it affects the public are reported using accounting information.

viii. Investment decisions by shareholders and future investors are based on accounting information provided at a particular period of time.

SELF ASSESSMENT EXERCISE

1. Identify three indirect users of accounting information and explain why they need the information.

4.0 CONCLUSION

Accounting information are the records, reports and statements prepared by financial and management accountants for different organisations. The information is useful to different groups of people depending on what they need from the report. There are direct users of accounting information such as shareholders and managers etc, and indirect users of accounting information such as government and financial analysts etc.

5.0 SUMMARY

This unit explained accounting information including the users of accounting information such as shareholders, employees, government, creditors and suppliers. The uses to which accounting information is put were also discussed.

6.0 TUTOR-MARKED ASSIGNMENT

Question 1. List and explain three direct users of accounting information

Question 2. How important is accounting information to business decisions?

Question 3. To what use can accounting information beput?

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7.0 REFERENCES/FURTHER READINGS

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UNIT 5: BASIC ACCOUNTING CONCEPTS AND CONVENTIONS

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1.0 INTRODUCTION

One of the things that is common in the preparation of accounting records by accountants are the rules that they follow. The laid down rules that are complied with in the preparation of accounting records for any organisation which is called 'accounting concept' and the tradition for the preparation of accounting records which is called 'accounting convention' are the focus of this unit.

2.0 OBJECTIVES

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

i. Define accounting concept
ii. Explain different accounting concept
iii. Define accounting conventions
iv. Discuss key accounting conventions
v. The implication of accounting concepts and conventions in preparation of accounting records

3.0 MAIN CONTENT

3.1 Accounting Concepts

Accounting concepts are principles upon which preparation of accounting records are based, which are universally acceptable. Accounting concepts are rules of the game which accountants have generally come to accept and use over the years. Accounting concepts can also be seen as rules that lay down the way for recording business activities. The preparation of accounting records for any organisation must follow the principles set out in the accounting concepts. The most common of these concepts are:

3.1.1 Entity Concept

The entity concept sees an organisation as a legal entity, separate and distinct from its owners. In recording the books of accounts, the business records are kept and treated

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separately from the owners even in a situation where the business is owned by a person. The only attempt to show any records about the owners is when there is a transaction between the business and the owners. For example, if the owners increase their capital in the business and where the owner withdraws money from the company. In any of these cases, the records of the business will only show how the action of the owner (i.e. capital or drawings) affects the business, but it will not extend to the personal resources of the owners.

3.1.2 Going Concern Concept

The going concern concept states that when recording the account of a business organisation, it should be assumed that the business will be in existence for a very long period of time without any intention to close the company later. However, where there are enough facts or evidences that the business will soon be close down, it should be taken into account and the business should not be seen as remaining in operation for a very long period of time.

Basically, the going concern concept is assuming that a business organisation will continue in operation for an indefinite period of time.

3.1.3 Dual Aspect Concept or Double Entity Concept

The concept recognises that an organisation has to transact business with other parties and when a transaction occurs, it will give rise to having two records. One record for the business and another record for the other party.Dual aspect or double entity concept recognise that for every transaction, there are always two parties involved. One party is giving, while the other party is receiving and it represents the assets of the business and claims (liabilities) against it.

If the dual aspect concept is properly followed, the two aspects in total (assets and liabilities) must be equal to each other. The technique that reflects this concept is called the double entry principle.

3.1.4 Cost Concept

The cost concept states that in recording the value of a company's assets, the value should be stated or recorded at cost price or the original cost as this will ensure that all transactions are objectively recorded as against using their current values, which is different from the cost price.

3.1.5 Accrual Concept

According to accrual concept, when determining the profit of a business for a particular period, information to be used should not be restricted to income and expenditure that have been paid for or received, but should be extended to those revenue and expenditure that have not been received or paid for, but for which the service has been enjoyed or rendered during the period.

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It means that revenues should be recognise immediately it is earned while expenses are recognised when they are incurred, but not when the money is received or paid.

3.1.6 Money Measurement Concept

Many things do happen in an organisation on daily basis; however, for an event to be recorded in the accounting books of a business, they must be those events or transactions that can be measured in terms of money. For instance, the accounting records do not show if a company has a good or bad management team or if the owner is ill or healthy. However, any thing that could be quantified in monetary terms like payment of salaries of ₦20,000 will be recorded in the books of accounts.

3.1.7 Matching Concept

This states that revenues and expenses for any accounting period should be matched with each other so as to bring them into the accounting period to which they relate, so that the profit or loss for the period can be ascertained. This concept brought about adjustments in the final accounts at year end which is the focus of unit 15.

3.2 Accounting Conventions

Accounting conventions refer to customs adopted by accountants which serve as guide to the preparation of accounting records which include the financial statements.

3.2.1 Convention of Prudence

The convention of prudence state that profit should not be anticipated when recognising profit to be recorded in financial statement, but the profit should be based on actual profit earned or realised for the particular period. It means that figures that will overstate the profit should be disregarded; rather, the profit should be understated.

3.2.2 Convention of Materiality

Compliance with convention of materiality requires that in recording any transaction, recognition should be given to items that are 'material' to the company. What is material to company OP may be immaterial to company XY. The size of the business, the capital, the nature of the item and the cost or value of the item will determine its materiality. In other word, time should not be wasted in elaborate recording of trivial items. Whatever will not impair the judgement of an accounting information user may not be considered material.

3.2.3 Convention of Consistency

The convention of consistency requires the adoption and usage of accounting policy and method in preparation of accounting records for a reasonable period of time, and same method should be followed for all similar transactions. This suggest that accounting policies and procedure should not be changed arbitrarily and regularly in order not to distort the financial statement.

The adoption of convention of consistency in the preparation of accounting record over a reasonable period of time will helps users of accounting information to make comparison between accounting periods. For instance, if an organisation depreciation method on non-

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current assets is reducing balance method, the organisation should follow the method year after year. However, organisations are allowed to change their accounting methods for valid reason, but the effect of such change must be stated in the final accounts of the year when the change occurs.

SELF ASSESSMENT EXERCISE

1. What do you understand by accounting concepts?

2. List two accounting concepts and explain them.

3. Differentiate between accounting concepts and accounting conventions.

4.0 CONCLUSION

The laid down rules that are complied with in accounting in the preparation of accounting records is called 'accounting concept'. Accounting concepts such as entity concept, going concern concept, dual aspect concept, cost concept, accrual concept and money measurement concept are principles upon which preparation of accounting records are based, which are universally acceptable. Accounting conventions such as convention of prudence, convention of materiality and convention of consistency are the traditions and customs adopted by accountants for the preparation of financial statements.

5.0 SUMMARY

This unit defined and explained accounting concepts and accounting conventions. Accounting concepts such as entity concept, going concern concept, dual aspect concept, cost concept, accrual concept and money measurement concept were discussed including convention of prudence, convention of materiality and convention of consistency

6.0 TUTOR-MARKED ASSIGNMENT

Question 1: What is accounting conventions?

Question 2: Explain the following:

i. Accrual concept
ii. Convention of consistency
iii. dual aspect concept

Question 3: Write short note on:

i. Convention of prudence
ii. Money measurement concept
iii. Convention of materiality
iv. Cost concept

7.0 REFERENCES/FURTHER READINGS

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UNIT 6: SOURCE DOCUMENTS AND SUBSIDIARY BOOKS: SALES DAY BOOK

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  3.2 Subsidiary Books
  3.3 Sales Day Book
4.0 Conclusion
5.0 Summary
6.0 Tutor-Marked Assignment
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1.0 INTRODUCTION

The preparation of different books of accounts including the subsidiary books by accountant rely on some known and widely accepted documents that are exchanged between two or more parties in the conduct of business transactions. These documents that buyers and sellers exchanged between each other which are binding on both parties are called source documents in accounting. This unit explains source documents, types and uses of source documents, the relationship between sales and discount, and how to prepare subsidiary books of accounts.

2.0 OBJECTIVES

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

i. Define source documents
ii. Explain the importance of source documents
iii. Know and prepare sales day book
iv. Discuss the uses of subsidiary books
v. Explain the relationship between sales and discount.

3.0 MAIN CONTENT

3.1 SOURCE DOCUMENTS AND ITS USES

Source documents are business documents confirming the occurrence of financial transaction between two or more parties. Source documents are written financial information exchange between two or more parties as a result of engaging in business transaction. These documents are used for the first entries in the subsidiary books of accounts. Source documents include invoices, receipts, debit notes, credit notes, payment vouchers, cheque books, clock cards, time sheets and bank tellers.

Types and uses of source documents are discussed below.

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3.1.1 Invoice

This is a document that shows the transfer of goods and/or provision of service between two or more parties for which payment is yet to be received. Invoice under normal circumstance is meant for credit transactions which include credit sales and credit purchases. However, many sole traders do not know the function of an invoice to the extent that all their sales (cash and credit) are documented using invoice. Invoices are recorded in sales day book or purchases day book depending if it is sales invoice or a purchases invoice.

3.1.2 Payment Voucher

This is a document that is used to record full details of money paid for a particular purpose. It shows that money has left a particular account to another party or for the settlement of financial obligation. Payment voucher will contain the name of the receiver, amount paid, purpose of the payment, date of payment, mode of payment – cash or cheque, signature of the receiver, name and signature of the approving authority.

3.1.3 Cheque

A cheque is a negotiable instrument that originates from banks and it is used to withdraw money from a stated bank account in a bank. A cheque usually contains the name of the bank account holder, the account number, the branch of the bank where the bank account is domiciled or opened, the name of the bank, the date for the payment of the cheque, a place for the owner's signature, and amount to be withdrawn in words and figure.

3.1.4 Receipt

This is a document confirming the receipt of money for goods and service sold or bought. Receipts are used in recording the cash book since it is an evidence of cash and cheque transactions. A receipt usually contain the name of the payers, amount paid, date of payment, purpose of payment, signature of the receiver.

3.1.5 Bank Teller

This is a document that emanate from the bank because a bank teller is used to pay or lodge money (cash and cheques) into an account in a bank. It serves as evidence that a payment has been made or lodged into a particular account with a stated branch of a bank. Bank teller will contain the name of the depositors, account to which deposit is made, the name of the bank account holder, amount deposited in words and figure, date of the deposit, serial number of the teller, signature and stamp of the bank official that collected the deposit on behalf of the bank.

3.1.6 Credit Note

Credit note is a document showing a claim or refund in favour of the receiver. It is used to correct overcharge on an invoice, allowance for minor damages to goods, and refund on goods returned.

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3.1.7 Debit Note

A debit note is a source document that is used when a customer's account is to be increased, and to establish costs against the recipient. It therefore means that a debit note will be used to effect correction when a customer/purchaser has been undercharged for goods and/or services.

3.2 SUBSIDIARY BOOKS

These are books in which accounting transactions are first recorded before been posted to their various accounts in the ledger. Subsidiary books are also called books of prime entries or books of original entries. These books are not account with the exception of the cash book, but the balances from the subsidiary books are used to update accounts. The subsidiary books are:

i. Sales day book or sales journal
ii. Purchases journal or purchases day book
iii. Returns inwards journal or returns inwards day book
iv. Returns outwards day book or returns outwards journal
v. Journal or Journal proper
vi. Cash book or single column cash book
vii. Two column cash book
viii. Three column cash book
ix. Petty cash book

The day books are used to record credit transactions in the order in which they occurred and for transactions of a similar nature. Credit transaction is that, in which goods and/or services exchange hands and payments are paid in future. This implies that sales and purchases on credit will be recorded in separate day book because they are not of a similar nature. Likewise, no cash transaction is recorded in the day books for whatever reason. The first of the subsidiary books stated above, i.e. sales day book will be considered in this unit while the remaining eight books of original entries (ii to ix) will be considered in unit 7 to unit 11.

3.3 SALES DAY BOOK OR SALES JOURNAL

Sales journal is a book of original entry used to record all goods sold and services rendered on credit to a third party in the order in which they occurred irrespective of the amount involved. The sales day book or sales journal is not an account because it does not have a debit or credit side, and neither can cash sales nor other cash and bank transactions be recorded in it.

The value of credit sales which are first recorded in the sales journal will be transferred individually to the respective customer's account in the ledger (see unit 12), while the total of all credit sales for the period as recorded in the sales day book is transferred to the credit side of the sales account in the ledger.

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The process of transferring from the day books to the ledger is called *posting*. This is achieved for all credit sales by debiting the customer's (debtors) account with individual customer amount and crediting the seller's (sales) account. The actual posting of books of original entries to their different accounts are treated in unit 12.

Examples of transactions that require the preparation of sales journal are considered below.

Example 1: Mrs. Peace Oluwalagba made the following credit sales in the month of March 2016

		₦
March 1	Mr. Praise	18,200
March 4	Mr. Success	2,450
March 6	Mr. Comfort	44,440
March 8	Madam Uche	9,365
March 18	Great Glory Limited	80,000
March 24	Obinna Sunday	1,080
March 29	Adewale Jude	2,110
March 30	Esther Favour	3,330

You are required to prepare her sales day book for the month.

SUGGESTED SOLUTION TO EXAMPLE 1

Mrs. Peace Oluwalagba
Sales Day Book
For the month of March 2016

Date	**Particular**	**Amount (₦)**
1-3-16	Mr. Praise	18,200
4-3-16	Mr. Success	2,450
6-3-16	Mr. Comfort	44,440
8-3-16	Madam Uche	9,365
18-3-16	Great Glory Limited	80,000
24-3-16	Obinna Sunday	1,080
29-3-16	Adewale Jude	2,110
30-3-16	Esther Favour	3,330
	Total sales for the month credit to sales account	**160,975**

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Example 2: The following credit sales relate to the business of Great Grace Limited for October 2016. You are to prepare the sales journal.

October	6.	14 bags of cement to Chukwuyemisi at ₦980 each
	20.	7 packets of roofing sheet to Paul at ₦4,010 per packet and 3 dozens of roofing nail at ₦220 per dozen.
	26.	5 tons of Iron rods to ABC Limited for ₦17,840
	31.	1½ dozens of roofing nail to Emmanuel at ₦240 a dozen.

SUGGESTED SOLUTION TO EXAMPLE 2

Great Grace Limited
Sales Journal
For the month of October 2016

Date	Particulars	Details	Amount (₦)
6-10-2016	Chukwuyemisi 14 bags of cement at ₦980 each		13,720
20-10-2016	Paul 7 packets of roofing sheets at ₦4,010 per packet 3 dozens of roofing nail at ₦220 per dozen	28,070 660	28,730
26-10-2016	ABC Limited 5 tons of iron rods		17,840
31-10-2016	Emmanuel 1½ dozens of roofing nail at ₦240 a dozen		360
	Total sales for the month credit to sales account		**60,650**

Example 3: Danladi Enterprises sold the following goods on credit in the month of June 2015.

Goods sold to Dabo₦20,750 on June 1. On June 10, he sold 5 pieces of calculator to Daniel at ₦1,250 each. On June 18, Ifeanyi bought 7 pairs of shoe at ₦1,400 per pair; 15 pieces of

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mobile handset at ₦6,200 each and another starter pack costing ₦22,000 on credit from Danladi Enterprises.

You are required to prepare the sales journal to record the above transactions.

SUGGESTED SOLUTION TO EXAMPLE 3

Danladi Enterprises

Sales Journal

For the month of June 2015

Date	Particulars	Details	Amount (₦)
1/6/2015	Dabo		20,750
10/6/2015	Daniel 5 pieces of calculator at ₦1,250 each		6,250
18/6/2015	Ifeanyi 7 pairs of shoe at ₦1,400 per pair 15 pieces of mobile handset at ₦6,200 each Starter pack	 9,800 93,000 22,000	 124,800
	Total sales for the month credit to sales account		**151,800**

3.3.1 Sales and Discounts

The marketing and sales of goods and services have become more competitive over the years that sellers of goods and those who render services have developed a way of attracting more customers, increase their sales and ensure regular payment from credit customers or debtors through the use of discount.

3.3.2 Discount

Discount can be defined as an inducement given to customers to enable them buy in large quantity, obtain profit margin price when goods are sold and/or for prompt payment by debtors. There are different types of discounts as explained below.

3.3.2.1 Trade Discount

Trade discount is a reduction in price given to a customer who buys for re-sale in large quantity. The purpose is to enable the customer achieve a profit margin when the goods are sold.

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3.3.2.2 Cash Discount

This is an inducement given to debtors (credit customers) for paying their debt on time or promptly within the specified time frame or period. It means that, a credit customer can enjoy both the trade discount and cash discount provided the terms for the discounts as specified by the seller are met.

3.3.2.3 Quantity Discount

Quantity discount is a price reduction given to a customer who buys in large quantity for consumption and not for re-sale.

3.3.3 Relationship Between Sales and Discounts

The relationship that exists between sales and discounts depend on the nature of the transaction, either credit sales or cash sales. The relationships are explained below.

3.3.3.1 Credit sales

The discount available to those who buy on credit or the customer (Debtors) at point of sale is trade discount. The trade discount can be stated as a percentage of the sales price or a uniform amount that varies with sales value. Where trade discount is given on credit sales, the discount value will be deducted from the sales value in the invoice. The customer will owe the seller the sales value less the trade discount. It is the net price that will be recorded in the customer's account.

3.3.3.2 Cash sales

As a matter of clarity, trade discount is not given on cash sales; hence, trade discount will be treated with credit sales as explained above. For cash sales, a customer could get cash discount and/or quantity discount. Quantity discount would have been deducted from the invoice leaving the net value which the customer is expected to pay immediately or at a given time. Cash discount can only be recognised when the customer settles his outstanding invoices. Hence, cash discount is treated in accounting records when payment is received from the customer (Debtor). The book of account used for treating this is called three column cash book, which is discussed in unit 11.

Example of credit sales transactions that include discount is treated below.

Example 4: Abundant Blessing is a dealer in frozen foods and dairy products. His sales for the first week of June 2014 are as follows.

June 4. 4 cartons of Cray fish at ₦1,250 a carton to Jalingo.
7 cartons of shrimps to Gboko at ₦4,100 per carton.
2 cartons of Cray fish at ₦1,245 each to Gboko and he received 10% trade discount

June 12. Ajayi bought 15 crates of white egg at ₦880 per crate and 3½ packets of prawns at ₦7,200 a packet. A discount of 5% was given to him

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June 16. 6 cartons of Cray fish was sold to Debo for ₦7,440. He also bought 2 packets of prawns at ₦7,225 per packet and 5 cartons of shrimps at ₦4,150 a carton. Being an old customer, Abundant Blessing gave him 15% discount and this encourage him to buy a carton of white egg for ₦880 but this do not qualify for discount.

June 25. Ijeoma bought a carton each of Cray fish, prawn, white egg and shrimps at same price with Joshua, Ajayi, Debo and Gboko respectively. Being a woman with the ability to negotiate, she received 10% trade discount.

Prepare the sales day book for Abundant Blessing

SUGGESTED SOLUTION TO EXAMPLE 4

Abundant Blessing

Sales Day Book
For the month of June 2014

Date	Particulars	Details	Amount (₦)
4-6-2014	Jalingo 4 cartons of cray fish at ₦1,250 a carton		5,000
4-6-2014	Gboko 7 cartons of shrimps at ₦4,100 per carton 2 cartons of cray fish at ₦1,245 each Less 10% trade discount	 28,700 2,490 31,190 3,119	28,071
12-6-2014	Ajayi 15 crates of white egg at ₦880 per crate 3½ packets of prawns at ₦7,200 a packet Less discount of 5%	 13,200 25,200 38,400 1,920	36,480
16-6-2014	Debo 6 cartons of cray fish 2 packets of prawns at ₦7,225 per packet 5 cartons of shrimps at ₦4,150 a carton	 7,440 14,450 20,750 42,640	

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	Less 15% discount A carton of white egg	6,396 36,244 880	 37,124
25-6-2014	Ijeoma A carton of cray fish A carton of prawn A carton of white egg A carton of shrimps Less 10% trade discount	 1,250 7,200 880 4,100 13,430 1,343	 12,087
	Total sales for the month credit to sales account		**118,762**

4.0 CONCLUSION

Source documents are important because the information contains there in are used in preparing the subsidiary books of account. Accountants rely on source documents to prepare the books of accounts. The source documents are first posted to the subsidiary books of account which include the sales day book, purchases journal, returns inwards journal and returns outwards day book.

SELF ASSESSMENT EXERCISE

1. List five source documents and explain their uses.

2. What is the relationship between sales and discount?

5.0 SUMMARY

In this unit, we explain source documents, uses of source documents, types of discount, the relationship between sales and discount, and how to prepare one of the subsidiary books of account, the sales day book with or without sales discount,

6.0 TUTOR-MARKED ASSIGNMENT

Question 1: Better Voice Communications deals with GSM Phones, Accessories, Recharge cards and Sims pack with head office located at Magboro. The sales for the month of May 2015 is as stated below:

1/5/15 Two Samsung T400 phone at ₦18,000 each to Leverage Computers. 40 packets of TNN recharge card at ₦2,000 per packet to Mr.Adeniran. 20 pieces of Nokia 2005 ear phone at ₦400 each to Mr.Adeniran and he received 10% trade discount.

18/5/15 Funke bought 15 packs of VMT Sims pack at₦550 a pack. 4 pieces of Trium 1900s at ₦10,500 each. Being an old customer, she received 12% discount

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which prompt her to buy 2 packets of NTN recharge card for ₦28,000 but this do not attract discount.

29/5/15 Mrs.Obinna bought one Bird 1010 phone for ₦11,340.

You are required to prepare the sales day book of Better Voice Communications for May 2015.

Question 2: Explain the following.

i. Sales day book.
ii. Cash discount.
iii. Trade discount.

7.0 REFERENCES/FURTHER READINGS

Accounting Technicians Scheme West Africa (2009).Basic Accounting Processes and System Part 1, Study Pack ABINA Publishers

Igben, R. O. (2014), Financial Accounting Made Simple. Lagos: ROI Publishers

Oluyombo, Onafowokan (2016) Financial Accounting With Ease (3rd Edition). Magboro: Kings & Queen Associates

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UNIT 7: SUBSIDIARY BOOKS: PURCHASES DAY BOOK

CONTENTS

1.0 Introduction
2.0 Objectives
3.0 Main Content
    3.1 Purchases Day Book
    3.2 Purchases and Discount
4.0 Conclusion
5.0 Summary
6.0 Tutor-Marked Assignment
7.0 References/Further Readings

1.0 INTRODUCTION

The documents that are exchanged between buyers and sellers which are binding on both parties are called source documents in accounting. The source documents are used to prepare books of original entries. This unit explains one of the subsidiary books of account, purchases day book.

2.0 OBJECTIVES

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

i. Explain the purchases day book
ii. Prepare purchases day book.
iii. Explain the relationship between purchases and discount.

3.0 MAIN CONTENT

3.1 Purchases Day Book

An invoice is exchanged between a buyer and seller of goods and those that render services. To the seller, the invoice is used to prepare the sales day book. But for the buyer, the same invoice serves as the source document for the preparation of purchases day book. Another name for purchases day book is purchases journal.

Purchases day book is a subsidiary book of account used to record all goods bought and services received on credit from a third party in the order in which they occurred irrespective of the amount involved. The purchases journal is not an account because it does not have a debit or credit side, and neither can cash purchases nor other cash and bank transactions be recorded in it.

After transferring accounting information from the source documents – purchases invoice – to the purchases day book, the value of credit sales which are first recorded in the purchases day book will be transferred individually to the respective suppliers account in the ledger (see

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unit 12). The total of all credit purchases as recorded in the purchases journal for a particular period, usually a month, is transferred to the debit side of the purchases account in the ledger.

The process of transferring from the purchases day book to the ledger is called *posting*. This is achieved for all credit purchases by crediting the supplier's or seller's (creditor) account with individual amount of each supplier, and debits the buyer's (purchases) account. You can see unit 12 that focuses on the actual posting of books of original entries to their different accounts. Examples of transactions that require the preparation of purchases day book are treated below.

Example 1: The credit purchases of Ball Ventures for the month of June 2015 are stated below. You are required to prepare the purchases day book of the business for the month.

		₦
June 2	Jesuyemisi	36,200
June 5	Mrs Imelda	41,000
June 10	Miss Tijani	63,234
June 12	Big Box Enterprises	98,765
June 20	Safiya Investment	123,456
June 22	Obioru Limited	62,080
June 25	Umaru Jude and Co.	43,000
June 27	Caleb Joshua	465,960

SUGGESTED SOLUTION TO EXAMPLE 1

Ball Ventures
Purchases Day Book
For the month of June 2015

Date	**Particular**	**Amount (₦)**
June 2	Jesuyemisi	36,200
June 5	Mrs Imelda	41,000
June 10	Miss Tijani	63,234
June 12	Big Box Enterprises	98,765
June 20	Safiya Investment	123,456
June 22	Obioru Limited	62,080
June 25	Umaru Jude and Co.	43,000
June 27	Caleb Joshua	465,960
	Total purchases for the month transferred to purchases account	**933,695**

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Example 2: The following credit purchases for the month of January 2016 relate to the business of KogiEkiti Enterprises.

January 4. 16 bags of cement from Gombe Global Business at ₦1,500 each
January13. 12 packets of roofing sheet from Mr. Oyo Ibadan at ₦4,110 per packet and 5 dozens of roofing nail at ₦220 per dozen.
January 23. 4 tons of iron rods from Kano Limited for ₦27,840.
January 28. 3½ dozens of roofing nail from Enugu Investment at ₦2,440 a dozen.

You are to prepare the purchases journal for KogiEkiti Enterprises for January 2016.

SUGGESTED SOLUTION TO EXAMPLE 2

KogiEkiti Enterprises
Purchases Journal
For the month of January 2016

Date	Particulars	Details	Amount (₦)
4-1-2016	Gombe Global Business 16 bags of cement at ₦1,500 each		24,000
13-1-2016	Mr. Oyo Ibadan 12 packets of roofing sheet at ₦4,110 per packet 5 dozens of roofing nail at ₦220 per dozen.	49,320 1,100	50,420
23-1-2016	Kano Limited 4 tons of iron rods.		27,840
28-1-2016	Enugu Investment 3½ dozens of roofing nail at ₦2,440 a dozen.		8,540
	Total purchases for the month debit to purchases account		**110,800**

Example 3: Abuja and Jos International Business Limited purchased the following goods on credit for resale in the month of October 2016. You are required to prepare the company's purchases day book for the month.

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On October 1, the company received goods worth ₦33,750 from Lagos Ventures. On October 13, Kaduna Warri Enterprises supplied 15 pieces of calculator at ₦8,330 each. 22 pairs of shoe at ₦6,520 per pair; 15 pieces of mobile handset at ₦80,950 each and another starter pack costing ₦1,500 were received from Victoria Island Concepts Limited on October 25.

SUGGESTED SOLUTION TO EXAMPLE 3

Abuja and Jos International Business Limited
Purchases Day book
For the month of October 2016

Date	Particulars	Details	Amount (₦)
October 1	Lagos Ventures		33,750
October 13	Kaduna Warri Enterprises 15 pieces of calculator at ₦8,330 each		6,250
October 25	Victoria Island Concepts Limited 22 pairs of shoe at ₦6,520 per pair. 15 pieces of mobile handset at ₦80,950 each. Starter pack	 143,440 1,214,250 1,500	1,359,190
	Total purchases for the month debit to purchases account		**1,399,190**

3.2 Purchases and Discounts

The discount available for buying goods on credit at the point of purchase is trade discount. The trade discount can be stated as a percentage of the purchase price or a uniform amount that varies with purchase value. Where trade discount is given on credit purchases, the discount value will be deducted from the purchase value in the invoice. The purchaser will owe the seller the purchase value less the trade discount. It is the net price that will be recorded in the supplier's or seller's account.

Example of credit purchase transactions that include discount is treated below.

Example 4: Uche Joy purchased the following goods on credit in the month of March 2016.
March 1. Purchase from Adeyemi₦20,750

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10. Purchase 5 pieces of calculator for resale from Bako at ₦1,250 each
18. Bought from Florence 7 pairs of shoe at ₦1,400 per pair; 15 pieces of mobile handset at ₦6,200 each and another starter pack costing ₦22,000. Trade discount of 3% was received.

You are required to prepare the purchases journal to record the above transactions.

SUGGESTED SOLUTION TO EXAMPLE 4

Uche Joy

Purchases Journal

For the month of March 2016

Date	Particulars	Details	Amount
1/3/2016	Adeyemi		20,750
10/3/2016	Bako 5 pieces of calculator at ₦1,250 each		 6,250
18/3/2016	Florence 7 pairs of shoe at ₦1,400 per pair 15 pieces of mobile handset at ₦6,200 each Starter pack Less trade discount 3%	 9,800 93,000 22,000 124,800 3,744	 121,056
	Total purchases for the month debit to purchases account		**148,056**

4.0 CONCLUSION

The invoice is the main source document used in preparing purchases day book for different organisations. The purchases day book or purchases journal record all credit purchases for goods and services irrespective of the amount involved. The purchases journal contains the name of the seller, item purchases, the price and discount received, if any.

SELF ASSESSMENT EXERCISE

1. Explain purchases day book.

2. What is the relationship between purchases and discount?

3. The following credit purchases relate to the business of Mr.Yobe Rivers for August 2015. You are to prepare the purchases day book from the information below.

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August 2. 14 bags of rice from Mr OgunMagboro at ₦9,780 per bag.
16. 7 packets of sugar from Calabar Edo Ventures at ₦5,550 per packet and 3 dozens of onion at ₦220 per dozen.
19. 5 tons of flour from Apapa and Company at ₦7,840 per ton.
27. 72½ dozens of egg from Farm Business Investment at ₦940 a dozen.

5.0 SUMMARY

In this unit, we explain the use of invoice in recording the purchases day book and how the purchases day book is recorded from the invoice when there is discount or not. The relationship between purchases and trade discount is also covered.

6.0 TUTOR-MARKED ASSIGNMENT

Question 1: Ondo-Zaria Investment Limited purchased the following goods on credit in the month of October 2016.

Goods bought from Yola Ventures ₦620,750 on October 4. On October 17, he received 5 pieces of computer from Wukari Enterprises at ₦120,560 each. On October 29, Ijebu Global Ventures supplied 24 pairs of shoe at ₦17,000 per pair; 25 pieces of standing fan at ₦15,730 each and another 4 standing fan costing ₦55,750 from IbejuLekki Limited.

You are required to prepare the purchases day book to record the above transactions.

Question 2: The following credit purchases were made in the month of June 2015 by KwaraSagamu Limited

		₦
June 1	Obinna Sunday	23,080
June 4	Mr. Success	24,450
June 6	Mr. Praise	38,456
June 8	Esther Favour	3,330
June 18	Great Glory Limited	12,000
June 24	Mr. Comfort	51,010
June 29	Adewale Jude	45,450
June 30	Madam Uche	17,400

You are required to prepare the purchases journal of the company for the month of June 2015.

7.0 REFERENCES/FURTHER READINGS

Accounting Technicians Scheme West Africa (2009).Basic Accounting Processes and System Part 1, Study Pack ABINA Publishers

Igben, R. O. (2014), Financial Accounting Made Simple. Lagos: ROI Publishers

Oluyombo, Onafowokan (2016) Financial Accounting With Ease (3rd Edition). Magboro: Kings & Queen Associates

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UNIT 8: SUBSIDIARY BOOKS: RETURNS INWARDS AND OUTWARDS DAY BOOK

CONTENTS

1.0 Introduction
2.0 Objectives
3.0 Main Content
  3.1 Returns inwards journal
  3.2 Returns outwards journal
4.0 Conclusion
5.0 Summary
6.0 Tutor-Marked Assignment
7.0 References/Further Readings

1.0 INTRODUCTION

Some business transactions that involves the buying and selling of goods on credit may not be smooth from the beginning of the transaction to the end. There could be one or two hitches after goods have been exchange between the buyer and seller which have to do with the goods bought or sold. This may necessitate the return of goods to seller either in whole or in part. This unit focuses on goods previously sold and bought and later return which is called returns inwards and returns outwards.

2.0 OBJECTIVES

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

i. Explain returns inwards journal
ii. Discuss returns outwards journal
iii. Prepare return inwards and outwards journal
iv. Explain how discount is treated in returns journal

3.0 MAIN CONTENT

3.1 Returns Inwards Journal

Another name for returns inwards journal is returns inwards day book or sales return book. This is a book used to record goods previously sold to customers but were later returned by the buyer to the seller either in whole or in part probably as a result of:

i. Wrong specification, model, colour etc.
ii. Defect
iii. Disagreement between the buyer and seller that can be traced to either pricing, discount, payment terms etc.
iv. Shortage in quantity, weight and other measuring discrepancies.
v. Government policy.

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When goods are returned by the buyer to the seller, it means that the buyer will not pay for the portion of goods returned to the seller. From the perspective of the seller, it is returns inwards because the good is coming back to the seller, so the seller received the goods. To show that a buyer has returned some good, the seller will record it in a good returns register or any other record created for goods return by buyers. Thereafter, the seller will record it in the returns inwards day book which is one of the accounting books of original entries. The creation and recording of goods returned in the returns inwards journal is an indication that the transaction has been brought into the seller's books of account.

The returns inwards day book is not an account. However, the double entry book keeping system require that after the preparation of the returns inwards journal, the total of returns inwards journal for a particular period, e.g. weekly, monthly etc. will be debited to returns inwards account, while the affected customers account will be credited to reduce their debt to the seller.

Below are some examples of returns inwards transactions.

Example 1: Abakaliki Enterprises is a big time seller of consumer goods in Lagos state. The following items were returned to the company in the month of February 2016.

February 10 Belinda returned goods worth ₦220,000
February 19 Happy Bite Ventures sent goods worth ₦54,000 back
February 27 Nathaniel return ₦38,020 goods.

Prepare the returns inwards journal to record the above transactions for the month of February 2016.

SUGGESTED SOLUTION TO EXAMPLE 1

Abakaliki Enterprises
Returns Inwards Journal
For the month of February 2012

Date	Particulars	Amount
10/2/2016	Belinda	220,000
19/2/2016	Happy Bite Ventures	54,000
27/2/2016	Nathaniel	38,020
	Total returns inwards for the month debit to returns inwards account	**312.080**

Example 2: You are to prepare the returns inwards day book from the following sales returns received by Better Limited International in the month of March 2016.

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March 9. 12 packets of roofing sheet from Ekiti Products at ₦4,110 per packet and 5 dozens of roofing nail at ₦220 per dozen.
March 17. 3½ dozens of roofing nail from Bornu Investment at ₦2,440 a dozen.
March 23. 4 tons of iron rods from Niger Limited for ₦27,040.
March 31. 16 bags of cement from Agege Ventures at ₦1,500 each

SUGGESTED SOLUTION TO EXAMPLE 2

Better Limited International
Returns Inwards Day Book
For the month of March 2016

Date	Particulars	Details	Amount (₦)
March 9, 2016	Ekiti Products 12 packets of roofing sheet at ₦4,110 per packet 5 dozens of roofing nail at ₦220 per dozen.	 49,320 1,100	 50,420
March 17, 2016	Bornu Investment 3½ dozens of roofing nail at ₦2,440 a dozen.		 8,540
March 23, 2016	Niger Limited 4 tons of iron rods.		 27,040
March 31, 2016	Agege Ventures 16 bags of cement at ₦1,500 each		 24,000
	Total returns inwards for the month debit to returns inwards account		**110,000**

3.2 Returns Outwards Day Book

Returns outwards is from the perspective of a buyer because it represents goods initially bought and later returned by the buyer to the seller. The good is leaving the buyer back to the seller hence it is called return outward. Returns outwards day book is also called returns outwards journal or purchases returns day book.

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Returns inwards journal is used to record goods previously bought for resale but later returned to the supplier due to one reason or the other. These reasons include shortage in quantity, weight and other measuring discrepancies, wrong specification, model, colour etc., defect, disagreement between the buyer and seller that can be traced to either pricing, discount, payment terms etc., and government policy.

The total of goods returned to supplier from the purchases returns day book is transferred to the credit side of the returns outwards account while the individual accounts of the supplier will be debited in the ledger.

Example 3: Awka Mega Business returned the following goods for a week in 2016..

November 7. 20 pairs of hand glove at ₦50 a pair and 5 pieces of shirt at ₦650 each to Abeokuta Venture

9. Goods valued ₦4,450 was returned to Warri Communications.

11. Return good worth ₦17,250 to Suleja Enterprises as a result of wrong specification.

Prepared the journal to reflect the above

SUGGESTED SOLUTION TO EXAMPLE 3

Awka Mega Business
Returns Outwards Journal
For the week ended November 11, 2016

Date	Particulars	Details	Amount (₦)
6/11/2016	Abeokuta Venture 20 pairs of hand glove at ₦50 per pair 5 pieces of shirt at ₦650 each	 1,000 3,250	 4,250
9/11/2016	Warri Communications		4,450
11/11/2016	Suleja Enterprises		17,250
	Total returns outwards for the month transfer to returns outwards account		**25,950**

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3.2.1 Returns with Discount

Like the normal returns, a customer can return goods which he had received trade discount on to the seller. When this occurs, the posting is the same, but the trade discount previously enjoyed on the particular goods been returned should be calculated and removed from the value so as not to overstate the value of the return.

Example 4: Abundant Blessing is a dealer in frozen foods and dairy products. His sales and returns for the month of June 2016 are as follows.

June 6. 4 cartons of Cray fish at ₦1,250a carton to Joshua.
7 cartons of shrimps to Gbemi at ₦4,100 per carton.
2 cartons of Cray fish at ₦1,245 each to Gbemi and he received 10% trade discount

June 13 . Ajayi bought 15 crates of white egg at ₦880 per crate and 3½ packets of prawns at ₦7,200 a packet. A discount of 5% was given to him

June 20 6 cartons of Cray fish was sold to Debo for ₦7,440. He also bought 2 packets of prawns at ₦7,225 per packet and 5 cartons of shrimps at ₦4,150 a carton. Being an old customer, Abundant Blessing gave him 15% discount and this encourage him to buy a carton of white egg for ₦880 but this do not qualify for discount.

June 24. Folake bought a carton each of Cray fish, prawn, white egg and shrimps at same price with Joshua, Ajayi, Debo and Gbemi respectively. Being a woman with the ability to negotiate, she received 10% trade discount.

June 28, Gbemi returned 2 cartons of shrimps.

June 30, Ajayi returned 4 crates of white egg and a packet of prawns. Show the

Prepare the sales day book and the returns inwards journal of Abundant Blessing to record the above.

SUGGESTED SOLUTION TO EXAMPLE 4

Abundant Blessing
Sales Day Book

For the month of June 2016

Date	Particulars	Details	Amount (₦)
6-6-2016	Joshua 4 cartons of cray fish at ₦1,250 a carton		 5,000

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13-6-2016	Gbemi 7 cartons of shrimps at ₦4,100 per carton 2 cartons of cray fish at ₦1,245 each Less 10% trade discount	 28,700 2,490 31,190 3,119	 28,071
20-6-2016	Ajayi 15 crates of white egg at ₦880 per crate 3½ packets of prawns at ₦7,200 a packet Less discount of 5%	 13,200 25,200 38,400 1,920	 36,480
24-6-2016	Debo 6 cartons of cray fish 2 packets of prawns at ₦7,225 per packet 5 cartons of shrimps at ₦4,150 a carton Less 15% discount A carton of white egg	 7,440 14,450 20,750 42,640 6,396 36,244 880	 37,124
4-6-2014	Folake A carton of cray fish A carton of prawn A carton of white egg A carton of shrimps Less 10% trade discount	 1,250 7,200 880 4,100 13,430 1,343	 12,087
	Total Sales for the month transfer to sales account		118,762

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Abundant Blessing

Returns Inwards Journal
For the month of June 2016

Date	Particulars	Details	Amount (₦)
June 28	Gbemi 2 carton of shrimps at ₦4,100 each Less 10% trade discount	 8,200 820	 7,380
June 30	Ajayi 4 crates of white egg at ₦880 per crate A packet of prawns Less 5% discount	 3,520 7,200 10,720 536	 10,184
	Total returns inwards for the month transfer to returns inwards account		17,564

Note: The prices used are the same with those given in the question when the goods were sold. Likewise the trade discounts rate.

4.0 CONCLUSION

Since business decisions are not cast in gold, it therefore suffice to expect correction or amendments to purchase and sale after the goods have been delivered to the buyer. This leads to preparation of returns inwards and outwards day books to record goods sold but later return by the buyer to the seller. To the seller, it's a return inwards, while it is return outwards to the buyer.

SELF ASSESSMENT EXERCISE

1. What do you understand by returns inwards?
2. What are the practical things that can give rise to both return inwards and return outwards?
3. You are required to prepare returns inwards day book from the information below.

April 1	Mr. Praise	18,200
April 4	Mr. Progress	21,450
April 10.	16 bags of cement from Chuks at ₦9,800 each	
April 20.	12 packets of roofing sheet from Paul at ₦4,900 per packet	
April 25	Mr. Comfort	62,440
April 29	Madam Nkem	18,365

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5.0 SUMMARY

This unit explains the concept of returns inwards, returns outwards and conditions that could give rise to both returns. It is also used to prepare the sales returns day book, purchases returns day book and the relationship between returns and discount.

6.0 TUTOR-MARKED ASSIGNMENT

Question 1: What do you understand by returns outwards?

Question 2: How do you record goods returns for which discount was received when sold?

Question 3: Great People Ventures returns to supplier for the month of June 2016 is as stated below.

June 6.	5 tons of Iron rods to ABC Limited for ₦17,840	
June 11	Great Glory Limited	₦ 80,000
June 18.	51½ dozens of roofing nail to Emmanuel at ₦240 a dozen	
June 19	Okey Cynthia	₦ 1,080
June 24	James Investment	₦ 39,547
June 29	Mercy Business	₦ 77,550

Prepare the returns outward journal from the above information.

7.0 REFERENCES/FURTHER READINGS

Accounting Technicians Scheme West Africa (2009).Basic Accounting Processes and System Part 1, Study Pack ABINA Publishers

Igben, R. O. (2014), Financial Accounting Made Simple. Lagos: ROI Publishers

Oluyombo, Onafowokan (2016) Financial Accounting With Ease (3rd Edition). Magboro: Kings & Queen Associates

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UNIT 9: SUBSIDIARY BOOKS: JOURNAL

CONTENTS

1.0 Introduction
2.0 Objectives
3.0 Main Content
    3.1 Journal or Journal Proper
4.0 Conclusion
5.0 Summary
6.0 Tutor-Marked Assignment
7.0 References/Further Readings

1.0 INTRODUCTION

We have examined four different types of day books or journals in the last three units (units 6 to 8) namely sales day book, purchases day book, return inwards day book and returns outwards day book. These four journals treated so far are used to record credit transactions only. None of them can be used to record transfer of property since it is not a credit transaction. This unit explains journal or journal proper, how it is used for other transactions excluding credit sales, credit purchase and returns.

2.0 OBJECTIVES

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

i. Define a journal
ii. Explain the importance of journal, and
iii. Know how to prepare journal

3.0 MAIN CONTENT

3.1 JOURNAL OR JOURNAL PROPER

Journal or journal proper is one of the books of original entry that is used to record any transaction which cannot be conveniently recorded or classified into any of the other subsidiary books. Transactions that cannot be recorded in the sales day book, purchases day book, returns inward day book, returns outwards day book, cash book, two column cash book, three column cash book and petty cash book due to their nature which must pass through the accounting books of original entries are recorded through the journal.

Any transaction that cannot be recorded in other books of original entry as a result of their nature will be recorded in the journal before they are posted to their relevant accounts in ledger.

Transactions that are recorded in the journal include:

i. Transfers from one account to another
ii. Purchase and sale of non-current assets on credit

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iii. Adjustments to accounts
iv. Correction of accounting errors
v. Transfer of personal property to a company
vi. Recording of opening and closing entries
vii. Recording of special transactions like revaluation of assets, creation of goodwill etc.

The recording in the journal is a direction as to how each account will be treated in the ledger. Hence the journal tells us what to do in the ledger. i.e. a debit in the journal will also be a debit in the ledger. Each record in the journal is followed with a narration to explain the purpose of the posting.

Journal format is presented below.

International Business Limited
Journal

Date	Particulars	Debit	Credit
xx/xx/xxxx	Account debited	XXXX	
	Account credited		XXXX
	Narration		

Example 1: A company – Mercy Investment - bought a motor vehicle on credit for ₦850,000 from Peace Associates on August 24, 2012. Prepare Mercy Investment journal for this transaction.

SUGGESTED SOLUTION TO EXAMPLE 1

Mercy Investment
Journal

Date	Particulars	Debit	Credit
24/8/2012	Motor vehicle account	850,000	
	Peace Associates account		850,000
	Being motor vehicle bought on credit from Peace Associates.		

Note: The meaning of the above journal is that motor vehicle account should be debited with ₦850,000 in the ledger while the seller's account – Peace Associates - will be credited with the same amount.

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Example 2: Ago-Iwoye Ventures set up a business on June 1, 2014 with his personal properties which he now transfer to the company as follows: Building ₦650,000, Motor vehicle ₦380,000, Cash ₦12,500 and Cash at bank ₦18,240. A day earlier, he bought some goods on credit worth ₦625,000. Draw up a journal to record the above and also determine his capital.

SUGGESTED SOLUTION TO EXAMPLE 2

Ago-Iwoye Ventures
Journal

Date	Particulars	Debit	Credit
1/6/2014	Building account	650,000	
	Motor vehicle account	380,000	
	Cash account	12,500	
	Bank account	18,240	
	Creditors account		625,000
	Capital account (balancing figure)		435,740
	Being recording of opening entry for Ago-Iwoye Ventures.		

Note: The capital can be derived by adding all the assets together and deducting the liability. Before the capital was derived, the total assets was ₦1,060,740 while the liability is ₦625,000. The difference of ₦435,740 form the capital.

4.0 CONCLUSION

Journal is very important because it serves as the book of original entry for recording accounting transactions that cannot be posted to other book of prime entries because of their nature. Transactions such as recording of opening and closing entries, correction of accounting errors, purchase and sale of non-current assets on credit, adjustments to accounts, transfer of personal property to a company and recording of special transactions like revaluation of assets, creation of goodwill etc. are posted to the journal first before they are transferred to their relevant accounts in the ledger.

SELF ASSESSMENT EXERCISE

1. Mr. David Ibrahim started his business on June 1, 2011 with the following provided by him on same day.

	₦
Cash in hand	40,000
Cash at bank	240,000
Stock	208,000
Motor vehicle	120,500

You are to enter the above transaction or event in a journal.

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5.0 SUMMARY

This unit was used to explain the definition and uses of journal proper. It also contains different questions with solution to discuss and show how journal is used in recording opening entries of a new company, purchase of non-current assets on credit and transfer of personal property from a business owner to his or her company.

6.0 TUTOR-MARKED ASSIGNMENT

Question 1: What are the transactions that can be recorded in a journal proper

Question 2: Open a journal to record the information below for a new company and determine the capital.

Furniture₦135,000
Building ₦810,000
Cash ₦50,500
Cash at bank ₦9,000
Goods on credit ₦950,000.

7.0 REFERENCES/FURTHER READINGS

Accounting Technicians Scheme West Africa (2009).Basic Accounting Processes and System Part 1, Study Pack ABINA Publishers

Igben, R. O. (2014), Financial Accounting Made Simple. Lagos: ROI Publishers

Oluyombo, Onafowokan (2016) Financial Accounting With Ease (3rd Edition). Magboro: Kings & Queen Associates

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UNIT 10: SUBSIDIARY BOOKS: SINGLE AND TWO COLUMNCASH BOOKS

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1.0 Introduction
2.0 Objectives
3.0 Main Content
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    3.2 Two Column Cash Book
4.0 Conclusion
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1.0 INTRODUCTION

This unit is a continuation from units 6 to 9 where the day books and journal proper were treated. In addition to the day books and journal proper, some of the subsidiary books of accounts that are used to record only cash transactions - including physical cash and transaction though the banks – are considered in this unit. The four subsidiary books that fall into this category are the cash book, two column cash book, three column cash book and the petty cash book. However, this unit focuses on cash book and the two column cash book.

2.0 OBJECTIVES

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

i. Define and prepare cash book
ii. Explain and prepare two column cash book
iii. Understand the concept of ‘contra entry’

3.0 MAIN CONTENT

3.1 CASH BOOK

The cash book is a book of original entry used to record all cash transactions. The cash transactions recorded in the cash book can be for cash purchases, cash sales, receipt of cash from customers, payment of cash to supplier, acquisition of properties by cash and all other transactions that involved the receipt and payment of cash.

The cash book is divided into two sides, the left side records all cash receipts while the right side records all cash payments. The left side of a cash book is called debit side while the credit side is the right side. At the end of a particular period e.g. daily, weekly, monthly, the postings on the debit side of the cash book is added together likewise the credit side. It is expected that the debit side (cash received) at the end of the period should be greater than the credit side (cash payment). The difference will be the cash balance that will be used for the

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business for the next period. This cash balance is referred to as balance carried down or balance c/d in the current period and balance brought down or balance b/d for the next period.

Example 1: The following cash transactions relate to Ayuba Ventures for the month of January 2015.

			₦
Jan	2.	Sales	25,000
	4.	Paid rent	4,000
	5.	Purchases	12,500
	10.	Electricity bills	2,000
	12.	Transport expenses	250
	22.	Sales	14,110
	26.	Purchases	6,230

You are to prepare the cash book for Ayuba Ventures.

SUGGESTED SOLUTION TO EXAMPLE 1

Ayuba Ventures
Cash Book
For the month of January 2015

Debit (Dr) Credit (Cr)

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
Jan 2	Sales		25,000	Jan 4	Rent		4,000
Jan 22	Sales		14,110	Jan 5	Purchases		12,500
				Jan 10	Electricity		2,000
				Jan 12	Transport		250
				Jan 26	Purchases		6,230
				Jan 31	Balance	c/d	14,130
			39,110				39,110
Feb 1	Balance	b/d	14,130				

Example 2: Prepare a cash book from the following information for the month of May 2016.

			₦
May	1.	Balance of cash in hand	14,130
	2.	Received cash from P. Ade a credit customer	3,600
	4.	Paid rent for the month	1,600
	5.	Paid cash to L. Lovelyn for goods bought on credit	3,200
	7.	Postage stamp by cash	150
	9.	Cash sales	22,110
	10.	Cash purchases	15,235
	12.	Cash received from his brother D. Bright as a loan	10,000

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18. Paid O. Ayodele on account of credit purchases 6,250
19. A credit customer Bonik Venture paid cash 14,000
26. Paid wages to shop clerk 4,500
28. Paid electricity bills 1,200
29. Pay security man cash for the month 2,500

SUGGESTED SOLUTION TO EXAMPLE 2

Cash Book

Dr.For the month of May 2016 **Cr.**

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
May 1	Balance	b/d	14,130	May 4	Rent		1,600
May 2	P. Ade		3,600	May 5	L. Lovelyn		3,200
May 9	Sales		22,110	May 7	Postage stamp		150
May 12	D. Bright -loan		10,000	May 10	Purchases		15,235
May 19	Bonik Venture		14,000	May 18	O. Ayodele		6,250
				May 26	Wages		4,500
				May 28	Electricity		1,200
				May 29	Security		2,500
				May 31	Balance c/d		29,205
			63,840				63,840
June 1	Balance	b/d	29,205				

3.2 TWO COLUMN CASH BOOK

As a business grows, the owner(s) will realise the need to open a bank account where the organisation's money can be kept. To be able to monitor the movement of money to and from the bank, a two column or double column cash book will be prepared. Two column cash book is, therefore, a form of cash book used in recording cash and bank transactions in the same book and in the order in which they occur.

The bank transactions are recorded under separate column likewise the cash transactions in a different column in a two column cash book.

3.2.1 Cash movement to and from bank

A distinguishing feature of double column cash book is that it shows at a glance the movement or transfer of cash or money from the company's office to the bank on one side and withdrawal of cash from the bank to the office. These movements are treated in a special way in the two column cash book as follows:

i. When cash is withdrawn from the bank to the office

Debit - The cash column

Credit - The bank column

This entry will reduce the cash in the bank and increase the cash in the office.

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ii. When cash is removed from the office and paid into the bank

Debit - The bank column

Credit - The cash column

This entry will increase the money in the bank while the cash in the office will reduce.

3.2.2 Contra entry

When any of the above entries in 3.2.1 occurred, it will lead to "contra entry" and it is represented by letter "C" in the folio columns. A contra entry is any transaction that has been recorded twice in an account through a debit and a credit entry in the same account. It means that 'contra entry' cannot be found in any of the journals and cash book, but it can be found in the two column cash book, three column cash book and the petty cash book. 'Contra entry' transactions are not posted to the ledgers again.

The format of a two column cash book is presented below.

ABC Limited

Two Column Cash Book

Dr For the month of October 2016 Cr

Date	Particulars	Folio	Cash	Bank	Date	Particulars	Folio	Cash	Bank

Example 3: You are to prepare a two column cash book from the information given below for Eno Investments for the month of November 2015.

			₦
Nov.	1.	Bank balance	23,500
	1.	Cash balance	500
	2.	Cash sales	3,000
	4.	Cheque from A. Bunmi	2,500
	5.	Rent paid by cash	1,000
	8.	Paid cash to bank	1,200
	18.	Cash sales paid directly to bank	4,000
	28.	Paid P. Peters by cheque	5,500
	30.	Withdrawn cash from bank	22,200
	30.	Paid wages in cash	5,720

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SUGGESTED SOLUTION TO EXAMPLE 3

Eno Investments
Two Column Cash Book
Dr **For the month of November 2015** **Cr**

Date	Particulars	Folio	Cash	Bank	Date	Particulars	Folio	Cash	Bank
1	Balance	b/d	500	23,500	5	Rent		1,000	
2	Sales		3,000		8	Bank	C	1,200	
4	A. Bunmi			2,500	28	P. Peters			5,500
8	Cash	C		1,200	30	Cash	C		22,200
18	Sales			4,000	30	Wages		5,720	
30	Bank	C	22,200		30	Balance	c/d	17,780	3,500
			25,700	31,200				25,700	31,200
Dec 1	Balance	b/d	17,780	3,500					

4.0 CONCLUSION

Two of the subsidiary books of accounts used to record cash and bank transactions excluding discounts are the cash book and the two column cash book. The cash transactions recorded in the above subsidiary books can be for cash purchases, cash sales, receipt of cash from customers, payment of cash to supplier, acquisition of properties by cash and all other transactions that involved the receipt and payment of physical cash and transactions through the bank.

SELF ASSESSMENT EXERCISE

From the following information write up two column cash book of Holy Hand Ventures for the month of September 2015.

3. Start business with cash of ₦70,000 and cheque of ₦32,500.
   He opened a bank account same day where the cheque was lodged.
4. Paid shop rent by cash ₦2,400
8. Withdrawn ₦5,000 from bank to office
8. Sales by cheque ₦8,250
   Sales by cash ₦12,200
9. Paid cash of ₦10,000 to bank
16. Paid S. Stores a supplier by cheque ₦9,950.
20. Cash sales ₦15,000
    Cash purchase ₦5,800
    Cheque purchases ₦2,410
22. Purchase by cash ₦10,120
    Purchase by cheque ₦2,000
25. Mr. Steven a supplier received ₦8,200 cash.
28. O. Ade a customer paid his bill of ₦9,200 by cheque
29. Paid staff salary by cash ₦4,230

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5.0 SUMMARY

Two subsidiary books of accounts that are used to record only cash transactions including physical cash and transaction though the banks were explained in this unit. The subsidiary books that fall into this category namely the cash book and two column cash book were define and discussed with appropriate questions including the concept of 'contra entry'.

6.0 TUTOR-MARKED ASSIGNMENT

Question 1:

The following information has been extracted from the book of All State Ventures for February 2016.

1 Balance at bank ₦1,083.
1 Drew and cashed cheque for ₦500.
1 Bought for cash 14 model coats for ₦282.
2 B. Aluko paid by cheque ₦100 on account.
5. Sold for cash two costumes at ₦36 and ₦33 respectively.
5 Paid in cash, wages ₦72 and office expenses ₦10
9 Paid by cheque, H. Abba account ₦258
10 Cash sales to date ₦76.
12 Paid by cheque M. Harrison account ₦300.
13 Paid carriage in cash ₦33.
18. Paid by cheque B. Banjo account ₦82
18. Gave H. Abba a cheque on account ₦100
18. Cash sales for the week ₦190.
18. B. Daodu Paid ₦250 by cheque.
21. Purchased for cash 7 Packets office pins at ₦1.17 per packets.
22. Paid cash into bank ₦100

You are required to prepare a two column cash book to record the above transactions

Question 2: What is a contra entry? Explain how you will treat contra entry transaction in a two column cash book.

7.0 REFERENCES/FURTHER READINGS

Accounting Technicians Scheme West Africa (2009).Basic Accounting Processes and System Part 1, Study Pack ABINA Publishers

Igben, R. O. (2014), Financial Accounting Made Simple. Lagos: ROI Publishers

Oluyombo, Onafowokan (2016) Financial Accounting With Ease (3rd Edition). Magboro: Kings & Queen Associates

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UNIT 11: SUBSIDIARY BOOKS: THREE COLUMN AND PETTYCASH BOOKS

CONTENTS

1.0 Introduction
2.0 Objectives
3.0 Main Content
  3.1 Three Column Cash Book
  3.2 Petty Cash Book
4.0 Conclusion
5.0 Summary
6.0 Tutor-Marked Assignment
7.0 References/Further Readings

1.0 INTRODUCTION

This unit is a continuation from unit 10 where two (single and two column cash books) of the four subsidiary books of accounts that are used to record only cash transactions - including physical cash and transaction through the banks were treated. The remaining two subsidiary books namely three column cash book and the petty cash book are considered in this unit.

2.0 OBJECTIVES

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

i. Discuss and prepare three column cash book
ii. Explain and prepare petty cash book
iii. Understand petty cash and imprest system

3.0 MAIN CONTENT

3.1 THREE COLUMN CASH BOOK

The three column cash book is one of the subsidiary books of account used to record cash and bank transactions in addition to discounts received and discount allowed. This type of cash book combine discount column on both debit and credit sides to the cash and bank columns. Hence, each side of the cash book has three columns for cash, bank and discount. The discount allowed column is on the debit side, while discount received column is on the credit side. It is cash discount that is recorded in the discount columns and not trade discount.

Cash discount is an inducement given to debtors (credit customers) for paying their debt on time or promptly within the specified time frame or period. It means that, a credit customer can enjoy both the trade discount and cash discount provided the terms for the discounts as specified by the seller are met.

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The discount columns in a three column cash book are not part of the double entry system, they are just a memorandum to make the book tidy in recording receipts and payments where cash discounts have been given and received.

The total of the discount received column will be transfer to the credit side of discount received account in the ledger, while the discount allowed account in the ledger will be debited with the total of discount allowed.

Example 1: From the following information write up three column cash book of IshayaIshola Business Palace for the month of March 2016.

2. Start business with cash of ₦50,000 and cheque of ₦20,000.
   He opened a bank account same day where the cheque was lodged.
4. Purchase by cash ₦10,000
   Purchase by cheque ₦2,700
6. Paid shop rent by cash ₦2,400
8. Sales by cheque ₦8,250
   Sales by cash ₦12,200
10. Paid cash of ₦10,000 to bank
14. Paid S. Stores a supplier by cheque ₦9,800 after deducting cash discount of ₦200.
16. O. Ade a customer paid his bill of ₦10,000 by cheque, subject to cash discount of 3 percent.
18. Withdrawn ₦5,000 from bank to office.
22. Mr. Steven a supplier received ₦8,200 in full settlement of ₦8,500 invoice by cash.
25. Paid staff salary by cash ₦4,230
28. Cash sales ₦15,000
    Cash purchase ₦5,800
    Cheque purchases ₦2,410

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SUGGESTED SOLUTION TO EXAMPLE 1

IshayaIshola Business Palace

Three Column Cash Book

Dr. **For the month of March 2016** **Cr.**

Date	Particulars	Discount Allowed	Cash	Bank	Date	Particulars Received	Discount	Cash	Bank
2	Capital		50,000	20,000	4	Purchases		10,000	2,700
8	Sales		12,200	8,250	6	Rent		2,400	
10	Cash C		10,000		10	Bank C	10,000		
16	O. Ade	300		9,700	14	S. Stores	200		9,800
18	Bank C		5,000		18	Cash C			5,000
28	Sales		15,000		22	Steven	300	8,200	
					25	Salary		4,230	
					28	Purchases		5,800	2,410
					31	Bal. c/d		41,570	28,040
		300	82,200	47,950			500	82,200	47,950
	Bal. b/d		41,570	28,040					

3.2 PETTY CASH BOOK

Petty cash payments are small payments given out for some small expenses that occur almost on daily basis in an organisation e.g. transportation, fuel. This arrangement is put in place to relieve the main cashier from attending to too numerous payments (big and small). Hence a junior cashier is usually designated as petty cashier to handle the payment of small expenses.

The cash provided for the petty cashier is called petty cash, while the book used to record the petty cash transactions is called petty cash book.

3.4.1 Petty Cash and Imprest System

The petty cash imprest system operates when the main cashier gives the petty cashier enough money that is sufficient to cover petty expenses for a given period of time e.g. a week or a month. At the end of the stated period, the petty cashier gives the details of how the money was used and gets a re-imbursement or replenishment equal to the amount already spent from the main cashier.

By this system, the petty cashier will always have his imprest at any point in time made up of amount already spent and the balance with him. With imprest arrangement, the petty cashier balance at beginning of each period will always equal to the imprest float.

Example 2: The following is a summary of petty cash transactions of National Open Business for the month of May 2014. The business maintains a petty cash float of ₦10,000

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			₦
May	1.	Received float	10,000
	4.	Paid transport expenses	480
	5.	Paid for vehicle fuel	690
	7.	Wole. K – Ledger account	850
	10.	Stationery	1,020
	11.	Postage	700
	12.	Stationery	500
	13.	Vehicle fuel	400
	20.	Victor A. Ledger account	1,500
	24.	Vehicle fuel	750
	30.	Envelope	250
	31.	Postage stamp	480

You are required to prepare a petty cash book with five analysis column for motor expenses, postage expenses, stationery expenses, transport expenses and ledger account.

SUGGESTED SOLUTION TO EXAMPLE 2

National Open Business
Petty Cash Book
For the month of May 2014

Receipt voucher number	Date	Particulars	Petty cash	Total	Motor expenses	Postage	Stationery	Transport	Ledger account
~~NNNNNN~~		10,000	1	Cash float					
	4	Transport		480				480	
	5	Vehicle fuel		690	690				
	7	Wole, K	850						850
10		Stationery	1,020			1,020			11
		Postage	700	700					12
		Stationery	500	500					13
		Vehicle fuel	400	400					20
		Victor, A.	1,500				1,500		24
		Vehicle fuel	750	750					
30		Envelope	250			250			31
		Postage stamp	480	480					
			7,620	1,840	1,180	1,770	480	2,350	
7,620	31	Cash							
	31	Balance c/d		10,000					
17,620				17,620					
10,000	June 1	Bal b/d							

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4.0 CONCLUSION

The subsidiary book of accounts used to record cash and bank transactions in addition to discount received and discount allowed is the three column cash book. It has both debit and credit sides which contains three columns for cash, bank and discount in each side of the book. The petty cash book is used to record cash transactions that occur almost on daily basis such as fuel and transport.

SELF ASSESSMENT EXERCISE

1. The cash transactions of Mr. John Toluwalase, a trader, are given below.

May 1	Cash at bank	₦465.03
	Cash in hand	₦28.00
3	Drew cheque for petty cash	₦70.00
5	Received from Ade, cheque in settlement of his account	₦652 less 5% discount
5	Paid Sola'saccount	₦518, less 2½% discount
5	Sold for cash goods worth	₦206
8	Transferred to current account from deposit account	₦1,000
	Paid account of R. Davis	₦1,482 less discount 2½ %
10	Drew cheque for petrol and motor repairs	₦179.50
17	Drew cheque for stationery	₦77
20	Sold for cash 30 boxes of matches at	₦5 a box
23	Cash sales	₦400
24	Paid into bank	₦756
26	Drew cheque, personal drawings	₦100

You are required to prepare his three column cash book

2. What is an imprest in a petty cash system?

5.0 SUMMARY

The subsidiary books of accounts that are used to record cash and bank transactions including cash discount received and discount allowed, and the book used to record small payments that occurs almost on daily basis were explained in this unit. The two subsidiary books namely three column cash book and the petty cash book were define and discussed with appropriate questions including the relationship between petty cash and imprest system.

6.0 TUTOR-MARKED ASSIGNMENT

Question 1: ChineduIgbala Global Company maintain an imprest system of ₦8,000.00 per month. The transactions for the month of April, 2016 are as follows:

April	4.	Petty cash in hand ₦25
		Received cash to make up the imprest
		Bought stamps ₦85.
	5.	Paid transports fare ₦125
		Telegrams ₦145

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Bought big note books for office ₦550
Paid cleaner ₦65

6. Paid carriage on small parcels ₦270
Transport fare ₦150
Repair of computer ₦355.60

9. Courier service ₦880
Entertainment for the office ₦145,
Repairs of lighting in the factory ₦245.40

16. Towing of vehicle ₦257
Water purchased for the canteen 1,000 gallons at ₦0.08 per gallon.
Paid office cleaner ₦65
Telephone bill paid ₦254.70

18. Purchase of bulb ₦217.30
Envelopes for the office ₦289.10
Paid for eraser, biro and pencils ₦289.45
Electricity bill ₦145.30

19. Water purchases 5,000 gallons at ₦0.07 per gallon
Welding of door ₦173.50

20. Dispatch rider's medical bill ₦125
Cleaner's wages ₦65

21. Entertainment for the M.D ₦186.30
Paid new driver's license for M.D ₦60

22. Tea and biscuits for the board's meeting ₦135.70

26. Repairs of security light ₦65.30
Medical bill paid ₦147.95.

28. Courier service ₦880
Traffic offence fine paid ₦120

29. Casual wages ₦385
Electricity bill paid ₦145.10
Carriage inwards₦50.

30. Physical cash count ₦400.30

Required: Prepare a petty cash book with five analysis column for postage and stationers, travelling expenses, repairs and maintenance, medical, general expenses.

Question 2: The following information has been extracted from the book of Bose Livingstone Investment for February 2009.

1 Balance at bank ₦683.
1 Drew and cashed cheque for ₦500.
1 Bought for cash 14 model coats for ₦282.
2 B. Aluko paid by cheque ₦100 on account. Paid cheque into bank.
5. Sold for cash two costumes at ₦36 and ₦33 respectively.
5 Paid in cash, wages ₦72 and office expenses ₦10
9 Paid by cheque, H. Abba account₦258 less 5% discount.

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10 Cash sales to date ₦76.
12 Paid by cheque M. Harrison account ₦300.
13 Paid in cash carriage ₦33.
18. Paid by cheque B. Banjo account ₦82
18. Gave H. Abba a cheque on account ₦100
18. Cash sales for the week ₦190.
18. B. Daodu Paid ₦250 by cheque. Paid cheque into bank.
21. Purchased for cash 7 Packets office pins at₦1.17 per packets.
22. Paid cash into bank ₦100

You are required to prepare a three column cash book to record the above transactions

7.0 REFERENCES/FURTHER READINGS

Accounting Technicians Scheme West Africa (2009).Basic Accounting Processes and System Part 1, Study Pack ABINA Publishers

Igben, R. O. (2014), Financial Accounting Made Simple. Lagos: ROI Publishers

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UNIT 12: DOUBLE ENTRY BOOK-KEEPING SYSTEMS

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  3.2 Ledgers
  3.3 Classification of ledger
  3.4 Account
  3.5 Classification of Account
  3.6 Preparation of account
4.0 Conclusion
5.0 Summary
6.0 Tutor-Marked Assignment
7.0 References/Further Readings

1.0 INTRODUCTION

On completion of subsidiary books of accounts as discussed in the last six units – unit 6 to 11, the next thing is to proceed to obey the double entry principle. This is actualized by preparing ledgers to reflect transactions of the same nature, type, ownership or kind in their respective accounts. This unit will define and explain the processes, procedures and the rules to follow in preparing the accounts and how ledgers and accounts are classified.

2.0 OBJECTIVES

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

i. Explain the concept of double entry system
ii. Define a ledger
iii. Discuss different classifications of ledger
iv. Define an account
v. Explain account classification
vi. Prepare accounts in a ledger in compliance with double entry principle

3.0 MAIN CONTENT

3.1 DOUBLE ENTRY SYSTEM

The double entry system signifies a way of recording all accounting transactions twice in the books of account. It means that a transaction will appear twice in the accounting books. This is achieved through the double entry principle. The double entry principle states that ‘for every debit entry for a transaction, there must be a corresponding credit entry for the same transaction, and for every credit entry for a transaction, there must be a corresponding debit entry for the same transaction’.

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The implication of the double entry is that for any transaction, at least two parties will be involved. That is, the giver and the receiver. The double entry system therefore concludes that a receiver should be debited 'for receiving' while the giver should be credited 'for giving'. The debiting and crediting to ensure that double entry system is followed are done in the ledger.

3.2 LEDGER

Ledger is the principal book of accounts where the double entry principle is completed. The ledger contains various accounts which are part of the double entry. Each account in the ledger is divided into two parts namely debit side and credit side. The debit side is always on the left while the credit side is on the right.

3.3 CLASSIFICATION OF LEDGER

In some big organisations where transactions are numerous, the ledgers may be divided into suitable classes. However, the ledgers can be classified into two. namely, personal ledger and impersonal ledger.

3.3.1 Personal ledger

Personal ledgers are ledgers that contain accounts in the names of persons, organisations and firms. It can be divided further into:

3.3.1.1 Sales ledger

This contains the accounts of those customers who buy goods on credit and owe the company. It is also called debtors ledger.

3.3.1.2 Purchases ledger

Purchases ledger contains supplier's accounts. Suppliers are those that the company bought goods or received service from on credit and have not paid for them. It can also be called creditors ledger.

3.3.1.3 Private ledger

This ledger contains the accounts of the business owner e.g. capital, drawings, bank and loan account. These accounts are kept confidential due to its sensitive nature.

3.3.2 Impersonal ledger

They are ledgers containing non personal accounts. They contain accounts other than those in the names of person, organisations and firms. Impersonal ledger can be further classified into two:

3.3.2.1 Real ledger

It contains the accounts of properties and other possessions of the company which can be seen and touched. e.g.Motor vehicle, furniture, fittings, land, building, office equipment, plant and machineries.

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3.3.2.2 General or nominal ledger

This contain other accounts that cannot be found in other ledgers especially those accounts used in recording income, expenditure, gain and losses of a business. e.g. Purchases account, transport and travelling expenses account.

3.4 ACCOUNT

According to Garbutt (1984), an account is a ledger record, in a summarised form, of all the transactions that have taken place with the particular person or value specified. Soyode (1980) defines an account as the systematic mechanism for the tabulation of monetary increases and decreases in individual assets and equities.

An account can therefore be defined as part of the ledger that records transactions from the books of original entries in the order in which they occurred and form part of the double entry system.

3.5 CLASSIFICATION OF ACCOUNTS

The classification of accounts follows the same pattern as the ledger with the exception of private ledger. Accounts can be divided into two namely: personal account and impersonal account

3.5.1 Personal account

These are accounts of person and organisations that the company transacts business with. e.g. Debtors account, creditors account.

3.5.2 Impersonal account

It consists of accounts of non person(s) and it is sub divided into two.

3.5.2.1 Nominal account

It records the accounts of income and expenditure of the business. e.g. Sales account, purchases account, wages account.

3.5.2.2 Real account

They are accounts that record the company's properties and possession that is expected to last for more than one accounting year. e.g. Plant account, machinery account, equipment account, motor vehicle account.

3.6 PREPARATION OF ACCOUNT

To follow the double entry principle will require the preparation of two accounts. One will be a debit entry and the other a credit entry. A typical account is presented below.

Debit Account Name Credit

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount

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A careful examination of the account above shows that it is divided into two equal parts, and each part has same type of heading. The left side is the debit (Dr.) side, while the right side is the credit (Cr.) side. The date a transaction occurred will be written under the date column.

Particulars or details: The space is for recording the description of transaction and also, to show where the other (corresponding) entry will be recorded in another account to fulfil the double entry principle of account.

Folio: This shows the page of the source document from where the posting originate or a page in the day book or cash book etc.

Amount: The value of the transaction is recorded here and it can be in any currency. However, two different currencies cannot be merged under an account. But a currency can be converted to the other currency being used to record other transactions.

3.6.1 Guides to preparation of accounts

Though, the preparation of accounts is very simple, but to make it simpler, a guide is set out below and is applicable to any type of accounts at any level.

3.6.1.1 Assets

For all types of asset including non-current and current assets

Dr.	Assets account		Cr.
Increase	xx	Decrease	xx

The above means that, when assets increase in value either by buying it in cash or on credit, the assets account should be debited with the increase. However, when assets value reduces, the assets account should be credited.

3.6.1.2 Liabilities

It includes capital or equity, non-current and current liabilities.

Dr	Liabilities account		Cr
Decrease	xx	Increase	xx

The above means that, when liabilities increase in value the liabilities account should be credited with the increase. However, when liabilities value reduces, the liabilities account should be debited.

3.6.1.3 Expenses

For expenses incurred either paid for or not

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Dr	Expenses account		Cr
Increase	xx	Decrease	xx

3.6.1.4 Income

This is for all forms of income including credit sales and cash sales.

Dr	Income account		Cr
Decrease	xx	Increase	xx

Example 1: A company bought furniture by cash for ₦325,000. Open the furniture account

SUGGESTED SOLUTION TO EXAMPLE 1

Dr	Furniture account		Cr
Cash	325,000		

Example 2: A firm purchased office equipment by cash on May 24, 2011 for ₦111,000. Record this in office equipment account.

SUGGESTED SOLUTION TO EXAMPLE 2

Dr Office equipment account Cr

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
24/5/11	Cash		111,000				

Example 3: A business firm sold goods worth ₦50,000 on January 2, 2015 in cash. Open the sales account.

SUGGESTED SOLUTION TO EXAMPLE 3

Dr Sales account Cr

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
				2/1/15	Cash		50,000

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Example 4: Mr. Moses Goodluck commenced business with ₦250,000 cash on June 1, 2015 and presented the following for the month.

		₦
June 2.	Paid rent	20,000
June 6.	Purchases	85,000
June 12.	Sales	217,500
June 16.	Paid wages	4,220
June 18.	New motor vehicle	220,000
June 24.	Sales	412,345
June 26.	Purchases	108,000
June 30.	Electricity bill	3,305

All the above transactions are by cash. Prepare the cash book and transfer to the ledgers.

SUGGESTED SOLUTION TO EXAMPLE 4

Mr. Moses Goodluck
Cash Book
Dr. **For the month of June 2015** Cr.

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
June 1	Capital		250,000	June 2	Rent		20,000
June 12	Sales		217,500	June 6	Purchases		85,000
June 24	Sales		412,345	June 16	Wages		4,220
				June 18	Motor vehicle		220,000
June 26	Purchases		108,000				
				June 30	Electricity bill		3,305
					Balance c/d		439,320
			879,845				879,845
	Balance	b/d	439,320				

Ledgers

Dr Capital account Cr

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
	Balance	c/d	250,000	June 2	Cash		250,000
250,000			250,000				
	Balance		b/d	250,000			

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Dr Sales account Cr

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
				June 12	Cash		217,500
	Balance	c/d	629,845	June 24	Cash	412,345	
	629,845		629,845				
	Balance		b/d	629,845			

Dr Rent account Cr

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
June 2	Cash		20,000	Balance	c/d	20,000	
20,000	20,000						
	Balance	b/d	20,000				

Dr Purchases account Cr

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
June 6	Cash		85,000				
June 26	Cash 108,000			Balance	c/d	193,000	
193,000	193,000						
	Balance	b/d	193,000				

Dr Wages account Cr

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
June 16	Cash		4,220		Balance	c/d	4,220
4,220	4,220						
	Balance	b/d	4,220				

Dr Motor vehicle account Cr

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
June 18	Cash		220,000		Balance	c/d	220,000
220,000	220,000						
	Balance	b/d	220,000				

Dr Electricity account Cr

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
June 30	Cash		3,305		Balance	c/d	3,305
3,305	3,305						
	Balance	b/d	3,305				

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4.0 CONCLUSION

The double entry system signifies a way of recording all accounting transactions twice in the books of account. The double entry principle states that for every debit entry, there must be a corresponding credit entry, and for every credit entry, there must be a corresponding debit entry. The double entry system is completed within an account in the ledger. The ledger contains various accounts which are part of the double entry. Each account in the ledger is divided into two parts namely debit side and credit side. The debit side is always on the left while the credit side is on the right.

SELF ASSESSMENT EXERCISE

1. You are to prepare a two column cash book and ledgers from the information given below for Uche Ventures for the month of January 2016.

			₦
Jan.	1.	Bank balance	23,500
	1.	Cash balance	500
	2.	Cash sales	3,000
	4.	Cheque from A. Bunmi	2,500
	5.	Rent paid by cash	1,000
	8.	Paid cash to bank	1,200
	18.	Cash sales paid directly to bank	4,000
	28.	Paid P. Peters by cheque	5,500
	30.	Withdrawn cash from bank	22,200
	30.	Paid wages in cash	5,720

2. You are to prepare the sales journal and respective ledgers from the following credit sales of Investment International for February 2015.

February	6.	14 bags of cement to Jesufemi at ₦9080 each
	18.	7 packets of roofing sheet to Peter at ₦31,000 per packet and 3 dozens of roofing nail at ₦220 per dozen.
	24.	5 tons of Iron rods to Akanro Foundries for ₦178,940
	28.	1½ dozens of roofing nail to Emmanuel at ₦240 a dozen.

5.0 SUMMARY

This unit explains the concept of double entry system, defines a ledger and discussed different classifications of ledger as personal ledger, impersonal ledger, sales ledger, purchases ledger, private ledger, real ledger and general or nominal ledger. Preparation of personal account, impersonal account, nominal account and real account in compliance with double entry principle were also considered

6.0 TUTOR-MARKED ASSIGNMENT

Question 1: Explain the following and give two examples for each of them.

i. Nominal accounts

ii. Real accounts

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iii. Personal accounts

Question 2: Write short notes on the following.

i. Personal ledger
ii. Sales ledger
iii. Purchases ledger
iv. Private ledger
v. Real ledger
vi. Nominal ledger

Question 3: Happy Life Ventures commenced business on 1st January 1992 as a general merchant with cash of ₦10,000. The following transactions took place in the first month of operation:

4/1/92	Purchased goods for sale and paid cash ₦2,500
10/1/92	Paid advertisement in cash ₦250
15/1/92	Sold part of the goods on credit to B. Jinadufor ₦1,800
18/1/92	Purchased goods on credit from E. KolawoleBusari₦1,200
22/1/92	Sold goods for cash ₦2,200
25/1/92	Received from Jinadu₦1,200 being part settlement of his purchases.
26/1/92	Sold goods for cash ₦800
28/1/92	Paid rent of shop in cash ₦250
29/1/92	Paid transport and travelling cost of ₦200 in cash
30/1/92	Sold goods for cash ₦1,000

You are required to open the ledger accounts including cash book, sales journal and purchases day book to record the above transactions.

7.0 REFERENCES/FURTHER READINGS

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UNIT 13: TRIAL BALANCE

CONTENTS

1.0 Introduction
2.0 Objectives
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    3.1 Trial Balance
    3.2 Benefits of Trial Balance
    3.3 Preparation of Trial Balance
4.0 Conclusion
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6.0 Tutor-Marked Assignment
7.0 References/Further Readings

1.0 INTRODUCTION

The accounting process and procedures for the preparation of financial statement starts from the source documents from where the subsidiary books of accounts such as cash book, sales journal and petty cash book are prepared. The next process after the subsidiary books is the preparation of ledger to fulfil the double entry principle. The next stage towards the preparation of financial statement is the trial balance which is the focus of this unit**.**

2.0 OBJECTIVES

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

i. Define and explain trial balance
ii. Prepare trail balance from the subsidiary books of account.
iii. Understand the benefits of trial balance
iv. Discuss key facts about trial balance

3.0 MAIN CONTENT

3.1 TRIAL BALANCE

When transactions take place, first they are recorded in the journal. Then each ledger account is balanced. After this, a list of these ledger balances is prepared to make sure that posting has been done correctly. This is called Trial Balance. Thus a trial balance is a list or statement of debit and credit balances extracted from all accounts in the ledger for testing the arithmetical accuracy. Trial balance is not an account, but it is prepared in a well-structured manner such that those accounts in the ledger with credit balances are recorded and totaled separately from those with debit balances at a particular period. The total of both debit and credit balances should be equal. If the debit and credit total is not equal, it means that an error has occurred.

The fact that the trial balance agreed does not mean that there is no error in the accounts. Discussion on errors and how they are corrected are treated in unit 10.

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3.2 BENEFITS OF TRIAL BALANCE

The followings are some of the advantages of the trial balance.

i. It helps to check the arithmetical accuracy of the accounts in the ledger.
ii. It forms the basis for preparing the financial statements. i.e. statement of profit or loss and other comprehensive income, statement of changes in equity and statement of financial position.
iii. To help in detecting certain errors.
iv. To serve as an aid to management in decision making.

3.3 PREPARATION OF TRIAL BALANCE

There are three methods of preparing the trial balance. They are:

i. Total Method

In this method, the debit and credit totals of each accounts are entered in the total balance of the debit and credit columns respectively. It is expected that both sides of the trial balance should be equal and if it is not, then there is the presence of certain errors.

ii. Balance Method

The assumption "if equals are subtracted from equals, the remainders are equal" is the foundation for this method. In preparing the trial balance, the balances extracted from the ledgers are used and not the totals. In general, the trial balance is prepared under this method.

iii. Total and Balance Method

This is the combination of the first two methods discussed. The trial balance is prepared by taking the totals and balance from each ledger account.

3.3.1 Key points about trial balance

i. The trial balance is not an account, because it has no debit or credit sides which are found in an account.
ii. Trial balance is not part of the double entry system.
iii. Trial balance is not prepared directly from books of original entries.
iv. The trial balance is a summary of all the accounts in the ledgers.
v. There is no opening or closing balances in the trial balance like balance carry down or balance brought down that is common in an account.
vi. Double entry principle is not followed directly when preparing the trial balance.

Example 1: Mr. Moses Goodluck commenced business with ₦250,000 cash on June 1, 2015 and presented the following for the month.

		₦
June 2.	Paid rent	20,000
June 6.	Purchases	85,000
June 12.	Sales	217,500
June 16.	Paid wages	4,220
June 18.	New motor vehicle	220,000

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June 24.	Sales	412,345
June 26.	Purchases	108,000
June 30.	Electricity bill	3,305

All the above transactions are by cash. Prepare the cash book, transfer to the ledgers and extract a trial balance for the month.

SUGGESTED SOLUTION TO EXAMPLE 1

Mr. Moses Goodluck
Cash Book
Dr. **For the month of June 2015** Cr.

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
June 1	Capital		250,000	June 2	Rent		20,000
June 12	Sales		217,500	June 6	Purchases		85,000
June 24	Sales		412,345	June 16	Wages		4,220
				June 18	Motor vehicle		220,000
June 26	Purchases		108,000				
				June 30	Electricity bill		3,305
					Balance	c/d	439,320
			879,845				879,845
	Balance	b/d	439,320				

Ledgers

Dr Capital account Cr

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
	Balance	c/d	250,000	June 2	Cash		250,000
250,000			250,000				
	Balance		b/d	250,000			

Dr Sales account Cr

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
				June 12	Cash		217,500
	Balance	c/d	629,845	June 24	Cash	412,345	
	629,845		629,845				
	Balance		b/d	629,845			

Dr Rent account Cr

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
June 2	Cash		20,000		Balance	c/d	20,000
20,000	20,000						
	Balance b/d		20,000				

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Dr Purchases account Cr

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
June 6	Cash		85,000				
June 26	Cash		108,000		Balance	c/d	193,000
193,000	193,000						
	Balance	b/d	193,000				

Dr Wages account Cr

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
June 16	Cash		4,220		Balance	c/d	4,220
4,220	4,220						
	Balance	b/d	4,220				

Dr Motor vehicle account Cr

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
June 18	Cash		220,000		Balance	c/d	220,000
220,000	220,000						
	Balance	b/d	220,000				

Dr Electricity account Cr

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
June 30	Cash		3,305		Balance	c/d	3,305
3,305	3,305						
	Balance	b/d	3,305				

Trial Balance

The trial balance is prepared by transferring the balance on each account as it appears on the account to debit or credit column of the trial balance. Debit balance in the account will be in the debit column of the trial balance while the credit balance in the account will be in the credit column of the trial balance. The closing balance from the cash book is also included in the trial balance.

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Mr. Moses Goodluck
Trial Balance
. **For the month of June 2015**

	Debit	Credit
~~NN~~		
Capital		250,000
Sales		629,845
Rent	20,000	
Purchases	193,000	
Wages	4,220	
Motor vehicle	220,000	
Electricity	3,305	
Cash	439,320	_____
879,845879,845		

Example 2: Prepare the necessary accounts for the month of August, 2014 for Better Change Limited from the following information and extract a trial balance.

Aug. 1. Started business with cash of ₦200,000
Aug. 3. Bought goods on credit from D. King ₦54,000; Mr.Kamara₦87,000 and R. A. Akintoye₦25,000
Aug. 4. Paid rent by cash ₦12,000
Aug. 6. Sold goods on credit to Flamingo ₦43,000; Bose ₦62,000 and Tony ₦170,000
Aug. 10. Flamingo paid by cheque ₦42,000
Aug. 12. Tony paid cash of ₦166,500
Aug. 21. Sold goods on credit to Bose ₦60,200
Aug. 24. Bought goods by cash ₦18,715
Aug. 26. Cash sales ₦46,148
Aug. 28. Bought goods on credit from Mr.Kamaraworth ₦28,950
Aug. 30. Paid salary by cheque ₦7,250
Aug. 31. Withdrew cash of ₦5,000 for personal use
Aug. 31 Withdrew ₦30,000 from bank for office use.
Aug. 31. Paid Mr.Kamara₦82,750 by cash

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SUGGESTED SOLUTION TO EXAMPLE 2

Better Change Limited

Two Column Cash Book

Dr **For the month of August 2014** **Cr**

Date	Particulars	Folio	Cash	Bank	Date	Particulars	Folio	Cash	Bank
1	Capital		200,000		4	Rent		12,000	
10	Flamingo			42,000	24	Purchases		18,715	
12	Tony		166,500		30	Salaries			7,250
26	Sales		46,148		31	Drawings		5,000	
31	Bank	C	30,000		31	Cash	C		30,000
					31	Mr.Kamara		82,750	
	31 Balance		c/d	324,183	4,750				
			442,648	42,000				442,648	42,000
	Balance	b/d	324,183	4,750					

Purchases Day Book

Date	Particulars	Amount
Aug. 3	D. King	54,000
Aug. 3	Mr.Kamara	87,000
Aug. 3	R. A. Akintoye	25,000
Aug. 28	Mr.Kamara	28,950
	Total	194,950

Sales Journal

Date	Particulars	Amount
Aug. 6	Flamingo	43,000
Aug. 6	Bose	62,000
Aug. 6	Tony	170,000
Aug. 21	Bose	60,200
	Total	335,200

The ledgers

Capital Account

Bal c/d	200,000	Cash		200,000	
	200,000				200,000
			Bal b/d		200,000

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Flamingo Account

Sales	43,000	Bank	42,000
		Bal. c/d	1,000
	43,000		43,000
Bal. b/d	1,000		

Tony Account

Sales	170,000	Cash	166,500
		Bal. c/d	3,500
	170,000		170,000
Bal. b/d	3,500		

Sales Account

		Cash	46,148
Bal c/d	381,348	Credit	335,200
	381,348		381,348
		Bal b/d	381,348

Bose Account

Sales	62,000		
Sales	60,200	Bal c/d	122,200
	122,200		122,200
Bal b/d	122,200		

Rent Account

Cash	12,000	Bal c/d	12,000
	12,000		12,000
Bal b/d	12,000		

Purchases Account

Cash	18,715		
Credit	194,950	Bal c/d	213,665
	213,665		213,665
Bal b/d	213,665		

Salaries Account

Bank	7,250	Bal c/d	7,250
	7,250		7,250
Bal b/d	7,250		

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Drawings Account

Cash	5,000	Bal c/d	5,000
	5,000		5,000
Bal b/d	5,000		

Mr.Kamara Account

Bank	82,750	Purchases	87,000
Bal c/d	33,200	Purchases	28,950
	115,950		115,950
		Bal b/d	33,200

D. King Account

Bal c/d	54,000	Purchases	54,000
	54,000		54,000
		Bal b/d	54,000

R. A. Akintoye Account

Bal c/d	25,000	Purchases	25,000
	25,000		25,000
		Bal b/d	25,000

Note: No account is opened for the movement of funds between office and bank on August 31, 2014 because it is a 'contra entry'. The double entry is already completed in the cash book as a result of the debit and credit postings.

Better Change Limited
Trial Balance

	Debit	Credit
Cash in hand	324,183	
Cash at bank	4,750	
Capital		200,000
Flamingo	1,000	
Tony	3,500	
Sales		381,348
Bose	122,200	
Rent	12,000	
Purchases	213,665	
Salaries	7,250	
Drawings	5,000	
Mr.Kamara		33,200
D. king		54,000
R. A. Akintoye		25,000
	693,548	693,548

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Example 3: Dominion Ventures commenced business on 01/01/2005 with cash of ₦100,000. The transactions below took place in January 2005.

		₦
4/1/05	Goods purchased in cash	25,000
10/1/05	Advertisement by cash	2,500
15/1/05	Credit sales to B. Jinadu	18,000
18/1/05	Bought goods from E. Kolawole	12,000
22/1/05	Cash sales	22,000
25/1/05	Cash form B. Jinadu	12,000
26/1/05	Sales by cash	8,000
28/1/05	Paid rent in cash	2,500
29/1/05	Transport expenses paid in cash	2,000
30/1/05	Cash sales	10,000

You are required to prepare the necessary accounts and extract a trial balance as at January 31, 2005.

SUGGESTED SOLUTION TO EXAMPLE 3

Dominion Ventures

Cash Book

Dr **For the month of January 2005** **Cr**

Date	Particulars	Folio	Cash	Date	Particulars	Folio	Cash
1/1/05	Capital		100,000	4/1/05	Purchases		25,000
22/1/05	Sales		22,000	10/1/05	Advertisement		2,500
25/1/05	B. Jinadu		12,000	28/1/05	Rent		2,500
26/1/05	Sales		8,000	29/1/05	Transport		2,000
30/1/05	Sales		10,000	31/1/05	Balance c/d		120,000
			152,000				152,000
1/2/05	Balance b/d		120,000				

Sales Day Book

Date	Particulars	Amount
15/1/05	B. Jinadu	18,000

Purchases Journal

Date	Particulars	Amount
18/1/05	E. Kolawole	12,000

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Ledgers

Capital Account

		Cash	100,000

Sales Account

			22/1/05	Cash	22,000
			26/1/05	Cash	8,000
			30/1/05	Cash	10,000
Balance	c/d	58,000	31/1/05	Credit	18,000
		58,000			58,000
				Balance b/d	58,000

B. Jinadu Account

Sales		18,000	Cash	12,000
			Balance c/d	6,000
		18,000		18,000
Balance	b/d	6,000		

Purchases Account

4/1/05	Cash	25,000		
31/1/05	Credit	12,000	Balance c/d	37,000
		37,000		37,000
	Balance b/d	37,000		

E. Kolawole Account

		Purchases	12,000

Advertisement Account

Cash	2,500		

Rent Account

Cash	2,500		

Transport Account

Cash	2,000		

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Dominion Ventures
Trial Balance

	Debit	Credit
Cash balance	120,000	
Capital		100,000
Sales		58,000
B. Jinadu	6,000	
Purchases	37,000	
E. Kolawole		12,000
Advertisement	2,500	
Rent	2,500	
Transport	2,000	
	170,000	170,000

4.0 CONCLUSION

The trial balance provides the basis towards the preparation of the financial statement because the trail balance is the list of all balances extracted from all the accounts in the ledgers. The trail balance provides the summary of all the accounting transactions for a given period showing the closing balances or figures derived from the accounts. In all, trail balance helps to check the arithmetical accuracy of the accounts in the ledger.

SELF ASSESSMENT EXERCISE

1. What is a trial balance?

2. To what extent is the trial balance important to you?

3. K. Mete started his business as soft drink retailer on 1st October, 2014 At that date he possessed a motor van valued at ₦32,200 and cash ₦55,000. He owned ₦10,000 to his brother, J. Jos for money lent. Mete's transactions during October were as follows.

Oct 2: Purchased on credit 250 crates of assorted soft drinks from Lagos Limited a distributor at ₦126 per crate.
2: Paid transportation and handling charges at ₦1,076.
4: Sold on credit to N. Namman 100 crates at ₦150 per crate.
6: Sold for cash 40 crates at ₦146 per crate
8: Paid Sundry expenses, ₦2,713
11: Purchased on credit from M. Jibo 4 tyres at ₦2,500 each
13. Paid the account of Lagos Limited.
14. N. Namman paid his account
18. Paid salaries and wages ₦2,993
20: Purchased on credit from Lagos Limited 10 crates at ₦140 per crate.
24: Sold on credit to Staff Club, 40 crates at ₦175 per crate.

Required: Open the ledger account post the above transactions. Balance the ledger and extract a trial balance as at 31st October, 2014.

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5.0 SUMMARY

This unit is used to defined and explained trial balance, explained how to prepare trail balance from the subsidiary books of account, itemise the benefits of trial balance and also discussed the key facts about trial balance.

6.0 TUTOR-MARKED ASSIGNMENT

Question 1: Bunmi Favour sells frozen foods and dairy products in large quantities to retailers. His sales for the first week of January 2016 are as follows.

January 1. 4 cartons of cray fish at ₦1,250 a carton to Joshua.
7 cartons of shrimps to Gbemi at ₦4,100 per carton.
2 cartons of cray fish at ₦1,245 each to Gbemi and he received 10% trade discount

January 2 . Ajayi bought 15 crates of white egg at ₦880 per crate and 3 ½ packets of prawns at ₦7,200 a packet. A discount of 5% was given to him

January 3 6 cartons of cray fish was sold to Debo for ₦7,440. He also bought 2 packets of prawns at ₦7,225 per packet and 5 cartons of shrimps at ₦4,150 a carton. Being an old customer, Bunmi Favour gave him 15% discount and this encourage him to buy a carton of white egg for ₦880, but this do not qualify for discount.

January 5. Folake bought a carton each of cray fish, prawn, white egg and shrimps at same price with Joshua, Ajayi, Debo and Gbemi respectively. Being a woman with the ability to negotiate, she received 10% trade discount.

Prepare the sales day book, the ledger and the trial balance for Bunmi Favour.

Question 2: What are thedifferences between the trial balance and a ledger?

7.0 REFERENCES/FURTHER READINGS

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UNIT 14: TYPES AND CORRECTION OF ERRORS

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1.0 INTRODUCTION

The preparations of books of accounts are done by people even when computer is used. As a result of imperfection on the part of human beings, mistakes are likely to occur when accounting records are prepared. There is the need to know different types of mistakes or errors that can occur while preparing accounts and how such errors should be treated or corrected in the books of accounts. This is our focus in this unit.

2.0 OBJECTIVES

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

i. Explain error in accounting
ii. Discuss causes of errors
iii. Understand and prepare suspense account
iv. Know and explain types of errors not affecting the trial balance

3.0 MAIN CONTENT

3.1 ERROR IN ACCOUNTING

Error is an accounting terminology used to signify mistakes made while recording and/or posting financial transactions. Errors are genuine mistakes that are not deliberate or pre-planned, but which occur in the course of recording financial transactions. Errors in accounting are classified into two. Those that affect the agreement of trial balance and those that do not affect the agreement of trial balance.

Error is not the same as fraud. Fraud is a deliberate effort and/or attempt to change and/or modify financial information and/or records for someone personal gains to the detriment of others.

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3.2 CAUSES OF ERRORS

Errors can occur as a result of:

i. Not following the double entry principle.
ii. Carelessness of the book keeper or accounting personnel.
iii. Over sight: a complete omission of one or more accounting entry(ies).
iv. Under casting of entries in an account.
v. Over casting of entries in an account.
vi. Wrong posting: where debit entry is posted as credit in the ledger.
vii. Technical fault in accounting software: this relate to organisation where the accounting system is computerized.

3.3 TYPES OF ERRORS NOT AFFECTING THE TRIAL BALANCE

There are different types of errors that its occurrence would not affect the agreement of trial balance total. The most common of these errors are,

i. Errors of original entry
ii. Errors of omission.
iii. Compensating errors.
iv. Errors of principle
v. Errors of commission

3.3.1 Errors of Original Entry

Errors of original entry occurs in a situation where the initial figure or amount used in posting a financial transaction from the subsidiary books is incorrect and the double entry is completed using the incorrect amount. For example, where sales invoice total of ₦55,000 is mistakenly calculated to be ₦45,000. The same ₦45,000 will credited to sales account and ₦45,000 debited to the customer's account.

3.3.2 Errors of Omission

Errors of omission take place when a transaction is completely omitted from the books of accounts. An example is a payment of ₦1,250 cash for newspaper, but this is not posted to either the cash book nor newspapers account in the ledger. The transaction is therefore omitted from the accounting records.

3.3.3 Compensating Errors

Compensating errors explain situations where the occurrence of one error cancel out another error that has occurred either in the same account or different accounts. E.g. where sales account was added up in excess by ₦2,000 and the purchases account also added up by ₦2,000.

3.3.4 Errors of Principle

This is where an account of capital expenditure is treated as revenue expenditure item or an item of revenue expenditure is treated as capital expenditure in the account. It means that an item is entered in the wrong class of account. For example, ₦5,000 cash paid for repairs of motor vehicle (which is a revenue expenditure) debited to motor vehicle asset account (a

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capital expenditure) instead of motor vehicle expense account. Such an error will not affect the agreement of the trial balance total because both are debit entries in the ledger.

3.3.5 Errors of Commission

Errors of commission occur as a result of posting the correct amount or figure to the wrong account, without deviating from double entry principle. E.g. A sale on credit of ₦45,300 to a customer Mr. Y. Adeyemi posted to the account of Mr. X. Adeyeni.

3.4 SUSPENSE ACCOUNT

We have examined those errors that do not affect the agreement in trial balance total in section 3.3 above. However, the occurrence of some errors (excluding those discussed above) can cause disagreement in the trial balance total.

There are reasons why trial balance totals may not agree. These include:

i. Omission of a ledger account balance from the trial balance.
ii. Overcast: where one side of ledger account was added up by amount higher than actual.
iii. Entry of an amount in the same side of the ledger i.e. a debit entry posted as credit or a credit entry posted as debit.
iv. Undercast: where one side of a ledger account was added up by an amount lower than actual.

The correction of the above errors will necessitate the use of a suspense account.

Where the trial balance total do not agree and to avoid any delay in the preparation of final accounts, a suspense account would be opened to record the difference in the trial balance total pending the time the errors are located and corrected. Suspense account therefore is a temporary account opened to record errors that cause the trial balance total not to agree pending the time the errors are corrected.

Any error that does not affect the agreement of the trial balance total will not come to suspense account.

Example 1: Cash of ₦10,000 received from a debtor was recorded in the cash book only. You are to correct the error.

SUGGESTED SOLUTION TO EXAMPLE 1

To correct the above error in example 1, it should be noted that the correct posting if an error does not occur is to debit cash account with ₦10,000 and credit debtors account with ₦10,000.

However, what was done from the question is that only the cash account was debited with ₦10,000. It means that the debtors account was not credited, which suggest that the

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difference in the trial balance total of ₦10,000 would have been posted to the suspense account for the trial balance total to agree. The ₦10,000 will be in the credit side of the suspense account to compensate for the debtors account that was not credited.

The fact that debtors account was not credited means that suspense account must have been credited because the error will affect the trial balance total. In order to correct the error,

Debit - Suspense Account ₦10,000
Credit - Debtors Account ₦10,000

Suspense account is debited because it was earlier credited for the trial balance total to agree as explained above.

Example 2: You are to correct the error below.
A debtor paid ₦5,500 cash but his account was credited with ₦5,000 while the cash book was debited with ₦5,500.

SUGGESTED SOLUTION TO EXAMPLE 2

The first thing to be noted in example 2 is that the cash book posting was correct while the posting to the customer i.e. the debtor has a short fall of ₦500. The error in the question requires the correction of the ₦500 which should be credited to the debtor's account. When this is done, the credit entries in the debtor's account will increase to ₦5,500 i.e. the initial ₦5,000 that was correctly credited instead of ₦5,500, and the ₦500 being credited on correction of the error.

Since the error is a shortfall of ₦500 on the credit side, it means that the difference of ₦500 is already posted to suspense account. The posting for correcting the error is stated below.

Debit - Suspense Account ₦500
Credit - Debtors Account ₦500

Example 3: A Payment of ₦18,000 to a creditor was omitted from the cash book but recorded in the creditors account in the ledger.

SUGGESTED SOLUTION TO EXAMPLE 3

If you follow the explanations given in the solutions to example1 and 2 above, the solution to example 3 is as stated below.

Debit - Suspense Account ₦18,000
Credit - Cash Account ₦18,000

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Example 4: The accounting records of Able People Ventures show that motor vehicle expenses of ₦12,220 paid for by cash was posted to motor vehicle assets account and cash book. You are to identify the error in the posting (if any), and to correct the error so identified.

SUGGESTED SOLUTION TO EXAMPLE 4

The error in the posting is that motor vehicle assets account (capital expenditure) was debited instead of motor vehicle expenses account (revenue expenditure).

This error does not affect the trial balance total, however the correction is stated below.

Debit	- Motor vehicle expense account	₦12,220
Credit	- Motor vehicle assets account	₦12,220

3.5 CORRECTION OF ERRORS

We have examined above errors that affect the trial balance total which lead to the creation of suspense account. In a business organisation, the numbers of errors that occur within a particular accounting period will be of different types and nature. Errors should not be corrected by overwriting but by making fresh entry. These errors could affect one account called one sided errors or both accounts known as two sided errors

One sided errors: This error does not require any journal entry for rectification, but a physical correction of wrong figures or an opposite entry in the same account.

Two sided errors: Examples of such errors include: complete omission, error of principle, wrong account posting etc.

Detailed questions are examined below for errors that affect the trial balance total and those that do not affect the trail balance total.

Example 5: You are required to show the journal entries to correct the following errors found in the book of Good Business Investments.

i. Motor vehicle purchases ₦720,000 entered in purchases account.
ii. Sales account is overcast by ₦440,000, so also is wages account.
iii. Goods purchased from Kunle& Sons ₦750,000 was entered in kumi Enterprises account.
iv. Commission received ₦70,000 was entered in sales account.
v. Sales to Abudu of ₦100,000 was completely omitted from the books.

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SUGGESTED SOLUTION TO EXAMPLE 5

Good Business Investments
Journal

		Dr	Cr
i.	Motor vehicle account	720,000	
	Purchases account		720,000
	Being correction of motor vehicle purchased debited to purchases account		
ii.	Sales account	440,000	
	Wages account		440,000
	Being correction of overcast of sales and wages.		
iii.	Kumi Enterprises account	750,000	
	kunlei& Sons account		750,000
	Being correction of goods purchased wrongly debited		
iv.	Sales account	70,000	
	Commission received account		70,000
	Being reversal of commission received wrongly credited to sales account.		
v.	Abudu account	100,000	
	Sales account		100,000
	Being correction of omitted sales		

Example 6: When the trial balance of Pleasure Recovery Enterprises was drawn for the year ended 31st December 2013, the trial balance had a difference of ₦25,000 and it was credited to the suspense account. An independent consultant who reviews the firm records discovered the following.

i. Cash of ₦20,000 received from a debtor was recorded in cash book only.
ii. Payment of ₦4,000 by cheque to a creditor was not reflected in the bank account but recorded in other ledger.
iii. A debtor paid ₦11,000 cash, but her account shows ₦10,000, while the other account had no mistake.
iv. Motor vehicle expenses of ₦20,000 in cash was posted to motor vehicle assets account.

You are required to:

(a) Prepare the journal entries to correct these errors and
(b) Suspense account.

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SUGGESTED SOLUTION TO EXAMPLE 6

Pleasure Recovery Enterprises

(a) Journal Entries

		Dr.	Cr.
i.	Suspense Account	20,000	
	Debtors Account		20,000
	Being amount received from debtors not credited now corrected.		
ii.	Suspense Account	4,000	
	Bank Account		4,000
	Being payment earlier on omitted from bank account		
iii.	Suspense Account	1,000	
	Debtors Account		1,000
	Being correction of an undercast in the debtors account		
iv.	Motor vehicle expenses Account	20,000	
	Motor vehicle assets Account		20,000
	Being correction of an error of principle		

(b) Suspense Account

Debtors	20,000	Bal b/d	25,000
Bank	4,000		
Debtors	1,000		
	25,000	25,000	

Example 7: In order to meet the deadline of the forth-coming Annual General Meeting, the Managing Director of Jade and Jola Ltd. requested the Book Keeper to prepare the final accounts of the company. The Managing Director was worried about the figures shown in the accounts prepared by the Book-Keeper and has consulted you to review them. After a thorough investigation, you discovered the following mistakes in the accounts:

(a) No adjustment entry was passed for an amount of ₦3,200 relating to outstanding rent for the Managing Director's accommodation;

(b) Plant depreciation of ₦2,500 was completely omitted;

(c) The purchases account included the sum of ₦960 paid for stationery items for office use;

(d) Purchases day book was over cast by ₦2,400

(e) Bad debt recovered amounting to ₦1,000 was credited to sales account;

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(f) Sales account was shown as ₦12,400 instead of ₦10,000;
(g) ₦500 for publicity expenses was recorded as postage expenses.
You are required to prepare the relevant journal entries to rectify the above errors.

SUGGESTED SOLUTION TO EXAMPLE 7

Jade and Jola Limited

Journal Entries

		Debit	Credit
a.	Rent Account	3,200	
	Creditors Account		3,200
	Being outstanding rent omitted		
b.	Depreciation Account	2,500	
	Provision for depreciation Account		2,500
	Being provision for depreciation omitted		
c.	Stationery Account	960	
	Purchases Account		960
	Being reversal of entry wrongly posted		
	In purchases account		
d.	Suspense Account	2,400	
	Purchases Account		2,400
	Being purchases account overcast		
e.	Provision for bad debt Account	1,000	
	Sales Account		1,000
	Being reversal of bad debt recovery		
	Wrongly posted to sales account		
f.	Sales Account	2,400	
	Suspense Account		2,400
	Being correction of error of overcast		
	In sales account		
g.	Publicity expenses Account	500	
	Postage expenses Account		500
	Being reversal of wrong posting		

4.0 CONCLUSION

Errors are genuine mistakes that are not deliberate or pre-planned, but which occur in the course of recording financial transactions. Errors in accounting are classified into two as those that affect the agreement of trial balance (i.e. one sided error) and those that do not

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affect the agreement of trial balance (i,e, two sided error). Errors can occur as a result of not following the double entry principle, carelessness of the book keeper or accounting personnel and a complete omission of one or more accounting entry(ies).

There are different types of errors that its occurrence would not affect the agreement of trial balance total some of which are errors of original entry, errors of omission, compensating errors, errors of principle and errors of commission. Some of the reasons why trial balance totals may not agree are omission of a ledger account balance from the trial balance, entry of an amount in the same side of the ledger i.e. a debit entry posted as credit or a credit entry posted as debit, overcast: where one side of ledger account was added up by amount higher than actual and undercast: where one side of a ledger account was added up by an amount lower than actual.

SELF ASSESSMENT EXERCISE

1. Define suspense account and explain its uses.

2a. State the type of errors contained in each of the following statements

(i) Plant that was acquired at a cost of ₦75,000 has been credited in the cash book but debited to the purchases account in error.

(ii) The purchase of consumable tools for ₦2,500 had been debited to repairs accounts.

(iii) Bank charges of ₦2,750 shown on the bank statement have not been entered in the cash book.

(iv) A purchase invoice received from a creditor for ₦50,000 has been entered in the purchased day book as ₦5,000

(v) Wages paid of ₦4,000 have not been posted to the wages account and the debit side of the purchases account has been over-cast by ₦4,000

(vi) Rent received of ₦250,000 has been entered in both the cash book and the ledger as rent paid.

2b. Prepare journal entries to correct the above errors and state the narration.

Adapted from Institute of Chartered Accountants of Nigeria

5.0 SUMMARY

In this unit, we explained the meaning of error in accounting and also differentiate between error and fraud. Causes of error, types of errors not affecting the trial balance such as errors of original entry, errors of omission, compensating errors and errors of principle, errors affect the agreement of the trial balance, purpose of suspense account and how to prepare suspense account were discussed in the unit.

6.0 TUTOR-MARKED ASSIGNMENT

Question 1: List and explain four errors that could occur in a balanced trial balance.

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Question 2: Chi Knitwear Ltd. is an old fashioned firm with a hand-written set of books. However, the trial balance does not balance, the credits exceeding debits by £1,536. You are asked to help and, after inspection of the ledgers, you discover the following errors:

1. A balance of £87 on a debtor's account has been omitted from the schedule of debtors, the total of which was entered as debtors in the trial balance.
2. A small piece of machinery purchased for £1,200 had been written off to repairs.
3. The receipts side of the cash book had been undercast by £720.
4. The total of one page of the sales day book had been carried forward as £8,154, whereas the correct amount was £8,514.
5. A credit note for £179 received from a supplier had been posted to the wrong side of his account.
6. An electricity bill in the sum of £152, not yet accrued for, is discovered in a filling tray.
7. Mr. Smith, whose past debts to the company had been the subject of a provision, at last paid £731 to clear his account. His personal account has been credited but the cheque has not yet passed through the cash book.

You are required to:

a. Write up the suspense account to clear the difference, and
b. State the effect on the accounts of correcting each error.

Adapted from Chartered Association of Certified Accountants

Question 3: Mr. Happy Choice, an accountant found that the debit and credit columns of his trial balance did not agree. After cross checking his records, he discovered the following mistakes.

i. Depreciation on furniture ₦200 had not been posted to depreciation account.
ii. ₦5,000 paid to Adewale had been wrongly posted to Adewole.
iii. The total of sales book had been added ₦2,000 short.
iv. Goods worth ₦200 taken by the proprietor omitted to be recorded in the books.
v. ₦250 owing by a customer had been omitted from the list of debtors.
vi. The total of the bills payable book ₦23,000 had been posted to the credit of bills receivable account.
vii. A credit sale of ₦14,400 to Benjamin had been correctly entered in the sales book but Benjamin account had been debited with ₦12,400 only.
viii. The discount column of the three column cash book representing discount allowed to customer has been over casted by ₦4,259.

Which of the above errors caused the totals of the trial balance to disagree and by how much did the totals differ?

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UNIT 15: CLASSIFICATION OF EXPENDITURE BETWEEN CAPITAL AND REVENUE

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  3.1 Expenditure
  3.2 Capital Expenditure
  3.3 Revenue Expenditure
  3.4 Distinction between Capital and Revenue Expenditure
4.0 Conclusion
5.0 Summary
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1.0 INTRODUCTION

There is no organisation that generates income or revenue alone without spending money in the process of generating such income whether it be service or trading enterprise. In as much as organisation must spend money to generate income, there is need to understand how money spent are categorised and treated in accounting records.

2.0 OBJECTIVES

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

i. Explain the concept of expenditure
ii. Understand the meaning of capital and revenue expenditure
iii. Differentiate between capital and revenue expenditure
iv. Explain the accounting entry for capital and revenue expenditure
v. Classify expenditure into either capital or revenue expenditure

3.0 MAIN CONTENT

3.1 Expenditure

Expenditures are the money spent in an organisation in order to generate income either now or in the future. Expenditure is not the same as expenses. Expenses are cost of running an organisation on daily basis which include transport, salaries and travelling. Expenditure is the combination of expenses and other payment for items that are not expenses such as acquisition of equipment. Expenditure can be classified into two namely capital expenditure and revenue expenditure.

3.2 Capital Expenditure

Capital expenditure is money spent to acquire or purchase property of permanent nature for individuals and organisations. Capital expenditure also extend to other cost or money spent

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on a property that enhances its value like addition, extension, improvements and renovation. Capital expenditure is the totality of all expenditures incurred in acquiring, extending or improving assets of a permanent nature by means of which a business may carry on or increase its earning capacity.

Properties that are permanently retained in the business to earn income with a life span of more than one year are also capital expenditure. These types of properties are referred to as non-current assets e.g. Building, Furniture, Plant and Machinery and Motor Vehicle. Capital expenditure normally produces benefits for a period extending over a number of years each of which bears a proportionate part of the original outlay in the form of depreciation.

Adequate care should be exercised when classifying expenditure into capital or revenue. For a company whose business is purchases and sales of motor car, any car bought with the intention of selling is not capital expenditure. However, if the car was bought to be retained and used as utility vehicle for the company, it is capital expenditure.

Capital expenditures are not items purchased with the aim of reselling, neither are they small expenditure used on daily basis to run an organisation. By their nature, capital expenditure relates to items that are of high value which are meant to last in the organisation for more than a year.

3.3 Revenue Expenditure

Revenue expenditures are all expenditure other than capital expenditures and it is generally written off in the accounting period in which it is incurred. Revenue expenditures are costs of running a business on a day-to-day basis. Revenue expenditures also include stocks of raw materials, stock of finished goods and other stocks which are exchanged to earn income for the business and other operational expenses that could not be classified as capital expenditure e.g. salaries, cost of producing and purchasing goods for resale, transport, administration and selling expenses etc. which are charged to the statement of profit or loss before the actual profit of the business can be determined.

3.4 Distinction Between Capital and Revenue Expenditure

The distinction between capital and revenue expenditure is important because of the difference in their treatment in the books of account.

The distinctions are stated below.

i. Capital expenditure is carried forward in the statement of financial position and does not immediately affect profit, whereas revenue expenditure is immediately written off completely against profit in the statement of profit or loss.

ii. Differentiating between capital and revenue expenditure prevent overstating or understating the profit or loss for the year. That is the reason for posting capital

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expenditures as non-current assets in the statement of financial position, and revenue expenditures as cost of sales and expenses in the statement of profit or loss.

iii. The classification of expenditures into capital and revenue expenditure is to avoid distortion in the end of year financial statements so that expenditures that do not affect the day to day running of the business e.g. purchase of equipment is not treated as revenue expenditure.

iv. When expenditures are properly classified into their respective groups, the financial statement will provide accurate financial reports to management, stakeholders and other interested parties.

v. The classification of expenditures into capital and revenue expenditure help to maintain the accounting concept of consistency in the financial statement.

SELF ASSESSMENT EXERCISE

1. State four reasons why it is necessary to distinguish capital expenditure from revenue expenditure.

2. Define with examples, the following terms:
   Capital expenditure
   Revenue expenditure

4.0 CONCLUSION

Companies incur expenditures in order to generate income, grow the business and make profits. However, the expenditures do not provide the same reward or return to the business, while some expenditures are for day to day running of the business, others are not. Capital expenditures are all expenditure incurred in acquiring, extending or improving assets of a permanent nature by means of which a business may carry on, or increase its earning capacity. Revenue expenditures are all expenditures other than capital expenditures and they are generally written off in the accounting period in which they are incurred.

5.0 SUMMARY

This unit was used to explain in clear terms how expenditures incurred by business organsations are classified in the books of accounts into capital expenditure and revenue expenditure, with the implication of the classification on the financial statement.

6.0 TUTOR-MARKED ASSIGNMENT

Question 1: Differentiate between capital and revenue expenditures.

Question 2: For the purpose of assisting your client in a fast food business, you are required to classify the following expenditures between capital and revenue expenditure.

Expenditure

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i. Purchase of a new motor vehicle
ii. Wages of shop assistant
iii. Repairs to meat slicer
iv. New cash register
v. Additional shop counter
vi. Renewing of sign writing permit on shop
vii. Fitting partitions to shop
viii. Repair of roof
ix. Carriage on returns outwards
x. New tyre for vehicle
xi. Repair to office safe
xii. Installation of extra toilet
xiii. Fire insurance premium
xiv. Installation of security equipment

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UNIT 16: METHODS OF RECORDING ACCOUNTING DATA: MANUAL AND MECHANICAL

CONTENTS

1.0 Introduction
2.0 Objectives
3.0 Main Content
  3.1 Manual Accounting System
  3.2 Mechanical Accounting System
4.0 Conclusion
5.0 Summary
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1.0 INTRODUCTION

The computer information age of the 21st century led to the use of computerized accounting system by different organisations. This is a departure from the manual system. However, most of the accounting source documents in Nigeria such as invoice, receipt are prepared manually by small businesses except few organisations whose accounting system is fully computerized to the extent of generating computer based invoices and receipts. This unit focuses of how accounting data are recorded using both manual and mechanical methods

2.0 OBJECTIVES

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

i. Explain manual accounting system.
ii. Discuss computerized accounting system.
iii. Know the procedure for preparing accounting data using manual method
ii. Understand how accounting data can be prepared mechanically.

3.0 MAIN CONTENT

3.1 Manual Accounting System

The manual accounting system refers to the keeping of accounting record by hand written of relevant posting in the books of accounts. It means that electronic device such as computer is not used in posting.

The computerised information systems enable some companies to use different accounting software for the financial records, but some organisation still prefer the manual system for one reason or the other.

The posting of accounting record manually requires that different books of original entry, ledger and trial balance be opened in a hard copy form. However, the practical ways are simple to follow as explained and treated in this book. For purpose of clarity, all the

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recording and posting of financial transactions in different accounting records in this book were done manually. It suggests therefore that:

1. The sales day book, purchases journal, returns inwards journal, returns outwards day book and the journal proper in unit 6 were manually posted.

2. Cash book, two column cash book, three column cash book and petty cash book were posted manually in unit 7.

3. The double entry book keeping systems in the ledgers covered in unit 8 followed the manual accounting records.

4. The trial balance in unit 9 is also a product of manual recording

5. Other posting and final accounts in units 10, and 13 to 17 were manually prepared.

Some of the advantages of manual system over the computerised system are:

i. A manual system is cheaper to install in term of cost when compared with a computerised system of maintaining financial records.

ii. Cost of acquiring computer, accounting software and training of account personnel in a computerised accounting system are not required for manual system.

iii. A manual system may be more secure because the possibility of computer crash and virus do not affect it.

Some of the disadvantages of manual system are:

i. It is highly prone to more mistakes and errors because humans factor do all the calculation without electronic assistant that a computer can generate with ease.

ii. The manual system takes longer time, efforts and paper to post.

iii. The security of the manual system is threatening because it is prone to destruction by flood and fire deface without any back-up.

iv. Auditing of manual accounting system is cumbersome because documents have to be checked and identified one after the other.

v. More space is required to keep manual accounting record because they are always voluminous.

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vi. It takes more time to effect changes and correct mistakes in a manual system because it may require redoing a posting from the subsidiary books to the ledger.

3.2 Mechanical Accounting System

The word 'mechanical' connote the use or adoption of electronic device in the posting and preparation of accounting records. This is achieved through the use of computer with relevant software as appropriate for each business. Computerised or mechanical accounting system makes the recording, processing and reporting of accounting data easier than the manual system.

The recording of accounting data in a computerised accounting system is different from the manual system of accounts. The recordings in mechanical accounting system are not the same for all accounting softwares, but there are common processes and procedures that are applicable to accounting softwares.

i. Accounting data are entered from the source documents to the computer through the key board and other input devices.

ii. The entry requires the classification of account or chart of account through the creation of 'account code' for each transaction head.

iii. It will be necessary in most computerised accounting system to specify the account to be debited and those to be credited while inputing accounting data.

iv. Information to prepare and generate the final accounts are in the data base from where the software automatically extract the reports and accounts based on the users specification which can be modified.

3.2.1 Chart of Account

This is a set of numbers and codes that define each account head and also differentiate between classes of accounts e.g. the serial code for receipt differs from expenses

Account Types

Account types define how the account will be grouped in reports and financial statements. They also control what happens during financial year-end.

Typical Chart of Account

Code	Account Description	Account Type
10000	SALES	Income
10001	DONATION	Income
10002	INTEREST ON DEPOSIT	Income
80001	PURCHASES	Cost of Sales

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80002	CARRIAGE INWARDS	Cost of Sales
20001	PRINTING AND STATIONERY	Expenses
20002	TELEPHONE	Expenses
20003	POSTAGE	Expenses
20004	RENT	Expenses
20005	SALARIES AND WAGES	Expenses
20008	ADVERTISEMENT	Expenses
30000	FURNITURE AND FITTINGS	Non-Current Assets
30001	OFFICE EQUIPMENT	Non-Current Assets
40000	RENT ADVANCE	Current Assets
40001	MAIN CASH	Cash
40002	DEBTORS	Account Receivable
50000	CAPITAL	Equity
50001	RETAINED EARNINGS	Equity-Retained Earnings
60000	LOAN – DC BANK PLC	Non-Current Liabilities
60001	LOAN – GF MORTGAGE BANK	Non-Current Liabilities
70000	LOAN – COOPERATIVE	Current Liabilities
70001	CREDITORS	Accounts Payable

Some advantages of computerised accounting system are:

i. The use of computer is an efficient way of keeping and recording accounting transactions because entry of data is faster than in manual system.

ii. With the use of computer for accounting records, it become easy to generate different reports and financial statement within a short period.

iii. It helps to communicate with customers and supplier better and faster because of email facility available in some accounting software,

iv. Accounting data and other information in accounting software are secure and safe because they can be back-up in different locations and folders such as internet, cloud, e-mail attachment and external drive.

v. The risk or loss of data is reduced to the barest minimum

vi. It helps to avoid the problem of duplication of same records which are found in manual system

vii. Quick and fast decision can be made by managers with timely report that are available in a computerised accounting system. This help in strategy formulation and realignment

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viii. Up to date accounting records are made possible because accounting software update records automatically after they are posted.

Computerised accounting system has the following demerits

i. Computerised accounting system is prone to risk of computer virus and hard disk crash.

ii. Some softwares require the service of external consultants who have to be paid consultancy fee on annual basis in some cases

iii. The existence of computer hackers and identity theft are major challenge of computerised accounting system especially for those with internet and cloud back-up.

iv. Irregular power supply and other electrical faults can damage computer and other accessories used for computerised accounting system.

v. There is no limit to the effect of a single mistake in data entry. A mistake in data entry has negative effect on different reports, records and statements.

SELF ASSESSMENT EXERCISE

1. What do you understand by manual accounting system?

2. What are the disadvantages of computerised accounting system?

4.0 CONCLUSION

Accounting data can be recorded, posted and processed manually and mechanically depending on the business owners. The manual system is hand written record while the mechanical method uses computer system in data recording and processing. It is imperative for business organisation to examine the merits and demerits of each system before deciding on the system of accounting record to use.

5.1 SUMMARY

The unit was used to explain and discuss manual accounting system and mechanical accounting system. It shed light on the advantages and the disadvantages of each system while a typical chart of account used in a computerised accounting system was given.

6.0 TUTOR-MARKED ASSIGNMENT

Question 1: What are the merits of manual accounting system?

Question 2: What do you understand by computerised accounting system?

Question 3: What are the disadvantages of manual accounting system?

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Question 4: Prepare a typical chart of account for a trading organisation.

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UNIT 17: FINAL ACCOUNTS OF A SOLE TRADER 1: STATEMENT OF PROFIT OR LOSS

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CONTENTS

1.0 Introduction
2.0 Objectives
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    3.2 Definition of Technical Terms
    3.3 Preparation of Statement of Profit or Loss
4.0 Conclusion
5.0 Summary
6.0 Tutor-Marked Assignment
7.0 References/Further Readings

1.0 INTRODUCTION

The preparations of accounting records from the subsidiary books of accounts, to the ledger and the extraction of trial balance are the processes involved in the preparation of final accounts. The final accounts are the end points of books of accounts which are used to determine the income, profit, loss, assets and liabilities of a business concern. The final accounts of a sole trader consist of statement of profit or loss and statement of financial position. However, the statement of profit or loss for traders who deals in the buying and selling of goods are discussed in this unit while their statement of financial position is considered in the next unit.

2.0 OBJECTIVES

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

i Define final accounts
ii. Understand the components of final accounts
iii. Prepare statement of profit or loss for a sole trader
iv. Discuss the importance of final accounts

3.0 MAIN CONTENT

3.1 STATEMENT OF PROFIT OR LOSS

The final accounts represent the presentation of financial information for a particular period or year to the users of financial report. The final accounts of a sole trader basically consist of statement of profit or loss and statement of financial position. Our focus in this study unit is the statement of profit or loss without end of year adjustment.

The preparation of statement of profit or loss will enable the business owner to ascertain the profit or loss from the business for a particular period, month or year. Statement of profit or loss is technically divided into two sections to show the gross profit or loss and the net profit or loss for a particular period.

3.2 DEFINITION OF TECHNICAL TERMS

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Let us look at some basic words that will come up regularly under the final accounts of a sole trader in this unit and the next two units namely units 18 and 19.

3.2.1 Sales

Sales represent total of all credit and cash sales made to a third party. This excludes good taken by the owner for personal use and sales of non-current assets.

3.2.2 Returns Inwards

They are goods previously sold to customers but were later returned either in whole or in part probably as a result of:

i. Wrong specification, model, colour etc.
ii. Deficiency
iii. Disagreement between the buyer and seller that can be traced to either pricing, discount, payment terms etc.
iv. Shortage in quantity, weight and other measuring discrepancies.
v. Government policy.

The total amount of returns inwards will be deducted from sales value.

3.2.3 Opening Stocks

These are the value of stock of goods meant for sale that are available with the business at the beginning of the accounting year or period.

3.2.4 Purchases

Purchases represent total value of goods that are bought for cash and on credit for resale. This does not include the purchases of non-current assets.

3.2.5 Carriage Inward

This represents the cost of transporting goods meant for resale into the organisation. Carriage inward is added to purchases because it is an additional cost incurred as goods are bough for resale by the business which enables the goods to get to where buyers can come for them.

3.2.6 Returns Outwards

These are goods previously bought for resale but later returned to the supplier due to one reason or the other such as late delivery and wrong specification. The total value of returns outwards should be deducted from the purchases of the same accounting period.

3.2.7 Closing Stocks

The closing stocks represent the value of stock of goods that are meant for sale which a business has at the end of the accounting year or a stated period or date.

3.2.8 Cost of Goods Sold

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This is the cost price of goods sold for a particular period and it can be derived in a simple way by adding the purchases to opening stock then deducting the closing stock. There could be other things that will form part of the cost of goods sold like purchase return, carriage inward, goods withdrawn by the owner, etc., depending on the question. Cost of goods sold is also referred to as cost of sales.

3.2.9 Gross Profit

This is the profit realised on trading activities alone without other expenses incurred in the business. It is derived by deducting cost of goods sold from the sales value.

3.2.10 Other Income

They are revenues that are generated outside the sales of goods or services that the firm regularly deals with. It includes bank interest, rent received, discount received etc.

3.2.11 Expenses

These are cost of goods (other than those related to goods to be sold) and services consumed or used during the period covered by the account, and such goods and services are meant for the business. These expenses include: transport, rent and rates, electricity, depreciation, salaries etc., and they are charged against the profit in the statement of profit or loss.

3.2.12 Carriage Outwards

This represents the cost of transporting goods meant for resale to the buyer. Carriage outwards are expenses that relate to sales and they are included among the other running cost of an enterprise to determine the net profit.

3.2.13 Net Profit

Net profit is the profit derived after all expenses and cost of sales have been deducted from the net income including sales of goods and other income. Where all expenses are higher than the income, it will be a net loss.

3.3 PREPARATION OF STATEMENT OF PROFIT OR LOSS

When preparing the statement of profit or loss, it should be done in a way to reveal the income generated, cost of sales, gross profit, other income, expenses and the net profit. A typical statement of profit or loss is presented below as a guide.

3.3.1 Format of Statement of Profit or Loss

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Statement of profit or loss
For the year ended 31st December 20XX

	₦	₦
Sales		XXXX
Less returns inwards		(XXX)
Net sales		XXXX
Opening stock	XXXX	
Add purchases	XXXXX	
Add carriage inwards	XXX	
	XXXXX	
Less returns outwards	XXX	
Less closing stock	XXXX	
Cost of gods sold		XXX
Gross profit		XXXX
Other income:		
Discount received		XXX
Commission received		XXX
Dividend received		XXX
Fixed deposit interest		XXX
		XXXXX
Expenses:		
Lighting and heating	XXX	
Discount allowed	XX	
Office rent	XXX	
Advertising	XX	
Travelling expenses	XXX	
Rates	XXX	
Fire insurance	XXX	
Postages	XX	
Office salaries	XXX	
Repairs	XXX	
Carriage outwards	XXX	
Depreciation	XXX	
Bank charges	XXX	
Stationery	XX	
General expenses	XXX	XXXX
Net profit		XXXX

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Example 1: From the trial balance below, prepare statement of profit or loss of Treasure Gold Ventures for the year ended December 31, 2015.

	₦	₦
Capital		24,800
Furniture	24,000	
Stock at start	12,480	
Purchases	37,600	
Returns outwards		4,600
Transport expenses	4,500	
Discount received		300
Returns inwards	1,700	
Travelling expenses	2,000	
Carriage inward	1,500	
Carriage outward	2,500	
Salaries	3,200	
Debtors	12,260	
Creditors		14,520
Cash in hand	1,200	
Drawings	5,000	
Sales		64,000
Discount allowed	280	
	108,220	108,220

The stock at close is ₦7,400

SUGGESTED SOLUTION TO EXAMPLE 1

Treasure Gold Ventures
Statement of Profit or Loss
For the year ended December 31, 2015

	₦	₦	₦
Sales			64,000
Less returns inwards			1,700
			62,300
Opening stock		12,480	
Add purchases	37,600		
Add carriage inwards	1,500		
	39,100		
Less returns outwards	4,600	34,500	
		46,980	
Less closing stock		7,400	
Cost of goods sold			39,580

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Gross profit			22,720
Add discount received			300
	23,020		
Transport		4,500	
Traveling		2,000	
Carriage outwards		2,500	
Salaries	3,200		
Discount allowed		280	
			12,480
Net profit for the year			10,540

Note carefully the treatment of closing stock which is normally written outside of the trial balance. Closing stock is deducted from the addition of opening stock and purchases in the statement of profit or loss.

Example 2: The trial balance below is drawn from the books of Greater Grace Concepts for the year ended 30th June 2016.

	DR.	CR.
	₦	₦
Capital account		17,000
Drawing account	8,400	
Purchases	38,000	
Sales		60,000
Discounts	2,400	1,900
Office rent	1,080	
Travelling expenses	960	
Warehouse rent	1,320	
Fire insurance	180	
Insurance on purchases	240	
Office salaries	5,520	
Carriage inwards	160	
Carriage outwards	140	
Furniture &fittings	3,600	
Opening stock	4,000	
Trade debtors	17,400	
Sundry creditors		15,020
Cash at bank	10,224	
Cash in hand	110	
Bank charges	36	
General expenses	150	
	93,920	93,920

Note the following:

i. Closing stock was ₦4,800

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ii. You are to prepare statement of profit or loss for the year.

SUGGESTED SOLUTION TO EXAMPLE 2

Greater Grace Concepts
Statement of Profit or Loss
For the year ended 30th June 2016

	₦		₦
Sales			60,000
Opening stock	4,000		
Purchases	38,000		
Carriage inwards	160		
	42,160		
Less closing stock	4,800		
Goods available for sale	37,360		
Purchases insurance	240		
Warehouse rent	1,320		
Cost of gods sold			38,920
Gross profit			21,080
Other income			
Discount received			1,900
			22,980
Discount allowed	2,400		
Office rent	1,080		
Travelling expenses	960		
Fire insurance	180		
Office salaries	5,520		
Carriage outwards	140		
Bank charges	36		
General expenses	150	10,466	
Net profit			12,514

4.0 CONCLUSION

The final accounts represent the presentation of financial information for a particular period or year to the users of financial report. The final accounts of a sole trader consist of statement of profit or loss and statement of financial position. The preparation of statement of profit or loss for sole traders enables the business owner to ascertain the profit or loss from the business for a particular period, month or year. Statement of profit or loss is technically divided into two sections to show the gross profit or loss and the net profit or loss for a particular period.

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SELF ASSESSMENT EXERCISE

1. Differentiate between a statement of profit or loss and a trial balance.
2. The following Trial Balance was extracted from the books of Promise Global Investments on 31st December, 2013

	₦	₦
Premises	150,000	
Motor Vans	27,810	
Capital 1st January, 2013		483,720
Advertising	3,810	
Postage	4,140	
Purchases	2,054,550	
Electricity	2,730	
Salaries	85,110	
Tenement Rate	3,030	
Telephone	1,020	
Furniture	33,120	
Sales		2,204,940
Returns	1,680	11,760
Bad Debts	780	
Insurance	5,760	
Commission received		52,500
Debtors	146,460	
Creditors		252,150
Cash in hand	10,560	
Bank	113,760	
Stock 1st Jan. 2013	360,750	
	3,005,070	3,005,070

Additional information is as follows:

i. The stock at 31st December 2013 was ₦323,610
ii. Prepare the statement of profit or loss for the year.

5.0 SUMMARY

This study unit was used to define final accounts, explain the components of final accounts, define technical terms relating to statement of profit or loss such as opening stocks, purchases, carriage inward, returns outwards, closing stocks, cost of goods sold, gross profit, other income, expenses, carriage outwards and net profit. Statement of profit or loss for sole trader was also prepared in this unit.

6.0 TUTOR-MARKED ASSIGNMENT

Question 1: The trial balance of Adekanmbi, a sole proprietor for the year ended 31/12/2015 was as follows:

	DR	CR

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	₦	₦
Stock 1/1/2015	7,500	
Cash	10,200	
Capital 1/1/2015		199,750
Drawings	1,300	
Bank	85,000	
Land and Building	90,000	
Furniture	1,500	
Rent	500	
Rates	350	
Debtors/Creditors	5,600	15,000
Electricity	300	
Cleaning	50	
Carriage on purchases	150	
Carriage on sales	210	
Motor Vehicles	45,000	
Purchases	40,500	
Returns Outwards	1,200	
Returns Inwards	400	
Sales		85,000
Interest received		970
Stationery	1,000	
Salaries	12,000	
Insurance	360	
	301,920	301,920

Closing stock, 31/12/2015 ₦5,300. Prepare for Adekanmbi, statement of profit or loss for the year ended 31/12/2015.

Question 2: T. Addo's business affairs on 1st December 2015 stood as follows:

	₦
Cash in Hand	440
Cash at Bank	2,440
Stock	3,500
Furniture and Fittings	1,200

You are required to:

(a) Enter the above, by means of the journal, into his ledgers, and post thereto the following transactions which took place during the month of December 2015. (Use a two column cash book for cash transactions)

		₦
Dec. 2	Bought goods from V. Bojon& Sons on credit	1,200
Dec. 3	Paid insurance premium in cash	150
Dec. 5	Paid V. Bojon by cheque the amount due	

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Dec. 8	Bought goods – gave a cheque for	840
Dec. 12	Sold goods to Badu &Co. on credit	1,560
Dec. 17	Sold goods to L. Aliyi on credit	2,000
Dec. 22	Sold goods to Badu &Co. on credit	730
Dec. 27	Received a cheque from Badu & Co.	1,290
Dec. 28	Paid salaries by cheque	450
Dec. 31	Drew cheque for personal use	500

(b) Extract a Trial Balance

(c) Prepare a statement of profit or loss for the month ended 31st December 2015, Stock on hand was valued at ₦3,200

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UNIT 18: FINAL ACCOUNTS OF A SOLE TRADER 2: STATEMENT OF FINANCIAL POSITION

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1.0 Introduction
2.0 Objectives
3.0 Main Content
  3.1 Statement of Financial Position
  3.2 Components of Statement of Financial Position
  3.3 Preparation of Statement of Financial Position
4.0 Conclusion
5.0 Summary
6.0 Tutor-Marked Assignment
7.0 References/Further Readings

1.0 INTRODUCTION

The statement of financial position is part of the final accounts which are prepared from the subsidiary books of accounts, to the ledger and the extraction of trial balance to the statement of profit or loss. The final accounts are the end points of books of accounts which are used to determine the income, profit, loss, assets and liabilities of a business concern. The statement of financial position for sole traders who deal in the buying and selling of goods are discussed in this unit.

2.0 OBJECTIVES

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

i Define statement of financial position
ii. Explain the components of statement of financial position
iii. Understand the technical terms in statement of financial position
iv. Prepare statement of financial position for a sole trader
iv. Know the difference between statement of profit or loss and statement of financial position.

3.0 MAIN CONTENT

3.1 STATEMENT OF FINANCIAL POSITION

Statement of financial position is a statement (not an account) that contains the list of assets and liabilities with owner's capital at the end of a particular period, month or year, and arranged in an orderly manner. Like the trial balance, it is expected that both assets and liabilities figure in a statement of financial position should be equal in total.

3.2 COMPONENTS OF FINANCIAL POSITION

Let us look at the components of financial position which are terms that are unique in accounting.

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3.2.1 Assets

These are valuables, claims, possessions and properties belonging to the business. Assets are normally arranged in order of liquidity in the statement of financial position. There are different types of assets, namely:

3.2.1.1 Non-current assets

These are company's tangible assets that are expected to be used in, and for the organisation for many years e.g. furniture, fittings, land, building, equipment, motor vehicle, etc.

3.2.1.2 Current assets

This class of assets are those whose value fluctuate during the year depending on the level of business activities e.g. debtors, stock, bank balance, cash in hand, prepayments etc.

3.2.1.3 Intangible assets

These are assets that add value to the organisation but they cannot be seen by their nature e.g. goodwill, copyrights, patent rights, trade mark etc.

3.2.1.4 Fictitious assets

These are expenditure incurred to cover a long period of time as a result of which some portions are capitalised or deferred pending the time it is written off against the profit (in statement of profit or loss) for subsequent years e.g. preliminary expenses, research and development expenses, discount on shares etc.

3.2.1.5 Investments

These are ownership interests a company has in another organisation. It could be in shares or debentures. This investment may be quoted (marketable) or unquoted, and it can be of short term or long term in nature.

3.2.2 Liabilities

These are financial obligations the business has in favour of outsiders. They are amount owed to individuals and/or organisations. Liabilities can be grouped into:

3.2.2.1 Non-current liabilities

These are financial obligations against the company that are not due for repayment within one year e.g. bank loan, mortgage loan, deferred tax etc.

3.2.2.2 Current liabilities

They are debts that are due for payment within one year and do change regularly from one period to another within one accounting year e.g. creditors, accruals, bank overdraft etc.

3.2.3 Capital or owner's equity

This is the initial investment of the business owner in the company. It represents the value of money, properties and other resources brought in by the owner to start the business and other additions after the commencement of the business.

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As business progresses, profits not taken out of the business are added into capital while drawings reduce owner's interest in the business. Usually, capital is equivalent to total assets minus total liabilities. CAPITAL = Total assets – Total liabilities.

3.3 PREPARATION OF STATEMENT OF FINANCIAL POSITION

3.3.1 Format of Statement of Financial Position

ABC Business Ventures
Statement of financial position
As at 31st December 2014

	₦	₦
ASSETS		
Non-current assets		
Furniture	XXXX	
Less depreciation	XX	XXXX
Motor vehicle	XXXX	
Less depreciation	XX	XXXX
Plant and machinery	XXXX	
Less depreciation	XX	XXXX
Office equipment	XXXX	
Less depreciation	XX	XXXX
		XXXX
Current assets		
Debtors	XXXX	
Stock	XXXX	
Payment in advance	XXXX	
Cash at bank	XXXX	
Cash in hand	XXXX	XXXX
Total Assets		XXXXX

EQUITY AND LIABILITIES	
Equity	
Capital	XXXX
Add net profit	XXXX
	XXXX
Less drawings	XXXX
Owner's equity	XXXX

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Current liabilities		
Creditors	XXXX	
Bank overdraft	XXXX	
Accrued expenses	XXXX	XXXX
Total equity and liabilities		XXXXX

Example 1: From the balances below, prepare statement of financial position for ABC Business as at December 31, 2015.

	₦
Furniture	24,000
Stock at start	12,480
Capital	24,800
Debtors	12,260
Creditors	14,520
Cash in hand	1,200
Drawings	5,000
Closing stock	7,400
Net profit	10,540

SUGGESTED SOLUTION TO EXAMPLE 1

ABC Business
Statement of Financial Position
As at December 31, 2015

	₦	₦
Non-current asset		
Furniture		24,000
Current assets		
Stock	7,400	
Debtors	12,260	
Cash	1,200	20,860
Total Assets		44,860
Equity and Liability		
Equity		
Capital		24,800
Add net profit		10,540
		35,340
Less drawings		5,000
Owner's equity		30,340

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Current liability	
Creditors	14,520
Total equity and liability	44,860

Example 2 The trial balance below is drawn from the books of Palace Ventures for the year ended 30th June 2016.

	DR.	CR.
	₦	₦
Capital account		17,000
Drawing account	8,400	
Furniture & fittings	3,600	
Trade debtors	18,000	
Sundry creditors		15,020
Cash at bank	10,200	
Cash in hand	110	
Opening stock	4,412	
Net profit		12,702
	44,722	44,722

Note the following as at June 30th.

i. Prepaid expenses ₦12
ii. Closing stock was ₦4,800
iii. Accrued expenses ₦400
iv. Depreciation on furniture is 10%

You are to prepare statement of financial position for the year.

SUGGESTED SOLUTION TO EXAMPLE 2

Palace Venture
Statement of Financial Position
As at 30th June 2016

	₦	₦
Assets		
Non-current asset		
Furniture & fittings		3,600
Less depreciation		360
		3,240
Current assets		
Debtors	18,000	
Stock	5,160	

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Prepaid expenses	12	
Cash at bank	10,200	
Cash in hand	110	33,482
Total Assets		36,722

Equity and Liabilities

Equity		
Capital		17,000
Net profit		12,702
		29,702
Less drawings		8,400
Owner's equity		21,302
Current liabilities		
Creditors	15,020	
Accrued expenses	400	15,420
Total equity and liabilities		36,722

SELF ASSESSMENT EXERCISE

1. Differentiate between a statement of financial position and a statement of profit or loss.

2. The trial balance of Umaru Blessing, a sole proprietor for the year ended 31/12/2015 was as follows:

	DR	CR
	₦	₦
Stock 1/1/2015	7,500	
Cash	10,200	
Capital 1/1/2015		199,750
Drawings	1,300	
Bank	85,000	
Land and Building	90,000	
Furniture	1,500	
Rent	500	
Rates	350	
Debtors/Creditors	5,600	15,000
Electricity	300	
Cleaning	50	
Carriage on purchases	150	
Carriage on sales	210	
Motor Vehicles	45,000	
Purchases	40,500	

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Returns Outwards		1,200		
Returns Inwards		400		
Sales				85,000
Interest received				970
Stationery	1,000			
Salaries		12,000		
Insurance	360			
		301,920		301,920

Closing stock, 31/12/2015 ₦5,300. Prepare the business statement of profit or loss and statement of financial position.

4.0 CONCLUSION

The statement of financial position is part of the final accounts and it serves as the end points of books of accounts for sole traders. The statement of financial position consists of the assets and liabilities of the business, and owner's equity or capital. The asset is divided into non-current assets, current assets, intangible assets, fictitious assets, and investments while the liabilities consists of non-current liabilities and current liabilities.

5.0 SUMMARY

The statement of financial position was defined while the components of the financial position namely non-current assets, current assets, intangible assets, fictitious assets, investments non-current liabilities, current liabilities and owner's equity or capital were explained in this unit. Relevant examples were used to prepare typical statement of financial position.

6.0 TUTOR-MARKED ASSIGNMENT

Question 1: List and explain six components of statement of financial position.

Question 2: What are the similarities between a trial balance and a statement of financial position?

Question 3: The following trial balance was extracted from the books of OlowolayemoOmooba on 31st December, 2013

	₦	₦
Premises	150,000	
Motor Vans	27,810	
Capital 1st January, 2013		483,720
Advertising	3,810	
Postage	4,140	
Purchases	2,054,550	
Electricity	2,730	
Salaries	85,110	

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Tenement Rate	3,030	
Telephone	1,020	
Furniture	33,120	
Sales		2,204,940
Returns	1,680	11,760
Bad Debts	780	
Insurance	5,760	
Commission received		52,500
Debtors	146,460	
Creditors		252,150
Cash in hand	10,560	
Bank	113,760	
Stock 1st Jan. 2013	360,750	
	3,005,070	3,005,070

Additional information is as follows:

i. The stock at 31st December 2013 was ₦323,610

ii. Depreciation is as follows:
   Premises at 5 per cent
   Motor vans at 10% per annum
   Furniture at 10% per annum

Prepare statement of profit or loss for the year ended 31st December 2013, and statement of financial position as at that date.

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UNIT 19: END OF YEAR ADJUSTMENTS IN FINAL ACCOUNTS

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1.0 INTRODUCTION

A business is a legal entity whose operations and financial transactions are continuous in nature from one year to another. As a result, there are financial transactions in business organisations that cannot be fully completed within a year and more importantly at the end of the accounting year. Furthermore, the accounting year of organisations vary from one company to another; as a result some transactions will not fall within the same accounting year for two or more companies. Events like this lead to adjustments in the final accounts at the end of the accounting period.

Business involves the giving and taking of credits, while all expenditure and income for a particular year may not be fully paid and received as at the year end. However, those incomes due but not yet received and expenses due for settlement but not yet paid as at the year-end should be brought into the final accounts to show a true and fair position of the company through proper adjustment. This unit focuses on end of year adjustments which include prepayments, accruals, reserves and provisions.

2.0 OBJECTIVES

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

i. Explain entries on accruals
ii. Discuss entries for prepayments
iii. Understand the concept of bad debts
iv. Explain the entries for provisions
v. Recognise and treat increase and decrease in provisions
vi. Explain reserves
vii. Prepare final accounts with end of year adjustments

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3.0 MAIN CONTENT

3.1 Accruals

These are services and goods that have been consumed or enjoyed during the year but which payment has not been made either in full on in part at the end of that financial year. e.g. Government water usage of ₦15,000 for December 2015, but bill was received in January 2016. It means that the amount was owed as at December 31, 2015 and form part of the accruals to be adjusted for in the final accounts. Accrual can also be called owing or due. Any amount owing on expenses is added to that expense in the statement of profit or loss and reflected under current liabilities in the statement of financial position. Accruals are necessary in order to allocate all expenses relating to an accounting period to that period.

Example 1: Big Success Limited paid the following expenses by cash amongst others during the accounting year ended 31st December 2015.

Office rent	₦72,080
Office salaries	₦45,800

A further examination of the company's records shows that:

i. Office salaries of ₦4,000 was due as at 31st December 2015..

iv. Office rent of N32,600 owed has not been paid by 31st December 2015.

You are required to show how the accruals will be treated in the final accounts.

SUGGESTED SOLUTION TO EXAMPLE 1

Method 1: This entails the preparation of an account for items affected by the accruals. Accrued expenses are credit balance in the ledger as depicted in the account below. With this method, the total of expenses paid and those owed will be posted to the statement of profit or loss and statement of financial position.

Office rent account

Cash	72,080		
Balance c/d	32,600	Statement of profit or loss	104,680
	104,680		104,680
		Balance b/d	32,600

Office salaries account

Cash	45,800		
Balance c/d	4,000	Statement of profit or loss	49,800
	49,800		49,800
		Balance b/d	4,000

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Big Success Limited
Statement of Profit or Loss (Extract)

	₦
Office rent	104,680
Office salaries	49,800

Big Success Limited
Statement of Financial Position (Extract)

Current liabilities:	
Office rent due	32,600
Office salaries owed	4,000

Method 2: This method does not require the preparation of an account for items affected by the accruals. The amount paid and the accrual will be posted to the statement of profit or loss separately while the accrued expenses will be reflected in the statement of financial position under the current liabilities.

Big Success Limited
Statement of Profit or Loss (Extract)

		₦
Office rent	72,080	
Add accrual	32,600	104,680
Office salaries	45,800	
Add owing	4,000	49,800

Big Success Limited
Statement of Financial Position (Extract)

Current liabilities	
Office rent due	32,600
Office salaries owed	4,000

3.2 Prepayments

These are goods and services that have been paid for, but the benefit is yet to be enjoyed or consumed either in full or in part. A good example is payment of rent in advance. Prepayment or payment in advance or amount prepaid is deducted from the total payment in respect of the expense in statement of profit or loss and the prepayment is recorded under current assets in the statement of financial position. Prepayment is to enable the organisation not to understate the profits for the accounting period in which the prepayment occurs.

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Example 2: No Loss Enterprises paid the following expenses by cheque during the accounting year ended 31st December 2014.

Office rent	₦156,650
Water rate	₦50,000

The information below was provided as at 31st December 2014

i. Three months office rent of ₦26,650 for January to March 2015 are included in the ₦156,650 paid.

iv. ₦5,000 was paid in advance to the water board as water rate.

You are required to show how the above transactions will be treated in the final accounts.

SUGGESTED SOLUTION TO EXAMPLE 2

Method 1: This entails the preparation of accounts for items affected by the prepayments.

Office rent account

Bank	156,650	Statement of profit or loss	130,000
		Balance c/d	26,650
	156,650		156,650
Balance b/d	26,650		

Water rate account

Bank	50,000	Statement of profit or loss	45,000
		Balance c/d	5,000
	50,000		50,000
Balance b/d	5,000		

No Loss Enterprises
Statement of Profit or Loss (Extract)

	₦
Office rent	130,000
Water rate	45,000

No Loss Enterprises
Statement of Financial Position (Extract)

Current assets:	
Office rent prepaid	26,500
Water rate in advance	4,000

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Method 2: This method does not require the preparation of an account for items affected by the prepayments.

No Loss Enterprises
Statement of Profit or Loss (Extract)

	₦	₦
Office rent	156,650	
Less prepayment	26,500	130,000
Water rate	50,000	
Less payment in advance	5,000	50,000

No Loss Enterprises
Statement of Financial Position (Extract)

Current assets:	
Office rent prepaid	26,500
Water rate in advance	4,000

3.3 Provisions

Provisions are important because most business transactions are done on credit. As long as organisations relate with their suppliers and customers on credit basis, bad debts and other provisions are inevitable.

3.3.1 Bad Debts

Bad debts are debts that have gone bad and there are no chances of the debt being recovered. Bad debts could be as a result of death of the debtor, bankruptcy of a debtor, mental illness of a debtor, lack of good credit control procedures, disagreement as to amount due between the debtor and the creditor and closure or permanent negative disruption of the debtors business.

Bad debt is an expense to be charged against the profit for the year it occurred. This is done by debiting the bad debt account and credit the debtors account to reduce the value of the debtors after the bad debt. It is the net debtors figure after adjusting for bad debts that will reflect in the statement of financial position.

Example 3: Goodness Limited decided to write off ₦4,000 and ₦3,000 as bad debts for two customers namely Lola and Doyin respectively for year 2014. The balances on these account for year 2013 are Lola ₦48,400 and Doyin₦11,500.

Show the journal, ledgers, statement of profit or loss and statement of financial position to record the above.

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SUGGESTED SOLUTION TO EXAMPLE 3

Journal

	Dr.	Cr.
Bad debts	4,000	
Debtors - Lolade		4,000
Being debt written off a debtor account		
Bad debts	3,000	
Debtors – Doyin		3,000
Being bad debt on a debtor account		
Statement of profit or loss	7,000	
Bad debts		7,000
Being bad debts for the year written off		

Ledgers

Bad debts Account

Debtors – Lolade	4,000		
Debtors – Doyin	3,000	Statement of profit or loss	7,000
7,0007,000			

Debtors Account – Lolade

Bal b/d	48,400	Bad debt	4,000
		Bal c/d	44,400
	48,400		48,400
Bal b/d	44,400		

Debtors Account – Doyin

Bal b/d	11,500	Bad debt	3,000
		Bal c/d	8,500
11,50011,500			
Bal b/d	8,500		

Statement of Profit or Loss

Expenses:	₦
Bad debts	7,000

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Statement of Financial Position

Current assets:		₦
Debtors	59,900	
Less bad debts	7,000	52,900

3.3.2 Provision for Bad or Doubtful Debts

Doubtful debts are those debts which in the opinion of management of an organisation may not be fully recovered. The provision for such debt is largely subjective. It is an estimation of debts of which their probability of recovery is below hundred percent. To avoid sudden bad debts, business organisations have devised a way of guarding against this by creating provision for bad or doubtful debt in their records for debts that they are not sure of being able to collect.

Provision for doubtful or bad debts will be charged on the debtors after the deduction of the bad debts for the period or after the bad debts have been written off.

Example 4: A company provide 5% as provision for bad debts. As at year 2015, the debtors balance was ₦60,000 and bad debt to be written off was ₦6,000. What is the doubtful debt provision for the year?

SUGGESTED SOLUTION TO EXAMPLE 4

	₦
Debtors	60,000
Less bad debt	(6,000)
	54,000

Provision for doubtful debt is ₦54,000 x 5% = ₦2,700

The accounting entry for provision for doubtful debt is a function of the time the provision occurs. It can take two forms namely, the first year and subsequent years.

Where the provision is for the first year, the amount will be charged against the profit by:

Debiting - Statement of profit or loss
Crediting - Provision for doubtful debts account

The provision will be deducted from the debtors after deducting bad debts in the statement of financial position.

Example 5: Oluwaseyi Investment decided to provide 7% as provision for bad debt on his debtors figure of ₦88,200. Show this in form of a journal, ledger and statement of financial position extract.

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SUGGESTED SOLUTION TO EXAMPLE 5

Journal

	Dr.	Cr.
Statement of profit or loss	6,174	
Provision for bad debt account		6,174
Being 7% provision for bad debt on debtors		

Ledgers

Provision for bad debt account

		Statement of profit or loss	6,174

Statement of profit or loss

Expenses	
Provision for bad debt	6,174

Oluwaseyi Investment
Statement of Financial Position (extract)

Current asset:	₦
Debtors	88,200
Less provision for bad debt	6,174
	82,026

Where the provision is for subsequent years, it can either be an increase over what was provided for in previous year (which is an expenses) or a decrease over previous year provision (which is an income). Increase can occur if the closing provision is higher than the opening provision for doubtful debts.

Example 6: The bad debt provision for a company in 2014 and 2015 are ₦2,000 and ₦2,800 respectively. Show the above entries using ledgers and statement of profit or loss as at 2015.

SUGGESTED SOLUTION TO EXAMPLE 6

Provision for bad debt Account

		Bal b/d	2,000
Bal c/d	2,800	Statement of profit or loss	800
	2,800		2,800
		Bal b/d	2,800

Statement of profit or loss

Expenses	
Provision for bad debt - increase	800

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Decrease in provision can occur if the closing provision is lower than the opening provision for doubtful debts. This could be a result of improved payment habits of the customers and/or reduction in credits granted to customers.

Example 7: Provision for doubtful debts of a company was ₦1,550 and ₦1,300 for year 2010 and 2011 respectively. By means of ledger and statement of profit or loss, show how this will appear in the books.

SUGGESTED SOLUTION TO EXAMPLE 7

Provision for Doubtful Debts Account

Statement of profit or loss	250	Bal b/d	1,550
Bal c/d	1,300		
1,5501,550			
Bal b/d		1,300	

Statement of Profit or Loss

Other income:

Provision for doubtful debts - decrease 250

3.4 Reserves

These are amounts set aside out of profit earned by a company and constitute part of shareholders fund. Reserves may be voluntarily created by the directors or statutorily created. We have revenue, capital and general reserves. Reserves are posted to the statement of changes in equity and statement of financial position as appropriate for limited liability company.

3.4.1 Revenue Reserve

This type of reserve is distributed to the shareholder and other capital providers in form of debenture interest, retained profit etc.

3.4.2 Capital Reserves

They are non-distributable reserves that are retained to comply with certain laws or for accounting requirement. e.g. capital redemption reserve fund, share premium, revaluation reserve etc.

3.4.3 General Reserves

They are reserves not set aside for a specific purpose.

Example 8: The trial balance below is drawn from the books of Palace Ventures for the year ended 31st March 2016.

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	DR.	CR.
	₦	₦
Capital account		17,000
Drawing account	8,400	
Purchases	38,000	
Sales		60,000
Discounts	2,400	1,900
Office rent	1,080	
Travelling expenses	960	
Warehouse rent	1,320	
Fire insurance	180	
Insurance on purchases	240	
Office salaries	4,800	
Wages	720	
Carriage inwards	160	
Carriage outwards	140	
Furniture & fittings	3,600	
Opening stock	4,000	
Trade debtors	17,400	
Sundry creditors		15,020
Cash at bank	10,224	
Cash in hand	110	
Bank charges	36	
General expenses	150	
	93,920	93,920

Note the following:

i. Office salaries of ₦40 due as at 31st March 2016.
ii. Closing stock was ₦4,800
iii. Sales of ₦600 made on credit during the period were omitted in the record keeping process
iv. Office rent of ₦360 owed has not been paid by 31st March 2016
v. Bank charges of ₦12 were not entered in the books
vi. You are to prepare statement of profit or loss and statement of financial position for the year.

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SUGGESTED SOLUTION TO EXAMPLE 8

Palace Ventures
Statement of profit or loss
For the year ended 31st March 2016

		₦		₦	
Sales				60,000	
Omitted sales				600	
Total sales				60,600	
Opening stock		4,000			
Purchases		38,000			
Carriage inwards		160			
		42,160			
Less closing stock		4,800			
Goods available for sale		37,360			
Wages		720			
Purchases insurance		240			
Warehouse rent		1,320			
Cost of gods sold					39,640
Gross profit					20,960
Other income					
Discount received					1,900
					22,860
Discount allowed			2,400		
Office rent	1,080				
Add accrual	360		1,440		
Travelling expenses			960		
Fire insurance			180		
Office salaries	4,800				
Add owing	40		4,840		
Carriage outwards			140		
Bank charges	36				
Add omission	12		48		
General expenses		150		10,158	
Net profit					12,702

SELF ASSESSMENT EXERCISE

1. (a) Define bad debts.
   (b) What is the objective of making provision for bad debt?

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2. BabafidauBim is the owner of Babafem Enterprises. The trading concerns sells on credit to a sizeable number of the well-known customers. The company has been experiencing bad debts and commenced providing for such debts from the last financial year (1989). On 1st January, 1990 the provision for bad debts was ₦2,570. During the year ₦680 of these debts actually proved uncollectible and the sum of ₦1,409 proved collectable. The sum of ₦315 debts that became bad were not provided for. At the end of the year a new provision of ₦3,498 is required.
Show the treatment of provision for bad debts and bad debts in the ledger and statement of profit or loss.

4.0 CONCLUSION

End of year adjustments in the final accounts are necessary to show the true and fair position of the financial statements. As such, the end of the year adjustment in the statement of profit or loss and the statement of financial position include how entries are passed in both statements for accruals, prepayments, bad debts, reserves and provisions for doubtful debts - including the recognition and treatment of increase and decrease in provisions.

5.0 SUMMARY

This unit has discussed in details the end of year adjustments in final accounts. It specifically examined bad debts, provisions for doubtful debts, reserve, prepayments and accruals with relevant discussion and question, and how they are treated in the statement of profit or loss and the statement of financial position.

6.0 TUTOR-MARKED ASSIGNMENT

Question 1: Madam Florence provide the following information

Year	Debtors	Bad debts
2000	120,000	-
2001	155,000	14,000
2002	62,500	2,500

The debtors' figures are before bad debts, while provision for bad debts is estimated at 10 percent for each year. Prepare the following:

(a) Bad debt account.
(b) Provision for bad debts account
(c) Statement of profit or loss
(d) Statement of financial position extract for the three years.

Question 2: The following were extracted from the books of Orelope and Co. on 31st December 2003.

	₦
Debtors – without any adjustment	58,500
Provision for bad debts	5,460

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Bad debts	1,560

The company's provide for 10% as doubtful debts.
You are required to prepare
(a) Provision for doubtful debts account.
(b) Statement of profit or loss.
(c) Statement of financial position.

Question 3: Emaka is a sole trader, who has no knowledge of accounting. However, some of his business transactions are recorded in a personal diary. Financial records as at 1st January 2015 are as follows:

	₦
Rent owing to landlord	500
Stock	31,000
Amount owing by Emaka to suppliers	11,500
Debtors	7,500
Capital	47,100
Non-current assets	30,000
Bank	3,100
Depreciation to date	12,500

During the year, an analysis of his bank statement revealed:
Cheques drawn:

To suppliers	48,650
Rent	3,500
Other expenses	10,250
Drawings	11,000
Electric oven	13,000

Lodgement:

From customers	75,900
Amount inherited	5,500

A further look at his diary showed that before banking the cash and cheques received from customers, ₦5,000 was paid out for purchases and ₦1,000 for personal drawings. Rent is ₦5,000 a year.

As at 31st December 2015 the following figures were computed.

Debtors	₦11,500
Stock	₦39,000
Creditors	₦19,750

Depreciation is at 15% on the reducing balance method.

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Required:

(a) Statement of profit or loss for the year ended 31st December 2015.

(b) Statement of financial position as at that date.

Show all workings

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UNIT 20: ACCOUNTING TREATMENT OF CONTROL ACCOUNTS

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1.0 INTRODUCTION

As businesses keep growing, the number of accounts kept will be on the increase and this will of necessity require more personnel to work on the preparation of such accounts. When the various accounts are prepared, there will be need to harmonise these accounts into one at a particular period to check the arithmetical accuracy of what has been posted to individual accounts. The process of harmonising all individual accounts in the same class will give rise to a control account which serves as the total or summary of what happens within that period for those accounts in the same class.

2.0 OBJECTIVES

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

i. Define Control Account
ii. Explain Types of Control Accounts
iii. Discuss Merits of Control Accounts
iv. Prepare Debtors Control Account:
v. Prepare Creditors Control Account
vi. Prepare Debtor's Statement of Account
vii. Prepare Creditor's Statement of Account

3.0 MAIN CONTENT

3.1 Control Account System

Control account is a summary of customers or suppliers ledger in total. The balance on the control account under normal circumstance must equal the addition of individual customers

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or suppliers account at a particular date or period. Another name for control accounts is total account, because the account is maintained on total basis.

Due to mistakes and errors in the completion of the control account and/or individual customers or suppliers account, the control account may not agree with the addition of all the individual customers or suppliers balances, and this will lead to reconciliation. It should be noted that any entry on the debit side of an account will also be on the debit side of the control for such an account, likewise the credit side.

There are two major types of control accounts namely

i. Sales ledger control or Debtors control account
ii. Purchases ledger control or Creditors control account

3.2 Merits of Control Account

The following are the merits of control accounts

i. It allows homogeneous accounts to be grouped together.
ii. Useful in detecting fraud and errors relating to debtors and creditors.
iii. It can be used to detect missing figure.
iv. Allows for quick preparation of draft annual account.
v. It also helps to localise errors in a trial balance because such errors can be easily traced to a set of account(s).

3.3 Working of Control Account

With simple illustration about customers, readers will grasp the working of control account systems.

Assuming there is a company with over two thousand customers located all over Nigeria and neighbouring countries. A separate account will be maintained or kept for these customers individually where their transactions with the company are recorded. At the end of the month, the account will be closed for the month to know what each customer owes.

The control account to be prepared will only record the total of each transaction as it affects all the customers for the month and the balance on the control account should be equal to the sum of the balance on the individual customers account.

3.4 Debtors Control Account

Any transactions that will increase the customers' indebtedness to the organisation are debited to the debtors control account while those that will reduce the debts are credited to the same account. At the end of the period, the sales ledger control account or debtors control account will have a debit balance to show how much is due from all the credit customers. Debtors control account is not used for cash customers. The format for debtors control account is as prepared below.

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3.4.1 Format of Debtors Control Account

Sales Ledger Control Account

Bal. b/d	xx	Receipts from customers	xx
Credit sales	xx	Discount allowed	xx
Dishonoured cheque	xx	Returns inward	xx
Bills receivable dishonoured	xx	Bad debts	xx
Cash refund to debtors	xx	Creditor control contra	xx
Interest charge to customer	xx		
Bad debt written off recovered	xx	Bal. c/d	xx
	xxx		xxx
Bal. b/d	xx		

3.5 Creditors Control Account

The transactions that will increase the financial obligation to the supplier will be credited to the creditors control account. Same account will be debited with those transactions that will reduce the obligation like discount received, returns outwards and payments to creditors.

3.4.1 Format of Creditors Control Account

Purchases Ledger Control Account

Cash paid	xx	Bal. b/d	xx
Returns outward	xx	Credit purchases	xx
Discount received	xx	Dishonoured cheque	xx
Cheque paid	xx	Bills payable dishonoured	xx
Debtors control contra	xx	Interest charge by supplier	xx
Bal c/d	xx		___
	xxx		xxx
		Bal. b/d	xx

Example 1: Ascertain by means of control accounts, the amount of 'purchases' and 'sales' for the year ended 31st, December 2015

Total for the year:

	₦
Returns outwards	95
Cash payment to creditors for good supplied	5,625
Returns inwards	205
Cash received from debtors for sales	8,892
Bills receivable	1,200
Discount received	527
Bills payable	1,702
Discount allowed	546

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Bad debts	253
Amount due from debtors set off by contra against amount due to him for supplies	340
At January 1, 2015	
Sundry creditors for goods supplied	1,226
Sundry debtors for sales	2,130
At 31st December 2015	
Sundry creditors for goods supplied	1,339
Sundry debtors for sales	2,860

SUGGESTED SOLUTION TO EXAMPLE 1

Debtors Control Account

Bal. b/d	2,130	Returns inwards	205
Credit sales (bal figure)	12,166	Cash from debtors	8,892
		Bills receivable	1,200
		Discount allowed	546
		Bad debts	253
		Set-off	340
		Bal. c/d	2,860
	14,296		14,296
Bal. b/d	2,860		

Creditors Control Account

Returns outwards	95	Bal. b/d	1, 226
Payment to creditors	5, 625	Credit purchase (bal figure)	8, 402
Discount received	527		
Bills payable	1, 702		
Set-off	340		
Bal. c/d	1, 339		
	9, 628		9, 628
		Bal. b/d	1, 339

The credit sales and credit purchases are balancing figures.

Example 2: The following balances were extracted from the books of Top Performers International Limited as at 31st December 2015.

		₦
Opening balance:	Debtors	4,000
	Creditors	3,300
Purchases:	on credit	16,500
	in cash	7,400

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Sales:	on credit	25,500
	for cash	10,200
Payment to creditors		15,000
Receipt from debtors		23,600
Cash discount allowed		540
Cash discount received		400
Trade discount allowed		12,000
Returns inwards		760
Returns outwards		215
Contra settlements		500
Bad debts written off		85
Provision for bad debts		120
Bills receivable		600
Cheques dishonoured		45
Bills payable		1, 020

You are required to prepare:

i. Sales Ledger Control Account:

ii. Purchases Ledger Control Account

SUGGESTED SOLUTION TO EXAMPLE 2

Top Performers International Limited
Sales Ledger Control Account
As at 31st December, 2015

Bal. b/d		4,000	Receipt from debtors		23,600
Sales on credit	25,500		Discount allowed	540	
Cheque dishonoured		45	Returns inwards		760
			Contra settlement		500
			Bad debt written off		85
			Bills receivable		600
			Balance c/d		3,460
	29,545			29,545	
Bal. b/d		3,460			

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Top Performers International Limited
Purchases Ledger Control Account
As at 31st December, 2015

Payment to creditors	15,000	Bal. b/d	3,300
Discount received	400	Purchases on credit	16,500
Returns outwards	215		
Contra Settlement	500		
Bills payable	1,020		
Bal. c/d	2,665		
	19, 800		19,800
		Bal. b/d	2,665

Trade discount is given at the point of sales and the amount is deducted before arriving at the sales figure to be recorded in the books of account. Hence it is not posted in the control account.

Example 3: SaniDongo Ventures maintains self-balancing ledgers. From the details given below you are required to prepare the control accounts for purchases and sales ledgers for the year ended 31st, December 2015

	₦
Purchases	153,270
Bad debts written off	2,200
Bills payable accepted	21,700
Bills receivable drawn	50,200
Interest charged to customers	70
Purchases returns	890
Payment to creditors	125,380
Receipts from debtors	143,080
Bills receivable dishonoured	5,750
Discount allowed	5,280
Discount receivable	3,270
Sales returns	3,010
Cash refund to debtors	750
Cheques from debtors returned unpaid	250
Sales and Purchases ledger contra	10,170
Bills receivable discounted	47,850
Bills payable retired for non-payment	1,500
Sales	200,510
Bad debts recovered (included in cash from debtors)	80
Creditors ledger balance at 31st December, 2015	50,860
Debtors ledger balance at 31st December, 2015	68,180
Purchases ledger control balance at 1st January, 2015	57,500
Sales ledger control balance at 1st January, 2015	74,710

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SUGGESTED SOLUTION TO EXAMPLE 3

SaniDongo Ventures
Purchases Ledger Control Account
As at 31st December, 2015

Bills payable	21,700	Bal. b/d	57,500
Purchases returns	890	Purchases	153,270
Payment	125,380	Bills repayable retired	1,500
Discount receivable	3,270		
Sales ledger contra	10,170		
Bal. c/d	50,860		
	212,270		212,270
		Bal. b/d	50,860

SaniDongo Ventures
Sales Ledger Control Account
As at 31st December, 2015

Bal. b/d	74,710	Bad debts	2,200
Dishonoured bills	5,750	Bills receivable	50,200
Cash refund	750	Receipts	143,080
Returned cheques	250	Discount allowed	5,280
Sales	200,510	Sales returns	3,010
Bad debt recovered	80	Purchases ledger contra	10,170
Interest charge	70	Bal. c/d	68,180
	282,120		282,120
Bal. b/d	68,180		

Bills receivable discounted has nothing to do with the control account because the company can as well wait till the bill is matured for payment instead of discounting it.

3.6 Debtor's Statement of Account

It is a statement sent periodically, usually once a month by a seller to his customers, showing the position of their accounts up to a certain date. It shows the particulars of invoices, debit notes and credit notes originated from the seller to the buyer during a given period. It also includes payments made and how much the customer owes. At times, the age of the debt may be revealed in the statement. The statement is kept by the buyer for reference and settlement purpose.

A debtor's statement can also be regarded as a memorandum statement showing the details of unpaid invoices for each debtor, which is supposed to agree with the total amount outstanding against the customer in the general ledger. It is also expected to give some information about the customer and analyse the amount outstanding at the end of the month according to their age.

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Example 4: You have been engaged as Account Officer of Efiong Enterprises. Your immediate assignment is the preparation of monthly Statements of Account. From the following information, you are required to prepare the statement of account of B. Dabir, a supplier.

Type of Document	**Date 2016**	**Number**	**Particulars**	**Amount** ₦
Invoice	Jan. 2	024	Goods Supplied	4,820
Invoice	Jan. 3	027	Goods Supplied	8,240
Debit Note	Jan. 4	018	Goods Returned	360
Receipt	Jan. 5		A2845	10,820
Invoice	Jan. 6	058	Goods Supplied	6,452
Invoice	Jan. 12	086	Goods Supplied	5,462
Invoice	Jan. 18	098	Goods Supplied	6,325
Debit Note	Jan. 21	021	Goods Returned	2,132
Invoice	Jan. 28	0123	Goods Supplied	3,256
Receipt	Jan. 29		A3451	15,584

Additional information:

i The last statement sent to B. Dabir showed that Efiong Enterprises owed him ₦7,215 at 1st Jan. 2016

ii A cheque for ₦3,500 in favour of B. Dabir dated January 30, 2016 has just been dispatched.

SUGGESTED SOLUTION TO EXAMPLE 4

Efiong Enterprises

To:
B. Dabir No. A807
Address …….. Date…….
……..

Statement of Accounts

Date Jan. 2016	Particulars	Ref:	Debit ₦	Credit ₦	Balance ₦
1	Balance b/f				7,215 (cr)
2	Goods Invoice	024		4,820	12,035 (cr)
3	Goods Invoice	027		8,240	20,2759 (cr)
4	Returns Invoice	018	360		19,915 (cr)
5.	Receipt No	A2845	10,820		9,095 (cr)
6.	Goods – Invoice	058		6,452	15,547 (cr)

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12.	Goods – Invoice	086		5,462	21,009 (cr)
18	Goods - Invoice	098		6,325	27, 334 (cr)
21	Returns D/Note	021	2,132		25, 202 (cr)
28	Goods – Invoice	0123		3,256	28,458 (cr)
29	Receipt No	A3451	15,584		12,874 (cr)
30	Cheque No		3,500		9,374 (cr)

Prepared by …… Approved by ……
Date ……. Date ……..

3.7 Creditor's Statement of Account

It is a statement sent periodically usually once a month by a buyer to his suppliers, showing the position of their accounts up to a certain date. The statement gives particulars of invoices, debit notes and credit notes received from the supplier during a given period. Details of payments made to the supplier and how much is outstanding to the supplier are also shown. The creditor's statement is very useful for reconciliation purposes.

Example 5: Mr. Favour is a supplier to whom we owed a balance of ₦4,075 on March 1, 2012

March 2. We paid the outstanding balance by cheque, less ₦204 discount
March 13. Mr. Favour supplied goods value at ₦8,500
March 17. He supplied more goods valued at ₦1,650
March 18. We returned goods to Mr. Favour valued at ₦575
March 19. He gave an allowance on goods that needed repackaging because of damage in transit ₦840
March 27 He supplied goods valued ₦13,250 and also charged insurance on goods in transit ₦ 50

You are required to
i Prepare creditors statement of account of Mr. Favour as at 31 March 2012.
ii Post the above transactions from the month into his ledger account.

SUGGESTED SOLUTION TO EXAMPLE 5

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Creditor's Statement

Mr. Favour
Statement of Account

Date: March 31, 2012 Account No:

Date	Description	Ref	Debit	Credit	Balance
			₦	₦	₦
Mar. 1	Balance b/f				4,075
Mar. 2	Bank Cheq No		3,871		204
Mar. 2	Discount		204		0
Mar. 13	Invoice Inv. No			8,500	8,500
Mar. 17	Invoice		1,650	10,150	
Mar. 18	Debit note – returns		575		9,575
Mar. 19	Debit not – allowance		840		8,735
Mar. 27	Invoice			13,250	21,985
Mar. 27	Insurance of goods in transit			150	22,135

Prepared by ……. Checked by ……..

Mr. Favour Account

Date	Particulars	Amount	Date	Particulars	Amount
Mar. 2	Bank	3,871	Mar.1	Bal. b/d	4,075
2	Discount received	204	13	Purchases	8,500
18	Purchases return	575	17	Purchases	1,650
19	Purchase returns (Allowance)	840	27	Purchases	13,250
31	Bal. c/d	22,135			
		27,625			27,625
			1	Bal. b/d	22,135

SELF ASSESSMENT EXERCISE

1. On January 1, 2011 the Sales Ledger balance of Ola was ₦2,400 debit while the bought Ledger balance was ₦970 credit. The following transactions took place in the month of January 2011.

	₦
Credit sales	35,180
Bad debts	845
Dishonoured cheques	1,250
Credit purchases	18,060
Returns inwards	1,570
Bills receivable	4,500

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Cash received from debtors	15,600
Cash paid to creditors	11,400
Discount allowed	450
Discount received	945
Cheques from debtors	7,500
Bills payable	2,150
Debit balance in bought ledger transferred to sales ledger	260
Discount allowed but subsequently disallowed	150
Discount received but subsequently withdrawn	145

Prepare:

a. Total Debtors Account
b. Total Creditors Account

2. The net total balances extracted from Tipper's purchase ledger on 31st March 2007 amounted to ₦12,560, which did not agree with the balance on the purchase ledger control account. The audit revealed the following errors and, when the appropriate adjustments had been made for these, the books balanced.

1. A debit balance of ₦40 in the purchase ledger had been listed as a credit balance.
2. Hector had been debited for goods returned to him, £90, and no other entry had been made.
3. The purchase day book had been overcast by ₦100
4. Credit balances on the purchase ledger amounting to ₦480 and debit balances amounting to ₦24 had been omitted from the list of balances.
5. A payment of ₦8 to Tiger for a cash purchase of goods had been recorded in the petty cash book and posted to his account in the purchase ledger, no other entry having been made.
6. The transfer of ₦120 from Harrow's account in the sales ledger to the credit of his account in the purchase ledger had not been entered in the control account.

You are required to prepare:

(a) A statement reconciling the original net balances extracted from the purchase ledger with the corrected balance on purchase ledger control account, and
(b) The purchase ledger control account showing the balance before the correction of the errors and the necessary adjustments thereon.

3. The following balances have been extracted from the books of Jola Ade a sole trader for the year ended 31st December, 2011.

		₦
Sales ledger balance, 1/1/11		4,936
Purchases ledger balance, 1/1/11		3,676
Sales	49,916	

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Returns inwards	1,139	
Cheques and Cash received from customers		46,490
Bad debts written off		99
Purchases	42,257	
Returns outwards	1,098	
Cheques paid to suppliers	38,765	
Discount received		887
Cash paid twice in error to a supplier now refunded		188
Interest charged to a customer in respect of an overdue account		50

You are required to prepare the Sales Ledger and Purchases Ledger Control Accounts for the year ended 31st December, 2011.

4. From the following particulars which relate to the month of January 1998, prepare a Sales Ledger Control Account:

	₦
Sales	1,200,000
Returns Inward	12,500
Cash received from customers	1,152,000
Discount allowed	25,000
Bad debt written off	50,000
Interest charged on overdue accounts	2,000
Balance 1st January	514,100

(b) The balance in this control account does not agree with the schedule of debtors extracted from the personal ledgers which amounted to ₦407,400.00 An investigation revealed the following:

i. The sales day book had been overcast by ₦10,000.00 on one occasion and ₦5,000.00 on another.
ii. Discount of ₦1,000.00 shown in the sales ledger has been omitted from the Cash Book
iii. Balance totalling ₦8,800.00 have been left off the list of debtors as at 31st January
iv. The credit side of one ledger account is ₦5,000.00 too much.
v. Bad debt of ₦12,200.00 has been written off in sales ledger but no entry has been made in the General ledger.
vi. ₦22,400.00 in the Purchases Ledger has been set off against a contra account in the Sales Ledger but this is not recorded in both Control Account.
vii. Discount allowed of ₦600.00 entered in the cash book has not been carried to the customer's account.
viii. An item of ₦9, 300.00 in the Sales Day Book has been posted as ₦39, 000.00 in the customer's account.

Show the adjustments necessary for:

(a) The balance in the Sales Ledger Control Account
(b) The Schedule of Debtors

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4.0 CONCLUSION

Control account is a summary of customers or suppliers ledger in total. The balance on the control account under normal circumstance must equal the addition of individual customers or suppliers account at a particular date or period. Some of the merits of control accounts are: it saves time, it helps to prevent fraud, it allows homogeneous accounts to be grouped together and it can be used to detect missing figure.

5.0 SUMMARY

This unit focused on control accounts, and it was used to define control accounts, explain types of control accounts, discussed the merits of control accounts. In addition, debtors control account, creditors control account, debtor's statement of account and creditor's statement of account were prepared.

6.0 TUTOR-MARKED ASSIGNMENT

Question 1: The following balances were extracted from the books of Usen Stores on 31st December, 2006.

	₦
Returns outwards	190
Cash payment to creditors for goods supplied	11,250
Returns inwards	410
Cash received from debtors for sales	17,784
Bills payable	3,404
Discount received	1,054
Bills receivable	2,400
Discount allowed	1,092
Bad debts	506
Balance of creditors for goods supplied as at 1/1/2006	2,678
Balance of debtors for sales as at 1/1/2006	4,260
Balance of creditors for goods supplied as at 31/12/2006	2,678
Balance of debtors for sales as at 31/12/2006	5,720

You are required to determine by Control Accounts, the amount of

(a) Purchases as at 31st December 2006
(b) Sales as at that date

Question 2: The net total balances extracted from Starling's purchase ledger on 31st March 2014 amounted to ₦5,676, which did not agree with the balance on the purchase ledger control account. The audit revealed the following errors and, when the appropriate adjustments had been made for these, the books balanced.

1. An item of ₦20, purchase from A. Brown. had been posted from the purchase day book to the credit of B. Brown's account.

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2. On 31st January 2014, Charles had been debited for good returned to him, ₦84, and no other entry had been made.
3. Credit balances on the purchase ledger amounting to ₦562 and debit balances amounting to ₦12 had been omitted from the list of balances.
4. Returns of ₦60 allowed by Austin had been correctly recorded and posted in Starling's books. This item was later disallowed, entered in the sales return book, and credited to Austin's account in the sales ledger.
5. The transfer of₦90 from the debit of Cook's account in the sales ledger to the credit of his account in the purchase ledger had not been entered in the journal.
6. The purchase day book had been undercast by ₦100
7. A payment to Brook of ₦3 for a cash purchase of goods had been recorded in the cash book and posted to his account in the purchase ledger, no other entry having been made.

You are required to set out:
(a) Journal entries, where necessary, to correct these errors, and
(b) The purchase ledger control account showing the balance before the correction of the errors and the necessary adjustments thereon.

Question 3: The following transactions relate to a sales ledger for the year ended 31st December 2015

	₦
Balance on sales ledger control 1 January 2015	8,952
Sales as per positing summaries	74,753
Receipts from debtors	69,471
Discounts allowed	1,817

The clerk in charge had prepared from the ledger cards a list of balances outstanding on 31st December 2015 amounting to ₦9,663 but this did not agree with the balance of the sales ledger control account. There were no credit balances on the ledger cards.

Investigation of the differences revealed:

i. The bank statement showed credit transfers of ₦198 which had been completely overlooked
ii. Journal entries correctly posted to the ledger cards had been overlooked when positing control account: debts settled by set off against creditors' account ₦2,896, bad debts ₦640.
iii. When listing the debtors balances three ledger cards with debit balances of £191 had been incorrectly filed and consequently had not been included in the list of balances.
iv. The machine operator when posting a ledger card had incorrectly picked up an old balance of ₦213.50 as ₦13.50 and had failed to check her total balance.
v. ₦1,173 entered in the cash book as a receipt from J. Spruce had not been posted as no account under that name could be traced. Later it was discovered that it was in payment for a car which had been used by the sales department and sold to him second-hand.

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Required:

(a) Prepare the sales ledger control account for the year ended 31st December 2015 taking into account the above adjustments.

(b) Reconcile the clerk's balance of ₦9,663 with the corrected balance on the sales ledger account.

(c) Explain the benefits that accrue from operating control accounts.

7.0 REFERENCES/FURTHER READINGS

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UNIT 21: BANK RECONCILIATIONS

CONTENTS

1.0 Introduction
2.0 Objectives
3.0 Main Content
  3.1 Bank Reconciliation Statement
  3.2 Merits of Bank Reconciliation Statement
  3.3 Preparation of Bank Reconciliation Statement
4.0 Conclusion
5.0 Summary
6.0 Tutor-Marked Assignment
7.0 References/Further Readings

1.0 INTRODUCTION

Two column cash book was considered in unit 10 which shows how both cash and bank accounts of an organisation are treated in the account. The bank column records the transactions carried out in the company's bank account. However, the balance of the bank column in the cash book may not be the same with the bank statement provided by the bank to the company. This unit examines how the bank column of the cash book and the bank statement balances can be reconciled including the factors responsible for differences in both balances that necessitate the preparation of bank reconciliation statement.

2.0 OBJECTIVES

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

i Define and explain bank reconciliation statement
ii. Understand why cheques are dishonoured by the banks.
iii. Prepare adjusted cash book
iv. Bank reconciliation statement

3.0 MAIN CONTENT

3.1 BANK RECONCILIATION STATEMENT

Bank reconciliation is the process of making the balance on the bank column of a cash book to agree with the balance on the bank statement received from the bank. Put differently, bank reconciliation statement is a report prepared to show the process of agreeing entries in the bank statement with those in the cash book with a view to arriving at a reconciled balance.

The reconciliation becomes necessary as a result of differences between the cash book prepared by an account holder and the bank statement prepared by the bank. These differences are corrected using adjusted cash book and bank reconciliation statement.

Most of the time, the differences do not occur deliberately, but could be as a result of:

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i. Errors – These are mistake either by the bank and/or the customer.
ii. Timing differences – These are due to unpresented cheques and uncredited lodgements.
iii. Entries not brought to the notice of the company by the bank e.g. bank charges, interests, transfers, commission on turnover etc.

3.1.1 Unpresented cheques

These are cheques which have been issued for payment by a bank account holder but have not been presented for payment at the bank as at the date the bank prepared the bank statement. Unpresented cheques will appear on the credit side of the cash book but will not be seen on the debit column of the bank statement.

3.1.2 Uncredited lodgements

These are cheques deposited into the bank, but which have not been credited to the customer's account by the bank as at the date of preparing the bank statement. This delay may be due to the cheque being banked other than at the customer's branch of the bank or delay in cheque clearing system which may take up to three working days for local cheques to clear or even more for up-country cheques.

3.1.3 Direct transfers or Standing orders

These are payments made directly by the bank as a result of previous instructions given by the customer to the bank. They include an order to pay annual insurance premium, professional membership subscription etc.

3.1.4 Others

These include bank charges, account maintenance fee, interest on loan and overdraft account, dishonoured cheque etc. not brought to the notice of the account holder by the bank except through the bank statement.

3.1.5 Reasons for Dishonoured Cheques

A cheque may be dishonoured for the following reasons:

i. If the cheque is not dated.
ii. If the amount in words does not correspond to the amount written in figure on the cheque.
iii. If the balance on the drawer's account is not sufficient to accommodate the amount to be drawn with the cheque.
iv. Cheque mutilations (i.e. unsigned alteration).
v. Stale cheques: The date on the cheque is more than six months before it is presented to the bank for payment.
vi. Irregular signature from the issuer
vii. Unsigned cheques.
viii. Cheque post-dated: Presenting cheque at the bank before the date written on it.
ix. Notice of death of customer received by the bank.

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3.2 MERITS OF BANK RECONCILIATION STATEMENT

i. It aids the bank customer to monitor unpresented cheques, uncredited lodgements etc.

ii. It assists in detecting errors that might have occurred in the cash book or in the bank statement.

iii. It is useful in detecting fraud either from the bank or office

iv. Where the bank reconciliation statement is prepared regularly, it helps to prevent fraud.

3.3 PREPARATION OF BANK RECONCILIATION STATEMENT

i. Ensure that both cash book and bank statement are prepared up to the same date

ii. Check off items in the cash book against the bank statement

iii. Update the cash book by preparing adjusted cash book which will be credited with bank charges, commission on turnover, interest on overdraft and loans, dishonoured cheques, direct transfers, standing orders etc. Debit the adjusted cash book with direct payment to the bank like dividend received, interest on deposit account etc.

iv. Check for errors which occur in the cash book and bank statement for corrections, and correct cash book errors. But include bank errors in the reconciliation statement for notification to the bank.

v. Prepare the bank reconciliation statement using any of these two formats.

3.3.1 Format of Bank Reconciliation Statement Starting with Cash Book Balance

Big Life Ventures
Bank Reconciliation Statement
As at 31st December 2015

	₦
Balance as per adjusted cash book	x x
Add unpresented cheques	x x
	x x
Less uncredited lodgements/cheques	(x)
	x x
Add or deduct bank error(s)	x
Balance as per bank statement	x x

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3.3.2 Format of Bank Reconciliation Statement Starting with Bank Statement Balance

Unlimited Grace & Company
Bank Reconciliation Statement
As at 30th April 2016

	₦
Balance as per bank statement	x x
Add uncredited cheques/lodgements	x x
	x x
Less unpresented cheques	(x)
	x x
Add or less bank error(s)	x
Balance as per cash book	x x

Where the balance from the bank statement or adjusted cash book is an overdraft, it does not change the formats above. Overdraft should be indicated in bracket to show that it is a negative balance.

A bank reconciliation statement will only contain those entries that are necessary for the bank to make correction in future bank statements. Adjusted cash book should take care of all necessary entries to be made by the company.

Example 1: Joy Investment Company has the following transactions in its cash book and bank statement for July 2015.

Cash Book

Lodgement into bank			Payment ordered		
Chq.	6789	14,000	Chq.	123456	4,000
Chq.	4591	12,000	Chq.	123457	6,000
Chq.	4826	9,500	Chq.	123458	7,500
Chq.	4725	19,000	Chq.	123459	12,500
Chq.	4228	9,000	Chq.	123460	8,000
Cash		66,000	Chq.	123461	1,500
			Bal.	c/d	90,000
	129,500				129,500
Bal. b/d		90,000			

Bank Statement

		Debit	Credit	Balance
Chq.	123459	12,500		(12,500)
Chq.	123458	7,500		(20,000)
Chq.	4826		9,500	(10,500)
Chq.	6789		14,000	3,500
Chq.	123460	8,000		(4,500)
Chq.	4826 contra	9,500		(14,000)

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ICAN- Standing order	250		(14,250)
Account maintenance fee	500		(14,750)
Commission	1,750		(16,500)
Chq. 4228		9,000	(7,500)
Chq. 123457	6,000		(13,500)
Cash		66,000	52,500

You are required to

1. Prepare an adjusted cash book
2. Reconcile the adjusted cash book balance with bank statement.

Adapted from Institute of Chartered Accountants of Nigeria

SUGGESTED SOLUTION TO EXAMPLE 1

Joy Investment Company
Adjusted Cash Book

Bal. b/d	90,000	ICAN – Standing order	250
		Account maintenance fee	500
		Commission	1,750
		Bal. c/d	87,500
	90,000		90,000
Bal. b/d	87,500		

Joy Investment Company
Bank Reconciliation Statement
As at 31st July 2015

	₦	₦
Balance as per bank statement		52,500
Add uncredited lodgements:		
Chq. 4591	12,000	
Chq. 4826	9,500	
Chq. 4725	19,000	40,500
		93,000
Less unpresented cheques:		
Chq. 123456	4,000	
Chq. 123461	1,500	5,500
Balance as per cash book		87,500

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Example 2: Okoro's cash book showed a debit balance of ₦3,344 on 31st January, 2016. His bank statement for January, 2016 however showed a credit balance of ₦3,424. On investigation it was discovered that.

i. The opening balance on the cash book for the month had been wrongly brought down as ₦1,505 instead of ₦1,550.
ii. Payment for rent ₦250 had been debited in the cash book
iii. A customer had paid ₦600 direct into the bank
iv. The bank had paid, on a standing order, ₦300 to an insurance company
v. A cheque for ₦870 deposited in the bank on 25th January, was not credited until 3rd February, 2016.
vi. Cheques paid to suppliers totalling ₦1,875, had not been presented for payment.
vii. Cost of cheque book and other charges by bank totalling ₦90 had not been entered in the Cash Book.
viii. The bank had paid a cheque of N680 in error from Okoro's Account.

You are required to prepare:
a. Adjusted Cash Book
b. Bank Reconciliation Statement as at 31st January, 2016.

SUGGESTED SOLUTION TO EXAMPLE 2

Mr.Okoro

Adjusted Cash Book

Balance. b/d	3,344	Rent	500
Opening Bal. difference	45	Standing order	300
Direct payment	600	Bank charges	90
	____	Bal. c/d	3,099
	3,989		3,989
Bal. b/d	3,099		

Mr.Okoro
Bank Reconciliation Statement
As at 31st January 2016

	₦
Balance as per bank statement	3,424
Add uncredited cheque	870
	4,294
Less unpresented cheque	1,875
	2,419
Add Bank error	680
Balance as per cash book	3,099

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The adjusted cash book was credited with rent of ₦500 because the account ought to have been credited initially with ₦250, but was debited, hence the need to credit the cash book with ₦500 to correct the error and also reflect ₦250 in rent account after the error.

SELF ASSESSMENT EXERCISE

1. T. Emeka maintains a business bank account with Second Bank Nigeria Limited. The bank statement received for the month of March 1999 showed a balance of ₦14,265 to his credit while according to his Cash Book; he should have ₦13,380. Subsequent investigation revealed the following:

(a) Two cheques A000111 for ₦3,400 and X222419 for₦6,000 deposited to the bank on 28th March, 1999 were not credited by the bank until 2nd April, 1999.
(b) A cheque for ₦6,500 issued to Jango Ltd. had not been presented for payment.
(c) A cheque for ₦3,000 received from a customer in full settlement of a debt of ₦3,300 had been entered in the Cash Book at the full value of the debt.
(d) Dividend of ₦650 from PZ Ltd. had been paid direct to the bank.
(e) The bank deducted a total of ₦125 as its charges.
(f) The bank had credited a cheque of ₦3,560 of V. Amaka in error to T. Emeka Account.

You are required to prepare:
(i) Adjusted Cash Book; and
(ii) A Bank Reconciliation Statement for the month of March, 1999.

2. Define the bank reconciliation statement.

3. On 31st July 2016 the bank statement of EneNyong showed a credit balance of ₦140,163. The Cash Book has a debit balance of ₦55,750 as at 31st July 2016. Cheques drawn prior to 31st July 2016 but not presented until after that date:-

	₦
Abe Auto Works	2,920
Early Childhood School	80,117
UCT Stores	574
Abu Momoh	13,232

Cheques paid into the bank on 31st July 2016 but not credited until 4thAugust 2016 ₦11,619. Bank charges and interest to 31st July 2016 not entered in the Cash Book ₦811.

Required:
Prepare the Bank Reconciliation Statement

4. Discuss the process of preparing bank reconciliation statement.

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4.0 CONCLUSION

Usually the balance of the bank column in the cash book may not be the same with the bank statement provided by the bank to the company. When this occurs, the two balances from the bank column of the cash book and the bank statement can be agreed by preparing a bank reconciliation statement.

5.0 SUMMARY

The importance to agree bank column of the cash book with the bank statement balance and the reasons for differences between the cash book and bank statement balances were considered in this unit. Adjusted cash book and bank reconciliation statement were also prepared.

6.0 TUTOR-MARKED ASSIGNMENT

Question 1: Below is an extract of the Bank Statement of Messrs. Jackson & Co for April, 1987.

Date	Details	Dr.	Cr.	Balance
		₦	₦ ₦	
1/4/87	Balance			176,000Cr
4/4/87	Dasco Engineering		40,000	216,000Cr
5/4/87	Adebayo Builders		60,000	276,000Cr
7/4/87	Bisi Motors Cheque 011201	32,000		244,000Cr
9/4/87	Jide Foods Cheque 011202	57,000		187,000Cr
13/4/87	OkinOloja& Co. Cheque 011204	32,800		154,200Cr
14/4/87	Bank Charges	7,280		146,920Cr
15/4/87	Interest on Fixed Deposit		4,000	150,920Cr
16/4/87	ToluAdeolu& Co. Cheque 011205	8,000		142,920Cr
30/4/87	Kingsway Stores Cheque 011206	19,200		123,720Cr

You are given the following additional information:

(a) Cheque No 011203 issued in favour of TayoAjao and Associates for ₦24,800 was presented to the Bank on 2nd May, 1987.

(b) Advice in respect of Bank charges was received by Messrs. Jackson & Co. on 6th May, 1987.

(c) Cheque issued in favour of Jide Foods is for supplies to the Directors.

You are required to prepare:

i. The Cash Book of Messrs. Jackson & Co. for April, 1987 and
ii. A Bank Reconciliation Statement as at 30th April, 1987.

Question 2: On 30th June 2016, Olisa's cash book showed that he had an overdraft of ₦12,000 on his current account at the bank. On checking the cash book with the bank statement you find the following.

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(a) Cheque drawn amounting to ₦20,000 had been entered in the cash book but had not been presented.

(b) Cheques received amounting to ₦16,000 had been entered in the cash book but had not been credited to the bank.

(c) On instructions from Olisa, the bank had transferred interest of ₦2,400 from his deposit account to his current account, recording the transfer on 5th July 2016. This amount had however, been credited in the cash book as on 30th June 2016.

(d) Bank charges of ₦1,400, shown in the bank statement had not been entered in the cash book.

(e) The payment side of the cash book had been under cast by ₦400;

(f) Dividends amounting to ₦8,000 had been paid direct to the bank, and not entered in the cash book.

(g) A cheque of ₦2,000, drawn on deposit account had been shown in the cash book as drawn on current account.

(h) A cheque issued to Jolayemi for ₦1,000 was replaced when out of date. It was entered again in the cash book, no other entry being made. Both cheques were included in the total of unpresented cheque shown above.

You are required to indicate the appropriate adjustment in the cash book, and prepare a statement reconciling the amended balance with that shown in the bank statement.

7.0 REFERENCES/FURTHER READINGS

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