UNIVERSITY OF LUSAKA

AFIN102: FINANCIAL ACCOUNTING

Contacts: Refer to the portal

AFIN102: FINANCIAL ACCOUNTING

PREPARING LEDGER ACCOUNTS

PREPARING LEDGER ACCOUNTS

Learning outcome:

- Recording transactions and balancing off accounts.

PREPARING LEDGER ACCOUNTS

RECORDING TRANSACTIONS

- Here we will look at the posting of the entries to the ledger.

BALANCING LEDGER ACCOUNTS

- At the end of an accounting period, a balance is truck on each account in turn. This means that all the debits on the account are totalled and so are all the credits.

PREPARING LEDGER ACCOUNTS

- If the total debits exceed the total credits, there is said to be a debit balance on the account; and If the credit exceeds the debits then the account has a credit balance.

- During a particular accounting period, some accounts (such as the bank and cash accounts) will include a great many debit and credit entries.

- Some accounts may be made up of mainly debit entries (e.g. the purchases account) or largely credit entries (e.g. the sales account).

PREPARING LEDGER ACCOUNTS

- Therefore it becomes important to know what is the NET balance at the end of the reporting period i.e. the total of all the debit entries less the total of all the credit entries).

- Balancing an account with a debit balance.

PREPARING LEDGER ACCOUNTS

Cash Account

DR		K	CR		K
01 Jan	Sales	2,000.00	10 Jan	J. Phiri	3,000.00
15 Jan	Rent received	1,000.00	25 Jan	Cash	5,000.00
20 Jan	P. Daka	4,000.00			
31 Jan	Sales	8,000.00	31 Jan	Balance c/d	7,000.00
		15,000.00			15,000.00
01 Feb	Balance b/d	7,000.00			

PREPARING LEDGER ACCOUNTS

- For accounts with a credit balance, we simply do the opposite of what has been done above. The balance c/d will be on the left side and the balance b/d will be on the right side as shown below.

C. Mumba's Account

DR		K	CR		K
31 Jan	Bank	27,000.00	15 Jan	Purchases	12,000.00
31 Jan	Balance c/d	3,000.00	25 Jan	Purchases	18,000.00
		30,000.00			30,000.00
			01 Feb	Balance b/d	3,000.00

PREPARING LEDGER ACCOUNTS

- Class Exercise.

CASH TRANSACTIONS AND CASH BOOK

- A cash book is a primary book of entry and performs the function of both Journal and Ledger.

- It serves as a cash account used to conveniently manage cash inflows and cash outflows.

CASH TRANSACTIONS AND CASH BOOK

- Receipts are entered on the Debit side and subsequently posted to the credit side of the respective accounts.

- Payments are entered on the credit side and subsequently posted to the debit side of respective accounts.

- **THREE TYPES OF CASH BOOKS**

- The classification of types of cash books is based on the number of monetary columns the Cash Book records.

CASH TRANSACTIONS AND CASH BOOK

- These include

- **Single Cash Book/Single Column Cash Book**
- **Two (Double) Column Cash Book**
- **Three (Triple) Column Cash Book**

- **Single Cash Book/Single Column Cash Book**

CASH TRANSACTIONS AND CASH BOOK

- This one has a single monetary column(*) on each side of the double entry. i.e. only one single debit column and one single credit column

Date	Details	Ref.	Dr*	Cr*
01.01.19	Op Bal		12,000	
03.01.19	Cash Sales	001	15,000	
05.01.19	Cash Purchases	002		8,000

- **Two Column Cash Book**

CASH TRANSACTIONS AND CASH BOOK

- This one has a **two** monetary columns (**) on each side of the double entry. i.e. two debit columns and two credit columns.

			CASH	BANK	CASH	BANK
Date	**Details**	**Ref.**	**Dr****	**Dr****	**Cr****	**Cr****
01.01.19	Op Bal		12,000	32,000		
03.01.19	Cash Sales	C1	15,000			
05.01.19	Cash Purchases	C2			8,000	
06.01.19	W. Banda	B1				21,000
13.01.19	Rent paid	B2				7,500

CASH TRANSACTIONS AND CASH BOOK

- **Three Column Cash Book**

- This one has a **three** monetary columns (***) on each side of the double entry. i.e. the third columns are for discounts.

				CASH	BANK		CASH	BANK
Date	**Details**	**Ref**	**Discount All*** **	**Dr*** **	**Dr*** **	**Discount Rec*** **	**Cr*** **	**Cr*** **
01.01.19	Op Bal			12,000	32,000			
03.01.19	Cash Sales	C1	500	14,500				
05.01.19	Purchases	C2					8,000	

CASH TRANSACTIONS AND CASH BOOK

06.01.19	W. Banda	B1				1,000		20,000
13.01.19	Rent paid	B2						7,500

- After posting to the CB, balance off the CB at the end of the financial period. i,e month-end.

- The other type of Cash Book is a **Petty Cash Book**, used to record minor cash transactions and is normally prepared as a Single column cash book.

CASH TRANSACTIONS AND CASH BOOK

- **Class Exercise – Three Column Cash Book**

End

- End of Unit Five.

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AFIN102: FINANCIAL ACCOUNTING

ACCOUNTING CYCLE AND TRIAL BALANCE

ACCOUNTING CYCLE AND TRIAL BALANCE

Learning outcomes:

- Recording transaction, preparation of ledger accounts and Trial Balance;

-
- The need for a Trial Balance; and
- Accounting errors not detected by the Trial Balance.

ACCOUNTING CYCLE AND TRIAL BALANCE

- A trial balance (TB) is a working paper compiled at the end of a specific accounting period. It does not form part of the double-entry procedure.

- It has three main purposes:

(1)to check that all of the transactions for a particular period have been entered correctly in the ledger system;

(2) to confirm that the balance on each account is correct; and

(3) to assist in the preparation of the profit and loss account and the balance sheet.

ACCOUNTING CYCLE AND TRIAL BALANCE

- A trial balance consists of a list of leger balances shown in debit and credit columns.
- Once its is prepared, its is possible for us to check the arithmetical accuracy of our work i.e. whether the debit entries are equal the credit entries.
- The trial balance will be looked further when covering errors not revealed by trial balance.

ACCOUNTING CYCLE AND TRIAL BALANCE

- A trial balance confirms that the books of account balance arithmetically. This means that the following procedures have all been carried out correctly:

- for every debit entry there appears to be a credit entry – a cardinal rule in double entry book-keeping;

- the value for each debit and credit entry has been entered in appropriate accounts;

ACCOUNTING CYCLE AND TRIAL BALANCE

- the balance on each account has been calculated, extracted and entered correctly in the trial balance;

- the debit and credit columns in the trial balance are the same.

- As we indicated earlier, there are, however, some errors that are not disclosed by the trial balance. They are as follows.

ACCOUNTING CYCLE AND TRIAL BALANCE

- **Omission:** a transaction could have been completely omitted from the books of account.

- **Complete reversal of entry:** a transaction could have been entered in (say) Account A as a debit and in Account B as a credit, when it should have been entered as a credit in Account A and as a debit in Account B.

- **Principle:** a transaction may have been entered in the wrong type of account, e.g. the purchase of a new delivery van may have been

ACCOUNTING CYCLE AND TRIAL BALANCE

debited to the purchases account instead of to the delivery vans account.

- **Commission:** a transaction may have been entered in the correct type of account but in the wrong personal account, e.g. in Bill's account instead of in Ben's account.

- **Compensating:** an error may have been made in (say) adding the debit side of one account and an identical error made in adding the

ACCOUNTING CYCLE AND TRIAL BALANCE

credit side of another account; the two errors would then cancel each other out.

- **Original entry:** a transaction may have been entered incorrectly in both accounts, e.g. as K291 instead of, as K921.

- **Compensating:** an error may have been made in (say) adding the debit side of one account and an identical error made in adding the

ACCOUNTING CYCLE AND TRIAL BALANCE

credit side of another account; the two errors would then cancel each other out.

- **Original entry:** a transaction may have been entered incorrectly in both accounts, e.g. as K291 instead of, as K921.

- **Class Exercise 6.1**

AFIN102: FINANCIAL ACCOUNTING

UNIT 7

PROFIT DETERMINATION

PROFIT DETERMINATION

Learning outcomes

- The concept of profit determination, margins and mark-up on cost;
- Determining the cost of sales and gross profit;
- The implication of profit or loss on capital.

PROFIT DETERMINATION

- Profit relates to the extent to which revenue (sales) exceed the expenses. In Accounts, profit of a business is determined at two stages.

- These two stages involve;

  1. **Determining the Gross Profit; and**
  2. **Determining the Net Profit/(Loss).**

- The Gross Profit calculation relates to transactions that involve the sales and purchase (Trading).

PROFIT DETERMINATION

- The Net Profit/(Loss) calculation involves deducting transactions that relate to expenses from the Gross Profit.

- Gross Profit (or Loss) is the difference between total sales and cost of sales. If the total sales figure are greater than the cost of sales figure, then the business has made a gross profit.

- If the cost of sales figure is greater than the total sales figure, then the business has made a gross loss.

PROFIT DETERMINATION

- Therefore:

  Sales – Cost of Sales = Gross Profit

- **Margins**

- Gross Profit Margin = Gross Profit divided by sales.

- **Mark ups**

PROFIT DETERMINATION

- Mark up = Gross Profit divided by Cost of Sales
- Margins and mark ups are important when setting up the price of goods and services.
- **Cost of Sales**
- Cost of goods sold is made up of three elements:
- Opening stock;

PROFIT DETERMINATION

- Purchases; and
- Closing stock

- We calculate cost of sales as follows:

- Cost of goods sold = (opening stock + purchases) – closing stock

PROFIT DETERMINATION

Example 1:

Stock adjustments in the trading account.

	K	K
Sales		4 000
Less: Cost of goods sold		
Opening stock	1 000	
Purchases	2 000	
	3 000	
Less: Closing stock	(1 500)	
		1 500
Gross profit		2 500

PROFIT DETERMINATION

- **Net Profit**

- Net Profit (or Loss) is the sum of the gross profit and other non-trading income total sales less the expenses (other costs not included in cost of sales)

- Its calculated as:

(Gross Profit + Other Income) – Expenses= Net Profit

PROFIT DETERMINATION

- **Example :**
- Given the following information about a company on 1 January 2019;

Assets: Fixtures K10,000;
Inventory K7,000;
Cash at the bank K3,000.

Liabilities: Accounts payable K2,000.

a) Required: Calculate the capital on 1 January 2019.

The capital can be calculated as follows;

Assets – Liabilities = Capital

(K10,000 + K7,000 + K3,000) - K2,000 = K18,000

END

- **End of Unit Seven.**

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AFIN102: FINANCIAL ACCOUNTING

CAPITAL AND REVENUE EXPENDITURE ITEMS

CAPITAL AND REVENUE EXPENDITURE ITEMS

Learning outcome:

- Nature of capital expenditure and revenue expenditure.
- Getting the classification wrong affects the profits reported and the capital account and asset values in the financial statements.
- **Capital expenditure** has nothing to do with the owner's Capital Account.

CAPITAL AND REVENUE EXPENDITURE ITEMS

- Capital expenditure is incurred when a business spends money either to l buy fixed assets, or l add to the value of an existing fixed asset.

- Included in such amounts should be spending on:

- acquiring fixed assets
- bringing them into the business
- legal costs of buying buildings
- carriage inwards on machinery bought
- any other cost needed to get a fixed asset ready for use

CAPITAL AND REVENUE EXPENDITURE ITEMS

Expenditure which is not spent on increasing the value of fixed assets, but on running the business on a day-to-day basis, is known as **revenue expenditure**.

Revenue expenditure is chargeable to the Trading and Profit and Loss Account.

The difference between revenue expenditure and capital expenditure can be seen clearly with the total cost of using a van for a business.

CAPITAL AND REVENUE EXPENDITURE ITEMS

In summary:

- **Capital expenditure** is expenditure that is likely to provide a benefit to the entity for more than one accounting period.

- **Revenue expenditure** is expenditure that is likely to provide a benefit for just one period

- Capital expenditure appears in the **balance sheet** whereas revenue expenditure appears in the **trading and profit and loss account.**

AFIN102: FINANCIAL ACCOUNTING

UNIT 8

SOLE TRADER ACCOUNTS: INCOME STATEMENT

SOLE TRADER ACCOUNTS: INCOME STATEMENT

Learning outcomes

- Preparation of the Trading, profit and loss account for soletraders, which is also known as the Income Statement.
- In Accounts, profit of a business is determined through the Income Statement.

SOLE TRADER ACCOUNTS: INCOME STATEMENT

- The Income Statement is made up of two segments namely;

- 1. The Trading Account – used to calculate gross profit; and
- 2. Profit and Loss Account – used to calculate net profit.

- This is why the Income Statement is also known as the Trading Account, Profit and Loss Account.

- A Simplified Income Statement for a Sole Trader would look as follows:

SOLE TRADER ACCOUNTS: INCOME STATEMENT

- Income Statement for the year ended 31st December 2018.

Revenue 210,000

Less: cost of sales -115,000

Gross profit 95,000 Other expenses -76,200

Net profit 18,800

- **Why is accounting profit is not the same as an increase in cash**

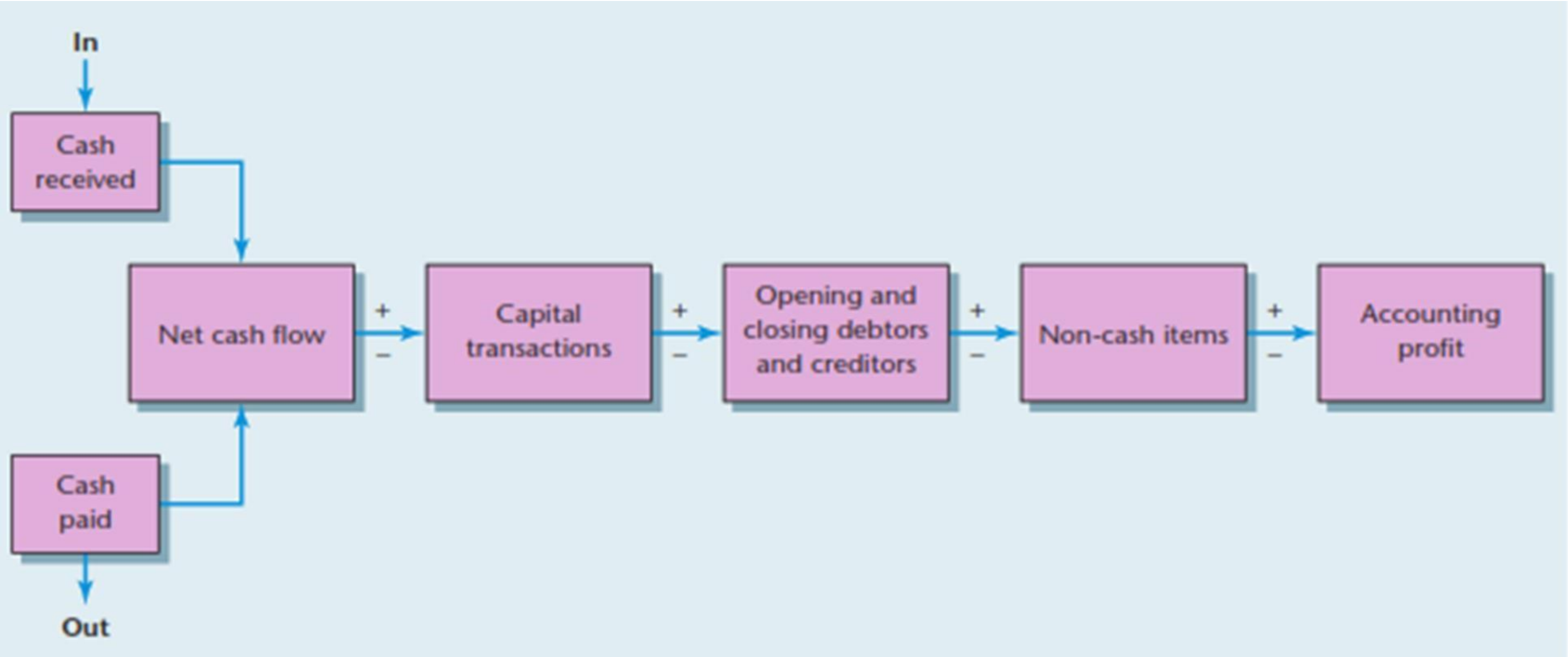
SOLE TRADER ACCOUNTS: INCOME STATEMENT

1. Goods are treated as being sold when the legal title to them changes hands and not when the customer has paid for them. In some cases, the cash for some sales may never be received.

2. Goods are regarded as having been purchased when the legal title to them is transferred to the purchaser, although there are occasions when they may not be received, e.g. if a supplier goes into receivership.

3. Goods that have not been sold at the period end have to be quantified and valued. Counting stock can be a complex operation and valuing it involves a considerable amount of subjective judgement.

SOLE TRADER ACCOUNTS: INCOME STATEMENT



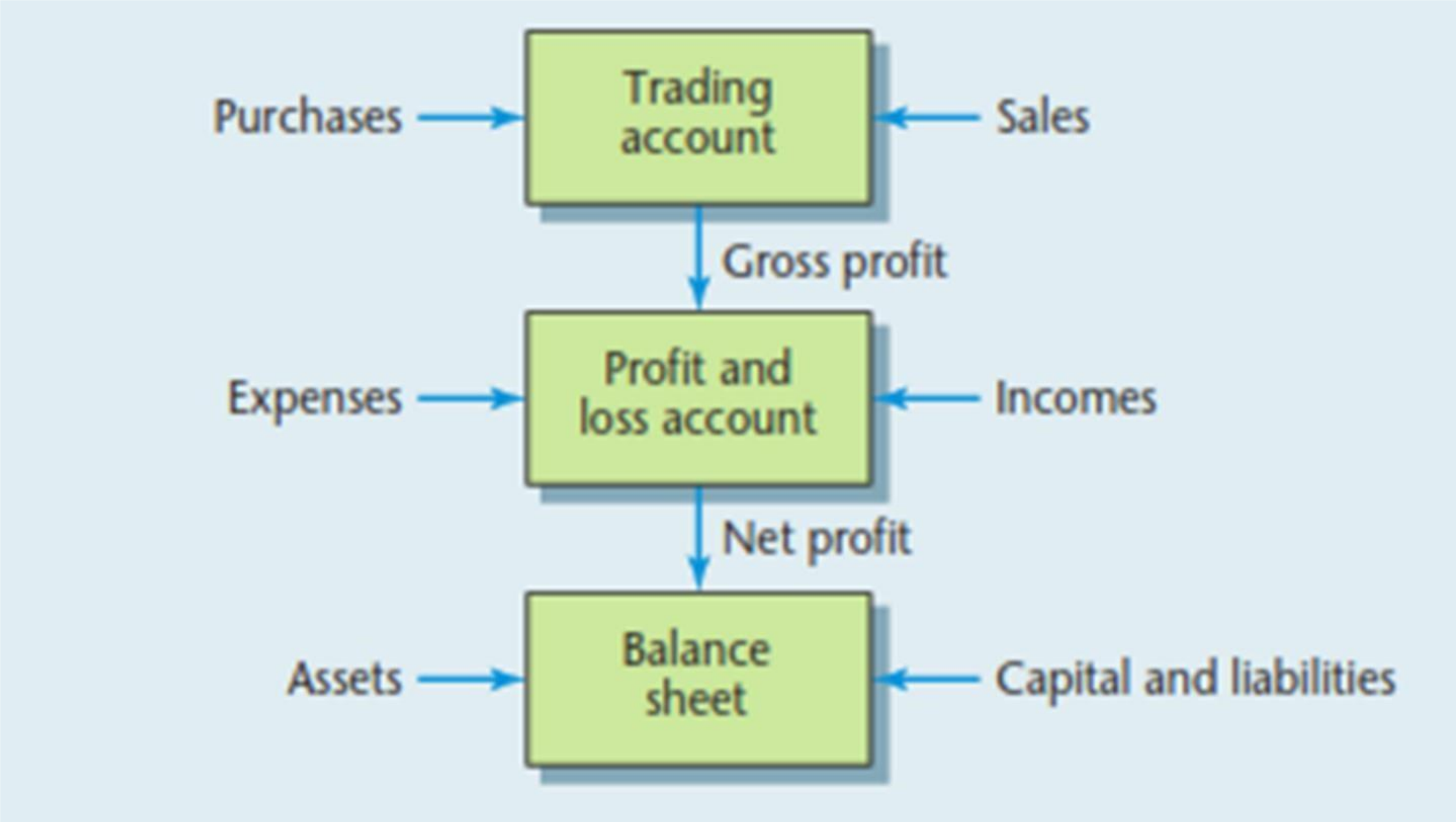
SOLE TRADER ACCOUNTS: INCOME STATEMENT

- **Flow Chart: Cash Flow vs Accounting Profit**

SOLE TRADER ACCOUNTS: INCOME STATEMENT

- **Link between Income Statement and Balance Sheet**

SOLE TRADER ACCOUNTS: INCOME STATEMENT



CLASS EXERCISE

- **Class Exercise 8.1 (Exercise 8 on Portal).**

CLASS EXERCISE

- **Class Exercise 8.1 (Exercise 8 on Portal).**

END

- **End of Unit Eight.**