***Text Four***

***F*UNDAMENTAL ACCOUNTING CONCEPTS AND CONVENTIONS**

Over the years professional Accountants and relevant regulatory bodies developed rules and procedures for otherwise known as Generally Acceptable Accounting Principles. The principles guide the preparation of financial statements. These principles are regarded as concepts. They are so fundamental and are generally accepted and are issued out in form of accounting standards by various bodies like the Nigerian Accounting Standard Board (NASB)/ now Financial Reporting Council of Nigeria (FRCN) and IASC.

1. **Entity Concept**

Under entity concept, every economic unit not minding its legal form of existence is treated as a separate entity distinct from parties having propriety or economic interest in it. To this regard, all the transactions of the entity are recorded in its books. These include; income, expenses, assets and liabilities. Takings by the owners are recorded as drawing and are therefore not charged against the business.

1. **Going Concern**

It is assumed that the business unit will continue in perpetuity. That is, it expected that the business will not be liquidated in the foreseeable future. Business unit is deemed a going concern if it is capable of generating reasonable earnings for and no indications of treat of any form that could cease the business abruptly.

iii. **Periodicity Concept**

This concept holds that, the business community and stakeholders of financial statement should ensure that business should be divided into accounting periods usually one year and comparisons be made with different periods. In strict compliance with this concept, the trading, profit and loss of a business is prepared for the year end usually 12months.

iv.  **Historical Cost**

The Historical cost concept posits that cost is appropriate basis for accounting recognition of all financial transactions be it assets acquisitions, service rendered, interests, creditors and owners’ equity.

v. **Realization Concept**

The concept recognizes the rule for periodic recognition of revenue as soon as it is capable of objective measurement and the value of assets received or receivable in exchange is reasonably certain. For instance revenue may be recognized when goods are produced, transaction completed and goods are delivered.

vi**. Matching Concept**

For any accounting period, all revenue earned and costs incurred in generating it must be matched and reported for the period. Whenever revenue is deferred to another period, all costs element must be adjusted accordingly to reflect the true situation.

vii. **Consistency**

Though there are several methods available for treating account transaction without materially violating accounting principles. However, whenever a method is chosen, it must be followed rigorously unless situations warrant for such change.

viii. **Substance Over Form**

Transactions are usually governed by legal principles but they are nevertheless accounted for and presented in accordance with their substance and financial reality and not with their legal form. The essence is to prevent firms from distorting their true reports in under the pretence of rigidly following the footprint of the law.

ix. **Objectivity**

The principle of objectivity emphasizes independence of judgment on the part of the preparer of financial statements. The concept of objectivity is the opposite of subjectivity and supportive evidences availability.

x. **Materiality**

Materiality concept ensures only items of material values are accorded strict recognition and treatments in the financial statement. An item is considered material if omission or its misstatement could distort the true and fair view of financial statements to the extent that such affect users’ decision making and individual user judgments.

xi. **Fairness**

The concept of fairness enjoys preparers to be objective when preparing financial statement. He should not be bias; he should not only take the interest of a group into consideration but all the stakeholders.

xii. **Prudence**

The concept here enjoys accountant to exercising great care when recognizing profit. In other word, all known losses must be adequately provided for.

**Accounting Method, Accounting Bases and Accounting Policies**

**Accounting Method**

This is the medium through which the fundamental accounting concepts are applied to financial transactions and preparation of financial statements. It is method employed in recognizing, measuring and measuring items of revenue, expense, gain, loss, asset or liability.

**Accounting Bases**

Accounting bases are the totality of accounting method employed by an enterprise for applying fundamental accounting concepts to its accounting transactions. Basically, there are two accounting bases recognized;

i. **Accrual Basis**

Incomes/revenues and expenses are recognized when they are earned and not when they are received and expenses are recognized when they are incurred not necessarily when they are paid. In other word, revenue and expenses are recognized in the accounting period they are related. This basis is used by profit making organizations.

ii. **Cash Basis**

Here, income/revenues and expenses are recognized in the accounting period to which they are received and paid. Debtors and creditors are not carried forward in the balance sheet. This method is applicable to public/government sectors

**Accounting Policies**

Accounting policies are those bases, rules, principles, conventions and procedures adopted in preparing and presenting financial statements. Differing accounting policies should be disclosed by the reporting entity in accordance with SAS I (Disclosure of Accounting Policies).

The following are identified accounting policy;

* Consolidation policy
* Taxation
* Stocks
* Creditors
* Depreciation
* Construction contracts
* Intangible assets
* Liabilities and provisions
* Pension cost

**Types of Accountant**

1. **Financial Accountants:** this accountant records financial transactions of a business, analyses the financial information and presents reports/statements to the users of financial information.
2. **Cost Accountant:** the accountant specializes in determining costs of goods or services produced or sold. He also helps to effectively manage and control costs as well as maximizing profits
3. **Management Accountant:** this is accountant that prepare and accounting information to assist management in decision-making for the purpose of policy formulation. He compiles futuristic accounting information as against financial accountant that present historical accounting information.
4. **Tax Accountant:** this accountant is verse in tax laws. In light of complexity in tax law especially in Nigeria, firm requires tax accountant that will from time to time attend to tax issues raised.
5. **Auditor:** this is a practicing accountant that examines financial record of firm and for opinion thereon. This is statutory or external auditor. On the other hand, an internal auditor is an employee of firm hired by the management to examine and report on the work of various departments within the organization.
6. **Forensic Accountant:** this is a new grey area in accounting. The forensic accountant specializes in criminal investigation aspect. That is the financial aspect.

***Text five-Six***

**ACCOUNTING EQUATION, DOUBLE ENTRY, JOURNAL & CASH BOOK**

**Introduction**

Accounting equation otherwise known as balance sheet equation is the rule that the assets of a business will at all times be equal to its liabilities. However, for a business without liabilities, the other than those of the owner, the owner therefore has claims over the business. The equation is

**Assets = Liabilities**

**This can be re-written as follows;**

**Assets = Capital + Liabilities**

**Net Asset = Capital**

**Capital = Assets - Liabilities**

This can be rewritten as = Cash = Capital for example, on 1 January 2007, Olaiya decided to set up a shoe making business he put N20,000 into the business, then we have

Cash = Asset = N20, 000

Amount Invested = Capital = N20, 000 + 0

***Assets*:** assets are valuables of a business, which are expected to provide present and future benefits to the business, Example of assets are plant and machinery, Building, equipment, office furniture, Debtors and Cash etc.

***Non-Current Assets***

1. Non-Current Assets: these are assets acquired and held permanently for the purpose of creating production capacity. Fixed assets can be divided into:

( i ) Tangible fixed assets

( ii ) Intangible fixed assets

( iii ) Investment (long-term)

A **Tangible Asset** is a physical asset i.e. one that can be touched and felt. e.g. machinery, Buildings, office equipment and Office Furniture.

An **Intangible Asset is a fictitious,** which cannot be seen or felt. It does not have a physical existence. It cannot be touched. Examples of such are Goodwill, Patents and Trademark.

An investment might also be a fixed asset. Share or debentures of other company purchased with a view to hold them for more than one year will be classified as fixed assets.

***Current Assets***

Current assets are either:

1. Assets owned by the business with the intention of turning them into cash. In other convertibles like treasury bills, stocks and receivables
2. cash, including money in the bank, owned by the business

***Liabilities***

These are debts owned by a business to third parties. Liabilities can be divided into two

* Current liabilities
* Long-term liabilities

Current liabilities are debts of the business that must be paid within a period of twelve months. Examples are, loans repayable within one year, bank overdraft, trade creditors, bills of exchange which are payable by the business accrued expenses and taxation payable.

A long-term liability is a debt which is not payable within one year. A Long term liabilities are being put off till something in future. Example are:

- loans that are payable in the future but not within the next accounting period

- A mortgage loan

- Debentures or debentures stock

***Capital***

Capital is known as owners’ interest in the business. It is the excess of assets over liabilities. It comprises of the following:

* Capital invested in the business by the owner
* Net profit or loss earned by the business
* Drawings made by the owner whether in cash or kind

We can now rewrite our accounting equation

Fixed Assets + current Assets = Current Liabilities + Long term

Liabilities + Capital or Fixed Assets + (Current Assets – Current Liabilities) = Long term liabilities + Capital.

***Double Entry Book-Keeping***

Having seen from the accounting equation above that assets are always equal to the total liabilities and capital observing accounting rules, then it means that any transaction which changes the amount of total assets must also change the total liabilities plus capital and vice versa.

The basic rule of double entry which must always be observed is that all transaction gives rise to two accounting entries, one, a debit and second a credit. The total debit entries in a particular transaction must equal the total credit entries. The golden rule of this principle is that every debit entry must have a corresponding credit entry and vice versa.

***Books of Accounts***

Basically, there are two books of accounts, these are;

1. Principal Books of Account, namely Ledger and Cash Book. These are the main books and those in which the double-entry system of accounts is kept. The cash book contains the cash and bank accounts. All other accounts are in the ledger.
2. Subsidiary Books of account or books of first or original entry, such as journal, Purchases Book, Sales Book etc. Many details are recorded in these books, before the amounts concerned are entered in ledger accounts. The journal was only subsidiary book, at first, and the others were split off from it later.

***Procedures for Applying Double Entry Rule***

1. Capture the two accounts involved in a transaction
2. Identify the account that gives value and the one that receive value
3. Debit the receiver and credit the giver with the involved
4. Debit any receipt and credit any payment
5. Debit value in and credit value out.

Double Entry Rule can also be applied in this way;

* Debit asset account when there is an increase in value and credit it when there is a decrease in value.
* Debit expense account when there is an increase in value and credit it when there is a decrease in value
* Credit liabilities and capital accounts when the value increase
* Credit liabilities and capital accounts when the value increase and debit it when the value increase and debit it when the values decrease.

***Illustration***

The book of Bongo shows the following transaction in the month of January 2008.

N

January 1. Started business with cash 1,000,000

4 Bought goods for cash 500,000

14 Sold goods for cash 300,000

15 Received from Zulu 5,000

Reflect the above transactions in Bongo book in line with the double entry rule.

In recording these transactions:

* January 1 Debit Cash Account (the receiver ) and Credit Capital Account (the giver)
* January 4 Debit Purchases Account (the receiver) and credit cash account (the giver)
* January 14 Debit Cash Account (the receiver ) and Credit Sale account (the giver)
* January 15 Debit cash Account (the receiver) and Credit Zulu (the giver)

Putting all these in accounting form, we have:

**Cash Account**

2008 N 2008 N

Jan 1 Capital 1,000,000 Jan 4 Purchases 500,000

Jan 14 Sales 300,000 Jan 31 Balance c/d 805,000

Jan 15 Zulu 5000

**1,305,000 1,305,000**

**Capital Account**

N N

Jan 31 Balance c/d 1,000,000 Jan 1 Cash 1,000,000

**Purchases Account**

N N

Jan 4 sundries 500,000 Jan 31 Balance C/D 500,000

**Sales Account**

N N

Jan 31 Balance C/D 300,000 Jan 14 cash 300,000

**Zulu Account**

N N

Sales 5,000 Jan 15 Cash 5,000

***Ledger Account***

Business is expected to keep record of the financial transactions it makes. The assets acquire and liabilities incurs. At the end of accounting period, it is from the records trial is extracted and a trading, profit and loss account and a balance sheet, with other relevant information can extracted. It is the role of accountant to keep record and the books which are kept is refers to as ledger.

Ledger is the principal book of account. It is an accounting record which summaries the financial affairs of a business. It contains details of assets, liabilities and capital, income and expenditure. It contains a large number of different accounts, with every account having its own purpose and name. The ledger is divided into two half, the left hand side is called debit side (Dr) and the right hand side is called credit side (Cr). Each of the side of the ledger is sub-divided into four parts:

* 1. Date- This record s the date the transaction took place
  2. Particulars – This record the transaction that took place
  3. Folio – It describe the page in which corresponding entry will be found
  4. Amount – This column records the amount that is involved

**Format of a ledger**

**Date/ Particular/ Folio/ Amount// Date/ Particular/ Folio/Amount**

Example of Account in the General Ledger include

* 1. Motor vehicle at cost (Non-Current Asset)
  2. motor vehicle provision for depreciation (Liability)
  3. Furniture and Fittings at cost (Non-Current Asset)
  4. Furniture and Fittings provision for depreciation (liability)
  5. Plant and machinery cost (Non-Current Asset)
  6. plant and machinery provision for depreciation (liability)
  7. Capital (liability)
  8. stock (raw materials, work in process and finished goods) (Current Assets)
  9. Debtors (Current assets)
  10. Creditors (current liability)
  11. wages and salaries (expenses items)
  12. stationeries, motor and telephone expenses (expenses items)
  13. Cash (current assets)
  14. Bank overdraft (current liability)
  15. Sales income (income)
  16. Interest on account (income)

***Types of Personal Account***

- Impersonal-account

- Real Account

***Impersonal Account*:** shows and records the type of expenses incurred by the business for instance. rates, electricity, rather than the person to whom the money is paid. It is about the reason for payment is made. Impersonal accounts are divided into real and nominal accounts.

***Real Account:*** the account is maintained to keep tangible items such as Land, Machinery, motor vehicles and Stock of goods. The double entry Rule states that “when there is an increase in the value of real item, the account is debited with the amount of such increase, when there is a decrease in the value, the account is credited with the same amount “for instance, a cash purchase that is an addition of N250, 000 worth of machinery will be debited to machinery account to show increase in value and credit to the cash account to show decrease in value.

**Cash Account**

N

Machinery A/C 250,000

**Machinery Account**

N

Cash A/c 250,000

***Nominal Accounts:***  are accounts that record income and expenditure items. Income represents gain when expenditure relates to loss. Examples of income include interest received, commission, discount received etc. while those of expenditure include purchase, wages, rent, stationery etc. The double entry principle is to debit expense account while income account is credited for an increase in value. For example, if N300, 000 are paid by trader for rent and discount received by him is N100,000. The account will appear as follows.

**Rent Account**

N

Cash 300,000

**Discount Received Account**

**N**

Cash 100,000

When nominal accounts are closed, the balances are transferred to either the trading account or the profit and loss account.

***Sub- Divisions of Ledger***

As business expands, maintaining one ledger for all the accounts might be cumbersome hence, the need for sub-division of ledger into several books to accommodate each class of accounts. These sub- divisions include:

1. ***Creditors’ ledger:*** this is known as purchase or bought ledger, it contains the accounts of all creditors.
2. ***Debtor’s Ledger:*** also known as sales ledger and it contains accounts of debtors.
3. ***Impersonal Ledger:*** this is General Ledger and carries accounts of real and nominal items.
4. ***Private Ledger:*** This is part of general Ledger that accommodates the capital accounts, Drawings accounts of the proprietor, loan accounts, trading profit and loss accounts.

***Cash Book***

Cash book is a principal book, the ledger. It consists of the cash and bank accounts taken out of the ledger and bound separately for convenience. It is also a book of original entry, such a cash receipts and payments are not normally entered in the subsidiary books.

***Rulings of Cash Books.*** Different rulings of cash books are in practice with the ordinary cash books the number of columns varies from one (for cash or bank) to three (for discount, cash, and bank respectively). With tabular cash books the number of columns may be numerous, according to the nature of the business.

***Contra Entries*.** In the ordinary three-column cash book there will be some cross or contra entries, i.e. transfers of money from cash to bank, And vice versa. Surplus cash is paid into bank, and a shortage of cash is made good by withdrawals from bank. In all such cases both entries occur in the cash book and no ledger entry is required. This is indicated by a contra sign © in the folio columns.

***Two- Column Cash Book***

This consists of two columns, one for bank and cash transactions. The two columns on the debit side receive both cheque and cash into account while the two columns on the credit side pays or record Cheques and cash payments.

**Two-Column Cash Book**

**Date Particulars Bank Cash Date Particulars Cash Bank**

N N N N

1/1/08 Balance B/d x x 1/1/08 Motor Vehicle x

2/1/08 Bank (Contra) x 2/1/08 Cash (Contra) x

5/1/08 Sola x 3/1/08 Tolu x

11/1/08 Sales x 6/1/08 Salaries x

21/1/08 Tomori x 12/1/08 Paul x

25/1/08 Cash(Contra) x 25/1/08 Bank(Contra) x

25/1/08 Sales x 25/1/08 Rent x

26/1/08 Calie x 26/1/08 Drawing x

31/1/08 Balance c/d x x

1/2/08 Balance b/d x x

***See illustration***

***Three-Column Cash Book***

In addition to the two column cash book above, a three column cash book has additional column that records cash discounts given to customers and those received from suppliers. The discount allowed to debtor customers is the one on the left side i.e. the Debit side of the cash book. Discount received on the other hand is the discount received from the creditors and is recorded on the right hand side i.e Cr. Side of the cash book.

***Three-Column Cash Book***

**Date Particular Disc/Allwd Cash Bank Date Particulars Disc/Rcvd Cash Bank**

N N N N N N

1/1/08 Balance B/d x x 1/1/08 Building x

2/1/08 Bank (Contra) x 2/1/08 Cash (Contra) x

5/1/08 Kudu x x 3/1/08 Joy x x

11/1/08 Sales x 6/1/08 Rent x

24/1/08 Joe x x 12/1/08 Salaries x

25/1/08 Cash (Contra) x 15/1/08 Peter x x

29/1/08 Sales x 18/1/08 Drawing x

30/1/08 Akeem x 25/1/08 Bank (Contra) x

27/1/08 Telephone x

30/1/08 Stationeries x

31/1/08 Balance c/d x x

X X X X X X

1/2/08 Balance b/d x x

***See illustration***

***Cash-Discounts*.** These are deductions made from accounts receivable and payable at the time of settlement. Cash Discount may be allowed by a seller if goods are paid for within a short period.

The amounts are recorded in special discount columns which are memorandum columns only. The individual amounts are posted to the ledger at the same time as the cash items The total are posted to a “Discount Allowed” or “Discount Received” account in the ledger, as appropriate, so that the amounts lost or gained on discount may be seen.

***Journal***

Journals are business documents in which each business transactions are first recorded in an arranged order reflecting the account to be debited and credited.

***Uses of Journal***

Journals are used to record the following before they are posted to the ledger;

* For opening entries
* The purchase and sales of fixed assets
* Correction of errors
* Transfer from one account to another
* Takings by owner of goods for private use
* Other transactions that cannot be recorded in the subsidiary books

***Features of a Journal***

Usually, journal has column to record the followings:

* Date of transaction
* Names of the account to be debited or credited.
* The folio i.e. the account pages or numbers where the relevant entries are made in the ledger accounts.
* Amount to be debited and credited
* The narration is a short explanation of the nature of the transaction which should always be given before the journal entry is closed. This is particularly so in the case of correction of errors as the nature of the entries would not otherwise be clear. For examination purpose a narration is essential.

**Format of journal**

**Date Description Folio Dr. Cr**

**N N**

**Illustration**

Mrs. Folake incorporated Folks Limited on 1/6/2009. He brought in cash of N4, 000,000 into the business on 4/6/2009 he offered the business building that valued N6, 000,000. The amount on the building was to be taken as an additional capital. The business banked N3,500,000 on 5/6/2009 and on 8/6/2009, the business bought furniture worth N100,000 from Abu and on 10/6/2009, N80,000 cash was paid to Abu

**Required:** Journalize and post above transaction in the book of Folik Limited

***Solution***

|  |  |
| --- | --- |
| Date | Narrations Dr Cr  N N |
| 1/6/09 | Cash 4,000,000  Capital 4,000,000  Being Capital Introduced by the proprietor |
| 4/6/09 | Building 6,000,000  Capital 6,000,000  Being value of building introduced  As capital by the proprietor |
| 5/6/09 | Bank  Cash  Being amount lodged in the bank |
| 8/6/09 | Furniture 100,000  Abu 100,000  Being value of furniture purchased on credit |
| 10/6/09 | Abu 80,000  Cash 80,000  Being cash paid to as part settlement |
|  |  |

The ledger accounts in the case of these transactions are:

**Cash Account**

N N

1/6/09 Capital 4,000,000 5/6/09 Bank 3,500,000

10/6/09 Abu 80,000

30/6/09 Balance c/d\* 420,000

**4,000,000 4,000,000**

1/7/09 Balance b/d 420,000

**Capital Account**

N N

30/7/09 Balance c/d\* 10,000,000 1/6/09 Cash 4,000,000

4/6/09 Building 6,000,000

**10,000,000**  **10,000,000**

1/7/09 Balance b/d 10,000,000

**Building Account**

N N

5/6/09 Cash 6,000,000 30/6/09 Balance e/d 6,000,000

**6,000,000** **6,000,000**

1/7/09 Balance b/d 6,000,000

**Bank Account**

N N

5/6/09 Cash 3,500,000 30/6/09 Balance e/d 3,500,000

**3,500,000 3,500,000**

1/7/09 Balance b/d 3,500,000

**Furniture Account**

N N

8/6/09 Abu 100,000 30/6/09 Balance c/d\* 100,000

1/7/09 Balance  **100,000 100,000**

**Abu**

N N

10/6/09 Cash 80,000 8/6/09 Furniture 100,000

30/6/09 balance c/d\* 20,000

**100,000 100,000**

1/7/09 Balance b/d 20,000

The asterisk figure represents the outstanding balance on cash account

***Text Seven***

**BALANCING OF ACCOUNT AND EXTRACTION OF TRIAL BALANCE**

Since accounting needs to know what balance remain on each account, and then there is need to determine such balance. The process of determine outstanding balance on a particular account is known as balancing of account. This is done after all entries have been made into the various accounts. The difference between the two sides of the account represents the balance on the account. Where the total value of the debit entries is greater than the total value of the credit entries, then we have a debit balance and where the total value of the credit entries is greater than the total value of the debit entries, we have credit balance.

Refer to illustration 2.2. The asterisk figure shows the balance on each of the account. A cash, Building, Bank and furniture account has debit balance of N420,000, N6,000,000, N3,500,000 and N100,000 respectively. While capital and Abu Accounts has credit balance with N10,000,000 and N20,000 respectively. Whatever value arrived at all period represent the opening balance in the next period. The closing debit balance of N420,000 cash in illustration 2.2 represent the opening balance on July 2009.

**Rule of Balance of Account**

* All asset accounts should have debit balances
* All expense accounts should have debit balances
* All liabilities and capital accounts should have credit balances
* All income accounts should have credit balances
* All provision should have credit balances

**Essentials of journal**

Journal entries allow easy review of the transactions at any time

1. Journal entries contain details of the transaction thus allow ledger to contain only summary of the transactions since ledger contains a lot of accounts.
2. Journal entries aid in pruning down error of entering only one side of the account and it is possible to make mistake of omitting the debit or credit or entering one of them twice if the transactions were recorded directly in the ledger accounts.

**TRIAL BALANCE**

Trial balance is the list of accounts balances at a given point in time drawn up to test the arithmetic accuracy of accounting entries.

The process involved is to arrange all the debit balances accounts on one column. Because of the self-balancing nature of the system of double entry, the total of the debit balances will be exactly equal to the credit balances.

Where the two sides of the trial balance are not equal, then there must be an error of addition or recording the transactions in the accounts.

**Purpose of preparing Trial balance**

1. To check the arithmetic accuracy of the entries in the ledger by proving whether the total of the debit balances is equal to the total of the credit balances.
2. To some extent, it checks error of posting especially where there is an omission in the posting of one side of the account.
3. It provides data in form of summary of balance in all the accounts to help in preparing the financial statement.

However, it should be noted that trial balance is a mere confirmation of arithmetical accuracy of an accounts it does not necessarily prove that errors have not been made.

**Illustration**

1. Kareem started business on 1st march 2008. on that day , he brought into the business N2,000,000 cash and building valued at N5,000,000
2. Brought goods that worth N600,000 for resale on credit from Hannah on 5/3/08
3. 6/3/08 bought furniture valued at N100, 000 from his house to the office for business use.
4. 8/3/08 paid a three year insurance premium of N60, 000 on the building.
5. 9/3/08 returned goods to Hannah valued at N10,000
6. 12/3/08 purchased goods worth N150,0000 by cash from Chinas and also bought goods worth N100,000 on credit from Chime
7. 18/3/08 paid N100,000 cash to Hannah as part settlement for goods purchased
8. 22/3/08 sold goods worth N400,000 to Bola who paid cash of N150,000
9. 24/3/08 Bola returned goods worth N60,000
10. 31/3/08 paid N50,000 for the school fees of his child
11. 31/3/08 paid salaries and wages of N50,000

You are required to

1. journalize the transactions
2. Write up the relevant ledger accounts
3. Extract a trial balance as at 31st March 2008

\*

**SOLUTION**

DR CR

Date Account titles and Narrations N N

March 1’08 Cash 2,000,000

Building 5,000,000

Capital 7,000,000

Being cash and value of building

Invested by Kareem

March 5 Purchase 600,000

Hannah 600,000

Being goods brought on credit from Hannah

March 6 Furniture 100,000

Capital 100,000

March 8 Prepared Insurance 60,000

Cash 60,000

Being three years insurance premium on building

March 9 Hammed 10,000

Returns outward 10,000

Being goods returned to Hannah

March 12 Purchases 150,000

Cash 150,000

Being cash paid for goods purchased

March 12 Purchases 100,000

Chinas 100,000

Being purchases made on credit from Chime

March 18 Hannah 100,000

Cash 100,000

Being part-payment to

Hannah in respect of goods purchased

March 22 Cash 150,000

Bola 250,000

Sales 400,000

Being goods returned by Bola

March 31 Drawings 50,000

Cash 50,000

Being personal expense of Kareem

March 31 Salaries and wages 50,000

Cash 50,000

Being salaries paid for the month of March

**LEDGER ACCOUNT:**

**CASH ACCOUNT**

N N

1/3/08 Capital 2,000,000 8/3/08 Prepaid insurance 60,000

22/3/08 Sales 150,000 12/3/08 Purchases 150,000

18/3/08 Hannah 100,000

31/3/08 Drawing 50,000

31/3/08 Salaries & wages 50,000

31/3/08 Balance c/d 1,740,000

2,150,000 2,150,000

**CAPITAL ACCOUNT**

**N N**

31/3/08 Balance C/D 7,100,000 1/3/08 Cash 2,000,000

1/3/08 Building 5,000,000

6/3/08 Furniture 100,000

**7,100,000 7,100,000**

6/3/08 Balance b/d 7,100,000

**BUILDING ACCOUNT**

**N N**

1/3/08 Capital 5,000,000 31/3/08 balance c/d 5,000,000

**5,000,000 5,000,000**

1/4/08 Bal. b/d 5,000,000

**PREPAID INSURANCE ACCOUNT**

**N N**

8/3/08 Cash 60,000 31/3/08 Balance c/d 60,000

**60,000** **60,000**

1/4/08 Balanced b/d 60,000

**PURCHASES**

N N

5/3/08 Ahmed 600,000 31/3/08 Balance c/d 850,000

12/3/08 Cash 150,000

12/3/08 Chinas 100,000

**850,000 850,000**

1/4/08 Balance b/d 850,000

**HANNAH (CREDITORS) ACCOUNT**

N N

9/3/08 Return Outward 10,000 5/3/08 Purchases 600,000

18/3/08 Cash 100,000

31/3/08 Balance c/d 490,000

**60,000**  **600,000**

1/4/08 Balance b/d 490,000

**CHINAS (CREDITORS) ACCOUNT**

N N

31/3/08 Balance c/d 100,000 12/3/08 Purchases 100,000

**100,000 100,000**

1/4/08 Balance b/d 100,000

**FURNITURE ACCOUNT**

N N

6/3/08 Capital 100,000 31/3/08 Balance b/d **100,000**

**100,000**

1/4/08 Balance b/d 100,000

**RETURNS OUTWARD ACCOUNT**

N N

31/3/08 Balance c/d 10,000 9/3/08 Hannah 10,000

**10,000 10,000**

1/4/08 Balance b/d 10,000

**SALES ACCOUNT**

N N

31/3/08 Bal 400,000

22/3/08-Cash 150,000  
 22/3/08 Bola 250,000

**400,000 400,000**

1/4/08 Balance b/d 400,000

**BOLA (Debtors) ACCOUNT**

N N

22/3/08 Sales 250,000 24/3/08 Returns Inward 60,000

31/3/08 Balance c/d 190,000

**250,000 250,000**

1/4/98 Balance b/d 190,000

**DRAWING ACCOUNT**

N N

24/3/08 Cash 50,000 31/3/08 Balance 50,000

**50,000** **50,000**

1/4/08 Balance b/d 50,000

**Salaries and Wages Account**

N N

31/3/08 Cash 50,000 31/3/08 Balance c/d 50,000

**50,000 50,000**

1/4/08 Balance b/d 50,000

**Returns Inward Accounts**

N N

24/3/08 Bola 60,000 31/3/08 Balance c/d 60,000

**60,000 60,000**

Balance b/d 60,000

**Trial Balance As At 31st March 2008**

Dr Cr

Particular N N

Capital 7,100,000

Building 5,000,000

Cash 1,740,000

Prepaid Insurance 60,000

Purchases 850,000

Chime 100,000

Hannah (Creditors A/c) 490,000

Sales 400,000

Furniture 100,000

Furniture (Returns Outward) 10,000

Bola (Debtors Account) 190,000

Returns Inward 60,000

Drawing 50,000

Salaries & wages 50,000

**8,100,000 8,100,000**

**Illustration**

The following amounts appeared in the Trial Balance extracted from the books of Thompson and Co. on 30th June 2007.

N  
Lighting and Heating 5,000

Wages and Salaries 40,000

Loan Interest 16,000

Rates 3,000

Advertising 10,000

Dividends received 5,000

Rent received 2,500

Adjustments are to be made with respect to the following:

N

Wages accrued 3,600

Loan interest accrued 1,000

Rates paid covered the period January 1

To December 3/12/2007

Advertising cost to be carried forward, one- half

Unpaid dividend 3,000

Rent received in advance 800

Heating account unsettled 500

You are required to show the ledger account recording the above information.

**SOLUTION**

**Heating and lighting Account**

N N

Balance from the books 5,000 Transfer to profit &Loss A/c 5,500

Balance (Accrual) c/d 500

**5,500 5,500**

**Wages and salaries Account**

N N

Balance from the books 40,000 Transfer Profit & Loss a/c 43,600

Balance (accrual) c/d 3,600

**43,600 43,600**

**Loan Interest Account**

N N

Balance from the books 16,000 Transfer to Profit & Loss a/c 17,000

Balance (accrual) c/d 1,000

**17,000 17,000**

**Rates Account**

N N

Balance from Books 3,000 Transfer to Profit & Loss a/c 1,500

Balance (prepayment) c/d 1,500

**3,000 3,000**

**Advertising Account**

s N N

Balance from the book 10,000 Transfer to profit & Loss a/c 5,000

Balance (prepayment) c/d 5,000

**10,000 10,000**

**Dividend Received Account**

N N

Transfer to Profit & Loss a/c 8,000 Balance from the book 5,000

Bal (unpaid dividends) c/d 3,000

**8,000 8,000**

**Rent Received Account**

N N

Transfer to profit & Loss a/c 2,000 Balance from he book 2,800

Balance (rent in advance) 800

**2,800 2,800**

**Review Questions**

Abu starts a business and introduces N200,000 cash.

He buys a motor van for N100,000 and some shop fittings for N80,000.

He buys some stock from Seyi costing N50,000 on credit

He sells one half of the goods to Kola for N65,000 cash.

He pays N50,000 to Seyi.

He draws N50,000 of cash from the business for his own use.

He buys goods costing N100,000 on credit term from shoal.

He sells goods which cost him N90,000 to Oni on credit terms for

N120,000.

He receives N50,000 from Oni

He pays wages of N10,000 to Temi, his employee.

Required: Raise a journal entry and prepare accounts from the above

Jega commenced business on 1 January 2009 by transferring N7,200,000 from his private account to the bank account opened for the business. The following transactions took place during the month of January:

July N

1. Introduced cash of N40,000 and car valued at 17,500

2. Bought goods for cash at a cost of 11,300

8. Paid wages of N130 and sundry expenses of 20

9. Sold goods on credit to victor for 1,900

14. Sold goods on credit to Ayegbeni for 2,400

18. Bought goods on credit from opera for 850

22. Bought fixtures and fittings at a cost of 3,500

25. Paid wages of 380

26. Paid drawings to himself of 800

31. Victors paid the full amount owing paid rent of 5,000

***Text Eight***

**CORRECTION OF ERROR AND SUSPENSE ACCOUNT**

**Introduction**

Errors do occur in the course of recording in the ledger or in the course of extracting balance to trial balance. Some of the errors might not affect the trial balance as some will make trial balance not to agree.

**Errors that would not affect trial balance**

1. **Errors of Omission:**  This error occurs when a transaction is completely omitted from the books. E.g. Cash sales of =N=100,000 completely omitted.
2. **Errors of Commission:** Error of commission occurs where a wrong account in the same ledger is debited or credited i.e. correct amount is entered but in the wrong book e.g. debiting or crediting P. Ojo Account instead of the account of T.Ojo.
3. **Errors of Original Entry:** This occurs when the equal debit/credit figure recorded in the books is different from the actual amount in the source document e.g. a purchase of =N=300 but recorded as =N=30 in both purchases and suppliers account.
4. **Compensating Errors**: Compensating error where errors in one account cancelled out by error of other account e.g. sales and purchase overstated by the same account.
5. **Errors of Principle:** Error of principle arises where there is an entry in the wrong class of account e.g. purchase of equipment is debited to equipment expenses account.
6. **Complete reversal of entries:** Here correct accounts are used but each item is shown on the wrong side of the account e.g. cash sales made is recorded as a debit and cash is credited.
7. **Error of transposition:** This occurs when an error on one account cancels out another on another account. These two errors cancel out one another. For instance; overstatement in sales and subsequent debit in wages over statement.

**Errors that would affect trial balance**

A trial balance may not balance for one or a combination of the following reasons:

1. Error in computing the account balance(s) in the ledger.
2. Incorrect casting item of trial balance
3. Errors of wrong posting i.e. posting a debit as credit or vise versa on the trial balance.
4. Transposition error which is created by incorrect arrangement of the order of two (2) digits in a number e.g. a debtor’s account balance is =N=205 but in copying the figure into the trial balance is written as =N=250.
5. Slide Error: This result when a digit or most is left or added to a number or the decimal point is placed incorrectly e.g. writing N900 as =N=90.
6. Error due to omission of account(s): This error arise where there is an omission of account(s) already balanced in the ledger in the process of extracting the trial balance.

**Tracing sources of errors in the trial balance**

**The any of the following steps can be taken:**

1. Re-check the addition of the trial balance
2. The difference between the debit and credit side should be determined and determine whether the difference is divisible by 2 or 9. If the error is divisible by 3 that suggest the error may be a transposition/slide error. And, if the error is divided by 2 that suggest that a transaction has been posted to the wrong side of n account. Then, look through the columns of the trial balance for an amount equal to half of the difference between the two sides of the Trial balance.
3. If after 1 & 2 above, difference still exist between two sides, then compare the amounts listed on the trial balance with each account balance in the ledger. This will ensure that every account balance is included and also to ensure that each account balance is entered in the correct column.
4. If error still persist then recomputed the balance of each account in the ledger.
5. Trace each transaction from the journal to the ledger account in order to find out if all aspects of double entry were taken care of.
6. A suspense account can be used to hold unto the difference.

**Suspense account**

A suspense account is a temporary/intermediate account. It is opened in order to agree the Trial balance pending the time the error would be detected and corrected.

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

**Illustration**

Trial balance of ABC Ltd. for the year ended 30th of June 2008 has a suspense account with a credit balance of N9, 500. On further investigation, you ascertain that the balance is made up of the following items:

1. Proceeds from an issue of shares (at nominal value) during the year amounting to N6, 000.
2. Proceeds from sales of land, shown in the books at cost of N2,000 amounting to N2,500.
3. An excess of the total of the debit side over the credit side of the trial balance due to

(a) N50 paid by a customer wrongly debited to his account.

(b) Local travel expenses of N1,000 wrongly entered as N1,900.

You are to clear the suspense account and show the transfer in the relevant accounts

**SOLUTION**

**Suspense**

N N

30/6/08 Share Capital 6,000 30/6/08 balance b/f 9,500

Land Disposal 2,500

Debtors 100

Local Travel 900

**9,500** **9,500**

**Share Capital**

**N** N

30/6/08 Balance c/d 6,000 1/7/08Balancex

30/7/08 Suspense 6,000

**6,000 6, 000**

**Land at cost**

**=N= =N=**

1/6/08 2,000 30/6/08 Disposal of Land 2,000

**Disposal of Land**

**=N= =N=**

30/6/08 Land 2,000 30/6/08 Suspense 2,500

Profit on sale 500

**2,500 2,500**

**Debtors**

**=N= =N=**

1/6/08 Balance 500 30/6/08 suspense 1,000

Cash (incorrect) 500

**1000 1,000**

**Local Travels**

=N=

30/6/08 900

**Illustration**

Trial balance of Alafia Tayo & Co as at 31st December 2007 shows difference of =N=50,000 being a shortage on the debit side debited into suspense account opened. On further investigation, the following were discovered on 31st January 2008.

1. Sales account had been overstated by =N=30,000
2. Salaries and wages had been under cast by =N=5,000
3. =N=25,000 cash paid to Popor has been entered in cash book but yet to be debited into John’s account.
4. Purchases account has been overstated by =N=10,000.

**You are required to correct the error**

**SOLUTION**

Journal

2008 DR CR =N= =N=

31st Jan Sales 30,000

Suspense Account 30,000

Being sales overstated

31st Jan Salaries and wages 5,000

Suspense Account 5,000

Being salaries and wages under casted

31st Jan John 25,000

Suspense Account 25,000

Being cash paid to John

31st Jan Suspense Account 10,000

Purchases 10,000

Being Purchases overstated

**Suspense Account**

=N=

2007 =N= 2008

Jan. 1 Balance 50,000 Jan. 31 Sales 30,000

Jan.31 Purchases 10,000 Jan. 31 Salaries & wages 5,000

Jan. 31 John 25,000

**60,000**  **60,000**

Sales

=N=

Jan. 21 Suspense 30,000

Salaries and Wages

2008 =N=

Jan. 31 5,000

Popor

2008 =N=

Jan. 31 Suspense 25,000

**Purchase**

2008

Jan. 31 Suspense 10,000

***Text Nine***

**DEPRECIATION**

Depreciation is wear and tear of non-current assets used purposely for the business. Statement of Accounting Standard 9 (SAS) describes as the systematic and periodic allocation of the historical cost or revalued amount less estimated residual value of a depreciable asset over its estimated useful life Depreciation is computed using applicable methods and charged against the gross in the profit and loss account.

**Features of depreciable assets**

A depreciable asset has the following characteristics.

i. The useful life is over one year.

ii. It is acquired primarily for use in production of goods and services

iii. It has restricted useful life

iv. Such an asset is not for sales in ordinary course of business.

**Definition of terms in depreciation**

**Residual asset**

This is also known as scrap value. It is estimated amount recoverable from the disposal of a fixed asset after the estimated useful life.

**Obsolescence**

This factor render fixed asset useful even when it is not put to use. Obsolescence could be caused as a result of change in taste, technology, consumption patterns.

**Depreciable value**

This is an aspect of net book value of depreciable asset allocate able in the future.

**Causes of depreciation**

**The following are the major cause of depreciation:**

* 1. wear and tear
  2. passage of time
  3. obsolescence
  4. natural factor like flood, dampness and excessive heat
  5. price drop of asset
  6. Superfluity e.g change in production and change in technology.

**Methods of calculation of depreciation**

1. Straight line method
2. Reducing balance method or diminishing method
3. Annuity method
4. Sum of digit method
5. Revaluation method
6. Sinking fund method
7. Sinking fund method
8. Depreciation fund method
9. Unit of production method
10. Service hour method

However, the following five methods will be examined in detail

i. **Straight line method**

Straight line method is widely used method. Using this method, an equal portion is charged as depreciation. This is the cost of an asset allocated to each period used usually a year. It is computed as follows:

Annual depreciation = Cost- residual value

Useful life of asset

**Illustration**

XYZ ltd. Depreciated its motor vehicle that cost N500,000, a residual value of N50,000 and estimated useful life of 3years.

Annual depreciation = Cost- residual value = 500,000-50,000 =N150, 000

Useful life of asset 3

Depreciation chargeable yearly is=N=150,000

ii.  **Reducing balance**

Under this method, depreciation chargeable is calculated by use of certain fixed percentage of the net book value of the asset at the end of accounting period. Annual depreciation chargeable reduces of falls considerably yearly because the calculation is based on reduced balance/ net book value.

**Illustration**

Bolajoko ltd. bought equipment for N1, 000,000. It is expected that the useful life is 3years and written down value of N216, 000. The company decides to use reducing balance method.

**Solution =N=**

Cost of asset 1,000,000

Depreciation 1st year (40% x N1m) 400,000

Net book value 600,000

Depreciation 2nd year

40% of reducing balance (40% x N0.60m) 240,000

Net book value 360,000

Depreciation 3rd year

40% of reducing balance (40% x N0.36m) 144,000

Residual value at the end of year 3 216,000

iii. **Sum of the year digit method**

With this method, the number of useful life of the asset is allocated in reverse order inform of a digit to a year. For example, asset with useful life of 4 years, 4 digits will be allocated to the first year, 3 digits to second year, 2 digits to third year and 1 one digit to forth year. This method is similar to reducing balance method in the sense that chargeable depreciation reduces considerably every subsequent years the asset is put to use.

**Illustration**

Olorunfemi & Co. purchased a motor vehicle on 1st of January 2005 at a cost of N1, 200,000. The car is expected to have an expected useful life of 4 year and estimated residual value of N200, 000. It is the policy of the accounting firm to depreciate its fixed asset using sum of digit method and the computed depreciation rate is 40%.

Determine the annual depreciation charge.

**Solution**

Depreciable asset = N1,200,000- N200,000 =N1,000,000

Year No Digit Working Annual Depn.

2005 1 4 4/10 X 1,000,000 400,000

2006 2 3 3/10 X 1,000,000 300,000

2007 3 2 2/10 X 1,000,000 200,000

2008 4 1 1/10 X 1,000,000 100,000

10 1,000,000

**iv. Machine hour**

Here, the life-span of depreciable asset is identified and the total number of hours it can be put to use in producing goods and services. The depreciable amount is divided by estimated service hours to obtain hourly depreciation rate.

**Illustration**

Microtel Ltd bought a new machine at a cost of N8million. The machine is expected to be used for 100,000 hours. The machine is expected to have N1million scrap value.

In the first 4 years the machine used the following hours;

Year Hours Consumed

2005 15,000

2006 18,000

2007 20,000

2008 22,000

Determine annual depreciation charge for the four years above

**Solution**

Depreciable amount = N8, 000,000-1,000,000

= N7, 000,000

Hourly depreciation = N7, 000,000 = N70

100,000 Hrs

Years Depreciation

2005 15,000 x N70 = N1, 050,000

2006 18,000 x N70 = N1, 260,000

2007 20,000 x N70 = N1, 400,000

2008 22,000 x N70 = N1, 540,000

**Annuity method and sinking fund method**

Under these methods, fixed assets are recognized as investments are expected to generate sufficient cash flows for equal to or higher than the cost of the assets in question. Depreciation charge is the excess of cash inflow for the period over the returns on the book value using internal rate of returns. These methods are not usually used.

**Illustration**

Boluje & Co. bought a vehicle at a cost of N1,000,000 on 1st of January 2003. On 1st of January 2006, motor vehicle was bought for N2, 000,000. The company charge depreciation on straight line method at 20% per annum without scrap value. The year end is 31st December.

Show the relevant account to reflect the transactions till 31st December 2007

Assuming the assets are maintained at net book value

Motor vehicles

N N

1/1/03 Cash book 1,000,000 31/12/03 Profit & Loss a/c depn. 200,000

31/12/03 Balance c/d 800,000

**1,000,000**  **1,000,000**

1/1/04 Balance b/d 800,000 31/12/04 Profit & Loss a/c 200,000

31/12/04 Balance c/d600,000

**800,000 800,000**

1/1/05 Balance b/d 600,000 31/12/05 Profit & Loss a/c 200,000

31/12/05 Balance c/d 400,000

**600,000**  **600,000**

1/10/06 Balance b/d 400,000 31/12/06 Profit & Loss a/c 600,000

1/1/06 Cash Purchase 2,000,000 31/12/06 Balance c/d 1,800,000

**2,400,000 2,400,000**

1/1/07 Balance b/d 1,800,000 31/12/07 Profit & Loss a/c 600,000

31/12/07 Balance c/d 1,200,000

**1,800,000 1,800,000**

1/1/08 Balance b/d 1,200,000

**Boluje & Co**

**Statement of Financial Position as at 31st December 2017**

**N N N**

**Non- Current Assets Cost Acc. Depn. NBV**

Motor vehicles 3,000,000 1,800,000 1,200,000

**Disposal of assets**

Asset disposal could arise either as a result of company secession or the assets in question has completed its estimated useful life. In this sense, the assets could sold for cash, scrapped and or traded-in. For the purpose of clarity, a separate account, asset disposal accounts into which all balance are transferred into. After the transfer, the differences represent profits or loss on disposal.

**Illustration**

Using illustration above, in addition the old asset was sold on 1/1/2007 for N250,000.

Motor vehicles

N N

1/1/03 Cash book 1,000,000 31/12/03 Profit & Loss a/c depn. 200,000

31/12/03 Balance c/d 800,000

**1,000,000**  **1,000,000**

1/1/04 Balance b/d 800,000 31/12/04 Profit & Loss a/c 200,000

31/12/04 Balance c/d600,000

**800,000 800,000**

1/1/05 Balance b/d 600,000 31/12/05 Profit & Loss a/c 200,000

31/12/05 Balance c/d 400,000

**600,000**  **600,000**

1/10/06 Balance b/d 400,000 31/12/06 Profit & Loss a/c 600,000

1/1/06 Cash Purchase 2,000,000 31/12/06 Balance c/d 1,800,000

**2,400,000 2,400,000**

1/1/07 Balance b/d 1,800,000 31/12/07 Disposal 200,000

31/12/07 Profit & Loss a/c 400,000

31/12/07 Balance c/d 1,200,000

**1,800,000 1,800,000**

1/1/08 Balance b/d 1,200,000

Asset Disposal Account

N N

1/1/07 Motor Vehicle 200,000 1/1/07 Cash Book 250,000

31/12/07 P & L A/C 50,000

250,000 250,000

**Trade in of assets**

An asset simply means exchange of asset for another one usually of similar use. The exchanging enterprise is expected to pay the difference between the cost of the new and the old asset to the supplier. After the payment of the said difference, the old asset is returned to the supplier and replaced with new one.

***Text Ten***

**CONTROL ACCOUNTS**

A control account shows the summary of entries in individual accounts in each ledger. It is a replica of summarized forms of accounts in the related ledgers. The balance on this account will be equal to all individual ledger balances. Otherwise, there is an error in the ledger. Normally, the principle of control account is applicable to all ledgers but practically restricted to sales and purchases ledger especially for examination purpose. Control account is also called **Total Account.**

It is noteworthy that, the control accounts are memoranda record i.e the entries are not done on double entry basis. Actual double –entries are the ones made in individual accounts.

**Items and their treatments in the control accounts**

**Debtors’ Control Account:**

1. **Bill Receivable:** bill receivables are credited to the debtor control account. However, bill receivable accepted should be used where both bill receivable and bill receivable accepted are given.
2. **Bill receivable discounted:** bill receivable discounted should be disregarded. No entry of such is made in the customers’ account.
3. **Bill receivable honored:** this should be disregarded. In other words, no entry is made in the debtors’ control account.
4. **Bad debt recovered:** this should also be disregarded unless this had earlier been credited to the debtors’ control account
5. **Provision for bad/doubtful debt:** this should be disregarded as these do not affect debtors’ control account.
6. **Provision for discount allowable:** these should be disregarded as well as the do not affect the debtors’ controls account.
7. **Cash Sales:** this should be disregarded as no entry is made in customers’ account but cash book.

**Creditor Control Account**

1. **Bill payable:** only bill payable accepted should be used when bill payable is also given. However, where only bill payable is given, then it should be used.
2. **Bill payable honored:** this should also be disregarded. This is because; any bill honored will not pass through the creditors’ account.
3. **Provision for discount receivable:** this should be disregarded as it does not affect creditors account.
4. **Cash purchases:** this will not be regarded. It has nothing to do with creditors’ accounts

**Origins and sources of items to the control account**

**Debtors’ Control Account**

**Debit entries Origin/source**

Total credit sales Sales Day Book

Cheques dishonored from customer Cash Book

Interest Charged to customers Journal books

Bills receivable dishonored Journal book

**Credit entries Origin/ Source**

Cheques and cash received from customers Cash Book

Discount allowed Discount allowed in 3-column cash book

Bad debts Journal book

Bill receivable accepted by customers Journal book

Return inward Return inward book

Purchase ledger control contras (set-off) Journal books

**Creditor Control Account**

**Debit entries Origin/Source**

Cheques and cash paid to suppliers Cash book

Discount received Discount received column of 3-column cash book

Bill payable acceptable Journal book

Return outward Return Outward Day book

Sales Ledger Contra(set-off) Journal book

**Credit entries Origin/Source**

Total credit purchases Purchase Day Book

Dishonored Cheques Cash book

Interest charged by suppliers Journal book

Bill payable dishonored Journal book

Importance of control accounts

* 1. they serve as checks against errors and fraud by junior officer in charge of ledgers
  2. Control account ensures saves effort and time in preparation of draft report and other periodic reports.
  3. it improves accuracy of the ledgers and reports as well.

**Formats of Control Accounts**

**Debtors’ Control Account/Sales Ledger Control Account**

N N

Balance brought b/d x Balance b/d x

Credit Sales x Discount allowed x

Dishonored Cheques x Bad debts x

Interest charged to customers x Bills receivable x

Trsf of Cr. Bal. to Crdtor. Cntrl A/c x Cheques received from customers x

Trsf of Dr. Bal. frm Crdtor. Cntrl A/c x Cash received from customers x

Balance carried down x Return inwards x

Purch.Lger-contra(set-off) x

Balance carried down x

X X

Balance b/d x Balance b/d x

**Creditors’ Control Account/Purchases Ledger Control Account**

N N

Balance b/d x Balance b/d x

Discount received x Credit purchases x

Bills payable x Discount receivable x

Cheques paid to suppliers x Interest charged by suppliers x

Cash paid to suppliers x Bills payable dishonored x

Return outwards x Trsf of Cr. Bal. frm Ddtors”. Cntrl A/c x

Sales ledger contra(set-off) x Trsf of Dr. Bal. to Drdtor. Cntrl A/c x

Balance c/d x Balance c/d x

X X

Balance b/d Balance b/d

**Note**

Set-off refers to setting off the debt due from one person against liabilities due to the same person. The set-off affects both the debtors’ and creditors’ ledger the same way. For instance, if Folik Limited owe Hannah the sum of N2,000 and Hannah owe it the same amount, this amount will be set-off against each accounts.

***Illustration***

Agama, a sole trader, maintains his books in such a way that a sales ledger control account and a purchases ledger control account are shown in his general ledger and balance at the end of each month. The following details are in respect of the two control accounts in respect of December 2007.

Balances as at 1/12/07 N

Dr. balances in the sales ledger. 135,000

Dr. Balances in the purchases ledger 4,150

Cr. Balances in the sales ledger 3,000

Cr. Balances in the purchases ledger 120,000

During the month, the following transactions were recorded:

Total credit purchases 175,000

Total credit sales 200,000

Sales returns 3,600

Purchases returns 2,000

Cash received from debtors 75,000

Cheques received from debtors 150,000

Payments made to trade creditors 164,000

Discount received from creditors 1,200

Discounts allowed to trade debtors 3,600

Bad debts written off 500

Provision for doubtful debts 2,000

Bill of exchange accepted by debtors 43,000

Bill of exchange accepted by Agata 66,000

Sales ledger Cr. Bal. trsf. To purchases ledger 800

Cash purchases 30,000

Dishonored bills payable 1,300

Dishonored bills receivable 1,500

Cr. Balances in the sales ledger 1,950

Dr. Balances in the purchases ledger 1,800

**Solution**

**Sales Ledger Control Account**

N N

Balance b/d 135,000 Balance b/d 3,000

Sales 200,000 Sales returns 3,600

Purchase ledger control 800 Cash 75,000

Bills receivable dishonored 1,500 Bank 150,000

Balance c/d 1,950 Discount allowed 3,600

Bad debts 500

Bills receivable 43,000 balance c/d 60,550

339,250 339,250

Balance b/d 60,550 Balance b/d 1,980

**Purchases Ledger Control Accounts**

N N

Balance b/d 4,150 Balance b/d 120,000

Purchases returns 2,000 Purchases 175,000

Discounts received 1,200 Sales ledger control 800

Bank 164,000 Bills payable dishonored 1,300

Bills payable 66,000 Balance c/d 1,800

Balance c/d 61,550

**298,900 298,900**

Balance b/d 1,800 Balance b/d 61,550