NATIONAL OPEN UNIVERSITY OF NIGERIA

SCHOOL OF BUSINESS AND HUMAN RESOURCES

COURSE CODE:BHM 736

COURSE TITLE:INTRODUCTORY ACCOUNTING

BHM 736
INTRODUCTORY ACCOUNTING

COURSE GUIDE

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1.0 INTRODUCTION

Introductor y Accounting (BHM 736) is a core course in Post Graduate Diploma in Financial Management. It is a two (2) Credit Unit Course run in the school of Business and Human Resources management of the Institution. These materials have been specifically prepared for you and made available to all students of the PGD Financial Management Programme. You will no doubt find these materials very useful in your search for knowledge both in theory and practice as a Professional Financial Manager, Consultant and Adviser.

2.0 WHAT YOU WILL LEARN IN THIS COURSE

This course is made up of sixteen (16) study units, covering core topics in Accounting such as the Historical Development of Accounting, Definition of Accounting, Users of Accounting Information, Accounting Principles and Conventions, The Accounting Equation, some common Commercial Terms, Double Entry Book Keeping, Books of Prime Entry, the Cash Book, Classification of Accounts, Ledger Accounting, the Trial Balance, Correction of Errors, Suspense Account, Banking systems and Bank Reconciliation Statements.

The Course Guide is meant to provide you with the necessar y Information about the Course, the nature of the materials you will be using and how to make the best use of the materials towards ensuring a very good success in your programme as well as acquainting yourself with the basic principles of Accounting.

Also included in this Course Guide are Information on how to make use of your time and also Information on how to tackle the Tutor- Marked Assignment (TMA) Questions. There will be tutorial sessions during which your Instructional Facilitator will take you through your difficult areas. Further, you will have meaningful Interactions with your fellow students and this will accelerate your rate of assimilation of the Course.

3.0 COURSE AIMS

The main aim of Introductory Accounting is to take you through the rudiments of Accounting and equip you with the basic techniques of Book Keeping. Other aims of the Course are:

- Familiarizing you with the Historical Background of Accounting;
- Explaining the major users of Accounting Information;
- Discussing the Accounting Principles and Conventions;
- Explaining the Double Entry Principle and how entries are made in the Books of Accounts;
- Describing how Transactions are recorded in the Cash Book;
- Discussing Ledger Accounting and explaining how accounts are classified;
- Illustrating how transactions are recorded in the respective ledger Accounts;
- Explaining the Concept of the Trial Balance and how it is prepared;
- Correcting Accounting Errors and creation of the suspense Account;
- Discussing Banking matters and
- Preparing Bank Reconciliation Statements;

4.0 COURSE OBJECTIVES

To achieve the aims of the Course, Learning Objectives are very necessary. Hence, the overall objectives of the Course have been clearly defined. In addition, each study unit has specific objectives that have been included at the beginning of each of the units. You are strongly advised to make reference to them as you study each unit both at the beginning and also at the end to ensure that you check your level of assimilation and to ensure that you attend to all your Self- Assessment Questions..

Below are the broad objectives of the Course. Meeting these objectives means achieving the aims of the Course in its entirety. On successful completion of this Course therefore, you should be able to:

- Trace the History of Accounting;
- Define Accounting;
- Explain the Uses and Users of Accounting Information;

- State Accounting Principles and Conventions;
- Demonstrate the Double Entr y Principle;
- Record Transactions in Books of Prime Entry;
- Record Transactions in the Ledger;
- Prepare a Trial Balance;
- Trace errors in Accounting Records and correct them;
- Prepare a suspense Account;
- Prepare Bank Reconciliation Statements;

5.0 WORKING THROUGH THIS COURSE

To complete this Course, you are expected to read the Study Units and the recommended text books and endeavour to explore more current materials on the Internet. In this Course, each Unit has Self Assessment Exercises to test your understanding from time to time. At certain points during your Course, you will be required to submit Assignments for assessment. There will also be a final examination at the end of the Course. Find below all the components of the Course, what you are expected to do and how you should allocate time to each Unit in order to complete your Course successfully and also on time too.

6.0 COURSE MATERIALS

Major components of the Course are:

i. Course Guide
ii. Study Units
iii. Text Books
iv. Assignment Guide.

Everything is contained in each Unit, except the Text Books which you may have to buy. You are advised to source current materials on the Internet and avail yourself with other relevant Publications on accounting to supplement these materials. You may contact your facilitator whenever you run into problems about the recommended Text Books.

7.0 STUDY UNITS

There are sixteen (16) Units in this Course, which you should study diligently. The Units are as follows:

Module One:

UNIT 1: Historical Development of Accounting
UNIT 2: Definition of Accounting

UNIT 3: Users of Accounting Information
UNIT 4: Accounting Principles and Conventions
UNIT 5: The Accounting Equation
UNIT 6: Some common Commercial Terms

Module Two:
UNIT 1: Double Entry Book Keeping
UNIT 2: Books of Prime Entry
UNIT 3: Cash Book
UNIT 4: Classification of Accounts
UNIT 5: Ledger Accounting

Module Three:
UNIT 1: The Trial Balance
UNIT 2: Correction of Errors
UNIT 3: Suspense Account
UNIT 4: Banking Systems
UNIT 5: Bank Reconciliation Statements.

The first Unit gives the Historical Background of Accounting. The Second Unit gives a formal definition of Accounting as given by various Authorities in the Accounting profession. Unit three discusses the Users and Uses of Accounting Information. The next Unit discusses the General Accounting Principles and Conventions. Unit five treats the Fundamental Accounting Equation. The **next Unit explains some Important and Common Commercial Terms that you need to know. Unit seven describes the Double Entry Principle and the next Unit looks at the Books of Original or Prime** Entry. Unit nine explains the Use of the Cash Book in Accounting and the next Unit deals with the Classification of Accounts. Unit eleven discusses Ledger Accounting and the next Unit describes the Trial Balance. Unit thirteen treats the Correction of Errors and the next Unit explains the Use of Suspense Accounts in Correcting Errors in Accounting Records. Unit fif teen discusses Banking Systems and the final Unit, sixteen treats Bank Reconciliation Statements.

Each study Unit will take a minimum of two hours, and it includes the Introduction, Objectives, Main Content, Self- Assessment Exercises, Conclusion, Summary and Tutor- Marked Assignment Questions as well as References or Further Readings. Some of the Self- Assessment Exercises will necessitate contacting your facilitator or your visiting the Internet.

There are also textbooks under the references and other materials for further study. They are all meant to give you additional Information if only you can lay your hands on them. You are strongly advised to practice the Self- Assessment Exercises and the Tutor- Marked Assignment Questions for greater understanding of the Course. When attempting the Self- Assessment Exercises, you should not consult the answers until you have answered all the Questions. You may sometimes observe that the answers provided give you more insight than may have been originally conveyed.

8.0 BOOKS

There is no compulsory Text Book for this Course. However, as you go through the Course, you will observe that some Text Books are recommended often. This emphasizes the importance of such reference materials to those Units. Please endeavour to consult these books. Please note that each Unit has its own assigned Text Books. You should ensure that you buy these Text Books including Text Books recommended for further readings.

9.0 ASSIGNMENT FILE

There are many assignments that have been given in this Course. You are expected to do all of them by following the schedule prescribed for them in terms of when to attempt them and submit same for grading by your Facilitator.

Breakdown of Activities

Unit Title of Work	Weekly/Daily	Activity	Assessment
Module One:	**1 Historical Development of** Accounting	2 Days	
2 Definition of Accounting	1 Days		
3 Users of Accounting	Information	3 Days	
4 Accounting Principles and	Conventions	1 Day	
5 The Accounting Equation	2 Day		
6 Some common Commercial	Terms	1 Days	
Module Two:			
1 Double Entry Book Keeping	4 Days		
2 Books of Prime Entr y	2 Week		
3 Cash Book		1 Week	
4 Classification of Accounts	3 Days		
5 Ledger Accounting	1 Week		
Module Three:1 The Trial Balance	3 Days		
2 Correction of Errors	4 Days		
3 Suspense Account	4 Days		
4 Banking Systems	2 Days		
5 Bank Reconciliation	Statements	1 Week	

10.0 COURSE ASSESSMENT

Your assessment for this Course is made up of two components. They are:

- Tutor- Marked Assignments
- Final Examination.

The Self- Assessment Exercises are not part of your formal assessments, but it is very important that you complete all of them. If you do the Self- Assessment Exercises, they will facilitate your quick understanding of the subject matter or unit and your Tutor- Marked Assignments made much easier to answer.

11.0 TUTOR- MARKED ASSIGNMENTS (TMA)

Each Unit in this Course has two TMAS attached to it. In doing the Tutor- Marked Assignments, you are to apply your transferred knowledge and what you have learnt in the contents of the study units.

These assignments which are many in number are expected to be turned in to your Facilitator for grading. These assignments constitute 30% of the total score for the Course.

12.0 FINAL WRITTEN EXAMINATION

At the end of the Course, you will write the Final Examination. This Final Examination will attract the remaining 70% and this makes the total final score to be 100%.

13.0 CONCLUSION

Introductor y Accounting is an interesting Course as it addresses the fundamentals of Accounting which is the bedrock of the Accounting Discipline. On successful completion of this Course, you would have acquainted yourself with the basic principles of Accounting and you will be able to prepare simple Financial Statements. Your level of commitment to Introductory Accounting has a direct relationship with your performance in subsequent Course you will take in Accounting as this is the “Foundation of Accounting and Finance” Globally.

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COURSE AIMS

The aim of this course is to take you through the rudiments of Accounting and equip you with the basic techniques of Book Keeping.

COURSE OBJECTIVES

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

- Trace the History of Accounting
- Define Accounting
- Explain the uses of Accounting
- State Accounting Principles and Conventions
- Demonstrate the Double Entr y
- Book Keeping
- Record transactions in books of Prime Entry
- Record transactions in the Ledger
- Prepare Bank Reconciliation Statements
- Record Transactions in the Ledger
- Prepare a Trial Balance

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MODULE ONE

Unit 1: Historical Development of Accounting
Unit 2: Definition of Accounting
Unit 3: Users of Accounting Information
Unit 4: Accounting Principles and Conventions
Unit 5: The Accounting Equation
Unit 6: Some Common Commercial Terms

MODULE ONE

Unit 1: Double Entry Book-Keeping
Unit 2: Books of Prime Entry
Unit 3: Cash Book
Unit 4: Classification of Accounts
Unit 5: Ledger Accounting

MODULE ONE

Unit 1: The Trial Balance
Unit 2: Correction of Errors
Unit 3: Suspense Account
Unit 4: Banking Matters
Unit 5: Bank Reconciliation Statements

MODULE ONE

Unit 1: Historical Development of Accounting

Unit 2: Definition of Accounting

Unit 3: Users of Accounting Information

Unit 4: Accounting Principles and Conventions

Unit 5: The Accounting Equation

Unit 6: Some Common Commercial Terms

UNIT 1

HISTORICAL DEVELOPMENT OF ACCOUNTING

CONTENTS

1.0 Introduction
2.0 Objectives
3.0 MAIN CONTENT
- 3.1 Evolution of Accounting
- 3.2 Old Methods and Machines used in Accounting
- 3.3 Use of Computers in Accounting
  - 3.3.1 Spreadsheets
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4.0 Conclusion
5.0 Summary
6.0 Tutor- Marked Assignment
7.0 References/ Further Readings

1.0 Introduction

In any human system, history plays a key role as it precisely documents where such a system is coming from, its present state and where it is going. So it is with the Accounting Discipline. This Study Unit traces the origin of Accounting with a view to building a theoretical framework in which the entire discussion in this Course rests.

2.0 LEARNING OBJECTIVES

At the end of this Unit, you should:

- o Trace the origin of Accounting
- o Explain the old methods and machines used in Accounting

3.0 HISTORICAL DEVELOPMENT OF ACCOUNTING

3.1 Evolution of Accounting

Accounting is one of the oldest professions that is constantly evolving. Its origin could be traced back to the Babylonian Empire in 4500 BC when tax collectors accounted to the Emperor all taxes and levies collected from the citizens.

By 2300BC, the use of clay tablets began to serve as records of receipts and disbursements. An improved method of record keeping was developed in Egypt by 400BC with the discovery of papyrus (paper) and calamus (pen).

A major step forward in numeration occurred in 850AD with the development of the decimal system by the Arabs. The earliest known use of a complete double- entry book-keeping system was in Genoa in 1340 AD.

Modern Accounting system has its beginning in Italy in the early part of the 15th centur y. As early as 1431 the Medici family used a complex set of books consisting of a cash book, a stock book, a wage book and a book of income and outgo. To further improve the Accounting system, Venetian Monk, Lucas Pacioli published the 1st Accounting work in 1494. Although it disseminated rather than created knowledge about double-entry bookkeeping, Pacioli's work summarised the principles that have remained essentially unchanged.

The Industrial Revolution and the resulting complexities of business and finance gave impetus to accounting in the British Isles as well as other parts of Europe. From the 18th to the 19th centuries, different professional bodies in accounting began to emerge in Italy, England and down to the U.S.A.

Accounting has developed into two big categories: Financial Accounting and Management Accounting; the former is meant for both internal and external consumptions, whilst the latter is for internal consumption only. This is necessary so as to take care of the diverse interest groups and to cover all fields of activities performed in profits and non-profit oriented organizations.

Now, the use of computers, which emanated from the use of accounting machines further, broadened the scope of book-keeping, and the term data processing now replaces bookkeeping.

The spread of the system was accelerated with the publication in 1494, of the first known text on Double- Entry system of Book- Keeping by a Luca Pacioli who was an erudite scholar in his time. The title of the book is in Italian language but translated into English as "Everything about Arithmetic, Geometry and Proportion". Only one Chapter of the book dealt with Double-Entry bookkeeping. This chapter was so popular among students that ten years later, in 1504, Luca published it as a separate book, whose title, translated into English means "The Perfect School of Merchants (ICAN STUDY PACK 2006: 06).

Irrespective of the manner in which business organizers have evolved over the ages, one factor has remained constant- the need for Book- Keeping (that is, recording of business transactions in an orderly manner). In order to, among others, measure the value of resources employed and the profitability (or otherwise) of the business venture. Various forms of recording existed ranging from situations in which virtually no records were kept to Single- Entry systems and Double- Entry systems.

In Nigeria, record keeping has antecedents in the ancient Kingdoms and Empire and prominent then was the periodic contributions, which were recorded on the wall. But the granting of royal character to Royal Niger Company was the turning point in record keeping. The Government Accounting Principles in Nigeria was almost the same as the one in Britain.

3.2 Old Methods and Machines Used in Accounting

The most common method of keeping the financial records of a company was manual. A bookkeeper kept the journals, the accounts receivable, the accounts payable and the ledgers in his best possible penmanship. In later years, an accounting machine, which was capable of

performing normal bookkeeping functions, such as tabulating in vertical columns, performing arithmetic functions, and typing horizontal rows, was introduced. The billing machine, which was designed to typewrite names, addresses, and descriptions, to multiply and extend, to compute discounts, and to add net totals, posting the requisite data to the proper accounts, and prepare a customer's bill automatically once the operator has entered the necessary information, was used. Early accounting machines were marvels of mechanical complexity, often combining a typewriter and various kinds of calculator elements. The refinements in speed and capacity were made possible by advances in electronics and operating complexities of these machines. Many of the newer "generations" of accounting machines are operated by a computer, to which they are permanently connected.

3.3 Use of Computers in Accounting

The minute- by- minute changes in finances and the need for accurate record keeping in modern accounting practice, calls for computerization of the entire accounting process. Computerizing a business's general ledger, payroll, and other accounting tasks increase office efficiency. With a computer, you can request and receive an in house balance sheet, an income statement, or other accounting reports at a moment's notice. While keeping your cheque book on a computer may not be practical, computers are great for handling complex home financial records. You can get statements on net worth and year's tax-deductible expenses within minutes.

3.3.1 Spreadsheet

Electronic spreadsheets allow you to do anything that you would normally do with a calculator, pencil and columnar scratch pad. Spreadsheets were primarily designed for managers who in the process of planning must do "what if" calculations. Due to their flexibility, electronic spreadsheets have found their way into small businesses and, to a lesser extent to homes. A typical integrated double entry accounting system will contain some or all of the following components: accounts receivable, accounts payable, general ledger, inventory, order entry, payroll, time, and billing.

It takes its name from the accountant's spreadsheet—a sheet of paper with rules for rows and columns—on which such work was usually done. Spreadsheet programs are much faster, more accurate, and easier to use than traditional accounting techniques. The programs are widely used on personal computers for keeping sales, expense and inventory records, and for budgeting and forecasting future sales and expenses. As a result of these and many other applications, computer spreadsheets have become the most important of all software tools for modern businesses.

Early programs such as VisiCalc provided 254 rows and 63 columns for entering data and formulae for calculations. Some modern programs for computers with large memories provide thousands of rows and hundreds of columns. VisiCalc was introduced by Robert Frankston, a young computer programmer, and Dan Bricklin, a Harvard Business School student who was looking for a way to use the power of a computer to simplify complex time-consuming financial analyses. VisiCalc proved so useful in such applications that it provided an entry for personal computers into the business world. In 1980, the Sorcim Corporation introduced SuperC alc, a similar spreadsheet program for personal computers using the CPM operating system.

A new generation of computer software for business began with integrated spreadsheet programs, which can be used to prepare spreadsheets, create graphs, and manage data. In such programs, for example, it is easy to display spreadsheet data in the form of a graph or to transfer data from a database to a spreadsheet. One of the first such programs was Lotus 1-2-3, an immediate success following its introduction in 1983.

In the third generation of integrated business software, spreadsheets, graphics, and data management capabilities were supplemented by word processing and communication capabilities. With such comprehensive programs, it became possible to create multiple windows on the computer display. Each window could contain a different application—a graph in one, a spreadsheet in another, and word processing in a third. The window capabilities of integrated programs such as Symphony and Framework makes it easy, for example, to transfer a spreadsheet or a database report to word processing for styling and formatting before printing.

3.3.2 General Ledger

General Ledger is a labour saving device for the preparation of financial statements and for establishing multiple income and cost entries.

3.3.3 Accounts Receivable

Accounts receivable, when computerized, can get your bills out the same day you have performed a service. An accounts receivable module prepares invoices and customer accounts, adds credit charges where appropriate, handles incoming payments, flags your attention to customers that are delinquent, and produces stunning notices. It allows you to have daily cash control. You get out the bills on time, yet you avoid errors such as billing a customer twice for the same item. A further advantage is that debits and credits are posted automatically to the general ledger, order entry, and in some instances inventory, once they are entered in accounts receivable.

3.3.4 Accounts Payable

Accounts payable, when computerized, will provide for purchase order control, invoice processing, payment selection and handling, cheque writing and control, cash-requirements, forecasting, etc. It will also double-check the accuracy of the vendor's invoice, and some software systems will crosscheck it against the purchase order and the inventory module.

3.3.5 Inventory Control

Inventory Control module has multiple functions, including tracking inventory for both costing and tax purposes, controlling purchasing (and the overall level of expenditure) and minimizing the investment in inventory (and subsequent loss of cash flow).

3.3.6 Payroll Controls

The payroll module prepares and prints payroll checks, including all itemized deductions. It is integrated with the general ledger so that you can automatically set aside the correct amount for PAYE and other withholdings.

3.3.7 Point of sale

Point of sale module captures all sales information at (or in place of) the cash register, including salesperson, date, customer, credit information, items, and quantity sold. It can produce sales slips or sales invoices, plus it reports on items, customer, and salesperson activity.

3.3.8 Purchasing and Receiving

Purchasing and receiving module can represent an invaluable addition. It can generate purchase orders and track their fulfillment. You can find out which vendors are delivering on time and saving you the expense of having to follow up on partial and incomplete orders.

3.3.9 Time and Billing Module

Time and billing module reduces manual and clerical work, simplifies the billing process, prompts you and your partners to bill on time, reduces unbilled work-in progress, minimizes unreported time, reduces unbilled time, measures and analyzes non-chargeable time and provides criteria to analyze staff performance. Because a computerized accounting system is basically a computerized data management system, the disposition of labor is almost the same.

One staff member must serve as a database manager and be in charge of setting up the chart of accounts, establishing the interrelationships among the files and establishing and maintaining an audit trail.

4.0 CONCLUSION

The History or Foundation of Accounting is of immense importance to the Accounting profession as it traces the starting point of record keeping to the highly primitive era.

5.0 SUMMARY

This unit has traced the History of Accounting. It has shown that the starting point of Accounting can be linked to the merchants in the Babylonian and Assyrian civilization about 4000 years B.C. Reverend Father Luca Paciolo is the Father of Double- Entry Book- Keeping.

SELF-ASSESMENT EXERCISE

1. "The History of Accounting is not complete without mentioning the name of the Italian monk and Mathematician LUCCA PACIOLO" Discuss.
2. Identif y at least three accounting packages that can be used in a computerized business environment.
3. What is the relationship of Accounts receivable and Debtors?

6.0 TUTOR- MARKED ASSIGNMENT

1. Trace the History of Accounting
2. Mention and Discuss old methods and Machines used in Accounting.

7.0 REFERENCES/ FURTHER READINGS

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UNIT 2

DEFINITION OF ACCOUNTING

CONTENTS

1.0 Introduction
2.0 Objectives
3.0 Main Content
3.1 Definitions of Accounting
3.2 Working Definition
3.3 Divisions of Accounting
4.0 Conclusion
5.0 Summary
6.0 Tutor marked Assignment
7.0 References/ Further Readings

1.0 INTRODUCTION

A clear and concise definition of Accounting is very needful in order to ensure the attainment of the objectives of this unit. Definitions give a clear focus of the direction of the unit and facilitate understanding especially for beginners like you.
The definitions have been simplified to facilitate quick understanding by you.

2.0 Learning Objectives

At the end of this unit, you should:

Define Accounting as given by different professionals
Explain the Divisions of Accounting
Define and explain Book- Keeping

3.0 WHAT IS ACCOUNTING?

We can start by saying that "accounting is a service activity". Its function is to provide quantitative information about economic entities. The information primarily is financial in nature and intended to be useful in judging the business and making economic decisio
Accounting information is used in describing the activities and financial position of many different kinds of economic entities. They include profit-oriented organizations such as commercial banks, trading companies, conglomerate companies, and non profit-oriented organizations such as government hospitals, schools, governmental agencies, etc. In judging and making decisions ab economic entity, individuals generally must begin by asking questions about the ent
The answers to many of such questions are found in accounting reports. If, for example, the entities were business concerns, the management of the businesses would look to accounting for answers to questions such as: What are the resources of the business? What debts does it owe? Does it have earnings? Are expenses too large in relation to sales? Are too little or too much merchandise being kept? Are amounts owed by customers being collected rapidly? Will the business be able to pay its debts as they mature? Should the plant be expanded? Should a new product be introduced? Should selling prices be increased? In addition, providers of finance including suppl
accounting information in answering such questions as: Are the customer's earning prospects good? What is its debt paying ability? Has it paid its debts promptly in the past? Should it be granted additional credit? In a similar manner, governmental units use accounting information in regulating businesses and assessing businesses to tax. These will be discussed in details under the users of accounting information.

3.1 DEFINITIONS OF ACCOUNTING

According to Okwoli (1993:3), accounting is 'the process of identifying, measuring, and *communicating economic and financial information to permit informed judgement and decision by the users of the information'*.

Wood and Sangster defined accounting as 'the process of identifying, measuring, and *communicating economic information to permit informed judgements and decisions by users of the information'*.

The American Institute of Certified Public Accountants (AICPA, 1961) has def ined accounting as "the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the result thereof".

In a nutshell, accounting can be def ined as "the process of identif ying, analyzing and recording, classifying and summarizing, and communicating and interpreting economic information to users of the information in order to permit informed judgments and decisions".

Key words from the above definition are as follows:

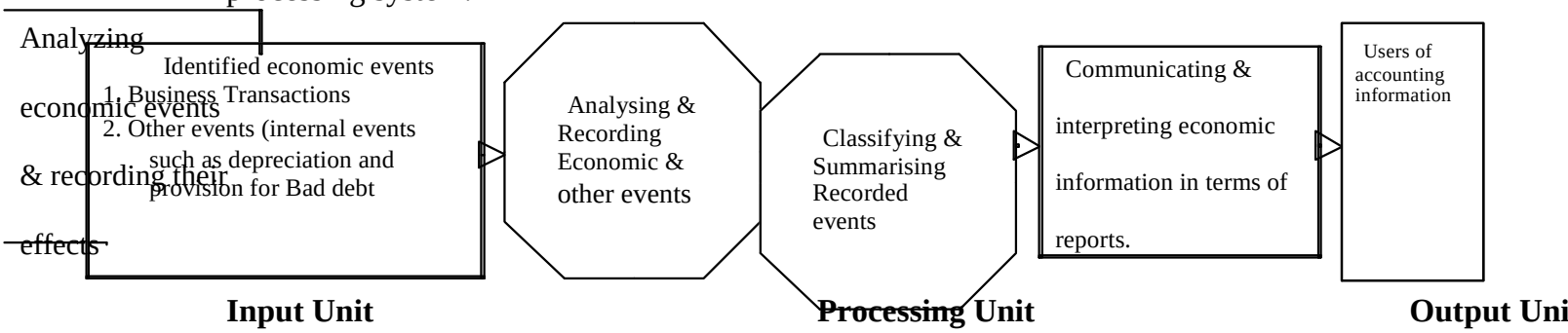
i) Identifying financial transactions and other economic events from source documents;

ii) Analyzing and recording identified transactions into prime books such as journals and cash book;

iii) Classifying and summarizing analyzed and recorded transactions from the prime *books by posting them to the ledger accounts and subsequently balancing them;*

iv) Communicating and interpreting the summarized items and accounts to all *interested users of accounting information so that they can judge the performance and position of the business and make necessary decisions.*

The process of accounting can best be illustrated diagrammatically in terms of an information processing system:



3.2 Working Definition

For this course, the Definition of Accounting as given by the American Institute of Certified Public Accountants is comprehensive enough and has been adopted. T Defines Accounting as "the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least of a financial character and interpreting the results thereof.

The above definition can, for the purpose of simplicity, be divided into two parts, viz:

(i) the part that deals with recording, classifying and summarizing transactions, and

(ii) the part that deals with interpreting the results of the first part

The first part is what we call "book- keeping". Accounting, or Accountancy, includes book- keeping.

In this course, we will be dealing with book- keeping only. Book- keeping has been defined by Baston (1979:3) as the art of recording the financial transactions of a busin individual, in terms of money, in a set of books in order to obtain necessary information when required.

The definition has four distinctive parts:

(i) Book- keeping is an art, not a science

(ii) It is concerned with recording financial, and not any other type of transactions

(iii) The transactions must be recorded in terms of money and not in terms of quantity

(iv) The object of book- keeping is to provide information about the conduct and status of the business.

3.3 WHY STUDY ACCOUNTING?

Considering the wide range of questions that are answered by referring to accounting information, perhaps every educated person in the society should be regarded as a user of accounting information. If you are to use accounting infor mation effectively, you must have some uderstanding of how data are gathered and the figures that are put together. This is the main reason why all and sundry need to study accounting because it enables you to appreciate the limitations of the data and the extent to which some portion are based on estimates rather than on precise measurements. And, you must understand some accounting terms and concepts. Needless to say, this knowledge is only gained by a study of accounting .

Another reason to study accounting is to make it one's lifework. A career in accounting can be very interesting and highly rewarding.

3.4 DIVISIONS OF ACCOUNTING

Accounting could be divided into four major branches as follows:

(i) Financial Accounting

This deals with recording and communicating information to enable the users to assess the performance of the enterprise.

(ii) Management Accounting

The Management Accountant prepares futuristic accounting information (estimates and projects) such as budgets to assist Management in decision making.

(iii) Auditing

Auditing is that branch of Accounting that examines financial statements and underlying records of an organization and reports thereon to the stakeholders or to the management if he is an Internal Auditor.

(iv) Taxation

Taxation is that branch of Accounting that deals with the levying and collection of compulsory contributions on the citizens of a country in order to defray expenses incurred by Government.

4.0 CONCLUSION

Defining Accounting and differentiating it from book- keeping is very essential as the latter is a sub- set of the former. Accounting as a management science has a very wide area of coverage (Financial, Management, Auditing and Taxation).

5.0 SUMMARY

This study unit has:

- o Defined Accounting
- o Defined Book- keeping
- o Outlined the Divisions of Accounting

SELF ASSESMENT EXERCISES

(i) What is the main object of book- keeping?

(ii) Is book- keeping essential for a business? Give reasons to support your answer

6.0 TUTOR- MARKED ASSIGNMENT

1. Define Accounting
2. Is it true to say that book- keeping is a part of Accounting?

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STUDY UNIT 3

USERS OF ACCOUNTING INFORMATION

CONTENTS

1.0 Introduction
2.0 Objectives
3.0 Main Content
3.1 Importance of Accounting
3.2 Users of Accounting Information
3.2.1 User Groups of Accounting Information
3.3 Characteristics of Useful Accounting Information
4.0 Conclusion
5.0 Summary
6.0 Tutor Marked Assessment
7.0 References/ Further Readings

1.0 INTRODUCTION

An important feature of Accounting is the provision of information to a variety of users. This is absolutely necessary because they need to judge the economic performance and progress of the entity and then take informed decisions of varying nature. It is therefore, need to acquaint yourself with some of the user Group of Accounting Information.

2.0 LEARNING OBJECTIVES

At the end of this unit, you should:

- Enumerate user groups of accounting information
- Explain the uses of Accounts
- Outline the qualities of good accounting information

3.0 MAIN CONTENT

3.1 Importance of Accounting

Accounting is very important in view of the following uses:

(i) Accounting Information can be used for decision making;
(ii) It provides permanent records for all transactions;
(iii) It helps to determine the profitability of a business concern;
(iv) Accounting records are used for tax assessment;
(v) Helps to prevent fraudulent practices;
(vi) The records provide a means by which the finances of a business are controlled;
(vii) The records show the Income and expenditure;
(viii) The assets and liabilities are shown by the Accounting records;
(ix) Accounting records aid planning;
(x) Accounting records provide a proof of the financial position of an Enterprise.

3.2 Users of Accounting Information

One of the features of accounting definition is the provision of accounting information to all users. This is necessary because they need to judge the economic performance and progress of an entity and then take decisions.

Accounting information is usually in the form of reports and statements, and for any report or statement to be regarded as information generally, it must possess the qualities of useful or valuable information, otherwise it ceases to be information.

3.2.1 User Groups of Accounting Information

(i) Owner/shareholders of the economic entity or business: Why do the owners need accounting information? The owners of the business need accounting information to enable them know whether the business is doing well or not. They use it to measure management performance and determine what returns are coming to them.

(ii) Managers/Managem ent

This group of people is saddled with the responsibility of running the business on behalf of the owners or shareholders. They need accounting information in order to know whether they are managing it well or not. They use accounting information for the daily running of the business; and to measure their performance.

(iii) Lenders/Providers of finance

These are long/short term creditors. They may be in form of friends or relatives, commercial or development banks. They are interested in accounting information so as monitor the activities of the business, its credit worthiness, its viability and its liquidity position.

(iv) Government

Government refers to all the three tiers of government (Federal, State and Local Governments) of the Federal Republic of Nigeria. It is interested in accounting information for taxati purposes and the regulation of the businesses.

(v) Suppliers

These are people who provide goods and services to the business. They are interested i proving the viability and liquidity of the business and then decide on whether or not to allow any short-term credit.

(vi) Customers

This group of users buy the products of the entity. They need the accounting information in order to ensure the availability of goods and services at all times and may decide to even deposit money for goods in advance. This is going to be an advantage to such a business enterprise as it serves as a source of short-time finance.

(vii) Employees

This group of people consists of workers of the business with their unions. They are al interested in accounting information because it enables them know the continuity of thei monthly salaries and the security of their jobs.

Financial information helps union leaders, who are employee representatives, have bargaining power for pay increase and employees benefits.

(viii) Competitors

These are organisations or individuals running or operating similar and related businesses. They are interested in information about their competitors so as to plan strategies to outwit or at least to compete favourably in the industr y.

(ix) Financial Analysts/Advisers

These include journalists, authors and students. They need accounting information of business entities so as to analyze and compare it with other similar businesses and make comments thereof.

3.3 Characteristics of Useful Accounting Inform ation

No information is useless but its degree of usefulness varies. Financial statements and reports could be said to contain valuable/useful information if, and only if, they possess the following characteristics:

i) Relevance. The information provided should be that which is required to satisfy the needs of information users. In the case of company accounts, clearly a wide range of information will be needed to satisfy the numerous interest groups.

ii) Comprehensibility. Information may be difficult to understand because it is skimpy or incomplete, but too much detail is also a defect, which can ca **difficulties.** Useful information should be relatively easy to understand and comprehend.

iii) Reliability. This will be enhanced if information is independently verified. T law requires that an auditor, who must be a person independent of the company and the holder of an approved qualification, should verify the accounts published by limited companies.

iv) Completeness. A company's accounts should present a rounded picture or contained a snapshot of its entire economic activities.

v) Objectivity. The usefulness of information will be enhanced if it contains a minimum of subjective judgment. This is particularly the case where conflicting interests operate and an unbiased presentation of information is needed. In the context of preparing accounts, where many decisions must be based on judgment rather than objective facts, this problem often arises. Management is often inclined to paint a rosy picture of company's profitability to make their own performance look impressive; while the auditor responsible for verifying the accounts is inclined to take a more prudent view so that he will not be held liable by, say a supplier who is misled into granting credit to a shaky company.

vi) Timeliness. The usefulness of information is reduced when it does not appear until long after the period to which it relates, or if it is produced at unreasonably long intervals. What constitutes a long interval depends on the circumstances: management of a company may need very frequent (perhaps daily) information on cash flows to run business efficiently; but shareholders are normally content to see accounts produced annually.

vii) Comparability. Information should be produced on a consistent basis so t valid comparisons can be made with information from previous periods and with information produced by other organisations (e.g. the accounts of similar companies operating in the same line of business).

viii) Accurate. Accurate financial information is error free. In some ca inaccurate information is generated because inaccurate data was fed into the transformation process.

ix) Economical. Economic information should be relatively economical produce. management must balance the value of every accounting report with the cost of producing it.

x) Sim plicity. Accounting information should be simple and not complex. Sophisticated and Technical Information may be unnecessary and uncommunicative.

xi) Verifiable. Accounting information has to be verifiable. This means t users of accounting information may wish to confirm/check it to make sure it is correct.

xii) Accessible. Information should be easily accessible to authorized users. It must be obtained in the right format, in the right time and in the right place to meet their needs.

xiii) Flexibility. Financial information is expected to be flexible so as to meet the diverse needs of users. It should serve a variety of purposes.. Again, methods of presenting information should be free from too much rigidity and follow the "times".

xiv) Security. It is not every account or report that is meant for public consumpti some reports are prepared for specific users. Hence, accounting information should be secured from unauthorized users.

4.0 CONCLUSION

No matter what form a business takes, the one thing that it has in common with all other businesses is the need to keep financial records. These will be required for a variety of reasons.

5.0 SUMMARY

This study has discussed:

- o The importance of Accounting
- o The users of Accounting Information
- o Characteristics of useful Accounting Information

SELF ASSESMENT EXERCISE

1. Mention the main characteristics which good Accounting Information must possess
2. List the users of accounting in order of priority.

6.0 TUTOR MARKED ASSIGNMENT

1. Discuss fully the users of Accounting Information
2. What is the importance of Accounting Information?

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STUDY UNIT 4

ACCOUNTING PRINCIPLES AND CONVENTIONS

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2.0 Objectives
3.0 Accounting Principles and Conventions
3.1 Definition
3.2 Accounting Concepts and Conventions
3.3 What is Accounting Cycle?
4.0 Conclusion
5.0 Summary
6.0 Tutor -Marked Assessment
7.0 References/ Further Readings

1.0 INTRODUCTION

Practical details of accounting usually differ greatly from one organization to another. Hence, there are usually rules and conventions, which have been adopted as a general guide to action by the Accountancy Profession. This Study Unit discusses some of the main accounting Concepts and Conventions. This knowledge is very needful as it lays a solid foundation for subsequent studies in this Course.

2.0 LEARNING OBJECTIVES

At the end of this unit, you should:

- o Define Accounting Principles and Conventions
- o Explain Accounting Principles and Conventions
- o Describe Accounting cycle

3.0 Accounting Principles and Conventions

3.1 Definition

Accounting concepts are those bases, rules, principles, conventions and procedure adopted in preparing and presenting financial statements. A substantial number of alternative postulates, assumptions, principles and methods adopted by a reporting entity in the preparation of its accounts can significantly affect its results of operations, financial position and changes thereof. It is therefore, essential to the understanding; interpretation and use of financial statements, whenever there are several acceptable accounting methods, which may be followed, that those who prepare them disclose the main assumptions on which they are based. To secure acceptance, an accounting principle must be useful in coping with a practica recording problem, it must be reasonably objective, that is, provide a similar answer in the hands of qualified practitioners and finally, it must be feasible. That is, it should not be expensive to apply (Garbutt, 1982: 101)

3.2 Accounting Concepts and conventions

The fundamental accounting concepts that guide the financial reporting enterprises are described below:

i) Entity Concept

This states that the business has an identity and existence distinct from its owners and those business transactions should be separated from private/personal transactions. This differs from

the legal position. From the legal point of view, only a limited company and its owners are separate legal entities, able to contract with each other, sue each other, etc. With a sole trader, however, the legal position is different. The sole trader and his or her business are legally the same thing. The rights, possessions, privileges and risks of one are also the rights, possessions, privileges and risks of the other. But, the accountant takes a different view. To the accountant, whatever the legal position, the business and the owner(s) are considered completely separate. Thus, the accountant can always speak of the business as owing the owner money, borrowing money from the owner, owing profits to the owner, and so on. Therefore, records of the business transactions must be kept separate from the private transactions of the owner.

ii) Going Concern Concept /Continuity Concept

This concept states that in the absence of evidence to the contrary, it is assumed that the business will continue perpetually. This concept has a major influence on the assumptions made when evaluating particular items, such as stock and depreciation in the balance sheet. It is worth noting that the going concern assumption does not say that the business is going to keep being profitable into the unforeseen future. It merely assumes that the business will manage not to collapse altogether.

iii) Periodicity Concept or Accounting Period Concept

This very simple concept recognizes that profit occurs over time, and we cannot usefully speak of the profit "for a period "until we define the length of the period. The maximum length in which:

a) it is capable of objective measurement, and
b) the asset value receivable in exchange is reasonably certain.

For instance, if an asset such as stock is disposed off, either on cash or credit basis, the proceeds should be recognized as revenue realized for that period.

iv) The Matching Concept

This concept covers the process of profit calculation- where revenue and expenses come into relationship. It states that profit (or income) determination is a process of matching against revenue the expenses incurred in earning that revenue. The concept also allows us to carry forward assets into future periods because they will be used profitably later.

v) Consistency Concept

This concept states that the same accounting rules, methods and procedures should be applied in preparing and reporting accounting information. It emphasizes the following:

a. The avoidance of short ter m manipulation of reported results;
b. The adoption of a reporting method that will facilitate comparison within the firm over different accounting periods (intra-firm comparisons); and
c. The use of the method that facilitates comparison between different entities (inter-firm comparisons). For example, depreciation methods for similar assets should maintained for a relatively longer period.

vi) Historical Cost Concept

This concept states simply that resources (Assets) acquired by the business should be recorded at their original purchased prices. It follows on from the monetary measurement conce discussed further and tells us how the item can actually be measured. This is a well-known concept that has gained a worldwide support in the past; however it no longer receives such support.

vii) Realisation

This concept, which is most similar to the matching concept, mentioned above, states that revenue and expenses earned and incurred for a particular period must be considered when preparing the accounting report for that period. It must be irrespective of whether it has been collected or not, whether settled or not. For example, credit sales and accrued

viii) Dual Concept or Duality

This may be regarded as a formalization of the basis of double entry. It states that in relation to one economic event (transaction), two aspects are recorded in the accounts, "Debit and Credit sides".

ix) Accrual Concept

The concept states that all expenses in which the services have been enjoyed but payment for such services have not been effected must be captured in preparing the financial statements of such Entities. For instance, electricity bills for a given period must be considered in drawing up the accounts for the period whether or not payment for consumption has been made. .

x) Objectivity Concept

This concept calls on accountants to be certain and precise. They should be free from personal opinions and biases, fair and objective in recording transactions and making report, because verifiability of economic events is a desirable element in accounting.

xi) Monetary Measurement Concept

Accountants regard their job as dealing with financial information. This concept states that the accountant only records those facts that are expressed in money terms. The accountant ignores any other facts, no matter how relevant they may be to the user of the information, if they cannot conveniently be expressed in money terms.

xii) Materiality Concept

This is a statistical concept that in its application to accounting implies that insignificant items should not be given the same emphasis as significant items. The insignificant items are by definition unlikely to influence decisions or provide useful information to decision makers, but they may as well cause complications and confusion to the user of accounts. Their detailed treatment may also involve a great deal of time and effort – and therefore of money for no useful purpose.

xiii) Conservatism (Prudence) concept

This concept refers to the accounting practice of recognizing all possible losses, not anticipating possible gains. This will tend to lead to an understatement of profits and to an understatement of asset values with no corresponding understatement of liability. This concept seems to contradict the Going Concern, Materiality, Historical Cost and Objectivity concepts (SAS 1- Disclosure of Accounting Policies).

3.3 Accounting cycle

This is the process by which the capital invested in a business "circulates" throughout the enterprise in a manner that adds net positive (profits) or negative (losses) value to the business.

4.0 Conclusion

Accounting Concepts or Principles have evolve as a result of operational differences t abound in business environments due to size, location, nature of business, e. t. c.

5.0 SUMMARY

The Unit has elaborately:

- o Defined Accounting Concepts and Conventions

- o Outlined the Accounting concepts and Conventions
- o Discussed the Accounting cycle

SELF ASSESSMENT EXE RCISES

1. Differentiate between Accounting concepts and Accounting conventions
2. Identif y accounting concepts that are in conflict with each other.

6.0 TUTOR MARKED ASSIGNMENT

(i) What is an Accounting Principle?

(ii) List and explain ten (10) Accounting Concepts and Conventions

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STUDY UNIT 5

THE ACCOUNTING EQUATION

CONTENTS

1.0 Introduction
2.0 Objectives
3.0 Main Content
    3.1 The Accounting Equation
    3.2 Assets and Liabilities
    3.3 The Business Cycle
4.0 Conclusion
5.0 Summary
6.0 Tutor Marked Assessment
7.0 References/ Further Readings

1.0 INTRODUCTION

The totality of Financial Accounting is based on the Accounting equation. The Double- Entry Principle evolved from this equation. This study unit analyses the various components of this fundamental equation.

2.0 LEARNING OBJECTIVES

At the end of this study unit, you should:

- State the Accounting equation
- Define Capital
- Define Assets
- Explain what are liabilities

3.0 MAIN CONTENT

3.1 THE ACCOUNTING EQUATION

Financial accounting is completely based on the accounting equation. For a Business to commence operation, it must have resources and these resources must be provided by somebody. The resources possessed by the business are referred to as assets, while the one who supplied them refers to the same resources as capital. CAPITAL = ASSETS

On the other hand, someone other than the owner will normally have provided some of the resources. In this case, the business will be indebted to that person and such indebtedness is called liability.

The equation can now be expressed as:

CAPITAL + LIABILITIES = ASSETS

It can be seen that the two sides of the equation, will have the same totals. This is because we are dealing with the same thing from two different points of view. It is Resources.

It is a fact that the totals of each side will always equal one another, and this will always be true no matter how many transactions are entered into. The actual assets, capital and liabilities may change, but the equality of assets with that of the total of capital and liabilities will always hold true.

3.2 ASSET S AND LIABILITIES

3.2.1 Assets- consist of property of all kinds, such as business buildin machinery, furniture and fixtures, motor vehicles, stocks of goods and also, benefits such as debts owed by customers and the amount of money in the bank account and cash in hand, etcetera. The last four items are called current assets because they can be used within 12months, while the others are called fixed assets because they can be used for more than a year.

3.2.2 Liabilities- consist of money owed for goods supplied in the firm or expenses in form of loans made to the firm, goods supplied by suppliers, including unpaid expenses. Liabilities can be divided into long-term and current liabilities. The long-term liabilities repayable beyond one year while the current liabilities are those repayable within twe months.

3.2.3. Capital- is often called the owner's equity or net worth. Liabilities consist of money owed or collected from outsiders,

RESOURCES =ASSETS = CAPITAL (OWNE + LIABILITIES (CREDITORS)

Thus, the accounting equation, if both the owner and the creditor provide resources, will appear as follows:

ASSETS = CAPITAL + LIABILITIES
N182, 000 = 100,000 + 82,000
It can be seen that the two sides of the equation will have the same totals. This is because we are dealing with one and the same thing from two different points of view.
Again, we can represent what is stated above in another way:
Resource: Who supplies the resources? - Owner (Capital) and others (liabilities)
What are these resources? - Assets
It is true that the total of each side of the equation will always be true no matter how many transactions are entered into. The actual assets, capital and liabilities will always hold true.
The accounting equation is the simplest way to determine the financial posit of an enterprise.

3.3 THE BUSINESS CYCLE

3.2.1 Business Defined

A business is an organisation established deliberately by an entrepreneur(s) for the purpose of satisfying consumers' wants and consequently making a profit therefrom. It is upon this fact that all businesses really depend on profit,

3.2.2 Why Businesses Exist

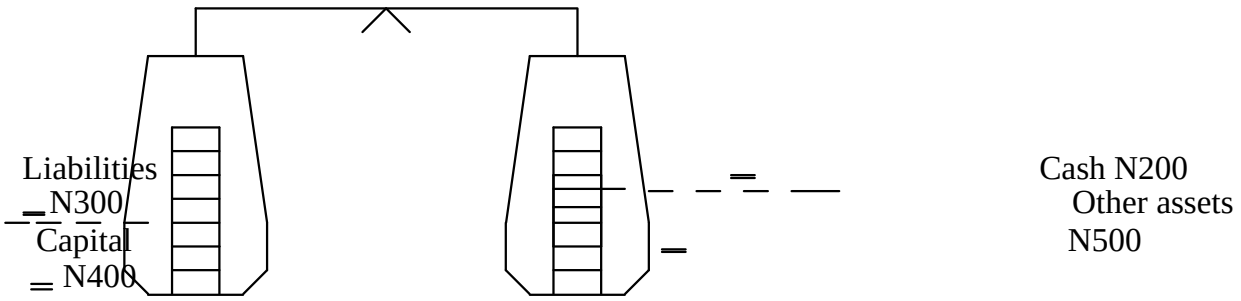
Businesses exist to provide goods/services and in the process, earn income for the owners. An increase in capital is more usually expressed as 'making a profit'.
The business cycle might be described as follows:
A trader begins a trading period with certain assets and liabilities, the excess of assets over the liabilities being his capital.
Some of these assets are exchanged for others of a greater value; for example, he sells them more than he paid for them, and thus makes a profit. This increases the capital.
Other assets he buys to keep and use. As time goes on the value of these assets falls because:
(a) They wear out or are used up.
(b) Things, like leases, expire.
This loss reduces capital. Again he incurs certain expenses, which also result in reduction of his capital. If the increase in capital is greater than the loss, then, he has made a profit Obviously, the only way to find out whether or not a profit has been made is to keep a track of values of assets and liabilities, and that is why he keeps books.

One other small point should be noticed. An unsuccessful businessman might find that his liabilities exceed his assets. In that case he would have no capital, and the difference between assets and liabilities would then be called a deficiency. The book- keeping equation would need to be re-written as: L= A + D (D = deficiency) or D = L – A.
A person or business whose liabilities exceed the assets is said to be insolvent.

STAGE 1

A business commences with certain assets and liabilities. The difference is its capital.

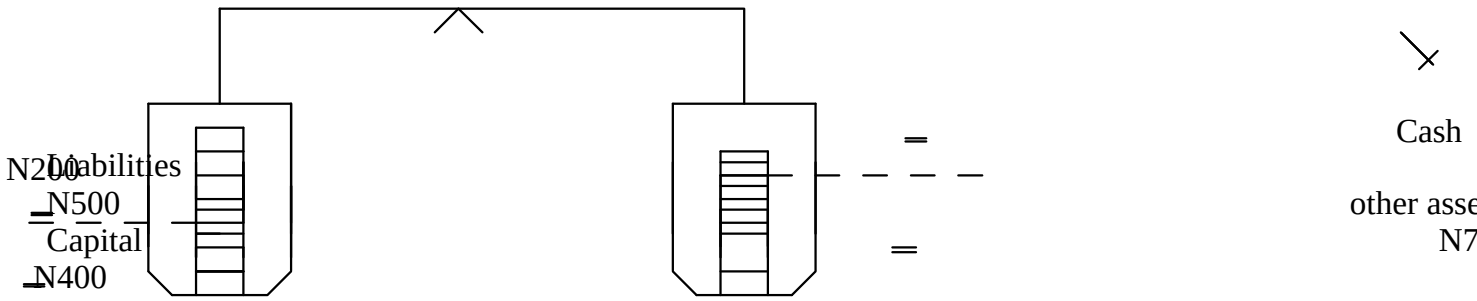
L + C = A
N300 + N400 = N700



STAGE II

Additional assets costing N200 are acquired, but liabilities are increased by the same amount (i.e., goods are bought but not paid for immediately).

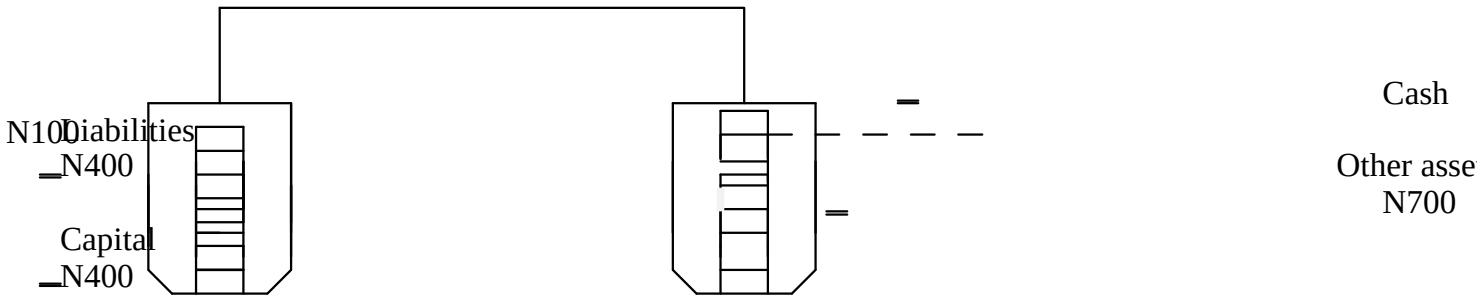
L + C = A
N500 + N400 = N900



STAGE III

Some liabilities are extinguished by the sacrifice of assets of equal value (e.g debts of N100 are paid in cash).

L + C = A
N400 + N400 = N800

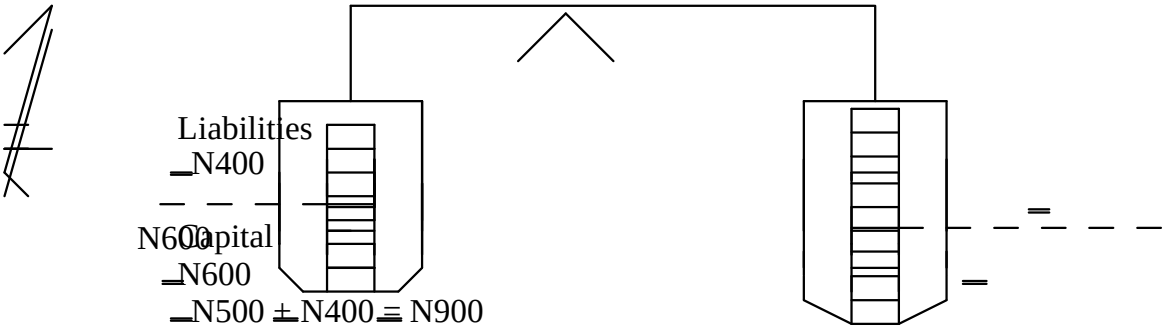


STAGE IV

Some assets are exchanged for other greater value (i.e, goods costing N300 are sold for N500). This increases capital by the amount of the profit, N200.

L + C = A

N400 + N600 = N1,000

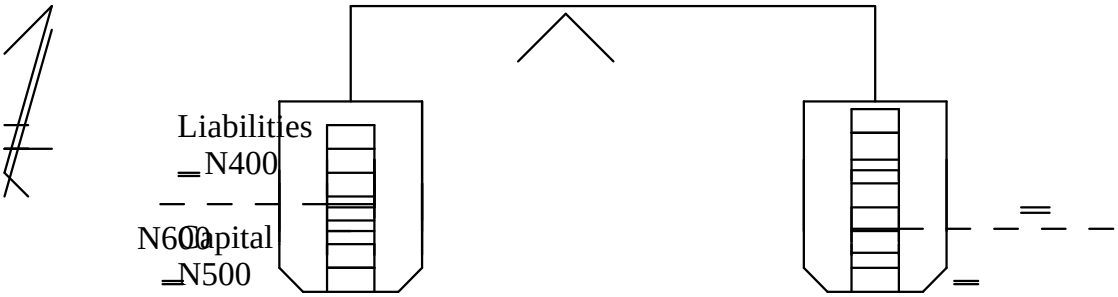


STAGE V

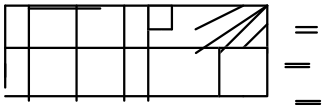
Assets diminish in value through being used up to the extent of N100 (for example, a car is worth less after a year's use). This reduces capital.

L + C = A

N400 + N500 = N900



The difference between the capital at the end and the capital at the beginning is the final Profit.



(N500)

(N400)

(N100)

The process is then repeated from stage II.

4.0 CONCLUSION

For a business to commence operation it must have resources and these resources must be provided by somebody. Resources (Assets) provided by owners or proprietor are referred as liabilities. Hence every business transaction has two aspects. This means that Liabilities + Capital = Assets

5.0 SUMMARY

This study unit has:

- o Stated the Accounting Equation
- o Defined Capital
- o Defined Assets
- o Explained what are liabilities
- o SELF ASSESSMENT EXERCISES
- o Complete the gap in the following table

S/ N	Assets N	Liabilities N	Capital N	—	—
A	150,000	?			95,000
B	?	70,000	35,000		
C	?	9,000	7,000		
D	65,000	?			45,000
E	130,000	?			25,000
F	2,500,000	1,000,000	?		
G	7,826.50	2,266			?
H	2,000	500			?

6.0 TUTOR- MARKED ASSIGNMENT

(i) Distinguish from the following list, the items that are liabilities from those that are assets:

(a) Office machinery
(b) Loan from C Kofo
(c) Fixtures and Fittings
(d) Motor Vehicles
(e) Bank Balance
(f) Cash
(g) Salaries
(h) Insurance prepaid

ii) .Concisely describe the following terms

(a) Assets
(b) Liabilities
(c) Capital

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STUDY UNIT 6

SOME COMMON COMMERCIAL TERMS

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3.12 Capital Expenditure
3.13 Crossed Cheque
3.14 Marked Cheque
3.15 Wear and Tear
4.0 Conclusion
5.0 Summary
6.0 Tutor Marked Assessment
7.0 References/ Further Readings

1.0 INTRODUCTION

Before proceeding to the core of this course, it is important that you familiarize yourself with certain common terms which are commonly used in Accounting

2.0 LEARNING OBJECTIVES

On concluding of unit 6, you should

Explain key terms used in Accounting

Apply them in subsequent units

3.0 COMMON COMMERCIAL TERMS

3.1 Debtor: is a person or an organization who owes money. For example, if Dupe sells goods on credit to Adamu, Adamu is a debtor.

3.2 Creditor: is a person or organization to whom money is owed. In the example in 3.1, Dupe is a creditor to Adamu.

3.3 Transaction: Any dealing between two or more persons involving an exchange of goods or services for a consideration, usually in money is a

transaction. Thus, a sale of goods, a receipt of cash, and payment of wages are all transactions.

3.4 Invoice: This is document narrating the details of goods sold on credit and informing the buyer of the cost of the goods, trade discount and net amount owing.

3.5 Monetary Value or Money's Worth

The value of anything expressed in terms of money is its monetary value, the monetary value of a car may be N650,000. Accounts are kept in monetary values.

3.6 Goods: These are the things which are bought for the purpose of resale at a profit. A trader trades in goods, e. g clothe is the goods of a cloth merchant, books of a bookseller, e. t. c. goods are also called merchandise.

3.7 Trader: Is a person, or an organization, who buys and sells goods with the intention of making profit.

3.8 Source Document: All Accounting entries must be supported by some documents, e. g, the recording of a credit sale must be supported by the duplicate copy of the invoice issued to the buyer. Any document on which an accounting entry is based is called a source document. These documents may include Invoice, credit note, debit note, petty cash voucher, statement of account, receipts, e. t. c.

3.9 Accounting Cycle: This is the process by which the capital invested in a business "circulates" throughout the enterprise in a manner that adds net positive (profits) or negative (losses) value to the business.

3.10 Accounts: This is the procedure by which control is exercised in an enterprise through the adroit use of the financial statistics or data that have been drawn from accurate book-keeping of the same enterprise. Usually, book-keeping and accounts always go together since both are complimentary.

3.11 Book-Keeping

This is the art of accurate record keeping of data relating to financial transactions in any organization.

3.12 Capital Expenditure

This is an expenditure on goods or assets whose benefits spread over years and not on the current accounting period only. Such expenditure is usually written off over a period in form of depreciation.

3.13 Crossed Cheque

This is a cheque that can only be cashed by depositing it in a bank account. It usually has two transverse lines across its face. Crossing can be general or special with the latter stating the payee's bank, branch or account number. A special crossed cheque is therefore, much safer

3.14 Marked Cheque

This cheque is guaranteed by the bank on which it is drawn. It is not usually dishonoured.

3.15 Wear and Tear of an Asset

This is due to the normal use of an asset. It is otherwise referred to as depreciation.

4.0 CONCLUSION

Technical terms commonly used in Accounting have been clearly defined to ensure a vivid understanding of this course. Other terms not captured in this unit will be explained as we proceed in this discourse.

5.0 SUMMARY

The unit has: Explained some key terms commonly used in Accounting

SELF ASSESSMENT EXERCISES

1. Why it is necessary to record transactions in money's worth?
2. 'A debtor is a receiver," Discuss

6.0 TUTOR- MARKED ASSIGNMENT

a. Give five examples of transactions
b. What is meant by a source document?

7.0 REFERENCES/ FURTHER READINGS

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

Okwoli, A. A. (1993). Principles of Financial Accounting, Jos: Tamaza Publishing company Limited

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UNIT 7

DOUBLE ENTRY BOOK- KEEPING

CONTENTS

1.0 Introduction
2.0 Objectives
3.0 Main Content
    3.1 Definition
    3.2 Summary of the Principle
    3.3 Double Entry Procedure
    3.4 Cash and Credit Transactions
    3.5 Graphical Representation
    3.6 Illustration of the Principle of Double Entry
4.0 Conclusion
5.0 Summary
6.0 Tutor Marked Assessment
7.0 References/ Further Readings

1.0 INTRODUCTION

Double Entry Book keeping is the central core of modern accountancy. All business events are regarded as having a dual aspect. Since this is the foundation and the oldest known indisputable principle of accounting, it is Imperative that you have an in depth knowledge of this concept

2.0 LEARNING OBJECTIVES

At the end of this unit, you are expected to:

- Define Double Entry Principle
- State the Double Entry Book- Keeping Procedure
- Record business transactions using the Double- Entry principle.

3.0 MAIN CONTENT

3.1 Definition

According to Okwoli (1993:7), Double- Entry principle states that for every debit entry, there must be a corresponding credit entry, which in everyday English means that for every receiver, there must be a giver.

The receiver is always regarded as the debtor, while the giver is regarded as the creditor under this principle. As far as Double- Entry principle is concerned, there must always be two parties to a transaction. So when a transaction is to be recorded, they must appear both at the debit and credit sides- one entry at the debit side for the debtor or receiver and the other entry at the credit side for the creditor or giver.

Put in another way, the “Golden Principle” of Book- keeping states that “Every transaction has at least two parties and these parties can either be “persons” or “accounts”.

Example of transaction is “sold goods to Sule”. The parties here are sales, which is representing goods sold, and Sule (Debtor). One of the parties is a giver and the other a receiver. The giver is referred to, as a “creditor”, while the receiver is a “Debtor”. Therefore, the Double- Entry principle says that “for every debit, there must be a corresponding credit entry”. Thus, the receiver’s account is credited.

3.2. SUMMARY OF THE PRINCIPLE

Dr: Receiver (receiving account)
Cr: Giver (giving account)

3.3 DOUBLE ENTRY PROCEDURE

The procedures are:

(a) The keeping of books of accounts
(b) The division of each book into separate accounts
(c) Each account is divided into two halves, left hand side, debit (Dr) and right hand side, credit (Cr)
(d) All transactions must be recorded into two accounts: one account is debited and another account credited
(e) The giver (giving account) is credited with the value of whatever it receives and the receiver (receiving account) is debited with the same amount.

3.4 CASH AND CREDIT TRANSACTIONS

Financial transactions may be classified into cash and credit transactions.
Cash transactions: The buyers pay immediately for goods bought. Here, no account will be opened in respect of a supplier or customer. Steps in recording cash transactions are as follows:

(a) Prepare two accounts
(b) Identify the “Giving account” and the “Receiving account”.
(c) Now apply the principle “Cr Giver, Dr Receiver.
All cash transactions must pass through the cash book.
(d) Receiver

All cash transactions must pass through the cash book.
Credit transactions: The majority of commercial transactions are termed credit transactions, which means that the transfer of ownership takes place before payment to the supplier, i. e settlement is referred to a future date, e. g Big man bought goods, but he did not pay until 3 months later. Steps in recording this credit transaction are as follows:

(a) Prepare day books: sales, purchases, returns and journal- proper
(b) Prepare two accounts
(c) Identify the “Giving account” and the “receiving account”
(d) Apply the principle of Double- Entry:

Debit- receiver

Credit- Giver

3.5 GRAPHICAL REPRESENTATION

Transactions

cash transactions credit transactions

cash book day books

ledger accounts ledger accounts

You should memorize the following:

A Debit- Entry represents	A Credit- Entry represents
(i) an increase in the value of assets	A decrease in the value of assets
(ii) a decrease in the amount of a liability	An increase in the value of a liability
(iii) an item of expenditure or expenses	An item of income or gain

3.6 ILLUSTRATIONS OF THE PRINCIPLE OF DOUBLE- ENTRY

Jan. 1 Mr. Ojo started business with N50,000 cash
Effect: Increase in Capital: Capital Account
Increase in Asset: Cash Account
Action Required: Dr Rent account (Receiver)
Cr Cash account (Giver)

Jan 4 The Proprietor put a further N500, 000 into the Bank
Effect: Increase in Capital: Capital account
Increase in Asset: Cash account
Action Required: Dr Bank account (Receiver)
Cr Capital account (Giver)

Jan 5 Bought motor vehicle N600,000 paying by cheque
Effect: Increase in Asset: motor vehicle account
Decrease in Asset: Bank account
Action Required: Dr Motor vehicle account (Receiver)
Cr Bank account (Giver)

Jan 8 Withdrew cheque for private use N15, 000
Effect: Increase in Drawings: Drawings account
Reduction in Asset: Bank account
Action Required: Dr Drawings account (Receiver)
Cr Bank account (Giver)

Jan 25 Received Commission N80, 000 by cheque
Effect: Increase in Asset: Bank increase in Commission Account (Income)
Action Required: Dr Bank account (Receiver)
Cr Commission receivable account (Giver)

4. 0 CONCLUSION

The Double- Entry principle is a "Golden Rule" in Accounting and it operates on the basis that every financial transaction must have two aspects.

5.0 SUMMARY

This study unit has:

- o Defined the Double- Entry book keeping
- o Enumerated the Double- Entry procedure
- o Discussed cash and credit transactions
- o Given a graphical representation of transactions.

SELF ASSESSMENT EXERCISES

(i) State and explain the Double- Entry principle

(ii) Enumerate the procedure to be followed in the application of the Double- Entry principle

6.0 TUTOR- MARKED ASSIGNMENTS

(a) Complete the following table showing which account to be debited and which account to be credited;

(i) Started business with cash
(ii) Took cash and paid into the bank
(iii) Sold goods on credit to Adeboye
(iv) Returned goods to Labaran
(v) Bought motor van from Kawo on credit
(vi) Goods sold for cash
(vii) Land sold for cash
(viii) Goods bought being paid for by cheque immediately

(b) Enter the following transactions in the following accounts

Dec 1 Started business with N80, 000 cash
Dec 2 Paid Insurance by cheque N15, 000
Dec 3 Received refund of rent N5, 000 cash
Dec 4 Bought furniture by cheque N500, 000
Dec 5 Took N50, 000 from cash and paid into the bank
Dec 6 Cash drawings N11, 500
Dec 9 Withdrawn goods N30,000 for use

7.0 REFERENCES/ FURTHER READINGS

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

Okwoli, A. A. (1993). Principles of Financial Accounting, Jos: Tamaza Publishing Company Limited

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UNIT 8

BOOKS OF PRIME ENTRY

CONTENTS

1.0Introduction
2.0 Objectives
3.0 Main Content
3.1Definition of Prime Books
3.2Classification of Prime Books
3.2.1Purchase Journal
3.2.2Purchases Returns Journal
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3.2.4Sales Returns Journal
3.2.5 General Journal
4.0Conclusion
5.0 Summary
6.0 Tutor Marked Assessment
7.0 References/ Further Readings

1.0 INTRODUCTION

The practice of the Accounting profession will be very difficult if not impossible without a day- to recording of financial transactions as they occur. As discussed earlier, Book-Keeping is that aspect of accounting that deals with the recording of transactions. Book-keeping deals with recording of transactions from source documents into a set of books called "Books of Original Entry" or Books of Prime Entry or Subsidiar y Books of Account. These books include the cash book, purchases day book, sales day book, returns outward book, returns inward book, bills book and the proper journal. This study unit discusses all the Books of Prime Entry, except the Cash Book is discussed elaborately in study.

2.0 LEARNING OBJECTIVES

At the end of this unit, you should:

- Define a Book of Prime Entry
- Explain the types of Books of Original Entry
- Record transactions in the Books of Prime Entry

3.0 MAIN CONTENT

3.1 Definition of Prim e Books

Books of Prime Entry, Subsidiary Books or Books of Original Entry are used to make first entry of transactions. Before entries are made in the accounts, they must first be recorded in the Subsidiar y books. The books of Prime Entry do not however form part of the Double- Entry Principle.

3.2 Classification of Prim e Books

Typically, Prime books, which are never called accounts, are also known as Journals, Day-to- Day-Books or Subsidiary Books. They are categorized into two, Special Journals and General Journal.

The specialised Journals consist of the following:

(I) Sales Journal
(II) Sales Returns Journal
(III) Purchases Journal
(IV) Purchases Return Journal
(V) Cash Receipts Journal
(VI) Cash payments Journal

The ruling for all specialized Journal is given below:

Date	Particulars		Folio = N	Details =	Total
			N		

From the above table, the column for particulars is meant for entering the debtor or creditor's name and the name of items bought, sold or returned including their quantities and their unit prices.

Folio column serves as a reference column in which items like Account Number of customers/suppliers, page number of ledger accounts etcetera are recorded.

Details column, on the other hand takes care of any detailed calculations that can be made before extending the total to the cost column known as "Total" or "Amount".

3.2.1 Purchases Journal

This record all purchases of goods bought on credit. All transactions that enter it stand as debit entries and are subsequently totaled and transferred to the debit side of the purchases account. No other purchases except, the purchase of goods, which are meant for resale, will enter this book. For example, purchase of fixed assets or stationary is rather entered in the principal journal and not in the purchases journal. Note: All the items standing on this book are respectively posted to the credit side of their accounts. This is necessary in order to complete the double entry principle that says, "For every debit entry, there must be a corresponding credit entry".

3.2.2 Purchases Returns Journal

This is also called returns outward journal. It records all returns of defective or damaged goods to suppliers. Entries of all returns made to the various suppliers are summed – up and transferred to the credit side of an account known as purchases returns account. The accounts of the respective suppliers are subsequently debited with the value of goods returned.

EXAMPLE 1

Write up the following transactions in the bought Journal and Returns Outwards Journal of P. Ramson.

AUG. 2007:

Aug 5 Bought from K. Aja & Sons; 5 dining tables @ 10000k each and
20 armless chairs @ 4000k each
Invoice subject to 25% trade discount

7 Returned to K. Aja & Sons; 1 dining table which was damaged

13 Bought from John Holt & Co. Ltd 100 bags cement @ N1,250 a bag
80 Hausa mats @ N250 each
Invoice subject to 5% trade discount.

15 Returned to John Holt & Co. Ltd, 4 bags of cement which coagulated.

SUGGESTED SOL UTION TO EXAMPLE 1

IN THE BOOKS OF P. RAMSOM

PURCHASES JOURNAL FOR AUGUST, 2007

DATE	PARTICULARS	FOLIO	DETAILS	TOTAL
AUG. 2007	K. AJA & SONS		N	N
5	dining tables @ 10000k each		500	
	20 armless chairs @ 4000k each		800	
			1,300	
	Less 25% Trade Discount		325	975
7	JOHN HOLT & CO LTD			
	100 bags cement @N1,250 a bag		125,000	
	80 Hausa mats @ N250 each		20,000	
			145,000	
	Less 5% Trade Discount		7,250	137,750
31	TRANSFER TO THE DR SIDE OF PURCH ASES A/C			**138,725**

PURCHASES RETURNS JOURNAL FOR AUGUST, 2007

DATE	PARTICULARS	FOLIO	DETAILS	TOTAL
AUG. 2007	K. AJA & SONS		N	N
5	dining table @ 10000k each		10	
	Less 25% Trade Discount		2.50	7.50
7	JOHN HOLD & CO LTD			
	4 bags cement @N1,250 a bag		5,000	
	Less 5% Trade Discount		250	4,750
31	TRANSFER TO THE DR SIDE OF PURCH RETURN A/C			**4,750**

3.2.3 Sales Journal

The sales daybook as it is sometimes called, records all sales of goods made on credit to customers. The transactions that are standing in this book are aggregated and transferred to the credit side of an account called sales account. While individual items from the same book are posted to the debit side of the respective accounts of the customers. The book does not accept any other transaction apart from the sales of goods or items that the business is known to trade in. An example of items that cannot be recorded in this specialized book is the sale of fixed assets on cash or credit, the cashbook and general journals are respectively meant for these sorts of transactions.

3.2.4 Sales Returns Journal

This is also called returns inward journal. It records goods sold but returned due to one reason or the other (damaged, defective, below specification, etcetera). The treatment is same to that of purchases returns journal.

EXAMPLE 2

Write up the sales daybook of P. Pwajok & Co. March, 2007:

March 3 sold to ex. Service men welfare association:
5 case club beer @ N1000 a case
6 bottles white horse whisky @ N300 a bottle
2 cases of seven up @ N400 a case
Whole subject to 10% trade discount.

March 7 sold to Railway African club:
8 bottles Aromatic schiedam schnapps @ N250 each
4 cartons Weston's cream crackers @ N1100 a carton
40 tins Gem biscuits @ N25 a tin
Invoice subject to 5% trade discount

March 15 sold to Effort & Sons:
1 case bicycle Maltina @ N750 a case
50 tins of Milk @ N68 a tin
5 cases umbrella soap @ N425 a case

March 23 sold to N. Nantok:
1 case of Exeter corned beef @ N1060
5 packets of Pronto cocoa @ N270 a packet

SUGGESTED SOL UTION TO EXAMPLE 2

In the books of Pwajok & co

SALES DAYBOOK FOR THE MARCH, 2007

Date	Particulars	Folio	Details	Total
Mar 2007	Ex-service men welfare		= N	= N
3	5 cases of club beer @ N1000 a case			
	6 of bottles white horse whisky @ N300 a bottle		5, 000. 00	
	2 cases of seven up @ N600 a case		1, 800. 00	
			1, 200. 00	
	Less 10% trade discount		8, 000. 00	
7	Railway African club		800. 00	7, 200. 00
	8 bottle of Aromatic Schiedam Schnapps @ N250 each			
	4 cartons of Weston's cream crackers @ N1,100 a carton		2, 000. 00	
	40 tins of Tin Tomatoes @ N25 a tin		4, 400. 00	
	Less 5% trade discount		1, 000. 00	
	Effort & Sons		7, 400. 00	
15	1 case of Maltina @ N750 a case		370. 00	7, 030. 00
	50 tins of Milk @ N68 a tin			
	5 cases of umbrella soap @ 425 a case		750. 00	
			3, 400. 00	
	N. Nantok			
	1 case of Exeter corned beef @		2, 125. 00	6, 275. 00
23	N1,060. 00 a case			
	5 packets of pronto cocoa @ N270. 00 a packet		1, 060. 00	
	Transfer to the credit side of sales account		1, 350. 00	2, 410. 00
				22, 915. 00

EXAMPLE 3

From the following particulars write up the sales returns book of F. Nta for the month of October 2006:

Oct. 5 S. Okoro returned,
1 wall clock @ N300 damage in transit original invoice was subject to 10% trade discount.

6 Ibrahim returned 2 wrist watches @ N1000 each (inferior quality)
Original Invoice subject to 5% discount.

11 T. Uba Returned,
2 shirts @ N400 each
3 singlets @ N50 each
3 socks @ N25 each
All badly spoiled.

SUGGESTED SOL UTION TO EXAMPLE 3

In the books of F. Nta

Sales Returns Book for the Month of October 2006

Date	Particulars	Folio	Details	Total	
Oct. 2006				N	N
	5 S. Okoro				
	1 wall clock @ N300			300. 00	
	Less 10% trade discount			30. 00	
	6 A. Ibrahim				270. 00
	2 wrist watches @ N1000. 00 each			2000. 00	
	Less 5% trade discount			100. 00	
	11 T. Uba				1900. 00
	2 shirts @ N400. 00 each			800. 00	
	3 singlets @ N50. 00 each			150. 00	
	3 socks @ N25. 00 each			75. 00	
	31 Transfer to the debit side of sales returns account				1025. 00
					3195. 00

COMPREHENSIVE EXAMPLE 4

Enter the following transactions into the purchases book, purchases returns book, sales book & sales returns book of Y-Lee & Sons Boots & Shoes merchant, for the Month of November, 2006:

Nov 5. Bought of K Chally & Sons LTd; 100 pairs gent's brown shoes @ N45 a pair
50 pairs ladies rain boots @ N400 a pair
20 pairs slippers @ N50 a pair
Invoice subject to 10% trade discount

7. Sold to B. Gregor y;
18 pairs white tennis shoes @ N15 a pair

9 Returned to K. Chally & Sons Ltd,
5 pairs gent's brown shoes @ N450 a pair

3 pairs ladies rain boots @ N400 a pair
All damaged in transit.

12 B. Gregory returned:
2 pairs white tennis shoes @ N150 a pair

15 bought of Bata shoe company:
120 pairs school's sandals @ N360 a pair
80 pairs gent's black shoes @ N500 a pair
240 tins nugget Ox blood polish @ N100 per set of 12.
Invoice subject to 5% trade discount.

24 Sold to R. Tutu:
20 pairs school's sandals @ N375 a pair
40 pairs gent's black shoes @ N525 a pair

29 R. Tutu returned:
20 pairs school's sandals
4 pairs gent's black shoes
All defective

SUGGESTED SOL UTION TO EXAMPLE 4

In the books of Y-lee & Sons Boots & shoes merchant

Purchases Daybook for the Month of November, 2006

Date	Particulars	Folio	Details	Total
Nov. 2006			N	N
5	K. Chally & Sons Ltd			
	100 pairs of gent's brown shoes @ N450 a pair		45000. 00	
	50 pairs of ladies rain boots @ N400 a pair		20000. 00	
	20 pairs of slippers @ N50 a pair		1000. 00	
			66000. 00	
	Less 10% trade discount		6600. 00	59,400.00
15	Bata shoes company			
	120 pairs of school sandals @ N360 a pair			
	80 pairs of gent's black shoes @ N500 a pair		43200. 00	
	240 tins of nugget ox blood polish @ N100 per set of 12		40000. 00	
			2000. 00	
			85200. 00	
	Less 5% trade discount		4260.00	80,940. 00
30	**Transfer to the debit side of purchases account**			**140, 340**

Purchases Returns Book for the Month of November, 2006

Date	Particulars	Folio	Detail	Total
Nov. 2006			₦	₦
9	K. Chally & Sons Ltd			
	5 pairs of gent' brown shoes @ N450 a pair			
	3 pairs of ladies rain boots @ N400 a pair		2,250	
	Less 10% trade discount		1,200	
30	***Transfer to the credit side of purchases returns account***		3,450 345	3,105.00
				3,105.00

Sales Daybook for the Month of November, 2006

Date	Particulars	Folio	Details	Total
Nov. 2006			₦	₦
7	B. Gregory			
	18 pairs of white tennis shoes @ N150 a pairs			2700. 00
24	R. Tutu			
	20 pairs of school sandals @ N375 a pair		7,500	
	40 pairs of agent's black shoes @ N525 a pair		21,000	28,500. 00
30	***Transfer to the credit side of sales account***			**31,200. 00**

Sales Returns Book for the Month of November, 2006

Date	Particulars	Folio	Details	Total
Nov. 2006			₦	₦
12	B. Gregory			
	2 pairs of white tennis shoes @ N150 a pair			300. 00
29	R. Tutu			
	20 pairs of school sandals @ N375 a pair		7500. 00	
	4 pairs of gent's black shoes @ N525 a pair		2100. 00	9, 600. 00
30	Transfer to the debit side of sales returns account			**9, 900. 00**

3.2.5 General Journal

This Journal records all transactions, be it cash or credit, revenue or expenses, assets or liabilities. But where other journals are maintained, example, cash-book and other special Journals, items (transactions) such as sales and purchases of goods, returns inwards and outwards are not recorded, but only credit transactions involving purchases of assets and expenses among others.

The ruling for the general journal is given below:

N

Date	Particulars		Folio	DR (N)	CR (N)

From the above table the column for particulars is meant for entering the names of the items to be either debited or credited.

Folio column serves as a reference column in which items like page number or any reference number applicable to the entry is recorded.

Debit and Credit columns carry the amounts that will either be debited or credited to the respective accounts in the ledger as the case may be.

EXAMPLE 5

Show the following transactions in the General Journal of DBA Ltd for the month of Januar y, 2006:

		N	N
Jan 1	Started business with cash	100,000	
3	Purchased Motor van of N150,000 and paid a deposit of N50,000 immediately		
4	Purchased goods from K. Katu	25,000	
	Purchased goods in cash		30,000
	Paid rent in cash		20,000
7	Sold goods in cash		32,000
8	Sold goods to Fatima		23,000
10	Returned goods by Fatima worth	1,500	
14	Paid wages in cash		4,000
14	Paid insurance by cheque	500	

SUGGESTED SOL UTION TO EXAMPLE 5

In the books of DBA Ltd

General Journal for the Month of January, 2006

Date	Particulars			Folio	Debit	Credit
Jan. 2006			N	N		
1	Cash account to capital Being money used in starting the business		100, 000		100, 000	
3	Motor van account to Cash Creditor *Being partial payment made on a fixed asset purchased*		150, 000		50, 000	100, 000
4	Purchases account to K. Katu *Being purchase of goods made on credit*		25, 000		25, 000	
4	Purchases account to cash *Being cash purchases of goods made*		30, 000		30, 000	
7	Rent account to cash Being an expense incurred in cash		20, 000		20, 000	
8	Cash account to sales Being cash sales made to date		32, 000		32, 000	
10	Fatima's account to sales Being goods sold on credit		23, 000		23, 000	
14	Returns inwards account to Fatima Being sales return made for goods previously sold		1, 500		1, 500	
14	Wages account to cash Being wages of employees paid in cash		4, 000		4, 000	
	Insurance account to bank Being an expense incurred by cheque		500		500	

4.0 CONCLUSION

The discussion we have had above has given highlight on what a prime book is about. It records daily transactions in a systematical and chronological manner as the occur and stated on source documents. They are therefore, divided into special and general journals and are sometimes referred to as subsidiary books or books of original entry.

5.0 SUMMARY

This unit has:

- Defined a Book of Prime Entry;
- Explained the types of Books of Original Entry; and
- Showed how transactions are recorded in Books of Prime Entry.

SELF ASSESSMENT EXERCISE

Enter the following transactions in the respective journals Y- Lee Enterprises for the Month of August, 2007:

Aug 5 Bought from K. Aja & Sons; 8 dining tables @ N2,000 each and
12 armless chairs @ N1, 200 each
Invoice subject to 25% trade discount
7 Returned to K. Aja & Sons; 2 dining table which was damaged
13 Bought from John Holt & Co. Ltd 54 bags cement @ N1,750 a bag
100 Hausa mats @ N250 each
Invoice subject to 5% trade discount.
18 Returned to John Holt & Co. Ltd, 4 bags of cement which coagulated
24 Purchased a Lorry from UTC Motors for N300,000 on credit.

6.0 TUTOR- MARKED ASSIGNMENT

Q1. Define books of prime entry and write short notes on the followings

a) Purchase Journal
b) Purchases Returns Journal
c) Sales Journal
d) Sales Returns Journal

Q2. Mr. UDENYI, a dealer in textile materials had the following assets and liabilities at 31st December, 19x7:

		N
Furniture		1,210
Cash in hand		410
Creditor – J. Olawin	780	
Loan – A. Oni		2,000
Debtors – B. Ashogbon	190	
- A. Adeniji		270
Stock		4,120
Premises		29,500
Bank		2,750

His transactions for the month of January 19x8 were as follows:
3/1/x8 Purchased Ankara cloth from Aswani on credit N360
12/1/x8 Purchased suit materials from Five Star Textiles on credit for N2,000
18/1/x8 sold all the Ankara cloth pruhcased on 3/1/x8 for N600 cash
19/1/x8 Received cheque from B. Ashogbon for the balance due less 10% cash discount.
20/1/x8 Paid by cheque to A. Oni a half-year's interest at 6% on the loan.
26/1/x8 Bought lace materials from NTM for N9,600.
28/1/x8 Purchased new furniture for use in his shop for N2,400 by cheque
30/1/x8 Received cheque of N140 from A. Adeniji and paid for sundry expenses **N500 in cash.**

You are required to:

v. Prepare an opening journal at 1st January 19x8
vi. Open the necessary books of prime entry to record the transactions for January 19x8 and post the ledger entries.
vii. Balance the accounts as at 1st January, 19x8.

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UNIT 9

CASH BOOK

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1.0 INTRODUCTION

Almost every transaction results in the receipt or payment of money. Hence, the cash book is a very important book because it records all cash receipts and payments of a business. Without the cash book, the practice of accountancy will be difficult if not impossible since cash is the life wire of all organizations.

2.0 LEARNING OBJECTIVES

At the end of this study unit, you should:

- Explain the nature and use of the cash book
- Explain the different types of cash book
- Rule a cash book
- Prepare a One, Two, and Three- Columns Cash Book
- Prepare a Petty Cash Book
- Make Contra- Entries

3.0 MAIN CONTENT

3.1 THE CASH BOOK

Cash Book is the book for recording detailed particulars of all money received and paid. All cash transactions and transactions with cheque must pass through the cash book. The cash book is a subsidiar y book and it is really part of the principal book called ledger. It is the only book that combines the functions of the subsidiary and principal books. The

cash and bank accounts are taken out of the ledger and combined into a single book called cash book. It is the book for cash receipts, payments and transactions with cheques. In the treatment of the cash book, the principle of Double- Entry system will remain unchanged. Any transaction on credit must not appear in the book. The term "cash book" covers the one- column, two- columns, three- columns and the petty cash book.

3.2 RULING THE CASH BOOK

3.2:1 One –column cash book

The one column cashbook could either be strictly for cash transactions or bank (cheques) transactions only. Its ruling is similar to that of a ledger account

The Ruling of One-Column Cash Book

Dr
Cr

Date	Particulars	Folio	Amount =N	Date	Particulars	Folio	Amount =N

EXAMPLE 1

Enter the following transactions in a single column cash book of A. B. Salami and balance off the accounts at the end of the period:

Aug. 2007		**N**
1	commenced business with	20,000
1	Paid 3 months rent	1500
1	Bought stationary	100
2	Received from T. Kolade	10,000
3	Purchased goods paying cash	15,600
5	Purchased office furniture	4800
7	Sold goods for cash	9600
8	Cash sales	6700
10	Bought goods for cash	8500
10	Hired vehicle for conveying the goods to the business premises	450
12	Owner withdraws cash	1000
13	Paid for postage & use of phone	160
15	Paid half month wage of shop attendant	500

SUGGESTED SOL UTION TO EXAMPLE 1

In the B ooks of A. B. Salam i

Cash Book for the Month of August, 2007

DR

CR Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
			= N				= N
Aug. 1	Capital		20, 000	Aug. 1	Rent		1500
2	T. Kolade		10, 000	1	Stationery		100
7	Sales		9, 600	3	Purchases		15, 600
8	Sales		6, 700	5	O/ Furniture		4, 800
				10	Purchases		8, 500
				10	Carriage inwards		450
				12	Drawings		1000
				13	Postages & phone		160
				15	Wages		500
				31	Balance C/d		13, 690
			46, 300				**46, 300**
31	Balance B/d		13, 690				

3.2:2 Two-column cash book

This form of cash book is meant for recording transactions that have to do with cash and bank, cash and discounts, or bank and discounts only.

Dr. Two-column cash book Form at Cr.

Date	Particulars	Folio	Cash ₦	Bank ₦	Date	Particulars	Folio	Cash ₦	Bank ₦

EXAMPLE 2

Record the following transactions in a two-column cashbook of XYZ Ltd, and balance the cash book at the end of the period.

Jul. 2007, 1 Owner commenced business paying in the following amounts:

	₦
Cash	5,000
Cheque	25,000

The cheque was promptly paid into the bank

1 Paid licensing fees for business premises by cash 600

2 Paid rent for 6 months by cash 3,000

2 Bought goods and paid cheque 18,000

3 Bought a M/cycle for owner's use in connection with the business and paid cheque 4,800

5 Sold goods for cash 5,000

6 Paid all the sales proceeds into bank
7 Bought goods paying cheque 7,800
9 Sold goods receiving payment as follows:
Cash 8,600
Cheque 9,200
10 Owner withdraws cash 3,000
12 Business withdraws cash from bank 5,000
15 Paid in cash motorcycle running expenses 260
16 Paid wages in cash 2,500
17 Sold goods & received cheque 8,400
19 Paid for postage & telephone bills 250
21 Business loaned money to I. Muda 3,000
(a cheque was given)
25 Purchased goods paying N7,500 in cheque and transportation N380 by cash
27 Cash drawings by owner, N2,000
28 Sold goods N9,200 receiving cash, the whole of which was paid into bank the next day.
29 Paid electricity charges, N150 in cash
30 Paid wages in cash N 3,000

SUGGESTED SOL UTION TO EXAMPLE 2

In the B ooks of XYZ Ltd

Dr Cash book for the Month of July, 2007 Cr

Date	Particulars	Folio	Cash	Bank	Date	Particulars	Folio	Cash	Bank

			₦	₦				₦	₦
July 1	Capital		5000	25000	July 1	License fees		600	
5	Sales		5000			Rent		3000	
6	Cash	C		5000		Purchases			18000
9	Sales		8600	9200		Motor cycle			4800
12	Bank	C	5000			Bank	C	5000	
17	Sales			8400		Purchases			7800
28	Sales		9200			Drawings		3000	
29	Cash	C		9200		Cash	C		5000
						M/cycle expenses		260	
						Wages		2500	
						Postages & phone		250	
						Loan (I. Muda)			3000
31						Purchases			7500
						Carriage inwards		380	
						Drawings		2000	
						Bank	C	9200	
						Electricity		150	
						Wages		3000	
						Balance	C/d	3,460	10,700
			32,800	**56,800**				**32,800**	**56,800**
	Balance	B/d	3,460	10,700					

3.2:3 Three-column cash Book

The Cashbook, as mentioned earlier, is a book of prime entry and records Cash Account and Bank Account. It does not stop there, it goes to the extent of having columns for recording both cash discount received and allowed.

Cash Discount

Prompt payment will often be rewarded by a saving called cash discount. The entries will be-

Debit – Creditor's account with the full amount due

Credit – Bank (or cash) Amount with the actual payment sent

- Discount Received Account with the discount received.

In practice, the discount element will be recorded in the discount column of the three-column cashbook. Periodically this column will be totaled and the amount posted to the credit of Discount Received Account.

If discount is allowed to debtors who pay promptly, similar entries are made-

Debit – Bank (or Cash) Account with the actual payment received.

- Discount Allowed Account with the amount of discount

Credit – Debtor's personal account with the full amount due.

Again the discount column will be totaled periodically and posted to the debit of Discount Allowed Account.

Three Column Cash Book

As its name implies this have three money columns on each 'side': one for cash, one for bank, and one to record discount.

Ruling of a Three- column cash book

Dr. Cr.

Date	Particulars	Folio	Discount	Cash	Bank	Date	Particulars	Folio	Discount	Cash	Bank
			N	N					N	N	

EXAMPLE 3

Record the following transactions in a three-column cash book of A. Apuwa and balance the accounts at the end of the period.

			N
June, 2007:			
1	Balance brought forward from May Cash	5,600	
	Bank (Overdraf t)		**38,500**
2	Sold goods receiving cheque in settlement	80,290	
3	Bought goods amounting to N42,000 and paid N40,950 in full settlement by cheque		
5	Paid to Omozogie stores on account of an old debt, cheque N13,000 and received discount of	450	
8	Sold goods for cash	26,900	
8	Paid into bank		30,000
10	Bought goods & paid cheque	22,000	
	discount received was		1,100
12	Paid electricity bill for previous month N360 cash		
13	Withdraw from bank	5,000	
15	Paid telephone charges		480
16	Paid wages in cash	1,800	
18	Cash drawings by owner		2,500
20	Sold goods N36,400 & received cheque		
	This amount was net of N1600 cash discount		

23	Receiving cheque from Namallam (N12,000 subject to discount of 5%) in respect of debt owned since the previous month.	
24	Sold goods for cash	8,600
25	Paid into bank	7,000
27	Paid rent in cash	650
28	Paid hotel & travelling expenses (cash)	1,200
29	Paid wages (cash)	1,800
30	Paid insurance premium by cheque	1,900

SUGGESTED SOL UTION TO EXAMPLE 8

In the B ooks of A. Apuwa

Cash Book for the Month of June, 2007

DR **CR**

Date	Particulars	Folio	Disc	Cash	Bank	Date	Particulars	Folio	Disc	Cash	Bank

			₦	₦	₦				₦	₦	₦
June 1	Balance	B/f		5600		June 1	Balance	B/f			38500
2	Sales				80290	3	Purchases		1050		40950
8	Sales			26900		5	Stores		450		12550
8	Cash	C			30000	8	Bank	C		30000	
13	Bank	C		5000		10	Purchases		1100		20900
20	Sales		1600		36400	12	Electricity			360	
23	Namallam		600		11400	13	Cash	C			5000
24	Sales			8600		15	Telephone			480	
25	Cash	C			7000	16	Wages			1800	
						18	Drawings			2500	
						25	Bank	C		7000	
						27	Rent			650	
						28	Hotel & travelling			1200	
						29	Wages			1800	
						30	Insurance				1900
						30	Balance	C/d		310	45290
			2,200	**46,100**	**165,090**				2,600	**46,100**	**165,090**
30	Balance	B/d		310	45290						

3.3 PETTY CASH BOOK

There are various methods of dealing with small disbursements, the oldest methods being to supply a clerk with a round sum out of which to make payments for such small items as may occur; when the cash in hand is reduced to a small amount, a further sum is handed to him.

The book is ruled similar to a ledger account, with one cash column on each side. The method of dealing with petty cash transactions, which is generally adopted nowadays, is known as the impress system. In this system, a specified sum of money is allocated to the person in charge of the petty cash, which may be a petty cashier or any designated person. The amount handed over at the beginning of a period is known as a float of which any amount expended from it is replenishable at some given intervals or at anytime when the float is getting exhausted. Therefore, at the commencement of each new period, the balance of petty cash in hand is always the fixed ‘imprest’ amount.

The cheque for the advance to petty cash is entered in the cash book (Cr) and posted to the debit side of the petty cash book that contains analysis columns. For analyzed expenditures, their totals are transferred, in most cases, to the nominal accounts in the General ledger.

By this method, the petty cash book is not only a book of original entry, but also an essential part of the double entry book-keeping, and the balance of petty cash in hand must therefore be included in the Trial Balance.

Format for Petty Cash book

Receipts	Date	Particulars	Folio	Amount	Analysis Columns			
					T&T	M/E	O/E	Etc
₦				₦	₦	₦	₦	₦

EXAMPLE 4

Jerotel Hotel maintains a petty cash system for the purpose of carrying on miscellaneous cash transactions. The following petty cash transactions were undertaken during the first part of June 2004. Record the transactions in the Petty Cash Book of the Hotel:

		₦
June	1 Received from cashier	2,000
	2 Purchase of provisions	75
	5 Purchase of foot mats	180
	6 Repairs of furniture	124
	8 Purchase of drinks	156
	9 Purchase of groceries	42
	11 Postage	48
	15 Half month wage of security man	300
	18 Servicing of motor vehicle	349
	25 Fueling of M/Vehicle	630
	30 Newspaper vendor	187

SUGGESTED SOL UTION TO EXAMPLE 4

In the B ooks of Jeroteller Hotel

Petty Cash Book for the month of June 2004

Receipts	Date	Particulars	Amount Refresh-	Ment	Office Expenses	Furniture Maintenance	Postage	Wages	Motor expenses
₦	June		₦	₦	₦	₦	₦	₦	₦
2000	1	Float							
	2	Provision	75	75					
	5	Foot mats	180		180				

	6	Furniture repairs	124			124			
	8	Drinks	156	15					
	9	Groceries	42	6					
	11	Postage	48	4			48		
	15	Wage	300	2				300	
	18	Servicing M/V.	349						349
	25	Fueling of	630						630
		Amt replenishable	**1904**	**273**	**180**	**124**	48	**300**	**979**
	30	Cash Balance c/f	96						
2,000	July		2,000						
96	1	Cash balance b/f							

EXAMPLE 5

Using the following transactions, show the petty cash book - imprest system; of Olayinka Moses A/c. All expenditure should not be more than N1000. Replenishment is made when float runs out.

2007, Jan: 1 Issued N2,000 to petty Cashier

3 Purchased stamps N400
10 N200 was given to messenger as taxi fare
11 Office cleaner received N1,000 for cleaning materials
15 Paid B ikut Ltd N300
16 Replenishment
17 Gave Williams N400 to travel to Abuja.
20 Stamps bought N400
20 Bought Bics and Pencil N100
23 Taxi fares to bank N300
25 Shade & Co. received N600 on account
31 Replenishment.

PETTY CASH BOOK

Receipt	**Date**	**Particular**	**Paym ents**						
			Amt	***Analysis***					
N	2007	N	N	N	N	N	N	N	
N				Travel	postage	cleaning	stationery	Sundries	ledger
2,000	Jan.1	Cash (float)							
	3	Stamps	400			400			
	10	Taxi fares	200	200					

		11	Office cle.	1000		1000					
	15	Bikut Ltd		300						300	
1900	16	Cash									
			(Replenishmt)								
		18	Williams		400	400					
		20	Stamps		400		400				
		20	Bic & Pencil		100			100			
		23	Taxi fare		300	300					
		25	Shade & Co		600					600	
1800	31	Cash									
			(Replenishmt)								
				3700	***900***	***800***	***1000***	***100***			***900***
	31		Balance c/d		2000						
5,700			**5700**								
2,000	Feb 1		Balance b/d								

3.4 CONTRA ENTRIES

These are entries made in cash book when cash is deposited into the bank account out of the cash in hand or when cash is withdrawn from the bank for office use.

(a) Cash paid into Bank
Dr: Bank Column
Cr: C ash Column with amount deposited
(b) Cash withdrawn from the Bank
Dr: Cash Column with value of cheque
Cr: B ank Column

3.5 BANK OVERDRAFT

The Bank account can be overdrawn. The customer can take more than what he has in the bank to meet urgent needs. This is refered to as granting of an overdraft to a customer. In such a situation, the bank account balance will be on the credit side and it is a liability in the balance sheet.

3.6 Dishonoured Cheques

These are cheques received from the customers but were rejected by the bank as a result of wrong signature, Incorrect amount and insufficient funds in the account. When the cheque is received, the cash book is debited but when it is dishonoured, the cash book will be credited immediately.

3.7 RULES FOR RECORDING TRANSACTIONS IN THE CASH BOOK

(i) C ash receipt from Debtors
Dr: Cash Column
Cr: Personal account of debtors
(ii) Cheque receipts from debtors
Dr: Bank Column
Cr: Personal account of debtor

(iii) Cash Sales
Dr: Cash Column
Cr: Sales account in the ledger

(iv) Sales by Cheque
Dr: Bank column
Cr: Sales account in the ledger

(v) Income received (cash)
Dr: Cash Column
Cr: Income account in the ledger

(vi) Income received (cheque)
Dr: Bank column
Cr: Income receivable account

(vii) Cash receipts on sale of assets
Dr: Cash column
Cr: Asset account in the ledger

(viii) Cheque receipts on sale
Dr: Bank column
Cr: Asset Account in the ledger
(ix) C ash payments to creditors
Dr: Creditors Account in the ledger
Cr: C ash Column

(x) Cheque payments to Creditors
Dr: Creditors Account in the ledger
Cr: B ank Column

(xi) C ash purchases of goods
Dr: Purchases account in the ledger
Cr: C ash Column
(xii) Cheque purchases of goods
Dr: Purchases account in the ledger
Cr: B ank column

(xiii) Cash purchases of Assets
Dr: Asset account in the ledger
Cr: cash column

(ivx) C heque Purchases of Assets
Dr: Asset account
Cr: B ank column

(xv) Cash paid for Expenses
Dr: Expenses Account in the ledger
Cr: C ash Column

(xvi) Expenses paid with Cheque
Dr: Expenses Account in the ledger
Cr: B ank Column

(xvii) Cash paid into bank
Dr: Bank column
Cr: C ash column

(xviii) Cash withdrawn from bank
Dr: Cash Column
Cr: B ank Column

(ixx) C ash withdrawn for personal use
Dr: Drawings account
Cr: C ash Column

4.0 CONCLUSION

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

5.0 SUMMARY

This study unit has:

Explain the nature and use of a cash book;
Gave a hypothetical ruling of a typical cash book;
Enumerated the different categories of a cash book;
Illustrated how transactions are recorded in the cash book;
Discussed and illustrated the preparation of a book;
Discussed Contra- Entries;
Explained Over- Drawn accounts;
Explained treatment of dishonoured cheques;
Discussed the rules for recording transactions in the cash book.

SELF ASSESSMENT EXERCISES

(a) What is a cash book? Explain its use
(b) Explain the terms ‘cash”, “contra”, “Dr”, and “Cr” in a cash book

6.0 TUTOR MARKED ASSIGNMENTS

1. Rochas Okorocha started business first march, 200 x 9 with cash of ₦40,000 and the following transactions took place during the month.

March 2:	Bought goods for cash	10,000
5:	B ought furniture for cash	5,000
8:	C ash Sales	15,000
11:	Paid rent	1,500
12:	C ash Sales	1,000
15:	Lent C, Onuaha	5,000
18:	B ought Stationery	500
19:	Paid Wages	1,000
25:	Purchased goods for cash	1,000
27:	C . Onuaha paid on account	2,500
28:	R eceived from D Obadiah	10,000
29:	C ash sales to date withdrew cash for private use	7,500
30:	Paid D. Obadiah	5,000
	paid Insurance premium	10,000
31:	Purchases sales	5,000

Required

Enter the transaction in the cash book of Rochas Okorocha

2. ABC Ventures had the following transactions for the month of January 200 x 9 as follows:

		₦
Jan. 1	Balances Cash	7,000
	Bank	8,000
3	Bought goods for cash 3,000	
4	Bought stationery for cash 700	
6	Paid A. Akole by cheque 3,000	
9	Bought goods by cheque 3,500	
12	Cash Sales	2,000
16	Withdrew cash from the 2,000 For Office use	
18	Paid Insurance premium 2,500 By cash	
21	Paid wages and salaries by 1,900 Cash	
23	Cash sales paid into Bank 3,000	
24	Bought goods by cheque 4,000	
28	Drew cheque for private use 1,500	
29	Paid cash into Bank 3,000	
30	Bought furniture by cheque 6,000	

Required

Enter the above transactions in the cash book of ABC Ventures for the month of Januar y 20 * 9

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UNIT 10
CLASSIFICATION OF ACCOUNTS

CONTENTS

1.0Introduction
2.0 Objectives

3.0 Main Content
3.1 Definition of an Account
3.2 Entering Accounts
3.2.1 Debit and Credit
3.2.2 The Balance
3.3 Classification of Accounts
3.3.1 Personal Account
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3.4.2 Summary of Rules for Entering Accounts
3.4.3 How to make an Entry
4.0 Conclusion
5.0 Summary
6.0 Tutor Marked Assessment
7.0 References/ Further Readings

1.0 INTRODUCTION

It was shown in one of the previous units that changes in the value of assets and liabilities could be calculated arithmetically, but the method shown would not be suitable if the number of transactions were very large. Moreover, the calculation itself did not show whether the item was an asset or a liability, and gave no indication of the nature of the transaction. To overcome such difficulties, these calculations are embodied in 'accounts'. ('Account" is usually abbreviated to 'Alc'). This unit discusses how to make entries into an account and the classification of Accounts.

LEARNING OBJECTIVES

At the end of this study unit, you should:

- Define an Account
- Record transactions in an Account
- Correct and classify transactions into their respective classes
- Balancing an Account

3.0 MAIN CONTENT

3.1 DEFINITION OF AN ACCOUNT

Longe and Kazeem (2006: 29) defined an account as a record in a double entry system that is kept for each class of asset liability, revenue and expense and Garbutt (1982: 106) sees an account as a ledger record in a summarized form of all the transactions that have taken place with the particular person or value specified.

The principles of double entering book keeping are applied in recording transactions in accounts.

3.2 ENTERING ACCOUNTS

A separate account (sometimes more than one) is opened for each asset and each liability. It takes, roughly, the form of the letter 'T'

The name of the asset or liability to which the account refers is written on the horizontal line. The vertical line divides the amount into two sides, one side to show additions and the other to show deductions. Thus, the 'pulses' are kept together on one side and the 'minuses' on the other, and the difference between the two sides will show the value of the asset or liability.

3.2.1 Debit and Credit

The left- handed side of an account is known as the 'debit- side'. It is usually abbreviated to 'Dr'. an entry on the debit side is called a 'debit entry'. An account is said to have been 'debited' if an entry is made on its debit side.

The right- hand side is known as the 'credit side', abbreviated usually to 'Cr'. An entry on the credit side is called a 'credit entry'. An account is said to have been 'credited' if an entry is made on its credit side. It is customar y (but not essential) for the sides of the accounts to be indicated in the heading. An account for cash Bank would appear as follows:

Dr Cash at bank Cr

3.2.2 The Balance

The difference between the two sides of an account (which, as stated above, represents the value of the asset or liability) is known as the 'balance'.

If the debit side is larger than the credit side, the balance is a 'debit balance'.

If the credit side is larger than the debit side, the balance is a 'credit balance'.

If there is only one item in an account, the balance is equal to that item. If the item is on the debit side, the balance will be a debit balance. If the item is on the credit side, the balance will be a credit balance. The balance is so called because if a sum equal to the difference between the sides is placed on the smaller side, both sides would then be equal, or 'in balance'.

3.3 CLASSIFICATION OF ACCOUNTS

Accounts can be classified into:

I. Personal account
II. Impersonal account

3.3:1 Personal account

These are accounts for the names of individuals, firms and business enterprises e. g Segun account, Mohammed Nigeria Ltd Accounts, Debtors and Creditors account.

3.3:2 Impersonal account

These are accounts for properties, item of expenditures and income. It can be divided into two namely:

(a) Real account: These are accounts for things we can see, touch or move. They are accounts for assets e. g land and building account, machinery account e. t. c.

(b) Nominal account: These are accounts for expenses incurred, Income received, losses and gains e. g rent account, discount received account, discount allowed account, Interest account e. t. c.

3.4 RUL ES FOR DEBITING AND CREDITING ACCOUNTS

I. The account which "receives" is debited with the value that comes into the account

II. The account which "gives" is credited with the value that goes out of the account.

These rules can now be applied to the classes of account.

3.4:1 Tabular Representation

Classes of accounts	**Debit side**	**Credit side**
(i) Cash account	Money received	Money paid
(ii) Personal account	Receiving	Giving
(iii) Real account	Asset bought	Asset sold
(iv) Norminal accounts	Expenses and losses	Profit, Incomes And gains

3.4:2 Summary of Rules for Entering Accounts

Debit	Credit
(a) Assets	(a) Liabilities
(b) Additions to Assets	(b) Additions to liabilities
(c) Deductions from Liabilities	(c) Deductions from assets

3.4:3 How to m ake an Entry

The date of each transaction is entered in the accounts, and a brief description of its nature

4.0 CONCLUSION

It is very important that you commit the rules for Debiting and Crediting of accounts to memory as this infor ms the first step in opening accounts for assets and liabilities, including capital.

5.0 SUMMARY

This study unit has:

- Attempted a definition of an account
- Explained how entries are made in accounts
- Gave a classification of accounts
- Discussed Rules for Debiting and Crediting Accounts
- Explained how an Account is Balanced

SELF ASSESSMENT QUESTIONS

a. What is a debit balance?
b. What is a credit balance?
c. You are required to complete the following table showing which account to be debited and those to be credited:

I. Started business with money in cash
II. Paid part of the opening cash into the bank
III. Bought goods on credit from Abdullahi
IV. Sold goods on credit to Akpan
V. A motor car was sold for cash
VI. Cash purchases
VII. Oluwatosin returned goods to us
VIII. We returned goods to Abdullahi
IX. Dare lent us cash
X. Received commission in cash

6.0 TUTOR MARKED ASSIGNMENT

Q1. Complete the following table showing the accounts to be debited and credited

a. Goods returned to Olalade
b. Goods sold for cash
c. Cash sales
d. Machinery purchased for cash
e. Motor car purchased on credit from Abu Abdusalam
f. Received rent in cash from tenants
g. Fixtures sold for cash
h. Goods sold, a cheque being received immediately
i. Paid rent by cash
j. Paid general expenses by cheque
k. Paid telephone by cheque
l. R eceived by cheque a refund of Insurance already paid

7.0 REFERENCES/ FURTHER READINGS

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UNIT 11
LEDGER ACCOUNTING

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2.0 Objectives

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5.0 Summary
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1.0 INTRODUCTION

The ledger is the final destination of all transactions in the subsidiary books. It is a Principal Book and the most important book of account. The ledger serves as a means of keeping permanent records of assets, liabilities, Income and expenses and the Trial balance is usually extracted from the standing balances in the ledger accounts at the end of the accounting period.

2.0 LEARNING OBJECTIVES

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

- Explain Ledger Accounting
- State the Division of Accounts
- Differentiate between various classes of accounts
- State the Rules for Debiting and Crediting Ledger Accounts
- Apply Double- Entry System in Ledger Accounting
- Post transactions to the Ledger
- Balance ledger accounts
- Interpret Account Balances

3.1 THE LEDGER

The ledger is the principal book of account because the outputs of all the other books of original entry are posted into it for balancing and because balances extracted from it are regarded as final summaries to be used in the trial balance. The ledger is rationally used in keeping accounts. The ledger is usually divided into a number of separate books, each of which is allocated to a particular class of transactions. For example, the account of all persons from whom a trader purchases goods, that is, his creditors.

3.1.1 Ruling of the Ledger

The ledger is ruled thus:

Name of Account

Cr Dr

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Am ount
			= N				= N

Particulars – short description of the corresponding entry

Folio – number of page or any reference number on which the double entry is found.

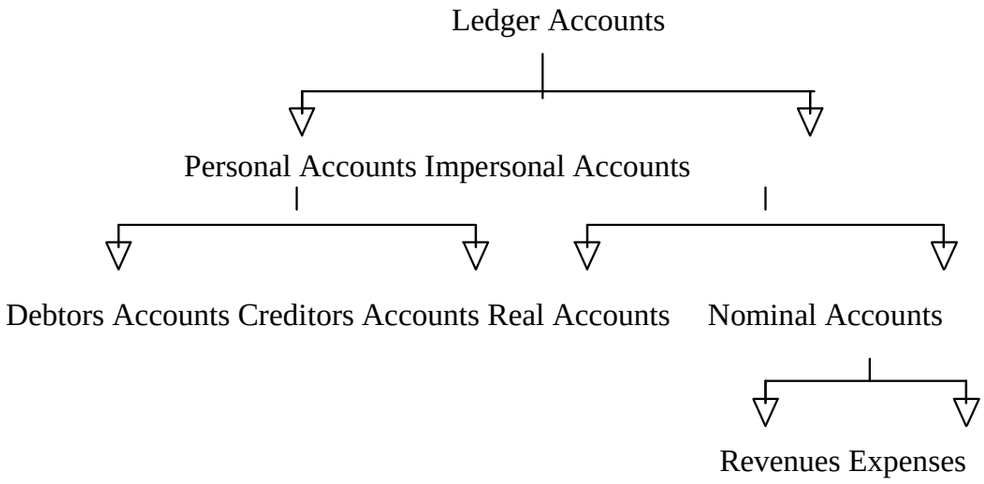
3.2 Classification of Ledger Accounts

Some authors describe all accounts either as personal accounts or as impersonal accounts. Personal accounts are accounts of debtors and creditors, which are kept to each of the credit customers or suppliers of a business. The word 'personal'; means the purchases or a sale recorded in a personal account is between the business and another specified business or other organizations or individuals. It does not mean transactions between two individual people. Personal accounts are kept in personal ledgers. There are two of these:

a. The sales ledger-personal accounts of credit customers (debtors)
b. The bought ledger or purchase ledger-keeps the personal accounts of suppliers (creditors).

. Impersonal accounts are further divided into Real Accounts and Nominal Accounts. Real accounts refer to accounts in which property is recorded such as buildings, machinery or stocks. Nominal accounts, on the other hand, are those, which are concerned with revenues and expenses. They relate to types of expenses- rent, rates, insurance, electricity, telephone, postage, etcetera - rather than the person to whom the money is paid, because they are more concerned with the reasons for payment than the person to be paid.

The diagram for this classification is shown below:



3.3 The Rules for Debiting and Crediting Ledger Accounts (principles of each class of accounts)

CASH ACCOUNT	
Debit	Credit
Receipts	Payments
Receiver	Giver

PERSONAL ACCOUNT	
Debit	Credit

REAL ACCOUNT	
Debit	Credit
Property Acquired	Property Realized

NOMINAL AC COUNTS	
Debit	Credit
Expenses & Loses	Income & Gains

3.4 CAPITAL AND REVENUE EXPENDITURES

It is essential to distinguish between expenditures and receipts of a Capital nature and expenditures and receipts of a revenue nature. You can see the distinction in the way that the accounts have been grouped – Nominal (that is, Revenue receipts and Expenditures) and Real (that is, Capital receipts and expenditures).

The table below include examples of Capital & Revenue Receipts & Expenditures:

REVENUE		CAPITAL	
Receipts	**Expenditure**	**Receipts**	**Expenditure**
- Sales - Discount - Bad debt recovered - Rent received	- Rent & Rates - Purchases - Salaries & Wages - Insurance - Trade expenses - Bad debt - Repairs of Fixed Assets	- Sale of Fixed Assets - Loan - Issue of shares	Purchase of fixed Assets - Repayment of loans - Renovation of fixed Assets

It is important to know why a distinction is essential. To quote two extreme examples – first, if a capital or revenue expenditure is incurred, the entry will be made in the debit side of the item's account, and then for the revenue and capital receipts, the treatment will be vice versa. Second, if a new building costing N200,000 is debited to the profit and loss Account in the year of purchase, the profit (or the loss) for that year will be seriously affected either positively or negatively and will not reflect the correct result of trading.

Similarly, the sale of a building should not be included in the sales figure for the period in question. Even if any profit (or loss) arises such sales, it should not be entered into the general trading results; otherwise, the effect would be to distort a trend from one year to the next. Such profits and losses are of an unusual nature and should be identified as such even though they will contribute to the final profit and loss for the period. Therefore, only profit or loss arising on fixed assets disposal should be shown in a Profit and Loss Account.

3.5 APPLICATION OF DOUBLE ENTRY SYSTEM IN THE LEDGER

When confronted with any transaction, ask yourself three questions:

I. Which two accounts are affected? Give them names

II. What types of account are they? Classify them, for example, real, personal or nominal

III. Which one is to be debited and which is to be credited?

The account giving value is CREDITED and the account receiving value is DEBITED. For proper understanding of accounting, you must commit to memory the principle which states that:

3.6 POSTING TO THE LEDGER

Posting to the ledger is initiated through the journals or the main cash book/ petty cash book. In making these postings, the double entry principle is strictly observed; similarly, posting errors should be avoided.

After postings are properly done into the ledger, the two sides of the ledger account are totaled and the ledger is balanced.

EXAMPLE 1

Post the following entries from the sales Journal to the ledger of Adebowole & Co. for the month of February 2005.

Date	Particulars	Folio	Details	Amount
Feb.	Oki & Oka Ltd	—	—	N
2	30 accounts text @ N350 each		10, 500	
	10 scientific calculators @ N250 each			2, 500
				13, 000
	Less 10% trade discount		1, 300	11,700
	Kim Jat & sons			
6	20 packets of eraser @ N55 per packet			1, 100
	100 HB pencils @ N10 each		1, 000	
	Less 5% trade discounts		2, 100	
28	1, 995			105
	Transfer to the credit side of ***Sales account***			***13, 695***

Ledger Accounts of Adebowole & Co.

Dr SALES ACCOUNT Cr

DATE	PARTICULARS	FOLIO	AMOUNT	DATE	PARTICULARS	FOLIO	AMOUNT
			N	Feb.			N
				28	Sundries		13,695

Dr OKI & OKA LTD Cr

DATE	PARTICULARS	FOLIO	AMOUNT	DATE	PARTICULARS	FOLIO	AMOUNT
Feb.			N				N
2	Sales		11,700				

Dr KIM JAT & SONS Cr

DATE	PARTICULARS	FOLIO	AMOUNT	DATE	PARTICULARS	FOLIO	AMOUNT
Feb.			N				N
6	Sales		1,995				

EXAMPLE 2

Post the following transactions from the Purchases Journal of Nicholas Ltd to the respective Ledger Accounts for the month of February 2008

Date	**Particulars**		**Folio**	**Details**
Amount				
N	**N**			
February				
2	Jenni & co Ltd			
	50 reams of duplicating papers @ N400 each.			
20, 000	100 bottles of glue @ N30 each		3, 000	23, 000
	Modern Stores			
3	100 Account texts @ N300 each		30, 000	
	50 packet of erasers @ N50 a packet.			
2, 500	150 HB pencils @ N8 each		1, 200	
33, 700	Less 3% trade discount		1, 011	32, 689
28	Transfer to the Dr side of purchases account.			
	55, 689			

Ledger Accounts of Nicholas Ltd for the month of February 2008

Dr PURCHASES ACCOUNT Cr

DATE	PARTICULARS	FOLIO	AMOUNT	DATE	PARTICULARS	FOLIO	AMOUNT
Feb.			N				N
28	Sundries		55, 689				

Dr JENNI & CO. ACCOUNT Cr

DATE	PARTICULARS	FOLIO	AMOUNT	DATE	PARTICULARS	FOLIO	AMOUNT
			₦	Feb.			₦
				2	Purchases		23,000

Dr MODERN STORES ACCOUNT C

DATE	PARTICULARS	FOLIO	AMOUNT	DATE	PARTICULARS	FOLIO	AMOUNT
			₦	Feb.			₦
				3	Purchases		32,689

EXAMPLE 3

Post the following entries from the General Journal to the Ledger of Jude **Okpara & Co. for the month of February 2004**

GENERAL JOURNAL

Date	Particulars	Folio	DR	CR
February 2	Motor van		₦ 120, 000	
	To cash			₦ 120, 000
	Being purchased of an asset in *Cash.*			
3	Furniture & fittings		15, 000	
	To modern furnishing co.			15, 000
	Being purchases of an asset (F &F) *on Credit.*			
5	Modern furnishing co.		10, 000	
	To bank			10, 000
	Being part- payment made to a creditor, Modern Furniture Co.			
6	Stationary		2, 000	
	To cash			2, 000
	Being purchase of stationery in *cash.*			

Accounts of Jude Okpara & Co. for the month of February 2004

Dr MOTOR VAN ACCOUNT Cr

DATE	PARTICULARS	FOLIO	AMOUNT	DATE	PARTICULARS	FOLIO	AMOUNT
Feb.			₦				₦
2	Cash		120,000				

Dr FURNITURE & FITTINGS ACCOUNT Cr

DATE	PARTICULARS	FOLIO	AMOUNT	DATE	PARTICULARS	FOLIO	AMOUNT
Feb.			₦				₦
3	Modern Furnishing Co.		15,000				

Dr STATIONERY ACCOUNT Cr

DATE	PARTICULARS	FOLIO	AMOUNT	DATE	PARTICULARS	FOLIO	AMOUNT
Feb.			₦				₦
6	Cash		2,000				

Dr MODERN FURNISHING CO. ACCOUNT Cr

DATE	PARTICULARS	FOLIO	AMOUNT	DATE	PARTICULARS	FOLIO	AMOUNT
Feb.			₦	Feb.			₦
5	Bank		10,000	3	Furniture & Fittings		15,000
28	Balance C/d		5,000				
				28	Balance B/d		5,000

Dr CASH ACCOUNT Cr

DATE	PARTICULARS	FOLIO	AMOUNT	DATE	PARTICULARS	FOLIO	AMOUNT
Feb.			₦	Feb.			₦
28	Balance C/d		122,000	2	Motor Van		120,000
				6	Stationery		2,000
			122,000				122,000
				28	Balance B/d		122,000

Dr BANK ACCOUNT Cr

DATE	PARTICULARS	FOLIO	AMOUNT	DATE	PARTICULARS	FOLIO	AMOUNT
			₦	Feb.			₦
				5	Modern Furnishing Co.		10,000

EXAMPLE 4

Post the following transactions of Odido & Co. from the Cashbook to the respective ledger accounts of the business for the month of February 2007.

Dr Two Column Cash Book Cr

Date	Particulars	folio	Cash	Bank	Date	Particulars	Folio	Cash	Bank
Feb N		N			Feb N		N		
1	Balance b/f		130, 000	80, 000	2	Machinery		100, 000	
5	Oki & Oka Ltd			11, 000			5	Aliko & co	
6	Sales			20, 000			6	Rent	6, 000
7	Cash						6	Kings stores	2, 000
					25, 000		6	Jenni & co	32, 600
							7	Bank	23, 000
							7	Wages	25, 000
							7	Balance c/d	12, 000
			161, 000	50, 400				105 000	11,000
			161, 000	105, 000					
7	Balance b/d		11,000	50,400					

Dr OKI & OKA LTD ACCOUNT Cr

DATE	PARTICULARS	FOLIO	AMOUNT	DATE	PARTICULARS	FOLIO	AMOUNT
			N	Feb. 5	Cash		N 11,000

Dr SALES ACCOUNT Cr

DATE	PARTICULARS	FOLIO	AMOUNT	DATE	PARTICULARS	FOLIO	AMOUNT
			N	Feb. 6	Cash		N 20,000

Dr MACHINERY ACCOUNT Cr

DATE	PARTICULARS	FOLIO	AMOUNT	DATE	PARTICULARS	FOLIO	AMOUNT
Feb. 2	Cash		N 100,000				N

Dr ALIKO & CO. ACCOUNT Cr

DATE	PARTICULARS	FOLIO	AMOUNT	DATE	PARTICULARS	FOLIO	AMOUNT
Feb. 5	Bank		₦ 10,000				₦

Dr RENT ACCOUNT Cr

DATE	PARTICULARS	FOLIO	AMOUNT	DATE	PARTICULARS	FOLIO	AMOUNT
Feb. 6	Cash		₦ 2,000				₦

Dr KINGS STORES ACCOUNT Cr

DATE	PARTICULARS	FOLIO	AMOUNT	DATE	PARTICULARS	FOLIO	AMOUNT
Feb. 6	Bank		₦ 32,000				₦

Dr JENNI & CO. ACCOUNT Cr

DATE	PARTICULARS	FOLIO	AMOUNT	DATE	PARTICULARS	FOLIO	AMOUNT
Feb. 6	Cash		₦ 23,000				₦

Dr WAGES AC COUNT Cr

DATE	PARTICULARS	FOLIO	AMOUNT	DATE	PARTICULARS	FOLIO	AMOUNT
Feb. 5	Bank		₦ 12,000				₦

The posting from the cashbook has only one entry in the ledger because the first entry was made in the cash book.

3.7 BALANCING A LEDGER ACCOUNT

Balancing an account involves the additions of the two sides of the account and finding the difference of the two totals, which will be used as balance carried down (bal. c/d) and balance brought down (bal. b/d) in the same account.

Balance carried down and balance brought down are often referred to as "Balance Carried Forward (Bal. C/F)" if the balance will be taken to the beginning of another period and "Balance Brought Forward (Bal. B/F)" if it is brought from another period. Accounts with only one entry are given a single ruled line under their figures indicating balances brought down.

Balancing of an account is a necessity because it provides a summary of the account, which is used in providing useful accounting information to users.

3.8 INTERPRETATION OF ACCOUNT BALANCES

I. In a debtor's account, the debit side is expected to be greater than the credit side, therefore, the balance c/d would be on the credit side of the debtor's account, but when it is brought down (bal b/d) in the next period, it is a debit balance. Therefore, a debit balance in debtor's account, receivable accounts and other assets account represent an asset.

II. In a creditor's account, the credit side is usually greater than the debit side. Balance c/d is on the debit side and balance b/d on the credit side. This s a liability.

III. The cash account will always be a debit balance, except where it is a bank account when it can be a credit balance (bank overdraft).

IV. The capital account will always be a credit balance.

4.0 CONCLUSION

Ledger accounts give the origin of every transaction and the parties involved. They also show the details of the movement in each account. Hence, the ledger is a ver y essential book containing a group of accounts with detailed Information useful for decision making.

5.0 SUMMARY

This study unit has:

- Explained the concept of ledger accounting
- Applied the Double- Entry Principle in ledger accounting
- Posted transactions to the ledger
- Balanced the accounts
- Interpreted the balances

SELF ASSESSMENT QUESTIONS

a. What is a ledger? State its characteristics

b. Differentiate between a ledger and an account

c. Summarize the principle of double entry in one sentence.

d. Write up the following transactions in the books of Arewa Consultative Forum Ltd and balance the accounts for the month of January, 2009:

Jan 1: Started business with N32,000 cash
Jan 2: Purchased furniture by cash N4,800
Jan 3: Purchased stationery N 7,000 cash
Jan 4: Purchased goods on credit from Mallam Abdulrahaman N10,000
Jan 15: Sold goods for N 12,000 cash
Jan 18: Sold goods to Chai on credit N4,800
Jan 20: Paid advertisement expenses N2,000
Jan 25: Paid Mallam Abdulrahaman N7,000 cash, being part of settlement of goods purchased
Jan 28: Paid rent in cash N30,000
Jan 31: Paid salaries and wages N 6,000 cash

6.0 TUTOR MARKED ASSIGNMENT

Write up the following transactions in the books of Saminu Turaki and balance the accounts as at the last date:

August 1: Started business with N 150,000 in the bank
August 2: Bought motor van by cheque N 30,000
August 3: Withdrew cash N 5,000 from the bank for business use
August5: Received Commission in Cash N 30,000
August 7: Paid rent in cash N 12,000
August 8: Paid electricity bill N 1,000 by cash
August 9: Cash sales N 1,000
August 11: Cash purchases N 15,000
August 15: Paid wages by cash N 2,000
August 16: Sold goods on credit N 10,000 to Ayodele
August 17:

7.0 REFERENCES/ FURTHER READINGS

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Longe, O. A & Kazeem, R. A (2006). Essential Financial Accounting for Senior Secondary Schools, Tonad Publishers Limited

UNIT 12

THE TRIAL BALANCE

CONTENTS

1.0Introduction
2.0 Objectives
3.0 Main Content
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3.2 Uses of a Trial Balance
3.3 Rules of the Trial Balance
3.4 Format of a Trial Balance
4.0 Conclusion
5.0 Summary
6.0 Tutor- Marked Assessment
7.0 References/ Further Readings

1.0 INTRODUCTION

As stated in previous units, assets are usually entered on the debit side of an account, and the liabilities on the credit side, it is expected that the total of the debits would equal the total of the credits. This is true because the total assets are equal to the liabilities plus the capital (L + C = A). Also, that each subsequent transaction involved one entry on the debit side, and an equal entry on the credit side. It follows that the total debit entries are still equal to the total credit entries provided no mistake has been made. It is impossible to guarantee that no mistake will ever be made. Therefore, as soon as all transactions are double- entered in the accounts, it is usually to make a preliminar y check upon the accuracy of the entries by taking out a "Trial Balance" to see if the total of all debit entries is equal to that of all the credit entries in each.

2.0 LEARNING OBJECTIVES

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

- Define a Trial Balance
- Discuss the Uses of a Trial Balance
- Explain the Rules for extracting a Trial Balance
- Extract the Trial Balance

3.0 THE TRIAL BALANCE

3.1 DEFINITION

Trial Balance can be defined as a schedule or list that shows the debit and credit balances extracted from the ledgers, to show the arithmetical accuracy of the ledgers. The technique ensures that debit and credit balances as displayed in the ledgers are compiled (Longe & Kazeem, 2006: 68). The objective of the Trial Balance is to prove the accuracy of the book- keeping. All the ledger accounts must be balanced off and entered in the Trial B alance.

•

3.2 USES OF A TRIAL BALANCE

The main uses of the trial balance are:

a. It helps in testing the accuracy of the double entry
b. Helps in the preparation of financial statements
c. Assist in detecting errors of posting that can easily be identified by the trial balance.

3.3 RUL ES OF THE TRIAL BALANCE

In preparing or extracting a Trial Balance from a list of extracted balances, the following items are recorded:

Capital or Share Capital, including retained profits, should be entered in the credit column of the trial balance

Drawings, including accumulated losses, should be entered in the debit side of the trial balance

All assets, both fixed and current, should be entered in the debit column of the trial balance

All expenses, including purchases and stationery, should be entered in the debit column of the trial balance

All liabilities, including debentures, should be entered in the credit column of the trial balance

All reserves and provisions, including depreciation, should be entered in the credit column of the trial balance

All revenue, including sales and bad debt recovered, should be entered in the credit column of the trial balance.

3.4 FORMAT OF A TRIAL BALANCE

The format of the trial balance is given below. It has columns for particulars, debit and credit sides. Because of the principle adopted, it must balance.

ABC LTD

TRIAL BALANCE AS AT 31ST DECEMBER, 2008

	Dr N	Cr N
Capital		*
Plant and Machinery	*	*
Freehold Premises	*	
Stock of beginning purchases *		
Sales		*
Rent and Rates	*	
Wages and Salaries	*	
Advertisement	*	
Sundry expenses	*	
Cash in hand	*	
Bank overdraft		*
Debtors and creditors	*	*
Furniture and fittings	*	

Bad debts	*	
Provision for doubtful debts *		
Depreciation: Furniture and fittings		*
Motor van		*
Carriage outwards	*	
Carriage inwards	*	
Returns	*	
Lighting	*	
Telephone	*	
Discount received		*
Discount allowed	*	
Drawings	*	
10% loan		*
	=	=

EXAMPLE

Accomaeco Ltd has the following transactions for the first week of January 2006.

1 Started business with cash at N 500, 000

2 Bought delivery van from SCOA motors N350, 000 and paid cash of N50, 000 as deposit.

3 Purchased goods of N50, 000 in cash and that same date purchased goods worth N200, 000 on credit from modern stores.

3 Paid rent of N120, 000 in cash

4 Purchased office furniture in cash N20, 000

4 Sold goods to Kim & sons N300, 000

5 Sold goods in cash N150, 000

6 Kim & Sons returned goods of N30, 000

7 Cash sales N40,000

7 Paid wages N8,000

7 Paid SCOA motors N150,000

You are required to journalize the above transactions, post to the ledger and extract a trial balance.

SUGGESTED SOL UTION TO EXAMPLE

In the books of Accomaeco Ltd

Sales Journal (SJ)

Date	Particulars		Folio	Details	Total
Jan N4 300, 000	N			Kim & Sons	
7	Transfer to the credit Side of sales account				300, 000

Sales Returns Journal (SRJ)

Date	Particulars		Folio	Details	Total
January			—	—	N
N 5				Kim	& Sons
30, 000					
7	Transfer to the debit side of sales returns account.				
	30, 000				

Purchases Journal (PJ)

Date	Particulars		Folio	Details	Amount
Jan.			—	—	
N 2	N Modern Stores				200,
000					
7	Transfer to the debit Side of purchases Account			**200, 000**	

General Journal

Date	Particulars		Folio	DR	CR
Jan.		—	—		
N 2	N Delivery Van		350, 000		
	To			cash	
50, 000	SCOA			motors	
300, 000	Being purchased of an *Asset on credit & depositing N50, 000 immediately.*				

DR Cash book for the Month of January, 2006 CR

Date	Particular	Folio	Amount	Date	Particulars	Folio	Amount
Jan		—			N	—	Jan
N 1	Capital		500,000	2	Delivery Van		50,
000	10 Sales			150, 000		2	Purchases
50, 000	7 Sales			40, 000		3	rent
120, 000					3	Office	furniture
20, 000					7	Wages	
8000					7	SCOA	motors
150, 000					7		Balance
c/d	292, 000						
				690,			000
690, 000	Balance		b/d 292, 000				

THE LEDGER ACCOUNTS

Dr Capital Account Cr

Date	particular	folio	Amount	Date	Particulars	Folio	Amount
Jan 1	Cash	N	2 500, 000				

Dr Sales Account **Cr**

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
Jan 7	Balance	c/d	490,000	Jan 5	Cash	N	150, 000
				7	Cash	7	40, 000
				7	Sundries	7	300,000
			490, 000				490, 000
				7	Balance	b/d	490, 000

Dr Delivery van Cr

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
Jan 2	SCOA motor	N	350, 000	7	Balance	c/d	350, 000
			350, 000				350, 000
7	Balance	b/d	350, 000				

Dr Purchases Account Cr

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
Jan 2	Cash	N	50, 000	7	Balances	c/d	250, 000
7	Sundries	PJ	200, 000				
			250, 000				250, 000
7	Balance	b/d	250, 000				

Dr Rent Account Cr

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
Jan 3	Cash	N	120, 000				

Dr Office Furniture Account Cr

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
Jan 3	Cash	–	20, 000			–	

Dr Wages Account Cr

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
Jan 7	Cash	–	8, 000			–	

Dr SCOA Motors Account Cr

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
Jan 2	Cash	=	50,000	2	Delivery van	=	350, 000
7	Cash				150, 000		
7	Balance	C/d	150, 000				
			350, 000				**350, 000**
				7	Balance	b/d	150, 000

Dr Returns Inward Account Cr

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
Jan 7	Kim & Sons	= SRJ	30, 000			=	

Dr Kim & Sons Account Cr

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
Jan 4	Sales	–	300, 000	5	Returns	–	30, 000
				7	Balance	c/d	270, 000
			300, 000				300, 000
7	Balance	b/d	270, 000				

Dr Modern Stores Account Cr

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
Jan		=				=	N
N					2		Jan Purchases 200, 000

ACCOMAECO LTD

Trial Balance as at 7/01/2006

Particulars		Folio	Dr	Cr
		=	=	N
N Capital				500, 000
Sales				490, 000
Delivery van			350, 000	
Purchases			250, 000	
Rent			120, 000	
Office furniture			20, 000	
Wages			8, 000	
SCOA Motors				150, 000
Returns inwards			30, 000	
Kim & Sons			270, 000	
Modern Stores				200, 000
Cash			292, 000	
			1, 340, 000	1, 340, 000

Entries are usually made in the Trial Balance either directly from the ledger accounts or from a list of extracted balances brought down. When a Trial Balance is prepared directly from the ledger accounts, only balances brought down are considered. In carrying out this exercise, a debit balance brought down is entered in the debit column of the Trial Balance while a credit balance brought down is entered in the credit column of the Trial Balance. Any self- balanced account is ignored.

5.0 SUMMARY

This study unit has:

- Defined a Trial Balance
- Itemized the uses of a Trial Balance
- Discussed the guiding rules to be observed in preparing a Trial Balance
- Extracted a Trial Balance

SELF ASSESSMENT QUESTIONS

Enter the following transactions in the cash book of Boko Haram, a sole trader, for the month of January 200 x 0

		N
Januar y: 1	Started business with cash	72,000
	Bought goods for cash	18,000
	Sold goods for cash	4,400
	Paid carriage	800
8	Paid advertising account	800
9	Okon paid cash on account	3,400
13	Lent Jane Oladele	8,000
17	Cash sales	8,500
19	Purchased goods by Cash	16,000
25	Paid wages	1,800
28	Cash sales	7,600
29	Jane Oladele paid on account	4,000
30	Paid rent	10,000

Required

Open ledger accounts and extract the Trial Balance on 31st January 200 x 0

6.0 TUTOR-- MARKED ASSIGNMENT

Accamaeco Limited started business on the 1st January, 2005 with the following assets and liability: Cash at Bank N80,000; Motor Vehicles N215,000, Buildings N320,000; Furniture and Fittings N20,000; and Loan from Sociology Bank N120,000.

You are required to set up proper books, of accounts as at 1/1/2005 before considering the following:

		N
Januar y, 2005.		
2. Withdrew Cash from Bank for petty cash (float)	-	10,000.
3. Purchases		- 60,000
5 Purchased goods from Adamson on credit;		
18 pieces of accounting text books at N2000 each		
15 pieces of micro Econs text books at N1500 each		
25 pieces of Management text books at N1800 each		

Less 10% trade discount

7 Paid wages	-	1200
8 Cash Sales	-	68,000
9 Bought Stationery	-	1,900
15 Paid Wages	-	1,200
16 Taxi Fare to date	-	600
17 Insurance	-	1,500
18 Cash Sales to date	-	80,000
18 Bought Delivery Van from Nuambs LTD for N85,000 on credit.		

19 Bought two realms of duplicating papers N850
20 Goods sold to Jackson worth N66,000 on credit.
21 Goods worth N2,000 returned by Jackson
23 Paid R ailway Fares - N450
25 Paid Adamson the sum equal to the amount of Management Text books and was allowed N500 as discount.
28 Jackson paid on account and 23/4% was allowed to him for paying before the due date.
29 Paid Sociology Bank - N20, 000
30 Cash Sales to date - *N38, 000*
31 Salaries - N4, 000

NOTE All receipts were banked immediately and all payments made by cheque except payments below N2,000, which were made from petty cash.

You are required to make the necessary entries and extract a trial balance as at 31st Januar y, 2005.

2 Mr. ABOH a dealer in textile materials had the following assets and liabilities at 31st December, 19x7:

		N
Furniture		1,210
Cash in hand		410
Creditor – J. Olawin	780	
Loan – A. Oni		2,000
Debtors – B. Ashogbon	190	
- A. Adeniji		270
Stock		4,120
Premises		29,500
Bank		2,750

His transactions for the month of January 19x8 were as follows:
3/1/x8 Purchased Ankara cloth from Aswani on credit N360
12/1/x8 Purchased suit materials from Five Star Textiles on credit for N2,000
18/1/x8 Sold all the Ankara cloth pruhcased on 3/1/x8 for N600 cash
19/1/x8 Received cheque from B. Ashogbon for the balance due less 10% cash discount.
20/1/x8 Paid by cheque to A. Oni a half-year's interest at 6% on the loan.
26/1/x8 Bought lace materials from NTM for N9,600.
28/1/x8 Purchased new furniture for use in his shop for N2,400 by cheque
30/1/x8 Received cheque of N140 from A. Adeniji and paid for sundry expenses **N500 in cash.**

You are required to: Draw up a trial balance as at 1st January, 19x8.

7.0 REFERENCES/ FURTHER READINGS

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UNIT 13

CORRECTION OF ERRORS

CONTENT

1.0Introduction
2.0 Objectives
3.0 Main Content
3.1 Definition of Errors
3.2 Types of Errors
3.2.1 Errors not affecting the balancing of a Trial Balance
3.3 Procedure for Correction of Errors
4.0 Conclusion
5.0 Summary
6.0 Tutor- Marked Assessment
7.0 References/ Further Readings

1.0 INTRODUCTION

If the two sides of a Trial Balance are not equal, this is a proof of the existence of error. There may, of course, be more than one error. Such error(s) must be traced and corrected.

2.0 LEARNING OBJECTIVES

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

- Explain the meaning of errors
- Enumerate errors that do not affect the Trial Balance
- Correct
- errors that do not affect the balancing of a Trial Balance

3.0 MAIN CONTENT

3.1 Definition of Errors

According to Longe & Kazeem (2006:103), errors are mistakes made in the preparation of accounts, while Igben(2004:216) looks at errors as mistakes in the book-keeping entries, balancing of accounts or extraction of trial balance. If an error is made in the books, it must be corrected. Unless it is discovered immediately after the wrong entry is made. it is not advisable to correct it by erasing the wrong figures and inserting the correct one, and the same is true of over-writing As. far as possible, all corrections should be made by means of a rectification entry.

3.2 TYPES OF ERRORS

Errors are divided into two categories as follows:

(i) Errors not affecting the balancing of a Trial Balance, and
(ii) Errors affecting the balancing of a Trial balance,

3.2.1 ERRORS NOT AFFECTING THE BALANCING OF A TRIAL BALANCE

3.2.1.1 Errors of Omission - this relates to transactions which are totally omitted from the account books, even though they appear on the source documents.

Consider the following:

Source documents;

Cash sales	=	N20, 000
Purchases by cash	=	N 6, 000*
Paid rent	=	N2, 000
Wages paid	=	N1, 500

Prime Books;

Dr **Cash Book** **Cr**

		N			N
N	Sales	20, 000	Rent		2, 000
			Wages		1, 500
			Balance c/d		16, 500
		20, 000			20, 000
Balance b/d		16, 500			

**Transaction omitted from the books.*

3.2.1.2 Errors of Original Entry – this may arise when an entry is made incorrectly in a book of prime entry and the incorrect amount is posted to the ledger. It could be duplicating, under or over stating a figure, etc

i) Consider the following with the assumption that a figure is understated:

Source document;

	Cash sales	–	N20,
000	Purchases by cash	–	N6, 000<
	Paid rent	=	N2,
000	Wages paid	–	N1, 500

Error of commission:.

Prime Books

Dr Cash Book Cr

N	Sales	20, 000	Purchases	600	
			Rent		
2, 000			Wages		
1, 500			Balance c/d	15,	
900		**20,**		**000**	
20, 000					
	Balance b/d	15, 900			

Journalizing

<Transaction figure understated

ii) Consider the following with the assumption that a figure is duplicated:

Source documents: N =

	Cash sales	20,
000	Purchases by cash	6, 000
	Paid rent	2,
000^	Wages paid	1, 500

Prime Books

Dr Cash Book Cr

N		N
Sales 20,000	Purchases 6,000	
	Rent 2,000	
	Wages 1,500	
	Rent 2,000	
	Balance c/d 8,500	
20,000		20,000

^Transaction duplicated

3.2.1.3 Errors of Com mission:- This error is committed when an item of transaction is recorded in a wrong person's account. The error affects only the individuals' accounts and not the figures in the Trial Balance.

Consider this the following:

Source documents;
Sold goods of N15, 000 to Suntai & co**
Sold goods of N5, 000 to Suntai & Co Ltd
Suntai & co returns part of the goods bought
Worth N2000

▽

SALES JOURNAL

Date	Particular	Folio	Detail	Total N
N 2000	Suntai & co Suntai & Co. Ltd			15, 000 5,000
	Transfer to CR Side of sales			20,000

SALES RETURN JOURNAL

Date	Particular	Folio	Detail	Total N
	Suntai & co			2000
	Transfer to DR of sales return			

▽

Ledger accounts;

Dr Suntai & co account Cr

Cr	N		N
Sales	5, 000**	Returns	2, 000
		Balance c/d	3, 000

Dr Sales account Cr

	N		N
		Sundries (SJ)	20000

***Transaction swapped between Suntai & Co. and Suntai & Co. Ltd.*

3.2.1.4 Errors of Principle:- This sort of error relates to entries of transactions in the wrong class of accounts e.g. debiting an asset account instead of an expense account and vice versa.
Considered the following;

Source document; **N**

Cash sales
20, 000 Purchases by cash
6, 000 Bought Motor Van 10,000^^
Paid for motor expenses in cash 2, 000^^

Prime book;

Dr Cash Book Cr

	N		N
Sales	20, 000	purchases	6, 000
		Motor van	10, 000
		Motor expenses	2, 000
		Balance c/d	2, 000
	20, 000		**20, 000**
balance b/d	2, 000		

Ledger accounts:

Dr Sales account Cr

	N		N
		Cash	20, 000

Dr Purchases account Cr

	N		N
Cash	6, 000		

Dr Motor expenses account Cr

	N		N
Cash	10, 000		

Dr Motor van account Cr

	N		N
Cash	2, 000		

^^***Transactions Swapped between Motor Van and Motor expenses accounts***

3.2.1.5 Compensating Errors:- are errors which counteract each other and these do not affect the agreement of the trial balance e.g. an over posting of N1, 500 on the debit side of the sales ledger may be compensated by an overcast of N 1, 500 in the additions of the Sales Journal.

Consider the following:

Source document;

Sold goods of N15, 000 to Sunday & co
Sold goods of N5, 000 to Sundayo Ltd

Prime Books; **Sales Journal**

Date	Particulars		Folio	Details	Total (N)
	Sunday		&		co
15, 000	Sundayo				Ltd
5, 000	Transfer to CR side sales a/c				19, 000^*

Ledger accounts:

Sales account

account	N		N
N		N Sundries (SJ)	19, 000^*

Sunday & co

			N
Sales	15, 000		

Sundayo Ltd

account			N
N	Sales	4, 000^*	

^*Figures Understated

3.2.1.6 Errors of Double Entry Principle:- This is an error that violates the golden principle of accounting and yet, it does not affect the balancing of the trial balance. Example, where an entry from the ledger accounts is contrary to the principle of double entry, that is, an account to be debited is credited and vice versa.

Consider the following;

Prime Books;

Sales Journal

Date	Particulars	Folio	Details	Total
N	Safiya N	&	co	
15, 000	Safiyatu		Ltd	
5, 000	Transfer to the DR side of sales account			20,
000				

Ledger accounts;

Sales account

Account	N	N	N
Sundries (SJ)	**20, 000#**	**Sales**	**15, 000#**

Safiya & Co

Safiyatu Ltd account

N	N
5, 000#	Sales

#Entries completely reversed.

3.3 PROCEDURE FOR CORRECTION OF ERRORS

Experience has revealed that the best possible way to correct mistakes is to analyse the mistakes .When there are errors in the account, the following steps should be taken:

a. You must be able to identify the type of error
b. You must identify the two accounts involved
c. You must also be familiar with whether an account should have a debit or a credit balance. Note that:

I. All asset accounts must have debit balances
II. All liability accounts must have credit balances
III. All income accounts must have credit balances
IV. All expense accounts must have debit balances
V. Sales accounts must have credit balances
VI. Purchases accounts must have debit balances

d. Interpret the errors in the ledgers
e. Correct the ledgers first before posting to the journal.

Example

Show the journal entries to correct the following errors:

a. The purchase of furniture N60,000 had been entered in the furniture expenses account
b. Sales of goods N20,000 to Anyadibu had been completely ommited from the books.
c. The payment of cash to Ogundele N100,000 had been entered on the debit of cash book and credit side of Ogundele's account
d. Purchase of goods N300,000 from Adamu entered in Adama's account
e. The sales account is under cost by N600,000 as also is wages account.
f. Cash payment of N95,000 to Rare entered in the two accounts as N59,000

SOLUTION

JOURNAL ENTRIES

	JOURNAL	DR N	CR N
1 Furniture account	Furniture expense account Being purchase of furniture entered in Furniture expenses account now corrected	60,000	60,000
2 Sales	Anyadibu Being sales of goods to Anyadibu omitted now corrected	20,000	20,000
3 Cash book	Ogundele Being payment of cash to Ogundele mistakenly reversed now corrected	100,000	100,000
4 Adamu's account	Adama's account Being purchase of goods from Adama mistakenly entered in Adamu's account now corrected	300,000	300,000
5 Sales account	Wages account Being correction of undercast of sales wages	600,000	600,000
6 Rare account		36,000	

	Cash book Being correction of understated payment to Rare		36,000

4.0 CONCLUSION

The preparation of a trial balance does not prove that transactions have been completely and correctly recorded in the proper accounts. There are errors that do not affect the agreement of the trial balance and they have been comprehensively discussed in this unit.

5.0 SUMMARY

This study unit has:

- Defined errors
- Outlined errors not affecting Trial Balance agreement
- Enumerated procedure for correcting such errors

SELF ASSESSMENT EXERCISES

Show the journal entries necessary to correct the following errors:

a. Both purchases and returns outwards accounts were under cost by ₦ 150,000
b. Payment of cash to Sabiwu ₦ 30,000 was completely omitted from the books
c. Cash paid to Sardauna ₦ 10,000 entered on the credit side of his account and debited to cash account.
d. Returns Inwards ₦ 30,000 from Chukwuma was entered in Chukwude's account
e. Sales to Ayomoto ₦ 107,000were entered in the books as ₦ 701,000

6.0 TUTOR- MARKED ASSIGNMENT

a. Defined errors
b. State and explain the errors that will not be disclosed by the trial balance
c. After extracting the trial balance of Gigiring Ventures on 31st March, 2009, a difference of ₦ 6,180 was discovered. A renew of the ledger revealed the following errors:

a. A sum of ₦ 720 on a creditor's account was omitted from the balance of creditors
b. An item of furniture purchased for ₦ 5,760 had been debited to repairs
c. The payments side of the cash account had been undercost by ₦ 3,900
d. The total of one page of the sales day book had been carried forward as ₦ 12,924 whereas the correct amount was ₦ 15,084
e. A debit note of ₦ 1,260 received from a customer had been posted to the wrong side of his account.
f. Mr. Anzaku whose debts of 3,120 to the business had been written off, paid during the year. His personal account was credited but no responding entry was made.

You are required to:

I. Prepare journal Entries to correct the errors
II. Write up the suspense account

7.0 REFERENCES/ FURTHER READINGS

Okwoli, A. A. (1993). Principles of Financial Accounting, Jos: Tamaza Publishing Company Limited

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STUDY UNIT 14

SUSPENSE ACCOUNT

CONTENTS

1.0Introduction
2.0 Objectives
3.0 Main Content –
3.1 Suspense Account
3.2 Errors that affect the Trial Balance
3.3 Steps involved in correcting errors
3.4 Correction of Errors
4.0 Conclusion
5.0 Summary
6.0 Tutor Marked Assessment
7.0 References/ Further Readings

1.0 INTRODUCTION

Some errors will cause the trial balance not to balance. For such errors which will affect the agreement of the trial balance will affect only one ledger account, thereby requiring one other account, which is the suspense Account for correction to be effected. When the trial balance totals disagree and the errors are not discovered before the final accounts, it will be necessary to open a suspense account

This unit discusses these errors which are likely to cause a difference in the trial balance.

2.0 LEARNING OBJECTIVES

After studying this unit, you should:

- Explain what a suspense account is and its use
- State errors disclosed by a Trial Balance
- Outline steps involved in correcting the Errors
- Correct errors that affect a Trial Balance

3.0 MAINT CONTENT

3.1 Suspense Account

Suspense account can be defined as the account used to record the difference on a trial balance temporarily until the errors are detected and corrected. Hence, the suspense account is an account in which the net difference in trial balance totals is recorded pending the location and correction of the errors causing the difference. When errors affect the trial balance, it must pass through the suspense account.

The purpose of the suspense account is to record any discrepancy arising, from the disagreement of a trial balance. It has two main characteristics:

a) serves as an account because one of the entries of the double entry is entered while the corresponding entry goes to the affected account.

b) It serves as trial balance because no balance brought down occurs in it. The two sides (debit and credit) automatically balanced. A suspense account can function in many ways:

i) It functions as a means of correcting errors.

ii) It functions as a means of placing an unknown or undefined amount. It therefore serves as a temporary account where differences are accumulated until the causes of the differences are identified.

3.2 ERRORS THAT AFFECT A TRIAL BALANCE

Errors affecting the balancing of a trial balance are:

1. Errors in posting e.g transposition of figures, duplication of entries on the same side of the account, understatement or overstatement of figures etcetera.
2. Balance unextracted.
3. Balance extracted, but placed on wrong side of the trial balance
4. Incomplete double entry of item or items
5. Errors in balancing of opening figures
6. Errors in addition.
7. Error of transferring totals from subsidiary books (Journals) to the ledger.
8. listing a debit balance to the credit side of the trial balance and vice versa
9. Making an entry on only one side of the accounts, omitting the second entry

3.3 STEPS INVOLVED IN CORRECTING ERRORS

The procedures to be followed are:

1. Identify the type of error
2. If it is an error that will not affect the trial balance, it must not pass through the suspense account.
3. If it is an error that will affect the agreement of the trial balance, it must pass through the suspense account
4. Illustrate the errors in the ledgers and make the necessary corrections
5. The corrections will now be posted to the journal.

3.4 CORRECTION OF ERRORS

Errors, which affect or do not affect the trial balance, may come to light in a number of ways. The disagreement of the trial balance where for instance, a difference of N15.75 is revealed by the trial balance, and investigation shows that N1.75 has been posted instead of N17.50 to the account of a creditor. Furthermore, a complaint from a customer may reveal the fact that he has been charged erroneously with goods supplied to some other customers; any error of principle or a compensating error will very probably be discovered when the books are being audited and so on.

Whatever the type of error, being that affecting or not affecting the balancing of the trial balance, the entries necessary to correct these errors should be passed through the journal accompanied by adequate narration.

Thus, when a sale of N50 is debited in error to Simi & company instead of to Simi, the following correcting entry should be made in the Principal Journal and posted to the respective Ledger Accounts.

Principal Journal

Date	Particulars	Dr.	Cr.
		= N	= N
	Simi…….. Dr	50. 00	
	To Simi & company……		50. 00
	Being correction of errors in posting, sales Day Book Folio		

In the case of errors which affect the agreement of the trial balance, the practice is frequently adopted in making that statement "balance" by inserting therein item "suspense" Account (Difference in Books)". Thus, if the debits in trial balance exceed the credits by N15.75 from the example above the trial balance (in skeleton form) would appear thus: -

	Dr N	Cr N
Sundry debit balances	80, 600. 00	
Sundry credit balances		80, 584. 25
Suspense Account (Difference in books)	15. 75	
	N80, 600. 00	N80, 600. 00

A suspense account will be opened in the ledger and debited (or credited, as the case may be) with the amount of the difference; thus, in the above case it would be credited with N15. 75.

Dr	Suspense Account	Cr
= N	= N	
	Trial balance	15. 75

Since the source of error is known in this case other entries may follow otherwise the entry would stop at suspense account until the error is discovered. Thus;

JOURNAL

Date	Particular	Folio	Dr (N) =	Cr (N) =
	Suspense Account		15. 75	
	To creditors			15. 75
	Being error of posting corrected accordingly			

Dr		Creditor Account/ledger		Cr
	N		N	
			Suspense A/c	15.75

Dr		Suspense Account		Cr
	N		N	
Creditor	15. 75	Balance b/f		15. 75

The double entry shown above has been made possible because we assumed immediate discovery of our errors.

In the case where errors are not discovered till after the Trading and Profit and Loss Accounts and Balance sheet are prepared, the difference, which may be either a debit item or a credit item as in the above example, is usually shown in the balance sheet as "suspense account (Difference in Books)".

EXAMPLE

On extracting a trial balance of Adejoh and Co., it was discovered that there is a difference, which was carried to suspense account.

The following errors were subsequently located

(i) a purchase of goods from Musa for N240.00 has been credited to the account of Wasiu

(ii) A sale of goods to Mar y T. (N55.00) has been posted to the credit of her account.

(iii) Machinery sold for N380.00 had been credited to sales Account.

(iv) A sale of goods to Y. Blessedson had been correctly recorded in the sales Day Book as N240.00, but had been debited to his account as N24.00.

(v) The sales Day Book was under cast by N400.00

(vi) An amount of N60, being Rent Payable accrued in the previous period, had not been brought forward as a balance on Rent Account.

(vii) The Petty Cash balance of N25.00 was omitted from the Trial Balance.

(viii) Goods worth N100 sold to Nerat Ltd on credit has been mistakenly posted to the account of Noroh Ltd a debtor.

(ix) Goods purchased from Mitsen Plc for N300 not posted into the Prime books.

(x) Stationery purchased for N40.00 in cash has been posted to Cash Book as **N4.00.**

Give the Journal entries necessary to correct the books and show the entries that must be made in the Suspense Account.

SUGGESTED SOL UTION TO EXAMPLE
IN THE BOOKS OF ADEJOH & CO.
JOURNAL

		Dr (N)	Cr (N)
i	Wasiu To Musa *Being correction of error in posting purchases to the credit of Wasiu instead of Musa*	240	240
Ii	Mary T. To Suspense Account *Being entry necessary to correct posting of sale of N55 to the wrong side of her account*	110	110
iii	Sales Account To machinery *Being correction of error in posting proceeds of sale of machinery to sales account.*	380.00	380.00
iv	Y. Blessedson To suspense account *Being correction of error in under debiting sale by 216*	216	216
v	Suspense account To sales account *Being adjustment of error in under casting sales Day Book by N400*	400	400
vi	Suspense account To rent account *Being adjustment of balance omitted*	60.00	60.00
vii	Nerat Ltd To Noroh Ltd *Being correction of an error of commission*	100.00	100.00
viii	Purchases account To Mitsen Plc *Being goods bought and invoice not posted*	300.00	300
ix	Stationery account Cash Book account *Being correction of error in under – crediting stationery in a Prime book.*	36.00	36.00

NB: No Journal entry is required to correct the omission of the Petty Cash Balance of N25.00, which was omitted from the Trial Balance. A credit entry of N25.00 to suspense account is therefore all that is necessary.

Dr SUSPENSE ACCOUNT Cr

	N		N
Sales	400	Trial Balance	109
Rent	60	Mary T.	110
			111

Blessedson Y. 216
Petty Cash 25

N460 N460

When an error is discovered in either the Journal or the Ledger, it must be corrected. Such an error is never erased, for this may indicate an effort to conceal something. However, the method of correction will vary with the nature of error committed and the stage of the error in the accounting procedures at which it is discovered.

If an error is discovered in a Journal entry before posting, it may be corrected by ruling a single line through the incorrect amount or account name and writing the correct amount or account name above it.

Consider the Following:

Source documents: **N**

Sold goods to Soludo & co 20, 000
Sold goods to Sodengi Ltd 5, 000
Sold goods to Neta & sons 10, 000

PRIME BOOK:

Sales Journal

Date	Particulars		Folio	Details	Total
N	N Soludo		&		co
10, 000	Sodengi				Ltd
5,500	Neto		&		sons
10, 000					

Note: Journal entries before correction

PRIME BOOK:

SALES JOURNAL

DATE	PARTICULARS	FOLIO	DETAILS	TOTAL
			N N	
	Soludo & co			20,000
	Sodengi Ltd			5,000
	Neta & Sons			10,000
				35,000

Note: Journal entries after correction

As can be seen above, errors were made against the figure of Soludo & Co Sodengi Ltd and the name of Neta & Sons. These were immediately corrected before the posting to the ledger took place.

Likewise, if an incorrect amount was posted to an account, you may correct it in the same manner if the account has not been balanced and trial balance extracted. However, if an amount was posted to the wrong account, it is best to correct the error with a correcting journal entry. For example, the following journal entry is used to record the purchase of motor accessories of N80, 500 in cash.

Journal (when an error was committed)

Date	Particulars	Folio	Details
Total		**–**	**–**
June 14	Motor Vehicles	80,	
500	To		Cash
80, 500	Being purchase of motor accessories		
–			–

Journal (when error is detected)

Date	Particulars	Folio	Details
Total			
June 17	Motor Expenses N	80,	
500	To	motor	vehicles
80, 500	*Being correction of entry of June 14 in which motor vehicle account was debited in error for the purchase of accessories*		

Again, whatever the type of error, except error of balances unextracted or extracted and placed on the wrong side of the trial balance, being that affecting or not affecting the balancing, of the trial balance, the entries necessary to correct these errors should pass through the journal accompanied by adequate narration as demonstrated above.

4.0 CONCLUSION

Mistakes in accounting can only be rectified when you know their sources. It is always advisable to interpret the errors in the ledger before correction. The Suspense Account is an account that is usually used to correct errors especially errors that always puts off the equality of the Trial Balance

5.0 SUMMARY

This study unit has:

- Discussed the suspense account
- Outlined some errors that affect the balancing of a Trial Balance
- Enumerated the steps involved in correcting errors
- Demonstrated how errors affecting the Trial Balance are corrected

SELF ASSESSMENT QUESTIONS

1. The trial balance of Deji Company on 31st March, 1995 did not balance. He opened a suspense account for the difference and then prepared his financial statements. His balance sheet is as follows:

Balance Sheet as at 31st March, 1995.

	N		N	N
Capital 1/4/94	6093	Fixed Assets	1,900	
Add Net Profit	2,970	Current Assets		
	9,063	Stock	2,146	
Less Drawings	2,500	Debtors	3,142	
	6,563	Cash	1,862	7,150
Creditors	2,475			
Suspense A/c	12			
	N9,050			**N9,050**

The following errors were discovered in April, 1995:

i) Bank Charges of N7 was entered in Cash Book but the double entry was not completed.

ii) Loss on sales of fixed asset of N12 was correctly entered in the Motor Van account but had been charged to depreciation account as N21.

iii) A cheque of N86 for the purchase of fixed asset had been correctly entered in the cash book but entered in the asset account as N66.

iv) A sale of goods to Mr. Bello for N46 was correctly entered in the sales Day Book but was posted to Bello's account as N64.

v) A credit note for N17 received from Femi, a Creditor, has been correctly entered in the subsidiary records but posted to Femi's account as N19.

vi) The debit balance of N122 on Mallam's account in the sales ledger on 28th February was carried down as N132 and included in the trial balance at this figure.

You are required to:

a) Make the journal entries required to correct these errors

b) Show the suspense account in the ledger.

c) Calculate the correct amount of profit for the month of March 1995

d) Draw up the corrected balance sheet as at 31st March, 1995.

2. a) Certain errors do not cause a difference in the trial balance. List any four of such errors and give an example of each.

b) The trial balance of Efforter Enterprises failed to balance on 31st December, 2007. The sum of the credits was greater than the sum of the debits by N9,080. On checking through the books the following errors were discovered:

1. Sales account was overcast by N5,680.

2. Discount allowed of N450 was credited to Discount received the correct entry was made in the debtors accounts.

3. The account of P. Dalo, a debtor, was debited with credit sales of N370 to A Dalo.

4. Purchases of N8,780 were correctly credited to Bank, while N7,870 was debited to Purchases Account.

5. A cheque of N1,500 received from a Customer for goods supplied was credited to bank and debited to the sales account.

6. Stationery of N170 bought from petty cash was debited to petty cash account, but the correct entry was made in the stationery account.

7. Sales returns of N280 for cash were recorded by crediting cash account and sales returns account and also debiting sales accounts.

8. Motor Vehicle repairs of N720 paid by cheque were not recorded in the books.

9. Bad debts of N500 (written off): were recorded by crediting provision for bad debts account and also crediting sundry Debtors accounts.

10. Carriage inwards paid from petty cash N650 was credited to correct petty cash account only.

You are required to:

a) Make journal entries to correct the errors.

b) Open a suspense account and show how the entries will appear.

6.0 TUTOR- MARKED ASSIGNMENT

1. The trial balance of Deji Company on 31st March, 1995 did not balance. He opened a suspense account for the difference and then prepared his financial statements. His balance sheet is as follows:

Balance Sheet as at 31st March, 1995.

	N		N	N
Capital 1/4/94	6093	Fixed Assets		1,900
Add Net Profit	2,970	Current Assets		
	9,063	Stock	2,146	

Less Drawings 2,500	Debtors 3,142			
	6,563	Cash 1,862	7,150	
Creditors 2,475				
Suspense A/c	12			
	N9,050			N9,050

The following errors were discovered in April, 1995:

vii) Bank Charges of N7 was entered in Cash Book but the double entry was not completed.

viii) Loss on sales of fixed asset of N12 was correctly entered in the Motor Van account but had been charged to depreciation account as N21.

ix) A cheque of N86 for the purchase of fixed asset had been correctly entered in the cash book but entered in the asset account as N66.

x) A sale of goods to Mr. Bello for N46 was correctly entered in the sales Day Book but was posted to Bello's account as N64.

xi) A credit note for N17 received from Femi, a Creditor, has been correctly entered in the subsidiary records but posted to Femi's account as N19.

xii) The debit balance of N122 on Mallam's account in the sales ledger on 28th Februar y was carried down as N132 and included in the trial balance at this figure.

You are required to:

a) Show the suspense account in the ledger.

b) Calculate the correct amount of profit for the month of March 1995

d) Draw up the corrected balance sheet as at 31st March, 1995.

2. The trial balance of Taimako & Co as at 1st December, 1994 did not balance. The following errors were discovered.

1. Cash purchases of N5,525 were credited to the bank account but N5,255 was debited to the purchases account.

2. Rent received from a tenant of N200 was credited both to the rent received account and the Bank account.

3. Bad debts recovered N160, was debited to debtors account and no credit entry was made.

4. Sales return of N82 was mistaken for Purchases and the correct entries for purchases were made (cash was refunded to the customers).

5. A debit balance of N172 on stationery account was listed on the credit balance.

6. Furniture purchased on credit for ₦5,000 was credited to the furniture account and no other entry was made.

7. An electric bill of ₦224 paid, was credited to bank account as ₦424 and debited to electricity account as ₦442.

8. ₦230 paid to James Amusa a creditor, was credited to Jimmy Amusa, a debtor, and also credited to the bank account.

You are required to:

a) Determine which column of the trial balance is greater than the other by posting the entries stated above and by how much.

b) Prepare a suspense account to effect the correction of the detected errors.

c) List five types of errors that can be made without affecting the trial balance.

7.0 REFERENCES/ FURTHER READINGS

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STUDY UNIT 15

BANKING SYSTEMS

CONTENTS

1.0 Introduction
2.0 Objectives
3.0 Main Content
3.1 Types of B ank Accounts
3.1.1 Current Account
3.1.2 Deposit Account
3.1.3 Loan Account
3.1.4 Savings Account
3.2 Inter- Bank Transfers
3.3 Bank Statement

4.0 Conclusion
5.0 Summary
6.0 Tutor- Marked Assessment
7.0 References/ Further Readings

1.0 INTRODUCTION

One of the ways a business can guide against loss of cash through theft and fraud is to open and maintain a bank account. Apart from guiding against theft, a business entry or customer can also enjoy some credit facilities and benefit from other professional services. In this Study Unit, Banking matters that are relevant to you have been extensively discussed.

2.0 LEARNING OBJECTIVES

At the end of this study unit, you should

- Explain the types of Bank accounts a business or individual can open
- Discuss how Inter- Bank Transfer are done
- Define a Bank statement

3.0 MAIN CONTENT

3.1 TYPES OF BANK ACCOUNTS

Banks offer various types of accounts for both existing and potential customers. Specifically, for a commercial undertaking, there are three main types of accounts which are usually available: current Accounts; Deposit Accounts and Loan Accounts.

3.1.1 Current A ccount

This is the account, which must be held if cheques are be used. Of course before any cheque can be drawn, there must be sufficient money in the bank account to cover it. If not, drawings in excess of monies, which have been lodged, will cause an overdraft, if there is an understanding between the customer and the bank. Anything to the contrary will cause the cheques to 'bounce' or be "dishonoured". The normal situation will be that customers will be owed money by the bank; that is, customers will be creditors. Where customers overdrew their accounts however, they are debtors of the bank. In the books of such a business, therefore, the bank will be shown as a creditor. In banking transactions, via current account, three parties are involved in most cases - the bank; the holder of the cheque account (Current Account) and the holder of an issued cheque who will be going to present it to the bank for payment. They are respectively called drawee, drawer and payee, respectively.

3.1.2 Deposit Account

A deposit account will be opened for a customer, when that party has a surplus of funds over day to day needs. Interest will be paid proportionately to the period of deposit (if it is call deposit) which is normally retired on demand. If it is a time deposit, prescribed period will be required before monies can be drawn off, although in effect money can be drawn on demand provided the customer is prepared to be penalized by a loss of interest. However, tenors vary for "time deposits" (that is, 30,60 or 90 days). Withdrawal can only be met on or after the maturity date. Withdrawal before maturity date attracts similar penalty with call deposit.

The precise terms for operating a deposit account tend to vary from bank to bank. No cheque book is issued for deposit accounts.

3.1.3 Loan Account

If a customer makes a special arrangement with the bank for a loan, an account separate from the current account will be opened and called a loan account. The amount of the loan will be transferred to the credit of the beneficiary's current account while the loan account is debited with same amount. Repayments will probably be debited to the current account and credited to the loan account in accordance with a predetermined arrangement. Probably interest on the loan account will also be debited to the current account.

3.1.4 Savings Account

This type of account is meant for the small savers to keep their surplus funds. This account is usually opened by individuals, clubs, associations, salary earners, petty traders e. t. c. Customers may not be granted overdraft facilities on this type of account and Interest is payable on the sum standing to the customer's credit.

3.2 INTER- BANK TRANSFERS

Through the use of computer and the Internet, a lot of electronic equipment is now available which enables banks to transfer funds from the account of one customer to another without the need for exchange of paper document. This electronic equipment is turning the monetary system to a cashless society.

At present in Nigeria, some of the available Electronic banking products are:

i. Auto- Teller Machines (ATM)
ii. Electronic Fund Transfer (EFT)
iii. Electronic Fund Transfer at point of sale (EFTPOS)
iv. Electronic Card Products (Debit Card)

There are two popular debit cards;

a. Pass Card
b. Smart Card
c. Credit Cards

There are two basic types of credit cards:

a. Bank Credit Cards
b. Non- bank Credit Cards

3.3 BANK STATEMENT

A business enterprise will record money paid into the bank and the sums drawn from the bank with cheques in the cash book. On the other hand, the bank will record all the transactions in its books. The book which the bank prepares showing the transactions between it and the customer is known as "Bank Statement" the bank usually sends a bank statement to its customer at the end of every month. The statement contains details of the receipts and payments by and on behalf of the customer for that period. Receipts will include cash paid into the customer's account and those paid by third parties direct into the bank. Until the customer receives the bank statement or a credit advice in respect of the direct credit to his bank account, the business may not be aware of it or the amount involved.

Payment or withdrawal will also include details of cheques issued by the customer, bank charges and payments made on behalf of the customer to third parties by the bank (if the customer so directs the bank, this is called a standing order).

The balance at the end of the period represents the balance as per bank statement. This balance can be a credit balance (favourable) or a debit balance (overdraft). Remember though that in the cash book of the customer, a favourable balance is a debit balance and a credit balance is an overdraft.

As a matter of necessity, the balances of the cash book and bank statement must be equal. But at a given date, the balances of the cash book are unlikely to agree with the balance on the bank statement due to certain reasons which are discussed shortly. When there is a difference between the balances, then there is need for reconciliation.

3.4 Payee

This is a person in whom a cheque bears his name or a person who presents a bearer's cheque that does not carry anybody's name.

3.5 Drawer

Drawer is the person or firm that issues out a cheque to its supplier (payee) or some other persons to be presented to the bank.

3.6 Drawee

Drawee is the bank that will pay/honour the cheque that has been drawn on behalf of the customer (drawer), who operates an account with them, for the benefit of the supplier (payee).

3.7 Debit Balance

A debit balance on a bank statement shows that the customer has no money in the account rather; he/she owes the bank. The technical word for this sort of balance is known as overdraft. This contrasts with the balance as shown in the cash book (bank column) because an overdraft is known as a credit balance and a debit balance means the customer has money.

3.8 Credit Balance

This in the bank statement shows that the customer has money, whereas the cashbook (bank column) credit balance means a bank overdraft, whilst a debit balance means there is money in the account.

4.0 CONCLUSION

One of the ways to guide against loss of Cash through theft and fraud is to open and maintain a Bank Account. Apart from guiding theft a business entity or customer can also enjoy some credit facilities and professional advice from its/his Bank. There are four main types of account a customer may keep with a Bank. These are Current accounts, Deposit Account, Loan Account and Savings.

5.0 SUMMARY

This Study Unit has:

- Discussed the main types of Bank Accounts
- Explain how Inter-Bank Transfers are effected
- Defined a Bank

6.0 TUTOR- MARKED ASSIGNMENT

1. Write briefly on bank accounts

2. Write short notes on the following banking terms

a) Unpresented Cheques

b) Uncredited cheques
c) Bank Charges
d) Standing Order Payments
e) Dishonoured Cheque

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STUDY UNIT 16

BANK RECONCILIATION STATEMENT

CONTENT

1.0 Introduction
2.0 Objectives
3.0 Main Content
- 3.1 Reasons for disagreement between the Cash Book and Bank Statement
- 3.2 Basic Terms in Bank Reconciliation
- 3.3 Advantages of Bank Reconciliation
- 3.4 Stages in Bank Reconciliation
- 3.5 Preparation of a Bank Reconciliation Statement
- 3.6 Bank Overdraft

4.0 Conclusion
5.0 Summary
6.0 Tutor- Marked Assessment
7.0 References/ Further Readings

1.0 INTRODUCTION

The bank and its customer (e. g a business entity) maintain Independent records in respect of the transactions taking place between them. Therefore, it is necessary to reconcile the bank statement balance with the bank balance in the cash book to be assured that the two are in agreement on the amount of money deposited and cheques drawn.

Usually, as earlier pointed out, the bank column balance and bank statement are not always in agreement and they need to be reconciled.

2.0LEARNING OBJECTIVES

- o Define Bank statement
- o Outline reasons for disagreement between the cash book and bank statement
- o State the steps involved in the Recognition of Discrepancies
- o Prepare a Bank Reconciliation Statement

3.0 MAIN CONTENT

3.1 REASONS FOR DISAGREEMENT BETWEEN THE CASH BOOK AND BANK STATEMENT

The timing and Information differences which can cause disagreement are:

1. Unpresented cheques
2. Uncrdited cheques
3. Dishonoured cheques
4. Bank charges and Interest
5. Standing order
6. Dividends
7. Credit transfers
8. Errors by the bank
9. Direct debits
10. Other errors like under casting or overcastting of the cash balance brought down.

3.2 BASIC TERMS IN BANK RECONCILIATION

Bank reconciliation involves some basic terms that need to be explained:

3.2.1 Unpresented Cheques

These are cheques that are issued out but which have not yet been presented to the bank for payment. Bank balance will exceed cashbook balance to the extent of the value of these cheques. To reconcile both balances, the amount should either be added to cashbook balance or subtracted from the bank balance.

3.2.2 Uncredited cheques

These are cheques that have been received from other parties and lodged with the bank but have not been cleared by the bank and credited into the firm's account. Bank balance will be less than the cash book balance to the extent of these cheques. To reconcile, the amount should either be deducted from the cashbook balance or added to the bank balance.

3.2.3 Standing Order Paym ents

This is an order given to a bank by its customer to make regular payments of a certain amount to another person's account on his/her behalf. The customer is then notified afterwards through a document known as a debit advice. A good example of this sort of payment is life assurance premium, or any other standing contributions.

3.2.4 Standing Receipts or Remittance

These are incomes flowing directly to a customer's account from sources such as dividends and interest. The bank receives the income, which may be on a regular basis, on behalf of the customer and subsequently credits his/her account before the relevant credit advice is sent to the customer.

If credit or debit advice has not been received by the date of the reconciliation, the bank balance will exceed the cashbook balance. To reconcile, the cashbook should be adjusted if the income or payment relates to the expired period. If this is not necessarily

so, however, the amount should be added to the cashbook balance or deducted from the bank balance.

3.2.5 Bank Charges

These consist of all debit advices raised by the bank to cover sundry fees payable by the customer, for example, cost of cheque book, commission on turnover, transfer fees, special clearance fees, interest charges, etcetera. These charges are usually notified to the customer by means of a document known as a “debit advice”. If the customer has not received the relevant advice, the bank balance will be less than the cashbook balance. Therefore, the cashbook should be adjusted with the charges since they invariably relate to the outgoing period.

3.2.6 Dishonoured Cheque

This is a cheque in which a bank's customer lodged into a bank as a collection from a debtor or payment made by cheque from a similar source but returned unpaid for reasons such as “signature irregular”, “alteration on date, name or figure, without endorsement”, lack of adequate money in the account”, e.t.c. To reconcile, the cashbook will need to be readjusted by crediting the adjusted cashbook and debiting the customer’s account. This is a reversal of the entries that were previously made in those accounts.

3.3 ADVANTAGES OF BANK RECONCILIATION

Bank reconciliation is an important process in every organization. It has the following advantages:

(I) It enables firm/customer detect any cause of discrepancy between his cashbook balance and the bank statement balance.

(II) Errors and fraud, either by the firm’s employee(s) can be detected and corrected or recovered.

(III) Direct receipts and payments from or to outside sources can be ascertained especially where the customer is yet to receive any advice to that effect.

(IV) Charges and interest: granted by the bank for whatever reason can be seen and cashbook adjusted without waiting for debit or credit advice.

(V) A firm can take advantage of any float that may be seen when the cashbook balance is compared with the bank statement balance. Float means the surplus bank statement balance as against cashbook balance, which may be as a result of unpresented cheques.

3.4 STAGES IN BANK RECONCILIATION

(a) Tick items on the debit side of the cash book against items on the credit side of the bank statement. Outstanding items on the debit side of the cash book but missing on the credit side of the bank statement are credited cheques. List them.

(b) Tick items on the credit side of cash book against items on the debit side of the bank statement. Items outstanding on the credit side of the cash book but missing on the debit side of the bank statement are unpresented cheques. List them.

(c) The remaining items on the debit side of the bank statement are bank charges and standing order. List them.

(d) The remaining items on the credit side of the bank statement are amounts paid into the bank directly for the benefit of the business entity by its customers (i.e direct credits).

(e) After all these have been adjusted, it should be possible to reconcile the cash book balance with the balance on the bank statement. If it is not, then there are some errors which further investigation would reveal and be traced to their sources.

3.5 PREPARATION OF THE BANK RECONCILIATION STATEMENT

Bank reconciliation statement preparation can be dealt with from two perspectives, namely:

A. Preparation of the only bank reconciliation statement.

B. (i) Adjusment of the cash book

(ii) Preparation of the bank reconciliation statement using the balance of the adjusted cash book.

It should be noted that whichever method is used, the answer must be equal, but the examiners prefer the second method which is more practical. The two methods will be expatiated on thoroughly with examples.

METHOD A: PRE PARATION OF ONLY BANK RECONCILIATION STATEMENT:

Under this method, only the reconciliation will be prepared. We can start with either the cash book balance or bank statement balance. There will be no adjustment of the cash book. If the cash book balance is to be used, then unpresented cheques, credit transfers, dividends will be added while bank charges, standing orders, bank commission etc will be deducted to give us the balance as per bank statement. The proforma bank reconciliation statement will be shown below.

3.6 Format of bank reconciliation statement when starting with balance of cash book

Bank reconciliation as at 31st December

	N	N
Balance as per cash book		*
Add Unpresented cheque	*	
Credit transfers	*	
Dividend	*	
Undercasting of receipt side of cashbook *		*
Less Uncredited cheque	*	
Bank charges	*	
Bank commission	*	

Standing order	*	
Dishonoured cheque	*	
Overcasting of receipt side of cash book	*	*
Balance as per bank statement		*

Note: The balance arrived at, must be equal to the balance of the bank statement. On the other hand, if a student wants to start with the balance as per bank statement then items like uncredited cheques, bank charges, dishonoured cheques will be added while unpresented cheques, credit transfers, dividend are deducted. When the bank statement balance is used, the proforma bank reconciliation will look like this.

Format for bank reconciliation when the bank statement balance is used

Bank reconciliation statement as at 31st December

	N	N
Balance as per bank statement		*
Add Uncredited cheques	*	
Bank charges	*	
Standing order	*	
Dishonoured cheques	*	
Overcasting of receipt side of cash book	*	
Direct debits	*	*
Less Unpresented cheques	*	
Credit transfers	*	
Dividends	*	
Undercasting of receipt side of cash book *		*
Balance as per cash book		*

Note: The balance arrived at must be equal to the balance of the cash book for that period.

Illustration 1

1. On the 31st March 1990, Ogundele's cash book showed a debit balance of N2,000. His bank statement showed a balance of N2,270. On the comparison, the following were found.

a. Cheques drawn amounting to N1,500 had not been presented for payment.
b. A standing order of N600 to a club was not taken into consideration.
c. Bank charges of N 50 were entered in the bank statement only.
d. A dividend of N300 was paid directly into the bank and not recorded in the cash book.
e. Cheques for N1,000 were entered into the cash book and paid to the bank but had not been cleared and thus not credited.
f. A customer, Bolaji, paid N120 directly into the bank without notifying the firm.

Solution:

The above question will be solved by starting with the balance as per cash book

Bank reconciliation statement as at 31st March 1990

	N	N
Balance as per cash book		2,000
Add Unpresented cheque	1,500	
Dividends	300	
Credit transfers	120	1,920
		3,920
Less Uncredited cheque	1,000	
Standing order	600	
Bank charges	50	1,650
Balance as per bank statement		2,270

It should be noted that students can start with the balance as per bank statement. The workings will be shown below:

Bank reconciliation statement as at 31st March 1990

	N	N
Balance as per bank statement		2,270
Add Uncredited cheque 1,000		
Standing order	600	
Bank charges	50	1,650
		3,920
Less Unpresented cheque 1,500		
Dividend	300	
Credit transfer	120 1,920	
		2,000

3.7 Bank Overdraf t

This is a situation whereby the cash book balance might have been overdrawn. The cash book will show a credit balance. The adjustments needed to reconcile the disagreement are a complete opposite of when the cash book showed a debit balance.

Bank reconciliation statement as at 31st June 1999

	N N	
Overdraft as per cash book		* (OD)
Add Uncredited cheque *		
Standing order	*	
Bank charges	* *	
		*
Less Unpresented cheques *		
Dividend	*	
Credit transfers	* *	
Balance as per bank statement		
	*	

If the overdraft as per bank statement is used, then the reverse will be the case. From the above analysis two things can be deduced; these are:

a. When a student starts with overdraft as per cash book, it will look exactly like when starting with balance as per bank statement.
b. When a student starts with overdraft as per bank statement, it will look exactly like when starting with balance as per cash book.

Bank reconciliation statem ent as at 31st December 1990

	N	N
Overdraft as per bank statement		*(OD)
Add Unpresented cheque *		
Dividends	*	
Credit transfers	*	*
		*
Less Uncredited cheque *		
Bank charges	*	
Standing order	*	
Dishonoured cheque *		*
Balance as per cash book		*

Illustration 2

The bank column of Ogedengbe's cash book for the month of August 1997 appeared as follows:

You are required to prepare the bank reconciliation statement for the month of August, 1997

Dr			Cr
1995	N	1995	N
Aug 5 Sogo 540		Aug 1 Balance b/f 3,030	
Aug 22 Abacha 980		Aug 3 Obe 320	
Aug 30 Boga 595		Aug 17 Sanjo 770	
Aug 31 Balance c/f 2.390		Aug 30 Chirma 385	
		4.505	
4,505			

The details of bank statement are as follows:

	Dr Cr Balance		

1995		₦	₦	₦
Aug 1	Balance			3,030.00 OD
Aug 6	Sogo		540	
Aug 11	Obe			2,490.00 OD
Aug 22	Abacha	320		
Aug 23	Sanjo		980	2,810.00 OD
Aug 28	Credit transfers			
Aug 30	Bank charges	770		1,830.00 OD
Aug 31	Standing order		1, 025	
				2,600.00 OD
		150		
				1,575.00 OD
		285		
				1,725.00 OD
				2,010.00 OD

Solution

Bank reconciliation as at 31st Aug 1995

	₦	₦
Overdraft as per cash book		2,390 (OD)
Add Uncredited cheque	595	
Bank charges	150	
Standing order	285 1,030	
Less Presented cheque	385 3,420	
Credit transfers	1,025 1,410	
Overdraft as per bank statement		2,010.00 (OD)

METHOD B

Under this method, an adjusted cash book will be prepared and the adjusted balance will be used in preparing the bank reconciliation statement. Any item that appears in the adjusted cash book will not be recorded in the bank reconciliation statement. Many examinations now tend towards this more practical approach and examiners may mandate students to write up the cash book up- to- date before the preparation of bank reconciliation statement. By this means, the items in the reconciliation are greatly reduced. The format will look like this.

Dr Adjusted cash book Cr

Jan	₦	Jan	₦
Jan Balance b/f		* Jan Bank commission *	
Jan Credit transfers *		Jan Bank charges *	

Jan Dividends * Jan Standing orders *
Jan Receipt undercast * Jan Dishonoured cheques *
Jan Payment overcast * Jan Payment undercast *
Jan Receipt overcast *
____ Balance c/d *
* *

Balance *

Note: If the payment side is greater than the receipt side, then the balance is overdraft which will be treated as explained above.

Bank reconciliation statement as at _____

	N
Balance as per adjusted cash book	*
Add Unpresented cheques	*
	*
Less Uncredited cheques	*
Balance as per bank statement	*

Illustration 3

On the 30th November 1993 Olukunmi and Sons' cash book showed a debit balance of N3,500 whereas the bank statement showed a balance of N 2,325.

On investigation the following items were discovered to have caused the discrepancy.

a. The bank had made charges of N310 which had not been entered in the cash book.
b. A cheque received for N2,000 entered in the cash book had not been entered by the bank until December 3rd 1993.
c. A standing order for subscription of N150 had been entered in the bank statement as paid but not in the cash book.
d. The following cheques were drawn but not yet presented for payment in the bank: cheques for N300, N600, N250.
e. A cheque drawn for N50 had been entered as N60
f. A cheque for N35 previously received and paid into the bank had been returned by the bank.
g. A customer paid N160 directly into their account in the bank. It had not been entered in the cash book. You are required to prepare:
i. Adjusted cash book
ii. Bank reconciliation statement as on 30th Nov 1993.

Solution

St ep1: The adjusted cash book will be prepared.

Dr Adjusted cash book Cr

1993	N	1993	N
Nov Balance b/f	3,500	Nov Bank charges	310

Payment overcast 10 Nov Dishonoured cheques 35			
Credit transfers 160 Nov Standing order 150			
		Balance c/d 3,175	
	3,670		3,670

Note: Payment overcast is arrived at by deducting N50 from N60

Bank reconciliation statement as at 30th Nov.., 1993

	N	N
Balance as per adjusted cash book		3,175
Add Unpresented cheques	300	
	600	
	250 1,150	
		4,325
Less Uncredited cheque		2,000
Balance as per bank statement		

ERRORS ON BANK STATEMENT

If and when the Bank Reconciliation Statement (or Account) has been prepared on the lines indicated above, the balance as shown by this statement differs from the balance in the Cash Book (after adjusting for bank charges, commission, etcetera), it is apparent that an error or errors have been made in the writing up of the Cash Book statement. In order to locate such errors the following steps should be taken:

(i) All uncredited cheques and unpresented cheques reflected on the current bank reconciliation statement should be thoroughly checked to ensure that they are correctly shown.

(ii) It is possible to have a cheque or cheques shown on the previous bank reconciliation statement as unpresented cheques still unpresentable in the current period. Thus, the previous Reconciliation Statement should be examined to see that all cheques shown therein as being unpresented have since been paid or are shown in the present Reconciliation Statement as still being unpresented.

(iii) Balance brought forward in the cash book and bank statement should be checked.

(iv) The cash book should be reviewed to check for payment (or receipt) that is equal to the amount of the error. An amount may have been recorded as paid (or received) in the bank column of the cash book and for one reason or the other, such amounts, have not been debited (or credited) in the bank statement.

(v) The bank statement should also be examined for any debit or credit figure equal to the amount of the error. An amount may have been paid into (or out of) the bank and not entered in the Cash Book accordingly.

(vi) Castings of Cash Book and bank statement should be checked.

If the above methods of locating errors do not reveal the error, then;

All entries

(vii) The bank statement should also be examined for any debit or credit figure equal to the amount of the error. An amount may have been paid into (or out of) the bank and not entered in the Cash Book accordingly.

(viii) Castings of Cash Book and bank statement should be checked.

If the above methods of locating errors do not reveal the error, then;

(ix) All entries in the Cash Book must be compared in detail with the entries in the Bank Statement.

4.0 CONCLUSION

Businesses the world over maintain Bank Accounts. Good Corporate Governance demands that a Bank Account is opened of a necessity and as an internal control tool. Reconciliatory Statements is prepared at Convenient Intervals reconciling the cash book and the Bank Statement. This ensures that legitimate differences between the balances of the bank statement and the cash book.

5.0 SUMMARY

This study unit has:

- Defined a Bank Reconciliation Statement
- Explained reasons for discrepancies between the Cash Book and Bank Statement
- Enumerated stages in the preparation of a Bank Reconciliation Statement
- Prepared a Bank Reconciliation using the two main methods

SELF ASSESSMENT EXERCISES

1. From the following, showing all workings and calculations, prepare a statement reconciling the balance in the Cash Book with the balance in the Bank Statement in the Books of Sheriff Nig. Ltd.

	N	
Bank Statement balance		205 CR
Cash Book balance	2,035 CR	
Cheque drawn but not presented	3,160	
Amount paid into the bank but not yet credited	750	

Entries in the bank Statement not yet recorded in the Cash Book

Payments made under Standing Order		40
Dividends received directly by Bank	120	
Bank Charges	50	
Cheque paid in but returned by the bank marked R/D	200	

2. The Treasurer of Lekki Social Club has the following ledger balances on 1st Januar y 1999.

	N	
Club house and ground		2,000
Investment at cost		960
Fixtures and Furniture		320
Accrued Expenses	35	

Estimated Excess Income (Profit) for the month was 29

Since the Treasurer did not keep proper records of receipts and payments for the month, he decided to prepare a bank reconciliation statement before presenting the account to the Club members.

The bank statement of the Club on 31st January 1999 showed a credit balanced of N205.

A comparison of the statement with the "Receipts and payment Book" of the Club revealed the following:

	N
i) Cheque drawn but not presented	3,160
ii) Amount lodged in the bank but not credited	725
iii) Entries in Bank Statement not recorded in Receipt and Payment Book.	
-Payment under standing order for loan refund	35
-Interest received on deposit account	18
-Bank Charges	15
-Cheque paid in but returned with R/D	120

You are required to prepare a bank reconciliation statement showing the balance on 31st Januar y 1999.

6.0 TUTOR- MARKED ASSIGNMENT

Q1.The Madonna Stores had a debit balance of N1,728 in its

Bank account on 30th April, 2005. On the same date it received a Bank Statement from its Bankers indicating it had only a balance of N246.

i. Cheques received from All and Frank for N150 and N62 respectively had been entered in the cash book but not yet credited by the bank.

ii. Interest of N37 paid by the Bank has not yet been entered in cash book.

iii. Mail transfer of N475 to Boys High School Suleja has not been recorded in the Cash Book. Charges for the transfer were N18.

iv. Sales of N286 made on 28th April were deposited in the Bank but have not yet been credited by the Bank.

v. A standing order transfer of N100 from the business account to a supplier's account at the end of every month had been affected by the Bank but had not been recorded in the cash bank.

vi. A cheque of N74 paid into the business account by Victor a Debtor, had not been recorded in the cash book.

vii. A cheque received from Ndubuisi for N83 was paid into the bank account but the bank credited N38 in error.

viii.A cheque book was issued to the business and its account was debited by N5 but this had not been recorded in the cash book.

ix. Cheques of N200 and N252 were received from Dalhatu and Mark respectively but these had not yet been taken to the bank.

You are required to prepare a Bank Reconciliation Statement for the month of April, 2005 after up-dating the Cash Book.

Q2. Explain why it is often the case that the cash book balance for Bank does not agree with the Bank Statement balance of the same date?

7.0 REFERENCES/ FURTHER READING

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