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**FIRST TERM E-LEARNING NOTE**

**SUBJECT: FINANCIAL ACCOUNTING CLASS: SS1**

**SCHEME OF WORK**

**WEEK TOPIC**

1. Introduction to Book-Keeping and Accounting

2 Transactions – Meaning and Classifications

3 Books of Accounts – Layout and Formats

4 - 5 Double Entry Principle: Posting of Transactions to Ledger Accounts;

Combinations of Cash and Bank Account

6 – 7 Balancing of Ledger Accounts; extraction of the Trial Balance

8 Source Documents: Purpose Characteristics and Functions

9 -10 Subsidiary Books: Purpose, Characteristics, Functions and Preparations

**WEEK ONE**

**TOPIC: INTRODUCTION TO BOOK – KEEPING AND ACCOUNTING**

**CONTENT**

* Definition of Book-Keeping and Accounting
* Differences between Book-Keeping and Accounting
* Users of Accounting Information/Financial Statements
* Importance/Benefits of Book-keeping and Accounting
* History of Accounting/Book-Keeping

**Book Keeping** is the systematic recording of the daily financial transactions of an organization so that the financial position of a business can be readily ascertained or determined at any time.

Accounting is the act of recording, classifying, analyzing, summarizing, interpreting and communicating financial information of an organisation to various end-users of such information.

**DIFFERENCES BETWEEN BOOK-KEEPING AND ACCOUNTING**

1. Book-keeping concentrates only on the routine recording of transactions while accounting goes beyond the aspect of recording to classify, analyse, summarise and interprete financial information
2. Book-keeping is limited in scope (i.e area of coverage) while accounting has a wider scope
3. The time required for training to be a qualified book-keeper is shorter (about few months) compared to an accountant (about five years)
4. Book-keeping records are mainly for internal use in an organisation while accounting records are both internal and external use.
5. Book-keeping is an integral part of accounting while accounting is more complex and has book-keeping as one of its components.

**USERS OF ACCOUNTING INFORMATION/FINANCIAL STATEMENTS**

The following interested users of financial information should be noted as well as the reasons/purpose for which they would require or utilise the relevant information.

1. **Owners of the Business**
2. To determine the profitability of the business
3. To assess the competence of the managers of the business
4. To assist them in making important business/investment decisions
5. **Shareholders of a Company**
6. To determine the profitability of the business
7. To assess the ability of the company to pay their expected dividends
8. To project the future growth of the company
9. **Loan Creditors (i.e. lenders to the business)**
10. To assess the ability of the business to repay loans
11. To assess the ability of the business to repay the interest as and when due
12. To assess the possibility/probability of the borrowing company defaulting in repayments
13. To know whether adequate assets are available as security
14. To determine the level of credit to grant
15. **Trade Creditors/Suppliers** i.e. those that supply goods to the business on credit
16. To assess the credit worthiness of the business
17. To assess the ability of the business to pay back its debts
18. To determine their level of exposure to the business
19. **Competitors**
20. To fix their own prices relative to the prices of similar products produced by the business
21. To determine their position in the market i.e. market share as to sales, profits, number of employees etc.
22. **Customers**
23. To know if the business is a guaranteed/secured source of supply
24. To assess the financial position of the business
25. **Employees of the Business**
26. To know the profitability of the business
27. To know the extent of job security and the prospects of their future careers
28. To negotiate for better conditions of service and improved wages/salaries
29. **Tax Authorities** e.g. Lagos State Board of Internal Revenue (LSBIR) or Federal Board of Inland Revenue (FBIR)
30. To determine the amount of tax to be paid by the business
31. **The Government**
32. To compute statistics about businesses operating in the country
33. To enhance the formulation of government policies e.g. on industrialization
34. To regulate the activities of business by government agencies e.g. CBN, NDIC, SEC, CAC, NSE etc.
35. **The Public**
36. For employment and economic considerations
37. To know whether to invest in the enterprise

**EVALUATION QUESTIONS**

1. Define the following terms:a. Book-keeping b. Accounting
2. State three differences between book-keeping and accounting

**IMPORTANCE OF BOOK-KEEPING AND ACCOUNTING OR REASONS WHY ACCOUNTING RECORDS ARE KEPT**

1. To determine the profit or loss made by the business during a particular trading period
2. The existence of financial records helps in decision making by managers of the business
3. Financial records helps in the prevention of fraud
4. To assess and ascertain the financial position of the business as at a particular date
5. To determine the solvency and liquidity of a business
6. It serves as a basis for assessing the tax to be paid by the business
7. To ascertain the assets and liabilities of the business
8. It is useful for making economic comparison among businesses and comparing recent financial results with past financial results.
9. Properly kept records are used for planning purposes i.e. setting of targets and determining the best ways to achieve them.

**HISTORY OF THE DEVELOPMENT OF ACCOUNTING**

There is no accurate record as to when accounting started but available information suggests that record keeping is as old as man.

The double entry system of modern book-keeping was developed in 1494 by an Italian named Luca Pacioli. In Nigeria, the earliest formal record of business transactions came with the granting of royal charter to the Royal Niger Company in 1886.

On 1st September, 1965 the Institute of Chartered Accountants of Nigeria was established while the Association of National Accountants of Nigeria was established on 31st July,1979 as the second professional accounting body in Nigeria.

**EVALUATION QUESTIONS**

1. List five benefits of book-keeping and accounting.
2. State four duties of an accountant in a business organisation

**READING ASSIGNMENT**

Simplified and Amplified Financial Accounting Page 1 – 7

**WEEKEND ASSIGNMENT**

1. The systematic recording of business transactions in monetary terms is A. auditing B. book-keeping C. debiting D. crediting
2. Financial accounting information is for A. internal use only B. external use only C. business use only D. internal and external use
3. Which of the following is not a purpose of financial accounting A. determining profit B. fixing prices C. credit dealings D. determining cash balance
4. The fourth stage of the accounting information system is A. recording B. summarizing C. interpreting D. classifying
5. The double entry principle of accounting was developed by A. Frank Wood B. Akintola Williams C. Luca Pacioli D. William Pickles

**THEORY**

1. a. What is book-keeping?

b. Give five reasons why accounting records are kept.

1. List eight users of accounting information.

**WEEK TWO**

**TOPIC: TRANSACTIONS – MEANING AND CLASSIFICATION**

**CONTENT**

* Meaning of Transaction
* Classification of Transactions

**Transaction**

Transaction involves the transfer of goods, services, money or money’s worth (e.g. assets) to and from a business organization.

The essential feature of transactions in accounting is that such transactions to be recorded should be quantifiable in monetary terms hence it is usually described as financial transactions.

**CLASSIFICATIONS OF TRANSACTIONS**

Financial transactions which are recorded, summarised, classified and analysed in accounting could be either of two types

1. **Cash Transactions:** This occur whenever goods are received by a person or business and payment is made immediately for such goods or services received. Payment in this sense could be either by cash, cheque, bankdrafts, postal orders etc.
2. **Credit Transactions:** This occur whenever goods are received by a person or business and the payment for such goods received (or services enjoyed) is postponed or deferred to a future time.

The classification described above can be represented diagrammatically:

Transactions

Cash Transactions Credit Transactions

**EVALUATION**

1. Differentiate between Cash Transactions and Credit Transactions.
2. Give three examples of business transactions that are not financial in nature.

**READING ASSIGNMENT**

Simplified and Amplified Financial Accounting Page 16 – 17

**WEEKEND ASSIGNMENT**

**Identify whether the transactions below are cash transactions or credit transactions**

1. Jan 2: Started business with N10, 000 cash
2. Jan 3: Paid N7, 000 of the business money into the bank
3. Jan 7: Paid rent of shop by cash N600
4. Jan 12: Bought goods for cash N1, 200
5. Jan 14: Bought goods on credit from Ayodele N30, 000
6. Jan 15: Sold goods and received cheque in payment N14, 000
7. Jan 20: Bought Motor vehicle paying by cheque N9, 000
8. Jan 25: Paid salary of shop assistants by cheque N1, 000
9. Jan 28: Sold goods to Akinyemi N7, 000
10. Jan 31: Bought furniture for cash N3, 000

**WEEK THREE**

**TOPIC: BOOKS OF ACCOUNTS**

**CONTENT**

* The Ledger
* The Journal

Books of accounts are the books that are used in recording financial transactions in accounting.

The books of accounts in use are:

1. The Ledger – The Principal book
2. The Journal – The Subsidiary book

**The Ledger**

The ledger is the principal book of account which contains in a classified form, the permanent records of all the financial transactions of a business.

The recording into the Ledger are done in classified form using ledger accounts.

**Format of A Ledger Account**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Narration** | **Folio** | **Amount** | **Date** | **Narration** | **Folio** | **Amount** |

The Ledger account is divided into two sides i.e. The Debit and The Credit.

Therefore in accounting entries are described as being ‘debited’ or ‘credited’ to particular accounts. Transactions are recorded in the Ledger based on the double entry principle.

**The Journal**

The Journal is the subsidiary book of account into which credit transactions are first recorded before they are posted in totals to the Ledger.

The Journal therefore contains the temporary records of credit transactions:

**Format of The Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Narration** | **Folio** | **Details** | **Totals** |

The recording of financial transactions into the Journal does not follow the double entry principle

**Cash Transactions** are recorded directly into the Ledger while **Credit Transactions** are first recorded into the Journal (i.e. the subsidiary books) before being posted in totals to the ledger.

Diagrammatically the path of transactions can be represented as below:

Cash Transactions Credit Transactions

Ledger Journal

**EVALUATION**

1. Draw the format of a ledger account.
2. State three differences between the ledger and the journal.

**READING ASSIGNMENT**

Simplified and Amplified Financial Accounting Page 41

**WEEKEND ASSIGNMENT**

1. A book that contains the accounts for the financial transactions of an organisation is the A. journal B. ledger C. folio D. register
2. The two fundamental books of accounts are A. Cash Book and Petty Cash Book B. Receipt and Invoice C. Journal and Ledger D. Notes and Coins
3. Which of the following is the principal book of account? A. General Journal B. Sales book C. Purchases book D. Ledger
4. Which of the following is not contained in the Ledger? A. date of transaction B. description of the transaction C. folio number of transaction D. address of the customer
5. The process of entering transactions from one book to another is A. reading B. posting C. numbering D. casting

**THEORY**

1. What is a Ledger?
2. State two differences between the ledger and the journal.

**WEEK FOUR AND FIVE**

**TOPIC: DOUBLE ENTRY BOOK – KEEPING**

**CONTENT**

* Double Entry Principle
* Posting of Transactions to Ledger Accounts
* Combination of Cash Account and Bank Account
* Double Entry Records for Sales, Purchases, Returns, Carriage inwards, Carriage Outwards, Capital, Drawings, Expenses, Income, Assets and Liabilities

**Note**

The day-to-day transactions of a business are recorded in the books of account using the double entry system of bookkeeping. The term double entry is used because the two effects of a transaction (a giving and a receiving) are both recorded in the ledger.

Double entry bookkeeping is the system of keeping account which involves the recording of the two-fold aspect of every transaction, whereby one account that receives value is debited and another account, which gives value is credited.

**Rules of Double Entry**

1. All transactions must be recorded in two accounts, one account is debited and another account credited.
2. For every debit entry in an account, there must be a corresponding credit entry in another account.
3. For every credit entry in an account, there must be a corresponding debit entry in another account.
4. Debit the account that receives value, credit the account that gives values.

**Illustration**

Record the following transaction in the ledger of F. Sanusi for the month of July 2016.

July 1 Started business with N50, 000 cash

“ 3 Bought goods for cash N8, 500

“ 7 Bought goods on credit N11, 600 from K. Nasiru

“ 10 Sold goods for cash N14, 000

“ 14 Returned goods to K. Nasiru N2, 000

“ 18 Bought goods on credit N18, 000 from S. Dauda.

“ 21 Returned goods to S. Dauda N5, 000

“ 22 Sold goods to A. Femi N27, 000 on credit

“ 24 Paid K. Nasiru’s account by cash N9, 600

“ 25 A. Femi returned goods worth N3, 000 to us

“ 27 Bought ceiling fan for shop by cash N6, 000

**Solution**

**Cash Account**

2016 N 2016 N

July 1 Capital 50, 000 July 3 Purchases 8, 500

“ 10 Sales 14, 000 “ 24 K. Nasiru 9, 600

“ 27 Fittings 6, 000

**Capital Account**

N N

July 1 Cash 50, 000

**Purchases Account**

N N

July 3 Cash 8, 500

“ 7 K. Nasiru 11, 600

“ 18 S. Dauda 18, 000

**K. Nasiru’s Account**

N N

July 14 Returns Outward 2, 000 July 7 Purchases 11, 600

July 24 Cash 9, 600

**Sales Account**

**N N**

Jul10 Cash 14, 000

Jul 22 A. Femi 27, 000

**Returns Outwards Account**

N N

Jul 14 K. Nasiru 2, 000

Jul 12 S. Dauda 5, 000

**S. Dauda’s Account**

N N

Jul 21 Returns Outward 5, 000 Jul 18 Purchases 18, 000

**A. Femi’s Account**

N N

Jul 22 Sales 27, 000 Jul 25 Returns Inwards 3, 000

**Returns Inwards Account**

N N

Jul 25 A. Femi 3, 000

**Fittings Account**

N N

Jul 27 Cash 6, 000

A business maintains a separate ledger account for each type of asset, liability, expense and income and also for each individual debtor and creditor. Every transaction is recorded in the ledger account relating to that particular item or person.

In practice, each ledger account has its own page or sheet (i.e. folio). As this is not possible in examination questions and class exercises, it is usual to find several accounts displayed on one page.

**EVALUATION**

1. Complete the following table, showing the accounts to be debited and those to be credited:

Accounts to be debited Account to be credited

1. Bought furniture by cheque
2. Paid wages by cash
3. Cash sales
4. Cash purchases
5. Started business with money in bank
6. The owner took cash for his personal use
7. Sold goods on credit to Mr. Anayo
8. Bought fixtures on credit from Odunlade
9. Bought machinery by cheque
10. Received loan by cash from Mr. Evans
11. Business Accounting 1 by Frank Wood, Exercise 3.6, 3.9A and 3.10A

**READING ASSIGNMENT**

1. Simplified and Amplified Financial Accounting page 20 – 27
2. Business Accounting 1 page 21 – 38

**GENERAL EVALUATION QUESTIONS**

1. State four differences between book – keeping and accounting.
2. List ten users of financial information.
3. State seven benefits of keeping accounting records.
4. List three differences between the Journal and the Ledger.
5. Explain the principle of double entry system

**WEEKEND ASSIGNMENT**

1. Cross referencing among different books of account is achieved with the use of A. columns B. reference numbers C. folio D. margin
2. A ledger is a A. summary of entries B. book of original entry C. book of account D. double entry posting
3. A trader set aside from his private funds N70, 000 for business purposes. The N70, 000 would be referred to as A. drawings B. profit C. capital D. loan
4. Purchases in accounting refers to goods bought for A. repairs B. permanent use C. resale D. owner’s use
5. When goods are sold for cash, the credit entry goes to the \_\_\_? A. trader’s account B. cash account C. customer’s account D. sales account

**THEORY**

1. What is a ledger?
2. Explain the principle of double entry system.

**WEEK SIX AND SEVEN**

**TOPIC: BALANCING OFF LEDGER ACCOUNTS**

**CONTENT**

* Balancing Ledger Accounts
* The Divisions of the Ledger
* Extraction of the Trial Balance

**NOTES**

At the end of the month (or year or at some other convenient intervals), it is usual to balance the ledger accounts that are kept by the business. The balance of each ledger account is the difference between the two sides of the account and it represents the amount which is left in that account.

The steps necessary to balance a ledger account are summarized as follows:

1. Using a calculator, add-up each side of the account and find the difference between the total of the two sides.
2. Enter this difference on the next available line on the side with the smaller total. Enter the date (usually the last day of the month) in the date column and the word “Balance” in the details column. It is usual to insert “c/d” in the folio column. This is the abbreviation for “carried down” and indicates where the double entry for this item will be made.
3. Now total each side of the account. This is done by drawing total lines and inserting the total figure between the lines. It is usual to show a single line above the total and a double line below the total. The totals of an account must be on the same level and must be the same figure.
4. Make the double entry for the balance carried down. On the line below the totals, write the amount of the balance on the opposite side to where the words “Balance c/d” were written. Enter the data (usually the first day of the next month) in the date column and the word “Balance” in the details column. It is usual to insert “b/d” in the folio column. This is the abbreviation for “brought down” and indicates where the double entry for this item was made

Illustration: Using the Cash Account prepared in Week 4 – 5.

**Cash Account**

2016 N 2016 N

Jul 1 Capital 50, 000 Jul 3 Purchases 8, 500

“ 10 Sales 14, 000 “ 24 K. Nasiru 9, 600

Jul 27 Fittings 6, 000

Balance c/d 39, 900

64, 000 64, 000

Aug 1 Balance b/d 39, 900

**NB:** (a) If the total of the debit entries exceeds the total of the credit entries the account is said to have a debit balance.

(b) If the total of the credit entries exceeds the total of the debit entries, the account is said to have a credit balance.

**EVALUATION**

Business Accounting 1 Exercise 3.11 A

**The Sub – Divisions of the Ledger**

As a business grows, the volume of transactions increase and the number of ledger accounts required to keep the financial records increase. It will therefore be necessary to divide the ledger into different sections.

Dividing the ledger into sections makes it more convenient to use as the same type of accounts can be kept together and the task of maintaining the ledger can be divided between several people. The ledger is usually divided into the following specialized areas:

1. **Cash Book –** i.e. the main Cash Book and the Petty Cash Book
2. **Sales Ledger –** This is also referred to as the Debtors Ledger. All the personal accounts of debtors (credit customers) are kept in the sales ledger
3. **Purchases Ledger –** This is also referred to as the Creditors Ledger. All the personal accounts of creditors (credit suppliers) are kept in the Purchases Ledger
4. **General Ledger (or Nominal Ledger) –** Apart from the Cash account, the bank account and the accounts of debtors and creditors, all the remaining accounts are kept in the General Ledger. This ledger will contain accounts of assets, liabilities, expenses, incomes, sales, purchases and returns. Asset accounts are known as real accounts. Accounts for expenses, income, gains and losses are known as nominal accounts.

The above classifications of the ledger must be reflected when transactions are recorded in the ledger using the double entry principle.

**EVALUATION**

1. What is a ledger?
2. List and explain three classifications of the ledger.
3. List six accounts found in the nominal ledger.

**Extraction of the Trial Balance**

Resulting from the operation of the double entry system it is obvious that the total amount of all the debit entries made in the books should equal the total of all the credit entries. To check if the two sides of the books balance, a Trial Balance may be drawn up periodically.

A Trial Balance is a list of the balances on the accounts in the ledger at a certain date. A trial balance is prepared to check the arithmetical accuracy of the double entry bookkeeping. The name of each account is listed in the trial balance. The balance on each account is shown according to whether it is a debit balance or a credit balance. The trial balance will show if the total of the debit balances is equal to the total credit balances.

It is important to remember that the trial balance is not a part of the double entry system of book-keeping as it is simply a list of balances. If the ledger accounts are balanced monthly then a trial balance may also be draw up at the end of each month.

The trial balance should be headed with the title “Trial Balance as at ………” along with the date on which it was prepared

**Illustration:** Using the ledger accounts prepared in week 4 – 5:

F. Sanusi:

**Trial Balance as at 31st July, 2016**

Dr Cr

N N

Cash 39, 900

Capital 50, 000

Purchases 38, 100

Sales 41, 000

Returns Outwards 7, 000

Sundry Creditors 13, 000

Sundry Debtors 24, 000

Returns inwards 3, 000

Fittings 6, 000

111, 000 111, 000

From the above, it can be seen that the totals of the debit column of the trial balance agrees with the total of the credit column. This indicates that the double entry bookkeeping is arithmetically correct.

In practice, a trial balance is drawn – up using the actual ledger accounts.

However, in examination questions this does not always occur. Sometimes, students are presented with a list of balances and asked to prepare a trial balance. Sometimes, a trial balance containing errors is presented and students are asked to prepare a corrected trial balance. In these situation, students cannot look at the ledger account in order to determine whether the account has a debit or a credit balance. It is necessary to know the type of accounts which have a debit balance and those which have a credit balance.

The table below will be useful in this regard:

**Debit Balance Credit Balances**

Assets Liabilities

Expenses Income

Drawings Capital

Purchases Sales

Returns Inwards Returns Outwards

**EVALUATION**

Simplified and Amplified Financial Accounting Exercise 7, 8x and 9.

**READING ASSIGNMENT**

1. Simplified and Amplified financial Accounting page 80 – 94
2. Business Accounting 1 page 37 – 48

**GENERAL EVALUATION QUESTIONS**

1. What is a Trial Balance?
2. Give the format of a Trial Balance with ten items.
3. Explain the purpose of the Trial Balance.
4. Explain the principle of double entry system.
5. State four differences between the ledger and the journal.

**WEEKEND ASSIGNMENT**

1. The purchase of a typewriter for office use for N65, 000 should be debited to A. bank account B. purchases account C. cash account D. equipment account
2. Carriage inwards are incurred on goods A. on display B. sold C. purchased D. on return
3. Returns inwards is also called A. carriage inwards B. carriage outwards C. purchases returns D. sales returns
4. Which of the following accounts will have a credit balance? A. purchases account B. returns account C. returns outwards account D. drawings account
5. An account is said to have a debit balance because A. the first entry made in it is on the debit side B. there are more entries on the debit side than on the credit side C. total value of debit entries is more than total value of credit entries D. there is no entry at all on the debit side

**THEORY**

1. List four features of the ledger.
2. List and explain three classifications of the ledger.

**WEEK EIGHT**

**TOPIC: SOURCE DOCUMENTS**

**CONTENT**

* Definition of Source Documents
* Examples of Source Documents
* Features and Uses of Source Documents

**NOTES**

Source documents are the instruments that are generated when businesses enter into business transactions with others.

They are the written evidences of business transactions that describe the essential facts of those transactions. They are used in preparing the books of account.

Every business transaction whether cash transaction or credit transaction must be supported (or evidenced) by a source document. The source documents are the original documents on which information about the transactions are recorded.

It follows therefore that accounting records can only be verified when the appropriate source documents are available to do so.

**Examples of Source Documents**

1. Receipt
2. Invoics
3. Cheque (or Cheque stub)
4. Bank – paying – in – slip
5. Debit note
6. Credit not
7. Statement of Account
8. Vouchers
9. **Receipt:** This is a written document issued by one person to another, to acknowledge that money or valuable property has been received. When goods are sold for cash, the customer is usually provided with a receipt.
10. **Invoice:** An invoice is a business document prepared when goods are sold. It is normally sent by the seller of the goods to the buyer. When a business sells goods on credit, it will issue an invoice to the purchaser. To the seller of the goods, the copy of the invoice is a sales invoice. The same document in the hands of the buyer of the goods is called a purchase invoice.

The invoice contains the following information:

1. The name and address of the supplier.
2. The name, address and the account number of the customer.
3. The supplier’s invoice number.
4. The customer’s order number (for goods supplied in response to an order).
5. The date on which the transaction is effected.
6. A detailed description of the goods clearly showing the quantity bought, unit price, total price, terms of sale, terms of payment, details of trade discounts etc.
7. **Cheque:** A cheque is a written order made by a customer to the bank to pay a stated sum of money to the person or business named on the cheque. When cheques are issued to make payment, the cheque itself or its counter foil (or stub) would serve as the source document for the payment.

**EVALUATION**

1. List five features of a cash receipt.
2. List six feature of a cheque.
3. Explain the following terms as it relates to a cheque:

(a) Drawer (b) Drawee (c) Payee

1. **Bank – Paying – in – Slip:** This is the standard form required to be filled in duplicate or triplicate whenever cash cheques, bank drafts etc. is being paid into an account maintained with the bank.
2. **Debit Note:** This document is issued by the seller of goods to correct an undercharge made in the account of the purchaser of the goods. For example if the amount due from the purchaser of the goods is N18, 500 and the seller has mistakenly charged (or recorded) N15, 800 on the invoice, it follows that the purchaser has been undercharged by N2, 700. The seller will therefore issue a debit note of N2, 700 to the purchaser to correct the undercharge
3. **Credit Note:** This document is issued by the seller of the goods to correct an overcharge made in the account of the purchaser of the goods. A credit note is therefore prepared when for a number of reasons the amount due from the customer (to whom goods have been sold on credit) is to be reduced.

The following are some of the reasons why the seller will issue a credit note to his customers:

1. When a customer has been overcharged e.g. by a mistake on the sales invoice.
2. The customer returns some of the goods he previously bought.
3. Some allowance is to be made to the customer e.g. in respect of damaged goods retained by the customers.
4. **Statement of Account:** This is the summary of the transactions between the seller and his credit customers. It is issued by the seller and sent to the customers at regular intervals (usually at the end of each month).
5. **Vouchers:** These are source documents used for obtaining authorization for all payments whether by cash, cheque or letters of authority.

**Uses of Source Document**

1. They are used in the preparation of books of account.
2. They provide written evidences of the business transactions that has taken place.
3. They can serve as proof of ownership of property e.g. receipt.
4. They are used for audit purposes.
5. They are used for reconciliation of accounts.
6. They are used to obtain authorization for payments made e.g. vouchers.
7. They are used to correct an overcharge or undercharge made in the customer’s account.

**EVALUATION**

1. Give a description of the purpose of each of the following business documents

(a) credit note (b) debit note (c) cheque (d) invoice (e) receipt (f) statement of account

1. Bello Masari is a trader.
2. Arrange the following business documents in the order they would be issued by Bello Masari to a credit customer.

statement of account: credit note: receipt: invoice

1. Explain why a credit customer may send a debit note to Bello Masari.
2. Give four items of information you would expect to find on a statement of account.

**GENERAL EVALUATION QUESTIONS**

1. Differentiate between book-keeping and accounting.
2. State four features of the ledger.
3. List five ledger accounts that have debit balances.
4. State the reason for preparing a Trial balance.
5. List five uses of source documents.

**WEEKEND ASSIGNMENT**

1. Goods returned by the buyer is recorded in the seller’s books as \_\_\_\_\_\_\_\_\_\_ A. carriage inwards B. carriage outwards C. returns inwards D. returns outwards
2. A customer has been charged N152 for a purchase instead of N134. The document issued by the seller to correct the error is A. a credit note B. a debit note C. an invoice D. a statement of account
3. Which of the following is a source document for recording sales? A. debit note B. credit note C. sales journal D. invoice
4. When a buyer is under – charged, the seller forwards A. a debit note B. a credit note C. an invoice D. a payment receipt
5. Which of the following is not a source document? A. credit note B. invoice C. bank note D. debit note

**THOERY**

1. What is a source document
2. Give seven examples of source document

**WEEK NINE AND TEN**

**TOPIC: SUBSIDIARY BOOKS**

**CONTENT**

* Definition of Subsidiary Books
* Uses of the Subsidiary Books
* Preparation of the Subsidiary Books
* Transfer of the Totals of the Subsidiary books to the Ledger.

**NOTES**

Subsidiary books are the books of prime entry (or books of original entry) into which transactions are first recorded in details before they are posted in totals into the Ledger.

Businesses use subsidiary books to record goods sold on credit, goods purchased on credit, sales returns, purchases returns etc. The subsidiary books are basically listing devices, which means that a lot of detail is removed from the ledger. It also means that bookkeeping can be divided between several people. The name book of original (or prime) entry has arisen because all transactions should be recorded in one of these books before they are entered in the ledger.

The subsidiary books are:

1. Sales Journal
2. Purchases Journal
3. Returns Inwards Journal
4. Returns Outwards Journal
5. General Journal
6. Cash Book
7. Petty Cash Book

**Uses of the Subsidiary Books**

1. **Sales Journal or Sales Day Book:** This is used to record goods that are sold on credit to the customers of the business.
2. **Purchases Journal or Purchases Day Book:** This is used to record goods bought on credit from the suppliers
3. **Return Inwards Journal or Returns Inwards Day Book:** This is used to record goods returned by the customers to the business.
4. **Returns Outwards Journal or Returns Outwards Day Book:** This is used to record goods returned by the business to suppliers.
5. **General Journal / Principal Journal / Journal Proper or The Journal:** The general Journal has multiple uses.

**Uses of the General Journal**

1. It is used to record opening entries.
2. It is used to record closing entries.
3. It is used to correct errors.
4. It is used to record the purchase of fixed assets on credit.
5. It is used to record the sale of fixed assets on credit.
6. It is used to record one-off transactions.
7. It is used to effect transfers of balances between ledgers.
8. It is used to demonstrate the principle of double entry.
9. It is used to record transactions that cannot be conveniently passed through any other subsidiary book.
10. It is used to write off bad debts.
11. It is used to record the purchase of business.
12. It is used to record the issue, redemption and conversion of shares and debentures.
13. **Cash book:** This is a subsidiary book of account that is used to record the receipt and payment of money (cash or cheque) to or by a business organization. The cash book is part of the double entry system. It functions both as a ledger and a subsidiary book of account.
14. **Petty Cash Book:** This is the subsidiary book of account that is used to record the minor (low – value or petty) cash payments made by a business. Like the Cash Book, the Petty Cash Book is a subsidiary book and since it is part of the double entry system, it is also a ledger account.

**EVALUATION**

1. What are books of prime entry?
2. List eight uses of the General Journal.

**Illustration**

K. Laolu, a trader undertook the following transactions in the month of April 2016.

April 1 Started business with N25, 000 cash

“ 2 Put N18, 000 of the cash into a bank account

“ 5 Purchased from Co-operative Stores –

15 drums of groundnut oil at N20, 400 each

12 bags of garri at N3, 500 each.

Invoice subject to 10% trade discount

“ 8 Sold to T. Okediran –

8 drums of groundnut oil at N24, 000 each.

Less 5% trade discount,

4 bags of garri at N4, 250 each

200 yams at N450 each

“ 9 Returned to Co-operative Stores –

3 drums of groundnut oil bought on 5th April, 2016.

“ 10 Bought from Oyesile & Sons –

650 yams at N380 each,

32 bags of onions at N12, 500 per bag,

60 bags of Dangote 50kg iodized salt at N3, 200 per bag.

“ 12 Paid Co-operative Stores N65, 700 cheque on account

“ 15 T. Okediran returned 3 drums of groundnut oil bought on the 8th of April, 2016.

“ 18 Sold 320 yams at N550 each for cash

“ 19 Bought from Ayodele & Co –

45 bags of onions at N12, 000 each,

50 cartons of Gino Tomato Paste at N14, 000 per carton,

20 drums of palm oil at N3, 800 per drum,

Invoice subject to 15% trade discount.

“ 21 Returned to Ayodele & Co –

8 cartons of Gino Tomato Paste and 5 drums of palm oil bought on the 19th April, 2016.

“ 22 Sold to Adjei Balama –

16 drums of palm oil at N4, 500 per drum,

20 bags of onions at N14, 000 each,

120 yams at N600 each,

Invoice subject to 5% trade discount

“ 25 Paid sundry expenses N8, 400 by cheque

“ 26 Paid rent of shop N15, 000 cash

“ 27 Adjei Balama returned 5 drums of palm oil to us because they were damaged

“ 29 T. Okediran paid by cheque for all the sales made to him.

“ 30 Bought weighing machine from Standard Tools Ltd on credit N62, 000

You are required to record the above transactions in the appropriate books of original entry.

(a)

**Cash Book**

**Cash Bank Cash Bank**

2016 N N 2016 N N

April 1Capital 25,000 April 2Bank c18,000

“ 2 Cash c 18,000 “12 Co-operative stores 65, 700

“ 18 Sales 176, 000 25 Sundry Expenses 8, 400

“ 29 T, Okediran 221, 000“ 26 Rent 15, 000

“30 Balance c/d 168,000 164, 900

201, 000 239, 000 201, 000 239, 000

May 1 Balance b/d 168, 000 164, 900

(b)

**Purchases Journal**

**Date Narration Details Total**

2016 N N

April 5 Co-operative stores –

15 drums of groundnut oil at N20, 400 each 306, 000

12 bags of garri at N3, 500 each 42, 000

348, 000

Less 10% trade discount 34, 800 313, 200

April 10 Oyesile & Sons –

650 yams at N380 each 247, 000

32 bags of onions at N12, 500 per bag 400, 000

60 bags of Dangote 50kg iodized salt at N3, 200 per bag 192, 000 839, 000

April 19 Ayodele & Co. –

45 bags of onions at N12, 000 each 540, 000

50 cartons of Gino Tomato Paste at N14, 000 per carton 700, 000

20 drums of palm oil at N3, 800 per drum 76, 000

1, 316, 000

Less 15% trade discount 197, 400 1, 118, 600

Total Transferred to Purchases Account in the General Ledger 2, 270, 800

(c)

**Sales Journal**

**Date Narration Details Total**

2016 N N

April 8 T. Okediran

8 drums of groundnut oil at N24, 000 each 192, 000

Less 5% trade discount 9, 600

182, 400

4 bags of garri at N4, 250 each 17, 000

200 yams at N450 each 90, 000 289, 400

April 22 Adjei Balama -

16 drums of palm oil at N4, 500 per drum 72, 000 20 bags of onions at N14, 000 each 280, 000

120 yams at N600 each 72, 000

424, 000

Less 5% trade discount 21, 200 402, 800

Total Transferred to Sales Account in the General Ledger 692,200

(d)

**Returns Outwards Journal**

**Date Narration Details Total**

2016 N N

April 6 Co-operative Stores -

3 drums of groundnut oil at N20, 400 each 61, 200

Less 10% trade discount 6, 120 55, 080

April 21 Ayodele & Co. -

8 Cartons of Gino Tomato Paste at N14, 000 per carton 112, 000 5 drums of palm oil at N3, 800 per drum 19, 000

131, 000

Less 15% trade discount 19, 650 111, 350

Total Transferred to Returns Outwards Account in the 166, 430

General Ledger

(e)

**Returns Inwards Journal**

**Date Narration Details Total**

2016 N N

April 15 T. Okediran –

3 drums of groundnut oil at N24, 000 each 72, 000

Less 5% trade discount 3, 600 68, 400

April 27 Adjei Balama –

5 drums of palm oil at N4, 500 per drum 22, 500 Less 5% trade discount 1, 125 21, 375

Total Transferred to Returns Inwards Account in the 89, 775

General Ledger

(f)

**General Journal**

**Date Narration Dr Cr**

2016 N N

April 30 Equipment Account 62, 000

Standard Tools Ltd 62, 000

Being cost of weighing machine bought on credit

**EVALUATION**

1. List seven books of original entry.
2. State the use of each of the following.

(a) Sales Journal (b) Purchases Returns Journal (c) Petty Cash Book

**GENERAL EVALUATION QUESTIONS**

1. What are books of prime entry?
2. List any seven books of prime entry.
3. State ten uses of the General Journal.
4. Explain the principle of double entry.
5. What is a source document?

**WEEKEND ASSIGNMENT**

1. Which of the following is entered in the general journal? A. Purchase of good B. Sales of goods on credit C. Returns inwards D. Acquisition of fixed assets
2. Which of the following subsidiary books involves cash movement? A. Sales Day Book

B. Purchases Day Book C. Returns Inwards Book D. Petty Cash Book

1. Which of the following is an example of a subsidiary book? A. Cash book B. Bank statement C. Trial balance D. Suspense
2. Which of the following is used to record the purchase of fixed asset on credit? A. Sales journal B. Purchases Journal C. Journal proper D. Cash book
3. A sales journal is used to record A. Cash sales B. Credit sales C. Sales expenses D. Sales returns

**THEORY**

1. State one advantage of sub-dividing the Journal into different classes.
2. List ten books of account used in recording financial transitions of a business.