**THIRD TERM E-LEARNING NOTE**

**SUBJECT: FINANCIAL ACCOUNTING CLASS: SS1**

**SCHEME OF WORK**

**WEEK TOPIC**

1. The Bank Account and its operations
2. Bank Reconciliation Statement
   1. Bank Reconciliation Statement
   2. Final Accounts of a Sole Trader
   3. Final Accounts of a Sole Trader
3. The Balance Sheet
4. Opening Entries and Recording of Subsequent Financial Transactions

WEEK ONE

TOPIC : THE BANK ACCOUNT AND ITS OPERATIONS

CONTENTS

1. TYPES OF ACCOUNTS A BUSINESS OR INDIVIDUAL CAN MAINTAIN WITH A BANK
2. BENEFITS DERIVED BY A BUSINESS THAT OPERATES BANK ACCOUNTS
3. TREATMENT OF BANK OVERDRAFTS
4. TREATMENT OF DISHONOURED CHEQUES
5. REASONS WHY A BANK MAY DISHONOUR A CUSTOMER’S CHEQUES

A bank is a financial institution that accepts deposit of money from its customers and lend money to some other customers on request.

TYPES OF ACCOUNTS THAT CAN BE OPERATED WITH COMMERCIAL BANKS

1. Current Account
2. Savings Account
3. Fixed Deposit Account
4. Foreign Currency Domiciliary Account

BENEFITS DERIVED BY A BUSINESS THAT OPERATES BANK ACCOUNT

1. Safe-keeping of the funds (money ) of the business.
2. Ability to borrow from the bank to expand the operations of the business by means of loans and overdrafts
3. Safe-keeping of other valuables e.g. documents, jewellery etc.
4. The business can obtain business advice from the bank to promote/enhance its operations
5. The bank acts as agent of payment on behalf of the business
6. The business may earn interest on its deposits with the bank if it operates savings or deposit accounts
7. The bank can act as referee to recommend the business to local /foreign businesses
8. The business can buy/sell foreign exchange from/to the bank

TREATMENT OF BANK OVERDRAFT

Bank overdraft is granted when a customer is allowed to draw cheques over and above his credit balance with the bank. When the account is overdrawn, the business owes money to the bank. The effect of this is that the Bank Account in the Cash Book will have a credit balance instead of the normal debit balance.

EVALUATION QUESTIONS

1. List three features of each of the following (a) current account (b) savings account (c) fixed deposit account
2. What is a Cash Book

TREATMENT OF DISHONOURED CHEQUES

Dishonoured cheques are cheques received from customers of a business and lodged into a bank but were rejected(i.e. the bank declined to pay ) as a result of insufficient funds in the drawers account, irregular signature of the drawer etc. When the business received the cheque initially, the Cash Book (i.e. bank column) was debited but when the cheque is dishonoured the Cash Book will have to be credited to reverse the earlier entry.

REASONS WHY BANKS MAY DISHONOUR CHEQUES

1. Insufficient funds in drawer’s account
2. Irregular signature of the drawer
3. If the cheque is not dated
4. If the cheque is post-dated (i.e. the cheque is presented at the bank before the date written on it)
5. If the amount in words is different from the amount in figures
6. Stale cheque (i.e. the date on the cheque is more than six months before the date it was presented to the bank for payment)
7. If the cheque is not signed or where there are more than one signatories to the account; the signatures are not complete
8. If the cheque is mutilated i.e. torn
9. Alteration on cheque not endorsed (signed) by the drawer
10. Payment stopped by the drawer
11. If the account is frozen on the orders of a court of law or other competent government agencies e.g. EFCC
12. If the account is closed
13. If the bank receives notice of the death, insanity or bankruptcy of the customer.

EVALUATION QUESTIONS

1. List and explain three parties to a cheque
2. List five source documents employed in making entries into the Cash Book

READING ASSIGNMENT

1. Simplified and Amplified Financial Accounting Page 54 – 57
2. Business Accounting 1 Page 83 – 89

GENERAL EVALUATION QUESTIONS

1. State five benefits a business can derive when it operate bank account
2. List three differences between bank overdraft and bank loan
3. State four differences between a Current Account and a Savings Account
4. Give seven reasons why a bank may dishonour its customer’s cheque
5. Explain in details the following terms (a) post-dated cheque (b) stale cheque (c) dishonoured cheque

WEEKEND ASSIGNMENT

1. Which of the following books of original entry is used to record all payments and receipts by cash or cheque (a) Sales Day Book (b) Cash Book (c) Purchases Day Book (d) General Journal
2. An analytical cash book is used to (a) indicatesources of cash received (b) categorize petty cash payment (c) separate cash and bank balances (d)analyze amounts due from debtors
3. Which of the following is not a source document (a) cheque stub (b) cash receipt (c) cash book (d) sales invoice
4. In which ledger is the account of Yao, a debtor found (a) Nominal Ledger (b) Purchases Ledger (c) General Ledger (d) Sales Ledger
5. Which of the following has multiple uses (a) Sales Journal (b) Purchases Journal (c) General Journal (d) Returns Outwards Journal

THEORY

1. List five services provided by a bank to its customer
2. Give three reasons why a business will prefer to operate a current account with a bank instead of a savings account.

WEEK 2 Date……………………………

TOPIC : BANK RECONCILIATION STATEMENT

CONTENTS

1. Definition of terms:
2. Cash Book
3. Bank Statement
4. Bank Reconciliation Statement
5. Uses of a Bank Statement
6. Items causing discrepancy(disagreement) between the Cash Book balance and the Bank Statement balance

CASH BOOK

A Cash Book is a subsidiary book of account that is used to record the receipt and payment of cash and cheques by a business organization. The Cash Book functions both as a subsidiary book and a ledger. The Cash Book is part of the double entry system.

BANK STATEMENT

A Bank Statement is a statement prepared by a bank and sent to the customer at periodic intervals showing the transactions that has taken place between the bank and its customer for a particular period of time.

FORMAT OF A BANK STATEMENT

GUARANTY TRUST BANK PLC

Ikeja Branch

Account : Abigail Adelana Account No: 3513721186

Statement from : 1st November, 2017 to 30th November, 2017

Date Details Debit Credit Balance

2017 N N N

Nov 1 Balance b/f 28,000cr

4 Cheque No. 141372 10,000 18,000cr

10 Cash deposit 3,00021,000cr

12 Credit Transfer 16,00037,000cr

15 Cheque No. 141373 12,000 25,000cr

21 Cheque lodgements 33,000 58,000cr

22 Standing Order 18,000 40,000cr

30 Bank Charges 200 39,800cr

USES OF A BANK STATEMENT

1. To check the transactions that has taken place within that period
2. It is used as a source document
3. It is used for bank reconciliation
4. It is used for auditing purposes
5. It is used to determine the opening balance and the closing balance of a bank account

BANK RECONCILIATION STATEMENT

A bank reconciliation statement is a statement prepared by an account holder (i.e. the trader or the business) for the purpose of identifying the causes of disagreement (or discrepancy) between the Cash Book balance and the Bank Statement balance and to reconcile (or harmonize) the two balances.

ITEMS CAUSING DISCREPANCY (DISAGREEMENT) BETWEEN THE CASH BOOK BALANCE AND THE BANK STATEMENT BALANCE

A Items in the Cash Book but not in the Bank Statement

1. Unpresented cheques
2. Uncredited cheques
3. Errors in the Cash Book

B Items in the Bank Statement but not in the Cash Book

1. Bank charges
2. Dividends
3. Standing Orders
4. Credit Transfers (or Direct Credits)
5. Direct Debits
6. Dishonoured Cheques
7. Interest received from the bank e.g. on fixed deposit
8. Interest charged on overdrafts/loans
9. Errors in the Bank Statement

EVALUATION QUESTIONS

1. What is a Bank Reconciliation Statement
2. What is the purpose of a Bank Statement to a businessman
3. UNPRESENTED CHEQUES

These are cheques issued by the business but are yet to be presented for payment at the bank by the payee.

Unpresented cheques will be found on the credit side of the Cash Book but not on the debit side of the Bank Statement

The effect of unpresented cheques is to make the Bank Statement balance to be higher than the Cash Book balance.

1. UNCREDITED CHEQUES

These are cheques received by the business and lodged (or deposited) in the bank but have not been credited in the Bank Statement

Uncredited cheques will be found on the debit side of the Cash Book but not on the credit side of the Bank Statement

The effect of uncredited cheques is to make the Cash Book balance to be higher than the Bank Statement balance.

1. ERRORS IN THE CASH BOOK

These are mistakes of omissions, duplications, wrong figures etc. made in the recordings/entries posted into the Cash Book

1. BANK CHARGES

These are amounts deducted by the bank from the customers account in respect of services rendered by the bank to the customer for that period. Bank charges will include Commission on Turnover (COT), cost of cheque books issued to customers etc.

Bank charges will be found on the debit side of the Bank Statement but not on the credit side of the Cash Book

The effect of bank charges is to make the Cash Book balance to be higher than the Bank Statement balance.

1. DIVIDENDS

Dividends represent the part of the profits of a limited liability company that is given to shareholders as a reward for their investments in the company

Dividends will be found on the credit side of the Bank Statement but not on the debit side of the Cash Book

The effect of dividends is that the Bank Statement balance will be higher than the Cash Book balance

1. STANDING ORDERS

Standing orders represent instructions given by an account holder to the bank to pay on his behalf, on a regular basis, a fixed amount of money to a named beneficiary.

Standing orders will be found on the debit side of the Bank Statement but not on the credit side of the Cash Book

The effect of standing order is to make the Cash Book balance to be higher than the Bank Statement balance

1. CREDIT TRANSFERS (or DIRECT CREDITS)

Some customers or debtors of the business may settle their outstanding accounts by paying directly into the business account with the bank.

Credit transfers will be found on the credit side of the Bank Statement but not on the debit side of the Cash Book

The effect of credit transfer is to make the Bank Statement balance to be higher than the Cash Book balance.

1. DIRECT DEBITS

This is an arrangement whereby a bank will pay on behalf of the account holder, bills that are presented by third parties.

Direct debits will be found on the debit side of the Bank Statement but not on the credit side of the Cash Book

The effect of direct debits is to make Cash Book balance to be higher than the Bank Statement balance.

1. DISHONOURED CHEQUES

These are cheques received by the business and lodged into the bank but have been returned unpaid by the drawer’s bank.

Dishonoured cheques will be found on the debit side of the Bank Statement but not on the credit side of the Cash Book

The effect of dishonoured cheque is to make the Cash Book balance to be higherthan the Bank Statement balance.

1. INTEREST RECEIVED FROM THE BANK e.g. on Fixed Deposits

Where a customer maintains both current account and fixed deposit account, the bank may pay interest on such fixed deposit into the customer’s current account.

Interest on fixed deposits will be found on the credit side of the Bank Statement but not on the debit side of the Cash Book

The effect of interest on fixed deposits is to make the Bank Statement balance to be higher than the Cash Book balance.

1. INTEREST CHARGED ON OVERDRAFTS

When a current account holder is allowed to overdraw his account, the bank will charge interest on the balance overdrawn on a monthly basis

Interest on overdraft will be found on the debit side of the Bank Statement but not on the credit side of the Cash Book

The effect of interest on overdraft is to make the Bank Statement balance to be smaller than the Cash Book balance.

1. ERRORS IN THE BANK STATEMENT

These are mistakes of omissions,duplications, wrong figures etc. made by the bank in the recordings made in the Bank Statement

EVALUATION QUESTIONS

1. List eight items that will cause the Cash Book balance not to agree with the Bank Statement balance
2. Explain how the items listed above may cause a difference between the Cash Book balance and Bank Statement balance.

READING ASSIGNMENT

1. Simplified and Amplified Financial Accounting Page 95 – 114
2. Business Accounting 1 Page 209 – 225

GENERAL EVALUATION QUESTIONS

1. Define the following: (a) Bank Statement (b) Bank Reconciliation Statement
2. What is the purpose of a Bank Statement to a businessman
3. Identify and briefly explain any five reasons why the Cash Book and Bank Statement may disagree
4. List four features of each of the following (a) Current Account (b) Savings Account
5. State five services rendered by commercial banks to their customers

WEEKEND ASSIGNMENT

1. The bank column in the Cash Book shows a credit balance of N18,000. This means (a) a total payment of N18,000 (b) a left-over of N18,000 in the bank (c) an overdraft of N18,000 (d) a gross receipt of N18,000
2. Which of the following may have been recorded in the Cash Book and fail to appear in the Bank Statement (a) bank charges and commission (b) cheques issued, presented and cashed (c) bank lodgements (d) payments made by the bank on a standing order
3. Which of the following is not a cause of discrepancy between Cash Book and Bank Statement balance (a) uncredited cheques (b) paid cheques (c) standing orders (d) dishonoured cheques
4. Items in the Bank Statement of a business but not in the Cash Book before preparation of bank reconciliation statement do not include(a) bank charges (b)standing order (c) presented cheques (d) interest on overdraft
5. A document sent by a bank to its current account customers detailing their transactions over a given period is (a) bank reconciliation statement (b) bank statement (c) credit transfer (d) banker’s advice

THEORY

1. What is a (a) bank statement (b) bank reconciliation statement
2. List five source documents used in preparing the Cash Book

WEEK 3 – 4

TOPIC : BANK RECONCILIATION STATEMENT

CONTENTS

1. STAGES OF BANK RECONCILIATION
2. WORKING EXERCISES
3. ADVANTAGES/PURPOSE OF BANK RECONCILIATION

When the entries on a bank statement are compared to those in the bank account in the cash book it will be found that they are recorded on opposite sides of the account.

It is important to compare the Bank Statement and the bank account in the Cash Book. The balance on the bank account may not agree with the balance on the Bank Statement at any particular date.

When the balances in the Cash Book and Bank Statement do not agree, it is necessary to reconcile them to explain why the difference have arisen . The bank reconciliation will show the correct balance to be used as the figure for cash at bank.

HOW TO PREPARE A BANK RECONCILIATION STATEMENT

STEP 1 : Compare the entries in the bank account in the Cash Book with the Bank Statement. The debit side of the bank account should be compared with the credit side of the Bank Statement and the credit side of the bank account compared with the debit side of the Bank Statement. Put a tick ( ) against those items that appear in both the Cash Book and the Bank Statement.

STEP 2: Update the Cash Book (i.e. prepare an Adjusted Cash Book)

1. Enter in the Cash Book any item which appear on the Bank Statement but which have not yet been entered in the Cash Book.
2. Correct any error in the Cash Book
3. Balance the Cash Book and carry down the balance.

NB: This new Cash Book balance is the correct bank balance. If it is the end of the financial year, this is the balance which should appear in the Balance Sheet.

STEP 3 : Prepare a Bank Reconciliation Statement.

This should show why the balance on the up-dated Cash Book does not agree with the balance shown on the Bank Statement.

1. Start with the balance as per Adjusted Cash Book
2. Add the unpresented cheques
3. Deduct the uncredited cheques
4. Make any adjustment for bank errors by adding amounts credited in error by the bank and deducting amounts debited in error by the bank
5. The total of this calculation above should be equal to the balance as per the Bank Statement

NB: It is possible to start the bank reconciliation statement with the balance as per the Bank Statement. In this case, it is necessary to reverse the items (b), (c) and (d) listed above.

A bank reconciliation statement does not form part of the double entry records of the business. It is a statement which shows that, on a certain date, the bank account and the bank statement were reconciled.

EVALUATION QUESTIONS

1. State five items of information given in a bank statement
2. What Is the purpose of bank reconciliation

Illustration

The following Bank Account and Bank Statement relate to the firm of Mahmoud and Sons Enterprises for the period 1st to 30th September, 2017.

Bank Account

2017 N 2017N

Sep 1 Balance b/d 6,000 Sep 5Cheque - Owen 400

‘’ 10 Cash 500 ‘’ 12Cheque - Peter 150

‘’ 14 Cheque - Kuku 85 ‘’ 15 Cheque - Ringo 105

‘’ 20 Cheque - Labi 220 ‘’ 26 Cheque - Smith 365

‘‘ 27 Cheque - Michael 155 ‘’ 28 Cheque - Thomas 1,120

‘’ 29 Cheque - Ndidi 360 ‘’ 30 Balance c/d 5,180

7,320 7,320

Bank Statement as at 30th September, 2017

Debit Credit Balance

2017 N N N

Sep 1 Balance b/f 6,000

‘’ 8 Cheque No. 5988762 400 5,600

‘’ 10 Cash 500 6,100

‘’ 16 Cheque deposits 85 6,185

‘’ 20 Cheque No. 5988763 150 6,035

‘’ 21 Cheque dishonoured 85 5,950

‘’ 24 Cheque deposits 220 6,170

‘’ 25 Credit Transfers - Umoru 600 6,770

‘’ 28Standing order 560 6,210

‘’ 29 Cheque No. 5988764 105 6,105

‘’ 30 Bank charges 20 6,085

You are required to prepare:

1. Adjusted Cash Book
2. Bank Reconciliation Statement for the month of September, 2017

Solution:

Mahmoud and Sons Enterprises:

1. Adjusted Cash Book

N N

Balance b/d 5,180 Dishonoured Cheques 85

Credit Transfers 600 Standing Order 560

Bank Charges 20

Balance c/d 5,115

5,780 5,780

1. Bank Reconciliation Statement as at 30th September, 2017

N N

Balance as per Cash Book 5,115

Add: Unpresented Cheques: Smith 365

Thomas 1,120

1,485

6,600

Less: Uncredited Cheques: Michael 155

Ndidi 360

515

Balance as per Bank Statement 6,085

ADVANTAGES / PURPOSE / USES OF BANK RECONCILIATION

1. It reveals items that cause the discrepancy (disagreement) between the Cash Book balance and the Bank Statement balance
2. It harmonizes (reconciles or agrees)the balances of the Cash Book and the Bank Statement
3. After updating the Cash Book, an accurate bank balance is available
4. It enables a customer to update his Cash Book regarding those items debited or credited in the Bank Statement which have not been entered in the Cash Book
5. Unpresented cheques and uncredited cheques will be identified
6. It assists in discovering fraud and embezzlement either from the bank or office
7. It helps to identify errors in the Cash Book (bank account) and in the Bank Statement
8. Any stale cheque (cheques over six months old, which will not be paid by the bank )can be identified and written back into the bank account
9. Where the bank reconciliation statement is prepared regularly, (especially by somebody other than the cashier), it helps to reduce /prevent/deter fraud
10. It ensures that the correct bank balance is shown in the Balance Sheet i.e. it reveals the correct amount of cash at bank
11. Bank reconciliation is an important system of control:
12. Unintended overdrawing on the bank account can be avoided
13. A surplus of cash at bank can be highlighted and invested to earn interest.

EVALUATION QUESTIONS

1. What is the difference between a bank statement and a bank reconciliation statement
2. List five features of a cheque

READING ASSIGNMENT

1. Simplified and Amplified Financial Accounting Page 95 - 114
2. Business Accounting 1 Page 209 - 225

GENERAL EVALUATION QUESTIONS

1. List four ledger accounts that have credit balances
2. State five reasons for keeping accounting records
3. List eight books of account that are used in keeping account records
4. State four features of the Cash Book
5. State four differences between trade discounts and cash discounts

WEEKEND ASSIGNMENT

1. Which of the following does not appear in a bank statement (a) dividends received (b) bank charges (c) uncredited cheques (d) dishonoured cheques

Use the following information to answer questions 2 and 3

N

Balance as per Cash Book 18,000

Dishonoured Cheques 1,200

Bank Charges 300

Unpresented Cheques 2,400

1. The Adjusted Cash Book balance is (a) N18,900 (b) N18,000 (c) N17,700 (d) N16,500
2. The balance as per Bank Statement is (a) N21,300 (b) N18,900 (c) N16,500 (d) N14,100
3. A bank statement shows an overdraft of N190,000. Kofi, a debtor, paid N400,000 into the account. The new bank balance is (a) N590,000 (b) N590,000 overdrawn (c) N210,000 (d) N210,000 overdrawn
4. Unpresented cheques are cheques (a) that have been received by the bank, but not recorded in the Cash Book (b) returned by the bank (c) that have been recorded in the Cash Book but not by the bank (d) written, but not handed over to customers.

THEORY

1. State five reasons for preparing a bank reconciliation statement
2. List seven items that are added to the balance as per Bank Statement in the preparation of the bank reconciliation statement

WEEK 5 - 6 Date…………………….

TOPIC: FINAL ACCOUNTS OF A SOLE TRADER

CONTENTS

1. Contents of the Final Accounts of a Sole Trader
2. The Trading Account - Contents and Preparation
3. The Profit and Loss Account - Contents and Preparation

The Final Accounts of a Sole Trader consist of the following:

1. The Trading Account
2. The Profit and Loss Account
3. The Balance Sheet

THE TRADING ACCOUNT

The Trading Account is prepared to ascertain the Gross Profit or the Gross Loss of the business for the trading period.

1. The Gross Profit is the difference between the Sales revenue and the Cost of Goods Sold
2. The Cost of goods sold is derived by adding the Opening Stock to the Net Purchases and deducting the Closing Stock from the ensuing total.
3. Net Purchases is derived by deducting Returns Outwards (i.e. Purchases Returns) from the Purchases figure.
4. Sales revenue (or Net Sales) is derived by deducting Returns Inwards (i.e. Sales Returns) from the Sales figure.
5. It is usual to add the cost of transporting the goods to the trader’s shop i.e. Carriage Inwards to the Purchases figure when deriving the Cost of Goods Sold
6. The Cost of goods sold is also referred to as the Cost of Sales

The Trading Account must have a heading which includes the period of time covered by the statement (or account). It is also usual to include the name under which the business trades. There are two ways in which a Trading Account can be prepared **- horizontal and vertical.**

1. The **horizontal format or T - format** is similar to a traditional ledger account. Using this method, the Sales revenue is shown on the credit side and the Cost of goods sold on the debit side. The difference (or balance) between the two sides equals the Gross Profit or Gross Loss for the period.

The Gross Profit is carried down to the Profit and Loss Account

1. A Trading Account can also be prepared using the **vertical format**. This is the format used by most businesses. A Trading Account prepared using this method contains the same information as in a horizontal format, but looks like an arithmetic calculation.

Illustration:

The following balances were extracted from the books of Tunde Enterprises for the year ended 31st December, 2017.

N

Stock (1st January, 2017) 8,000

Purchases 18,000

Rent 2,000

General Expenses 1,700

Discounts Allowed 158

Advertising 732

Insurance 500

Sales 50,000

Returns Inwards 2,320

Discounts Received 500

Rates 250

Returns Outwards 357

Carriage Inwards 135

Interest on Loan 726

The value of Stock at close on 31st December, 2017 was N9,500

You are required to prepare the Trading Account for the year ended 31st December, 2017.

1. Using the horizontal or T - format:

Tunde Enterprises

Trading Account for the year ended 31st December, 2017

N NN N

Opening Stock 8,000 Sales 50,000

Purchases 18,000 less: Returns Inwards2,320

Add: Carriage Inwards 135 47,680

18,135

Less: Returns Outwards 357

17,778

Cost of goods available for sale 25,778

Less: Closing Stock 9,500

Cost of Goods Sold 16,278

Gross Profit c/d 31,402

47,680 47,680

1. Using the vertical format:

Tunde Enterprises

Trading Account for the year ended 31st December, 2017

N N N

Sales 50,000

Less: Returns Inwards 2,320

47.680

Cost of goods sold :

Opening Stock 8,000

Purchases 18,000

Add: Carriage Inwards 135

18,135

Less: Returns Outwards 357

17,778

25,778

Less: Closing Stock 9,500

16,278

Gross Profit 31,402

EVALUATION

1. List three features of the Trading Account
2. State three components of the final accounts of a sole trader.

THE PROFIT AND LOSS ACCOUNT

The Profit and Loss Account is concerned with profits and losses, gains and expenses. Its purpose is to calculate or ascertain the Net Profit or Net Loss for the period.

The formula for calculating net profit is : Net Profit = Gross Profit + other income – Expenses

The Profit and Loss Account must have a heading which includes the period of time covered by the statement. It is also usual to include the name under which the business trades.

As with a Trading Account, a Profit And Loss Account can be prepared using either the **horizontal** or the **vertical** method. Using the horizontal format, the gross profit and any other income are shown on the credit side and the expenses are shown on the debit side. The difference (or balance) between the two sides equals the Net Profit or Net Loss for the year.

The Net Profit /Net Loss is transferred to the Capital Account.

Illustration: Using the list of balances shown in the earlier illustration, prepare the Profit and Loss Account for the year ended 31st December, 2017.

1. Using the horizontal format:

Tunde Enterprises

Profit and Loss Account for the year ended 31st December, 2017

N N

Rent 2,000 Gross Profit b/d 31,402

General Expenses 1,700 Discounts Received 500

Discounts Allowed 158

Advertising 732

Insurance 500

Rates 250

Interest on loan 726

Net Profit 25,836

31,902 31,902

1. Using the vertical format:

Tunde Enterprises

Profit and Loss Account for the year ended 31st December, 2017

N N

Gross Profit 31,402

Add: Discounts Received 500

31,902

Less: Expenses

Rent 2,000

General Expenses 1,700

Discounts Allowed 158

Advertising 732

Insurance 500

Rates 250

Interest on loan 726 6,066

Net Profit 25,836

EVALUATION

1. List four features of the Profit and Loss Account
2. List three similarities and two differences between the Trading Account and the Profit and Loss Account

READING ASSIGNMENT

1. Simplified and Amplified Financial Accounting Page 180 – 187
2. Business Accounting 1 Page 49 – 57

GENERAL EVALUATION QUESTIONS

1. List five source documents that are used in preparing the Cash Book
2. State five advantages of using the Imprest system to keep petty cash transactions
3. List five benefits of keeping accounting records
4. State ten uses of the General Journal
5. List eight contents of the Trading Account of a sole trader.

WEEKEND ASSIGNMENT

1. Carriage inwards as an expenses of a business is treated in the ………..…(a) Trading Account (b) Profit and Loss Account (c)Balance Sheet (d) Appropriation Account.

Use the following information to answer question 2 to 5

N

Purchases 168,000

Sales 183,400

Opening Stock 20,100

Closing Stock 48,900

Carriage Outwards 2,400

Carriage Inwards 5,000

Return Inwards 10,000

Expenses 15,000

Return Outwards 8,000

1. The gross profit is………. (a) N47,200 (b) N42,200 (c) N37,200 (d) N19,800
2. The net profit is…………(a) N42,200 (b) N37,200 (c) N19,800 (d) N47,200
3. The cost of goods sold is ………..(a) N185,100 (b) N139,200 (c) N136,200 (d) N131,200
4. The cost of goods available for sale was........... (a) N188,100 (b) N173,000 (c) N193,100 (d) N190,700

THEORY

1. List three uses of each of the following financial records /information.
2. Cash Book (b) Profit and Loss Account
3. List ten items of expenses that are charged (or debited ) to the Profit and Loss Account of a sole trader.

**WEEK 7 – 8 Date……………………….**

**TOPIC : FINAL ACCOUNTS OF A SOLE TRADER**

**CONTENT :**

1. The Trading,Profit and Loss Account
2. The Balance Sheet

The Trading Account and the Profit and Loss Account are usually combined to form a continuous statement.

Both the Trading,Profit and Loss Account and the Balance Sheet are referred to as Financial Statements. Financial Statements are usually prepared from a Trial Balance. Every item in a trial balance appears once in a set of financial statement. As each item is used,it is useful to place a tick ( )against the item. This ensures that no items are overlooked.

It is also common to find notes (or additional information ) accompanying a trial balance about various adjustments which are to be made in preparing the financial statements. Any note to a trial balance are used twice in a set of financial statements. To ensure that this is done, it is useful to place a tick ( ) against the notes each time they are used.

It must be emphasized that the Trading Account and the Profit and Loss Account are both part of the double entry system. Therefore any item that is debited or credited either in the Trading Account or the Profit and Loss Account must have a corresponding double entry in another ledger account.

The items appearing in the Trading, Profit and Loss Account are the ledger account balances which are transferred by means of Journal entries. The student is not usually required to prepare the Journal entries in examination questions.

Illustration:

The following trial balance was extracted from the books of Ade Molayo as at 31st December, 2015.

Ade Molayo

Trial Balance as at 31st December, 2015

Dr Cr

N N

Sales 126,000

Returns Inwards 2,000

Purchases 55,200

Returns Outwards 2,200

Discounts Received 2,340

Discounts Allowed 3,260

Wages 28,000

Rent 16,000

Heating and Lighting 3,400

Postage and Stationery 1,070

Motor Van Expenses 4,830

Interest on loan 800

Sundry Expenses 920

Land and Buildings 40,000

Motor Vehicles 14,000

Office Furniture 5,000

Sundry Debtors 7,400

Sundry Creditors 3,420

Bank 2,160

Carriage Inwards 5,000

Stock (01/01/2015) 4,000

Loan from T. Lawal (repayable in 2019) 10,000

Capital 60,000

Drawings 10,920

203,960 203,960

Additional Information :

1. Stock at 31st December, 2015 was N 2,700

Required: Prepare Ade Molayo’s Trading, Profit and Loss Account for the year ended 31st December 2015.

Ade Molayo

Trading, Profit and Loss Account for the year ended 31st December, 2015

N NN N

Opening Stock 4,000 Sales 126,000

Purchases 55,200 less: Returns Inwards 2,000

add: Carriage Inwards 5,000 124,000

60,200

less: Returns Outwards 2,200

58,000

Cost of goods available for sale 62,000

less: Closing Stock 2,700

Cost of goods sold 59,300

Gross Profit c/d 64,700

124,000 124,000

Discounts Allowed 3,260 Gross Profit b/d 64,700

Wages 28,000 Discounts Received 2,340

Rent 16,000

Heating and Lighting 3,400

Postage and Stationery 1,070

Motor Van Expenses 4,830

Interest on Loan 800

Sundry Expenses 920

Net Profit 8,760

67,040 67,040

NB. It should be noticed that not all the items in the Trial Balance have been used in preparing the Trading, Profit and Loss Account. The remaining balances (i.e. the items that are yet to be ticked in the Trial Balance) are assets, liabilities or capital. These will be used later when a Balance Sheet is drawn up.

EVALUATION

1. Explain the following: (a) cost of goods available for sale (b) cost of goods sold (c) financial statements
2. Describe three features of each of the following financial statements:
3. Trading Account (b) Profit and Loss Account

READING ASSIGNMENT

1. Simplified and Amplified Financial Accounting Page 180 – 187
2. Business Accounting 1 Page 49 – 57

GENERAL EVALUATION QUESTIONS

1. Business Accounting 1
2. Exercise 6.1, 6.2, 6.3A, 6.4A
3. Simplified and Amplified Financial Accounting Question 4 Page 187

WEEKEND ASSIGNMENT

1. When the cost of goods sold is added to closing stock, the resulting figure is (a) carriage inwards (b) cost of sales (c) gross profit (d) cost of goods available for sale
2. Which of the following is not found in a trial balance (a) opening stock (b) closing stock (c) capital (d) rent paid
3. A statement that measures the performance of a business over a period of time is the (a) Balance Sheet (b) Bank Statement (c) Profit and Loss Account (d) Bank Reconciliation Statement
4. The effect on profit when closing stock is understated is (a) increase in profit (b) decrease in profit (c) no change in profit (d) a doubling of profit
5. Carriage outwards expenses of a business are treated in the (a) Balance Sheet (b) Income Surplus Account (c) Profit and Loss Account (d) Trading Account

THEORY

1. List three uses of the Profit and Loss Account
2. State four differences between the Trading Account and the Profit and Loss Account.

WEEK 9 Date………………………..

TOPIC : BALANCE SHEET

CONTENTS

1. Meaning of the Balance Sheet
2. Layout of the Balance Sheet
3. Definition of terms/contents of the Balance Sheet

The Balance Sheet is a statement of the financial position of a business on a certain date. It shows the assets, liabilities and the capital of the business in a well arranged form.

Unlike a Trading, Profit and Loss Account, a Balance Sheet is not part of the double entry system. After the nominal account balances have been transferred to the Trading and Profit and Loss Account, the only balances left in the ledger are those for assets and liabilities. The Balance Sheet is a list of these balances.

Although a Balance Sheet is not an account, The Trading and Profit And Loss Account and the Balance Sheet are known collectively as the **final accounts** of a business.

LAYOUT OF THE BALANCE SHEET

The Balance Sheet is prepared by listing and grouping the assets and liabilities of the business under appropriate headings as below:

Fixed Assets

Current Assets

Current Liabilities

Long - term Liabilities

Capital

Using the illustration worked out in the last example, the Balance Sheet will be as shown below:

Ade Molayo

Balance Sheet as at 31st December, 2015

N Fixed Assets: N N

Capital 60,000 Land & Buildings 40,000

Add: Net Profit 8,760 Office Furniture 5,000

68,760 Motor Vehicles 14,000

Less: Drawings 10,920 59,000

57,840

Long – term Liabilities: Current Assets:

Loan from T. Lawal 10,000 Stock 2,700

Sundry Debtors 7,400

Current Liabilities: Bank 2,160

Sundry Creditors 3,420 12,260

71,260 71,260

NB.

1. A Balance Sheet is a ‘position’ statement showing the position of a business at a particular date. It is not a ‘period’ statement like a Trading and Profit and Loss Account.
2. The fixed assets are listed in order of permanence. The order is:

Land and Buildings

Plant and Machinery

Furniture and Fittings

Equipment/ Tools

Motor Vehicles

1. The current assets are listed in the reverse order of realisability i.e. the ease at which they can be converted to cash. The order is:

Stock

Debtors

Bank

Cash

1. The total of the fixed and current assets N(59,000 + 12,260) less the total of the current and long - term liabilities N(3,420 + 10,000) equals the closing balance on the Capital Account N57,840. This demonstrates the **accounting equation i.e. assets – liabilities = capital**
2. At the end of the year, the balances on the Profit and Loss Account and Drawings Account are transferred to the Capital Account(by Journal entries). However the details are still shown in the Balance Sheet to show how the closing capital is arrived at.

EVALUATION

1. Simplified and Amplified Financial Accounting. Exercise 1 & 2
2. Simplified and Amplified Financial Accounting. Exercise 3,4 & 5

DEFINITION OF BALANCE SHEET ITEMS

1. ASSETS: These are the resources, properties or possessions owned by the business as well as what other people or firms owed the business. Examples are Land and Buildings, Motor Vehicles, Furniture,Equipment,Machinery,Tools, Stock, Cash at hand, Cash at Bank, Debtors etc. Assets can be divided into fixed assets and current assets.
2. Fixed Assets are long lasting assets which are acquired for use rather than for resale. Fixed assets help the business to earn revenue. Examples are Land and Buildings, Plant, Machinery, Motor Vehicles, Furniture, Fittings, Tools, Equipment etc.
3. Current Assets are assets which are usually held by the business for a short period of time. They are usually converted from one form to another in the course of business. Current assets are either in form of cash or can be turned to cash relatively easily. Examples are Stock (Inventory), Trade Debtors (or Sundry Debtors), Bank and Cash.
4. LIABILITIES: These are obligations arising from past transactions. It is a claim by outsiders on the assets of the business. Liabilities represent what the business owes other people or firms. Liabilities can be classified as current liabilities and long - term liabilities.
5. Current Liabilities are short - term liabilities. They are the amountsowed by the business which are due for settlement (repayment) within the next twelve months (i.e. one year) of the date of the Balance Sheet. Examples are Trade Creditors (or Sundry Creditors), Bank Overdraft etc.
6. Long - term Liabilities are amounts owed by the business which are not due for repayment within the next twelve months (i.e. one year) of the date of the Balance Sheet. Examples are Long - term loans, Mortgages, Debentures etc.

The Balance Sheet can be prepared in two ways – **horizontal format** and **vertical format**. The Balance Sheet earlier prepared for Ade Molayo was prepared in the horizontal format.

The same Balance Sheet prepared in the vertical format is shown below:

Ade Molayo

Balance Sheet as at 31st December, 2015

NNN

**Fixed Assets:**

Land and Buildings 40,000

Office Furniture 5,000

Motor Vehicles 14,000

59,000

**Current Assets:**

Stock 2,700

Sundry Debtors 7,400

Bank 2,160

12,260

**Current Liabilities:**

Sundry Creditors 3,420

Net Current Assets 8,840

67,840

**Long - term Liabilities:**

Loan from T. Lawal 10,000

57,840

**Financed by:**

Capital at 1st January, 2015 60,000

Add: Net Profit for the year 8,760

68,760

Less: Drawings 10,920

57,840

NB:

1. There is only one current liability so this has been shown in the centre column. If there had been more than one they would have been listed in the first column and the total shown in the centre column.
2. The main advantage a vertical Balance Sheet has over a horizontal Balance Sheet is that it shows the figure for the **net current assets.** This is also known as the **working capital.**
3. The long - term liability has been deducted in the first section of the Balance Sheet. Alternatively, it could have been added to the final balance of the Capital Account in the second section of the Balance Sheet.

EVALUATION

1. Simplified and Amplified Financial Accounting. Exercise 6 and 7X
2. Business Accounting 1 Exercise 8.3

READING ASSIGNMENT

1. Simplified and Amplified Financial Accounting Page 188 - 196
2. Business Accounting 1 Page 58 - 71

GENERAL EVALUATION QUESTIONS

1. Business Accounting 1. Exercise 8.4, 8.5Aand 8.6A
2. Simplified and Amplified Financial Accounting. Questions 5X, 6, 7X and 8X

WEEKEND ASSIGNMENT

1. Assets minus liabilities of a business always give (a) profit (b) bank balance (c) capital (d) drawings
2. Debentures is classified as (a) capital (b) fixed assets (c) short - term liability (d) long - term liability
3. Which of the following is added to the proprietor’s capital (a) net profit (b) gross profit (c) net sales (d) gross sales
4. Which of the following is not part of the double entry system (a) Trading Account (b) Profit and Loss Account (c) Balance Sheet (d) Cash Book
5. Which of the following statements is not correct (a) profits increase capital (b) losses reduce capital (c) drawings reduce capital (d) drawings increase capital

THEORY

1. Mention a class of account that will always show :
2. debit balance (b) credit balance
3. Explain the following:
4. fixed assets (b) current assets (c) current liabilities (d) long - term liabilities (d) capital

WEEK 10 Date………………………..

TOPIC : OPENING ENTRIES

CONTENTS :

1. Opening Journal entries
2. Recording of subsequent financial transactions

When a business begins the capital will consist of cash, money in the bank and other assets. To record this event, a set of books must be opened. Also, on deciding to keep his books on double entry principle or on opening a new set of books the trader will record what is known as opening entries. For the three cases identified above, the General Journal (or Principal Journal or Journal Proper) is used to record the opening entries.

The trader will summarise his financial position. This summary will disclose that he has certain assets, valuable possessions and properties which is to be used in the business. In addition certain sums of money may be owing to him by customers, while, on the other hand, he may owe various sums. The latter are his liabilities, and, taking the total of these from his assets, he is able to say what he is worth financially. That amount by which his assets exceed his liabilities is called his capital.

The summary as described above is recorded in the General Journal and is known as the opening entries.

Illustration:

William Kamara decides to open a set of books on double entry principle. His business affairs on 1st July, 2017 stand as follows: office cash N13,300; bank balance N27,700; value of motor vehicles N42,000; stock of goods N14,200; two debtors Olamide and Victoria owe him N21,800 and N18,000 respectively. He owes two creditors B. Mohammed and S. Talabi, N7,000 and N20,000 respectively.

Required: Prepare the journal entries to open the books of William Kamara as at 1st July, 2017.

General Journal

2017 N N

Jul 1 Cash CB 13,300

Bank CB 27,700

Motor Vehicles GL 42,000

Stock GL 14,200

Olamide SL 21,800

Victoria SL 18,000

B. Mohammed PL 7,000

S. Talabi PL 20,000

Capital GL 110,000

being assets, liabilities and capital at this date 137,000 137,000

The items in the above opening entries are then posted to the ledger, the assets being debited to the respective asset accounts, the cash and bank balances in the Cash Book, the stock to the Stock Account, the value of the motor vehicles to the Motor Vehicles Account and the debts due to the respective debtors accounts. The liabilities are posted to the credit of the respective accounts and the capital to the credit of the Capital Account - to show the amount invested in the business by the owner and the extent the business is indebted to him. The appropriate folio numbers are, of course, inserted.

The entries in the ledger accounts are usually described in the narration column as ‘balance’ as they usually represent the balances of accounts brought down from the previous period.

These items having been posted, the books are ready for the subsequent transactions to be entered as and when they occur. In examination tests, students may be required to prepare the opening entries and also record the subsequent transactions. The procedure described above will then have to be done before the transactions are recorded.

EVALUATION

1. Simplified and Amplified Financial Accounting Exercise 3X and 7X

READING ASSIGNMENT

1. Business Accounting 1. Page 232 - 239
2. Simplified and Amplified Financial Accounting. Page 127 – 133

GENERAL EVALUATION QUESTIONS

1. Business Accounting 1. Exercise 25.1 and 25.2A
2. Simplified and Amplified Financial Accounting. Exercise 5, 6 and 8X

WEEKEND ASSIGNMENT

1. Which of the following accounts belong to the purchases ledger (a) bank (b) creditors (c) salaries (d) debtors
2. The statement which shows the financial position of a business at a given point in time is (a) trial balance (b) cash book (c) bank statement (d) balance sheet
3. The drawings account of a sole trader is transferred to the (a) trading account (b) profit and loss account (c) capital account (d) discounts account
4. The salary of a shopkeeper who sell goods would be charged in the (a) Balance Sheet (b) Sales Account (c) Trading Account (d) Profit and Loss Account
5. Capital is the (a) money owed by a business to others (b) money owed to a business by others (c) liability of the business to its proprietor (d) total of the long - term liabilities.

THEORY

1. a. What is a Journal Proper

b. Enumerate eight uses of the Principal Journal

1. Explain four differences between a trial balance and a balance sheet.