**SS 1 OMEGA TERM BOOK- KEEPING**

**SCHEME OF WORK**

**WEEK**

1 Revision

2. **Petty cash book**

---Meaning of petty cash book

\_\_\_ Classification of columns

\_\_posting of transaction

**3. Trial balance and correction of errors**

Meaning of trial balance

Functions of trial balance

Extraction of balance from ledger to trial balance

4. **Trial balance and correction of error**

---Rules for posting balances from ledger to trial balance

\_\_preparation **of** trial balance

5 . **Trial balance and correction of errors**

Meaning of errors

Types of errors

Errors affecting Trial balance

Errors that do not affect trial balance

6.  **Trial Balance and correction of errors**

Correction of errors through the use of suspense account

7. **Trading Account**

\_\_ Definition of trading account

\_\_ description of cost of goods sold

\_\_dtermining gross profit

8.  **Trading account**

\_\_preparation of a simple trading account

9. \_\_\_profit and loss Account

\_\_purpose of profit and loss account

\_\_ determining net sales and net profit

Rules for preparing profit and loss account

10 **balance sheet**

\_\_ explain balance sheet

\_\_\_ balance sheet content

\_\_ Users of balance sheet

\_\_\_preparation of simple balance sheet

11 revision

12 exam

**PETTY CASH BOOK**

**MEANING:**

**IMPREST SYSTEM** : This is a system for recording petty cash transactions, which are paid out of a cash float.The system is set up by giving a specified sum known as **cash float** to thecashier in order to cover petty expenses during the period.

**PETTY CASH BOOK**: This is the book of original or prime entry which is used for recording small disbursements or expenses e.g. postages, stationery, transport etc. it is part of the double entry **system. The source documents are invoices, receipts, and vouchers**

**PROCEDURES OF PETTY CASH BOOK:**

**1.** Amount of float from the main cash book

CR; CASH BOOK

DR : PETTY CASH BOOK

2. RULING OF PETTY CASH BOOK

Credit side is wider than debit side

Credit side :Analysis columns :Debit side : Receipt side

3. Payment for expenses

Credit Petty cash with **payment under related expenses (analysis column)**

**4. Total of analysis columns**: Analysis columns totaled are transferred to the debit of nominal

Ledgers

5.Re-imbursement of petty cash

The petty cash cashier will be re-imbursed at interval to bring the amount back to the formal amount

LAYOUT OF PETTY CASH BOOK

receipt f date details v.no total postage cleaning trans.exp med exp ledge

# # # # # # #

700 cb july1 bal b/d

“ 2 cleaning 15 15

“ 3 Bola 70 70

“ 5 postage 30 30

“ 7 transport 40 40

“ 8 cleaning 20 20

“ 9 med expense 55 55

“ 10 petrol 15 15

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

245 30 35 55 55 70

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

245 cb “ 31 cash balc/d 700

\_\_\_\_\_ \_\_\_\_\_\_

945 945

­­­­­­­­­­­-­­­­­­­\_\_\_\_\_ \_\_\_\_\_

700 Aug 1 bal b/d

TRIAL BALANCE AND CORRECTION OF ERRORS

MEANING OF TRIAL BALANCE

Trial balance is a statement showing list of balances in a double entry form extracted from the ledgers to test the arithmetical accuracy of the accounts

LAYOUT OF TRIAL BALANCE

DR # CR#

Capital x

Furniture and fittings x

Land and building x

Stock x

Cash at bank x

Creditors x

Loan x

Provision for doubtful debts x

Bad debts x

Insurance x

Rates x

Sundry expenses x

Premises x

Sales x

Returns inwards x

Returns outwards x

Purchases x

Discount allowed x

Telephone x

Discount received x

Lighting x

Stationery x

Motor expenses x

Drawings x

Carriage inwards x

Salaries & wages x

Bank overdraft x

Carriage outwards x

Accumulated depreciation:land&building x

Equipment x

Equipment at cost x

Rent receivable x

Bills payable x

Bills receivable x

Debtors x

Plant& machinery x

Delivery expenses x

Office expenses x

Travelling expenses x

Petty cash x

Repairs x

Loan interest x

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Xx xx

\_\_\_\_\_\_\_\_\_\_\_\_\_\_

DIFFERENCES BETWEEN TRIAL BALANCE AND BALANCE SHEET

1. Trial balance shows list of ledger balances WHILE Balance Sheet is a statement showing assets and liabilities

2. Trial balance is prepared to prove the arithmetical accuracy of the ledger accounts WHILE BALANCE SHEET is prepared to show the financial position of a business at a point in time

3. In the trial balance , items are classified into debit and credit WHILE in the balance sheet items are classified into assets and liabilities

4. Trial balance preparation is at the discretion of the business WHILE balance sheet preparation and presentation is a legal obligation in any business

5. Trial balance is used for the preparation of final accounts for which the balance sheet is a part. WHILE BALANCE SHEET is prepared with the balances left after the preparation of the trading profit and loss account

PURPOSE OF TRIAL BALANCE

1. Provide a comprehensive lists of all accounts therefore it saves time

2. To show the arithmetical accuracy of the entries in the ledgers

3. Provide data for the preparation of Trading , profit and loss and balance sheet

RULES OF TRIAL BALANCE

In preparing the trial balance ,the rules below must be followed by the students.

TRIAL BALANCE

CREDIT LIABILITIES CREDIT INCOME/GAIN DEBIT

EXPENSES

DEBIT ASSETS

BALANCING OF LEDGER ACCOUNTS

Before the preparation of trial balance ,all ledgers should be posted ,added and balanced off. In balancing the accounts, the following procedures should be followed.

Procedures for balancing the ledgers

1 post all debit items

2. Add all the items on the debit side

3. Post all credit items.

4.Add all the items on the credit sides

5. Compare the two totals.

6. If the debit side is greater ,insert the difference on the credit side.

7. If the credit side is greater , insert the difference on the debit side

Illustration:Mr Odili has the following transactions for the month of June 1999

Cash purchases 3000

Cash sales 10000

Paid wages by cash 200

Paid insurance cash 800

Settled Olu by cash 300

You are required to record the transactions,balance off and prepare a trial balance

SOLUTION:

DR CASH ACCOUNT CR

# #

SALES 10000 Purchases 3000

Insurance 800

Olu 300

Bal c/d 5700

\_\_\_\_\_\_\_ \_\_\_\_\_

10000 10000

\_\_\_\_\_ \_\_\_\_

Bal b/d 5700

Note: the items on the debit side exceed the items on the credit side by #5700.Insert the difference on the credit side as balance C/D so that the totals may be equal .In the next accounting period,#5700 will be balance brought down (balance b/d).

Ledger entries:

DR Sales account CR

# #

BAL C/D 10000 CASH 10000

\_\_\_\_ \_\_\_\_

Bal b/d 10000

DR Purchases account CR

# #

CASH 3000 BAL C/D 3000

\_\_\_ \_\_\_

BAL B/D 3000

DR WAGES ACCOUNT CR

# #

CASH 200 BAL C/D 200

\_\_ \_\_\_

BAL B/D 200

DR INSURANCE ACCOUNT CR

# #

Cash 800 bal c/d 800

\_\_\_\_ \_\_\_

Bal b/d 800

DR OLU ACCOUNT CR

# #

CASH 300 BAL C/D 300

Note:All the ledger accounts have been balanced and the balances brought .The trial balance will now be prepared by following the rules enumerated above

particular Trial balance DR CR

# #

CASH 5700

SALES 10000

PURCHASES 3000

WAGES 200

INSURANCE 800

OLU 300

\_\_\_\_\_\_\_\_ \_\_\_\_\_\_

10000 1000

\_\_\_\_\_\_ \_\_\_\_\_\_\_

**EVALUATION**:

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

2. State three functions of a trial balance

**ASSIGNMENT**: Take assignment from simplified and amplified book-keeping and accounting revision question 3 page 101

**TRIAL BALANCE ERRORS OR UNDISCLOSED ERRORS**

1. **Errors of original entry**: This error occurs when a wrong amount is entered on the debit and credit sides e.g sales of #95 to Ayo entered in the accounts as #59.

2. **Error of omission**; Error of omission occurs when a transaction is totally omitted from the debit and credit sides of the account

3. **Error of commission**: This error occurs when a transaction is entered in a wrong person’s account e.g purchase of goods #70 from Bada entered in Dada ‘s account

4 **Error of principle:** Error of principle occurs when transactions are entered in a wrong class of accounts

**5. Compensating Errors**: This occurs when errors of the same amount are posted to the two sides of the of the ledger, therefore they cancelled out each other.

6. Complete reversal of entry: This occurs when the double entry for a transaction is reversed. The account to be debited has been credited and the account that ought to be credited is debited

**Illustration:**

Show the journal entries necessary to correct the following errors

1. Sales of motor van #800 had been entered in the sales account

2. Purchase of goods from Akano #720 was completely omitted from the account.

3. Goods of #230 returned by Ajayi has been entered in Ajala account

4. Sales were overcast by #950 as also were motor expenses .

5. Cash paid to James #1500 was entered on the credit side of his account and debited to cash account

6. Purchase of goods from Olaiya #290 has been entered in the accounts as #920

7. Payment of cash #320 to Abiodun has been entered twice in the two accounts

JOURNAL DR CR

# #

a. sales account 800

motor van account 800

Sales of motor van entered in sales a/c now corrected

b. Purchases account 720

Akano account 720

Purchases of goods from Akano omitted now corrected

c. Ajayi account 230

Ajala account 230

Goods returned by Ajayi mistakenly entered in Ajala now

Corrected

d. Sales account 950

motor expenses account 950

correction of overcast of sales and motor expenses

e. James account 3000

cash account 3000

Payment of cash to James mistakenly reversed now corrected

f. Olaiya account 630

purchases account 630

Correction of error of wrong amount

g. Abiodun account 320

cash account 320

recoding of a transaction twice in the accounts now corrected

ERRORS THAT WILL AFFECT THE AGREEMNENT OF THE TRIAL BALANCE

The following errors will affect the totals of the trial balance, hence they will be adjusted by means of entry in the suspense account.

1. One sided omission

2. Misposting of figures to the account

3. Errors in transfer of totals of subsidiary book

4. Two entries on the same side

5. Undercasting and overcasting of balances

PROCESSES INVOLVED IN CORRECTION OF ERRORS

1.Identification of error

2. Illustration of errors in the ledgers

3. correction

4 posting to the journal

5 .preparation of suspense account

ERRORS EXPLAINED

1. One sided omission:this occurs when there is an omission in one of the two accounts e.g payment of rent #170 cash was entered in the cash book but not in the rent account

2. MISPOSTING OF FIGURES TO THE ACCOUNT:This error occurs when an item was recorded on the debit side with figures different from the figures recorded on the credit side . e.g Sales of goods #209 was credited in sales account and debited in cash account as #902

3. ERRORS IN TRANSFER OF TOTALS OF OF SUBSIDIARY BOOKS:Errors can occur when transferring the totals of the subsidiary books to the ledgers e.g A sales of goods to Okoro had been correctly recorded in the sales day book as #240 but had been debited to his account as #24

4. TWO ENTRIES ON THE SAME SIDE: Two entries can be made on one side of the account and one entry on other account e.g sales of goods #300 cash was debited twice to the cash account

5.TRIAL BALANCE ERRORS:The trial balance error can occur in the trial balance as follows

a. Trial balance can be incorrectly totaled.

b. An item can omitted from the trial balance.e.g.The petty cash book balance of #100 was omitted from the trial balance.

Illustration:The trial balance of Fashola ltd as at 31st Dec 2000 failed to agree. The difference of #500 was credited to a suspense account .Further investigation revealed the following errors

A.Returns inwards book was overstated by #100

b. purchases day book was undercast by #300

c. The closing balance of the cash book had a debit of #2000 instead of #2100

d. Credit sales of #250 to Olembe was credited to his personal account.

e. An amount of #500 received from Kunle has not been posted to the cash book.

f. Discount received and allowed of #250 and #100 had not been posted to the cash book.

g. Goods worth #600 returned to a supplier were entered in his personal account as #1050.

You are required to :

1. Journalize the errors

2. Write up the suspense account

SOLUTION:

jOURNAL

DR # CR #

A**.** Returns inwards account 100

Suspense account 100

Correction of overcast of returns inwards

b. Purchases account 300

Suspense account 300

Overcast of purchases by #300 now corrected

cash account 100

Suspense account 100

Correction of misposting of figures to the account

d. Olembe account 500

Suspense account 500

Correction of reversal of entry in Olembe account

e. Kunle account 500

suspense account 500

Correction of omission of #500 from Kunle account

f. Discount received account 250

suspense account 250

correction of omission of discount received from the cash book

Discount allowed account 100

Suspense account 100

Correction omission of discount allowed from the cash book

Supplier account 450

Suspense account 450

Correction of misposting of figures to the account

Note:c:The balance should be #2000 instead of #2100 therefore (#2100-#2000)=#100 must be credited to cash book in order to reduce the balance therein

D:since the entry has been reversed the amount should be multiplied by 2 i.e#250x2=#500

g. The value of goods returned was #600 but #1050 was debited to the supplier account .In order to correct the account ,#450( #1050-#600)

must be credited to the supplier

DR suspense account CR

Returns inwards 100 bal b/f 500

Cash book 100 purchases 300

Kunle 500 Olembe 500

Discount received 250 discount allowed 100

\_\_\_\_ \_\_\_\_\_

1400 1400

\_\_\_ \_\_\_\_

EVALUATION;Mention four disclosed errors and briefly explain

ASSIGNMENT :Take assignment from simplified and amplified book- keeping and accounting revision question2 and 3 page 150

TRADING PROFIT AND LOSS ACCOUNT AND BALANCE SHEET(FINAL ACCOUNT)

The final account is a statement that details the financial transactions of an organization covering a period of time, usually a year.

The final accounts of a sole trader comprise the following

1. Trading account

2. Profit and loss account

3. balance sheet

**DEFINITION OF TERMS AS USED IN FINAL ACCOUNTS OF A SOLE TRADER**

**Trading Account**: This is an account prepared to disclose gross profit . Gross profit is the profit on the activities of buying and selling goods.It could also be describe as the excess of revenue over cost of goods sold .

**Profit and loss account**: This is the account that discloses the net profit or net loss of an organization. All revenue expenditure are deducted from the gross profit to know if the organization is making profit or not.

**Balance Sheet**: A balance sheet is a list of the assets and liabilities of a business at a particular date .It shows the position of a business at a particular period of time

**Purchases** :These are goods bought with an intention of reselling .Only items bought for resale are debited to the trading account as purchases and those items bought for usage in the business are debited as assets

**Sales**: Sales is the term used for the goods that are bought for resale in the business.Items bought for usage but later sold are referred to as disposal.The difference between the sales and the sales return is the turnover of the business.

**Opening/ closing stock**: The stock of goods available for sale at the beginning of an accounting period is referred to as opening stock while the stock of goods at the end of an accounting period is the closing stock

**Return inward/ outward**: Return inward is used to describe goods returned to an organization by a customer while goods returned by an organization to the supplier are returned outward. Returns outward is deducted from purchases while return inward is deducted from sales

Carriage Inward/Outward: Carriage inward is the term used to describe the cost of transportating goods to the organization .It is usually added to the cost of purchases. Carriage outward on the other hand , is the term used to describe cost of transporting goods to the customers . This is also called carriage on sales and it is deducted as an expense.

Cost of goods available for sale

This is the total amount of goods available for sale in a particular period . It is arrived at after adding purchases to the cost of opening stock.

Cost of goods sold or cost of sale:

This is the amount that arrives while cost of closing stock is deducted from the cost of goods available for sale.

Goods Withdrawn

It is also known as drawings .It is the cost of goods taken by the owner of a business for private use

Gross Profit:This is the profit on sales of goods before the expenses are deducted

Net Profit :This is the trader ‘s income after deducting all expenses for a particular period of time .When the expenses are higher than the revenue or income then we have net loss.

PREPARATION OF FINAL ACCOUNT OF A SOLE TRADER

The following are the steps involved in the preparation of final account of a sole trader:

STEP1; Balance all ledger accounts and prepare a trial balance at the date to which the trading and profit and loss account is to be prepared

STEP2 :Prepare the trading account .The balances on the sales ,sales return ,purchases and purchases return are transferred to the trading account through journal entries

STEP3. The profit and loss account follows the trading account without a break and they share common headings .All expenses included in the trial balance are deducted from the the gross profit to arrive at the net profit or loss

STEP4: Prepare a balance sheet by listing and grouping the assets and liabilities of the business under the fixed assets current assets current liabilities long term liabilities and capital

LAYOUT OF BALANCE SHEET

T. FORMAT OF BALANCE SHEET

BALANCE SHEET AS AT 31ST DEC. 2000

# #

Capital xx fixed assets:

Add net profit x land and building x

\_\_\_-\_ plant and machinery x

Xx premises x

Less cash or goods drawing x equipment x

\_\_\_ motor van x

X fixtures and fittings x

\_\_\_ xx

Long term liabilities

% debenture x

Bond x

Current liabilities

Loan x investment x

Creditors x current assets

Bank overdraft x stock x

\_\_\_ x debtor x

Bank x

Cash in hand x

\_\_\_\_\_ \_\_\_

Xx xx

\_\_\_\_\_ \_\_\_

EVALUATION:Differentiate between assets and liabilities with examples

ASSIGNMENT:The following balances were extracted from the books of Bose Adetoro enterprises as at 31st Dec. 1983

Capital 335955

Drawings 110420

Cash at bank 129000

Debtors 112300

Creditors 301065

Land and building 150000

Furniture 140000

Machinery 160000

Stock at close 121560

Net profit for the year 286260

You are required to prepare the balance sheet as at 31st dec.1883