SS 2 OMEGA TERM

BOOK –KEEPING SCHEME OF WORK

WEEK

1. Revision

2-4 Trading profit and loss account

5-7 Receipts and Payments Accounts

8-10 Income and Expenditure account

TRADING PROFIT AND LOSS ACCOUNTS

TRADING ACCOUNT: This is the account constructed for the purpose of finding the gross profit or loss of a business at a particular period. It is a revenue account and form part of the double entry system.

LAYOUT OF TRADING ACCOUNT

Trading Account for the year ended 31st dec. 19x9

# #

Opening stock xx sales xx

Add purchases xx less return inward x xx

Carriage inwards x \_\_\_

\_\_\_\_

xx

less returns outward x

goods withdrawn x

\_\_\_\_ xx

\_\_\_\_

Xx

Less closing stock x

\_\_\_

Cost of goods sold xx

Gross profit xx

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Xx xx

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**TERMINOLOGIES**:

SALES: This represents the total cash and credit sales during the period .It is credited to trading account.

**RETURNS INWARDS**: This is the total value of goods returned to the seller by the customers out of goods previously sold to them .This is also known as sales return and must be deducted from the total sales

**TURNOVER** ;This is the total net sales during a period of time .This means sales less return inwards .

**PURCHASES**: This represents the total of the cash and credit purchases of goods for resale .It is debited to the trading account.

**RETURNS OUTWARDS:** This is the total value of goods returned to supplier out of the goods bought .It is also known as purchases returns

**CARRIAGE INWARDS**: Carriage inwards is the cost of transportation charged on goods purchased .Carriage inwards is the cost incurred in order to bring the goods purchased to the present location

**CARRIAGE OUTWARDS; This** is the cost of transportation charged on goods sold to customers .It is a selling expense and is debited to profit and loss account

**COST OF GOODS SOLD**: This is the total cost of goods actually sold by the organization

**COST OF GOODS AVAILABLE FOR SALE:** This is the addition of opening stock and purchases

STOCK OF GOODS:

1. **Opening stock:** This represents goods available in a business at the beginning of the trading period

2. **Closing stock**: This is the stock of goods unsold at the end of the trading period

**PROFIT AND LOSS ACCOUNT**:This is the account constructed by a business organization to show the net profit or net loss .Expenses incurred by the organization are debited while gross profit from trading and other gains are credited.

Note: the profit is carried to the capital account

The main purpose is to arrive at the net profit after charging all the expenses from the gross profit .

LAYOUT OF PROFIT AND LOSS ACCOUNT

# #

Expenses Gross profit xx

Discount allowed x discount received x

Telephone x

Lighting x

Legal charges x

General expenses x

Carriage outwards x

Postages x

Insurance x

Advertising x

Rent and rates x

Salaries & wages x

Commission payable x

Travelling expenses x

Sundry expenses x

Net profit x

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Xx xx

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**ADJUSTMENT IN THE PROFIT AND LOSS ACCOUNT**

**ACCRUALS AND PREPAYMENTS**

1**. ACCRUALS**: Accruals concepts states that revenue and expenditure are recognized as they are earned or incurred and dealt with in the profit and loss account for the period to which they relate and not period they are paid and received.It can be divided into :Accrued income and Accrued expenses.

a.**Accrued income**: These are income which are due in respect of the current trading period but such income have not been received at the close of final account preparation.

**Treatment in final account s**

**Cr: profit and loss account**

**assets in the balance sheet**

DR income account CR

# #

Last year accrual x cash x

Profit and loss x current year accrual x

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

Xx xx

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

Bal b/d x

**Illustration**: write up the ledger accounts of Mr Johnson as at 31st Dec. 1996 showing the transfer to the final account .He earned commission from sales for the year 31st Dec. 1996 #8500:Owing as at 31st dec. 1995 #800: Owing at 31st Dec. 1996 #1450

Commission receivable account

# #

Bal b/f 800 cash 8500

Profit and loss 9150 bal b/d 1450

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9950 9950

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Bal b/f 1450

The balance of #1450 should be treated as current asset in the balance sheet

b. Accrued Expenses: These are expenses ,which accrue but have not been discharged.

These could be called expenses owing or creditor for expenses e.g telephone , rates

Treatment in final accounts

Debited to profit and loss account

Current liability in the balance sheet.

Expenses account

# #

Cash paid x amount owing from last yr x

Owing during the trading yr x profit and loss x

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X x

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Illustration:Write up the ledger account of Okondo as at 31st Dec.1998

General expenses paid for the year #15000

General expenses owing at 31st Dec.1997 #3000

General expenses owing at 31st Dec.1998 #2700

# #

Cash 15000 BAL b/f 3000

BAL c/d 2700 profit and loss 14700

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17700 17700

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Bal b/d 2700

The balance of #2700 should be treated as current liability in the balance sheet

**2. PREPAYMENTS:** Prepayments represents amount paid in the current period for a subsequent period. Expenses can be paid in advance and income can be received in advance. It can be referred to as prepaid or paid in advance.

a. **Expenses in advance**: These are expenses like rent , insurance etc.which are paid in advance for subsequent period .Only the expenses for the must be charged to the profit and loss account

Treatment in final accounts

Reduction in expenses debited to profit and loss account

Current assets in the balance sheet

DR Expenses account CR

# #

Prepaid last year x prepaid next year x

Cash x profit and loss x

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X x

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Bal b/d x

Illustration:Write up the ledger accounts of Mr Victor as at 31st Dec. 1998 .He paid insurance of #5000 for the year ended 31st DEC. 1998 ;prepaid as at 31st Dec. 1997 #740 ;prepaid as at 31st Dec. 1998 #1000

DR Insurance account CR

# #

Prepaid last year 740 profit and loss 4740

Cash 5000 prepaid for next year 1000

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5740 5740

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Bal b/d 1000

The balance brought down of #1000 will be treated as current assets in the balance sheet

**b. Income in advance:** These are income received by the organization during the current period which relates to the next trading period e.g. rent received in advance

**Treatment in final account:**

**Decrease in income credited to the profit and loss**

**Current liability in the balance sheet**

**DR INCOM ACCOUNT CR**

# #

Profit and loss x last year advance x

Advance for next year x cash x

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X x

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Bal b/d x

Illustration: Write up the ledger account of Mr. James as at 31st Dec. 1999. He earned commission of #30000 for the year 31st Dec. 1999.Prepaid at 31st Dec.1998 #7700; paid in advance at 31st Dec. 1999 was #6830

DR Commission account CR

# #

Profit and loss 30870 last year advance 7700

Advance for next year 6830 cash 30000

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37700 37700

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Bal b/d 6830

EVALUATION:Show the journal entries and the appropriate accounts to make the following adjustments that were brought to your attention on 31st march this year after you have completed the trial balance for Sunshine Bakeries .Show how items will appear on the balance sheet this date

a. Motor vehicle ,#11000000 have been revalued at #8600000

b. commission owed to sales representative stands at #400000.The balance on this account is currently #1800000

ASSIGNMENT:State five differences between trading account and profit and loss account

**RECEIPTS AND PAYMENTS,INCOME AND EXPENDITURE ACCOUNT**

Receipts and payments account:

This is a statement of cash actually received and paid during a given period , Receipts being debited and payments credited .The receipts and payments account is a summary of the cash book

FEATURES OF RECEIPTS AND PAYMENTS ACCOUNT

1.It is a real account

2. Balance represent cash in hand

3. Only actual receipts and payments are recorded

4 Include capital and revenue items

DR **receipts and payments account** CR

# #

Bal b/f x rent x

Donation x wages x

Subscription x postage x

Dance receipt x stationery x

Refreshment x honorarium x

Annual dinner x meeting expenses x

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Xx xx

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INCOME AND EXPENDITURE ACCOUNT

This is the account which shows the summary of revenue and running cost of a non- profit making organization.It follows the same principles as the profit and loss account of a trading concern. It is part of the double entry and income is shown on the credit side and expenditure on the debit side .

The balance represents surplus of income over expenditure and vice versa

**FEATURES OF INCOME AND EXPENDITURE ACCOUNT**

1. Equivalent of profit and loss in a trading concern

2. Balance represents surplus or deficiency

3. Expenditure are debited and income credited i.e it is a nominal account.

4. Adjustment for accruals and prepayments are made

5. capital receipts and expenditure are not posted but only revenue items

LAYOUT OF INCOME AND EXPENDITURE ACCOUNT

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31ST DEC.19X9

# #

Expenditure income

Rent x subscription x

Printing x interest on investment x

Postage x entrance fees x

Depreciation x donation x

Honorarium x annual dinner x

Wages x letting of halls x

Stationery x rent received x

Meeting expenses x profit on bar x

Surplus of income over expenditure x interest on deposit x

Sales of ticket x

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Xx xx

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**SIMILARITIES BETWEEN RECEIPTS AND PAYMENTS AND INCOME AND EXPENDITURE**

1. Both accounts follow the principles of double entry

2. They are summaries of financial statements

3. Both are prepared by non-profit making concern

4. They are prepared to cover the same period

**DIFFERENCES BETWEEN RECEIPTS AND PAYMENTS AND INCOME AND EXPENDITURE**

RECEIPTS AND PAYMENTS INCOME AND EXPENDITURE

1. Real account Nominal

2. Only actual cash receipt and payments cash accruals and prepayments are

Are recorded included

3. No record of depreciate give effect to depreciation

4. Balance represent cash or bank overdraft balance represent surplus of income or expenditure

5. Another name for cash book adopted another name for profit and loss adopted by clubs

Adopted by clubs

6. Included capital and revenue items Only revenue items are recorded

7. receipts is debited and payments expenditure is debited and income is credited

Credited.

Illustration:From the following prepare:

a.An income and expenditure for the Western club for the year ended 31st Dec. 1999

b. A receipts and payments account

#

Subscription received for previous year 2000

“ “ current year 18000

Paid for:

Rent 5000

Transport 4000

Wages 6800

Supplies for refreshment 8500

Printing and stationery 3000

Repairs 1200

Salaries 10000

**Receipts from:**

**Donations 6000**

**Refreshment 12500**

**Ticket 1000**

**Cash in hand:**

**1st JAN 1800**

**31ST Dec. 2800**

**Subscription for current year due and unpaid 3000**

**Accounts due but unpaid:Repair 800**

**Salaries 2200**

DR Western club CR

INCOM AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31ST DEC.1999

# #

EXPENDITURE INCOME

Rent 5000 subscription(18000+2000-2000+3000) 12000

Transport 4000 donation 6000

Wages 6800 refreshment 12500

Supplies of refreshment 8500 tickets 1000

Printing and stationery 3000 excess of expenditure over income 1000

Repairs (1200+800) 2000

Salaries (10000+2200) 12200

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41500 41500

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receipts and payments account for the year ended 31st 1999

# #

Bal b/f 1800 rent 5000

Subscription (1998) 2000 transport 4000

“ (1999) 18000 wages 6800

Donations 6000 supplies of refreshment 8500

Refreshment 12500 printing and stationery 3000

Tickets 1000 repairs 1200

Salaries 10000

Bal c/d 2800

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41300 41300

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EVALUATION: Give 5 differences between receipts and payments and income and expenditure account

**ASSIGNMEN**T: From the following given below, make up the receipts and payments account for the Tiny Tots swimming club(TTSC) for the end of Dec this year:

Cash in hand: 1 January #245000

Receipts: subscriptions, #512000, donation, #822200 sale of swimming aids #235200 sales of refreshment #417200

Payments: Purchase of swimming aid #235200; purchase of refreshment; #280000, printing and stationery #19120 cleaning charges, #110000 cost of visits to other clubs #139600