Subject: Financial Accounting

Class: Senior Secondary School 1 (SS1)

Week: 5

Topic: Accounting Equation and Double Entry Principle

Lesson Objectives

By the end of this lesson, students should be able to:

1. State and apply the accounting equation.
2. Explain the double-entry principle with examples.
3. Identify and describe source documents used in accounting.
4. Understand the concept and purpose of subsidiary books.

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1. Accounting Equation

The **accounting equation** is the foundation of all accounting systems. It shows that a company's resources (assets) are financed by creditors (liabilities) and the owners (equity).

Basic Equation:

Assets=Liabilities+Owner’s Equity\text{Assets} = \text{Liabilities} + \text{Owner’s Equity}Assets=Liabilities+Owner’s Equity

This equation must always be balanced after every transaction.

Explanation of Terms:

- **Assets**: Things the business owns, like cash, buildings, vehicles.
- **Liabilities**: Debts or obligations the business owes to others, like bank loans or creditors.
- **Owner’s Equity**: The owner’s claim on the business, which includes capital and retained earnings.

Example:

A business starts with ₦100,000 from the owner.

Assets (Cash)=₦100,000Liabilities=₦0Owner’s Equity=₦100,000\text{Assets (Cash)} = ₦100,000 \text{Liabilities} = ₦0 \text{Owner’s Equity} = ₦100,000Assets (Cash)=₦100,000Liabilities=₦0Owner’s Equity=₦100,000

Now if the business takes a loan of ₦50,000 from a bank:

Assets=₦150,000(Cash)Liabilities=₦50,000Owner’s Equity=₦100,000\text{Assets} = ₦150,000 (Cash) \text{Liabilities} = ₦50,000 \text{Owner’s Equity} = ₦100,000Assets=₦150,000(Cash)Liabilities=₦50,000Owner’s Equity=₦100,000
Still: Assets = Liabilities + Owner’s Equity\text{Still: Assets = Liabilities + Owner’s Equity}Still: Assets = Liabilities + Owner’s Equity

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2. Double Entry Principle

This principle ensures that for every financial transaction, **two entries** are made:

- One **debit** entry
- One **credit** entry

This helps maintain the balance of the accounting equation.

Golden Rule:

For every debit, there must be a corresponding credit of equal amount.

Accounts Classification:

Account Type	Debit Increases	Credit Increases
Assets	✅ Yes	❌ No
Liabilities	❌ No	✅ Yes
Equity	❌ No	✅ Yes
Expenses	✅ Yes	❌ No
Revenue	❌ No	✅ Yes

Example 1:

Business buys office equipment worth ₦30,000 in cash.

- Debit: Office Equipment ₦30,000

- Credit: Cash ₦30,000

Example 2:

Customer pays ₦20,000 cash for services.

- Debit: Cash ₦20,000
- Credit: Service Income ₦20,000

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3. Source Documents

These are original documents used as proof of business transactions. They form the basis for recording entries in the books of accounts.

Common Source Documents:

Source Document	Purpose	Who Issues It
Invoice	Shows goods sold on credit	Seller
Receipt	Acknowledges cash received	Seller/Receiver
Cheque	Authorizes bank payment	Payer
Credit Note	Corrects overcharges	Seller
Debit Note	Requests reduction in amount	Buyer
Payment Voucher	Approves payment	Accountant
Cash Register Tape	Shows daily sales	Cashier/Shop

These documents are used to prepare the **books of original entry**.

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4. Introduction to Subsidiary Books

Subsidiary books are specialized books used to record specific types of transactions before posting to the ledger.

Types and Their Functions:

Book	**Purpose**
Sales Day Book	Credit sales of goods
Purchases Day Book	Credit purchases of goods
Sales Returns Book	Returns from customers
Purchases Returns Book	Returns to suppliers
Cash Book	Cash and bank transactions
Journal Proper	Irregular entries like depreciation, opening balances

These books make recording easier and reduce errors in the ledger.