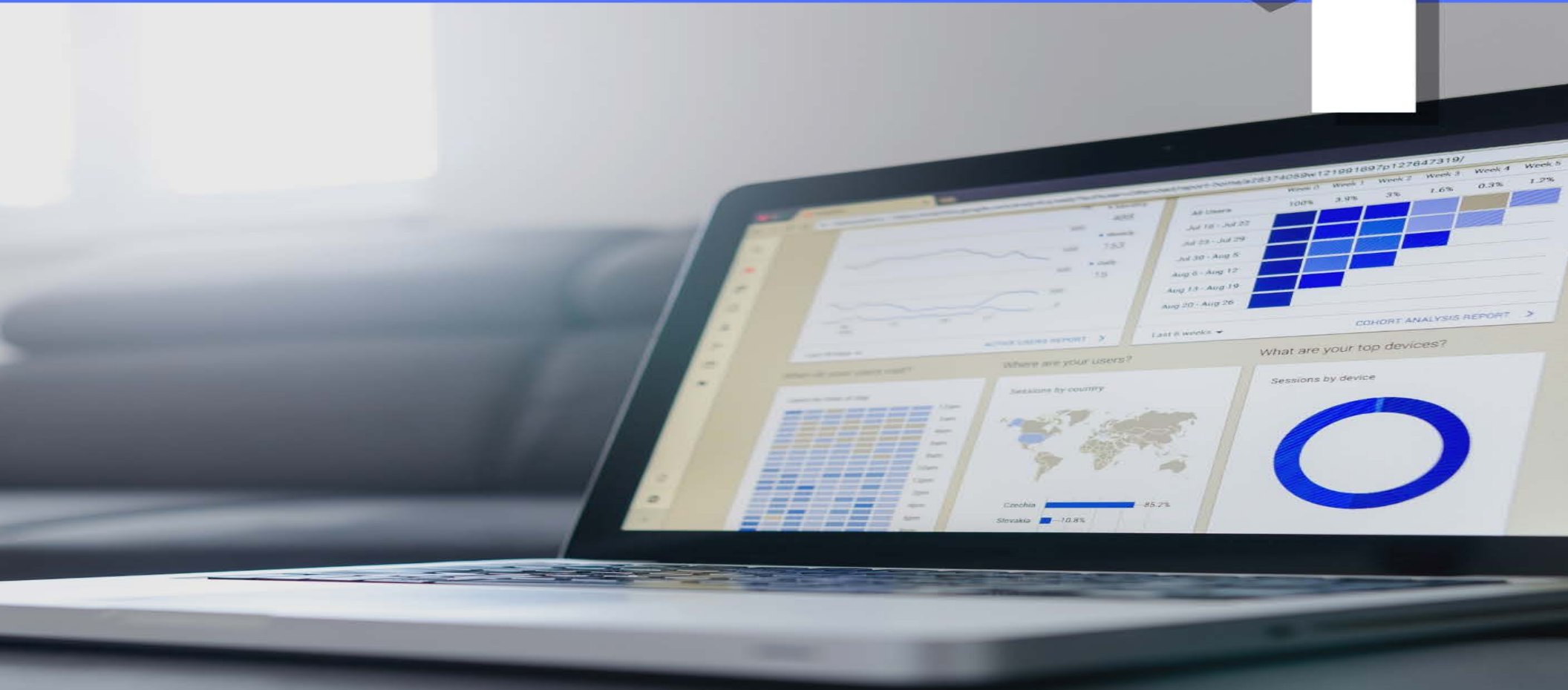
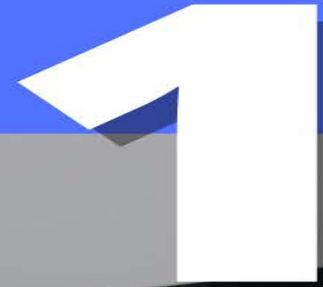


FINANCE & ACCOUNT

FOR
Senior Secondary School



EDUBASE

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SS 1
FINANCIAL ACCOUNTING
FIRST TERM

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Week 1

Book-Keeping

Meaning of book-keeping

It can be defined as the the system of recording transaction in business on a daily basis in appropriate book,it is an integral part of account. It can also be defined as the process of recording, selecting, classifying, interpreting and communicating financial data of an organization to enable users to make decision. Accounting involve measurement and reporting of organization profit and loss.

History of Accounting in Nigeria

The institutionalization of Accounting started in Britain, from where Accounting was imported to Nigeria. During the pre-independence period, in Nigeria, especially before the establishment of the Collages of Arts and Sciences (particularly the one in Ibadan), people who wanted to enroll into accounting profession had to be trained through

article ship. This meant that, they had to be attached as apprentices to those in the profession already. When the College of Arts and Sciences in Ibadan (now university of Ibadan) was established, it offered courses in accounting; students were prepared for the intermediate level of ACCA (Chartered Association of Certified Accountants), a British Accounting Body.

In 1960, the University of Nigeria Nsukka started offering courses in accounting, the Ahmadu Bello University, Zaria and the University of Lagos joined in offering accounting courses form 1962. Other Nigerian Universities (most of them) and many polytechnics follow suit in the later years. Together they produce large number of accounting graduates (B. Sc. And HND holders) year in year out!

In 1960, specifically on 17th November, some Nigerians who had some professional training in accounting from different parts of the world, got together and formed an association called Association of Nigerian Accountants. This was the first attempt at forming a national and indigenious accountancy professional body in Nigeria. It included people working in companies, industries, government offices, etc. The Association was formed with the view to provide and maintain a high standard of accounting in Nigeria.

The Association was granted official recognition by the Federal Government of Nigeria on 28th September 1965 with the name Institute of Chartered Accountants of Nigeria (ICAN), through an Act of parliament, Act No. 15 of 1965. ICAN was then inaugurated on 21st October 1965.

Importance of Accounting and book-keeping

The record shows income and expenditure

The record provides a means by which the finance of business are controlled

It helps to prevent fraudulent practices

It helps to determine the profitability of business concern

They are used for tax Assessment

It provide permanent record for all transaction

It can be use for decision making

The record also shown the asset and liability of the business.

Users of Accounting Information

Principal uses of accounting information are-

Managers'

Employee

The public

Investors

Government

Directors

Analyst

Career Opportunities in Book-Keeping and Accounting

The following are career prospects for people who studied Accounting-

Accountant

Accounting Assistant

Accounting Clerk

Accounting Manager

Accounts Payable Clerk

Accounts Receivable Clerk

Book-keeping

Budget Analyst

Certified Internal Auditor

Chief Financial Officer – CFO

Comptroller/Controller

Forensic Accounting

Government Accounting

Payroll Clerk

Staff Accountant

Tax Accountant

Benefits of Book-keeping and Accounting

The following are the benefit of Book-Keeping and Accounting-

It shows purchases and sales made within a given period

It provides a written record which is essential for the proper conduct of business

Good book keeping practices enables one to ascertain the profit or loss made during a trading period

The existence of reliable financial records helps in management decision -making

It facilitates reference making to past transaction

Limitation to Accounting Information

There is no information as to usefulness, size or quantity because accounting is expressed in monetary terms

Accounting information is historical in nature i.e. recording is after the event

Accounting Professional Bodies

Association of Financial and Management Accounts of Nigeria (AFMAN)

Association of National Accountants of Nigeria

Chartered Institute of Management Accountants of Nigeria

Institute of Certified Public Accountants of Nigeria (ICPAN)

Institute of Chartered Accountants of Nigeria

ASSESSMENT

Define Accounting

Define book-keeping

Give the benefits of book keeping and accounting

State the differences between book keeping and accounting

ANSWER

The process or work of keeping financial accounts.

It can be defined as the the system of recording transaction in business on a daily basis in appropriate book,it is an integral part of account.

It shows purchases and sales made within a given period.

It provides a written record which is essential for the proper conduct of business

Good book keeping practices enables one to ascertain the profit or loss made during a trading period

The existence of reliable financial records helps in management decision -making

4. Bookkeeping is mainly related to identifying, measuring, and recording, financial transactions while Accounting is the process of summarizing, interpreting, and communicating financial transactions which were classified in the ledger account. Financial statements are not prepared as a part of this process while in Accounting, Financial statements are prepared during the accounting process.

Week 2

Topic: Accounting concept and convention

Content

Meaning of Accounting concept

Major Accounting concept and convention

Meaning of accounting concept

Accounting concept and conventions are different bodies of principle which have been developed over the years to regulate the practice of accounting profession. So the preparation of financial are guided by content and objective principle. These rules and regulation helps the accountant to perform their roles of providing relevant information to people, they have been accepted and issue form of accounting standards

Major accounting concept and conventions

Entity concept

Going concern concept

Periodicity
Prudence
Objectivity
Materiality concept
Consistency concept
Realization concept
Dual concept
Match concept

Entity concept: entity concept states that business organization should be treated as a separate entity from its owner. That is, if the money in the business is to be paid to the owner it should not be regard as expenses to the business but as drawings for the owners

Going concern concept: this concept assumes that the business will continue to operate for an indefinite long period of time.

Dual concept: ensure the mathematical accuracy of all records.it state that there are the aspect of accounting one debit and one credit. Hence the double entry rule is applicable debit the receive and credit the giver.

Periodicity concept: it is an acceptable norm within the business community and users of financial statements that financial performance of companies should be divided into accounting periods usually one year and that changes should be measured over these periods.

Prudence: this principle states that the accountant should not anticipate income and will normally take the figure that understate rather than overstate the profit.

Objectivity: this concept means that an objective picture of the company should be provided so that accounting statement are not influence by the personal bias of the person preparing it.

Materiality: this principle state that only item of material values are recorded. The accountant may not record item which may not have significant effect ion the statement.

Consistency concept: this is a convention which states that accounting treatment of similar items should be continuously applied from one accounting period to the next in a consistency manner.

Realization concept: income is considered or regarded to have been earned when goods are dispatched to the customer and he incurs liability for them

Match concept: this concept states that before profit can be calculated in accounting the expenses and income most be matched together to determine the difference which may be profit or loss.

ASSESSMENT.

What is the meaning of accounting concept?

List 10 major accounting concepts and conventions.

Explain 10 major accounting concepts and conventions.

ANSWER

Accounting concept and conventions are different bodies of principle which have been developed over the years to regulate the practice of accounting profession.

Entity concept
Going concern concept
Periodicity

Prudence
Objectivity
Materiality concept
Consistency concept
Realization concept
Dual concept
Match concept

3.

Entity concept: entity concept states that business organization should be treated as a separate entity from its owner. That is, if the money in the business is to be paid to the owner it should not be regarded as expenses to the business but as drawings for the owners.

Going concern concept: this concept assumes that the business will continue to operate for an indefinite long period of time.

Dual concept: ensure the mathematical accuracy of all records. It states that there are the aspects of accounting: one debit and one credit.

Hence the double entry rule is applicable: debit the receiver and credit the giver.

Periodicity concept: it is an acceptable norm within the business community and users of financial statements that financial performance of companies should be divided into accounting periods usually one year and that changes should be measured over these periods.

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Match concept: this concept states that before profit can be calculated in accounting the expenses and income must be matched together to determine the difference which may be profit or loss.

Week 3

Double Entry

Meaning of Double Entry

Double entry system of booking is the system of keeping account which takes the advantage of two fold aspect of every transaction, whereby one account that receives is debited and another account which gives is credited. The system ensures that both parties i.e the giver and the receive are brought into record.

Rules of Double Entry

For every credit entry in an account there must be a corresponding debit entry in another account.

For every debit entry in an account there must be a corresponding credit entry

Advantages of Double Entry

Ensures control of the business :the day to day control of the business is made easier because the information in the account cover all aspects of its affairs.

Double entry helps to keep and complete record of each transaction

Preparation of final account: it is east to prepare the final account which help in assessing the present position of the business and how it has changed

Helps to check arithmetic accuracy:it is a check on the arithmetical accuracy of the clerical works because every credit have a corresponding debit entry.

Importance of Double Entry

It shows the financial position.

It reveals the profit or loss.

Useful for decision making.

Application of the Principles of Double Entry

Every transaction involve two account

Receiving account or receiver

Giving account or giver.

One account is debited and the other is credited.

Classifications of Account

There are two division of account. They are Personal account and impersonal account

Personal account: This is a ledger account that deals with persons, corporate entity with whom the business has transaction relates to corporate entity. E.g Omololu account.

Impersonal account: These are accounts for properties, item of expenditures and income. It can be divided into two; namely:

Nominal account: this is the account which item like income and expenditure are recorded ,it relates to gains, loss, income and expenses, examples are rent account,discounts,and sales etc.

Real accounts: these are account of tangible assets, physical assets or properties e.g motor vehicle, land cash, plant. etc.

Rules of Double Entry

personal account: Dr receiver and Cr supplier

real account: Dr what comes in and Cr what goes out.

Nominal account: Dr Expenses or losses and Cr incomes or gains.

ASSESSMENT.

What is the meaning of double entry?

What are the rules of double entry?

What are the advantages of double entry?

What is the importance of double entry?

What are the applications of the principles of double entry?

ANSWER

Double entry system of booking is the system of keeping account which takes the advantage of two fold aspect of every transaction, whereby one account that receives is debited and another account which gives is credited. the system ensures that both parties i.e the giver and the receive are brought into record.

A. personal account: Dr Receiver and Cr supplier B. Real account: Dr what comes in and Cr what goes out. C. Nominal account: Dr Expenses or losses and Cr incomes or gains.

Ensures control of the business: the day to day control of the business is made easier because the information in the account cover all aspects of its affairs. B. Double entry helps to keep and complete record of each transaction C. Preparation of final account: it is easy to prepare the final account which help in assessing the present position of the business and how it has changed

It shows the financial position B. It reveals the profit or loss. C. Useful for decision making.

A. Every transaction involve two account B. Receiving account or receiver C. Giving account or giver. D. One account is debited and the other is credited.

Week 4

Topic: Source Document and Subsidiary Books

Content

Meaning of source document

Types of document

Meaning of subsidiary book

Reasons for subsidiary book

Classification of subsidiary Books

Source document

All entries that will pass through the subsidiary book must be supported by document providing details of information of the preparation of the books.

The source document provide detail information for the preparation of the books. The documents are:

Invoice: This sets out the full details of goods sent by the suppliers to the buyer stating the quantity, price, discount given and terms of payment.

Credit note: This is the document sent by the seller to the customers for reduction in the amount owned by him. It arises because some goods are damaged or not supply as ordered. To avoid confusion, it must be printed in red. It can be viewed from two perspectives. (I) credit note received from suppliers: If the credit note relates to goods returned to the suppliers, it will be entered in the returns outwards book and then be debited to the suppliers account. (II) Credit note issued to customers: This will be posted to the returns inwards book and then credited to the customer's account

Debit note: This is the document sent by the seller to the buyer to correct an undercharged or when goods are not charged to the invoice

Petty cash voucher: This covers payments credited to the petty cash book

Statement of Account: This is document sent by the seller to the buyer at regular intervals, usually showing credits and debits to the account and the balance due

Receipts

Subsidiary Books

Meaning of Subsidiary books

The subsidiary books are the books of original or prime entry in which events and transaction are initially recorded before being posted or transferred to the ledgers. The recording of transaction in the books of original entry is not in a double entry system

Reasons for subsidiary books

To know the total sales and purchases

They are used as books to make first entry of transactions

To keep tract of the people to whom money is owed and of the people who owed money

Division of subsidiary books

Subsidiary books can be divided into six books, which will be expatiated separately to show their nature.

Sales day book

Purchases day book

Sales returns or returns inwards journal

Purchase returns or returns outward day book or returns outwards journal
General journal or Principal journal or journal proper
Cash book

Sales day book: is a book of original entry in which credit sales are recorded before posting to the ledger cash transaction must not be recorded equally sales of fixed asset must be excluded from the sales day book the seller prospect the sales journal from sales invoice.
Purchase day book: this is used to record goods bought on credit from the suppliers the addition of entries been posted to the debit side of the purchase account which is credited to personal ledger of supplier it has column for date,particular,folio,and total supplier it has column for date particular,folio and total
Return outward journal is the book for recording goods returned to suppliers by the business,the transaction enter in this book are taken from the credit note sent by the supplier of goods can be returned as a result of damaged.it has the same features with other journal.
Return inward journal is used to record goods previously sold but later return by customer to the business goods may be return as a result of inferior quality or as a result of damage in transit the transaction recorded are taken from credit note issued to custom
Format of a typical journal

<i>date</i>	<i>Particulars</i>	<i>Folio</i>	<i>details</i>	<i>Total</i>
-------------	--------------------	--------------	----------------	--------------

Uses of different part of journal

Date this is used to record the date in which the transaction takes place.
Particulars;this column shows the details of transaction which had taken place.
Folio;it shows the page of a ledger of which a transaction are posted.
Amount;the value of transaction will be shown in this column.

Uses of journal

Recording of disposal of fixed assets
Correction of errors
Double entry transactions
For recording opening entries
Transfer of item between account
For recording transaction that do not occur regularly
Purchases of asset on credit
For recording acquisition of new business
For recording closing balance of entries

ASSESSMENT.

List the various source documents that you know.
What are the functions of (2) above?
What is the meaning of subsidiary books?
List and explain the division of subsidiary books.

ANSWER

Invoice
Credit note
Debit note
Petty cash voucher

2.

Invoice: This sets out the full details of goods sent by the suppliers to the buyer stating the quantity, price, discount given and terms of payment.

Credit note: This is the document sent by the seller to the customers for reduction in the amount owned by him. It arises because some goods are damaged or not supply as ordered. To avoid confusion, it must be printed in red. It can be viewed from two perspectives. (I) credit note received from suppliers: If the credit note relates to goods returned to the suppliers, it will be entered in the returns outwards book and then be debited to the suppliers account. (II) Credit note issued to customers: This will be posted to the returns inwards book and then credited to the customers account

Debit note: This is the document sent by the seller to the buyer to correct an undercharged or when goods are not charged to the invoice

Petty cash voucher: This covers payments credited to the petty cash book

3. The subsidiary books are the books of original or prime entry in which events and transaction are initially recorded before being posted or transferred to the ledgers. The recording of transaction in the books of original entry is not in a double entry system.

4.

Sales day book: is a book of original entry in which credit sales are recorded before posting to the ledger cash transaction most not be recorded equally sales of fixed asset must be excluded from the sales day book the seller prospect the sales journal from sales invoice.

Purchase day book: this is used to record goods bought on credit from the suppliers the addition of entries been posted to the debit side of the purchase account which is credited to personal ledger of supplier it has column for date,particular,folio,and total supplier it has column for date particular,folio and total

Return outward journal is the book for recording goods returned to suppliers by the business,the transaction enter in this book are taken from the credit note sent by the supplier of goods can be returned as a result of damaged.it has the same features with other journal.

Return inward journal is used to record goods previously sold but later return by customer to the business goods may be return as a result of inferior quality or as a result of damage in transit the transaction recorded are taken from credit note issued to custom

Week 5

Subsidiary Books

What are Subsidiary Books?

Purchase Day Book: this is used to record goods bought on credit from the suppliers the addition of entries been posted to the debit side of the purchase account which is credited to personal ledger of supplier it has column for date,particular,folio,and total supplier it has column for date particular,folio and total.

PURCHASE BOOK

Date	Invoice No.	Name of the Supplier (Account to be credited)	L.F.	Details ₹	Total Amount ₹
		Purchase A/c		Dr.	

Return Outward Journal: This is the book for recording goods returned to suppliers by the business,the transaction enter in this book are taken from the credit note sent by the supplier of goods can be returned as a result of damaged.it has the same features with other journal.

Return Inward journal is used to record goods previously sold but later return by customer to the business goods may be return as a result of inferior quality or as a result of damage in transit the transaction recorded are taken from credit note issued to custom

ASSESSMENT.

Explain the components of a sales book.

What are the major reasons of sales returns?

ANSWER

A. Date B. Invoice C. Name of customers D. Total Amount

ILLUSTRATION 2. (Sales Book) As per the Rough Book, following transactions of M/s Jain Fashion Wears are given. You are required to make out the Sales Book. 2011

- Feb. 1 Sold to M/s Om & Sons on credit as per Invoice No. 182
72 Kurtas @ ₹ 175 each.
45 Trousers @ ₹ 225 each.
Less: Trade Discount @ 5%.
- Feb. 5 Sold to Deepti & Co. as per Invoice No. 282
50 Long Shirts @ ₹ 185 each.
65 Jeans @ ₹ 235 each.
- Feb. 18 Sold to M/s Gupta & Sons for Cash as per Invoice No. 173
20 Ladies suits @ ₹ 115 each.
30 T-Shirts @ ₹ 405 each.
Less: Trade Discount @ 5%.
- Feb. 20 Sold 5 Chairs @ ₹ 50 each to M/s Kapil & Co. as per Invoice No. 381

SOLUTION

**Books of M/s Jain Fashion Wears
SALES BOOK**

Date	Invoice No.	Particulars	LF	Details ₹	Total Amount ₹
2011 Feb. 1	182	M/s Om & Sons. 72 Kurtas @ ₹ 175 each. 45 Trousers @ ₹ 225 each.		12,600 10,125 22,725	21,589
Feb. 5	282	Less: Trade Discount @ 5% M/s Deepti & Co. 50 Long Shirts @ ₹ 185 each. 65 Jeans @ ₹ 235 each.		1,136 9,250 15,275	
Feb 28		Sales A/c Cr.			46,114

How to work Exercises on Return Inward Journal and post it the appropriate Ledger Booklets

Occasionally, the merchandise sold to customers are returned by them due to one or more reasons. In accounting, such returned merchandise are termed as sales returns or returns inwards. When merchandise sold for cash are returned by customers, “sales returns and allowances account” is debited and “accounts payable account” is credited. This entry is made when an intimation for merchandise being returned is received from a customer. After it, another journal entry is required in which “accounts payable account” is debited and “cash account” is credited. This journal entry is made when cash refund is given to the customer for the goods returned by him. These two journal entries complete the accounting process required in the books of seller for the return of merchandise.

The major reasons of sales returns are-

defective merchandise have been shipped to customers.

excessive quantity of merchandise has been shipped to a customer.

low quality merchandise have been shipped to customers.

merchandise shipped to customers do not match the order specification.

Example

On January 1, 2016, Modern Trading Company sold merchandise for \$2,500 to Small Retailers. The Small Retailers received the delivery on the same day and found that the merchandise costing \$500 were not according to specification. These merchandise were returned to Modern Trading Company on the same day. The Modern Trading Company granted a cash refund of \$500 to Small Retailers on January 2, 2016.

Required

In the books of seller (Modern Trading Company), make a journal entry:

at the time of sale of merchandise for \$2,500

at the time of return of merchandise costing \$500.

at the time of cash refund of \$500.

Solution

Return of merchandise sold on account

GENERAL JOURNAL

Date	Description	PR	Amount (\$)	
			Dr.	Cr.
2016				
Jan. 01	Cash		2,500	
	Sales			2,500
Jan. 01	Sales returns and allowances		500	
	Accounts payable			500
Jan. 02	Accounts payable		500	
	Cash			500

ASSESSMENT.

What is a ledger?

List the importance of a ledger.

What are the rules of ledger account to be debited and credited?

ANSWER

A book or other collection of financial accounts.

a. Ledger account keeps a permanent record of all financial transactions in a classified manner.

b. Ledger account shows detailed financial information of a business regarding debtors and creditors, assets, and incomes and expenses.

c. Ledger account helps to prepare a trial balance in order to check the arithmetical accuracy of the recording of the financial transactions of the business.

d. Ledger account helps to prepare profit and loss account so as to ascertain the profit or loss of the business.

e. Ledger account helps to prepare the balance sheet with a view to show the financial position of the business.

a. Rule 1: All accounts that normally contain a debit balance will increase in amount when a debit (left column) is added to them, and reduced when a credit (right column) is added to them. The types of accounts to which this rule applies are expenses, assets, and dividends. b. Rule 2: All accounts that normally contain a credit balance will increase in amount when a credit (right column) is added to them, and reduced when a debit (left column) is added to them. The types of accounts to which this rule applies are liabilities, revenues, and equity. c. Rule 3: Contra accounts reduce the balances of the accounts with which they are paired. This means that (for example) a contra account paired with an asset account behaves as though it were a liability account. d. Rule 4: The total amount of debits must equal the total amount of credits in a transaction. Otherwise, a transaction is said to be unbalanced, and the financial statements from which a transaction is constructed will be inherently incorrect. An accounting software package will flag any journal entries that are unbalanced.

week 7

Ledgers

What is a Ledger?

The ledger is the final destination of all transaction in the subsidiary books. It is the most important book of account. The ledger can be defined as a book which contains in a classified and summarized form, a permanent record of all transactions. It is used for the double entry book keeping. It can also be defined as a collection of an entire group of similar accounts in double-entry bookkeeping. Also called book of final entry, a ledger records classified and summarized financial information from journals (the 'books of first entry') as debits and credits, and shows their current balances. In manual accounting systems, a ledger is usually a loose leaf binder with a separate page for each ledger account. In computerized systems, it consists of interlinked digital files, but follows the same accounting principles as the manual system.

Purposes/Importance of/Uses of a Ledger

Most accounting information is numerical and, of course, computers excel at dealing with that type of data. Computerised accounting systems should offer the following advantages over manual systems:

faster provision of information

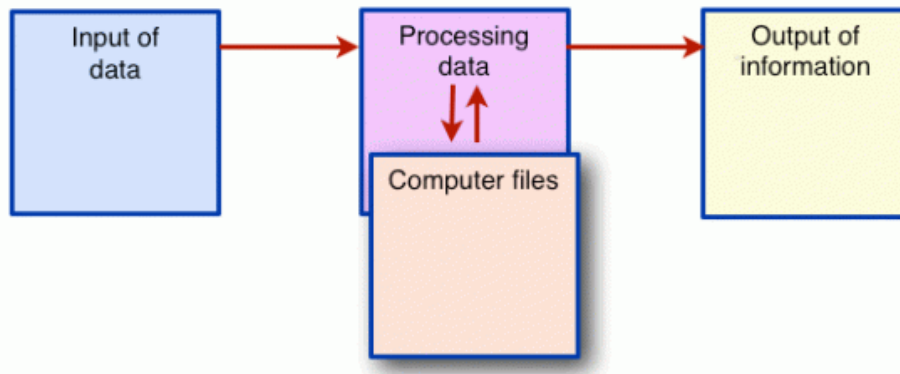
provision of information that would not be easily available without a computerised accounting system

once the system is set up, cheaper information

more accurate information because arithmetic and certain other errors will be eliminated.

Of course sometimes things go wrong and systems break down or incorrect information is produced. In particular, if incorrect data is entered, incorrect information will be produced (garbage-in, garbage-out, GIGO).

A computerised accounting system can be represented as:



For example:

Input: Orders are input over the internet

Processing: Prices are accessed on a product file and the order value worked out.

The customers' account in the receivables ledger (now held on a computer file) is debited.

Inventory records (now on a computer file) are updated.

Output: An invoice is printed for the customer.

Despatch information is displayed on a screen in the warehouse to show the goods that have to be sent.

There are several important pieces of terminology that you should know:

File: A group of similar records.

So, a receivables ledger file contains records for each customer.

Record: Each record refers to a single entity.

So, a customer record will hold all the information about a customer; a product record will hold all the information about a product. Records are collected together into files.

Field: (Also known as an attribute.) Each field holds a separate piece of data relating to a record. Thus a customer record would have fields for: name, address, telephone number, credit limit, invoices outstanding, etc.

Key field: The field that uniquely identifies a record.

For example, a part code or an employee number.

Character: Characters make up fields and are typically a - z, 0 - 9.

Often a character holds no meaning on its own, but occasionally a character will be the whole field. For example M or F for male or female.

Rules for Ledgers Accounts to be debited and Accounts to be credited

Rule 1: All accounts that normally contain a debit balance will increase in amount when a debit (left column) is added to them, and reduced when a credit (right column) is added to them. The types of accounts to which this rule applies are expenses, assets, and dividends.

Rule 2: All accounts that normally contain a credit balance will increase in amount when a credit (right column) is added to them, and reduced when a debit (left column) is added to them. The types of accounts to which this rule applies are liabilities, revenues, and equity.

Rule 3: Contra accounts reduce the balances of the accounts with which they are paired. This means that (for example) a contra account paired with an asset account behaves as though it were a liability account.

Rule 4: The total amount of debits must equal the total amount of credits in a transaction. Otherwise, a transaction is said to be unbalanced, and the financial statements from which a transaction is constructed will be inherently incorrect. An accounting software package will flag any journal entries that are unbalanced.

Classification of Accounts into Personal, Interpersonal, Real and Nominal

1. Personal Account: This is an account of a person or account relating to a person with which a business establishment has business dealings. This type of account can belong to an individual, a partnering firm, company, club, institution, local authority, association, state or central government. From the view point of law, a person classified as (a) natural or living person or (b) legal or artificial person. Because a legal person does not have life, body and soul, but law recognizes it as a person because all business transactions are done in its name.

2. Impersonal Account: All accounts other than personal accounts are known as impersonal accounts. In other word all accounts which are not personal accounts are grouped under impersonal account. For instance- cash account, rent account, wages account, etc. Impersonal accounts are classified as (a) Real A/c and (b) Nominal A/c.

3. Real Account: This is an account of property or any thing owned and possessed by a business. It is related to things like the assets of the business. This account consists of assets and properties which can be seen, touched felt, measured, purchased and sold.

Week 8

One Cash Cash Book

What is a One Column Cash Book?

It is a cash book in which only and only cash transactions are recorded. By single column we mean “one amount column” on each side of the Cash Book. One amount column on the debit side in which inflow of cash (cash received) is recorded and one amount column on the credit side in which outflow of cash (cash paid) is recorded. It is generally maintained by such business concerns which do not have bank accounts. (small business concerns). In other words, a one column cash book records only cash receipts and payments. It has only one money column on each of the debit and credit sides of the cash book. All the cash receipts are entered on the debit side and the cash payments on the credit side.

It is helpful and important to bear the following points in mind-

The pages of the cash book are vertically divided into two equal parts. The left hand side is for recording receipts and the right hand side is for recording payments.

Being the cash book with the balance brought forward from the preceding period or with what we start. It appears at the top of the left side as “To Balance” or “To Capital” in case of a new business.

Record the transactions in order of date.

If any amount of cash is received on an account, the name of that account is entered in the particulars column by the word “To” on the left hand side of the cash book.

If any amount is paid on account, the name of the account is written in the particulars column by the word “By” on the right hand side of the cash book.

It should be balanced at the end of a given period.

POSTING

The balance at the beginning of the period is not posted but other entries appearing on the debit side of the cash book are posted to the credit of the respective accounts in the ledger, and the entries appearing on the credit side of the cash book are posted to the debit of the proper accounts in the ledger.

FORMAT OF THE SINGLE COLUMN CASH BOOK

Following is the format of the single column cash book:

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
------	-------------	------	--------	------	-------------	------	--------

--	--	--	--	--	--	--	--

EXAMPLE

Write the following transactions in the simple cash book and post into the ledger

1991

Jan. 1	Cash in hand	15,000
" 6	Purchased goods for cash	2,000
" 16	Received from Akbar	3,000
" 18	Paid to Babar	1,000
" 20	Cash sales	4,000
" 25	Paid for stationary	60
" 30	Paid for salaries	1,000
" 31	Purchased office furniture	2,000

SOLUTION

Cash Book

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
1991							
Jan. 1	To Balance b/d		15,000	Jan. 6	By Purchases a/c		2,000
16	To Akbar		3,000	18	By Babar		1,000
20	To sales a/c		4,000	25	By stationary		60
				30	By Salaries a/c		1,000
				31	By Furniture a/c		2,000
					By Balance c/d		15,940
			22,000				22,000
			15,940				
	To Balance b/d						

ASSESSMENT

What is One column cash book?

The pages of the cash book are vertically divided into___equal parts.

If any amount is paid on account, the name of the account is written in the particulars column by the word “By” on the___side of the cash book.

ANSWER

It is a cash book in which only and only cash transactions are recorded.

Two

Right hand

Week 9

Double Column Cash Book

What is a Double Column Cash Book?

A Double Column Cash Book typically consists of two separate columns on the debit side as well as credit side for recording cash and discount. In many concerns it is customary for the trader to allow or to receive small allowance off or against the dues. These allowances are made for prompt settlement of accounts. In certain business almost all receipts or payments are accompanied by such discounts and in order to avoid unnecessary postings separate columns in the cash book are introduced to record the discounts received or allowed. These discount columns are memorandum columns only. They do not form the discount account. The discount column on the debit side of the cash book will record discounts allowed and that on the credit side discounts received.

Debit Side						Credit Side					
Date	Particulars	V.N.	L.F.	Discount	Cash	Date	Particulars	V.N.	L.F.	Discount	Cash
1991	To Balance			10	2,000	1991	By Baratunde &			15	500
Jan.1	b/d			15	200	Jan.5	Sons				300
" 7	To Oyewo &				1,000	" 20	By purchase a/c				300
" 12	Co.				500	" 27	By Hassan&Sons				100
" 25	To Sales a/c					" 28	By Furniture a/c				100
1991	To Tunde To					" 31	By Rent a/c				2,400
Feb1	Balance b/d			25	3,700		By Balance c/d			15	3,700
					2,400						

Bank Transactions

In accounting, when a single transaction affects both cash and a bank column with the same amount, it is known as *Contra Transaction*. These type of transactions are usually indicated by the contra sign 'C' in the 'Ledger Folio' column against both sides of the cash book. Please note that 'Contra' is a Latin word which means 'against'. By indicating 'C' against both sides of the cash book under the 'L.F.' column, double entry aspect in respect of that

transaction is completed and no further posting to ledger is required. Contra Transactions are best demonstrated by bank transactions such as deposition of money in the bank, withdrawal of money from bank for official use, deposition of check for office use etc.

An amount deposited in bank for example is recorded on the debit (receipt) side of bank column showing increase in bank and credit (payment) side under the cash column showing decrease in cash. When cash is withdrawn from the bank for business purpose, the transaction is recorded on the debit (receipts) side under the cash column showing increase in cash and credit (payment) side under the bank column showing decrease in bank. From the above, it can be concluded that under the contra transactions both sides of the cash book are affected but under different columns.

Example

On 17-01-2016, a business enterprise pays N5,000 into bank.
This transaction shall be recorded in the cash book as follows-

CASH BOOK
(Double Column-Cash and Bank)

Dr.					Cr.				
Date	Particulars	L.F.	Cash ₹	Bank ₹	Date	Particulars	L.F.	Cash ₹	Bank ₹
17.1.08	To Cash A/c	C		5,000	17.1.08	By Bank A/c	C	5,000	

Example

On 18-01-2008, a business enterprise draws a cheque of N2,000 for office use.
This transaction shall be recorded in the cash book as follows-

CASH BOOK
(Double Column-Cash and Bank)

Dr.					Cr.				
Date	Particulars	L.F.	Cash ₹	Bank ₹	Date	Particulars	L.F.	Cash ₹	Bank ₹
18.1.08	To Bank A/c	C	2,000		18.1.08	By Cash A/c	C		2,000

Example

A cheque received may be deposited into bank on the same day or on another day. The amount is recorded in the bank column of cash book on the receipts side in case the cheque is deposited on the same day.

On 21-01-2008, a business enterprise receives a cheque of N2,500 from Rahim and deposits the same into bank on the same day.

This transaction shall be recorded in the cash book as follows-

CASH BOOK
(Double Column-Cash and Bank)

Dr.					Cr.				
Date	Particulars	L.F.	Cash ₹	Bank ₹	Date	Particulars	L.F.	Cash ₹	Bank ₹
21.1.08	To Rahim's A/c			2,500					

Example

It is treated as cash received on the date of receipt and recorded in the cash column on receipts side. When the cheque is deposited the entry for deposit will be passed on the day of depositing the cheque into bank. The amount will be recorded on the receipts side in bank column and on the payments side in the cash column. This will become contra entry and should be indicated by 'C' in the L.F columns of the cash book.

On 23-01-2008, a business enterprise receives a cheque of N1,000 from Satish and deposits the same into bank on 25-01-2008.

This transaction shall be recorded in the cash book as under:

CASH BOOK
(Double Column-Cash and Bank)

Dr.					Cr.				
Date	Particulars	L.F.	Cash ₹	Bank ₹	Date	Particulars	L.F.	Cash ₹	Bank ₹
23.1.08	To Satish's A/c		1,000		25.1.08	By Bank A/c	C	1,000	
25.1.08	To Cash A/c	C		1,000					

Posting and Balancing of Cash Book

Cash account and Bank account not have not been opened in Ledger

For posting in Ledger, it will be very helpful to see the two columns on the debit side and credit side of the Cash Book first i.e. Particulars Column and L.F Column. On the debit side, in Particulars Column, the names of concerned accounts, (accounts which are credited when Cash A/C or Bank A/C are debited) are given and in L.F Column, the page numbers on which these accounts are opened in Ledger are given. The concerned accounts on the debit side in Particulars Column are Sales A/c, Babar A/c, S. Rashid A/c, Arshad Khan A/c and Interest A/c and on the credit side M. Arshad A/c, Drawing A/c, Purchase A/c, Shakeel A/c, Arshad Khan A/c, Bank Charges A/c and Salary A/c.

Rule For Posting

On credit side: of the concerned accounts in Particulars Column on the debit side of the Cash Book.

On debit side: of the concerned accounts in Particulars Column on the credit side of the Cash Book.

Sales A/C (Folio 5)

			3.1.2005	Cash A/C	40,000
			3.1.2005	Cash A/C	33,000

Babar A/C (Folio 9)

			6.1.2005	Cash A/C	8,000
--	--	--	----------	----------	-------

S. Rashid A/C (Folio 15)

			15.1.2005	Cash A/C	10,000
--	--	--	-----------	----------	--------

Interest A/C (Folio 19)

			2.1.2005	Bank A/C	1,400
--	--	--	----------	----------	-------

Arshad Khan A/C (Folio 17)

		36,000	17.1.2005	Bank A/C	
			19.1.2005	Bank A/C	36,000

M. Arshad Khan A/C (Folio 7)

		14,000	4.1.2005		
--	--	--------	----------	--	--

Drawings A/C (Folio 11)

11.1.2005		24,000			
Purchase A/C (Folio 10)					
12.1.2005	Cash A/C	57,000			
Shakeel A/C (Folio 16)					
16.1.2005	Cash A/C	10,000			
Bank Charges A/C (Folio 20)					
27.1.2005	Bank A/C	700			
Sales A/C (Folio 21)					
31.1.2005	Bank A/C	14,000			

ASSESSMENT

What is a double column cash book?

In accounting, when a single transaction affects both cash and a bank column with the same amount, it is known as__

ANSWER

A Double Column Cash Book typically consists of two separate columns on the debit side as well as credit side for recording cash and discount. In many concerns it is customary for the trader to allow or to receive small allowance off or against the dues.

Contra Transaction

SS 1

FINANCIAL ACCOUNTING

SECOND TERM

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Week 1

Discounts

What are Discounts?

Discount are allowances or concessions in price. Discounts can also be seen as deductions from the face amount of invoices which are typically made in advance of the actual payments. The opposite of discount is premium, and it is given to customers with the intention of inducing or luring them to place orders and pay later. Please bear in mind that discounts can refer to deductions in price. The seller deducts the discount from the gross or total price, and the buyer is supposed to pay the net amount.

Types of Discounts

1. Cash Discount: Cash Discount is an allowance or concession given by the seller to the buyer. This discount is offered to encourage the buyer for quick payment or settlement. It is allowed for immediate payment of cash or payment within a short period. The cash discount is normally shown in the quotation and invoice. It is deductible from the total price and the buyer is requested to pay only to the net amount. Cash Discount is usually stated in the percentage form.
2. Trade Discount: Trade Discount is a reduction in the catalogue price of the goods allowed only if the quantity ordered by the buyer is quite large. Its purpose is to encourage the buyer to make bulk purchases. It is allowed on cash as well as credit sales. The trade discount is not shown in the books of account. The trade discount is calculated as some percentage of the catalogue price. It varies according to the quantity of order.

Reasons for granting Discounts

Increased Traffic Offering discounts for a limited time will attract customers into your store and most likely draw them into buying these items right away. Make sure to advertise your sale clearly, emphasizing the discount rates you will be offering and the specific period that your items will be on sale. Also anticipate the increased traffic and schedule more staff in your store during the discount period and ensure great customer service.

Increased Sales Increased traffic usually comes with increased sales. Drawing customers inside your store and influencing them to buy is not only confined to items on sale but also to regular-priced items. Shoppers are likely to walk around your store and see other items that may not be discounted but are willing to buy those because they have already saved on other items on sale.

Sales Targets Are Met Most businesses have weekly, monthly, quarterly, and yearly sales targets. Given the seasonal fluctuations in consumer buying behavior, you can curb lean seasons by offering discounts. This way, you are able to meet your goals within every period regardless of your forecasts show.

Stronger Client Relationships Giving your customers great value for good quality products can greatly improve their loyalty to your store. This is especially true for first time buyers who were influenced to try your products because of your sale offer. Once consumers have tested your products, this can lead to repeat business and also generate positive word of mouth.

Monetized Inventory Discounting items allows you to dispose of old inventory and even items that you don't plan on selling anymore. Place these items in front of your store to make them more visible to your customers and offer them at a bigger discount. Providing a

short term incentive to your customers will not hurt your bottom line. In fact, these occasional discounts can help strengthen your customer loyalty and widen your market.

How to calculate Discounts

1. Convert the Percentage Discount to a Decimal: To do this, think of the percent number with a decimal to the right of the last digit. Move the decimal point two places to the left to get the converted decimal. You can also use the sign on a calculator. For example, you might want to calculate the sale price of a pair of shoes that is regularly N69.95. If the shoes are 25% off, you need to convert 25% to a decimal by thinking { $25\%=25.00\%=.25$ }.
2. Multiply the Original Price by the Decimal: You can multiply the decimal by hand, or use a calculator. This will tell you the discount, or what value is being taken off the original price. For example, to find the 25% discount on a pair of N69.95 shoes, you would calculate { $69.95 \times .25 = 17.49$ }.
3. Subtract the Discount from the Original Price: To subtract decimals, line up the decimal points and subtract as you would whole numbers. Be careful to drop the decimal point down into your **ANSWER**. You can also use a calculator. The difference will be the sale price of the item. For example, if a pair of shoes that are originally \$69.95 have a discount of \$17.49, calculate the sale price by subtracting: { $69.95 - 17.49 = 52.46$ }. So, the shoes are on sale for N52.46.

Discount Allowed and Discount Received

When the seller allows a discount, it is recorded as a reduction of revenues, and is typically a debit to a *contra revenue account*. For example, the seller allows a N50 discount from the billed price of N1,000 in services that it has provided to a customer. The entry to record the receipt of cash from the customer is a debit of N950 to the cash account, a debit of N50 to the sales discount contra revenue account, and a N1,000 credit to the accounts receivable account. Thus, the net effect of the transaction is to reduce the amount of gross sales.

When the buyer receives a discount, this is recorded as a reduction in the expense (or asset) associated with the purchase, or in a separate account that tracks discounts. To continue with the last example from the perspective of the buyer, the buyer debits the accounts payable account for N1,000, credits the cash account for N950, and credits the early payment discounts account for N50. In many cases, it is easier not to recognize a discount received, if the resulting information is not used.

Cash, Trade, Quantity and Seasonal Discounts

Quantity Discounts: The basis for quantity discounts lies in the general notion of economies of scale. If a seller of a product can sell more of a product to a given buyer, various cost savings may occur. It can produce more and thus reduce unit costs of production. Distribution and marketing expenses are also reduced. Such a discount is granted for volume purchases (measured in rupees or units),

either in a single purchase (non-cumulative) or over a specified period of time (cumulative, deferred or patronage discount). The simple non-cumulative quantity discounts serve to encourage orders, but lead to fewer orders over a given time period.

Trade Discounts: Trade discounts are usually provided to middlemen for the functions they perform in the distribution of commodities. For this reason, trade discounts are often called functional discounts. For example, book sellers in India get such discounts from publishers at the rate of say 20%, 25%, 33⅓% on order of say 5-50, 51-100, 101 and above, respectively. Such successive discounts represent a system of graded incentives.

Seasonal Discounts: Business conditions never run smooth. To the periodic fluctuations in the levels of business activity, the name business cycle is given. And, in reality, industries that are characterised by significant but regular fluctuations in volume may offer a discount to consumers who purchase the goods (or service) at non-peak hours. For example, hotels in Darjeeling are available at a discount in the winter months. Again, electric fans are often offered at special reduced prices at times other than the summer months.

Cash Discounts: A cash discount is a reward for the payment of an invoice or account within a specified time period. For example, the Calcutta Electric Supply Corporation provides a discount to all customers who pay their bills on or before a scheduled date. From the seller's viewpoint, immediate payment is preferred so that the seller can invest the money for the period. Thus, the seller may offer a discount for an immediate cash payment.

ASSESSMENT

Allowances or concessions in price is known as

- (a) profit
- (a) loss
- (c) deduction
- (d) discount

The opposite of discount is

- (a) loss
- (b) deduction
- (c) premium
- (d) profit

Cash Discount is an allowance or concession given by

- (a) the seller to the buyer
- (b) the buyer to the seller
- (c) the producer to the retailer
- (d) the manufacturer to the user

Trade Discounts are allowed only if

- (a) the quantity ordered by the buyer is quite large
- (b) the quantity ordered by the buyer is small
- (c) the buyer request for it
- (d) the seller want to be nice

The cash discount is normally shown in the

- (a) receipt

- (b) sales journal
- (c) quotation and invoice
- (d) sales book

ANSWER

- d
- c
- a
- a
- c

week 2

Three Column Cash Book

What is a Three Column Cash Book?

A Three Column Cash Book is one in which there are three columns on each side (i.e., debit and credit side). The first column is used for recording cash transactions, the second is for recording bank transactions and third is used to record discount received and paid. When a trader keeps a bank account it becomes necessary to record the amounts deposited into bank and withdrawals from it. Fir this

purpose one additional column is added on each side of the cash book. One of the main advantages of the Three Column Cash Book is that it is very helpful to businessmen and women since it reveals the cash and bank deposits at a glance

More Details

Below is the method for posting *Three Column Cash Book* into the ledger is as follows-

The opening balance of cash in hand and cash at bank are not posted.

Contra Entries marked with "C" are not posted.

All other items on the debit side will be posted to the credit of respective accounts in the ledger and all other items on the credit side will be posted to the debit of the respective accounts.

As regards discounts the total of the discount allowed will be posted to the debit of the discount account in the ledger and total of the discount received to the credit side of the discount account.

FORMAT OF THE THREE COLUMN CASH BOOK

Debit Side						Credit Side							
Date	Particulars	V.N.	L.F.	Dis- count	Cash	Bank	Date	Particulars	V.N.	L.F.	Dis- count	Cash	Bank

EXAMPLE OF THREE COLUMN CASH BOOK

On January 1, 1991 Abayomi Stores cash book showed debit balance of cash N1,550 and bank N13,575. During the month of January following business was transacted.

1991

- Jan.1 Purchased office typewriter for cash N750; cash sales N315
- " Deposited cash N500
- " 4 Received from A. Abayomi a cheque for N2,550 in part payment of his account
- " 6 Paid by cheque for merchandise purchased worth N1,005
- " 8 Deposited into bank the cheque received from Abayomi
- " 10 Received from Ayodele a cheque for N775 in full settlement of his account and allowed him discount N15.
- " 12 Sold merchandise to Emekus Bros. for N1,500 who paid by cheque which was deposited in the bank.
- " 16 Paid Oyewo N915 by cheque, discount received N5

- " 27 Paid to Mr. Ahmad by cheque N650
- " 30 Paid salaries by cheque N1,750
- " 31 Deposited into bank the cheque of Kayode.
- " 31 Drew from bank for office use N250.

You are required to enter the above transactions in three column cash book and balance it.

SOLUTION

ABAYOMI STORES

CASH BOOK

Debit Side

Credit Side

Date	Particulars	V.N.L.F.	Dis- coun t	Cash		Date	Particulars	V.N.L.F.	Dis- coun t	Cash	
1991 Jan. 1	To Balance b/d	C C C	15	1,550 1,315 2,550	13,575 500 2,550	1991 Jan. 1	By Office Equip. By Bank	C C C	5	750 500 2,550	1,005 1,869 15
" 1	To Sales	C		0	775	" 3	By	C			1,750
" 3	a/c					" 6	Purchase				250
" 4	To Cash					" 8	s a/c				14,330
" 8	a/c					" 16	By Bank				0
" 10	To A					" 27	By Shola				
" 12	Hussan					" 3	By				
" 31	To Cash					0	Kolade				
" 31	To		15	6,440	18,900	" 31	By		5	6,440	18,900
1991 Feb. 1	Ololade To Sales a/c To Cash To Bank to Balance b/d			1,865	14,330	" 31	Salaries a/c By Bank By Cash By Balanced c/d				0

SALES ACCOUNT

		1991	By Cash	\$
		Jan. 1	By Cash	1,315
		" 12		1,500

ALADE

				1991
				Jan. 4

ASSESSMENT

A Three Column Cash Book is one in which there are

- (a) two columns on each side
- (b) three columns on each side
- (c) three columns on one side, two columns on other side
- (d) four columns on each side

Enter The Following Transactions In Cash Book With Cash And Bank Column Of Rao & Sons. JUNE 2010 Particulars

1 started business with cash Rs. 1,00,000

3 opened a bank current a/c with SBI N60,000

6 brought goods from ashok N15,000

8 paid ashok by cheque N14,700 and received discount N300

10 sold goods to mohan for cash N 10,000 and on credit N22,000

12 received cheque from mohan N21,400 and allowed discount N600

13 cheque of mohan deposited into bank

15 paid electricity charges N1100 & rent N2,000

17 received a cheque from Gopal for Rs. 6,800 in full settlement of his a/c N7,000

19 endorsed the cheque of gopal in favour of our creditor amar

23 withdrew cash from bank for office use N5,000 & for personal use 3,500

25 bought a machine from raman. He was paid by cheque 9,000

26 paid carriage of machine N300 and installation charges N700

29 bank allowed interest N800 & bank charges were N200

Which of the following statements concerning the three-column cashbook is true?

- (a) the folio column represents the third column of the cashbook

- (b) it is allowable for the cash column to have a credit balance at the end of the period
- (c) the bank column can have either a debit or a credit balance
- (d) the discounts column totals should be the same to enable balancing off

ANSWERS

b

Three column Cash Book of M/s Rao & Sons											
Date	Particulars	J. F.	Disc	Cash	Bank	Date	Particulars	J.F	Disc	Cash	Bank
June, 2010						June, 2010					
1	To Capital A/c			100000		3	By Bank A/c	(c)		60000	
3	To Cash	(c)			60000	8	By Ashok		300		14700
10	To Sales			10000		13	By Bank	(c)		21400	
12	To Mohan		600	21400		15	By Electricity			1100	
13	To Cash	(c)			21400	15	By Rent			2000	
17	To Gopal		200	6800		19	By Amar			6800	
23	To Bank	(c)		5000		23	By Cash	(c)			5000
29	To Interest A/c				800	23	By Drawings				3500
						25	By Machine A/c				9000
						26	By Machine A/c			1000	
						29	By Bank Charges				200
						30	By Bank c/f			50900	49800
	Total		800	143200	82200		Total		300	143200	49800

1. (c) means contra entry, these entries are not posted in ledger. In case of Cash and Bank accounts cash books works as Ledger.
2. Goods bought from Ashok are on credit hence they will be entered in Purchase Book.
3. Goods sold to Mohan on credit for Rs.22000 will be entered in Sales Book.
4. Cheque received from Mohan is not deposited the same day, that is why it has been taken in cash book on 12/6/2014. On 13/6/2014 when that cheque is deposited in bank a contra entry is passed.
5. Cheque received from Gopal is endorsed in favour of Amar means that after signing on the back of the cheque and transferring it to Amar, Amar becomes owner of the cheque. As this cheque is not deposited in the bank, hence this cheque has been taken in the cash column on the receipt side. Similarly when endorsed it is entered in the cash column on payment side.
6. Amount paid for transportation and installation of machine are debited to Machine A/c.

3. c

week 3

Petty-Cash Book

What is a Petty-Cash Book?

A petty cash book is used for recording and tracking small purchases such as parking meter fees that aren't suitable for check or credit card payments. It is a ledger kept with the petty cash fund to record amounts that are added to or subtracted from its balance. Petty cash should be part of an overall business accounting system that documents how your business moves funds between one account and another and how it spends its money.

In other words, a petty cash book is an accounting book used for recording expenses which are small and of little value, for example stamps, postage and handling, stationery, carriage, daily wages, etc. These are expenses which are incurred day after day; usually petty expenses are large in quantity but insignificant in value. To record such expenses, a different book known as a petty cash book is maintained. The petty cash book may be maintained by the ordinary or by the *imprest* system.

The Imprest System

The Imprest System of Petty Cash Book has to do with a process whereby the Petty Cash remains dormant at a set amount. In other words, the most basic feature of the imprest system is that a fixed amount is reserved which, after a certain period of time or when circumstances require it will be replenished. Take for instance, if the petty cash custodian is entrusted with a locking bag containing N1000 of currency, then the Petty Cash account will always report a debit balance of N1000. This N1000 is the imprest balance. As long as N1000 is adequate for the organization's small disbursements, then the general ledger account Petty Cash will never have an entry again.

Reimbursement

Reimbursement is a method for paying employees back when they spend their own money on business-related expenses. These expenses generally occur when an employee is traveling for business but can occur in other work-related situations

Float

In Accounting and Book-keeping, *Float* is the time between the writing of a check and the time that the check clears the bank account on which it is drawn. In other words, *Float* is created when a bank credits a customer's account as soon as a check is deposited. However, it takes some time for the check to be received from the payer's bank. For example, Dangote Sugar writes a check for N5,000 and mails it to a supplier on Wednesday. However, the check will not clear Dangote Sugar's checking account until Monday. Hence, Dangote Sugar will have N5,000 of *float* between Wednesday and Monday.

ASSESSMENT

Petty cash fund is supposed to be replenished

- (a) every day
- (b) every half year
- (c) every year
- (d) at the end of every accounting period

The closing balance of petty cash book is considered as

- (a) liability

- (b) asset
- (c) expenses
- (d) income

The most common imprest system is the _____ system

- (a) petty cash
- (b) cash book
- (c) cash receipt
- (d) discount

A cash book that is used to record the small payments of cash is generally referred as

- (a) simple cash book
- (b) two column cash book
- (c) three column cash book
- (d) petty cash book

Payment of rent expenses is recorded on which side of cash book?

- (a) receipts
- (b) payments
- (c) income
- (d) expense

ANSWER

- a
- b
- a
- d
- b

week 4

Posting Subsidiary Books into Ledgers

Introduction

After journal entries are made, the next step in the accounting cycle is to post the journal entries into the ledger. *Posting* refers to the process of transferring entries in the journal into the accounts in the ledger. And posting to the ledger is the *classifying phase* of accounting. An *Accounting Ledger* refers to a book that consists of all accounts used by the company, the debits and credits under each account, and the resulting balances. Note that while the *journal* is referred to as Books of Original Entry, the *ledger* is known as Books of Final Entry.

Example of the posting Process

Let us illustrate how accounting ledgers and the posting process work below-

Date	Particulars	Debit	Credit
2016			
Dec	1 Cash	10,000.00	
	Mr. Oyebode, Capital		10,000.00

The next step would be to go to the ledger and find the accounts. Post the amounts debited and credited to the appropriate side. Debits go to the left and credits to the right. After posting the amounts, the cash and capital account would look like:

Cash	Mr. Oyebode, Capital
10,000.00	10,000.00

Explanation

First, the entry was posted to Cash. *Cash* in the journal entry was debited so the amount was placed on the debit side (left side) of the account in the ledger. For *Mr. Oyebode, Capital*, it was credited so the amount is placed on the credit side (right side) of the account. And that's it. Posting is simply transferring the amounts from the journal to the respective accounts in the ledger.

Purchase Day Book

This is used to record goods bought on credit from the suppliers the addition of entries been posted to the debit side of the purchase account which is credited to personal ledger of supplier it has column for date, particular, folio, and total supplier it has column for date particular, folio and total.

PURCHASE BOOK

Date	Invoice No.	Name of the Supplier (Account to be credited)	L.F.	Details ₹	Total Amount ₹
		Purchase A/c		Dr.	

Sales Day Book

This is defined as a book of original entry in which credit sales are recorded before posting to the ledger cash transaction must not be recorded equally sales of fixed asset must be excluded from the sales day book the seller prospect the sales journal from sales invoice.

SALES BOOK

Date	Invoice No.	Name of the Customers (Account to be debited)	L.F.	Details ₹	Total Amount ₹
		Sales A/c			Cr.

Return Inward Journal

This is used to record goods previously sold but later return by customer to the business goods may be return as a result of inferior quality or as a result of damage in transit the transaction recorded are taken from credit note issued to custom.

Return Outward Journal

This is the book for recording goods returned to suppliers by the business,the transaction enter in this book are taken from the credit note sent by the supplier of goods can be returned as a result of damaged.it has the same features with other journal.

ASSESSMENT

Which of the following is not a subsidiary book of accounts?

- (a) Purchases Day Book
- (b) Returns Inwards Day Book
- (c) Sales Day Book
- (d) Cash Book

The Sales Day Book is:(a) a book of prime entry in which credit sales are first recorded.

- (b) a book of prime entry for recording all sales.
- (c) a summary of sales of both goods held for sale and those acquired for use in business.
- (d) a book of prime entry in which cash sales are first recorded.

To reduce the workload of the Bookkeeper it is usual to post the total of the Return Inwards Day Book to:

- (a) the debit of the Sales Returns account.
- (b) the credit of the Sales account.

- (c) the debit of the Purchases account.
- (d) the credit of the Purchases Returns account.

The Return Inwards account would be found in:

- (a) the Nominal ledger.
- (b) the Sales ledger.
- (c) the Purchases Returns ledger.
- (d) the Purchases ledger.

The accounts you would find in a Sales ledger are those of:

- (a) Income and Expenses.
- (b) Trade Payables.
- (c) Trade Receivables.
- (d) Assets.

ANSWER

- d
- a
- a
- a
- c

week 5

Trial Balance

What is a Trial Balance?

Trial Balance is a list of closing balances of ledger accounts on a certain date and is the first step towards the preparation of financial statements. It is usually prepared at the end of an accounting period to assist in the drafting of financial statements. Ledger balances are segregated into debit balances and credit balances. Asset and expense accounts appear on the debit side of the trial balance whereas liabilities, capital and income accounts appear on the credit side. If all accounting entries are recorded correctly and all the ledger balances are accurately extracted, the total of all debit balances appearing in the trial balance must equal to the sum of all credit balances.

Trial balance can be defined as the schedule or list that shows the debit and credit balances extracted from the ledgers, to show the arithmetical accuracy of the ledgers. The technique ensures that debit and credit balances as displayed in the ledgers are complied. The objective is to prove the accuracy of the book-keeping.

Uses of a Trial Balance

Trial Balance acts as the first step in the preparation of financial statements. It is a working paper that accountants use as a basis while preparing financial statements.

Trial balance ensures that for every debit entry recorded, a corresponding credit entry has been recorded in the books in accordance with the double entry concept of accounting. If the totals of the trial balance do not agree, the differences may be investigated and resolved before financial statements are prepared. Rectifying basic accounting errors can be a much lengthy task after the financial statements have been prepared because of the changes that would be required to correct the financial statements.

Trial balance ensures that the account balances are accurately extracted from accounting ledgers.

Trial balance assists in the identification and rectification of errors

Rules for Extraction

All assets must be put on the debit side

All liabilities must be put on the credit side.

All income or gain must be put on the credit side.

All expenses must be recorded on the debit side

Working Example of Trial Balance

The following is an example of what a simple Trial Balance looks like-

ABC LTD

Trial Balance as at 31 December 2011

Account Title	Debit N	Credit N
Share Capital		15,000
Furniture & Fixture	5,000	
Building	10,000	
Creditor		5,000
Debtors	3,000	
Cash	2,000	
Sales		10,000
Cost of sales	8,000	
General and Administration Expense	2,000	
Total	30,000	30,000

Title provided at the top shows the name of the entity and accounting period end for which the trial balance has been prepared.

Account Title shows the name of the accounting ledgers from which the balances have been extracted.

Balances relating to assets and expenses are presented in the left column (debit side) whereas those relating to liabilities, income and equity are shown on the right column (credit side).

The sum of all debit and credit balances are shown at the bottom of their respective columns.

ASSESSMENT

_____ is the common base for preparing a trial balance

- (a) Ledger accounts
- (b) General Journal
- (c) Specialized journals
- (d) balance sheet

The basic purpose of preparing a trial balance is:

- (a) to find out profit of the business
- (b) to show financial position of the business
- (c) to test arithmetical accuracy of the ledger
- (d) to calculate net purchases of the business

Which of the following is correct about an agreed trial balance.

- (a) both debit and credit aspects of each transaction have been recorded
- (b) the books are arithmetically correct
- (c) the debit and credit columns of trial balance have been correctly totaled
- (d) all of the above

A trial balance prepared after taking into account the effect of adjusting entries is known as:

- (a) Financial trial balance

- (b) Adjusted trial balance
- (c) Unadjusted trial balance
- (d) Normal trial balance

Two methods of preparing a trial balance are:

- (a) Financial method and total method
- (b) Total method and normal method
- (c) Balance method and financial method
- (d) Balance method and total method

ANSWER

- a
- c
- d
- b
- b

week 6

Trading Account

What is a Trading Account?

Trading account is one of the financial account prepared to show the gross profit for the period under review, since it contains the result of business over a period of time. It examines the difference between the sales and the cost of goods sold, it is a revelation account which follows the principle of double entry.

On the debit side of a trading account, stocks at the beginning of trading is added with goods purchased and less return outward and then deduct closing stock of goods, the cost of goods sold will be arrived at. i.e. $\text{opening stock} + \text{purchases} - \text{return outward} - \text{closing stock} = \text{cost of goods sold}$.

On the credit side return inward is deducted from the total sales which is equal net sales. the different between the net sales and the cost of goods sold is the gross profit

Terminologies found in Trading Profit and Loss Account

Purchase: This can be defined as the cost of the goods bought for resale, It Is The Total Of Cash And Credit Purchase It Does Not Include Fixed Asset And Most Be Debited In The Trading Account.

Sales: Is The Total Amount Of Cash And Credit Sales During The Trading Period, Sales Is Credited To The Trading Account And It Does Not Include Sales Of Fixed Asset.

Opening Stock: Is The Stock Of Goods Available For Sales At The Beginning Of The Trading Year Before Purchase Are Made.

Closing Stock :Is The Stock Of Goods Available At The End Of The Trading Year.

Return Outward: This Are Part Of The Goods Purchased That Are Return Back To The Suppliers ,It Is Deducted From The Purchased.

Return Inward: This Is Part Of The Goods Sold That Are Return Back By The Customer ,It Is Deducted From Total Sales To Arrived At The Net Sales.

Carriage Inward: Is The Cost Of Transporting Goods Purchase To The Point Of Sales, It Is Added To The Cost Of Purchase.

Cost Of Goods Available For Sales: Is The Total Value Of Goods To Be Sold After Adding Goods Purchase With The Opening Stock.

Cost Of Goods Sold: Is The Cost Of Goods Actual Sold ,Is Arrived By Deducting The Closing Stock From The Cost Of Goods Available For Sales.

Reasons for Preparing Trading Account

The profit or loss determined by a trading account is the gross result of the business but not the net result. If so, then a question arises – what is the use of preparing a trading account? The following are the advantages and reasons for preparing the trading account–

Gross profit of a business is very important data, since all business expenses are met out of it. So the amount of gross profit should be adequate to meet the indirect expenses of a business concern.

The amount of net sales can be determined through this account. Gross sales can be ascertained from sales account in the ledger, but net sales cannot be so obtained. The true sales of a business is net sales – not gross sales. Net sales are determined by deducting sales returns from gross sales in trading account.

The success or failure of a business can be ascertained by comparing net sales of the current year with that of the last year. It should be noted that an increase in the amount of net sales of the current year over the last year may not be regarded as a sign of success, since sales may increase because of rise in price level.

Percentage of gross profit on net sales (gross profit ratio) can be easily determined from trading account. This percentage is very important yardstick for measuring the success or failure of a business. Compared to last year, if the rate increases, it indicates success; on the other hand if the rate decreases, it is an indication of failure.

Percentage of different items of buying expenses (direct expenses) on gross profit can be easily determined and by comparing the percentage of the current year with that of the previous year the variations can be ascertained. An analysis of variances will disclose their cause which will help in controlling the amount of expenses.

Inventory or stock turnover ratio can be determined from trading account. The success or failure of a business can be measured by this rate. Higher rate indicates a favorable sign i.e. goods are sold soon after their purchase. On the other hand, low rate signifies deterioration, i.e. goods are sold long after their purchase.

Format of a Trading Account

Trading account for the year ended.....

To opening stock	xxx	By Sales	xxxx	
To purchases	xxxx	Less returns	xx	
Less returns	xxx		-----	xxxx
	-----	By closing stock		xxx
To Direct expenses:	xxxx	By gross loss (if loss)		xxx
Carriage inward	xxx			
Freight	xxx			
Octroi	xxx			
Dock dues	xxx			
Excise duty	xxx			
Royalty	xxx			
Motive power	xx			
Coal, gas, water	xxx			
Factory expenses	xxx			
To Gross Profit (if profit)	xxx			
	xxxxx			xxxxx

ASSESSMENT

The following are some ledger balances taken out from the trial balance of XYZ company on 31st December 2005.

	\$		\$
Stock on 1.12.005	60,000	Returns outwards	16,000
Purchases	360,000	Returns inwards	30,000
Carriage inwards	24,000	Sales	500,000
Custom duty	12,000		

The closing stock is valued at \$10,000.

Required:

Prepare a trading account for the year ended 31st December 2005. Show the journal entries to close the above account (closing entries).

All indirect expenses are charged against

(a) Trading Account

- (b) Profit and Loss Account
- (c) Manufacturing Account
- (d) None of the above

Trading account is one of the financial account prepared to show the _____ for the period under review

- (a) gross profit
- (b) gross loss
- (c) net profit
- (d) net loss

ANSWERS

xyz co.

Trading Account for the year ended 31.12.2005

Stock 1.1.2005		\$			\$
Purchases	3,60,000	60,000	Sales	500,000	
Less returns	16,000	3,44,000	Less returns	30,000	470,000
Carriage inward		24,000	Stock (closing)		100,000
Custom duty		12,000			
Gross profit (transf. to P&L A/C)		130,000			
		570,000			570,000

Closing Entries:

Date	Description	L/F	Amount (\$)	Amount (\$)
2005				
Dec.31	Trading account	486,000		
	Stock (opening) account	60,000		
	Purchase account	360,000		
	Returns inwards account	30,000		
	Carriage inwards account	24,000		
	Custom duty	12,000		
	(Being transferred of above A/C to trading account)			
<hr/>				
Dec.31	Sales account	500,000		
	Returns outwards account	16,000		
	Trading account	516,000		
	(Being transferred of above A/C to trading account)			
<hr/>				
Dec.31	Stock (closing) account	100,000		
	Trading account	100,000		
	(Being closing stock taken into account)			
<hr/>				
Dec.31	Trading account	130,000		
	Profit and loss account	130,000		

b
a

week 7

Profit and Loss Account

The Definition of Profit and Loss Account

The profit and loss account is the account that shows the net profit or net loss of an organization. Income or gains are credited while expenses are debited. The profit or loss will be taken to the capital account. It can also be defined as a financial statement that summarizes the revenues, costs and expenses incurred during a specific period of time, usually a fiscal quarter or year. These records provide information about a company's ability – or lack thereof – to generate profit by increasing revenue, reducing costs, or both. The P&L statement is also referred to as “statement of profit and loss”, “income statement,” “statement of operations,” “statement of financial results,” and “income and expense statement.”

Please note that the profit and loss statement is one of three financial statements every public company issues quarterly and annually, along with the balance sheet and the cash flow statement.

Importance of the Profit and Loss Account

Revenue Projections: The profit and loss table covers two major components of the overall health of a business. The first of these components is the calculation of the company's revenue. An established company can make projections on its future revenue based on its past sales and expected income. Start-up companies must make these projections based on factors such as customer demand, market size and competition for their product or service. A company that makes unrealistic revenue projections must either adjust its expectations or improve its sales processes.

Expenses Forecast: The other major component is the projection of future expenses. Expenses can include building rent, salaries, equipment purchases and other overhead costs. As a small business begins and grows, it may find that its expenses climb at a rapid pace. These expenses can involve hiring and training workers, buying supplies and promoting the business. The owners must also make accurate expense projections to avoid having the business stall before it can launch.

Bottom Line: When a company has revenues higher than its expenses, it makes a profit. When expenses outpace revenues, the company sees a loss. The profit and loss table allows a company to see where it can improve its revenue streams and cut costs. For instance, if the costs of goods sold subtracts more than 75 percent from the gross revenue, then the business can determine if it needs to use cheaper material or raise its prices.

Attractiveness to Investors: Companies use their profit and loss tables to make themselves more attractive to potential capital sources. The data from the profit and loss table gives these decision-makers the information they need when choosing to fund a venture. If the company can show the capability to earn a profit on its P&L table, investors will see the firm as a worthwhile investment. Creditors can also use the projections to determine a borrower's credit worthiness, loan amounts and repayment terms.

Format/Preparation of the Profit and Loss Account

Below is a typical example of a Profit and Loss Account-

Twelve Months Ended December 31,	2014	2013
----------------------------------	------	------

Sales and revenues:		
Sales of Machinery, Energy & Transportation	52,142	52,694
Revenues of Financial Products	3,042	2,962
Total sales and revenues	55,184	55,656
Operating costs:		
Cost of goods sold	39,767	40,727
Selling, general and administrative expenses	5,697	5,547
Research and development expenses	2,135	2,046
Interest expense of Financial Products	624	727
Other operating (income) expenses	1,633	981
Total operating costs	49,856	50,028
Operating profit	5,328	5,628
Interest expense excluding Financial Products	484	465
Other income (expense)	239	(35)
Consolidated profit before taxes	5,083	5,128
Provision (benefit) for income taxes	1,380	1,319
Profit of consolidated companies	3,703	3,809
Equity in profit (loss) of unconsolidated affiliated companies	8	(6)
Profit of consolidated and affiliated companies	3,711	3,803
Less: Profit (loss) attributable to noncontrolling interests	16	14
Profit [footnote 1: Profit attributable to common shareholders]	3,695	3,789
Profit per common share	5.99	5.87
Profit per common share – diluted [footnote 2: Diluted by assumed exercise of stock-based compensation awards using the treasury stock method]	5.88	5.75
Weighted-average common shares outstanding (millions)		
– Basic	617.2	645.2
– Diluted [see footnote 2]	628.9	658.6
Cash dividends declared per common share	2.70	2.32

ASSESSMENT

The correct double-entry to transfer rent paid for the year to the profit and loss account is:

Debit	Credit
A Rent	Trading
B Profit & Loss	Rent
C Rent	Profit & Loss
D Trading	Rent

- (a) A
- (b) B
- (c) C
- (d) D

_____ is prepared at the end of the accounting period to show the financial position of business

- (a) Profit & loss account
- (b) Balance sheet
- (c) Trial balance
- (d) None of the above

Assuming no returns outwards or carriage inwards, the cost of goods sold will be equal to:

- (a) Sales less gross profit
- (b) Purchases plus closing stock less opening stock
- (c) Opening stock plus purchases plus closing stock
- (d) Closing stock less purchases plus opening stock

Given the following data: Gross profit £6700, Carriage inwards £400; Carriage outwards £250, Rent received £575 and Other expenses £3600, the net profit for the firm would be: (a) £3,425

- (b) £3,025
- (c) £2,450
- (d) £3,275

The characteristics of a current asset would not include:

- (a) Liquidity
- (b) Use as part of the firm's trading operations
- (c) Not bought for resale
- (d) Likely to change before the next accounting period is over

ANSWER

- b
- b

a
a
c

week 8

Balance Sheet

What is a Balance Sheet?

A Balance sheet is a statement drawn up at the end of the each financial year, which sets forth the various liabilities and capital of an organization in a arranged form. Balance sheet is not part of the entry; therefore, there is no debit or credit side.

Nature of the Balance Sheet

It is drawn on a certain date and is not an account, it is divided into two part showing on the left liabilities and on the right side is current and fixed asset, it is headed balance sheet as at 31st December 2000.

Information disclosed by Balance Sheet

The nature and extent of the asset

The solvency and otherwise of the business

The nature of liabilities

Information as to over or under trading.

Terminologies associated with Balance Sheet

Asset: Asset can be defined as the resources, property or possession of a firm. They are owned by the business and are expected to be for some future benefit to the organization, it includes asset like building, furniture and fitting, motor van, cash and stock of goods e.t.c. Asset can be divided into current and fixed asset.

Types of asset

Fixed Asset: These are asset with long lasting asset which are used for the purpose of creating productive capacity, they are made for used within the organization and not for sales to customers. e.g building, machinery, plant, equipment. e.t.c

Current Asset: They are the assets which are usually held for a short time for the purpose of conversion in the ordinary course of business. Examples are, stocks, cash, debtors, payment in advance.e.t.c

Characteristics of Current Asset

It is held for resale at a profit.

It has a short life span

It is easy to realize

Liabilities: These are obligations on the business arising from past transaction, it is a claim by the outsider on the assets of the business, it also means the indebtedness of an organization to outsiders examples are debentures, loan, overdraft and creditors.

Types of liabilities

Long Term Liabilities: These are liabilities which become due for settlement after more than one year, e.g debentures, bond, e.t.c

Short Term Liabilities: These are liabilities which are due for settlement within one year, they are paid within a short period of time examples are creditors, overdraft, accrued expenses. e.t.c

Capital: It is the original money invested in a business by the owner. It is also referred to as the net worth or owners' equity. In short it is the total resources in cash which is used to establish a business.

Sources of Capital

Equity Capital: Is the amount contributed by the holders plus any retained earnings.

Loan Capital: Is the total amount of money the business borrowed from external sources e.g debenture and bonds.

Sale of Shares

Borrowing

Format of the Balance Sheet

LIABILITIES	Amount	ASSETS	Amount
Capital	XX	Fixed Assets-Land, Bldg,	XX
Loan taken	XX	Current Assets	
Current Liabilities		•Cash / Bank B/s	XX
•Outstanding Expenses	XX	•Accounts Receivable (Debtors)	XX
•Bank Overdraft	XX	•Bills Receivable)	XX
•Accounts Payable (Creditors)	XX	•Inventories (Stock)	XX
	XYZ		XYZ

Horizontal Form of Balance Sheet

BALANCE SHEET

ASSETS

Current Assets

Cash	\$ 710,000
Receivables	2,379,000
Inventories	3,361,000
Prepaid Expenses	43,000

Total Current Assets	6,493,000
Other Investments	5,111,000
Property, Buildings and Equipment	5,227,000

TOTAL ASSETS **16,831,000**

LIABILITIES AND PATRON EQUITIES

Current Liabilities

Short-Term Notes Payable	1,800,000
Current Portion of Long-Term Debt	367,000
Payables and Accruals	1,775,000

Total Current Liabilities 3,942,000

Long-Term Debt 1,082,000

TOTAL LIABILITIES **5,024,000**

TOTAL PATRON EQUITIES 11,807,000

TOTAL LIABILITIES AND PATRON EQUITIES **16,831,000**

ASSESSMENT

Accounts payable, accruals and notes payables are listed on balance sheet as

- (a) accrued liabilities
- (b) current liabilities
- (c) accumulated liabilities
- (d) non-current liabilities

Cash and equivalents, inventories and accounts receivables are classified as

- (a) assets on balance sheet
- (b) liabilities on balance sheet
- (c) earnings on income statement
- (d) payments on income statement

In situation of bankruptcy, stock which is recorded above common stock and below debt account is

- (a) debt liabilities
- (b) preferred stock
- (c) hybrid stock
- (d) common liabilities

Wages and salaries of employees which company owns in this accounts are called

- (a) accrued expenses
- (b) accruals account
- (c) Both A and B
- (d) zero liabilities

The balance sheet shows

- (a) the cash flow of the business
- (b) the financial performance of the business
- (c) the financial position of the business
- (d) the financial performance and the financial position of the business

ANSWERS

- b
- a
- b
- c
- c

SS 1
FINANCIAL ACCOUNTING
THIRD TERM

TABLE OF CONTENT

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Week 1

Topic: Preparation of Bank Reconciliation Account

What is a Bank Reconciliation Account?

A Bank Reconciliation Account is a critical tool for managing cash balance. *Reconciling* is therefore the process of comparing the cash activity in an accounting records to the transactions in an bank statement. This process helps an accountant to monitor all of the cash inflows and outflows in an bank account. The reconciliation process also helps accountants to identify fraud and other unauthorized cash transactions. As a result, it is critical for every accountant to reconcile their organization's bank accounts within a few days of receiving their bank statements.

Further Explanation

A business enterprise will record money paid into the bank and the sums drawn from the bank with cheques in the cash book. On the other hand the bank record all the transactions in its own books. The book which the bank prepares showing the transaction between it and the customer is known as "bank statement" as a matter of necessity, the balances of the cash book and the bank statement must be equal.

When there is a difference between the cash book balance and the bank statement balance, then there is need for reconciliation.

Bank reconciliation statement is therefore defined as a statement that is prepared to reconcile the disagreement of the cash book and that of the bank statement. The reconciliation is necessary in order to test the accuracy of the posting in the cash by reconciling the balance of the cash book with that of the bank statement.

Reasons for Disagreement between the Cash Book and Bank Statement

Unpresented cheque: These are cheques drawn or issued out in favour of somebody but have not been drawn from the bank at the time of preparation of the bank statement. The cheque can be delayed for months if the recipients fail to pay them in, the firm had credited the cash book with the cheque issued out, thereby reducing the balance of the cash book but it had not been debited to the bank statement, so the balance of the bank statement remain the same. The effect of this is that the balance of the cash book will be less than the balance of the bank statement. To correct this, amount due on unpresented cheque must be added back to the cash book balance

Uncredited cheque: These are cheques received and entered on the debit side of the cash book but have not been entered in the bank statement due to lateness or the bank statement had been prepared before the cheque were paid in, the effect of this is that the cash book will show a balance that will be more than the balance of the bank statement. To correct this the uncredited cheque must be deducted from the balance of the cash book.

Dividend: this is the part of the profit for shares held by the customer to the bank paid directly into his bank account. the effect of this is that the bank balance will be more than the cash book balance. therefore to correct this error the amount of dividend must be added back to the balance in the cash book.

Standing order: this is an order made by the customer to the bank to make regular payment to somebody e.g hire purchase installments. the effect of this is that the bank balance will be less than the cash book balance. this is corrected by deducting the amount due to the cash book.

Dishonoured cheque: These are cheques received from customers and paid in by the firm, but were rejected by the bank as a result of wrong signatures, incorrect amount etc. the dishonoured cheques have not been reflected in the cash book. the effect of this is that the balance of the bank statement will be less than the cash book balance. To correct this the amount on the cheque must be deducted from the cash book.

Credit transfer: these are the payment made by customer of the firm, directly into their bank account without the awareness of the firm. the effect of this is that the bank balance will more than the cash book balance. to correct this the amount will be added to the cash book.

Bank charges and interest: this is the amount deducted by the bank for services rendered. the bank will deduct the charges without informing the firm until they receive the bank statement, the effect of this is that the bank balance will be less than the cash book balance. to correct this the amount should be deducted from the cash book balance.

Direct debit: this is an arrangement whereby a person account is debited with a sum of money at the instance of the supplier with the account owners prior permission. the effect of this is that the bank balance will be less than the cash book balance. to correct this error amount due will be deducted from the cash book

Errors by the bank: bank can make mistakes, a sum paid by the customer may be credited to another customer's account.

Undercasting or overcasting of the cash book balance: other errors like undercasting or overcasting of the cash book balance brought down or the overcasting or undercasting of the payments or receipt by the cashier will also cause disagreement between the bank statement and the cash book. the effect and corrections will depend on the error.

Having analyzed the reasons for disagreement above, the chart below is designed to ensure proper understanding.

Reasons	Effect on cash book	Effect on bank statement cash book balance	Correction starting with cash balances	Correction starting with bank statement
1. Uncredited cheque	Greater balance	Lower balance	subtract	Add
2. Unpresented cheque	Lower balance	Greater balance	Add	Subtract
3. Bank chargers	Greater balance	Lower balance	subtract	Add
4. Standing order	Greater balance	Lower balance	subtract	add
5. Credit transfer	Lower balance	greater balance	Add	Subtract
6. Dividend	Lower balance	Greater balance	Add	subtract
7. Dishonoured cheque	Greater balance	Lower balance	Subtract	Add
8. Direct debit supplier	Greater balance	Lower balance	Subtract	Add
9. Undercasting of receipt side of cash book	Lower balance	Greater balance	Add	Subtract

10. Overcasting of receipt side of the cash. Greater balance Lower balance Subtract Add

Preparing a Bank Reconciliation with Credit Balances

Step 1. Adjusting the Balance per Bank

Step 1.

Balance per Bank Statement on Aug. 31, 2018

Adjustments:

Add: Deposits in transit

Deduct: Outstanding checks

Add or Deduct: Bank errors

Adjusted/Corrected Balance per Bank

Step 2. Adjusting the Balance per Books

Step 2.

Balance per Books on Aug. 31, 2018

Adjustments:

Deduct: Bank service charges

Deduct: NSF checks & fees

Deduct: Check printing charges

Add: Interest earned

Add: Notes Receivable collected by bank

Add or Deduct: Errors in company's Cash account

Adjusted/Corrected Balance per Books

Step 3. Comparing the Adjusted Balances

After adjusting the *balance per bank* (Step 1) and after adjusting the *balance per books* (Step 2), the two adjusted amounts should be equal. If they are not equal, you must repeat the process until the balances are identical. The balances should be the true, correct amount of cash as of the date of the bank reconciliation.

Step 4. Preparing Journal Entries

Journal entries must be prepared for the adjustments to the *balance per books* (Step 2). Adjustments to increase the cash balance will require a journal entry that debits Cash and credits another account. Adjustments to decrease the cash balance will require a credit to Cash and a debit to another account.

ASSESSMENT

On 31st March 1990, Ogundele's cash book showed a debit balance of N2000. His bank statement showed a balance of N2,270. On comparison, the following were found.

Checks drawn amounting to N1,500 had not been presented for payment.

A standing order of N600 to a club was not taken into consideration.

Bank charges of N50 were entered in the bank statement only

A dividend of N300 was paid directly into the bank and not recorded in the cashbook. Cheques for N1,000 were entered into the cash book and paid into the bank but had not been cleared and thus not credited. A customer Bolaji paid N120 directly into the bank without notifying the firm.

ANSWER

The above question will be solved by starting with the balance as per cash book

Bank reconciliation statement as at 31st March 1990

	₦	₦
Balance as per cash book		2,000
Add Unpresented cheque	1,500	
Dividends	300	
Credit transfers	120	
		<u>1,920</u>
		3,920
Less Uncredited cheque	1,000	
Standing order	600	
Bank charges	50	
		<u>1,650</u>
Balance as per bank statement		<u>2,270</u>

It should be noted that students can start with the balance as per bank statement. The workings will be shown below:

Bank reconciliation statement as at 31st March 1990

	₦	₦
Balance as per bank statement		2,270
Add Uncredited cheque	1,000	
Standing order	600	
Bank charges	50	
		<u>1,650</u>
		3,920
Less Unpresented cheque	1,500	
Dividend	300	
Credit transfer	120	
		<u>1,920</u>
Balance as per cash book		<u>2,000</u>

Week 2

Topic: Preparation of Bank Reconciliation when there is Bank Overdraft

Bank Reconciliation statement is prepared by the accountant when the cash book bank statement doesn't match with the Pass Book. This is done with the intention of knowing the cause of the difference. Usually all firms open current Bank Account as there are so many transaction to record in the bank column of the cash book. Bank also maintain separate ledger accounts of each firm customer and supplier a copy of the account to the firm for information. Now considering that all the transactions with the bank are entered in both the Cash Book and Pass Book, the balances of the two books must therefore tally with each other. Unfortunately, the two balances hardly tally. In the light of this therefore, a Bank Reconciliation Statement is prepared to reconcile the difference between the Bank Balance shown by the Cash Book and Bank Pass Book.

How to prepare Bank Reconciliation when there is an Overdraft

One important question however is the question of how to prepare a bank reconciliation when there is a bank overdraft. Recall that a bank overdraft is a situation when there is an extension of credit from a lending institution such that an account reaches zero. In other words, a bank overdraft has to do with a situation whereby a bank allows customers to borrow a set amount of money. In this kind of situation therefore, how will the bank reconcile the account?

To above the above question, let us use the following example-

Mr. Ajayi's overdraft according to his Pass Book is N16500

On 30th December, cheques were issued for N8750

Cheques deposited with the bank but not yet collected= N10500

Interest on overdraft =N100

Cheque Deposited directly by customer into bank= N000.

Cheque paid into bank but not cleared before December= N4000.

Working Solutions...

Particular

Overdraft as per Pass book on 31 dec

Case 1 cheques had been issued but not send for collection

Case 2 Cheques had been paid into the bank for collection

DR.(+)	Cr -
16750	
	8750

Case 3 interest on overdraft Rs 100		1000
Case 4 .Cheque Deposited directly by customer into bank Rs 2000	2000	
Case 5 cheque paid into bank but not cleared before dec		4000

Case 1: Cheques had been issued but not sent for collection= N8750

CB	PB
-9000	- 9000
-8750	
<hr/>	<hr/>
-17750	-9000
⇒	

case 2: Cheques deposited with the bank but not yet collected 10500

CB	PB
-12000	- 12000
+10500	+10500
<hr/>	<hr/>
-500	-3500
⇒	

ASSESSMENT.

What is bank reconciliation statement?

What are the reasons for disagreement between the cash book and bank statement?

Draft a comprehensive format of a bank reconciliation statement.

ANSWER

Bank Reconciliation statement is prepared by the accountant when the cash book bank statement doesn't match with the Pass Book
Unpresented cheque, Uncredited cheque, Dishonoured cheque

Bank reconciliation statement as at 31st December

	₹	₹
Balance as per cash book		X
Add Unpresented cheque	X	
Credit transfers	X	
Dividend	X	
Undercasting of receipt side of cashbook	X	X
Less Uncredited cheque	X	
Bank charges	X	
Bank commission	X	
Standing order	X	
Dishonoured cheque	X	
Overcasting of receipt side of cash book	<u>X</u>	<u>X</u>
Balance as per bank statement		<u>X</u>

Week 3

Topic: Understanding the End of the Year Adjustment in Profit and Loss Accounts

These are adjustments which are made in the profit and loss account and balance sheet, thus will ensure that the final accounts of an organization show the true view of their transactions, they are closing adjustments or amendments made in the books at the end of the accounting period in order to match revenue with expenses. This will show an accurate picture of the accounts. They are shown as additional information after the trial balance.

The Profit and Loss Account starts with the credit from the Trading Account in respect of gross profit (or debit if there is gross loss). Thereafter, all those expenses or losses which have not been debited to the Trading Account are debited to the Profit and Loss Account. If there is any income besides the gross profit, it will also be transferred to the credit of the Profit and Loss Account.

A fundamental principle for preparing the Trading and Profit and Loss Account is that the expenses and incomes for the full trading period, but only for the trading period, are taken to the Trading Account and the Profit and Loss Account. This means that if an expense has been incurred but not yet paid for, a liability for the unpaid amount must be created before the accounts can be said to show a true picture.

Reasons for the End of the Year Adjustment

To provide for depreciation of fixed asset

End of the year adjustment occurs because it will help in the application of the double entry principle

This will ensure that all the income for the year is recorded

Also the expenses for the year are recorded

To ensure that the financial statements are prepared in accordance with the concept of accounting

To avoid for valuation of stock at the year ended.

Types of Adjustment

Closing stock—stock at close should be adjusted and deducted from the cost of goods available for sales. It must be adjusted because it has not been recorded in the trial balance.

Depreciation of asset—this is another end of the year adjustment. The asset is depreciated to show the asset value. The value of depreciation is deducted from the asset value and the value is posted to the profit and loss account as expenses.

Drawing by the owner—trader will take items from their business for personal use without payment. Therefore goods withdrawn by the owners should be deducted from purchases and added to drawings.

Accrued and prepaid income—income can be accrued or prepaid, when it is so it has to be adjusted accordingly. Accrued income is added to income and it is treated as an asset and prepaid income is deducted and it is treated as a liability.

Accrued and prepaid expenses—can also be paid in advance or owing, an accrued expense is added to the expenses and it is a liability and on the other hand prepaid expenses are deducted and it is treated as an asset.

Bad debt and provision for doubtful debt and provision for discount on debtors—all these are also adjusted from the relevant account for bad debt, provision for doubtful debt and discount, necessary entries should be made to write them off from profit and deduct them from debtors in the balance sheet.

Provision for discount on creditors—this is added to profit after the year end. It is known as provision for discount receivable.

Accruals and Pre-Payments

An *accrual* allows an entity to record expenses and revenues for which it expects to expend cash or receive cash respectively, in a future reporting period. It is nearly impossible to generate financial statements without using accruals, unless the cash basis of accounting is used. In double-entry bookkeeping, the offset to an accrued expense is an accrued liability account, which appears in the balance sheet.

Prepayment represents an amount in advance for a subsequent period, i.e., an expense can be paid in advance.

Another word for it is payment in advance. It can be divided into expenses of prepaid income recovered in advance. Examples of prepaid income are rent in advance, insurance premium.

ASSESSMENT.

5 Reasons for the End of the Year Adjustment?

list 5 types of Adjustment?

ANSWER

To provide for depreciation of fixed asset

End of the year adjustment occurs because it will help in the application of the double entry principle

This will ensure that all the income for the year is recorded

Also the expenses for the year are recorded

To ensure that the financial statements are prepared in accordance with the concept of accounting

2.

Closing stock—stock at close should be adjusted and deducted from the cost of goods available for sales. It must be adjusted because it has not been recorded in the trial balance.

Depreciation of asset–this is another end of the year adjustment the asset is depreciated to show the asset value. the value of depreciation is deducted from asset value and the value is posted to profit and loss account as expenses.

Drawing by the owner– trader will after take item from their business for personal use without payment. therefore goods withdrawn by the owners should be deducted from purchase and added to drawing.

Accrued and prepaid income–income can be accrued or prepaid,when it is so it has to be adjusted accordingly.

Accrued income is added to income and it is treated as an asset and prepaid income is deducted and it is treated as a liability.

Accrued and prepaid expenses –can also be paid in advance or owing,an accrued expenses is added to the expenses and it is a liability and on the other hand prepaid expenses are deducted and it is treated as an assets.

Week 4

Topic:

Provision for bad Debt and Provision for Discount Allowed and Received

Provision for Bad Debt

The provision for bad debts has to do with making room in the balance sheet account for instances when a client is unable to redeem their debt. Also known as Allowance for Bad Debts, it makes provision for Bad Debts as a contra asset account (i.e., an asset account with a credit balance). It is used along with the account Accounts Receivable in order to report the net realizable value of the accounts receivable. Provision for Bad Debts might also be an the income statement account also known as Bad Debt Expense or Uncollectible Account Expense. In this situation, the Provision for Bad Debts reports the credit losses that pertain to the period shown on the income statement.

An entity may not be able to recover its balances outstanding in respect of certain receivables. In accountancy we refer to such receivables as Irrecoverable Debts or Bad Debts. Bad debts could arise for a number of reasons such as customer going bankrupt, trade dispute or fraud. Every time an entity realizes that it unlikely to recover its debt from a receivable, it must 'write off' the bad debt from its books. This ensures that the entity's assets (i.e. receivables) are not stated above the amount it can reasonably expect to recover which is in line with the concept of prudence.

Provision for Discount Allowed and Received

This is the provision created to cover the expense of discount that may be allowed to the debtors during the coming year when they pay their debt on time. The increase in the provision for discount on debtors is also shown as an expense in the profit & loss account and the new provision for discount on debtors is deducted from the debtors in the balance sheet. In other words, provision for discount allowed can also be mean to solicit for prompt payment from the company's trade debtors, cash discount which is an allowance given when payment is made within the stipulated period given.

The amount of provision for decrease in the provision for discount on debtors is shown as an income in the profit & loss account.

The double entries required for the provision for bad debt are:

During the first year to create the provision for discount on debtors:

Profit & loss account

Dr

Provision for discount on debtors account Cr

During the subsequent years, for an increase in the provision for discount on debtors:

Profit & loss account Dr.

Provisions for discount on debtors account Cr.

For a decrease in the provision for discount on debtors:

Provisions for discount on debtors account Dr.

Profit & loss account Cr.

Key points

A debt written off is recorded in the books by debiting bad debts account and crediting debtors account.

The provision for bad debt is calculated on the debtors' balance obtained after deducting the bad debt written off.

In the balance sheet, always the new provision for bad debt is deducted from the Debtors.

Increase in the provision for bad debt is debited in the profit & loss account and credited in the provision for bad debt account.

Decrease in the provision for bad debt is credited to profit & loss account and debited in the provision for bad debt account.

Increase in the provision for bad debt is an expense and decrease in the provision for bad debt is an income to be shown to in the profit & loss account.

The provision for discount on debtors is calculated on the debtors balance after deducting the bad debt and the provision for bad debt amount.

Always new provision for discount on debtors is deducted from debtors, after deducting the provision for bad debt.

Increase in the provision for discount on debtors is debited to profit & loss account and credited to provision for discount on debtors account.

Decrease in the provision for bad debt is debited to provision for discount on debtors account and credited to profit & loss account.

Increase in the provision for discount on debtors is an expense and decrease in the provision for discount on debtors is an income to be shown in the profit & loss account.

Please note that this provision can only be based on the NET DEBTORS as the discounts definitely are not allowed on delinquent customers or bad debts.

Illustration

For year end 30/6/ 2005, details as follows:

Total Debtors – N100,000

Provision for Doubtful debts – N10,000

Provision for Discount Allowed – 2%

Let's look at the Accounting treatment:

Debit: Discount Allowed (Income Statement) N1,800

Credit: Provision For Discount Allowed N1,800

Being creation of provision of 2% on NET debtors balance of N90,000(N100,000-N10,000)

Balance Sheet @ 30/6/05:

Total Debtors N100,000

Less:

Provision for Doubtful debts (N10,000)

Less:

Provision for Discount Allowed (N1,800)

Total Net Debtors N88,200

ASSESSMENT.

What is provision for bad debt?

What is a bad debt?

The provision for discount on debtors is calculated on the debtors balance after deducting the bad debt and the provision for___?

ANSWER

The provision for bad debts has to do with making room in the balance sheet account for instances when a client is unable to redeem their debt.

A debt that cannot be recovered.

Bad debt amount

Week 5

Topic: Bad Debts Recovered

What are Bad Debts Recovered

Sometimes, it so happens that the bad debts previously written off get recovered. When this happens, the amount so recovered is a gain and hence credited to the bad debt recovered account. Such recovered debts are known as Bad Debt Recovered. When bad debts are recovered from debtors after closing off a financial year, such recovered debt will shown as income.

Bad Debt Recovered can also be defined as debt from a loan, credit line/accounts receivable which is recovered either in whole or in part after it has been written off or classified as a bad debt. Because it generally generates a loss when it is written off, a bad debt recovery usually produces income.

In accounting, the bad debt recovery would credit the “allowance for bad debts” or “bad debt reserve” categories, and reduce the “accounts receivable” category in the books.

Example: Ayoade Ltd sold goods to Dangote Group on Credit for N500 billion. Dangote got insolvent therefore to recover goods from Dangote is almost impossible. Consequently, N500 billion was written off as bad debts . But after some time, about N200 billion was recovered from Dangote Group. As a result, the bad debts earlier written off becomes bad debts recovered= N200 billion .

More Examples of Bad Debt Recovered

Sold goods to Nonso and Sons for N10,000.

Journal entry will be:

Nonso and Sons Dr 10,000

To sales A/c 10,000

(being goods sold to Nonso and Sons)

Nonso and Sons becomes insolvent and nothing is recover from them.

Bad debts A/c Dr 10,000

To Nonso and Sons 10,000

(being Nonso and Sons becoming insolvent)

If in the next year Nonso and Sons who was declared bad debt pays money, it becomes bad debt recovered.

ASSESSMENT

Celestine distributes Adidas football. During the four years ended 31st December 1990, 1991, 1992 and 1993, the following debts were written off as bad;

#

July 1990 1,700

June 1991 800

September 1992 750

November 1993 1,250

On 31st December 1990, the total debtors remaining was N17,000 it was decided that provision should be N355.

On 31st December 1991, the total debtors was N25,000. The provision was N680

On 31st December 1992, the total debtors remaining was N33,000. The provision was to be N530

On 31st December 1993, the total debtors remaining was given as N35,000. The provision was estimated to be N750

You are required to prepare the necessary accounts

ANSWER

Profit and loss account		
Dr		
1990	₹	1992
Bad debts	1,700	Reduction in provision for bad debts
Provision for bad debts	355	
1991		
Bad debts	800	
Provision for bad debts	325	
1992		
Bad debts	750	
1993		
Bad debts	1,250	
Provision for bad debts	220	

Balance sheet extract		
		₹
1990		
Debtors		17,000
Less provision for bad debts		<u>355</u>
1991		
Debtors		25,000
Less provision for bad debts		<u>680</u>
1992		
Debtors		33,000
Less provision for bad debts		<u>530</u>
1993		
Debtors		35,000
Less provision for bad debts		<u>750</u>

Bad debts account

Dr			Cr	
1990			1990	
Dec 31	Sundries	₹ <u>1,700</u>	Dec 31 profit & loss	₹ <u>1,700</u>
1991			1991	
Dec 31	Sundries	800 <u> </u>	Dec 31 profit & loss	800 <u> </u>
1992			1992	
Dec 31	Sundries	750 <u> </u>	Dec 31 profit & loss	750 <u> </u>
1993			1993	
Dec 31	Sundries	1,250 <u> </u>	Dec 31 profit & loss	1,250 <u> </u>

Provision for doubtful debts account

1990			1990	
Dec 31	balance c/d	₹ <u>355</u>	Dec 31 profit & loss	₹ <u>355</u>
1991			1991	
Dec 31	balance c/d	680 <u> </u>	Jan 1 balance b/d	355
		680 <u> </u>	Dec 31 profit & loss	325 <u> </u>
				680 <u> </u>
1992			1992	
Dec 31	balance c/d	530	Jan 1 balance b/d	680
Dec 31	profit & loss	150 <u> </u>		
		680 <u> </u>		680 <u> </u>
1993			1993	
Dec 31	balance c/d	750 <u> </u>	Jan 1 balance b/d	530
		750 <u> </u>	Dec 31 profit & loss	220 <u> </u>
				750 <u> </u>

Week 6

Depletion of Fixed Assets

What is Depreciation of Fixed Assets?

Depreciation is the systematic reduction in the recorded cost of a fixed asset. Examples of fixed assets that can be depreciated are buildings, furniture, leasehold improvements, and office equipment. The only exception is land, which is not depreciated (since land is not depleted over time, with the exception of natural resources). The reason for using depreciation is to match a portion of the cost of a fixed asset to the revenue that it generates; this is mandated under the matching principle, where you record revenues with their associated expenses in the same reporting period in order to give a complete picture of the results of a revenue-generating transaction. The net effect of depreciation is a gradual decline in the reported carrying amount of fixed assets on the balance sheet.

Reasons for Depreciation of Fixed Assets

Wear and tear. Any asset will gradually break down over a certain usage period, as parts wear out and need to be replaced. Eventually, the asset can no longer be repaired, and must be disposed of. This cause is most common for production equipment, which typically has a manufacturer's recommended life span that is based on a certain number of units produced. Other assets, such as buildings, can be repaired and upgraded for long periods of time.

Perishability. Some assets have an extremely short life span. This condition is most applicable to inventory, rather than fixed assets.

Usage rights. A fixed asset may actually be a right to use something (such as software or a database) for a certain period of time. If so, its life span terminates when the usage rights expire, so depreciation must be completed by the end of the usage period.

Natural resource usage. If an asset is natural resources, such as an oil reservoir, the depletion of the resource causes depreciation (in this case, it is called depletion, rather than depreciation). The pace of depletion may change if a company subsequently alters its estimate of reserves remaining.

Inefficiency/obsolescence. Some equipment will be rendered obsolete by more efficient equipment, which reduces the usability of the original equipment.

Methods of Depreciation

There are several methods of depreciating Fixed Assets which are-

Straight line method

Diminishing or reducing balance method

Annuity Method

Sinking Fund Method

Retirement and Replacement Method

Sum of the year digit method

Depletion unit method

Insurance Policy System

Revaluation Method

Elements of Depreciation

Original Cost: This is the cost incurred in purchasing, installation and cost of carriage

Estimated Value: This is the scrap; the amount that can be recovered when the asset is sold at the end of its useful life.

Estimated Useful Life: The expected number of year through which an asset can last

Method of Depreciation: This is the method that is to be used consistently in depreciating the asset through its lifespan.

Amortization

This is an accounting term that refers to the process of allocating the cost of an intangible asset over a period of time. It also refers to the repayment of loan principal over time.

Depletion

This is an accounting concept used most often in mining, timber, petroleum, or other similar industries.

The depletion deduction allows an owner or operator to account for the reduction of a product's reserves.

ASSESSMENT.

What is depreciation?

State two reasons for charging depreciation.

List any 4 depreciable assets.

Give two examples each of assets associated with depreciation amortization.

ANSWER

Depreciation can be defined as a reduction in the economic service potentials of an asset as result of wears, tears, usage and passage of time.

It follows the marching concept, the cost of assets are spread over its useful life. It enables the business to measure the degree of forecast in relation to estimating the amount of depreciation.

It enables the business to measure the degree

Leaseholds, patents, copy Rights and Rusted Iron

Passage of time (Leaseholds, patent)

Week 7

Topic: Straight Line method

This method makes provision for equal amount to be charged as depreciation for each year of useful life. It is calculated by thus; cost of asset less residual value divided by the number estimated as the useful life span. It is said to be the easiest to calculate, and consists of depreciating the value of an asset in equal installments over the cost of its useful life. In order to calculate straight-line depreciation, you'll need the following information:

The asset's initial cost

The salvage value (It's estimated value at the end of its useful life)

The useful lifespan, in years

First, divide the number one by the useful life to get the annual depreciation rate:

$$\text{Annual depreciation rate} = \frac{1}{\text{Useful life}}$$

Next, subtract the salvage value from the initial cost to find the depreciable cost:

$$\text{Depreciable cost} = \text{Initial cost} - \text{Salvage value}$$

Finally, multiply the annual depreciation rate by the depreciable cost to arrive at the annual straight-line depreciation amount.

$$\text{Annual depreciation} = \text{Depreciable cost} * \text{Annual Depreciation rate}$$

For example, let's say that your business buys a piece of equipment for N20,000 with a useful life of 10 years and an expected salvage value of N4,000. We can calculate the annual depreciation rate to be 0.1, or 10%, and the depreciable cost to be the difference between N20,000 and N4,000, or N16,000. Therefore, the annual depreciation is:

$$\text{Annual depreciation} = \text{N16,000} \times 0.1 = \text{N1,600}$$

More Examples

The cost of a machine is 10,000 and the residual value is 4000 it is expected to last for 4 years use a straight line method to prepare the depreciation on the asset

$$10,000 - 4000 / 4 = 1500$$

Depreciation schedule

Years	Cost of Asset	Depreciation	Rate	Accumulated
1	10,000	1,500	1,500	8,500
2	10,000	1,500	3,000	7,000
3	10,000	1,500	4,500	5,500
4	10,000	1,500	6,000	4,000

From the above schedule, equal amount was charge as depreciation every year

Note that column

1 represent the estimate useful life span

cost of asset

depreciation rate that is, using the formula

accumulated depreciation that is, addition of annual depreciation

Net book value–this is arrived at by deducting accumulated depreciation from the cost of the asset.

The Reducing Balance Method

This calculates more depreciation expense initially, and uses a percentage of the asset's *current* book value, as opposed to its initial cost. So, the amount of depreciation declines over time, and continues until the salvage value is reached.

For example, let's say that you buy new computers for your business at an initial cost of N12,000, and you depreciate their value at 25% per year. If we estimate the salvage value at N3,000, this is a total depreciable cost of N10,000.

A Depreciation Schedule

A Depreciation Schedule is a table that shows the depreciation amount over the span of the asset's life. It can also be defined as an accounting procedure for determining the amount of value left in a piece of equipment. There are several methods for calculating *depreciation*, generally based on either the passage of time or the level of activity (or use) of the asset.

It follows the marching concept, the cost of assets are spread over its useful life. B)The amount charged as depreciation can be used for the replacement of the asset at the end of the useful life.

Leaseholds, patents, copy rights, rusted iron

Week 8

Topic: Treatment of Depreciation in Profit and Loss Accounts and Balance Sheet

Introduction

The value of fixed assets reduce after year because of usage and passage of time. It is well known that fixed assets are used for earning revenue. Therefore, decrease in their value is considered as an expense or loss incurred in earning revenue and like other expenses or losses, is charged to the Profit and Loss Account. Otherwise, profit will be overstated. The value of the fixed asset should also be reduced by the depreciation amount. It is important to note that depreciation is not recognized on a day to day basis but is charged at the end of an accounting period. Depreciation is usually computed on the basis of the life of the asset. Suppose, a machine costs Rs. 10, 000 and has a life of 5 years. Then each year $1/5^{\text{th}}$ of the cost i.e., Rs.2,000 should be transferred as an expense; only the remaining amount is to be shown in the balance sheet.

The entries for charging depreciation and transferring to Profit and loss Account are as follows:

More Details

Sometimes, depreciation is given in the Trial Balance itself. This is possible only if the entry has been passed before preparation of the Trial Balance. In that case the Depreciation Account appears in the Trial Balance itself; and the concerned asset appears as its reduced value since the depreciation amount is credited to it. In such a situation no further adjustment is necessary; the Depreciation Account is transferred to the debit side of the Profit and Loss Account like other expenses.

Example 5- The following is the extract from a Trial Balance

TRIAL BALANCE AS AT.....

Particulars	Debit Rs.	Credit Rs.
Machinery A/c	2,00,000	
Provision for Depreciation on Machinery A/c		80,000
Depreciation on Machinery	20,000	
Furniture A/c	36,000	
Depreciation on Furniture A/c	4,000	

Show relevant extracts from the Profit and loss Account and the Balance Sheet.

Profit and Loss Account

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Depreciation: On Machinery 20,000 On Furniture 4,000 -----	24,000		

Balance Sheet

Liabilities	Rs.	Assets	Rs.
		Machinery 2,00,000 Less: Provision For Depreciation 80,000 ----- Furniture	1,20,000 36,000

ASSESSMENT.

Calculate the Gross profit of Mallam Dongo

N

Stock 1/1/93	4,500
Sales	13,500
Purchases	5,000
Carriage inwards	500
Stock 31/12/93	4,200
Returns inwards	600