**FINANCIAL ACCOUNTING SS 1**

**SECOND TERM**

**SCHEME OF WORK**

WEEKS TOPICS

|  |  |
| --- | --- |
| 1 | Introduction to book-keeping and Accounting   * Importance and history of Accounting in Nigeria * Users of Accounting information and purpose for which they are needed * Advantages and limitations of Accounting * Career opportunities in Book-keeping and * Accounting Accounting professional bodies   -Accounting professional ethnics |
| 2 | Accounting concepts and conventions |
| 3 | Principles of double entries   * Accounting equations * Leagalization and journalization |
| 4 | Source Documents   * Meaning, uses, types * importance, e.g. debit note, credit note |
| 5 | Subsidiary books: meaning, uses, types – cash book, purchase day ledger, sales day book, returns inwards journal and returns outwards journal Journal proper |
| 6 | Working exercises on sales day book and return inwards journal and posting them into ledger |
| 7 | Working exercises on ledger entry on purchases day book and return outward journal |
| 8 | Ledger – meaning, purposes, rules for posting ledger accounts to be debited and accounts to be credited |
| 9. | One column cash book – meaning and uses, working exercises on it with cash book account. Exercise book |
| 10 | Double column cash book – meaning, bank transactions, central entry, posting and balancing of cash book |
| 11 | REVISION |

12 EXAMINIATION

**WEEK ONE**

# TOPIC: INTRODUCTION TO BOOK-KEEPING AND ACCOUNTING

## 1. DEFINITION OF ACCOUNTING

1. Financial accounting can be defined as the process of collecting, recording, presenting,analysing and interpreting financial information for the users of financial statement.
2. Financial accounting may be defined as being concerned with the recording,classifying, creating, summarizing and communicating of financial information to interested parties and interpreting to help in making specific business decisions.

### 1.2 DEFINITION OF BOOK – KEEPING

1. Book – keeping is the act of recording and classifying financial transactions in asystematic way, entering them into the appropriate books as they occur, so that the financial position of a business can be readily ascertained at any time.
2. It is also the act of recording an organizations transactions, in the books of account,inorder to show the financial position of a business.

NOTE: Book – keeping is carried out by using the double entry system

## 1. DATA COLLECTION PHASE

During this phase, relevant details relating to financial transactions are captured as they occur. These details are captured on source documents. Examples of source documents include invoices, bills, debit notes, receipts, vouchers, credit notes etc. The importance of source documents derived from the fact that they capture the details of transactions at the origin and subsequent recording of the transactions will so based on details on the source document will have the following key information.

1. Date of the transaction(s)
2. Brief details about or description of the transaction(s)
3. Amount of the transaction in naira and
4. Signature of the authorising/approaching office.

### 1.4 RECORDING PHASE

During this phase, the information on the source documents is recorded in the books of accounts. The books of accounts consists of the LEDGER and SUBSIDIARY BOOKS.

## 1.5 FUNCTIONS OF ACCOUNTING

1. Record keeping function. The primary function of accounting relates to recording,classification and summary of financial transactions.
2. Managerial functions decision making programme is greatly assisted by accounting.The managerial function and decision making programmes, without accounting may mislead.
3. Legal requirement function auditing is compulsory in case of registered firms. Auditingis not possible without accounting. Thus accounting becomes compulsory o comply with legal requirements.
4. Language of business: accounting is the language of business. Various transactionsare communicated through accounting. There are many parties – owners, creditors, government, employees etc, who are interested in knowing the results of the firm and this can be communicated only through accounting.

## 1.6 IMPORTANCE OF BOOK – KEEPING AND ACCOUNTING

These are the various reasons why accounting records are kept:

1. For profitability purpose
2. For decision – making
3. Ascertainment of financial position
4. Planning purpose
5. Provides permanent records of all transactions
6. Ascertainment of assets and liabilities
7. Preventing of fraud
8. To monitor the progress of the enterprise
9. Tax assessment
10. For making economic comparison

## 1.7 USERS OF ACCOUNTING INFORMATION OR FINANCE STATEMENT

1. Owners of business. The owners of business need accounting information for the following reasons:

1. To be able to assets the progress of the business
2. To assess the competence of the managers of the business
3. To know the profitability of the business

2. Employees: the employees are the workers engaged in the running of the business. The following information are to interest to the employees

1. To know the profitability of the business
2. To know the extent of job security
3. To show the stability of the company
4. Ability to meet wage demand and improving working condition

3. Shareholders: the shareholders are the people who invested their money in the business hence information about the financial statement will be necessary for the following reasons.

1. Dividend paying capacity
2. Actual profit and profitability
3. Capital growth
4. Future growth of the business

4. Government: The government has interest in the published financial statements of business enterprises. The information are needed for the following reasons:

1. For government statistics
2. Information regarding policy making
3. To regulate their activities

5. Loan Creditors: Loan creditors or lenders to the business are concerned with the following reasons:

1. Ability of the organisation to repay loan
2. Ability to repay interest
3. Possibility of default
4. Operational viability of the enterprise

6. Customers: the customers use the financial statements for the following reasons

1. To assess the financial position of the business
2. To be able to ascertain the strength of the business
3. Guarantee of security of supply
4. Competitors: competing firms are interested in the financial statements in order toassess the comparative performance of the organisation.
5. The Public: they have interest in the financial statement for the following reasons:
6. Employment and economic considerations
7. For social reasons such as pollution
8. To form an opinion in favour or against the organisation

9. Suppliers: the main information required by suppliers of goods to the organisation are:

1. Helps in assessing the credit worthiness of the organisation
2. Whether the business will be able to make payment for goods purchased.

10. Tax Authority: tax authority uses the information purposely for the reasons below:

1. To ascertain the taxable profit of an organisation
2. For tax collection purposes

11. Financial Analysts: analysts also uses the information contained in the statement to predict the security of their client’s investments.

## 1.8 ADVANTAGES OF ACCOUNTING

1. The following are the advantages of accounting to a business.

1. It helps in having complete record of business transactions
2. It gives information about the profit or loss made by the business at the close of a yearand its financial conditions.
3. It provides useful information for making economic decisions
4. It facilitates comparative study of current year’s profit, sales, expenses etc with thoseof the previous years.
5. It produces users with factual and interpretive information about transactions and otherevents which are useful for predicting, comparing and evaluating the enterprises earning power.
6. It supplies information useful in judging the managements ability to utilise enterpriseresources effectively in achieving primary enterprise goals.
7. It helps in complying with certain legal formalities like filing of income – tax and sales –tax returns. If the accounts are properly maintained the assessment of taxes is greatly facilitated.
8. Ascertainment of asset and liabilitiesix. Ascertainment of financial position

x. Planning purpose.

## 1.9 CAREER OPPORTUNITIES IN BOOK – KEEPING AND ACCOUNTING

The demand for accountants is on the increase owing to the expansion of firms. A good accountant must be a logical thinker. Accounting is a rewarding and challenging profession which provides a great deal of job opportunities for accounting professionals as:

1. Book –keeping
2. Account clerks
3. Accountants
4. Auditors
5. Tax consultants
6. Financial managers
7. Credit analysts
8. Cost accountants
9. System analysts

### ASSIGNMENT

1. Differentiate between book keeping and accounting
2. State the importance of accounting

## WEEK TWO

## LIMITATIONS OF ACCOUNTING

1. Accounting is historical in nature. It does not reflects the current financial position orworth of a business.
2. Transactions of non-monetary nature do not find place in accounting. Accounting islimited to monetary transactions only. It excludes qualities elements like management, reputation, employee morale, labour strikes.
3. Facts recorded in financial statements are greatly influences by accountingconventions and personal judgements of the accountant or management.
4. Accounting principles are not static or unchanging – alternative accounting proceduresare often equally acceptable.
5. Cost concept is found in accounting price changes are not considered
6. Accounting statements do not show the impact of inflation
7. The accounting statement for not reflect those increase in not asset values that are notconsidered realized.

## 2.1 ACCOUNTING PROFESSIONAL BODIES MEMBERSHIP

A person shall be enrolled as an accountant if he passes the qualifying examination of the following bodies.

i. Institute of chartered Accountants of Scotland ii. Institute of chartered Accountants of Ireland iii. Institute of chartered Accountants of England and Wales iv. Chartered Association of certified Accountants

v. American Institute of certified public Accountants vi. Canadian Institute of Chartered Accountants vii. The chartered institutes of Management Accountants

## 2.2 ACCOUNTING PROFESSIONAL ETHNICS

viii. The chartered institute of public financial and Accountancy

Ethnics Explained

Ethnics, according to Odugbemi et.al (2004), is a branch of philosophy that deals with the behaviour and conduct of man in the society.

Ethnic is derived from the word “ethnic” which simply means “custom”. Ethnic therefore, is the study of fundamental principles that govern or guide the human behaviour. Ethnic is different from morality.

Given the aforementioned facts, ethnics can be explained to be the philosophy of life as it relates to an acceptable human behaviour that can enhance peoples’ values and norms which can easily be recorded with high values and aesthetics.

## ACCOUNTING ETHICS

Accounting is generally resumed to be a professional. A profession is an occupation or a specialised line of business that requires special traits and qualities in discharging the responsibilities that go with it.

The concept of professional ethics partly comprises of what a professional should or should not do in his work place or during the time of discharging his duties.

Accounting ethics include ethics standards, responsibilities high level of skills with moral and integrity that command and promote public trust and confidence in the accounting works and responsibilities.

## CHARACTERISTICS OF ETHICS

Accounting ethics are aimed at achieving certain laid down objectives, which are listed in the following:

1. To display a high level of moral ethics in their business or work
2. To promote and display transparency with business partners, government, the general public and other stakeholders
3. To promote moral value and enhance public trust in such business or vacation.

In order to achieve all the above stated, ethics should possess the following features:

1. Ethics must be against doctrine of equity, fairness and all en-oblong law.
2. It must be generally acceptable to the community or group of people, which it is to serve.
3. Ethics should reflect the tradition practices and operations, culture of the groups or community it is to serve.
4. Ethics must be respectively heard for long, if not for infinity, it ethics must be beneficial and must be able to promote standard and quality way of life
5. Ethics must be enforceable administratively and legally.
6. It must be relevant to the needs of the society or the need of the group of people it is to serve.

FORMS OF ETHICS IN ACCOUNTING

In accounting profession, the following are the forms of ethics:

1. Accounting standards
2. Code of conducts
3. Accounting guidelines
4. Audit guidelines
5. Accounting operational guidelines

ASSIGNMENT

1. What is accounting ethics?

# WEEK THREE

# ACCOUNTING CONCEPTS AND CONVENTIONS

The fundamental accounting concepts and principles are discussed in the following:

1. Entity Concept: The concept vies all forms of business regardless of their legal form ofexistence as a separate entity from their owners. The asset contributed by the owner to the business is regarded as the liability of the business to the owner.

The entity concept is important as it distinguished the income and costs belonging to a business from the private income and costs of the owner.

1. Going Concern: This concept assumes that a business will operate in perpetuity i.e. thebusiness entity will continue in operation for the foreseeable future. It is assumed that business has no intuition or reasons to completely stop operation or in any way has reasons to significantly reduce the scale of operation.
2. Realisation: This concept establishes the rule for the periodic recognition of revenue,the moment. It is capable of objective measurement and the value of asset which has changed hands is determined with certainty. The concept holds that revenue should be recognised at the time when goods are sold or when a service is rendered.
3. Periodicity: To meet the expectations of various people involved in businesstransactions and uses of financial statements, the concept requires that the operations and performance of a business entity should be subjected to periodic review. Thus, the activities of business should be divided into accounting periods (usually one year) and that change in position should be measured from period to period.
4. Produces: This concepts demands that great care should be taken in the recognition ofprofit, all known and anticipated losses should be adequately provided for. It means that accountants and managers of business should not recognise income until the income has been earned and that losses are fully written off when probable.

NOTE: The essence of prudence concept is to ensure that profit is not overstated in any accounting period.

1. Historical Cost: This concept stipulates that the basis for initial recognition of an assetacquired, service rendered or received and an expenses incurred should be the cost (i.e. amount paid for the item in questions)
2. Consistency: Consistency concept requires that when a method has been adopted intreating an item in the financial statements that method should not be changed but used consistently from period to period.
3. Matching Concepts: This concept stipulates that in any accounting period the revenueearned and all the costs incurred to generates the revenue must be matched and reported for that particular period.
4. Objectivity: This accounting principle means independence of judgement on the part ofthe accountant preparing the financial statements. It stipulates that accounting statement should not be influenced by personal bias and that the financial statement should be supported by verifiable evidence. The use of this principle ensure the following:

i. Accounting data are standardised ii. Auditing is made possible iii. Fraud and falsification of accounts are minimised

1. Materiality: The materiality principle stipulates that financial statements shouldseparately disclose the items that are significant enough to affect evaluation or decision.
2. Money Measurement: This concept states that only transactions which can beexpressed in monetary terms are recoded in the records. Any item which cannot be included monetary value cannot be included in the records e.g. information about good or bad management.
3. Dual Aspect Concept: Dual aspect concept ensures the Mathematical accuracy of allrecords. It states that there are two aspects of accounting. One debit and one credit.

Hence, the double entry rule is applicable “debit the receiver, credit the giver”.

1. Accrual Concept: Accrual concepts means that revenues and expenses arerecognised as they are earned or incurred and not when money is required or paid. The profit of a business will show the difference between the revenues and expense.

ASSIGNMENT

1. Differentiate between accounting concept and convention

# WEEK FOUR

# PRINCIPLES OF DOUBLE ENTRIES

Double entry book keeping is the system of keeping account, which take advantages of the two-fold aspect of every transaction, whereby one account that receives is debited and another account which gives is credited.

## RULES OF DOUBLE ENTRY

The following simple rules of double entry should be fully understood and memorized.

1. For every credit entry in an account there must be a corresponding debit entry in another account.
2. For every debit entry in an account, there must be a corresponding credit entry in another account.
3. All transactions must be recorded in two accounts, one account is debited and another is debited and another account credited.

## 4.1 APPLICATION OF THE PRINCIPLES OF DOUBLE ENTRY

1. Any transaction involve two accounts.

1. Receiving account or receiver
2. One account or giver

2. One account will be debited and another credited.

1. DR receiving account
2. CR giving account

Mr. A. receives goods worth #2000 from Mr. B

1. The two ledgers involved in the above example are as follows;i. Ledger A ii. Ledger B
2. From the example and the content of the transaction

B – Gives out goods (CR)

A – Receives goods (DR)

1. Represents A and B with ledger account as follows.

A’s Ledger Account

1/1 B’s Ledger 2000

B’s Ledger Account

1/1 A’s Ledger 2000

1. Recorded or state the value of the transaction into the two ledger accounts A to bedebited and B to be credited.
2. State the date of the transaction and the corresponding ledger account name of thetwo ledger as the particulars.

The following transactions are given

* 1. Alade started business with #50,000 cash on 1st January 200x
  2. Rent was paid for #15,000 cash on 2nd January 200x
  3. Furniture was bought for #30,000 each on 3rd January 200x

Alade Account

1/1 Cash 50,000

Cash Account

2/1 Rent 15,000

1/1 Capital 50,000 3/1 Furniture 30,000

Rent Account

2/1 Cash 15,000

Furniture Account

3/1 Cash 30,000

Practice question

Complete the following table showing the accounts to be debited and those to be credited.

Account to Account to

be Debited to be

Credited

1. Bought furniture by cheques
2. Received commission by cheques
3. Paid wages by cash
4. Cash purchases
5. Cash sales
6. Started business with money in bank
7. The owner took cash for himself
8. Sold goods on credit to Mr. Snake
9. Bought fixture on credit from Mr. Odutola

4.2 BALANCING OF LEDGER

At the end of every period, all the ledger accounts that had been recorded with many of the business transactions must be balanced off. Balancing means to find the difference between the debit side and the credit side of an account after the two sides had been summed – up.

1. Balance carried down (c/d) or carried forward (c/f). This is the figure that is used to force the lesser side to agree with the higher side, because the total of the two sides of an account must be equal.
2. Balance brought forward (b/f) or balance brought down (b/d): This is the closing balance of the period that becomes the opening balance at the beginning of the next period.

Practice Accounting

You are to enter the following transaction into their respective account. 201x

1. August Started business with N100,000 cash
2. August Paid N90,000 of the cash into the bank
3. August Bought goods on credit N7,800 from M. Sanusi
4. August Bought a motor van by cheque N50,000

7 August Bought goods for cash N5,500

10 August Sold goods on credit N9,800 to L. Kano

12 August Paid for transport fare N1000 by cash

19 August Sold goods for cash N2,800

22 August Bought fixtures on credit from Harmony Eq. Co N15,000

24 August D. Dango borrowed N10,000, paying us the money by cheques

29 August We paid M. Sanusi by cheque N7,800

31 August We paid Harmony Eq. Co. Ltd by cheques

ACCOUNTING EQUATIONS

A = C + L

Where A = Assets

C = Capital

L = Liabilities

Accounting equation is the foundation upon which the whole financial accounting is laid and it is stated as above.

ASSETS: This is the total resources available to the business. If is sub – divided into current asset such as:

Stock

Debtor

Cash

Bank

Prepayment Receivable

These are assets which their stay in the business is expected to less than one year.

FIXED ASSETS: These are assets of more than one – year duration of life – span in the business. Examples are motor vehicle, building, furniture, equipment, fittings, land etc.

CAPITAL: This is the amount introduced into the business by the owner. This might be in form of cash or kind or otherwise.

LIABILITY: This is the money introduced into the business by any other party other than the owner. It might be in form of cash, kind or otherwise.

Summary of the equation

The students should take note of the following analysis.

Assets = Liabilities + Capital

Capital = Assets – Liabilities

Liabilities = Assets – Capital

4.3 THE EFFECT OF TRANSACTIONS ON THE BALANCE SHEET

Balance sheet: this is the statement of the position of the business, which shows the assets of a business and the sources of those assets. It is merely a formalized way of presenting the accounting equation. To ensure simplicity and proper understanding of accounting processes, the following steps should be followed.

Step 1: Introduction of capital by the owner.

Mr. Abbey inherited N5000 from his father and started a business on 31st Dec. 1993.

Capital 5000 Cash in hand 5000

NOTE: The business has N500 cash that is owned to Mr. Abbey (proprietor)

Step II: Purchases of goods with cash

The business purchased goods worth N1000 with cash

Effect: increase in asset (stock of goods)

Decrease in asset (cash)

The balance sheet will appear thus:

Capital 5,000 Stock of goods 1,000

Cash in hand 4,000

5,000 5,000

Step III: Sales of goods on credit goods worth N300 were sold to John on credit.

Effect: Decrease in assets/stock of goods

Increase in assets (Debtors)

The balance sheet will now read:

Step IV: Purchases of assets in credit goods worth N10,000 were purchase on credit from Olat.

Effect: increase in assets (stocks of goods) increased in liability (creditor) The balance sheet now appears thus:

Capital 5,000 Stock of goods (10,000 – 700) 10,700

Cash in hand 4,000

Creditor Olet 10,000 Debtors:

John 300

15,000 15,000 Step V: Settlement of a liability.

The business paid Mr. Olat supplier #3000 cash

Effect: Decrease in liability (credit)

Decrease in asset (cash)

The balance sheet will now appear thus:

Capital 5,000 Stock of goods (10,000 – 700) 10,700 Cash in hand(4000-3000) 1,000

Creditor(10,000-3000) 7,000 Debtors:

John 300

12,000 12,000

We can see from the analysis above that every business transactions will have double told effect on the balance sheet

1. PRACTICE QUESTION

You are required to complete the gaps in the following table

Assets Liabilities Capital a ? 2000 4000 b 18000 9050 ? c 900 ? ?

d ? 60,000 40,000 e 150,000 57,000 ? f 5075 ? 4,025

2. Classify the following into assets and liabilities

i. Cash in hand ii. Debtors iii. Bills payable iv. Motor van

v. Freehold premises vi. Fixtures and fittings vii. Stock of goods viii. Loans from Joseph ix. Creditors

Building

4.4 LEDGERIZATION: this is an accounting term concerned with the act of posting transaction from the journal to the various individual ledgers.

4.5 JOURNALIZATION: this is an accounting term concerned with the posting of transactions from the source documents to the respective journals.

5.0 SOURCE DOCUMENTS: A source document is any document or manuscript or otherwise that must be in writing that evidence the occurrence of a business transaction and gives the basis for which an accounting entry has to be raised. In accounting, no entry can be raised into the ledger, without a source document. The accounting process starts from the raising of a source document.

The following are the benefits of a source document.

* 1. It serves as the basis of raising any accounting entry.
  2. For the purpose of auditing, it is used to trace the transaction from the beginning to

the end and is also used for vouching

* 1. It can be referred to as future. If there is any need to query such transactions
  2. Source document serves as an evidence of keeping proper records
  3. In case of any litigation, the source document could be used as an exhibit in any court of law.
  4. It is evidence of good management and stewardships. Example of source documents are lengthy and vary, but the common ones include the following:
  5. Receipt
  6. Sales invoice ix. Purchases invoice
  7. Cheque stub
  8. Bank statement xii. Internal memo xiii. Official letter

1. Payment voucher
2. Teller/deposit slips
3. Debit note
4. Credit note
5. Contract document
6. Minutes of meetings
7. Assessment bill
8. Company’s memorandum and articles of association

ASSIGNMENT

1. Explain any five source document

6.0 SUBSIDIARY BOOK

Meaning: This subsidiary books are the books of original or prime entry in which events and transactions are initially recorded before being posted or transferred to the ledgers.

Note: The recording of transactions in the books of original entry is not in a double entyr system.

6.1 USES OF BOOKS OF PRIME ENTRY

i. Aids of meaning ii. Ascertainment of sales and purchases iii. Helps in control account preparation iv. Ascertainment of debtors and creditors

v. Provides opportunity for monthly totals

6.2 CLASSIFICATION OF SUBSIDIARY BOOK

The subsidiary books can be classified into eight namely

* 1. Purchases journal/day book
  2. Sales journal/day book
  3. Returns inwards journal/day book
  4. Returns outwards day book
  5. Cash book
  6. General journal/journal proper
  7. Petty cash book viii. Bills book

1. PURCHASES DAY BOOK OR PURCHASES JOURNAL: This is a book where all credit purchases made during the period are recorded.

DATE PARTICULARS FOLIO AMOUNT DETAIL AMOUNT

Jan 30 Biodun PL1

2 Bibles PL 3 X

11 Clock PL 4 X XX

Total purchase for the

Month transferred to GL 6

ii. Returned outward day book or returns outwards journal: this is a book where all goods returned to the suppliers are recorded.

FORMAT

DATE PARTICULARS FOLIO AMOUNT DETAIL AMOUNT

Jan 31 Biodun PL1

1. Bible PL 3 x
2. Clocks PL 4 x

Less discount xx

Total returns outward for the x xx

Month transferred to GL 6

DR Purchases Account CR

Jan 30 Sundries x

DR Supplier Account CR

Jan. 30 Purchases x

DR Purchases Account CR

Jan. 30 Sundries x

DR Purchases Account CR

Jan 31 Return outward x Jan 30 Purchases x

Illustration

Enter the transaction below in the books of Jonathan.

June 1 Bought goods on credit from Lopez

10 rulers at #50 each

16 big notes at #70 each

Less 2½% trade discount

June 14 Purchased on credit from Olisa

15 shoes at #30 each

14 shirts at #20 each

Less 5% discount

June 14 Returned to Lopez

3 rulers at #50 each

6 big notes at #70 each

Less 2½% discount

June 14 Returned to Olisa

5 shoes at #30 each

4 shirts at #20 each Less 5% discount DATE PARTICULARE F AMOUNT DETAIL AMOUNT

June 1 LOPEZ

10 Rulers at #50 each 500

16 Bignotes at #70 each 1,120

1,620

Less discount 2½% x 1,620 40.50 1579.50

OLISA

June 14 15 Shoes at #30each 450

14 Shirts at #20 each 280

730

Less 5% discount

36.50 693.50

Total posted to the debit of 2273.00

Purchases account

SALES DAY BOOK OR SALES JOURNAL: This is a book where all credit sales and recorded on a daily basis.

Note: Sales of fixed assets or cash transactions are not recoded.

Nature and uses

The sales day book shows the following; date, name of customers, invoice number, folio, details and total amount.

Procedures:

1. Daily credit sales are entered in the book
2. Credit sales account with total
3. Debit customers account

FORMAT

DATE PARTICULARS F AMOUNT DETAIL AMOUNT

OLABODE

20 Cases of Ariel soap

at #100 each xx

25 cases of Omo xx xx

less: discount x xx

Total posted to the credit of sales a/c

DR Sales Account CR

July Sundries x

DR Sales Account CR

July 6 Sales x

RETURNS INWARDS BOOK OR RETURNS INWARDS JOURNAL: This is a book where all goods returned to the company by the customers are recorded.

Note: Goods may be return as a result of inferior quality or are damaged in transit. The transactions recorded are taken from credit note issued to customers.

Nature and uses

The returns inwards book has columns for date, particulars, folio, details and totals.

Procedures:

1. Goods returned by customers are recorded in the books daily
2. Debit (DR) returns inwards book
3. Credit (CR) customer’s account

Returns Inwards Book

DATE PARTICULARS F DETAIL AMOUNT

Sept 30 WEST

* 1. Calculators x
  2. Mathematics set x

x x

less: Discount x xx

Total posted to the debit of returns inwards account

DR Sales Account CR

Sept. 30 Sundries xx

DR Sales Account CR

Sept 30 Return inwards x

Illustration: Enter the following particulars in the sales book and returns in the sales book and returns inwards book of Igbate Ltd. post the items to the ledger and extract a trial balance.

Jan 3 Sold to Celestine Ltd.

15 bags of flour at N10 a bag

20 cartons of fish at N7 per carton

Discount 10%

Jan 7 Celestine Ltd returned

2 bags of flour

5 cartons of fish

Jan 15 Sold to Rashidi Enterprises

15 pairs of slippers at N100 each

1. pairs of gent’s shoes at N300 each

Discount 5%

Jan 27 Rashida Enterprises returned

1. pairs of slippers

2 pairs of gents shoes

Sales Day Book

DATE PARTICULARS F DETAILS TOTAL CELESTINE LTD.

Jan 3 15 bags of flour at N10each 150

20 cartons of fish at N7

per-carton 140

290

Less discount (10%x290) 29 261

Jan 15 RASIDI ENTERPRISES

15 pairs of slippers at N100 each 1,500

* 1. pairs of gent’s shoes at

N300 each 1,200

2,700

Less discount (5%x2700) 135 2,565

Transfer to sales account 2,826

DR Sales Account CR

Jan. Sundries 2,826

RETURNS INWARDS BOOK

DATE PARTICULARS F DETAILS TOTAL CELESTINE LTD.

Jan 3 2 bags of flour at N10each 20

* 1. cartons of fish at N7

per-carton 35

55

Less discount (10%x290) 5.5 49.50

Jan 15 RASIDI ENTERPRISES

5 pairs of slippers at N100 each 500

2 pairs of gent’s shoes at

N300 each 600

1,100

Less discount (5%x1100) 55 1,045

Transfer to sales account 1,094.50

DR Returns inward account CR

Jan. Sundries 1,094.50

DR CELESTINE LTD CR

Jan. 3 Sales 261 Jan. 7 Return inwards 49.50

Bal c/d

211.50

261 261

DR Rashidi Enterprises CR

Jan 15 Sales 2,565 Jan. 27 R/inwards 1045

Bal c/d

1520

2,565

2,565

Bal b/d 1,520

NOTE: Students should note that the price and discounts used for sales would be applicable when goods were returned.

DR CR

Sales 2,826

Returns inwards 1,094.50

Celestine Ltd 211.50

Rashidi Enterprises 1,520

2,826 2,826

**WEEK EIGHT**

7.0 LEDGER

7.1 MEANING

1. The ledger (Principal book) contains permanent records of all the transactions of thebusiness in a classified and summarized form.
2. Ledger is the principal book in which accounts are kept or it is a book that containsdouble entry account.

FORMAT

DATE PARTICULARS FOLIO AMOUNT DATE PARTICULAR FOLIO

AMOUNT

DETAILED FEATURES OF THE LEDGER

1. FOLIO COLUMN: This column indicates the folio (or page) in which the other half ofthe double entry has been recorded.
2. DATE COLUMN: This is for entering the year, month and day on which the transactionoccurs.
3. PARTICULARS COLUMN: The nature of the transaction is entered in this column.

Usually, it is the name of the account in which the other half of the double entry is made.

The account is easily identified by its folio number.

1. AMOUNT COLUMN: The amount of the transaction is entered in this column.

NOTE: Debit entries are made on the left side of the page while credit entries are made on the right side. The debit side is distinguished from the credit side by the letters DR and CR respectively; and line ot two thin lines which divided the pages into two halves.

7.2 CLASSIFIATION OF THE LEDGER

1. Personal Ledger: personal ledger are companies of the suppliers personal account andcustomers personal account. It can be divided into sales ledger and purchases ledger.

SALES LEDGER: This is also called “Sold ledger” or “Debtors ledger”. The sales ledger contains a separate account for each individual to whom goods have been sold or for whom services have been performed, on credit.

PURCHASES LEDGER: This is called a “Bought ledger or “Creditors ledger”. It contains the personal accounts of creditors. A creditor is a supplier from whom goods to be paid for at an agreed future date.

1. General Ledger: The general ledger contains the nominal and zeal accounts. thegeneral ledger would be used quite a lot; because it would contain the sales account, purchases account, returns inwards and returns outward accounts for assets, expenses, income etc.
2. Private Ledger: In order to ensure privacy, capital account and drawings accounts arekept in the private ledger.

CLASSIFICATION OF ACCOUNTS: There are two divisions of accounts

* 1. Personal account
  2. Impersonal account

1. PERSONAL ACCOUNT: This is a ledger account that deals with person’s corporate entity with whom the business has transaction. It relates to transactions with person e.g creditors, debtors, individuals, firms, corporate entity etc. Examples: Joe account, Sugar Leomard account
2. IMPERSONAL ACCOUNT: This is a ledger account that deals with assets, revenueand expenditure but not with debtors or creditors. Impersonal account includes real and nominal accounts.
   1. Nominal Accounts: These are accounts in which income and expenditure are recorded. It relates to gains, losses, income, expenditures e.g. rent accounts, discounts accounts and sales accounts.
   2. Real Accounts: These are accounts of tangible assets, physical assets, or properties e.g. motor vehicle, land, cash, furniture, plant and machinery, stock etc.

Accounts

Personal Impersonal

Debtors and creditors

Nominal Real

Expenses Fixture

Gains Land

Losses Equipment

Income

RULES OF DOUBLE ENTRY

a. Personal account Dr receiver

Cr Supplier

Real account Dr what comes in

Cr what goes out

Nominal account Dr expenses or losses

Cr incomes and gains

**WEEK 9**

TOPIC: CASH BOOK

INTRODUCTION: This is the book for recording receipts and payments for money in cash or cheques.

It fulfils the function of a ledger account and a subsidiary book. No credit transaction should be received in the cash book.

CASH ACCOUNT: This is the account which is used for recording money received and paid with cash. The balance is referred to as “cash in hand”. All cash received must be credited while cash paid will be credited to the cash account.

Illustration I:

Enter the following transactions in the cash account of Olaide.

July 1 Cash in hand 1,500

July 3 Cash to Okiki 250

July 5 Cash sales 500

July 6 cash purchases 750

July 7 Bought stationery 50

July 9 Paid insurance 30

July 10 Paid wages 25

July 12 Cash sales 115

DR Cash Account CR

July 1 Bal b/f 1,500 July 3 Okola 250

July 5 Sales 500 July 6 Purchases 750

July 12 Sales 115 July 7 Stationery 50

July 9 Insurance 30

July 10 Wages 25

Bal

c/d 1010

2115 2115

Bal b/d 1010

BANK ACCOUNT: The bank account is a record of money deposited into the bank and money withdrawn from the bank. All cheques received must be debited while cheques issued out must be credited

Illustration II: Enter the following transactions in the bank account of Ogundele

June 1 Cash in bank 2,500

June 3 Paid to Okocha by cheque 650

June 5 Sold goods and received cheques 450

June 6 Received cheque from Agali 230

June 7 Sent cheque to Komolafe 320

June 9 Bought goods with cheque 300

DR Cash Account CR

July 1 Bal b/f 2,500 July 3 Okocha 650

July 5 Sales 450 July 6 Komolafe 320 July 12 Agali 230 July 7 Purchases 300

Bal

c/d 1910

3,180 3,180

Bal b/d 1,910

TWO COLUMN CASH BOOK

The two column cash book is a combination of cash account and bank account in one book. It shows the total particulars of all the money received and paid by the firm (either cash or cheque). The double column account is formed by placing the cash ad bank well as the credit side.

Illustration III: Record the following transactions in a two – column cash book. Balance the cash book and bring down the balance of cash in hand and cash at bank at the end of the period.

April 2 Introduced N2900 cash into the business as capital

April 4 Paid N1,850 of the capital into bank

April 10 Cash purchases N300

April 15 Cash sales N450

April 20 Purchase by cheque N700

April 25 Cash sales N650

April 28 Office expenses paid for in cash N30

April 29 Cash paid into bank N1000

April 30 Wages paid by cheque N75

DATE PARTICULAR F CASH BANK DATE PARTICULAR F CASH BANK

April 2 Capital 2,900 April 4 Bank c 1,850

“ 4 Cash c 1800 “ 10 Purchases 300

“ 15 Sales 450 “ 20 Purchases

700

“ 25 Sales 650 “ 28 Office 30

“ 29 Cash c 1000 “29 Bank c 1000

“30 Wages

75

Bal c/d 820

2075

4000 2850 4000

2850

May 1 Balance b/d 820 2075