INTRODUCTION TO ACCOUNTING

Course Outline

1. Definition of Accounting and Book-keeping
- The Development of the systematic method of book keeping
- Ethics and Accounting Environment
- Purpose of Accounting
- Generally Accepted Accounting Principles
- Accounting Cycle
- Accounting Concepts and Conventions

2. Financial Position and Accounting Equation
- The Theory of Double Entry
- Books of Prime Entry
- Purchase Day Book or Journal
- Sales Day Book or Journal

3. The cash Book
- Petty Cash Book
- Single Column Cash Book
- Double Column Cash Book
- Three Column Cash Book

4. The Ledger And Trial Balance
- Errors Which Do Not Affect The Trial Balance
- Errors That Affect Trial Balance

5. Suspense Account
- Bank Reconciliation Statement

6. Final Account of A Sole Proprietorship
- Trading Profit and Loss Account
- Balance Sheet

Text Books

Account for Beginners – B. Akpakpan
Comprehensive Book -keeping and Accounting
Accounting; Procedures, Applications and Concept
Principles of Accounting 1 Chukwuemeka
Business Accounting

INTRODUCTION

The increase in transaction entered by individual business Organizations, Clubs, Government, Associations, etc. has necessitated the glamour for record keeping and these gives rise to what is book – keeping. Therefore, book keeping is a name given to financial record kept to avoid loss of information on a transaction entered into. The reason is because human memory has failed to record of all transactions entered into at the end of the day.

Accounting has become a household name in every economic, social or welfare activities of any organization where two or more persons meet and where financial transaction takes place.

Book keeping is the act of recording on books, monetary transactions or money worth in a systematic manner so that the business owner can ascertain the exact position of his business at any given period of time.

Accounting, according to the American Institute of Public Accountants, they define accounting as the art of recording, classifying and summarizing of data in a significant business at any given period of time.

FUNCTIONS OF ACCOUNTING

i. Recording of data
ii. Classification of data
iii. Summarizing of data
iv. Communication of data
v. Interpretation of data

SIMILIARITIES BETWEEN BOOK KEEPING AND ACCOUNTING

i. Both involves recording of transactions and events
ii. Both records transaction of money and money worth
iii. Both use systematic approach on making records of transactions of events
iv. Both of them produce results
v. Both records are kept for a specific period of time, usually one year.

DISSIMILARITIES OF ACCOUNTING AND BOOK KEEPING

	BOOK KEEPING	ACCOUNTING
1	Book Keeping is the primary aspect of the record	It is the Secondary aspect of the record
2.	It is micro in nature. It concentrates on recording only	It is Macro in nature. This otherwise branches into national income accounting
3.	It does not interprets its figures or transactions	It interprets its figures and transactions
4.	Book Keeping is static in nature	It is dynamic in nature
5.	It does not have any branches	Account has so many branches like; Cost, management, Financial Accounting and Budgetary Control

USERS OF ACCOUNTING INFORMATION
1. Shareholders
2. Management
3. Potential Investors
4. Creditors
5. Potential Creditors/Suppliers
6. Workers/Trade Union
7. Government/Government Agencies
8. Customers/Clients
9. Researchers
10. Bankers
11. Auditors

HOME WORK
1. Explain what accounting is all about
2. Explain the relationship between book keeping and accounting
3. List the main users of accounting information there are interested in
4. Present and explain accounting equations
5. Explain the relationships between accounting equation and the layout of the balance sheet.
6. Explain the meaning of the terms: Assets, Capital, Liabilities, Debtors, Creditors
7. Describe how an accounting transaction affect the items in accounting equation

ACCOUNTING DEFINED
Early definition of Accounting generally focused on the traditional record keeping functions of the Accountant.

The American Institute of Certified Public Accountants (AICPA) defined accounting in 1941 as the act of recording, classifying and summarizing in a significant manner in terms of money, transactions and events which are, in part at least, of a financial character and interpreting the results thereof. In 1970, AICPA also broadened the definition of accounting, thus the function of accounting is to provide quantitative information, primarily financial in nature, about economic entities that is intended to be useful in making economic decisions.

Accounting therefore in the modern state is not only concerned with record keeping but also with a whole range of activities which involves planning and problem solving, control and attention directing and evaluation, review and auditing. It can also be seen as an information system that measures, process and communicates financial information about an identifiable economic entity. Scholars tend to mistake Book Keeping for Accounting, hence, the further explanation below

RELATIONSHIP BETWEEN BOOK KEEPING AND ACCOUNTING
Book Keeping is an integral part of Accounting but it is most of the time used interchangeably. It is a process of accounting which strictly involves only recording transactions and keeping those records. It is only a small, simple part of accounting, while accounting is the analysis, interpretation and proper use of the information from book keeping. What relates both is storage of information/data.

The productions of useable output after processing is the work of accounting although both of them produces results usually at the end of every accounting period (one year)

a. **AUDITORS / ACCOUNTANTS**
He manages the accounting system of a firm and prepares financial statements and tax returns.

b. **MANAGERS**
They prepare the financial reports, analyze accounting information in reports and expresses future plans for financial terms

c. **SHAREHOLDERS**
They invest into the business organization and get feedback on the company's earning, it is prospects for future earnings, and its ability to pay its debts

d. **ACCOUNTING CLERK**
Records financial information

e. **GENERAL BOOK KEEPER**
Supervises and keep financial records

4. **ACCOUNTING EQUATION**
The totality of financial accounting is based on the accounting equation. The double entry developed from the axiom of accounting equation. It is the foundation of double entry accounting.

The accounting equation displays that all assets are either financed by borrowing money or paying with the money of the company's shareholders.

The fundamental equation is given as:
Assets = Capital + Liabilities
Where Assets are the business properties and are expected to be of future benefits e.g. furniture and fitting.
Capital is total amount invested in a business by the owner.
Liability is an amount owed by the business to outsiders.

5. **RELATIONSHIP BETWEEN ACCOUTING EQUATION AND LAYOUT OF THE BALANCE SHEET**
Balance sheet is a statement that shows the presentation of the summary of assets and liabilities in a well arranged form so that the financial position maybe clearly ascertained. Accounting equation is also known as the balance sheet equation.

The balance sheet shows the relationship between assets, liability and capital. It consists of these three, that is, the accounting equations. Accounting equations will always be in the balance sheet. It shows what the firm owns (Assets) is purchased by either what it owes (liabilities) or by what its owners invest (its shareholders' equity or capital).

6. **ASSETS:** These are the properties of the business. Hey are owned by the business and expected to be of future benefits E.g. Furniture, Machinery, etc.

   i. **CAPITAL**: This is the total amount invested by the owner in a business. It is the proprietor's fund or net worth of a business.

   ii. **LIABILITY**: This is an amount owed by the business to outsiders. It is an obligation to pay someone in either money or money's worth e.g. Creditors, Bank Overdraft.

   iii. **DEBTORS**: A debtor is a person or an entity that owes money and has an obligation to pay either the person or organization he owes.

   iv. **CREDITORS**: A creditor is a person or an entity that is being owed money from another organization or lend out money or extended credit an individual or entity.

7. The transactions in accounting affect the accounting equation in such a way that when the values from the transactions are recorded. It alters or changes the accounting equations which still balance at the end. Accounting equations demonstrate the dual aspect of a transaction to show that debit equals to credit.

ACCOUNTING CYCLE

This refers to the activities a business complete within a financial year to keep each accounting record in order to provide accounting information. Several accounting processes are involved. This constitutes what is known as accounting cycle steps.

10 steps involved in accounting cycles:

1. Collecting source documents and verifying the data on them
2. Analysis business transaction
3. Journalize business transactions
4. Post each entry to the ledger account
5. Prepare the trial balance
6. Complete the work sheet
7. Prepare the final statement
8. Journalize and post the adjusting entries
9. Journalize and post the closing entries
10. Prepare and post the closing trial balance.

1. **COLLECTING AND VERIFYING SOURCE DOCUMENTS**

   As each business transaction occurs, the accounting clerk prepares a paper as evidence that the transaction actually took place. This paper by the accounting clerk is called source document e.g. Invoice, Receipt, Memoranda and sales slip, etc. The account clerk checks the accuracy of the information and the calculation of the source document.

2. **ANALYZE THE BUSINESS TRANSACTION**

The account clerk performs research on the documents to determine the debit and credit part of the transaction. In order to analyze the business transaction one must determine answers to the under listed questions:

a. Which also are affected
b. What is the classification of each account?
c. Which accounts increases or decreases
d. Which account is debit and for what amount
e. Which account is credit and for what amount
f. What is the complete entry?

3. **JOURNALIZE BUSINESS TRANSACTION**

This step is to record the credit and debit part of each transaction in general. A journal is a book of original or prime entry or a record of business transaction. It could be a special Journal such as Sales Journal, Purchase Journal, Receipts and Payment Journal as well as general Journal. For transaction that cannot be entered into a special journal.

4. **POST EACH ENTRY TO THE LEDGER ACCOUNT**

This is the process of transferring amount from the journal into the ledger account. Posing takes several forms:

a. Entries posted from special and general journal to the account in subsidiary ledger.
b. Entries from the general journal are amount from the special journal that cannot be posted a part of special amount column. The total is posted to the appropriate general ledger account.
c. The total of the special journals is posted to the general ledger account.

5. **PREPARING A TRIAL BALANCE**

A trial balance is the list of all balances standing on the ledgers account including cash and bank balance.

A trial balance is prepared to prove the equality of debit and credit balance. It can be prepared at any time once posting is completed.

6. **COMPLETE THE WORKSHEET**

A work sheet is a working paper used in collecting data from the general ledger. It contains data needed to prepare the financial statement for the period.

After all the balance have been extended (extracted) the amount column are totaled and the net income or loss for the period is calculated.

7. **PREPARE THE FINAL STATEMENT**

A business prepares general report at the end of each financial year. The report summarizes the changes that have taken place during the year and also, describes the final condition of the business at the end of the period. In order for the financial report to be useful, the data must be presented in such a way that the user will recognize the similarities, differences and trend from one period to the other.

8. **JOURNALIZE AND POST THE ADJUSTING ENTRIES**

After the adjusting entries have been recorded in the general journal, they must be posted to their account in the general ledger. By the time the adjusting entries are posted, the balance of the general ledger account they are those reported in the financial statement except from retained earnings, the account will be brought up to date when the closing entries are journalized and posted.

9. **JOURNALIZE AND POST CLOSING ENTRIES**

Closing entries transfers the balance of the temporary account to a primary general ledger account. After the closing entries are posted, all the temporary account will have a zero balance.

10. **PREPAER AND POST THE CLOSING TRIAL BALANCE**

a. In any business enterprise, the main classes of transactions are; buying and selling of goods and services, acquiring assets and ensuring financial obligation. It could be necessary at this point to distinguish the principal groups of transactions. The earning of revenue from sales of stocks of goods which is described as sales.
b. The cost of acquiring stock of goods which may be referred to as cost of stock. Cost of stock is cost of acquiring cost of good.
c. The expenses occurred in the cost of revenue which may be referred to as expenses.
d. The acquisition of funds or the incurring of the financial obligation by the business. This could be in form of funds contributed by the proprietor himself. This may be described as proprietor's fund or capital invested or contributed. It could also be in the form of borrowing from the outside investors which could be also known as liabilities.
e. Accumulation of resources (money and material resources) which may be described as an asset. Business transaction may be assumed to fall within one or any of the groups. The relationship between the different groups may be expressed as follows:

Sales – Cost of Sales = Gross Profit
Gross Profit – Expenses = Net Profit
Assets – Liabilities = Proprietor's Fund/Capital

The simple illustration shows the result of business profit operation during any period and also the financial position of the business at any point in time.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED

	N	N
Sales		xxx
Less: Cost of Sales	xxx	
Gross Profit		xxx
Less: Expenses	xxx	
Net Profit		xxx

Balance sheet as at

	N	N
Asset		xxx
Less: Liabilities	xxx	
Owners' Equity		xxx
Proprietor's Fund		
Capital		

The classification and collection of similar transaction into appropriate accounts demands care on the part of the book keeper and few simple rules must be observed. The whole transaction given on paper has its expenditure entered into accounts headed with names of those properties. Account which start with the name of persons, firms or companies known as personal account while others are impersonal – impersonal accounts are divided into two: Real Account and Nominal Account.

PURPOSE OF ACCOUNTING

1. The main purpose for account is to provide information to interest parties, regarding the nature and significance on economic transactions.
2. The shareholders or proprietor wish to know the financial position of the business at a given period of time. Management needs information from account records for controlling the activities of the business or for decision making or operating policy.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Basically, accounting principles are guidelines to use when gathering and communicating accounting information. To overcome problems of companies having free hand to choose whatever accounting principle they may want to use the accounting profession has given some account principles to the special status of being generally accepted accounting principles (GAAP). These are those that have a special authoritative support. Specifically, they represent the consensus at any time resources and obligations should be recorded as assets and liabilities.

Also what information should be disclosed and how it should be disclosed and also what financial statement should be prepared.

To ensure that financial statement will be understandable to their users. Therefore, the set of practice called GAAP has been developed to provide guidelines for financial account. GAAP encompasses all the convention, rules and procedures necessary to define accepted accounting practice at a particular time.

In other words, GAAP arise from the wide agreement of the theory and practice of account at a particular time. These principles are not like unchangeable laws of nature; they are developed by accountant and business to serve the needs of decision makers. They can be altered as better methods evolve or as circumstances change.

ETHICS AND ACCOUNTING ENVIRONMENT

Ethics deal with values, rules and justification that govern one's way of life. Similarity, professional accountants has written ethical quotes. In Nigeria, the institute of chartered

accountants in Nigeria (ICAN) and Association of National Accountants in Nigeria (ANAN) has developed professional codes of ethics to guide the conducts of members and to encourage their members to act and uphold the professional image of their accounting profession. Accountants face severe unique ethical dimensions as a result of their work.
These dimensions include the following:

1. The output produced by accountants may have significant financial implications for one or more person. This situation may generate pressure on accountants to improve the outcome, the amount of income tax to be paid by individuals or organizations, the amount of bonus to be received by an employee, the price to be paid by the customer and the amount of money to be distributed to the others. These are examples of situations in which the financial implication may lead to effort to influence the outcome. Ethical behavior mandates the accountant to ignore these pressures.
2. Accountants have access to confidential and xxx data like, tax return, salary data, details on financial arrangement, plant and machinery acquisition and proposed price change/payment. Ethically, accounts must respect the confidentiality of the data used in their work.
3. Emphasis on short term profit may contribute to the ethical break down within the business. One of the criticism of some business practices is that they are too short term in nature and as such, there are short term profit oriented. Each short term profit orientation may lead to unethical action by management to increase the reported short term profit. Accountants that computes and reports the form's profit; needs to particularly conxxxx also at this ethical practices both accountants and management recognizes the importance of a long run prospective.

Fact shows that over a long term successful company and ethical practices go hand in hand. Analyzing one situation is the first step in decoding whether an action is taken. The following three steps serve as a guide on collecting all relevant information regarding an action.

a. Is the action legal
b. Does the action violate international, federal, state or local government?
c. Does the action violate companies or professional standards?

Many business and professions set even higher standards of behavior. An action may be considered legal but still violates standards of profession.

Who is affected? And how by their actions
Determine how the actions affect a variety of people or groups, including the business employees, customers, legal community and society at large.

ACCOUNTING CONCEPTS AND CONVENTIONS/PRINCIPLES
In keeping accounting records certain rules and regulations are followed to make such records and objective fair. These are usually referred to as fundamental accounting concepts. Accounting concept are the broad basic assumptions that underlies the period financial statement of the business enterprise.

They following are therefore contained in the Nigerian statement of accounting standard.

1. Accuracy matching concepts
2. Consistency
3. Going concern concept
4. Entity concept
5. Periodic
6. Historical concept
7. Realization concept

CONVENTIONS/PRINCIPLES

1. Objectivity
2. Fairness
3. Maternity
4. Prudence

ACCURAL MATCHING CONCEPTS

This concept holds that for every accounting period your revenue all the cost incurred in generating that revenue must be matched and reported for the period.
If the revenue is carried over from the prior period or differ to feature, all element of cost and expenses related to that revenue are usually carried over or differ.

CONSISTENCY CONCEPT:

This concept advocates that there is consistency in treatment accounting policies adopted in the preparation of the account. There should also be consistency in treatment of like items from one period to another.

GOING CONCERN CONCEPT:

An enterprise is normally viewed as going concern. This means that the enterprise will continue on operational existence for seeable future. It is assumed that an enterprise has no intention of liquidating {when a business stops operation}.

ENTITY CONCEPT:

In accounting, every economic unit regardless of its legal form of existence is treated as a separate entity form parties having economic or proprietary interest in it. Business transactions are recorded as they affect the enterprise rather than as they affect the owners.

PERIODIC CONCEPT:

Although the result of business units cannot be determined with precision until its final liquidation, a business community and users of financial statement required that the business should be divided into accounting periods (usually one year). And the changes in position are measured over this period.

HISTORICAL COST CONCEPT:

This concept holds that cost is the appropriate basis for initial accounting recognition of all asset acquisition, services rendered or received and expenses incurred. It also holds that subsequent to acquisition, cost values are retained throughout the accounting process.

REALIZATION CONCEPT:

This concept believes the revenue could be recognized as soon as it is capable of objective measurement, or the value of asset received in exchange is always reasonable.

CONVENTION/PRINCIPLES

In an attempt to erase doubt and conflict which have been enacted for use. These principles are sometimes referred to as accounting convention.

OBJECTIVITY

This principle cannot be independence of judgment and the part of account preparing the financial statement. Objectivity requires support by verifiable evidence, in contrast to subjectivity or prudence on the unverifiable opinion of the accountant preparing a financial statement.

FAIRNESS

This is an extension of the objectivity principle. The fairness principle requires that accounting report should be prepared not to favor any group or segment of the society.

MATERIALITY

This principle holds that only items of material values are accorded their strict accounting treatment. If an item is considered immaterial, no time needs to be wasted in giving such an item comprehensive accounting treatment. E.g. amount may be written off in the profit and loss account in the year incurred rather than spreading it over a number of years. In any case, the account is considered too small to be accorded falling treatment. An amount considered as material by one firm may be in material of another firm. It all depends on the judgment of the accountant.

PRUDENCE

Despite the fact that business transactions are usually governed by legal principles their presentation in accounting are in accordance with their substance and financial reality and not merely with their legal firm.

FINANCIAL POSTION AND ACCOUNTING EQUATION

Financial position refers to the economics resources that belong to a company and the claims against those resources at a particular point in time. Another term for “claims” is “equity”. Therefore, a company can be viewed as economic resources and equity.
Every company has two types of equity.

1. Creditor’s equity
2. Owner’s equity

Economics resources = Creditor’s equity + owner’s equity

In accounting terminology, economic resources are called assets and creditors equity are called liability

Assets = Liabilities + Capital/Owners Equity

This equation is known as accounting equation.
The two sides of this equation must always be equal.

ASSETS:

These are economic resources owned be a business that are expected to benefit future operations.

Example: cash and money owed to the company by customers, {debtors} are monetary items. Other assets like inventories (goods held for sale, land, building equipment, Etc.)

ILLUSTRATION:

Ashlee decided to buy a wine shop outside the university on January 1. She sells various kinds of wine. She has N35,000 to buy into the business. This was her personal money which she saved N15,000 in her bank a/c.

They are two things an accountant should think about, the one the business owes and how much the business owed.

The business owed N35,000 that she put into the business. In other words, the cash obtained from Ashlee is an asset which means business as a separate entity is owing Ashlee N35,000 and this amount will be repaid anytime she does not want to go into the business.

BOOKS OF PRIME ENTRY

The process of accounting will be virtually impossible if there is no day to day recording of financial transactions as they occur. The recording phase of that accounting is known as book keeping. Book keeping from inception has been defined as the sign of recording transaction in a systematic manner so that the exact financial position of the business can be ascertained at any point in time.

In the earliest/beginning, the book keeping was done in the set of books called books of original entry also known as subsidiary books of account.

a. Cash book
b. Purchase day book
c. Sales day book
d. Return outward book
e. Return inward book
f. Receipt and payment book
g. Bill book
h. Journal book

Also, in accounting, buying of goods on credit is known as trade credit which forms on of the best and highest short term financier of modern business. Trade discount arises as a result of credit purchase. A trade discount is described as a percentage of one's total credit purchase granted to induce someone to buy more. The more one buys, the greater the credit discount.

Illustration 1: Write up the following transaction on the purchase day book of Amanda and sons for the month of October 2017 and balance it on the 31st October 2017

October 2: Bought of Ashlee and Sons:
12 bags of Beans @ N200 per bag
30 bags of Rice @ N130 per bag
18 bags of corn @ N85 per bag

Totals invoice subject to 10% trade discount

October 8: Bought of Deborah Nigeria Ltd.
75 bags of Semovita @ N15 per bag
80 bags of Yam Flour @ N8 per bag
45 bags of Soya Beans @ N22 per bag

October 19: Bought of Koko and Sons
40 Carton of Nasco Biscuit @ N5 per Carton
20 Carton of Bournvita @ N20 per Carton

October 23: Bought of Vanessa Enterprise:
30 bags of Garri @ N120 per bag

October 26: Bought of Elvis Enterprise:
50 Carton of Sugar @ N48 per Carton
60 Carton of Peak Milk @ N150 per Carton
100 Carton of Lipton Tea @ N8 per carton

Invoice subject to 5% trade discount
October 27: Bought of Joy and Company
14 bags of salt @ N10 per bag
100 bags of Corn Flour @ N6 per bag
Invoice subject to 5% trade discount

SOLUTION:
Amanda and Sons Ltd. Purchase Daybook/Journal as at 31st October 2017

DATE	PARTICULARS	FOWO	DETAIL (N)	AMOUNT (N)
October 2	Ashlee & Sons			
	12 bags of beans N200		2400	
	30 bags of Rice @ N150		4500	
	18 bags of Corn @ N85		1530	
			8430	
	10% less trade discount (10% x 8430)		(843)	7587
October 8	Deborah Nig. Ltd.			
	75 bags of Semo @ N15		1125	
	80 bags of yam flour @ N8		640	
	45 bags of Soya Beans @ N22		990	2755
October 19	Koko and Sons			
	40 Cartons of Biscuit @ N5		2000	
	20 Cartons of Bournvita @ N30		600	2600
October 23	Vanessa Ent.			
	30 Bags of Garri @ N120		3600	3600

October 26	Elvis Ent. 50 Cartons of Sugar @ N48 60 Cartons of Peak Milk @ N150 100 Cartons of Lipton Tea @ N8 Less 5% discount (5%x12,200) Joy Company 14 bags of Salt @ N10 per bag 100 bags of Corn Flour @ N6 per bag Less trade discount (5% x 1740)		 2400 9000 800 (610) 140 1600 (87)	 11,590 1653 35,785

Purchase Account (DR)

SALES DAY BOOK/JOURNAL
It is a book in which day to day credit sales of goods and services are being recorded. Sales day book is also called sales journal.

ILLUSTRATION:
Enter the following credits sales on the sales journal at Immaculata's Enterprise, a furniture dealer for the month of November 2017

November 1: Sold to Deo and Sons Ltd.
10 Dinning Tables @ N12,000 each
60 Dinning table @ N4,000 each
5 Set of half upholstery chair @ N9,000 each
Invoice subject to 2.5% trade discount

November 8: Sold to Jennifer Enterprise
30 benches @ N10,000 each
40 Arm Chairs @ N15,000 each

November 19: Sold to Victoria Enterprises
30 Sets of full Upholstery Chair @ N18,000 each
11 writing tables @ N3,000 each
2 Cupboard @ N8,000 each
Invoice subject 5% trade discount

November 24: Sold to Exploit and Co. Ltd.
14 Cabinet Bed @ N25,000 each

November 28: Sold to Nora Enterprise
1 Dinning table @ N12,000
6 Dinning tables @ N15,000
1 Set of half Upholstery @ N9,000
2 writing tables @ N3,000
Invoice subject to 10% trade discount

Solution:

IMMACULATA ENTERPRISE SALES DAY BOOK/JOURNAL AS AT 31ST NOVEMBER, 2017

DATE	PARTICULAR	FOWO	DETAIL	AMOUNT
November 1	**Deo and Sons Ltd.**			
	10 Dinning Tables @ N12,000 each		120,000	
	60 Dinning table @ N4,000 each		240,000	
	5 Set of half upholstery chair @ N9,000 each		45,000	
	Invoice subject to 2.5% trade discount		(10,125)	394,875
November 8	**Jennifer Enterprise**			
	30 benches @ N10,000 each		300,000	
	40 Arm Chairs @ N15,000 each		600,000	900,000
November 19	**Victoria Enterprises**			
	30 Sets of full Upholstery Chair @ N18,000 each		540,000	
			33,000	
	11 writing tables @ N3,000 each		16,000	
	2 Cupboard @ N8,000 each		(5,150)	97850
	Invoice subject 5% trade discount			
November 24	**Exploit and Co. Ltd.**		350,000	350,000
	14 Cabinet Bed @ N25,000 each			
	Nora Enterprise		12,000	
November 28	1 Dinning table @ N12,000		90,000	
	6 Dinning tables @ N15,000		9,000	
	1 Set of half Upholstery @ N9,000		6,000	
	2 writing tables @ N3,000		(1,700)	105,300
	Invoice subject to 10% trade discount			
				1,848,025

THE CASH BOOKS

The cash book is a book into which all cash receipt or payment concerning a particular business are entered. It could also be referred to as book of original entry. This is because balancing which is the major characteristic of ledger account also takes place there on.

The cash book is ruled in such a way that the two sides consisting of the left had side of the cash book which is the receiving is called the Debit (Dr) side while the right hand side which is payment on giving side is the Credit (Cr) side. Any cash received by entity is being recorded on the Dr side while any cash leaving the business is being recorded in the Cr side of the book.

Basically, we have three types of cash book:

1. One column cash book
2. Double or two column cash book
3. Three column cash book

The one column cash book is called that because it contains only one monetary column in both Cr and Dr side. There is normally a thick or double line that separates the debit and credit.

Some of the abbreviations used in the cash book:

- Dr – Debtors or Debit Side
- Cr – Creditors or Credit Side
- Lf – Folio Column
- Bal C/D – Balance Carried Down
- Bal B/D – Balance Brought Down

Illustration

Miss Rita started business with cash of N8,000 after her retirement from civil service on January 1, 2017, the following transactions took place during the month.

		N
January 2:	Bought goods for cash	2,000
January 5:	Bought furniture for cash	1,000
January 8:	Cash sales	3,000
January 11:	Paid Rent	300
January 12:	Cash Sales	200
January 15:	Lent Deborah	1000
January 18:	Bought Stationery	100
January 19:	Paid Wages	200
January 25:	Purchased goods for cash	2000
January 27:	Deborah paid an account	500
January 28:	Received from Amanda	2000
January 29:	Cash Sales	1500
January 29:	Paid Amanda	500
January 29:	Cash for Private use	500
January 29:	Paid insurance premium	20
January 31:	Sales	1000
January 31:	Purchases	1000

You are required to enter the transaction in a single or one column cash book of Rita and balance the account on 31st January 2017.

MISS RITA, SINGLE COLUMN CASH BOOKS AS AT 31ST JANUARY 2017

DR CR

DATE	PARTICULAR	F	AMOUNT	DATE	PARTICULAR	F	AMOUNT
Jan 1	Capital		8,000	Jan 2	Purchase		2,000
Jan 8	Sales		3,000	Jan 5	Furniture		1,000
Jan 12	Sales		200	Jan 11	Rent		300
Jan 27	Deborah Paid in an account		500	Jan 11	Lent Deborah		1,000
Jan 28	Received (Amanda)		2,000	Jan 18	Stationary		100
Jan 29	Cash Sales		1,500	Jan 19	Wages		200
Jan 31	Sales		100	Jan 22	Purchases		2,000

				Jan 29	Paid Amanda		500
				Jan 29	Drawing		500
				Jan 29	Insurance		20
				Jan 31	Purchases		1,000
					Bal C/D		7,580
			16,200				**16,200**

Balance B/D **7,580**

TWO COLUMNS

This cash book is called double column cash book because it contains two monetary columns in each of the Dr and Cr side. These are cash and bank column respectively.

The introduction of the bank column shows that business enterprise maintains cash book both at the office and bank. It also means that the business also transfers some businesses through the bank. Here, any form of cash transaction is recorded in the bank column. In this cash book, it is impossible for the credit side of the cash column to be greater than the debit side of the cash column. The reason is because there must be some special arrangement between the business and the bank to allow them to overdraw. In this cash book, concerning cash on bank column, some external transaction may take place. For instance, money may be withdrawn from bank for office use or money may be taken from office to bank. Any of such transaction represents what is known as contra entry which means that the transaction will be entered into both Dr and Cr side of the cash book although in different columns.

Contra entry is never posted to ledgers because there are deemed to have to satisfy the double entry principle.

EXAMPLE

Enter the following transactions in the two column cash book of Mr. Bassey, a trader for the month of November 2017

			N
November 1:	Capital;	Cash	500
		Bank	12,000
November 2:	Bought goods for cash		3,000
November 5:	Bought Furniture by Cheque		4,000
November 8:	Withdrew cash from bank for office use		4,000
November 10:	Cash Sales paid into bank		2,000
November 13:	Bought Stationeries by Cheque		600
November 14:	Cash sales to date		2,000
November 16:	Received cheque from Amanda		1,800
November 19:	Bought goods by cheque		2,750
November 23:	Cash Sales		3,100
November 24:	Paid Cash into bank		2,500
November 25:	Withdrew cash for private we		300
November 27:	Paid wage in cash		600
November 28:	Cash sales pain into bank		1800

November 29: Paid wages by cheque 500

Required to balance the amount on 30th November, 2017

MR. BASSEY TWO/DOUBLE COLUMN CASH BOOK AS AT 30TH NOVEMBER, 2017

DR CR

DATE	PARTICULAR	F	CASH	BANK	DATE	PARTICULAR	F	CASH	BANK
Nov 1	Capital		5,000	12,000	Nov 2	Purchases		3,000	
Nov 8	Bank	C	4,000		Nov 5	Furniture			4,000
Nov 10	Sales			2,000	Nov 8	Cash	C		400
Nov 14	Sales		2,000		Nov 13	Stationery			600
Nov 16	Amanda			1,800	Nov 19	Purchase			2,750
Nov 23	Sales		3,100		Nov 24	Bank	C	2,500	
Nov 24	Cash	C		2500	Nov 25	Drawing		300	
Nov 28	Sales			1300	Nov 27	Wages		600	
					Nov 29	Rent			500
					Nov 30				
			14,100	19,600				7,400	8,050
	Bal B/D		**1,400**	**8,050**		**Bal C/D**		**14,100**	**19,600**

ASSIGNMENT

Mr. Bassey continued his business into the month of December 2017 and the following transaction took place

		N
December 1: Balance B/F	Cash	7,400
	Bank	8,050

December 3: Bought goods for cash	3,900
December 4: Stationeries for cash	700
December 6: Paid Immaculata by Cheque	3,000
December 9: Bought goods by Cheque	3,400
December 12: Cash Sales	3,200
December 16: Withdraw cash from bank for office use	2,000
December 18: Paid insurance premium in cash	200
December 21: Paid Wages & Salary on Cash	1,960
December 23: Sales into bank	3,300
December 24: Bought goods by cheque	4,400
December 28: Drew cheque for private use	800
December 29: Paid cash into bank	3,120
December 30: Bought building by cheque	3,000

Required: Enter the above transaction in the two column cash book and balance the account on the 31st of December 2017

MR BASSEY, DOUBLE COLUMN CASH BOOK AS AT 31ST DECEMBER 2017

DR									CR
DATE	**PARTICULARS**	**F**	**CASH**	**BANK**	**DATE**	**PARTICULARS**	**F**	**CASH**	**BANK**
Dec. 1	Bal B/F		7,400	8,050	Dec. 3	Purchases		3,900	
Dec. 12	Sales		3,200		Dec. 4	Stationeries		700	
Dec. 18	Bank	C	2,000		Dec. 6	Immaculata			3,000
Dec. 23	Sales	C		3,300	Dec. 9	Purchases			3,400
Dec. 29	Cash			3,120	Dec. 16	Drawings (Cash)			2,000
					Dec. 18	Insurance		200	
					Dec. 21	Salaries/Wages		1,960	
					Dec. 24	Purchases			4,400
					Dec. 28	Drawings			800
					Dec. 29	Bank		3,120	
					Dec. 30	Building			3,000

THREE COLUMN CASH BOOK

It is derived from the fact that it contains three monetary columns in each of the debit and credit side. The columns are; Discount, cash and bank column, respectively. In this cash book, a provision is made for cash discount that may be received or allowed when paying or receiving cash. It is important to note that the discounts columns do not need balancing. We are only interested in the total of the discount column.

The cash discounts are generally granted to induce early payment.

Example 1:

Mr Bassey, trading as Bassey and Sons started business on the 1st of April 2017. When the capital of N20,000 divided as N8,000 cash on hand and N12,000 cash in bank.

The following;

		N
April 2:	Purchased goods for cash	5,000
April 3:	Bought stationeries for cash	500
April 5:	Bought furniture and fitting by cheque	2,100
April 8:	Cash sales paid into Bank	4,200
April 9:	Withdraw cash from bank for office use	5,000
April 11:	Received cheque from Vanessa	1,000
	In settlement of her debt of	1,000
April 13:	Paid Samson	500
	Cash in full settlement of	550
	Owed to him	
April 17:	Cash sales	3,000
April 20:	Rita who owed the business	400
	Was allowed to pay	355
	In full settlement of her debt	
April 23:	Paid cash into bank	2,500
April 27:	Paid wages by cheque	500
April 29:	Bought goods by cheque	3,600
April 30:	Cash sales paid into bank	2,400

Required: Enter the above transaction into three column cash book and balance the account as at 30th April, 2017

MR BASSEY THREE COLUMN CASH BOOK AS AT APRIL 2017

DR **CR**

DATE	**PAR.**	**F**	**DIS**	**CASH**	**BANK**	**DATE**	**PAR.**	**F**	**DIS**	**CASH**	**BANK**
April 2	Capital	C		8,000	12,000	April 2	Purchase			5,000	
April 8	Sales				4,200	April 3	Stationery			500	
April 9	Bank			5,000		April 5	F & F			2,100	
April 11	Vanessa		100		1,900	April 9	Cash	C			5,000
April 17	Sales			3,000		April 13	Samson		50	500	
April 20	Rita		45	355		April 23	Bank	C		2,500	
April 23	Cash	C			2,400	April 27	Wages				1,500
April 30						April 30	Purchase			55	3,600
							Bal C/D			5,755	13,900
May 1	Bal C/F		145	16,355	23,000				50	16,355	23.000
				5,755	13,900						

LEDGER ACCOUNTS

Every credit entry is passed to the debit side on debit account and vice versa

Dr.	Cash A/C		Cr
		Bal	7,000

Dr.	Bank A/C		Cr
	N		N
	8,050		8,050
	8,050		8,050

Dr	Purchase A/C		Cr
3/12			
	N		**N**
Cash	3,900		11,700
	3,400		
	4,400		
	11,700		11,700

Dr	Stationery A/C		Cr
4/12	N		N
Cash	700	Bal C/D	700
	700		700

Dr	Immaculata's A/C		Cr
6/12	N		N
Bank	3,000	Bal c/d	3,000
	3,000		3,000

Dr	Insurance premium A/C		Cr
15/12	N		N
Cash	200	Bal c/d	200
	200		200

Dr	Wages and Salaries A/C		Cr
21/12	N		N
Cash	1,960	Bal c/d	1,960
	1,960		1,960

Dr	Drawings A/C		Cr
28/12	N		N
Bank	800	Bal c/d	800
	800		800

Dr	Building A/C		Cr
30/12	N		N
Bank	3,000	Bal c/d	3,000
	3,000		3,000

THE LEDGER AND TRIAL BALANCE

The ledger is the principal book of account because the output of all other books of original entry are posted off for balancing and also because all items extracted from it are regarded as final summary to be used in the trial balance. In a larger business concern where accounting transactions run in volumes, it is sometimes necessary to divide ledger account into treatable sizes with a clerk of group of clerk handling the recording of each of the clerk.

Therefore, it is meant generally that ledger account is divided into:

1. Personal Account
2. In personal Account

PERSONAL ACCOUNT
These accounts are kept in the name of a person, organization and firms. Therefore, the relationship between the business and the person, organization or firm is either a debtor or creditor. Personal accounts are designed to take records of transactions with customers and suppliers who are simply called debtors and creditors. Debtors' ledger therefore upends the account of those customers to whom entity (business) sells on credit, because the transactions that affect the ledger arise from credit sales. Creditors' ledger on the other hand xxxxx account or person, organization or firms for whom the business buys on credit. This ledger is called purchase or box ledger. This takes charge of the total credit purchases of the period and all other items from the purchase journal.

IMPERSONAL ACCOUNT
This is otherwise known as a general ledger which is further sub-divided into

a. Real account
b. Nominal account

REAL ACCOUNT
This is an impersonal account in the ledger that takes care of properties and position of the business such as furniture, land and building, plants and machinery, fittings and motor vehicles. They are also called account of tangible assets. It takes records of confidential records such as capital, drawings, load, profit and loss.

NOMINAL ACCOUNT
These are those accounts that take charge of records transaction such as income and expenditure, gross and loss in business. This entails the following: sales, purchase, wages, commission, discount (received and allowed) and any other running expenditure of the business. The ledger is drawn in such a way that it has a Dr and Cr side. It is important to note that all concept, wages and expenditures are debit entries in the ledger while all liabilities gains profits and all other forms of income are credit entries.
Therefore, transferring entries from the journal to the ledger account is called posting. Posting entries from journal helps to sort the journal entry so that the debit and credit items affecting each account are brought together in one place e.g. all transactions in cash are brought together in the cash book.

TRIAL BALANCE
The trial balance is the loss of all balances extracted from the ledger account to test the arithmetical accuracy of the ledger output, this is because many errors may occur visibly, affecting the balance in the trial balance. These errors include:

i. Errors of Commission
ii. Errors of principle

Error of commission also known as compensation error. The errors that affect balancing of trial balance, such errors occur through mistake addition of figures, these are called clerical errors.

USES OF TRIAL BALANCE

1. It helps in preparation of the financial statement

2. It helps in maintaining the accuracy and lessening the accuracy of the double entry before a trial balance is prepared, a ledger account must be prepared.

RULES OF TRIAL BALANCE

The rules state that:

1. All assets, expenses, loss are debit balances in the trial balance.
2. All liabilities, income and gains are credit balances in the trial balances.

FORMAT

Particulars	**Dr**	**Cr**
Capital		xxx
P/M	xxx	
L/B	xxx	
Stock (opening/closing)	xxx	
Purchases	xxx	
Sales		xxx
Rents/rate	xxx	
Wages/salaries	xxx	
Advertisement	Xxx	
Printing/postages	xxx	
Sundries expenses	xxx	
Cash in hand	xxx	`
Bank overdraft		xxx
Debtors		xxx
Creditors	xxx	
Bad debt	xxx	
Bad debt/w/b	xxx	
Depreciation	xxx	
Motor Van	xxx	
Carriage Inward	xxx	
Carriage Outward	xxx	
Lightening	xxx	
Telephone	xxx	
Discount Received		xxx
Discount Allowed	xxx	

There are basically five errors that will not show up or affect the trial balance.

1. Errors of omission
2. Errors of commission
3. Errors of principle
4. Compensative error
5. Error of original entry

Error that affect the trial balance:

These are errors that will cause discrepancies or disagreement of the two sides of the trial balance.

1. If credit purchases are entered into the purchase account but not recorded in the creditors account. It therefore means that the total of the Dr column of the trial balance will not be equal to that of the Cr column of the trial balance will not be equal to that of the Cr column.
2. If an amount for transactions transposed and posted to the affected account e.g. purchase made on Cr for N750 was debited to purchase account as N570 and the creditors account N750, the Cr side of the trial balance will not balance. This is known as transposition error.
3. Overcast or under cast
4. The total omission of a particular account balance during casting a ledger balance in trial balance.
5. Recording done starting with the wrong amount.

HOW TO DISCOVER ERROS IN THE TRIAL BALANCE

If the Dr and Cr side of the trial balance do not agree, the following are ways to find our;

1. Cross check the addition of the trial balance
2. Check the figures from the ledger to the trial balance to ensure balance has been overlooked or omitted.
3. Check the addition in the ledger account, cash and bank to ensure that all the debit balance in the ledger are to be entered as Dr balance.
4. Find the difference between the Dr side and Cr side of the trial balance and divide by two (2)
5. Check if there is any account that is posted twice or more.
6. Check figures that are badly written
7. Recast the trial balance

Enter the following items on the trial balance of Immaculata and Sons Limited for January 2018

Capital	238,400
Drawings	48,500
Mortgage Loan	20,000
Cash at Bank	15,400
Land & Building	79,000
Cash in Hand	7,552
Furniture & Fitting	5,000
Motor Vehicles	5,920
Debtors	172,040
Creditors	219,000
Salary	23,416
Discount Allowed	7,880
Discount Received	10,720
Light and Heat	6,520
Opening Stock	18,600
Carriage Outward	1,300
Carriage onward	720
Return Inward	22,900

Return Outward	7,064
Purchases	602,984
Sales	638,900
Bad Debts w/o	93,000
Bills Receivable	60,000
Bills payable	180,000

Required: Compute and extract trial balance for the end of the month.

IMMACULATA AND SONS TRIAL BALANCE

PARTICULAR	**Dr**	**Cr**
Capital		238,400
Drawing	48,500	
Mortgage Loan		20,000
Cash at Bank	151,480	
L&B	79,000	
Cash in Hand	7,552	
F&F	500	
M/V	2,920	
Debtors	173,040	
Creditors		219,000
Salaries	23,416	
Discount Allowed	7,800	
Discount Received		19,720
Light & Heat	6,520	
Insurance Premium	592	
Rent and Rate	5,680	
Opening Stock	18,600	
Carriage Outward	1,300	
Carriage Inward	720	
Return Inward	229,000	
Return Outward		7,064
Purchases	602,984	
Sales		638,900
Bal debts W/C	93,000	
Bill receivable	60,000	
Bills payable		180,000
	1,314,084	1,314,084

SUSPENSE ACCOUNT

It is clearly state that we cannot proceed to the preparation of final account until the errors that is making the trial balance not balance have been found and put out right. However, the situation may arise where it is urgently necessary for the final account to be prepared in other to aid or help the management in decision making. It so is the case, the discrepancies between the Dr and Cr balance side of the trial balance is entered up on the account known as suspense account.

Suspense account is also known as a temporal account by which we place the difference either in the Dr or Cr side of the trial balance. The total balance of a trial balance and the error that are not discovered before at the preparation of the final account deem it necessary to open a suspense account of the final account is prepared before the error corrected, the figures for the net profit, assets liabilities that are contained in the balance sheet may not be correct, since the figures may be affected by the errors.
In other to correct these errors, the adjustment journal must be raised.

ILLUSTRATION:
The following are the extracts of the trial balance of Bassey and Sons as at 31 December, 2017.

Due to the disagreement of the total of the debit and credit side of the trial balance, the accountant of the firm, deemed it fit to open a suspense account where the posted the difference. So the final accounts were prepared.
Below is the trading, profit and loss account and balance sheet drawn up. Total net profit N250,000
January 2018, the following errors were:

a. Sales day book was undercast by N12,000
b. The cost of a computer amounting N30,000 has been debited in error to rent account
c. Total of discount allowed amounting to the sum of N10,000 has contained in the cash book has been posted to the wrong side of the discount account.
d. Bad debt account had been debited N3,000 on 31st August, 2017. In respect of debts due from Adam but no corresponding credit entry had been made from the above information, you are required to:

1. Prepare the journal to correct the errors and display the suspense account
2. Prepare statements showing the calculations of the correct profit.

JOURNAL ENTRIES

S/N	PARTICULARS	DR	CR
A	Dr suspense account Cr Sales account Being amount overcasted in sales day book	12,000	 12,000
B	Dr Computer Cr Rent Account Being amount posted to wrong account	30,000	 30,000
C	Dr Discount Account Cr Suspense Account Being amount posted to wrong side of the account	10,000	 10,000
D	Dr Suspense account Cr Debtors account Being amount posted into one side of the account (Dr)	3,000	 3,000

Dr Suspense A/c Cr

Sales	12,000	Discount	10,000
Debtors	3,000	Difference on trial balance	5,000
	15,000		15,000

ADJUSTED NET PROFIT

Net Profit				250,000
Add:	Increase Sales	12,000		
	Decrease in rent	30,000	42,000	
Less:	Discount allowed		(1000)	33,000
				282,000

INCOMPLETE PERIOD

Some individual in business especially retailed run their business on a small scale and as such, they do not fully appreciate the importance of maintaining the account of the double entry system. This is due to ignorance, inexperience and lack of qualified staff. So they tend to consider the maintenance of only cash book, as such, only the aspect of cash transactions recorded.

ILLUSTRATION 1:

In the case of additional capital and drawing, Amanda had a capital of N7,500 on 1st January, 2016 and a balance sheet prepared at the end of 2016 show an excess of assets over liabilities to the tune of N21,700, the drawings during the year amounted to N6,000. She had sold her personal car for N4, 000 and deposited the proceeds into the business account. Calculate the profit for the year.

BANK RECONCILIATION STATEMENT

The book in which the bank prepared showing the transaction between one bank and the customer is known as bank statement. As a matter of necessity, the balance of cash book in the office and the bank statement in the bank must be equal. When there are differences in the balancing then, there is need for reconciliation. Therefore, bank reconciliation statement can now be defined as a statement that is prepared to reconcile the disagreement of cash and bank statement. The reconciliation is necessary in order to test the accuracy of the posting in the cash book by reconciling the balance of the cash book and that of the statement.

REASONS OF DISAGREEMENT BETWEEN THE CASH BOOK AND THE BANK STATEMENT

They are some finding and information differences which can cause disagreement. There are as follows;

1. Unpresented cheques

2. Uncredited cheques
3. Dishonoured cheques
4. Bank charges
5. Standing order
6. Dividend
7. Credit transfer
8. Direct debit
9. Undercasting of the cash book balance
10. Overcasting of the cash book balance b/d

PREPARATION OF BANK RECONCILIATION STATEMENT

FORMAT A:		N	N
	Balance as per cashbook		xxxx
Add:	Unpresented Cheques	xxx	
	Credit Transfer	xxx	
	Dividend	xxx	
	Undercasting of balance of cash book	xxx	xxxx
Less:	Uncredited Cheques	xxx	
	Bank Charges	xxx	
	Standing Order	xxx	
	Commission	xxx	
	Dishonoured Cheques	xxx	
	Overcasting of balance of cashbook	xxx	(xxxx)
			xxxx

FORMAT B

Balance as per bank statement			xxxx
Add:	Uncredited Cheques	xxx	
	Bank Charges	xxx	
	Standing Order	xxx	
	Commission	xxx	
	Dishonoured Cheques	xxx	
Overcasting of Balance of Cashbook		xxx	xxx
Less:	Unpresented Cheques	xxx	
	Credit transfer	xxx	
	Dividend	xxx	
Undercasting of balance of cash book		xxx	(xxxx)

BANK OVERDRAFT

This is a situation whereby the cash book balance might have been overdrawn; the cash book will then show a credit balance. The adjustment needed to reconcile the disagreement, is the complete opposite where cash book shows a credit balance.

FORMAT A

Overdraft as per cash book	xxxx

Add:	Uncredited Cheques	xxx	
	Bank charges	xxx	
	Standing Order	xxx	
	Commission	xxx	
	Dishonored Cheque	xxx	
Overcastting of balance of cash book		xxx	xxxx
Less:	Unpresented Cheques	xxx	
	Credit transfer	xxx	
	Dividend	xxx	
Undercasting of balance of cashbook		xxx	(xxxx)

FORMAT B

Overdraft as per bank statement			xxxx
Add:	Unpresented cheques	xxx	
	Credit transfer	xxx	
	Dividend	xxx	
Undercasting of balance of cash book		xxx	xxxx
Less:	Uncredited cheques	xxx	
	Bank charges	xxx	
	Standing order	xxx	
	Commission	xxx	
	Dishonored cheque	xxx	
Overcastting of balance of cashbook		xxx	(xxxx)
			xxxx

FINAL ACCOUNTS OF A SOLE TRADER

The account statement which shows the performance or result and statement of affairs of any organization is called final account. The final account can be categorized in two ways:

1. Final account of a trading organization/bus.
2. Final account of a non – trading concern.

The final accounts of trading and manufacturing business are of three stages: -

i. Income statement or trading account
ii. Profit and loss account
iii. Balance sheet

In other words, the final, account of a sole trader consists of the following: trading account, profit and loss account and balance sheet.

TRADING ACCOUNT:

A trading account is presented to show a particular type of profit or loss known as gross profit or gross loss for the period of which it is covered, usually one year. It is prepared to conform to the rules of double entry principle. It contains the result of the operation of the business over a specific period of time, usually one year.

The trading account is always a pointer to look at the different sales and the cost of goods sold. It is a revenue account which follow the rules of double entry principle. It is very informal like any other account. It shows the left side to be the debit side and the right side to be the credit side.

TRADING ACCOUNT FORMULA

1. Average stock = $\frac{\text{opening stock + closing stock}}{2}$

   Rate of turnover = $\frac{\text{cost of goods sold}}{\text{Average stock}}$
2. Stock available for sale = opening stock + net purchase
3. Cost of goods sold = stock available for sale – closing stock
4. Opening stock = cost of goods sold + closing stock – net purchases
5. Closing stock = stock available for sale – cost of goods sold
6. Purchase = cost of goods sold + closing stock – opening stock
7. Sales = (a) cost of goods sold to trading expenses + gross profit
   (b) when % of a profit is given

TRADING ACCOUNT FORMAT

Dr Trading, Profit and Loss Account for the year Cr

Opening		xxx	Sales		xxx
Add: Purchases	xxx		**less**:	return inward	xxx
Carriage inward	xxx				xxx
	xxx				
ess: return outward	(xxx)	xxx			
Cost of goods available for sale		xxx			

1. If the percentage is given on cost -> sales = 100+% of profit x cost
2. If it is on sales or turn over -> sales = 100 x cost = 100% of profit

	N		
Less closing stock	xxx		
Cost of goods sold	xxx		
Gross profit	xxxx		
	xxxx		xxxx

cont.) % of gross profit on turn over = Gross Profit / sales x 100%

ILLUSTRATION

On January 1st 2017, Samson's opening stock was valued at N 5, 200. His closing stock on the 31st December 2017 was valued at N 6, 800. He turned over his stock 5 times during the year and made on the whole a gross profit of N25, 000 on the turn over.

REQUIRED

Show the trading account for the year with necessary calculations

SOLUTION

Average Stock => $\frac{5,200 + 6,800}{2} = \frac{1,200}{2} = 6,000$

Cost of goods sold => Average stock x rate of turnover
= 6,000 x 5
= 30,000

Purchases = 30,000 + 6,800 – 5,200 = 31,600

Sales = $\frac{100 \times 30,000}{100\% \times 25\%}$ = 31,600 $= \frac{3,000,000}{75} = 40,000$

Samson's Trading Account for the year ended 31st December 2017

Dr			Cr
Opening Stock	5,200	Sales	40,000
Add: Purchase	31,600		
Cost of good available for sale	36,800		
Less: Closing Stock	6,800		
Cost of goods sold	30,000		
Gross profit	10,000		
	40,000		40,000

PROFIT AND LOSS ACCOUNT

This is a financial statement in which the revenue earned by a business is matched against the expenses incurred in earning it. The result of the difference is known as net profit or net loss.

FORMAT FOR PROFIT AND LOSS ACCOUNT

Expenses		**Gross Profit c/d**	**N**
Wages and Salaries	xxx	Add discount received	xxx
Telephone bill	xxx	Bank Interest	xxx
Bad Debt	xxx	Commission received	xxx
Motor Expenses	xxx	Profit on sales of assets	xxx
Stationery	xxx	Bad debt recovered	xxx
Bank Charges	xxx		
Loss on sales of assets	xxx		
Advertising	xxx		
Lighting and heating	xxx		
Rent and rate	xxx		
Postages	xxx		
Discount allowed	xxx		
Net profit/ loss	xxx		
	xxxx		xxxx

ASIGNMENT

The following are extracted from the book of Rita on 30th June, 2017

Stock at start	6,000
Purchases	14,600
Purchases return outward	300
Carriage inward	700
Sales	20,200
Sales return inward	200
Wages	1000
Salaries	1500
Insurance premium	500
R&R	200
Discount allowed	50
Discount received	160
Commission received	500
Stock at close	2000

REQUIRED

From the above information, prepare Rita's trading, profit and loss account for the year ended 31st December, 2017.

Dr Cr

Rita's Trading Profit and loss account for the year ended 31st December 2017

		N		N
Opening stock		6,000	Sales	20,000
Add purchases	14,600		Less return o/w	(200)
C/W	700			
	15,300			
Loss R/W	(300)	15,000		
COGAFS		21,000		
Less closing stock		(7000)		
COGS		14,000		
Add Wages		1,000		
Gross Profit		5,000		
		20,000		20,000
Expenses:			Gross Profit C/D	5,000
Salaries		1,500	Discount received	160
Insurance		500	Commission received	500
R&R		200		
Discount allowed		50		
Net profit		4,400		
		6,650		6,650

BALANCE SHEET

The balance sheet is defined as a statement which summarizes and shows the true position of a firm or business in a given date usually one year.

The balance sheet can also be defined as the financial statement showing the assets, liability and owner's equity (capital) of an organization in a particular point in time in which financial condition of a business entry is determined.

The balance sheet consists of two side: the asset side, the liability side and owner's equity and thus, and thus increase in either liability or owner's equity. In as much as all ??? assets is being ??? by liabilities are owner's equity, the two sides of the balance sheet must balance.

BALANCE SHEET FORMULA

1. Capital Invested: This is the actual amount of money that is brought into the business by the owner from outside.

2. Capital Owned: Capital at the beginning of the year + Profit – Drawings

3. Capital Employed: Capital Owned + Total Liabilities

4. Working Capital: Current Asset – Current Liabilities

BALANCE SHEET FORMULA

Balance sheet as at…

	N	N		N	N
Capital		xxx	Fixed Asset		
Add: Net Profit		xxx	Land & Building		xxx
			Less Depreciation		(xxx)
Less: Drawings		xxx	Plant and Machinery		xxx
		xxx	less depreciation	xxx	
Long term liabilities			Motor van vehicles		xxx
Mortgage loan	xxx		less Depression	(xxx)	
Debenture	xxx		furniture & Fitting		xxx
Short term liabilities			Current Assets		
Loan	xxx		Stock		xxx
Creditors	xxx		Debtors		xxx
Bills Payable	xxx	xxx	Payment in advance		xxx
Expense		xxxx	Bills receivable		
			Income on ????		xxx
			Cash in hand		xxx
			Cash at bank		xxx
		xxxx			xxxx

prepare a balance sheet for exploit ???? for the figures given below

	Dr	Cr
Capital		12,000
L&B	9,235	
Mortgage	5,545	
Profit and Loss		1,800

F&F	2,560	
MV	1,731	
Closing Stock	1,500	
Debtors	5,737	
Creditors		3,677
Cash at hand	7,000	
Drawings	1,500	

EXPLOIT LATESAT BALANACE SHEET AS AT 31ST DECEMBER 2017

	N	N		N	N
Capital		12,000	Fixed Assets		9,236
Add: Net Profit	1,800		L&B		9,235
		13,800	F&F		2,560
Less Drawings	(1,500)		Motor Vehicle		1,731
		12,300			13,526
Long term liabilities:			Current Assets:		
Mortgage on premises		5,545	Stock		1,500
Current Liabilities			Debtors		5,737
Creditors		3,677	Cash in hand	759	7,996
		21,522			21,522

From the following trial balance of Dami Amanda, prepare, trading profit and loss account for the year ended 31st September 2017 and balance sheet of that day.

	Dr	Cr
Capital		38,400
Mortgage Loan		20,000
Drawings	6,500	
Cash in Bank	10,980	
L&B	79,000	
Cash in Hand	552	
F&F	5,000	
Motor Van	5,920	
Debtors	11,040	
Creditors		40,000
Salaries	23,416	
Discount Allowed	4,880	
Discount Received		10,220
Light & Heat	6,580	
Insurance Premium	592	
Rents & Rates	5,680	
Stock at Beginning	18,600	

COW	1,300	
C/W	720	
R/W	2,900	
ROW		5,064
Purchases	106,984	
Sales		173,900
	298,584	298,584
Closing stock	21,200	

DAMI AMANDA TRADING PROFIT & LOSS ACCOUNT FOR 30TH SEPTEMBER 2017

	N	N		N	N
Opening Stock		18,600	Sales		178,900
Add: Purchase	108,984		Less: R/W	(2,900)	
Carriage ????	720				176,000
	109,704				
Less: R/W	(5,084)	104,640			
CORAFS		123,240			
Less: Closing Stock		(21,800)			
COGS		101,440			
Gross Profit		74,560			
		176,000			176,000
Expenses:		N	Gross Profit c/d		74,560
Carriage Outward		1,300	Discount Received		10,200
Salaries		23,416			84780
Light & Heat		6,580			
Insurance Premium		592			
Discount allowed		4,880			
Rents & Rates		5,680			
Net Profit		42,392			
		84,780			84,780

DAMI AMANDA BALANCE SHEET FOR THE MONTH SEPTEMBER

	N	N		N	N
Capital		38,400	Fixed Assets		
Add: Net Profit	42,392		Land & B		79,000
		80,792	F&F		5,000
Less: Drawings		(6,500)	MV		5,920
		74,292			89,920
Long term liabilities:			**Current Assets:**		
Mortgage load		20,000	Stock	21,800	
Current Liabilities		40,000	Debtors	11,040	
		134,292	Cash in hand	552	

	Cash in bank	10,980	44,272
134,292			134,292