



SECOND TERM E-LEARNING NOTE

SUBJECT: FINANCIAL ACCOUNTING

CLASS: SS 1

SCHEME OF WORK

WEEK	TOPIC
1. - 2	Cash Book – Single Column Cash Book/Double Column Cash Book
3. - 4	Three Column Cash Book
5. - 6	Petty Cash Book
7.	Accounts: Meaning and Classifications: The Ledger: Meaning and Classification
8. - 9	The Trial Balance – Preparation, Uses etc. Errors not disclosed by the Trial Balance Errors that will affect the agreement of the Trial Balance
10.	Correction of Errors

WEEK ONE AND TWO

DATE

TOPIC: THE CASH BOOK

CONTENT

- Types of Cash Book
- Single Column Cash Book
- Two Column Cash Book
- Contra Entries
- Bank Overdraft

The Cash Book is a subsidiary book of account that is used to record the payments and receipts of money (cash or cheques) to or by a business organisation. The cash book is part of the double entry system. It therefore functions both as a ledger and a subsidiary book of account

Types of Cash Book

1. Single Column Cash Book
2. Two Column Cash Book (or Double Column Cash Book)
3. Three Column Cash Book
4. Petty Cash Book

Single Column Cash Book

This is the simplest form of Cash Book operated by a business and it is used to record all cash transactions. The cash transactions recorded in the cash book can be for cash sales, cash purchases, payment of cash to suppliers, receipt of cash from customers, acquisition of properties (fixed assets) by cash and all other transactions that involved the receipt and payment of cash.

Illustration:

Prepare a Cash Book from the following information for the month of March 2017



		₦
March 1	Balance of cash in hand	14, 130
2	Received Cash from Adesola a credit customer	3, 600
4	Paid rent for the month	1, 750
5	Paid cash to Lawal, a supplier	3, 200
9	Cash Sales	22, 110
10	Cash Purchases	15, 235
12	Cash received from D. Bright as a loan	10, 000
18	Paid Ayodele a supplier on account	6, 250
19	Received cash from Bonik Ventures, a customer	14, 000
22	Credit sales to Owoyemi	42, 000
24	Purchases on credit from F. Lawal	18, 550
26	Paid wages to shop clerk	4, 500
28	Paid electricity bills	1, 200
30	Paid carriage on purchases	2, 500

Cash Book

Date	Narration	Folio	Amount	Date	Narration	Folio	Amount
2017			₦	2017			₦
Mar 1	Balance	b/d	14, 130	Mar 4	Rent		1, 750
Mar 2	Adesola		3, 600	Mar 5	F.Lawal		3, 200
Mar 9	Sales		22, 110	Mar 10	Purchases		15, 235
Mar 12	D. Bright – Loan		10, 000	Mar 18	Ayodele		6, 250
Mar 19	Bonik Ventures		14, 000	Mar 26	Wages		4, 500
				Mar 28	Electricity		1, 200
				Mar 30	Carriage Inwards		2, 500
				Mar 31	Balance	c/d	29, 205
			63, 840				63, 840

Note: The credit sale of March 22 and credit purchases of March 24 are not posted to the cash book because they do not involve movement of cash. The two transactions can only be posted in the Sales Journal and the Purchases Journal respectively. Students should watch out for transactions like these during examinations.

Two Column Cash Book

As a business grows, the owner will realize the need to open a bank account where the business money can be kept. The business will therefore prepare a two column (or double column) Cash Book to record the movements of money. The Cash Account and the Bank Account will appear side-by-side in the Cash Book.

The rules of double entry bookkeeping are still applied. Any money received is debited in the Cash Book. If the money is placed in the cash till, it will be entered in the cash column and if it is paid into the bank or received as cheque, it will be entered in the bank column.

Any money paid out is credited in the Cash Book. If the money is paid in cash it will be entered in the cash column and if it is paid by cheque, it will be entered in the bank column.



The Cash Account and the Bank Accounts must be balanced separately at appropriate interval to determine the Cash in Hand and the Cash at Bank.

ContraEntries

Sometimes surplus cash is paid into the bank, or money may be withdrawn from the bank to the office. Such transactions are known **contra entries** because they appear on both sides of the Cash Book.

A contra entry occurs when the double entry records of a transaction occurs in the same ledger.

To record cash removed from the office and paid into the bank:

Debit Bank Account

Credit Cash Account

To record cash withdrawn from the bank for office use:

Debit Cash Account

Credit Bank Account

In each case, the letter “**c**” is usually entered in the folio column of the cash book to indicate that the double entry is on the opposite side of the same book.

EVALUATION

1. List four features of the Cash Book
2. Explain using suitable example the meaning of the term – Contra Entries

Illustration

The following information has been extracted from the books of C.Bintu for January 2015

Jan 1 Balance brought forward from last month:

Cash in hand N9, 000

Cash at Bank N6, 800

Jan 2 Paid rent by cash N2, 500

Jan 4 Cash sales N7, 400

Jan 7 Cash paid into the bank N10, 000

Jan 8 Bought office furniture, paying by cheque N7, 000

Jan 9 We paid C. Asafo by cheque N1, 200

Jan 15 Cash drawings by proprietor N1, 000

Jan 20 J.Oloye paid us by cheque N4, 000

Jan 21 Cash sales paid directly into the bank N8, 500

Jan 25 Sold goods for cash N15, 000

Jan 27 Withdrew N5,000 from the bank for business use

Jan 29 Paid wages in cash N14, 000

Jan 30 Paid motor expenses by cheque N3, 000

Jan 31 We banked all the cash in our possession except for N2, 000 in the cash till

You are required to prepare the Cash Book of the trader for the month of January 2015



Cash Book

Date	Narration	Folio	Cash	Bank
2015			N	N
Jan 1	Balance	b/f	9,000	6,800
Jan 4	Sales		7,400	
Jan 7	Cash	c		10,000
Jan 20	J.Oloye			4,000
Jan 21	Sales			8,500
Jan 25	Sales		15,000	
Jan 27	Bank	c	5,000	
Jan 31	Cash	c		6,900
			36,400	36,200

Date	Narration	Folio	Cash	Bank
2015			N	N
Jan 2	Rent		2,500	
Jan 7	Bank	c	10,000	
Jan 8	Office furniture			7,000
Jan 9	C.Asafa			1,200
Jan 15	Drawings		1,000	
Jan 27	Cash	c		5,000
Jan 29	Wages		14,000	
Jan 30	Motor Expenses			3,000
Jan 31	Bank	c	6,900	
	Balance	c/d	2,000	20,000
			36,400	36,200

The balance on the cash column will always be brought down as a debit balance at the start of the next month. The only exception to this is when there is no cash left in the cash account in which case the balance will be nil.

It is not possible to have a credit balance on a Cash Account.

The bank may however allow the business to have a bank overdraft. This means that the bank allows the business to pay out more from its bank account than the money they have deposited with the bank. The bank will charge interest on the amount overdrawn.

In the Cash Book, the bank account (i.e bank column) is balanced in the usual way and the balance will be brought down on the credit side. This represents the amount the business owes the bank and is a liability.

EVALUATION

1. Business Accounting 1 Exercise 12.1 and 12.2
2. Simplified and Amplified Financial Accounting Exercise 5x and 6 Page 67

READING ASSIGNMENT

1. Simplified and Amplified Financial Accounting Page 59 – 71
2. Business Accounting 1 Page 90 – 96

GENERAL EVALUATION QUESTIONS

1. Explain the principle of double entry system
2. List eight users of accounting information
3. List eight books of account that are used to keep accounting records
4. State four differences between book-keeping and accounting
5. Explain the term ‘contra entries’

WEEKEND ASSIGNMENT



1. Which of the following subsidiary books involves cash movement A. Sales Day Book B. Purchases Day Book C. Returns Inwards Book D. Cash Book
2. Which of the following books of original entry also serves as a ledger A. Purchases Day Book B. Cash Book C. The Journal D. Sales Day Book
3. The lodgement of business cash into the business bank account is an example of A. bank reconciliation B. self balancing ledger C. contra entry D. reversal entry
4. Nwoye buys goods and pays by cheque. The entries in the books of Nwoye is debit A. Purchases; Credit Cheque B. Purchases; Credit Bank C. Bank; Credit Purchases D. Cheques; Credit Purchases
5. A debit entry in the Cash Account and a corresponding credit entry in Aliu's Account indicate a A. sales of goods to Aliu for cash B. purchase of goods from Aliu for cash C. receipt of cash from Aliu D. payment of cash to Aliu

THEORY

1. List three source documents that are used in preparing the Cash Book
2. Explain the term 'Bank Overdraft'

WEEK THREE AND FOUR

DATE

TOPIC: Three Column Cash Book

CONTENT

- Discounts – Definition, Types, Features
- Reasons for Granting Discounts
- Differences Between Trade Discounts and Cash Discounts
- Classification on Cash Discounts
- The Three Column Cash Book

Three Column Cash Book

This type of Cash Book combine discount column on both side to the cash and bank column. The discounts allowed column is on the debit side, while the discounts received column is on the credit side. The principle of double entry is also applicable in the three column Cash Book. It must be noted however that the discount allowed and the discount received columns though they have the appearance of account columns, are merely memoranda, from them we can obtain periodic totals that will be entered in the discounts accounts.

Discounts

This is the reduction in the price of goods given by a trader to his customer in order to encourage bulk purchases or prompt payment

Types of Discounts

- a. **Trade Discounts:** This is the discount given by a trader to encourage his customers to buy in bulk i.e. in large quantities
- b. **Cash Discounts:** This is the discount given by a trader to encourage his customers to settle their accounts promptly



Reasons for Granting Discounts

1. To encourage customers to buy in bulk i.e. in large quantities
2. To encourage prompt settlement of account
3. To avoid (reduce) the risk of bad debts
4. To allow the buyer to have a margin for his own profit
5. To avoid tying down of business capital
6. Discounts attract customers
7. Discounts encourage continuous patronage by loyal customers
8. Discounts increases the sales or turnover of a business

Difference between Trade Discounts and Cash Discounts

Trade Discounts

1. Given to encourage bulk purchases
2. Trade discount is recorded in the journals (daybooks)
3. Trade discount is unconditional
4. Trade discount must be deducted before cash discount

Cash Discounts

- Given to encourage prompt settlement of account
Cash discount is recorded in the ledger
- Cash discount is conditional: payment must be made within a specified period of time
Cash discount is deducted after trade discount has been deducted

Classification of Cash Discounts

1. **Discounts Allowed:** This is the discount a business allows its credit customers (debtors) when they pay their accounts within a set time. This is an expense of the business as it is the cost of having debts settled promptly
2. **Discounts Received:** This is the discount a business receives from its credit suppliers (creditors) when it pays their accounts within a set time. This is an income of the business as it is the benefit received from settling debts promptly. It is important to realize that discount received does not involve the receipt of money: the supplier simply accepts less money in settlement of the account

EVALUATION

1. State four features of each of the following (a) Trade Discounts (b) Cash Discounts
2. List five reasons why a trader will grant discount to his customers

Illustration

From the following information write up a three column Cash Book of Favour Business Enterprises balance off at the end of the month, and show the relevant discounts accounts as they would appear in the general ledger:

2016

March 1	Balance brought forward:
	Cash in hand N21,100
	Cash at bank N89,840
” 2	We paid each of the following accounts by cheque, in each case we deducted 5% cash discount: T. Ankrah N8,000; C. Asafo N26,000; D. Kodjo N44,000
” 4	C. Talabi pays us a cheque for N9,800
” 6	Cash sales paid direct into the bank N14,900
” 7	Paid insurance by cash N6,500



- ” 9 The following persons paid us the following accounts by cheque, in each case they deducted a discount of $2\frac{1}{2}\%$: R. Dambo N16,000; J. Apiah N6,400; R. Andrah N5,200
- ” 12 Paid motor expenses by Cash N10,000
- ” 18 Cash sales N98,000
- ” 21 Paid salaries by cheque N12,000
- ” 23 Paid rent by cash N6,000
- ” 28 Received a cheque for N50,000 being a loan from R. Atadika
- ” 31 Paid for stationery by cheque N8,700

Favour Business Enterprises
Cash Book

		Discou nt Allowe d	Cash	Bank			Discou nt Allowe d	Cash	Bank
		₦	₦	₦			₦	₦	₦
2016									
Mar 1	Balance	^{b/d}	21,000	89,840	Mar 1	T. Ankrah	400		7,600
Mar 4	C. Talabi			9,800	Mar 2	C. Asafo	1,300		24,700
Mar 6	Sales			14,900	Mar 2	D. Kodjo	2,200		41,800
	R. Dambo	400		15,600	Mar 7	Insurance		6,500	
	J. Apiah	160		6,240	Mar 12	Motor Ex		10,000	
	R. Andah	130		5,070	Mar 21	Salaries			12,000
	Sales		98,000		Mar 23	Rent		6,000	
	R. Atadika - Loan			50,000	Mar 31	Stationery			8,700
					Mar 31	Balance	^{c/d}	96,600	96,000
		690	119,110	191,450			3,900	119,100	191,450

General Ledger

		Discounts Allowed	
		₦	2016
2016			₦
Mar 31	Total for the month	690	



Discounts Received			
2016	₦	2016	₦
		Mar 31	Total for the month
			3,900

N.B: Note that the discount columns in the Cash Book are totaled and not balanced. They are to be added weekly or monthly at the time the cash and bank columns are balanced and ruled off. the totals of the discount columns are taken to the discounts accounts in the ledger and are entered on the same sides of these accounts as they are found in the Cash Book

EVALUATION

1. Business Accounting 1 Exercise 13.1, 13.2, 13.4A and 13.5A
2. Simplified and Amplified Financial Accounting Exercise 2x; 5; 6x and 7x

READING ASSIGNMENT

1. Simplified and Amplified Financial Accounting page 72 – 86
2. Business Accounting 1 page 97 – 106

GENERAL EVALUATION QUESTIONS

1. Differentiate between Discounts Allowed and Discounts Received
2. State four differences between Trade Discounts and Cash Discounts
3. List two similarities between Discounts Allowed and Discounts Received
4. State ten uses of the General Journal
5. List ten ledger accounts that have debit balances

WEEKEND ASSIGNMENT

1. In which of the following books will trade discount be recorded A. Cash book B. General Ledger C. Invoices D. Purchases Day Book
2. When discount is allowed the accounting entry is debit discount allowed account and credit A. Expenses Account B. Suspense account C. Debtors Account D. Creditors account
3. The process of entering transaction from one book to another is A. folio B. casting C. posting D. numbering
4. The column which is not generally balanced but summed up in the three column cash book is the _____ column A. bank B. cash C. contra D. discount
5. When both debit and credit entries in respect of a transaction are made in the same ledger account this is A. a ledger entry B. an accounting entry C. a folio entry D. a contra entry

THEORY

1. State five reasons why a trader will grant trade discount to his customer
2. State four differences between trade discounts and cash discounts

WEEK FIVE AND SIX
TOPIC: Petty Cash Book
CONTENT

DATE



- Definition and uses of the Petty Cash Book
- The Imprest System: - Meaning, Characteristics and Advantages
- Preparation of the Petty Cash Book

The Petty Cash Book

This is the subsidiary book of account that is used for recording low-value (petty) cash payments (and occasional small cash receipts). These may include small incidental expense such as postages, stationery, cleaning, travelling expenses and even small cash payments to creditors

The petty cash book is similar to the Cash Book in that it serves the dual purpose of book of prime entry and since it is part of the double entry system, it is also a ledger account. Maintaining a Petty Cash Book means that it is not necessary to record small cash payments individually in either the Cash Book or the ledger. This reduces the number of entries in these books.

The task of maintaining a Petty Cash Book is often given to a junior member of staff who is given an amount of cash to act as a float from which to make small cash payments. This allows the chief cashier (main cashier) to concentrate on more important tasks and also provides valuable training for a junior member of staff. The chief cashier must check the work of the petty cashier at regular intervals.

When a member of staff wishes to obtain some petty cash, he/she should present the petty cashier with a completed and duly authorised **petty cash voucher**. This should show the purpose for which the money is required the date and the signature of the person receiving the cash. At regular intervals the petty cashier should check these vouchers against the total cash spent

The Imprest System

In most organisations, the Petty Cash Book is maintained using the imprest system. The imprest system operates when the main cashier gives the petty cashier enough money that is sufficient to cover petty expenses for a given period of time e.g. a week or a month. Under the system, the petty cashier starts each period (week, fortnight, month etc.) with a fixed amount of money known as the **imprest amount** or the **cash float**. During the period, payments are made out of the cash float and are recorded in the Petty Cash Book. At the end of the period, after the Petty Cash Book is balanced, the main cashier will provide the petty cashier with enough cash to restore the balance to the amount of imprest (cash float). The petty cashier therefore starts each period with the same amount of cash

Under the imprest system, the main cashier is aware of exactly how much petty cash has been spent in each period. The amount of the imprest can be adjusted as necessary if it is too much or not enough.

Features or Characteristics of the Imprest System

1. Selection of a petty cashier
2. A fixed sum of cash (i.e the imprest amount or cash float) will be given to the petty cashier by the main cashier
3. The petty cashier pays the various petty cash disbursement against duly authorised petty cash vouchers.
4. The main cashier reimburses the petty cashier with the total amount paid for the period thereby restoring the imprest to its original figure.

Advantages of the Imprest System

1. The burden of the main cashier will be greatly reduced



2. It serves as training for young account clerks
3. It ensures accountability for every expenditure since all expenses are supported by documentary evidences
4. It helps to eliminate/discourage fraudulent practices
5. It reveals extravagance and items of expenditure that over-shoots the budgeted amounts
6. The totals of each item of expenditure can be used as a basis for making cost control decisions
7. Liability of the petty cashier can never exceed the imprest amount
8. It relieves the main Cash Book and the general ledger accounts of entries of a large number of small (insignificant) items
9. The main cashier can exercise considerable control in that the imprest system is subject to check at any time, for the cash then in hand of the petty cashier plus the amount spent in the period according to the vouchers should always equal the cash float
10. Losses through the petty cashier can be minimized

The Layout of a Petty Cash Book

A Petty Cash Book resembles a ledger account with several money columns on the credit side. These are known as **analysis columns** and are used to divide the payments into different categories. A column is used for each of the main types of expenses paid out of petty cash. Instead of a folio column on the credit side there is a column for recording the number of the voucher to which the payment relates.

The number of columns and the main types of expenses will be determined by each individual business. In examinations, guidance is given regarding the columns required.

A layout of a Petty Cash Book is shown as follows:

PETTY CASH BOOK

Date	Details	F	Total received	Date	Details	Total paid	Voucher number	Transport	Cleaning	Postage	Ledger
			₦			₦		₦	₦	₦	₦

EVALUATION

1. List five features of the ImprestSystem
2. State seven advantages of keeping the Petty Cash Book on the imprest system

Preparation of the petty cash book

A. During the period

1. Money received or Balance brought down

(a) Debit the total received column with any money received from the main cashier (or the balance brought down from the previous period).

Insert the word 'cash' or 'bank' or 'balance b/d' in the details column as appropriate.

(b) Debit the total received column with any money received from any other source. Insert the name of the account to be credited in the details column e.g. the name of a debtor (where a debtor pays an account in cash), travel expenses (where an employee reimburses the petty cash for private travel expenses) telephone expenses (where an employee reimburses the petty cash for private telephone calls), and so on.

2. Money Paid



Credit the total paid column with any money paid out and also enter the amount in the analysis column for that particular expense. A brief description of the reason for the payment should be entered in the details column.

B. At the end of the period

1. Add the total paid column. Insert the total
2. Add each of the analysis columns and insert the totals. If these totals are then added horizontally, they should agree with the total paid column. The analysis column are now complete.
3. Balance the total received column and the total paid column in the same way as balancing any other ledger account. Carry down the balance from the credit side to the debit side to start the new period.
4. When the imprest is restored enter as described earlier
5. Complete the double entry for the totals of the analysis columns
 - (a) The totals of the analysis columns for each expense should be debited to the relevant expense account in the general (or nominal) ledger. To indicate that the double entry has been completed the folio number of the relevant expense account is often written below the total of the appropriate analysis column in the petty cash book.

NB. The end column of the Petty Cash Book has been chosen as a ledger column. In this column, items paid out of petty cash which need posting to a ledger other than the general ledger are shown. This would happen if a purchases ledger account was settled out of petty cash or if a refund was made out of the petty cash to a customer who had overpaid his account.

To complete the double entry for items in the ledger column in the Petty Cash Book, the purchases ledger account of the creditor should be debited (or the sales ledger account of the customer (debtor) should be debited) as explained above.

Illustration

L.Mahmoud keeps an analysed petty cash book using the imprest system. The amount of the imprest is N1,500. She provided the following information for the month of May 2017.

May	1	Received from the cashier N1, 500 as petty cash float
	5	Paid window cleaner N100
	8	Bought pen and pencils N40
	14	Paid H. Adamu, a creditor N200
	17	Paid taxi fare N90
	21	Bought computer paper N70
	25	Paid bus fares N30
	27	Paid A. Shuwa, a creditor N340
	30	Paid office cleaner N350

Required

- (a) Prepare Mahmoud's Petty Cash Book for the month of May 2017.
The Petty Cash Book should have four analysis columns – cleaning, stationery, travel expenses and ledger accounts
- (b) Balance the Petty Cash Book on 31st May 2017 and carry down the balance. Show the restoration of the imprest on 1st June 2017



(c) Make the necessary entries in Mahmoud's nominal (general) ledger and purchases ledger on 31st May, 2017

L. Mahmoud:

PETTY CASH BOOK											
Date	Details	F	Total received	Date	Details	Voucher Num	Total paid	Cleaning	Stat	Travel Expense	Ledger Accounts
			₦				₦	₦	₦	₦	₦
2017				2017							
May 1	Cash	CB	1,500	" 5	Window cleaner		100	100			
				" 8	Pens & Pencils		40		40		
				" 14	H. Adamu		200				200
				" 17	Taxi fare		90			90	
				" 21	Computer paper		70		70		
				" 25	Bus fares		30			30	
				" 27	A. Shuwa		340				340
				" 30	Office cleaner		350	350			
							1,220	450	110	120	540
				" 31	Balance	c/d	280	nl 11	nl 13	nl 19	
			1,500				1,500				
Jun 1	Balance	b/d	280								
" 1	Cash	CB	1,220								

NOMINAL LEDGER

Cleaning

2017		₦	2017		₦
May 31	Petty cash	450			

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Stationery

2017		₦	2017		₦
May 31	Petty cash	110			

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Travel Expenses

2017		₦	2017		₦
May 31	Petty cash	120			

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PURCHASES LEDGER

H. Adamu

Page 31



2017		₦	2017	₦
May 14	Petty cash	200		

A. Shuwa

Page 19

2017		₦	2017	₦
May 27	Petty Cash	340		

NB: The Petty Cash Book is a double entry book and must be included in the Trial Balance. The maximum level of cash held in the petty cash book is fixed and the cashier must be reimbursed for the amount he has paid out. The source document for recordings in the Petty Cash Book are the receipts, cheques and Petty cash vouchers duly authorised by the designated officers.

EVALUATION

1. Business Accounting 1. Exercise 21.1 and 24.4A
2. Simplified and Amplified Financial Accounting Exercise 5x, 6x, 7x

READING ASSIGNMENT

1. Simplified and Amplified Financial Accounting Page 81-88
2. Business Accounting 1 Page 226 – 231

GENERAL EVALUATION QUESTIONS

1. State four features of the Petty Cash Book
2. List five source documents that are used in preparing the Petty cash Book.
3. Explain the operation of the Imprest System of keeping record of petty cash transactions.
4. State five advantages of using the Imprestsystem to keep petty cash records
5. List ten uses of the General Journal

WEEKEND ASSIGNMENT

1. Which of the following demonstrates the imprest system A. float → expenses paid → cash at bank → float B. float → cash from bank → expenses paid → float C. float → expenses paid → cash from bank → float D. float →cash in bank → expenses paid → float
2. A cash book had opening balance of ₦15, 200, closing balance ₦18, 400 and total cash received during the period ₦36, 000. What was the amount of cash paid out during the same period A. ₦17, 800 B. ₦19, 600 C. ₦29, 200 D. ₦32, 800
3. In a petty cash book, the closing balance was ₦235, imprest ₦1, 250, while stationery expenses were ₦655. How much was paid for other general expenses ₦360 B. ₦355 C. ₦350 D. ₦305
4. An analytical cash book is used to A. indicate sources of cash received B. categorise petty cash payment C. separate cash and bank balance D. analyse amount due from debtors
5. The maximum level of cash held by a cashier under an imprest system is a/an A. vote B. float C. reimbursement D. advance

THEORY

1. (a) What are books of prime entry
(b) List any five books of prime entry



2. Explain the following
 - (a) Petty Cash Book
 - (b) Imprest System

WEEK SEVEN

DATE

TOPIC: CLASSIFICATION OF ACCOUNTS

CONTENT

- **Classification of Accounts**
- **Division of the Ledger**
- **The Trial Balance**

An account is a ledger record, in a summarized form, of all transactions that have taken place with a particular person.

An account can also be defined as a history of all transactions of similar nature. It is usual to keep separate accounts for each class of asset, liability, income and expenses relating to a business.

Classification of Accounts

All accounts fall into one or two classes: personal accounts or impersonal accounts. Each of these classes can be further divided into subgroups as illustrated in the diagram that follows:

Accounts

Personal Accounts

Impersonal Accounts

Debtors accounts

Creditors accounts

Real accounts

Nominal accounts

1. **Personal Accounts** are the accounts that record all the transactions between the business and the persons (individuals, sole traders, other businesses and organisations) with whom the business has transactions.

The Subgroups under personal accounts are as follow:

- (a) **Accounts for Debtors** – i.e. persons who owe the business money. They are usually the customers of the business and their accounts have debit balances
- (b) **Accounts for Creditors** –i.e. persons to whom the business owes money. They are usually suppliers that is those who supply goods and services to the business and their accounts have credit balances. This subgroup also include Loan accounts
- (c) Other personal accounts including Capital account, Drawings account, Bank account etc.

2. **Impersonal Accounts:** All other accounts other than personal accounts will be classified as impersonal account.

Impersonal accounts are accounts that deal with assets, income and expenditure of the business.

The subgroups under impersonal account are as follows:

- (a) **Real Accounts:** These are accounts that record the tangible and physical assets or properties of the business. Example of real accounts are machinery account, furniture account, land and building account, equipment account, cash account, tools account, fittings accounts etc.
- (b) **Nominal Accounts:** These are accounts that records the gains, income, expenses and losses of the business. Examples of nominal accounts are rent account, salaries account, electricity account,



carriage inwards account, carriage outwards account, discounts received account, discounts allowed account etc.

Divisions of the Ledger

Except in very small businesses there are usually too many accounts to be kept in a single ledger. It is usual to divide the accounts among several ledgers for convenience.

Dividing the ledger into sections makes it more convenient to use as the same type (similar) accounts can be kept together and the task of maintaining the ledger can be divided between several people. The ledger is usually divided into the following specialized areas:

1. **Sales Ledger** –also known as the **debtors ledger**. All the personal accounts of debtors (credit customers) are kept in the sales ledger.
2. **Purchases Ledger** –also known as the **creditors ledger**. All the personal accounts of creditors (credit suppliers) are kept in the purchases ledger.
3. **General Ledger (or Nominal Ledger)** – apart from the cash account, the bank account and the accounts of debtors and creditors all the remaining accounts are usually kept in the general ledger. This ledger will contain the impersonal accounts of assets, liabilities, expenses, incomes, sales, purchase and returns.
4. **Cash Books:** These contains the Bank account, Cash account and the Petty Cash account
5. **Private Ledger:** This ledger contains the accounts of the business owner and all other accounts deemed to be of a confidential (private) nature e.g. capital account, drawings account, loan accounts, trading account, profit and loss account, balance sheet etc.

The division of the ledger as above is essential in a business which employs several bookkeepers; the work may be divided between them so that they do not all need to be working on the same ledger at the same time.

EVALUATION

1. What is an account
2. Explain, giving two examples each, the following types of account
 - (a) Nominal account
 - (b) Real account
 - (c) Personal account

READING ASSIGNMENT

1. Simplified and Amplified Financial Accounting Page 22-30
2. Business Accounting 1. Page 79 – 82

GENERAL EVALUATION QUESTIONS

1. Distinguish between personal and impersonal accounts
2. List and explain the classification of accounts
3. Explain the term double entry system of bookkeeping
4. What is a ledger
5. State two advantages of dividing the ledger into specialist areas.

WEEKEND ASSIGNMENT



1. Lara purchased goods costing ₦1, 800 less trade discount of 30%. She was allowed cash discount of 5%. How much should Lara have to pay for the goods A. ₦1, 080 B. ₦1, 197 C. ₦1, 260 D. ₦1, 800
2. Which of the following accounts normally has a credit balance A. discounts allowed B. discounts received C. purchases D. sales returns
3. Which of the following books of account is part of the double entry system A. General Journal B. Petty Cash Book C. Sales Returns Book D. Purchases Returns Book
4. The personal accounts of creditors are found in the A. Sales ledger B. Purchases ledger C. General ledger D. Nominal ledger
5. Which of the following is not an example of a real account A. cash B. bank C. equipment D. fixtures and fittings

THEORY

1. (a) What is a ledger
(c) List and explain three classification of the ledger
2. List ten accounts found in the nominal ledger

WEEK EIGHT AND NINE

DATE

TOPIC: THE TRIAL BALANCE

CONTENT

- **Definition of the Trial Balance**
- **Uses of the Trial Balance**
- **Preparation of the Trial Balance**
- **The Trial Balance and Errors in the Books**

A trial balance is a list of all the balances extracted from the ledgers at a particular date, to test (verify, check or confirm) the arithmetical accuracy of postings done in the ledger.

Uses of the Trial Balance

1. It is used to check the arithmetical accuracy of the entries in the ledgers.
2. It provides data (figures) used for the preparation of the final accounts

How to Prepare a Trial Balance

First balance all the ledger accounts including the Cash Book and the Petty Cash Book. Then list the balances with the debit balances and the credit balances in separate columns of the Trial Balance. The total of the debit balances should equal the total of the credit balances. If the totals are equal, the trial balance agrees.

The following key points should be noted.

- (a) The trial balance is not an account; therefore it has no debit and credit side.
- (b) It is not part of the double entry system.
- (c) It is a list of all the balances in the ledger at a particular date.
- (d) It is extracted to check/verify the arithmetical accuracy of postings done in the ledger
- (e) The heading of the Trial Balance should read “Trial Balance as at 31st December 2016”



- (f) The balances on the accounts in the sales ledger are totaled and the total is entered in the trial balance as Sundry Debtors (or Trade Debtors)
- (g) The balances on the accounts in the Purchase Ledger are totaled and the total is entered in the trial balance as Sundry creditor (or Trade Creditors)
- (h) The balances of accounts shown in the trial balance are not arranged in any specific order.

EVALUATION

1. State two uses of the Trial Balance
2. Mention a class of account that would always show: (a) debit balance (b) credit balance
3. Simplified and Amplified Financial Accounting Exercise 6, 7 and 8x

The Trial Balance and Errors

When the totals of the debit column and the credit column of the Trial Balance agree, it indicates that the double entry bookkeeping is arithmetically correct.

A. If the trial balance balances:

When a trial balance balances, it simply means that the total of the debit balances is equal to the total of the credit balances. However, the balancing of the trial balance is not proof that the entries in the ledger accounts are completely free from errors. The Trial Balance will still balance if any of the following errors are made.

Errors that will not affect the Agreement of the Trial Balance

1. Error of Omission

This occurs when a transaction has been completely omitted from the accounting records. i.e. the debit entry and the credit entry were not posted e.g. Goods sold for cash ₦7, 000 was not debited to the cash account and not credited to the sales account.

2. Error of Commission

This occurs when a transaction is posted into a wrong account which belong to the same class as the account to which the posting should have been made. This type of error mostly affect personal accounts i.e. accounts of customers and suppliers e.g. Goods sold on credit to Adebola ₦5, 000 debited to Ademola's account

3. Error of Principle

This occurs when a transaction is posted to a wrong account of a different class with the correct account to which the posting should have been e.g. payment of cash for furniture purchased ₦10, 000 debited to purchases account.

4. Error of Original entry

This occurs when the wrong amount is posted in double entry to record a transaction or when a wrong amount is made in a book of prime entry for a transaction.e.g. goods sold for cash ₦50, 000 was recorded in both the Cash Account and Sales Account as ₦5, 000.

5. Complete Reversal of Entry

This occur when a transaction is recorded on the wrong side of the ledger for both the debit and credit entries. i.e. an account which should have been debited has been credited, and the account which should have been credited is debited e.g. Payment of ₦9, 000 received form Gloria is debited to Gloria's account and credited to Cash Account

6. Compensating Errors



This occurs when error(s) on one side of the ledger is completely cancelled out (or offset) by error(s) on the other side of the ledger e.g. Sales Account was overstated by ₦4, 000 while Rent Account was also overstated by ₦4, 000

7. Error of Duplication of Entries

This occurs when the double entry records for a transaction is made more than once in the books of account e.g. Sale of goods on credit to Adesua ₦7,000 was debited twice in Adesua's Account and also credited twice in Sales Account.

B. If the Trial Balance fails to balance

When the totals of the debit balances and the credit balances did not agree, it is obvious that an error has been made somewhere.

NB: Error in accounting terminology is used to signify mistakes made while recording and/or posting financial transactions. Error is not the same as fraud. Fraud is a deliberate effort and/or attempt to change or modify financial information (or records) for someone personal gains to the detriment of others.

Errors are genuine mistakes that are not deliberate or pre-planned but which occur in the course of recording financial transactions. Errors in accounting are of two types. Those that affects the agreement of the trial balance and those that do not affect the agreement of the trial balance.

Errors that will affect the Agreement of the Trial Balance

1. Single entry or Lone entry
2. Casting errors i.e. overcasting or undercasting of figures
3. Transposition Errors
4. Omission of a ledger balance in the Trial Balance
5. Recording a correct balance of an account in the wrong column of the Trial Balance.
6. Recording the wrong balance of a ledger account in the Trial Balance.
7. One-sided duplication of entry.
8. Transfer of wrong totals from the subsidiary books into the ledger.
9. Bringing down of a wrong opening balance in a ledger account.

EVALUATION

1. What is a Trial Balance
2. Give the format of a Trial Balance with ten items
3. The agreement of the Trial Balance debit and credit totals does not indicate its entire correctness. Do you agree? Explain your answer

READING ASSIGNMENT

1. Simplified and Amplified Financial Accounting Page 89 – 105
2. Business Accounting 1 Page 240 – 246

GENERAL EVALUATION QUESTION

1. Business Accounting 1. Exercise 5.10 and 5.12A
2. Simplified and Amplified Financial Accounting Exercise 9, 10X and 11X

WEEKEND ASSIGNMENT



1. When a transaction is completely left out from the books, it is an error of A. commission B. omission C. principle D. compensation
2. Which of the following errors will affect the totals of a trial balance A. compensating error B. complete reversal of entry C. error in addition D. error of original entry
3. A trial balance is prepared to A. detect fraud B. ascertain losses in a trading period C. determine opening capital D. test arithmetical accuracy of ledger entries
4. Where a wrong figure occurs in only one account with the second figure correctly stated, this is an error of A. transportation B. compensation C. omission D. commission
5. The payment of N6,000 for electricity was debited to entertainment account. This is an error of A. principle B. omission C. original entry D. commission

THEORY

1. Explain six errors that would not affect the agreement of a trial balance
2. State ten reasons why a trial balance may not balance.

WEEK TEN

DATE.....

TOPIC: CORRECTION OF ERRORS

CONTENT

- **Suspense Accounts**
- **Correction of Errors**

Errors made in the recording of the day-to-day transactions can be divided into those which are not revealed (disclosed) by the trial balance and those which result in the trial balance not balancing.

Where the trial balance total do not agree it is usual to apply the following quick check list to locate the errors.

- a. Check the additions of the trial balance.
- b. Check the addition of the balance of each ledger account.
- c. Check that each ledger account balance has been entered in the correct column of the trial balance.
- d. Check that every ledger account balance has been entered in the trial balance.
- e. Look for a transaction equal to the difference in the trial balance and check that a double entry has been made for that transaction.
- f. Look for a transaction equal to half the difference in the trial balance and check if it has been entered twice on the same side of the ledger rather than once on each side.
- g. Check the double entry for every transactions entered in the books since the date of the last trial balance.

If after applying the above quick check list the errors are not found immediately, the trial balance is balanced temporarily by inserting the difference between the trial balance totals in a Suspense Account.

The Suspense Account is a temporary account in which the difference on the trial balance is recorded until the errors are located (discovered) and corrected.

Where the trial balance totals do not agree and to avoid any delay in the preparation of the final accounts, a Suspense Account would be opened to record the difference in the trial balance totals pending the time the error(s) are located and corrected. As the errors are found, they are corrected by means of a journal entry (i.e. entry in the General Journal). The appropriate entries are then made in the ledger accounts. When all the errors have been found and corrected, the suspense account will close automatically.



Uses of the Suspense Account

1. A Suspense Account is used to record difference in the trial balance temporarily until the errors are detected and corrected.
2. Suspense Account is also used when transactions are recorded in the books before any decision has been made about their proper accounting treatment
3. The Suspense Account provides an account to which an entry (i.e. one aspect of a transaction) could be made until its correct destination (i.e. the account to which it should be posted) is known

How to Open a Suspense Account

A Suspense Account is opened in the general ledger with a balance on whichever side of the Suspense Account that will make the trial balance agree when the balance is inserted in it. For example, if the total of the credit side of a trial balance is ₦6, 000 less than the total of the debit side, the Suspense Account will be opened with a credit balance of ₦6, 000. When the Suspense Account balance is inserted in the trial balance, the trial balance will balance.

NB: Once a Suspense Account is opened, the final accounts can be prepared even if all the errors have not been discovered. In this, case the balance on the Suspense Account will appear in the Balance sheet (as an asset if it is a debit balance and as a liability if it is a credit balance).

How to Correct Errors

The correction of errors will require journal entries which will be posted to the ledger accounts.

- a. If the error being corrected does not affect the agreement of the trial balance, the journal and ledger entries will not involve the Suspense Account
- b. If the error being corrected affects the agreement of the trial balance, the journal and ledger entries will involve the Suspense Account

Step (Processes) Involved in Correction of Errors

To decide how to correct an error asks the following questions.

- (i). How should the transaction have been recorded?
- (ii). How has the transaction been recorded?
- (iii). What type of error has been committed by the book-keeper who recorded the transaction? i.e. will the error affect or not affect the agreement of the Trial Balance? As indicated above, this step is very crucial to indicate whether the Suspense Account will be involved in the correction of the error or not.
- (iv). What entries are required to be passed to correct the error?

In applying the steps enumerated above, it is useful to remember the following.

1. An item on the wrong side of an account must be corrected by an adjustment equal to twice the amount of the original error (once to cancel the error and once to place the item on the correct side of the account).
2. Some errors do not affect the double entry: an example would be a debit balance on Rent Account ₦850 included in the trial balance as debit balance ₦650. To correct the error, a one-sided entry should be made in the journal and the Suspense Account. Such errors do not require to be corrected by debit and credit entries.



EVALUATION

1. Briefly explain three uses of Suspense Account
2. State seven errors that will be disclosed by the Trial Balance

Illustration:

Kehinde extracted a trial balance from her ledgers on 31st December 2017. The trial balance totals were ₦23, 884 (debit) and ₦24, 856 (credit). She placed the difference in a Suspense Account. Subsequent investigation into the accounts revealed the following:

- a. The debit side of the Telephone Account had been overstated by ₦200
- b. An invoice sent to Adejumo for ₦240 had been completely omitted from the books.
- c. A cheque for ₦124 received from Diligent Enterprises had been posted to the debit of their account
- d. The purchase of some office equipment for ₦1,180 had been debited to Office Expenses Account
- e. Discounts received, ₦90, had been posted to the purchases ledger but not to the Discounts Received Account.
- f. Rent paid, ₦800 had been credited to Rent Receivable Account.
- g. A refund of an insurance premium, ₦60, had been recorded in the Cash Book but no other entry had been made.
- h. A purchase of office stationery, ₦220, had been debited to Purchases Account in error.
- i. A credit balance of ₦30 in the purchases ledger had been omitted from the list of balances extracted from the ledger. The total of the list had been included in the trial balance.
- j. Goods returned to Ready Stores had been credited to Ready Stores Account and debited to Purchases Returns Account. The goods had cost ₦400

Required:

- a. Prepare journal entries to correct the errors indicated above
- b. Prepare the Suspense Account showing the opening balance and the correcting entries

General Journal

	Dr ₦	Cr ₦
a. Suspense Account	200	
Telephone Account		200
being correction of error on overcast of ₦200 of the Telephone Account		
b. Adejumo	240	
Sales Account		240
being correction of error on invoice sent to Adejumo omitted from the books		
c. Suspense Account	248	
Diligent Enterprises		248
being correction of error on cheque of ₦124 received from Diligent enterprises debited to their account		
d. Office Equipment Account	1, 180	
Office Expenses Account		1, 180



being correction of error on office equipment purchased debited to office Expenses Account.

e.	Suspense Account	90	
	Discounts Received Account		90
	being correction of error on discount received not posted to the Discounts Received Account		
f.	Rent Receivable Account	800	
	Rent Payable Account	800	
	Suspense Account		1, 600
	being correction of error on rent paid wrongly treated as rent received		
g.	Suspense Account	60	
	Insurance Account		60
	being correction of error on refund of insurance omitted from the Insurance Account		
h.	Office Stationery Account	220	
	Purchases Account		220
	being correction of error on purchase of office stationery wrongly debited to Purchases Account		
i.	Suspense Account	30	
	being memorandum entry to correct a credit balance in the purchases ledger omitted in the Trial Balance		
j.	Ready Stores	800	
	Purchases Returns Account		800
	being correction of error on goods returned to Ready Stores wrongly credited to their account		

Suspense Account

	₦		₦
Difference on Trial Balance	972	Rent	1, 600
Telephone	200		
Diligent Received	248		
Discounts Received	90		
Insurance	60		
Correction of trade creditors	30		
	1, 600		1, 600

EVALUATION

1. Simplified and Amplified Financial Accounting Exercise 2, 3, 4, 5X, 6 and 9
2. Essential Financial Accounting Exercise 12.2, 12.5A, 12.8A and 12.9A



READING ASSIGNMENT

1. Simplified and Amplified Financial Accounting Page 134 – 154
2. Essential Financial Accounting Page 90 – 105

GENERAL EVALUATION QUESTION

1. WAEC JUNE SSCE Past Questions
 - June 1992 Question 2
 - June 1999 Question 6
 - June 2010 Question 5
 - June 2012 Question 6
 - June 2017 Question 5

WEEKEND ASSIGNMENT

1. Which of the following errors will affect the totals of a trial balance A. compensating errors
B. complete reversal of entry C. error of original entry D. omission a ledger balance in the trial balance
2. Pending the location of an error, the difference disclosed in a trial balance is temporarily treated in A. Suspense Account B. Trading Account C. Control Account D. Profit and Loss Account
3. Which of the following accounts has a credit balance A. Cash B. Capital C. Drawing D. Premises
4. Purchases Account is overcast by N200, while wages Account is undercast by N200. This is A. an error of omission B. a compensating error C. an error of commission D. an error of principle
5. Which of the following is entered in the General Journal A. purchases of goods B. sale of goods on credit C. returns inwards D. acquisition of fixed assets

THEORY

1. What is a Suspense Account
2. State three uses of a Suspense Account