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Text Four

FUN[illegible] ACCOUNTING CONCEPTS AND CONVENTIONS

[illegible] the years professional Accountants and relevant regulatory bodies developed rules and procedures for otherwise known as Generally Acceptable Accounting Principles. The principles guide the preparation of financial statements. These principles are regarded as concepts. They are so fundamental and are generally accepted and are issued out in form of accounting standards by various bodies like the Nigerian Accounting Standard Board (NASB)/ now Financial Reporting Council of Nigeria(FRCN) and IASC.

i. **Entity Concept**

Under entity concept, every economic unit not minding its legal form of existence is treated as a separate entity distinct from parties having propriety or economic interest in it. To this regard, all the transactions of the entity are recorded in its books. These include; income, expenses, assets and liabilities. Takings by the owners are recorded as drawing and are therefore not charged against the business.

ii. **Going Concern**

It is assumed that the business unit will continue in perpetuity. That is, it expected that the business will not be liquidated in the foreseeable future. Business unit is deemed a going concern if it is capable of generating reasonable earnings for and no indications of treat of any form that could cease the business abruptly.

iii. **Periodicity Concept**

This concept holds that, the business community and stakeholders of financial statement should ensure that business should be divided into accounting periods usually one year and comparisons be made with different periods. In strict compliance with this concept, the trading, profit and loss of a business is prepared for the year end usually 12months.

iv. **Historical Cost**

The Historical cost concept posits that cost is appropriate basis for accounting recognition of all financial transactions be it assets acquisitions, service rendered, interests, creditors and owners' equity.

v. **Realization Concept**

The concept recognizes the rule for periodic recognition of revenue as soon as it is capable of objective measurement and the value of assets received or receivable in exchange is reasonably certain. For instance revenue may be recognized when goods are produced, transaction completed and goods are delivered.

vi. **Matching Concept**

For any accounting period, all revenue earned and costs incurred in generating it must be matched and reported for the period. Whenever revenue is deferred to another period, all costs element must be adjusted accordingly to reflect the true situation.

vii. **Consistency**

Though there are several methods available for treating account transaction without materially violating accounting principles. However, whenever a method is chosen, it must be followed rigorously unless situations warrant for such change.

viii. **Substance Over Form**

Transactions are usually governed by legal principles but they are nevertheless accounted for and presented in accordance with their substance and financial reality and not with their legal form. The essence is to prevent firms from distorting their true reports in under the pretence of rigidly following the footprint of the law.

ix. **Objectivity**

The principle of objectivity emphasizes independence of judgment on the part of the preparer of financial statements. The concept of objectivity is the opposite of subjectivity and supportive evidences availability.

x. **Materiality**

Materiality concept ensures only items of material values are accorded strict recognition and treatments in the financial statement. An item is considered material if omission or its misstatement could distort the true and fair view of financial statements to the extent that such affect users' decision making and individual user judgments.

xi. **Fairness**

The concept of fairness enjoys preparers to be objective when preparing financial statement. He should not be bias; he should not only take the interest of a group into consideration but all the stakeholders.

xii. **Prudence**

The concept here enjoys accountant to exercising great care when recognizing profit. In other word, all known losses must be adequately provided for.

Accounting Method, Accounting Bases and Accounting Policies

Accounting Method

This is the medium through which the fundamental accounting concepts are applied to financial transactions and preparation of financial statements. It is method employed in recognizing, measuring and measuring items of revenue, expense, gain, loss, asset or liability.

Accounting Bases

Accounting bases are the totality of accounting method employed by an enterprise for applying fundamental accounting concepts to its accounting transactions. Basically, there are two accounting bases recognized;

i. **Accrual Basis**

Incomes/revenues and expenses are recognized when they are earned and not when they are received and expenses are recognized when they are incurred not necessarily when they are paid. In other word, revenue and expenses are recognized in the accounting period they are related. This basis is used by profit making organizations.

ii. **Cash Basis**

Here, income/revenues and expenses are recognized in the accounting period to which they are received and paid. Debtors and creditors are not carried forward in the balance sheet. This method is applicable to public/government sectors

Accounting Policies

Accounting policies are those bases, rules, principles, conventions and procedures adopted in preparing and presenting financial statements. Differing accounting policies should be disclosed by the reporting entity in accordance with SAS I (Disclosure of Accounting Policies).

The following are identified accounting policy; CCCDST

- Consolidation policy
- Taxation
- Stocks
- Creditors
- Depreciation
- Construction contracts
- Intangible assets
- Liabilities and provisions
- Pension cost

Types of Accountant ACFFMT

1. **Financial Accountants:** this accountant records financial transactions of a business, analyses the financial information and presents reports/statements to the users of financial information.
2. **Cost Accountant:** the accountant specializes in determining costs of goods or services produced or sold. He also helps to effectively manage and control costs as well as maximizing profits
3. **Management Accountant:** this is accountant that prepare and accounting information to assist management in decision-making for the purpose of policy formulation. He compiles futuristic accounting information as against financial accountant that present historical accounting information.
4. **Tax Accountant:** this accountant is verse in tax laws. In light of complexity in tax law especially in Nigeria, firm requires tax accountant that will from time to time attend to tax issues raised.
5. **Auditor:** this is a practicing accountant that examines financial record of firm and for opinion thereon. This is statutory or external auditor. On the other hand, an internal

auditor is an employee of firm hired by the management to examine and report on the work of various departments within the organization.

6. **Forensic Accountant:** this is a new grey area in accounting. The forensic accountant specializes in criminal investigation aspect. That is the financial aspect.

ACCOUNTING EQUATION, DOUBLE ENTRY, JOURNAL & CASH BOOK

Introduction

Accounting equation otherwise known as balance sheet equation is the rule that the assets of a business will at all times be equal to its liabilities. However, for a business without liabilities, the other than those of the owner, the owner therefore has claims over the business. The equation is

Assets = Liabilities

This can be re-written as follows;

Assets = Capital + Liabilities

Net Asset = Capital

Capital = Assets - Liabilities

This can be rewritten as = Cash = Capital for example, on 1 January 2007, Olaiya decided to set up a shoe making business he put N20,000 into the business, then we have

Cash = Asset = N20, 000

Amount Invested = Capital = N20, 000 + 0

Assets: assets are valuables of a business, which are expected to provide present and future benefits to the business, Example of assets are plant and machinery, Building, equipment, office furniture, Debtors and Cash etc.

Non-Current Assets

(a) Non-Current Assets: these are assets acquired and held permanently for the purpose of creating production capacity. Fixed assets can be divided into:

(i) Tangible fixed assets

(ii) Intangible fixed assets

(iii) Investment (long-term)

A **Tangible Asset** is a physical asset i.e. one that can be touched and felt. e.g. machinery, Buildings, office equipment and Office Furniture.

An **Intangible Asset is a fictitious,** which cannot be seen or felt. It does not have a physical existence. It cannot be touched. Examples of such are Goodwill, Patents and Trademark.

An investment might also be a fixed asset. Share or debentures of other company purchased with a view to hold them for more than one year will be classified as fixed assets.

Current Assets

Current assets are either:

(i) Assets owned by the business with the intention of turning them into cash. In other convertibles like treasury bills, stocks and receivables

(ii) cash, including money in the bank, owned by the business

Liabilities

These are debts owned by a business to third parties. Liabilities can be divided into two

- Current liabilities
- Long-term liabilities

Current liabilities are debts of the business that must be paid within a period of twelve months. Examples are, loans repayable within one year, bank overdraft, trade creditors, bills of exchange which are payable by the business accrued expenses and taxation payable.

A long-term liability is a debt which is not payable within one year. A Long term liabilities are being put off till something in future. Example are:

- loans that are payable in the future but not within the next accounting period
- A mortgage loan
- Debentures or debentures stock

Capital

Capital is known as owners' interest in the business. It is the excess of assets over liabilities. It comprises of the following:

- Capital invested in the business by the owner
- Net profit or loss earned by the business
- Drawings made by the owner whether in cash or kind

We can now rewrite our accounting equation

Fixed Assets + current Assets = Current Liabilities + Long term

Liabilities + Capital or Fixed Assets + (Current Assets – Current Liabilities) = Long term liabilities + Capital.

Double Entry Book-Keeping

Having seen from the accounting equation above that assets are always equal to the total liabilities and capital observing ~~accounting rules~~, then it means that any transaction which changes the amount of total assets must also change the total liabilities plus capital and vice versa.

The basic rule of double entry which must always be observed is that all transaction gives rise to two accounting entries, one, a debit and second a credit. The total debit entries in a particular transaction must equal the total credit entries. The golden rule of this principle is that every debit entry must have a corresponding credit entry and vice versa.

Books of Accounts

Basically, there are two books of accounts, these are;

a.) Principal Books of Account, namely Ledger and Cash Book. These are the main books and those in which the double-entry system of accounts is kept. The cash book contains the cash and bank accounts. All other accounts are in the ledger.

b.) Subsidiary Books of account or books of first or original entry, such as journal, Purchases Book, Sales Book etc. Many details are recorded in these books, before the amounts concerned are entered in ledger accounts. The journal was only subsidiary book, at first, and the others were split off from it later.

Procedures for Applying Double Entry Rule

1. Capture the two accounts involved in a transaction
2. Identify the account that gives value and the one that receive value
3. Debit the receiver and credit the giver with the involved
4. Debit any receipt and credit any payment
5. Debit value in and credit value out.

Double Entry Rule can also be applied in this way;

Dr - Receiver — Rdr
Cr - Giver — Gcr

- Debit asset account when there is an increase in value and credit it when there is a decrease in value.
- Debit expense account when there is an increase in value and credit it when there is a decrease in value
- Credit liabilities and capital accounts when the value increase
- Credit liabilities and capital accounts when the value increase and debit it when the value increase and debit it when the values decrease.

Illustration

The book of Bongo shows the following transaction in the month of January 2008.

		N	
January 1.	Started business with cash	1,000,000	Capital Gcr / Cash Rdr
4	Bought goods for cash	Rdr Purchase / Gcr Cash 500,000	
14	Sold goods for cash	300,000	Sales Gcr / Cash Rdr
15	Received from Zulu	Gcr ~~Cash~~ / Gcr Zulu 5,000	

Reflect the above transactions in Bongo book in line with the double entry rule.

In recording these transactions:

- January 1 Debit Cash Account (the receiver) and Credit Capital Account (the giver)
- January 4 Debit Purchases Account (the receiver) and credit cash account (the giver)
- January 14 Debit Cash Account (the receiver) and Credit Sale account (the giver)
- January 15 Debit cash Account (the receiver) and Credit Zulu (the giver)

Putting all these in accounting form, we have:

Cash Account

Dr			Cr
2008	N	2008	N
Jan 1 Capital	1,000,000	Jan 4 Purchases	500,000
Jan 14 Sales	300,000	Jan 31 Balance c/d	805,000
Jan 15 Zulu	5000		
1,305,000	**1,305,000**		

Capital Account

Dr			Cr
	N		N
Jan 31 Balance c/d	1,000,000	Jan 1 Cash	1,000,000

Dr

Purchases Account Cr

	N		N
Jan 4 sundries	500,000	Jan 31 Balance C/D	500,000

Dr **Sales Account** Cr

	N		N
Jan 31 Balance C/D	300,000	Jan 14 cash	300,000

Dr **ZuluAccount** Cr

	N		N
Sales	5,000	Jan 15 Cash	5,000

Ledger Account

Business is expected to keep record of the financial transactions it makes. The assets acquire and liabilities incurs. At the end of accounting period, it is from the records trial is extracted and a trading, profit and loss account and a balance sheet, with other relevant information can extracted. It is the role of accountant to keep record and the books which are kept is refers to as ledger.

Ledger is the principal book of account. It is an accounting record which summaries the financial affairs of a business. It contains details of assets, liabilities and capital, income and expenditure. It contains a large number of different accounts, with every account having its own purpose and name. The ledger is divided into two half, the left hand side is called debit side (Dr) and the right hand side is called credit side (Cr). Each of the side of the ledger is sub-divided into four parts:

1. Date- This record s the date the transaction took place
2. Particulars – This record the transaction that took place
3. Folio – It describe the page in which corresponding entry will be found
4. Amount – This column records the amount that is involved

Format of a ledger

Date/ Particular/ Folio/ Amount// Date/ Particular/ Folio/Amount

L R

Dr Cr.

Example of Account in the General Ledger include

1. Motor vehicle at cost (Non-Current Asset)
2. motor vehicle provision for depreciation (Liability)
3. Furniture and Fittings at cost (Non-Current Asset)
4. Furniture and Fittings provision for depreciation (liability)
5. Plant and machinery cost (Non-Current Asset)
6. plant and machinery provision for depreciation (liability)
7. Capital (liability)
8. stock (raw materials, work in process and finished goods) (Current Assets)
9. Debtors (Current assets)
10. Creditors (current liability)
11. wages and salaries (expenses items)
12. stationeries, motor and telephone expenses (expenses items)
13. Cash (current assets)
14. Bank overdraft (current liability)
15. Sales income (income)
16. Interest on account (income)

Types of Personal Account

- Impersonal-account
- Real Account

Impersonal Account: shows and records the type of expenses incurred by the business for instance, rates, electricity, rather than the person to whom the money is paid. It is about the reason for payment is made. Impersonal accounts are divided into real and nominal accounts.

Real Account: the account is maintained to keep tangible items such as Land, Machinery, motor vehicles and Stock of goods. The double entry Rule states that "when there is an increase in the value of real item, the account is debited with the amount of such increase, when there is a decrease in the value, the account is credited with the same amount "for instance, a cash

FADJOSHUA CONCEPT

WE DEAL IN SALES OF DATA BUNDLES. ALL NETWORK AT A LOW PRICE

- MTN 1GB @ 550, 2GB @ 1050, 5GB @ 2500.
- GLO 2GB @ 950, 4.5GB @ 2200, 7.2GB @ 2500.
- 9MOBILE 500MB @ 550, 1GB @ 1050, 1.5GB @ 1300, 2.5GB @ 2200, 4GB @ 3000.
- AIRTEL 1.5GB @ 1000, 3.5GB @ 2000, 7GB @ 3400, 10GB @ 5000.

Cash Giver Cr   Dr - Giver   Cash Cr   Dr mach
mach Recei Dr   Cr - Receiv Dr

purchase that is an addition of N250, 000 worth of machinery will be debited to machinery account to show increase in value and credit to the cash account to show decrease in value.

Dr **Cash Account** Cr

			N
		Machinery A/C	250,000

Dr **Machinery Account** Cr

	N		
Cash A/c	250,000		

Nominal Accounts: are accounts that record income and expenditure items. Income represents gain when expenditure relates to loss. Examples of income include interest received, commission, discount received etc. while those of expenditure include purchase, wages, rent, stationery etc. The double entry principle is to debit expense account while income account is credited for an increase in value. For example, if N300, 000 are paid by trader for rent and discount received by him is N100,000. The account will appear as follows.

Dr Rent Cr   Dr Cash Cr

Rent Account

	N		
Cash	300,000		

Dr Discount Cr

Discount Received Account

			N
Cash	100,000		

Rent Receiv Dr
Cash Giver Cr
Discount Receiv Dr

When nominal accounts are closed, the balances are transferred to either the trading account or the profit and loss account.

Sub- Divisions of Ledger

As business expands, maintaining one ledger for all the accounts might be cumbersome hence, the need for sub-division of ledger into several books to accommodate each class of accounts. These sub- divisions include: CDIP

1. ***Creditors' ledger:*** this is known as purchase or bought ledger, it contains the accounts of all creditors.
2. ***Debtor's Ledger:*** also known as sales ledger and it contains accounts of debtors.

3. ***Impersonal Ledger:*** this is General Ledger and carries accounts of real and nominal items.

4. ***Private Ledger:*** This is part of general Ledger that accommodates the capital accounts, Drawings accounts of the proprietor, loan accounts, trading profit and loss accounts.

Cash Book

Cash book is a principal book, ~~the~~ ledger. It consists of the cash and bank accounts taken out of the ledger and bound separately for convenience. It is also a book of original entry, such a cash receipts and payments are not normally entered in the subsidiary books.

Rulings of Cash Books. Different rulings of cash books are in practice with the ordinary cash books the number of columns varies from one (for cash or bank) to three (for discount, cash, and bank respectively). With tabular cash books the number of columns may be numerous, according to the nature of the business.

Contra Entries. In the ordinary three-column cash book there will be some cross or contra entries, i.e. transfers of money from cash to bank, And vice versa. Surplus cash is paid into bank, and a shortage of cash is made good by withdrawals from bank. In all such cases both entries occur in the cash book and no ledger entry is required. This is indicated by a contra sign © in the folio columns.

Two- Column Cash Book

This consists of two columns, one for bank and cash transactions. The two columns on the debit side receive both cheque and cash into account while the two columns on the credit side pays or record Cheques and cash payments.

Two-Column Cash Book

Date	Particulars	Bank	Cash	Date	Particulars	Cash	Bank
		N	NNN				
1/1/08	Balance B/d	x	x	1/1/08	Motor Vehicle		x
2/1/08	Bank (Contra)	x		2/1/08	Cash (Contra)		x
5/1/08	Sola		x	3/1/08	Tolu		x
11/1/08	Sales		x	6/1/08	Salaries	x	
21/1/08	Tomori		x	12/1/08	Paul		x
25/1/08	Cash(Contra)		x	25/1/08	Bank(Contra)	x	
25/1/08	Sales	x		25/1/08	Rent		x
26/1/08	Calie	x		26/1/08	Drawing	x	
				31/1/08	Balance c/d	x	x
1/2/08	Balance b/d	x	x				

See illustration

Three-Column Cash Book

In addition to the two column cash book above, a three column cash book has additional column that records cash discounts given to custor 'rs and those received from suppliers. The discount allowed to debtor customers is the one on the left side i.e. the Debit side of the cash book. Discount received on the other hand is the discount received from the creditors and is recorded on the right hand side i.e Cr. Side of the cash book.

Three-Column Cash Book

Date	Particular	Disc/Allwd	Cash	Bank	Date	Particulars	Disc/Rcvd	Cash	Bank
		N	NNNN	N					
1/1/08	Balance B/d		x	x	1/1/08	Building			x
2/1/08	Bank (Contra)		x		2/1/08	Cash (Contra)			x
5/1/08	Kudu	x		x	3/1/08	Joy	x		x
11/1/08	Sales		x		6/1/08	Rent		x	
24/1/08	Joe	x	x		12/1/08	Salaries			x
25/1/08	Cash (Contra)			x	15/1/08	Peter	x		x
29/1/08	Sales			x	18/1/08	Drawing		x	
30/1/08	Akeem		x		25/1/08	Bank (Contra)		x	
					27/1/08	Telephone		x	
					30/1/08	Stationeries		x	
					31/1/08	Balance c/d		x	x
		X	XXX	XX					
1/2/08	Balance b/d		x	x					

See illustration

Cash-Discounts. These are deductions made from accounts receivable and payable at the time of settlement. Cash Discount may be allowed by a seller if goods are paid for within a short period. The amounts are recorded in special discount columns which are memorandum columns only. The individual amounts are posted to the ledger at the same time as the cash items The total are posted to a "Discount Allowed" or "Discount Received" account in the ledger, as appropriate, so that the amounts lost or gained on discount may be seen.

Journal

Journals are business documents in which each business transactions are first recorded in an arranged order reflecting the account to be debited and credited.

Uses of Journal CFTTT

Journals are used to record the following before they are posted to the ledger;

- For opening entries
- The purchase and sales of fixed assets
- Correction of errors
- Transfer from one account to another
- Takings by owner of goods for private use
- Other transactions that cannot be recorded in the subsidiary books

Features of a Journal

Usually, journal has column to record the followings:

- Date of transaction
- Names of the account to be debited or credited.
- The folio i.e the account pages or numbers where the relevant entries are made in the ledger accounts.
- Amount to be debited and credited
- The narration is a short explanation of the nature of the transaction which should always be given before the journal entry is closed. This is particularly so in the case of correction of errors as the nature of the entries would not otherwise be clear. For examination purpose a narration is essential.

RDr
Receiver Dr -
Giver Cr - GCr

Format of journal

Date	Description	Folio	Dr.	Cr
			N	N

Cash - ~~Gcr~~ RDr
Capital - ~~RDr~~ GCr

Illustration

Mrs. Folake incorporated Folks Limited on 1/6/2009. He brought in cash of N4, 000,000 into the business on 4/6/2009 he offered the business building that valued N6, 000,000. The amount on

Build RDr — Capital GCr

Capital / in / out — Re — Dr
Cash — GW — Cr

Building — Giver — Cr
Capital — Rec — Dr

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Cash Giver Cr   Abu G cr   Abu R Dr
Bank Re Dr   FE R Dr   Cash G Cr
Rec Bank
GCr Cash

Cash Gcr
Abu Rdr

the building was to be taken as an additional capital. The business banked N3,500,000 on 5/6/2009 and on 8/6/2009, the business bought furniture worth N100,000 from Abu and on 10/6/2009, N80,000 cash was paid to Abu

GCr Abu   Furniture RDr

Required: Journalize and post above transaction in the book of Folik Limited

Solution

Date	Narrations	Receiver Dr	Giver Cr
		N	N
1/6/09	Cash Capital Being Capital Introduced by the proprietor	4,000,000	 4,000,000
4/6/09	Building Capital Being value of building introduced As capital by the proprietor	6,000,000	 6,000,000
5/6/09	Bank Cash Being amount lodged in the bank	3500 000	 3500 000
8/6/09	Furniture Abu Being value of furniture purchased on credit	100,000	 100,000
10/6/09	Abu Cash Being cash paid to as part settlement	80,000	 80,000

The ledger accounts in the case of these transactions are:

Cash Account

		N			N
1/6/09	Capital	4,000,000	5/6/09	Bank	3,500,000
			10/6/09	Abu	80,000
			30/6/09	Balance c/d*	420,000
4,000,000			**4,000,000**		
1/7/09	Balance b/d	420,000			

Capital Account

		N			N
30/7/09	Balance c/d*	10,000,000	1/6/09	Cash	4,000,000
			4/6/09	Building	6,000,000
10,000,000	**10,000,000**				

1/7/09 Balance b/d 10,000,000

Building Account

		N			N
5/6/09	Cash	6,000,000	30/6/09	Balance c/d	6,000,000
6,000,0006,000,000					
1/7/09	Balance b/d	6,000,000			

Bank Account

		N			N
5/6/09	Cash	3,500,000	30/6/09	Balance c/d	3,500,000
3,500,000		**3,500,000**			
1/7/09	Balance b/d	3,500,000			

Furniture Account

		N			N
8/6/09	Abu	100,000	30/6/09	Balance c/d*	100,000
1/7/09	Balance	**100,000**			**100,000**

Abu

		N			N
10/6/09	Cash	80,000	8/6/09	Furniture	100,000
30/6/09	balance c/d*	20,000			
100,000			**100,000**		
			1/7/09	Balance b/d	20,000

The asterisk figure represents the outstanding balance on cash account

Text Seven

BALANCING OF ACCOUNT AND EXTRACTION OF TRIAL BALANCE

Since accounting needs to know what balance remain on each account, and then there is need to determine such balance. The process of determine outstanding balance on a particular account is known as balancing of account. This is done after all entries have been made into the various accounts. The difference between . e two sides of the account represents the balance on the account. Where the total value of the debit entries is greater than the total value of the credit entries, then we have a debit balance and where the total value of the credit entries is greater than the total value of the debit entries, we have credit balance.

Refer to illustration 2.2. The asterisk figure shows the balance on each of the account. A cash. Building, Bank and furniture account has debit balance of N420,000, N6,000,000. N3.500.000 and N100.000 respectively. While capital and Abu Accounts has credit balance with N10,000,000 and N20,000 respectively. Whatever value arrived at all period represent the opening balance in the next period. The closing debit balance of N420.000 cash in illustration 2.2 represent the opening balance on July 2009.

Rule of Balance of Account

- All asset accounts should have debit balances
- All expense accounts should have debit balances
- All liabilities and capital accounts should have credit balances
- All income accounts should have credit balances
- All provision should have credit balances

Essentials of journal

Journal entries allow easy review of the transactions at any time

1. Journal entries contain details of the transaction thus allow ledger to contain only summary of the transactions since ledger contains a lot of accounts.

Suspense Account is used to correct the error that can Affect the Ledger.

2. Journal entries aid in pruning down error of entering only one side of the account and it is possible to make mistake of omitting the debit or credit or entering one of them twice if the transactions were recorded directly in the ledger accounts.

TRIAL BALANCE

Trial balance is the list of accounts balances at a given point in time drawn up to test the arithmetic accuracy of accounting entries.

The process involved is to arrange all the debit balances accounts on one column. Because of the self-balancing nature of the system of double entry, the total of the debit balances will be exactly equal to the credit balances.

Where the two sides of the trial balance are not equal, then there must be an error of addition or recording the transactions in the accounts.

Purpose of preparing Trial balance .

1. To check the arithmetic accuracy of the entries in the ledger by proving whether the total of the debit balances is equal to the total of the credit balances.
2. To some extent, it checks error of posting especially where there is an omission in the posting of one side of the account.
3. It provides data in form of summary of balance in all the accounts to help in preparing the financial statement.

However, it should be noted that trial balance is a mere confirmation of arithmetical accuracy of an accounts it does not necessarily prove that errors have not been made.

Building rdr
Cash rdr .
Capital Acr

Illustration

i. Kareem started business on 1st march 2008. on that day , he brought into the business N2,000,000 cash and building valued at N5,000,000

purchase rdr
Hannah Acr

ii. Brought goods that worth N600,000 for resale on credit from Hannah on 5/3/08

iii. 6/3/08 bought furniture valued at N100, 000 from his house to the office for business use.

insuran rdr
building Acr

iv. 8/3/08 paid a three year insurance premium of N60, 000 on the building.

Cash Acr
Insuranc- Rdr Cash R Dr
building R Dr
Capital R Cr

Purc Re Dr
Hann Acc Cr
R Br

Sales Gcr cash rdr Bolo rdr   Hannah Rdr Return outward Gcr   Return Gcr Han Rdr   Cash Purchase

v. 9/3/08 returned goods to Hannah valued at N10,000

vi. 12/3/08 purchased goods worth N150,0000 by cash from Chinas and also bought goods worth N100,000 on credit from Chime   Purch Rdr Chinas Gcr

vii. 18/3/08 paid N100,000 cash to Hannah as part settlement for goods purchased   Cas Gcr Han Rdr

viii. 22/3/08 sold goods worth N400,000 to Bola who paid cash of N150,000   Sales Gcr Bolo Rdr Cash Rdr

ix. 24/3/08 Bola returned goods worth N60,000   Bola Gcr Return inward. rdr

x. 31/3/08 paid N50,000 for the school fees of his child   Drawing rdr Cash Gcr

xi. 31/3/08 paid salaries and wages of N50,000   Salaries Rdr Cash Gcr

You are required to

(i) journalize the transactions

(ii) Write up the relevant ledger accounts

(iii) Extract a trial balance as at 31st March 2008

*

SOLUTION

Date	Account titles and Narrations	DR N	CR N
March 1'08	Cash	2,000,000	
	Building	5,000,000	
	Capital		7,000,000
	Being cash and value of building Invested by Kareem		
March 5	Purchase	600,000	
	Hannah		600,000
	Being goods brought on credit from Hannah		
March 6	Furniture	100,000	
	Capital		100,000
March 8	Prepared Insurance	60,000	
	Cash		60,000
	Being three years insurance premium on building		
March 9	Hammed	10,000	
	Returns outward		10,000
	Being goods returned to Hannah		
March 12	Purchases	150,000	
	Cash		150,000
	Being cash paid for goods purchased		
March 12	Purchases	100,000	
	Chinas		100,000
	Being purchases made on credit from Chime		
March 18	Hannah	100,000	
	Cash		100,000

	Being part-payment to Hannah in respect of goods purchased		
March 22	Cash	150,000	
	Bola	250,000	
	Sales		400,000
	Being goods returned by Bola		
March 31	Drawings	50,000	
	Cash		50,000
	Being personal expense of Kareem		
March 31	Salaries and wages	50,000	
	Cash		50,000
	Being salaries paid for the month of March		

LEDGER ACCOUNT:

CASH ACCOUNT

		N			N
1/3/08	Capital	2,000,000	8/3/08	Prepaid insurance	60,000
22/3/08	Sales	150,000	12/3/08	Purchases 150,000	
			18/3/08	Hannah100,000	
31/3/08	Drawing	50,000	31/3/08	Salaries & wages	50,000
			31/3/08	Balance c/d1,740,000	
		2,150,000			2,150,000

CAPITAL ACCOUNT

		N			N
31/3/08	Balance C/D	7,100,000	1/3/08	Cash	2,000,000
			1/3/08	Building5,000,000	
			6/3/08	Furniture	100,000
7,100,000		**7,100,000**			
			6/3/08	Balance b/d	7,100,000

BUILDING ACCOUNT

		N			N
1/3/08	Capital	5,000,000	31/3/08	balance c/d	5,000,000
		5,000,000			**5,000,000**
1/4/08	Bal. b/d	5,000,000			

PREPAID INSURANCE ACCOUNT

		N			N
8/3/08	Cash	60,000	31/3/08	Balance c/d60,000	

		60,000	**60,000**
1/4/08	Balanced b/d	60,000	

PURCHASES

		N			N
5/3/08	Ahmed	600,000	31/3/08	Balance c/d	850,000
12/3/08	Cash	150,000			
12/3/08	Chinas	100,000			
850,000				**850,000**	
1/4/08	Balance b/d	850,000			

HANNAH (CREDITORS) ACCOUNT

		N			N
9/3/08	Return Outward	10,000	5/3/08	Purchases	600,000
18/3/08	Cash100,000				
31/3/08	Balance c/d	490,000			
60,000		**600,000**			
1/4/08	Balance b/d	490,000			

CHINAS (CREDITORS) ACCOUNT

		N			N
31/3/08	Balance c/d	100,000	12/3/08	Purchases100,000	
100,000			**100,000**		
1/4/08	Balance b/d	100,000			

FURNITURE ACCOUNT

		N			N
6/3/08	Capital	100,000	31/3/08	Balance b/d	**100,000**
		100,000			
1/4/08	Balance b/d	100,000			

RETURNS OUTWARD ACCOUNT

		N			N
31/3/08	Balance c/d	10,000	9/3/08	Hannah	10,000
10,000		**10,000**			
1/4/08	Balance b/d	10,000			

SALES ACCOUNT

	N		N

31/3/08 Bal 400,000
22/3/08-Cash150.000
22/3/08 Bola250.000
400,000 **400,000**
1/4/08 Balance b/d 400.000

BOLA (Debtors) ACCOUNT

	N		N
22/3/08 Sales	250.000	24/3/08 Returns Inward	60.000
31/3/08 Balance c/d	190.000		
250,000	**250,000**		
1/4/98 Balance b/d	190,000		

DRAWING ACCOUNT

	N		N
24/3/08 Cash50.000	31/3/08 Balance	50.000	
50,00050,000			
1/4/08 Balance b/d	50.000		

Salaries and Wages Account

	N		N
31/3/08 Cash	50.000	31/3/08	Balance c/d50.000
	50,000		**50,000**
1/4/08 Balance b/d	50,000		

Returns Inward Accounts

	N		N
24/3/08 Bola	60.000	31/3/08	Balance c/d60,000
60,000	**60,000**		
Balance b/d 60,000			

Trial Balance As At 31st March 2008

Particular	Dr N	Cr N
Capital		7.100,000
Building	5,000,000	
Cash	1,740.000	
Prepaid Insurance	60,000	

FADJOSHUA CONCEPT

WE DEAL IN SALES OF DATA BUNDLES. ALL NETWORK AT A LOW PRICE

- MTN 1GB @ 550, 2GB @ 1050, 5GB @ 2500.
- GLO 2GB @ 950, 4.5GB @ 2200, 7.2GB @ 2500.
- 9MOBILE 500MB @ 550, 1GB @ 1050, 1.5GB @ 1300, 2.5GB @ 2200, 4GB @ 3000.
- AIRTEL 1.5GB @ 1000, 3.5GB @ 2000, 7GB @ 3400, 10GB @ 5000.

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Purchases	850,000	
Chime		100,000
Hannah (Creditors A/c)		490,000
Sales		400,000
Furniture	100,000	
Furniture (Returns Outward)		10,000
Bola (Debtors Account)	190,000	
Returns Inward	60,000	
Drawing	50,000	
Salaries & wages	50,000	
8,100,000	**8,100,000**	

Illustration

The following amounts appeared in the Trial Balance extracted from the books of Thompson and Co. on 30th June 2007.

	N
Lighting and Heating	5,000
Wages and Salaries	40,000
Loan Interest	16,000
Rates	3,000
Advertising	10,000
Dividends received	5,000
Rent received	2,500

Adjustments are to be made with respect to the following:

	N
Wages accrued	3,600
Loan interest accrued	1,000
Rates paid covered the period January 1 To December 3/12/2007	
Advertising cost to be carried forward, one- half	
Unpaid dividend	3,000
Rent received in advance	800
Heating account unsettled	500

You are required to show the ledger account recording the above information.

SOLUTION

Heating and lighting Account

	N		N
Balance from the books	5,000	Transfer to profit &Loss A/c	5,500
Balance (Accrual) c/d	500		
	5,500		**5,500**

Wages and salaries Account

	N		N
Balance from the books	40,000	Transfer Profit & Loss a/c	43,600
Balance (accrual) c/d	3,600		
	43,600		**43,600**

Loan Interest Account

	N		N
Balance from the books	16,000	Transfer to Profit & Loss a/c	17,000
Balance (accrual) c/d	1,000		
	17,000		**17,000**

Rates Account

	N		N
Balance from Books	3,000	Transfer to Profit & Loss a/c	1,500
		Balance (prepayment) c/d	1,500
	3,000		**3,000**

Advertising Account

s	N		N
Balance from the book	10,000	Transfer to profit & Loss a/c	5,000
		Balance (prepayment) c/d	5,000
	10,000		**10,000**

Dividend Received Account

	N		N
Transfer to Profit & Loss a/c	8,000	Balance from the book	5,000
		Bal (unpaid dividends) c/d	3,000
	8,000		**8,000**

Rent Received Account

	N		N
Transfer to profit & Loss a/c	2,000	Balance from he book	2,800
Balance (rent in advance)	800		
	2,800		**2,800**

Review Questions

Abu starts a business and introduces N200,000 cash.

He buys a motor van for N100,000 and some shop fittings for N80,000.
He buys some stock from Seyi costing N50,000 on credit
He sells one half of the goods to Kola for N65,000 cash.
He pays N50,000 to Seyi.
He draws N50,000 of cash from the business for his own use.
He buys goods costing N100,000 on credit term from shoal.
He sells goods which cost him N90,000 to Oni on credit terms for N120,000.
He receives N50,000 from Oni
He pays wages of N10,000 to Temi, his employee.

Required: Raise a journal entry and prepare accounts from the above

Jegacommenced business on 1 January 2009 by transferring N7,200,000 from his private account to the b account opened for the business. The following transactions took place during the month of January:

July			N
1.	Introduced cash of N40,000 and car valued at	17,500	
2.	Bought goods for cash at a cost of		11,300
8.	Paid wages of N130 and sundry expenses of	20	
9.	Sold goods on credit to victor for		1,900
14.	Sold goods on credit to Ayegbeni for		2,400
18.	Bought goods on credit from opera for	850	
22.	Bought fixtures and fittings at a cost of		3,500
25.	Paid wages of		380
26.	Paid drawings to himself of		800
31.	Victors paid the full amount owing paid rent of	5,000	

2 types of Error would show
-> Error that trial would show
-> Error that trial would not show

Classes of Account
- Real
- Nominal
Income expenses

Text Eight

CORRECTION OF ERROR AND SUSPENSE ACCOUNT

Introduction

Errors do occur in the course of recording in the ledger or in the course of extracting balance to trial balance. Some of the errors might not affect the trial balance as some will make trial balance not to agree.

Errors that would not affect trial balance CCCOO?

1. **Errors of Omission:** This error occurs when a transaction is completely omitted from the books. E.g. Cash sales of =N=100,000 completely omitted. not recorded at all. when transaction has been omitted in the double entry principle
2. **Errors of Commission:** Error of commission occurs where a wrong account in the same ledger is debited or credited i.e. correct amount is entered but in the wrong book e.g. debiting or crediting P. Ojo Account instead of the account of T.Ojo. recording transaction for A to B in the same class.
3. **Errors of Original Entry:** This occurs when the equal debit/credit figure recorded in the books is different from the actual amount in the source document e.g. a purchase of =N=300 but recorded as =N=30 in both purchases and suppliers account. it occur when the right amount is mistakenly recorded wrongly.
4. **Compensating Errors**: Compensating error where errors in one account cancelled out by error of other account e.g. sales and purchase overstated by the same account. when transaction is recorded in differe Ac Account
5. **Errors of Principle:** Error of principle arises where there is an entry in the wrong class of account e.g. purchase of equipment is debited to equipment expenses account.
6. **Complete reversal of entries:** Here correct accounts are used but each item is shown on the wrong side of the account e.g. cash sales made is recorded as a debit and cash is credited. when the transaction have been posted in the wrong side of the account and it has been completed in the corresponding Account.
7. **Error of transposition:** This occurs when an error on one account cancels out another on another account. These two errors cancel out one another. For instance; overstatement in sales and subsequent debit in wages over statement. It occur when there is under or over costing of Account.

Errors that would affect trial balance

this error are corrected through the suspense Account.

EEIST

A trial balance may not balance for one or a combination of the following reasons:

1. Error in computing the account balance(s) in the ledger.
2. Incorrect casting item of trial balance
3. Errors of wrong posting i.e. posting a debit as credit or vise versa on the trial balance.
4. Transposition error which is created by incorrect arrangement of the order of two (2) digits in a number e.g. a debtor's account balance is =N=205 but in copying the figure into the trial balance is written as =N=250.
5. Slide Error: This result when a digit or most is left or added to a number or the decimal point is placed incorrectly e.g. writing N900 as =N=90.
6. Error due to omission of account(s): This error arise where there is an omission of account(s) already balanced in the ledger in the process of extracting the trial balance.

Tracing sources of errors in the trial balance

The any of the following steps can be taken:

1. Re-check the addition of the trial balance
2. The difference between the debit and credit side should be determined and determine whether the difference is divisible by 2 or 9. If the error is divisible by 3 that suggest the error may be a transposition/slide error. And, if the error is divided by 2 that suggest that a transaction has been posted to the wrong side of n account. Then, look through the columns of the trial balance for an amount equal to half of the difference between the two sides of the Trial balance.
3. If after 1 & 2 above, difference still exist between two sides, then compare the amounts listed on the trial balance with each account balance in the ledger. This will ensure that every account balance is included and also to ensure that each account balance is entered in the correct column.
4. If error still persist then recomputed the balance of each account in the ledger.
5. Trace each transaction from the journal to the ledger account in order to find out if all aspects of double entry were taken care of.

6. A suspense account can be used to hold unto the difference.

Suspense account

A suspense account is a temporary/intermediate account. It is opened in order to agree the Trial balance pending the time the error would be detected and corrected.

Correction of Errors: It is only errors that affect trial balance that requires the use of suspense account. However, every correction is done through the general journal.

Illustration

Trial balance of ABC Ltd. for the year ended 30th of June 2008 has a suspense account with a credit balance of N9, 500. On further investigation, you ascertain that the balance is made up of the following items:

1. Proceeds from an issue of shares (at nominal value) during the year amounting to N6, 000.
2. Proceeds from sales of land, shown in the books at cost of N2,000 amounting to N2,500.
3. An excess of the total of the debit side over the credit side of the trial balance due to
   (a) N50 paid by a customer wrongly debited to his account.
   (b) Local travel expenses of N1.000 wrongly entered as N1,900.

You are to clear the suspense account and show the transfer in the relevant accounts

SOLUTION

G cr
R dr

Suspense

Dr		N			N Cr
30/6/08	Share Capital	6,000	30/6/08 balance b/f		9,500
	Land Disposal	2,500			
	Debtors	100			
	Local Travel	900			
		9,500	**9,500**		

Share Capital

		N			N
30/6/08	Balance c/d	6,000	1/7/08Balance	x	6000
30/7/08	Suspense	6,000			2

	6,000		**6, 000**

Land at cost

	=N=		=N=
1/6/08	2.000	30/6/08 Disposal of Land	2,000

Disposal of Land

	=N=		=N=
30/6/08 Land	2,000	30/6/08 Suspense	2,500
Profit on sale	500		
	2,500		**2,500**

Debtors

=N=		=N=	
1/6/08 Balance	500	30/6/08 suspense	1,000
Cash (incorrect)	500		
	1000		**1,000**

Local Travels

	=N=		
30/6/08	900		

Illustration 2

Trial balance of Alafia Tayo& Co as at 31st December 2007 shows difference of =N=50,000 being a shortage on the debit side debited into suspense account opened. On further investigation, the following were discovered on 31st January 2008.

1. Sales account had been overstated by =N=30.000
2. Salaries and wages had been under cast by =N=5,000
3. =N=25.000 cash paid to ~~Peter~~ John has been entered in cash book but yet to be debited into John's account.
4. Purchases account has been overstated by =N=10.000.

You are required to correct the error

SOLUTION

Journal

2008		DR =N=	CR =N=
31st Jan	Sales	30.000	
	Suspense Account		30.000
	Being sales overstated		
31st Jan	Salaries and wages	5.000	
	Suspense Account		5,000
	Being salaries and wages under casted		
31st Jan	John	25,000	
	Suspense Account		25,000
	Being cash paid to John		
31st Jan	Suspense Account	10,000	
	Purchases		10.000
	Being Purchases overstated		

Suspense Account

		=N=		=N=
2007			2008	
Jan. 1	Balance	50.000	Jan. 31 Sales	30,000
Jan.31	Purchases	10.000	Jan. 31 Salaries & wages	5,000
			Jan. 31 John	25.000
		60,000		**60,000**

Sales

		=N=	
Jan. 21	Suspense	30,000	

Salaries and Wages

2008		=N=			
Jan. 31		5,000			

Popor

2008		=N=			
Jan. 31	Suspense	25,000			

Purchase

			2008		
			Jan. 31	Suspense	10,000

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- 9MOBILE 500MB @ 550, 1GB @ 1050, 1.5GB @ 1300, 2.5GB @ 2200, 4GB @ 3000.
- AIRTEL 1.5GB @ 1000, 3.5GB @ 2000, 7GB @ 3400, 10GB @ 5000.

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JOSHUA FADARE WEMA BANK 0237370091

Text Nine

DEPRECIATION

Depreciation is wear and tear of non current assets used purposely for the business. Statement of Accounting Standard 9 (SAS) describes as the systematic and periodic allocation of the historical cost or revalued amount less estimated residual value of a depreciable asset over its estimated useful life Depreciation is computed using applicable methods and charged against the gross in the profit and loss account.

acquired
A A R U useful
over Restricted

Features of depreciable assets

A depreciable asset has the following characteristics.

i. The useful life is over one year.

ii. It is acquired primarily for use in production of goods and services

iii. It has restricted useful life

iv. Such an asset is not for sales in ordinary course of business.

Definition of terms in depreciation

Residual asset

This is also known as scrap value. It is estimated amount recoverable from the disposal of a fixed asset after the estimated useful life.

Obsolescence

This factor render fixed asset not useful even when it is not put to use. Obsolescence could be caused as a result of change in taste, technology, consumption patterns.

Depreciable value

This is an aspect of net book value of depreciable asset allocate able in the future.

Causes of depreciation

The following are the major cause of depreciation:

i. wear and tear

Natural price
NO P P W. Wear
passage
obsolense

ii. passage of time

iii. obsolescence

iv. natural factor like flood, dampness and excessive heat

v. price drop of asset

vi. Superfluity e.g change in production and change in technology.

Methods of calculation of depreciation A D S S S Sum Annuity Sinking Depreci

i. Straight line method

ii. Reducing balance method or diminishing method

iii. Annuity method

iv. Sum of digit method

v. Revaluation method

vi. Sinking fund method

vii. Sinking fund method

viii. Depreciation fund method

ix. Unit of production method

x. Service hour method / Machine hour

However, the following five methods will be examined in detail

i. **Straight line method**

Straight line method is widely used method. Using this method, an equal portion is charged as depreciation. This is the cost of an asset allocated to each period used usually a year. It is computed as follows:

$$\text{Annual depreciation} = \frac{\text{Cost - residual value}}{\text{Useful life of asset}}$$

Illustration

XYZ ltd Depreciated its motor vehicle that cost N500,000, a residual value of N50,000 and estimated useful life of 3years.

$$\text{Annual depreciation} = \frac{\text{Cost - residual value}}{\text{Useful life of asset}} = \frac{500{,}000-50{,}000}{3} = \text{N}150{,}000$$

Depreciation chargeable yearly is = N 150,000

S R S M A

A M R SS

ii. **Reducing balance**

Under this method, depreciation chargeable is calculated by use of certain fixed percentage of the net book value of the asset at the end of accounting period. Annual depreciation chargeable reduces of falls considerably yearly because the calculation is based on reduced balance/ net book value.

Illustration

Bolajoko ltd. bought equipment for N1, 000,000. It is expected that the useful life is 3years and written down value of N216, 000. The company decides to use reducing balance method.

Solution	=N=
Cost of asset	1,000,000
Depreciation 1st year (40% x N1m)	400,000
Net book value	600,000
Depreciation 2nd year	
40% of reducing balance (40% x N0.60m)	240,000
Net book value	360,000
Depreciation 3rd year	
40% of reducing balance (40% x N0.36m)	144,000
Residual value at the end of year 3	216,000

iii. **Sum of the year digit method**

With this method, the number of useful life of the asset is allocated in reverse order inform of a digit to a year. For example, asset with useful life of 4 years, 4 digits will be allocated to the first year, 3 digits to second year, 2 digits to third year and 1 one digit to forth year. This method is similar to reducing balance method in the sense that chargeable depreciation reduces considerably every subsequent years the asset is put to use.

Illustration

Olorunfemi & Co. purchased a motor vehicle on 1st of January 2005 at a cost of N1, 200,000. The car is expected to have an expected useful life of 4 year and estimated residual value of

N200, 000. It is the policy of the accounting firm to depreciate its fixed asset using sum of digit method and the computed depreciation rate is 40%.

Determine the annual depreciation charge.

Solution

Depreciable asset = N1,200,000- N200,000 =N1,000,000

Year	No	Digit	Working	Annual Depn.
2005	1	4	4/10 X 1,000,000	400,000
2006	2	3	3/10 X 1,000,000	300,000
2007	3	2	2/10 X 1,000,000	200,000
2008	4	1	1/10 X 1,000,000	100,000
	10			1,000,000

iv. Machine hour

Here, the life-span of depreciable asset is identified and the total number of hours it can be put to use in producing goods and services. The depreciable amount is divided by estimated service hours to obtain hourly depreciation rate.

Illustration

Microtel Ltd bought a new machine at a cost of N8million. The machine is expected to be used for 100,000 hours. The machine is expected to have N1million scrap value.

In the first 4 years the machine used the following hours;

Year	Hours Consumed
2005	15,000
2006	18,000
2007	20,000
2008	22,000

Determine annual depreciation charge for the four years above

Solution

Depreciable amount = N8, 000,000-1,000,000

= N7, 000,000

Hourly depreciation $= \frac{N7,000,000}{100,000\ Hrs} =$ N70

Years	Depreciation
2005	15,000 x N70 = N1, 050,000
2006	18,000 x N70 = N1, 260,000
2007	20,000 x N70 = N1, 400,000
2008	22,000 x N70 = N1, 540,000

Annuity method and sinking fund method

Under these methods, fixed assets are recognized as investments are expected to generate sufficient cash flows for equal to or higher than the cost of the assets in question. Depreciation charge is the excess of cash inflow for the period over the returns on the book value using internal rate of returns. These methods are not usually used.

Illustration

Boluje& Co. bought a vehicle at a cost of N1,000,000 on 1st of January 2003. On 1st of January 2006, motor vehicle was bought for N2, 000,000. The company charge depreciation on straight line method at 20% per annum without scrap value. The year end is 31st December.

Show the relevant account to reflect the transactions till 31st December 2007

Assuming the assets are maintained at net book value

Mo. r vehicles

	N		N
1/1/03 Cash book	1,000,000	31/12/03 Profit & Loss a/c depn.	200,000
		31/12/03 Balance c/d	800,000
1,000,000 1,000,000			
1/1/04 Balance b/d	800,000	31/12/04 Profit & Loss a/c	200,000
31/12/04 Balance c/d600,000			
	800,000		**800,000**
1/1/05 Balance b/d	600,000	31/12/05 Profit & Loss a/c	200,000
		31/12/05 Balance c/d	400,000
600,000 600,000			
1/10/06 Balance b/d	400,000	31/12/06 Profit & Loss a/c	600,000
1/1/06 Cash Purchase	2,000,000	31/12/06 Balance c/d	1,800,000

	2,400,000		2,400,000
1/1/07 Balance b/d	1,800,000	31/12/07 Profit & Loss a/c	600,000
		31/12/07 Balance c/d	1,200,000
1,800,000		1,800,000	
1/1/08 Balance b/d	1,200,000		

Boluje& Co

Statement of Financial Position as at 31stDecember 2017

		N	NN
Non- Current AssetsCost	**Acc. Depn.**	**NBV**	
Motor vehicles	3,000,000	1,800,000	1,200,000

Disposal of assets

Asset disposal could arise either as a result of company secession or the assets in question has completed its estimated useful life. In this sense, the assets could sold for cash, scrapped and or traded-in. For the purpose of clarity, a separate account, asset disposal accounts into which all balance are transferred into. After the transfer, the differences represent profits or loss on disposal.

Illustration

Using illustration above, in addition the old asset was sold on 1/1/2007 for N250,000.

Motor vehicles

	N		N
1/1/03 Cash book	1,000,000	31/12/03 Profit & Loss a/c depn.	200,000
		31/12/03 Balance c/d	800,000
1,000,000 1,000,000			
1/1/04 Balance b/d	800,000	31/12/04 Profit & Loss a/c	200,000
31/12/04 Balance c/d600,000			
	800,000		800,000

1/1/05 Balance b/d	600,000	31/12/05 Profit & Loss a/c	200,000
		31/12/05 Balance c/d	400,000
600,000	**600,000**		
1/1/06 Balance b/d	400,000	31/12/06 Profit & Loss a/c	600,000
1/1/06 Cash Purchase	2,000,000	31/12/06 Balance c/d	1,800,000
	2,400,000		**2,400,000**
1/1/07 Balance b/d	1,800,000	31/12/07 Disposal	200,000
		31/12/07 Profit & Loss a/c	400,000
		31/12/07 Balance c/d	1,200,000
1,800,000		**1,800,000**	
1/1/08 Balance b/d	1,200,000		

Asset Disposal Account

	N		N
1/1/07 Motor Vehicle	200,000	1/1/07 Cash Book	250,000
31/12/07 P & L A/C	50,000		
	250,000		250,000

Trade in of assets

An asset simply means exchange of asset for another one usually of similar use. The exchanging enterprise is expected to pay the difference between the cost of the new and the old asset to the supplier. After the payment of the said difference, the old asset is returned to the supplier and replaced with new one.

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All transaction ...

Uses of control Acc
⇒ Save time.
⇒ Prevention of fraud
⇒ Locate error
⇒ Prepare final account
⇒ Ascertain total amount of payable & Receivable

Control account

Receivable Payable

Text Ten

Contra entry or set up:
It is used to cancle transaction when they cancel each other. Trade by Sed...

CONTROL ACCOUNTS

A control account shows the summary of entries in individual accounts in each ledger. It is a replica of summarized forms of accounts in the related ledgers. The balance on this account will be equal to all individual ledger balances. Otherwise, there is an error in the ledger. Normally, the principle of control account is applicable to all ledgers but practically restricted to sales and purchases ledger especially for examination purpose. Control account is also called **Total Account.**

It is noteworthy that, the control accounts are memoranda record i.e the entries are not done on double entry basis. Actual double --entries are the ones made in individual accounts.

Items and their treatments in the control accounts

Debtors' Control Account:

i. **Bill Receivable:** bill receivables are credited to the debtor control account. However, bill receivable accepted should be used where both bill receivable and bill receivable accepted are given.

ii. **Bill receivable discounted:** bill receivable discounted should be disregarded. No entry of such is made in the customers' account.

iii. **Bill receivable honored:** this should be disregarded. In other words, no entry is made in the debtors' control account.

iv. **Bad debt recovered:** this should also be disregarded ~~unless this had earlier~~ been credited to the debtors' control account

v. **Provision for bad/doubtful debt:** this should be disregarded as these do not affect debtors' control account.

Credit Note
It is a document sent by seller to correct overcharge ~~when goods ...~~
It can be on payable or receivable control account
When credit Note issued to customer credit Receivable control Acc.
When credit Note received from supplier we are going to debit purchase ... control Account.
... credit note ...

vi. **Provision for discount allowable:** these should be disregarded as well as the do not affect the debtors' controls account.

vii. **Cash Sales:** this should be disregarded as no entry is made in customers' account but cash book.

Creditor Control Account

i. **Bill payable:** only bill payable accepted should be used when bill payable is also given. However, where only bill payable is given, then it should be used.

ii. **Bill payable honored:** this should also be disregarded. This is because; any bill honored will not pass through the creditors' account.

iii. **Provision for discount receivable:** this should be disregarded as it does not affect creditors account.

iv. **Cash purchases:** this will not be regarded. It has nothing to do with creditors' accounts

Origins and sources of items to the control account

Debtors' Control Account

Debit entriesOrigin/source	
Total credit sales	Sales Day Book
Cheques dishonored from customer	Cash Book
Interest Charged to customers	Journal books
Bills receivable dishonored	Journal book

Credit entries	**Origin/ Source**
Cheques and cash received from customers	Cash Book
Discount allowed	Discount allowed in 3-column cash book
Bad debts	Journal book
Bill receivable accepted by customers	Journal book
Return inward	Return inward book

to the buyer to correct and

Purchase ledger control contras (set-off) — Journal books

Creditor Control Account

Debit entries — **Origin/Source**

Debit entries	Origin/Source
Cheques and cash paid to suppliers	Cash book
Discount received	Discount received column of 3-column cash book
Bill payable acceptable	Journal book
Return outward	Return Outward Day book
Sales Ledger Contra(set-off)	Journal book

Credit entries	Origin Source
Total credit purchases	Purchase Day Book
Dishonored Cheques	Cash book
Interest charged by suppliers	Journal book
Bill payable dishonored	Journal book

Importance of control accounts

1. they serve as checks against errors and fraud by junior officer in charge of ledgers
2. Control account ensures saves effort and time in preparation of draft report and other periodic reports.
3. it improves accuracy of the ledgers and reports as well.

Formats of Control Accounts

Debtors' Control Account/Sales Ledger Control Account

	N		N
Balance brought b/d	x	Balance b/d	x
Credit Sales	x	Discount allowed	x
Dishonored Cheques	x	Bad debts	x
Interest charged to customers	x	Bills receivable	x
Tsf of Cr. Bal. to Crdtor. Cntrl A/c	x	Cheques received from customers	x

Trsf of Dr. Bal. frmCrdtor. Cntrl A/c	x	Cash received from customers	x
Balance carried down	x	Return inwards	x
Purch.Lger-contra(set-off)	x		
Balance carried down	x		
X X			
Balance b/d	x	Balance b/d	x

Creditors' Control Account/Purchases Ledger Control Account

	N		N
Balance b/d	x	Balance b/d	x
Discount received	x	Credit purchases	x
Bills payable	x	Discount receivable	x
Cheques paid to suppliers	x	Interest charged by suppliers	x
Cash paid to suppliers	x	Bills payable dishonored	x
Return outwards	x	Trsf of Cr. Bal. frmDdtors". Cntrl A/c	x
Sales ledger contra(set-off)	x	Trsf of Dr. Bal. to Drdtor. Cntrl A/c	x
Balance c/d	x	Balance c/d	x
	X		X
Balance b/d		Balance b/d	

Note

Set-off refers to setting off the debt due from one person against liabilities due to the same person. The set-off affects both the debtors' and creditors' ledger the same way. For instance, if Folik Limited owe Hannah the sum of N2,000 and Hannah owe it the same amount, this amount will be set-off against each accounts.

Illustration

Agama, a sole trader, maintains his books in such a way that a sales ledger control account and a purchases ledger control account are shown in his general ledger and balance at the end of each month. The following details are in respect of the two control accounts in respect of December 2007.

Balances as at 1/12/07

		₦
Dr. balances in the sales ledger		135,000
Dr. Balances in the purchases ledger		4,150
Cr. Balances in the sales ledger		3,000
Cr. Balances in the purchases ledger		120,000

During the month, the following transactions were recorded:

Total credit purchases		175,000
Total credit sales	R	200,000
Sales returns	Inward	3,600
Purchases returns	Outward Dd	2,000
Cash received from debtors	Receival Dd	75,000
Cheques received from debtors	Receiv Dd	150,000
Payments made to trade creditors	Payab Dd	164,000
Discount received from creditors	Paya Cr	1,200
Discounts allowed to trade debtors	Receival Cr	3,600
Bad debts written off	Receivab Cr	500
Provision for doubtful debts	Receivab bd	2,000
Bill of exchange accepted by debtors		43,000
Bill of exchange accepted by Agata Supply	Pay Dd	66,000
Sales ledger Cr. Bal. trsf. To purchases ledger	Rec Dd	800 Pay Cr
Cash purchases		30,000
Dishonored bills payable	Pay Cr	1,300
Dishonored bills receivable	Rec Cr	1,500
Cr. Balances in the sales ledger		Dr 1,950
Dr. Balances in the purchases ledger		Cr 1,800

Rec

Bal c/d 1950

Pay

Bal c/d 1800

Solution

Sales Ledger Control Account

	N		N
Balance b/d	[illegible]	Balance b/d	[illegible]
Sales	[illegible]	Sales returns	[illegible]
Purchase ledger control	800	Cash	[illegible]
Bills receivable dishonoured	[illegible]	Bank	[illegible]
Balance c/d	[illegible]	Discount allowed	[illegible]
		Bad debts	[illegible]
		Bills receivable	[illegible]
		Balance c/d	60,550
339,250		339,250	
Balance b/d	60,550	Balance b/d	[illegible]

Purchases Ledger Control Accounts

	N		N
Balance b/d	4,150	Balance b/d	120,000
Purchases returns	2,000	Purchases	175,000
Discounts received	1,200	Sales ledger control	800
Bank	164,000	Bills payable dishonoured	1,300
Bills payable	66,000	Balance c/d	1,800
Balance c/d	61,550		
298,900		**298,900**	
Balance b/d	1,800	Balance b/d	61,550

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