

NATIONAL OPEN UNIVERSITY OF NIGERIA

FACULTY OF MANAGEMENT SCIENCES

ACC101 BOOK-KEEPING

Course Guide

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INTRODUCTION

You are holding in your hand the course guide for ACC101 (Book Keeping I). The purpose of the course guide is to relate to you the basic structure of the course material you are expected to study as a student undertaking a basic course in Accounting in National Open University of Nigeria. Like the name 'course guide' implies, it is to guide you on what to expect from the course material at the end of studying the course material.

COURSE CONTENT

The course content consists basically of the treatment of transactions according to the Generally Acceptable Accounting Principles (GAAP). Specifically, the course material is focused on bookkeeping as a foundational aspect of accounting. The concept of bookkeeping starts from source documents to the trial balance, which is to check the arithmetical accuracy of the ledger account. Bank reconciliation statement was also discussed.

COURSE AIM

The aim of the course is to bring to your cognizance the practical recording of financial transactions as it applies to the business world.

COURSE OBJECTIVES

At the end of studying this course, among other objectives, you should be able to:

1. Identify the basic parts of bookkeeping;
2. Describe the key rules and guidelines required in a medical office that encourage bookkeeping;
3. Mention and describe accounting concepts and conventions;
4. Discuss the importance and necessity for uniformity in accounting practices;
5. Explain the relevance of the accounting entity concept;
6. Describe the accounting equation;
7. Explain the nature of assets, liabilities and capital;
8. Explain the relevance of accounting period concept in financial accounting;
9. Distinguish between revenue expenditure and capital expenditure; and
10. Make entries into the prime books of entry.

COURSE MATERIAL

The course material package is composed of:

The Course Guide

The study units

Self-Assessment Exercises

Tutor-Marked Assignment

References/Further Reading

THE STUDY UNITS

The study units are as listed below:

Module 1: Concepts and Principles of Accounting

Unit 1: The Concept of Bookkeeping

Unit 2: Principles of Accounting Concepts and Conventions

Unit 3: The Accounting Equation and its Components

Module 2: Documentation

Unit 1: Basic Documents

Unit 2: Books of Prime Entry

Unit 3: The Cash Book

Unit 4: The Petty Cash Book

Module 3: Entries and Balancing of Accounts

Unit 1: Double Entry System of Accounting

Unit 2: The Balancing of Accounts and the trial Balance

Unit 3: Bank Reconciliation Statements

ASSIGNMENTS

Each unit of the course has self-assessment exercises. You will be expected to attempt them as this will enable you understand the content of the unit.

TUTOR-MARKED ASSIGNMENT

The Tutor Marked Assignments (TMAs) at the end of each unit are designed to test your understanding and application of the concepts learned. Besides, you would be assessed electronically, as a continuous assessment during the period of studying the course. This would make up 30 percent of the total score for the course. The other 70% would be determined by examination of the course at the end of the course.

SUMMARY

It is very important that you commit adequate effort to the study of the course material for maximum benefit. Good luck.

ACC101 BOOK-KEEPING I

Main Content

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Module 1: Concepts and Principles of Accounting

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UNIT 1: THE CONCEPT OF BOOKKEEPING

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1.0 INTRODUCTION

Bookkeeping is a concept, typically defined as the systematic recording of the facts that show the position of a business. Every business organisation maintains financial records through bookkeeping. This common accounting procedure normally is performed toward the end of the work day or work week. Book keeping involves recording all expenses and payments received. The time spent in performing this procedure varies according to the size of the organisation. Meanwhile, a bookkeeper is a person who has an in-depth knowledge of the maintenance of such records and is trained in operations such as preparing the bills, cheques, drafts and the like.

In this unit, we shall discuss some basic concepts and guidelines engaged in bookkeeping.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Identify the basic parts of bookkeeping; and
- Describe the key rules and guidelines required in an organization that encourage bookkeeping.

3.0 MAIN CONTENT

3.1 THE BASICS

Bookkeeping is the preliminary part of accounting. It provides the reasonable bases for making financial reporting possible. Hence, bookkeeping starts from recording financial information from source documents into necessary books of account to extracting of the trial balance. In other words, the ledger and trial balance is the climax of bookkeeping. This provides the base from which the accountant extracts financial data for presentation of financial statement.

There are two main methods of bookkeeping, namely; single-entry bookkeeping and double-entry book-keeping. A single entry bookkeeping is a method of bookkeeping that relies on one sided accounting entry to maintain financial information. A double entry bookkeeping is a method of bookkeeping that relies on two sided accounting entry to maintain financial information. In whichever form it is maintained, bookkeeping plays a very significant role in an organisation. The bookkeeping section records income and liabilities of the organisation.

An efficiently managed bookkeeping system in an organisation helps in determining the status of a series of key information, such as the exact cash position, the bank balance estimates, payments overdue etc.

SELF-ASSESSMENT EXERCISE

Mention two methods of bookkeeping?

3.2 KEY RULES AND GUIDELINES

1. Documentation

It is important to maintain paper and electronic records of all financial transactions. No matter the amount of the transaction. No amount of transaction is too small or too big to be documented.

2. Professional services

Keeping of financial record appears to be a normal routine with any kind of business endeavour. The market woman has her style of recording her financial transactions, likewise the road side mechanic or medical practitioner. It is impossible to adopt this same approach. This certainly would not work because of the different professional demands requirements. Therefore, It is important to hire professional services to handle the bookkeeping. A competent and skilled bookkeeper can do the job much better than the road side mechanics or medical practitioner.

3. Tracking expenses

For proper book-keeping, it is important that the authorities concerned track reimbursable expenses properly. This is especially important in case of small payments made in organisations, which must be tracked with the right procedure and recording.

4. Classify employees

All the employees, whether full-time, part-timers, freelance or independent employees should be classified appropriately for the purpose of proper bookkeeping. When these are not properly classified, it can result in misfiling when it comes to filing taxes since the rules differ on the basis of the specific category of employees.

5. Proper communication

The employees responsible for bookkeeping should be informed of all the transactions well in time. All possible receipts and relevant documents should be provided in order to avoid any errors.

6. Reconciliation

Monthly reconciliation should be done with the bank statement each month, to ensure that any possible errors or omissions are avoided. We shall discuss bank reconciliation statement in one of the subsequent units of this course material.

7. Maintain back-up

It is also important to have a complete back-up ready of all the information regarding bookkeeping. This is especially crucial in cases where the records are stored electronically which can further experience unexpected technical faults.

8. Categorization of expenses

The number and kind of expenses should be categorized in a proper manner. Both, over categorization as well as under categorization can be detrimental to the bookkeeping process.

SELF-ASSESSMENT EXERCISE

Mention and describe three key rules or guidelines

4.0 CONCLUSION

It is important to note again that accounting concept is the same, no matter the area of specialization or profession. As money is a common factor to all profession including medical practice. Patients are required to pay for their treatment. The hospital is required to pay for the drugs used in treatment of patients. It cost money to pay for the service of doctors, nurses, administrative staff and other professional staff. All such activities connotes the present of transactions in the medical establishment.

5.0 SUMMARY

In this unit, you would recall that we discussed the basics and key guidelines that would ensure proper bookkeeping in organizations..

6.0 TUTOR MARKED ASSIGNMENT

Describe the following terms as they relate to organizations.

1. Documentation;
2. Professional services;
3. Proper communication; and
4. Reconciliation.

7.0 REFERENCES/FURTHER READING

Jat R. B. (2010). *Financial accounting*. Lagos: National Open University of Nigeria.

Lateef A. (2006). *General accounting 1*. Lagos: National Open University of Nigeria.

Longe, O. A. &Kazeem, R. A. (2008).*Essential financial accounting*. Ogun State: Tonad Publishers Limited.

Thomas, A. & Ward, A. M. (2012).*Introduction to financial accounting*. Berkshire: McGraw-Hill Higher Education.

UNIT 2: PRINCIPLES OF ACCOUNTING CONCEPTS AND CONVENTIONS

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1.0 INTRODUCTION

You would recall that we discussed the basics and key guidelines that would enhance proper bookkeeping in a medical organization. In this unit, we shall be discussing the principles of accounting concepts and convention. This is an interesting part of financial accounting, in that, there are cut-out rules and standards that must be followed in the preparation and presentation of financial information. If you are to understand and use accounting reports, you must be familiar with the rules and conventions behind these reports.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Mention and describe accounting concepts and conventions;
- Learn the importance and necessity for uniformity in accounting practices.

3.0 MAIN CONTENT

3.1 ACCOUNTING CONCEPTS

Below are the accounting concepts:

Business Entity Concept

In accounting, we make a distinction between businesses and the owner or owners. Every business unit is treated as an entity completely different from the owner. All the records are kept from the viewpoint of the business rather than from that of the owner or owners.

A business is an economic unit separate and apart from the owner or owners. As such, transactions of the business and those of the owners should be accounted for and reported separately. In recording a transaction, the important question is how does it affect the business? For example, if the owner of a hospital were to take cash from the cash box for his personal use, the accounts would show that cash had been reduced by that amount even though it does not make any difference to the owner.

Going Concern Concept

Accounting assumes that the business will continue to operate for a long time in the future. The enterprise is viewed as a going concern, that is, a continuing in operation, at least in the foreseeable future. The owners have no intention to wind up or liquidate its operations.

The assumption that the business is not expected to be liquidated in the foreseeable future, in fact, establishes the basis for many of the valuations and allocations in accounting.

For example, when an hospital is established, it is assumed that that hospital will continue its operation for a long time in the future. It is the assumption which underlies the decisions of investors to commit capital to business.

The Double-Entry Concept

Every transaction involves two entries and these are both recorded in the books of account. For every debit entry, there is a corresponding credit entry. You will understand this concept better in the next unit. This will enable you to understand the double aspects and effects of a business transaction.

Accrual Concept

The accrual concept makes a distinction between the receipt of cash and the right to receive it, and the payment of cash and the legal obligation to pay it. In actual business operations, the obligation to pay and the actual movement of cash may not coincide.

This concept holds that profit is made or determined by including revenue and costs. Profit is earned not necessarily when cash is received or paid. It is not necessarily correct that cash paid or received during a particular period of time represents the time the transactions are accounted for. An example is electricity used but not yet paid for or electricity paid for but not yet used.

Cost Concept

The resources (land, buildings, machinery, furniture etc.) that a business owns are called assets. The money values that are assigned to assets are derived from the cost concept. This concept states that an asset is worth the price paid for or cost incurred to acquire it.

Thus, assets are recorded at their original purchase price and this cost is the basis for all subsequent accounting for the assets. The assets shown on the financial statements do not necessarily indicate their present market worth or market values. The cost concept does not mean that all assets remain on the accounting records at their original cost for all time. The cost of an asset that has a long but limited life is systematically reduced during its life by a process called depreciation.

SELF-ASSESSMENT EXERCISE

Mention and describe four accounting concepts you know.

3.2 Accounting Conventions

Convention of Conservatism/ Prudence

This convention, also known as the convention of 'prudence', is often stated as 'anticipate no profit, provide for all possible losses'. This means that an accountant should follow a cautious approach. This is a convention of caution or playing safe and is adhered to while preparing the

financial statements. For example, closing stock is valued at cost or market price whichever is lower.

Convention of Full Disclosure

Note that apart from legal requirements, full disclosure of all significant information should be made in the financial statements. For example, the basis of valuation of fixed assets, investments and stock should be clearly stated in the balance sheet. In other words, accounting statements should be honestly prepared.

Convention of Materiality

Whether something should be disclosed or not in the financial statements will depend on whether it is material or not, depending on the amount involved in the transaction. For example, minor expenditure of N200 for the purchase of waste basket may be treated as an expenditure of the period rather than as an asset even though the waste basket may still be in use for more than three years.

SELF ASSESSMENT EXERCISE

Mention and describe three accounting conventions

4.0 CONCLUSION

Accounting Principles are man-made. They are accepted because they are believed to be useful in preparing the accounts of any business enterprise.

The Principles enjoy a wide measure of support of the accounting profession. That is why they are known as Generally Accepted Accounting Principles (GAAP).

5.0 SUMMARY

In this unit, you have now learnt the Accounting concepts and conventions which would assist you in preparing the accounts of any business enterprise. The Principles of Accounting Concept and Conventions are both guidelines for general applications. They permit a wide variety of methods and practices. The generally accepted accounting principles prescribe a uniform accounting practice.

6.0 TUTOR-MARKED ASSIGNMENT

"Accounting is governed by a number of generally accepted concepts and conventions". List and explain these concepts and conventions.

7.0 REFERENCES/FURTHER READING

Jat R. B. (2010). *Financial accounting*. Lagos: National Open University of Nigeria.

Lateef A. (2006). *General accounting 1*. Lagos: National Open University of Nigeria.

Longe, O. A. & Kazeem, R. A. (2008). *Essential financial accounting*. Ogun State: Tonad Publishers Limited.

Thomas, A. & Ward, A. M. (2012). *Introduction to financial accounting*. Berkshire: McGraw-Hill Higher Education.

UNIT 3: THE ACCOUNTING EQUATION AND ITS COMPONENTS

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1.0 INTRODUCTION

In the previous unit, we discussed accounting concepts and conventions. In this unit, we shall be discussing the accounting equation and its related components. From all you may have learnt so far from the previous units, you would realize that financial reporting follow basic rules and standards that enable the accountant to report financial transactions. The accounting equation is another basic knowledge that shows the relationship between assets (amount owned by the business), liabilities (amount owed by the business) and capital (amount invested into the business).

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Explain the relevance of the accounting entity concept;
- Describe the accounting equation;
- Explain the nature of assets, liabilities and capital;
- Explain the relevance of accounting period concept in financial accounting; and
- Distinguish between revenue expenditure and capital expenditure.

3.0 MAIN CONTENT

3.1 THE ACCOUNTING ENTITY

The entity concept was introduced in the previous unit. A reporting entity is defined as “an entity for which there are users who rely on the financial statements as their major source of financial information about the entity” (ASB, 1999). Accounting for a reporting entity focuses on setting up a means of recording all accounting information in relation to that entity, as distinct from information that does not relate to the entity. The reporting entity may be a particular company, organization or business. The use of the word ‘entity’ emphasizes the separation between the organization and the owner(s) of the business. There is the need in accounting to decide what is,

and what is not, part of the entity. Boundaries are created to show the accounting entity. The key to entity concept is realizing that these boundaries are necessary.

The accounting entity concept determines the transactions that will be recorded in the financial statements. For instance, when the managing director buys some equipment for the company's use, such a transaction is referred to as purchase made by the company. On the other hand, the expense made by the managing director in taking his family to a cinema is regarded as a personal expense. However, in some circumstance, it is difficult to determine the boundaries between business and private expenditure where an expense is incurred for both business and private purposes. It is normal to estimate the portion that is business and allocate that portion to the business entity.

SELF-ASSESSMENT EXERCISE

Explain the term 'accounting entity'.

3.2 ACCOUNTING EQUATION

An accounting entity may also be seen as a set of assets and liabilities. This could be seen in the statement of financial position of an entity. As an equation, this would appear as follows:

Ownership interest = Net resources of the entity

The ownership interest is called equity or owner's capital. The net resources are analysed into assets and liabilities.

An asset can be defined as tangible or intangible resource that is owned by the accounting entity which is expected to generate future economic benefit. Example of assets include land, building, motor vehicles, plant and machinery, tools, office furniture, office equipment, stock (goods for resale), amount owed to the accounting entity by its customers, money in the bank and cash in hand.

A liability can be defined as a legal obligation to transfer assets or provide services to another entity that arises from some past transaction or event. In relative simple terms, liabilities are what are owed by the company to outsiders.

Given that liabilities can be regarded as being negative in relation to assets, accounting equation can therefore be stated in the form: $\text{Assets} - \text{Liabilities} = \text{Owners' capital}$

Or alternatively: $\text{Assets} = \text{Owners' capital} + \text{Liabilities}$.

This equation is based on what is sometimes referred to as the 'dual aspect concept'. This concept proposes that every transaction has two aspects: one presented by an asset and the other a liability. This shall be explained more in the next unit.

The accounting equation is a fundamental equation and is a valuable basis from which to begin understanding the whole process of accounting. It sets out the financial position of the owners at any point in time.

SELF-ASSESSMENT EXERCISE

What is an accounting equation?

3.3 ACCOUNTING PERIOD AND PROFIT REPORTING

The accounting period concept (sometimes called periodicity concept) is a means of dividing up the life of an accounting entity into discrete periods for the purpose of reporting performance for a period of time (in a statement of profit and loss) and showing its financial position at a point in time (in a statement of financial position). The period of time is usually one year and is often referred to as the accounting year, financial year or reporting period. Each accounting year of an entity's life normally ends on the anniversary of its formation, and therefore does not necessarily coincide with the calendar year. It could thus end on any day of the calendar year, but for convenience the accounting year is nearly always taken to be the end of a calendar month, and sometimes adjusted to the end of the calendar year or to the end of a particular month (e.g. for tax reasons). Some companies report on their financial position half-yearly or even quarterly. Thus, the accounting period can be less than one year.

Profit is defined in terms of potential consumption 'in a period'. Although the use of a period of a year is no more than a convention, the idea of periodic reporting is fundamental to present-day accounting. The approach adopted in accounting is an extension of the use of the entity concept. For accounting purposes, each complete period, usually of a year, is treated as a separate entity. It inherits as its opening statement of financial position the closing statement of financial position of the previous period.

One response that follows from the needs of periodic reporting is to classify items into two types: those that will be included in the closing statement of financial position to be properly carried forward as part of the opening position of the new entity commencing the next period, and those that are properly attributable to the period just finished.

3.4 REVENUE EXPENDITURE VERSUS CAPITAL EXPENDITURE

The word 'capital' is associated with items that appear in the statement of financial position (e.g. owners' capital), whereas the word 'revenue' is associated with items that appear in the statement of profit and loss. Expenditure of the type that is to be matched against the period's revenue and is used up in the period is called revenue expenditure. Revenue expenditure will have no value at the end of the period to which it relates. Revenue expenditure is distinguished from capital expenditure – that which represents amounts which is appropriate to carry forward as part of the next year's opening statement of financial position. Capital expenditure is carried forward because it will be used over a number of periods and contributes to several periods' revenues.

Capital expenditure typically includes the cost of purchasing a non-current asset (including the costs of getting the non-current asset operational at the outset) and the cost of improvements to a non-current asset that lead to increased revenue, or sustained revenue. Expenditure on tools, which represent the long-term equipment of the business, is capital expenditure and is carried forward from one statement of financial position to another statement of financial position. Rental expenditure on building used during the year is revenue expenditure- what it provides is used up

in the period. The purchase of the building, however, would be capital expenditure, as it is entirely appropriate to represent ownership being carried forward from period to period.

Allocating expenditure to the incorrect type of account has a major impact on an entity's reported performance and financial position. Revenue expenditure reduces profitability, whereas capital expenditure ends up in the statement of financial position with a portion of the expenditure being allocated to the statement of profit and loss in line with the use of the asset (the reduction in the useful economic life of the asset). To allocate capital expenditure as revenue expenditure will cause profitability to fall, vice versa. To knowingly allocate expenditure to the incorrect type of account is fraud, as users of the report will be misled and can suffer loss.

SELF ASSESSMENT EXERCISE

What would be the effect on shareholders if capital expenditure is incorrectly allocated as revenue expenditure?

4.0 CONCLUSION

You have been exposed to some of the technical reasons why the accountants do what they do. These theoretical conceptualizations would be seen in practical terms in subsequent units. Therefore, you should be familiar with these conceptual positions as they guide you through the preparation and presentation of financial information.

5.0 SUMMARY

You would recall that a reporting entity was defined as an entity for which there are users who rely on the financial statements as their major source of financial information about the entity. The accounting entity concept determines the transactions that will be recorded in the financial statements. The accounting equation is based on what is sometimes referred to as the 'dual aspect concept'. An asset can be defined as a tangible or intangible resource that is owned by the accounting entity which is expected to generate future economic benefit. Liabilities are what are owed by the company to outsiders.

6.0 TUTOR MARKED ASSIGNMENT

What is the relationship between accounting period and reporting profit?

7.0 REFERENCES/FURTHER READINGS

- Jat R. B. (2010). *Financial accounting*. Lagos: National Open University of Nigeria.
- Lateef A. (2006). *General accounting I*. Lagos: National Open University of Nigeria.
- Longe, O. A. & Kazeem, R. A. (2008). *Essential financial accounting*. Ogun State: Tonad Publishers Limited.
- Thomas, A. & Ward, A. M. (2012). *Introduction to financial accounting*. Berkshire: McGraw-Hill Higher Education.

Module 2: Documentation

Unit 1: Basic Documents

Unit 2: Books of Prime Entry

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UNIT 1: BASIC DOCUMENTS

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1.0 INTRODUCTION

In the previous unit, you were exposed to some of the basic concepts that are fundamental to understanding financial reporting. In this unit, we shall practically be showing the trail of activity from source document to the use of the trial balance to show the arithmetical accuracy of the account. We shall be discussing the basic documents used that start the trail of book keeping and distinguish bookkeeping from accounting.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Identify the basic documents;
- Explain the use of the basic documents;
- Identify the relationship between these basic documents;
- Explain why bookkeeping is different from accounting.

3.0 MAIN CONTENT

3.1 BUSINESS ACTIVITY

In business activity, there is the giving and taking of values. This is normally referred to as transactions. For example, where the buyer pays money or buys on credit goods from the seller. In accounting, a cash transaction is one where goods or services are paid for in cash or by cheque when they are received or delivered. A credit transaction is one where payment is made or received some time after delivery.

Credit transactions often involve trade discount. A trade discount is a discount given by one trader to another. It is usually expressed as a percentage reduction of the recommended retail price of the goods, and is deducted in arriving at the amount the buyer is charged for the goods.

A large number of businesses also allow their customer cash discounts. Cash discount is the reduction in the amount that the customer has to pay, provided payment is made within a given period stipulated by the seller at the time of sale. For example, the customer will be given five percent reduction if he or she is able to pay within ten days.

SELF-ASSESSMENT EXERCISE

What is a cash discount?

3.2 DOCUMENTS INVOLVED IN CREDIT TRANSACTIONS

The main documents involved in a credit transaction are discussed below:

The invoice

The purpose of the invoice is primarily to inform the buyer how much is owed for the goods supplied by the seller. It is not a demand for payment. The information shown on an invoice typically consists of the following items:

- The name and address of the seller;
- The name and address of the buyer;
- The invoice and delivery note number of the seller (usually the same);
- The date of the invoice;
- The address to which the goods were delivered;
- The buyer's order number;
- The quantity of goods supplied;
- Detailed of the goods supplied;
- The price per unit of each of the goods;
- The total value of the invoice before value added tax (VAT);
- When payment should be made.

The buyer checks the invoice against the order and delivery note (or more usually with a goods-received note prepared by the receiving department). If correct, the invoice is then entered in the buyer's books. Similarly, a copy of the invoice would have been entered in the seller's books.

The debit note

A debit note is sent by the seller if the buyer has been undercharged on the invoice. It has basically the same layout and information as the invoice except that instead of details of the goods, it shows details of the undercharge. It is recorded in the books of the seller and buyer in the same way as an invoice.

The credit note

A credit note may be sent by the seller for a number of reasons. These include:

- The buyer has returned goods because they were not ordered, or they were the wrong type, quantity or quality, or are defective.
- The seller has overcharged the buyer on the invoice. This may be due to an error in the unit price or calculation.

A credit note has basically the same layout and information as an invoice, except that instead of the details of goods, it will show the reason why it has been issued.

A credit note will be recorded in the books of the seller and buyer in a similar way to the invoice, except that the entries are the reverse. You should note that the reason why this document is called a credit note is because it informs the buyer that the account in the books of the seller is being credited. On the other hand, a debit note informs the buyer that the account in the seller's books is being debited.

The cheque

This is the most common form of payment in business because of its convenience and safety. Most cheques are crossed and therefore have to be paid into a bank account. This makes it possible to trace the cheque if it is stolen and fraudulently passed on to someone else. A crossed cheque may be paid into anyone's bank account if the payee endorses (i.e. signs) the back of the cheque. However, if the words 'account payee only' are written between the crossings it must be paid into the account of the person names on the cheque.

The information that must be shown on a cheque consists of the following;

- The date;
- The signature of the drawer (i.e. payer);
- The name of the drawee (i.e. the bank at which the drawer has the account);
- The name of the payee (i.e. who is to receive the money);
- The words 'Pay...' or 'Order the sum of ...';
- The amount of money in figures and in words;
- The bank account number of the drawer, and the cheque and bank number are also shown on cheques.

It is essential to write on the cheque stub (i.e. the part left with the cheque booklet after detaching the signed cheque) to whom the cheque was paid (i.e. the payee), the amount and what the payment was for. Without this information the books of account cannot be written up.

The receipt

The law requires the seller to give the buyer a receipt for goods or services that have been paid for in cash. However, there is no legal requirement to do so in the case of payments by cheque.

A receipt must contain the following information:

- The name of the payer;
- The signature of the recipient;
- The amount of money in figures and in words;
- The date.

The receipt is only recorded in the books of account when it relates to cash receipts and payments.

SELF-ASSESSMENT EXERCISE

Describe an invoice.

3.3 BOOKKEEPING VERSUS ACCOUNTING

Financial accounting as stated earlier is all about providing useful information in the financial statements to users to enable them to make economic decisions. It is all about communicating information. Recording transactions in the books of an entity is not accounting, it is bookkeeping. Accountants usually come in after the bookkeeper has finished and use the information supplied by the bookkeeper to prepare financial statements. However, to be able to account properly, accountants need to understand bookkeeping. Double-entry bookkeeping is a systematic method

of recording an enterprise's transactions in a book called the general ledger or simply called the 'ledger'. Each page of the ledger is split into two halves: the left half is called the debit side and the right half is called the credit side.

SELF-ASSESSMENT EXERCISE

What is the difference between bookkeeping and accounting?

4.0 CONCLUSION

The reliability of financial information presented by the financial report is based on proper basic documentation. Where there is no proper documentation, it becomes difficult to report the financial position of the organization. Bookkeeping and accounting tend to establish the essence of reporting adequate financial information to users of financial statements.

5.0 SUMMARY

You would recall that a cash transaction is one where goods or services are paid for in cash or by cheque when they are received or delivered. A credit transaction is one where payment is made or received some time after delivery. Some basic documents discussed were the invoice, debit note, credit note, cheque, and receipt. Recording transactions in the books of an entity is not accounting, it is bookkeeping. Accountants usually come in after the bookkeeper has finished and use the information supplied by the bookkeeper to prepare financial statements.

6.0 TUTOR MARKED ASSIGNMENT

1. Describe three source documents that you know.
2. Is bookkeeping different from accounting?
3. What is a trade discount?

7.0 REFERENCES/FURTHER READING

- Jat R. B. (2010). *Financial accounting*. Lagos: National Open University of Nigeria.
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UNIT 2: BOOKS OF PRIME ENTRY

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Sales Day Book
 - 3.2 Purchase Day Book
 - 3.3 Sales Return Day Book
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 - 3.7 The Journal
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Reading

1.0 INTRODUCTION

In the previous unit, you would recall that we discussed the basic documents or source documents, which provides evidence for transactions made. In this unit, we are taking a step ahead by discussing the primary books of entry where transactions are documented. These books are known as the books of prime entry. The main book of account in which all transactions are recorded is called the 'ledger'. However, before a transaction is recorded in the ledger, it must first be entered in a book of prime entry. These books are designed to show more detail relating to each transaction than it appears in the ledger.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Describe the sale day book;
- Describe the purchase day book;
- Describe sales return day book;
- Describe purchase returns day book; and
- Describe the journal.

3.0 MAIN CONTENT

3.1 SALES DAY BOOK

The sale day book is a book where goods sold on credit are recorded. These goods sold are specifically bought by the buyer for resale. It is written up from copies of sales invoices and debit notes retained by the seller. The amount entered in the sales day book is after deducting trade discount (but before deducting cash discount).

At the end of each period, let say calendar month, the total of the sales day book is credited to the sales account in the general ledger and the amount of each invoice and debit note is debited to the individual credit customers' trade receivable ledger accounts in the sales ledger. Most organizations have several credit customers. Keeping separate ledger accounts for each credit customer in the general ledger and recording these in the trial balance would be cumbersome. Therefore, to reduce clutter in the general ledger and the trial balance and to serve as a control; individual credit customers are maintained in a separate ledger called the sales ledger. The total of

the balances on this ledger becomes the trade receivables amount. This balance is included in the statement of financial position.

An equivalent of the sales day book in the medical office is the register used to record the list of those that owe the clinic or hospital. You may observe, depending on the hospital, that as a patient is being treated, not every services rendered to the patients are paid up immediately. Sometimes, based on trust, a patient may be discharged hoping that such money would be paid on the promised date. When such situation arises, there must be a register where such transaction is recorded. This kind of record is what constitute sales day book in the business which was explained above.

In order to make our explanation clearer, we shall illustrate the sales day book and other books of prime entry by the use of some financial information as example.

ILLUSTRATION 1A

Titi Business Enterprise is an electrical goods wholesaler. The transactions during February 2013 which are all on credit were as follows:

- 5 February Sold electrical wires on credit to Tunde Retailers Ltd for ₦234,000:00.
 - 6 February Bought beverages on credit from Cadbury Nig. Plc at the sum of N120,000:00 and receive 20% trade discount.
 - 8 February Sold electrical bulbs on credit to Mr. Biggs for N50,000:00 and allowed 10% trade discount on this amount.
 - 8 February Bought electrical wires on credit from Light Switch Ltd at the sum of N23,000:00.
 - 8 February Sent Tunde Retailers Ltd a credit note for goods returned that had a retail price of N25,000:00.
 - 9 February Cadbury Nig. Plc sent a credit note of N15,000:00 in respect of goods returned.
 - 12 February Sold electrical wires to Acorn oil for the sum of N120,000:00 and allowed 10% trade discount on this amount.
 - 15 February Sold electrical materials to NOUN water Project for N45,000:00
 - 15 February Sent Acorn Oil a credit note for goods returned at retail price of N10,000:00.
 - 15 February Bought electrical wires from Wholesale Point at N87,000:00.
 - 17 February Bought motor vehicle on credit from Edosa motors Ltd for N800,000:00.
 - 18 February Light Switch Ltd sent a credit note of N5,000:00 for goods returned to them.
 - 24 February Bought electrical materials from Prudence Market for N378,000:00 and receive a discount of 5%.
 - 25 February Sold electrical materials to Red Cross Plc for the sum of N58,000:00.
 - 25 February Wholesale Point sent a credit note of N10,000 in respect of goods returned.
 - 27 February Sent Red Cross Plc a credit note for goods returned at a retail price of N5,000:00
 - 28 February Sold shop fittings on credit to Big Shop Enterprise Ltd at the rate of N250,000:00
 - 28 February Sold electrical wires to General Retailers Ltd for N78,000:00
 - 28 February Bought electrical wires from Cable Light Ltd for the sum of N217,000:00
- Required: Make the necessary entries in the books of prime entry.

ILLUSTRATION 1B

Narrow Way Clinic and Maternity has the following transactions for the month of January 2008.

3 January- Mr. Tunde paid N5,000 for the treatment of his son but was left with N3,000 to be paid later;

4 January- Drug was dispensed to patients to the tune of N10,000 cash;

5 January- Bought drugs from Baxelo pharmaceutical Company of N60,000;

6 January- Paid cash to Panado Pharmaceutical Company of N120,000 for drug supplied;

8 January- Received N80,000 cash in respect of patients admitted based on the National Health Insurance Scheme;

9 January- Paid tax with cheque on behalf of employees to the State internal Revenue Service of the sum of N120,000 based on pay-as-you-earn tax provision (personal income tax).

10 January- Paid N100,000 cash to a radiologist who works as a freelance with the medical team.

11 January- Bought over some medical equipment from County Medical Equipments Ltd on credit at the sum of N530,000;

12 January- Bought some medical equipments and paid cash of N200,000;

13 January- Issued cheque to buy a bus to be used as an ambulance for the sum of N5,000,000;

14 January- Returned drug to Baxelo Pharmaceutical Company considered not needed of the sum of N20,000;

15 January- Sold some drugs to Tosin Hospital at the sum of N50,000 on credit;

16 January- Received some drugs returned from Tosin Hospital of the sum of N10,000;

17 January- Bought diesel for N10,000 cash;

18 January- Repair motor vehicle for N5,000 cash;

19 January- Bought fuel for hospital vehicle at the sum of N6,000 cash;

23 January- Received cash for antenatal care of the sum of N8,000;

24 January- Received cash for delivery of baby for the sum of N40,000;

25 January- Paid staff salary for N420,000 cash;

26 January- Paid PHCN the sum of N20,000 cash for electricity;

28 January- Bought recharge cards of N5,000 cash;

29 January- Received cheque of N50,000 for delivery of baby;

30 January- Received cash N20,000 for treatment of patient; and

31 January- Bought drugs of N80,000 from Top Crust Pharmaceutical Company on credit.

Required: make the necessary entries in the books of prime entry.

We have two illustrations above tagged illustration 1a and 1b. These two illustrations were presented to show that there is no difference between bookkeeping relating to medical office and other business organizations. However, nomenclature may change describing the same concept. Once you know the concept, it is easy to apply it to whatever business environment you find yourself.

Considering the example of Narrow Way Clinic and Maternity, you would observe that it was not only credit transactions that were shown. However, we shall be using the information relating to credit transaction and use others later in the study.

SOLUTION 1a

TITI BUSINESS ENTERPRISE SALES DAY BOOK

Date	Name of credit customer	Invoice number	folio	Amount
				N
5 February, 2013	Tunde Retailers Ltd	120123	F3	234,000:00
8 February, 2013	Mr. Biggs	120124	F32	45,000:00
12 February, 2013	Acorn oil	120125	F24	108,000:00
15 February, 2013	NOUN Water Project	120126	F34	45,000:00
25 February, 2013	Red Cross Plc	120127	F13	58,000:00
28 February, 2013	General Retailers Ltd	120128	F16	<u>78,000:00</u>
				<u>568,000:00</u>

On the other hand, what represents the sales day book in the illustration of Narrow Way Clinic and Maternity is stated below:

SOLUTION 1b

NARROW WAY CLINIC AND MATERNITY SALES DAY BOOK

Date	Name of credit customer	Invoice number	Folio	Amount
				N
3 January, 2008	Mr Tunde			3,000
14 January, 2008	Tosin Hospital			50,000

SELF-ASSESSMENT EXERCISE

Describe a sales day book.

3.2 SALES RETURNS DAY BOOK

This is used to record the credit notes sent to customers relating to goods they have returned or where they have been overcharged on an invoice. Note that the entry is made when a credit note has been issued, and not when the goods are returned or amount of the invoice is queried. The sales returns day book is written up from copies of the credit notes retained by the seller. The amount shown in the sales returns day book is after deducting trade discount. At the end of each period, the total of the sales returns day book is debited to the sales return ledger account in the

general ledger and the amount of each credit note credited to the individual credit customer's trade receivable ledger accounts in the sales ledger. Below is an example of the sales returns day book of Titi Business Enterprise extracted from the question presented in 3.1.

SOLUTION 1a

**TITI BUSINESS ENTERPRISE
SALES RETURNS DAY BOOK**

DATE	Name of credit customer	Credit note number	Folio	Amount
8 February, 2013	Tunde Retailers Ltd	CRN08	F3	34,000:00
15 February, 2013	Acorn Oil	CRN09	F24	10,000:00
27 February, 2013	Red Cross Plc	CRN10	F13	<u>5,000:00</u>
				<u>49,000:00</u>

On the other hand, what represents the sales return day book in the illustration of Narrow Way Clinic and Maternity is stated below:

SOLUTION 1b

**NARROW WAY CLINIC AND MATERNITY
SALES RETURNS DAY BOOK**

DATE	Name of credit customer	Credit note number	Folio	Amount
				N
16 January, 2008	Tosin Hospital			10,000

SELF-ASSESSMENT EXERCISE

Describe a returns day book.

3.3 PURCHASE DAY BOOK

This is used to record the purchase on credit of those goods bought specially for resale. It is written up from the invoices and debit notes received from suppliers. The amount entered in the purchases day book is after deducting any trade discount received. At the end of each period, let say calendar month, the total of the purchases day book is debited to the purchase ledger account in the general ledger and the amount of each invoice and debit note received is credited to the individual credit supplier's trade payable ledger account in the purchase ledger. Like credit customers, most organizations also have several suppliers who provide goods on credit. Keeping separate ledger accounts for each credit supplier in the general ledger and recording these in the trial balance would be cumbersome. Therefore, to reduce clutter in the general ledger and the trial and to serve as a control individual credit suppliers' ledger accounts are maintained in a separate

ledger called the purchase ledger. The total of the balances on this ledger becomes the trade payable amount. This total should agree to the balance on the trade payables ledger account in the general ledger. The balance of this account is included in the statement of financial position. Below is an example of purchases day book of Titi Business Enterprise extracted from the question presented in 3.1.

SOLUTION 1a

**TITI BUSINESS ENTERPRISE
PURCHASES DAY BOOK**

Date	Name of credit supplier	Supplier's invoice	Folio	Amount
				N
6 February, 2013	Cadbury Nig. Ltd	23617	T34	96,000:00
8 February, 2013	Light Switch Ltd	235679	T12	23,000:00
15 February, 2013	Wholesale point	2634536	T23	87,000:00
24 February, 2013	Prudence Market	53412	T21	359,100:00
28 February, 2013	Cable Light Ltd	2324	T45	<u>217,000:00</u>
				<u>782,100:00</u>

On the other hand, what represents the purchase day book in the illustration of Narrow Way Clinic and Maternity is stated below:

SOLUTION 1b

**NARROW WAY CLINIC AND MATERNITY
PURCHASES DAY BOOK**

Date	Name of credit supplier	Supplier's invoice	Folio	Amount
				N
5 January, 2008	Baxelo Pharmaceutical			60,000
31 January, 2008	Top Crust Pharmaceutical			80,000

SELF-ASSESSMENT EXERCISE

Describe the purchase day book.

3.4 PURCHASES RETURNS DAY BOOK

This is used to record the credit notes received from suppliers relating to goods returned or where there has been overcharge on an invoice. Note that the entry is made when a credit note is received and not when the goods are returned or the amount of the invoice is queried. The purchases returns day book is written up from the credit notes received from suppliers. The amount entered in the purchases returns day book is after deducting trade discount. At the end of each period, the total of the purchases returns day book is credited to the purchase returns ledger account in the general ledger and the amount of each credit note received is debited to the individual credit suppliers' trade payable ledger accounts in the purchases ledger. Below is an example of purchases returns day book extracted from the question presented in 3.1.

SOLUTION 1a

TITI BUSINESS ENTERPRISE PURCHASES RETURNS DAY BOOK

Date	Name of credit supplier	Supplier's credit note	Folio	Amount
				N
9 February, 2013	Cadbury Nig. Ltd	C045	T34	15,000:00
18 February, 2013	Light Switch Ltd	SC456	T12	5,000:00
25 February, 2013	Wholesale Point	F0024	T23	<u>10,000:00</u>
				<u>30,000:00</u>

On the other hand, what represents purchase return day book in Narrow Way Clinic and Maternity is stated below:

SOLUTION 1b

NARROW WAY CLINIC AND MATERNITY PURCHASES RETURNS DAY BOOK

Date	Name of credit supplier	Supplier's credit note	Folio	Amount
				N
14 January, 2008	Baxelo Pharmaceutical			20,000

SELF-ASSESSMENT EXERCISE

Describe the purchases returns day book.

3.5 JOURNAL

The journal is used to record a variety of things, most of which consist of accounting adjustments, such as the correction of errors, rather than transactions. However, the journal is also used to record transactions that are not appropriate to any other book of prime entry, the most common being the purchase sale of non-current assets on credit. These are items not specifically bought for resale but to be used in the production and distribution of those goods normally sold by the business. Non-current assets are durable goods that usually last for several years and are normally kept by the business for more than one year. Examples include land and buildings, plant and machinery, motor vehicles, furniture, fixtures and fittings, and office equipment.

Unlike the sales, purchases and returns day books, the journal has debit and credit columns. These are not a part of the double entry in the ledger. They are used to indicate what entries are going to be made in the general ledger in respect of a given transaction or adjustment. Each entry in the journal consists of the name of the ledger account that is to be debited (and the amount) and the name of the ledger account that is to be credited (and the amount). The nature of the entry must also be explained in a narrative that commonly starts with the word 'being'.

From our illustration question in 3.1, example of the journal is shown below.

SOLUTION 1a

Date	Details (account in which the ledger entry is to be made)	Folio	Debit amount(N)	Credit amount(N)
17 February, 2013	Motor Vehicles	Dr	800,000:00	
	To Edosa Motors Ltd	Cr		800,000:00
	Being purchase on credit of motor vehicle reg. number AA234LK			
28 February, 2013	Big shop Enterprise Ltd	Dr	250,000:00	
	To fixtures and fittings	Cr		250,000:00
	Being sale on credit of shop fittings			

On the other hand, what represents the transaction in the journal of Narrow Way Clinic and Maternity is stated below:

SOLUTION 1b

Date	Details (account in which the ledger entry is to be made)	Folio	Debit amount(N)	Credit amount(N)
11 January, 2008	Medical equipment		530,000:00	
	To County Medical Equipments Ltd			530,000:00

Being purchase of medical equipments

SELF-ASSESSMENT EXERCISE

Describe a journal.

4.0 CONCLUSION

You should take note of how the trade discount was treated. The percentage of discount given or received must be deducted from the original amount the items were bought or sold before making entries into the books of prime entry.

The folio column shows the name of the other book in abbreviated form and the number of the page in the other books where double entry is completed. When the folio column is not filled it could be assumed that the double entry has not been completed. Although in the books of prime entries discussed in this unit does not require the double entry system. The double entry principle would be discussed in subsequent units.

It is good you note that the books of prime entry discussed in this unit are not the only books of prime entry. The ones discussed in this unit only relates with credit transactions. Those not included in this unit are the cash book and the petty cash book which relates to cash transaction. They are discussed in the subsequent units.

5.0 SUMMARY

In this unit, you would recall that we discussed the books of prime entry which are the sales day book, the sales returns day book, the purchase day book, the purchase returns day book and the journal. When a transaction is carried out, these are the books that take record of the transactions when it is relating to credit transactions.

6.0 TUTOR MARKED ASSIGNMENT

Global Business Enterprise is an electrical goods wholesaler. The transactions during February 2013 which are all on credit were as follows:

- 7 February Sold electrical wires on credit to Tunde Retailers ltd for N430,000:00.
- 8 February Bought beverages on credit from Cadbury Nig. Plc at the sum of N320,000:00 and receive 10% trade discount.
- 9 February Sold electrical bulbs on credit to Mr. Biggs for N50,000:00 and allowed 10% trade discount on this amount.
- 9 February Bought electrical wires on credit from Light Switch Ltd at the sum of N78,000:00.
- 9 February Sent Tunde Retailers Ltd a credit note for goods returned that had a retail price of N25,000:00.
- 9 February Cadbury Nig. Plc sent a credit note of N15,000:00 in respect of goods returned.
- 15 February Sold electrical wires to Acorn oil for the sum of N400,000:00 and allowed 10% trade discount on this amount.
- 16 February Sold electrical materials to NOUN water Project for N240,000:00
- 17 February Sent Acorn Oil a credit note for goods returned at retail price of N30,000:00.
- 18 February Bought electrical wires from Wholesale Point at N80,000:00.
- 18 February Bought motor vehicle on credit from Edosa motors Ltd for N600,000:00.
- 19 February Light Switch Ltd sent a credit note of N5,000:00 for goods returned to them.
- 24 February Bought electrical materials from Prudence Market for N308,000:00 and receive a

discount of 5%.

25 February Sold electrical materials to Red Cross Plc for the sum of N58,000:00.

25 February Wholesale Point sent a credit note of N10,000 in respect of goods returned.

27 February Sent Red Cross Plc a credit note for goods returned at a retail price of N5,000:00

28 February Sold shop fittings to Big Shop Enterprise Ltd at the rate of N650,000:00

28 February Sold electrical wires to General Retailers Ltd for N78,000:00

28 February Bought electrical wires from Cable Light Ltd for the sum of N257,000:00

Required: Make the necessary entries in the books of prime entry.

7.0 REFERENCES/FURTHER READING

Jat R. B. (2010). *Financial accounting*. Lagos: National Open University of Nigeria.

Lateef A. (2006). *General accounting 1*. Lagos: National Open University of Nigeria.

Longe, O. A. &Kazeem, R. A. (2008).*Essential financial accounting*. Ogun State: Tonad Publishers Limited.

Thomas, A. & Ward, A. M. (2012).*Introduction to financial accounting*. Berkshire: McGraw-Hill Higher Education.

UNIT 3: THE CASH BOOK

CONTENT

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Two Column Cash Book
 - 3.2 Three Column Cash Book
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Reading

1.0 INTRODUCTION

In the previous unit, we discussed books of prime entries that involve credit transactions. Transactions of course are not always only credit transactions. As a matter of fact, they are most times involving the use of cash or cheque. You would recall that a cash transaction is one where goods or services are paid for in cash or by cheque when they are received or delivered. This unit intends to discuss cash book which is part of the books of prime entries. However, you should note that the cash book has two main functions. First, it forms part of the books of prime entries. Second, it also forms part of the ledger which shall be discussed in subsequent units. The pages of the cash book are divided into two halves like the general ledger, the debit side is on the left and the credit side is on the right. The cash and bank accounts are taken out of the ledger and combined into a single book called the cash book.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Post cash transaction from source document to the cash book.
- Discuss the treatment of trade discounts in relation to the cash book.
- Discuss the treatment of cash discount in relation to the cash book.
- Distinguish between two-column cash book and three-column cash book

3.0 MAIN CONTENT

3.1 TWO COLUMN CASH BOOK

A two-column cash book is one in which cash received and paid are recorded in one column on each side of the cash book, and cheques received and paid are recorded in the other column on each side of the cash book. This essentially combines and replaces the ledger accounts for cash and bank.

The two-column cash book is used to record receipts and payments by cheque. It is written up from the bank paying-in book and cheque book stubs. The cash book is used instead of a bank account in the ledger. This is because there are usually a large number of transactions involving the receipt and payment of cheques, and if these were recorded in a bank account in the ledger, it would become cumbersome. Moreover, it permits a division of labour in that one person can

write up the cash book while another is working on the general ledger. This also reduces the possibility of errors and provides a check on the work of the person who writes up the cash book where it is posted to the general ledger by someone else.

In addition to being a book of prime entry, the cash book is part of the double-entry system. Thus, debits in this book are credited to a ledger account in the general ledger and no further entries are necessary. Similarly, credits in this book are debited to an account in the ledger and no further entries are necessary.

In the format of a cash book, there will be separate column for date, particulars, folio, cash and bank. In order for us to understand the use of cash book, let us use a practical situation by adjusting the questions we used in Unit 2 (illustration 1a& 1b). Since you are already familiar with the treatment of that example, you should be able to identify the difference between the question given in this unit and the one used in unit 2. Again, you should be able to identify how this difference was treated showing the treatment of cash transaction.

ILLUSTRATION 2a

Titi Business Enterprise is an electrical goods wholesaler. The transactions during February 2013 are as follows:

- 1 February Starts business with capital in cash N900,000:00 and bank N1,500,000:00
- 2 February Bought electrical wires worth the sum of N500,000:00 from Edison Manufacturers
With cheque
- 3 February Bought some electrical materials in cash at N300,000:00
- 4 February Sold electrical wires to Tunde Retailers in cash at N120,000:00
- 5 February Sold electrical wires on credit to Tunde Retailers Ltd for N234,000:00.
- 6 February Bought beverages on credit from Cadbury Nig. Plc at the sum of N120,000:00
and receive 20% trade discount.
- 7 February Cash sales paid directly into the bank is N220,000:00
- 8 February Sold electrical bulbs on credit to Mr. Biggs for N50,000:00 and allowed 10%
trade discount on this amount.
- 8 February Bought electrical wires on credit from Light Switch Ltd at the sum of N23,000:00.
- 8 February Sent Tunde Retailers Ltd a credit note for goods returned that had a retail price of
N25,000:00.
- 9 February Cadbury Nig. Plc sent a credit note of N15,000:00 in respect of goods returned.
- 10 February Bought goods by cheque N300,000:00
- 12 February Sold electrical wires to Acorn oil on credit for the sum of N120,000:00 and
allowed 10% trade discount on this amount.
- 14 February Bought goods and issued cheque of N200,000:00
- 14 February Receive Cash for goods bought by Tunde Retailers N200,000:00
- 15 February Sold electrical materials on credit to NOUN water Project for N45,000:00
- 15 February Sent Acorn Oil a credit note for goods returned at retail price of N10,000:00.
- 15 February Bought electrical wires from Wholesale Point at N87,000:00 on credit.
- 17 February Bought motor vehicle on credit from Edosa motors Ltd for N800,000:00.
- 18 February Light Switch Ltd sent a credit note of N5,000:00 for goods returned to them.
- 24 February Received cheque from NOUN Water Project of N45,000 for electrical material
bought.
- 24 February Bought electrical materials on credit from Prudence Market for N378,000:00 and
receive a discount of 5%.

- 27 February Issued cheque to Prudence Market of the sum of N340,000:00 for goods bought.
- 28 February Bought electrical wires from Cable Light Ltd for the sum of N217,000:00 on credit
- 28 February Salaries paid in cash N120,000:00
Required: You expected to prepare a cash book.

ILLUSTRATION 2b

Narrow Way Clinic and Maternity has the following transactions for the month of January 2008.

- 1 January- had cash and bank balances of N300,000 and N8,000,000 respectively;
- 3 January- Mr. Tunde paid N5,000 for the treatment of his son but was left with N3,000 to be paid later;
- 4 January- Drug was dispensed to patients to the tune of N10,000 cash;
- 5 January- Bought drugs from Baxelo pharmaceutical Company of N60,000;
- 6 January- Issued cheque to Panado Pharmaceutical Company of N120,000 for drug supplied;
- 8 January- Received N80,000 cash in respect of patients admitted based on the National Health Insurance Scheme;
- 9 January- Paid tax with cheque on behalf of employees to the State internal Revenue Service of the sum of N120,000 based on pay-as-you-earn tax provision (personal income tax).
- 10 January- Paid N100,000 cash to a radiologist who works as freelance with the medical team.
- 11 January- Bought over some medical equipment from County Medical Equipments Ltd on credit at the sum of N530,000;
- 12 January- Issued cheque for medical equipmentsbought of N200,000;
- 13 January- Issued cheque to buy a bus to be used as an ambulance for the sum of N5,000,000;
- 14 January- Returned drug to Baxelo Pharmaceutical Company considered not needed of the sum of N20,000;
- 15 January- Sold some drugs to Tosin Hospital at the sum of N50,000 on credit;
- 16 January- Received some drugs returned from Tosin Hospital of the sum of N10,000;
- 17 January- Bought diesel for N10,000 cash;
- 18 January- Repair motor vehicle for N5,000 cash;
- 19 January- Bought fuel for hospital vehicle at the sum of N6,000 cash;
- 23 January- Received cash for antenatal care of the sum of N8,000;
- 24 January- Received cash for delivery of baby for the sum of N40,000;
- 25 January- Paid staff salary of N420,000 with cheque;
- 26 January- Paid PHCN the sum of N20,000 cash for electricity;
- 28 January- Bought recharge cards of N5,000 cash;
- 29 January- Received cheque of N50,000 for delivery of baby;
- 30 January- Received cash N20,000 for treatment of patient; and
- 31 January- Bought drugs of N80,000 from Top Crust Pharmaceutical Company on credit.
REQUIRED: Prepare the cash book.

From illustration 2a and 2b above, you would observe that there are some transactions that involve cash and cheques. The credit transaction was deliberately left in this question to enable you spot the difference between illustration one and two. In illustration 2 however, you are required to extract the cash transaction and make necessary posting in the cash book.

Below is the two column cash book.

SOLUTION 2a**TITI BUSINESS ENTERPRISE
CASH BOOK**

Dr							Cr
Date	Particulars	F Cash	Bank	Date	Particulars	F Cash	Bank
		N'000	N'000			N'000	N'000
1 Feb.	Capital	900	1,500	2 Feb.	Purchases		500
4 Feb.	Sales			3 Feb.	Purchases	300	
7 Feb.	Sales		220	10 Feb.	Purchases		300
14 Feb.	Tunde Retailers	200		14 Feb.	Purchases		200
24 Feb.	NOUN		45	27 Feb.	Prudence Market		340
				28 Feb.	Salaries	120	
				28 Mar	Balance c/d	<u>800</u>	<u>425</u>
1 Mar	Balance b/d	<u>1220</u> 800	<u>1765</u> 425			<u>1220</u>	<u>1765</u>

The debit balance on the cash book represents the amount of money Titi Business Enterprise has in the bank and at hand. C/d and b/d represent carried down and brought down respectively.

SOLUTION 2b

NARROW WAY CLINIC AND MATERNITY CASH BOOK

Dr					Cr				
Date	Particulars	F	Cash	Bank	Date	Particulars	F	Cash	Bank
			N	N				N	N
1 Jan.	Balance b/d		300,000	8,000,000	5 Jan.	Purchases.	60,000		
3 Jan.	Treatment		5,000		6 Jan.	Purchases			120,000
4 Jan.	Drugs		10,000		9 Jan.	Tax payment			120,000
8 Jan.	Treatment		80,000		10 Jan.	Wages	100,000		
					12. Jan.	Medical equipment			200,000
					13 Jan.	Motor vehicle			5,000,000
					17 Jan.	Diesel	10,000		
					18 Jan.	Repairs	5,000		
					19 Jan.	Fuel	6,000		
23 Jan.	Antenatal		8,000		25 Jan.	Salary			420,000
24 Jan.	Delivery		40,000		26 Jan.	Electricity	20,000		
					28 Jan.	Recharge cards	5,000		
29 Jan.	Treatment		20,000						
30 Jan.	Delivery			50,000	31 Jan.	Balance c/d	257,000		2,190,000
			<u>463,000</u>	<u>8,050,000</u>			<u>463,000</u>		<u>8,050,000</u>
1 Mar.	Balance b/d		257,000	2,190,000					

SELF-ASSESSMENT EXERCISE

What is a cash book?

3.2 THREE COLUMN CASH BOOK

The three-column cash book represents three accounts: cash, bank and discounts combined into one book. You would recall that the two column cash book has two money columns on the debit side and two on the credit side. Since cash discount is given as an inducement to the customers to settle their account promptly, in the three column cash book, there is the additional column for discount on both sides of the cash book. The additional column on the debit side is used to record the cash discount allowed to credit customers and the credit side is used to record the cash discount received from credit suppliers. Both of these columns require both a debit and a credit in the general ledger. Both of these additional columns are like the day books, memorandum columns in that each items entered in these columns requires both a debit and a credit in the general ledger.

Cash discount is a reduction given by the supplier of goods to a buyer if the latter pays for them within a period stipulated by the seller at the time of sale. Often in practice all goods supplied during a particular calendar month must be paid for by the end of the following calendar month if cash discount is to be obtained. You should note that cash discount is not deducted on the invoice

but is calculated from the amount shown on the invoice, and deducted at the time of payment. These implies where trade discount is not offered but where trade discount is offered, it is computed and deducted from the invoice price before cash discount is calculated. There are two types of discount; trade discount and cash discount. Like you must have observed from the previous unit, trade discount does not appear in the book. Only cash discount will be recorded in the accounts. Apart from the entries in these two additional columns, the three-column cash book is written up in the same way as the two-column cash book.

The three-column cash book is not common in practice, but is sometimes required in examination questions. The reason why the three-column cash book is not common in practice is because in most business, cash received and paid is usually recorded in a separate petty cash book (this would be discussed in the next unit) instead of a cash account in the ledger.

Let us make slight adjustment to the question we have in illustration 2 above, to reflect the demand for a three column cash book and see how the treatment would be.

ILLUSTRATION 3

Titi Business Enterprise is an electrical goods wholesaler. The transactions during February 2013 are as follows:

- 1 February Starts business with capital in cash N900,000:00 and bank N1,500,000:00
- 2 February Bought electrical wires worth the sum of N500,000:00 from Edison Manufacturers with cheque
- 3 February Bought some electrical materials in cash at N300,000:00
- 4 February Sold electrical wires to Tunde Retailers in cash at N120,000:00
- 5 February Sold electrical wires on credit to Tunde Retailers ltd for N234,000:00.
- 6 February Bought beverages on credit from Cadbury Nig. Plc at the sum of N120,000:00 receive 20% trade discount.
- 7 February Cash sales paid directly into the bank is N220,000:00
- 8 February Sold electrical bulbs on credit to Mr. Biggs for N50,000:00 and allowed 10% trade discount on this amount.
- 8 February Bought electrical wires on credit from Light Switch Ltd at the sum of N23,000:00.
- 8 February Sent Tunde Retailers Ltd a credit note for goods returned that had a retail price of N25,000:00.
- 9 February Cadbury Nig. Plc sent a credit note of N15,000:00 in respect of goods returned.
- 10 February Bought goods by cheque N300,000:00
- 12 February Sold electrical wires to Acorn oil on credit for the sum of N120,000:00 and allowed 10% trade discount on this amount.
- 14 February Bought goods and issued cheque of N200,000:00
- 14 February Receive Cash for goods bought by Tunde Retailers N200,000:00 after deducting a cash discount of N34,000:00
- 15 February Sold electrical materials on credit to NOUN water Project for N45,000:00
- 15 February Sent Acorn Oil a credit note for goods returned at retail price of N10,000:00.
- 15 February Bought electrical wires from Wholesale Point at N87,000:00 on credit.
- 17 February Bought motor vehicle on credit from Edosa motors Ltd for N800,000:00.
- 18 February Light Switch Ltd sent a credit note of N5,000:00 for goods returned to them.
- 24 February Received cheque from NOUN Water Project of N45,000 for electrical material

- bought.
- 24 February Bought electrical materials on credit from Prudence Market for N378,000:00 and receive a discount of 5%.
- 27 February Issued cheque to Prudence Market of the sum of N340,000:00 for goods bought after deducting cash discount of N19,100:00.
- 28 February Bought electrical wires from Cable Light Ltd for the sum of N217,000:00 on credit
- 28 February Salaries paid in cash N120,000:00
- Required: You expected to prepare a three-column cash book.

SOLUTION 3

TITI BUSINESS ENTERPRISE

CASH BOOK											
Dr							Cr				
Date	Particulars	F	Disc. allowed	Cash	Bank	Date	Particulars	F	Disc. received	Cash	Bank
Feb. 1	Capital			N'000 900	N'000 1,500	Feb. 2	Purchases			N'000	N'000 500
4	Sales			120		3	Purchases			300	
7	Sales				220	10	Purchases				300
14	Tunde Retailers		34,000	200		14	Purchases				200
24	NOUN				45	27	Prudence Market		19,100		340
						28	Salaries			120	
						28	Balance c/d			<u>800</u>	<u>425</u>
				<u>1220</u>	<u>1,765</u>					<u>1220</u>	<u>1765</u>
1Mar	Balance b/d			800	425						

4.0 CONCLUSION

We have tried to make each step very simple to facilitate quick learning on your part. It is very important you take cognizance of the difference between the two-column cash book and the three-column cash book. You must have noticed the difference between solution 6 and 7. The difference includes discount allowed of N34,000:00 and discount receive of N19,100:00, reflected the three column cash book.

5.0 SUMMARY

In this unit, you would recall that we discuss the cash book. We equally spot out the difference between the information required in the cash book and other books of prime entry. We also discussed the two-column cash book and the three-column cash book. We were able to distinguish the three-column cash book from the two column cash book by the additional columns for the discount allowed and the discount received on the left side and on the right side of the cash book respectively.

6.0 TUTOR MARKED ASSIGNMENT

Global Business Ltd is an electrical goods wholesaler. The transactions during March 2013 are as follows:

1 March	Starts business with capital in cash N400,000:00 and bank N700,000:00
2 March	Bought electrical wires worth the sum of N200,000:00 from Edison Manufacturers With cheque
3 March	Bought some electrical materials in cash at N300,000:00
4 March	Sold electrical wires to Tunde Retailers in cash at N420,000:00
5 March	Sold electrical wires on credit to Magnet Super ltd for N480,000:00 with a trade discount of 5%
6 March	Bought beverages on credit from Cadbury Nig. Plc at the sum of N120,000:00 and receive 20% trade discount.
7 March	Cash sales paid directly into the bank is N220,000:00
8 March	Sold electrical bulbs on credit to Mr. Biggs for N500,000:00 and allowed 10% trade discount on this amount.
8 March	Bought electrical wires on credit from Light Switch Ltd at the sum of N23,000:00.
8 March	Sent Tunde Retailers Ltd a credit note for goods returned that had a retail price of N25,000:00.
9 March	Cadbury Nig. Plc sent a credit note of N15,000:00 in respect of goods returned.
10 March	Bought goods by cheque N300,000:00
12 March	Sold electrical wires to Acorn oil on credit for the sum of N120,000:00 and allowed 10% trade discount on this amount.
14 March	Bought goods and issued cheque of N200,000:00
14 March	Receive Cash for goods bought by Magnet Super N440,000:00 after deducting a cash discount of N16,000:00
15 March	Sold electrical materials on credit to NOUN water Project for N45,000:00
15 March	Sent Acorn Oil a credit note for goods returned at retail price of N10,000:00.
15 March	Bought electrical wires from Wholesale Point at N87,000:00 on credit.

- 17 March Bought motor vehicle on credit from Edosa motors Ltd for N800,000:00.
- 18 March Light Switch Ltd sent a credit note of N5,000:00 for goods returned to them.
- 24 March Received cheque from NOUN Water Project of N45,000 for electrical material bought.
- 24 March Bought electrical materials on credit from Prudence Market for N378,000:00 and receive a discount of 5%.
- 27 March Issued cheque to Prudence Market of the sum of N340,000:00 for goods bought after deducting cash discount of N19,100:00.
- 28 March Bought electrical wires from Cable Light Ltd for the sum of N217,000:00 on credit
- 28 March Salaries paid in cash N200,000:00
- 30 March Receive cash from Cable Light Ltd of N200,000:00 after deducting N17,000:00 as cash discount.
- Required: You expected to prepare all the relevant books of prime entry.

7.0 REFERENCES/FURTHER READING

- Jat R. B. (2010). *Financial accounting*. Lagos: National Open University of Nigeria.
- Lateef A. (2006). *General accounting 1*. Lagos: National Open University of Nigeria.
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UNIT 4: THE PETTY CASH BOOK

CONTENT

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 The Imprest System
 - 3.2 The Columnar Petty Cash Book
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Reading

1.0 INTRODUCTION

In the previous unit, we discussed the cash book. In this unit, we shall be discussing the petty cash book. The petty cash book is used to record the receipt and payment of small amounts of cash. Any large amounts of cash received and cash takings are usually paid into the bank and thus recorded in the cash book. The petty cash book is written from receipts and petty cash vouchers (where employees are reimbursed expenses).

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Explain the imprest system;
- Explain the columnar petty cash book;
- Make necessary postings in the petty cash book.

3.0 MAIN CONTENT

3.1 THE IMPREST SYSTEM

Many firms operate their petty cash on an imprest system. At the beginning of each period, the petty cashier has a fixed amount of cash referred to as a float. At the end of each period (or the start of the next), the petty cashier is reimbursed the exact amount spent during the period, thus making the float up to its original amount. The reimbursement usually takes the form of a cheque drawn for cash. The amount of the petty cash float is determined by reference to the normal level of petty cash expenditure in each period.

The advantages of the imprest system are as follows:

1. It facilitates control of the total petty cash expenditure in each period as the petty cashier cannot spend more than the amount of the float, except by applying to the management for an increase.
2. It deters theft of cash by the petty cashier since a large cash balance cannot be accumulated by drawing cash from the bank at irregular intervals.
3. The entries in the petty cash book are kept up to date because the cash expenditure is not reimbursed until the petty cash book is written up and the total amount of expenditure for the period is known.

4. It discourages the practice of loans from petty cash since these would have to be accounted for at the end of the period, and in addition may result in insufficient cash to meet the necessary expenditure.

SELF ASSESSMENT EXERCISE

1. Explain the imprest system.
2. Outline the advantages of the imprest system.

3.2 THE COLUMNAR PETTY CASH BOOK

The petty cash book is used instead of a cash ledger account in the general ledger. This is because there are usually a large number of transactions in cash, and if these were recorded in a cash ledger account in the general ledger, it would become cumbersome. Like the cash book, it also permits a division of labour and facilitates improved control. In addition to being a book of prime entry, the petty cash book is part of the double-entry system. Thus, debits in this book are credited to a ledger account in the general ledger and no further entries are necessary. Similarly, credits in this book are debited to a ledger account in the general ledger and no further entries are necessary. It is usual for a (columnar) petty cash book to have analysis columns on the credit side. Each column relates to a particular type of expenditure, such as postage, stationery or travelling expenses. These are intended to facilitate the posting of entries to general ledger. Every item of expenditure is entered in both the credit column and an appropriate analysis column. At the end of each calendar week or month, the total of each analysis column is debited to the relevant ledger account in the general ledger. Thus, instead of posting each transaction to the general ledger separately, expenditure of the same type is collected together in each analysis column and the total for the period posted to the relevant ledger account.

Let us look at how a petty cash book looks like by solving a simple question.

ILLUSTRATION 4

Global Business Ltd uses a columnar petty cash book to record its cash payment. The company also operates an imprest system with a float of N50,000. During September 2013, the cash transactions were as follows:

1 September	Postage stamps: N2,000
2 September	Cleaning materials: N4,000
3 September	Travelling: N8,000
4 September	Recharge cards: N3,000
6 September	Paper clips and pens: N1,000
7 September	Office cleaning: N5000
9 September	Taxi fare: N2,000
11 September	Envelopes: N1,000
12 September	Recorded delivery: N1,000
15 September	Rail fare: N2,000
18 September	Travelling expenses: N10,000
24 September	Stationery: N2,000
26 September	Window cleaner: N2,000
27 September	Postage stamps: N3,000
28 September	Tea & milk: N3,000
30 September	Received reimbursement: N49,000

SOLUTION 4

**GLOBAL BUSINESS LTD
PETTY CASHBOOK**

Dr Receipt	F	Cr Date	Details	Total	Stationery	Telephone & postages	Travelling expenses	Cleaning	Miscellane ous
N'000		2013		N'000		N'000	N'000	N'000	N'000
50	CB	Sept1	Balance b/d						
		" 1	Postage stamps	2		2			
		" 2	Cleaning material	4				4	
		" 3	Travelling	8			8		
		" 4	Recharge cards	3		3			
		" 6	Paper clips & pens	1	1				
		" 7	Office cleaning	5				5	
		" 9	Taxi fare	2			2		
		" 11	Envelopes	1	1				
		" 12	Recorded delivery	1			1		
		" 15	Rail fare	2			2		
		" 18	Travelling expenses	10			10		
		" 24	Stationery	2	2				
		" 26	Window cleaner	2				2	
		" 27	Postage stamps	3		3			
		" 28	Tea & milk	3					3
				49	4	8	23	11	3

49	CB	“ 30	
		“ 30	Balance c/d
			50
99			99
50		Oct. 1	Balance b/d

SELF ASSESSMENT EXERCISE

Describe a petty cash book.

4.0 CONCLUSION

You would observe that the initial amount of N50,000 was debited on the left side while the various disbursements were placed on the credit side in their various column. The amount to make up the money available for petty cash activities was received on 30 September which was recorded on the debit side. The balance carried down is to balance up the summation on the credit side since the debit side is higher than the credit side. That is why you are seeing the same N50,000 brought forward to the following as balance brought down as at 1st October.

5.0 SUMMARY

We have discussed the petty cash book. We also discussed the imprest system and showed how a petty cash book is presented. The petty cash book is used instead of a cash ledger account in the general ledger. This is because there are usually a large number of transactions in cash, and if these were recorded in a cash ledger account in the general ledger, it would become cumbersome.

6.0 TUTOR MARKED ASSIGNMENT

Fast Business Ltd uses a columnar petty cash book to record its cash payment. The company also operates an imprest system with a float of N150,000. During June 2013, the cash transactions were as follows:

1 June	Postage stamps: N2,000
2 June	Cleaning materials: N14,000
3 June	Travelling: N18,000
4 June	Recharge cards: N13,000
6 June	Paper clips and pens: N1,000
7 June	Office cleaning: N15000
9 June	Taxi fare: N12,000
11 June	Envelopes: N1,000
12 June	Recorded delivery: N11,000
15 June	Rail fare: N2,000
18 June	Travelling expenses: N30,000
24 June	Stationery: N12,000
26 June	Window cleaner: N2,000
27 June	Postage stamps: N13,000
28 June	Tea & milk: N3,000
30 June	Received reimbursement: N149,000

7.0 REFERENCES/FURTHER READING

- Jat R. B. (2010). *Financial accounting*. Lagos: National Open University of Nigeria.
- Lateef A. (2006). *General accounting 1*. Lagos: National Open University of Nigeria.
- Longe, O. A. &Kazeem, R. A. (2008).*Essential financial accounting*. Ogun State: Tonad Publishers Limited.
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Module 3: Entries and Balancing of Accounts

Unit 1: Double Entry System of Accounting

Unit 2: The Balancing of Accounts and the trial Balance

Unit 3: Bank Reconciliation Statements

UNIT 1: DOUBLE ENTRY SYSTEM OF ACCOUNTING

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Double-Entry System of Accounting
 - 3.2 Double Aspect of Transaction
 - 3.3 Double Effect of a Transaction
 - 3.4 Golden Rules of Double-Entry
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Reading

1.0 INTRODUCTION

In this unit, you will study the double entry system of accounting, in which, the following points will be covered:

1. Double aspect of a business transaction
2. Double effect of a business transaction and
3. The essential rule of double entry system.

The above points will lead us to the treatment of three types of ledger accounts: Personal accounts, Real accounts and Nominal accounts.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Identify in a business transaction the double entries;
- Explain the double effect of a business transaction upon the finances of any party to it;

- Apply the essential rule of double-entry system of accounting in identifying the account to be credited in the two accounts involved in a business transaction.

3.0 MAIN CONTENT

3.1 DOUBLE ENTRY SYSTEM OF ACCOUNTING

Double Entry system is the system in Accounting whereby every transaction that has to be recorded gives rise to two entries. The first one is a debit entry and the other a credit entry. It is in this double entry system that the Golden Rule of Double Entry System is used. In the subsequent sub-units, we shall discuss and illustrate the principle of double entry system.

SELF-ASSESSMENT EXERCISE

Define the term “double entry system of accounting”.

3.2 DOUBLE ASPECT OF TRANSACTION

Every business transaction involves two persons, one who parts with something and one who receives it. For example, in every sale, a seller and buyer are involved. The seller parts with that which is sold, and the buyer receives it.

Similarly, when money is paid one person parts with it and another receives it. No matter what transaction is taken, it is always found that there are two parties, one who parts with something and one who receives it. For this reason it is said that every transaction has a double aspect; the aspect of one party parting with something and the aspect of the other receiving it.

SELF-ASSESSMENT EXERCISE

Explain the term “double aspect of transaction”.

3.3 DOUBLE EFFECT OF A TRANSACTION

Apart from the double aspect of a business transaction, what is more important still is that we should understand that every transaction has a double effect upon the finances of any single business which is a party to it.

Thus, if money is loaned to a business, an asset of a business, i.e. cash, is increased and the liabilities, i.e. the amounts owing by the business, are also increased. When property for use in the business is bought on credit, both an asset, e.g. buildings and the liabilities of the business are increased. When the property is paid for an asset, i.e. cash, and the liabilities of the business are both reduced. When goods or services are bought on credit, the expenditure of the business and its liabilities are both increased. When the goods and services are paid for, an asset of the business i.e. cash, and its liabilities are both reduced. Also, when goods or services are sold on credit, the income of the business is increased and an asset, i.e. debts owing by customers, is also increased. When the customer pays for the goods or asset, i.e. debts owing by customers, is reduced. Thus, in any business every transaction in which the business is involved has a double effect upon its finances. You should note that double-entry system of accounting is designed to record thus double effect.

Now, you should consider the following examples:

S/N	Transaction	One Effect	Another Effect
1.	Society bought books for resale on credit	Its expenditure increases	Its debt increases

2.	A cooperative society pays for books bought	Its assets- cash decreases	Its debt decreases
3.	Cooperative society sold on credit	Its income increases	Amount owed to it increases
4.	Cooperative society receives money for cocoa sold	Its assets (cash) increases	Amount of sales increases

Apart from the above examples, no matter the example given, you will be able to state the double effect of the business transaction upon the finances of each of the parties to it.

SELF ASSESSMENT EXERCISE

If some pieces of furniture bought on credit were paid for, what would be the effect on cash and creditors?

3.4 GOLDEN RULES OF DOUBLE-ENTRY

The money value of each transaction is entered once on each side of the general ledger in different accounts. The actual process of placing the bookkeeping entry in each account is called 'posting'.

In a double-entry system of accounting one aspect or effect of a transaction is always recorded by a debit posting to a ledger account, and the other aspect or effect is always recorded by a credit posting to another ledger account.

The essential rule of double-entry system of accounting known as Golden Rule of Double-Entry System of Accounting is that every transaction gives rise to both a debit and a credit entry, i.e. "for every debit entry, there must be a corresponding credit entry, and vice-versa, for every credit entry there must be a corresponding debit entry". Thus, the total debits and the total credits should always agree. The 'receiving' aspect of every transaction is always recorded by a debit entry in a ledger account and the "imparting" aspect is always recorded by a credit entry.

Thus, when a person parts with anything which is received by the business, the account for that person in the books of the business must be credited and some other account in the books of the business must be debited. The account to be debited depends upon the nature of that which the business receives. When a person receives anything, with which the business has parted, the account of that person in the books of the business must be debited, and some other account in the books of the business must be credited. Again, the account to be credited depends upon the nature of that with which the business parts.

There are separate rules of the double entry system in respect of Personal Accounts, Real Accounts and Nominal Accounts which are discussed below:

1. Personal Accounts

As discussed earlier, these accounts record a business's dealing with persons or firms. The person receiving something is given debit and the person giving something is given credit. For example, if John sells goods to James on credit, James's Account will be debited (in John's book) as he is the receiver of goods and John's account will be credited (in James's book) as he is the giver of goods. When James makes the payment for these goods, John's Account will be debited in James's book as he is the receiver of the cash and James account will be credited in John's books as he is the giver of cash. Assuming you are considering the books of Narrow Way Clinic and

Maternity, and the hospital received drugs from Top Crust Pharmaceutical Company on credit. You would debit drugs account with the amount of drugs supplied and credit Top Crust Pharmaceutical with the same amount. And when Top Crust Pharmaceutical is paid cash for the drugs supplied to Narrow Way Clinic and Maternity, then you have to debit Top Crust Pharmaceutical with the amount of cash received because the company is the one receiving and credit cash account because cash is giving out (in the books of Narrow Way Clinic and Maternity).

2. Real Accounts

These are the accounts of Assets. Assets entering the business are given debit and assets leaving the business are given credit. For example, when goods are sold for cash, cash account will be debited as cash comes in and goods accounts will be credited as goods goes out. When drugs are sold for cash, cash account will be debited while Drugs account will be credited.

So, the rule is debit what comes in and credit what goes out.

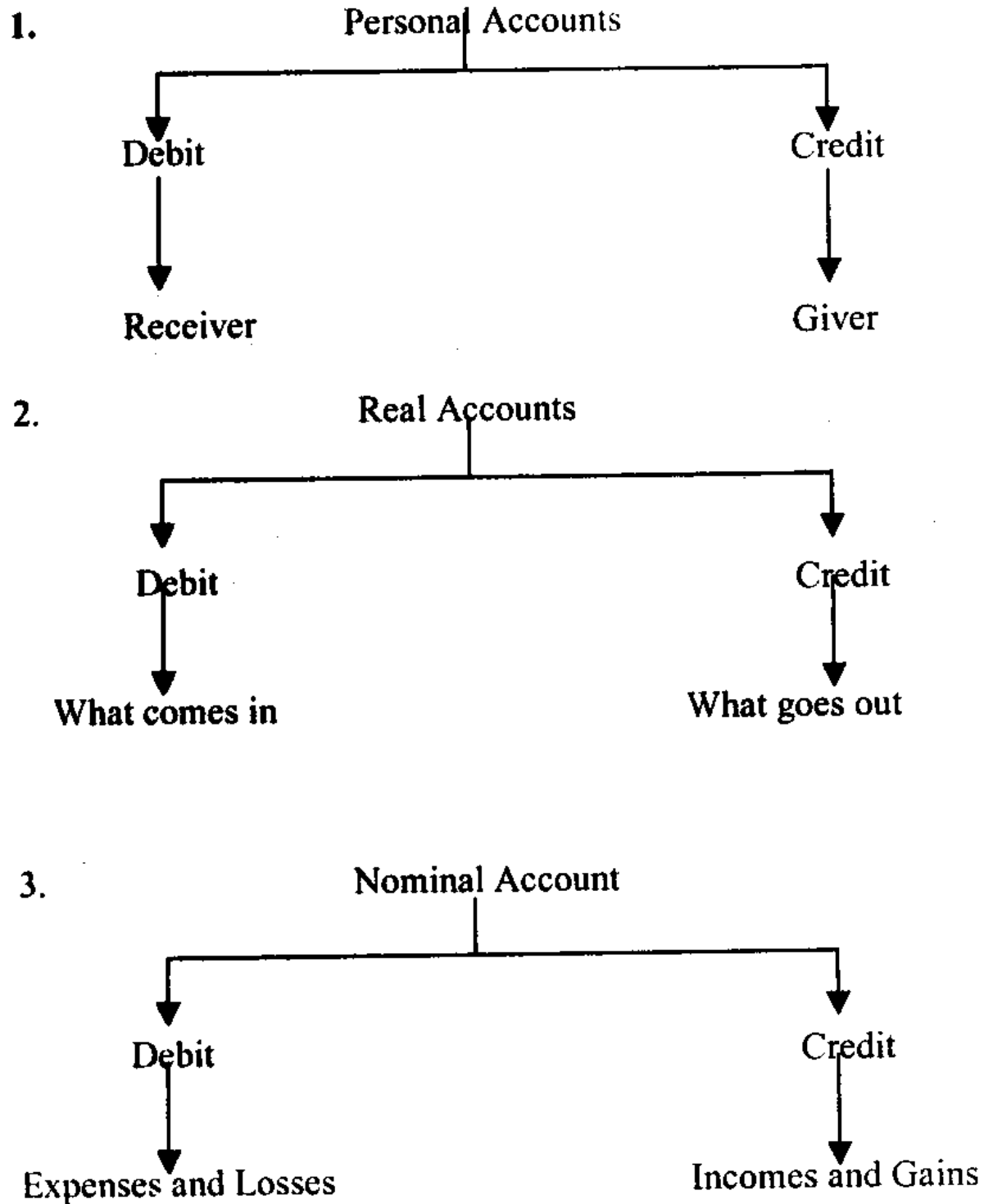
3. Nominal Accounts

These accounts deal with expenses, incomes, profits and losses. Account of expenses and losses are debited and accounts of incomes and gains are credited. For examples, when rent is paid to the landlord, Rent account will be debited as it is an expenses and cash account (real account) will be credited as it goes out.

Similarly, when commission is received, cash account will be debited as cash is received and commission account will be credited as it is an income.

Thus, the rule is: debit all expenses and losses and credit all incomes and gains.

For more explanation, the rules of double entry system of accounting are shown in the following chart:



From the above chart, you will be able to identify accounts to be debited and those to be credited without any problem.

SELF-ASSESSMENT EXERCISE

Show the separate rules of the double entry System of accounting in respect of Personal, Real and Nominal Accounts.

4.0 CONCLUSION

You should note that understanding the basic principles of double entry system is the key to understanding accounting. A lot of students get confused about posting transactions to the appropriate position whether credit or debit. This is because they are not holding tight to the principle underlying double entry. That is why if you have not conceptualize the idea about double entry, please study this chapter again.

In double entry system of accounting, two parties are involved in a business transaction. No matter the type of business, one has to part with something and another person will receive it. The question that you need to ask yourself is that “**who is receiving and who is giving?**” The moment you are able to establish that, you are good to go. That is bringing to play the Golden Rule of Double Entry System of Accounting which must be followed to give you a balanced account.

5.0 SUMMARY

In this unit, we have studied the double entry system of accounting. Every financial transaction involves a two-fold aspect, the person who parts with something and the person who received it. To have a complete record of each financial transaction, there must be a double entry in the books of accounts of the business. An entry being made in the receiving account and a similar entry in the giving account. The receiving account is termed as Debtor's Account and the giving account is called Creditor's Account. Thus, every debit entry must have a corresponding credit entry vice versa.

We also discussed the double effect of a financial transaction. Every transaction has a double effect upon the finances of each of the parties to it.

6.0 TUTOR-MARKED ASSIGNMENT

From the following transactions, identify the two accounts involved in each transaction and state which account is to be credited and the one to be debited.

1. Received cash from Mr. Ade.
2. Paid in to Bank.
3. Purchased goods on credit from cooperative Supply Association Ltd.
4. Sold goods on credit to John.
5. Paid C.S.A Ltd by Cheque.
6. Received cheque from Mr. Ade.
7. Cash Sale
8. Paid cash to Landlord for Rent.
9. Paid salaries by cheque.
10. Received cash from John.

7.0 REFERENCES/FURTHER READING

- Jat R. B. (2010). *Financial accounting*. Lagos: National Open University of Nigeria.
- Lateef A. (2006). *General accounting I*. Lagos: National Open University of Nigeria.
- Longe, O. A. &Kazeem, R. A. (2008). *Essential financial accounting*. Ogun State: Tonad Publishers Limited.

UNIT 2: THE BALANCING OF ACCOUNTS AND THE TRIAL BALANCE

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1.0 INTRODUCTION

You would recall from the previous unit, the basic principles that guides posting of transactions in the ledger. It is very important that you keep the details of that principle as discussed in unit 5, as it becomes your bases for posting transactions from one step to the other. In this unit, we shall be taking a more practical step in the application of those principles discussed in unit 1, module 3

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Define and identify a ledger;
- Balance and close ledger accounts;
- Describe the nature and purpose of a trial balance;
- Prepare a trial balance from the ledger or a list of ledger account balances;
- Describe the types of error that cause a trial balance to disagree;
- Make the ledger entries necessary to correct errors that cause a trial balance to disagree; and
- Describe the types of errors that the trial balance cannot expose.

3.0 MAIN CONTENT

3.1 THE LEDGER

By now you must have been familiar with the word ‘ledger’ from previous units. It is important at this point to emphasize the use of ledger to concretize your understanding and perception of the use of ledger in book keeping. You would observe that each unit has been a build up on previous units. This is because financial reporting is actually a summary of financial information starting from posting of financial data in the source documents to the preparation and presentation of financial statements. Financial information from the basic document are entered first into the books of prime entry, from which financial information are posted to the ledger.

What then is the ledger? The ledger is the final destination of all transactions in the books of prime entries. It is the most important book of account. It can be defined as a book which contains in classified and summarized form, a permanent record of all transactions (Longe & Kazeem, 2008). The ledger is used for the double entry bookkeeping. Double-entry bookkeeping is a

systematic method of recording an enterprise's transactions in a book called the general ledger or simply called the 'ledger'. Each page of the ledger is split into two halves: the left half is called the debit side and the right half is called the credit side. The ledger is divided into sections called 'accounts'. An account is a record in a double entry system that is kept for each class of item. In practice, each of these accounts is on a separate page. There is usually an 'account' for every class of expenditure, income, asset, and liability. Separate accounts are created to also record transactions into and out of the business. For example, there are typically separate accounts for wages expenses, for stationery, for electricity, for motor vehicle, loans, drawings, capital introduced by the owner and so on. There could be so much account depending on the detail required by management. Each of these 'accounts' can be traced to the financial statements. More detail is provided in the ledger than is provided in the statement of profit and loss, and in the statement of financial position (balance sheet), as too much detail would reduce the understandability of the information being presented. So, the expenses, income, assets and liabilities are usually combined in company's financial statements, to provide brief meaningful information. Indeed, many of the transactions that enter the ledger are summarized in other bookkeeping books beforehand to reduce the entries to the ledger.

SELF-ASSESSMENT EXERCISE

What is a ledger?

3.2 APPLICATION OF DOUBLE ENTRY SYSTEM IN THE LEDGER

When you are faced with any transaction, ask yourself these three questions.

1. Which two accounts are affected? Mention their names.
2. What types of account are they? Classify them e.g. real, personal or nominal.
3. Which one is to be debited and which one is to be credited?

The account giving value is credited and the account receiving value is debited. In order to facilitate proper understanding of accounting, you must memorize the principle which states "credit the giver" and "debit the receiver".

Let us illustrate the application of double entry system in the ledger by using the illustrations below.

ILLUSTRATION 5

Assuming February 1st, Mr. Friday started his business of selling cosmetics with the sum of N120,000 cash.

1. Which two accounts are affected here? You should note the words "start" and "cash".
They actually answer the question.
2. What type of account are they? They are capital account and cash account.
3. Which one is to be debited and which one is to be credited? Which one is giving and which one is receiving? Capital account is giving out and cash account is receiving.
Therefore, credit the capital account and debit the cash account.

SOLUTION 5

Ledger entries

Dr		Capital account		Cr
				N
		February 1	Cash	120,000

Dr		Cash account		Cr
				N
February 1	Capital	120,000		

You should always use the name of the other account in the account you are posting.

ILLUSTRATION 6

Assuming on the 6th of February, Mr. Friday further lodge N50,000 into his business by cheque.

1. What types of account are affected here? They are capital account and bank account.
2. Which one is to be debited and which one is to be credited? Which one is giving and which one is receiving? Capital account is giving out and bank account is receiving. Therefore, credit the capital account and debit the bank account.

SOLUTION 6

Ledger entries

Dr		Capital account		Cr
				N
		February 6	Bank	50,000

Dr		Bank account		Cr
				N
February 6	Capital	50,000		

You should note that the business is a separate entity from the owner of the business. The name of the proprietor should not appear in the account. However, the capital account represents the interest of the owner in the business. Therefore, there is nothing like proprietor account.

ILLUSTRATION 7

Assuming that on the 7th of February, Mr. Friday went to buy an air conditioner for the business with the sum of N20,000 cash.

The effect should be on the air-conditioner account and the cash account. Since air-conditioner account is receiving value, it means it should be debited and since cash account is giving out value, it means cash account should be credited.

You should note that the air-conditioner account is used and not purchase account because Mr. Friday did not buy the air-conditioner with the intension of resale but for the business use.

SOLUTION 7

Ledger entries

Dr	Cash account	Cr
		N
	February 7 Air-conditioner	20,000

Dr	Air-conditioner	Cr
	N	
February 7 Cash	20,000	

ILLUSTRATION 8

Assuming on the 8th of February, Mr. Friday proceeds to buy some cosmetics for sale at the sum of N60,000 which was bought in cash.

The effect should be on cash account which is giving out value and purchase account which is the one receiving value. Credit cash account and debit purchase account.

SOLUTION 8

Ledger entries

Dr	Cash account	Cr
		N
	February 8 Purchase	60,000

Dr	Purchase account	Cr
	N	
February 8 Cash	60,000	

ILLUSTRATION 9

Assuming on February 9th Mr. Friday bought a motor van for the business for the sum of N40,000 issuing a cheque to the seller.

The effect of this transaction should be bank account which is giving out value and motor van account which is receiving value. Credit bank account and debit motor van account.

SOLUTION 9

Ledger entries

Dr	Bank account	Cr
		N
	February 9 Motor van	40,000

Dr	Motor van account	Cr
	N	
February 9 Bank	40,000	

ILLUSTRATION 10

Assuming that on the 10th of February Mr. Friday took N10,000 from the cash in the business into the bank account.

The effect of this transaction should be on the cash account which is giving out value and the bank account which is receiving value. Credit cash account and debit bank account.

SOLUTION 10

Ledger entries

Dr	Cash account	Cr
		N
	February 10 Bank	10,000

Dr	Bank account	Cr
N		
February 10 Cash	10,000	

ILLUSTRATION 11

Assuming that on the 11th of February Mr. Friday paid a rent of N12,000 by cheque.

The effect of this transaction would be on bank account which is giving out value and rent account which is receiving value. Credit bank account and debit rent account.

SOLUTION 11

Ledger entries

Dr	Bank account	Cr
		N
	February 11 Rent	12,000

Dr	Rent account	Cr
	N	
February 11 Bank	12,000	

ILLUSTRATION 12

Assuming that on the 12th of February Mr. Friday took N5,000 cash from the business for his personal use.

The effect of this transaction should be on cash account which is giving out value and drawings account which is receiving value. Credit cash account and debit drawings account.

SOLUTION 12

Ledger entries

Dr	Cash account	Cr
		N
	February 12 Drawings	5,000

Dr	Drawings account	Cr
N		
February 12 Cash	5,000	

ILLUSTRATION 13

Assuming that on the 13th of February Mr. Friday sold some cosmetics on credit to Mrs. Tomi for N30,000.

The effect of this transaction would be on sales account giving out value and Tomi's account receiving value. Credit sales account and debit Tomi's account.

SOLUTION 13

Ledger entries

Dr	Sales account	Cr
		N
	February 13 Tomi	30,000

Dr	Tomi's (Debtor) account	Cr
		N
	February 13 Sales	30,000

ILLUSTRATION 14

Assuming that on the 14th of February Mr. Friday sold cosmetics and receive cash of N90,000.

The effect of this transaction would be on sales account which is giving out value and cash account which is receiving value. Credit sales account and debit cash account.

Dr	Sales account	Cr
		N
	February 14 Cash	90,000

Dr	Cash account	Cr
		N
	February 14 Sales	90,000

SOLUTION 14

Ledger entries

Assuming that on the 15th of February Mr. Friday withdrew N10,000 from bank for the business. The effect of this transaction would be on the bank which is giving out value and the cash account which is receiving value. Credit bank account and debit cash account.

Dr	Bank account	Cr
		N
	February 15 Cash	10,000

Dr	Cash account	Cr
	N	
February 15 Bank	10,000	

ILLUSTRATION 15

Assuming that on the 17th of February Mr. Friday bought goods on credit from Felix worth N45,000.

The effect of this transaction would be on Felix account which is giving out value and purchase account which is receiving value. Credit Felix account and debit purchase account.

SOLUTION 15

Ledger entries

Dr	Felix (creditor) account	Cr
		N
	February 17 Purchase	45,000

Dr	Purchase account	Cr
	N	
February 17 Purchase	45,000	

ILLUSTRATION 16

Assuming that on the 18th of February Mr. Friday receive some cosmetics worth N5,000 returned by Felicia.

The effect of this transaction would be on Felicia's account which is giving out value and return inward account which is receiving value. Credit Felicia's account and debit return inward account.

SOLUTION 16

Ledger entries

Dr	Felicia's (Creditor) account	Cr
	N	
	February 18 Return inward	5,000

Dr	Return inward account	Cr
	N	
February 18 Felicia	5,000	

ILLUSTRATION 17

Assuming that on the 19th of February Mr. Friday returned some goods worth N7,000 to Julius. The effect of this transaction would be on Return outward account which is giving out value and Julius account which is receiving value. Credit return outward account and debit Julius account.

SOLUTION 17

Ledger entries

Dr	Return outward account	Cr
		N
	February 19 Felix	7,000

Dr	Julius's (Debtor) account	Cr
	N	
February 19 Return outward	7,000	

ILLUSTRATION 18

Assuming that on 20th February Mr. Friday collected a loan by cheque of N15,000 from Andrew. The effect of this transaction would be on loan account (Andrew) which is giving out value and bank account which is receiving value. Credit loan account and debit bank account.

SOLUTION 18

Ledger entries

Dr	Loan (Andrew account)	Cr
		N
	February 20 Bank	15,000

Dr	Bank account	Cr
	N	
February 20 Loan	15,000	

ILLUSTRATION 19

Assuming that on the 21st of February Mr. Friday received a commission in cash of N3,000. The effect of the transaction would be on the commission received account which is giving out value and cash account which is receiving value. Credit commission received account and debit cash account.

SOLUTION 19

Ledger entries

Dr	Commission received account	Cr
		N
	February 21 Cash	3,000

Dr	Cash account	Cr
	N	
February 21 Commission received	3,000	

ILLUSTRATION 20

Assuming that on the 22nd of February Mr. Friday repaired the air-conditioner with the sum of N2,000 in cash. The effect of this transaction would be on cash account which is giving out value and repairs account which is receiving value. Credit cash account and debit repairs account.

SOLUTION 20

Ledger entries

Dr	Cash account	Cr
		N
	February 22 Repairs	2,000

Dr	Repairs account	Cr
	N	
February 22 Cash	2,000	

ILLUSTRATION 21

Assuming that on 23rd February Mr. Friday bought office equipment on credit from Global Nig. Ltd for the sum of N11,000. The effect of this transaction would be on Global Nig. Ltd account which is giving out value and office equipment account which is receiving value. Credit Global Nig. Ltd account and debit office equipment account.

SOLUTION 21

Ledger entries

Dr	Global Nig. Ltd (Creditor) account	Cr
		N
	February 23 Office equipment	11,000
Dr	Office equipment	Cr
		N
February 23 Global Nig. Ltd	11,000	

ILLUSTRATION 22

Assuming that on 26 February Mr. Friday paid wages to his staff N9,000 in cash. The effect of this transaction would be on cash account which is giving out value and wages account which is receiving value. Credit cash account and debit wages account.

SOLUTION 22

Ledger entries

Dr	Cash account	Cr
		N
	February 26 Wages	9,000
Dr	Wages account	Cr
		N
February 26 Cash	9,000	

Note:

The list is endless but the transactions explained above are enough to show the operations of the principle of double entry in the ledger. You should take note of the following summary of treating transactions with double entry principle:

Increase in assets is entered on the debit side of the account.

Decrease in assets is entered on the credit side of the account.

Increase in liability is entered on the credit side of the account.

Decrease in liability is entered on the debit side of the account.

Increase in income is entered on the credit side of the account.

Decrease in income is entered on the debit side of the account.

Increase in expenses is entered on the debit side of the account.

Decrease in expenses is entered on the credit side of the account.

SELF-ASSESSMENT EXERCISE

Summarize the principle of double entry in one sentence.

3.3 THE BALANCING OF ACCOUNTS

It is necessary to balance each account in the ledger at the end of every accounting period. The account must be balanced off before extracting the trial balance at regular intervals during the financial year. It would be a matter of necessity to balance each account in the ledger in order to ascertain the overall position recorded in the bookkeeping system.

The procedure of balancing ledger accounts is as follows:

- i. Leave one blank line under the last entry in the ledger account and draw parallel lines on the top and bottom of the next line in the amounts column on each side. When this happens it marks the end of the period. All the transactions before the totaling lines represent the period that has just ended and the area after the totaling lines represents the new period.
- ii. Add up each side of the ledger account and calculate the difference using a separate piece of paper (when you become familiar with balancing off accounts, you will no longer need to use a separate piece of paper, except perhaps for the bank account).
- iii. If the amount of the debit side exceeds that on the credit side, enter the difference on the credit side immediately after the last entry on that side (in step (i) you left a blank line for this purpose). This is the closing balancing on the account. This would be describe as balance carried down (bal. c/d). Similarly where the amount on the credit side exceeds that on the debit side, the difference should be entered on the debit side immediately after the last entry on that side. Similarly, this is would be describe as balance carried down. The result is that with the entered closing balance, both sides will total exactly.
- iv. Enter the total of each side of the ledger account between the parallel lines. These two figures should now be the same.
- v. The difference which was used to balance the account described as balance carried down in step (iii) should be copied to the opposite side below the total of that side under the parallel lines and should be described as balance brought down (bal. b/d) representing the opening balance for the next period.

ILLUSTRATION 23

Let us use the bank account of the transactions made in 3.2 to explain the process of balancing an account:

SOLUTION 23

Ledger entries

Dr		Bank account	Cr		
		N			
February 6	Capital	50,000	February 9	Motor van	40,000
February 10	Cash	10,000	February 11	Rent	12,000
February 20	Loan	15,000	February 15	Cash	10,000
		<u>75,000</u>		Balance c/d	<u>13,000</u>
March 1	Balance b/d	13,000			<u>75,000</u>

You should note that items on the debit side exceed the items on the credit side by N13,000. Insert the difference of N13,000 on the credit side in order that the totals of N75,000 may be

equal. The balancing figure of N13,000 is described as balance carried down. When it is shown as an opening balance in the next accounting period, it is referred to as balance brought down.

SELF-ASSESSMENT EXERCISE

Extract all the accounts in 3.2 excluding bank account and balance the accounts.

3.4 THE PURPOSE AND PREPARATION OF A TRIAL BALANCE

The trial balance is neither part of the general ledger nor is it a book of prime entry. It is a list of the balances in the general ledger at the end of an accounting period, divided between those ledger accounts with debit balances and those with credit balances. Since every transaction recorded in the ledger consists of both a debit and a credit entry, the total of the balances on each side should be the same. This is checked by entering on the trial balance the balance of each account in the ledger, and adding up each side.

The purposes of the trial balance may be summarized as follows:

1. To ascertain whether the total of the ledger accounts with debit balances equals the total of the ledger accounts with credit balances. If so, this proves that the same money value of each transaction has been entered on both sides of the general ledger. It also proves the arithmetical accuracy of the ledger accounts. However, a trial balance can agree but there may still be errors in the ledger (that would be discussed in the subsequent subunit).
2. The trial balance is also used for the preparation of final financial statements that show the profit or loss for the period and the assets and liabilities at the end of that period.

All the ledger accounts end up in two reports in the financial statements: the statement of profit and loss and the statement of financial position (balance sheet). The ledger accounts are listed separately in the trial balance because the ledger accounts making up the statement of profit and loss are disclosed separately for user's benefits. As noted, the trial balance does not form part of the double-entry process. The trial balance is just a memorandum that is used to check the ledger accounts balance and to assist in preparing the financial statements for disclosure purposes.

The rule of the trial balance is that:

All assets must be placed on the debit side of the trial balance;

All liabilities must be placed on the credit side of the trial balance;

All income or gain must be placed on the credit side of the trial balance; and

All expenses must be placed on the debit side of the trial balance.

ILLUSTRATION 24

Now let us show an example of what a trial balance is. We should extract the accounts in 3.2 to show how the balances of the ledger are placed in the trial balance. Having carried out the self assessment exercise in 3.3, by now I am sure you are quite able to balance the accounts and ready to draw out a trial balance.

After extracting the accounts used in 3.2 as shown in 3.3 with necessary balances done, the various balances of the account would be as follow.

SOLUTION 24

Ledger entries and the trial balance

Dr		Bank account		Cr	
		N		N	
February 6	Capital	50,000	February 9	Motor van	40,000
February 10	Cash	10,000	February 11	Rent	12,000
February 20	Loan	15,000	February 15	Cash	10,000
			February 28	Balance c/d	<u>13,000</u>
		<u>75,000</u>			<u>75,000</u>
March 1	Balance b/d	13,000			

Dr		Cash account		Cr	
		N		N	
February 1	Capital	120,000	February 7	Air-conditioner	20,000
February 14	Sales	90,000	February 8	Purchase	60,000
February 15	Bank	10,000	February 10	Bank	10,000
February 21	Commission rec.	3,000	February 12	Drawings	5,000
			February 22	Repairs	2,000
			February 26	Wages	9,000
		<u>223,000</u>	February 28	Balance c/d	<u>117,000</u>
March 1	Balance b/d	117,000			<u>223,000</u>

Dr		Capital account		Cr	
		N		N	
February 28	Balance c/d	170,000	February 1	Cash	120,000
		<u>170,000</u>	February 6	Bank	<u>50,000</u>
					<u>170,000</u>
			March 1	Balance b/d	170,000

Dr		Air-conditioner account		Cr	
		N		N	
February 7	Cash	<u>20,000</u>	February 28	Balance c/d	<u>20,000</u>
		<u>20,000</u>			<u>20,000</u>
March 1	Balance b/d	20,000			

Dr		Purchase account		Cr	
		N		N	
February 8	Cash	60,000	February 28	Balance c/d	<u>105,000</u>
February 17	Creditor	<u>45,000</u>			<u>105,000</u>
		<u>105,000</u>			
March 1	Balance b/d	105,000			

Dr		Motor van account		Cr	
		N		N	
February 9 Bank		<u>40,000</u>	February 28 Balance c/d	<u>40,000</u>	
		<u>40,000</u>		<u>40,000</u>	
March 1 Balance b/d		40,000			

Dr		Rent account		Cr	
		N		N	
February 11 Bank		<u>12,000</u>	February 28 Balance c/d	<u>12,000</u>	
		<u>12,000</u>		<u>12,000</u>	
March 1 balance c/d		12,000			

Dr		Drawings account		Cr	
		N		N	
February 12 Cash		<u>5,000</u>	February 28 Balance c/d	<u>5,000</u>	
		<u>5,000</u>		<u>5,000</u>	
March 1 Balance b/d		5,000			

Dr		Sales account		Cr	
		N		N	
February 28 Balance c/d		<u>120,000</u>	February 13 Debtor (Tomi)	30,000	
		<u>120,000</u>	February 14 Cash	<u>90,000</u>	
				<u>120,000</u>	
			March 1 Balance b/d	120,000	

Dr		Return inward account		Cr	
		N		N	
February 18 Felicia		<u>5,000</u>	February 28 Balance c/d	<u>5,000</u>	
		<u>5,000</u>		<u>5,000</u>	
March 1 Balance b/d		5,000			

Dr		Creditors' account		Cr	
		N		N	
February 28 Balance c/d		<u>61,000</u>	February 17 Purchases	45,000	
		<u>61,000</u>	February 18 Return inward	5,000	
			February 23 Office equip.	<u>11,000</u>	
				<u>61,000</u>	
			March 1 Balance b/d	61,000	

Dr		Return outward account		Cr	
		N		N	
February 28 balance c/d		<u>7,000</u>	February 19 Felix (Debtor)	<u>7,000</u>	
		<u>7,000</u>		<u>7,000</u>	
			March 1 Balance b/d	7,000	

Dr	Debtors account		Cr
	N		N
February 13 Sales	30,000		
February 19 Return outward	<u>7,000</u>	February 28 Balance c/d	<u>37,000</u>
	<u>37,000</u>		<u>37,000</u>
March 1 Balance b/d	37,000		

Dr	Loan (Andrew) account		Cr
	N		N
February 28 Balance c/d	<u>15,000</u>	February 20 Bank	<u>15,000</u>
	<u>15,000</u>		<u>15,000</u>
		March 1 Balance b/d	15,000

Dr	Commission received account		Cr
	N		N
February 28 Balance c/d	<u>3,000</u>	February 21 Cash	<u>3,000</u>
	<u>3,000</u>		<u>3,000</u>
		March 1 Balance b/d	3,000

Dr	Repairs account		Cr
	N		N
February 22 Cash	<u>2,000</u>	February 28 Balance c/d	<u>2,000</u>
	<u>2,000</u>		<u>2,000</u>
March 1 Balance b/d	2,000		

Dr	Office equipment		Cr
	N		N
February 23 Global Nig. Ltd (Creditor)	<u>11,000</u>	February 28 Balance c/d	<u>11,000</u>
	<u>11,000</u>		<u>11,000</u>
March 1 Balance b/d	11,000		

Dr	Wages account		Cr
	N		N
February 26 Cash	<u>9,000</u>	February 28 Balance c/d	<u>9,000</u>
	<u>9,000</u>		<u>9,000</u>
March 1 Balance b/d	9,000		

Mr. Friday's Business
Trial Balance as at 28 February 2013

Name of account	Dr	Cr
	N	N
Bank	13,000	
Cash	117,000	
Capital		170,000
Air-conditioner	20,000	
Purchases	105,000	
Motor van	40,000	
Rent	12,000	
Drawings	5,000	
Sales		120,000
Return inward	5,000	
Creditors		61,000
Return outward		7,000
Debtors	37,000	
Loan		15,000
Commission received		3,000
Repairs	2000	
Office equipment	11,000	
Wages	9,000	
	<u>376,000</u>	<u>376,000</u>

If a trial balance does not agree, you should adopt the following procedure which minimizes effort and time spent looking for the errors.

1. Recast the trial balance.

2. Ensure that no ledger account is omitted from the trial balance.
3. Ensure that each amount entered in the trial balance is on the correct side.
4. Ensure that the amounts entered in the trial balance are the same as those shown in the ledger accounts.
5. If the errors are still not found, it would be necessary you check all the entries in the general ledger.

SELF-ASSESSMENT EXERCISE

The following is a list of the balances appearing in the general ledger of Global Nig. Ltd at 30 June 2013.

	N
Capital	32,890
Drawings	5,200
Loan from Julius	10,000
Cash	510
Bank overdraft	1,720
Sales revenue	45,600
Purchases	29,300
Return inward	3,800
Return outward	2,700
Carriage outward	820
Trade receivables	7,390
Trade payables	4,620
Land and buildings	26,000
Plant and machinery	13,500
Listed investment	4,800
Interest paid	1,200
Interest received	450
Rent received	630
Salaries	3,720
Repairs	810
Plant hire charges	360
Bank charges	240

You are required to prepare a trial balance.

3.5 ERRORS NOT DISCLOSED BY THE TRIAL BALANCE

There are some errors that cannot be shown by the trial balance. Below are the following errors.

1. Error of omission. This is when an item is completely omitted from the debit and credit sides of the books.
2. Error of commission. This occurs when an item is entered in a wrong person's account.
3. Error of original entry. This is when a wrong amount is entered on the debit and credit sides of the accounts.
4. Error of complete reversal of entry. In this case, the item is entered on the wrong side of the account, i.e. an item that should be debited is credited and vice-versa.
5. Error of principle. This is when an item is entered in a wrong class of account.
6. Compensating errors. This occurs when errors cancelled out each other.

SELF-ASSESSMENT EXERCISE

Outline the errors that cannot be disclosed by the trial balance.

4.0 CONCLUSION

Now we are set to discuss the financial statements having completed the part of bookkeeping that provides the foundation for the reporting accountant. You would recall that one of the uses of the trial balance is that the trial balance is used for the preparation of final financial statements that show the profit or loss for the period and the assets and liabilities at the end of that period.

5.0 SUMMARY

In this unit, we have discussed the balancing of account and the trial balance. We discussed the ledger, application of double-entry system in the ledger, the balancing of accounts, the purpose and preparation of a trial balance and errors not disclosed by the trial balance.

After the ledger has been prepared, the balances brought down are used to prepare a statement called a “Trial Balance. Assets are usually entered on the debit side of an account, and the liabilities on the credit side. It is expected that the total of the debits would equal the total of the credits. This is true because the total assets are equal to the liabilities plus the capital ($L + C = A$). Also, each subsequent transaction involved one entry on the debit side, and an equal entry on the credit side. It follows that the total debit entries are still equal to the total credit entries, provided no mistake has been made. It is impossible to guarantee that no mistake will ever be made. Therefore, as soon as all transactions are double- entered in the accounts, it is usual to make a preliminary check upon the accuracy of the entries by taking out a “Trial Balance” to see if the total of all debit entries is equal to that of all the credit entries.

6.0 TUTOR MARKED ASSIGNMENT

World Sale ltd has the following transactions in January 2013:

- 2013
- January 1 Started business with N7,500,000 in cash.
- “ 2 Paid N3,500,000 of the opening cash into a bank account.
- “ 3 Bought goods on credit from Julius N135,000; Kayode N115,000; Felix N55,000.
- “ 4 Bought office equipment on credit from Tunde N108,000.
- “ 6 Sold goods for cash N501,000.
- “ 7 Sold goods on credit to Felicia N24000; Obi N53,000
- “ 8 Bought motor van paying by cheque N240,000
- “ 10 We returned goods to Julius N25,000; Kayode N22,000.
- “ 12 We paid by cheque Julius N110,000.
- “ 14 Paid cash N70,000 to Kayode.
- “ 16 Received loan by cheque N300,000.
- “ 18 The following returned goods to us: Felicia N4,000; Obi N13,000.
- “ 19 Repaid part of the loan by cheque N150,000.
- “ 20 Bought equipment by cash N76,000.
- “ 21 Cash sales N203,000.
- “ 25 Cash purchases N111,000.
- “ 27 Commission received by cheque N76,000.
- “ 29 Rent received by cash N53,000.

“ 31 Withdrew N75,000 from bank for private use.
You are required to enter the transactions in the books from the details above and extract a trial balance as at 31st January, 2013.

7.0 REFERENCES/FURTHER READING

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UNIT 3: BANK RECONCILIATION STATEMENTS

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Bank Reconciliation Statements
 - 3.1 Bank Statements and Reconciliation
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1.0 INTRODUCTION

In Unit 2 of module 3, we discussed the Two-Column Cash Book which provides two columns, each for cash and bank transactions. Therefore, this cash book brings together the cash and bank accounts maintained by the organisation or medical establishment. Usually, the organisation or hospital transaction with the bank while the bank transacts with the hospital. The cashbook records all the hospital's transactions with the bank, and for the entire bank's transactions with the hospital, a bank statement records the proceedings. However, the balance on the cashbook is rarely the same as the balance on the bank statement. In this unit, we shall reconcile the balance reflected in the cash book with the balance reflected on the bank statement. We shall also consider the factors responsible for the difference in the cash book and the bank statement, and show how they are treated.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Explain why the bank balance obtained from the cash book differs from the bank statement;
- Discuss the need for bank reconciliation statements; and
- Prepare the bank reconciliation statement to agree with the two balances.

3.0 MAIN CONTENT

3.1 BANK STATEMENTS AND BANK RECONCILIATION

Banks send monthly or periodical statements to their customers—individuals, hospitals, associations, corporate entities, etc. A bank statement shows details of bank's transactions (deposits, withdrawals and charges) with their customer's during a given period. At the end of the period to which the statement relates, it would indicate the balance in the account taking note of the credits (deposits) and debits (withdrawals and charges).

Earlier in the introduction, we noted that it is difficult for the cashbook balance to agree with the balance on the bank statement, why?

One reason can be attributed to timing differences. For example, a cheque payment may be recorded in the cash book when it is issued. The bank only records such a cheque when it is paid by the bank, which may be several days or even weeks later (unpresented cheque). Other examples are outstanding deposits and unaccredited lodgements.

Secondly, some items may appear in the bank statement but yet to be entered in the cashbook, and these include bank charges, bank interest paid (on overdrafts) or received (on deposits), standing orders and direct debits, credit transfers (where a receipt has been paid direct into the organisations bank account), cheques returned unpaid, and unauthorised debits due to genuine mistakes or fraud.

Therefore, bank reconciliation is the process of investigating the difference in both balances and attempt to agree them.

SELF-ASSESSMENT EXERCISE

Explain why the cashbook is rarely the same as the balance on the bank statement.

3.2 THE BANK RECONCILIATION STATEMENT

This is a statement prepared to agree the balances of both the bank statement and the cashbook. Apart from this function, the bank reconciliation statement helps to ensure that:

- ✓ All deposits and withdrawals have been entered correctly;
- ✓ No unauthorised debits have been made in the account; and
- ✓ Frauds and errors are detected early and corrected.

The reconciliation process is to verify the entries by ticking the credit side of the bank statement to the debit side of the cash book and vice versa. Any un-ticked entries in either the statement or the cashbook represent items given as examples in explaining the reasons why balances in the statement and the cashbook do not agree. The items could be treated as follow:

Unpresented Cheques have been deducted in the cashbook already but not in the bank statement. We treat such transaction by either adding it back to cash book balance or deducting it from bank statement balance. Direct debits are either added to cash book balance or deducted from bank statement balance.

Uncredited lodgements are either added to the statement balance or deducted from cashbook balance.

Frauds and errors should be investigated and corrected.

SELF-ASSESSMENT EXERCISE

1. Define the bank reconciliation statement.
2. Discuss the bank reconciliation process.

3.3 METHODS OF BANK RECONCILIATION

There are two methods of bank reconciliation:

The first is to update the cash book by recording items in the bank statement not in it, and then, reconcile the adjusted cash book balance to the statement balance. And the second is to do straight reconciliation.

We shall demonstrate both methods in the following illustration:

On 31 July, 2004, Dr Victor Akhabue received a bank statement which showed a balance of N198,000 whereas the bank column of the cash book showed a balance of N140,000.

After comparing the entries in both records, the following items were revealed as accounting for the difference:

29 July 2004 Dividend received from ABC Ltd. Credited by bank not yet recorded in the cash book amounts to N16,000.

30 July 2004 Payment of N10,000 by standing order not yet recorded in the cash book.

30 July 2004 Transfer charges (N300) and bank commission (N700) not yet recorded in the cashbook.

31 July 2004 Interest of N24,000 credited by bank not yet entered into the cashbook.

31 July 2004 Cheque Nos. 311, 316 and 317 in favour S.Kasali, John Dans and Dennis Kayfor N6,000, N16,000 and N7,000 respectively, have not been presented for payment. You are required to prepare a bank reconciliation statement.

Method I:

Dr Victor Akhabue								
Dr.				Adjusted Cash Account (Bank Column)				Cr.
Date	Particulars	Folio	Amount	Date	Particular	Folio	Amount	
	Balance as given		140,000	30/7/04	Payment by order		10,000	
29/7/04	Dividend (ABC Ltd.)		16,000	30/7/04	Transfer Charges		300	
31/7/04	Interest (bank)		24,000.00	30/7/04	Bank Commission		700	
				31/7/04	Balance c/d		169,000	
			<u>180,000</u>				<u>180,000</u>	
31/7/04	Balance c/d		169,000					

Bank Reconciliation Statement

	N	N
Balance as per Bank Statement		198,000
Less: Unpresented cheques:		
S.Kasali (311)	6,000	
JohnDans(316)	16,000	
DennisKay(317)	<u>7,000</u>	29,000
Balance as per adjusted Cash Book		<u><u>N169,000</u></u>

Method II: A Straight Reconciliation

	N	N
Balance as per Bank Statement		198,000
Add: Direct debits:		
Transfer charges	300	
Bank Commission	700	
Payment by order	<u>10,000</u>	<u>11,000</u>
		209,000
Less: unpresented cheques:		
S.Kasali (311)	6,000	
JohnDans (316)	16,000	
DennisKay (317)	<u>7,000</u>	
	29,000	
Direct credit:		
ABC Ltd dividend	16,000	
Bank interest	<u>24,000</u>	<u>69,000</u>
Balance as per cash book		<u><u>140,000</u></u>

SELF-ASSESSMENT EXERCISE

Prepare a bank reconciliation statement using the following particulars:

30 April, 2002	Bank statement balance	N780,000
	Cash book balance	N680,000
	Cheques drawn not presented for payment	N300,000
	Cheques paid into bank not yet credited	N200,000

4.0 CONCLUSION

We wish to conclude that usually, the balance on the cashbook and the bank statement do rarely agree with each other, due to timing differences as well as the fact that some items may appear in the bank statement but yet to be recorded in the cash book. A process of bank reconciliation which involves investigating the differences in both balances is employed to agree the balances. This leads to the generation of a bank reconciliation statement.

5.0 SUMMARY

In this unit, we have examined the need to agree our cash book balance to the bank statement balance. We considered, also, reasons for the differences in both balances, and how they could be reconciled. Two methods were employed to illustrate/demonstrate how bank reconciliation statements are drawn.

6.0 TUTOR-MARKED ASSIGNMENTS

1. Discuss the need for bank reconciliation.
2. The following cashbook and bank statement relates to Narrow Way Clinic and Maternity for the month of June 2002.

Dr.				CASHBOOK				Cr.			
Date	Particulars	Folio	Amount	Date	Particular	Folio	Amount				
1/6/02	Balance b/fwd		105,000.00	2/6/02	Cheque– Oweh		800.00				
3/6/02	Cash		1,000.00	2/6/02	Cheque– Peter		300.00				
5/6/02	Cheque-Konbe		170.00	6/6/02	Cheque– Bello		210.00				
7/6/02	Cheque–Ladi		440.00	8/6/02	Cheque– Smart		730.00				
8/6/02	Cheque- Yinka		1,200.00	10/6/02	Cheque– Thomas		2,240.00				
9/6/02	Cheque–Michael		310.00	12/6/02	Balance c/d		104,560.00				
11/6/02	Cheque-Nwafa		720.00	13/6/02							
			<u>108,840.00</u>				<u>107,640.00</u>				
14/6/02	Balance b/d		104,560.00								

**NARROW WAY CLINIC AND MATERNITY
BANK STATEMENT AS AT 12TH JUNE, 2002**

	Dr	Cr.	Balance	
1/6 Balance			105,000.00	Cr.
2/6 Cheque No.5554	800.00		104,200.00	Cr
3/6 Cash		1,000.00	105,200.00	Cr.
4/6 COT	40.00		105,160.00	Cr.
5/6 Cheque deposits		170.00	105,330.00	Cr.
6/6 Cheque No.5555	300.00		105,030.00	Cr.
7/6 Cheque deposit		440.00	105,470.00	Cr.
8/6 Cheque deposit		1,200.00	106,670.00	Cr.
9/6 Cheque dishonoured	170.00		106,500.00	Cr.
11/6 Standing Order (Insurance Premium)	1,120.00		106,380.00	Cr
12/6 Cheque No. 5556	210.00		106,170.00	Cr

You are required to:

- (a) Adjust the Cash Book
- (b) Prepare a Bank Reconciliation Statement.

7.0 REFERENCES/FURTHER READINGS

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