FINANCIAL ACCOUNTING

S.S. 1 WEEK 2

Topic: Final Account of a Sole Trader
Sub-Topic: End of the year adjustment

Content of the Lesson
END OF THE YEAR ADJUSTMENT

Adjustment are closing entries made in the book of account at the end of an accounting period so as to achieve a proper matching of costs and expenses with revenue.

Closing entry are those entries made at the end of the year to close the various account and transfer the balance there to final account.

BAD DEBT: This is the debt which have become irrecoverable. The reason why a debt will be considered irrecoverable include; inability of the debtor to pay, disappearance of the debtor without trace, and death of the debtor

With many businesses a large proportion if not all of the sales are on a credit basis. The business is therefore taking the risk that some of the customers may never pay for the goods sold to them on credit. This is a normal business expenses and must be charged a such ie debited to the profit and loss account.

When a debt is found to be bad, the debtor's account is credited with amount of bad debt to cancel the debt and if the debtors has paid some part of the debt leaving the remainder to be written off as bad debt by debiting it there.

If bad debt is disclosed as an additional information to the trial balance. In this case, bad debt is debited to the profit and loss account as an expenses and deducted from the debtors balance in the balance sheet.

Illustration

Tepela

		₦			₦
Jan. 1995	Sales	50	Dec. 1995	bad debts	50

Erim

		₦			₦
Feb. 1995	Sales	240	Aug. 17 1995	cash	200
			Dec. 31 1995	bad debts	40
		240			240

If bad debt appears only in the trial balance deduct from profit and loos i.e debit the profit and loss account only no other adjustment is needed.

Bad debt

		₦			₦
Dec. 31 1995	Tapela	50	Dec. 1995	profit & loss	90
Dec. 31 1995	Erim	40			
		90			90

Profit and loss Account for the year ended 31 Dec. 1995

	₦	
Bad debts	90	

PROVISION FOR BAD DEBT

Provision are amount set out of profit to provide for depreciation or diminution in the value of assets or for the purpose of prionding a liability or loss certain to be incurred or likely to be incurred but uncertain as to amount or the date it will arise.

Examples are:

1. Provision for bad/doubtful debt
2. Provision for discount on debtors
3. Provision for depreciation

PROVISION FOR BAD/DOUBTFUL DEBT

This is an estimate of the possibility of bad debts arising in a future accounting period. When a provision for bad debts has been made created, the amount is credited to the provision for bad and doubtful debt account in the ledger and the profit and loss account is debited with the amount in the balance sheet this will be shown as a deduction from debtors.

Difference between Bad debt and Provision for bad debts

1. Bad debts is a revenue loss, while a provision for bad debt is an estimate against future possible loss of revenue

2. Bad debt account only affects the profit and loss account where as provision for bad debt is sown as a loss in profit and loss account as well it affects debtors in the balance sheet.

Provision for bad debt

Deduct the provision for bad debt in the additional information from debtors in the balance sheet. Look for the difference between the provision for bad debt in the additional information and trial balance.

Dr: Decrease/reduces in provision for bad debt to the profit and loss account
Cr: Increase in provision for bad debt to the profit and loss account.

Example:

1. In the books of a firm, outstanding debtors as at April 30 1990 stood at N3600. A provision for bad debt and doubtful debt is to be made at 10% on the outstanding total.

   How the entries to reflect eh decision in the book of account.

Solution:

Provision for bad debt Account

		₦
	30 April Profit & loss	360

Profit and loss Account for the year ended

	₦		
Provision for bad debt			
Doubtful debt	360		

Balance sheet as at 30th April 1990

			₦
		Current assets	
		Debtors	3600
		Less: Provision for bad debt	360
			3240

2. On January 1 1990, the provision for bad and doubtful debt was N140. The bad and doubtful debt during the year amounted to N110. The debtors on 31st December 1990 stood at N3,000 and a new provision of 5% thereof is required.

   Make the necessary ledger entries in the profit and loss account and balance sheet

Solution:

Bad debt Account

	₦		₦
Dec. 31 Debtors	110	Dec. 31 Profit & loss	110

Provision for bad debt Account

			₦
		Jan 1 Balance b/f	140
		Dec. 31 Profit & loss	10
			150

Profit and Loss Account

	₦		
Bad debt			
Provision for bad debt	110		
Less: old provision	140		
	10		

Balance sheet as at 31st Dec. 1991

		₦	₦
	Current assets		
	Debtors	3000	
	Less: Provision	150	3240

PROVISION FOR DEPRECIATION

This is an attempt to charge against profit the estimated amount of the depreciable value of a fixed assets which have been used up in the operation of the business. Provision for depreciation is deducted from the cost or devalued amount of priced assets. Provision for depreciation in the additional information only should be debited to the profit and loss as expenses. Then provision for depreciation in the trial balance and the depreciation in the additional information should be added and deducted from the assets.

Accumulated depreciation should not be debited to the profit and loss but should be added to the depreciation in the additional information and deducted from the cost of the asset.

PERIOD III & IV

Topic: End of the year adjustment

Content of the Lesson
END OF THE YEAR ADJUSTMENT

PREPAYMENTS:

Prepaid Expenses: This are expenses which are not yet due but have been paid for. These can be regarded as the value of benefits not yet enjoyed but which had been paid for.

In the final account prepaid expenses are treated as follows:

a. In the profit and loss account. Deduct the prepayment from the expenses on the trial balance.
b. In the balance sheet. Show the prepayment under current assets

The Procedures are:

	₦
Amount paid an expenses in trading period	X
Add: Amount prepaid last year	X
	X
Less: Amount prepaid for next year	X
Balance to the profit and loss	X

Ledger

Expenses Account

	₦		₦
Cash (Trading Account)	X	Amount prepaid next year	X
Amount prepaid last year	X	Profit and loss	X
	X		X

Example

Rent prepaid 1/1/2003

Rent paid 31/1/2003

Rent prepaid 31/12/2003

Solution

Rent Account

	₦		₦
Cash	3000	Prepaid next year	400
Prepaid last year	600	Profit and loss	3200
	3600		3600

ACCRUED EXPENSES/ACCRUAL

These are expenses due but which are not yet paid as at balance sheet date. They can also be regarded as the value of benefits already enjoyed but not yet paid for as at balance sheet date. These can also be called payments in arrears, expenses owing or amount outstanding.

In the final accounts accrual should be treated as follows:

a. **In the profit and loss account:**
Add the accrual expenses to the expenses shown on the trial balance to obtain the expenses incurred.

b. In the balance sheet
Show the accrual under current liabilities.

The Procedures are:

	₦
Amount paid in the trading period	X
Add: Accrued or owing during trading period	X
	X
Less: Amount owing for last year	X
Profit and loss	X

Ledger

Expenses Account

	₦		₦
Cash	X	Amount owing last year	X
Owing during trading	X	Profit and loss	X
	X		X

Example

	₦
Rent owing as at 31st Dec. 1998	800
Rent paid up to December 1998	1700
Rent owing as at 1st January 1998	500

Solution

Rent Account

	₦		₦
Cash	1700	Amount owing last year	500
Owing during trading	800	Profit and loss	2000
	2,500		2,500

INCOME RECEIVED IN ADVANCE

These are income not yet due but which had already been received as at balance sheet date. They may also be regarded as the value of obligations not yet fulfilled but for which payment have been received as at the trail balance date.

In the final account income received in advance is treated as follows

a. In the profit and loss account
   Deduct the incomes received in advance from the incomes shown on the trial balance to obtain the income earned.

b. In the balance sheet
   Show the income received in advance under current liabilities.

The Procedures are:

	₦
Cash received in the trading period	X
Add: Amount received in advance last year	
But for the trading period	X
	X
Less: Amount received in advance for next year	X
Profit and loss	X

Income Account

	₦		₦
Income received for nest yr	X	Cash received	X
Profit and loss	X	Income in advance last yr	X
	X		X
		Balance b/d	X

Example

Rent received during the year ended 31/12/1994 was N7000. In 1993 a sum of N3,000 was received in advance while at the end of the year N1,500 was received in advance.

Solution

Rent Received Account

	₦		₦
Profit and loss	8,500	Cash	7000
Received in advance		Amount received	
Nest year	1,500	in advance last year	3000
	10,000		10,000

INCOME ACCRUED

These are income due but not yet received at trial balance date. They can also be regarded as the value of obligations already fulfilled but for which payment is yet to be received.

In the final account accrued income shall be treated as follows:

a. In the profit and loss account
   Add accrued incomes to the income shown on the trial balance to obtain the income earned.

b. In the balance sheet
   Show the accrued income under current assets.

The Procedures are:

	₦
Cash received in the trading period	X
Add: Owing for the trading years	X
	X
Less: Income owing for previous year	X
	X

Ledger

Income Account

	₦		₦
Income owing for previous yr	X	Cash	X
Profit and loss	X	Income owing in trading yr	X
	X		X

Example

Commission received during the year 31st December 1991 amounted to N5000

	₦
Owing at 31st December 1990	3000
Owing at 31st December 1991	4000

Calculate the commission received for the year.

Solution

Commission Received Account

	₦		₦
Balance b/d	3000	Cash received	7000
Profit and loss	6000	Balance c/d	3000
	9,000		9,000

PERIOD V & VI

Topic: Adjustment in the final Accounting

Content of the Lesson

ADJUSTMENT IN THE FINAL ACCOUNT

ILLUSTRATION:

The following trial balance was extracted from the book of Segun as at 31st December, 1996.

	Dr. ₦	Cr. ₦
Capital		25,000
Drawings	1,778	
Purchases	26,220	
Loan		5,000

Purchases returns		1,172
Sales		44,272
Sales returns	84	
Freehold premises	10,000	
Plant and machinery	8,740	
Fittings and furniture	1,296	
Motor car	3,050	
Wages and salaries	6,742	
Sundry expenses	1,942	
Stock (1st January)	9,876	
Rates	191	
Debtors	12,860	
Creditors		5,112
Cash in hand	276	
Bank overdraft		5,000
Lightning	398	
Motor expenses	321	
Travelling expenses	872	
Carriage inwards	294	
Provision for bad debts (1st January)		480
Discount	200	242
Bad debts	384	
Insurance	179	
Land and building	532	
	86,278	86,278

Additional information:

a. Stock on hand as on 31st December 1996 ₦12,486

b. Make provision for bad debts up to ₦600

c. Depreciation is to be charged as follows

   i. Plants and machinery 1%

   ii. Motor car 10%

   iii. Furniture and fittings 5%

d. Insurance prepaid N38

e. Salaries and wages accrued N270

f. Internet on loan 6% due has not been entered in the books.

g. After the trial balance had been prepare it was found that an amount of N50 representing motor expensed had been debited to motor car account

h. It was decided to write – off additional N100 as bad debts

You are required to prepare

a. Trading, profit and loss account for the year ended 31st December 1996 and

b. A balance sheet as at that date

Solution

Trading, profit and loss account for the year ended 31st December 1996.

	₦	₦		₦	₦
Opening stock		9,827	Sales		44,272
Purchases	26,220		Less: Return inward		84
Carriage inwards	294				
	26,514				
Return outwards	1,172				
		25,342			
		35,218			
Closing stock		12,486			
Cost of goods sold		22,732			
Gross Profit		21,456			
		44,188			44,188
Wages and salaries	6,785		Gross profit b/d		21,456
Add accrued	270	7,055	Discount received		242
Sundry expenses		1,942			
Rates		191			
Lighting		389			
Motor expenses	321				
Add: Error	50	371			
Travelling expenses		872			
Discount allowed		200			
Bad debts	384				
Add: bad debt writtenoff	100	484			

Insurance	179		
Less: prepaid	38	141	
Provision for bad debts			
New provision	600		
Old provision	480		
Interest on loan 6% N3000		120	
Depreciation		300	
Plant and machinery (10% N8740)		874	
Motor car (N3050 –N50)	3000		
(20% of N3000)	600	2400	
Furniture & fittings (5% of N1296)		65	
Net profit		8085	
		21,698	21,698

Balance sheet as at 31st December 1996

	₦	₦		₦	₦
			Fixed Assets:		
Capital		25,000	Land & building		532
Net profit		8,085	Premises		10,000
		33,085	Plant & Machineries	8740	
Less: Drawings		1,778	Less depreciation	874	7866
		31,307	Furniture & fittings	1296	
Current Liabilities					
Creditors	5112		Less: Depreciation	65	1231
Bank overdraft	5000		Motor car	3000	
Salaries & wages acc			Less: Depreciation	600	2400
Accrued	270				22029
Interest on loan	3000		Current Assets		
Loan	5000		Stock		12486
		15,682	Debtors	12860	
			Less bad debt	100	
				12760	
			Less provision	600	12,160
			Cash in hand		276
			Insurance prepaid		38
					24,960
		46,989			46,989

WEEK 4 & 5

Topic: The Balance Sheet

Content of the Lesson
THE BALANCE SHEET

Balance Sheet is a statement of what a business owns (assets) and what it ones (liabilities) to other people. It is prepared to show the financial position of a business at a given period.

After the preparation of the trading, profit and loss account at the end of the year the balance sheet is finally prepared to show the state of affairs of the business at a given date.

Balance Sheet Items
ASSETS:
These are resources and properties owned and used in the business organization for the purpose of generating income
Assets may be
1. Fixed Assets
2. Current Assets

FIXED/LONG TERM ASSETS
These are assets or item of a permanent nature bought and used over a number of years in the running of a business. They are assets whose useful economic life exceeds one year. Eg. land and building, plant and machinery, fixtures and fittings etc.

CURRENT OR SHORT TERM ASSETS
These are assets whose useful economic life does not exceed one year. They exist for only a short period of time before they are transformed into other kinds of assets.
Current assets are made up of cash in hand, cash at bank and other items that can easily be converted into cash such as debtors, stock. Current assets are sometimes referred to as CIRCULATING ASSET

Assets can be classified according to their nature ie.
TANGIBLE ASSETS: These are assets that can be seen and touched eg motor vehicles and stock.

INTANGILE ASSETS: These are assets that can neither be touched or seen but are valuable to the business eg goodwill, patent right, trade mark and copy right.

FICTITIOUS ASSETS: These are items that have characteristics resembling those of assets but are not assets in the sense of the word. They are debit balances that have no realisable value to the organization. Example include accumulated losses brought forward and preliminary expenses. These are carried on the balance but are to be written off as soon as there is sufficient profits or reserves to absorb them.

WASTING ASSETS: These are assets whose value become exhausted or consumed as a result of being worked on. Example are mines and quarries.

LIQUID ASSETS: These are assets which can be easily converted to cash ie cash at hand or at bank and other items such as Marketable Investment.

PERIOD II

Topic: Balance Sheet Items (Liabilities)

Content of the Lesson
LIABILITIES

These are amounts owed by the business liabilities represents the claims by outsider over the assets of the organization. Liabilities can be classified to the time frame within which they fall due as follows:

LONG TERM OR FIXED LIABILITIES:
These are liabilities which fall due after more than one year eg debentures and bank loan

CURRENT OR SHORT TERM LIABILITIES
These are liabilities which fall due within one year eg trade creditors, bank overdraft and accrued expenses.

CONTINGENT LIABILITIES
These are liabilities the occurrence and or amount of which depend on the outcome of some uncertain future event.

WORKING CAPITAL
This is the excess of current asset over current liabilities. It can be described as net current assets.

CAPITAL:
This is the claim of the shareholder on the assets of the business. It is the owner's interest in the assets of the business.

It is referred to as owner's equity. In the case of limited liability company as shareholders fund or shareholders equity

CAPITAL EMPLOYED
This is total assets less current liabilities

PERIOD III

Topic: Balance Sheet

Content of the Lesson
CAPITAL/OWNER'S EQUITY

Capital from a sole trader's point of view is the total value of resources (in cash or kind) with which the proprietor trader commenced the business plus any profit retained in the business by the proprietor minus losses incurred by the business.

From the point of view of a Limited Liability Company. Capital (more appropriately described as share capital) is the total fund contributed by the shareholders. In a company, the sum of the share capital and resources is known as SHAREHOLDERS FUND. Capital can be called shareholders fund which is the claim of the shareholders over the assets of the company.

Capital can be increase by the introduction of additional funds/resources into the business by the owners or reduced by the withdrawer of funds / resources by the owners.

THE ACCOUNTING EQUATION

The accounting equation or balance sheet equation simply reflects the fact that the asset of a business must be equal to the claims over the assets at any point in time for a business organisation which does not owe any liabilities to person other than the owners, it is obvious that the owner has the exclusive claim over the assets of the business.

In this instance the equation is

ASSETS = CAPITAL

For a business that also owes liabilities to external parties, the claims over its assets consist of capital and liabilities and the equation is then express as

ASSETS – LIABILITIES = CAPITAL

OR

ASSETS = CAPITAL – LIABILITIES

Since assets minus liabilities is equal to Net assets, the last equation can be expressed as:

NET ASSETS = CAPITAL

VERTICAL FORMAT OF A BALANCE SHEET ROI ENTERPRISES

BALANCE SHEET AS AT 31ST DECEMBER 1994

	₦	₦	₦
	Cost	**Accumulated Depreciation**	**Net book value**
Fixed assets	X	X	X
Land and building	X	X	X
Plant and machinery	X	X	X
Furniture and fittings	X	X	X
Motor Vehicles	X	X	X
	X	X	X
Long term investment			X
Current assets			
Stock		X	

Debtors	X		
Less: provision for bad debts	X	X	
Short term investments		X	
Prepayments		X	
Accrued income		X	
Bank		X	
Cash		X	
Current liabilities:			
Creditors	X		
Accrued expenses	X		
Income received in advance	X		
Bank overdraft	X	(X)	
Working capital			X
			X
Long term liabilities			
Bank loans			(X)
Net assets			X
Financed by:			
Owners equity			
Capital at 1st January 1994			X
Additional capital			X
Net profit			X
			X
Less: Drawings			(X)
			X

PERIOD IV

Topic: Preparation of a Balance Sheet

Content of the Lesson
PREPARATION OF A BALANCE SHEET

Horizontal or "T" format of a balance sheet.

ROI enterprises
Balance Sheet as at 31st December 1994

	₦	₦		₦	₦	₦
Owners equity			Fixed assets	Cost	Acc Dep.	Net book value
Capital 1/1/1994		X	Land & building	X	X	X
Addition capital		X	Plant and machinery	X	X	X
Net profit		$\underline{X}$	Furniture	X	X	X
		X	Motor vehicle	X	X	X
Less: Drawings		$\underline{(X)}$	Goodwill	$\underline{X}$	$\underline{X}$	$\underline{X}$
		X		$\underline{\underline{X}}$	$\underline{\underline{X}}$	$\underline{\underline{X}}$
Long term liabilities:			Long term investment			
Bank loans		X				
Current Liabilities:			Current assets			
Creditors	X		Stock		X	
Accrued expenses	X		Debtors	X		
Income received in advance	X		Less: provision for bad debt	$\underline{X}$		
Bank overdraft	$\underline{X}$	X	Short term investment		X	
			Prepayments		X	
			Accrued income		X	
			Bank		X	
			Cash		X	$\underline{X}$
		$\underline{\underline{X}}$				$\underline{\underline{X}}$

Illustration:

From the following balances prepare the balance sheet of B. all well Brown a sole trader as at 30th June 1991

	₦
Stock	2205
Motor van	400
Sundry debtors	627
Sundry Creditors	524
Furniture and fittings	250
Drawing	240
Cash in hand	45
Bank overdraft	320
Net profit for the year	600
Capital 1st July 1990	2323

B. All well Brown

Balance Sheet as at 30th June 1991

Owners equity	₦		₦	₦
Capital 1/7/1990	2323	Fixed assets		
Net profit	600	Motor van		400
	2923	Furniture and fittings		250
Drawings	240			650
	2683			
Current Liabilities		Current Assets:		
Sundry creditors	524	Stock	2205	
Bank overdraft	320	Debtors	627	
		Cash in hand	45	2877
	3527			3527

WEEK 6

Topic: Provision for discount allowable

Content of the Lesson
PROVISION ON DISCOUNT ALLOWABLE

Provisions are in contrast to accruals which are the amounts set aside out of profits to provide for charges or losses known to exist at the balance sheet date the amount of which can be ascertained with a high degree of accuracy.

The entries for provision for discount allowable and entries for provision for bad and doubtful debts are similar.

Accounting Entries:

a. In the first year of raising the provision:
   DR: Profit and loss account
   CR: Provision for discount allowable account with the amount of provision.
b. In subsequent year(s), the entry will depend on whether the provision is being increased in the case of increase in provision.
   DR: Profit and loss account
   CR: Provision for discount allowable account
c. In case of decrease in the provision
   DR: Provision for discount allowable account
   CR: Profit and loss account.

The treatment of the provision may be summarised in tabular form as follows:

	Profit and loss account	Balance sheet
First year of raising the provision:		
The amount of provision	Expenses	Deduct the provision

		from the debtors balance under current assets
Subsequent year(s) after the first years of raising the provision		
a. Increase in the provision	Expenses	Deduct the current provision from debtor balance under current assets
b. Decrease in the provision	Income	Deduct the current provision from debtors balance under current assets.

To calculate the provision for discount allowable, it is necessary to first deduct the provision for bad and doubtful debt if any from the debtors figure. The balance will then be multiplied by the percentage rate of discount allowable to debtors in order to obtain the amount of the provision for discount on debtors.

PERIOD III

Topic: End of Year Adjustment
Sub-Topic: Accounting for provision for discount on debtors

Content of the Lesson
Accounting Entries for Provision for Discount Allowable

Example:

Year ended 31st December	Debtors	Provision for Doubtful debts	Provision for Discount allow.
	₦	₦	%
1993	4000	200	2
1994	5000	350	2
1995	4750	250	2

Solution:

Profit and loss account for the year ended 31st December

		₦			₦
1993	Provision for discount On discount 2% X ₦4000 – N200	76			
1994	Increase in provision for Discount on debtors 2% X N500 – N300	17			
			1995	Reduction in Provision for Discount on debtors (to 2% X N4750 – N250)	3
	Provision for discount on debtors	₦			₦
1994	Balance c/d	93		31 Dec 1993. Profit & loss	76
				31 Dec 1994. Profit & loss	17
		93			93
1995	Dec. 31 Profit & loss	3	1995	1 Jan. Balance b/d	93
,	, , Balance c/d	90			
		93			93
			1996	1 Jan. Balance b/d	90

Balance sheet as at 31st December

	₦	₦	₦
1993 Debtors		400	
Less provision for doubtful debt	200		
Less provision for discount on debtors	76	276	372
1994 Debtors		5000	
Less provision for doubtful debts	350		
Less provision for discount on debtors	93	443	455
1995 Debtors		4750	
Less provision for doubtful debts	250		
Less provision for discount on debtors	90	340	4410

WEEK 7

Topic: End of the adjustment
Sub-Topic: Provision for Depreciation Debtors: Not Copying

Content of the Lesson
PROVISION FOR DEPRECIATION

Depreciation is a gradual fall in the value of a fixed asset arising from wear and tear, passage of time and obsolence.

It can also be defined as a systematic and periodic allocation of the historical cost or devalued amount less estimated residual value of a depreciable asset over its estimated useful life.

Provision for depreciation is an attempt to charge against profit the estimated amount of the depreciable value of fixed assets which have been used up in the operation of the business.

Provision for depreciation is deducted from the cost or devalued amount of fixed assets.

Provision for depreciation in the additional information should be debited to the profit and loss as expenses.

The provision for depreciation in the trial balance and the depreciation in the additional information should be added and deducted from the assets.

Accumulated depreciation should not be debited to the profit and loss but should be added to the depreciation in the additional information and deducted from the cost of the asset.

Illustration
In a business with financial years ended 31 December a machine is bought for ₦ 2000 on 1 January 1995. It is to be depreciated at the rate of 20 percent using the reducing balance method. The records for the first three years are now shown:

The double entry is:
Debit the profit and loss account
Credit the provision for depreciation account

Machinery

		₦
Jan 1995	Cash	2000

Provision for Depreciation Account

		₦			₦
1995 Dec.	Balance c/d	400	Dec. 1995	Profit and loss	400
1995 Dec.	Balance c/d	720	Jan. 1996	Balance b/d	400
			Dec. 1996	Profit and loss	320
		720			720
Dec. 1997	Balance c/d	976	Jan 1 1997	Balance b/d	720
			Dec 31	Profit and loss	256
		976			976
			Jan 1998	Balance b/d	976

Profit and loss Account for the year ended 31 December

	₦
1995 Depreciation	400
1996 Depreciation	320
1997 Depreciation	256

The balance on the Machinery Account is shown on the balance sheet at the end of each year less the balance on the provision for Depreciation Account

Balance Sheet

		₦	₦
Dec. 1995	Machinery at cost	2000	
	Depreciation	400	1600
Dec. 1996	Machinery at cost	2000	
	Depreciation	720	1280
Dec. 1997	Machinery at cost	2000	
	Depreciation	976	1024

WEEK 8

Topic: Control Account

Content of the Lesson
CONTROL ACCOUNT

When a trial balance does not agree this is an indication that errors have been made in the accounting entries. Tracing the errors might be difficult or time consuming. This problem can be simplified by having a system that makes it possible to localise the errors to specific ledger(s) will be thoroughly checked to locate and correct the error(s). This need is met by having a control account for each ledger that shall act as a check on the accuracy of the entries in the ledger.

A ledger that has a control account is referred to as a SELF-BALANCING ledger.

A control account is an account which contains the summary or total of entries in the individual account in each ledger.

A control account is a replica in summarised form of the accounts in the ledger to which it relates.

A control account is a TOTAL ACCOUNT. This is so because the balance in the control account must be equal to the total of all the balance in the individual ledger.

TYPES OF CONTROL ACCOUNT

There are two types of control account namely.

1. Sales ledger control account or Debtors Control Account/ Total Debtors Account
2. Purchases ledger control account or creditors control account or Total Creditors Control Account.

ADVANTAGES OF CONTROL ACCOUNT

1. It provides a check on the accuracy of entries made in the individual debtors and creditors ledger.

2. It helps to locate errors
3. It performs the function of check against errors and fraud on the person whose duty is the posting of the individual debtors and creditors account.
4. It provides quickly ascertained balance instead of having to take out the individual balances in the debtors and creditors
5. It helps in deriving figures where accounts have been prepared in the single or incomplete entry from such missing figures may include:

a. Sales or closing debtors figures
b. Purchases or closing creditors figures
c. For management purposes the balance on the purchase ledger control account can be taken to be the total amount owed to creditors. This saves the time and effort of drawing up the schedule of debtors and creditors and hereby aids the timely preparation of periodic account.

PERIOD III

Topic: Sales Ledger Control Account

Content of the Lesson
SOURCES OF ITEMS IN THE SALES LEDGER CONTROL ACCOUNT

Debit entries	**Sources**
Total credit sales	Sales day book
Dishonoured cheque form customers	Cash book
Interest charged to customer	Journal proper
Bill receivable dishonoured	Journal proper

Credit entries	**Sources**
1. Cheques and cash received from customers	Cash book
2. Discount allowed	3 column cash book
3. Bad debts	Journal proper
4. Bill receivable accepted by customer	Journal proper
5. Return inwards	Return inward daybook
6. Purchase ledger control (set off)	Journal proper

PREPARATION OF SALES LEDGER CONTROL ACCOUNT DEBIT ENTRIES

On the debit side of sales ledger control account are items that will increase the balance of debtors eg. Credit sales, dishonoured cheque, bill receivable dishonoured, cash repaid to debtors, interest charged to customers.

Credit Entries

On the credit side of the sales ledger control account are items that will reduce the balance of debtors eg cash received from debtors, discount allowed, return inward, bill receivable, bad debt, set off between debtors and creditors ledger.

WEEK 8

Topic: Preparation of Sales Ledger Control Account

Content of the Lesson
PREPARATION OF SALES LEDGER CONTROL ACCOUNT

SALES LEDGER CONTROL ACCOUNT

	₦		₦
Opening debt balance	X	Opening credit balance	X
Credit sales	X	Cash or cheque received	
Transfer of debit		From debtors	X
balance from credit	X	Discount Allowed	X
Control Account	X	Returns inwards	X
Bill receivable dishonoured	X	Sales allowances	X
Cash or cheque paid to debtor	X	Bad debt written off	X
Interest charged on debtors	X	Set off	X
Discount disallowed	X	Closing debit balance	
Set offs	X	Carried down	X
Debt recovery expenses	X		
Closing credit balance c/d	X		
	X		X

The closing debit balance carried down represents the debtors figure for the period

SET OFF: Refers to the setting off of the debt due from one person against the debt due to the same person. The effect is that the lower of the two debts is cancelled and deducted from the other leaving a balance representing the net sum due to or from the person.

Set offs is posted to the debit side of the creditors control account and credit side of the debtors control account.

Illustration

Prepare the sales ledger control account of Jesus from the detail from.

	₦
Total debtors balance b/f	14280
Credit sales	5280
Cash received from customers	540
Interest charged to over – due customers	100
Sales returned	300
Discount allowed	95
Bad debt written off	380
Cheques received from debtors	3400
Customer cheque dishonoured	200
Bill receivable dishonoured	1000
Cr. Balances in the sales ledger	180

JESUS SAVES

SALES LEDGER CONTROL ACCOUNT

	₦		₦
Balance b/f	1480	Cash	450
Credit sales	5280	Sales returns	300
Interest charged	100	Discount allowed	95
Cheques dishonoured	250	Bad debt	380
Bill receivable dishonoured	1000	Cheques	340
Balance c/d	180	Balance c/d	3665
	8290		8290
Balance b/d	3665	Balance b/d	180

WEEK 11

Topic: Purchase Ledger Control Account

Content of the Lesson

PURCHASE LEDGER CONTROL ACCOUNT

This is the control account for the purchases ledger. It can be referred to as TOTAL CREDITORS CONTROL ACCOUNT.

CONTRA ENTRIES

Contra entries occurs when a supplier is also a customer. The firm can sell on credit to a customer and buy on credit from the same person. Their inter-indebtedness will be set-off against each other. At the end of the month the smaller of the two balances will be set – off against eh ledger balance.

DEBIT ENTRIES

On the debit side of the purchases ledger control account are recorded and items that will reduce the balance of creditors e.g payment to creditors, discount received, return outward, bill payable set off between sale ledger and purchase ledger control account.

CREDIT ENTRIES

On the credit said of the purchase ledger control account are recorded and items that will increase the creditor balance eg. Credit purchases, interest charged by creditors, bill payable dishonoured, cash received from creditors.

FORMAT OF PURCHASES LEDGER ACCOUNT

	₦		₦
Balance c/d	X	Balance b/d	X
Cash & cheque paid to suppliers	X	Credit purchase	X
Return outwards	X	Interest charged by suppliers	X
Bill payable	X	Cash and cheques received	X
Discount received	X	Transfer	X
Transfer	X		
Closing credit balance c/d	X	Closing debit balance c/d	X
	X		X

PERIOD II

Topic: Preparation of Purchases Ledger Control Account

Content of the Lesson
PREPARATION OF PURCHASES LEDGER CONTROL ACCOUNT

Sources of items in the purchases ledger control account

Debit Entries	**Sources**
Cheques and cash paid to suppliers	Cash book
Discount received	3 Column cash book
Bill payable acceptable in favour of supplier	Journal proper
Return outward	Return outward journal
Return outward	Return outward journal
Sales ledger contra (set off)	Journal proper

Credit Entries	**Sources**
Total credit purchases	Purchases journal
Dishonoured cheque	Cash book
Interest charged by supplier	Journal proper
Bill payable dishonoured	Journal proper
Interest on bill payable	Journal proper
Cash received from creditors	Cash book

Illustration

From the details below prepare the purchases ledger control account of Chisimdi Ltd

	₦
Creditors balance b/f	25,000
Total cash paid to supplier	12,000
Discount received	800
Purchases journal	20,000

Purchases returned	1,500
Bill payables	3,000
Interest on bills payable	55
Debit balance in sales ledger	
Transferred to purchases ledger	430

Solution

CHISIMDI LTD

	₦		₦
Cash	12,000	Balance b/f	2,500
Discount received	800	Purchases	20,000
Purchases returned	1,500	Interest on bill	55
Bill payable	3,000		
Transfer	430		
Balance c/d (creditors)	4,855		
	22,555		22,555