

SS2 Account Lesson Note (First Term) [year]

FINANCIAL ACCOUNTING E LESSON PLAN FOR SSS 2 FIRST TERM

SCHEME OF WORK

WEEKS	TOPICS
1	Revision Accounting Errors - Definition, types of errors (Book-keeping errors and extraction errors)
2	- Errors the trial balance cannot disclose - Errors the trial balance can disclose - Suspense Account
3	Corrections of errors with journal proper, working exercises on corrections of errors with journal proper - Effects of errors on profit declared Control Account and self-balance ledger - Reasons for control account - Limitations of control account
4	- Sales ledger of control account - Meaning, uses/purpose, definitions of terminologies of contra settlement - Format and working exercises
5	Purchases ledger control account - Meaning, uses/purpose, definition of terms format and working exercise
6	Manufacturing account –
7	Mid term Break
8	Control Account and self-balance ledger - Reasons for control account

- Limitations of control account
- Sales ledger of control account
- Meaning, uses/purpose, definitions of terminologies of contra settlement

Format and working exercises

Sales ledger control account, format and working exercises

9. Purchases ledger and control account meaning, uses/purposes, terms, format and working exercises
- 10 Introduction to single entry and incomplete records, meaning, limitations, statement of affairs
- 11 REVISION
- 12 EXAMINATION

WEEK TWO

1.0 ACCOUNTING ERRORS

1.1 ERRORS NOT AFFECTING THE TRIAL BALANCE.

This category of error does not prevent the trial balance to talk from balancing, meaning that inspite of their existence in the trial balance (if any), the trial balance totals will agree. The errors are as follows:

1. Error of omission
2. Error of commission
3. Error of original entry
4. Error of transposition
5. Error of reversal of entry
6. Error of principle
7. Compensating error

ERROR OF OMISSION: This error when there is a complete omission of a transaction from the ledger. It therefore, means that both the debit and the credit entries of a transaction were not

recorded in the books. A common reason for this is the loss or misplacement of the source document for the transaction involved.

ERROR OF COMMISSION: This error occurs when a transaction is entered in the wrong account within the correct class of accounts. Put simply, the error occurs through the entry made in the correct class of account but affecting a person different from the person intended. An instance is when an amount received from X is wrongly credited to the personal account of Y instead that of X.

ERROR OF ORIGINAL ENTRY: this error occurs whenever the double entry of a transaction is correctly made, but the original account amount of the transaction is wrongly recorded. It means a wrong amount entirely different from the correct amount is debited and credited to the appropriate accounts. An example is when a credit sale is recorded in the sales day book at a wrong amount and the wrong amount debited to the buyers account and credited to the sales account.

ERROR OF TRANSPOSITION: This is the error committed whenever a mistake is made by changing the arrangement of a transaction. For example, if the amount #556 and posted wrongly taken as #565 and posted into the ledger as such.

ERROR OF REVERSAL OF ENTRY: This error occurs when entry for a transaction resulting in situation where an account that should have been debited is credited and another account that should have been credited is debited. For instance, if cash paid to creditor is debited in cash account and the same amount is credited to the creditor's account.

COMPENSATING ERROR: This type of error occurs when an error of error occurs when an error in one account is cancelled out by another error in another account. It may occur in the form of overstatement or understatement of amounts in accounts. For example, if sales account is understated by #1000 and rent and rates account is also understated by #1000.

1.2 ERRORS THAT AFFECT THE TRIAL BALANCE

This is the category of errors that cause disagreement between the totals of the two sides of the trial balance. Some of these errors are as follows:

- 1. Arithmetic errors committed in balancing ledger accounts**
- 2. One sided omission**
- 3. Errors in transfers of totals of subsidiary book**
- 4. Two entries on the same side**

5. Under-casting or overcasting of balances
6. Mis-posting of figures to the account
7. Trial balance errors

EVALUATION

1. State the errors that the trial balance will disclose
2. Correct errors with the use of proper journal and suspense account

WEEK 3

CORRECTION OF ERRORS

There are two approaches available to correct errors in the accounts. The approach to use at any particular time depends on the effect of the error on the trial balance.

For those errors that do not affect the agreement of the total of the two sides of the trial balance, there will always be two affected accounts and on which the errors will be corrected and for those errors that affect the agreement of the two sides of the trial balance, only one ledger account will be affected thereby requiring another account for the correction of the error(s).

This other necessary account is called the suspense account. The suspense account is an account created for the correction of errors to be affected. It is used to record the net difference in trial balance totals pending the rotation and correction of the errors causing a difference in the trial balance. Errors are corrected through the use of journal.

LOCATION OF ERRORS

Generally, errors not affecting the agreement of the trial balance are usually detected through complaints from affected third parties such as customers, suppliers, while those that affect the trial balance totals are more easily discovered. However, the following steps should be taken to locate and correct either type of balance.

1. Re – compute the addition of the trial balance
2. Check for any omission in the trial balance

3. Ensure that the ledger balances are appearing on the correct side of the trial balance, that is assets, expenses, purchases and drawing should be on debit side, while income, capital, sales and liabilities should appear on the credit side.
4. Check for any omission in the trial balance
5. Check the arithmetical calculation in the ledger
6. Check the double entries needed in the ledger
7. Carefully observe the entries in the ledger to see if a figure close to the difference in the trial balance can be found.

Illustration I

The trial balance of IGI Nigeria Limited on 31st Dec., 201x showed a difference of #3,090. A thorough review of the ledger revealed the following errors.

1. A debit note of #1,260 received from a customer had posted to the wrong side of his account
2. The sum of #360 in a creditor's account was omitted from the balance of creditors
3. The payment side of the cash account had been undercast by #1,950
4. An item of asset purchased for #2,880 had been debited to repairs.
5. Munir, whose debt of #1,560 had been written off paid during the year. His personal account credited but no corresponding entry was made.
6. The total of the sales day book had been carried forward as #6,462, whereas the corrected amount was #7,542.

You are required to show the following:

1. Journal entries necessary to correct the errors
2. Suspense account duly balanced

		DR	CR
		#	#
1	Suspense account dr.	1,260	

	Cr. Debtor's account		1,260
	Being correction of a debit note wrongly posted to the wrong side of a customer's account		
	Suspense account dr.		
		360	
2	Cr. Creditor's account		360
	Being entry in respect of omitted creditor's balance		
	Suspense account dr.		
	Cr. Cash account	1,950	
3			1,950
	Being correction of the undercasting of cash book payment		
	Asset account dr.		
	Cr. Repair account	2880	
4			2880
	Being correction of the purchase of assets wrongly debited to repair account		
	Cash account dr.		
	Cr. Suspense account	1560	
5			1560
	Being entry of recovered debt omitted from cash account		
	Suspense account dr.		
	Cr. Sales account	1.080	
6			1,080
	Being correction of wrong amount carried forward on page of sales day book		

DR SUSPENSE ACCOUNT CR

Trial balance differences 3090

Creditors 360 Cash 1560

Cash 1950

Sales 1080

Debtors 1260

4,650 4,650

CFAO Enterprises book-keeping extracted a trial balance on June 30, 2009. He discounted the total of the debit side balance to be more than the credit side by #756.25 and transferred this figure to a suspense account.

However, the cause of this disagreement of the two sides were discovered to be because of the following:

1. A credit note sent to JK Ogun for #206.25 had been entered in the returns inward book at #195 and posted to his account as #195.
2. Commission received account amounting to #1,136.80 had been omitted from trial balance even though it was duly recorded in the cash book and posted into the ledger
3. Equipment sold for #1,250 had been credited to the sales account
4. The purchases day book had been overcast by #250
5. Goods of about #250 sold to Omot had been credited to his account
6. Goods with the value of #130.63 returned by Desuola had been duly credited to his personal account but no entry was made in the returns inward account.

You are required to:

1. Prepare the journal entries necessary to correct these errors
2. Prepare the suspense account

Solution

	DR	CR
	#	#
Dr. returns inwards account		
1 Cr. J.K Ogun account	11.25	
Being correction of compensating error		11.25

	Dr. suspense account		
2	Cr. Commission received account	1136.80	
	Being correction of error of extraction from ledger to the trial balance		1136.80
	Dr. Sales account		
3	Cr. Equipment account	1250	
	Being correction of error of principle		1,250
	Dr. suspense account		
4	Cr. Purchases account	250	
	Being correction of the overcast in the purchase book		250
	DR. Omot account		
5	Cr. Suspense account	500	
	Bing correction of error of posting of items to the wrong side		500
	Dr. Returns inward account		
6	Cr. Suspense account	130.65	
	Being correction of partial error on the posting of returns inward items		130.65

DR SUSPENSE ACCOUNT CR

Commission received 1136.68 Bal b/f 756.25

purchases 250 Omot 500

Returns Inward 130.63

1,386.88

1,386.88

EFFECT OF ERRORS ON PROFIT AND LOSS ACCOUNT AND BALANCE SHEET

When errors are discounted after the final account have been prepared a statement of corrected profit and revised balance sheet must be prepared to show the adjusted profit.

Format of statement of profit

N N

Profit per account x

Add: Sales undercast x

Returns inwards overcast x

Returns outwards undercast x

Purchases overcast x

Expenses overcast x

Income undercast x

xx

xx

Less: purchases undercast x

Expenses undercast x

Income overcast x

Sales overcast x xx

Corrected net profit xx

Illustration 3

An inexperienced book-keeper has produced the following balance sheet at 31st Dec., 2000 for a Retailer, Ojola Enterprises.

DR CR

Fixed assets 108,312

Capital 75,336 Current assets

12% loan: Bola 30,000 Stock 28,239

Creditors 39,423 Debtors 39.924

Bank overdraft	12,951	Drawings	12,390
Profit and loss	27,600	Suspense a/c	1,050
	85,998		
194,310	194,310		

Mr. Olojo is surprised at the balance sheet and asks you to revise it.

Your investigation show:

1. The suspense account balance represents the difference in trial balance
2. Stock sheets were overcast by N3000
3. Cash in hand should be N165
4. The purchase day book totals for November of N12,360 was posted to purchase account as N12,630
5. Fixture and fittings account balance of N6,900 has been omitted from the balance sheet
6. An invoice for N750 had been included in stock and purchases but not posted to the personal account.
7. Interest for half a year on the loan account had not been paid and no provision made for it.
8. A sales return of N300 had been entered on the debit side of the account of Ade

You are required to:

1. Write the suspense accounts
2. Drawing up a revised balance sheet as at 31stDec., 2000

Solution

DR CR

Bal b/f 4395 Furniture and fittings 6900

Purchase (12,630-12,360) 270

Cash (1,050 – 165) 885

Creditor 750

Ade (300 x 2) 600

6,900 6,900

Statement of Profit

Net profit 27,600

Purchase overcast (12630 – 12360) 270

27,870

Less: Interest due 1,800

Stock overcast 3,000 4,800

Corrected Net profit 23,070

Workings: Interest = $12\% \times 30,000 \times \frac{1}{2}$ ($\frac{1}{2}$ yrs)

Interest paid = N1,800

Interest owing = N1,800($\frac{1}{2}$ yearly)

DR Balance sheet as at 31st Dec. 2000 CR

Fixed asset (wk 1) 115,212

Capital 75,336 Current asset

Net profit 23,070 Stock (wk2) 25,239

98,406 Debtors 39,324

Less: Drawings 12,390 Cash (wk4) 165

86,016

Current liabilities

Creditor (wk3) 40,173

Bank overdraft 12,951

Account interest 1,800

Loan 30,000

179,940 179,940

Workings:

- 1. Fixed asset 108,321**

Add furniture 6,900

115,212

- 2. Stock: $N28,239 - N3000 = 25,239$**

- 3. Creditors: $N39,423 + N750 = N40,173$**

- 4. Debtors: $N39,924 - N600 = N39,324$**

Evaluation

- 1. Justify the effects of the errors on reported profit**
- 2. Prepare relevant accounts.**

WEEK 4

MANUFACTURING ACCOUNTS

INTRODUCTION

The manufacturing account is an account that is prepared so as to identify all the manufacturing costs incurred in bringing the product to a marketable state.

Manufacturing is the process of making goods by hand or by machine. The costs involved in manufacturing process are principally in two main divisions.

- The cost of raw materials; and**
- The cost of converting raw materials into finished goods and this cost is in two main categories**

- 1. Manufacturing costs and**
- 2. Non – manufacturing costs**

MANUFACTURING COSTS: Manufacturing costs are of two main types

1. Direct costs; and
2. Indirect costs (also called factory overheads)

Direct costs apply to these costs which can be readily traced to the products and is further broken down into:

- Direct material cost
- Direct labour cost
- Direct expenses

DIRECT MATERIAL COST: Direct materials are basic substances or raw materials from which a product is made. Examples Soya beans for vegetable oil, palm oil for soaps, animals' skin for shoe etc.

Cost that are directly associated with these raw materials in the finished product is called the direct material cost.

DIRECT LABOUR COST: It will take human effort to change the form on direct materials into finished goods. the wages of those employees (factory workers who perform this task is considered as a direct labour cost). Example of a direct labour cost is the wage of a machine operator.

DIRECT EXPENSES: There are expenses other than direct materials cost and direct labour cost that are incurred solely in producing the goods. They include the cost of special designs and line of specialised equipment for a particular job.

INDIRECT COSTS: These are costs which cannot be traced directly to the product but which all the same are part of the cost of the product. In determining which costs to treat as direct costs materiality of such items must be taken into cognisance.

Manufacturing overhead cost include indirect material costs such as glue used in furniture making, lubricate and supplies of materials for repairs and maintenance. Indirect labour costs such as the wages of factory foremen and supervisors.

NON – MANUFACTURING COSTS: These are administrative and marketing costs and are not included in the cost of manufacturing the product. These costs are not relevant in the

manufacturing section of the account but are approximately treated in the profit and loss section.

TERMINOLOGIES USED IN MANUFACTURING ACCOUNTS

- 1. PRIME COST:** This is the total cost of direct materials direct wages and direct expenses.
- 2. Total factory cost (cost of production):** This represent prime cost plus indirect factory costs (manufacturing overheads)
- 3. Inventory:** This refers to stock. A manufacturing concern has three categories of inventories:
 - 1. Stock of raw materials:** This is the quantity of unused portion of raw materials bought.
 - 2. Stock of work-in-progress:** These are partly finished goods, semi-manufactured goods and incomplete work at the end of a financial period. They are goods that have not been completed in the factory at the time of preparing the final accounts. there could be opening work-in-progress and or closing work-in-progress. This is valued at start and at the end of the trading period
 - 3. Stock of finished goods:** This is the quality of completed goods. it is also valued at the beginning and at the end of the trading period.
 - 4. Consumables:** These are supplies and components purchased for incorporation into the final products and maintenance of machines.
 - 5. Financial charges:** These are expenses and interest incurred in servicing loans e.g. interest on overdraft, discount allowed and interest on loan
 - 6. Total cost:** This represents all the costs involved in bringing the finished goods down to the consumers which include prime costs, factory overheads, administrative, selling and distribution expenses and financial charges.

NOTE

The costs involved can be summarised as follows:

Direct materials

Direct labour Prime cost Total cost

Direct expenses

PLUS

Factory overheads

PLUS

Administrative expenses

Selling and distribution expenses

Financial charges

NOTE

The following items are included in manufacturing or factory overheads

- **Indirect wages**
- **Heat and power**
- **Lubricants**
- **General factory expenses**
- **Rent and rates on factory**
- **Depreciation of plant and machinery**
- **Depreciation of factory buildings and tools**
- **First and expenses**
- **Factory consumable or supplies**
- **Indirect materials**
- **Small tools used**
- **Grease and oil**
- **Other utilities**

WEEK 5

PREPARATION OF THE MANUFACTURING ACCOUNT

The accounting divisions of manufacturing concerns are in three main segments which are:

- **Manufacturing account or production account section:** Under this section the three main components of cost of goods manufactured can be seen at a glance. It is therefore used in ascertaining the cost of production for the period.
- **Trading account section:** This is principally used for determining the gross profit resulting from trading operations during the period.
- **Profit and loss account section:** This is prepared mainly for ascertaining the net profit of the enterprises for the given period.

FORMAT

A B C

Manufacturing, trading, profit and loss account for the year ended 31st March

Raw materials (RM) Cost of production b/d xx

Opening stock xx

Add: Purchases xx

Carriage inwards xx

xx

Less: returns outwards (xx)

xx

Rm available for used xx

Less closing stock RM xx

Cost of R.M consumed xx

Direct wages xx

Royalties xx

Direct expenses xx

PRIME COST xx

Factory overheads (Nite) xx

xx

Add: Opening in. I. P xx

Cost of production xx xx

Finished goods Sales xx

Opening stock xx les: Returns inwards xx

Add cost of production xx xx

Goods available for sale xx

Less closing stock xx

Cost of sales xx

Gross profit c/d xx

xx xx

Gross profit b/d xx

Administrative Expenses

Admin salaries xx

Maintenance of building xx

Depreciation of accounting machine xx

Manager salaries xx

Legal charges xx

Accounting charges xx

xx

Selling and distribution expenses

Commission on sales xx

Advertising xx

Salaries of salesmen xx

Depreciation on delivery van xx

Carriage outwards xx

Bad debts xx

Provision for doubtful debts xx

Financial charges xx

Interest on loan xx

Bank charges xx

Discount allowed xx xx

Net profit xx

xx xx

Illustration 1: The following shows the figures extracted from the books of Ojolo, a manufacturer for the year ended 31st December, 1999.

Stock of finished goods #

January 1st 2,532

December 31st 3,569

Stock of raw materials

January 1st 1,608

December 31st 1,432

Sales 92,800

Office rent 525

Office rates 200

Purchases of raw materials 19,000

Carriage inward on raw materials 471

Manufacturing wages 26,430

Factory expenses 1,828

Depreciation

Plant and machinery 3250

Delivery vans 625

Stock of work in progress

January 1st 874

December 31st 947

Factory fuel 1,835

Advertising 517

Van running expenses 2,315

Sales men's commission 713

Maintenance of factory equipment 10,800

Lighting (3/5 factory)

(2/5 office) 8,000

Salaries (factory 1,500) 5,000

Insurance (factory 3,200) 4,480

You are required to prepare the manufacturing, trading, profit and loss account for the year ended 31st December 1999.

WEEK 6

TRANSFER PRICING MARKET VALUE OF GOODS MANUFACTURED

The usual practice is to transfer the goods produced to the trading account at cost price. But the firms may decide to transfer to the trading account at current market price irrespective of cost. The manufacturing account will show a balance (profit or loss) which will be transferred to profit and loss account. The goods may also be transferred to trading account at cost price plus a fixed percentage.

Illustration 2

BODMAS LTD is a manufacturing firm of kitchen furniture. The following information was extracted from the books of the company for the year ended 31st Dec., 1998.

DR CR

Plant and Machinery 72,000

Capital 148,800

Motor vehicle 36,000

Loose tools at cost (office) 10,800
Sales 204,000
Purchases of raw materials 51,000
Factory wages 48,800
Light and power 6,000
Machinery repairs 9,120
Motor vehicles running expenses 14,400
Rent and insurance 13,920
Administrative expenses 10,800
Debtors 19,800
Creditors 13,440
Distribution staff salaries 15, 600
Cash in hand 15,000
Drawings 7,200
Stock of raw materials 600
366,240 366,240

Additional information

960. Light and power charges accrued at 31st, 1998 amounted to #1000 and insurance prepared at the same date totalled #960.

961. Stocks were valued at cost on 31st, 1998 as follows

Raw materials #8,400

Finished goods #12,000

1. Goods manufactured during the year are to be transferred to the trading account at #114,000
2. Motor vehicle expenses are to be allocated equally to factory expenses and general and general administrative expenses.

3. Plant and machinery and motor vehicle are to be depreciated at the rate of 10% and 25% respectively

You are to prepare:

- Manufacturing, trading, profit and loss account for the year ended 31st, 1998
- Balance sheet as at that date

Solution

BODMAS LTD

Manufacturing, trading, profit and loss account for the year ended 31st Dec. 1998

Opening stock of R.M 600 Goods transferred to trading 114000

Add: purchases of R.M 51,000

51,600

Less: closing stock R.M 8,400

Cost of RM consumed 43,200

Add: Factory wages 46,800

PRIME COST 90,000

Factory Overhead

Machine repairs 9,120

Motor running exp. 7,200

Depreciation

Plant and machinery 7,200

23,520

Cost of production 113,520

Profits on goods manufactured 480

114,000 114000

Goods transferred sales 204,000

Less: closing stock F.G 12,000

Cost of goods sold	102,000	
Gross profit	102,000	
204,000	204000	
Expenses	Gross profit b/d	102000
Light & power 7000	Profit on manufacture	480
Motor running expenses 7200	Net loss	2080
Rent and insurance 12,960		
Administrative staff salaries 37,200		
Administrative expenses 10,800		
Distributive staff salaries 15,600		
Depreciation		
Motor vehicle 9,000		
Loose tools 4,800		
104,500	104500	

BODMAS LTD

Balance sheet as at 31st December, 1998

Capital 148,800	Fixed Assets
Less: Net loss 2080	Motor Vehicle (36,000 – 7,200) 27,000
146,720	
Less: drawings 7,200	P & M (72,000 – 7,200) 64800
139,520	
Current liabilities	
Creditors 13,440	Loose tools (10,800 – 4,800) 6000 97800
Light and power accrued 1,000	
Current Assets	

Stocks: R.M 8400 ,		Furnished goods			
12000	Debtors	19800	Cash in hand	15000	Insurance 960
153,960	153960				

Workings

- Light and power = 6000 + 1000 = #7000
- Insurance = 13,920 – 960 = #12,760
- Motor expenses = factory = $\frac{1}{2} \times 14440 = \#7,200$

General Administrative expenses

$\frac{1}{2} \times 14,440 = \#7,200$

- Loose tools cost 10,800

Depreciation 4,800

Loose tools in hand 6,000

- Depreciation: plant and machinery = $10\% \times 72,000 = 7,200$
- Motor vehicle = $25\% \times 36,000 = \#9000$

ASSINGNMENT

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WEEK 7 MID TERM BREAK

WEEK 8

4.0 CONTROL ACCOUNT AND SELF BALANCING LEDGER

4.1 MEANING

1. A control account is an account which records in total what has been entered in detail in the ledger account to which it relates.
2. A control account is a special account put in place to reflect the aggregate balances of many related subsidiary account that are part of the double entry system. It is a mere

memorandum account only. It does not form part of the double entry system of accounting.

Control accounts can be kept for the following ledgers

1. Sales ledger ----- customers
2. Bought / purchases ledger ----- suppliers
3. Inventory ledger ----- stocks
4. Fixed assets ledger control ----- fixed assets

USES OF CONTROL ACCOUNT

1. Location of errors
2. Prevention of fraud
3. Aids management control
4. Internal check on ledgers clerk
5. Easy detection of omitted figures
6. Ascertainment of debtors and creditors balances
7. Preparation of inform final account
8. Saves time
9. Grouping of account

CLASSIFICATION OF CONTROL ACCOUNT

- Sales ledger control account
 - Purchases ledger control account
1. **SALES LEDGER CONTROL ACCOUNT:** The sales ledger control account is sometimes called total debtors control account. It is the control account for sales or debtors ledger. This will represent all the entries posted to the sales ledger as if only one debtor existed.

DR Sales ledger control account CR

Balance b/f x

Sales (credit) x Cash received from debtor x

Interest charges x Cheque from customer x
Dishonoured bill x Discount allowed x
Carriage outwards x Bill receivable x
Allowances x
Discount disallowed x Bad debt x
Debit note issued x Return inwards x
Payment to debtors for claim x Credit not issued x
Service charges x Contral settlement/entry x
Bal c/d xx
xx xx

2. **PURCHASES LEDGER CONTROL ACCOUNT;** The purchases ledger control account is referred to as total creditor control account. It is the control account for purchases or creditors ledger. This will represent all the entries posted to the ledger as if only one creditor existed.

DR Purchases ledger control account CR
Cheque to creditors x Bal b/f x
Cash to suppliers x Purchases (credit) x
Discount received x Cash refunds x
Bill payable x Discount withdrawn x
Credit not received x
Returns outwards x
Contra entry/ set off x
Bal c/d x
xx xx

Illustration

Extract from the books of JKO Ltd, show the following balances for the month of June.

Sales ledger balance – 1 June 19x3 47,020

Purchases ledger balance – 1 June 19x3 27,570

Purchases journal balances – 30 June 19x3 374,370

Purchases journal balance – 30 June 19x3 408,000

Returns inwards 9,100

Returns outwards 7,490

Receipts from customers – cash 385, 290

Discount allowed 13,450

Payment to customers 354,150

Discount received 7460

Bad debt written off 1150

Sales ledger set – off 2090

Purchases ledger set – off 1100

On 30th June 19x3, it was discovered that a supplier was paid twice in error for N1,570. The amount was refunded on that date.

You are required to determine the sales and purchases ledger balances at 1 July 19x3.

JKO LTD

DR Sales ledger control account CR

1/6 Bal b/d 47,020 30/6 Cash receipts 385,290

30/6 Sales 374,370 30/6 Returns inwards 9,100

30/6 Discount allowed 13,450

Bad debt 1150

Set – off 2090

Bal c/d 10,310

421,390 421,390

JKO LTD

DR Purchase ledger control account CR

Bal b/d 27,570

Returns outwards 7,490 Purchases 408,000

Cash payment 354,150 Cash refund 1,570

Discount received 7,460

Set – off 1,100

Bal c/d 66,940

437,140 437,140

Bal b/d 66,940

Illustration 2

Bethings Enterprises maintains self balancing ledgers. From the details given below you are required to prepare the control accounts for purchases and sales ledgers for the year ended 31st December, 19x5.

#

Purchases 15,327

Bad debts written off 220

Bills payable accepted 2,170

Bills receivable drawn 5,020

Interest charged to customers 7

Purchases returns 89

Payment to creditors 12,538

Receipts from debtors 14,308

Bills receivable dishonoured 575
Discount allowed 528
Discount receivable 327
Sales returns 301
Cash refund to debtors 75
Cheque from debtors returned unpaid 25
Sales and purchases ledger control 1017
Bills payable returned for non-payment 150
Sales 20,051
Bad debts recovered (individual in cash from debtors) 8
Creditors ledger balance as at 31st Dec., 19x5 5086
Debtors ledger balance as at 31st Dec., 19x5 6818
Purchase ledger control balance at Jan 19x5 5,750
Sales ledger control account at 1 Jan. 19x5 7,471

Solution

Bettings Enterprises

DR Sales ledger control account CR
Bal b/d 7,471 Bad debts 220
Dishonoured bills 575 Bills receivable 5,020
Cash refund 75 Receipts from debtors 14,308
Returned cheques 25 Discount allowed 528
Sales 20051 Sales returns 301
Bad debts recovered 8 Purchases ledger contra 1017
Interest charge 7 Bal c/d 6818

28212 28212

Bal b/d 6,818

Bettings Enterprises

DR Purchases ledger control account CR

Bills payable 2170

Purchases return 89 Bal b/d 5,750

Payment to creditor 12,538 Purchases 15,327

Discount received 327 Bills repayable returns 150

Sales ledger control 1,017

Bal c/d 5,086

21,227 21,227

NOTE: Bills receivable discounted has nothing to do with the control account because the company can as well wait till the bill is matured for payment instead of discounting it, provisions of any kind should not also be posted into the control account, even when it is given in the question.

EVALUATION

Solve Exercise 3X, 4, 5 and 6 on pages 231 & 232 of Simplified and Amplified Book Keeping & Accounting for SSS 1, 2, 3 third editions 2012 by Femi Longe.

WEEKEND ASSIGNMENT:

Solve Exercises 7 and 8 on pages 232 and 233 of Simplified and Amplified Book Keeping & Accounting for SSS 1, 2, 3 third edition 2012 by Femi Longe.

PRE-READING ASSIGNMENT:

Read your E-Notes and prepare for examination.

REFERENCE TEXTS:

- **Essential Financial Accounting For Senior Secondary Schools by O.A. Longe& R.A. Kazeem**
- **Financial Accounting for Senior Secondary Schools 1 by M.A. Adesolaetal.**
- **Financial Accounting Made Simple by Robert O. Igben.**
- **Simplified and Amplified Book Keeping & Accounting for SSS 1, 2, 3 third edition 2012 by Femi Longe**

WEEK 9

TOPIC: CONTROL ACCOUNT

Content:

- **Sales Ledger Control Account**
- **Purchases Ledger Control Account**

Sub – topic 1. Preparation of sales ledger control account

Exercise 17.1 on page 176 of Essential Financial Accounting for Senior Secondary School by O.A. Longe& R.A. Kazeem is treated and solved.

ADE & SEGUN ENTERPRISES

The following information were extracted from the books of Ade & Segun Enterprises for the month of July 1997

N

Sales ledger balance 1st july 23,230.00

Purchases ledger balance 18,180.00

Sales journal 93,290.00

Purchases journal 78,470.00

Sales returns 1,955.00

Customer's cheques dishonoured 350.00

Discount allowed 547.00

Credit note issued 345.00

Bad debt 183.00

Debit note received 284.00

Cheque received from customers 85,700.00

Discount received 735.00

cash paid to suppliers 83,000.00

You are required to prepare

- Sales ledger control account
- Purchases ledger control account

Sales Ledger Control Account

	N		N
Balance b/d	23230	Sales returns	1955
Sales journal	93290	Discounts allowed	547
Customers cheques dishonored	350	Credit notes issued	345
		Bad debts	183
		Cheque received from customer	85700
		Balance c/d	<u>28140</u>
<u>116870</u>		<u>116870</u>	
Balance b/d	28140		
-			
-			

Purchases Ledger Control Account

	N		N
Discounts received	735	Balance b/d	18180
Cash paid to suppliers	3000	Purchases journal	78470
Balance c/d	<u>93199</u>	Debit notes received	<u>284</u>
<u>96934</u>		<u>96934</u>	

Exercise 17.2 on pages 176 & 177 of Essential Financial Accounting for Senior Secondary School by O.A. Longe & R.A. Kazeem is treated and solved 2012.

EDALA ENTERPRISES

Sales Ledger Control Account

			N
N		Balance b/d	2370
Balance b/d	98260	Accounts settled by contra	6220
Credit sales	781540	Bad debts written off	5260
Bills dishonoured	7500	Bills of exchange drawn on customers	34730
Cash refunded to customers	1270	Return inwards	7450
Balance c/d		2010 Cash received from debtors	689230
<u>890580</u>		Discounts allowed	24750
		Balance c/d	<u>120570</u>
		<u>890580</u>	

Purchases Ledger Control Account

Sub – topic 1. Terminologies, Credit Purchases and Return outward

Purchases Ledger Control Account

	N		N
Accounts settled by contra	6220	Balance b/d	72190
Returns outwards	8920	Credit purchases	513620
Cash paid to suppliers	495140	Balance c/d	3340
Discounts received	19320		
Balance c/d	<u>59550</u>		
<u>589150</u>		<u>589150</u>	

EVALUATION

Prepare Exercise 17.7 on page 179 of Essential Financial Accounting for Senior Secondary Schools by O.A. Longe&R.A.Kazeem.

GENERAL EVALUATION

Objective Test:

Use the following information to answer questions 1 to 3

N

Opening stock 1800

Closing stock 1350

Creditors -----1/01/2004 1275

Creditors -----31/12/2004 1140

Cash paid to creditors 6900

Debtors 1/01//2004 465

Cash received from debtors 11130

Debtors 31/12/2004 300

1. Sales for the year was A. N11430 B. N11295 C. N11130 D. N10965
2. Cost of sales for the year was A. N10965 B.N8565 C. N7215 D. N6765
3. Gross profit for the year was A. N4650 B. N4200 C. N3750 D. N2400

ESSAY:

Prepare Exercises 17.4 and 17.5 on page 178of Essential Financial Accounting for Senior Secondary Schools by O.A. Longe&R.A.Kazeem.

WEEKEND ASSIGNMENT:

Solve Exercises 9X and 11X on pages 233and 234 of Simplified and Amplified Book Keeping & Accounting for SSS 1, 2, 3 third edition 2012 by Femi Longe.

PRE-READING ASSIGNMENT:

Read about Purchases Ledger Control Account on Chapter 21, pages 223 to 230 of Simplified and Amplified Book Keeping & Accounting for SSS 1, 2, 3 third edition 2012 by Femi Longe

EVALUATION II

Prepare Exercise 17.3 on page 177 of Essential Financial Accounting for Senior Secondary Schools by O.A. Longe&R.A.Kazeem.

GENERAL EVALUATION

Objective Test:

Use the following information to answer questions 1 to 3

Debtors Control Account

		N		N
Balance			Bank	Y''
b/d	8000		Discount	200

“X”

12000 Balance c/d

3000

1. **“X” refers to A. Stock B. Returns C. Discount D. Sales**
2. **How much is the figure for bank? A. N20000 B. N17000 C. N16800 D. N120000**
3. **The closing balance is a A. current asset B. current liability C. fixed asset D. fictitious asset**

ESSAY:

Prepare Exercises 17.8A and 17.9A on page 180 of Essential Financial Accounting for Senior Secondary Schools by O.A. Longe & R.A. Kazeem.

WEEKEND ASSIGNMENT:

Solve Exercises 17.2A and 17.10A pages 177 and 181 of Essential Financial Accounting for Senior Secondary Schools by O.A. Longe & R.A. Kazeem.

PRE-READING ASSIGNMENT:

Read about Purchases Ledger Control Account on Chapter 10, pages 211 to 216 of Financial Accounting Made Simple by Robert O. Igben.

REFERENCE TEXTS:

- **Essential Financial Accounting For Senior Secondary Schools by O.A. Longe & R.A. Kazeem**
- **Financial Accounting for Senior Secondary Schools 1 by M.A. Adesola et al.**
- **Financial Accounting Made Simple by Robert O. Igben.**
- **Simplified and Amplified Book Keeping & Accounting for SSS 1, 2, 3 third edition 2012 by Femi Longe**

WEEK 10

TOPIC: SINGLE ENTRY & INCOMPLETE RECORDS

CONTENTS: i. Meaning of single entry

1. **Limitations of single entry**

iii. Book-keeping rules for single entry

1. **Preparation of statement of affairs**
2. **Preparation of profit and loss**

Sub-Topic 1: MEANING OF SINGLE ENTRY

This is a system of book keeping which does not conform to the basic principles of double entry. The records kept by the record keeper are not complete or inadequate; hence the accountants have to use their ingenuity to prepare the accounts from the available information. Incomplete records present a large amount of unsorted information.

Features

- 1. Final accounts are prepared by comparing financial data of two or more years**
- 2. Accounting information is grossly inadequate**
- 3. Mostly, records are kept on loose sheet or only cash book is kept**
- 4. There is no accounting system in such an organization**

Limitations of single entry

- 1. It does not conform to the principle of double entry**
- 2. The flexibility of the double entry principle is lacking**
- 3. It is difficult to obtain accurate information since the records are not complete**
- 4. It is difficult to arrive at the profit for the year**

Book keeping rules for single entry

- 1. The opening statement of affairs will be prepared to show the opening capital**
- 2. Adjust the capital by adding any additional capital contributed either in cash or assets and deduct drawings either in cash or goods**

iii. Another statement of affairs will be constructed to show the closing balance using all the assets and liabilities at the end of the period.

- 1. The opening capital will be compared with the closing capital**
- 2. If the capital at close is greater, then there is a profit**
- 3. If the capital at close is lower, then there is a loss.**

Format

Opening statement of affairs as at 1/1/20yy

Opening capital	xx	Fixed assets	xx
Liabilities	xx	Current assets	xx
xx	xx		

Closing statement of affairs as at 31/12/20yy

Closing capital	xx	Fixed assets	xx
Current liabilities	xx	Current assets	xx
xx	xx		

Calculation of Profit

Closing capital xx

Less Opening capital xx

Increase/decrease in Networth xx

Add Drawings (if any) xx

Xx

Less extra/additional capital introduced (if any) xx

Profit or loss for the year xx/(xx)

EVALUATION:

1. Define single entry
2. Outline three features of single entry
3. Mention four limitations of single entry

Sub-Topic 2: PREPARATION OF FINAL ACCOUNTS FROM A SET OF INCOMPLETE RECORDS

In order to convert single entry into double entry, the following books will be prepared. These include:

1. Sales ledger

2. Purchases ledger
3. Day books
4. Cash book
5. Asset and liabilities account
6. Nominal account

STEPS IN CONVERTING SINGLE ENTRY ACCOUNTS TO DOUBLE ENTRY ACCOUNTS:

- Prepare the opening statement of affairs to ascertain the opening capital
- Prepare the cash book
- Prepare the total debtors and total creditors to ascertain sales and purchases respectively
- Prepare the expenses accounts to ascertain the amount chargeable for the year
- Ascertain the drawings for the period
- Prepare the profit and loss for the period
- Prepare the balance sheet

Example:

The following is the summary of cash book of Joe for the year ended 31st March, 2005

Dr	Cash book Cr		
N N			
Balance b/f	23,430	Cash paid to creditors	110,560
Cash from debtors	182,350	Salaries	10,800
Additional capital	60,000	Postages	2,400
General expenses	12,340		
Drawings	25,000		
Rent	5,700		
265,780		265,780	

Additional information:

	1/4/2004	31/3/2005
Stock	5,600	3,400
Debtors	12,020	9,880
Creditors	9,800	10,510
Accrued salaries	4,200	750
Prepaid rent	440	670

You are required to prepare:

- 1. Statement of affairs as at 1stApril, 2004**
- 2. Debtors and Creditors control accounts**
- 3. Trading, profit and loss account**
- 4. Balance sheet as at 31stMarch, 2005**

SOLUTION

Dr	Statement of affairs as at 1st April, 2004		Cr
N N			
Capital	27,490	debtors	12,020
Creditors	9,800	stock	5,600
Salary	4,200	rent prepaid	440
Cash	23,430		
41,490		41,490	

Dr	Debtors control account		Cr
Balance b/f	12,020	Cash	182,350

Workings:

1. Salaries	10,800	2.rent	5,700
Add owing 2005	750	less prepaid 2004	440
11,550		6,140	
Less owing 2004	4,200	less prepaid 2005	670
Profit and loss	7,350	profit and loss	5,470

Balance sheet as at 31st Mach, 2005

N N

Capital	27,490	Current assets:	
Additional capital	60,000	Stock	3,400
87,490	Debtors	9,880	
Profit	39,180	Cash	98,880
126,670	Rent prepaid	670	
Less drawings	25,000		
101,670			
Current liabilities:			
Creditors	10,510		
Salaries	750	11,260	
<u>112,930</u>		<u>112,930</u>	

EVALUATION:

1. List 5 steps in converting in converting single entry to double entry book keeping

GENERAL EVALUATION:

Objective Test:

1. _____ is a system that does not conform to double entry principle of accounting

1. Receipt and payment b. Single entry c. Income and expenditure d. Cash book

2. The excess of opening capital over closing capital represents
3. Gross profit b. Net worth c. Loss d. Sales
4. The records where credit sales could be generated is _____
5. Cash book b. Creditors ledger c. Debtors ledger d. Statement of affairs
6. The following are prepared in the process of converting single entry into double entry except
7. a. Sales ledger b Purchase ledger c. Profit and loss d. Contract account
8. Which of the following is true of incomplete records?
9. Real and nominal accounts are kept

b It is easy to ascertain profit and loss

c It does not conform to the principle of double entry

d It presents a large amount of sorted data

ESSAY QUESTIONS:

1. Define single entry book keeping
2. Mention three features of single entry book keeping
3. Outline four limitations of single entry book keeping
4. Mention five accounts that may be prepared in converting single entry to double entry
5. Practice Exercise 19.1 of the Essential Financial Accounting page 197

WEEKEND ASSIGNMENT

Read Essential Financial accounting for Senior Secondary Schools by O.A. Longe et al

PRE-READING ASSIGNMENT

Practice more exercises on disposal of assets in depreciation of assets account

WEEKEND ACTIVITY

Mention five limitations of single entry book keeping

REFERENCES

1. Essential Financial Accounting SSS by O.A. Longe et al; Tonad Publishers Limited

2. Financial Accounting for SSS2 BY M.A. Adesola et al; Melrose Books and Publishing Limited