

LECTURE NOTE

ACCOUNTING PROCEDURES AND SYSTEMS

BY

DR ADENLE O. ESTHER (ACA)

Double Entry Book-keeping system

- Double-entry bookkeeping, in [accounting](#), is a system of [book keeping](#) where every entry to an account requires a corresponding and opposite entry to a different account. The double-entry has two equal and corresponding sides known as [debit and credit](#). The left-hand side is debit and right-hand side is credit. In a normally debited account, such as an asset account or an expense account, a debit increases the total quantity of money or financial value, and a credit decreases the amount or value.
- Book- keeping is the recording of accounting transactions on a daily basis in the appropriate books.
- Double entry principle states that for every debit entry, there must be a corresponding credit entry and vice versa. If the principle is properly followed, the total of the debit entries in the accounts must be equal to the total of the credit entries.

Application of the double entry principle

- To record a transaction using the double entry principle the following steps must be taken.
 - (i) Ensure that a transaction has actually taken place. That is at least two parties are involved and the transaction can be measured in monetary terms.
 - (ii) Identify the two main accounts involved. That is, under which two main subject matters the transaction can be divided.

For example: Ireoluwa Enterprises purchased a motor car for N850,000 cash.

The transaction can be measured monetarily and it involves at least two parties

Two main subject matters can be identified

(a) Motor car was purchased

(b) Cash was paid

(iii) Identify the one that receive value. In the above example motor car has increased, therefore it has received value.

(iv) Identify the one that has given value – cash has been reduced, in this case it has given value

(v) Debit the account that has received value with N850,000 (i.e. debit motor car) and credit the account that has given value (i.e. credit cash).

Accounting Equation

The financial position of a company is measured by the following items:

1. Assets (what it owns)
2. Liabilities (what it owes to others)
3. Owner's Equity (the difference between assets and liabilities)

The **accounting equation** (or basic accounting equation) offers us a simple way to understand how these three amounts relate to each other.

The accounting equation for a sole proprietorship is:

$$\text{Assets} = \text{Liabilities} + \text{Owners Equity}$$

The accounting equation for a corporation is:

$$\text{Assets} = \text{Liabilities} + \text{shareholders Equity}$$

So, if assets increase, liabilities must also increase so that both sides of the equation balance.

Another way to look at the equation is:

$$\text{Shareholder equity} = \text{Assets} - \text{Liabilities}$$

The Accounting Equation is often called the Basic Accounting Equation.

Illustration 1

- (a) Ade, a proprietor of Adisco Enterprises started business with cash of N50,000
- (b) Assuming that in addition to the cash invested, Ade introduced N25,000, borrowed from a friend into the business.

SOLUTION

Shareholders equity = Asset – Liabilities

$$N50,000 = \text{Asset} - N25,000$$

$$N50,000 + N25,000 = \text{Asset}$$

$$\text{Asset} = N75,000$$

The cash position is now N75,000, made up of owner's capital of N50,000 and liability N25,000

BASIC ACCOUNTING RECORDS

Ledger Accounts

A ledger is the book containing a group of accounts. It contains the permanent records of the assets, liabilities, income, expenses and capital of a business entity. The accounts in a ledger are those to which entries are posted from the subsidiary books.

Importance of the ledger accounts

- (i) They serve as the means of keeping permanent records of assets, liabilities, income and expenses.
- (ii) They provide relevant information that is required to prepare the income statement and the statement of financial position.
- (iii) They give the origin of every transaction and the parties involved.
- (iv) They show the details of the movement in each account. For instance, a bank account will show what amount had been deposited or how much had been withdrawn and for what purpose.
- (v) The Trial Balance is extracted from the ledger accounts at the end of the accounting period.

Types of Ledgers

Ledgers can also be classified into the following four groups:-

- (a) Sales Ledger or Trade Receivables Ledger This contains all the personal accounts of customers otherwise referred to as trade receivable.
- (b) Purchases Ledger or Payables Ledger This contains the personal accounts of suppliers of goods and services, otherwise referred to as trade payables.
- (c) Private Ledger: The Private ledger contains details of capital accounts, drawings account, loan account and investment account. Usually only the senior managers have access to these accounts in order to prevent office staff from seeing details of the items contained therein.
- (d) General Ledger The general ledger, also referred to as the nominal ledger, contains the remaining accounts such as: -

hNominal accounts, relating to expenses, wages, rent, sales, purchases, bad debts accounts; and

hReal accounts; relating to assets such as land and buildings, motor vehicles, inventories, plant and machinery.

Balancing a ledger Account

At the end of every period, all ledger accounts must be balanced off. Balancing means to find the difference between the debit side and credit side of one account.

- (i) **Balance carried down (bal b/d):** This is the figure that is used to force the lesser side to agree with the higher side, because the total of the two sides of an account must be equal.
- (ii) **Balance brought down (bal c/d):** This is the closing balance (bal c/d) of the period that becomes the opening balance at the beginning of the next period.

Types of Accounts:

Accounts can be grouped under three main headings

hReal Accounts

hPersonal Accounts

hNominal Accounts

- **Real Accounts:** These are accounts relating to tangible things that can be seen, felt, touched and moved in most cases e.g. cash, cars, goods etc. The rule of double entry to these types of accounts is *Debit*, when there are additions, that is, when more of these items are acquired. *Credit*, when these items are disposed off, either by selling them off, when damaged beyond use or when given out as gift.
- **Personal Accounts:** These are accounts dealing with persons, corporate bodies or even partnership. Before these accounts can exist, there must be credit transactions unlike the real accounts where both cash and credit transactions are involved.
- **Nominal Accounts:** These are the accounts opened for gains or losses. They are not real or personal but are for profits and losses items. We only talk of benefit arising from these accounts as a result of the services rendered. Examples are rent, salaries, electricity, discounts, drawings etc.

ILLUSTRATIVE EXAMPLES ON LEDGER ACCOUNT

•

The following transactions took place in the books of Olu Aina Enterprises in 2006 2006

- (i) January 4, 2022 Cash sales of N900,000
- (ii) January 10, 2022 Payment of office rent N250,000 in cash
- (iii) January 18, 2022 Purchased N200,000 goods for cash
- (iv) January 25, 2022 Purchased stationery for N40,000 cash.

Prepare the necessary ledger Accounts for each of the transactions.

Solution to Illustration 1

i. January 4, 2022 Cash sales of N900,000

Cash is received for goods sold

Debit cash with N900,000 Credit sales with N900.000 (DR: Cash a/c, CR: Sales a/c)

DR	SALES ACCOUNT		CR
	#	Jan 4	#
Bal cld	900,000	Cash	900,000

DR	CASH ACCOUNT		CR
	Jan 4	#	
	sales	900,000	bal cld

(ii) January 10, 2022 Payment of office rent N250,000 in cash

Dr- Rent A/c , CR – Cash A/c

ii Cash is paid for office rent

DR	OFFICE RENT ACCOUNT	CR	DR	CASH ACCOUNT	CR
	#	#		#	#
Jan 10 Cash 250,000	Bal c/d	250,000	Bal c/d	250,000	Rent 250,000

(iii) January 18, 2022 Purchased N200,000 goods for cash

Dr – Purchase A/c , Cr – Cash Alc

DR	PURCHASE ACCOUNT	CR	DR	CASH ACCOUNT	CR
	#	#		#	#
Jan 18 Cash 200,000	Bal c/d	200,000	Bal c/d	200,000	Purchased 200,000

(iv) January 25, 2022 Purchased stationery for N40,000 cash.

Dr- Stationery A/c Cr – Cash A/c

DR	STATIONERY ACCOUNT	CR	DR	CASH ACCOUNT	CR
	#			#	#
Jan 25 Cash	40,000	B al c/d	40,000	B al c/d	40,000

You will notice that for each of the four transactions of Olu Aina Enterprises cash account is affected.

Transactions made on credit

Illustration 2

R. Okonkwo is a sole trader. The following transactions took place in his books.

- (i) Bought goods on credit from Jaja Ltd. #85,000
- (ii) Sold goods on credit to Sule I & Co #176,000
- (iii) Purchased some office machines on credit from Apala Engineering Ltd. #150,000

Show the double entries for each of the transactions.

SOLUTION

(i) Bought goods on credit from JAJA Ltd. #85,000

DR	PURCHASE ACCOUNT CR		DR	CREDITORS ACCOUNT		CR
	#	#		#	#	
Jaja Ltd	85,000	Bal c/d	85,000	Bal c/d	85,000	Purchase 85,000

(ii) Sold goods on credit to Sule I & Co #176,000

Dr – Receivable A/c

Cr – Sales A/c

DR	RECEIVABLE ACCOUNT	CR
Sales	176,000	# Bal c/d 176,000

DR	SALES ACCOUNT	CR
Bal b/d	176,000	# Sule & Co 176,000

iii) Purchased some office machines on credit from Apala Engineering Ltd. #150,000

Dr – Office Machine Cr – Payables A/c

DR	OFFICE MACHINE	CR
Apala	150,000	# Bal c/d 150,000

DR	PAYABLES A/C	CR
Bal c/d	150,000	# Office machine 150,000

NOTE

APED – DEBIT TRANSACTION

LISC – CREDIT TRANSACTION

APED- ASSETS, PURCHASE, EXPENSES AND DRAWINGS

LISC – LIABILITIES, INCOME, SALES AND CAPITAL

This rule can further be expanded as follows:

Debit Items Assets Credit Items which: -

Increase Assets - Increase Liabilities –

Increase Expenses - Increase Income –

Decrease Liabilities - Decrease Assets –

Decrease Income - Decrease Expenses

Practice Questions (Assignment)

1. List and explain five subsidiary books of records
2. what is the difference between a journal and a ledger?
3. Differentiate between a cash book and a sales day book
4. Illustration 1

Write up the asset, capital and liability accounts in the books of Adigun Iko to record the following transactions.

2020

May 1 Started business with #14,000 cash

- 2 Paid #13,600 into bank account of the company as additional capital
- 3 Bought fittings on credit from Charles for #600
- 4 Bought Motor Van paying by cheque #4,000
- 5 Jide lent us #500 by cheque
- 7 Bought motor van on credit from Tunde motors #2,800
- 10 Bought Fittings for cash #350
- 14 Returned goods costing #150 to Ademola
- 15 Bought machinery for cash at #280
- 18 Paid Charles the amount of #250 out of the amount owing him
- 23 Repaid part of loan of #200 to Jide
- 28 Bought Machinery on credit from bamigboye machine #1,300
- 31 Bought stationery for cash at #3,500

LECTURE NOTE

TRIAL BALANCE

BY

DR. ADENLE O. ESTHER (ACA)

TRAIL BALANCE

It is very essential to know from time to time that accounting records are accurate, and this can be established by periodically extracting a “trial balance”.

Trial balance is a list of balances in the ledger including cash book at a particular point balancing period. It is not an account but summary of balances to establish arithmetical and bookkeeping accuracy of posting into various books. If account is properly maintained on double entry principles at the recording stages. The total of debits must equal that of the credits. It is with this fact in mind that it is essential to “prove our books” by way of a trial balance

- Steps in drawn of trial balance;
- ✓ First of all, ascertain balances existing on the various accounts, including cash and bank
- ✓ Then enter these balances on a page accounts with closing balances.
- All debit balances would be recorded in the first column or inner column
- All credit balances in the second or outer column.
- ✓ Should the two sides agree, then we may assume that our books are correctly entered up.

There are two major reasons for extraction of these balances;

- (a) To confirm the arithmetic accuracy of various recording carried out at book keeping stage of accounting.**
 - ❖ Other things being equal, it is expected that the list of balances will establish that all debit balances are to equal all credit balances.
 - ❖ When this is so, it only confirms the arithmetic accuracy of postings but nonetheless confirm that books are free of errors.
 - ❖ It is only sufficient for the establishment of *prima facie* evidence of arithmetical accuracy of books, as certain classes of errors are not revealed by the trial balance.
- (b) To ease the preparation of final account.**
 - ❖ Trial balance summarizes all the balances in the book of accounts hence the list is suffice (with minor adjustments) for the preparation of :
 - (i) **Statement of profit and loss and other comprehensive income**
 - (ii) **Statement of Financial Position**

THE FORMAT OF A TRIAL BALANCE IS SHOWN AS FOLLOWS;

**Patience Mandela Limited Ghana Trial Balance as at 31st December,
2021**

Particulars	Dr G	Cr. G
Cash in hand	XXX	
Furniture and Fittings (Cost)	XXX	
Office Equipment (Cost)	XXX	
Allowances for Depreciation: Furniture and Fittings		XXX
Opening Inventory	XXX	
Allowances for Depreciation: Office Equipment		XXX
Irrecoverable Debts	XXX	
Carriage Outwards	XXX	
Advertising Expenses	XXX	
Discount Received		XXX
Purchases	XXX	
Sales		XXX
Returns Inwards	XXX	
Office Expenses	XXX	
Carriage Inwards Expenses	XXX	
Wages and Salaries	XXX	
Capital		XXX
Discount Allowed	XXX	
Returns Outwards		XXX
Rent	XXX	
General Expenses	XXX	
	XXX	XXX

NOTE :

If double entry principle had been religiously followed while posting transactions into the ledger then, the extracted balances in form of trial balance will in no doubt balanced that is debit total will equal credit total

ILLUSTRATION 1

The following is the list of balances extracted from the ledger of CHIN EDU & COMPANY, a sole Practitioner of an Audit Firm as at 31st December, 2020.

	N
Audit Fee Income	1,000,000
Consultancy Fee Income	2,000,000
Cash in Bank	1,650,000
Sundry Income	300,000
Capital	750,000
Administrative Expenses	600,000
Salaries & Allowances	800,000
Subscriptions	10,000
Profit & Loss Account Brought Forward	1,150,000
Professional Licence Renewal Fees	5,000
Rent	150,000
Stationery	250,000
Debtors	850,000
Transport & Travelling	75,000
Furniture & Fittings (Cost)	300,000
Motor Vehicle (Cost)	550,000
Newspapers & Journals	80,000
Rates	50,000
Provision for Depreciation - (M/V)	110,000
Provision for Depreciation (Furniture & Fittings)	60,000

You are required to prepare a Trial Balance of the firm as at 31st December, 2020

SUGGESTED SOLUTIONS TO ILLUSTRATION 1
CHINEDU AND COMPANY

TRIAL BALANCE AS AT 31ST DECEMBER 2020

	DR N	CR N
Audit Fees Income		1,000,000
Consultancy Fee Income		2,000,000
Cash in Bank	1,650,000	
Sundry Income		300,000
Capital		750,000
Administrative Expenses	600,000	
Salaries & Allowances	800,000	
Subscriptions	10,000	
Profit & Loss Account B/Fwd		1,150,000
Professional Licence Renewal Fees	5,000	
Rent	150,000	
Stationeries	250,000	
Debtors	850,000	
Transport & Travelling	75,000	
Furniture & Fittings (Cost)	300,000	
Motor Vehicle (Cost)	550,000	
Newspaper & Journals	80,000	
Rates	50,000	
Provision for Depreciation M/V		110,000
Provision for Depreciation – Furniture & Fittings	<u>_____</u>	<u>60,000</u>
	<u>5,370,000</u>	<u>5,370,000</u>

Practice question

Below is the list of balances obtained from ADELAIDE Enterprise (a Nigeria Company) on 31st January, 2021. You are required to prepare the Enterprise Trial Balance as at 31st January, 2020.

	₦
Cash in hand	150
Cash at bank	6,850
Stock	4,500
Debtors	1,600
Motor Vehicles	5,000
Land and Buildings	10,000
Office equipment	2,000
Plant and Machinery	3,000
Capital	25,000
Salaries	1,500
Insurance	1,000
Discount received	200
Returns Outward	150
Return Inward	50
Provision for bad debts	800
Bills Payable	2,000
Bills Receivable	6,000
Creditors	5,000
Drawings	1,750
Accumulated Depreciation	900
Rent Received	9,350