**THIRD TERM E-LEARNING NOTE**

**SUBJECT: FINANCIAL ACCOUNTING CLASS: SS2**

## **SCHEME OF WORK**

**WEEK TOPICS**

1-3 Single Entry and Incomplete Records

4-5 Control Accounts

6-8 Accounts of Non-Profit-Making Organizations

9 Joint Venture Accounts

10 Consignment Accounts

**WEEK ONE TO THREE**

**TOPIC**: **SINGLE ENTRY AND INCOMPLETE RECORDS**

**CONTENT**: (i) Introduction (ii) Steps Involved in preparing a P&L A/C and Balance Sheet from Incomplete Records (iii) Example

i. **INTRODUCTION:**

Most businesses keep records of receipts and payments. The records may consist of bank paying – in – book counterfoils, cheque book counterfoils and bank statements in addition to supplies invoices and copies of sales invoices. From these records it may be possible to prepare a P&L A/C and Balance Sheet.

ii STEPS INVOLVED IN PREPARING A P&L A/C AND BALANCE SHEET FROM INCOMPLETE RECORDS;- The necessary steps are as follows:-

Step 1: Preparing an opening statement of affairs (so as to obtain opening capital)

Step 2: Prepare a receipt and payments A/C

Step 3: Prepare control A/CS for debtors and creditors, if necessary to calculate sales and purchases. It is the sales and purchase figure that will be required to make the account balance.

Step 4: Adjust the receipts and payments accounts prepayments and accruals at beginning and end of the period.

Step 5: Calculate provisions for doubtful debts, depreciation and any other matters not mentioned above.

Step 6: Prepare the P&L A/C and Balance Sheet from the information now available

**Example:**

The only record that Azim has kept for his business are bank pay-in-book, counterfoils, cheque book counterfoils and records of debtors and creditors. With these it is possible to summarize his transactions with the bank in the year ended 31/12/03 as follows taking paid into the bank: N8000

Cheques drawn: Payment to suppliers N2430, rent N600, electricity N320, postage and stationeries N80, purchase of shop fittings N480, cheques drawn for personal expenses N2700.

Azim banked all his taking after paying the following in cash:-

Creditor for supplies N400 and sundry expenses N115.

Azim estimated his assets and liabilities at 1st January, 2003 to be: shop fittings N1600. Stock N1960, debtors N240 rent prepaid N80. Bank balance N1500, cash in hand N 50, creditors for goods N420; electricity owing N130.

At 31st December, 2003 Azim listed his assets and liabilities as follows. Shop fittings N1800; stock N1520; debtors N380 rent repaired N50; bank balance N2640; cash in hand N 50; creditors for goods N390; electricity owing N225.

Required prepar Azim’s profit and loss accounts for the year ended 31 December, 2003 and his Balance Sheet at that date.

**Solution:**

**Step 1:** Opening statement of Affairs

N N

Assets

Shop fittings 1600

Stock 1960

Debtors 240

Rent prepaid 80

Bank 1500

Cash in hand 50

5,430

Less Liabilities

Creditors for goods 420

Electricity owing 130 550­­

CAPITAL AT 1ST JAN. 2003 4,880

**Step 2:** Receipts and payments Account. This includes only those amounts actually received and spent. It is a cash book summary with columns for cash and bank.

Cash Bank Cash Bank

N N N N

1/1/03 Balance b/f 50 1500 Trade

Takings Creditors 400 2430

(8000+460+115) 8515 Rent 600

Cash 8000 Electricity 320

Postage and

Stationery 80

Shop fittings 480

Sundry Exps. 115

\*Drawings

(2700+250) 2,950

Bank C 8,000

Balance c/d 50 2640

8565 9500 8565 9,500

\*N250 is money not accounted for and is treated as Azim’s drawing.

**Step 3:** Debtors and creditors controls accounts

**Debtors Control A/C Creditors Control A/C**

N N N N

1/1/03 Bal b/f 240 31/12/03 Cash 8515

Bal b/f N380 31/12 Bank1/1/03 Bal b/f 420

Sales (2) 8655 and Cash 2830 Purchase(3) 2800

8895 8895 Bal b/f 390

3220 3220

**Steps 4:** Adjustment for Prepayment and Accounts

Rent A/C N Electricity A/C

N N N

Prepaid Cash 320 1/1/03

At 31/12/03 50 Owing Accrued b/f 130

1/1/03 P&L ac 31/12/03 225 P&L A/C 415

Prepaid b/f 80 (payable for) 545 545

Cash 600 the year 630

680 680

N

**Steps 5:** Calculate depreciation of shop fitting: Shop fittings at valuation 1/1/03 1600

Add fittings purchased in the year 480

2080

Shop fittings at valuation 31/12/03 1800

Therefore Depreciation for the year = 280

**Step 6:** **AZIM**

Trading and profit and loss accounts for the year

Ended 31 December 2003

N N

Sales 8655

Less cost of sales

Stock at 1st Jan 1960

Add Purchases 2800

Less closing stock 4700

Less stock at 31/12 1520 3240

Gross Profit 5415

Less: EXPENSES

Rent 630

Electricity 415

Postage and stationery 80

Sundry expenses 115

Depreciation – shop fitting 280 1520

**NET PROFIT**  3,895

Balance sheet at 31st December, 2008

$ $ $

Fixed assets: shop fitting 1800

**CURRENT ASSETS**

Stock 1520

Trade debtors 380

Rent prepaid 50

Bank 2640

Cash 50

4640

**LESS CURRENT LIABILITIES**

Trade creditors 390

Electricity owing 229 615 4025

5825

Capital at 1st Jan. 4880

Profit for the year 3895

8775

Less drawings 2925

5825

**EVALUATION QUESTIONS**

1. What is the purpose of the opening statement of affairs in complete records?

2. What is the debtors control account prepared to reveal?

**READING ASSIGNMENT**

1. Essential Financial Accounting by O.A. Longe Page 371 - 384

2. Accounting by Harold Randall Page 279 – 290

**WEEKEND ASSIGNMENT**

1. Debtors control account reveals (a) debtors (b) creditors (c) cash received (d)sales
2. In incomplete records creditors control account is prepared to reveal (a) sundry creditors (b) purchases (c) cash paid to creditors (d) discount received
3. In adjustment accounts prepaid rent A/C should have \_\_\_\_\_\_\_ balance (a) credit (b) Debit (c) both debit and credit (d) either debit or credits
4. In adjusting for final account, accrued wages should have \_\_\_\_\_\_ balance (a) debit (b) credit (c) debit and credit (d) debit or credit
5. Calculation of provisions for doubtful debts, depreciation, etc is done in step \_\_\_\_ in other to prepare P&L a/c and balance sheet from incomplete records (a) 1 (b) 2 (c) 5 (d) 6

Theory

1. List and explain the six steps necessary to prepare a P&L a/c and balance sheet from incomplete records.

2. Prepare debtors and creditors control accounts formats and highlight what each of them reveals.

**GENERAL EVALUATION QUESTIONS**

1. State three characteristics of single entry accounting system
2. List four disadvantages of single entry accounting system
3. List five steps of converting single entry accounting system to double entry system
4. Explain five differences between a trial balance and a balance sheet

State eight items that will cause a disagreement between the Cash Book balance and the Bank Statement balance