



INTRODUCTION TO FINANCIALS/ACCOUNTS



OUTLINE

In this study, we are going to look at the following:

1. Brief history of Book-keeping and Accounting
2. Definition of Book-keeping and Accounting
3. The need and reasons for Book-keeping and Accounting
4. Important records/documents to be kept by a business
5. How to prepare the Trading, Profit and Loss Account
6. How to prepare a Balance sheet.



BRIEF HISTORY OF BOOK-KEEPING AND ACCOUNTS

The Italian Luca Pacioli, recognized as the father of accounting and book-keeping was the first to publish a work on double entry book-keeping in the year 1494.



SIMPLE DEFINITIONS OF ACCOUNTING AND BOOK-KEEPING

- Book-keeping is the act of recording business transaction in a systematic manner so that the book will show at any time the exact state of the owner's affairs.
- Accounting is a book-keeping system that a business uses to track the money coming in and the money going out.
- Accounting is a process of identifying, collecting, summarizing, classifying, analyzing, reporting and interpreting financial data for the users of financial information.



SIMPLE DEFINITIONS OF ACCOUNTING AND BOOK-KEEPING (CONTD.)

- Accounting is a systematic and comprehensive recording of financial transactions pertaining to a business.
- Book-keeping and accounting are both essential business functions, but there is an important distinction.
- While book-keeping is responsible for recording of financial transactions, accounting is responsible for summarizing, classifying, analyzing, reporting and interpreting financial data- (Management Study Guide).



The Need for Book-keeping /Accounting

- We need accounting because it is the only way for business to grow and flourish.
- It's the backbone of business.
- Even life is much more manageable if one is armed with accounting skills. For instance:

Accounting skills can be used to take care of family or personal financial activities etc.



REASONS TO KEEP GOOD ACCOUNTING RECORDS

- Enables you to manage your business and make it grow
- Helps you to stay organized when dealing with customers and suppliers
- Make it easy to prepare management accounts
- Makes it possible to find important information and documents quickly
- Makes it easier to get a bank loan or overdraft



REASONS TO KEEP GOOD ACCOUNTING RECORDS (CONTD.)

- Helps you plan in advance for other liabilities
- Helps to reduce your accountant's fee and save him time
- Record keeping complies with the law
- Helps you identify the strengths and weaknesses in your business
- Helps you manage changes and improvements in your business
- It makes it easier in partnership where the profits and losses have to be shared



IMPORTANT RECORDS/DOCUMENTS THAT SHOULD BE KEPT BY BUSINESSES

- **RECEIPT VOUCHER** - This is a source document in accounting. It is a document which can be used as a proof that a monetary transaction has occurred between two parties. It is advisable that every receipt of cash whether by hand or through the bank be recorded.
- **PAYMENT VOUCHER** - This serves as a proof that a payment has been made. This is also a very important source document. Payment vouchers should be raised for all expenditures made either by cash or by bank.



IMPORTANT RECORDS/DOCUMENTS THAT SHOULD BE KEPT BY BUSINESSES (CONTD.)

- **GENERAL LEDGER** - In the simplest terms, it is a complete record of all the financial transactions of a business throughout its life. The general ledger holds all the information needed to prepare financial statements and include assets, liabilities, equity, revenue and expenses.
- **DOUBLE ENTRY SYSTEM** - This is a system of accounting or book-keeping that states that every debit entry must have a corresponding credit entry and vice versa. For instance : On 4th March 2017, Mr. Okeke bought stationary for #500.00



Cash Book of Okeke will show the transaction as follows:

DR				Cash Account				CR			
Date	Particulars	Fol.	Amt(N)	Date	Particulars	Fol.	Amt(N)				
				4/3/2017	Stationery		#500.00				

Dr				Stationery Account				Cr			
Date	Particulars	Fol	Amt (N)	Date	Particulars	Fol.	Amt(N)				
4/3/2017	Cash		#500.00								



IMPORTANT RECORDS/DOCUMENTS THAT SHOULD BE KEPT BY BUSINESSES (CONTD.)

- **CASH BOOK** - This is the book in which cash received and cash paid out are recorded. Cash book is of three categories:
 - (A) Single Column cash book
 - (B) Double column cash book
 - (C) Triple Column Cash book



IMPORTANT RECORDS/DOCUMENTS THAT SHOULD BE KEPT BY BUSINESSES (CONTD.)

(A) Single column cash book

This is a cash book that is used to record only cash transactions of a business. Transactions that do not involve cash are not recorded here. It has only one amount column.



- **(B) Double Column Cash Book:** This cash book is used to record both cash and bank transactions. It has two amount columns meant for cash and bank.
- **(C) Three-Column Cash Book:** This cash book has discount column in addition to the cash and bank columns.



IMPORTANT RECORDS/DOCUMENTS THAT SHOULD BE KEPT BY BUSINESSES (CONTD.)

- **Bank Reconciliation Statement:** In book-keeping, a bank reconciliation statement is a process that explains the difference on a specified date between the bank balance shown in an organization's bank statement, as supplied by the bank and the corresponding amount shown in the organization's own accounting records.

Causes of difference between Organisation's bank record and the one kept by the bank:

- ❖ Unpresented cheques
- ❖ Uncredited cheques
- ❖ Standing order
- ❖ Bank Charges



IMPORTANT RECORDS/DOCUMENTS THAT SHOULD BE KEPT BY BUSINESSES (CONTD.)

- **Fixed Asset Register:** This is the record for all the tangible and non-current assets that a firm uses in its operations. Fixed assets include Plant and machinery, Land, building, motor vehicle etc.

This register gives you the details of the assets such as the age of the assets (date of purchase), and the purchase price. This information is needed for calculation of depreciation.



IMPORTANT RECORDS/DOCUMENTS THAT SHOULD BE KEPT BY BUSINESSES (CONTD.)

- **Petty cash/Imprest System:** This is an accounting system which provides for the replenishing of money spent for petty expenses in the organization/business. The imprest system provides that a specified amount of money be provided to meet petty expenses in the office at a specified period of time. The expenses so incurred are recorded in the petty cash record. At the end of the specified period an amount is issued to cover the expenses so incurred to bring the balance back to the original amount.

HOW TO PREPARE THE PROFIT OR LOSS ACCOUNT

The following is the extract of Adeji Ltd for the year ended 31st December 2017

Opening inventory		100.00	
Purchases		2,000.00	
Revenue/Sales		4,300.00	
Inventory at close		300.00	
Finance cost /interest expense		800.00	
Tax expense		500.00	
Plant and machinery		80,000.00	
Motor Vehicle		40,000.00	
Bank		35,000.00	
Receivables/Debtors		22,000.00	
Cash		6,900.00	
Equity/Share capital		100,000.00	
Reserves		1,000.00	
Long term loan		80,000.00	
Payables/Creditors		2,000.00	
Required:			
Prepare the following:			
1. Profit statement/Profit and loss account			
2. Statement of financial position/Balance sheet			

Solution

Adeji Ltd

Profit and loss Account/Profit Statement for the year ended 31st December 2017.

	=N=	=N=	
Revenue/Sales		4,300.00	
Inventory	100.00		
Purchases	<u>2,000.00</u>		
Cost of good available for sale	2,100.00		
Closing inventory	(300.00)		
Cost of goods sold		<u>(1,800.00)</u>	
Gross Profit		2,500.00	
Less: Interest	800.00		
Tax Expense	500.00	<u>(1300)</u>	
Net Profit		<u>1,200.00</u>	



Statement of financial position/Balance Sheet as at 31st Dec. 2017

Non-Current Assets/Fixed Assets:			
Plant and machinery		80,000.00	
Motor Vehicle		40,000.00	
		120,000.00	
Current Assets:			
Bank		35,000.00	
Receivables/ debtors		22,000.00	
Cash		6,900.00	
Inventory		300.00	
		64,200.00	
		184,200.00	

Equity and Liability

Equity			
Equity and Share capital		100,000.00	
Reserves		1,000.00	
Retained Earnings/Net profit		1,200.00	
		102,200.00	
Non-Current Liabilities/ Long term liabilities:			
Long term loan		80,000.00	
Current Liabilities:			
Payables/Creditors		2,000.00	
Total Liabilities		82,000.00	
		184,200.00	



CONCLUSION

- From the presentation course you will discover that accounting has a way of ensuring fraud and risk reduction for businesses and also improves transparency in organization.



THANK YOU