



## JOURNAL, LEDGER, CASHBOOK AND TRIAL BALANCE

### REVISION OF PREVIOUS LECTURE

- o **Q1 (a) (i) What is accounting?**
- o **(ii) What are the main reasons for keeping accounts?**
- o **(b) (i) Why might the following stakeholders be interested in financial information about a company?**
- o (1) Managers of the company
- o (2) Shareholders of the company
- o (3) Trade creditors
- o (4) Employees
- o (5) Government departments and government agencies

### ANSWERS TO PREVIOUS EXERCISE

- o **1 (a) (i) What is accounting?**
- o **Q1 (a) (i) A business owner normally runs a business to make money or more precisely make a profit. Accounting provides a mechanism, that allows accurate and timely records to be kept, that meets statutory and non statutory purposes whilst at the same time providing a means of determining profit or loss of the business.**

### II) WHAT ARE THE MAIN REASONS FOR KEEPING ACCOUNTS?

- o Accounts are kept to provide information about the business. The need to provide answers to the following questions:
  - o • how much profit or loss has the business made?
  - o • how much money does the company owe?
  - o • will the company have sufficient funds to meet its commitments?
  - o • what is the value of the business and what are its net assets?
  - o • what (if applicable) is the stock market value of our shares and do they represent good value for investors and potential investors
  - o • is the business financially stable?
  - o • what is the growth potential for the business?
  - o • to meet statutory and regulatory requirements
  - o • to ensure proper record keeping, and financial control
  - o • to aid planning and objective measuring
  - o • any other reasonable reason

### WHY MIGHT THE FOLLOWING STAKEHOLDERS BE INTERESTED IN FINANCIAL INFORMATION ABOUT A COMPANY?

- o 1 Managers of the company. People appointed by the company's owners to supervise the daily activities of the company need information about the company's current and expected future financial situation. This helps efficient management and effective control and planning decisions.
- o 2 Shareholders of the company want to assess how effectively management is performing and how much profit they can withdraw, or expect, from the business for their use.
- o 3 Trade creditors/suppliers want to know about the company's ability to pay its debts; customers need to know that a company is a secure source of supply and is in no danger of closing down.

- o 4 Employees need to know about the company's financial situation because their future careers and the level of their salaries, wages and general working conditions depend on it.
- o 5 Government and their agencies. They are interested in the allocation of resources and in the activities of enterprises and they would also require information in order to provide a basis for taxation payments due and for national statistics.

STAKEHOLDERS

- o Internal stakeholders
  - o ● Managers of the company
  - o ● Employees
  - o ● Directors
- o External stakeholders
  - o ● Shareholders
  - o ● Trade creditors (suppliers)
  - o ● Providers of finance
  - o ● Trade unions
  - o ● Financial analysts and advisers
  - o ● Government and their agencies, including The Inland Revenue
- o ● The public
- o ● Trade debtors (customers)

FINANCIAL AND MANAGEMENT ACCOUNTING

Financial Accounting	Management Accounting
legally required –	-not legally required
- deals with the past -	-- deals with the future
- uses prescriptive standards	-- no prescription
-reporting need –	-- decision-making/planning and control use
-- external scrutiny	- no external scrutiny
-mainly financially based –	- other non financial factors considered
-- precision needed (e.g. bookkeeping) -	-- less precision needed
- limited flexibility -	-- adapted to the needs of the individual business

DOUBLE ENTRY BOOKKEEPING PRINCIPLE

- o For the accounts to remain in balance, a change in one account must be matched with a change in another account. These changes are made by debits and credits to the accounts.
- o **Debit accounts** = Asset and Expenses (also debit money received into bank accounts)
- o **Credit accounts** = Gains (income) and Liabilities (also credit money paid out of bank accounts)

- o The following accounts have a normal balance of debit:
  - o Assets
  - o Accounts receivable: debts promised by other entities but not yet paid
  - o Drawings by the owners on equity
  - o Expenses

- o The following accounts have a normal balance of credit:

- o Liabilities
- o Accounts payable and taxes payable, notes or loans payable: debts promised to outsiders but not yet paid
- o Revenue
- o Capital

DOUBLE ENTRY PRINCIPLE

- o The following table summarizes how debits and credits affect the different elements of the accounts.
- o ▲ = increase, ▼ = decrease
- o

Account	Debit	Credit
Assets	▲	▼
Expenses	▲	▼
Liabilities	▼	▲
Equity	▼	▲
Revenue	▼	▲

**PREPARE A JOURNAL ENTRY AND LEDGER**

- o Mr. fisher started business with 10000 of his own money in business account in march 1
- o on 3 march, he bought a van, paying 3000 by cheque
- o on 8 march, he purchased goods for resale from Mr Hunter for 1000 credit
- o On 12 march, he paid 500 to Mr. hunter by cheque

**CLASSIFICATION OF LEDGER ACCOUNTS**

- o Personal accounts
  - Debtors and creditors
- o Impersonal accounts
  - Real accounts-
    - o assets, land, vehicles, equipment
  - Nominal accounts-
    - o income, purchase, expenses

**EXAMPLE 1**

- o Debbie starts in business on 1 Jan 2000. her transactions are
- o Jan 6: Debbie pays £1000 of her own money into business bank account
- o Jan 9: Debbie buys a small second hand car for £600, paying by cheque.
- o Jan 12: Debbie draws £100 cash from bank, for business use.
- o Jan 13: Debbie buys hairdressing supplies for £60 cash
- o Jan 16: Debbie buys petrol for £10 cash and earns £60 cash from her clients
- o Jan17: she earns £70 in cheques from clients, which she deposits in the bank immediately.
- o Balance off all account as at 31 Jan.

(pp33.34)

**CASH BOOK**

- o One column
- o Two column – cash and bank
- o Three column – cash, bank and discount

**3 COLUMN CASH BOOK**

Feb-01	CASH BALANCE	150
	BANK BALANCE	2850
Feb-08	CASH SALES	1100
Feb-09	RECEIVED CHEQUE FROM	
	THOMSON	475
	DISCOUNT	25
	BAXTER	800
	FERNIS	950
	DISCOUNT	50
Feb-10	PAID CREDITORS BY CHEQUE	
	CARTER	1000
	PICKWICK	500
	JOHNSON	475
	DISCOUNT RECEIVED	25

**3 COLUMN CASH BOOK**

Feb-12	CASH DISBURSED	
	SUNDRY EXPNS	50
	STATIONERY	25
	WAGES	60
Feb-14	BANKED CASH	3325
	CASH SALES TO DATE	1000
	CASH PURCHASE	100
	PURCHASE BY CHEQUE	1800
Feb-18	BANKED CASH	900
Feb-25	RENT BY CHEQUE	150
	WITHDREW FOR OFFICE USE	250
Feb-28	SUNDRY EXPNS	40
	STATIONERY	10
	WAGES	120
	PURCHASE	50

**TRIAL BALANCE**

Cash in hand	685.1
Bank	2459.3
Capital	13090.5
Drawings	1104.3
Office furniture	1000
Delivery van	850
Stock	9000
Purchases	7505.3
Sales	12901.3
Purchases return	405.2
Sales return	709.3
Discount allowed	154.2
Discount received	125

**TRIAL BALANCE**

Salaries and wages	1000
Rent	500
Office expenses	285.4
Electricity	114.1
Stationery	155
Debtors martin	495.6
Jasper	4762.4
Redmond	2742
Creditors gray	1899
Griffin	3260.5
Neal	1840.5

**Q2** At the end of March 2009, the bookkeeper of Kendal Ltd extracted a trial balance that included a number of errors. The trial balance is shown below:

	DR £	CR £
Purchases	13,200	
Sales		46,750
Rent paid	500	
Wages	1,100	
General expenses	650	
Carriage in		700
Carriage out	900	
Salaries	1,750	
Premises	31,000	
Fixtures and fittings	860	
Debtors		740
Creditors	210	
Bank overdraft	190	
Cash	110	
Drawings		240
Capital		4,600
	<u>50,470</u>	<u>53,030</u>

**Required:**

- (a) Identify which of the above figures are on the wrong side of the trial balance. (5 marks)

**ANSWERS AND DISCUSSIONS**

- o Carriage in (£700)
- o - Debtors (£740)
- o - Creditors (£210)
- o - Bank overdraft (£190)
- o - Drawings (£240)

**1** The following balances have been extracted from the books of Millom Co Ltd, as at 31 December 2005.

	£
Creditors	18,900
Sales	240,000
Land at cost	54,000
Buildings at cost	114,000
Bank (overdrawn)	18,000
Furniture/fittings at cost	66,000
Depreciation - buildings	18,000
Depreciation - furniture/fittings	30,000
Discounts received	5,292
Profit b/d 1 Jan 2005	6,000
Provision for doubtful debts	2,448
Cash in hand	696
Stock - 1 Jan 2005	42,744
Rates	6,372
Wages and salaries	24,000
Insurance	5,688
Returns inwards	1,116
General expenses	1,308
Purchases	131,568
5% debentures	48,000
Ordinary shares	120,000
General reserve	30,000
Debtors	89,148

	£	£
creditors		18,900
sales		240,000
land - cost		
buildings - cost	114,000	
bank (overdrawn)		18,000
furniture/fittings at cost	66,000	
dep - buildings		18,000
dep - furniture/fittings		30,000
dis received		5,292
profit b/d 1-1-05		6,000
provision for doubtful debts		2,448
cash in hand	696	
stock - 1-1-05	42,744	
rates	6,372	
wages/salaries	24,000	
insurance	5,688	
return inwards	1,116	
gen expenses	1,308	
purchases	131,568	
5% debentures		48,000
ordinary shares		120,000
gen reserve		30,000
debtors	89,148	
	<u>536,640</u>	<u>536,640</u>

91 Rush and Aldridge are in partnership sharing profits and losses in the ratio 3:2 respectively. The following list of balances has been extracted from the books, of the business, for the year ended 30 November 2006.

	£
land at cost	120,000
fixtures and fittings (cost)	70,000
fixtures and fittings (depreciation)	20,000
creditors	17,000
debtors	21,000
balance at bank (cr)	7,500
bank loan	20,000
provision for bad debts	1,000
sales	98,000
purchases	39,000
stock (1-12-05)	11,000
rent and rates	3,000
insurance	1,500
salaries and wages	13,700
office expenses	2,800
heating and lighting	1,750
advertising	900
capital account - Rush	80,000
- Aldridge	50,000
current account - Rush (cr)	3,850
- Aldridge (dr)	(2,000)
drawings - Rush	3,700
- Aldridge	7,000

	DR £	CR £
Land - cost	120,000	
Fixtures and fittings	70,000	
Fixtures and fittings - dep		20,000
Creditors		17,000
Debtors	21,000	
Balance at bank		7,500
Bank loan		20,000
Provision for bad debts		1,000
Sales		98,000
Purchases	39,000	
Stock - 1-12-04	11,000	
Rent and rates	3,000	
Insurance	1,500	
Salaries and wages	13,700	
Office expenses	2,800	
Heating and lighting	1,750	
Advertising	900	
Capital - Rush		80,000
Capital - Aldridge		50,000
Current - Rush		3,850
Current - Aldridge	2,000	
Drawings - Rush	3,700	
Drawings - Aldridge	7,000	
Total	297,350	297,350