**FUDJISMA PROJECT**

**BOOK-KEEPING AND ACCOUNTING**

1. **Introduction to Bookkeeping**

The bookkeeping system refers primarily to recording the financial effects of financial transactions only. Bookkeeping means that you write down all the money that comes into your business and all the money that goes out of your business. In the normal course of business, a document is produced each time a transaction occurs. Sales and purchases usually have invoices or receipts. Deposit slips are produced when lodgements (deposits) are made to a bank account. Cheques are written to pay money out of the account. Bookkeeping involves, first of all, recording the details of all of these source documents into multi-column journals (also known as books of first entry or daybooks). For example, all credit sales are recorded in the sales journal, all cash payments are recorded in the cash payments journal. Each column in a journal usually corresponds to an account.

**1.1 Understanding the Importance of Bookkeeping in a Business**

The imperative of business records cannot be overemphasized. Every serious entrepreneur must as a matter of fact be able to maintain proper records of his or her business transactions. Proper bookkeeping is critical to sustaining and expanding a business. Without it, the entrepreneur runs the risk of hitting cash flow crunches, wasting money, and missing out on opportunities to expand his business. When you maintain proper records of your business transactions, you will be properly positioned to carry out official business analysis and see how your business is fairing.

The purpose of bookkeeping is to help you manage your business and also to allow tax agencies to evaluate your business venture. As long as your book keeping achieves both of these objectives, you are in the right direction. Any financial institution who wants to do business with you must request your business records. Your ability to make it means you are serious about your business.

**1.1.1 Why Bookkeeping?**

Many people do not write down how much money comes in and how much money goes out of their business. This is because they do not know how to do it, and they do not know that it can improve their business. Therefore, people do not exactly understand how much money they are earning, how much customers have bought on credit and how much stock they have bought on credit. Where groups of people work together, lack of a proper bookkeeping system often leads to mistrust and accusations between group members. Bookkeeping is beneficial because you cannot keep everything in your head.

**1.1.2 Of what value is bookkeeping to your business?**

* You will know how much money you have received,
* You will know how much money you have spent and how you have spent it;
* You can calculate whether you are making a profit or a loss;
* You will be able to make better decisions on what to buy and sell;
* You can keep records of buying and selling on credit, so that people cannot trick you;
* You can keep records of money coming in and going out of a group project and thus prevent abuse of funds and avoid mistrust amongst group members.

**1.2 The Accounting Equation**

The accounting equation also called the balance sheet equation is the foundation of the double-entry accounting system. The accounting equation shows on a business's balance that a business's total assets are equal to the sum of the business's liabilities and shareholders' equity. Assets include cash and cash equivalents, accounts receivables or liquid assets. Whereas, Liabilities are what a company typically owes or needs to pay to keeps the business running. Debt, including long-term debt, is a liability such as are rent, taxes, utilities, salaries, wages, and dividends payable. Equity represents the amount of money that would be returned to business owners if all of the assets were liquidated and all of the business's debt was paid off. The Accounting Equation Formula and Calculation is presented as:

Assets = (Liabilities + Owner’s Equity)

**1.3 The Principle of Double-Entry System**

The principle of double-entry system requires that every transaction should be recorded twice by posting a debit entry to one account and a corresponding credit entry to alternative account. The rule of double-entry states that, debit the receiving account, credit the giving account. The double-entry recording process start from source documents, then to subsidiary books, then posting into ledger, then finally generate a trial balance.

* Forms and contents of books of accounts.
* Books of prime entry, including journals.
* Sales and purchases ledgers and daybooks.
* Cash book and petty cash books.
* General ledger.
1. **Books of original entry**

**2.1 Sales day book (Credit sales)**

This is a book of original entry in which credit sales are recorded before posting to the ledgers. In the sales day book, cash transaction must not be recorded. Equally sales of fixed assets must be excluded from the day book. The sales journal is not part of the double entry. Another name for sales day book is sales journal.

**Posting to sales journal**

Total of sales day book will be transferred to the credit side of sales account in the general ledger and personal account debited. The act of entering the customer’s account is known as “posting”.

**2.2 Purchases day book (Credit purchases)**

This is the book for recording goods bought on credit from the suppliers and it can be referred to as purchases journal. The total will be posted to the debit of the purchase s account and credited to personal ledgers of suppliers. The purchases day book, not being part of account is not part of double-entry records. It has column for date, particulars, folio, detail and total. The purchases day book is also known as purchases journal.

**Procedures:**

1. Purchase day book is entered daily.
2. The purchases account in the general ledger is debited.
3. The suppliers account in the double entry system is credited.

**2.3 Returns day book**

**2.3.1 Returns Inward Day Book**

Return inward day book is also known as sales return journal. This is used to record goods returned by customers. It may be due to wrong colour, wrong type, inferior quality or breakage.

**Procedures:**

1. Returns inwards book is entered immediately goods are returned.
2. The Returns inwards account in the general ledger is debited.
3. The customer’s account is credited.

**2.3.2 Returns Outward Day Book**

This is the book for recording goods returned to the suppliers as a result of one reason or another e.g Defectiveness, damages, or wrong kind etc. Another name is purchase returns journal.

**Procedures:**

1. Returns outwards book is entered immediately books are returned.
2. The returns outwards account in the general ledger is credited.
3. The suppliers account is debited.

**2.4 Cash books**

A cash Book is the book for recording detail particulars of all money received and paid. All cash transactions and transactions with cheques must pass through the cash book.

Unlike other day books, the cash book is drawn like a ledger account with Debit and Credit side. All cash received been debited and cash paid credited. A cash book is therefore a ledger account for cash transaction and entry in a cash book constitute one part of the double entry and it only remained to make the other part.

**Single Column Cash Book: -** This is also refers to as cash account. It is like a typical ledger account with one column each for debit and credit, this column use to record cash received and cash payment.

Dr. Cr.

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| --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **Amount** | **Date** | **Particulars** | **Amount** |
|  |  |  |   |  |  |

**Two Column Cash Book:-** This is a cash book which provide for two amount column on both side of the account i. e Cash and Bank. The cash column records transaction made by cash, while the Bank column record transaction made by cheques.

Dr. Cr.

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| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **Cash** | **Bank**  | **Date** | **Particulars** | **Cash** | **Bank**  |
|  |  |  |  |   |  |  |  |

**Three Column Cash Book:-** The three column cash book represents three accounts Cash, Bank, and Discounts combined into one book. In the three column cash book discounts allowed and discount received will be introduced. Since cash discount is given as an inducement to the customers to settle their account promptly, then there must be a column for discounts allowed on the debit side of the cash book and discount received on the credit side.

Dr. Cr.

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **Cash** | **Bank**  | **Discount** | **Date** | **Particulars** | **Cash** | **Bank**  | **Discount** |
|  |  |  |  |  |   |  |  |  |  |

There are two types of discounts, Cash discounts and Trade discount.

Cash Discount is a reduction given to a buyer or debtor to encourage prompt settlement of debt. The discount may be earned only, when the buyer pays before the expiry date of the normal credit period. The effect of a cash discount is that, the seller accepts a smaller amount than the invoice value in full settlement of the account.

Trade Discounts is a reduction offered to a buyer on the market price of a commodity usually as a recognition as a regular customer of tradition or as a means of encouraging continued patronage of a firm. The reduction is open affected on the selling price (market price) before arriving at the invoice value.

The reduction is granted regardless of whether the buyer pays cash or buys on credit.

It should be noted that, the given or receipts of a trade discount those not give rise to any accounting entry, since the discount is already infected before the invoice value is arrive at.

Cash discounts however, give rise to accounting entry because they represent a reduction in an existing obligation. Discount Received is an income, while discounts allowed is an expenses. The purpose of a discount column in a cash book is to collect the individual item of cash, discount received or allowed for the period. The discount column therefore would not come part of the double entry system.

**Contra Entries**

This is the term used to describe the entries which are made in 3- column cash book to record the movement cash between Office and the Bank, two instances that give rise to contra entries are;

a) When cash is paid in to the Bank.

b) When cash is withdrawn from Bank for Office use.

Contra Entries are denoted by letter “C” on the folio.

**Over Drawn Balance**

A credit balance on the Bank column indicates an overdraft. A credit balance is possible on the Bank column because the Banks normally allow their customers to withdraw more than they have.

Example 1: Mr. JISMA commenced business with N2,500,000 cash on June 1, 2020

and presented the following for the month.

N

June 2. Paid rent 200,000

June 6. Purchases 850,000

June 12. Sales 2,175,000

June 16. Paid wages 42,200

June 18. Motor vehicle 2,200,000

June 24. Sales 4,123,450

June 26. Purchases 1,080,000

June 30. Electricity bill 33,050

All the above transactions are by cash. Prepare the cash book.

**SOLUTION**

**Mr. JISMA**

**Dr Cash Book For the month of June 2020 Cr**

**Date Particulars Amount Date Particulars Amount**

June 1 Capital 2,500,000 June 2 Rent 200,000

June 12 Sales 2,175,000 June 6 Purchases 850,000

June 24 Sales 4,123,450 June 16 Wages 42,200

 June 18 Motor vehicle 2,200,000

June 26 Purchases 1,080,000

 June 30 Electricity bill 33,050

 Balance c/d 4,393,200

**8,798,450 8,798,450**

Balance b/d 4,393,200

**2.5 Petty cash book**

The petty cash book is the book for recording small disbursement i. e expenses. The rationale behind the system is to reduce the numerous cash payments for small expenses. The conventional system for recording petty cash transaction which is generally adopted is called the imprest system. In this system, a specified sum is given to the petty cashier at the start of the accounting period. This specified sum is called float. This amount should be sufficient to cover the estimated petty cash expenditure for a stated period. At frequent intervals he must be reimbursed for the cash disbursed for the period concerned thus bringing the cash balance to the formal amount.

The petty cash book is a double entry book and must be included in the Trial Balance. The maximum level of cash held in the petty cash book is fixed and the cashier must be reimbursed for the amount he has paid out. The source document for petty cash book is the petty cash expenses voucher.

Advantages of Petty Cash Book

* The risk of fraud will be eliminated.
* The burden of the main cashier will be reduced.

**2.6 Employees’ pay**

Employees’ pay is the process of paying a business's employees, which can include the tracking of hours worked, the calculation of employees’ salaries/wage, and the distribution of payments by cash or by check or via direct deposit directly to their account on period basis (Daily, Weekly, or Monthly).

In the case of wage, the employees’ pay is calculated based on either work hours (hourly rate multiply by number of hours) or units produced (unit rate multiply by number of units).

For the salary, it usually comprises of Basic Salary plus other allowances (eg. rent allowance) which gives gross salary/pay. The gross salary may be subjected to tax deduction and any other agreed deduction.

**Illustration for Employees’ Pay Payroll Result**

The business has a policy of paying its employees a Rent Allowance of 25% of the Basic Salary, Other Allowance 50% of the Basic Salary. The current personal income tax rate is 5% of the Gross Salary.

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| --- | --- | --- | --- | --- | --- | --- | --- |
| S/N | Name | Basic Salary  | Rent Allowance | Other Allowances | Gross Salary  | Tax  | Net Salary  |
| 1 | Employee1 | 10,000.00  |   |   |   |   |   |
| 2 | Employee2 | 12,000.00  |   |   |   |   |   |
| 3 | Employee3 | 14,000.00  |   |   |   |   |   |
| 4 | Employee4 | 16,000.00  |   |   |   |   |   |
| 5 | Employee5 | 18,000.00  |   |   |   |   |   |
| 6 | Employee6 | 20,000.00  |   |   |   |   |   |
| 7 | Employee7 | 22,000.00  |   |   |   |   |   |
| 8 | Employee8 | 24,000.00  |   |   |   |   |   |
| 9 | Employee9 | 26,000.00  |   |   |   |   |   |
| 10 | Employee10 | 28,000.00  |   |   |   |   |   |
| 11 | Employee11 | 30,000.00  |   |   |   |   |   |
| 12 | Employee12 | 32,000.00  |   |   |   |   |   |
| 13 | Employee13 | 34,000.00  |   |   |   |   |   |
| 14 | Employee14 | 36,000.00  |   |   |   |   |   |
| 15 | Employee15 | 38,000.00  |   |   |   |   |   |
| 16 | Employee16 | 40,000.00  |   |   |   |   |   |
| 17 | Employee17 | 42,000.00  |   |   |   |   |   |
| 18 | Employee18 | 44,000.00  |   |   |   |   |   |
| 19 | Employee19 | 46,000.00  |   |   |   |   |   |
| 20 | Employee20 | 48,000.00  |   |   |   |   |   |

**2.7 Computerised Accounting Systems**

Computerization of Accounting System (CAS) is defined as accounting done with the aid of a computer that trends to involve dedicated accounting software and digital spreadsheets to keep track of a business or client’s financial transactions. A computerised accounting system therefore involves the computerisation of accounting information systems, which is established in order to facilitate decision-making. These are associated with a number of benefits like speed of carrying out routine transactions, timeliness, quick analysis, accuracy and reporting. Therefore, computerised accounting system are software programs that are stored on a company’s computer, network server, or remotely or access via the internet. CAS broadly means a software tool for processing financial information of business. It is a computer-based system, which processes financial information and supports decision tasks in the context of coordination and control of organisational activities

**Difference between Manual and Computerised Accounting System**

**Speed:** Accounting software processes data and creates reports much faster than manual system. Calculations are done automatically in software programs which minimizing errors, and increasing efficiency. Once data is inputted, you can create reports literally by pressing a button in a computerised system.

**Cost:** Manual accounting with paper and pencil is much cheaper than a computerised system, which requires a machine and software include training and program maintenance. Expenses can add up fast with cost for printers, paper, ink and other suppliers.

**Back up:** All transactions can be saved and backed up in case of fire or other mishap. You cannot do this with paper records, unless you make copies of all pages long and inefficient process.

1. **Basic Accounting Terminologies for Adjustments in Business**

A business is a legal entity whose operations and financial transactions are continuous in nature from one year to another. As a result, there are financial transactions in business organisations that cannot be fully completed within a year and more importantly at the end of the accounting year. Business involves the giving and taking of credits, while all expenditure and income for a particular year may not be fully paid and received as at the year end. However, those incomes due but not yet received and expenses due for settlement but not yet paid as at the year-end should be brought into the final accounts to show a true and fair position of the company through proper adjustment. While preparing trading and Profit and Loss account one point that must be kept in mind is that expenses and incomes for the full trading period are to be taken into consideration. For example if an expense has been incurred but not paid during that period, liability for the unpaid amount should be created before the accounts can be said to show the profit or loss. All expenses and incomes should properly be adjusted through entries.

* 1. **Provisions for bad debts:** In addition to the actual bad debts, a business unit may find on the last day of the accounting period that certain debts are doubtful, i.e., the amount to be received from debtor may or may not be received. The amount of doubtful debts is calculated either by carefully examining the position of each debtor individually and summing up the amount of doubtful debts from various debtor or it may be computed (as is usually done) on the basis of some percentage of debtor at the end of the accounting period. The percentage to be adopted is usually based upon the past experience of the business.
	2. **Provisions for discounts:** It is a normal practice in business to allow discount to customers for prompt payment and it constitutes a substantial sum. Sometimes the goods are sold on credit to customers in one accounting period whereas the payment of the same is received in the next accounting period and discount is to be allowed. It is a prudent policy to charge this expenditure (discount allowed) to the period in which sales have been made, so a provision is created in the same manner, as in case of provision for doubtful debts i.e.

Profit and loss account Dr.

To provision for discount on debtors account (Being provision for discount on debtor provided)

Treatment in final accounts

(i) Provision for discount on debtor is a probable loss, so it should be shown on the debit side of Profit and Loss account.

(ii) Amount of provision for discount on debtors is deducted from sundry debtor on the assets side of the Balance Sheet.

* 1. **Depreciations:** it is the reduction in the value of fixed asset due to its use, wear and tear or obsolescence. When an asset is used for earning purposes, it is necessary that reduction due to its use, must be charged to the Profit and Loss account of that year in order to show correct profit or loss and to show the asset at its correct value in the Balance Sheet.

The two-fold effect of depreciation will be:

1. Depreciation is shown on the debit side of Profit and Loss Account, and
2. It is shown on the asset side of the balance sheet by way of deduction from the value of concerned asset.
	1. **Inventory valuations:** Closing Inventory is the stock which remained unsold at the end of the accounting period. Unless it is considered while preparing the trading account, the gross profit shall not be correct. Adjusting entry for closing stock is as under:

Closing stock Account Dr.

To Trading account (Being closing stock brought in to books)

Treatment in final accounts

(i) Closing stock is shown on the credit side of Trading account.

(ii) At same value it will be shown as an asset in the balance sheet.

* 1. **Prepayments:** These are goods and services that have been paid for, but the benefit is yet to be enjoyed or consumed either in full or in part . These are certain expenses paid in advance or paid for the future period which is not yet over or not yet expired. The benefit of such expenses is to be enjoyed during the next accounting period. Since, such expenses have already been paid, they have also recorded in the books of account of that period for which they do not relate.

The adjustment entry for prepaid expenses is as under:

Prepaid Expenses Account Dr.

To Expenses Account (Being the adjustment entry for prepaid expenses)

The amount of prepared expenses will appear as an asset in the Balance Sheet while amount of appropriate expense account will be shown in the Profit and Loss Account by way of deduction from the said expense.

* 1. **Accruals:** These are services and goods that have been consumed or enjoyed during the year, but which payment has not been made either in full on in part at the end of that financial year. In order to bring this fact into books of accounts, the following adjustment entry will be passed at the end of the year:

Rent Account Dr.

To Accrued Account (Being outstanding expenses)

The two-fold effect of the above adjustment will be

1. the amount of outstanding rent will be added to the rent on the debit side of Profit and Loss Account, and
2. outstanding rent will be shown on the liability side of the Balance Sheet.

**4.0 Introduction to Tax System in Nigeria**

**4.1 Definitions of Tax**

The Government of Nigeria, like others in different parts of the world, has legislative powers to impose on its citizens, any form of tax and at whatever rate it deems appropriate. A perusal of the Nigerian Tax Laws shows that no attempt has been made to define the term “tax”. However, the Oxford Advanced Learner’s Dictionary defines ‘tax’ as: “Money that has to be paid to the government so that it can pay for public services”.

Black Law Dictionary defines tax as: “Monetary charge imposed by the Government on persons, entities or property, levied to yield public revenue”.

Thomas Cooley defines taxes as: “Enforced proportional contributions from persons and property, levied by the State, by virtue of its sovereignty, for the support of government and for all public needs”. In simple terms, tax is a compulsory contribution levied by a sovereign power, on the incomes, profits, goods, services or properties of individuals and corporate persons, trusts and settlements. Such taxes when collected are used for carrying out governmental functions, such as maintenance of law and order, provision of infrastructure, health and education of the citizens, or as a fiscal tool for controlling the economy.

**4.2 Objectives and Purposes of Taxation**

In most countries of the world, the primary objective and purpose of taxation is essentially to generate revenue or raise money for government expenditure on social welfare.

Apart from this, the use of taxation as an instrument of economic regulation or control for the purpose of discouraging certain forms of anti-social behaviour is also discernible from tax legislation in this century. Thus, it has been stated that the importance of taxation lies primarily in its ability to raise capital for the public sector, for the development and growth of the economy and also in assisting in the regulation of the consumption pattern, resulting in economic stabilization and effective redistribution of income. Today, taxes have an important role to play especially in any government’s economic and social policy.

The following major objectives should be taken into consideration whenever the government is designing a tax policy:

**(a)** **Revenue generation:** The primary objective of taxation is to raise money to meet government expenditure. Thus, taxation has always been employed to raise sufficient revenue to satisfy the needs of the government, such as in the provision of services like defence, law and order, health services and education. Revenue from taxation can also be spent on capital projects, otherwise called capital expenditure, creating a social and economic infrastructure, which will improve the social life of the people and also enable the economy of the country to grow. Thus, the most important objective of any tax reform today should be to raise more revenue to the government.

**(b) Redistribution of income and wealth:** This can be looked at from two angles. The first is the doctrine that taxation should be based on the ability to pay, so that the burden of taxation ought to be heavier for rich men than for the poor, with the taxes collected being used to pay for social services for the less fortunate. This is achieved by the graduation or “progressiveness” of the rates at which the taxes are levied.

(i) This objective sees the present distribution of wealth as being unjust and so attempts to reverse the situation by fixing taxes at concessionary rates in favour of the poor.

(ii) High taxes on the income and wealth of the rich can produce either incentive or disincentive effects. Sometimes, a taxpayer’s spendable income is reduced through taxation, so he is compelled to work harder in order to maximise his income. Taxes that produce incentive effects therefore increase productivity. On the other hand, a high marginal tax rate can produce a disincentive effect which makes the worker take to leisure rather than to extra work. This disincentive effect is an indication of economic inefficiency and waste.

**(c) Management of the economy:** Taxation is important in the planning of savings and investments and by harmonising it with development strategy and changing economic structure. The government can use taxation as a powerful fiscal weapon to plan and develop a country.

(i) A tax system can also provide the government with effective and flexible instruments for the day-to-day management of the economy.

(ii) Consequently, taxation can be used to achieve specific economic objectives of a nation. It can also be designed in such a way as to direct private investment in line with national needs and priorities. The tax system can be used to regulate or discourage particular activities of citizens, which are thought to be undesirable on social grounds, such as drinking alcohol, smoking or betting (often referred to as demerit goods). In Nigeria, the Government, often times introduces tax incentives and attractive tax reliefs, as an instrument to woo and induce local and foreign investors into the areas of manufacturing of goods, export processing, oil/gas exploration and utilisation and provision of utilities.

**(d) Harmonisation of economic objectives:** Harmonisation of diverse trade or economic objectives of different countries can be achieved through a good tax system. For example, tax system can be employed by member states of Economic Committee of West African States (ECOWAS) so as to achieve the philosophy of the single market (free movement of people and goods) within the region.

(e) Finally, taxation is a device to improve gross national income, induce economic development and influence favourable balance of payments with other countries.