



**COURSE
GUIDE**

**AEA306
FARM RECORDS AND ACCOUNTING**

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Introduction

The farming environment is dynamic - always changing. It faces changes in technology, prices, climate and institutions. These changes affect the performance of an enterprise or enterprises in a farm.

Records are essential in any management operation. A good record keeping system will allow managers to monitor and evaluate the performance of their production system. It will help them identify problem area in the production plan, and to make the necessary corrective measures. Similarly complete records are useful to the manager and technical advisors in assessing any problems in determining factors that contribute to these problems, and in deciding what to do to control these problems.

Farm Records and Accounting a two credit degree course is one of the fundamental courses for Bachelor Degree Programme in Agriculture (B.Sc) and Agricultural Education (B.Sc.Ed) in any University in the world at large.

There are three modules consisting 15 units altogether. The first module starts with farm records. This gives a focus on Types and uses of farm records, analyzing farm records and computerising farm records.

The second module focuses on Bookkeeping and Accounting which will enable you to get acquainted with the various books used in keeping farm accounts as well as how to use computer software in accounting.

The third module discusses Trial balance and final accounts. Here you will learn about the limitations and common errors of the trial balance. In addition, you will also learn the various adjustments that needed to be made in the final account of a farm firm.

What you will learn in this course

You will learn about Farm records, Bookkeeping and Accounting, Trial balance and final Accounts.

Course Aims

The aim of this course is to create an in-depth knowledge of farm records and Accounting. This will enable farm managers and other workers on the farm to appreciate the role of up-to-date farm records and efficient accounting in sustainable agricultural development. Thus, the aim of farm records and accounting is to:

- i. Explain the meaning and scope of farm records.
- ii. Discuss Bookkeeping and Accounting
- iii. Discuss Trial Balance and final Accounts.

Course Objectives

In order to achieve the course aims, there are some overall objectives set for the course. Besides, each module and each unit has their respective objectives which you and your facilitator must constantly refer to, so that no objective is skipped. All the modules and unit objectives are specifics of the course objectives. The course objectives are stated as follows:

- i. Identify the types and uses of farm records.
- ii. State the strategies and techniques for computerising farm records.
- iii. Explain the concept of bookkeeping
- iv. Discuss the various books used for bookkeeping.
- v. Prepare balance sheet, Profit and loss account and the cashflow statement.
- vi. Explain the necessary adjustment in the final accounts.
- vii. Prepare final accounts of a farm firm

Working through this Course

This course contains some packages that you will be given at the beginning of the semester: one of them is the course material. Your full participation in both the continuous assessment and the final written examination are two areas expected of you to fulfill at the end of the course. The 15 units of the course packaged for you in modules are as shown below:

Module 1 Farm Records

- Unit 1 Meaning and Scope of farm records
- Unit 2 Types and uses of farm records
- Unit 3 Developing and improving farm records
- Unit 4 Analyzing Farm Records
- Unit 5 Computerized Farm Record keeping

Module 2 Bookkeeping and Accounting

- Unit 1 Meaning and scope of bookkeeping
- Unit 2 Book keeping
- Unit 3 System of farm Accounting
- Unit 4 Computerized Farm Accounting

Module 3 Trial Balance and final Accounts

- Unit 1 Meaning and scope of Trial Balance
- Unit 2 Limitations and common errors of Trial Balance

Unit 3 Final Accounts

Course Material

Major course materials of the course are as follows:

- i. **Course Guide:** This looks like a blue print that spells out what constitutes the course itself.
- ii. **Study units:** Each of these provides an overview of the content and number of units that will be covered in this course.
- iii. **Assignment files:** These files contain challenging tutorial questions termed as Tutor -Marked Assignment (TMAs) that will enable you to assess yourself at the end of every assignment that will be handed out by your tutor.
- iv. **Presentation schedule:** Certainly, the modus operandis (e.g. time table, hours expected on each unit/ Module, assignment submission procedure on how it will be self tutored with the monitoring techniques by Noun will be in the information package of this schedule).

Study Units

Details of the study units have earlier been presented. It is spelt out in modules with corresponding units and titles. You will be expected to spend 2-3 hours in studying a unit.

References and other Resources

Apart from this study unit, some reference materials are provided as additional reading materials to support your study. You may come across them in Noun library or elsewhere.

Instructional Media

As an open and distance learning University several and relevant multi-media that can make learning possible are available.

Assignment File

This has been discussed later. It is mandatory to always turn in your assignments to any tutor assigned.

Assessment

You will be expected to complete at least ten assignments by the end of the course. Some of these will be in the form of a project and continuous assessment (CA). You will be expected to write a final examination in the course. The overall score in the course will be a sum of 40% of CA and 60% of written examination. You will be expected to have 50% in

the CA and 50% in the written examination; anything short of this will count as failure.

Tutor -Marked Assignment

The TMA is a continuous assessment component of your course. It accounts for 30% of the total score. You will be given four (4) TMAs to answer. Three of these must be answered before you are allowed to sit for the end of course examination. The TMAs would be given to you by your facilitator and returned after you have done the assignment. Assignment questions for the units in this course are contained in the assignment file. You will be able to complete your assignment from information and materials contained in your reading, references and study units. However, it is desirable in all degree level of education to demonstrate that you have read and researched more into your references, which will give you a wider view point and may provide you with a deeper understanding of the subject.

Make sure that each assignment reaches your facilitator on or before the deadline given in the presentation schedule and assignment file. If for any reason you cannot complete your work on time, contact your facilitator before the assignment is due to discuss the possibility of an extension. Extension will not be granted after the due date unless there are exceptional circumstances.

Final Examination and Grading

The end of course examination for introduction to Farm Records and Accounting will be for about 3 hours and it has a value of 70% of the total course work. The examination will consist of questions, which will reflect the type of self -testing, practice exercise and tutor -marked assignment problems you have previously encountered. All areas of the course will be assessed.

Use the time between finishing the last unit and sitting for the examination to revise the whole course. You might find it useful to review your self-test, TMAs and comments on them before the examination. The end of course examination covers information from all parts of the course.

Course Marking Scheme

| Assignment | Marks |
|---------------------------|--|
| Assignments 1-3 | Three assignments, marks of the count at 10% each = 30% of course marks. |
| End of course examination | 70% of overall course marks. |

| | |
|-------|---------------------------|
| Total | 100% of course materials. |
|-------|---------------------------|

Facilitators/Tutors and Tutorials

There are 16 hours of tutorials provided in support of this course. You will be notified of the dates, times and location of these tutorials as well as the name and phone number of your facilitator, as soon as you are allocated a tutorial group.

Your facilitator will mark and comment on your assignments, keep a close watch on your progress and any difficulties you might face and provide assistance to you during the course. You are expected to mail your Tutor Marked Assignment to your facilitator before the schedule date (at least two working days are required). They will be marked by your tutor and returned to you as soon as possible.

Do not delay to contact your facilitator by telephone or e-mail if you need assistance.

The following might be circumstances in which you would find assistance necessary, hence you would have to contact your facilitator if:

- 1 You do not understand any part of the study or the assigned readings.
- 2 You have difficulty with the self-tests
- 3 You have a question or problem with an assignment or with the grading of an assignment.

You should endeavour to attend the tutorials. This is the only chance to have face to face contact with your course facilitator and to ask questions which are answered instantly. You can raise any problem encountered in the course of your study.

To gain much benefit from course tutorials prepare a question list before attending them. You will learn a lot from participating actively in discussions.

Summary

Farm Records and Accounting is a course that intends to provide concept of the discipline and is concerned with keeping accurate farm records and maintaining good accounts. Upon completing this course, you will be equipped with the basic knowledge of farm records, bookkeeping and accounting as well as Trial balance and final account. In addition you will be able to answer the following questions:

- 1 What are farm records?
- 2 What are the basic things to consider in selecting a computer records keeping system?

- 3 Which of the computer software known to you will you recommend as the best for farm business?
- 4 Distinguish between bookkeeping and Accounting
- 5 Explain the three major divisions of books used in bookkeeping and accounting.
- 6 Who is a bookkeeper?
- 7 State and explain the major methods of bookkeeping.
- 8 State and explain the golden rules of bookkeeping
- 9 What are the four variants of the farm accounting system?
- 10 What are the four major ways by which farm assets can be valued?
- 11 How can complete farm accounting be accomplished electronically?

Of course, the list of questions that you can answer is not limited to the above list. To gain the most from this course you should endeavour to apply the principles you have learnt to your understanding of farm records and accounting.

I wish you success in the course and I hope that you will find it both interesting and useful.



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MODULE 1 FARM RECORDS

| | |
|--------|---------------------------------------|
| Unit 1 | Meaning and Scope of farm records |
| Unit 2 | Types and uses of farm records |
| Unit 3 | Developing and improving farm records |
| Unit 4 | Analyzing Farm Records |
| Unit 5 | Computerized Farm Record keeping |

UNIT 1 MEANING AND SCOPE OF FARM RECORDS

Unit Structure

- 1.1 Introduction
- 1.2 Learning Outcomes
- 1.3 Main content
 - 1.3.1 Definition and scope of farm records
 - 1.3.2 Principles of record keeping
- 1.4 Conclusion
- 1.5 Summary
- 1.6 References/Further Readings/Web Sources
- 1.7 Possible Answers to Self-Assessment Exercises



1.1 Introduction

In all spheres of life, adequate information is necessary for decision making. This is also the case for farming decisions. Records are essential in any management operation.



1.2 Learning Outcomes

By the end of this unit, you should be able to:

- Define and explain the scope of farm records.



1.3 Main Content

1.3.1 Definition and Scope of Farm Records.

Records are statements of fact or data concerning a specific subject which may be specified in physical, monetary, mathematical or statistical terms. Farm records pertain to information recorded on the day-to-day operation of a particular farm. Farm records can be defined

as systematic documentation of all activities taking place in a farm enterprise over a given period of time. It is an act of writing down every activity engaged in on the farm in every production season and at different stages of the production process up to the final disposal of the goods and services to the ultimate consumer.

Farm records are simply the records of all the activities that take place on the farm within a period say a farming season or year. It can also be defined as all written documents showing major activities going on in the farming business. Farm record keeping is more than just keeping track of what crop was planted in what field; it is a concept applicable to the entire farm operation.

A complete farm record will include all daily activities and transactions and with a proper accounting system it should be possible to have a complete estimate of the profit or loss statement at the end of the year. By keeping a complete farm record on a yearly basis it is possible to have a comparison between years and thereby determine the rate of growth or deterioration of the farm. There are three basic types of farm records:

- i. Resources inventories
- ii. Production accounts of livestock and crop operations.
- iii. Income and expenses records.

As a farmer, you use resources such as land, labour, machinery, breeding stock management and financial capital. You must assign value to these resources and maintain current inventories so that you know the foundation from which you operate, from this resource base, you produce food and fibre. The production account of livestock and crop shows how this resource base is combined with other inputs to yield physical output. Consequently, production records, such as the relationship of feed to weight gain, cow to number of calves, fertilizer to crop yield, or land to total production, are most critical to your farm's profits. Because farmers interact in a market economy, the cost of the feed and revenue from the market value or the cost of the fertilizer and the price of the grain are equally important. These income and expense records are related to each other and translate production accounts into Naira and kobo.

1.3.2 Principles of Record Keeping

There are some general principles which apply to all record keeping and these are as stated below:

1. All records, to be of value, must be accurate, neat and full. One way of making sure that records are accurate is by filling them in as soon as possible after the operation or transaction and by

- checking regularly.
2. All the results of record keeping should be compared with some standards which may be the results for previous years or the results for other farms. By comparing results and discussing problems together, farmers can help each other to improve their management.
 3. The record keeping system should fit into the farm organization or framework.
 4. The person responsible for keeping the records should develop a habit of regularly and accurately posting transactions.
 5. All financial transactions should be made through the bank and the monthly statement should be reconciled with the cheque book and record keeping system.

Self-Assessment Exercise

1. List three basic types of farm records.
2. Outline any 4 principles of record keeping.

1.4 Conclusion

We have learnt in this unit that farm record keeping is more than just keeping track of what crop was planted in what field. It is a concept applicable to the entire farm operations. Some of the principles of record keeping were enumerated.



1.5 Summary

You have learnt in this unit that:

- i. Farm records can be defined as the systematic documentation of all activities taking place in a farm enterprise over a given period of time.
- ii. There are three types of farm records: resources inventories, production records and income and expense records.
- iii. For all records to be of value it must be accurate, neat, full, current and simple.



1.6 References/Further Readings/Web Sources

Olukosi, JO and P.O Erhabor (1988). Introduction to Farm Management Economics: Principles and Applications. AGITAB Publishers Ltd, Zaria PP 21 - 22.

Gerloff, D.C and R.W Holland (2006). Establishing and using a farm financial Record - keeping system: The University of Tennessee Agricultural Extension Service U7 PB 1540.

Groover, G. E., Osborne, D., & Heizer, C. (2017). Farm Record Book: Expenses and Receipts.



1.7 Possible Answers to Self-Assessment Exercises

Self-Assessment Exercise

1. List three basic types of farm records.

Answers:

- i. Resources inventories
- ii. Production accounts of livestock and crop operations.
- iii. Income and expenses records.

2. Some general principles which apply to all record keeping are:

- i. All records, to be of value, must be accurate, neat and full. One way of making sure that records are accurate is by filling them in as soon as possible after the operation or transaction and by checking regularly.
- ii. All the results of record keeping should be compared with some standards which may be the results for previous years or the results for other farms. By comparing results and discussing problems together, farmers can help each other to improve their management.
- iii. The record keeping system should fit into the farm organization or framework.
- iv. The person responsible for keeping the records should develop a habit of regularly and accurately posting transactions.
- v. All financial transactions should be made through the bank and the monthly statement should be reconciled with the cheque book and record keeping system (**any 5**).

UNIT 2 TYPES AND USES OF FARM RECORDS

Unit Structure

- 2.1 Introduction
- 2.2 Learning Outcomes
- 2.3 Main content
 - 2.3.1 Types of Farm Records
 - 2.3.2 Uses of Farm Records
- 2.4 Conclusion
- 2.4 Summary
- 2.6 References/Further Readings/Web Sources
- 2.7 Possible Answers to Self-Assessment Exercises



2.1 Introduction

Records are important to the financial health of the farm. Good records do not ensure your farm will be successful; however success is unlikely without them. Accurate and up-to-date records are essential to successful farm management. Before any financial, budgeting or financial decisions can be made, farm records must be maintained.

Farm records are like report cards students receive in school, with a farm report card, you can tell how well you are managing your operation compared with other producers in your “class”. You can also see the strengths and weaknesses of your farm operation. In this unit, attempts will be made to highlight the various uses of farm records.



2.2 Learning Outcomes

By the end of this unit, you should be able to:

- State and explain the various types of farm records
- State and explain the uses of farm records.



2.3 Main Content

2.3.1 Types of farm Records

Broadly speaking farm records can be whatever type the originator wants it to be and to serve whatever purpose it is intended for. In this light farm records types are not fixed and can be made or drawn to suit

individual or specific needs. This dynamism should also reflect in the configuration/format of the tables, examples are

- Daily farm records.
- Records of farm implements and equipment.
- Record of agricultural inputs.
- Records of livestock and livestock products.
- Records of animal feeds.
- Production records.
- Records for farm use.
- Farm expenditure record

Some of the types of farm records are enumerated below

- (1) **Farm Diary:** This is a record of day to day activities of the farm. It is possible to trace weakness in the farm business. Farm diary takes care of crops, date of planting, amount of seed used, harvest date, etc.
- (2) **Farm Inventory:** This record takes care of the livestock (types, number etc), buildings etc. It gives information on the state of the item, the ones that need replacement, repair, borrowed, or hired out.
- (3) **Input Records:** This record gives details of the size or quantity of input utilized to the farm e.g fertilizers, feed for livestock, amount of seeds used, labour, medication, stock of livestock etc. It enables the farmer know whether he is using too much animal feed or much seeds as the case maybe, before too much losses are incurred.
- (4) **Production Records:** This record measures the productivity of the land, and success of farming operations generally. It shows whether a particular livestock is doing well or not.
- (5) **Scale Records:** This record tells a farmer how much he is making. It helps the farmer not to spend too much and also help him in adequate farm planning.
- (6) **Consumption Records:** Not all produced are put to sale. This records the quantity harvested and consumed by the farmer and his family, or given out, but not sold.
- (7) **Profit And Loss Accounts:** This record has two sides. The left side has to do with liabilities and payments (purchased and expenses) While the right hand side is concern with Assets and Revenue (Sales and Receipts).

Basically there are three basic types of farm records: resources inventories, production accounts of livestock and crop operations, and income and expense records.

Resources Inventories - As a farmer you use resources such as land labour, machinery, breeding stock, Management and financial capital.

They are information about existing circumstances in the planning process. Resource inventories specify the condition of soil, water, air, plant, animal and human resources (SWAPA+H). Resource inventories provide realistic, objective data about the planning area, and are crucial for sound decision-making.

You must assign value to these resources and maintain current inventories so that you know the foundation from which you operate, from this resources base, you produce food and fiber.

| S/No. | Items | Quantity | Values (₦) |
|-------|-----------------------------|------------|----------------------|
| 1 | Land | 4 hectares | 5,000,000.00 |
| 2 | Farm Building and Structure | 2 | 13,000,000.00 |
| 3 | Machinery & Equipment | 4 | 7,000,000.00 |
| 4 | Pigs | 50 | 2,000,000.00 |
| 5 | Broilers | 500 | 2,500,000.00 |
| 6 | Layers | 350 | 1,050,000.00 |
| 7 | Crops | 2 hectares | 1,800,000.00 |
| 8 | Fertilizer | 75 bags | 675,000.00 |
| | Grand Total | | 33,025,000.00 |

Fig 1: A table of farm inventory

The table above shows the various resources employed in the farming enterprise and that will form a basis for subsequent planning and performance monitoring and evaluation to see if the farm enterprise is making progress and also the areas that will need to be improved on.

Self-Assessment Exercise

1: Mention the three basic types of farm records.

Another example of resource inventory farm record is shown below

| Item/Feed Type | Unit/quantity | cost/unit | total cost |
|-------------------|---------------|-----------|-------------------|
| Broilers starter | 10 | 7,000.00 | 70,000.00 |
| Broilers finisher | 8 | 7,000.00 | 56,000.00 |
| Layers Mash | 7 | 6,500.00 | 45,500.00 |
| Growers Mash | 6 | 6,500.00 | 39,000.00 |
| Hog mash | 30 | 2,500.00 | 75,000.00 |
| Fodder | 200 | 800.00 | 160,000.00 |
| Total | | | 445,500.00 |

Figure 2: Records of Livestock feed.

Production accounts of livestock and crops - The production accounts of livestock and crop show how this resources base is combined with other inputs to yield physical output, consequently production records such, as the relationship of feed to weight gain, cow to number of calves, fertilizer to crop yield, or land to total production, are most critical to your farm’s profits. The under listed are different types of records depicting the production processes and activities.

| Items | No. of Implement/Equipment | Amount/Units | Total Amount |
|-----------------------|----------------------------|--------------|--------------|
| Rakes | 5 | 4,200.00 | 21,000.00 |
| Shovel | 7 | 2,300.00 | 16,100.00 |
| De feathering Machine | 2 | 22,000.00 | 44,000.00 |
| Total | | | 81,100.00 |

Figure 3: Records of Farm Implement and Equipment.

| Activities | No of workers | Amount/work er | Total Daily Expense |
|---------------------|---------------|----------------|---------------------|
| Land clearing | 3 | 2,000.00 | 6,000.00 |
| Cleaning of Poultry | 2 | 2,000.00 | 4,000.00 |
| Picking of eggs | 2 | 2,500.00 | 5,000.00 |
| Grand Total | | | 15,000.00 |

Figure 4: Daily production activities Record

Income and Expense records - because farmers interacts in a market economy, the cost of the feed and revenue from the market hog/value or the cost of the fertilizer and the price of grain, are equally important. These income and expense records are related to each other and translate production account into Naira and kobo (fig 3 and 4).

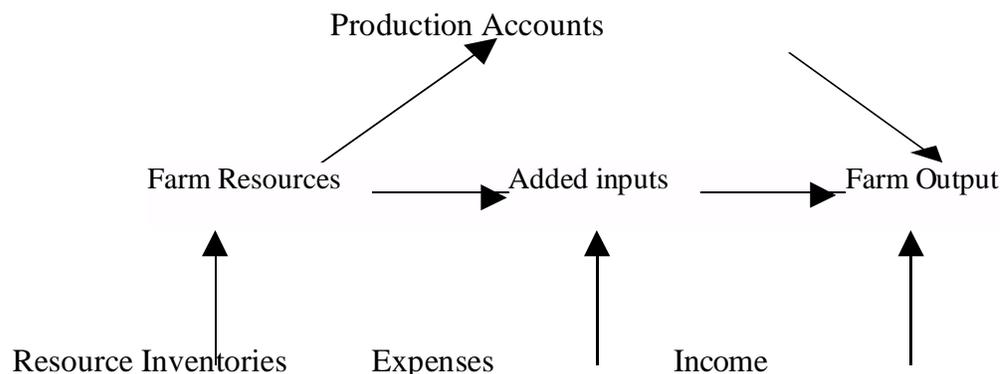


Fig 5: Types of Farm Records

The various farm enterprises have items, materials, implements and equipments that are used in their operations, though some of these materials/things overlap. Requisite knowledge of them will help in keeping adequate records and eventually sound financials. Below is a categorization of these things and they are by no means exhaustive.

Poultry Enterprise

Stock – (Day old chicks, Broilers and Layers), feed, feeders, drinkers, battery cages, building/housing, heating, spade, shovel, egg trays, eggs, fencing, medical supplies

Piggery Enterprise

Stock – Piglets, gilts, Sow, Boars), building, farrowing pens, pens, heating equipment, ventilation/cooling equipment, wheel barrow, boots, fencing, medical supply

Crop Enterprise

Stock – Various seeds, seed drill, pruning shear, hand fork, tractor, combine harvester, fertilizer spreader, crow bar, different types of hoes, cultivator, rake, set of hand trowels

2.6.1 Uses of Farm Records

Broadly speaking farm records are useful for the under listed

- (1) They help in decision making for proper management.
- (2) They help to plan and implement farm business.
- (3) It is useful in preparing profits & loss account.
- (4) It provides information on farm history and level of production of the farm business (progress monitoring).
- (5) It can help in taking adequate insurance policies by the farmer for his farm enterprise.
- (6) Farm records provide useful information on taxes payable and for farm budget preparation.
- (7) It provides a reliable basis for future planning.

Resources Inventories

You must count and assign value to your resources and inventory in your farm. These resources include both assets and liabilities. Assets are all items you own; liabilities indicate what you owe. Counting assets is relatively easy. With a notebook and paper, walk around your farm and survey your assets. Record the number of milk cows, hectares of tilled land etc valuing assets, is more difficult. Assets such as grain will probably be valued at the net market price for which they could be sold. Tractor could be valued at their original cost minus depreciation. Similarly land could be valued at its market price (if developed for residential houses) or at its agricultural value. Liabilities are easier

than assets to count and value. A listing of debts to banks and other creditors usually is sufficient. The only difficulty is adjusting for accrued interest.

Resources can be counted and assigned a value more often, but most farmers find an end - of year valuation most useful. Resources inventories are not a “flow” concept, but a “stock” measurement. The most direct application of resources inventory is completing a balance sheet to determine your net worth. A resource inventory also is useful for computing non-cash expenses, such as depreciation. Resources on the farm often are used as collateral for a loan. A resource inventory provides a helpful summary of those assets to be used as collateral.

Finally, with an up-to-date inventory of your farm’s resources, you can consider options for growth and diversifications more carefully and efficiently.

Production Accounts.

Production Accounts are used to measure the performance of crop and livestock enterprises on the farm, some production information can be derived from income and expense records, for example where total kilogram purchased might be noted. This information while useful, usually is not specific or complete enough. More detailed production accounts can and should be kept, usually classified as crop, livestock or labour records.

Often included under crop records are farm maps. Farm maps are used to describe soil conditions cropping patterns, field layouts and building locations. Other written crop records show crop rotations, yields, fertilizer rates and pesticide applications. This information can be summarized and will indicate the efficiency of production.

Livestock and poultry records usually include subsections for mortality, breeding, performance and feed information. Mortality records list the number of livestock and track disease problems. Breeding records ensure that only superior individuals or groups of individuals are used to parent offspring with desired characteristics.

Performance records for livestock are divided between birth and productive information. Birth records indicate date of birth, important dates in the animal’s life, parental evaluation and weaning information. Production records refer more directly to herd size, rate of gain, kilogram sold and purchased.

Finally, feed records are important in evaluating overall production efficiency. Feed normally constitutes at least 50percent of the total cost of raising an animal for meat. The type of feed ration, its formulation

and the rate of feeding should be monitored closely.

Another major category of production record keeping is labour. Labour records are important particularly when labour shortages are a problem. By knowing the amount and timing of labour required per operation of an enterprise you can better plan what enterprises are feasible when faced with labour constraints on the farm.

Income and Expense Records.

A transactions journal and general ledger are useful for recoding income and expense records. In the transactions journal, you record financial transactions as they happen. In the general ledger, you begin organizing your farm records into a meaningful format. Important uses of the transactions journal and general ledger are to provide information for the income statement and cash flow statement. With the income statement, you can calculate farm profit. The cash flow statement is a summary of the timing and flow of Naira in and out of the farm business. It helps you meet cash obligations.

For most farmers, a simple yet suitable transactions journal is the farm checkbook. It helps you keep track of the majority of income and expense transactions needed for a complete set of records, with the information from the transactions journal; the farmer organizes cash receipts and expenses in the general ledger by date and category.

Self-Assessment Exercise

2: Distinguish between input and production records.

2.4 Conclusion

In this unit, we have learnt that accurate and up-to-date records are essential to successful farm management. Records are used among others to: evaluate past performance of the operation, provide a financial picture of the present situation, and serve as a planning guide for future decisions.



2.5 Summary

In this unit, we have learnt that:

- There are three basic types of farm records: resource inventories, production accounts of livestock and crop operation, and income and expense records
- Farm records are used among others to: evaluate past performance of the operation, provide a financial picture of the present situation and serve as a planning guide for future

decisions.



2.6 References/Further Readings/Web Sources

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2.7

Possible Answers to Self-Assessment Exercises

Self-Assessment Exercise 1: Mention the three basic types of farm records.

Answers:

1.

Basically there are three basic types of farm records:

- i.resources inventories,
- ii.production accounts of livestock and crop operations, and
- iii.income and expense records.

Self-Assessment Exercise 2: Distinguish between input and production records.

Answer:

Input Records: This record gives details of the size or quantity of input utilized to the farm e.g fertilizers, feed for livestock, amount of seeds used, labour, medication, stock of livestock etc. It enables the farmer know whether he is using too much animal feed or much seeds as the case maybe, before too much losses are incurred.

Production Records: This record measures the productivity of the land, and success of farming operations generally. It shows whether a particular livestock is doing well or not.

UNIT 3 DEVELOPING AND IMPROVING FARM RECORDS

Unit Structure

- 3.1 Introduction
- 3.2 Learning Outcomes
- 3.3 Main Content
 - 3.3.1 Developing farm Records
 - 3.3.2 Improving farm Records
- 3.4 Conclusion
- 3.5 Summary
- 3.6 References/Further Readings/Web Sources
- 3.7 Possible Answers to Self-Assessment Exercises



3.1 Introduction

In this unit you will learn about developing and improving farm records. You will be acquainted with record keeping and record analysis, selecting a record keeping system and comparison of the hand and computer system of record keeping.



3.2 Learning Outcomes

By the end of this unit, you should be able to:

- Explain the concept of record keeping and record analysis
- Compare the hand and computer system of record keeping
- Explain how farm records can be improved.



3.3 Main Content

3.2.1 Developing farm records

Record keeping refers to keeping, filing, categorizing and maintaining farm financial and production information. Record analysis refers to evaluating farm records. The evaluation process allows a farm manager to make informed decisions based on actual (or projected) farm performance. Obviously, record analysis cannot take place without first keeping records.

It is the analysis of performance of a farm business; this is typically done in two different ways: analyzing the enterprise singly or individually and whole farm business analysis. Enterprise analysis deals with determination of profitability/effectiveness of individual farm enterprises. The hand or manual system and the computer or automated system are the two methods of developing and keeping farm records.

1. The hand system

A large number of hand systems are available. One of the simplest systems involves the recording by hand of all financial transactions in a journal format. Purchases and sales activities are listed by hand as they occur. The enterprises show the date, the item involved (quantity, size etc) and cash involved in sale or purchase. These are done using preformatted record books and ledger sheets.

The manual record keeping is aptly suitable for small businesses (Farms) whose transactions and activities are still very small and manageable but are still required by regulatory authorities to show proof of their business dealing for tax purposes and economic planning

Advantages of Manual Record Keeping

The advantages of manual record keeping systems include:

- Low cost of materials needed for record keeping and
- Ease of use (the manual system is straight forward and devoid of complications, especially if you don't have lots of different expense and income items).

Disadvantages of Manual Record Keeping

The disadvantages of manual record-keeping systems include:

- They are often "single entry" systems, meaning you enter each transaction only once. As such, there is no automatic check and balance system like that used in computer programs (like *Quicken* -- or in more formal double entry bookkeeping systems.
- You must manually tally up expenses or income by category or by month -- which can be time consuming and could lead to errors.

Table 1: Example of whole farm Record keeping

| Date | Description | Income | | | Expense | | |
|------|-------------------------------|--------|-----------|-------|---------|----------|---------|
| | | Calves | Cull Cows | Maize | Feed | Supplies | Fuel |
| 10/1 | Sold 10 calves at N10,000 | 100,00 | | | | | |
| 10/1 | Purchased feed (2 tons) | | | | N40,000 | | |
| 10/3 | Sold 2 cows at N60,000 | | N120,000 | | | | |
| 10/6 | Purchased supplies | | | | | N20,000 | |
| 10/8 | Purchased 1500 litres of fuel | | | | | | N97,500 |

| | | | | | | | |
|-------|----------------------|--|--|----------|--|--|--|
| 10/11 | Sold 2000kg of maize | | | ₦200,000 | | | |
|-------|----------------------|--|--|----------|--|--|--|

For example Table 1 portrays a whole-farm record-keeping system. The date and a short description of each transactions are listed first followed by the Naira amount of each transaction under the appropriate income or expense category. The number of income and expense categories depends on the amount of specificity desired by the farm manager.

Table 2 is smaller to Table 1 but adds an enterprise accounting section. In addition to the income and expense categories, the transaction is also listed in an enterprise category. For example, “the purchased supplies” expense of ₦20, 000 is first listed under the supplies category. But ₦16, 000 of the expense is listed under “cow/calf” expenses and ₦4, 000 is listed under maize. Again the number of enterprises used depends on the amount of detail desired by the farm manager.

Table 2: Example of Enterprise Record Keeping

| Date | Description | Income | | | Expense | | | Enterprises | | |
|-------|-------------------------------|----------|-----------|----------|---------|----------|---------|-----------------|--------------|----------|
| | | Calves | Cull Cows | Maize | Feed | Supplies | Fuel | Cow/Calf Income | Maize Income | Expense |
| 10/1 | Sold 10 calves at 10,000 | ₦100,000 | | | | | | | | |
| 10/1 | Purchased feed (2 tons) | | | | ₦40,000 | | | | ₦40,000 | |
| 10/3 | Sold 2 cows at ₦60,000 | | ₦120,000 | | | | | ₦120,000 | | |
| 10/6 | Purchased supplies | | | | | ₦20,000 | | | ₦16,000 | ₦4,000 |
| 10/8 | Purchased 1500 litres of fuel | | | | | | ₦97,500 | | ₦2,500 | ₦95,000 |
| 10/11 | Sold 2000kg of Maize | | | ₦200,000 | | | | | | ₦200,000 |

Regardless of the system selected, entries should be made regularly. In addition, disciplining oneself to make easy transaction through a bank checking account will ease record keeping difficulties. And reconciling bank statements with farm records ensures accuracy.

2. Computerized record keeping system.

This entails the use of different software package in record keeping. In 1994 Pena et al evaluated six computerized farm record keeping programs with each program having some unique features.

Selecting a computerized record keeping program should be done on the basis of features needed. Some program will allow for enterprise accounting, some programs will calculate payroll reports for employees.

Few financial record keeping programs allow for production records to be kept simultaneously with financial records. For example in many programs, sales of grain or livestock can be reported in Naira only, with no accounting for kilogrammes.

A computerized record-keeping system will not necessarily save time. Its real advantage is in record analysis. Once the information is posted in the computer software reports and analysis can be created, changed and printed. Computerized systems quickly and accurately sort and report a great deal of information. They can also provide monthly or annual summaries for identifying strengths and weaknesses of an operation.

Advantages of Using a Software Program

By using a software program for record keeping, you can:

- eliminate math errors
- instantly see your income and expenses by category
- get profit and loss statements and other financial summaries quickly, and
- Interface with compatible tax software programs -- so you don't need to re-input data come tax time.

Disadvantages of Using a Software Program

Disadvantages of software programs for business record keeping include:

- They are slightly more expensive than manual record keeping supplies. A simple program like *Quicken* runs about \$50, while programs (like *Quickbooks*) that are geared toward larger businesses can cost \$150 or more.
- You must have a computer and be comfortable using it on a regular basis.

Table 3: Compare of the hand system and Computerized system of record keeping

| Hand System | Computer System |
|---|--------------------------------------|
| Low initial out-of-pocket expense | Higher initial out-of-pocket expense |
| Easy to implement | May require significant study |
| Time consuming | Fast Accurate |
| More opportunities to make mistakes | Can be a powerful analysis tool |
| Limited in extent of analysis without extraordinary investment of time and effort | |

3.2.2 Improving Farm Records

Accurate records are essential for evaluating your farms performance: accurate analysis required accurate data. Too often farmers rely on

publications which describe an average farm instead of personal records that describe their farm. To make the best financial decisions concerning your farm, use data collected from your farm. It is possible to make the job of record keeping easier by using forms and accounting systems designed especially for the farm. A good source for record keeping books is your local extension agent or agricultural lender. Also software packages for farm record keeping can be purchased for your personal computer.

Accuracy is just as important in management record keeping as in tax and financial record keeping. If the management information isn't accurate, it may do more harm than if you didn't have it at all. With physical quantities, check sheets are recommended as a tool for testing the equality of the sources and uses of quantities and thereby testing the accuracy of quantity information. The sources/amount of account for should equal or at least closely approximate the uses/amount accounted for. Quantity sources typically include beginning inventory quantity, quantity purchased, quantity produced and quantity transfer in from other production enterprises/production centers. Uses typically include: quantity sold, quantity fed if feed or grain, quantity spoiled or death loss in livestock, quantity transferred out to other enterprises/ production centers, and ending inventory quantity. Inventory change is a critical element if quantities are to coincide with accrual adjusted financial measures.

Completeness is another matter entirely. A farmer could wear himself out keeping track of every type of information that might remotely be useful for management analysis purposes. The appropriate criteria for how much and what management information to record are:

1. Does the benefit of recording and using the information sufficiently exceed the cost to make it worthwhile?
2. If the information is collated, will it be used to influence farm decision making?

As you try to apply these criteria, it may be helpful to think about what information is likely to change how you operate the farm. Information that will change how you operate and lead to improved yields would seem to produce a net benefit. Unfortunately, we generally don't have the luxury of knowing that the information will pay off. But, it is a good idea to have a plan in mind about how the management information will be used before investing ample amounts of time and money collecting that information. Management records are only useful when they are used.

Self-Assessment Exercise

- 1: What are the advantages of Using a Software Program?
- 2.Explain the advantages of manual record keeping

3.4 Conclusion

Farmers have to continually make management decisions, as we have so far identified. These management decisions determine the outcome of a farm operation in relation to investment undertaken, financing of the operation, protection, or custodial and consumption behaviour of the farm household. Thus, to make good decisions, farmers must have relevant information.

**3.5 Summary**

In this unit you have learnt that:

- i. Keeping records are essential to the efficient management of a farm business
- ii. Accurate records and resulting analyses help farmers make financial and production decisions
- iii. Traditional hand record- keeping systems continue to work well for many farmers
- iv. Computerized record keeping and analysis program have been accepted and used by a number of farmers also
- v. Developing and using a farm record keeping system will allow the farm manager to make more informed decisions affecting the profitability of the farm

**3.6 References/Further Readings/Web Sources**

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3.7 Possible Answers to Self-Assessment Exercises

Self-Assessment Exercise 1: What are the advantages of Using a Software Program?

Answers:

1.

- eliminate math errors
- instantly see your income and expenses by category
- get profit and loss statements and other financial summaries quickly, and
- Interface with compatible tax software programs -- so you don't need to re-input data come tax time.

2.

The disadvantages of manual record-keeping systems include:

- They are often "single entry" systems, meaning you enter each transaction only once. As such, there is no automatic check and balance system like that used in computer programs (like *Quicken* -- or in more formal double entry bookkeeping systems.
- You must manually tally up expenses or income by category or by month -- which can be time consuming and could lead to errors.

UNIT 4 ANALYZING FARM RECORDS

Unit Structure

- 4.1 Introduction
- 4.2 Learning Outcomes
- 4.3 Main content
 - 4.3.1 Analyzing Farm Records
 - 4.3.2 Test your understanding and progress
 - 4.3.3 Financial statements and list of Required Records
- 4.4 Conclusion
- 4.5 Summary
- 4.6 References/Further Readings/Web Sources
- 4.7 Possible Answers to Self-Assessment Exercise



4.1 Introduction

Once a farm record keeping system has been established analyzing the records can begin. Decision making can be greatly enhanced by analyzing both production and financial records and their impact on profitability. In this unit you will learn about a number of financial analysis tools that can be used when accurate and complete farm records are available.



4.2 Learning Outcomes

By the end of this unit, you should be able to:

- Discuss the various methods of analyzing farm records.



4.3 Main Content

4.3.1 Analyzing Farm Records

A number of financial analysis tools can be used when accurate and complete farm records are available. These tools include the balance sheet, income statement and projected monthly cash flow statement (including family living expenses). These three financial statements provide information for making short and long term financial decisions.

The Balance Sheet (Assets=(Liabilities + Owner's Equity)

This is also known as the financial statement or statement of networth. The balance sheet provides an overall financial snapshot of the farm

business on a specific date. It lists all of the assets (property) and liabilities (loans) of the business as of the balance sheet date. Income and expense records are not needed for the balance sheet. A value for each asset and the outstanding balance for each liability is given in the balance sheet. Ideally, the balance sheet should separate assets and liabilities into current asset (less than one year of life), intermediate (one to seven years of life) and long-term (longer than seven years of life, mainly buildings and land) categories and should list cost (original cost less depreciation) and market value (current expected sale price) for each.

The balance sheet gives the farm manager a “snapshot” of the net worth on a specific date. The net worth is the value of all assets on the farm less the amount of money owed against those assets. Some of the ratios and relationships on a typical net worth statement are examined below.

1. Current Ratio (Liquidity) it is a measure of a business' ability to meet current debt obligations as they come due without disrupting normal operations.

The ratio is calculated by dividing the current assets by the current liabilities.

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

As a general rule, two naira of current assets to one naira of current liabilities represents a strong ratio. A current ratio of 1.5:1 is good. 1 to 1 is weak and <1 to 1 often results in cash flow problems.

2. Working ratio measures a company's ability to recover operating costs from annual revenue. It is calculated by taking total annual expenses, excluding depreciation and debt-related expenses, and dividing it by the annual gross income.

Working capital ratio is calculated simply by dividing total current assets by total current liabilities. For that reason, it can also be called the current ratio. It is a measure of liquidity, meaning the business's ability to meet its payment obligations as they fall due. Most analysts consider the ideal working capital ratio to be **between** 1.5 and 2. As with other performance metrics, it is important to compare a company's ratio to those of similar companies within its industry

1. Net working capital ratio is the net amount of all elements of working capital. It is intended to reveal whether a business has a sufficient amount of net funds available in the short term to stay in operation.

$$\frac{\text{Total Assets}}{\text{Total Liabilities - Net worth}}$$

How do you interpret net capital ratio?

Generally, a working capital ratio of less than one is taken as indicative of potential future liquidity problems, while a ratio of 1.5 to two is interpreted as indicating a company on solid financial ground in terms of liquidity. An increasingly higher ratio above two is not necessarily considered to be better.

2. Debt to Asset Ratio (Solvency)

It is a measure of the business' ability to meet its total debt obligations, if all the assets were to be sold. It provides an indication of the business ability to continue in the event of severe financial adversity caused by perils such as drought, excess moisture or a decline in commodity prices. It also shows the percentage of the assets that are financed by outside creditors. The ratio is calculated by dividing the total liabilities by the total assets and is expressed as a percentage.

$$\text{Debt to Asset ratio} = \frac{\text{Total liabilities}}{\text{Total Assets}} \times \frac{100}{1}$$

As a general rule, a farm business having under 25% of its assets financed is in a fairly strong position while between 25% to 40% is moderate, and between 40% and 60% is in an increasingly weaker position. The higher the debt ratio, expressed as a percentage the greater the financial risk as a result of the higher borrowing costs.

3. Earned financial progress (profitability)

Earned financial progress refers to the increase in the farm business net worth from the beginning of the period to the end of the period as a result of the income earned by the business. The key word is 'earned' which excludes changes in net worth as a result of an owner's contributions to the business, the gain on the sale of the assets or the re-evaluation of the assets including land, buildings and breeding stock. It is important to track the increases to networth that relate directly to income earned by the business as opposed to other adjustments or transactions.

4.3.2 How to Prepare a Basic Balance Sheet

Here are the steps you can follow to create a basic balance sheet for your organization. Even if some or all of the process is automated through the use of an accounting system or software, understanding how a balance sheet is prepared will enable you to spot potential errors so that they can be resolved before they cause lasting damage.

1. Determine the Reporting Date and Period

A balance sheet is meant to depict the total assets, liabilities, and shareholders' equity of a company on a specific date, typically referred

to as the reporting date. Often, the reporting date will be the final day of the reporting period.

Most companies/farms, especially publicly traded ones, will report on a quarterly basis. When this is the case, the reporting date will most usually fall on the final day of the quarter:

- Q1: March 31
- Q2: June 30
- Q3: September 30
- Q4: December 31

Companies that report on an annual basis will often use December 31st as their reporting date, though they can choose any date. It's not uncommon for a balance sheet to take a few weeks to prepare after the reporting period has ended.

2. Identify Your Assets

After you've identified your reporting date and period, you'll need to tally your assets as of that date. Typically, a balance sheet will list assets in two ways: As individual line items and then as total assets. Splitting assets into different line items will make it easier for analysts to understand exactly what your assets are and where they came from; tallying them together will be required for final analysis.

Assets will often be split into the following line items:

- **Current Assets:**
 - Cash and cash equivalents
 - Short-term marketable securities
 - Accounts receivable
 - Inventory
 - Other current assets
- **Non-current Assets:**
 - Long-term marketable securities
 - Property
 - Goodwill
 - Intangible assets
 - Other non-current assets

Current and non-current assets should both be subtotaled, and then totaled together.

3. Identify Your Liabilities

Similarly, you will need to identify your liabilities. Again, these should be organized into both line items and totals, as below:

- **Current Liabilities:**
 - Accounts payable

- Accrued expenses
- Deferred revenue
- Current portion of long-term debt
- Other current liabilities
- **Non-Current Liabilities:**
- Deferred revenue (non-current)
- Long-term lease obligations
- Long-term debt
- Other non-current liabilities

As with assets, these should be both subtotaled and then totaled together.

4. Calculate Shareholders' Equity

If a company or organization is privately held by a single owner, then shareholders' equity will generally be pretty straightforward. If it's publicly held, this calculation may become more complicated depending on the various types of stock issued.

Common line items found in this section of the balance sheet include:

- Common stock
- Preferred stock
- Treasury stock
- Retained earnings

5. Add Total Liabilities to Total Shareholders' Equity and Compare to Assets

To ensure the balance sheet is balanced, it will be necessary to compare total assets against total liabilities plus equity. To do this, you'll need to add liabilities and shareholders' equity together.

Below is a basic balance sheet of NOUN Farms as at December

| Balance Sheet of NOUN Farms at at 31st December 2020 | |
|---|-----------------------------------|
| Current Assets (N) | Current Liabilities (N) |
| Cash at hand 150,000 | Wages & Salaries 1,800,000 |
| Cash in Bank 2,000,000 | 1,800,000 |
| Supplies 2,000,000 | |
| 4,150,000 | Long Term Liabilities |
| | Bank of Industry Loan 10,000,000 |
| Fixed Assets | Commercial Bank Loan 5,000,000 |
| Land 10,000,000 | 15,000,000 |
| Farm Machineries 8,000,000 | |
| 18,000,000 | Equity 5,350,000 |

| | |
|-----------------------------------|-----------------------------------|
| | |
| Total 22,150,000 | Total 22,150,000 |

Table 1: Noun Farm Balance sheet

Notice how the balance sheet is arranged on the asset side (current assets followed by fixed assets) and on the liability side (current liabilities, long term liabilities and owners equity). We must keep in mind that that there is no hard and fast rules as regards this arrangement. An example is given below to further broaden your horizon on this subject matter.

AEC 306 Farms reported its assets and liabilities for their inaugural farming season which ended on the 31st of December, 2020 as Land ₦ 5,000,000, Building ₦ 7,000,000, Equipment and Machinery ₦ 3,000,000, Animals ₦ 500,000, Input supplies (drug, feed and fertilizer) ₦ 800,000, Standing crops ₦ 300,000. Wages for the period 280,000, Overdraft ₦ 1,000,000, a commercial bank loan for one (1) year ₦ 2,000,000, another commercial bank loan for two (2) years N 3,000,000, mortgages ₦ 6,000,000. You are required to (a) draw up the balance sheet for the farm.

(b). Calculate the current, working and net capital ratios.

ANSWERS/SOLUTION

AEC 306 FARM BALANCE SHEET AS AT DECEMBER 31ST, 2020

| ASSETS | | LIABILITIES | |
|-------------------------|-----------|---------------------------------|-----------|
| CURRENT ASSETS | | CURRENT LIABILITIES | |
| INPUTS | 800,000 | WAGES | 280,000 |
| STANDING CROPS | 300,000 | OVERDRAFT | 1,000,000 |
| ANIMALS | 500,000 | | |
| | | | 1,280,000 |
| 1,600,000 | | INTERMEDIATE LIABILITIES | |
| WORKING ASSETS | | C/BANK LOAN | 2,000,000 |
| EQUIPMENT & MACHINERY | 3,000,000 | | 2,000,000 |
| | | LONG TERM LIABILITIES | |
| 3,000,000 | | C/BANK LOAN | 3,000,000 |
| LONG TERM ASSETS | | MORTGAGES | 6,000,000 |
| LAND | 5,000,000 | | |

| | | |
|---------------------|-------------------|--------------------------------------|
| BUILDING | 7,000,000 | 9,000,000 |
| | 12,000,000 | NETWORTH 4,320,000 |
| TOTAL ASSETS | 16,600,000 | T/LIABILITIES + NW 16,660,000 |

$$\begin{aligned}
 \text{(b) Current Ratio} &= \text{Current Assets/current liabilities} \\
 &= 1,600,000/1,280,000 \\
 &= 1.25
 \end{aligned}$$

$$\begin{aligned}
 \text{Working ratio} &= \text{Working Assets/Intermediate liabilities} \\
 &= 3,000,000/2,000,000 \\
 &= 1.5
 \end{aligned}$$

$$\begin{aligned}
 \text{Net Capital Ratio} &= \text{Total Assets/Total Liabilities - Net worth} \\
 &= 16,600,000/12,280,000 - 4,320,000 \\
 &= 16,660,000/7,960,000 \\
 &= 2.1
 \end{aligned}$$

The balance (Wakandar Farms) below is intended to test your understanding of some financial ratios. You are to calculate (a) Current ratio (b) Working ratio and (c) Net capital ratio

| Current Assests (₦) | | Current Liabilities (₦) | |
|-------------------------------------|-----------|---------------------------------|----------------|
| | | Fuel/Diesel | 400,000 |
| Cash at hand | 200,000 | Wages & Salaries | 300,000 |
| Cash in Bank | 500,000 | | 700,000 |
| Feed | 100,000 | | |
| Fertilizer | 200,000 | Intermediate Liabilities | |
| | 1,000,000 | | |
| | | Short tern loan | 1,000,000 |
| Working /Intermediate Assets | | Refund to F & F | 1,000,000 |
| Machinery | 1,000,000 | | 2,000,000 |
| Equipment | 1,000,000 | | |
| Work in progress | 5000,000 | | |
| | 2,500,000 | Long Term Liabilities | |
| | | Mortgages | 3,000,000 |
| | | | 3,000,000 |
| Fixed Assets | | | |
| Land | 2,000,000 | Networth/Owners Equity | 2,300,000 |
| Farm Machineries | 2,500,000 | | 2,300,000 |
| | 4,500,000 | | |

| | |
|----------------------------------|----------------------------------|
| | |
| Total 8,000,000 | Total 8,000,000 |

4.3.2.1 Test Your Understanding and Progress with Balance Sheet MCQs

(A)

1. Another name for the balance sheet is
Statement Of Operations
Statement Of Financial Position
2. The balance sheet heading will specify a
Period Of Time
Point In Time
3. Which of the following is a category, classification, or element of the balance sheet?
Expenses Gains
Liabilities
Losses
4. Which of the following is an asset account?
Accounts Payable
Prepaid Insurance
Unearned Revenue
5. Which of the following is a contra account?
Accumulated Depreciation
Mary Smith, Capital
6. What is the normal balance for an asset account?
Debit
Credit
7. What is the normal balance for liability accounts?
Debit
Credit
8. What is the normal balance for stockholders' equity and owner's equity accounts?
Debit
Credit
9. What is the normal balance for contra asset accounts?
Debit
Credit
10. ABC Co. received \$1,000 in December for services it will perform in the following month. ABC uses the accrual basis of accounting. In December ABC debited Cash for \$1,000. What will be the other account involved in the December accounting entry prepared by ABC (and what type of account is it)?
Accounts Receivable (asset)

- Prepaid Services (asset)
 Service Revenues (revenue)
 Unearned Revenues (liability)
11. ABC Co. performed services for Client Kay in December and billed Kay \$4,000 with terms of net 30 days. ABC follows the accrual basis of accounting. In January ABC received the \$4,000 from Kay. In January ABC will debit Cash, since cash was received. What account should ABC credit in the January entry?
 Accounts Receivable
 Service Revenue
 Owner's Equity
12. ABC Co. follows the accrual basis of accounting and performs a service on account (on credit) in December. The service was billed at the agreed upon amount of \$3,500. ABC Co. debited Accounts Receivable for \$3,500 and credited Service Revenue for \$3,500. The effect of this entry on the balance sheet of ABC is to increase assets by \$3,500 and to
 Decrease Assets By \$3,500
 Increase Owner's (Stockholders') Equity by \$3,500
13. Which of the following accounts is **not** a current asset?
 Accounts Receivable
 Land
 Prepaid Insurance
 Supplies
14. Which of the following is normally a current liability?
 Note Payable Due In Two Years
 Unearned Revenue
15. When an owner draws \$5,000 from a sole proprietorship or when a corporation declares and pays a \$5,000 dividend, the asset Cash decreases by \$5,000. What is the other effect on the balance sheet?
 Owner's/Stockholders' Equity Decreases
 None
16. ABC Co. incurs cleanup expense of \$500 on December 30. The supplier's invoice states that the \$500 is due by January 10 and ABC will pay the invoice on January 9. ABC follows the accrual basis of accounting and its accounting year ends on December 31. What is the effect of the cleanup service on the December balance sheet of ABC?
 Assets Decreased
 Liabilities Increased
 No Effect On Owner's Equity
17. Deferred credits will appear on the balance sheet under which heading/classification?
 Assets
 Liabilities

- Owner's/Stockholders' Equity
18. Notes Payable could **not** appear as a line on the balance sheet in which classification?
 Current Assets
 Current Liabilities
 Long-term Liabilities
19. On December 1, ABC Co. hired Juanita Perez to begin working on January 2 at a monthly salary of \$4,000. ABC's balance sheet of December 31 will show a liability of what amount?
 \$4,000
 \$48,000
 No Liability
20. ABC Co. has current assets of \$50,000 and total assets of \$150,000. ABC has current liabilities of \$30,000 and total liabilities of \$80,000. What is the amount of ABC's owner's equity?
 \$20,000
 \$30,000
 \$70,000
 \$120,000
21. The amount reported on the balance sheet for Property, Plant and Equipment is the company's estimate of the fair market value as of the balance sheet date.
 True
 False
22. The total amount reported for stockholders' equity is the approximate fair value or net worth of the corporation as of the balance sheet date.
 True
 False
23. The book value of a corporation is the total amount of stockholders' equity reported on the balance sheet.
 True
 False
24. The third line of the balance sheet heading for the end of the year should begin with "For the Year Ended".
 True
 False
- (B)**
1. On balance sheet, accruals, notes payable, and account payable are listed under which category?
 A) Current Liabilities
 B) Accumulated Liabilities
 C) Noncurrent Liabilities
 D) Accrued Liabilities

Answer: A

2. Inventories, cash and equivalents, and accounts receivables are listed as
- A) Earnings on Income Statement
 - B) Payments on Income Statement
 - C) Assets on the Balance Sheet
 - D) Liabilities on the Balance Sheet

Answer: C

3. Which of the following is not a current asset
- A) Supplies
 - B) Land
 - C) Accounts Receivable
 - D) Prepaid Insurance

Answer: B

4. In the situation of bankruptcy, a stock which is recorded above common stock and below debt account is
- A) Preferred Stock
 - B) Debt Liabilities
 - C) Common Liabilities
 - D) Hybrid Stock

Answer: A

5. A firm buys products but does not pay to suppliers instantly. This is recorded as
- A) Account Receivable
 - B) Account Payable
 - C) Accumulated Liabilities
 - D) Current Liabilities

Answer: B

6. In a balance sheet, the total of common stock and retained earnings are denoted as
- A) Common Equity
 - B) Due Equity
 - C) Preferred Equity
 - D) Common Perpetuity

Answer: A

7. The process of recording inventory that gives a lower cost of a commodity sold in an income statement is denoted as
- A) First Out Receivable
 - B) Last in First Out
 - C) Last Out Receivable
 - D) First in First Out

Answer: D

8. Financial securities which can be changed into cash to their book value price are categorised as
- A) Short-term Investments
 - B) Inventories
 - C) Long-term Investments
 - D) Cash Equivalents

Answer: D

9. Earnings that have a cumulative amount and are not paid to the stockholder as a dividend is known as

- A) Common Earnings
- B) Preferred Earnings
- C) Non-paid Earnings
- D) Retained Earnings **Answer: D**

10. Information that is used by investors for expecting future earnings is recorded in

- A) Annual Report
- B) Five Years Report
- C) Exchange Report
- D) Stock Report

Answer: A**4.3.2.2 Income Statement (Net Income=(Revenue–Expenses))**

Other names used for this important accounting statement include: a profit and loss statement, an operating statement and an income and expense statement. The income statement lists the income and expenses of a business over a period of time called the accounting period.

Year - to year profits are calculated on the income statement also known as the profit/loss statement. The income statement is used to calculate net cash income, adjusted by changes in inventories and capital items.

The Net farm income refers to the 'bottom line' profit that is earned (or projected to earn) by the business during the accounting period. The Net Farm Income provides the answer to the question of how much profit the farm has made or is projected to make, in the business plan.

Analyzing the Net Farm Income as a return on the farm assets and equity (networth) can also be informative. Since the Net Farm Income represents the return the farm earns on investment.

4.3.3 How to Write an Income Statement

The best way to ascertain how much revenue your business has generated, you'll need to create a performance statement alongside other financial statements. To write an income statement and report the profits your small business is generating, follow these accounting steps:

1. Pick a Reporting Period

The first step in preparing an income statement is to choose the reporting period your report will cover. Businesses typically choose to report their income statement on an annual, quarterly or monthly basis. Publicly traded companies are required to prepare financial statements

on a quarterly and annual basis, but small businesses aren't as heavily regulated in their reporting. Creating monthly income statements can help you identify trends in your profits and expenditures over time. That information can help you make business decisions to make your company more efficient and profitable.

2. Generate a Trial Balance Report

To create an income statement for your business, you'll need to print out a standard trial balance report. You can easily generate the trial balance through your cloud-based accounting software. Trial balance reports are internal documents that list the end balance of each account in the general ledger for a specific reporting period. Creating balance sheets is a crucial part of creating an income statement, as it's how a company gathers data for their account balances. It will give you all the end balance figures you need to create an income statement.

3. Calculate Your Revenue

Next, you'll need to calculate your business's total sales revenue for the reporting period. Your revenue includes all the money earned for your services during the reporting period, even if you haven't yet received all the payments. Add up all the revenue line items from your trial balance report and enter the total amount in the revenue line item of your income statement.

FreshBooks provides an easy-to-follow accounting formula to make sure that you're calculating the right amounts and creating an accurate income statement.

4. Determine Cost of Goods Sold

Your cost of goods sold includes the direct labor, materials and overhead expenses you've incurred to provide your goods or services. Add up all the cost of goods sold line items on your trial balance report and list the total cost of goods sold on the income statement, directly below the revenue line item.

5. Calculate the Gross Margin

Subtract the cost of goods sold total from the revenue total on your income statement. This calculation will give you the gross margin, or the gross amount earned from the sale of your goods and services.

6. Include Operating Expenses

Add up all the operating expenses listed on your trial balance report. Each expense line should be double-checked to make sure you have the correct figures. Enter the total amount into the income statement as the selling and administrative expenses line item. It's located directly below the gross margin line.

7. Calculate Your Income

Subtract the selling and administrative expenses total from the gross margin. This will give you the amount of pre-tax income. Enter the amount at the bottom of the income statement.

8. Include Income Taxes

To calculate income tax, multiply your applicable state tax rate by your pre-tax income figure. Add this to the income statement, below the pre-tax income figure.

9. Calculate Net Income

To determine your business's net income, subtract the income tax from the pre-tax income figure. Enter the figure into the final line item of your income statement. This will give you a general understanding of your business performance, letting you see how profitable you have been.

10. Finalize the Income Statement

To finalize your income statement, add a header to the report identifying it as an income statement. Add your business details and the reporting period covered by the income statement. With all of the data you've compiled, you've now created an accurate income statement. This will give you a future understanding of income statement definition that will be of great benefit to you and your business practice.

An example is given below

1. La Pattons Integrated Farm gave its expenses/costs and revenue associated with its farming activities for the last farming season as; Poultry – Day old chicks 120,000, feed 250,000, cages 150,000, maintenance cost 50,000, drugs 25,000, wages and salaries 300,000. Sales of eggs, broilers and old layers 1,050,000, sales of poultry droppings 30,000. Fisheries – cost of fingerlings 150,000, borehole 150,000, fish feed 400,000, cost of pond maintenance 40,000, harvesting expenses 50,000, wages and salaries 260,000 and sales of fish 1,620,000. Crops – Land preparation 100,000, seeds/seedlings 85,000, fertilizer 105,000, cost of harvesting 15,000, wages and salaries 170,000, closing stock of seeds 5,000, closing stock of fertilizers 15,000 and harvested crops sold 980,000. Required
 - (a) Draw up an integrated account of the farm and ascertain the profitability status of the farm
 - (b) What is the contribution of the various enterprises to the farm in terms of costs and revenues?

ANSWER**Integrated Account**

| COST | | AMOUNT | REVENUE | | AMOUNT |
|----------------------------|------------------|---------------|----------------------|-----------|------------------|
| Poultry | | | Poultry | | |
| Day old chicks | - | | Sales of eggs, | | |
| 120,000 | | | Broilers and Old | | |
| Feed | - | | Layers | 1,080,000 | |
| 250,000 | | | - 1,050,000 | | |
| Cages | - | | Poultry droppings | 1,620,000 | |
| 150,000 | 895,000 | | - 30,000 | | |
| Maintenance | - | | | | |
| 50,000 | | | Fish Sales | | |
| Drugs | - | | - 1,620,000 | | 1,000,000 |
| - 25,000 | | | | | |
| Wages & Sal. | - | | Crops | | |
| 300,000 | | | Closing Stock. Fert. | | |
| | | | - 15,000 | | |
| Fisheries | 1,050,000 | | Closing stock Seeds | | |
| Fingerlings | - | | - 5,000 | | |
| 150,000 | | | Harvested Crops | | |
| Borehole | - | | - 980,000 | | |
| 150,000 | | | | | |
| Fish feed | - | | | | |
| 400,000 | | | | | |
| P/maintenance | - | 475,000 | | | |
| 40,000 | | | | | |
| H/Expenses | - | 1,280,000 | | | |
| 50,000 | | | | | |
| Wages & Sal. | - | | | | |
| 260,000 | 3,700,000 | | | | 3,700,000 |
| Crops | | | | | |
| Land Prep. | - | | | | |
| 100,000 | | | | | |
| Seeds/Seedlings | - | | | | |
| 85,000 | | | | | |
| Fertilizer | - | | | | |
| 105,000 | | | | | |
| Harvesting cost | - | | | | |
| 15,000 | | | | | |
| Wages & Sal. | - | | | | |
| 170,000 | | | | | |
| Transfer to P&L account | | | | | |

(a) The profitability of the Integrated farm is =N= 1,300,000

(b) * Poultry Revenue is =N= 1,080,000 – Cost =N= 895,000 (Profit =N= 185,000)

* Fisheries Revenue =N= 1,620,000 – Cost =N= 1,050,000 (Profit =N= 570,000)

* Crop Revenue =N= 1,000,000 – Cost =N= 475,000 (Profit =N= 525,000)

The measures of profitability are as discussed below.

1. Returns on Assets (ROA)

It is a measure of profitability measuring the rate of return that the farm business earns on its average asset base over the period. The higher the return, the more profitable the farm business.

$$\text{ROA} = \frac{\text{Net Farm Income} + \text{Interest expense} - \text{labour}}{\text{Total Farm Assets (Average)}} \times \frac{100}{1}$$

2. Return on Equity (ROE)

It is a measure of the return to the networth (equity) in the business. The farm equity is the capital that could be invested elsewhere (if you were not farming) and so this analysis provides an interesting perspective to see just how good a return a farmer is receiving on his investment in farming as compared to other alternatives. It is calculated by dividing the Net Farm Income less the unpaid labour/management costs, by the average value of the farm equity (networth) for the period and is expressed as a percentage.

$$\text{ROE} = \frac{\text{Net Farm Income} - \text{Labour}}{\text{Farm Equity (average)}} \times \frac{100}{1}$$

A return on equity exceeding the return on assets indicated an economical use of borrowed funds. In other words, it paid to borrow money because the return on this borrowed capital was greater than the cost of borrowing.

3. Expense/Revenue Ratio

This shows the percentage of the farm income that is required to cover the operating expenses, excluding the principal and interest payments. The ratio is calculated by dividing the operating expenses by the value of the farm production and is expressed as a percentage.

$$\text{Expenses/Revenue Ratio} = \frac{\text{Operating expenses}}{\text{Value of farm production}} \times \frac{100}{1}$$

The value of farm production is the total value of the farm sales less the cost of purchased feeds, grain and market livestock.

4.3.3.1 Test Your Understanding and Progress with Income Statement MCQs

(A)

1. Which of the following names is NOT associated with the income statement?
P & L
Statement Of Financial Position
Statement Of Operations
2. The income statement heading will specify which of the following?
A POINT In Time
A PERIOD Of Time
3. Amounts earned by a company in its main operating activities are known as _____.
Revenues
Gains
4. A company disposes of equipment that it no longer uses in its business. The amount received by the company is more than the amount the asset is carried at in the accounting records. The company will report a(n) _____.
Expense
Gain
Loss
Revenue
5. On December 1, a company borrowed \$100,000 at 12% per year. The interest will be paid quarterly, with the first payment due on March 1. What should the company report on its income statement for December?
Nothing
Interest Expense Of \$1,000
6. Is a retailer's Interest Expense an operating expense or a non-operating expense?
Operating Expense
Non-operating Expense
7. The income statement line **gross profit** will appear on which income statement format?
Single-step
Multiple-step
8. Which income statement format segregates the operating revenues and expenses from the non-operating revenues and expenses?
Single-step
Multiple-step
9. Interest earned on investments would appear in which section of a retailer's multiple-step income statement?

- Non-operating
Operating
Would Not Appear
10. Under the accrual basis of accounting, revenues are recognized in the accounting period in which _____.
Cash Is Received
Revenues Are Earned
11. Net Sales minus the Cost of Goods Sold is _____.
Gross Profit
Income From Operations
Net Income
12. The combination of net income + other comprehensive income is known as _____ income.
Comprehensive
Net
Total
13. Which basis of accounting best measures profitability during a short time interval?
Accrual Basis
Cash Basis
14. Gross Profit minus Operating Expenses is best defined as _____.
Net Income
Net Sales
Operating Income
15. What is defined as sales minus all variable expenses?
Contribution Margin
Gross Profit
Net Income
16. Are the draws of a sole proprietor reported as an expense on the company's income statement?
Yes
No
17. A corporation's net income will cause an increase to which of the following?
Accumulated Other Comprehensive Income
Common Stock
Retained Earnings
18. If a company's stock is publicly traded, is it a requirement that the earnings per share appear on the income statement?
Yes
No
19. Are the notes to the financial statements considered to be an integral part of the financial statements?
Yes
No

20. Is it acceptable that some of the expenses reported on the income statement be estimates?

Yes

No

(B)

1. Which statement is the first component of the financial statements?*

- a) Balance Sheet
- b) Cash flow statement
- c) Income Statement
- d) Statement of Changes in Equity
- e) None of the above

2. The income statement is also known as the _____?*

- a) Profit and Loss Statement
- b) Statement of Basic Income
- c) Net Income and Expense Statement
- d) Cash Flow Statement
- e) None of the above

3. The income statement's primary purpose is to show the _____ of a business.*

- a) financial position
- b) financial performance
- c) cash position
- d) expenses
- e) None of the above

4. The income statement is drawn up from the figures in the _____.*

- a) Debtors ledger
- b) Creditors Ledger
- c) Cash Flow Statement
- d) Trial Balance
- e) None of the above.

5. Which of the following statements are true?*

- a) An income statement usually covers a full year.
- b) The income statement may be drawn up for shorter periods, such as one month or three months.

- c) These shorter periods are used by managers to make internal business decisions.
- d) The period of time that is covered by the income statement (and other financial statements) is called the accounting period.
- e) All of the above.

6. A business has \$250,000 income and \$60,000 expenses. What is the net profit?*

- a) \$310,000
- b) \$250,000
- c) \$160,000
- d) \$190,000
- e) None of the above.

Questions 7-10 below relate to the income statement for a trading business.

7. Which of the following statements are true?*

- a) The first section of the income statement for a trading business shows the buying and selling of goods.
- b) The first section of the income statement for a trading business shows net profit.
- c) The first section of the income statement for a trading business shows the total expense.
- d) None of the above.

8. Which of the following statements are true?*

- a) Cost of goods sold is also known as cost of sales.
- b) Cost of goods sold is the direct costs of the inventory that we have sold during the year.
- c) Cost of goods sold is an expense charged against sales to work out a gross profit.
- d) None of the above.
- e) All of the above.

XYZ Inc. had the following figures in its income statement:

Sales \$920,000
 Cost of Goods Sold \$320,000
 Gross Profit _____
 Other Income \$50,000
 Salaries \$220,000
 Advertising \$100,000
 Rent \$80,000

Other Expenses \$50,000

Net Profit _____

9. The gross profit figure is:*

- a) \$920,000
- b) \$970,000
- c) \$600,000
- d) \$500,000

10. The net profit figure is:*

- a) \$650,000
- b) \$150,000
- c) \$600,000
- d) \$200,000

4.3.3.2 Cash flow

The cashflow projection stimulated the anticipated financial activity that will flow through the farm bank account during the accounting period.

The projected monthly cashflow statement is used to look ahead to the next year of operations. By projecting a cashflow for the next year, potential cash shortfalls can be noted and appropriate changes in the farm operation can be analyzed.

What Goes in a Cash Flow Statement?

When it comes to what goes in a cash flow statement, there are three types of cash flows you will want to break out in order to gain the most value and insight from your cash flow statement:

- **Operating activities cash flow.** This is the money your business generates and spends on typical, day-to-day operating activities, such as selling products and services or paying rent and employees. Cash flows from operations are integral to your cash flow statement.
- **Investing activities cash flow.** This is the money spent on and generated from market securities, long term assets, and other financial instruments over the reporting period. It could be from buying or selling major equipment or property, or other related purchases or sales, for example.
- **Financing activities cash flow.** Financing activities include the money that moves between a company and its owners, investors, and creditors, such as by issuing equity or debt.

You also may want to include an “other activities” section for any type of cash flow that doesn’t fit into these three main activities. Each section should include line items that break out the various types of cash flow pertaining to that activity, so no cash payments are missed.

How to Prepare a Cash Flow Statement Step By Step

Before you start working on your statement, determine whether the indirect method or the direct method to prepare a cash flow statement makes the most sense, given your needs. Keep in mind that the method you select will only affect the operating activities section of your statement—as the investing and financing activities sections will look the same regardless of the method used.

Each method has its advantages and disadvantages. The indirect method is more common, for example, because it’s generally simpler and less time-consuming to perform. But the direct method provides greater detail about your company’s cash situation and, in turn, more potentially valuable insights.

Indirect Method Steps to Prepare a Cash Flow Statement

The indirect method is based on accrual basis accounting—which means revenues and expenses are counted when they are incurred, not when money actually changes hands. Most companies use the accrual basis of accounting method, which is partly why this method is so popular.

For the operating activities section of the cash flow statement, the indirect method involves first showing the company’s net income (which should be found easily on your company income statement). You then show any noncash inflow or outflow adjustments that need to be made in order to calculate the total operating activities cash flow. Common adjustments, for example, include:

- Depreciation (which must be added back to the net income because it does not count as cash flow)
- Accounts payable
- Accounts receivable
- Inventory expenses (which must be subtracted from the net income because they are considered a cash outflow)
- Working capital changes

4.3.3.3 Direct Method Steps to Prepare a Cash Flow Statement

The direct method relies on cash basis accounting—meaning revenues and expenses are counted when actual cash receipts and payments are made during the reporting period.

The direct method generally takes more time and number-crunching because you are subtracting actual cash outflows from inflows rather than simply adjusting the net income. Common line items using the direct method include:

- Customer receipts
- Payments to suppliers
- Payments to employees
- Interest and dividends received
- Income tax payments

While breaking out each type of cash receipt or payment takes time, this method offers more detail and visibility into your company's finances. For example, it can show how much cash was spent during the reporting period on employee payroll or merchandise—or the exact dollar value of customer sales—rather than having those individual cash flow sources grouped together in “net income.”

That said, there are additional potential complexities to choosing the direct method to prepare cash flow statements. For one, since most companies use accrual basis accounting, the indirect method more naturally fits with their current accounting practices. Moreover, the Financial Accounting Standards Board (FASB) requires companies using the direct method to also provide a “reconciliation” that shows how their net income would be adjusted to net cash (essentially using the indirect method) on a separate schedule.

Most accounting standard-setting entities (including FASB) prefer the direct method, though, because of the higher level of insight it provides. If you choose to go the direct method route, you'll want to start regularly tracking your cash inflows and outflows in the way you'll be reporting it—so that putting together the cash flow statement won't be too much of a burden.

You can use accounting software such as Intuit QuickBooks, Zoho, or FreshBooks to keep tabs on your cash flow and more easily assemble the cash flow statement.

4.3.3.4 Test Your Understanding and Progress with Income Statement MCQs

1. Statement of cash flows includes
 - A) Financing Activities
 - B) Operating Activities
 - C) Investing Activities
 - D) All of the Above

Answer: D

2. In cash flows, when a company invests in fixed assets and short-term financial investments results in
- A) Increased Equity
 - B) Increased Liabilities
 - C) Decreased Cash
 - D) Increased Cash

Answer: C

3. A company that issues stocks and bonds to raise funds results in
- A) Decrease in Cash
 - B) Increase in Cash
 - C) Increase in Equity
 - D) Increase in Liabilities

Answer: B

4. The purchase value of assets over its serviceable life is categorised as
- A) Appreciated Liabilities
 - B) Appreciated Assets
 - C) Depreciation
 - D) Appreciation

Answer: C

5. The basic financial statements include
- A) Statement of Cash Flows
 - B) Statement of Retained Earnings
 - C) Balance Sheet and Income Statement
 - D) All of the Above

Answer: D

6. The statement of cash flow clarifies cash flows according to
- A) Operating and Non-operating Flows
 - B) Inflow and Outflow
 - C) Investing and Non-operating Flows
 - D) Operating, Investing, and Financing Activities

Answer: D

7. Cash flow example from a financing activity is
- A) Payment of Dividends
 - B) Receipt of Dividend on Investment
 - C) Cash Received from Customers
 - D) Purchase of Fixed Asset

Answer: A

8. Cash flow example from an investing activity is
 A) Issue of Debenture
 B) Repayment of Long-term Loan
 C) Purchase of Raw Materials for Cash
 D) Sale of Investment by Non-Financial Enterprise

Answer: D

9. Cash flow example from an operating activity is
 A) Purchase of Own Debenture
 B) Sale of Fixed Assets
 C) Interest Paid on Term-deposits by a Bank
 D) Issue of Equity Share Capital

Answer: C

10. Which item comes under financial activities in cash flow?
 A) Redemption of Preference Share
 B) Issue of Preference Share
 C) Interest Paid
 D) All the above

Answer: D

4.3.3.5 Financial statement and list of Required Records

Table 4 illustrates the kinds of records that go into the making of financial statements and production summaries. The left column contains the financial or production statement desired by the farm manager. The column contains the records required to complete the statement.

Records can be used for more than one statement for example, “Debt payments” are used in the income statement, cashflow statement and in income taxes, likewise, “Farm Income and Expense” are used in the Income statement, Cashflow statement, Enterprise Analysis and Income Taxes.

Table 4: Financial Statements and list of Required Records.

| Statement | Records Required |
|---------------------|---|
| Balance sheet | Farm Assets cost and Value. Farm and Personal Assets changes, Livestock, Crop and other products Inventories, Loan balances |
| Cash flow | Farm Income and Expenses Non - Farm Income and Expenses Debt payments. |
| Enterprise Analysis | Farm Income and Expenses. Livestock and Crop |

| | |
|------------------|--|
| | yields. |
| Income Statement | Farm Income and Expenses Interest Payments Livestock and Grain Inventories Accounts payable & Receivable |
| Income Taxes | Farm Income and Expenses Non-Farm Income and expenses, Interest Payments, Depreciation Schedule |

Self-Assessment Exercise

- 1: State the three types of cash flows.
2. Write short notes on direct method steps to preparing a cash flow statement.

4.4 Conclusion

In this unit you have attempted to learn about how farm records are used to analyze a farm business, as well as the financial statements and list of required records.



4.5 Summary

In this unit, you have learnt that:

- i. A number of financial analysis tools-The balance sheet, income statement and projected cashflow statement can be used to analyze a farm business when accurate and complete farm records are available.
- ii. The balance sheet provides an overall financial snapshot of the farm business on specific date.
- iii. The income statement is used to calculate net cash income, adjusted by changes in inventories and capital items.
- iv. The projected monthly cashflow statement is used to look ahead to the next year of operations. By projecting a cashflow for the next year, potential cash shortfalls can be noted and appropriate changes in the farm operation can be analyzed.
- v. There are some records required for some financial statements. For instance in preparing the balance sheet, records needed include: farm Assets cost and value, farm and personal assets, changes in livestock, crop and other product inventories, loan balances.



4.6 References/Further Readings/Web Sources

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4.7 Possible Answers to Self-Assessment Exercises

Self-Assessment Exercise 1: State the three types of cash flows.

Answers:

1.

- **Operating activities cash flow.** This is the money your business generates and spends on typical, day-to-day operating activities, such as selling products and services or paying rent and employees. Cash flows from operations are integral to your cash flow statement.
- **Investing activities cash flow.** This is the money spent on and generated from market securities, long term assets, and other financial instruments over the reporting period. It could be from buying or selling major equipment or property, or other related purchases or sales, for example.
- **Financing activities cash flow.** Financing activities include the money that moves between a company and its owners, investors, and creditors, such as by issuing equity or debt.

2. Short notes on direct method steps to preparing a cash flow statement:

The direct method relies on cash basis accounting—meaning revenues and expenses are counted when actual cash receipts and payments are made during the reporting period.

The direct method generally takes more time and number-crunching because you are subtracting actual cash outflows from inflows rather than simply adjusting the net income. Common line items using the direct method include:

- Customer receipts
- Payments to suppliers
- Payments to employees
- Interest and dividends received
- Income tax payments

UNIT 5 COMPUTERIZED FARM RECORD KEEPING

Unit Structure

- 5.1 Introduction
- 5.2 Learning Outcomes
- 5.3 Main content
 - 5.3.1 Computerized farm record keeping
- 5.4 Conclusion
- 5.5 Summary
- 5.6 References/Further Readings/Web Sources
- 5.7 Possible Answers to Self-Assessment Exercises



5.1 Introduction

A concern of many financial consultants and lenders is that many farmers lack adequate records to monitor and analyze the financial health of their farm business. Lack of financial data makes it difficult to determine proper debt loads, or to develop plans for businesses with major financial problems.

A variety of methods could be used in collecting the necessary farm record information: hand kept records, simple or complex computer systems. As farm size and or debt increases, many farmers and lenders look for computer program that allow fast data entry, have internal checks for accuracy and allow summarizing the data in a variety of ways. Most begin their search by asking: Is there a simple computer program that will keep my records like the farm account books”? In this unit therefore, attempts will be made to explain the various commercial software program that can do an excellent record keeping job on the farm.



5.2 Learning Outcomes

By the end of this unit, you should be able to:

- List and explain the uses of the various commercial software programs available to keep computerized farm records
- State the advantages and the disadvantages of each software system/program.



5.3 Main Content

5.3.1 Computerized Farm Record Keeping

In recent times, there are numerous commercial software programs that can do an excellent job of recording basic income and expense data for farmers, plus quickly summarizing and preparing a variety of financial reports, while not ruling out hand kept records, there are some basic questions to consider in selecting a computer record keeping system.

In today's agriculture, record keeping has gone beyond the manual works and use of computer to enter records of farm activities. Record keeping and accounting has been further made simpler to shorten time spent and improve and increase accuracy and efficiency. Numerous software such as Agrivi, Quicken, Granular, Trimble, FarmERP, Farmlog, Quick Books, DacEasy, Agworld, peachtree to mention to a few are available today and their uses range from Managing risk, forecasting and measuring profit, measuring and tracking field activities to developing crop plans. Of course the need, relevance and usage of these software will depend on the size, scope and sophistication of the various farm enterprise.

The focus will be on software (computer program that performs various tasks) rather than the hardware (computer and printer).

Farm record keepers can pick their software from four groups:

- Simple cash systems: Quicken
- General cash accrual accounting system: Quick Books, DacEasy, peachtree
- Farm Cash/ accrual accounting systems - PCMars, Transactions Plus (TA+) by FBS Systems, Redwing
- Add-ons for analysis: Spreadsheets, FINPACK, AFRA by FBS.

Advantages and Disadvantages of each system

Simple cash systems

In a simple cash system, users are able to record all cash transactions of both the farm and family. Quicken is the only program listed due to its widespread use across the United States of America. Its popularity is due to the ease of data entry and to its low price. This single - entry system is essentially an electronic checkbook. However, it allows users to track loans, stock portfolios and other financial/ assts. The ability to easily enter data, write cheques from the computer, reconcile the cheque book with the bank statement and quickly create reports for financial and tax purposes explains its broad acceptance, there is a payroll module that can be added which is adequate for the firm with only a few employees.

Critics of Quicken point to producers with limited knowledge of accounting concepts who fail to properly classify income and expense entries that lead to flawed reports, Quicken does not have a chart of accounts with income and expense categories specific to agriculture users can correct this problem by contacting extension agents for training and obtained a sample chart of accounts to use with their farm records. Others fault Quicken for the lack of fields to track physical quantities.

Properly used, Quicken can provide useful, accurate summaries of all cash transactions, including sales and purchases of capital assets such as machinery and breeding livestock. Once the depreciation schedule is created, not by Quicken, producers have all data needed for tax reporting.

General cash/accrual accounting systems.

Three programs: Quickbooks, DacEasy, and Peachtree are listed under general cash accrual accounting systems. QuickBooks is representative of this group. QuickBooks has an excellent chart of accounts specific to agriculture. Reconciliation of computer accounts with bank statements is quite easy. Double -entry features allow either cash or accrual reports, firms with employees enjoy the ease of generating payroll checks and all related employee reporting. The user begins by entering a beginning cost basis balance sheet. As daily receipts and expenditures are entered, the balance sheet is updated. But unless the user also records transfers of feed from inventory to livestock, monthly depreciation etc the intra-year balance sheets are not correct. For farm users a balance sheet once a year is typically all that is useful and necessary. This is accomplished by taking a year end inventory and entering the adjustments, including depreciation to make the year-end balance sheet. The beginning and ending balance sheets, plus cash receipts and expenditures give the user an accrual income statement, thus providing your basic financial statements.

Use of a program such as QuickBooks does require some knowledge of accounting. Again, these are general accounting programs and may not allow for recording physical quantities. There are some training materials and Web sites that can assist producers who wish to use such programs. Like Quicken, it allows you to separate the data into enterprise groups, such as dairy versus crops. In order to produce accurate financial statements, only information relating to the farm business should be recorded. If a computer is used to track family income and expense, you should have separate checkbooks and use Quicken to record all non farm transactions, while more expensive than Quicken, the price tag is still attractive to many small businessmen, including farmers.

Farm Cash accrual accounting systems

The farm cash accrual accounting systems require some knowledge of accounting. Most focus only on the farm business, but some allow family or other business data to be kept in the same system. Trying to totally integrate many programs, especially the integration of feed produced, purchased, fed and sold with all cash transactions can be a daunting task. By starting with the basic program and adding others as needed, major problems should be avoided.

5.3.1.1 Getting beyond just keeping records

Any of the above types of record systems can get annual summaries of cash receipts and expenses. This includes sale and purchase of capital assets, principal and interest payments and addition/borrowings. To obtain financial statement and analyze financial position requires using the data in a separate program.

This may be an additional module from the software company, or it may be a separate program. In either case, the chart of accounts used must match up with the grouping of income and expense categories in the other program.

Spread sheets are available that can be used with year end inventory data to develop balance sheets, income statements and analysis. Check the Montana state University web site for ones currently available, little cash outlay is required, but you will need to spend time to understand how to collect and enter the data to do it right. FINPAC provides another way to develop and analyze financial statements. It is also possible to use a program that is integrated with the basic software like TA+ or Red wing.

The Best Program (System) for Farm Business

Which program (system) is best for your farm business? No one can predict which program is best. The following may help in the decision.

1. Examine farm specific programs If you:
 - Need complete, well documented financial statement
 - Have, or are planning on a large amount of debt
 - Have many employees
 - Have someone who has some knowledge of accounting
 - Foresee a need for more extensive records in the future.
2. Examine cash - based or generic programs, e.g Quicken if you:
 - Keep records primarily for tax purposes.
 - Prefer to use spreadsheets, FINPACK or an accountant to generate and analyze financial statements.
 - Have few employees
 - Can get needed production data elsewhere
 - Have little knowledge of computers.

Self-Assessment Exercise

1. Farm record keepers can pick their software from four groups, mention these groups.
2. State the advantages of simple cash systems.

5.4 Conclusion

In this unit we have learnt that computerized farm record keeping could be done with the aid of any of the following groups of software: Simple cash systems (Quicken) General cash accrual accounting systems (e.g QuickBooks, DacEasy Peachtree), Farm cash accrual accounting systems (e.g PCMars Transactions plus (TA+), Redwing); Add- ons for analysis (e.g Spreadsheets, FINPACK, AFRA by FBS.

**5.5 Summary**

In this unit, we have learnt that:

- i. All accounting software discussed in this unit allow checks to be written with the computer as the data are entered.
- ii. All allow for reconciliation of accounts with bank statements- a major step in improving the accuracy and completeness of farm business records.
- iii. Reports can be tailored to the needs of the tax preparer, accountant and manager using the computerized software program for record keeping.
- iv. The major disadvantage for some is that they all require use of a computer.
- v. Any program can get the needed cash receipt and expense data. However, to get useful financial statements an inventory must be taken at the end of each business year. Without this, it is impossible to develop accurate balance sheets and income statements.
- vi. Farmers who need accurate, complete financial statements and analysis should consider using some form of computer record system.
- vii. Such statements can be prepared using a simple cash only system like Quicken when used in conjunction with spreadsheets other software programs such as FINPACK or the AFRA program by FBS or in conjunction with an accountant.



5.6 References/Further Readings/Web Sources

Duvick, R. D (2007). Computerized Farm Record Keeping. Ohio State University Bulletin 890-01 Department of Agriculture, Environmental and Developmental Economics, the Ohio State University, Columbus.



5.7 Possible Answers to Self-Assessment Exercises

Answers:

Self-Assessment Exercise 1: Farm record keepers can pick their software from four groups, mention these groups.

- Simple cash systems: Quicken
- General cash accrual accounting system: Quick Books, DacEasy, peachtree
- Farm Cash/ accrual accounting systems - PCMars, Transactions Plus (TA+) by FBS Systems, Redwing
- Add-ons for analysis: Spreadsheets, FINPACK, AFRA by FBS.

2. Advantages of simple cash systems:

In a simple cash system, users are able to record all cash transactions of both the farm and family. Quicken is the only program listed due to its widespread use across the United States of America. Its popularity is due to the ease of data entry and to its low price. This single - entry system is essentially an electronic checkbook. However, it allows users to track loans, stock portfolios and other financial/ assts. The ability to easily enter data, write cheques from the computer, reconcile the cheque book with the bank statement and quickly create reports for financial and tax purposes explains its broad acceptance, there is a payroll module that can be added which is adequate for the firm with only a few employees.

MODULE 2 BOOKKEEPING AND ACCOUNTING

| | |
|--------|--------------------------------------|
| Unit 1 | Meaning and scope of bookkeeping |
| Unit 2 | Book keeping |
| Unit 3 | Meaning and scope of farm accounting |
| Unit 4 | System of Farm accounting |
| Unit 5 | Computerized Farm Accounting |

UNIT 1 MEANING AND SCOPE OF BOOKKEEPING

Unit Structure

- 1.0 Introduction
- 1.2 Learning Outcomes
- 1.3 Main content
 - 1.3.1 Meaning and scope of book keeping
- 1.4 Conclusion
- 1.5 Summary
- 1.6 References/Further Readings/Web Sources
- 1.7 Possible Answers to Self-Assessment Exercises



1.1 Introduction

In this unit you will learn about meaning and scope of book keeping. You will be acquainted with the distinction between book keeping and accounting as well as the various books used for book keeping.



1.2 Learning Outcomes

By the end of this unit, you should be able to:

- Explain the concept of book keeping
- Distinguish between book keeping and accounting.
- Discuss the various books used for book keeping.



1.3 Main Content

1.3.1 Meaning and scope of Book keeping

Book - keeping may be defined as the science of recording transactions involving money or money's worth in a regular and systematic manner in such a way that the books of accounting will show a true and fair state

of the financial worth of a business readily at any point in time. Book-keeping is the recording of transactions i.e the record making phase of accounting. The recording of transactions tend to be mechanical and repetitive, it is only a part of the field of accounting and probably the simplest part.

On the other hand, accounting includes the design of accounting systems, preparation of financial statements, audits, cost studies, development of forecast, income tax work, computer applications to accounting information as an aid to making business decisions. The books that are used for book keeping fall naturally into the following divisions namely:

1. Principal books: under this sub-head we have the ledger and the cash book. These are the main books which are used for practicing the system of accounts.
2. Subsidiary books: This is otherwise known as books of original entry, first entry or prime entry. Many details are recorded in these books before the amounts concerned are transferred to the ledger accounts.
3. Statistical or memorandum books: In these books are found various details connected with the business operations that cannot conveniently be recorded in other books. Examples of these are the cost books and stock books of a manufacturing firm, the registers of shareholders in limited liability companies, the policy registers of an insurance company etc.

Comparison Table Between Bookkeeping and Accounting (in Tabular Form)

| Parameter of Comparison | Bookkeeping | Accounting |
|--------------------------------|--|--|
| Definition | Bookkeeping is related to the recording, measuring, and identifying the financial data of a company. | Accounting is the process wherein the company's financial data is summarized, and a report is prepared for the same. |
| Management | Management doesn't take any financial decisions by analyzing the records of bookkeeping. | Management decides upon financial decisions after reading the summary report obtained by accounting. |
| Purpose | To store and organize the financial data of a company | To analyze the financial data and make future financial decisions accordingly. |
| Financial statement | The financial statement is not prepared using the | The financial statement is prepared using accounting |

| Parameter of Comparison | Bookkeeping | Accounting |
|-------------------------|---|---|
| | information obtained from bookkeeping. | information. |
| Skills | Bookkeeping doesn't need the bookkeeper to have any special skill set to handle and manage the financial records. | An accountant needs special skills to record, interpret, and analyze the financial data to prepare reports. |
| Analysis | No analysis is carried. | Accounting uses the record from bookkeeping to analyze the financial data to prepare reports. |
| Types | Single entry and double entry. | Cost accounting and managerial accounting. |
| Employee | An accountant oversees the work of a bookkeeper. | An accountant that is certified doesn't need guidance. |
| Entry | A bookkeeper records the financial data on a daily basis. | The accountant prepares the financial summary at the end of the month or on a yearly basis, depending on the type of report and demands of the company. |

Test Your Understanding and Progress on Book keeping with MCQ

1. The rules of debit and credit for a balance sheet says that _____.
- A decrease in asset and liability accounts is recorded as a credit transaction
 - An increase in asset and owner's equity accounts is recorded as a debit transaction
 - A decrease in liability and owners' equity accounts is recorded as a credit transaction
 - An increase in asset, liability and owners' equity accounts is recorded as a debit transaction

Answer: c

2. Company B had Rs.30000 account receivable from Company D. On 26th February, Company D made a partial payment of Rs. 21000 to Company B. The journal entry made by Company B to record this transaction is _____.
- A credit to the accounts receivable account of Rs. 21000
 - A credit to the cash account of Rs. 21000
 - A debit to the accounts receivable account of Rs. 21000

- d. A debit to the cash account of Rs. 21000

Answer: c

3. **In the accounting cycle _____.**

- a. Journal entries get posted to the appropriate ledger accounts
- b. Transactions are posted before they are journalised
- c. A trial balance is prepared after journal entries get posted
- d. Both a and c are correct

Answer: d

4. **Dividends _____.**

- a. Are a business expense
- b. Are recorded by debiting the dividend account
- c. Decrease owners' equity
- d. Both b and c are correct

Answer: d

5. **Which of the financial statements gets prepared first?**

- a. Statement of cash flows
- b. Statement of retained earnings
- c. Balance sheet
- d. Income statement

Answer: d

6. **Which of the following accounts is never reported in the income statement as an expense?**

- a. Dividend expense
- b. Interest expense
- c. Income tax expense
- d. Depreciation expense

Answer: a

7. **Which of the following accounts will never appear in the trial balance?**

- a. Income tax expense
- b. Dividends
- c. Both a and b are incorrect
- d. Both a and b are correct

Answer: d

8. **The long-term assets that have no physical existence but are rights that have value are known as _____.**

- a. Investments
- b. Intangible assets
- c. Fixed assets
- d. None of the above

Answer: b

9. **The assets that can be converted into cash within a year are known as _____.**

- a. Investments
- b. Intangible assets

- c. Current assets
- d. None of the above

Answer: c

10. **The debts which are repaid within a year are known as**

- a. _____.
- a. Contingent liabilities
- b. Fixed liabilities
- c. Current liabilities
- d. None of the above

Answer: c

11. _____ **is the first phase of the accounting cycle.**

- a. Making a decision about the business
- b. Posting entries to ledger accounts
- c. Preparing journal
- d. Identifying an economic event or transaction

Answer: d

12. **The sales income (both credit and cash) during a given period is called _____.**

- a. Purchase returns
- b. Turnover
- c. Sales returns
- d. None of the above

Answer: b

13. **The account that records expenses, gains and losses is called**

- a. _____.
- a. Nominal account
- b. Personal account
- c. Real account
- d. None of the above

Answer: a

14. **The process of entering all transactions from the journal to the ledger is called _____.**

- a. Accounting
- b. Posting
- c. Entry
- d. None of the above

Answer: b

15. **The _____ is a statement that shows the financial status of a company at any given time.**

- a. Balance sheet
- b. Trading account
- c. Profit and loss statement
- d. Trial Balance

Answer: a

16. **The ratio that refers to a firm's ability to meet its short term obligations out of its short term resources is called _____.**

- a. Profitability ratio
- b. Activity ratio
- c. Leverage ratio
- d. Liquidity ratio

Answer: d

17. **Which of the following is a current liability for the firm?**

- a. Bank overdraft
- b. Bills payable
- c. Outstanding expenses
- d. All of the above

Answer: d

18. **Current Ratio = _____.**

- a. Current assets / Current liabilities
- b. Fixed assets / Current liabilities
- c. Debt / Current assets
- d. Debt / Equity

Answer: a

19. **A higher inventory ratio indicates _____.**

- a. Quick inventory turnover
- b. Better inventory management
- c. Both a and b are incorrect
- d. Both a and b are correct

Answer: d

20. **Bookkeeping mainly consists of _____ part of the accounting process.**

- a. Auditing the books of accounts
- b. Recording financial information
- c. Preparing financial statements
- d. Analysing

Answer: b

Self-Assessment Exercise

1. The books that are used for book keeping fall naturally into some divisions. Discuss.
2. What do you understand by book-keeping?

1.4 Conclusion

We have examined the meaning and scope of book keeping; the books that are used for book keeping were also discussed.



1.5 Summary

In this unit, we have learnt that:

- Book keeping is the science of recording transactions involving

money or money's worth in a regular and systematic manner in such a way that the books of accounts will show a true and fair state of the financial worth of a business readily at any point in time.

- The various books that are used for book keeping can be classified into: Principal books, subsidiary books, statistical or memorandum books.



1.6 References/Further Readings/Web Sources

Olofinlana L.O and R.W Odewale (1999): Fundamentals of Accounting Volume 1, Second Edition, Stecom Publishers Ltd Akure, Ondo State, Nigeria pp 15-18. <https://byjus.com/commerce/mcqs-on-bookkeeping-and-accountancy/>



1.7 Possible Answers to Self-Assessment Exercises

Self-Assessment Exercise 1: The books that are used for book keeping fall naturally into some divisions. Discuss.

Answers:

1.
 - i. Principal books: under this sub-head we have the ledger and the cash book. These are the main books which are used for practicing the system of accounts.
 - ii. Subsidiary books: This is otherwise known as books of original entry, first entry or prime entry. Many details are recorded in these books before the amounts concerned are transferred to the ledger accounts.
 - iii. Statistical or memorandum books: In these books are found various details connected with the business operations that cannot conveniently be recorded in other books. Examples of these are the cost books and stock books of a manufacturing firm, the registers of shareholders in limited liability companies, the policy registers of an insurance company etc.
2. **Book - keeping** may be defined as the science of recording transactions involving money or money's worth in a regular and systematic manner in such a way that the books of accounting will show a true and fair state of the financial worth of a business readily at any point in time. Book-keeping is the recording of transactions i.e the record making phase of accounting. The recording of transactions tend to be mechanical and repetitive, it is only a part of the field of accounting and probably the simplest part.

UNIT 2 BOOK KEEPING

Unit Structure

- 2.1 Introduction
- 2.2 Learning Outcomes
- 2.3 Main content
 - 2.1.1 Book keeper
 - 2.1.2 Book keeping systems
 - 2.3.3 Test your understanding and Progress with MCQ
- 2.4 Conclusion
- 2.5 Summary
- 2.6 References/Further Readings/Web Sources
- 2.7 Possible Answers to Self-Assessment Exercises



2.1 Introduction

In this last unit (unit one), you have found out that, book keeping is the record making phase of accounting. You have also learnt that, the various books that are used for book keeping can be classified into: principal books, subsidiary books, statistical or memorandum books. In this unit, you will learn about the book keeper as well book - keeping systems.



2.2 Learning Outcomes

By the end of this unit, you should be able to:

- Explain the various systems of Book keeping.



2.3 Main Content

2.3.1 Book keeper

A book keeper (or book keeper), also known as an accounting clerk or accounting technician, is a person who records the day-to-day financial transactions of an organization. A book keeper is usually responsible for writing the “daybooks”, The daybooks consist of purchase, sales, receipts and payments. The bookkeeper is responsible for ensuring all transactions are recorded in the correct day book, suppliers ledger, customer ledger and general ledger. The book keeper brings the books to the trial balance stage. An accountant may prepare the income statement and balance sheet using the trial balances and ledgers prepared by the

bookkeeper.

2.3.2 Book-keeping Systems

Two common bookkeeping systems used by businesses and other organizations are the single entry book keeping system and the double-entry bookkeeping system.

1. Single - entry system

The primary book keeping record in single-entry book keeping is the cashbook which is similar to a checking (chequing) account register but allocates the income and expenses to various income and expense accounts. Separate account records are maintained for petty cash, accounts payable and receivable and other relevant transactions such as inventory and travel expenses.

The main characteristic of this system is the keeping of personal accounts only.

For example, a trader who operates this system will certainly have a cashbook, but he may or may not write the cashbook up correctly, since he alone operates the books and the business. He will have access to his bank account and this is enough for him to know the state of the business. Besides the cashbook, he will also keep his customers accounts to whom goods are sold on credit just for the record. For creditors he may not bother much to record their transactions, since this is based on personal dealings.

This is one of the problems often encountered when the double entry system is not in use. Other accompanied problem of the single entry system is the non keeping of the following records:

- i. Accurate Expenses Account
- ii. Total sales and purchases of Goods
- iii. Accurate figures for creditors
- iv. Acquired Assets of the business (besides the debtors)
- v. Accurate figure for capital Account at any given time.

When these records are not in place, it will be very difficult to have complete records leading to trial balance.

To prepare the profit and Loss Account and a balance sheet from single entry book-keeping, the following procedure are recommended:

- i. Build up a statement of Affairs and capital Account: This requires the value of assets and liabilities to be determined in facts and figures. This is done by taking the value of: Cash

- available at the beginning and end of a trading period including cash at bank.
- ii. Available assets both at the beginning and close of business e.g furniture, machinery, stock in trade and the value of debtors including prepaid and bills receivable.
 - iii. Consider the value of sundry creditors, this will include personal advances to the proprietor, bank overdrafts, bills payable and outstanding expenses owing.
 - iv. Construct a capital account for the owner of the business. On credit (Cr) side insert the opening balance of the capital, then add any additional capital contributed either in the form of cash or of other assets.

On the Debit side enter the closing balance of capital at the end of the period. The difference between the two sides of the capital account will represent the profit or loss for the period. **Note:** If the opening capital exceeds the closing capital, such excess is considered to be a loss and where the closing capital exceeds the opening capital, it is regarded as profit for the period.

Example 1: The following is an example of a single entry record, Prepare a statement of Affairs and statement of profit for the year ended.

Ascertain both the opening and closing capital.

| | Jan 1 st ₦ | Dec 31 st ₦ |
|---------------------|-----------------------|------------------------|
| Stock - in –trade | 25,000 | 80,000 |
| Machinery | 15,000 | 40,000 |
| Furniture | 30,000 | 50,000 |
| Debtors | 60,000 | 75,000 |
| Creditors | 55,000 | 100,000 |
| Insurance Prepaid | - | 2,500 |
| Electricity prepaid | 4000 | 6,750 |
| Cash in hand | 30,000 | 12,000 |
| Cash at book | 50,000 | 37,500 |

By January 1st, accrued expenses was ₦3,000 and wages owing was ₦11,200. At the end of the year, 5% provision for Bad debts was to be set aside. Also at the close of the business rent owing was ₦ 8500 and bills payable was ₦11,150. The amount withdrawn by the owner in the year was ₦20,000. Within the year, he sold his used car for ₦ 40,000 and the proceeds paid into his business account.

- i. Find the value of sales in the period
- ii. Find the value of purchases in the period.
- iii. Calculate the cost of goods sold

Where the opening stock and purchases are added together, the result is the cost of goods available for sale. When closing stock is deducted, the resulting figure is cost of Goods Sold.

iv. Then find the Gross profit

To find sales and purchases figure: **SALES CONTROL ACCOUNT**

Dr - Opening value of debtors Cr - Cash received from debtors Cr - Closing value of debtors

The difference between the debit and credit sides represents the value of sales in the period,

Purchases Control Account

Dr - Cash paid to Creditors

Cr - Opening value of creditors and take down below the lines.

The “difference” between the debit and credit sides represents the value of purchases in the period.

The following transactions show the preparation of sales control Account and the purchases control Account.

₦

| | |
|---|---------|
| Opening figure of debtors for the year, Jan 1 st 200-1 | 40,000 |
| Opening figure of creditors for the year, Jan 1 st 200-1 | 55,000 |
| Cash received from debtors within the year | 250,000 |
| Cash paid to creditors within the year | 180,000 |
| Closing figure of creditors at the end of trading Dec 31 200-1 | 35,000 |
| Closing figure of debtors at the end of trading Dec 31 200-1 | 60,000 |

Solution:

Example 1

Sales Control Account

| 200-1 | | ₦ | 200-1 | | ₦ |
|--------|-------------------|---------|--------|-------------|---------|
| Jan 1 | Balance b/f | 40,000 | Dec 31 | Cash | 250,000 |
| Dec 31 | Sale (difference) | 270,000 | | Balance c/d | 60,000 |
| 200-2 | | 310,000 | | | 310,000 |
| Jan 1 | Balance b/d | 60,000 | | | |

Purchases Control Account

| | | ₦ | 200-1 | | ₦ |
|--------|-------------|---------|--------|-----------------------|---------|
| 200-1 | Cash | 180,000 | Jan 1 | Balance b/f | 55,000 |
| Dec 31 | Balance c/d | 35,000 | Dec 31 | Purchases differences | 160,000 |

| | | | | | |
|-------|--|---------|-------|-------------|---------|
| 200-2 | | 215,000 | 200-2 | | 215,000 |
| | | | Jan 1 | Balance b/d | 35,000 |

Statement of Affairs as at 1st January

| | N | N | | N | N |
|----------------------|--------|----------------|----------------|--------|----------------|
| Capital Fund | | | Fixed Assets | | |
| Cash Introduced | | | Machinery | 15,000 | |
| (difference) | | 144,000 | Furniture | 30,000 | 45,000 |
| Current Liabilities: | | | Current Assets | | |
| Creditors | 55,000 | | Stock | 25,000 | |
| Accrual expenses | 3,000 | | Debtors | 60,000 | |
| Wages owing | 12,000 | | Electricity | | |
| | | 70,000 | prepaid | 4,000 | |
| | | | Cash in hand | 30,000 | |
| | | | Cash at bank | 50,000 | |
| | | | | | 169,000 |
| | | <u>214,000</u> | | | <u>214,000</u> |

Note:

Under the capital fund, cash introduced in January was arrived at by subtracting the current liabilities from the total of both fixed and current assets. This difference between Assets and liabilities in the statement of Affairs is the cash introduced (capital) on 1st January.

2. Preparation of Statement of Profit

After the opening statement of Affairs has been opened and the capital ascertained the next step is to prepare the statement of profit for the year. But before this is done, the closing capital will have to be ascertained as well.

Capital at the close of business is ascertained thus:

| | DR | CR |
|---------------------|--------|---------|
| ASSETS: | N | N |
| Machinery | 40,000 | |
| Furniture | 50,000 | |
| Stock in trade | 80,000 | |
| Debtors | 75,000 | |
| Cash | 12,000 | |
| Electricity Prepaid | 6,750 | |
| Insurance | 2,500 | |
| Bank | 37,500 | |
| LIABILITIES | | 100,000 |
| Creditors | | 8,500 |
| Rent Owing | | 11,500 |
| Bills payables | | 183,750 |

| | |
|------------------------------|---------|
| Closing capital (difference) | 303,750 |
| | 303,750 |

Before you prepare the “statement of profit”, observe the following steps.

1. Find the difference between the opening and closing capital. The difference given the apparent “profit” for the year.
2. Note the withdrawals made by the owner of the business, and any introduction of capital during the trading period. Also note the amount by which fixed assets have been depreciated. The same thing applies to Bad debts provision.

Statement Of Profit and Loss for the Year Ended 31st December

| | | N | | | N |
|--------|-----------------------|---------|--------|---------------|---------|
| Dec 31 | Sundry Liabilities | 120,000 | Dec 31 | Sundry Assets | 303,750 |
| | Closing capital c/d | 183,750 | | | |
| | | 303,750 | | | 303,750 |
| | Opening Capital | | | | |
| Jan 1 | | 144,000 | Dec 31 | Capital b/d | 183,750 |
| | Sales (car) | 40,000 | | Drawing | 20,000 |
| | Bad debts (provision) | 3,750 | | | |
| | Net Profit | 16,000 | | | |
| | | 203,750 | | | 203,750 |

CAPITAL ACCOUNT

| | | N | | | N |
|--------|----------------------|---------|-------|-------------|---------|
| Dec 31 | Drawings Balance c/d | 20,000 | Jan 1 | Balance c/d | 144,000 |
| | | 140,000 | | profit | 16,000 |
| | | 160,000 | | | 160,000 |

2.6.2 Double - entry system

The double entry system of bookkeeping is one whereby two (2) entries are made for every transaction. Here, we come to the long established principle of double entry book-keeping. The first golden rule is:

Every debit entry must have a corresponding credit entry and every

credit entry must have a corresponding debit entry. The second golden rule is debit the account that receives and credit the account that gives.

The objectives of double entry system are to:

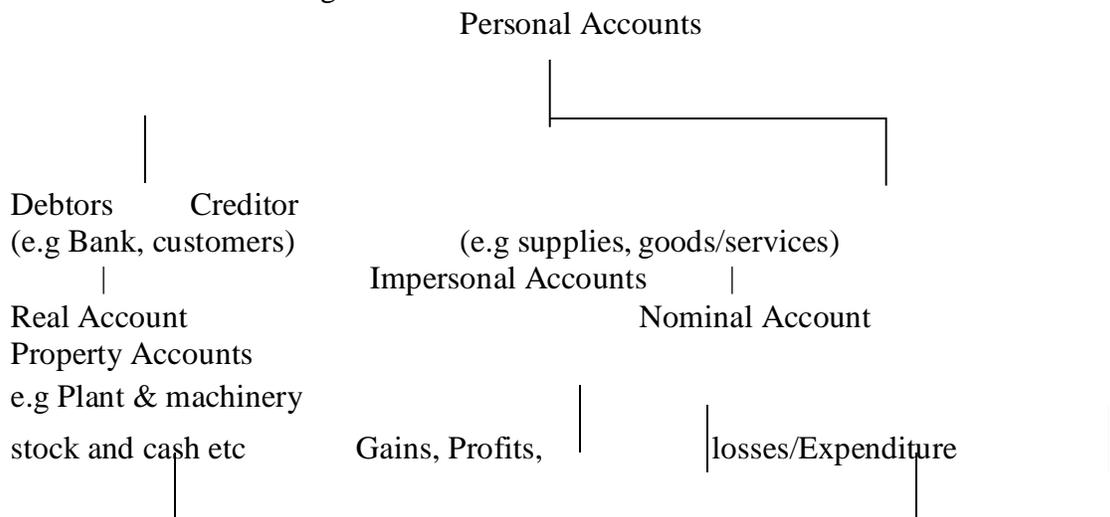
Provide a permanent, systematic and complete record of financial transactions.

1. Provide financial records for the value of assets and liabilities, purchases and sales, income and expenses.
2. Provide records for ascertaining profit or loss made at any given time.
3. Show the financial work of an organization at any point in time.
4. Check the arithmetical accuracy of monetary transactions recorded in the books of accounts.
5. Help in detecting fraud and other irregularities that may arise from inadequate accounting records.
6. Provide financial records for business comparative purposes within and without the activities of the organization.
7. Provide basis for planning and effective control of business operations.

The ledger is the principal book of accounts. Every other entries or transactions in all the other books of account are recorded in it. A ledger account has two sides, one for recording values received and the other for recording value given. It could be defined as a diary of events in which all happenings (financial transactions) are recorded for easy reference and to assist in the double entry system. A Specimen of ledger.

| Dr | | | | Cr | | | |
|------|-------------|-------|-------|------|-------------|-------|-------|
| Date | Particulars | Folio | N : k | Date | Particulars | Folio | N : K |
| | | | | | | | |

The Accounts in the ledger are s shown below



| | |
|-------------------|--------------|
| Discount received | wages, rents |
| Dividend received | |

Subsidiary Books

Subsiding books are the records of transactions entered in separate books, mainly for the purpose of listing and classifying the various transactions as they occur and to avoid the risk of errors and omissions of direct entries in the ledger. Subsidiary books are also called books of original entry or “books of prime entry”

The subsidiary books required in business are:

- ii. Purchases journal/purchase day Book. This book contains the particulars of goods bought on credit. Particular of each purchase with date and names of seller are entered in it and the amount is posted individually to the credit of the account of the supplier in the ledger. The total amount of purchases for a given period is posted to the Debit of purchases Account.
- iii. Sales Journal/ sales Day Book: In the book, a daily record is made of all sales of goods on credit. Particulars of each sales with date, name of consumer and the good sold are entered in it. However, all transactions entered in this book have to be posted to the credit of the sales account at the end of a given period.
- iv. Purchases Returns Book seller

This contains particulars of goods returned, the date and the name of the/ supplier. All postings being made in respect of purchases returns are taken to the Debit of the account of the seller/ supplier to whom goods are returned; and the periodic total is posted to the credit of the purchases Returns Account.

- v. Sales Returns Book:
This book records goods sold but later returned for one reason or the other (i.e defective, under-size, wrong supply, irregular size or colour etc).
Like the purchases Returns, it records the names, date, goods returned and the reason for its return. All posting being made in respect of this returns are taken to the credit of the account of the customer who returned the goods. The respective totals are posted to the Debit of sales Returns Account periodically.
- vi. The Journal Proper
The journal or Journal proper is used for the purpose of recording transactions, which because of their nature cannot be entered in any other book of prime entry. It is also used for opening and closing entries, transfer of items or corrections of errors etc.

Example 1

Enter the following transactions in double entry system in the ledger accounts of L. Oladimeji for the month of January 19 x 8

- Jan 1 Started business with ₦ 600,000, 300,000 in the bank, ₦ 200,000 in hand and ₦ 100,000 on loan from D. Twins by cheque
- 2 Bought ₦ 150,000 goods by cheque
- 3 Bought ₦ 300,000 goods on credit from P. Balogun
- 4 Sold goods on credit to J. Peter ₦ 200,000 and P. John ₦ 250,000
- 5 Bought motor van paying by cash ₦ 100,000
- 6 Paid motor expenses by cheque ₦ 10,000
- 7 Returned goods to P. Balogun ₦ 20,000
- 8 Goods returned by P. John ₦ 25,000
- 9 Paid P. Balogun by cheque ₦ 150,000
- 10 The following people paid by cheque J. Peter ₦ 170,000 and P. John ₦ 190,000
- 11 Oladimeji brought a further ₦ 100,000 into the business and deposited it in the bank
- 12 Bought Office furniture on credit from P. Tete ₦ 400,000.
- 13 Bought office stationery on credit from A Darko ₦ 20,000
- 14 Paid rent by cash ₦ 10,000
- 15 Returned part of the office furniture to P. Tete ₦ 50,000
- 16 Paid P. Tete by cheque ₦ 150,000
- 17 Sold some of the office furniture for cash ₦ N70,000
- 18 Took cash for private use ₦ 15,000
- 19 Took goods work ₦ 10,000 for private use
- 20 Bought building on credit from A Abankwa ₦ 400,000
- 21 Received rent ₦ 10,000 from part of the building sub-let cheque
- 22 Paid rent by cheque ₦ 30,000
- 25 Repaid part of D. Tale's loan by cheque ₦ 80,000
- 26 Cash sales paid direct the bank ₦ 400,000
- 31 Cash sales ₦ 150,000 Solution

L. Oladimeji's ledger accounts for the month of January 19 x 8

| Capital Account | | | |
|------------------------|--------|------------|---------|
| 19 x 8 | ₦ | 19 x 8 | ₦ |
| | | Jan 1 Bank | 300,000 |
| | | 1 Cash | 200,000 |
| | | 11 Bank | 100,000 |
| Loan D. Tale's Account | | | |
| 19 x 8 | ₦ | 19 x 8 | ₦ |
| Jan 25 | Bank | Jan 1 | Bank |
| | 80,000 | | 100,000 |

Bank Account

| 19 x 8 | | ₦ | 19 x 8 | | ₦ |
|---------|----------------|---------|--------|----------------|---------|
| Jan 1 | Capital | 300,000 | Jan 1 | Purchase | 150,000 |
| 1 | Loan (D. Tale) | 100,000 | 6 | Motor expenses | 10,000 |
| 10 | J. Peter | 170,000 | 9 | P. Balla | |
| 150,000 | | | 16 | P. Tete | 150,000 |
| 10 | P. John | 190,000 | 22 | Rent | 30,000 |
| 11 | Capital | 100,000 | 25 | Loan (D. Tale) | 80,000 |
| 21 | Rent Receive | 10,000 | 26 | Sales | 400,000 |

Cash Account

| 19 x 7 | | ₦ | 19 x 8 | | ₦ |
|--------|------------------|---------|--------|-----------|---------|
| Jan 1 | Capital | 200,000 | Jan 5 | Motor van | 100,000 |
| 17 | Office Furniture | 70,000 | 14 | Rent | 10,000 |
| 31 | Sales | 150,000 | 18 | Drawings | 15,000 |

Purchase Account

| 19 x 8 | | ₦ | 19 x 7 | | ₦ |
|--------|----------|---------|--------|--|---|
| Jan 2 | Bank | 150,000 | | | |
| 3 | P. Balla | 300,000 | | | |

P. Balogun's Account

| 19 x 8 | | ₦ | 19 x 8 | | ₦ |
|--------|------------------|---------|--------|-----------|---------|
| Jan 7 | Returns outwards | 20,000 | Jan 3 | Purchases | 300,000 |
| 9 | Bank | 150,000 | | | |

Sales Account

| 19 x 8 | | ₦ | 19 x 8 | | ₦ |
|--------|----------|---------|--------|--|---|
| Jan 4 | J. Peter | 200,000 | | | |
| 4 | P. John | 250,000 | | | |

| | | |
|----|------|---------|
| 26 | Bank | 400,000 |
| 31 | Cash | 150,000 |

J. Peter's Account

| | | | |
|-------------|--------|-------------|---------|
| 19 x 8 | ₦ | 19 x 8 | ₦ |
| Jan 4 Sales | 20,000 | Jan 10 Bank | 170,000 |

P. John's Account

| | | | |
|-------------|---------|----------------------|---------|
| 19 x 8 | ₦ | 19 x 8 | ₦ |
| Jan 4 Sales | 250,000 | Jan 8 Return inwards | 25,000 |
| | | 10 Bank | 180,000 |

Motor van Account

| | | | |
|------------|---------|--------|---|
| 19 x 8 | ₦ | 19 x 8 | ₦ |
| Jan 5 Cash | 100,000 | | |

Motor Expenses Account

| | | | |
|------------|---------|--------|---|
| 19 x 8 | ₦ | 19 x 8 | ₦ |
| Jan 6 Bank | 100,000 | | |

Returns Outward Account

| | | | |
|--------|---|------------------|--------|
| 19 x 8 | ₦ | 19 x 8 | ₦ |
| | | Jan 7 P. Balogun | 20,000 |

Returns Inward Account

| | | | |
|---------------|--------|--------|---|
| 19 x 8 | ₦ | 19 x 8 | ₦ |
| Jan 8 P. John | 25,000 | | |

Office Furniture Account

| | | | |
|----------------|---------|----------------|--------|
| 19 x 8 | ₦ | 19 x 8 | ₦ |
| Jan 12 P. Tete | 400,000 | Jan 15 P. Tete | 50,000 |
| | | 17 Cash | 70,000 |

P. Tete's Account

| | | | |
|-------------------------|---------|-------------------------|---------|
| 19 x 8 | ₦ | 19 x 8 | ₦ |
| Jan 15 Office Furniture | 50,000 | Jan 12 Office furniture | 400,000 |
| 16 Bank | 150,000 | | |

Office Stationery Account

| | | | |
|-----------------|--------|--------|---|
| 19 x 8 | ₦ | 19 x 8 | ₦ |
| Jan 13 A. Darko | 20,000 | | |

A. Darko's Account

| | | | |
|--------|---|--------------------------|--------|
| 19 x 8 | ₦ | 19 x 8 | ₦ |
| | | Jan 13 Office stationery | 20,000 |

Rent Expenses Account

| | | | |
|-------------|--------|--------|---|
| 19 x 8 | ₦ | 19 x 8 | ₦ |
| Jan 14 Cash | 10,000 | | |
| 22 Bank | 30,000 | | |

Drawings Account

| | | | |
|--------------------|--------|--------|---|
| 19 x 8 | ₦ | 19 x 8 | ₦ |
| Jan 18 Cash | 15,000 | | |
| 19 Goods withdrawn | 10,000 | | |

Building Account

| | | | |
|-------------------|---------|--------|---|
| 19 x 8 | ₦ | 19 x 8 | ₦ |
| Jan 20 A. Abankwa | 400,000 | | |

Goods Withdrawn Account

| | | | |
|--------|---|-----------------|--------|
| 19 x 8 | ₦ | 19 x 8 | ₦ |
| | | Jan 19 Drawings | 10,000 |

Rent Received Account

| | | | |
|--------|---|-------------|--------|
| 19 x 8 | ₦ | 19 x 8 | ₦ |
| | | Jan 21 Bank | 10,000 |

Rent Expenses Account

| | | | |
|-------------|--------|--------|---|
| 19 x 8 | ₦ | 19 x 8 | ₦ |
| May 22 Bank | 30,000 | | |

ii. Balancing off of Account

This means finding the balance on each account that make the debit side equal to the credit side. The balance is the accounting term indicating the difference between the two sides of an account. If the total of the debit entries exceeds the total of the credit entries, the account is said to have a debit balance, if the total of the credit entries exceeds the total of the debit entries, the account is said to have a credit balance. If the total of the debit entries equal the total of the credit entries, the account is said to have a nil balance and is thus self closing.

Example ii

Record the following transactions in the ledger account of D. Kollo for the month of March 19 X 7 and balance off accounts at the end of the month

| 19 X 7 | N |
|--|-----------|
| Mar 1 Started business with: | |
| Cash in hand | 100,000 |
| Cash at bank | 1,400,000 |
| Loan from A.Ojo by cash | 300,000 |
| Loan from J.Ajayi by plant and Machinery worth | 200,000 |
| Mar 2 Brought goods from J .Paul | 250,000 |
| 5 Sold goods Joseph and Sons | 200,000 |
| 7 Sold goods for cash | 100,000 |
| 11 Draw cheque for self | 50,000 |
| 12 Brought goods from A. Lakolu | 300,000 |
| 18 Paid cash to Bank | 70,000 |
| 20 Cash Purchases | 40,000 |
| 21 Paid J. Paul by cheque | 200,000 |
| 24 Sold goods by cheque | 600,000 |
| 26 Withdraw from current acct to saving acct | 250,000 |
| 28 traveling expenses paid by cheque | 100,000 |
| 29 Traveling expense Owing | 20,000 |
| 30 Outstanding rent expenses | 10,000 |
| 31 Paid advertising by cheque | 20,000 |
| 31 Paid by cheque the balance in A Ojo's account | ----- |
| 31 Banked all the money in cash till except | 10,000 |

Solution

D. Kollo's ledger accounts for the month of March 19 x 7

Capital Account

| Capital Account | | | |
|-----------------|------------------|-----------------|------------------|
| 19 x 7 | N | 19 x 7 | N |
| Mar 31 Bal old | 1,500,000 | Mar 1 Cash | 100,000 |
| | <u>1,500,000</u> | 1 Bank | <u>1,400,000</u> |
| | | April 1 Bal b/d | <u>1,500,000</u> |

| Loan Account (A. Ojo) | | | |
|-----------------------|---------|------------|---------|
| 19 x 7 | N | 19 x 7 | N |
| Mar 31 Bank | 300,000 | Mar 1 Cash | 300,000 |

| Loan Account (J. Ajayi) | | | |
|-------------------------|---------|-------------------------|---------|
| 19 x 7 | N | 19 x 7 | N |
| Mar 31 Bank | 200,000 | Mar 1 Plant & Machinery | 200,000 |

| Bank Account | | | |
|-----------------|------------------|-------------------------|------------------|
| 19 x 7 | N | 19 x 7 | N |
| Mar 1 Capital | 1,400,000 | Mar 11 Drawings | 50,000 |
| 18 Cash | 70,000 | 21 J. Paul | 200,000 |
| 24 Sales | 600,000 | 25 Deposit Account | 250,000 |
| 31 Cash | 260,000 | 28 Travelling expenses | 100,000 |
| | | 31 Advertising expenses | 20,000 |
| | | 31 J. Ajayi | 200,000 |
| | | 31 A. Ojo | 300,000 |
| | | 31 Bal old | <u>1,330,000</u> |
| | <u>2,430,000</u> | | <u>2,430,000</u> |
| April 1 Bal b/d | 1,330,000 | | |

| Cash Account | | | |
|-----------------|----------------|--------------|----------------|
| 19 x 7 | N | 19 x 7 | N |
| Mar 1 Capital | 100,000 | Mar 18 Bank | 70,000 |
| 1 Loan (A. Ojo) | 200,000 | 28 Purchases | 40,000 |
| 7 Sales | 100,000 | 31 Bank | 100,000 |
| | <u>500,000</u> | 31 Bal old | <u>10,000</u> |
| | | | <u>500,000</u> |
| Bal b/d | 10,000 | | |

| Plant and Machinery Account | | | |
|-----------------------------|---------|--------|---|
| 19 x 7 | N | 19 x 7 | N |
| Mar 1 Loan (J. Ajayi) | 200,000 | | |

Purchase Account

| 19 x 7 | | ₤ | 19 x 7 | | ₤ |
|---------|----------|----------------|--------|---------|----------------|
| Mar 2 | J. Pal | 250,000 | Mar 31 | Bal c/d | 590,000 |
| 15 | A.Lakolu | 300,000 | | | |
| 20 | Cash | 40,000 | | | |
| | | <u>590,000</u> | | | <u>590,000</u> |
| April 1 | Bal b/d | 590,000 | | | |

J. Paul's Account

| 19 x 7 | | ₤ | 19 x 7 | | ₤ |
|--------|---------|----------------|--------|-----------|----------------|
| Mar 21 | Bank | 200,000 | Mar 2 | Purchases | 250,000 |
| 31 | Bal c/d | 50,000 | | | |
| | | <u>250,000</u> | | | <u>250,000</u> |

Joseph & Sons Account

| 19 x 7 | | ₤ | 19 x 7 | | ₤ |
|--------|-------|---------|--------|--|---|
| Mar 5 | Sales | 200,000 | | | |

Sales Account

| 19 x 7 | | ₤ | 19 x 7 | | ₤ |
|---------|---------|----------------|--------|---------------|----------------|
| Mar 31 | Bal c/d | 900,000 | Mar 5 | Joseph & Sons | 200,000 |
| | | | 7 | Cash | 100,000 |
| | | | 24 | Bank | 600,000 |
| | | <u>900,000</u> | | | <u>900,000</u> |
| April 1 | Bal b/d | 900,000 | | | |

Drawings Account

| 19 x 7 | | ₤ | 19 x 7 | | ₤ |
|--------|------|--------|--------|--|---|
| Mar 11 | Bank | 50,000 | | | |

| A. Lakolu's Account | | | |
|---|----------------|-----------------------|----------------|
| | N | | N |
| 19 x 7 | | 19 x 7 | |
| | | Mar 15 Purchases | 300,000 |
| Deposit Account | | | |
| 19 x 7 | N | 19 x 7 | N |
| Mar 26 Bank | 250,000 | | |
| Travelling Expenses Outstanding Account | | | |
| 19 x 7 | N | 19 x 7 | N |
| Mar 28 Bank | 100,000 | Mar 31 Bal c/d | 120,000 |
| 29 Travelling Exp. Out | <u>20,000</u> | | |
| | <u>120,000</u> | | <u>120,000</u> |
| April 1 Bal b/d | 120,000 | | |
| Travelling Expenses outstanding Account | | | |
| 19 x 7 | N | 19 x 7 | N |
| | | Mar 29 Travelling Exp | 20,000 |
| Outstanding Rent Expenses Account | | | |
| 19 x 7 | N | 19 x 7 | N |
| | | Mar 30 Rent Expenses | 10,000 |
| Rent Expenses Account | | | |
| 19 x 7 | N | 19 x 7 | N |
| Mar 30 Outstanding rent expenses | 10,000 | | |
| Advertising Expenses Account | | | |
| 19 x 7 | N | 19 x 7 | N |
| Mar 31 Bank | 20,000 | | |

Note: The accounts with only one entry need not to be balanced although if the accounts are balanced there is no problem.

2.6.3 Computerized bookkeeping

Computerized bookkeeping removes many of the paper “books” that are used to record transactions and usually enforces double entry bookkeeping, computer software increases the speed at which bookkeeping can be performed.

2.6.4 Online bookkeeping

Online bookkeeping or remote bookkeeping allows source documents and data to reside in web-based application which allow remote access for bookkeepers and accountants. All entries made into the online software are recorded and stored in a remote location. The online software can be accessed from any location in the world and permit the bookkeeper or data entry person to work out of an office. The paperwork can either be delivered to the bookkeeper, or a company can scan its business documents and upload them to a secure location or into an online bookkeeping application on a regular basis. This allows the bookkeeper to work remotely with these documents to update the books. Users of the technology include:

- Mobile employees scanning and sending in their receipts and bills while on the road to get reimbursed more quickly.
- Organizations with multiple officers centralizing their accounting department and having the documents scanned and sent to this location.

Self-Assessment Exercise

| |
|--|
| 1. Who are the users of online book-keeping? |
|--|

2.3.6 Test Your Understanding and Progress on Journal Entries with MCQ

(A)

1. Among these transactions, which transaction will have no impact on stockholders' equity?

- (a) Net loss
- (b) Investment of cash by stockholders
- (c) Dividends to stockholders
- (d) Purchase of the land from the proceeds of bank loan

Answer: d

Q2. Amount invested by the proprietor in the business should be credit to:

- (a) A/c payable
- (b) Capital
- (c) Cash
- (d) Drawing

Answer: b

Q3. Transactions are first recorded in which book/account?

- (a) Book of Original Entry
- (b) T Accounts
- (c) Accounting Equation
- (d) Book of Final Entry

Answer: a

Q4. Goods returned by customer will be debited to which account?

- (a) Purchases A/C
- (b) Return outward
- (c) Customer's A/C
- (d) Return inward

Answer: d

Q5. Journal is also called a?

- (a) A day book
- (b) History book
- (c) Ledger book
- (d) An entry book

Answer: a

Q6. _____ A/c is credited and _____ A/c is debited in case wages are paid for construction of business premises

- (a) Cash, Wages
- (b) Cash, Premises
- (c) Premises, Cash
- (d) Wages, Cash

Answer: b

Q7. Journal lists transactions in which order?

- (a) Decreasing
- (b) Chronological
- (c) Alphabetical
- (d) Increasing

Answer: b

Q8. Among these statements which one is incorrect regarding journal entry?

- (a) The debited account titles are listed first
- (b) Journal entries show the effects of transactions
- (c) Each journal entry should begin with a date
- (d) Journal entries provide account balances

Answer: d

Q.9 Cash withdrawal from business by the proprietor should be credited to

- (a) Cash account
- (b) Purchase account
- (c) Capital account
- (d) Drawings account

Answer: a

Q10. Which one of the following is called the book of original entry?

- (a) Receipt and Payment Account
- (b) Trial Balance
- (c) General Journal
- (d) General Ledger

Answer: c

(B)

21. The rules of debit and credit for a balance sheet say that _____.

- a. A decrease in asset and liability accounts is recorded as a credit transaction
- b. An increase in asset and owner's equity accounts is recorded as a debit transaction
- c. A decrease in liability and owners' equity accounts is recorded as a credit transaction
- d. An increase in asset, liability and owners' equity accounts is recorded as a debit transaction

Answer: c

22. Company B had Rs.30000 account receivable from Company D. On 26th February, Company D made a partial payment of Rs. 21000 to Company B. The journal entry made by Company B to record this transaction is _____.

- a. A credit to the accounts receivable account of Rs. 21000
- b. A credit to the cash account of Rs. 21000
- c. A debit to the accounts receivable account of Rs. 21000
- d. A debit to the cash account of Rs. 21000

Answer: c

23. In the accounting cycle _____.

- a. Journal entries get posted to the appropriate ledger accounts
- b. Transactions are posted before they are journalised
- c. A trial balance is prepared after journal entries get posted
- d. Both a and c are correct

Answer: d

24. Dividends _____.

- a. Are a business expense
- b. Are recorded by debiting the dividend account
- c. Decrease owners' equity
- d. Both b and c are correct

Answer: d

25. **Which of the financial statements gets prepared first?**

- a. Statement of cash flows
- b. Statement of retained earnings
- c. Balance sheet
- d. Income statement

Answer: d

26. **Which of the following accounts is never reported in the income statement as an expense?**

- a. Dividend expense
- b. Interest expense
- c. Income tax expense
- d. Depreciation expense

Answer: a

27. **Which of the following accounts will never appear in the trial balance?**

- a. Income tax expense
- b. Dividends
- c. Both a and b are incorrect
- d. Both a and b are correct

Answer: d

28. **The long-term assets that have no physical existence but are rights that have value are known as _____.**

- a. Investments
- b. Intangible assets
- c. Fixed assets
- d. None of the above

Answer: b

29. **The assets that can be converted into cash within a year are known as _____.**

- a. Investments
- b. Intangible assets
- c. Current assets
- d. None of the above

Answer: c

30. **The debts which are repaid within a year are known as _____.**

- a. Contingent liabilities
- b. Fixed liabilities
- c. Current liabilities
- d. None of the above

Answer: c

31. _____ is the first phase of the accounting cycle.

- a. Making a decision about the business
- b. Posting entries to ledger accounts
- c. Preparing journal
- d. Identifying an economic event or transaction

Answer: d

32. The sales income (both credit and cash) during a given period is called _____.

- a. Purchase returns
- b. Turnover
- c. Sales returns
- d. None of the above

Answer: b

33. The account that records expenses, gains and losses is called _____.

- a. Nominal account
- b. Personal account
- c. Real account
- d. None of the above

Answer: a

34. The process of entering all transactions from the journal to the ledger is called _____.

- a. Accounting
- b. Posting
- c. Entry
- d. None of the above

Answer: b

35. The _____ is a statement that shows the financial status of a company at any given time.

- a. Balance sheet
- b. Trading account
- c. Profit and loss statement
- d. Trial Balance

Answer: a

36. The ratio that refers to a firm's ability to meet its short term obligations out of its short term resources is called _____.

- a. Profitability ratio
- b. Activity ratio
- c. Leverage ratio
- d. Liquidity ratio

Answer: d

37. **Which of the following is a current liability for the firm?**

- a. Bank overdraft
- b. Bills payable
- c. Outstanding expenses
- d. All of the above

Answer: d

38. **Current Ratio = _____.**

- a. Current assets / Current liabilities
- b. Fixed assets / Current liabilities
- c. Debt / Current assets
- d. Debt / Equity

Answer: a

39. **A higher inventory ratio indicates _____.**

- a. Quick inventory turnover
- b. Better inventory management
- c. Both a and b are incorrect
- d. Both a and b are correct

Answer: d

40. **Bookkeeping mainly consists of _____ part of the accounting process.**

- a. Auditing the books of accounts
- b. Recording financial information
- c. Preparing financial statements
- d. Analysing

Answer: b

Self-Assessment Exercise

2: Enumerate the objectives of double entry system.

2.4 Conclusion

In this unit, we have learnt about bookkeeping and the various methods of bookkeeping.



2.5 Summary

In this unit, you have learnt that:

- Bookkeeping is the act of keeping accounts in a regular and systematic manner.
i.e the record making phase of accounting.

- The books that are used for bookkeeping fall naturally into the following divisions; principal books, subsidiary books and memorandum books.
- The major methods of bookkeeping are single entry and double entry. However, bookkeeping can be done on-line or computerized.
- The golden rules for double entry system are:
 - i. Every debit entry must have a corresponding credit entry and every credit entry must have a corresponding debit entry.
 - ii. Debit the account that receives and credit the account that gives.



2.6 References/Further Readings/Web Sources

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2.7 Possible Answers to Self-Assessment Exercises

Answers:

1.

Users of the online book-keeping technology include:

- Mobile employees scanning and sending in their receipts and bills while on the road to get reimbursed more quickly.
- Organizations with multiple officers centralizing their accounting department and having the documents scanned and sent to this location.

Self-Assessment Exercise 2: Enumerate the objectives of double entry system.

Answer:

- i. Provide a permanent, systematic and complete record of financial transactions.
- ii. Provide financial records for the value of assets and liabilities, purchases and sales, income and expenses.
- iii. Provide records for ascertaining profit or loss made at any given time.
- iv. Show the financial work of an organization at any point in time.
- v. Check the arithmetical accuracy of monetary transactions recorded in the books of accounts.
- vi. Help in detecting fraud and other irregularities that may arise from inadequate accounting records.
- vii. Provide financial records for business comparative purposes within and without the activities of the organization.
- viii. Provide basis for planning and effective control of business operations.

UNIT 3 SYSTEM OF FARM ACCOUNTING

Unit Structure

- 3.1 Introduction
- 3.2 Learning Outcomes
- 3.3 3.3.1 Systems of farm Accounting
- 3.4 Conclusion
- 3.5 Summary
- 3.6 References/Further Readings/Web Sources
- 3.7 Possible Answers to Self-Assessment Exercises



3.1 Introduction

Making observations on the business and deriving information is one of the most important roles of farm management. Farm Accounting provides information to control money flow in the business. It provides information on financial “worthness”, performance and monetary checking. In this unit, you will learn about the systems of farm accounting.



3.2 Learning Outcomes

By the end of this unit, you should be able to explain the various systems of farm accounting.



3.3 Main Content

3.3.1 System of farm Accounting

Accounts are financial records of what the farmer spends and receives. Potentially, a complete system of farm accounting should give the farmer much information. e.g.

- i. The current cash position and estimates of the future cash positions.
- ii. The past profitability of different crops.
- iii. The amounts owed to the farmer by debtors, and by him to creditors.
- iv. The value of the business assets (plant, stock, land and building etc) and.
- v. The profitability of the whole farm and estimates of likely future profits. Four variants of the accounting system are discussed in this unit and these are:

3.3.2 Farm Income Statement or Cash Analysis Account

The Farm Income Account is a statement of all cash transactions that took place with regard to the farm for the year that has just ended. In the farm Account book, Sales and receipts are recorded on the left hand side, while purchases and expenses are recorded on the right hand side. Under each of the two sides of the Account, there are three columns: Date, Details and Total.

Table 5: Farm Income Statement for the Year ended Dec 31, 2007

| Sales and Receipts ₦ | | | Purchase and Expenses ₦ | | |
|----------------------|--|-----------|-------------------------|--|------------------|
| Date | Details | Total | Date | Details | Total |
| | | received | | | paid |
| Jan 1 | Opening balance being in bank cash | 1,000,000 | | Implements | 100,000 |
| | | | | Wages | 500,000 |
| | | | | Feeds | 1,200,000 |
| | | | | Seeds | 80,000 |
| | | | | Fertilizer | 50,000 |
| July | Yams | 400,000 | | Rent | 20,000 |
| Sept | Maize | 250,000 | | | |
| Nov | Cassava | 180,000 | | | |
| Nov | Eggs | 500,000 | | | |
| Nov | Broiler | 600,000 | | | |
| Dec | Others | 450,000 | | | |
| | | 3,380,000 | | | <u>2,000,000</u> |
| | | | | Closing Balance being cash in bank | 1,380,000 |
| | | 3,380,000 | | | 3,380,000 |

Year 2008: Opening balance being cash in bank = ₦1,380,000

3.2.1 Farm Trading Account or Profit and loss Account

In order for a farmer to know whether he had made a profit or loss during the year, he needs to present his records in form of trading account in details.

The profit and loss Account provides information about the performance of the business in a given period of time. This is normally in one year. Profit is a return to the management. So, a manager will be interested in

making judgments based on the profit earned.

In the farm Trading Account, it is customary to put “purchase and Expenses on the left hand side and “sales and Receipts” on the right. The closing valuation is also on the right and opening valuation on the left

Table 6: Farm Trading Account as at December 31, 2007.

| | | | |
|----------------------------------|-------------------|-------------------|------------------|
| Purchases and Expenses valuation | and Opening | Receipts Sheep | 250,000 |
| Sheep | 250,000 | Goat | 388,000 |
| Goat | 410,000 | Yams | 200,000 |
| Seed | 40,000 | Cocoa | 450,000 |
| Fertilizer | 120,000 | Maize | 198,000 |
| Cocoa Trees | 850,000 | Melon | 104,000 |
| Sprays | 35,000 | Produce consumed | 158,000 |
| Maize | 88,000 | Miscellaneous | |
| Yam | 54,000 | Receipts | <u>112,000</u> |
| Melon | 66,000 | Total Receipts | <u>1,860,000</u> |
| Total valuation | opening 1,913,000 | Closing Valuation | |
| | | Cocoa Trees | 1,000,000 |
| | | Sheep | 300,000 |
| Expenses | | Goat | 480,000 |
| | | Seed | 32,000 |
| Implements | 45,000 | Maize | 140,000 |
| Insecticides | 25,000 | Yam | 33,000 |
| Wages | 101,000 | Melon | 77,000 |
| Feeding Stuffs | 44,000 | Implements | <u>88,000</u> |
| Rent | 50,000 | Total closing | |
| Seeds and fertilizer | 210,000 | Valuation | 2,100,000 |
| Depreciation | 500,000 | | |
| Veterinary Services | <u>72,000</u> | | |
| Total Expenses | <u>2,960,000</u> | | |
| Farm Profit | 1,000,000 | | |
| | <u>3,960,000</u> | | <u>3,960,000</u> |

1. Balance Sheet

The balance sheet otherwise known as the networth or financial statement and which applies to a point in time and represents a stock concept. It is like taking a snapshot of the business at a particular point in time. The networth statement shows the value of the assets that would remain if the business were to be liquidated and all outside claims paid.

By definition, networth statement is equal to total assets minus total

liabilities, that is: The Networth statement sometimes gives information on the solvency of the business and is used as basis for credit because it shows the ability of the business to meet short-run financial demands. If the total assets exceed the total liabilities, the business is solvent.

The greater the networth, the better the solvency position of the business. **Table 7: A Networth Statement for Chivita Farm as at Dec 31st 2006**

| Assets Current | (₦) | Liabilities Current | (₦) |
|-----------------|-----------|---------------------|------------|
| Cash | 600,000 | Account Payable now | 400,000 |
| Crops | 400,00 | | |
| Working Capital | | Intermediate | |
| Suppliers | 250,000 | Account Payable | 600,000 |
| Tools | 50,000 | Within three years | |
| Fixed Capital | | Long Term | |
| Land | 900,000 | Account Payable in | 500,000 |
| Building | 300,000 | 20 years | |
| Fencing | 200,000 | Total liability | 1,500,000 |
| | | Net Worth | 1,200,000 |
| Total Assets | 2,700,000 | Total Liability | |
| | | + Networth | 2,7000,000 |

2.Farm Assets Valuation

Valuation entails obtaining a realistic measure of the current value of the assets of the farm business. The first thing to do in assets valuation is the listing of all the resources available in physical terms then, place value on the assets. The various methods of valuation include valuation at cost, market price, net selling price, reproductive value etc.

1. Valuation at cost:- This entails entering in the inventory, the actual amount invested on the asset when it was originally acquired. A major disadvantage of this method is that after the business has been in operation for sometimes, the original cost is no more of much value since the conditions might have changed.
2. Valuation at Market Price- The market price of an assets at the time under consideration can be taken as its value e.g land
3. Valuation at Net Selling price some costs such as cost of advertisement and transportation might be incurred when selling an asset. Whatever price can be obtained in the market for the assets (i.e market price (Pm) less the cost of selling (Cs) is the net selling price (Pns), Notationally, $Pns = Pm - Cs$
4. Valuation by Reproductive Value
An asset can be valued at what it would cost to produce it at present prices and under present methods of production. This method is more useful for long-term assets and has little or no application for short - lived assets

3.Importance of Asset Valuation

Asset valuation is one of the most important things that need to be done by companies and organizations. There are many reasons for valuing assets, including the following:

1. Right Price

Asset valuation helps identify the right price for an asset, especially when it is offered to be bought or sold. It is beneficial to both the buyer and the seller because the former won't mistakenly overpay for the asset, nor will the latter erroneously accept a discounted price to sell the asset.

2. Company Merger

In the event that two companies are merging, or if a company is to be taken over, asset valuation is important because it helps both parties determine the true value of the business.

3. Loan Application

When a company applies for a loan, the bank or financial institution may require collateral as protection against possible debt default. Asset valuation is needed for the lender to determine whether the loan amount is covered by the assets as collateral.

4. Audit

All public companies are regulated, which means they need to present audited financial statements for transparency. Part of the audit process involves verifying the value of assets.

Self-Assessment Exercise

- 1: Describe the various methods of valuation.
- 2.What are the important reasons for asset valuation?

3.4 Conclusion

We have learnt in this unit the various forms of farm accounting.



3.5 Summary

You have learnt in this unit that:

- Accounts are financial records of what the farmer spends and receives.
- Farm accounting provides information to control money flow in the business. It provides information on financial worthiness, performance and monetary checking.
- The four variants of farm accounting system are: Farm Income Statement or cash Analysis Account, Farm Trading or profit and

Loss Account, Farm Balance sheet or Networth statement and Farm Assets valuation.

- Farm assets could be valued using these methods: valuation at cost, valuation at market price, valuation at net selling price and valuation by reproductive value.



3.6 References/Further Readings/Web Sources

Adesimi, A.A (1988). Farm Managements Analysis with Perspectives through the Development process. Pp 43-52.

Olukosi, J.O and P.O Erhabor (1988). Introduction to farm management Economics: Principles and Application AGITAB Publisher Ltd, Zaria Pp 48 - 61.

<https://corporatefinanceinstitute.com/resources/knowledge/finance/asset-valuation/>



3.7 Possible Answers to Self-Assessment Exercises

Self-Assessment Exercise 1: Describe the various methods of valuation.

Answer:

- i. **Valuation at cost:-** This entails entering in the inventory, the actual amount invested on the asset when it was originally acquired. A major disadvantage of this method is that after the business has been in operation for sometimes, the original cost is no more of much value since the conditions might have changed.
 - ii. **Valuation at Market Price-** The market price of an assets at the time under consideration can be taken as its value e.g land
 - iii. **Valuation at Net Selling price:** some costs such as cost of advertisement and transportation might be incurred when selling an asset. Whatever price can be obtained in the market for the assets (i.e market price (Pm) less the cost of selling (Cs) is the net selling price (Pns), Notationally, $Pns = Pm - Cs$
 - iv. **Valuation by Reproductive Value:** An asset can be valued at what it would cost to produce it at present prices and under present methods of production. This method is more useful for long-term assets and has little or no application for short - lived assets.
2. **There are many reasons for valuing assets:**
- a. **Right Price:** Asset valuation helps identify the right price for an asset, especially when it is offered to be bought or sold. It is beneficial to both the buyer and the seller because the former won't mistakenly overpay for the asset, nor will the latter erroneously accept a discounted price to sell the asset.
 - b. **Company Merger:** In the event that two companies are merging, or if a company is to be taken over, asset valuation is important because it helps both parties determine the true value of the business.
 - c. **Loan Application:** When a company applies for a loan, the bank or financial institution may require collateral as protection against possible debt default. Asset valuation is needed for the lender to determine whether the loan amount is covered by the assets as collateral.
 - d. **Audit:** All public companies are regulated, which means they need to present audited financial statements for.

UNIT 4 **COMPUTERIZED FARM ACCOUNTING**

Unit Structure

- 4.1 Introduction
- 4.2 Learning Outcomes
- 4.3 Main content
 - 4.3.1 Farm Funds: Complete Farm Accounting
- 4.4 Conclusion
- 4.5 Summary
- 4.6 References/Further Readings/Web Sources
- 4.7 Possible Answers to Self-Assessment Exercises



4.1 Introduction

This is the computer age and the world is becoming a global village. In this unit, we shall examine complete farm Accounting using a software known as Farm funds.



4.2 Learning Outcomes

By the end of this unit, you should be able to.

- Explain the features of the farm funds.



4.3 Main Content

4.3.1 Farm Funds

Farm Funds is the only farm accounting software that fully integrates with field records (Farm Trac), herd management records (Farm Stock), and mapping (Farm site). Do you know your cost per acre? What is your cost per kilogramme of livestock? Farm funds offers easy enterprising per field, livestock groups, machine, or structure while still maintaining the records you need for tax purposes. Eliminate the stress by keeping your receipts in the shoebox and let farm funds create tax reports you need.

The features of the farm funds are

- Double entry accounting for both cash and accrual books
- Integrates with Farm Trac to keep accounting records at the same time as keeping field histories, herd notations and chemical records.

- Up - to - date inventory tracking
- Profitability of each field and herd of animals is automatically calculated.
- Supports detailed cost records for equipment
- Full payroll system that calculates Federal and most state withholdings
- No monthly closings required and year-end is simple
- Records animal weights and feedings to calculate feed conversion and cost per kilogramme gained for each livestock group.
- Tax schedule area allows you to create reports to make tax preparation easy.
- Generate market value balance sheets.
- Includes budgeted cashflows
- Keep family living costs separate from farm costs.
- Full check - recording system. Includes interactive check register for easy editing and printing of transactions.
- Predefined accounts and financial statement formats are available that can easily be modified to reduce set up time.
- Depreciation amounts for equipment, structures, land improvements and livestock can be entered.
- REQUIRES Farm Trac, Microsoft window 98 or higher, 133 MHZ Processor, 64MB Memory, 20MB Hard drive space.
- Enhancements in farm Funds version 2009 includes: Expanded Budget comparison Report and the cashflow statement.

Self-Assessment Exercise

1. List the features of the farm funds.
2. Mention the benefits of farm funds.

4.4 Conclusion

We have learnt in this unit that farm accounting can be computerized and that complete farm accounting could be carried out using computer software such as Farm Funds.



4.5 Summary

In this unit, you have learnt that:

- Farm Funds is the only farm accounting software that fully integrates with field records, herd management and mapping.
- For efficient performance of the farm fund, it requires Farm

Trac, Microsoft window 98 or higher, 133MHZ processor, 64MB Memory, 20MB Hard Drive space.

- The features of the Farm Fund among other include double entry accounting for both cash and accrual books.



4.6 References/Further Readings/Web Sources

Farm Funds: Complete Farm Accounting. Farm funds - Farm Accounting from Farm works software, martens farm [http://www.123 farm workers. Com/funds.htm](http://www.123farmworkers.Com/funds.htm).

Farm Works Software (version 14):Major New features and Enhancements. Farm works software 2009 (Version 14) - Integrated farm and Agribusiness Management.

[http://www.123 farmworks. Com/farmworks 2009. htm](http://www.123farmworks.Com/farmworks2009.htm).



4.7 Possible Answers to Self-Assessment Exercises

Self-Assessment Exercise 1: List the features of the farm funds.

Answers:

1.

- Double entry accounting for both cash and accrual books
- Integrates with Farm Trac to keep accounting records at the same time as keeping field histories, herd notations and chemical records.
- Up - to - date inventory tracking
- Profitability of each field and herd of animals is automatically calculated.
- Supports detailed cost records for equipment
- Full payroll system that calculates Federal and most state withholdings
- No monthly closings required and year-end is simple
- Records animal weights and feedings to calculate feed conversion and cost per kilogramme gained for each livestock group.
- Tax schedule area allows you to create reports to make tax preparation easy.
- Generate market value balance sheets.
- Includes budgeted cashflows
- Keep family living costs separate from farm costs.
- Full check - recording system. Includes interactive check register for easy editing and printing of transactions.
- Predefined accounts and financial statement formats are available that can easily be modified to reduce set up time.
- Depreciation amounts for equipment, structures, land improvements and livestock can be entered.
- **REQUIRES** Farm Trac, Microsoft window 98 or higher, 133 MHZ Processor, 64MB Memory, 20MB Hard drive space.
- Enhancements in farm Funds version 2009 includes: Expanded Budget comparison Report and the cashflow statement.

2.

Farm funds offers easy enterprising per field, livestock groups, machine, or structure while still maintaining the records you need for tax purposes. Eliminate the stress by keeping your receipts in the shoebox and let farm funds create tax reports you need.

MODULE 3 TRIAL BALANCE AND FINAL ACCOUNTS

| | |
|--------|--|
| Unit 1 | Meaning and Scope of trial balance. |
| Unit 2 | Limitations and common errors of trial balance |
| Unit 3 | Final Accounts- |
| Unit 4 | Adjustments in the final Accounts I. |
| Unit 5 | Adjustments in the final Accounts II |

UNIT 1 MEANING AND SCOPE OF TRIAL BALANCE

Unit Structure

- 1.1 Introduction
- 1.2 Learning Outcomes
- 1.3 Main content
 - 1.3.1 Definition of Trial balance
 - 1.3.2 Constructing a Trial Balance
 - 1.3.3 Test your understanding with MCQ
- 1.4 Conclusion
- 1.5 Summary
- 1.6 References/Further Readings/Web Sources
- 1.7 Possible Answers to Self-Assessment Exercises



1.1 Introduction

If the double - entry principle have been completely and correctly applied, it is obvious that the total of all debit entries will be equal to the total of all credit entries. By extension, the total of the debit balances should be equal to the total of the credit balances. The list drawn up showing the balances extracted from all accounts is known as a trial balance. This unit examines the definition of trial balance, its functions and how to construct it.



1.2 Learning Outcomes

By the end of this unit, you should be able to:

- Define and explain trial balance
- State the functions/ purposes of trial balance
- Construct a trial balance.



1.3 Main Content

1.3.1 Definition of trial Balance

The Trial balance can be defined as the list of accounts balances at a given point in time drawn up to test the arithmetical accuracy of accounting entries. A trial balance can also be defined as a check of arithmetical accuracy of the bookkeeping to test the double whether it has been completed in the ledger or not. A trial balance is a list of balances both credit and debit extracted from the ledgers and cash book of a company as at a particular date. It is not an account but a statement showing the list of accounting balances. The total of all the debit balances in the accounts must equal the sum of all the credit balances.

In accounting, the trial balance is a worksheet listing the balance at a certain date of each ledger account in the columns, namely debit and credit. Under the double - entry system, in any transaction the total of any debit must equal the total of any credit. So in a trial balance the total of the debit side should always be equal to the total of the credit side. If the journal entries are error - free and were posted properly to the general ledger, the total of all the debit balances should equal the total of all the credit balances. If the debit do not equal the credits then an error has occurred somewhere in the process. The total of the accounts on the debit and credit side is referred to as the trial balance

Self-Assessment Exercise

| |
|--|
| 1. Give at least 4 definitions of trial balance. |
|--|

1.3.2 Constructing a trial balance

A trial balance can be constructed in two ways:

1. By means of Totals

Since a trial balance is a test of arithmetical accuracy, it will be wrong to adopt this means of totals in extracting an accurate trial balance. For this reason, this method is rarely used. But it could be used where there are less transaction to cope with in the books.

2. By means of Balances

This is the most popular method used in taking out the balances of accounts in order to extract an accurate trial balance. This method has some advantages amongst which is the outright revelation of compensating errors, where the total of the debit column of the trial balance has to agree with the total of those subsidiary books together with the closing cash balance but omitting the cash balance in the

opening entries.

The procedure for extracting the trial balance is:

- i. Close the ledger accounts
- ii. Write the correct heading: Trial Balance as at (or on) specify the period.
- iii. All the debit balances in the ledger accounts would appear under the debit column of the trial balance.
- iv. All the credit balances in the ledger accounts would appear under the credit column of the trial balance.
- v. The additions of both the credit and debit columns must be equal.

Examples:

To calculate the trial balance, first determine the balance of each general ledger account as shown in the example below:

Lawyer's Ledger accounts for the month of September, 19 x 8

Cash Accounts Receivable

| | |
|--|---|
| Sep 1 750,000 17 40,000 25 42,500 <hr/> Bal 682,500 | Sep 15 100,00 28 50,00 <hr/> Bal 27,500 |
|--|---|

Parts Inventory Accounts Payable

| | |
|------------------------------------|-------------------------------------|
| Sep 8 250,000 <hr/> Bal 222,500 | Sep 18, 27,500 <hr/> Bal 200,000 |
|------------------------------------|-------------------------------------|

Capital Revenue

| | |
|------------------------------------|-------------------------------------|
| Sep 1 750,000 <hr/> Bal 750,000 | Sep 17 110,000 <hr/> Bal 110,000 |
|------------------------------------|-------------------------------------|

Expenses

| | |
|--|--|
| Sep 15 100,000 Sep 18 27,500 <hr/> Bal 127,500 | |
|--|--|

Once the account balances are known, the trial balance can be calculated as shown below Trial Balance as at 30th September, 19 x 8

| N : K | | |
|---------------------|------------------|------------------|
| Account Title | Debits | Credit |
| Cash | 682,500 | |
| Accounts Receivable | 27,500 | |
| Parts Inventory | 222,500 | |
| Accounts Payable | | 200,000 |
| Capital | | 750,000 |
| Revenue | | 110,000 |
| Expenses | 127,500 | |
| | <u>1,060,000</u> | <u>1,060,000</u> |

In this example, the debits and credits balance. This result does not guarantee that there are no errors.

The trial balance serves three purposes:-

- i. It serves as a check on the “arithmetical accuracy” of the entries, as already mentioned, and
- ii. It is the basis upon which the Trading and Profit and Loss Account and Balance sheet are drawn upon.
- iii. It ensures that all the credit entries in the books have a corresponding debit entries.

3.3.3 Test Your Understanding and Progress on Trial Balance with MCQ

[1] Trial Balance is prepared on:

- (a) End of the years
- (b) A particular date
- (c) For the period ending_
- (d) Both “a” and “b”

ANSWER-(b)

[2] Balances of the Accounts are transferred to:

- (a) Trial Balance
- (b) Trading Account
- (c) Profit & Loss Account
- (d) Balance Sheet

ANSWER-(a)

[3] A list which contains balances of accounts to know whether the debit and credit balances are matched.

- (a) Balance Sheet
- (b) Day Book
- (c) Journal
- (d) Trial Balance

ANSWER-(d)

[4] Which of the following is not a process in the preparation of a Trial Balance?

- (a) Recording
- (b) Summarizing
- (c) Classifying
- (d) Interpretation

ANSWER-(d)

[5] Which of the following in Trial Balance is contradictory to each other? _____ .

- (a) inventory and drawings
- (b) sales and purchase return
- (c) carriage inward and outward
- (d) trade receivable and liability

ANSWER-(d)

[6] Trial Balance creates accuracy.

- (a) principle
- (b) arithmetical
- (c) clerical
- (d) none.

ANSWER-(b)

[7] Which of the following will not affect the agreement of Trial Balance?

- (a) An amount of purchase of 10,000 recorded in cr. Alc as ~ 1,000
- (b) Customer account debited with the amount of cash received
- (c) An Entry of debit of ~ 1,000 was credit with twice the amount.
- (d) An Entry posted twice in the ledger.

ANSWER-(d)

[8] Bhandari's trial balance was showing difference of ~ 5,000 (debit side exceeds). While checking of total sales register, he found that the total is over-cast by ~ 2,000. After correction in sales register what would be the difference in his trial balance.

- (a) Debit side exceeds by ~ 7,000
- (b) Debit side exceeds by ~ 5,000
- (c) Debit side exceeds by ~ 3,000
- (d) Credit side exceeds by ~ 3,000

ANSWER-(a)

[9] Closing stock in the trial balance implies that.

- (a) It is already adjusted in the opening stock.
- (b) It is adjusted in Sales Alc.
- (c) It is adjusted in the Purchase Alc.

(d) None of these.

ANSWER-(c)

[10] Opening and Closing Balance of Debtors A/c were ~30,000 and 40,000 respectively Cash collected from the debtors during the year was ~ 2,40,000. Discount allowed to debtors for timely payment amounted to ~ 15,000 an'd bad debts written off were ~ 10,000. Goods sold on credit were:

(a) ~ 2,55,000

(b) ~ 2,45,000

(c) ~ 2,95,000

(d) ~ 2,75,000

ANSWER-(d)

[11] Salaries paid ~ 4,500 is shown in credit side of trial balance. In the total of trial balance the debit side will be short by _____

(a) short by ~ 4,500

(b) excess by ~ 4,500

(c) 'short by ~ 9,000

(d) excess by ~ 9,000.

ANSWER-(c)

[12] ascertain the arithmetical accuracy of posting and balancing

(a) Cash Book

(b) Journal

(c) Trial Balance

(d) Bank Reconciliation Statement

ANSWER-(c)

[13] Agreement of Trial Balance is not a ____ proof of accuracy.

(a) submissive

(b) inclusive

(c) exhaustive

(d) conclusive

ANSWER-(d)

[14] Trial Balance is a statement which shows the or the of all the accounts.

(a) opening balances, closing balances

(b) debit balances, credit balances

(c) positive balances, negative balances

(d) balances, totals .

ANSWER-(b)

[15] Ledger balances of Mr. Nagarjun traders are as follows: Capital

~9,00,000, Computer ~1,30,000, Machinery ~4,50,000, office furniture ~1,50,000, Investments ~3,00,000, salaries ~2,10,000 sales ~16,00,000, postage ~1,20,000, freight. ~1,21,000, Purchases ~9,15,000, Rent ~28,000, cash in hand N8,000, Bank overdraft ~20,000, Creditor ~1,00,000, Debtor ~1,48,000. The total of Trial Balance will be:

- (a) ~ 26,40,000
- (b) ~ 24,99,000
- (c) ~ 26,20,000
- (d) ~ 25,72,000

ANSWER-(c)

- [16] All the following statements are correct except _____
- (a) trial balance is a statement not an account.
 - (b) trial balance is always prepared at the end of the financial year.
 - (c) agreement of Trial Balance is not a conclusive proof of accuracy.
 - (d) trial balance will tally even if an entry is posted twice in the ledger

ANSWER-(b)

- [17] A suspense account facilitates the preparation of even the has not been tallied.
- (a) trial balance, financial statements
 - (b) ledger, trial balance
 - (c) trial balance, ledger
 - (d) financial statements, trial balance.

ANSWER-(d)

- [18] 2000 received by way of commission and entered correctly in cash book, is posted to the debit side of the commission account. In the trial balance:
- (a) The debit total will be more by ~ 2000 than the credit total.
 - (b) The debit total will be more by ~ 4000 than the credit total.
 - (c) The credit total will be more by ~ 4000.
 - (d) The credit total will be more by ~ 2000.

ANSWER-(b)

- [19] The trial balance is prepared for:
- (a) Locating clerical errors
 - (b) Locating errors of principle
 - (c) Locating errors of omission
 - (d) All of the above.

ANSWER-(a)

- [20] Ram started business with ~10,000 Cash and ~2,000 furniture. Sales amounted to ~50,000 including ~5,000 cash sales. ~10,000 Sales were outstanding at the end of the year. Purchase

amounted to ~30,000 including ~ 10,000 cash purchases ~ 15,000 has been paid to suppliers. Expenses paid during the year ~ 19,300. Trial Balance total will be:

- (a) ~ 67,000
- (b) ~ 57,000
- (c) ~ 62,000
- (d) ~ 49,300

ANSWER-(a)

[21] Given below are the ledger balances of a professional firm: Capital ~ 4,00,000, Computer ~ 25,000, Air Conditioner and Furniture ~ 1,00,000, fixed deposits ~ 2,00,000, Salaries ~ 8,00,000 Fees received ~ 12,00,000. Travelling expenses ~ 1,50,000, Rent and office expenses ~ 2,40,000, Cash Balances ~ 1,00,000, Bank Overdraft ~ 95,000. The total of the Trial Balance will be:

- (a) ~ 16,00,000
- (b) ~ 16,95,000
- (c) ~ 14,50,000
- (d) ~ 15,00,000

ANSWER-(b)

[22] Suspense Account is used to rectify those errors which have been located:

- (a) Before preparation of Trial Balance
- (b) After preparation of Trial Balance
- (c) Before or after preparation of Trial Balance
- (d) After preparation of Final Accounts.

ANSWER-(b)

[23] Which of the following errors is not revealed by the trial balance?

- (a) Wrong amount entered in the books of original entry.
- (b) Wrong amount entered in the sides bill.
- (c) wrong amount entered in the books
- (d) All the above

ANSWER-(d)

[24] Agreement of Trial Balance ensures arithmetical accuracy, but is not a proof of accuracy.

- (a) submissive
- (b) inclusive
- (c) exhaustive
- (d) conclusive

ANSWER-(d)

[25] If a purchase return of ~ 2,000 has been wrongly posted to the debit of the sales returns account,. But has correctly been entered in the suppliers account, the total of the trial balance would show:

- (a) The debit side to be ~ 2,000 more than the credit side
- (b) The debit side to be ~ 4,000 more than the credit side

- (c) The credit side to be ~. 2,000 more than the debit side
 (d) The credit side to be ~ 4,000 more than the debit side.
ANSWER-(b)

Self-Assessment Exercise

2: Explain two ways of constructing a trial balance.

1.4 Conclusion

This unit has enabled you to understand what a trial balance is and how it is being constructed. In addition, the purposes of the trial balance was highlighted.



1.5 Summary

This unit has acquainted you with:

- What the definition of trial balance is
- The purposes of a trial balance.
- The Construction of a trial balance from a ledger.



1.6 References/Further Readings/Web Sources

Igben, R.O (2004): Financial Accounting Made Simple. Volume 1 EL-TODA ventures Limited, Lagos, Nigeria Pp 17-25.

Trial balance - Wikipedia, the free encyclopedia.
[http://en.wikipedia.org/wiki/Trial balance.](http://en.wikipedia.org/wiki/Trial_balance)

Williams, J.R, S.F Haka, M.S Bettner, J.V Carcello (2008): Financial and Managerial Accounting, McGraw-Hill Irwin. Publisher P.

26<https://phdtalks.org/2021/02/accounting-mcq-trial-balance.html>

<http://www.netmba.com/accounting/fin/process/trial/>



1.7 Possible Answers to Self-Assessment Exercises

Answer:

1.

The Trial balance can be defined as the list of accounts balances at a given point in time drawn up to test the arithmetical accuracy of accounting entries. A trial balance can also be defined as a check of arithmetical accuracy of the bookkeeping to test the double whether it has been completed in the ledger or not. A trial balance is a list of balances both credit and debit extracted from the ledgers and cash book of a company as at a particular date.

Self-Assessment Exercise 2: Explain two ways of constructing a trial balance.

Answer:

By means of Totals: Since a trial balance is a test of arithmetical accuracy, it will be wrong to adopt this means of totals in extracting an accurate trial balance. For this reason, this method is rarely used. But it could be used where there are less transaction to cope with in the books.

By means of Balances: This is the most popular method used in taking out the balances of accounts in order to extract an accurate trial balance. This method has some advantages amongst which is the outright revelation of compensating errors, where the total of the debit column of the trial balance has to agree with the total of those subsidiary books together with the closing cash balance but omitting the cash balance in the opening entries.

UNIT 2 LIMITATION AND COMMON ERRORS OF THE TRIAL BALANCE

Unit Structure

- 2.1 Introduction
- 2.2 Learning Outcomes
- 2.3 Main content
 - 2.3.1 Limitations of the trial balance
 - 2.3.2 Common errors of the trial balance
- 2.4 Conclusion
- 2.5 Summary
- 2.6 References/Further Readings/Web Sources
- 2.7 Possible Answers to Self-Assessment Exercises



2.1 Introduction

Agreement of the trial balance does not mean that there are no errors in the entries as there are some errors which will not prevent the trial balance from agreement.



2.2 Learning Outcomes

By the end of this unit, you should be able to:

- State and explain the limitations of the trial balance.
- State and explain the common errors that can affect the trial balance.



2.3 Main Content

2.3.1 Limitations of the trial balance

The limitations of the trial balance lie in the type of errors that though they exist in the accounts yet do not affect balancing of the trial balance. These are discussed in turns:

1. Error of omission: This is where a transaction is not recorded at any time at all in the books. That is, when a transaction is completely omitted from the accounting records. The trial balance will not be affected and the error remains unrevealed.
2. Error of commission: This is when the entries are made at the correct amount, and the appropriate side (debit or credit) but one or more entries are made to the wrong account of the correct type.

- For example, if fuel costs are incorrectly debited to the postage account (both expenses accounts). This will not affect the totals.
3. Error of original entry: This is when both sides of a transaction include the wrong amount. For example, if a purchase, invoice for N21,000 is entered as N12,000, this will result in an incorrect debit entry (to purchases) and an incorrect credit entry (to the relevant creditor account) both for N9,000 less, so the total of both columns will be N9,000 less, and will thus balance
 4. Error of principle: This is when the entries are made to the correct amount, and the appropriate side (debit or credit), as with an error of commission, but the wrong type of account is used, for example, if fuel costs (an expense account) are debited to stock (an asset account). This will not affect the totals.
 5. Compensating error: This is where a combination of errors cancel each other out or where one account has been under or over debited or credited with the certain amount, and another account over or under debited or credited with the same amount. This will not prevent the trial balance agreement. So, the error remains undetected. For example, where purchases account balance is increased by N2,000 and sales account balance is also increased by N2000, the two accounts would cancel out the error.
 6. Error of Reversal: This is when entries are made to the correct amount, but with debits instead of credits, and vice versa, for example, if a cash sale for N1,000 is debited to the sales account, and credited to the cash account, such an error will not affect the totals.
 7. Error of complete Reversal of Entry: This error occurs where the double entry for a transaction is reversed resulting in a situation whereby the account that ought to be debited is credited and the account that ought to be credited is debited. For example, an amount paid to a supplier may be wrongly debited to the cash book and credited to his personal account.
 8. Error of Transposition: The meaning of this error can be deduced from the meaning of the word “transpose” as to cause two or more things to change places. Error of transposition, therefore, is a mistake involving the changing of the places of the numerals making up an amount. For example, N3,101 may be wrongly posted as N3,01, N4,233 may be wrongly posted as N4,332 and so on.

When the error of transposition occurs at the time source document is written or at the time the source document is posted to the subsidiary book, it is effectively an error of original entry. This is the reason why error of original entry and error of transposition are sometimes regarded as one and the same.

2.3.2 Errors affecting the trial balance

If the trial balance is not in balance, then an error has been made somewhere in the accounting process. The following is listing of common errors that would result in an unbalanced trial balance; this listing can be used to assist in isolating the cause of the imbalance.

1. Summation error for the debits and credits of the trial balance.
2. Error transferring the ledger account balances to the trial balance columns.
 - i. Error in numeric value
 - ii. Error in transferring a debit or credit to the proper column
 - iii. Omission of an account
3. Error in the calculation of a ledger account balance.
4. Error in posting a journal entry to the ledger.
 - i. Error in numeric value
 - ii. Error in posting a debit or credit to the proper column
5. Error in the Journal entry
 - i. Error in a numeric value
 - ii. Omission of part of a compound journal entry.

Self-Assessment Exercise

1. Differentiate between error of complete reversal of entry and error of transposition.
2. What do you understand by compensating error?

2.4 Conclusion

In this unit, we have learnt about the limitations of the trial balance as well as the common errors of the trial balance.



2.5 Summary

You have learnt in this unit that:

- Agreement of the trial balance does not mean that there are no errors in the entries.
- The limitations of the trial balance lies in the types of errors that though they exist in the accounts yet do not affect balancing of the trial balance.
- Errors that do not affect the trial balance include among others: Error of omission, error of commission, error of original entry, error of principle, compensating error, error of reversal and error of complete reversal of entry.
- Errors that affect the trial balance include among others: Summation error, error in the calculation of a ledger account

balance.



2.6 References/Further Readings/Web Sources

Igen, R.O (2004): Financial Accounting Made simple. Volume 1, EL-TODA ventures Limited Lagos, Nigeria.

Trial balance - Wikipedia, the free encyclopedia.
<http://en.wikipedia.org/wiki/trial>

balance.<http://www.netmba.com/accounting/fin/process/trial/>



2.7 Possible Answers to Self-Assessment Exercises

Self-Assessment Exercise

1. Differentiate between error of complete reversal of entry and error of transposition.

Answers:

1.

Error of complete Reversal of Entry: This error occurs where the double entry for a transaction is reversed resulting in a situation whereby the account that ought to be debited is credited and the account that ought to be credited is debited. For example, an amount paid to a supplier may be wrongly debited to the cash book and credited to his personal account.

Error of Transposition: The meaning of this error can be deduced from the meaning of the word “transpose” as to cause two or more things to change places. Error of transposition, therefore, is a mistake involving the changing of the places of the numerals making up an amount. For example, N3,101 may be wrongly posted as N3,01, N4,233 may be wrongly posted as N4,332 and so on. When the error of transposition occurs at the time source document is written or at the time the source document is posted to the subsidiary book, it is effectively an error of original entry. This is the reason why error of original entry and error of transposition are sometimes regarded as one and the same.

2. Compensating error:

This is where a combination of errors cancel each other out or where one account has been under or over debited or credited with the certain amount, and another account over or under debited or credited with the same amount. This will not prevent the trial balance agreement. So, the error remains undetected. For example, where purchases account balance is increased by N2,000 and sales account balance is also increased by N2000, the two accounts would cancel out the error.

UNIT 3 FINAL ACCOUNTS

Unit Structure

- 3.1 Introduction
- 3.2 Learning Outcomes
- 3.2 Main content
 - 3.3.1 Manufacturing account in a manufacturing organization
 - 3.3.2 Trading account
 - 3.3.3 Profit and loss Account
 - 3.3.4 Profit and Loss Appropriation account in partnership and limited liability companies
 - 3.3.5 Balance sheet
 - 3.3.6 Notes to the accounts
- 3.4 Conclusion
- 3.5 Summary
- 3.6 References/Further Readings/Web Sources
- 3.7 Possible Answers to Self-Assessment Exercises



3.1 Introduction

In this unit you will learn about final accounts. You will be acquainted with the various accounts that make up the final account.



3.2 Learning Outcomes

By the end of this unit, you should be able to:

- Explain the concept of final accounts.
- Prepare the various accounts that makes up the final accounts



3.3 Main Content

The term final account is applied to the following in its broad form.

- i. Manufacturing account is a manufacturing organization.
- ii. Trading account
- iii. Profit and loss account
- iv. Profit and loss Appropriation account (in partnership and limited liability companies)
- v. Balance sheet and
- vi. Notes to the account (in limited liability companies).

3.3.1 Manufacturing Account

The main purpose of preparing the manufacturing account is to determine the cost of production whether it is more profitable to continue in production of the goods for sale or it is more economical to purchase them wholesale from outside suppliers. If it is found that the cost of production of the good is lower than outside purchase, then it is worthwhile producing but if the cost is higher than outside procurement, then it is uneconomical to produce within.

3.3.2 Trading Account

The trading Account helps in determining the trading position of a business. The aim of the Trading Account is to ascertain the gross profit or gross loss for a certain period. The gross profit or gross loss is arrived at after charging the goods and materials and other items of direct cost.

The gross profit figure can be used to compare the performance of one business with another and to help in taking certain progressive business decisions with the pricing of goods for sale.

Trading Account Layout:

Debit: on the debit side are placed the stock at the start i.e. at the commencement of the period to which the account relates.

All purchases (cash and credit) out of which all returns (returns outwards) are to be lessened, carriage inwards i.e. the charge made for conveyance of goods by land. Less closing stock of goods available at the end of a trading period.

Credit: on the credit side are placed the sales, less all sales returns (Returns inwards), closing stock of good -i.e. the value of the goods unsold at the end of the period.

The summary of the layout is as follows:

| | | | | |
|--------------------------|-----|----------------|---------------------|------------|
| | | N | | N |
| Opening Stock | | xxx | Sales | xxx |
| + Purchases | xxx | | | |
| Less Returns | | | | |
| Outwards | xx | xxx | Less Returns Inward | xx |
| + Carriage Inwards | | * | | |
| Goods available for sale | | xxx | | |
| - Closing stock | | | | |
| Cost of goods sold | | xxx | | |
| Gross Profit c/d | | <u>xx</u> | | |
| | | <u>xxx</u> | | <u>xxx</u> |

Note:

The difference between cost of goods sold and the Net sales (if there is Returns Inwards) represents the Gross profit made and this is transferred

down to the credit of profit and loss Account.

3.3.3 Profit and Loss Account

The profit and Loss Account is an account into which all gains and losses are collected. Where the gains made in the trading period exceed the losses or expenses, the excess is the Net profit. However, where the losses are greater than the gains, the difference is the Net Loss.

The Profit and loss account is used to ascertain the net profit or net loss for the same period of trading after charging administrative selling and distribution expenses and some other financial charges (like discount allowed, bank charges, interest on loan) etc against the gross profit or included with the gross loss to increase the non-profitability of the business during the financial year.

Profit and Loss Account Layout:

The profit and Loss Account, contains on the credit side, the Gross profit shown by the Trading Account and on the Debit side all the expenses or losses incurred in carrying out the business.

| XYZ | | | |
|--|----|-----------------------------|----|
| Profit and loss Account for the year ended 31 st December,..... | | | |
| | ₦ | | ₦ |
| Gross Loss B/d | xx | Gross Profit b/d | xx |
| Wages and Salaries | xx | Discount Received | xx |
| Rent and Rates | xx | Interest on Deposit Account | xx |
| Insurance Premium | xx | Recoveries or part | |
| Advertising | xx | Recoveries of Bad Debts | xx |
| Carriage Outwards | xx | Selling Bonuses | xx |
| Discount Allowed | xx | Profit on sale of Asset | xx |
| Stationery and Postages | xx | Income from Investment | xx |
| Bad Debts | xx | Commission Received | xx |
| Provision for bad debts | xx | Rent Received | xx |
| Depreciation | xx | Net Loss | xx |
| Lighting and Heating | xx | | |
| Telephone Expenses | xx | | |
| Loan Interest | xx | | |
| Bank charges | xx | | |
| General Expenses | xx | | |
| Repairs and Renewals | xx | | |
| Accounting & Professional charges | xx | | |
| Travelling Expense | xx | | |
| Salesmen Commission | xx | | |
| Distribution Expenses | xx | | |
| Entertainment Expenses | xx | | |
| Legal charges | xx | | |
| Net Profit c/d | xx | | xx |
| Net Loss b/d | xx | Net Profit b/d | xx |

Note:

Gross profit and Gross Loss, Net Profit and Net Loss figures occur at the same time, it only shows the side they would appear if any of them should occur.

Moreover, expenses incurred in carrying on the affairs of a business concern will vary in accordance with the surrounding circumstances. This is also applicable to gains made. The above list of expenses and income are by no means exhaustive.

3.3.4 Profit and Loss Appropriation Account

The objective of the Profit and loss appropriation account is to show all dispositions, divisions and appropriations of the net profit and loss. The Profit and Loss Appropriation Account is the third segment of the conventional Trading, Profit and Loss Account. The Net profit of the Profit and Loss Account is usually brought down to this account as an opening balance. Added to it is the amount charged for interest on drawings.

On the Debit side are interest on capital so charged on each partner, the amount paid as commission or salaries to partners. The difference between the debit and credit sides represents the balance of profits or loss to be shared between or among the partners.

3.3.5 The Balance Sheet

The balance sheet is a statement of the assets at a particular moment in time and the liabilities and proprietor's capital, Besides being the statement of asset and liabilities, it also shows whether a business is solvent or insolent i.e. the ability of the business and its inability to meet its financial obligations as at when due. The difference between the assets and liabilities represents the capital of the business.

The balance sheet shows the summary form of the financial state of the concern as disclosed in the books. It is to be noted that the balance sheet is not an account but a statement of the assets and liabilities of a person or business on a given date arranged in the form of the book-keeping equation which runs thus:

Capital + Liabilities = Assets

This is known as the accounting equation.

| | | XYZ | | | |
|---------------------|---------------|--|---------------------------|---------------|-------------------|
| | | Balance sheet as at 31 st December, | | | |
| Capital: | N | N | Fixed Assets: | N | N |
| Capital | xx | | Land and Buildings | xx | |
| Add: Net Profit | xx | | Less: Provision for | <u>xx</u> | xx |
| | xx | | Depreciation | xx | |
| | | | Plant & Machinery | | |
| Less: Drawings | xx | | Less Provision for Dep | xx | xx |
| | | xx | Motor vehicles | xx | |
| | | | Less: Provision for Dep | <u>xx</u> | xx |
| | | | Furniture and fittings | xx | <u> </u> |
| | | | Less: Provision for | xx | xx |
| | | | Depreciation | xx | <u> </u> |
| | | | Loose Tools | | |
| Long Term | | | Less: Provision for | <u>xx</u> | xx |
| Liability: | | | Deprecation | | |
| Loan | | xx | Current Assets: | | |
| | | | Stock Debtors | xx | |
| Current Liabilities | | | | xx | |
| Bank overdraft | xx xx | | Less: | | |
| Trade creditors | xx xx | | Prov. For Bad debts Bills | xx | xx |
| Bills payable | | | Receivable Bank Deposit | xx | |
| Accrued Expense | | | Cash Prepayments | xx | |
| Income Received | | | | xx | |
| in | | | | xx | |
| Advance | Xx | | Accrued Income | xx | <u>xx</u> |
| | | xx | | | <u>xx</u> |
| | | xx | | | <u>xx</u> |

3.3.6 Notes to the Accounts

The notes to the accounts give a brief explanatory information to the users of accounting statements as to how and why some items have been treated in the books and states its compliance with the legal requirements of disclosure of some relevant and significant transactions.

Example

The following information is in respect of the business affairs of Olaoluwa and Sons Enterprises for the year ended 31st March 19 x 4

- i. Stock on 31st March, 19 x 4 was N38,500
- ii. Provide depreciation on plant and machinery which has a life span of 12 years and a residual value of N4,000.

- iii. Provide depreciation on motor vehicle at the rate of 20% on the net book value.
- iv. The organization sub-let the building on 30th June, 19 x 3 and the rent received covered 30th June 19 x 3 to 1st October, 19 x 4.
- v. Loan from S. Johnson was received on 1st January, 19 x 3 at 15 percent per annum and only N4,500 have been paid as interest throughout the period.
- vi. 20% P.a deposit on NN Bank Limited was made on 31st May, 19 x 3.
- vii. Maintain provision for doubtful debts on debtors as 5 percent and adjust the provision for discounts allowable on debtors to 1 percent.
- viii. Create a provision for discount received on creditors at ½ percent.
- ix. Provide for interest on capital account as 1 percent.
- x. The following expenses are under-paid: Telephone N4,000 and salaries and wages-N11,500.
- xi. Salaries and wages paid include N3,500 for direct wages.
- xii. Distribution and selling expenses was over-paid by N1,500.

Question

1. Prepare the trial balance from the extract of the books during the same period.
2. Make the necessary adjustments and prepare:
 - i. The Trading and Profit and loss Account for the year ended 31st March, 19x 4 and
 - ii. The Balance sheet as at 31st March, 19 x 4 (Note: show you answer to the nearest Naira)

Solution

1. Trial balance: The following is the trial balance extracted from his books during the same period.

| | DR | CR |
|-----------------------------|---------------------|--------------------|
| Purchases and Sales Returns | N 500,000 10,500 | N 750,00 15,000 |

the same period.

| | DR | CR |
|--|------------------|------------------|
| | ₦ | ₦ |
| Purchases and Sales | 500,000 | 750,000 |
| Returns | 10,500 | 15,000 |
| Debtors and Creditors | 60,500 | 75,100 |
| Carriage on purchases | 1,500 | |
| Carriage on sales | 2,000 | |
| Bad debts written off | 5,000 | |
| Provision for bad debts - 1 st April 19 x 3 | | 2,500 |
| Provision for discount on debtors - 1 st April 19 x 3 | | 1,000 |
| Salaries and Wages | 20,000 | |
| Lighting | 4,500 | |
| Telephone Expenses | 5,000 | |
| Stationery | 7,000 | |
| Bank Charges | 1,000 | |
| Loan from S. Johnson | | 40,000 |
| Loan interest owing - 1 st April, 19 x 2 | | 1,500 |
| Travelling Expenses | 1,600 | |
| Loan Interest | 4,500 | |
| 20% P.a Deposit in NN Bank Ltd | 60,000 | |
| Interest on Bank Deposit | | 7,000 |
| Salesmen Commission | 2,700 | |
| Distribution and selling Expenses | 25,000 | |
| Buildings | 80,000 | |
| Plant and Machinery at cost | 100,000 | |
| Provision for Depreciation on plant & Machinery | | 32,000 |
| Motor vehicles at cost | 150,000 | |
| Provision for depreciation on motor vehicles | | 60,000 |
| Rent Received from building sub-let | | 12,000 |
| Stock on hand - 1 st April, 19 x 3 | 35,000 | |
| Bank and Cash | 3,000 | |
| Drawings | 5,800 | |
| Capital | | 87,000 |
| Discounts | 7,000 | 8,500 |
| | <u>1,091,600</u> | <u>1,091,600</u> |

2i Olaoluwa and Sons Enterprises Trading Account for the year ended 31st march, 19 x 4.

| | ₦ | ₦ | | ₦ |
|--------------------------|---------------|----------------|---------------------|----------------|
| Opening Stock | | 35,000 | Sales (Gross) | 750,000 |
| Add: | | | Les Returns Inwards | <u>10,500</u> |
| Purchases | 500,000 | | Net Sales | 739,500 |
| Carriage on purchase | <u>1,500</u> | | | |
| | 501,500 | | | |
| Less: | | | | |
| Returns Outwards | <u>15,000</u> | 486,500 | | |
| | | | | |
| Goods Available for Sale | | 521,500 | | |
| Less: Closing Stock | | <u>38,500</u> | | |
| | | | | |
| Cost of Goods sold | | 483,000 | | |
| Gross Profit c/d | | <u>256,500</u> | | |
| | | <u>739,500</u> | | <u>739,500</u> |

Olaoluwa and Sons Enterprises profit and Loss Account for the year ended
31st March 19 x 4

| | N | N | | N | N |
|---------------------------|--------------|----------------|---------------------------|--------------|----------------|
| Discount Allowed | | 7,000 | Gross Profit b/d | | 253,000 |
| Carriage on sales | | 2,000 | Discount Received | | 8,500 |
| Bad Debts | | 5,000 | Interest on Bank Deposit | 7,000 | |
| Provision for bad debts | | 525 | Add: Outstanding | <u>3,000</u> | 10,000 |
| Lighting | | 4,500 | Rent Received | 12,000 | |
| Telephone Expenses | 5,000 | | Less: Received in Add | <u>4,800</u> | 7,200 |
| Add: under paid | <u>4,000</u> | | Decrease in provision for | | |
| | | 9,000 | discount in debtors | | 425 |
| Stationery | | 7,000 | Provision for discount | | |
| Bank charges | | 1,000 | received on creditors | | 375 |
| Interest on Loan | | | | | |
| | | 4,500 | | | |
| Add: Interest owing | | <u>3,000</u> | | | |
| | | 7,500 | | | |
| Less: Payment in arrears | | <u>1,500</u> | | | |
| | | 6,000 | | | |
| Salesmen commission | | 2,700 | | | |
| Travelling Expenses | | 1,600 | | | |
| Salaries and Wages | 20,000 | | | | |
| Add Owing | | <u>11,500</u> | | | |
| | | 31,500 | | | |
| Less: Direct Wages | | <u>3,500</u> | | | |
| | | 28,000 | | | |
| Distribution and selling | | | | | |
| expenses | 25,000 | | | | |
| Less: Prepaid | | <u>1,500</u> | | | |
| | | 23,500 | | | |
| Dep: Motor vehicle | 18,000 | | | | |
| Plant & Machinery | | <u>8,000</u> | | | |
| | | 26,000 | | | |
| Provision for interest in | | | | | |
| capital | | 870 | | | |
| Net Profit c/d | | 154,806 | | | |
| | | <u>279,501</u> | | | <u>279,501</u> |

Olaoluwa and Sons Enterprises Balance Sheet as at 31st March, 19 x 4

| | N | N | | N | N |
|-----------------------------|------------|----------------|---------------------------|---------------|----------------|
| Capital | | 87,000 | Fixed Assets: | | |
| Add: Net Profit | | <u>154,806</u> | Building | | 80,000 |
| | | 241,806 | Plant & Machinery | 100,000 | |
| Less drawings | | <u>5,800</u> | Less: Provision for Dep | <u>40,000</u> | 60,000 |
| | | 236,006 | Motor vehicles | 150,000 | |
| Long term liability loan: | | | Less: Prov. For Dep | <u>78,000</u> | 72,000 |
| S. Johnson | 40,000 | | | | 212,000 |
| <u>Current Liabilities:</u> | | | <u>Current Assets:</u> | | |
| Creditors | 75,000 | | Stock | 38,500 | |
| Less Provision for | | | Debtors | 56,900 | |
| Discount Received | <u>376</u> | | Prepaid Distribution & | 1,500 | |
| | | 74,724 | Selling expenses | | |
| Accruals: | | | Interest Receivable (W.C) | 3,000 | |
| Telephone | 4,000 | | Bank Deposit | 60,000 | |
| Provision for interest on | 870 | | Bank and Cash | 3,000 | |
| capital | | | | | |
| Interest on loan | 3,000 | | | | |
| Salaries and Wages | 11,500 | | | | |
| Rent Received in Advance | 4,800 | | | | |
| | | <u>24,170</u> | | | <u>162,900</u> |
| | | <u>374,900</u> | | | <u>374,900</u> |

Workings:

(W.a)

| Provision for Bad Debts Account | | | |
|---------------------------------|--------------|------------------------|--------------|
| 19 x 4 | ₤ | 19 x 3 | ₤ |
| Mar 31 Bal c/d | 3,025 | April 1 Bal b/d | 2,500 |
| | | 19 x 4 | |
| | | Mar 31 Profit and Loss | 525 |
| | <u>3,025</u> | | <u>3,025</u> |

| Provision for Discount Allowed on Debtors Account | | | |
|---|--------------|---------------|--------------|
| 19 x 4 | ₤ | 19 x 3 | ₤ |
| Mar 31 Profit and Loss | 425 | April Bal b/d | 1,000 |
| 31 Bal c/d | <u>575</u> | | |
| | <u>1,000</u> | | <u>1,000</u> |

Calculation of provision of discount on debtors:

$$= (\text{N}60,500 - \text{N}3,025) \times 1\% = \text{N}575 \text{ approximately}$$

Calculation of Total Debtors: N : N

Debtors as per Trial Balance 60,500

Less:

Provision for Bad Debts 3,025

Provision for Discount Allowed

on Debtors 5753,60056,900

(w.b) Interest on loan from Johnson

Date Received: 1st January, 19 x 3

Amount of loan: ₤40,000

Rate: 15% per annum

Amount paid: ₤4,500

1st January, 19 x 3 to 31st March, 19 x 3 = 3 months1st April 19 x 3 to 31st March 19 x 4 = 12 months

15% x ₤40,000 x 3/12 = ₤1,500

15% x ₤40,000 = ₤6,000

Out of the ₤4,500 that was paid ₤1,500 is in respect of the last financial period and ₤3,000 is in respect of this financial period out of the ₤6,000 that is actually due, and as such ₤3000 is still outstanding.

(w.c) 20% p.a Deposit in NN Bank Ltd (Note vi):

Date of deposit: 31st May 19 x 3

Total months used in the bank = 10 months

i.e June 19 x 3 to March 19 x 4

Self-Assessment Exercise

1. Mention the benefits of trading account.
2. Describe the main purpose of preparing the manufacturing account.

3.4 Conclusion

In this unit you will learnt about final accounts. You were also acquainted with the various accounts that make up the final account.

**3.5 Summary**

At the end of this unit, you should be able to:

- Explain the concept of final accounts.
- Prepare the various accounts that makes up the final accounts

**3.6 References/ Further Reading/Web Resources**

Igen, R.O (2004): Financial Accounting Made simple. Volume 1, EL-TODA ventures Limited Lagos, Nigeria.

Trial balance - Wiwipedia, the free encyclopedia.
<http://en.wikipedia.org/wiki/trial>

balance.<http://www.netmba.com/accounting/fin/process/trial/>



3.7 Possible Answers to Self-Assessment Exercises

Self-Assessment Exercise 1: Mention the benefits of trading account**Answers:****1.**

- i. The trading Account helps in determining the trading position of a business.
- ii. The aim of the Trading Account is to ascertain the gross profit or gross loss for a certain period.
- iii. The gross profit or gross loss is arrived at after charging the goods and materials and other items of direct cost.
- iv. The gross profit figure can be used to compare the performance of one business with another and to help in taking certain progressive business decisions with the pricing of goods for sale.

2. The main purpose of preparing the manufacturing account:

This is to determine the cost of production whether it is more profitable to continue in production of the goods for sale or it is more economical to purchase them wholesale from outside suppliers. If it is found that the cost of production of the good is lower than outside purchase, then it is worthwhile producing but if the cost is higher than outside procurement, then it is uneconomical to produce within.