

Accounting & business processes in practice

Presented by Israel Usidamen

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Brief profile of the presenter

Israel Usidamen



- Practiced audit for about 8 years before moving to the industry.
- Former Financial Controller at a listed downstream oil & gas Company (also responsible for overseeing Group Financial Reporting)
- Currently leads the Finance Dept at a midstream/downstream oil & gas company.
- Prize winner with **Institute of Chartered Accountants of Nigeria (ICAN).**
- Teaches financial and corporate reporting at Wyse Associates Limited.
- Co-Founder at Accounting Yard, a brand that seeks to bridge the gap between practical accounting and theoretical accounting.

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Intro into accounting

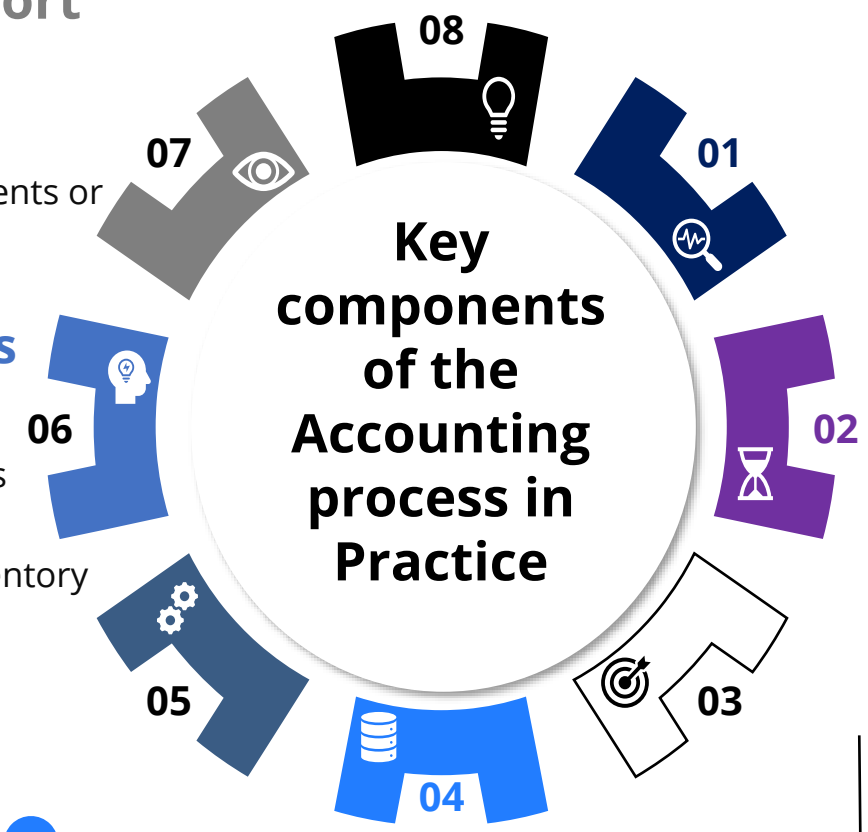
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Chart of accounts

03

Posting transactions & double entry in practice

Key components of Accounting Cycle in Practice



1. Identify transactions

1. Incorporation of a business
2. Sales to customers: cash and credit
3. Receipt from customers
4. Purchases from vendors: cash and credit
5. Payment to vendors: cash and credit
6. Intercompany transactions
7. Payroll

Chart of Accounts

- A listing of the names/category of the accounts and/or groups that a company has identified and available for creating General Ledger (GL) into which transactions are posted.
- It can be tailored to best suit Company needs, including adding accounts as needed.

Understand the business

- Key processes and controls
- Shareholding & governance structure
- Organizational structure
- Laws & legislation

2. Create the GL account(s)

- Some accounts may also have several sub-accounts associated with them; such GL accounts are called "Control GL a/c". E.g., several customer sub-accounts are associated with trade receivable.
- Skip this step if GL a/cs already exists for the transaction.

3. Prepare journal & post into GL

Prepare journal entries using the double entry principle and post into the GL a/cs created.

4. Prepare schedules & pass adjusting entries

- Prepare schedules and reconcile a/cs as required.
- Adjusting entries e.g., depreciation, inventory variance or correction of errors etc.

5. Map TB & financial report

Extract trial balance and map it

Using the mapped trial balance, prepare financial reports – either financial statements or management a/c

6. Close the books

Introduction – topics to be covered



Objectives of financial statements



The End Game: Financial statements Vs. management account



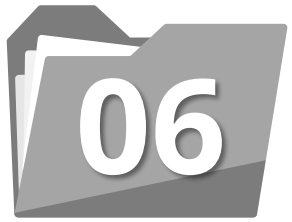
Elements of Financial Statements



General underlying features



Key finance functions in an organisation



Overview of the accounting process

Objectives of financial statements.

Firstly, what is/are the objective(s) of financial statements/management a/c?

There are 3 **primary** objectives.



Financial performance

To provide information about the entity's **financial performance** (income, expenses and profit or loss).

Financial position

To provide information about the entity's **financial position** (assets and how the assets are financed through **liabilities** and **equity**).

Cash flows

To provide information about the entity's **cash flows (i.e., cash inflows and cash outflows).**

All these information are provided to users, to enable them (users) make economic decisions.

The End Game: Financial Reports (1/2)

The final output of the accounting process is a **financial report** which could be for either internal or external consumption. There are majorly two (2) forms of financial reports namely **financial statements** or **management account**.

Let's quickly examine the difference between the two



FINANCIAL STATEMENTS (FS)

1. Contents are guided by accounting standards, laws and other regulations.
2. Content (see next slide for content)
3. Prepared for general usage (both internal and external, but more of external usage).
4. Must include disclosures of accounting policies in accordance with International Financial Reporting Standards (IFRS).
5. Restricted use of Alternative Performance Measures (APM) e.g., EBIT, EBITDA etc. Use of "Operating profit", "Profit before tax" etc.



MANAGEMENT ACCOUNT

1. Content is not necessarily guided by any accounting standard, law or legislation. Content can be more flexible.
2. See next slide for content
3. Prepared for internal usage
4. Does not necessarily include accounting policies and no need to structure it in accordance with IFRS.
5. APMs are more freely used in management accounts.

The End Game: Contents of FS and Management a/c (2/2)

Content of financial statements

1. Statement of profit or loss and other comprehensive income
2. Statement of financial position (SFP) a.k.a balance sheet
3. Statement of cash flows
4. Statement of changes in equity
5. Notes to the financial statements
6. Comparative information
7. Other National Disclosures:
   - Statement of Value Added
   - 5 – year Financial Summary



Possible content of management account

- The primary financial statements (compulsory):
  a) Statement of profit or loss (income statement) – may not necessailiry include OCI
  b) Statement of financial position
  c) Statement of cash flows
- Sumarised analysis and further insights to enable management understand the Company's financial performance and make better decisions. E.g., dashboards, KPIs – actual Vs budget
- The three primary FS should compare Actual Vs Budget and Current year vs Prior year

Try-outs

Try-out 1

Which of the following contains the information requirement for objective of FS?

a) Cash flows, financial position & financial performance

b) Financial position, financial performance & stability.

c) Cash flows, Financial position and financial liquidity.

d) Profitability, financial performance and financial position.

Try-out 2

Which of the following options contains the 3 primary FS?

a) Income statement, Notes, Cash flow

b) Statement of financial position, income statement and notes

c) Statement of financial position, income statement and Statement of cash flows

d) Statement of financial position

Try-out 3

Which one of the following best describes the content of a standard management a/c?

a) SFP, income statement and Statement of cash flows.

b) The primary FS, dashboard and other insightful summaries/analysis.

c) Statement of changes in equity, income statement and Statement of cash flows

d) SFP, OCI & dashboard

Try-out 4

When reporting a Company's financial performance which of the following is the focus?

a) Assets, Liabilities and Equity

b) Income, Expenses and Liabilities

c) Income, Expenses and Revenue

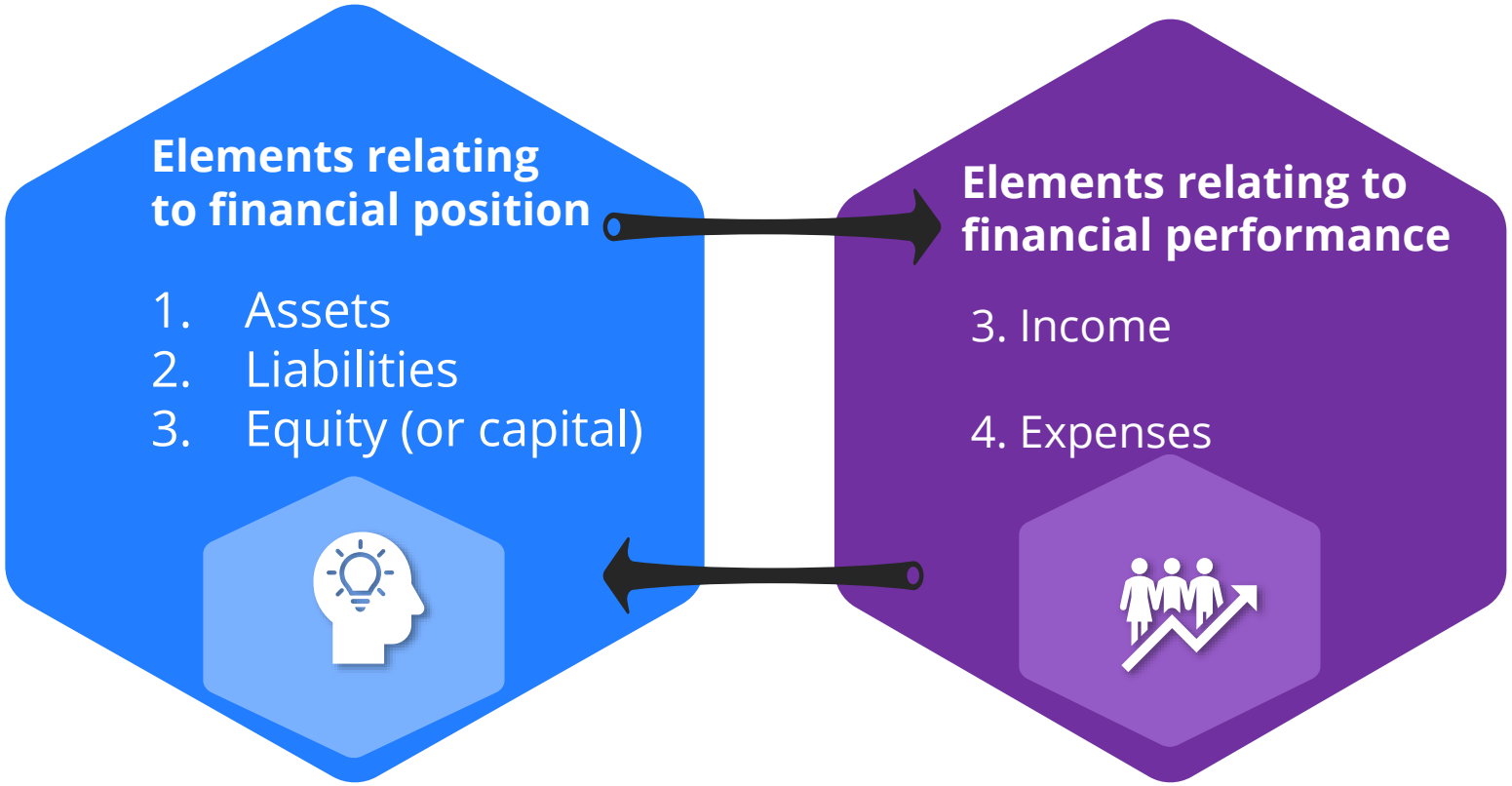
d) Income, Expenses and profit or loss

Elements of financial statements (1/7)

Transactions, events, and other conditions usually have "substantive effects on the business. **The broad name given to these effects is "Elements of financial statements".**

For example, the effect of a credit sales transaction on a business is that it gives rise to an asset called "trade receivables" and an income called "revenue"

The two (2) categories of elements



Elements of financial statements relating to financial position (2/7)

A

ASSETS

- ✓ A present economic resource controlled by the entity as a result of past events.
- ✓ An economic resource is a right that has the potential to produce economic benefits.
- ✓ On the face of the statement of financial position (SFP), it is further broken down into non-current and current assets in accordance with IAS 1, *Presentation of financial statements*.

L

LIABILITIES

- ✓ A present obligation of the entity to transfer an economic resource as a result of past events.
- ✓ An obligation is a duty or responsibility that is unavoidable.
- ✓ On the face of the statement of financial position (SFP), it is further broken down into non-current and current liabilities in accordance with IAS 1.

E

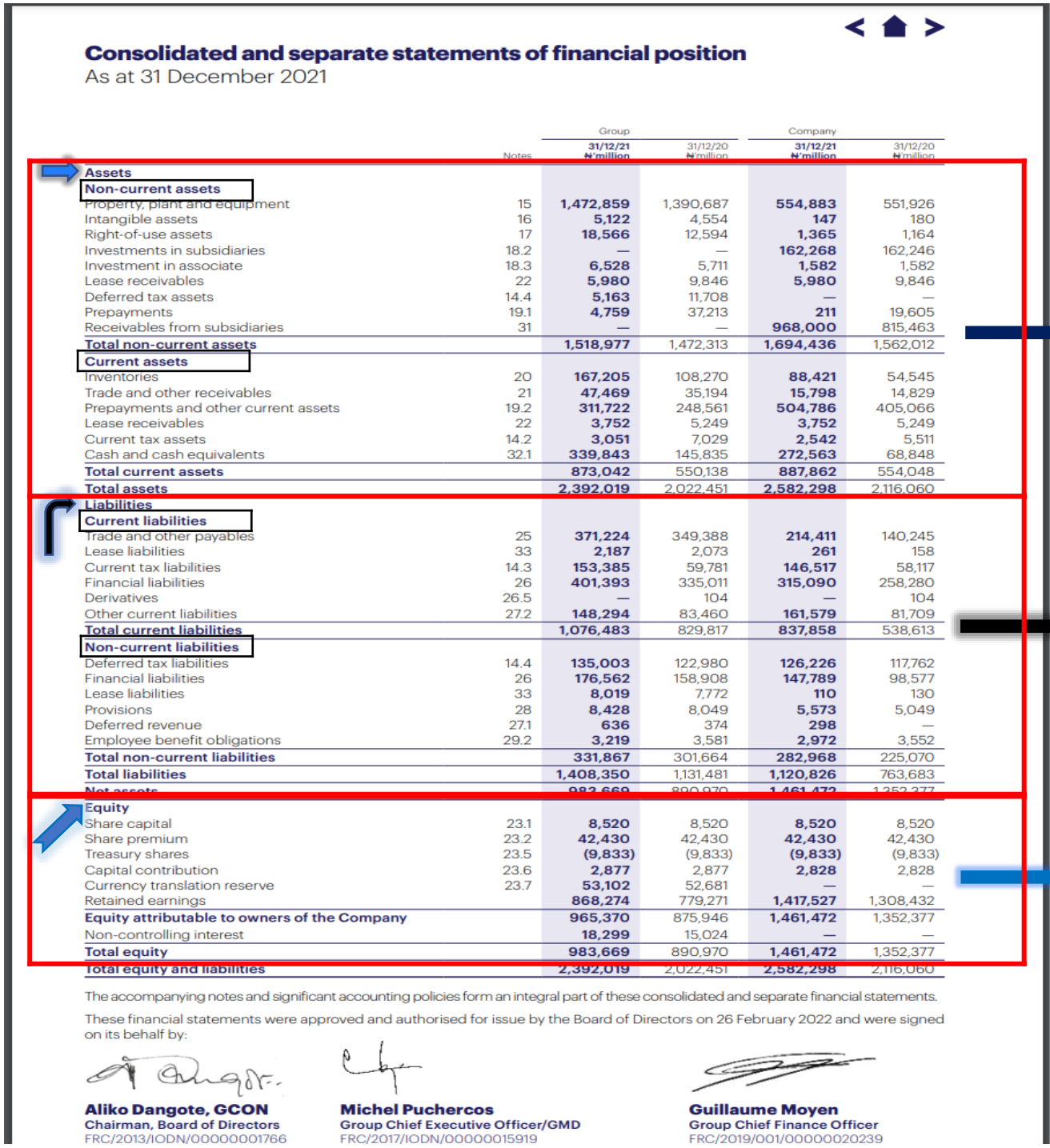
EQUITY (a.k.a. Capital)

- ✓ In simple terms, equity is asset minus liability.
- ✓ The arithmetic below is called **"Accounting Equation"**:

Assets – Liability = Equity (or Capital)

Sample Statement of Financial Position (SFP

(SFP can also be presented in the order of liquidity, if the reporting entity is a financial institution)



Consolidated and separate statements of financial position

As at 31 December 2021

	Notes	Group 31/12/21 ₦'million	Group 31/12/20 ₦'million	Company 31/12/21 ₦'million	Company 31/12/20 ₦'million
Assets					
Non-current assets					
Property, plant and equipment	15	**1,472,859**	1,390,687	**554,883**	551,926
Intangible assets	16	**5,122**	4,554	**147**	180
Right-of-use assets	17	**18,566**	12,594	**1,365**	1,164
Investments in subsidiaries	18.2	**—**	—	**162,268**	162,246
Investment in associate	18.3	**6,528**	5,711	**1,582**	1,582
Lease receivables	22	**5,980**	9,846	**5,980**	9,846
Deferred tax assets	14.4	**5,163**	11,708	**—**	—
Prepayments	19.1	**4,759**	37,213	**211**	19,605
Receivables from subsidiaries	31	**—**	—	**968,000**	815,463
Total non-current assets		**1,518,977**	1,472,313	**1,694,436**	1,562,012
Current assets					
Inventories	20	**167,205**	108,270	**88,421**	54,545
Trade and other receivables	21	**47,469**	35,194	**15,798**	14,829
Prepayments and other current assets	19.2	**311,722**	248,561	**504,786**	405,066
Lease receivables	22	**3,752**	5,249	**3,752**	5,249
Current tax assets	14.2	**3,051**	7,029	**2,542**	5,511
Cash and cash equivalents	32.1	**339,843**	145,835	**272,563**	68,848
Total current assets		**873,042**	550,138	**887,862**	554,048
Total assets		**2,392,019**	2,022,451	**2,582,298**	2,116,060
Liabilities					
Current liabilities					
Trade and other payables	25	**371,224**	349,388	**214,411**	140,245
Lease liabilities	33	**2,187**	2,073	**261**	158
Current tax liabilities	14.3	**153,385**	59,781	**146,517**	58,117
Financial liabilities	26	**401,393**	335,011	**315,090**	258,280
Derivatives	26.5	**—**	104	**—**	104
Other current liabilities	27.2	**148,294**	83,460	**161,579**	81,709
Total current liabilities		**1,076,483**	829,817	**837,858**	538,613
Non-current liabilities					
Deferred tax liabilities	14.4	**135,003**	122,980	**126,226**	117,762
Financial liabilities	26	**176,562**	158,908	**147,789**	98,577
Lease liabilities	33	**8,019**	7,772	**110**	130
Provisions	28	**8,428**	8,049	**5,573**	5,049
Deferred revenue	27.1	**636**	374	**298**	—
Employee benefit obligations	29.2	**3,219**	3,581	**2,972**	3,552
Total non-current liabilities		**331,867**	301,664	**282,968**	225,070
Total liabilities		**1,408,350**	1,131,481	**1,120,826**	763,683
Net assets		**983,669**	890,970	**1,461,472**	1,352,377
Equity					
Share capital	23.1	**8,520**	8,520	**8,520**	8,520
Share premium	23.2	**42,430**	42,430	**42,430**	42,430
Treasury shares	23.5	**(9,833)**	(9,833)	**(9,833)**	(9,833)
Capital contribution	23.6	**2,877**	2,877	**2,828**	2,828
Currency translation reserve	23.7	**53,102**	52,681	**—**	—
Retained earnings		**868,274**	779,271	**1,417,527**	1,308,432
Equity attributable to owners of the Company		**965,370**	875,946	**1,461,472**	1,352,377
Non-controlling interest		**18,299**	15,024	**—**	—
Total equity		**983,669**	890,970	**1,461,472**	1,352,377
Total equity and liabilities		**2,392,019**	2,022,451	**2,582,298**	2,116,060

The accompanying notes and significant accounting policies form an integral part of these consolidated and separate financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 26 February 2022 and were signed on its behalf by:

Aliko Dangote, GCON
Chairman, Board of Directors
FRC/2013/IODN/00000001766

Michel Puchercos
Group Chief Executive Officer/GMD
FRC/2017/IODN/00000015919

Guillaume Moyen
Group Chief Finance Officer
FRC/2019/001/00000020239

Assets

Liabilities

Equity

Elements of financial statements – Financial performance (4/7)



✓ Increases in assets, or decreases in liabilities, that result in increases in equity, except those relating to contributions from holders of equity claims.

✓ Income are of 2 types:
1. Revenue
2. Other income

✓ Revenue is income earned from the entity's core activity (as written in the Memorandum and Aritcles of Association - MEMAT) while other income are from other sources.

✓ Decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.

✓ Expenses are of 2 types:
1. Operating expenses (OpEx)
2. Non-operating expenses

✓ OpEx is expense incurred on operations (**usually** day-to-day running of the business) while Non-OpEx is incurred on other activities not related to day to day running of the business

Elements of FS (5/7)

Sample Statement of profit or loss & other comprehensive income

Consolidated and separate statements of profit or loss

For the year ended 31 December 2021

	Notes	Group		Company	
		Year ended 31/12/21 ₦'million	Year ended 31/12/20 ₦'million	**Year ended 31/12/21 ₦'million**	Year ended 31/12/20 ₦'million
Revenue	5	**1,383,637**	1,034,196	**993,399**	719,945
Production cost of sales	7	**(551,019)**	(437,970)	**(345,225)**	(225,744)
Gross profit		**832,618**	596,226	**648,174**	494,201
Administrative expenses	8	**(64,349)**	(60,339)	**(33,319)**	(32,289)
Selling and distribution expenses	9	**(191,658)**	(153,719)	**(132,285)**	(112,919)
Other income	11	**6,221**	4,754	**1,975**	1,922
Impairment of financial assets	21	**(341)**	(188)	**(402)**	(3,318)
Profit from operating activities		**582,491**	386,734	**484,143**	347,597
Finance income	10.1	**20,765**	29,814	**92,783**	112,031
Finance costs	10.2	**(65,707)**	(43,988)	**(42,501)**	(28,881)
Share of profit from associate	18.3	**817**	750	**—**	—
Profit before tax		**538,366**	373,310	**534,425**	430,747
Income tax expense	14.1	**(173,927)**	(97,242)	**(153,325)**	(78,138)
Profit for the year		**364,439**	276,068	**381,100**	352,609
Profit for the year attributable to:					
Owners of the Company		**361,008**	275,080	**381,100**	352,609
Non-controlling interests		**3,431**	988	**—**	—
		364,439	276,068	**381,100**	352,609
Earnings per share, basic and diluted (Naira)	13	**21.24**	16.14	**22.42**	20.69

The accompanying notes and significant accounting policies form an integral part of these consolidated and separate financial statements.

Broad examples under each element (6/7)

Assets

- ✓ Property, plant & equipment (PPE) e.g., computer, building etc.
- ✓ Inventory
- ✓ Trade receivables
- ✓ Other receivables e.g., interest income receivable, rent receivable etc.
- ✓ Prepayment
- ✓ Cash & cash equivalent
- ✓ Investments
- ✓ Intangible assets
- ✓ Deferred tax assets
- ✓ Contract assets
- ✓ Accrued income
- ✓ Statutory receivables e.g., WHT receivable

Liabilities

- ✓ Trade payable
- ✓ Accrued expenses
- ✓ Current tax liabilities
- ✓ Statutory payables (e.g., WHT payable, VAT payable etc.,)
- ✓ Provisions
- ✓ Deferred revenue or contract liabilities
- ✓ Other payables e.g., interest expense payable

Equity

- ✓ Share capital
- ✓ Share premium
- ✓ Retained earnings
- ✓ Other reserves such as revaluation reserve.

Income

- ✓ Revenue
- ✓ Other income such as:
- ➢ Finance income
- ➢ Gain on disposal of PPE
- ➢ Gain on disposal of investment
- ➢ Exchange gain
- ➢ Investment income
- ➢ Gain on revaluing assets and liabilities

Expenses

- ✓ Cost of sales (OpEx)
- ✓ Admin. Expenses (OpEx)
- ✓ Selling & distribution expenses (OpEx)
- ✓ Exchange loss (OpEx or Non OpEx)
- ✓ Loss on disposal of investment (Non OpEx)
- ✓ Loss on disposal of PPE (Non OpEx)
- ✓ Finance cost
- ✓ Loss on revaluing assets and liabilities
- ✓ Expected credit loss

The Key Points: Transactions and the elements (7/7)

1

Correctly evaluate how Company's transactions or events or conditions can affect each or any of the elements.



2

To evaluate correctly, always ask yourself this question: **"What if I was in the Company's shoes, how will this transaction or event affect me?"**

At this point, you may have to think like a businessman!

3

Before delving into evaluating the impact of a transaction, make sure you have a thorough and correct understanding of that transaction or event accompanied with documentary evidence where appropriate.

4

Pick the elements one after the other and evaluate how the transaction or event affects each element.

Please note that a transaction or event may not have any impact on some elements while impacting others

5

The goal of the evaluation is to identify how and if any element(s) **will increase or reduce.** For example, if I sold my book for N20 cash, an asset (cash balance) will **increase by N20** and my income as a business will also **increase by N20.**

6

The effect of a transaction or event is always on at least "two sides". **I do not mean "two elements" I mean "two sides".** It may affect two or more different elements like the sales transaction above affected asset and income, but sometimes it may affect two different types of items **within the same element. For example, while my cash (an asset) increased, the quantity of my books (another asset) reduced.**

Class samples

Explain how the following will affect the element of financial statements pertaining to the Company

S/N	Financial statement line items	Elements of FS
1	Company A sold goods to Customer Y for immediate cash of CU40m	Asset increases by CU40m for cash received. Income increases by CU40m since asset increased through sales of goods to customer In addition: The Company's stock (inventory) of goods will reduce, hence, asset reduces by the cost of the goods The cost of sales also increases by the cost of the books
2	Company A sold services to customer worth N20m on credit.	Asset increases by CU40m sales value for amount expected to be paid by the customer (receivable). Income increased by CU40m since asset increased through sales of goods to customer In addition: The Company's inventory of goods will reduce, hence, asset reduces by the cost of the goods The expenses (cost of sales) also increases by the cost of the goods.
3	Company A made payment of CU10m to vendor for previously recorded vendor liability.	Liability reduces because the amount owed by the Company has been settled Asset also reduces because cash (an asset) was paid to settle the liability.

Try-outs

Try out 1

CU50m was received in advance from a customer ahead of delivery of goods. How will this affect the elements of FS before the delivery of the goods? Explain your rationale to the class.

a) Both asset and liability will increase by CU50m

b) Asset and income will both increase by CU50m

c) Expenses and Liabilities will both increase by CU50m.

d) Asset will reduce by N50m & income will increase by CU50m

Try out 2

A Company got incorporated (by shares) and shares worth CU1m have been issued to the shareholders stated in the MEMAT How will this affect the elements of FS? Explain your rationale to the class

a) Asset increase by N1m, and Equity will reduce by CU1m

b) Asset to increase by N1m and cash to decrease by CU1m

c) Asset and Equity to both increase by CU1m

d) Asset and Expenses to both increase by CU1m

Try-out 3

A vendor carried out cleaning and janitorial services on our facility for CU5m. How will this affect the elements of FS before we pay the vendor? Explain your rationale to the class.

a) Liability and Expenses to both increase by CU5m

b) Asset to decrease and liability to reduce by CU5m

c) Expenses and Equity will increase by CU5m

d) Asset to reduce by CU5m and expenses to increase by CU5m

Try-out 4

Staff salary total of CU20m is due but was paid 2 months after. How will this affect the elements of FS before the payment of salary? Explain your rationale to the class.

a) Liability and Expenses to both reduce by CU20m

b) Asset to decrease and liability to reduce by CU20m

c) Expenses and Liability will increase by CU20m

d) Asset to reduce by CU20m and expenses to increase by CU20m

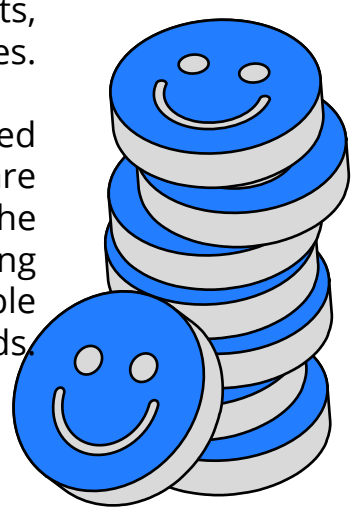
General underlying features of financial report

Accrual basis

✓ Any element of financial statement is only recorded if it meets the requirement of an accounting standard.

✓ The requirement of accounting standards are to applied to determine when to record assets, liabilities, income and expenses.

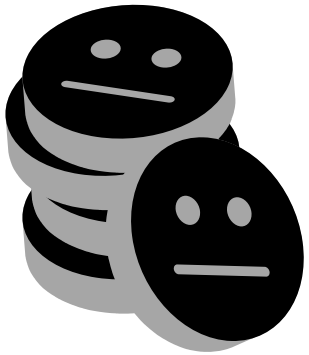
✓ For example, income is recorded when earned and expenses are recorded when incurred. The evaluation of earning and incurring is done in the light of applicable accounting standards.



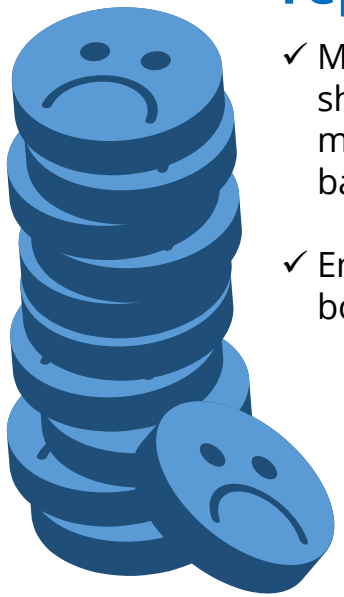
Comparative information

✓ Remember that financial reports are used for making decisions and decision making involves comparing alternatives, therefore, inclusion of prior year financials is important.

✓ Management account should also include a comparison with budget.



Frequency of reporting



✓ Management account should be prepared every month or more regularly based on need.

✓ Ensure you close your books every month.

Try-outs

Try-out 1

1 Jan 2022 – KKK Ltd sold goods to customer and earned income of CU20m on that day.

8 Jan 2022 – KKK Ltd receives CU20m payment from customer

On which of the above dates should income be recorded?

Try-out 2

4 March 2022 – KKK Ltd bought raw materials on credit from vendor for CU2m and took immediate ownership of the item.

8 March 2022 – KKK Ltd paid vendor half of the CU2m

10 April 2022 – KKK Ltd settled the remaining half

On which of the above dates should the expenses be recorded?

Try-out 3

9 July 2022 – KKK Ltd received an advance inflow of CU10m from a customer.

8 August 2022 – KKK Ltd delivered the purchased item to the customer

On which of the above dates should income be recorded?

Try-out 4

9 July 2022 – KKK Ltd made an advance payment to a vendor of CU80m.

8 August 2022 – The vendor delivered the item purchased

On which of the above dates should expenses be recorded?

Key finance functions in an organisation – all functions report to the CFO or Head of Finance or Director of Finance depending on the Company's chosen structure.

Financial operations

- ✓ Processing payment for vendor invoice/salary
- ✓ Maintain selected accounting schedules.
- ✓ Inventory mgt.
- ✓ Posting accounting transactions.
- ✓ Customer invoice
- ✓ Any other routine financial process

Treasury

- ✓ Cash management
- ✓ Support working capital planning/management & mgt liquity risk
- ✓ Manage relationships with banks
- ✓ Fund raising
- ✓ Investment management

Tax

- ✓ Correct computation and timely filing of taxes
- ✓ Tax compliance/tax health check
- ✓ Tax forecast and planning
- ✓ Tax advisory
- ✓ Liase/manage relationship with tax authorities

Risk Mgt.

- ✓ Predicting, mitigating, and managing risk.
- ✓ Maintain and manage risk register

Financial control & reporting

- ✓ Integrity of accounting schedules and GL.
- ✓ Review and approve accounting entries
- ✓ Review accounting/finance schedules prepared by other functions/dept.
- ✓ Prepare financial reports.
- ✓ Check other finance functions to ensure compliance with laid down financial controls/policies.
- ✓ Budgetary control
- ✓ Regular review of accounting/business process and controls for continuous improvement.
- ✓ Perform fin. Controls to achieve FS integrity.

Financial Planning and Analysis

- ✓ Budgeting and other strategic forecasts.
- ✓ Support decision making through forecasts and models.
- ✓ Price planning and analysis
- ✓ Cost centre reporting

Try-outs

Try-out 1
The responsibility of checking/enforcing compliance to ensure that insurance policies are up to date is best suited to which of the following

a) Risk dept and Financial Control

b) Treasury dept and Risk Dept

c) FP&A and Tax.

d) Finance operations, FP&A and Risk dept

Try-out 2
Every week and as the need arises, the CEO and CFO need to take a commercial decision of approving sales prices. Which of the following is best suited to perform price assessment to identify the best prices?

a) Treasury dept

b) Financial operations Dept

c) Financial Planning & Analysis Dept

d) Risk dept

Try-out 3
A GL review is to be carried out daily to identify errors in previous day's posting. Which dept is best suited for this task?

a) Financial operations

b) Risk Dept

c) Financial control

d) FP & A

Try-out 4
There is currently a need for a 3-month projected cash flow to enable management make certain cash management decisions. Which dept(s) is (are) .best suited to prepare the projected cash flow?

a) Financial control only

b) Treasury and FP & A

c) Tax and Risk Dept

d) Financial operations and Financial control

Weekly take home

State how the following transactions will affect the elements of FS
(you do not need to propose any accounting entry. Focus only on the effect on the elements)

S/N	Transactions and events	Elements of FS
1	N10m was paid to a vendor in advance of services delivered by the vendor.	
2	January Staff cost was CU20m (Net salary payable is CU15m, PAYE liability is CU2m,DL and Pension is N3m). Net salary was paid on 4 February. State effect as at 31 January and on date of payment as at 4 February.	
3	On 3rd January, the Company lost a case against a defendant. The Judge pronounced a damage of CU20m against the Company. Payment was made to the defendant on 15 January. State effect as at 3rd January and after payment on 15 January	
4	In country K, Companies are expected to withhold taxes (WHT) at the rate of 5% before making payment to vendors. The amount withheld is then remitted to the government and subsequently used to reduce the beneficiary's CIT later in the future. On 9 July, Company M withheld CU2m from a vendor payment. Before the 9 July, the entire N2m was previously included as a vendor liability. On 21 July, Company M remitted the CU2m to the government What's effect on 9 July and 21 July of both events above.	
5	In same Country K, on 3 August customer OPP withheld CU40m before making payment to Company M. Before the 3 August, the said amount was previously included as a customer receivable. State effect on 3 August after customer withheld CU40M	

Weekly take home

State how the following transactions will affect the elements of FS
(you do not need to propose any accounting entry. Focus only on the effect on the elements)

S/N	Transactions and events	Elements of FS
1	N10m was paid to a vendor in advance of services delivered by the vendor.	
2	January Staff cost was CU20m (Net salary payable is CU15m, PAYE liability is CU2m,DL and Pension is N3m). Net salary was paid on 4 February. State effect as at 31 January and on date of payment as at 4 February.	
3	On 3rd January, the Company lost a case against a defendant. The Judge pronounced a damage of CU20m against the Company. Payment was made to the defendant on 15 January. State effect as at 3rd January and after payment on 15 January	
4	In country K, Companies are expected to withhold taxes (WHT) at the rate of 5% before making payment to vendors. The amount withheld is then remitted to the government and subsequently used to reduce the beneficiary's CIT later in the future. On 9 July, Company M withheld CU2m from a vendor payment. Before the 9 July, the entire N2m was previously included as a vendor liability. On 21 July, Company M remitted the CU2m to the government What's effect on 9 July and 21 July of both events above.	
5	In same Country K, on 3 August customer OPP withheld CU40m before making payment to Company M. Before the 3 August, the said amount was previously included as a customer receivable. State effect on 3 August after customer withheld CU40M	

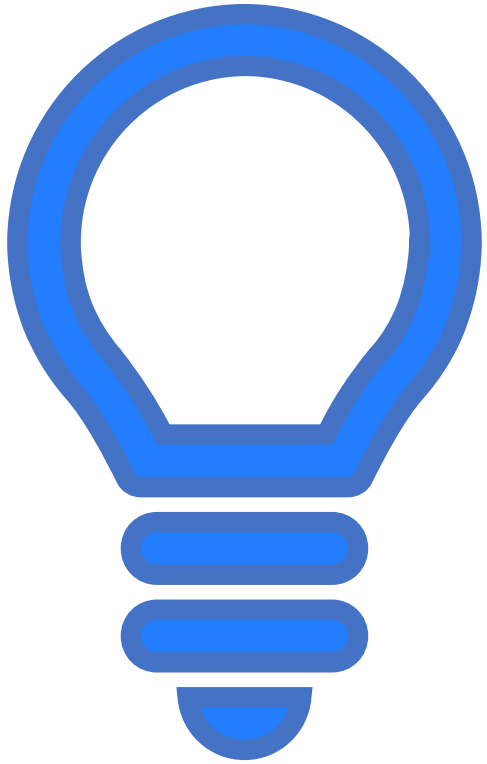


Chart of Accounts

“Nature does not hurry, yet everything is accomplished.“

Lao Tzu

Key points on Chart of Accounts (CoA)

1

A CoA is a listing of the names of the accounts that a company has identified & made available for recording transactions in its GL.

2

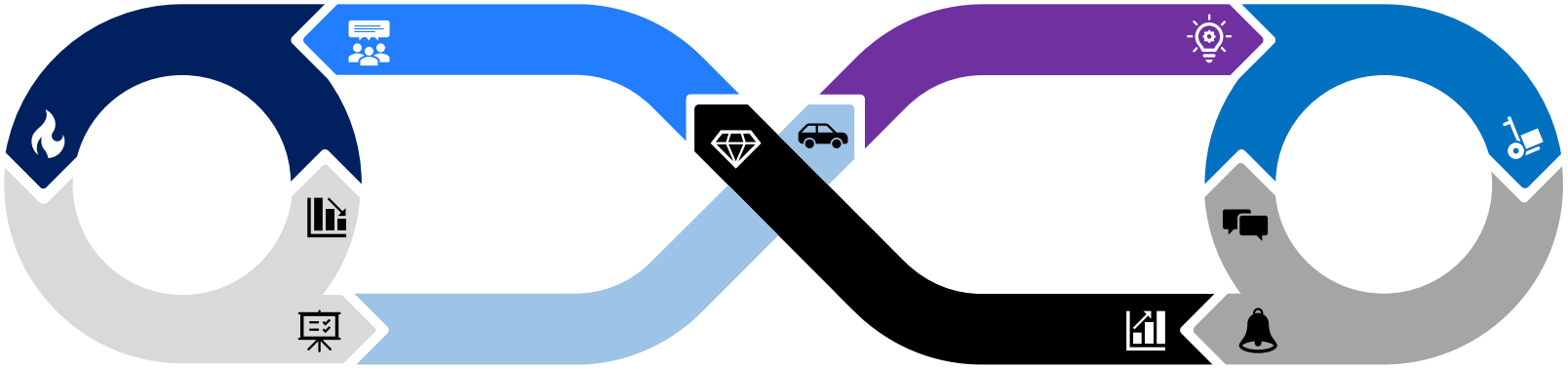
A company has the flexibility to tailor its chart of accounts to best suit its needs, including adding accounts as needed.

3

It creates a codified or structured link amongst the **elements of FS** and **the Company's FS line items** and the **GL accounts**

4

It forms a basis from which GL accounts are created before posting of transactions



5

A CoA will likely be as large and as complex as the company itself.

The CoA may be structured to include associating unique codes with the various divisions within the Company. Each of those depts/divisions are called **profit or cost centres.** For example, finance dept can be associated with code 001.

6

Each account in the chart of accounts is typically assigned a name and a unique number by which it can be identified. (Software for some small businesses may not require account numbers.)

7

GL account numbers are often four or more digits in length **with each digit representing a division of the company, the department, the type of account, etc**

8

To properly set up a Company's CoA, you will need to have some knowledge about the Company's business and even its financial reports/statements.

Example of Chart of Accounts

(See class video for more detailed sample)

Chart of Accounts			
Number	**Description**	**Account Type**	**Financial Statement**
1-001	Cash	Asset	Balance Sheet
1-010	Accounts Receivable	Asset	Balance Sheet
1-020	Prepaid Expenses	Asset	Balance Sheet
1-030	Inventory	Asset	Balance Sheet
1-040	Fixed Assets	Asset	Balance Sheet
1-050	Accumulated Depreciation	Asset	Balance Sheet
1-060	Other Assets	Asset	Balance Sheet
2-001	Accounts Payable	Liability	Balance Sheet
2-010	Accrued Liabilities	Liability	Balance Sheet
2-020	Taxes Payable	Liability	Balance Sheet
2-030	Payroll Payable	Liability	Balance Sheet
2-040	Notes Payable	Liability	Balance Sheet
3-001	Common Stock	Equity	Balance Sheet
3-010	Retained Earnings	Equity	Balance Sheet
3-020	Additional Paid in Capital	Equity	Balance Sheet
4-001	Revenue	Revenue	Income Statement
4-010	Sales returns and allowances	Revenue	Income Statement
5-001	Cost of Goods Sold	Expense	Income Statement
5-010	Advertising Expense	Expense	Income Statement
5-020	Bank Fees	Expense	Income Statement
5-030	Depreciation Expense	Expense	Income Statement
5-040	Payroll Tax Expense	Expense	Income Statement
5-050	Rent Expense	Expense	Income Statement
5-060	Supplies Expense	Expense	Income Statement
5-070	Utilities Expense	Expense	Income Statement
5-080	Wages Expense	Expense	Income Statement
6-001	Other Expenses	Other	Income Statement

Sample obtained from https://www.myaccountingcourse.com/accounting-basics/chart-of-accounts

Example of Chart of Accounts

(See class video for more detailed sample)

Current Assets (account numbers 10000 - 16999)
10100 Cash - Regular Checking
10200 Cash - Payroll Checking
10600 Petty Cash Fund
12100 Accounts Receivable
12500 Allowance for Doubtful Accounts
13100 Inventory
14100 Supplies
15300 Prepaid Insurance

Property, Plant, and Equipment (account numbers 17000 - 18999)
17000 Land
17100 Buildings
17300 Equipment
17800 Vehicles
18100 Accumulated Depreciation - Buildings
18300 Accumulated Depreciation - Equipment
18800 Accumulated Depreciation - Vehicles

Current Liabilities (account numbers 20000 - 24999)
20100 Notes Payable - Credit Line #1
20200 Notes Payable - Credit Line #2
21000 Accounts Payable
22100 Wages Payable
23100 Interest Payable
24500 Unearned Revenues

Long-term Liabilities (account numbers 25000 - 26999)
25100 Mortgage Loan Payable
25600 Bonds Payable
25650 Discount on Bonds Payable

Stockholders' Equity (account numbers 27000 - 29999)
27100 Common Stock, No Par
27500 Retained Earnings
29500 Treasury Stock

Operating Revenues (account numbers 30000 - 39999)
31010 Sales - Division #1, Product Line 010
31022 Sales - Division #1, Product Line 022
32015 Sales - Division #2, Product Line 015
33110 Sales - Division #3, Product Line 110

Cost of Goods Sold (account numbers 40000 - 49999)
41010 COGS - Division #1, Product Line 010
41022 COGS - Division #1, Product Line 022
42015 COGS - Division #2, Product Line 015
43110 COGS - Division #3, Product Line 110

Marketing Expenses (account numbers 50000 - 50999)
50100 Marketing Dept. Salaries
50150 Marketing Dept. Payroll Taxes
50200 Marketing Dept. Supplies
50600 Marketing Dept. Telephone

Payroll Dept. Expenses (account numbers 59000 - 59999)
59100 Payroll Dept. Salaries
59150 Payroll Dept. Payroll Taxes
59200 Payroll Dept. Supplies
59600 Payroll Dept. Telephone

Other (account numbers 90000 - 99999)
91800 Gain on Sale of Assets
96100 Loss on Sale of Assets

Sample obtained from https://www.accountingcoach.com/chart-of-accounts/explanation

Steps for creating a basic Chart of Accounts

1. Assign serial number to each element of FS. For example:
   Asset – 1
   Liabilities – 2
   Equity – 3
   Income – 4
   Expenses - 5

2. Determine the number of digits you wish for each GL a/c to have – 4 or 5 or 6.

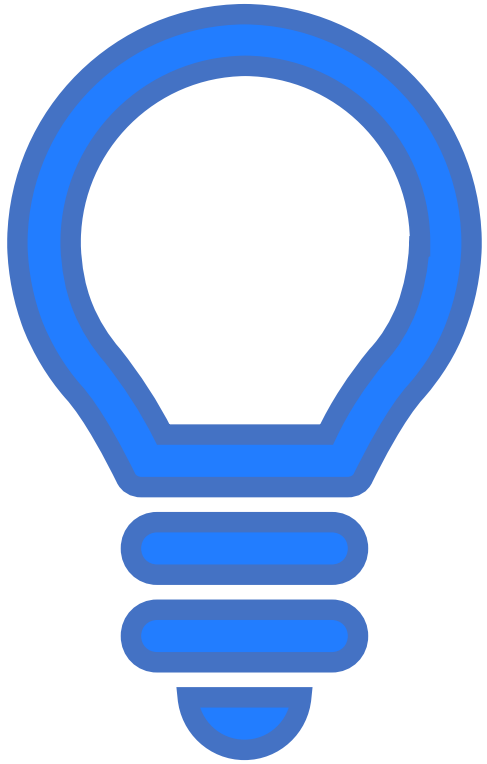
3. Identify the code ranges for each element.

4. Identify the groups within each element of FS based on your understanding of the Company's business and FS

5. Associate unique codes to each group identified in Step 4.

6. Create code ranges within each group.

7. Associate each group to either SFP or Income Statement



Posting transactions and double entry in practice

Knowledge is a garden. If it isn't cultivated, you can't harvest it.

African proverb

Important tasks related to posting a transaction



1. Obtain supporting document(s)

Transactions usually have supporting documents **(SD)** evidencing their occurrence. For example, if there was a sales, there should be an invoice and/or delivery document evidencing the sales. **Always request for a document to support the transaction.**

2. Understand the transaction

If you do not **thoroughly** understand the transaction, your accounting treatment may end up being wrong. **Thoroughly review the SD to obtain understanding and/or discuss with the responsible party.**

3. Accuracy and completeness

The SD may state figures or include computation/calculations. **Thoroughly check the document for accuracy and ensure the figures are complete.** For example, you can recompute the VAT charged on an invoice to check accuracy of the invoice.

4. Approvals

Check if the necessary approvals have been obtained for processing of the transaction. For example, if you must post a payment transaction before it is sent to the bank, you may have to check if all approvals have been obtained.

5. Double entry: effect on the elements & GL a/cs

Evaluate the bigger picture of how the transaction affects the element. For example, a credit sales transaction will increase both assets (bank) and income (revenue). Also, identify the appropriate GL that best represents each affected elements. If not available, request for the creation of the GL.

6. Keep SD in safe/orderly manner

The supporting document(s) may be required in the future by auditors, tax officials, period-end review etc. so, it is important to keep them safely and orderly either in soft copies and/or filed in hard copy in a arch lever file.

Double entry – the mechanism

01 Understand the transaction

This can never be overemphasized. If you do not have a correct understanding, you will most likely profer a wrong solution.

02 Evaluate how it affects each of the elements

Evaluate each element one after the other to identify the effect on each.

For example, a credit purchase of motor vehicle for CU20m from vendor XYZ will:

- Increase asset because Motor vehicle is an asset; and
- Increase liability because we now owe the vendor for the vehicle – *an obligation to pay at a later date.*

However, it will likely not impact expenses or income or equity.

03 Identify the specific GL account (s) that represent each affected element

Recall our learning under Chart of Accounts. Each GL account is always associated with an element of FS, so reword step 2 by replacing the element affected with the appropriate GL account:

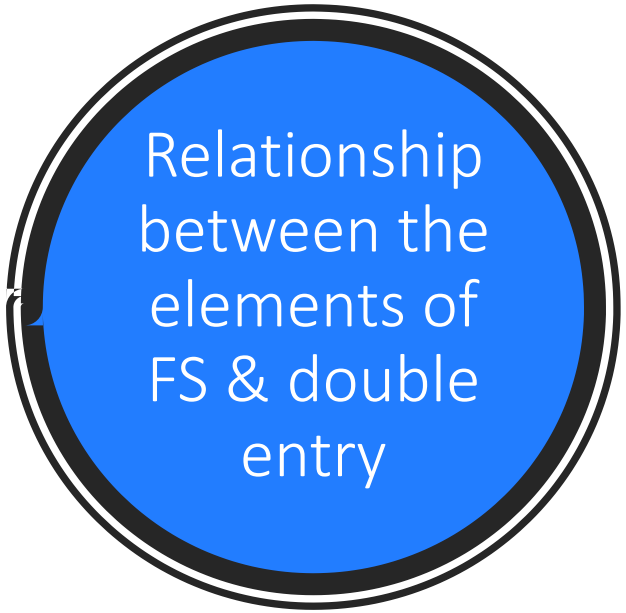
- Increase motor vehicle GL a/c by CU20m
- Increase vendor XYZ liability a/c by CU20m

04 Propose entry

With the aid of the table in the next slide, we can now propose an entry.

According to the table, to increase a Company's asset, we must debit the applicable GL account and to increase a liability, we must credit the applicable GL account, hence, the double entry:

Dr: Motor vehicle with CU20m
Cr: Vendor XYZ with CU20m



	Increase	Decrease
Assets	Debit	Credit
Liabilities	Credit	Debit
Equity	Credit	Debit
Income	Credit	Debit
Expenses	Debit	Credit

Common transactions to start your double entry journey in practice

Common transactions to start with

Routine operating transactions

1. Incorporation of a business ✓
2. Sale of goods or services on credit ✓
3. Receipt from customers ✓
4. Sale of goods or services for cash ✓
5. Credit purchases of goods or services ✓
6. Payment made to vendors ✓
7. Cash purchases of goods or services ✓

Other common transactions

1. Exchange difference
2. Payroll
3. Loan
4. Intercompany transactions

Transaction 1 – incorporation of a business

S/N	Understanding	Elements affected	GL affected	Double entry	Supporting document
1	The Company issued shares to its shareholders in exchange for a consideration of CU1m. Shares were issued at par value.	- Increase asset by CU1m, being the value expected from the shareholders. - Increase equity by same value. This is because it's an increase in asset arising from contribution from equity holders.	✓ Increase receivable due from shareholders a/c by CU1m ✓ Increase share capital a/c by par or nominal value of CU1m	Dr: Receivable due from shareholder a/c with CU1m Cr: Share capital a/c with CU1m	✓ Certificate of incorporation ✓ Memorandum & Articles of Association (MEMAT)
2	Shareholder subsequently pays CU200k in cash for part settlement of the shares received from the Company.	✓ Increase in asset by CU200K, being inflow of cash ✓ Although cash increased, it also means that the amount owed by the shareholder reduces by CU200k, hence, a corresponding reduction in asset.	✓ Increase in bank/cash a/c by CU200K. ✓ Reduction in receivables due from shareholders a/c by CU200k	Dr: Bank a/c with CU200k Cr: Receivables due from shareholders a/c with CU200k	Bank statement showing receipt of the inflow.

Transaction 2 – Credit purchases

S/N	Transaction	Elements affected (with rationale)	GL affected	Double entry	Supporting document
1	Goods (Product LMK) purchased for CU3.225m from the Lakolu Ltd (CU3m + VAT of CU0.225m). The goods were purchased for resale to customers on credit. Lakolu Ltd has issued a VAT invoice. In line with the country's tax law, VAT incurred on items purchased for resale are claimable from the government. **They are referred to as INPUT VAT.**	- Increase asset for the goods purchased by CU3m. - Increase another asset by CU0.225m representing the right to reclaim the VAT from the government at a future date. - Increase liabilities representing the total obligation to pay Lakolu Ltd for product purchased on credit.	✓ Increase inventory LMK a/c by CU3m ✓ Increase VAT recoverable a/c by CU0.225m ✓ Increase Lakolu Ltd a/c (vendor payable) by CU3.225m	Dr: Inventory LMK a/c with CU3m Dr: VAT recoverable a/c with CU0.225m Cr: Lakolu Ltd a/c with CU3.225m	✓ Delivery note, waybill, good received note or any valid document evidencing that the product was received from Lakolu Ltd ✓ Vendor invoice reflecting the value of the transaction including the VAT charged.

Transaction 3 – Credit sales

S/N	Understanding	Elements affected (with rationale)	GL affected	Double entry	Supporting document
1	Subsequently, the Company sold Product LMK Customer QQ for CU5m. As required by law, the Company issues a VAT invoice and charges VAT at 7.5% amounting to CU0.375m, hence, a total invoice worth CU5.375m By law, VAT must be remitted to the government, hence, any Company charging it is a collecting agent on behalf of the Federal Government (FG)	- Increase asset by CU5.375m (VAT inclusive), being the right to collect CU5.375m from the customer at a future date. - Increase income by only CU5m. This is the portion of the increase in asset which is a benefit to the Company, the other CU0.375m is for FG, not the Company. - Increase liability by CU0.375m being VAT charged on behalf of the FG because we will be holding funds that we are obliged to remit to FG. - Recall that Product LMK has been sold out, hence, asset reduces because of reduction (by cost) in the inventory qty - Expenses also increases by same value	✓ Increase customer receivable by CU5.375m ✓ Increase revenue a/c by CU5m ✓ Increase VAT on invoice a/c by CU0.375m On the other hand: ✓ Increase cost of sales by CU3m ✓ Reduce inventory LMK a/c by CU3m	Dr: Customer QQ with CU5.375m Cr: Revenue with CU5m Cr: VAT on invoice by CU0.375m Also: Dr: Cost of sales by CU3m Cr: Inventory LMK by CU3m	✓ Delivery note, waybill or any valid document evidencing that the Company has satisfied the performance obligation (i.e., it has earned the income). ✓ Sales invoice issued to the customer summarizing the details of the transaction.

Transaction 4 – Receipt from customers to settle credit sales

S/N	Understanding	Elements affected (with rationale)	GL affected	Double entry	Supporting document
1	Subsequently, customer QQ settles makes payment to the Company worth CU5.125m after deducting WHT of CU0.25m The law requires every customer to make appropriate WHT deductions before making payment. The amount withheld by the beneficiary Company will still be recouped to reduce tax in the future. Therefore, the Company has a right to claim the CU0.25m from the government through future reduction in tax.	- Increase asset by CU5.125m (VAT inclusive), being the cash received from customer QQ. - Reduce asset by CU5,125m to reflect that the amount owed by the customer has now reduced by CU5.125m. - Increase another asset by CU0.25m being the right to recoup the WHT from the government later in the future. - Reduce asset representing a reduction in the amount owed by the customer by CU0.25m. After passing the above CU5.125m, there will still be balance of CU0.25m which though withheld by the client, is no longer due from the client, but now due from the government.	✓ Increase bank a/c by CU5.125m ✓ Reduce customer a/c by CU5.125m On the other hand: ✓ Increase WHT receivable by CU0.25m ✓ Reduce customer a/c by CU0.25m	Dr: Bank a/c by CU5.125m Cr: Customer QQ a/c by CU5.125m On the other hand: Dr: WHT receivable a/c CU0.25m Cr: Customer QQ a/c with CU0.25m	✓ Delivery note, waybill or any valid document evidencing that the Company has satisfied the performance obligation (i.e., it has earned the income). ✓ Sales invoice issued to the customer summarizing the details of the transaction.

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