ACCOUNTING SYSTEM

IN PRACTICE

Course Reference Handout

From Puzzle to Picture: Building a Complete Accounting System from Scratch

Facilitator: Oladele Odugbemi

An Accounting Yard Training Programme : Intellicence Consulting Limited

www.accountingyard.com | acctyard@gmail.com | +234 706 685 5973

Table of Contents

1. Course Overview
2. The 5-Step Roadmap
3. Step 1: Understand the Business
4. Step 2: Data Sourcing
5. Step 3: Recreating Data on Excel
6. Step 4: Building the General Ledger
7. Step 5: Creating the Trial Balance
8. Cash to Accrual Conversion
9. Rolling the Trial Balance
10. Essential Excel Functions
11. Case Study Preview: EJ Perfumery
12. Glossary of Key Terms

1. Course Overview

Course Objective

This course equips accounting professionals with the practical skills to build a complete accounting system from scratch for businesses that have no formal system in place. By the end of the course, participants will be able to take any SME or MSME with incomplete records and construct a functioning accounting system on Microsoft Excel, from initial business understanding through to a complete trial balance.

Who Is This Course For?

- Accountants working with SMEs and MSMEs that lack formal bookkeeping systems
- Fresh graduates entering their first accounting role and encountering real-world chaos
- Experienced accountants who need a structured approach to system setup
- Finance managers tasked with cleaning up or building accounting infrastructure
- Audit professionals who encounter incomplete records in practice

Course Structure

The course runs over 6 weekends (12 sessions). The first 2 days focus on theoretical foundations covered in this handout. The remaining 4 days are dedicated to a comprehensive case study (EJ Perfumery) where participants apply every concept hands-on.

Daily Session Structure

Time	Activity	Notes
20 minutes	Introduction & Warm-up	Recap previous session, set agenda, participant check-in
1.5 hours	Session 1 with Q&A	Content blocks of 15-20 mins with Q&A integrated
10 minutes	Biological Break	Stretch, refresh
1.5 hours	Session 2 with Q&A	Content blocks of 15-20 mins with Q&A integrated
20 minutes	Recap & Wrap-up	Key takeaways, preview next session, homework

The Pareto Principle in Incomplete Records

When dealing with businesses that have no accounting system, the 80/20 principle is your best friend. Not every historical transaction needs to be perfectly captured. Focus on:

- Big-ticket items: Transactions with the most significant financial impact deserve the most attention.
- Material balances: Assets, liabilities, and equity items that are large enough to affect decision-making.

- Practical cutoff dates: Choose a sensible date to start your structured system. Everything before that date can be estimated or summarised.
- Forward-looking structure: The most valuable outcome is not perfect historical records, but a system that captures data correctly going forward.

Benefits of a Complete Accounting System for SMEs

- Informed Decision Making: Know your true profit, cash position, and financial health at any time.
- Tax Compliance: Accurate records for VAT, WHT, CIT, PAYE filings. Avoid penalties and interest charges.
- Access to Funding: Banks and investors require organised financial statements before extending credit or investment.
- Business Valuation: You cannot value what you cannot measure. A proper system enables accurate valuation.
- Fraud Prevention: Proper systems create audit trails and accountability across the organisation.
- Scalability: Structured systems grow with the business. Chaos does not scale.

2. The 5-Step Roadmap

The entire course is built around a proven 5-step framework for building an accounting system from scratch. Each step builds on the previous one:

Step	Name	Description
1	Understand the Business	Research the business, interview stakeholders, document processes and SOPs. You cannot design a system without understanding what it must capture.
2	Source the Data	Collect everything available: bank statements, CAC documents, employee records, sales and purchase records, inventory data, asset information, loan agreements.
3	Recreate Data on Excel	Analyse bank statements. Build supporting schedules: asset register, inventory count, prepayment and accrual schedules, staff cost schedule, equity and borrowing schedule.
4	Build the General Ledger	Design a Chart of Accounts tailored to the business. Create the GL template. Post cash transactions from bank analysis. Post accrual adjustments (depreciation, amortisation, payroll, accruals, inventory).
5	Produce the Trial Balance	Use Pivot Tables to summarise the GL into a Trial Balance. Verify debits equal credits. Review for reasonableness. Roll forward across periods.

3. Step 1: Understand the Business

An accounting system must reflect how the business actually operates. Before touching any numbers, invest time understanding the business model, revenue streams, cost structure, and operational processes.

3.1 Research Methods

Online Research: Review the company website, CAC filings, industry reports, and competitor information. Understand the sector and its typical financial patterns before your first meeting.

Stakeholder Engagement: Meet the MD/CEO, operations lead, sales team, and procurement team. Each holds a piece of the financial puzzle that you need to understand.

Structured Interviews: Use prepared question banks organised by category (revenue, expenses, staff, assets, banking, tax). This ensures you cover all critical areas systematically.

Document SOPs: Record how transactions currently flow through the business. Who approves purchases? How are sales recorded? Where does cash go? These processes inform your system design.

3.2 Question Bank

Use this question bank as a starting point for your business understanding interviews. Adapt based on the industry:

Category	Key Questions	Why It Matters
Revenue	How do you earn money? What are your revenue streams? Do you invoice or receive cash at point of sale? Payment terms?	Determines revenue recognition approach and CoA design
Expenses	Who are your top 10 vendors? How do you pay (cash, transfer, cheque)? What are your biggest recurring costs?	Identifies major cost categories for the Chart of Accounts
Staffing	How many employees? Payroll frequency? Benefits and statutory deductions (PAYE, pension, NHF)?	Shapes payroll and staff cost schedules
Assets	What equipment, vehicles, and property do you own? When were they acquired? What did they cost?	Required for fixed asset register and depreciation schedules
Banking	How many bank accounts? Who has signing authority? Any overdraft or credit facilities?	Foundation for bank statement analysis (the primary data source)
Tax	What taxes apply (VAT, WHT, CIT, PAYE)? Are you VAT registered? Any outstanding filings?	Drives compliance requirements into the system design
Inventory	Do you hold stock? How is it managed? When was the last stock count? Who manages procurement?	Determines inventory valuation method and COGS calculation

4. Step 2: Data Sourcing

Once you understand the business, collect every piece of financial data you can find. The bank statement is your single most valuable source, but supporting documents provide context and completeness.

4.1 Priority Data Sources

Source	What to Collect	How It Feeds the System
Bank Statements	All accounts, full history available. Excel format preferred.	Primary data source. Every recorded transaction flows through here.
CAC Documents	Certificate of incorporation, shareholding structure, directors list.	Equity section of balance sheet. Company identity.
Employee Records	Staff list, offer letters, salary structure, PAYE records.	Staff cost schedule, payroll entries.
Sales Records	Invoices, delivery notes, POS records, customer lists.	Revenue schedule, receivables.
Purchase Records	Vendor invoices, POs, delivery receipts, vendor list.	Expense classification, payables.
Inventory Data	Stock counts, last purchase prices, goods-in/goods-out.	Inventory valuation, cost of goods sold.
Asset Information	Equipment, vehicles, furniture: dates, costs, condition.	Fixed asset register, depreciation.
Other Documents	Loan agreements, leases, insurance, tax filings.	Liability schedules, prepayments, compliance.

4.2 Bank Statement Analysis

The bank statement analysis is the cornerstone of building an accounting system from incomplete records. Here is the structured approach:

Step 1 - Download & Clean: Obtain bank statements in Excel format. Remove bank headers and footers. Standardise columns: Date, Description, Debit, Credit, Balance.

Step 2 - Classify Transactions: Add two new columns: Class (Asset, Liability, Equity, Revenue, Expense) and Sub-Class (e.g., Rent, Salaries, Sales - Corporate). These classifications become your bridge to the Chart of Accounts.

Step 3 - Use Patterns & AI: Identify recurring transactions and use Excel formulas (IF, SEARCH, VLOOKUP) to auto-classify similar descriptions. AI tools can accelerate this process.

Step 4 - Validate & Review: Cross-check totals against bank statement balances. Reconcile opening and closing balances. Flag any unclassified items for clarification with stakeholders.

Classification Example

Date	Description	Debit (N)	Credit (N)	Class	Sub-Class
03-Jan	Transfer from ABC Ltd		2,500,000	Revenue	Sales - Corporate

05-Jan	DSTV Subscription	25,000		Expense	Utilities
10-Jan	Staff Salary - Jan	1,200,000		Expense	Staff Costs
15-Jan	Loan Repayment - GTB	350,000		Liability	Loan Repayment
20-Jan	POS Sales Collection		450,000	Revenue	Sales - Retail

Key Insight: The Class and Sub-Class columns are the bridge between raw bank data and your Chart of Accounts. Get these right, and the General Ledger practically builds itself.

5. Step 3: Recreating Data on Excel

Beyond the bank statement analysis, you need to build several supporting schedules. Each schedule feeds directly into the General Ledger.

5.1 Key Schedules

Inventory Schedule: Conduct a physical stock count. Match counted items to the most recent purchase invoices for valuation. Apply weighted average cost or FIFO as appropriate for the business.

Fixed Asset Register: List every tangible asset: description, acquisition date, original cost, estimated useful life, depreciation method, and calculate accumulated depreciation and net book value.

Prepayment Schedule: Identify payments made in advance (rent, insurance, subscriptions). These are assets that are amortised (expensed) monthly as the benefit period passes.

Accrual Schedule: Record expenses that have been incurred but not yet paid. Common examples: audit fees, legal fees, utility bills in arrears.

Staff Cost Schedule: Build a comprehensive payroll schedule: gross salary, PAYE, pension contribution, NHF, other deductions, and net pay. Reconcile to bank statement salary payments.

Sales & Revenue Schedule: Reconstruct revenue from invoices, POS records, and bank credits. Separate by product line or service type to enable meaningful analysis.

Equity & Borrowing Schedule: Document shareholder capital contributions, retained earnings, loan balances, and repayment terms and schedules.

6. Step 4: Building the General Ledger

6.1 Designing the Chart of Accounts

The Chart of Accounts (CoA) is the backbone of your accounting system. It determines how every transaction is categorised and ultimately reported in financial statements.

Code Range	Category	Examples	Financial Statement
1000 - 1999	Assets	Cash, Bank, Trade Receivables, Inventory, PPE	Balance Sheet
2000 - 2999	Liabilities	Trade Payables, Accruals, Loans, Tax Liabilities	Balance Sheet
3000 - 3999	Equity	Share Capital, Retained Earnings, Reserves	Balance Sheet
4000 - 4999	Revenue	Product Sales, Service Revenue, Other Income	Income Statement
5000 - 5999	Cost of Sales	Raw Materials, Direct Labour, Production Overheads	Income Statement
6000 - 6999	Operating Expenses	Rent, Salaries, Utilities, Depreciation, Insurance	Income Statement
7000 - 7999	Finance Costs	Interest Expense, Bank Charges, FX Losses	Income Statement

Important: Design the CoA based on your understanding of the business (Step 1). A manufacturing company needs very different accounts from a service firm or a trading company.

6.2 General Ledger Template

The GL template should include these key attributes:

Attribute	Purpose	When to Use
Date	Transaction date for proper period allocation	Every entry
Account Code	Links to Chart of Accounts for classification	Every entry
Account Name	Human-readable description of the account	Every entry
Description	Details of the specific transaction	Every entry
Debit (DR)	Increases in assets/expenses; decreases in liabilities/equity/revenue	As required
Credit (CR)	Increases in liabilities/equity/revenue; decreases in assets/expenses	As required
Source Document	Reference to supporting document (invoice number, bank reference)	Best practice
Posted By	Who entered the transaction for accountability	Best practice

6.3 Two Sources of GL Entries

1. Cash Transactions (from Bank Statement Analysis): Bank credits post to revenue accounts. Bank debits post to expense, asset, or liability accounts. The Sub-Class column from your bank analysis maps directly to GL account codes.

2. Accrual Adjustments (Cash to Accrual conversion): These entries convert your cash-basis bank data into proper accrual accounting. They include depreciation, prepayment amortisation, expense accruals, payroll adjustments, and inventory adjustments.

7. Step 5: Creating the Trial Balance

The Trial Balance is the proof that your General Ledger is correctly constructed. It summarises all GL accounts and their balances.

7.1 Process

Step 1 - Pivot the GL: Use Excel Pivot Tables to summarise all GL entries by Account Code. Sum the Debit and Credit columns for each account.

Step 2 - Calculate Net Balances: Net balance = Total Debits minus Total Credits. Assets and Expenses should show debit (positive) balances. Liabilities, Equity, and Revenue should show credit (negative) balances.

Step 3 - Verify the Balance: Total Debits must equal Total Credits. If they do not balance, there is an error in the GL that must be traced and corrected before proceeding.

Step 4 - Review for Reasonableness: Do the balances make sense given what you know about the business? Are there unexpected negative balances? Are all material accounts represented?

8. Cash to Accrual Conversion

Bank statements provide cash-basis data. To produce proper financial statements, accrual adjustments are essential:

Adjustment	What It Does	Debit	Credit
Depreciation	Allocate asset cost over useful life monthly	Depreciation Expense	Accumulated Depreciation
Prepayment Release	Expense prepaid amounts as benefit period passes	Relevant Expense	Prepaid Expense (Asset)
Accrued Expenses	Record expenses incurred but not yet paid	Relevant Expense	Accrued Liabilities
Payroll	Accrue salary, pension, statutory deductions	Staff Costs	Salary / Pension Payable
Inventory	Adjust inventory to physical count; recognise COGS	Cost of Sales	Inventory (Asset)

9. Rolling the Trial Balance Across Periods

Monthly Roll-Forward

Opening Balance (Month N) + Transactions during Month N = Closing Balance (Month N) = Opening Balance (Month N+1)

Year-End Treatment

- Balance sheet accounts (assets, liabilities, equity) carry forward with their balances intact.
- Income statement accounts (revenue, expenses) are reset to zero at year-end.
- The net profit or loss for the year transfers to Retained Earnings in the equity section.
- This closing entry is what rolls the Trial Balance from one financial year into the next.

Dealing with Retained Earnings

When building a system from scratch, the opening retained earnings balance represents all historical profits and losses since the business started. It is effectively the balancing figure that makes your opening balance sheet balance. Document your assumptions clearly and note that this figure is estimated based on available information.

10. Essential Excel Functions

Function	Use in This Course
SUMIF / SUMIFS	Summarise transactions by account code, class, sub-class, or period
VLOOKUP / XLOOKUP	Match account codes to names; pull data across schedules and sheets
Pivot Tables	Create trial balance from GL; analyse data by any dimension instantly
IF / IFS	Classify transactions based on conditions; apply conditional logic
SEARCH / FIND	Auto-classify bank statement descriptions by matching keywords
TEXT / DATE functions	Extract month, year from transaction dates for period-based analysis
Data Validation	Create dropdown lists for account codes to prevent data entry errors
Conditional Formatting	Highlight errors, unclassified items, imbalances, and exceptions

11. Case Study Preview: EJ Perfumery

The Scenario

EJ Perfumery is a small fragrance business that has been operating for over two years without any formal accounting system. Transactions have been recorded only through bank statements and the business owner's memory. You have been engaged to build a complete accounting system from scratch.

What You Will Build

- Analyse EJ Perfumery's bank statements and classify every transaction
- Create an inventory schedule from physical count data
- Build a comprehensive fixed asset register
- Design a Chart of Accounts tailored specifically to EJ Perfumery's operations
- Construct the complete General Ledger with both cash and accrual entries
- Produce a Trial Balance and roll it forward across multiple periods

The case study will be covered in detail during Days 3 through 6 of the training programme.

12. Glossary of Key Terms

Term	Definition
Chart of Accounts (CoA)	A structured list of all accounts used by a business to classify and record financial transactions.
General Ledger (GL)	The master record of all financial transactions, organised by account. The GL is the source for the trial balance and financial statements.
Trial Balance (TB)	A summary of all GL account balances. Used to verify that total debits equal total credits before preparing financial statements.
Double Entry	The accounting principle that every transaction must have equal debit and credit entries, ensuring the accounting equation balances.
Accrual Accounting	Recording revenue when earned and expenses when incurred, regardless of when cash is received or paid.
Cash Basis	Recording transactions only when cash is received or paid. Simpler but less accurate than accrual accounting.
Depreciation	The systematic allocation of the cost of a tangible asset over its estimated useful life.
Prepayment	An amount paid in advance for goods or services not yet received. Treated as an asset and expensed over time.
Accrual	An expense incurred but not yet paid, or revenue earned but not yet received. Recorded as a liability or asset.
Retained Earnings	Cumulative net profits (or losses) of a business that have not been distributed to shareholders.
Incomplete Records	A situation where a business has not maintained proper double-entry bookkeeping records.
NBV	Net Book Value. The cost of an asset less its accumulated depreciation. Represents the remaining value on the balance sheet.
COGS	Cost of Goods Sold. The direct costs attributable to producing the goods sold by a business.

End of Course Reference Handout

Accounting Yard | Share. Learn. Help.