# RECORDING TRANSACTIONS

A transaction is an economic event involving exchange of goods and services for a consideration. Once a transaction takes place it must be recorded in accounting books. This is what is known as book keeping. Book keeping is the recording- making phase in accounting. It has been seen in the previous session that each transaction affects two items. To show the full effect of each transaction, accounting must therefore show its effect on each of the two items be they assets, capital or liabilities. From this need a rose the double entry system where to show this twofold effect each transaction is entered twice, one to show the effect upon one item, and a second entry to show the effect upon the other item.

It may be thought drawing up a new balance sheet after each transaction would provide all information required, however a balance sheet (i.e. statement of financial position) does not give enough information about the business. It does not ,for instance , tell who the debtors are and how much each one of them owes the firm ,nor who the creditors are and the details of the money owing to each of them. Also, the task of drawing up a new balance sheet after each transaction becomes an impossibility when there are many hundreds of transactions each day, as this would mean drawing up hundreds of balance sheets daily. Because of the work involved, balance sheets are in fact only drawn up periodically, at least annually, but sometimes semi-annually, quarterly, or monthly.

The double -entry system comes in handy to accommodate all transactions that take place in a business. The double entry system has an account (meaning details of transactions in that item) for every asset every liability and for capital. Thus there will be a shop premises account (for transaction in shop premises) a motor van account (for transactions in motor vans )and so on for every asset, liability and for capital. Each account should be shown on a separate page. The double entry system divides each page into two halves. The left hand side of each page is called the **debit side** while the right hand side is called the **credit side**. The title of each account is written a cross the top of the account at the Centre.

This is a page of an accounts book

| Title of the account written here | |
|---|---|
| Left hand side of the page | Right hand side of the page |
| This is the “debit” side | This is the “credit” side |

If one has to make an entry of sh. 100 on the debit side of the account, the instruction could say “debit the account with sh. 100” or “ the account needs debiting with sh 100”

In session 1, transactions were shown to be increasing or decreasing assets , liabilities or capital

Double entry rules for accounts are;

| **Accounts** | **To record** | **Entry in the account** |
|---|---|---|
| Assets | an increase | Debit |
| | a decrease | credit |
| Liabilities | an increase | credit |
| | a decrease | debit |
| Capital | an increase | credit |
| | A decrease | debit |

Once again look at the accounting equation.

| | | | | | |
|---|---|---|---|---|---|
| | Asset | = | Liabilities | and | Capital |
| To increase each item | Debit | = | credit | | Credit |
| To decrease each item | Credit | = | Debit | | Debit |

The double entry rules for liabilities and capitals are the same, but they are exactly the opposite as those for assets. This is because assets are on the opposite side of the equation and therefore follow opposite rules.

Looking at the accounts the rule will appear as:

Any asset account

| **Any asset account** | | **Any liability account** | | **capital account** | |
|---|---|---|---|---|---|
| Increase | Decrease | Decrease | Increase | Decrease | Increase |
| + | - | - | + | - | + |

There is no enough space in this book to put each account on a separate page, so we will have to list the accounts under each other in T form. In a real firm at least one full page is taken for each account.

EXAMPLE

The entry of a few transactions can now be tried:

1. The proprietor starts the business with sh. 1,000,000 in cash on 1 August 2020.

| Effect | Action |
|---|---|
| (a) Increase the asset of cash in the business | Debit the cash account |
| (b) Increase the capital | credit the capital account |

These are entered:

Cash

| | | | | | |
|---|---|---|---|---|---|
| 2020 | | sh | | | |
| August 1 | capital | 1,000,000 | | | |

Capital

| | | | | | |
|---|---|---|---|---|---|
| | | | 2020 | | sh |
| | | | August 1 | cash | 1,000,000 |

(2)A motor Van bought for sh. 275,000 in cash on 2 August 2020

| Effect | Action |
| --- | --- |
| (a)Decrease the asset of cash | Credit the cash account |
| (b)Increase the asset of motor van | Debit the motor van account |

Cash

| | | | 2020 | | sh |
| --- | --- | --- | --- | --- | --- |
| | | | August 2 | motor van | 275,000 |

Motor van

| 2020 | | sh | | | |
| --- | --- | --- | --- | --- | --- |
| August 2 | cash | 275,000 | | | |

(3) Fixtures bought on credit from Mombasa shop Fitters ltd for Sh, 115,000 on 3 August 2020

| Effect | Action |
| --- | --- |
| (a)Increase in the asset of fixtures | Debit fixtures account |
| (b) Increase in the liability of business to Mombasa shop fitters Ltd | Credit Mombasa shop fitters |

Fixtures

| 2020 | sh | | |
|---|---|---|---|
| August 3 Mombasa shop fitters | 115,000 | | |

Mombasa shop fitters

| 2020 | sh | 2020 | sh |
|---|---|---|---|
| | | August 3 Fixtures | 115,000 |

(4) Paid the amount owing in cash Shop Fitters on 17 August 2020

| Effect | Action |
|---|---|
| (a) Decrease in the asset of cash | Credit the cash account |
| (b) Decrease in the liability of business To Mombasa Fitter | Debit Mombasa shop Fitters account. |

Cash

| | | 2020 | sh |
|---|---|---|---|
| | | August 17 Mombasa shop Fitters | 115,000 |

Mombasa Shop Fitters Ltd

| | | | |
|---|---|---|---|
| 2020 | | sh | |
| August | cash | 115,000 | |

Transactions to date

Taking the transactions numbered 1-4 above, the records should appear as follows:

Cash

| | | | | | |
|---|---|---|---|---|---|
| 2020 | | sh | 2020 | | sh |
| August 1 | Capital | 1,000,000 | August 2 | Motor van | 275,000 |
| | | | 17 | Mombasa shop Fitters Ltd | 115,000 |

Motor van

| | | | |
|---|---|---|---|
| 2020 | | sh | |
| August 2 | cash | 275,000 | |

Mombasa Shopfitters ltd

| 2020 | | sh | 2020 | | sh |
|---|---|---|---|---|---|
| August 17 | Cash | 115,000 | August 3 | Fixtures | 115,000 |

Fixtures

| 2020 | | sh | | | |
|---|---|---|---|---|---|
| August 3 | Mombasa shop fitters | 115, 000 | | | |

Capital

| | | | 2020 | | sh |
|---|---|---|---|---|---|
| | | | August 1 | cash | 1,000,000 |

## THE ASSET OF INVENTORY (STOCK)

Goods are sometimes sold at the same price at which they are bought, but this is not usually the case. Normally they are sold above the cost price, the difference being **profit ;** sometimes however they are sold at less than the cost price, the difference being a **loss.**

If all sales were to be sold at cost price, it would be possible to have an inventory (stock) account, the goods being sold shown as a decrease of an asset , i.e on the credit side. The purchase of inventory could be shown on the debit side as it would be an increase in an asset. The difference between the two sides would then represent the cost of goods unsold at that date, if wastage and loss of stock are ignored. However, most sales are not at cost price, and therefore```` the sales figures (price) include elements of profit or loss. Because of this, the difference between the two sides would not represent the stock of goods .Such a stock account would therefore serve no useful purpose.

The inventory (stock) Account is accordingly divided into several accounts each one showing a movement of stock (inventory). These can said to be:

1. Increase in inventory (stock). This can be due to one of two causes.
   (a) By the purchase of additional goods.
   (b) By the return into the firm of goods previously sold. The reasons for this are numerous. The goods may have been of the wrong type,they may have been surplus to customer's requirement ,they may have been fault y (damaged ) and so on.

To distinguish the two aspects of the increase of stock of goods two accounts are opened. These are:

   i. **Purchases Account** – in which purchase of goods are entered
   ii. **Returns Inwards Account** – in which goods being returned into the firm are entered. The alternative name of this account is the **Sales Return Account**

2. Decrease in the stock of goods. This can be due to one of the two causes if wastages or losses of the stock are ignored.
   (a) By the sales of goods
   (b) Goods previously bought by the firm now being returned out of the firm to the supplier.

To distinguish the two aspects of the decrease of stock of goods two accounts are opened.

These are:

i. **Sales Account** – in which sales of goods are entered

ii. **Return Outwards Account** –in which goods being returned out to supplier are entered. The alternative name for this is the **Purchases Returns Account**

Example

**Purchase of inventory (stock) on credit**

2020

August 1. Goods costing sh 165,000 were bought on credit from Halima.

First, the twofold effect of the transactions must be considered in order that the book keeping entry can be worked out.

1 The asset of stock ( inventory) is increased. An increase in an asset needs a debit entry in an account. Here the account concerned is an inventory (stock) account showing the particular movement of stock (inventory), in this case is the "purchases" movement so that the account concerned must be the purchase account.

2 An increase in a liability. This is the liability of the firm to Halima in respect of goods bought which have not yet been paid for. An increase in liability needs a credit entry, so that to enter this aspect of the transaction a credit entry is made in Halima's account.

Purchases

| | | | |
|---|---|---|---|
| 2020 | sh | | |
| August 1 Halima | 165,000 | | |
| 2 Cash | 22,000 | | |

Halima

| 2020 | | sh | 2020 | | sh |
|---|---|---|---|---|---|
| August 6 | Return Outwards | 9,600 | August 1 | Purchases | 165,000 |

**Purchase stock for Cash**

2020

August 2 Goods coasting sh. 22,000 were bought, Cash being paid for them immediately.

1 The asset of inventory is increased, so that a debit entry will be needed. The movement of stock (inventory) is that of purchase, so that it's the purchases account which needs debiting.

2 The asset of cash is decreased. To reduce an asset a credit entry is called for, and the asset is that of cash so that the cash account needs crediting.

Cash

| 2020 | | sh | 2020 | | sh |
|---|---|---|---|---|---|
| August 4 | sales | 55,000 | August 2 | Purchases | 22,000 |

**Sales Of Stock (Inventory ) For Credit**

2020

August 3 Sold goods on credit for sh. 250,000 to J. Lewa.

1. The asset of inventory of stock (inventory) is decreased. For this credit entry to reduce an asset is needed. The movement of stock (inventory) is that of a "sale" so the account credited is the sales account.

2. An asset account is increased. This is the account showing that J. Lewa is a debtor (an account receivable) for the goods sold on credit. The increase in the asset of debtors requires a debit and the debtor is J. Lewa, so that the account concerned is that of J. Lewa.

sales

| | | | | | |
|---|---|---|---|---|---|
| | | | 2020 | | sh |
| | | | August 3 | J.Lewa | 250,000 |
| | | | August 4 | Cash | 55,000 |

J.Lewa

| | | | | | |
|---|---|---|---|---|---|
| 2020 | | sh | 2020 | | sh |
| August 3 | sales | 250,000 | August 5 | Return in wards | 29,000 |

**Sales Of Stock (Inventory) For Cash**

2020

4th August 2020 goods were sold for sh. 55,000, cash being received immediately upon sale.

1. The asset of cash is increased. This needs a debit in the cash account to show this.
2. The asset of stock (inventory) is reduced. The reduction of an asset require a credit and the movement of stock is represented by “sale”. Thus the entry needed is a credit in the sales account.

**Return Inwards**

5 August 2020. Goods which have been previously sold to J.Lewa for sh. 29,000 are now being returned by him

1. The asset of stock (inventory)is increased by the goods returned. Thus a debit representing an increase of an asset is needed and this time the movement of stock (inventory)is that of return inwards. The entry therefore requires a debit in the return inwards account.
2. A decrease in an asset. The debt of J.Lewa to the firm is now reduced, and to record this, credit is needed in J.Lewa account.

Return inward account

| | | | |
|---|---|---|---|
| 2020 | sh | | |
| August J. Lewa | 29,000 | | |

An alternative name for the return inwards account would be sales return account.

**Return Outwards**

2020

6 August . Goods previously bought for sh. 9,600 are returned by the firm to Halima.

1. The asset of inventory (stock) is decreased by the goods sent out thus a credit representing a reduction in an asset is needed and the movement of inventory is that of Return outwards so that the entry will be a credit in the return outwards account
2. The liability of the firm to Halima is decreased by the value of goods returned to her. The decrease in a liability needs a debit this time in Halima's account

Return outwards account

| | | | | |
|---|---|---|---|---|
| | 2020 | | sh |
| | August 6 | Halima | 9,600 |

An alternative name for return outwards account would be a Purchases Returns account.

QUIZZ

The following transactions took place in the business of sole trader Joe Opiyo in the month of May 2020

1 Bought goods on credit for sh. 680,000 from Salim.

3 Bought goods on credit for for sh. 770,000 from Allan & son
5 Sold goods on credit to Daudi for sh. 600,000
6 Sold goods on credit to Said for sh. 450,000

10 Returned goods worth sh. 150,000 to Salim

12 Goods bought for cash sh. 1,000,000

19 Said returned goods worth sh. 160,000 to Joe Opiyo

21 Goods sold for cash sh. 1,500,000

22 Paid cash to Salim sh. 530,000

30 Daudi paid the amount owing by him

31 Bought goods on credit sh. 640,000 from Allan &son.

Required

Enter the above transactions in the appropriate accounts.

NOTE: special meaning of "sales" and "purchases," It must be emphasized that "sales" and "purchases," have a special meaning in accounting when compared to ordinary language usage.

**Purchases** in accounting means the purchase of those goods which the firm buys with the prime intention of selling. Sometimes such goods may be altered, added to, or used as raw materials for the manufacture of something else, but it's the element of resale that is important. To a firm that deals with motor vehicles for instance, motor vehicles constitute purchases. If something else is bought, such as equipment, such item cannot be called purchases, even though in ordinary language it may be said that equipment has been purchased. The prime intention of purchasing equipment is for usage in the firm but not for resale

Similarly, "sales" means the sales of those goods in which the firm normally deals and were bought with the prime intention of resale. The word 'sales' must never be given to the disposal of other items.

Failure to keep to these meanings would result in different forms of inventory account containing something other than goods sold or for resale.

**THE DOUBLE – ENTRY SYSTEM FOR EXPENSES AND REVENUES .THE EFFECT OF PROFIT OR LOSS ON CAPITAL.**

Up to now we have been concerned with the accounting need to record changes in assets and liabilities. There is however, one item that we have not recorded. This is the changes in the capital. What may cause, capital of a business to change?

a) Capital may increase in two ways
   1. If a business operates at a profit capital increases.
   2.If the owner(s) of a business inject additional money into the business.

b) Capital may decrease in two ways
   1. If business operates at a loss capital decreases
   2.If the owner (s) of a business withdraw the resources of the firm for their own use.

Through its normal operations of trading a business may make a profit or incur a loss. By profit is meant the excess of revenue (income) over expenses for a particular period.

**Revenues** consist of the monetary value of goods and services that have been delivered to customers.

**Expenses** consist of the monetary value of the asset used up (i.e resources used up) in obtaining these revenues.

To alter the capital account it will therefore have to be possible to calculate profits and losses. They are, however, calculated only at intervals usually annually but sometimes more often. This means that accounts will be needed to collect together the expenses and revenues pending the periodical calculation of profit. All the expenses would be charged to an omnibus (general) **Expenses account**, but obviously its far more informative if full details of different expenses are shown separately in profit and loss calculations. The same applies to revenues. Therefore, a separate account is opened for every type of expense and revenue. For instance, there may be accounts as follows: Rent account, Wages account, Salaries account, Telephone account, Postages account, Stationary account, Insurance account,Motor expenses account , General expenses account, Rent receivable account , Commission revenue account.

**Debit or Credit**

It must now be decided as to which side of the records revenue and expenses are to be recorded. Assets involve the expenditure by the firm and are shown as debit entries. Expenses too involve expenditure by the firm and they are therefore also recorded on the debit sides of the books. In fact assets may be seem to be expenditure of money for which something still remains, e.g motor van ,furniture, equipment etc. While expenses involve expenditure of money which has been used up in the running of the business and for which there is no benefit remaining at the date of balance sheet.

Revenue is the opposite of expenses and therefore appear on the opposite side to expenses, that is revenue accounts appear on the credit side of the books. Revenue also increase profits, which in turn increases capital. Pending the periodical calculation of profit therefore, revenue is collected together in appropriately named accounts, and until is transferred to the profit calculations it will therefore need to be shown as a credit.

EXAMPLE

A few illustrations will demonstrate the double entry required.

1. The rent of sh.200,000 is paid in cash

**Two fold effect**

(a) The asset of cash is decreased. This means crediting of cash account to show the decrease of the asset
(b) The total of the expenses of rent is increased. As expense entries are shown as debits, and the expense is rent, so the action required is the debiting of the rent account.

**Summary:** Credit the cash account with sh. 200,000

Debit the rent account with sh. 200,000

2. Motor expenses are paid by cheque sh. 55,000

**Two fold effect**

(a) The asset of the money in the bank is decreased. This means crediting the bank account to show the decrease of asset.
(b) The total of the motor expenses paid is increased. To increase expenses account needs a debit, so the action required is to debit the motor expenses account.

**Summary:** Credit the bank account with sh. 55,000

Debit the motor expenses account with 55,000.

3. Sh 60,000 is received for commission earned by the firm.

Two fold effect.

(a) The asset cash is decreased. This needs a debit in the cash account to increase the asset.
(b) The revenue of commissions received is increased. Revenue is shown by a credit entry, therefore to increase the revenue account i.e commissions accounts is credited .

**Summary:** Debit the cash account

Credit the commissions received accounts

Rent

| | | | |
|---|---|---|---|
| | sh | | |
| cash | 200,000 | | |

Cash

| | | | |
|---|---|---|---|
| | | | Sh |
| | | Rent | 200,000 |

Motor expenses account

| | | |
|---|---|---|
| | sh | |
| Bank | 55,000 | |

Bank

| | | |
|---|---|---|
| | | Sh |
| | Motor expenses | 55,000 |

Cash

| | | |
|---|---|---|
| | Sh | |
| Commissions received | 60,000 | |

Commission received

| | | |
|---|---|---|
| | | Sh |
| | Cash | 60,000 |

The Owner(s) introduce fresh capital into the business.

The owner brings in cash sh. 500,000 for business uses

**Two fold effect**

(a) The asset of cash increases. Therefore cash is debited with sh. 500,000
(b) Capital increases. Therefore capital account is credited with sh. 500,000

| Cash | | | |
|---|---|---|---|
| | sh | | |
| capital | 500,000 | | |

| Capital | | | |
|---|---|---|---|
| | | | Sh |
| | | cash | 500,000 |

From time to time the proprietor will want to take cash out of the business for his private use/ personal use. He/She may sometimes take goods. Whether the withdraws are cash or goods or any other asset they are known as **Drawings.** Drawings decrease the claim of the owner against the resources of the business. In other words they reduce the amount of capital.

Example

2020

August 25 The owner takes sh. 50,000 cash out of the business for his own use.

| Effect | Action |
|---|---|
| 1. Capital is decreased by sh. 50,000 | Debit the drawings account with sh. 50,000 |
| 2. Cash is decreased by sh. 50,000 | Credit cash account sh. 50,000 |

August 30 owner takes goods worth sh. 20,000 for personal use

| Effect | Action |
|---|---|
| 1. Capital is reduced by sh. 20,000 | Debit drawings account with sh. 20,000 |
| 2. Purchase is reduced by sh. 20,000 | Credit purchase account with sh. 20,000 |

Drawings account

| 2020 | sh | |
|---|---|---|
| Aug 25 cash | 50,000 | |
| 30 purchase | 20,000 | |

Cash

| | 2020 sh |
|---|---|
| | August 25 Drawings 50,000 |

Purchase account

| | 2020 sh |
|---|---|
| | August 25 Drawings 20,000 |

**BALANCING OFF ACCOUNTS**

We have learned how to record transactions in the book by means of debit and credit entries. Every so often we will have to look at each account to see what is revealed by the entries .This is largely to find out how much our customers owe us in respect of goods we have sold to them .Equally we try to find out how much we owe our suppliers in respect of goods sold to us .

Example

Let us look at the account of our customer K.Tallam, in respect of transactions in August 2020

K.Tallam

| 2020 | | sh | 2020 | sh |
|---|---|---|---|---|
| August 1 | sales | 144,000 | August 22 Bank | 144,000 |
| August 19 | sales | 300,000 | August 28 Bank | 300,000 |

This shows that during the month we sold a total of sh. 444,000 goods to K.Tallam and we have been paid a total of sh. 444,000by him. At the close of business at the end of August he therefore owes us nothing. His account can accordingly be closed off on 31st August 2020 by simply inserting the totals on each side as follows:

K.Tallam

| 2020 | | sh | 2020 | sh |
|---|---|---|---|---|
| August 1 | sales | 144,000 | August 22 Bank | 144,000 |
| August19 | sales | 300,000 | August 28 Bank | 300,000 |
| | | 444,000 | | 444,000 |

A considerable number of customers will still owe business something at the end of the month. In these cases the totals of each side would not equal one another. Let us look at the account of D Kamau for August 2020:

D Kamau

| 2020 | | sh. | 2020 | | sh. |
|---|---|---|---|---|---|
| August 1 | sales | 158,000 | August 28 | Bank | 158,000 |
| August 15 | sales | 206,000 | | | |
| August 30 | sales | 118,000 | | | |

If we add up the figures, we see that the debit side adds up to sh. 482,000and the credit side adds up to sh. 158,000 The difference is sh. 324,000 (i.e sh. 482,000-sh 158,000).This difference consists of sales of sh. 206,000 and sh. 118,000 not paid for and therefore owing to the business on 31st August 2020.

In double entry we only enter figures as totals if the totals on both sides of the account agree. However, there is a need to close off the accounts for August, but show that Kamau owes sh. 324,000 to the firm. It follows that if he owes sh. 324,000 at the close of business on 31 August 2020then he still owes the firm that same figure when the business first opens on 1 September 2020.

To show that the amount owing at the start of the new period 1 September 2020, the figure of sh. 324,000 is entered on the credit side of the account so that now both sides of the account adds up to sh. 482,000. The totals of sh. 482,000 can now be entered on both sides of the account. As sh. 324,000 has been entered on the credit side, double entry demands an entry of 324,000 on the debit side. This is shown as the first item under the total of the debit side and dated as 1 September 2020.

The difference of sh. 324,000 between the two original totals is known as in accounting as a **balance**. The closing balance on 31 August 2020 is described as **balance carried down** or **balance carried forward** and the opening balance on 1 September 2020 is described as **balance brought down** or **balance brought forward.**

Kamau's account when" balanced off" appears as follows:

D Kamau

| | | | | | |
|---|---|---|---|---|---|
| 2020 | | sh | 2020 | | sh |
| August 1 | sales | 158,000 | August 28 | Bank | 158,000 |
| August 15 | sales | 206,000 | August 31 | balance carried down | 324,000 |
| August 30 | sales | 118,000 | | | 482,000 |
| | | 482,000 | | | |
| September 1 | balance b/d | 324,000 | | | |

**Summary:**

There are 3 stages for balancing off an account once the difference in totals of both the credits debit has been determined.

Stage 1: Enter the balance or the difference of the two totals on the side that is short or less, so that totals equal.

Stage 2: Enter totals of the two sides of the accounts: The totals should level with each other.

Stage 3: Finally enter balance to start off entries for the following period

Example 2

Let us look at other account prior to balancing:

Hamadi

| 2020 | | sh | 2020 | sh |
|---|---|---|---|---|
| August 5 | sales | 300,000 | August 24 Return inwards | 50,000 |
| August28 | sales | 540,000 | August 29 Bank | 250,000 |

This time, and we will always do this in future, for it will save us unnecessary writing, we will abbreviate "carried down" to "c/d" and "brought down" to "to "b/d"

Hamadi

| 2020 | | sh | 2020 | sh |
|---|---|---|---|---|
| August 5 | sales | 300,000 | August 24 Return inwards | 50,000 |
| August28 | sales | 540,000 | August 29 Bank | 250,000 |
| | | | August 31 balance c/d | 540,000 |
| | | 840,000 | | 840,000 |
| September 1 balance b/d | | 540,000 | | |

Notes:

1. The date given to balance c/d is the last day of the period which is ending, and balance b/d is given the opening date of the next period.
2. As the total of the debt side exceed the total of the credit side the balance is said to be a debit balance. This being a personal account (for a person), the person concerned is said to be a debtor- the accounting term for anyone who owes money to the firm. The use of the term debtor for a person whose account has a debit balance is evident.
   If accounts contain only one entry it is unnecessary to enter the total. A double line ruled under the entry will mean that the entry is entry is its own total.

   EXAMPLE

Wambua

| | | | | | |
|---|---|---|---|---|---|
| 2020 | | sh | | | |
| August 18 | sales | 51,000 | | | |

To balance off Wambua 's account

Wambua

| | | | | | |
|---|---|---|---|---|---|
| 2020 | | sh | 2020 | | sh |
| August 18 | sales | 51,000 | August 31 | balance c/d | 51,000 |
| Sept 1 | balance b/d | 51,000 | | | |

If an account contains only one entry on each side which are equal to one another, totals are again unnecessary. For example

Otieno

| | | | | | |
|---|---|---|---|---|---|
| 2020 | | sh | 2020 | | sh |
| August 6 | sales | 214,000 | August 12 | Bank | 214,000 |

**Credit balances**

Accounts for suppliers or trade creditors quite often when they are balanced off periodically they indicate credit balances .This means that a firm owes the creditors money at the end of the period .Exactly the same principles will apply when the balances are carried down to the credit side. We can look at the two accounts for our suppliers which are to be balanced off.

Musa

| | | | | | |
|---|---|---|---|---|---|
| 2020 | | sh | 2020 | | sh |
| August 21 | Bank | 100,000 | August 2 | Purchases | 248,000 |
| | | | August 18 | Purchases | 116,000 |

Katana

| | | | | | |
|---|---|---|---|---|---|
| 2020 | | sh | 2020 | | sh |
| August 14 | return outwards | 20,000 | August | Purchases | 620,000 |
| August28 | Bank | <u>600,000</u> | August 15 | Purchases | 200,000 |

When these accounts are balanced off they appear as:

Musa

| 2020 | | sh | 2020 | sh |
|---|---|---|---|---|
| August 21 | Bank | 100,000 | August 2 Purchases | 248,000 |
| August31 | balance c/d | 264,000 | August 18 Purchases | 116,000 |
| | | **364,000** | | **364,000** |
| | | | Sept 1 Balance b/d | 264,000 |

Katana

| 2020 | | sh | 2020 | sh |
|---|---|---|---|---|
| August 14 | Return outwards | 20,000 | August 8 Purchases | 620,000 |
| August28 | Bank | 600,000 | August 15 Purchases | 200,000 |
| August 31 | balance b/d | 200,000 | | |
| | | **820,000** | | **820,000** |
| | | | Sept 1 balance b/d | 200,000 |

**THE TRIAL BALANCE**

It should be noted under double entry book keeping:

- For each debit entry there is a corresponding credit entry
- For each credit entry there is a corresponding debit entry

All the items recorded in all the accounts on the debit side should equal in total all the items recorded on the credit side of the books. To check if the two totals are equal, or in accounting terminology to check if the two sides of the books" balance "a trial balance may be drawn up periodically.

A trial balance is a list or schedule of all the accounts in the ledger, whereby, all the accounts bearing debit balances are listed under the debit column , and all the accounts bearing credit balances are listed under the credit column .The total debit entries should equal total credit entries.

Note that a trial balance can be drawn up or extracted at any time. However, it is normal practice to prepare or extract one at the end of an accounting period before preparing the financial statements i.e. statement of profit or loss and a statement of financial position.

EXAMPLE

Let us use the information of the quiz above. In this case,we post or enter or record all transactions in the respective ledger accounts using the double entry system and then balance off all the accounts and then extract a trial balance.

Purchases

| 2020 | | sh | 2020 | | | sh |
|---|---|---|---|---|---|---|
| May 1 | Salim | 680,000 | May 31 | Balance | c/d | 3,090,000 |
| 2 | Allan & son | 770,000 | | | | |
| 12 | Cash | 1,000,000 | | | | |
| 31 | Allan & son | 640,000 | | | | |
| | | | | | | 3,090,000 |
| 3,090,000 | | | | | | |
| June 1 | Balance b/d | 3,090,000 | | | | |

Sales

| 2020 | sh. | 2020 | sh |
|---|---|---|---|
| May 31 Balance c/d | 2,550,000 | May 5 Daudi | 600,000 |
| | | 6 Said | 450,000 |
| | | 21 cash | 1,500,000 |
| | 2,550,000 | | 2,550,000 |
| | | June | |
| | | 1 Balance b/d | 2,550,000 |

Return outwards

| 2020 | sh | 2020 | sh |
|---|---|---|---|
| May 1 balance c/d | 150,000 | May 10 Salim | 150,000 |
| | | June 1 Balance b/d | 150,000 |

Returns inwards

| 2020 | sh | 2020 | sh |
|---|---|---|---|
| May 19 said | 160,000 | May 31 Balance c/d | 160,000 |
| June 1 Balance b/d | 160,000 | | |

Salim

| 2020 | | sh | 2020 | | sh |
|---|---|---|---|---|---|
| May 10 | Return outwards | 150,000 | May 1 | purchases | 680,000 |
| 22 | cash | 530,000 | | | |
| | | 680,000 | | | 680,000 |

Allan &son

| 2020 | | sh | 2020 | | sh |
|---|---|---|---|---|---|
| May 31 | Balance c/d | 1,410,000 | May 2 | Purchases | 770,000 |
| | | | 31 | Purchases | 640,000 |
| | | 1,410,000 | | | 1,410,000 |
| | | | June 1 | Balance b/d | 1,410,000 |

Daudi

| 2020 | | sh | 2020 | | sh |
|---|---|---|---|---|---|
| May 5 | sales | 600,000 | May 30 | Cash | 600,000 |

Said

| 2020 | sh | 2020 | sh |
|---|---|---|---|
| May 6 sales | 450,000 | May 19 Return inwards | 160,000 |
| | | 31 Balance c/d | 290,000 |
| | 450,000 | | 450,000 |
| June 1 balance b/d | 290,000 | | |

Cash

| 2020 | sh | 2020 | sh |
|---|---|---|---|
| May 21 Sales | 1,500,000 | May 12 Purchase | 1,000,000 |
| 30,Daudi | 600,000 | 22 Salim | 530,000 |
| | | 31 Balance c/d | 570,000 |
| | 2,100,000 | | 2,100,000 |
| June 1 Balance b/d | 570,000 | | |

Joe Opiyo

Trial balance as at 31st May 2020

| | Dr | Cr |
|---|---|---|
| | Sh000 | Sh000 |
| Purchases | 3,090 | |
| Sales | | 2550 |
| | | 150 |
| Return outwards | | |
| Return inwards | 160 | |
| Allan &son | | 1,410 |
| Said | 290 | |
| Cash | 570 | |
| | 4,110 | 4,110 |

**Summary**

1. Post or enter all the transactions in the ledger accounts using double entry system.
2. Balance off accounts
3. Prepare (extact) a trial balance by listing all accounts with debit balances in the column of debits and all accounts with credit balances in the column of credits.

**Review questions**

Q1.**Enter the following transactions in the accounts**

2016 May

1 Started in business with sh. 1,800,000 in the bank

2 Bought goods on credit from B.Hind sh. 145,500

3 Bought goods on credit from G .Smart sh.47,200

5 Sold goods for cash sh. 2,1000

6 We returned good to B.Hind sh. 37,000

8 Bougt goods on credit from G,Smart sh. 37,700

10 Sold goods on credit to P. Syme sh. 48,300

12 Sold goods for cash sh. 30,500

18 Took sh. 25,000 of the cash and paid it to the bank.

21 Bought a printer by a cheque sh. 62,000

22 Sold goods on credit to H.Buchan sh. 39,400

23 P.Syme returned goods to us sh. 16,000

25 h.Buchan returned goods to us sh. 1,800

28 We returned goods to G.Smart sh. 4,700

29 We paid Hind by cheque sh. 137,300

31Bought machinery on credit from A.Cobb sh.41,900

Q2 .**Write up the following transaction in T account of Fernandes**

1 Started in business with sh. 1,100,000 in the Bank and sh. 160,000 in cash

2 Bought goods on credit J.Biggs sh.83,000; .Martin sh.61.000; P.Lot sh 59,000

3 Bought goods for cash sh. 37,000

4 Paid rent in cash sh. 7,500

5 Bought stationery paying by cheque sh 6,200

6 Sold goods on credit D.Twigg sh. 37,000;B.Hogan sh. 29,000; K.Flecher sh. 41,000

7 Paid wages in cash 16,000

10 We returned goods to D.Martin sh. 19,500

11 Paid rent in cash sh. 7,500

13 B. Hogan returned goods to us sh. 3,500

15 Sold goods on credit to T.Lee sh. 20,500 F.Sharp sh. 28,000 G.rae sh. 42,600

16 Paid business rates by cheque sh. 97,000

18 Paid insurance in cash sh. 28,000

19 Paid rent by cheque sh. 7,500

20 Bought van on credit from B,Black sh. 61,000

21 Paid motor expenses in cash sh. 2,400

23 Paid wages in cash sh. 1,700

24 Received part of the amount owing from K.Fletvher by cheque sh. 25,000.

28 Received refund of business rates sh. 4,500 by a cheque.

28 Paid by acheque J.Bggs sh. 83,000 ;D.Martin sh. 41,500; B.Black 61,000

Q3. **Enter the following transactions in personal accounts only. Bring down the balances at the end of the month. After completing this sate which of the balances represent debtors and which represent creditors.**

2017.

May 1 Credit sales F. Black sh 62,000; G.Smith sh 8,400; L.sime sh 120,000 J.Teel sh 60,800

2 Credit purchases from P.Best sh 19,000; I. Donovan sh 6,300; G.Lime sh 21,000; T,Still sh 36,000

8 Credit sales to G.Smith sh. 32,200;L.Sime sh. 44,800

9 Credit purchase from I. Donovan sh. 21,500;T.Still sh 16,400

10 Goods returned to us by L.Sime sh 6,200; J.Teel sh 16,400

12 Cash paid to us by J.Tell sh. 45,400

15 We returned goods to P.Best sh 2,500; T,Still sh2,100

19 We received cheque from L.Sime sh. 18,000;F.Black 62,000

21 We sold goods on credit to F. Black sh. 18,000;G,Smith sh. 86,000

28 We paid by cheque the following ;P.Best sh. 16,500 T.Still sh. 10,000 G.Lime sh. 18,000

31 We returned goods to still sh. 4,000

**Q 4. Record the following transaction for the month of January of small finishing retailer, balance off all the accounts ,and then extract a trial balance as at 31st January 2016**

2016 January

1 Started in a business sh. 1,050,000 cash

2 Put sh 900,000 of the cash into the bank account

3 Bought goods for cash sh 55,000

4 Bought on credit from T. Dry sh 80,000; F,Hood sh 93,000; M.Smith sh 16,000 G.Low sh 51,000

5 Bought stationary on credit from Buttons Ltd sh. 8,900

6 Sold goods on credit to: R.Tong sh. 17,000; L.Fish sh. 24,000; M.Singh sh. 32,600; A.Tom sh 20,400

8 Paid rent by a cheque sh. 22,000

10 Bought fixtures on credit from Chief Ltd sh. 61,000

11 Paid salaries in cash sh. 79,000

14 Returned goods to: F Hood sh. 3,000; M Smith sh. 4200

15 Bought van by a cheque sh. 650,000

16 Received loan from B. Baclays by cheque sh. 20,000

18 Goods returned to us by: R. Tong sh. 500;M.Singh sh. 2,000

21 Cash sales sh. 14,500

24 Sold goods on credit to: L.Fish ; A. Tom sh. 41,000; R.P leat sh. 15,800

26 We paid the following cheques: F.Hood; sh 90,000 M.Smith sh. 11,800

29 Received cheques from R.Pleat sh 15,800; L.Fish sh. 37,000

30 Received a further loan from B.Barclays by cash sh. 50,000

30 received sh. 61,400 cash from A. Tom.

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