**ACCOUNTING** – It Is The Process Of Recording, Classifying, Analyzing, Interpreting Financial Transactions And Communicating The Results To The Person Interested With Their Information.

Users of Accounts Information

* Owners/Shareholders; This Will Help Them To Access Whether The Business Is A Loss Or Profitable.
* The Govt; For Determination of Tax Payable.
* The Suppliers, Bank Lenders & Bank Creditors; To Determine the Credit Worthiness’ Of the Business.
* Management; To Help Them in Decision Making.
* The Employees; They Need Such Information To Be Able To Bargain For Better Salaries &Also To Access The Future Of The Business In Order To Make The Decision On Making And Look For A Greener Pasture.
* Prospective Buyers;

ACCOUNTING EQUATION

Assets= Capital + Liabilities

Liability = Assets – Capital

Capital = Assets – Liabilities

FORMAT OF A STATEMENT OF FINANCIAL POSITION.

|  |  |  |
| --- | --- | --- |
| ***Non-Current Assets*** | Sh | Sh |
| * Buildings * Motor Vehicles * Land * Machineries * Good Will * Furniture & Fittings   CURRENT ASSETS   * Stock * Debtors/Accounts Receivables * Cash In Hand * Cash At Bank * Prepaid Expenses/Advances * Total Assets   CAPITAL LIABILITIES   * Capital * Add: Retained * Less: Drawings   NON –CURRENT LIABILITIES   * Bank Loan   CURRENT LIABILITIES   * Creditors/Account Payables * Bank Overdraft * Accruals/Outstanding Expenses   TOTAL CAPITAL & LIABILITIES | Xx  Xx  Xx  Xx  Xx  Xx  Xx  Xx | Xx  Xx  Xx  Xx  Xx  Xx  Xxx  Xxx  Xxxx  Xx  Xx  (Xx)  Xx  Xxx  Xxxx |

Excel Institute Of Professional Had The Following Balances As At 31st Dec 2015

* Cash In Hand 5000
* Stock 4000
* Creditors 6000
* Cash At Bank 2000
* KCB 3 Year Loan 10000
* NFCK 5 Year Loan 15000
* Debtors 1000
* Motor Vehicles 30000
* Furniture 2000

1. Calculate The Capital
2. Prepare A Statement Or Financial Position As At 31st Dec

**(Capital)** 13000 = **(Total Assets)** 44000 - 31000**(Total Liabilities)**

**EXCEL INSTITUTE OF PROFESSIONAL**

**STATEMENT OF POSITION AS AT 31ST DEC 2015**

|  |  |  |
| --- | --- | --- |
| **NON –CURRENT ASSETS**   * Motor Vehicles * Furniture   **CURRENT ASSETS**   * Stock * Debtors * Cash In Hand * Cash At Bank   TOTAL ASSETS  **CAPITAL & LIABILITIES**  Capital  **NON – CURRENT LIABILITIS**   * KCB 3 Year Loan * NFCK 5 Year Loan   **CURRENT LIABILITIES**   * Creditors   **TOTAL CAPITAL & LIABILITIES** | Sh  4000  1000  5000  2000  (12000)  **44000**  44000 | Sh  30000  2000  (32000)  13000  10000  15000  **(25000)**  6000 |

**ACCOUNTING CONCEPTS**

* DUALITY CONCEPT
* MATERIALITY CONCEPT
* MINETARY CONCEPT
* BUSINESS ENTITY CONCEPT
* ACCRUAL CONCEPT
* MATCHING CONCEPT
* PRUDENCE CONCEPT
* SUBSTANCE CONCEPT
* GOING CONCERN CONCEPT

**Accounting Concepts /Principles –** This Prefers To Guidelines That Underlie The Preparation Of Financial Statement.

* The Financial Statements Comprises Of The 1).Income Statement

2) Statement of Financial Position

* The Accounting Concepts Include :

1. **Going Concern**

* The Concept Assumes That The B/S Is Going To Continue With Its Operation Into Fore Seeable Future I.E. There Is No Intention Or Necessity To Liquidate Its Operation

1. **The Monitory Measurement Concept**

* In Accounting All Transactions Are Expressed And Interpreted In Terms Of Money, This Means That Money Is Used As A Standard Unit For Financial Reporting Therefore Only Those Events That Are Measureable In Terms Of Money Will Be Recorded In The Books Of Account.

1. **Accounting Period Concept**

* A B/S Is Assumed To Continue Indefinitely To Determine A State Of Affairs Of The B/S ,This Period Is Broken Down Into Intervals Therefore The Concept Assumes That The Life Of The B/S Can Be Divide Into Artificial Time Called Accounting Periodic Within Which The Performance & Positon Of The B/S Is Determined.

1. **Duality Concept** – This Concepts Assumes That Every Transactions Has Two Fault Effects In Accounts And Thus Forms The Basis Of Double Entry Book Keeping Ie For Every Debit Entry Has A Corresponding Credit Entry & Vice Versa.
2. **Business Entity Concept.**

* An Accounting Entity Is An Economic Entity That Controls A Resources And Engages In Economic Activities.
* It Is Assumed To Separate From The Person Who Formed It.
* The Affairs Of The Owner Should Be Treated Separately From Those Of The Entity.

**F. Materiality Concept**

* This Is Is The Significance Of The Transactions. An Item Is Material If It Can Change Or Influence The Decision Of The User.
* A Material Transaction Must Be Recognized And Be Presented In The Financial Statement.

**G. Accrual Concept**

* According To The Concept Revenues Or Income Are Recognized When They Are Earned And Not When They Are Received.
* Similarly Expenses Are Recognized When Incurred And Not When They Are Paid.

**H. Matching Concept**

* The Main Aim Of The B/S Is To Add Profit. In Order To Access Whether This Profit Has Be Earned The Revenues In A Given Period Has To Be Matched Against Expenses Incurred In The Same Period.

**I. Prudence Concept.**

* According To The Concept, An Accountant Should Take Figure Which Understate Profit Rather Than That Which Overstate The Profit.
* He Should Take A Figure Which Will Take The Capital Of The Firm To Be Shown At A Lower Amount Rather Than A Higher Amount.

**J. Substance over Form Concept**

* This Concept States That Transactions And Other Events Should Be Accounted For And Presented With Their Substance And Financial Reality And Not With Their Legal Form.
* Example In Hire Purchase Accounting.

**THE LEDGER**

* It Is A Book Of Account Which Contain Individual Records Of Each Item Of The B/S.
* All Transactions Will Be Recorded In The Ledger As They Take Place.
* It Is Divided Into Two Equal Halves And Each Of The Half Is Divided Into Column.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| DATE | DETAILS | FOLIO | AMOUNT | DATE | DETAIL | FOLIO | AMOUNT |
|  |  |  |  |  |  |  |  |

DEBIT (Dr) Credit (Cr)

* The Left Side Of The Ledger Is Called Debit And Right Side Credit.
* The Date Column Is Used To Record A Date To Which Transaction Took Place.
* The Detail Column Is Used To Give Description Of Transaction.
* The Folio Column Is Used To Record References.
* The Amount Column Is Used To Record Money Worth Of The Transaction.

**How To Determine Whether To Credit Or Debit.**

* When Deciding Whether To Credit Or Debit The Following Rules Are Given:

|  |  |
| --- | --- |
| Increase | Decrease |
| Dr  Cr  Cr  Dr  Dr  Cr | Cr  Dr  Dr  Cr  Cr  Dr |

* Assets
* Liabilities
* Capital
* Drawings
* Expenses
* Revenues/Income
* Write Up The Ledger Account To Record The Following Transaction For The Month Of Jan 2016

Jan 1st: Started A Business Worth 10,000 In Cash.

Date 3rd Jan: Bought A Motor Vehicles Worth 6ooo In Cash

Date 10th Jan: Received A Loan 8000 By Check.

Date 15th: Took 500 From The Bank And Paid It To The Cash Till.

21st Jan: Paid Rent Worth 800 In Cash.

26th Jan : Prepaid Part Of The Loan Of 5000 By Cheque.

KEVS BUSINESS LEDGER

|  |  |  |  |
| --- | --- | --- | --- |
| DATE | DETAILS | FOLIO | AMOUNT |
| Jan1st: | Business | Incash | 10,000 (Credit) |
| 3rd Jan | Motor Vehicles | In Cash | 6ooo  (Dr) |
| 10thjan | Loan | By Check. | 8000  (Dr) |
| 15thjan | From The Bank | Cash Till. | 500  (Cr) |
| 21stjan | Rent | In Cash. | 800  (Dr) |
| 26thjan | Part Of The Loan | Cheque. | 5000  (Cr) |
|  |  |  |  |
|  |  |  |  |

* The Following Are The 1st Month Transaction Of A New Business

1. Put 40000 Into A Business Bank Account. Jan1st
2. Paid Rent 800 By Cash. 2rd Jan
3. Bought Equipment 12000 By Cheque.3RD Jan
4. Paid Insurance 1600 By Check.4th Jan
5. Paid Wages 700 By Cash.5th Jan
6. Bought Stationary Costing 600 By Check.6TH JAN
7. Paid Electricity 900 By Cash.7th Jan
8. Banked 500 From The Cash.8th Jan

Write Up The Above Transaction In The Appropriate Ledger Account.

|  |  |
| --- | --- |
| (Dr) (1) capital a/c | (Cr) |
|  | 1st Jan Bank 40000 |
|  |  |
|  |  |

(2) **RENT A/C**

|  |  |
| --- | --- |
| (Dr) | (Cr ) |
| 2ND JAN cash 800 |  |
|  |  |
|  |  |

(3)**BANK A/C**

|  |  |
| --- | --- |
| (Dr) | (Cr) |
|  | 12,000 Bank Jan 3rd |
| 1st Jan Bank 40000 | 16,000 BANK Jan 3rd |
|  |  |

**EQUIPMENT A/C**

|  |  |
| --- | --- |
| (Dr) | (Cr) |
| 12,000 Equipment Jan 3rd |  |
|  |  |
|  |  |

**(4)INSUARANCE A/C**

|  |  |
| --- | --- |
| (Dr) | (Cr) |
| 16,000 Insuarance Jan 3rd |  |
|  |  |
|  |  |

|  |  |
| --- | --- |
| WAGES A/C  (Dr) | (Cr) |
| 700 cash 5th jan |  |
|  |  |
|  |  |

* Tom Onyango Operates A Retail Shop Commenced His Business on 1st April 2016.
* The Following Is A Summary Of His Transaction For The Month Of April

1st April Commenced B/S by Depositing 96000 in The Bank

2nd April Paid Rent Deposit of 1000 by Cheque

4th Bought Furniture & Fittings by Cheque 2100

9th April Paid In Cash 500 For Electricity.

11th Withdrew 600 from The Bank For Personal Use

18th Bought Furniture & Fittings And Paid 300 In Cash

23rd Paid Rent Amounting To 2300 By Cheque

25th Withdrew 900 From Cash Box For Personal Use

29th Paid Wages Amounting 1100 By Cash.

13th May Withdrew Cash From Bank A/C Amounting To 2330 For Use In The Business

Post The Entries Into The Relevant Ledger Accounts

|  |  |
| --- | --- |
| (Dr) (1) capital a/c | (Cr) |
|  | 1st April Bank 96000 |
|  |  |
|  |  |

|  |  |
| --- | --- |
| (Dr) BANK a/c | (Cr) |
| 1st April Bank 96000 | 2ND April (rent) Bank 1000  9th April (Electricity) Cash 500  11th April (Personal) Bank 600  4th April Bank 21000 |
|  | 18th April cash 300 |
|  |  |

|  |  |
| --- | --- |
| (Dr) EXPENSE a/c | (Cr) |
| 2nd April (Rent) Bank 1000 |  |
| 9th April (Electricity) Cash 500 |  |
| 11th April (Personal) Bank 600  23rd April(Rent) Bank 2300 |  |

|  |  |
| --- | --- |
| (Dr) Furniture a/c | (Cr) |
| 4th April Bank 21000  18th April cash 300 |  |
|  |  |
|  |  |

**THE TRIAL BALANCE** – This is a list of ledger accounts with corresponding balances.

Uses of a trial balance

1. Used to check arithmetic accuracy of the records obtained in the ledger.
2. It provides summary of all accounts obtained in the ledger.
3. It provide a summary that is used as a basis for preparation of final account.

Weaknesses of a Trial balance

1. It does not provide absolute prove of accuracy of the books of accounts because certain errors can’t be detected by the trial balance.
2. Does not provide useful arithmetic information about business as whole.eg it can’t show the financial position of the business.

Example: John Kamau opened a b/s on 1st Jan 2016, the following transaction took place.

* 1st Jan started a b/s 2million in cash
* 2nd Bought goods on credit on A. click amounting 296000
* 3rd paid rent worth 28000 by cash
* 4th paid 1million of the cash of the firm into the bank account.
* 5th Sold goods to J.simpsons 54000 on credit.
* 7th bought stationary of 15000 paying by cheque.
* 11th cash sale of 49000
* 14th Goods returned by us to A.click of 17000
* 17th Sold goods on credit to P.luts 29000
* 20th Paid repairs in the building by cash 18000
* 22nd j.simpsons returned goods of 14000
* 27th paid A.click 279000 by cheque
* 28th cash purchase 125000
* 29th bought a motor vehicle paying by cheque 395000
* 30th paid motor expenses 15000
* 31st bought fixtures and fittings of 120000 from R.west

**Required:**

* ledger accounts to record the above transaction
* Trial balance as at 31st Jan 2016

|  |  |
| --- | --- |
| (Dr) (1) capital a/c | (Cr) |
|  | 1st Jan Bank 2,000,000 |
|  |  |
|  |  |

**(2) PURCHASE A/C**

|  |  |
| --- | --- |
| (Dr) | (Cr) |
| 28th jan PURCHASE 125000 |  |
| 2ND JAN A.CLICK 296000 |  |
|  |  |

(3)**RENT A/C**

|  |  |
| --- | --- |
| (Dr) | (Cr ) |
| Jan 3rd cash 28000 |  |
|  |  |

|  |  |
| --- | --- |
| (Dr) (4) BANK a/c | (Cr) |
| 1st Jan Bank (capital) 2,000,000 | **Jan 3rd cash (rent) 28000** |
| Jan 2nd Credit (Goods) 296000 | Jan 4th cash 1000000 |
|  |  |

|  |  |
| --- | --- |
| (Dr) (5) cash a/c | (Cr) |
| 1st Jan Bank 2,000,000 | **Jan 3rd rent 28000 (cash)** |
| Jan 4th bank 1,000,000 11th jan cash 49000 | 20th Jan repairs 18000(cash)  28th Jan purchase 125000 (cash)  30th Jan motor expenses 15000  31st Jan fixtures/fittings 120000 |
|  |  |

|  |  |
| --- | --- |
| (Dr) (6) creditors a/c | (Cr) |
|  | 2nd jan A.click 296000 |
|  |  |
|  |  |

|  |  |
| --- | --- |
| (Dr) (7) SALES a/c | (Cr) |
|  | 11TH JAN cash sales 49000 |
|  | 17th jan P.LUTS 29000 |
|  |  |

|  |  |
| --- | --- |
| (Dr) (8)DEBTORS a/c | (Cr) |
| 17TH JAN P.LUTS 29000 | 22ND JAN J.SIMPSONS 14000 |
| 5TH JAN J.SIMPSONS 54000 |  |
|  |  |

|  |  |
| --- | --- |
| (Dr) (9) MOTORVEHICLE A/C | (Cr) |
| 29TH JAN MOTOR 395000 |  |
|  |  |
|  |  |

|  |  |
| --- | --- |
| (Dr) (10) MOTOREXPENSES A/C | (Cr) |
| 30TH JAN EXPENSES 15000 |  |
|  |  |
|  |  |

|  |  |
| --- | --- |
| (Dr) (11)FIXTURE&FITTINGS A/C | (Cr) |
| 31ST JAN EXPENSES 12000 |  |
|  |  |
|  |  |

|  |  |
| --- | --- |
| (Dr) (12) R.OUTWARD A/C | (Cr) |
|  | 14TH JAN A.CLICK 17000 |
|  |  |
|  |  |

|  |  |
| --- | --- |
| (Dr) (13)R.INWARD A/C | (Cr) |
| 22ND JAN j.simpsons 14000 |  |
|  |  |
|  |  |

|  |  |
| --- | --- |
| (Dr) (14)STATIONARY A/C | (Cr) |
| 7TH JAN BANK 15000 |  |
|  |  |
|  |  |

|  |  |
| --- | --- |
| (Dr) (15)PURCHASE RETURN A/C | (Cr) |
|  | 14TH JAN A.CLICK 17000 |
|  |  |
|  |  |

|  |  |
| --- | --- |
| (Dr) (16)SALES RETURN A/C | (Cr) |
| 22ND JAN J.SIMPSONS 14000 |  |
|  |  |
|  |  |

|  |  |
| --- | --- |
| (Dr) (14)STATIONARY A/C | (Cr) |
| 7TH JAN BANK 15000 |  |
|  |  |
|  |  |

|  |  |  |
| --- | --- | --- |
| **PARTICULARS** | **DR** | **CR** |
| CAPITAL |  | 2000000 |
| CASH | 743000 |  |
| PURCHASE | 421000 |  |
| F/F | 120000 |  |
| EXPENSES | 61000 |  |
| STATIONARY | 15000 |  |
| BANK | 311000 |  |
| SALES |  | 132000 |
| DEBTORS | 69000 |  |
| M/V | 395000 |  |
| S/R | 14000 |  |
| P/R |  | 17000 |
| R/W |  | 120000 |

* Record the following transactions in a legder account of besty and extract trial balance as at 31st march 2017
* March 1st started a b/s with 90000 in the bank
* 3rd purchased furniture of 5000 by cheque
* 5th purchased goods worth 20000 paid by cheque
* 8th sold goods worth 15000 to Kev on credit
* 12th paid for advertisement 400 by cheque
* 14th purchased goods worth 26000 from koech on credit
* 15th withdrew 10000 from the bank and kept it in office for b/s use
* 18th Returned goods worth 6000 to koech
* 20th sold goods worth 25000 & received cash
* 24th Kev returned goods worth 350
* 28th Besty took 7000 cash from b/s for private use
* 30th received 12000 by cheque from Kev
* 31st paid koech 24000 by cheque

|  |  |
| --- | --- |
| (Dr) capital a/c | (Cr) |
|  | 1st March Bank 90,000 |
|  |  |
|  |  |

|  |  |
| --- | --- |
| (Dr) BANK A/C | (Cr) |
| 1st March Bank 90,000 | 3rd march furniture 5000 |
|  | 5th march purchased 20000 |
|  | 12th March advertisement 400  18th March cash 10000 |

|  |  |
| --- | --- |
| (Dr) PURCHASE A/C | (Cr) |
| 5th March Bank 20000  14th March koech 26000 |  |
|  |  |
|  |  |

**Books of Original Entry**

* These are books where Transactions are 1st recorded before they are being posted into their respective ledger account.
* They may/may not adhere to the double entry principle.

Categories of Books of original entry

* Cash book
* Purchases Journal
* Sales journal
* Sales return journal
* Purchase return journal
* General journal.

1. **Cash book** this is a book of original entry as well as a ledger.

* Prepared to record cash receipts & cash payments.

Types of cash books

* Single column
* Double/two
* Three column
* Petty/miscellaneous/Analytical

**Three column cash book** – Has 3 columns on the debit & credit side.

* The additional amount column is used to record cash discount i.e. Discount allowed on the debit side & discount received on the credit side.

Example

Tom onyango opened a shop in homabay on 1st July 2005.The following transactions took place.

* July 1st introduced 200000 in cash into the b/s from his private bank account.
* 3rd opened a b/s bank account by transferring 180000 of the b/s cash into the account
* 5th paid 5000 in cash being rent for the month.
* 6th bought 2nd hand shop equipment at 3000 and paid by cheque.
* 9th purchased goods for resale 10000 paying for them in cash.
* 10th purchased goods for resale on credit worth 20000 from Selina wamboi.Returned goods worth 2000 to Selina wamboi.
* 13th made cash sale of 15000.
* 15th paid Selina wamboi 16200 by cheque.
* 16th sold goods on credit worth 10000 to Fridah Atieno.
* 17th Fridah Atieno returned goods worth 5000.
* 18th Received a cheque for 4500 from Fridah Atieno in settlement of her account the balance treated as cash discount.
* 30th sold some of the old office equipment 1000 cash
* 31st made a cash withdraw of 1300 for his private use.

Required a) ledger all (including the three column cash book to record the above transaction)

b) Trial balance as at 31st July 2005

Dr Cr

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Details | Cash | D.allowed | Bank |  | Details | Cash | D.reaceived | Bank |
| Capital  Cash  sales  Fridah  Cash  Equip | 200000  15000  1000 | \_  500 | \_  180000  4500 |  | Bank  Rent  equipment  Payments  withdrawal | 180000  5000  10000  1300 |  | 3000  16200 |

216000 500 184500 196300 \_ 165300

(19700)

* 216000 – 196300 =19700
* 500
* 184500 – 165300 = 19200

The following transaction relates to kesho traders for the month of April 1st

* 1st Commenced b/s with cash capital of 500000
* 2nd Deposited cash into bank 250000
* 3rd Bought goods from tulia traders in cash 120000
* 4th Sold goods to neon ltd at 100000
* 6th bought goods on credit from radar 150000
* 8th paid wages in cash 5000
* 10th bought goods from tulia traders on credit 185000
* 11th sold goods to neon ltd against a cheque for 200000
* 15th paid wages in 2000
* 16th paid radar by cheque less 10000 discount 140000
* 16th paid office expenses in cash 1750.
* 18th Wino returned some goods & cheque was issued of 12500
* 20th received a cheque from neon limited (discount allowed 5000) 95000
* 25th paid rent in cash 10000
* 28th paid salary for the month by cheque 20000
* 30th withdrew cash for use at home of 5000
* Required 3 column cashbook record above transaction.

Dr Cr

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Details | Cash | D.allowed | Bank |  | Details | Cash | D.reaceived | Bank |
| Capital  cash  sales  sales  nenoltd | 500000  12500 | \_  5000 | \_  250000  200000  95000 |  | Bank  purchased  Wages  Wages  expenses  radar  R.inward  Rent  Salary  withdrew | 250000  120000  5000  2000  1750  10000  5000 | 10000 | 200000  140000  20000 |
|  | 625000 | 500 | 545000 |  |  | 384750 | 10000 | 172500 |
| b/d | 231250 |  | 372500 |  |  |  |  |  |

**Petty/miscellaneous/Analytical**

* As an organization grows the number of transactions increases making it impossible for the accountant to handle all of them by himself.
* To solve this problem a junior cashier known as petty cashier is given the responsibility of paying minor frequent expenses in the B/S.
* The arrangement is operated through a system known as **The Imprest system.**

How an Imprest system works

* The petty cashier is given a sum of money known as **Imprest/Float** by the accountant which is estimated to cater for minor expenses for a specific duration. The petty cashier will then make payments against the cash received.
* At the end of the agreed period (Imprest duration) the petty cashier goes back to the accountant and gives him a record of how much spent & how much remained.
* The accountant will refund an amount equal to how much he has spent so that he starts the following agreed duration with the original amount.
* The amount to be refunded is known as **Re-embracement**.
* This transaction will be recorded by the petty cashier in the petty cash book.

**Uses of petty cash book**

* Helps to offload unnecessary details from the 3 column cashbook.
* Saves time for the accountant so that he can do more important work.
* Makes the work of the accountant less cumbersome.

Petty cash book & 3 column cash book

Example: Record the following transaction in a petty cash book.

* September 1st head teacher gave 300 as float to the petty cashier payments are as follows.
* 2nd paid petrol for school bus 16.
* 3rd Travelling expenses 23 & postage 12
* 4th Travelling expenses 32 for stuffs.
* 5th cleaning expenses 11.
* 9th petrol for school bus 21.
* 15th Travelling expenses 5.
* 16th cleaning expenses 11.
* 18th petrol for school bus 21.
* 20th postage 12.
* 22nd cleaning expenses 11.
* 24th travelling expenses 11.
* 27th settlement of C.Brown account purchases 13.
* 29th postage 12
* 30th refunded to the petty cashier the amount spent during the month.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date | Details | Total  receipt | Total  payments | Analysis column | | | | |
| 1st-sep  2nd-sep  3rd-sep  3rd-sep  4th –sep  5th-sep  9th-  sep  15th sep  16th sep  18th sep  20th sep  22nd sep  24th sep  27th sep  29th sep | Float  Petrol  Travelling  Postage  Travelling  Cleaning  Petrol  Travelling  Cleaning  Petrol  Postage  Cleaning  Travelling  C.Brown  Postage | 300 | 16  23  12  32  11  21  5  11  21  12  11  11  13  12 | petrol | Travelers | Postage | Cleaning | Ledger |
| 16  21  21 | 23  32  5  11 | 12  12  12 | 11  11  11 | 13 |
| 30th sep  30th sep  1st oct | Balance b/down | Total  Payment  Balance carried down  89  +  211  =300 | 211  +  89  =300 | 58 | 71 | 36 | 33 | 13 |
|  |  |  |  |  |

* Nb FLOAT (300) – TOTAL PAYMENTS(211) = BALANCE CARRIED DOWN(89)
* PETTY AMT SET - BALANCE BROUGHT DOWN = FLOAT

Example 2: John wambui maintains his petty cash on the imprest system. The petty amount was set at 80000 per month for the year 2016.

1st Feb opening balance brought down was 18500.

* 1st feb withdrew cash from the bank to vector the imprest(float)
* 3rd feb postage stamps 4500
* 4th feb bus fare reimbursed 2800
* 6th feb petrol 2500
* 8th feb stationary 8600
* 10th postage stumps 3500
* 12th bus fare reimbursed 4600
* 14th newspaper for 2 weeks 2800
* 16th petrol for motorcycles used for messengers 3000
* 18th periodicals for the office 2500
* 20th Airtime for cellphone 4200
* 21st internet charges 3800
* 22nd bus fare reimbursed to a staff member 2500.
* 23rd petrol for motorcycles 2500
* 24th office parcel sending charges 2200
* 26th Airtime & internet charges 10200.

Required petty cash book showing the cash in hand as at 29th feb 2016 & the amount of cash to be drawn from the bank to vestor the interest

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date | Details | Total  receipt | Total  payments | Analysis column | | | | |  |  |  |  |
| 1st-feb  3rd- feb  4th –feb  6th - feb  8th-  feb  10th feb  12th feb  14th feb  16th feb  18th feb  20th feb  21st feb  22nd feb  23rd feb  24th feb  26th feb | Float  postage  Bus fare  Petrol  stationary  postage  bus fare  Newspaper  petrol  Periodicals  Airtime  internet  bus fare  Petrol  Parcel  Airtime & internet | 61500 | 4500  2800  2500  8600  3500  4600  2800  3000  2500  4200  3800  2500  2500  2200  10200 | petrol | Busfare | Postage | Airtime  &internet | newspaper | parcel | stationary | periodicals | internet | airtime | |
| 2500  3000  2500 | 2800  4600  2500 | 4500  3500 | 10200 | 2800 | 2200 | 8600 | 2500 | 3800 | 4200 | |
| 29th feb  1st march | Total  Payment  Balance b/down  reimbersen | Balance carried down  1300  +  60200 =  61500 | 60200  61500  -  60200 =  1300 | 8000 | 9900 | 8000 | 10200 | 2800 | 2200 | 8600 | 2500 | 3800 |
|  |  |  |  |  |  |  |  |  |  |

**PURCHASE JOURNAL** –This is where all credit purchases are first recorded before they are posted into their respective ledger account.

**PURCHASES RETURN/RETURN OUTWARDS-**This is where return of goods to suppliers are first recorded before they are posted to their respective ledger account.

Example: Enter the following information in a purchase journal & purchase return journal and post the items into their relevant legder account for month of May 2016.

* 1st may credit purchase for H.LAY of 119
* 4th credit purchases from D.SCOTT of 90, A.SAMPSONS 44 & S.WOOD 56.
* 10th credit purchases from M.WHITE 89 & J.WANG 69
* 20th Good returned by us to H.LAY 16 and D.SCOTT 14.
* 31st Good returned by us to J.WANG 5 & S.WOOD 11.

|  |  |  |  |
| --- | --- | --- | --- |
| DATE | DETAILS | FOLIO | AMOUNT |
| MAY 1st  4th  4th  10th  10th | H.LAY  O.SCOTT  A.SAMPSON  S.WOOD  M.WHITE  J.WANG | F.L.I  F.L.2  F.L.3  F.L.4  F.L.5  F.L.6 | 119  90  44  56  89  69 |
|  |  |  | 467 |

|  |  |  |  |
| --- | --- | --- | --- |
| DATE | DETAILS | FOLIO | AMOUNT |
| MAY 1st  4th  4th  10th | H.LAY  O.SCOTT  A.SAMPSON  S.WOOD | F.L.I  F.L.2  F.L.3  F.L.4 | 16  14  5  11 |
|  |  |  | 46 |

PURCHASE JOURNAL PURCHASE RETURN

**SALES JOURNAL** – refers to the books of original entry where all credit sales are first recorded before there are being posted to their respective account.

**RETURN SALES JOURNAL** -Refers to where return of goods from credit customers are first recorded before there are being posted to their respective ledger account.

1) Enter the following details in a sales journal and post them into their relevant ledger account for the month of March 2016.

* 1st Credit sales to J.JORDAN 187.

|  |  |  |  |
| --- | --- | --- | --- |
| DATE | DETAILS | FOLIO | AMOUNT |
| MARCH 1st  3rd  6th  17th  31st | J.JORDAN  G.ABRAHAM  C.WHITE  F.WILLIUM  S.SIMES | F.L.I  F.L.2  F.L.3  F.L.4  F.L.5  F.L.6 | 187  166  12  289  78  69 |
|  |  |  | 732 |
|  |  |  |  |

* 3rd Credit sale to G.ABRAHAM 166
* 6th credit sales to C.WHITE 12
* 17th credit sale to F.WILLIUM289
* 31st credit sale to S.SIMES 78.

2) Record the following transaction in the sales return journal & post them into their relevant ledger accounts for month of may 2016.

* May 1st goods returned to us by H,LAY 16 & D.SCOTT 14
* 31ST goods returned to us by the following:

M.WHITE 89 & J.WANG 69

|  |  |  |  |
| --- | --- | --- | --- |
| DATE | DETAILS | FOLIO | AMOUNT |
| MAY 1st  1st  31st  31st | H.LAY  O.SCOTT  M.WHITE  J.WANG | F.L.I  F.L.2  F.L.3  F.L.4 | 16  14  89  69 |
|  |  |  | 188 |

|  |  |
| --- | --- |
| (Dr) SALES RETURN A/C | (Cr) |
| 1st MAY H.LAY 16  1st MAY O.SCOTT 14  31st MAY M.WHITE 89  31ST MAY J.WANG 69 |  |
|  |  |
|  |  |

|  |  |
| --- | --- |
| H.LAY A/C  (Dr) | (Cr) |
|  | **1st MAY H.LAY RETURNED 16** |
|  |  |
|  |  |

|  |  |
| --- | --- |
| (Dr) O.SCOTT A/C | (Cr) |
|  | **1st MAY O.SCOTT RETURNED 14** |
|  |  |
|  |  |

|  |  |
| --- | --- |
| (Dr) M.WHITE A/C | (Cr) |
|  | **31st MAY M.WHITE 89** |
|  |  |
|  |  |

|  |  |
| --- | --- |
| J.WANG A/C  (Dr) | (Cr) |
|  | **31ST MAY J.WANG RETURNED 69** |
|  |  |
|  |  |

**GENERAL JOURNAL/JOURNAL PROPER-**This is a book of original entry that is sued to record transactions that cannot fit in the sale journal, purchase journal, sales journal, returned journal & the cash book.eg credit purchase of non-current assets.

It is also used in various circumstances:

* Correction of errors
* Adjustments of the year.
* Writing of bad debts.

**Example:** Enter the following items in a journal proper:

* Bought machinery from kalu works on credit 14000
* Sold some old equipment to mike on credit 3000

|  |  |  |  |
| --- | --- | --- | --- |
| DATES | DETAILS | Dr | Cr |
|  | **Machinery**  **Kalu works**  (To record credit purchase of machinery from kalu works)  **Mike**  **Old equipment**  To record sale of equipment on credit to mike | 14000  3000 | 14000  3000 |

**Importance of writing journals**

* They help to offload unnecessary details from purchases, sales, return inward & return outward journals.
* Helps to make the work of book keeper less cumbersome.
* They make easier for a book keeper to allocate errors in the book
* Day book generates useful information in accounts eg sales ledger control account & purchases ledger control account.

**Adjustment/Control Account** – it may be defined as a total account inserted in a ledger to make it self balancing.

* The balance of those account should be similar to the total of the book keeping entries In the legder.

**Importance of control account**

* Helps in identifying errors which have been committed in the preparation of ledgers.
* Helps in prevention of errors & Frauds.
* Helps in management since they give the total values of creditors & debtors easily.
* They facilitate quick & efficient decision making since the values of debtors & creditors can be identified any time.

Sources of information of a control account

* The sources of information depends on the type of the control account.
* There are two types of a control a/c :

**1)Debtors/sales/receivables control account** – Deals with credit sales only and any other item related to credit sale for the period.

-The sources of information include:

* Opening balances from the previous data
* Credit sales
* Discount allowed
* Return inward
* Bad Debt written off
* Set off (contra)
* Receipt from debtors
* Interest charged on customers/debtors on overdue accounts
* Dishonored cheques

|  |  |
| --- | --- |
| **Sales/receivables** | **Debtors Ledger control A/C** |
| Balance b/d xx  Credit sales xx  Interest charged on overdue accounts xx  Dishonored cheques xx  Balance C/d | Balance b/d xx  Discount allowed xx  Return inwards xx  Bad debts written off xx  Set off(contra) xx  Receipts from Debtors xx  Balance C/d |

* **Purchases/Creditors/Payables Control account**
* It deals with credit purchases only and any other item related to credit purchases for the period.

Sources of information include:

1) Opening balances from previous period.

2) Credit purchases.

3) Discount received.

4) Return outward.

5) Set off/Contra

6) Payments to creditors/suppliers.

7) Interest charged by creditors on overdue A/C

|  |  |
| --- | --- |
| Creditors purchase | Control A/C |
| Bal b/d xx  Discount received xx  Return outward xx  Set off/Contra xx  Payment to creditors xx  Bal c/d | Balance b/d xx  Credit Purchase xx  Interest charged on overdue A/C xx  Balance c/d |

**Set off (Contra) –** This occurs when a customer is also a supplier.

* The amount owed cancels out with the amount one owes.
* The following information was extracted from the books of XYZ limited for the month of may 2016.

Sales Ledger Balances

1st may: (Dr) – 624200

(Cr) – 6420

Purchase ledger balances 1st may Dr 3220

1st may Cr 522420

Receipts from customers 663040

Payment to creditors 592500

Credit sales 734380

Cash sale 252040

Credit purchase 435520

Cash purchase 10000

Interest charged on debtors on overdue accounts 300

Debtors cheque dishonored 6300

Discount received 28320

Discount Allowed 30420

Return inward 15640

Return outward 8420

Bad debts written off 11160

Sales ledger debit transfer to the purchases ledger 2400

Sales ledger balance on 31st may (Cr) 7920

Purchases ledger balance (Dr) 4380

a)Required debtors legder control account.

b) Purchases ledger control account.

|  |  |
| --- | --- |
|  |  |
| Bal b/d 624200  Credit sales 734380  Interest charged on debtor overdue A/C 300  Dishonored Cheques 6300 | Bal b/d 6420  Receipt from customers 663040  Discount allowed 30420  R.inward 15640  Written off bad debts 11160  Set off/Contra 2400 |

Debtors control Account

The following information relate to karanja limited a dealer in building material the year ended 31st 2006.

* Balance as 1st Nov 2005 sale ledger balance 2,124,400 (Dr)
* Purchases ledger 3,476,000 (Cr)
* The total sales for the year included cash sales 27,591,200(to be excluded from the total) and the credit sales 21,454,960.
* Total purchases for the year included cash purchases of 1,155,200

& Credit purchases 39,728,000

* During the year the company received a total of 48,045,600 from both cash & credit customers & made a total payment of 40,317,600 for both cash & credit purchases.
* Discount allowed to all credit customers amounted to 441,600 while discount received from all the suppliers amounted 280,800
* There was refund of 405 made to cash customers a balance in the sales ledger 5600 was set off against purchase ledger.
* Bad debt written off amounted to 62,400 and provision of bad debt was increased by 7,200
* Credit not issued to customers amounted to 331,200 and those issued by suppliers to karanja limited amounted to 118,400.

Required.

i) Sale ledger control account 31st October 2006.

ii) Purchase ledger control account 31st October 2006

|  |  |
| --- | --- |
|  |  |
| Payments to creditors  (40,317,600 – 1,155,200 = 39162400)  D.received 280800  Set off 5600  Credit note received 118400 | Bal b/d 3,476,000  Credit purchase 39,728,000 |

**Purchase control A/C**

|  |  |
| --- | --- |
| Dr | Cr |
| Bal b/d 2,124,400  Credit sales 21,454,960 | Total receipts: (48,045,600 - 27,591,200 =  20,454,400)  D.Allowed 441,600  Set off 5600  Bad debts w/d 62400  Credit note issued 331200 |

**Debtors control A/C**

**NB.** Credit Note issued – it refers to the document issued by the business (seller) once the goods have been returned by credit customers of which were sold on credit basis initially.

**NB.**Credit Note received - Refers to the document issued by the supplier to the business once the goods purchased on credit bases have been returned to the suppliers

**NB.** Provision/Allowances are never included in control A/C

**NB.**cash sales transaction are never recorded.

**CAPITAL AND REVENUE EXPENDITURE**

* The concept of revenue & capital expenditure is important for correct determination for account profit for the period & recognition of business assets at the end of accounting period.

**Capital Expenditure** – This is the outflow of funds to acquire an asset that will benefit a business for more than one accounting period.

* The asset are not intended for resale.

Accounting treatment of capital expenditure

-Capital expenditure should be added to assets (they are capitalized).

**Rules of determining capital expenditure**

1. Expenditure in respect of acquiring non-current asset for use in the business.
2. Expenditure incurred after purchase of non – current asset but before asset have been put to use *example* installation cost, Freight charges, and insurance in transit, Custom duty & import duty.
3. Preliminary expenses are considered to be capital in nature eg.legal expenses in respect of drafting memorandum and article of association.
4. Expenditure incurred as research and development cost eg.Development of a new product in the market.
5. Expenditure incurred to increase the earning capacity of a business. E.g. shifting a factory for easy access of raw material.
6. Expenditure incurred to improve the current condition of non - current asset or putting an old asset in working condition.

Nb. Continuity of non – current assets results to revenue expenditure example repainting, renovation. Etc.

**Revenue expenditure –**This is the outflow of funds to meet the day to day expenses of the business and it is of benefit for the current period only.

Accounting for revenue expenditure

1. Expenditure incurred in the day to day running of the b/s e.g. transport, wages, salary etc.
2. Expenditure incurred in maintaining non-current assets in working conditions e.g. Repair & maintenance.
3. Expenditure incurred on consumer goods e.g. raw materials.

**Differences between capital & revenue expenditure**

1. Capital expenditure is incurred before & after commencement of the business while revenue expenditure is incurred after commencement of the business.

2. Capital expenditure is non-recurring while revenue expenditure is recurring.

3. Capital expenditure will last/will be incurred more than one financial period while revenue expenditure are incurred for a particular period.

**Example:** classify the following items as either revenue or capital expenditure.

Fittings & partitions in a shop – capital expenditure

Courage on return outward - revenue expenditure

Cost of a weighing machine – Capital expenditure

Repair of an office safe – revenue expenditure

Legal cost of collecting debts – Revenue expenditure

Carriage cost of building materials of a new office building – capital expenditure

Purchase of an extra motor vehicle for distribution of soft drinks – capital expenditure

Wages of painters in a new hospital building – capital expenditure

Cost of paint for repainting the hospital from green to blue – revenue expenditure

Cost of paying registration of number plates of new vehicle – capital expenditure

Cost of replacing number plate of motor vehicle – revenue expenditure

**Example:** Classify the following transactions as capital expenditure or revenue expenditure.

Cost of building a factory extension- Capital expenditure

Hiring cost of new vehicle – revenue expenditure

Repainting an old factory building - revenue expenditure

Cost of repositioning machinery for greater operational efficiency – capital expenditure

Carriage cost on purchases – revenue expenditure

Fire insurance premium – capital expenditure

Cost of building an extension to a warehouse – capital expense

Repairing office air conditioner because of damage – revenue expenditure

**BANK RECONCILIATION**

This is a statement that explains the differences of the balances reflected in the cash book and the balances reflected in the bank statement.

* It always true that the balance in the cash book will not be equal with the balances in the bank statement. This is due to the following reason:

1. **Bank charges**

-The bank will normally deduct bank charges but the cash book will not update until receipt of the bank statement.

1. **Standing orders**

-This are instruction given by a customer to the bank to be paying a particular person a standing amount periodically.

-If the bank honors the standing orders it will not be reflected until receipt of the bank statement.

1. **Direct Credit**

**-**These are amount that are directly deposited in the customers bank account.

1. **Direct Debit**

-This are payments that have to be made as the customer gives permission to the creditor to obtain money directly from his bank account.

1. **Dishonored cheque**

-This are cheques that are not paid by the bank because of various reasons.

E.g. lack of adequate funds; Errors in the cheque; if the cheque is a state cheque (outdated)

-if the amount in words differs in amount in figures.

1. **Unpresented cheques**

-This are cheque paid to creditors and deposited in the bank but are not cleared by the time bank statement is received and this is not reflected in the bank statement.

1. **Uncredited cheques**

-This are cheques recorded from customers and deposited in bank but are not cleared by the time bank statement is received.

**Importance of bank reconciliation**

i) Helps to detect the errors found in the cashbook & bank statement.

ii) Helps to establish the correct balances of the cash at bank at the end of the month.

iii) Helps to detect frauds.

**Format of adjusted C.B**

|  |  |
| --- | --- |
| Adjusted Cashbook /covered C.B |  |
| Balance b/d xx  Direct credit xx  Stale cheque xx | Bank Charges xx  Standing orders xx  Direct debit xx  Dishonored cheques xx  Overstated debit balance xx  Balance c/d xxx |
|  |  |
| xxx |  |

Format of bank reconciliation statement

Approach (1):

Balance as per adjusted cashbook. xx

Add: Unpresented cheques. Xx

Less: Uncredited cheques. (Xx)

Less: Bank errors. (Xx)

Balance as per the bank statement xxx

Approach (2):

Balance as per bank statement xx

Add: Uncredited cheques xx

Add: Bank errors xx

Less: Unpresented cheques xx

Balance as per adjusted cash book xxx

* J.Mburu’s cash book showed a debit balance of 117009.70 on 31st March 2001.His bank statement showed a credit balance of 38257.30 on the same date.
* A careful examination of the two records revealed that the difference was due to the following:

-Bank charges amounting to 1711.50

-Bank had paid 5339.50 to mburu’s insurance company as per standing orders.

* David Ndungu who was Mburu’s tenant had paid rent of 14500 direct into mburu’s bank account.
* Cheques of 43275 was deposited by Mburu on 29th March were returned unpaid but no entry had been made in the cashbook to record the return.(**dishonored cheque)**
* Cheques totaling to 149088.40 was deposited by Mburu on 30th March but was deposited by the bank 2nd April.(**un cheque**)
* Cheques totaling to 134402 was issued by Mburu to his creditors but did not appear on the bank statement. One of this cheques of 6420 is dated 30th sept 2000.(**un presented cheques**)
* A cheque of 8240 issued by Mbalu another customer at the bank was wrongly debited by the bank in Mburu’s Bank account.
* The cashier in totaling the cashbook pages over stated the debit balance of the cash book by 20000.

Required: - Prepare an adjusted cashbook.

- Prepare bank reconciliation statement.

|  |  |
| --- | --- |
| (1) Adjusted Cashbook /covered C.B |  |
| Balance b/d 117009.70  Direct credit 14500  Stale cheque 6420 | Bank Charges 1711.50  Standing orders 5339.50  Dishonored cheques 43275  Overstated debit balance 20000  TOTAL **70326**  Balance c/d(137929.70 - 70326) = 67303.70 |
| Total 137929.70 | (balance as per the adjusted C.B) 137929.70 |
|  |  |

(2).**Bank Reconciliation statement**

Approach II

Balance as per bank statement 38257.30

Add: Uncredited cheques 149088.40

Add: Bank errors 8240.00

Less: unpresented cheques 127982.00

Balance as per adjusted cash book 67303.70

Approach (1):

Balance as per adjusted cashbook. 67303.70

Add: Unpresented cheques. 127982.00

Less: Uncredited cheques. 149088.40

Less: Bank errors. 8240.00

|  |
| --- |
| 38257.30 |

Balance as per the bank statement

* Joseph Omari’s bank balance as per his bank statement on 31st Dec 2013 was on the same date showed a debit bank balance of 2,366,500.Upon further scooting by the accountant the following differences/discripercies were noted;

I) Receipt amounting 26500 had not been entered in the cashbook

ii) Bank charges amounting to 3000 had not been recorded in the cashbook.

iii) Cheques amounting to 22500 had not been presented to the bank.

iv) The Bank had not credited receipts amounting to 98500 paid directly to the bank.

v) Standing orders of 62000 had not been entered in the cashbook.

vi) A payment in the cashbook had been overstated by 4500

Vii) A cheques of 15000 from debtors returned by the bank as a refer to drawers cashbook

viii) The cash book opening balance on 1st Jan 2013 was of 329250 was brought instead of credit balance.

ix) A cheques for a payment of 44000 to a supplier was cancelled by joseph Omari and been honored by the bank.

x) An amount 832500 paid by a debtor into the bank account was an error to customers account.

NB.All standing orders are payments except when it’s stated as a receipt.

**FINANCIAL ACCOUNTS**

* At the end of each financial year every business must prepare financial statement which shows the performance and the value of assets and liabilities.
* The final accounts consist of; i) Income statement (statement of financial performance).

ii) Statement of financial position

**i) Income statement**

-Its prepared to determine the profit or loss generated by the business.

-It consist of all incomes & expenses for the year.

FORMAT

**XYZ ENTREPRISE**

**INCOME STATEMENT FOR THE YEAR ENDED**

|  |  |
| --- | --- |
| Sh sh  Sales ; xx  Less ;Return inwards xx   |  | | --- | | Xxx (total sales)  (sales – return inwards) |   Less; cost of sales  Opening stock xx  Add:Purchases xx  Add:Carriage inwards xx  Less:Return outwards (xx)  Less:Closing stock (xx)  Gross profit cost of sales – total sales  Add:other incomes e.g,  Discount received: xx  Commission received: xx  Total Incomes: xxx  Less:Expenses  Salary & wages xx  Rent & rates  electricity  **ii) Statement of financial position –** This is a statement of a financial position of a given debt.   * It shows the capital book value or assets & responsibilities.   **Format**  XYZ ENTERPRISE  STATEMENT OF FINANCIAL POSITION  AS AT ……..  Non – Current Assets sh sh  Land & building xx  Motor vehicles etc. xx  Xxx  Current Assets  Stock (inventory) xx  Cash at bank xx  Debtors (Account receivables) xx xx  Total assets xxx  Capital & liabilities  Capital xx  Add: Net profit xx  Less: Drawings (xx)  Xxx  Non – Current Liabilities  Bank Loan xx  Current liabilities  Creditors (Account payables) xx  Bank overdraft xx xxx  Total capital & liabilities xxx |

From the following Trial balance of XYZ enterprise draw an income statement & statement of financial position for the year ended 30 April 2016.

**TRIAL BALANCE**

**Dr Cr**

Sales 18600

Purchases 11656

Stock (1st April 2015) 3776

Carriage outward 326

Return inwards 440

Return outwards 355

Salary & wages 2446

Motor expense 664

Motor vehicles 2400

Rent 576

Sundry expenses 1202

Fixtures & fittings 600

Debtors (Account receivables) 4577

Creditors 3045

Cash at bank 3876

Cash in hand 120

Drawings 2050

Capital 12844

Additional information: stock on 30th April 2015 was 4900.

Required income statement & statement of financial position.

INCOME STATEMENT

XYZ ENTERPRISE

INCOME STATEMENT

FOR THE YEAR ENDD 31/4/2016

Sh sh

Sales 18600

R.Inwards: (440)

Cost of sales

Opening stock 3776

Purchases 11556

Carriage inwards 234

Return outwards 355

Closing stock 4900 10311

Gross profit 7849

Add: Other incomes

Discount received

Less: expenses

Rent 576

Sundry expense 1202 -

Salary & wages 2447

Motor expenses 664

Carriage outwards 326 (5215)

Net profit 2634

Example.

From the following Trial balance of J.Jacob Draw a set of final accounts for the year ended 31st March 2016.

Dr Cr

Stock (1/4/15) 18160

Sales 92340

Purchases 69185

Carriage Inward 420

Carriage Outward 1570

Return Outward 640

Rent & rates 3015

Salaries & wages 10240

Communication expense 624

Commission paid 216

Insurance 405

Sundry expenses 318

Building 20000

Debtors 14320

Creditors 8160

Fixture & fittings 2850

Cash at bank 2970

Cash in hand 115

Drawings 7620

Capital 50888

The closing stock was 20000

**J.JACOB**

**Income Statement**

**For the year 31/03/2016**

Sh sh

Sales 92340

R.Inward \_

92340

Cost of sales

Opening stock 18160

Purchases 69185

Carriage Inwards 420

Return Inwards (640)

Closing Stock (20000) (67125)

Gross profit 25215

Add: other incomes

Less: Expenses

Sundry expense 318

Salary & wages 10240

Communication expense 624

Rent & rates 3015

Commission paid 216

Insurance 405

Carriage outwards 1570 (16388)

Net profit 8827

J.JACOB

S.F.P

AS AT 31-03-2016

NON – current Assets

Sh Sh

Fixtures & fittings 2850

Buildings 20000

22850

Current Assets

Cash at Bank 2970

Stock 20000

Cash in hand 115

Debtors 14320 37405

Total Assets 60255

Capital and liabilities

Capital 50888

Add: Net Profit 8827

Less: Drawings (7620)

52095

Non- current liabilities

Bank loan \_

Current liabilities

Creditors (Alc’s payable) 8160

Bank overdraft \_ 8160

Total capital & Liabilities 60255

The following is the trial balance of mikebe ltd as at 31-06-2016

Dr Cr

Sales 12150000

Stock (1/7/2015) 198000

Cash in hand 30000

Cash at bank 540500

Motor vehicle 350000

Fixture & fittings 90000

Purchases 1046000

Debtors 818000

Salary & wages 57800

Carriage outwards 116000

Carriage inwards 95800

Water & electricity 14200

Land & building 1140000

Return inward 22400

Return outward 1900

Capital 685700

Loan from bank 420000

Loan interest 63000

Discount allowed 94000

Discount received 4000

Office expenses 45000

Rent & rates 103000

Commission received 20000

Creditors 1700000

Drawings 95000

**Mikebe ltd**

**Income Statement**

**For the year 31/06/2016**

Sh sh

Sales 12150000

R.Inward + 22400

12172400

Cost of sales

Opening stock 918000

Purchases 10406000

Carriage Inwards 95800

Return Inwards 22400

Return outwards (19000)

Closing Stock (800000) (10600800) **(opening stock + purchases + carriage inwards) – (R.outwards + closing stock) =** 10600800

**Gross profit** 12127600 –10600800 = 1526800

**Add: other incomes**

Discount received 4000

Commission received 20000

TOTAL INCOME 24000

**Less: Expenses**

Salary 57800

Water & electricity 14200

Office expense 45000

Rent & rates 103000

Carriage outwards 116000

Discount allowed 94000

Loan interest 63000 493000(Total expenses)

Net profit ( Gross profit +Total income) –(total expenses)=1057800

MIKEBE LTD

S.F.P

AS AT 31-06-2016

NON – current Assets

Sh Sh

Fixtures & fittings 90000

Buildings 1140000

1230000

Current Assets

Cash at Bank 540500

Stock 918000

Cash in hand 30000

Debtors 818000 2306500

Total Assets 3536500

Capital and liabilities

Capital 685700

Add: Net Profit 1057800

Less: Drawings (95000)

1648500

Non- current liabilities

Bank loan 420000

Current liabilities

Creditors (Alc’s payable) 1700000

Total capital & Liabilities 2120000

**CORRECTION OF ERRORS**

* After posting of the transaction to the respective books of accounts a book keeper is expected to extract a trial balance.
* Provided the accounts are free from errors, the trial balance is expected to agree.
* However, there are some errors that do not affect the Trial balance agreement & others that affect the agreements of the trial balance.

**ERRORS NOT AFFECTING THE AGREEMENT OF TRIAL BALANCE**

1. Errors of omission.
2. Errors of commission
3. Errors of principle.
4. Compensating error.
5. Errors of original entry.
6. Complete reversal errors/Trans positional errors.

**1. Errors of omission** – This occurs where transactions is completely left out from the books of account i.e. it arises when the book keeper completely forget to record the transaction in the books of accounts.Example.Purchase of office equipment paid by cash 10000 which was completely omitted from the books of account.Correction:Dr.Office equipment A/c. Cr.Cash A/c

**2**. **Errors of omission** –This occurs where the correct amount is posted but in the wrong personal account .Eg a sale of goods on credit to **Jane Otieno** of 15000 recorded in the account of **Jane Atieno.Correction**:Dr.Jane Otieno 15000 ; Cr. Jane Atieno 15000

**3**.**Errors of principle** – This is where item is recorded in the wrong class of account.eg A motor vehicle repair 50000 in cash recorded in the motor vehicle account. **Correction** Dr. Motor vehicle repair A/c 50000; Cr Motor vehicle A/c 50000.

**4. Compensating errors –**This are errors that cancels each other i.e. it arises when the commitment of one error in the ledger account has its effect cancelled by an incidentally different error in another account.E.g. **Rent** account was overstated by 10000 as was the **sales** account.**Correction:** Dr Sales A/c 10000; Cr Rent A/c 10000.

**5. Errors of original entry-** This are errors where the original figure is incorrect yet the double entry is still observed using the incorrect figure i.e. it arises when the book keeper uses the wrong figure relating to an accounting transaction but proceeds to observe the double entry.

E**.**g. A purchase of goods worth 75000 in cash recorded as 57000.**Correction:** Dr Purchases A/c (75000 - 57000)1800; Cr Cash A/c (75000 - 57000)1800.

**6.** **Complete reversal errors/Trans positional errors –** This occurs when the correct account are used but each item is shown on the wrong site of the account i.e. Arises when the book keeper records an accounting transaction but using the wrong double entry on both accounts (instead of a debit entry a credit entry is made and vice versa) E.g. Stationary was bought of 28000 in cash but the ash account was debited and the stationary account was credited. **Correction:** Dr Stationery A/c (28000 \* 2)56000; Cr Cash A/c (28000 \* 2)56000.

**ERRORS AFFECTING THE AGREEMENT OF TRIAL BALANCE**

* These are errors when committed the trial balance will fail to agree.
* Any error that does not belong to the six above will be corrected through suspense account.

**1. Arithmetic error** i.e. i) Overcast/ overstatement; ii) Under cast/Understatement.

**2. Single entry transaction** i.e. transaction recorded by only one account.

**3. Wrong balancing of ledger**

**Example.** Correct the following error- If purchases was overstated by 1000 Cr. Purchases 1000; Dr. Suspense A/c 1000

**Example.** If purchases was understated by 1000

Cr. suspense A/c 1000; Dr. Purchases 1000

**Example.** If sales was understated by 2500

Dr. Suspense A/c; Cr sales A/c

**Example.** If sales were overstated by 2000

Dr Sales A/c 2000; Cr suspense A/c 2000

**Example.** If discount allowed was understated in the account by 5000

Dr. Discount allowed A/c 5000; Cr suspense A/c 5000

**Example.** If discount allowed was overstated by 5000

Dr. Suspense A/c 5000; Cr. Discount allowed A/c 5000

**Example.** The following data was extracted from the books of Kamau.As it is observed that the total debit exceeded the credit total with 30000.Upon careful investigation the following errors were received 1)The cash purchase of 232 has been recorded to cashbook only.

2) A receipt from debtor of 20700 had not been entered in the debtors A/c

3) Return outward had not been credited in the account by 6132.

4)2200 received from a debtor had been debited in the debtors A/c

Required. i) Show the journal entries to correct the above errors.

ii) Prepare suspense A/c as it will appear after corrections of errors.

**i)Journal entries**

|  |  |  |
| --- | --- | --- |
|  | Dr | Cr |
| * Sales A/c * Suspense A/c * Purchases A/c * Suspense A/c * Debtor A/c * Suspense A/c * Return outward * Suspense A/c * Debtors A/c * Suspense A/c | 1000  232  20700  6132  (2200\*2)4400 | 1000  232  20700  6132  (2200\*2)4400 |

ii)Suspense A/c

|  |  |
| --- | --- |
| Dr | Cr |
| Debtor A/c 20700  Return outwards 6132  Debtor (2200\*2) 4400  =  31232 | Balance as per question.(Trial balance) 30000  Sales A/c 1000  Purchase A/c 232  =  31232 |

The following trial balance was extracted from Zed limited and was observed that the total credit balance exceeded the debit balance by 16912000.After careful investigation the following errors were revealed ;i) Cash purchase of 11200000 had been recorded in the cashbook only

ii) An amount of 2240000 was recorded on the credit side of the discount allowed A/c instead of a debit entry.

iii) A motor vehicle repair of 8512000 in cash was recorded in the motor vehicle account instead

iv) A payment of 4368000 was never recorded to show that Bamabas paid for goods

v) K .suppliers received goods returned from his customers and no double entry was done the value of goods worth 5600000.

Required. Journal entry & suspense A/c

|  |  |  |
| --- | --- | --- |
|  | Dr | Cr |
| * Purchases A/c * Suspense A/c * Discount allowed A/c * Suspense A/c * Motor vehicle repair * Suspense A/c * Bamabas A/c * Suspense A/c * K .suppliers * Suspense A/c | 11200000  (2240000\*2)4480000  8512000  4368000  5600000 | 11200000  (2240000\*2)4480000  8512000  4368000  5600000 |

|  |  |
| --- | --- |
| Dr | Cr |
| Bamabas 4368000  Balance as per trial balance 16912000  =  2128000 | Purchase A/C 11200000  Discount Allowed 4480000  Return outward 5600000  =  21280000 |

Suspense A/c