Account Notes

1. Introduction to Accounts

By the end of the topic, students should be able to:-

(a) Describe basic accounting principles.
(b) Prepare ledgers by double entry principle.
(c) Extract trial balance from ledgers.
(d) Prepare trading, profit and loss account at the end of the trading period.
(e) Prepare balance sheet at the end of the trading period.

Book keeping involves recording of all business financial transactions in the books of accounts of a business or firm. Business financial transactions means receiving or giving of money or something of value done by a business or firm. For example: Makwaya commenced a business with a capital of 1,000,000/= or Makwaya purchased goods that worth 800,000/= or Makwaya sold goods for 600,000/=. Such transactions are recorded in books of accounts in a systematic way using book keeping or accounting principles. Moreover, business financial transactions are also known as business transactions or financial transactions.

Therefore, ***book keeping*** can be defined as the art of recording business financial transactions in a set of books in terms of money or money's worth. On the other hand, ***accounting*** can be referred as a systematic recording of all business transactions in the books of accounts, preparation of financial reports from the recorded business financial transactions and the interpretation of those financial reports. The interpretation of financial reports involves explaining the information contained on those prepared reports.

In business, books of accounts are needed for a number of reasons. Every trader who owns a business will frequently need to answer the following questions.

1. How is the business progress? Is it expanding or going down? How much profit or loss has it made?
2. How much cash does it have in hand (in office) and in bank?
3. How much does the business owe other business or individuals?
4. How much do other businesses or individuals owe the business?
5. What properties belong to the business and what are their values?
6. How much money or money's worth has the owner invested in the business?
7. How much money or money's worth has the owner taken out of the business?
8. How much money has the business incurred or spent on other expenses such as rent, wages, rates, electricity?

Therefore, proper maintained books of accounts provide the trader with answers to these questions or other similar questions. When a business maintains a proper accounting system, the following information is provided; and enables the trader to obtain the needed accounting information easily.

1. **Realization of profit or loss:** The purpose of establishing any business is to generate profit. Proper accounting system enables the trader to realize easily the profit or loss from trading operations by the business during the period of time.
2. **Realization of capital Status:** The capital here refers to the amount of money or money's worth the business owes to its owner. Proper accounting system enables the trader to realize the total amount of money and money's worth provided by the owner of the business and its status at the end of trading period.

3. **Realization of business assets:** Assets refers to the things owned by the business such as buildings, motor vehicle, furniture, office equipment, furniture goods for sale and cash. Proper accounting system enables the trader to realize the type and the value of the assets of the business.

4. **Realization of Liabilities of the business:** Liabilities refers to the total amount of money the business owes to other persons or other business. Proper accounting system enables the trader to realize the total amount of money the business owes other persons or businesses.
5. **Realization of trend of purchases:** Purchases refers to the total cost of goods bought for resale but not those goods bought for office use. The goods bought for office use are assets. Proper accounting system enables the trader to realize the trend of purchases of goods of the business.

6. **Realization of trend of sales:** Sales refers to the total value of goods sold to customers. Trading goods are the goods bought for resale at profit. Proper accounting system enables the trader to realize the trend of sales from the trading goods of the business.

7. **Realization of business expenditure:** Expenses refers to the payments for services received by the business in course of business operation such as wages, rent and transport. Proper accounting system enables the trader to realize the cost of expenses of the business and its trend.

Importance of Keeping Business Records

Proper kept business records helps

1. The trader to determine whether the business is making profit or loss.
2. The trader to determine the financial strength of the business.
3. The government to assess and compute a fair and reliable business tax.
4. Stakeholders and shareholders to make reliable decisions about the business.
5. The government to assess and evaluate the effects of policies on business operations.
6. Suppliers and manufacturers who sale trading goods to the business make reliable decisions about the business.
7. Employees to assess the amount of salaries, wages and other benefits paid to them by the business and make useful and reliable decision about their employment status.
8. Auditing of the books of accounts in control of the business finance.

A. The Double Entry Principle

This principle requires that each business transaction should be recorded twice. That is, every debit entry should have a corresponding credit entry of the same amount; and every credit entry should have a corresponding debit entry of the same amount. For example: If Jangala purchases goods that worth 70,000/= in cash; then Jangala must make two entries in his books of accounts to show the receipt of goods and to show the payment of the goods. In other words, the first entry will be done on the purchases account to show the receipt of goods; and the second entry of the transactio0n will be done on the cash account to show the payment of the goods.

The double entry principle states that every business financial transaction has two aspects: the receiving aspect and the giving aspect. When a business, say buys a table that worth 90,000/= for resale, and pays for the table, then the two aspects are:-

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a. **Receiving Aspect:** The receiving of something of value: That is, receiving the table whose value is 90,000/=; which is recorded in the purchases account to show the receipt of the table of such value.
b. **Giving Aspect:** The giving of money as the payment of the table. That is, the payment of 90,000/= as the cost of the received table. The payment done is recorded in the cash account to show the giving of money as the payment of the received table at that cost.

Therefore, the recording of these two aspects of a business transaction in the books of accounts of a business is called the double entry. Unless the book keeper correctly applies the double entry principle, they will not be able to record systematically the business financial transactions in the books of accounts. The book keeping system resulting from application of double entry principle is called the double entry book keeping system.

2. Books of Accounts

Businesses use two books of accounts: the main ledger and the subsidiary books. The ledger is the principle book of accounts. Subsidiary books of accounts are books of original entry that aid the main ledger.

The Main Ledger:

The ledger contains all accounts of the business. An account is a separate page in a ledger where we record transactions of the same type or transactions affecting a particular person. Each ledger account is given a name that indicates the kind of transactions that are recorded in it. A ledger looks as illustrated below.

Dr Cr

Date	Details	Folio	Amount	Date	Details	Folio	Amount

The page of ledger is divided into halves by a thick line or double lines as shown above. The left hand side is the debit side abbreviated by Dr and the right hand side is the credit side abbreviated by Cr. Each side has four columns titled Date, Details, Folio and Amount.

Date Column: It is a column for writing the date at which a particular transaction was done.

Details Column: Details column is also called Particulars column. It is a column for writing a short description of the kind of the transaction made on the given date.

Folio Column: It is a column for writing a page of reference of where the transaction has been recorded again in completing double entry recording.

Amounts Column: It is a column for writing the amount of money for the particular transaction made.

The number of ledger accounts we create (open) depends on the number of different kinds of transactions the business make. That is, if the business transactions involve paying wages, transport charges and rent, then the ledger will also contain accounts of those kinds of transactions. Examples of common ledger accounts are:-

Capital Account: In this account, cash or assets transferred to the business by the owner are recorded.

Cash Account: In this account, all cash received or cash paid out by the business are recorded.

Bank Account: In this account, all the money that is deposited with a bank into a business bank account, and the payments made through the business bank account are recorded. The payments through business bank account are usually made using a cheque.

Purchases Account: In this account, all purchases made by the business are recorded.

Sales Account: In this account, all sales made by the business are recorded. The sales of goods bought for resale becomes the value of goods sold to customers.

Expenses Account: In operating a business, the business incurs a number of expenses. An expense is the amount of money paid for services provided to a business or the amount of material used up by a business. When recording expenses in a ledger, we must open a separate account for each type of expense; and record each expense in its respective expense account.

However, in practice, two or more different types of expenses can be recorded in a single account. For instance, it is not harmful to have an account for recording both, rates and rent; or wages and salaries. This kind of combination of accounts is useful when the expenses are too small to be recorded in a separate account.

RECORDING BUSINESS TRANSACTIONS IN A LEDGER

Receiving and Giving Aspects of a Business Transaction

The double entry principle states that every business financial transaction has two aspects: the receiving aspect and the giving aspect. When a business, say buys a table that worth 90,000/= for resale, and pays for the table, then the two aspects are:-

a. **Receiving Aspect:** The receiving of something of value: That is, receiving the table whose value is 90,000/=; which is recorded in the purchases account to show the receipt of the table of such value.
b. **Giving Aspect:** The giving of money as the payment of the table. That is, the payment of 90,000/= as the cost of the received table. The payment done is recorded in the cash account to show the giving of money as the payment of the received table at that cost.

Debit and Credit Aspects of a Business Transaction

The receiving aspect of a business transaction is also known as a debit aspect of a business transaction, abbreviated as Dr. The giving aspect is also known as the credit aspect of a business transaction, abbreviated as Cr. That is to say, the receiving of money or something of value is called the debit, and giving money or something of value is called the credit.

In other words, the two aspects of any business financial transaction are the debit (which is the receiving aspect) and the credit (which is the giving aspect). Since the double entry principle requires that each business transaction should be recorded twice, and then it implies that in any business financial transaction, the book keeper records both, a debit entry and a credit entry in respective books of accounts. In recording a business transaction in an account, a debit entry is recorded on the debit side and a credit entry is recorded on the credit side of the account. For example: If Sammy sells goods in cash on 10th January 2009 that worth 35,000/=, then

(a) Sammy received cash of 35,000/= as the payment of goods sold; which is a debit aspect of the transaction. To show the receipt of money, the transaction is recorded in the cash account on the debit side as sales of 35,000/=. This is the first recording of the transaction.
(b) But also Sammy sold goods on exchange of cash received. That is, Sammy gave out goods to the buyer (customer) that worth 35,000/=, which is a credit aspect of a transaction. To show the giving of goods to the buyer, the transaction is also recorded on the sales account on the credit side as sales of 35,000/=. This is the second recording of the transaction. Hence, the transaction has already been recorded twice: on the cash account and on the sales account.

But if also on 15th January 2009, Sammy buys trading goods in cash, that worth 40,000/=, then

(a) Sammy gave out money to the seller for the goods received that worth 40,000/=, which is a credit aspect. To show the giving of money for the purchases done, the transaction is recorded on the cash account on the credit side as purchases of 40,000/=.
(b) But also Sammy received goods from the seller that worth 40,000/=, which is the debit aspect of the transaction. To show the receiving of the goods of such value, the transaction is recorded on the purchases account on the debit side as purchases of 40,000/=.

Altogether, the two transactions above will be recorded in three different accounts: In Cash account, Sales account and Purchases account as follows.

Cash Account (1)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Foli	Amount

						o	
10/1/2009	Sales		35,000	15/1/2009	Purchases		40,000

Sales Account (2)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
				10/1/2009	Cash		35,000

Purchases Account (3)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
15/1/2009	Cash		40,000				

Types of Business Transactions

In business, transactions may be made in cash or on credit. Therefore, we have two types of transactions: Cash transactions and Credit transactions.

(a) **Cash Transactions**: Cash transaction is a situation where by goods are transferred from the seller to the buyer (goods are bought or sold) in exchange for cash. As illustrated in the previous example, when you buy goods in cash, the entries for these transactions are to debit the purchases account and credit the cash account. Similarly, when selling goods in cash, the entries for these transactions are to debit the cash account and credit sales account.

(b) **Credit Transactions:** Credit transaction is a situation whereby the goods are transferred from the seller to the buyer (goods are bought or sold) but the payment is made later. Until the payment is made, the customer will owe the supplier for the goods transacted.

CASH TRANSACTIONS

Cash transactions involve transfer of goods from the seller to the buyer and the payment is made immediately in exchange of goods for cash. The recording of such transactions in a ledger is illustrated by the following example.

Example: Kichau started business on 1st June 2011 with a capital of 100,000/= and made the following transactions:

June 2: Bought office furniture	40,000/=	16: Paid sundry expenses	30,000/=
7: Bought goods	70,000/=	19: Cash sales	80,000/=
11: Sold goods	65,000/=	24: Paid wages	50,000/=

Required: Enter the above transactions in a ledger at the end of the month.

Solution:

In this example, the terms of transaction is not described as to whether the transaction was made on cash or on credit. If the transactions are made in cash, the word "in cash" may be omitted. But if the transaction was made on credit, the word "on credit" must be included to describe the terms in which the transaction was made. Therefore, all the transactions above were made in cash.

Moreover, furniture was bought for office use but not for resale, then it is an asset. It is therefore recorded by its transaction type as furniture. The goods bought for resale are also called purchases. The goods will be recorded as purchases. Assets and purchases have different meaning, implication and interpretation in the final accounts. Thus, furniture and purchases will be treated differently in the final accounts. The ledger accounts are presented below.

Cash Account (1)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
1/6/2011	Capital		100,000	2/6/2011	Furniture		40,000
11/6/2011	Sales		65,000	7/6/2011	Purchases		70,000
19/6/2011	Sales		80,000	16/6/2011	Sundry Exp		30,000
				24/6/2011	Wages		50,000

Capital Account (2)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
				1/6/2011	Cash		100,000

Sales Account (3)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
				11/6/2011	Cash		65,000
				19/6/2011	Cash		80,000

Furniture Account (4)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
2/6/2011	Cash		40,000				

Purchases Account (5)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
7/6/2011	Cash		70,000				

Sundry Expenses Account (6)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
16/6/2011	Cash		30,000				

Wages Account (7)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
24/6/2011	Cash		50,000				

3. Preparation of the Ledger

PREPARATION OF THE CASH ACCOUNT

The preparation of an account involves balancing and closing off the account. The totals of the two sides of the cash account are compared to determine the difference between them. The difference is called the balance carried down abbreviated as Balance c/d. The balance carried down is inserted above the total of the side with less total amount in order to balance the totals of the two sides. And the totals of the two sides must be inserted on the same line below the account.

The balance brought down (balance carried forward), abbreviated as Balance b/d is the balance carried down which is carried forward in the same account to the next trading period. The balance b/d is inserted below on the side with greater total, below the line containing the total amount of that side.

Therefore, the balance of the account is the balance brought down. If the total amount on the debit side is greater than that of the credit side, the balance carried down is inserted on the credit side while the balance brought forward is inserted on the debit side; hence it is a debit balance. But if the total amount in the credit side is greater than that of the debit side, the balance carried down is inserted on the debit side while the balance brought down is inserted on the credit side; hence it is a credit balance. However, the totals of the two sides may balance in which the balance carried down is zero. In such a case, we claim that the account has no balance.

If the balance of the account is to be transferred to another account, it must be transferred to the appropriate side of the account. That is, a credit balance must be transferred to the credit side of the account to which it is transferred; and so does a debit balance, it transferred to the debit side.

However, the cash account will always have a debit balance. This is because in the cash account we categorize the income on the debit side and the expenses of that income on the credit side. In that, we spend the income which the business has gained. We cannot, on the other hand, spend what we do not have. And therefore we can only spend less or all the income gained.

PREPARATION OF LEDGER ACCOUNTS

Preparation of ledger accounts means entering all the transactions in the corresponding ledger account using double entry system. The accounts are then balanced and closed. We have already discussed in the previous section on how to prepare cash account. We extend the concept of preparing the cash account to preparing the general ledger. The following examples illustrate the preparation of ledger accounts.

Example: Kichau started business on 1st June 2011 with a capital of 100,000/= and made the following transactions:

June 2: Bought office furniture	40,000/=	16: Paid sundry expenses	30,000/=
7: Bought goods	70,000/=	19: Cash sales	80,000/=
11: Sold goods	65,000/=	24: Paid wages	50,000/=

Required:

Prepare ledger accounts at the end of the month.

Solution:

Cash A/C (1)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
1/6/2011	Capital		100,000	2/6/2011	Furniture		40,000
11/6/2011	Sales		65,000	7/6/2011	Purchases		70,000
19/6/2011	Sales		80,000	16/6/2011	Sundry Exp		30,000
				24/6/2011	Wages		50,000
				30/6/2011	Bal c/d		55,000
			245,000				**245,000**
1/7/2011	***Bal b/d***		***55,000***				

Capital A/C (2)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
30/6/2011	Bal c/d		100,000	1/6/2011	Cash		100,000
				1/7/2011	***Bal b/d***		***100,000***

Sales A/C (3)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
30/6/2011	Bal c/d		145,000	11/6/2011	Cash		65,000
				19/6/2011	Cash		80,000
			145,000				**145,000**
				1/7/2011	***Bal b/d***		***145,000***

Furniture A/C (4)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
2/6/2011	Cash		40,000	30/6/2011	Bal c/d		40,000
1/7/2011	***Bal b/d***		***40,000***				

Purchases A/C (5)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
7/6/2011	Cash		70,000	30/6/2011	Bal c/d		70,000
1/7/2011	***Bal b/d***		***70,000***				

Sundry Expenses A/C (6)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
16/6/2011	Cash		30,000	30/6/2011	Bal c/d		30,000
1/7/2011	***Bal b/d***		***30,000***				

Wages A/C (7)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
24/6/2011	Cash		50,000	30/6/2011	Bal c/d		50,000
1/7/2011	***Bal b/d***		***50,000***				

4. Credit Transaction

Credit transaction is of two types: sales on credit and purchases on credit. Sales on credit is situation where by goods are sold to the customer but the payment is made later. A purchase on credit is a situation where the goods are bought from the seller and the payment is made later. In such a case, a debtor or creditor accounts are opened for recording all credit transactions associated to them.

SALES ON CREDIT

When goods are sold on credit, three accounts are taken into consideration on recording the transaction. The accounts to be considered are the cash account, the sales account and the debtors account. For instance, If on 10th August, Japhari sold goods on credit to Amina that worth 35,000/=, the transaction is recorded as follows:

(a) If Japhari sold goods on credit to Amina, then
  (i) Amina, who is the buyer, is a debtor and Japhari, who is the seller of the goods, is the creditor.
  (ii) A debtor's account (Amina's account) will be opened to record all credit transactions due to her.

(b) If the goods sold on credit to Amina were not paid until the accounts are prepared, then

(i) Japhari did not receive cash on course of selling goods on credit to Amina. The transaction is not recorded in the cash account.

(ii) But Japhari issued goods on credit to Amina despite the fact that the goods were not paid immediately on exchange for goods. The transaction is recorded in the sales account.

(iii)To complete the double entry of the transaction, the transaction is also recorded in the debtor's account (Amina's Account)

(c) If Amina paid some or all the money before the accounts are prepared, then

(i) Japhari received some or whole of the money from Amina. The money received (some or whole of it) is recorded in the cash account.

(ii) Japhari issued goods on credit to Amina; the goods sold are recorded in the sales account despite the fact that the payment was not made immediately on exchange of the goods issued.

(iii)To complete the double entry of the transaction, the transaction is also recorded in the debtor's account including the amount Amina pays Japhari.

Generally, when goods are sold on credit, the personal account of the customer is debited to show the receipt of goods by the customer; and the respective amount due to him. Then the transaction is credited on the sales account with the value of goods sold during the trading period as business parts with the goods.

Example: Kichau started business on 1st June 2011 with a capital of 100,000/=, and made the following transactions.

June 2: Bought office furniture in cash	40,000/=	19: Cash sales	80,000/=
7: Bought goods in cash	70,000/=	20: Credit sales to Kimbau	60,000/=
11; Sold goods in cash	65,000/=	25: Paid wages	50,000/=
16: Paid sundry expenses	30,000/=	27: Received cash from Kimbau	45,000/=

Required:

Prepare ledger accounts at the end of the month.

Solution: The ledger accounts are presented as follows:

Cash A/C (1)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
1/6/2011	Capital		100,000	2/6/2011	Furniture		40,000
11/6/2011	Sales		65,000	7/6/2011	Purchases		70,000
19/6/2011	Sales		80,000	16/6/2011	Sundry exp		30,000
27/6/2011	Kimbau		45,000	25/6/2011	Wages		50,000
				30/6/2011	Bal c/d		100,000
			290,000				**290,000**
1/7/2011	***Bal b/d***		***100,000***				

Capital A/C (2)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount

30/6/2011	Bal c/d		100,000	1/6/2011	Cash		100,000
				1/7/2011	***Bal b/d***		***100,000***

Sales A/C (3)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
30/6/2011	Bal c/d		205,000	11/6/2011	Cash		65,000
				19/6/2011	Cash		80,000
				20/6/2011	Kimbau		60,000
			205,000				**205,000**
				30/06/2011	Bal b/d		**205,000**

Furniture A/C (4)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
2/6/2011	Cash		40,000	30/6/2011	Bal c/d		40,000
1/7/2011	***Bal b/d***		***40,000***				

Purchases A/C (5)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
7/6/2011	Cash		70,000	30/6/2011	Bal c/d		70,000
1/7/2011	***Bal b/d***		***70,000***				

Sundry Expenses A/C (6)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
16/6/2011	Cash		30,000	30/6/2011	Bal c/d		30,000
1/7/2011	***Bal b/d***		***30,000***				

Wages A/C (7)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
24/6/2011	Cash		50,000	30/6/2011	Bal c/d		50,000
1/7/2011	***Bal b/d***		***50,000***				

Kimbau's A/C (8)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
20/6/2011	Cash		60,000	27/6/2011	Cash		45,000

				30/6/2011	Bal c/d		15,000
			60,000				**60,000**
1/7/2011	***Bal b/d***		***15,000***				

PURCHASES ON CREDIT

When goods are purchased on credit, three accounts are taken into consideration in recording the transaction. The accounts to be considered are the cash account, purchases account and the creditor's account. For instance: If on 15th June Japhari purchased goods on credit from Biwi, then

(a) Japhari is a debtor while Biwi is a creditor
(b) If the goods purchased on credit were not paid the accounts are prepared, then
  (i) Japhari did not give money to Biwi on exchange of the goods; the transaction is not recorded in the cash account.
  (ii) But Japhari received goods despite not paying cash immediately on exchange of the goods, the transaction is recorded in the purchases account.
  (iii)To complete the double entry of the transaction, the transaction is also recorded in the creditors account (Biwi's Account)
(c) If Japhari pays some or all the money before the accounts are prepared, then
  (i) Japhari gave out money to Biwi as the payment of the goods that were purchased on credit. The transaction is recorded in the cash account.
  (ii) Japhari received goods from purchases on credit; the transaction is recorded in the purchases to show the receipt of goods.
  (iii)To complete the double entry of the transaction, the transaction is also recorded in Biwi's account.

Generally, when goods are bought on credit, the transaction is first debited on the purchases account to show the receipt of the goods by the business. The transaction is then credited on the supplier's account (creditor's account) to show that he has parted with goods and the amount due him. The following example illustrates purchases on credit.

Example: Kichau started business on 1st June 2011 with a capital of 100,000/=, and made the following transaction.

June 2: Bought office furniture in cash	40,000/=	20: Credit sales to Kimbau	60,000/=
7: Bought goods	70,000/=	22: Credit purchases from Mbaga	65,000/=
11: Cash sales	65,000/=	25: Paid wages	50,000/=
16: Paid sundry expenses	30,000/=	27: Received cash from Kimbau	60,000/=
19: Cash sales	80,000/=	28: Paid Mbaga	50,000/=

Required:

Prepare ledger accounts at the end of the month.

Solution: We have already discussed how to prepare ledger accounts involving sales on credit. Credit purchases are dealt in the same way as credit sales. The ledger accounts are presented below

Cash A/C (1)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Foli	Amount

						o	
1/6/2011	Capital		100,000	2/6/2011	Furniture		40,000
11/6/2011	Sales		65,000	7/6/2011	Purchases		70,000
19/6/2011	Sales		80,000	16/6/2011	Sundry Exp		30,000
27/6/2011	Kimbau		60,000	25/6/2011	Wages		50,000
				28/6/2011	Mbaga		50,000
				30/6/2011	Bal c/d		65,000
			305,000				**305,000**
1/7/2011	***Bal b/d***		***65,000***				

Capital A/C (2)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
30/6/2011	Bal c/d		100,000	1/6/2011	Cash		100,000
				1/7/2011	***Bal b/d***		***100,000***

Sales A/C (3)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
30/6/2011	Bal c/d		205,000	11/6/2011	Cash		65,000
				19/6/2011	Cash		80,000
				20/6/2011	Kimbau		60,000
			205,000				**205,000**
				1/7/2011	***Bal b/d***		***205,000***

Purchases A/C (4)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
7/6/2011	Cash		70,000	30/6/2011	Bal c/d		135,000
22/6/2011	Mbaga		65,000				
			135,000				135,000
1/7/2011	***Bal b/d***		***135,000***				

Furniture A/C (5)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
2/6/2011	Cash		40,000	30/6/2011	Bal c/d		40,000
1/7/2011	***Bal b/d***		***40,000***				

Sundry Expenses A/C (6)

Dr.							Cr
Date	Details	Folio	Amount	Date	Details	Folio	Amount
16/6/2011	Cash		30,000	30/6/2011	Bal c/d		30,000
1/7/2011	***Bal b/d***		***30,000***				

Wages A/C (7)

Dr.							Cr
Date	Details	Folio	Amount	Date	Details	Folio	Amount
24/6/2011	Cash		50,000	30/6/2011	Bal c/d		50,000
1/7/2011	***Bal b/d***		***50,000***				

Kimbau's A/C (8)

Dr.							Cr
Date	Details	Folio	Amount	Date	Details	Foli o	Amount
20/6/2011	Cash		60,000	27/6/2011	Cash		60,000
				30/6/2011	Bal c/d		000
			60,000				**60,000**
1/7/2011	***Bal b/d***		***000***				

Mbaga's A/C (9)

Dr.							Cr
Date	Details	Folio	Amount	Date	Details	Folio	Amount
28/6/2011	Cash		50,000	22/6/2011	Cash		65,000
30/6/2011	Bal c/d		15,000				
			65,000				65,000
				1/7/2011	***Bal b/d***		***15,000***

5. Trial Balance

In double entry system, every business transaction is entered twice in ledger accounts. The rule of entering these transactions twice is that, if in one account, a transaction is debited then, it is credited in the other corresponding account; and vice versa. That is, every debit entry has its corresponding credit entry of the same amount, as well as, every credit entry has its corresponding debit entry of the same amount. Consequently, the total amount of debit balances is equal to the total amount of credit balances. In other words, the sum of debit balances is equal to the sum of credit balances.

The list of these balances is called the trial balance. Therefore, a trial balance is a statement that shows a list of debit and credit balances of the accounts of a business extracted from the ledger. The trial balance helps in checking the numerical accuracy of arithmetic recording of business transactions in double entry system at any date in the given trading period.

Normally the accounts are named to aid easy recording in a trial balance. In the last example above, the accounts have been numbered from 1 to 9. To extract a trial balance, the following procedures may be used.

(a) List the accounts in the first column in the order they have been numbered, the second column with account name, the third column with Dr and the last column with Cr as shown below.
(b) Record debit balances on the debit column and credit balances on the credit column.
(c) Sum up all debits balances and write it below the debit column; and so does for the credit balance.
(d) Check if the totals are equal; because they must balance. If the totals do not balance, some transactions might have not been recorded properly in double entry system, calculation of totals in the accounts or in the trial balance might have been mistaken.
(e) The account with zero balance may be omitted in the trial balance.
(f) The trial balance from the previous example problem is given below.

S/No	Name of Account	Dr	Cr
1	Cash A/C	65,000	
2	Capital A/C		100,000
3	Sales A/C		205,000
4	Purchases A/C	135,000	
5	Furniture A/C	40,000	
6	Sundry Expenses A/C	30,000	
7	Wages A/C	50,000	
8	Kimbau's A/C (Debitor)	000	
9	Mbaga's A/C (Creditor)		15,000
		320,000	**320,000**

Example: Siame commenced business on 1st January 2012 with a capital of 100,000/=, and made the following transactions.

January 2; Purchased goods in cash	80,000/=
3: Sold goods on credit to Mkili	32,000/=
5: Sold goods in cash	65,000/=
7: Sold goods in cash	42,000/=
8: Sold goods on credit to Kipala	50,000/=
10: Cash purchases	70,000/=
11: Sold goods on credit to Mmao	63,000/=
14: cash sales	48,000/=
15: Credit purchases from Likonde	47,000/=
16: Paid wages	60,000/=
18: Purchased goods in cash	55,000/=
20: Purchased office furniture	75,000/=
21: Credit Purchases from Linga	68,000/=
22: Received cash from Mkili	32,000/=
25: Credit purchases from Mvula	76,000/=
26: Received cash from Mmao	48,000/=
27: Paid Likonde	47,000/=
28: Paid Mvula	66,000/=
29: Cash sales	60,000/=

Required:

(a) Prepare ledger accounts at the end of the month.
(b) Extract trial balance at the end of the month.

Solution:

(a) Ledger accounts at the end of the month are presented below.
Transactions made on 3/1/2012, 8/1/2012, 11/1/2012, 15/1/2012, 21/1/2012 and 25/1/2012 are not recorded in the cash account; unless the payment is made.

Cash A/C (1)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
1/1/2012	Capital		120,000	2/1/2012	Purchases		80,000
5/1/2012	Sales		65,000	10/1/2012	Purchases		70,000
7/1/2012	Sales		82,000	16/1/2012	Wages		60,000
14/1/2012	Sales		68,000	18/1/2012	Purchases		55,000
22/1/2012	Mkili		32,000	20/1/2012	Furniture		75,000
26/1/2012	Mmao		48,000	27/1/2012	Likonde		47,000
29/1/2012	Sales		60,000	28/1/2012	Mvula		66,000
				31/1/2012	Bal c/d		22,000
			475,000				**475,000**
	Bal b/d		***22,000***				

Capital A/C (2)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
30/1/2012	Bal c/d		120,000	1/1/2012	Cash		120,000
				1/2/2007	***Bal b/d***		***120,000***

Sales A/C (3)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
30/4/2007	Bal c/d		420,000	3/1/2012	Cash		32,000
				5/1/2012	Cash		65,000
				7/1/2012	Cash		82,000
				8/1/2012	Cash		50,000
				11/1/2012	Cash		63,000
				14/1/2012	Cash		68,000
				29/1/2012	Cash		60,000
			420,000				**360,000**
				1/2/2012	***Bal b/d***		***420,000***

Mkili's A/C (4)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
3/1/2012	Cash		32,000	30/1/2012	Cash		32,000
				31/1/2012	Bal c/d		000
			32,000				32,000
1/2/2012	***Bal b/d***		***000***				

Kipala's A/C (5)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
8/1/2012	Cash		50,000	30/2/2012	Bal c/d		50,000
1/2/2012	***Bal b/d***		***50,000***				

Mmao's A/C (6)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
11/1/2012	Cash		70,000	26/1/2012	Cash		48,000
				31/1/2012	Bal c/d		15,000
			63,000				**63,000**
1/2/2012	***Bal b/d***		***15,000***				

Purchases A/C (7)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
2/1/2012	Cash		80,000	31/1/2012	Bal c/d		396,000
10/1/2012	Cash		70,000				
15/1/2012	Cash		47,000				
18/1/2012	Cash		55,000				
21/1/2012	Cash		68,000				
25/1/2012	Cash		76,000				
			396,000				396,000
1/2/2012	***Bal b/d***		***396,000***				

Likonde's A/C (8)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
27/1/2012	Cash		47,000	15/1/2012	Cash		47,000
31/1/2012	***Bal c/d***		***000***				
			47,000				47,000
				1/2/2012	***Bal b/d***		***000***

Linga's A/C (9)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
31/1/2012	Bal c/d		68,000	21/1/2012	Cash		68,000
				1/2/2012	***Bal b/d***		***68,000***

Mvula's A/C (10)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
28/1/2012	Cash		66,000	25/1/2012	Cash		76,000
31/1/2012	Bal c/d		10,000				
			76,000				**76,000**
				1/2/2012	***Bal b/d***		***10,000***

Wages A/C (11)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
16/1/2012	Cash		60,000	31/1/2012	Bal c/d		60,000
1/2/2012	***Bal b/d***		***60,000***				

Furniture A/C (12)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
20//1/2012	Cash		75,000	31/1/2012	Bal c/d		75,000
1/2/2012	***Bal b/d***		***75,000***				

(b) The trial balance at the end of the month.

Trial balance as at 31/1/2012

S/No	**Name of Account**	**Dr**	**Cr**
1	Cash	22,000	
2	Capital		120,000
3	Sales		420,000
4	Mkili (Debtor)	000	
5	Kipala (Debtor)	50,000	
6	Mmao (Debtor)	15,000	
7	Purchases	396,000	
8	Likonde (Creditor)		000
9	Linga (Creditor)		68,000
10	Mvula (Creditor)		10,000
11	Wages	60,000	
12	Furniture	75,000	
		618,000	**618,000**

6. Final Accounts

The purpose of establishing business is to generate profit. Despite aiming at generating Profit, loss may also be generated. The determination of profit or loss made by a business is done in final accounts. The final accounts include the trading account, profit and loss account and Balance sheet.

TRADING ACCOUNT

The purpose of this account is to determine the gross profit or loss the business has generated. The gross profit is the excess of sales over the cost of goods sold during the trading period. The cost of goods sold includes direct expenses incurred in making the goods in saleable condition. These

expenses include carriage expenses in bringing the goods in the trading premises. Therefore, the cost of goods sold is represented by the value of goods purchased during the trading period.
The trading account is prepared after preparing the ledger accounts at the end of the trading period; and then comparing the sales over purchases. Moreover, the balance of the purchases account is transferred to the debit side of the trading account, and so does the balance of sales account is transferred to the credit side of the trading account.

PROFIT AND LOSS ACCOUNT

The purpose of this account is to determine the net profit or loss generated during the trading period. To determine the net profit or loss, the balance of the trading account is reduced by the expenses incurred during the trading period. Follow carefully in the following example.
Generally, the trading account shows the gross profit or loss generated during the trading period. Profit and loss account shows the net profit or loss generated during the trading period. If the business has generated the net profit, the capital increases. But if the business has generated a net loss, the capital decreases. The trading account may be combined with profit and loss account to have a single account called trading, profit and loss account.

Example 6: Namkuha's trial balance as at 31/12/2009 extracted from his business ledger was as presented below.

S/No	**Name of Account**	**Dr**	**Cr**
1	Cash	90,100	
2	Capital		140,000
3	Sales		194,100
4	Purchases	188,500	
5	Transport	5,500	
6	Wages	50,000	
		334,100	**334,100**

Required: Prepare
(a) Trading account
(b) Profit and loss account
(c) Trading, profit and loss account.

Solution:
(a) Trading account

Trading Account as at 31/12/2009

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
31/12/2009	Purchases		188,500	31/12/2009	Sales		194,100

31/12/2009	Gross Profit c/d		5,600				
			194,100				**194,100**
				1/1/2010	Gross Profit b/d		5,600

(b) Profit and loss account

Profit and loss account as at 31/12/2009

Dr **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
				1/1/2010	Gross profit b/d		5,600
31/12/2009	Transport		5,500		Net loss c/d		49,900
31/12/2009	Wages		50,000				
			55,500				**55,500**
1/1/2010	Net loss b/d		**49,900**				

(c) Trading, profit and loss account

Trading, profit and loss Account as at 31/12/2009

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
31/12/2009	Purchases		188,500	31/12/2009	Sales		194,100
31/12/2009	Gross Profit c/d		5,600				
			194,100				**194,100**
				1/1/2010	Gross Profit b/d		5,600
31/12/2009	Transport		5,500	31/12/2009	Net loss c/d		49,900
31/12/2009	Wages		50,000				
			55,500				**55,500**
1/1/2010	Net loss b/d		49,900				

EFFECTS OF CLOSING AND OPENING STOCKS

In practical business, it is not always that the purchased goods for sale will all be sold during the trading period. The unsold goods at the end of the trading period is called the closing stock. The closing stock at the given trading period becomes the opening stock at the next trading period. Both, opening stock and closing stock affect the trading account such that, the value of the closing stock is subtracted from the total value of goods available for sale during the trading period. The subtraction of the closing stock is done on the debit side of the trading account. Similarly, the opening stock is added to the total value of goods available for sale at the given trading period. Examples below illustrate the affection of opening and closing stocks on trading account.

Example: The following trial balance was extracted from Mkunda's books of accounts at the end of June 2005. The opening stock worth 50,000/= and the closing stock worth 40,000/=. Prepare profit and loss account.

S/No	Name of Account	Dr	Cr
1	Cash	95,000	
2	Capital		100,000
3	Sales		160,000
4	Purchases	90,000	
5	Rent	25,000	
6	Wages	35,000	
7	Transport	15,000	
		260,000	**260,000**

Solution: Cost of goods sold = Purchases + Opening stock – closing stock.

Trading, profit and loss Account as at 31/12/2005

Dr. **Cr**

Details	Folio	Amount	Details	Folio	Amount
Purchases		90,000	Sales		160,000
Add: Opening stock		50,000			
		140,000			
Less: Closing stock		40,000			
Cost of goods sold		100,000			
Gross profit c/d		60,000			
		160,000			**160,000**
			Gross profit b/d		60,000
Rent		25,000	Net loss c/d		15,000
Wages		35,000			
Transport		15,000			
		75,000			**75,000**
Net loss b/d		15,000			

7. Balance Sheet

Balance sheet is one of the final accounts of a business that shows the financial position of the business at the end of the trading period. Balance sheet compares the business assets and the business liabilities. But what do we mean by assets and liabilities in relation to business?

Assets of the business

Assets refer to the things owned by a business that support the operation of the business. Examples of business assets are buildings, motor vehicles, office furniture, office equipment, goods for resale and cash. Therefore, assets of a business are resources which belong to the business which support the operation of the business. These resources are of two types: Fixed assets and current assets.

(a) Fixed Assets

These are resources invested in a business to support the operation of the business. They are not goods bought for resale. Fixed assets remain in the business for more than one trading period; usually more than one year. Resources are called fixed assets if the resources are bought not for resale, if their uses in the office support the operation of the business and if they are of long term resources.

(b) Current Assets

Current assets are the assets which support the operation of the business in a given trading period. These resources are of short term basis since they can be converted easily in cash. Examples of current assets are stocks, Cash (in hand and in Bank), debtors etc.

Liabilities of the business

Liabilities are claims of the business assets. It is the total amount of money the business owes to other persons or other business. Liabilities are of two types: Current liabilities and long term liabilities.

(a) Current Liabilities

These are the debts that the business has to pay in a given trading period. They are the claims redeemed in a given trading period. Examples of current liabilities are creditors and bank overdraft.

(b) Long term liabilities

These are claims to the business that cannot be redeemed/repaid within a trading period. They are usually redeemed/paid after more than one year. Examples of such long term liabilities are capital and loans.

The Capital of the business

The capital is the amount of money the owner transfers from his personal account to the business account to make the business start operating.

Preparation of a Balance sheet

In preparing a balance sheet, various liabilities are shown on the debit side while various assets are shown on the credit side. Moreover, a balance sheet is prepared after having determined the profit or loss that the business has generated in a given trading period. The following examples illustrate how to prepare a balance sheet.

Example: The following trial balance was extracted from Kazimoto's books of accounts at 31/12/2010

S/No	**Name of Account**	**Dr**	**Cr**
1	Cash	260,000	
2	Capital		350,000
3	Sales		120,000
4	Purchases	70,000	
5	Furniture	70,000	
6	Sundry Expenses	70,000	
7	Salary	30,000	
		470,000	**470,000**

Required:

(a) Trading, profit and loss account
(b) Balance sheet.

Solution:
(a) Trading, profit and loss account as at 31/12/2010

Dr. **Cr**

Details	Folio	Amount	Details	Folio	Amount
Purchases		70,000	Sales		120,000
Gross profit c/d		50,000			
		120,000			**120,000**
			Gross profit b/d		50,000
Sundry Exp		70,000	Net loss c/d		50,00
Salary		30,000			
		100,000			**100,000**
Net loss b/d		50,000			

(b) Balance sheet as at 31/12/2010

Dr. **Cr**

Liabilities	Folio	Amount	Assets	Folio	Amount
Capital		350,000	Fixed assets		
Less: Net loss		50,000	- Furniture		40,000
			Current Asset		
			- Cash		360,000
		300,000			**300,000**

Note:
(a) Capital + Liabilities = Assets
(b) Assets = Fixed assets + Current assets
(c) Liabilities = Current liabilities + Long term liabilities.

Example: Niuka's trial balance as at 31/12/2009 extracted from his ledgers was as presented below.

S/No	**Name of Account**	**Dr**	**Cr**
1	Cash at bank	88,800	
2	Capital		190,000
3	Sales		274,800
4	Purchases	320,000	
5	Rent	10,000	
6	Wages	47,500	
7	Mussa (debtor)	8,500	
8	Joseph (creditor)		10,000
		474,800	**474,800**

Required:
(a) Trading, profit and loss account
(b) Balance sheet.
Solution:

(a) Trading, profit and loss account as at 31/12/2009

Dr. **Cr**

Details	Folio	Amount	Details	Folio	Amount
Purchases		320,000	Sales		274,800
			Gross loss c/d		45,200
		320,000			**320,000**
Gross loss b/d		45,200	Net loss c/d		102,700
Rent		10,000			
Wages		47,500			
		102,700			**102,700**
Net loss b/d		102,700			

(b) Balance sheet as at 31/12/2010

Dr. **Cr**

Liabilities	Folio	Amount	Assets	Folio	Amount
Capital		190,000	Current assets		
Less: Net loss		102,700	- Cash in hand		88,800
		87,300	- Debtor		8,500
Current liabilities					
Creditor		10,000			
		97,300			**97,300**

8. Drawings

In practical business, the owner of the business may withdraw some money from the business for personal use or may take goods from the business. When the owner of the business draws cash out of the business to meet his private expenses, the amount so withdrawn is called drawings.

If the owner takes money out of the business for personal use, the cash account is credited and it will be debited in the drawings account. And so does when the owner takes goods from the business for personal use. If goods are drawn from the business instead of drawing cash, the goods are charged at selling price. At the end of the trading period, the drawings are transferred to the balance sheet on the liabilities side to deduct the net profit. That is, drawings affect the balance sheet such that, it reduces the capital of the business. The following example illustrates how to handle drawings in ledger accounts and in final accounts.

Example: Kichau started business on 1st June 2011 with a capital of 100,000/=, and made the following transactions.

June 2: Bought furniture 40,000/=

7: Bought goods 70,000/=

11: Sold goods 65,000/=

16: Paid sundry expenses 30,000/=

19: Cash sales 80,000/=

24: Paid wages 50,000/=

26: Withdrew cash 30,000/=

Required:

(a) Prepare ledgers at the end of the month.
(b) Extract trial balance.
(c) Prepare trading, profit and loss account.
(d) Present a balance sheet.

Solution:

Cash A/C (1)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
1/6/2011	Capital		100,000	2/6/2011	Furniture		40,000
11/6/2011	Sales		65,000	7/6/2011	Purchases		70,000
19/6/2011	Sales		80,000	16/6/2011	Sundry Exp		30,000
				24/6/2011	Wages		50,000
				26/6/2011	Drawings		30,000
				30/6/2011	Bal c/d		25,000
			245,000				**245,000**
1/7/2011	***Bal b/d***		***25,000***				

Capital A/C (2)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
30/6/2011	Bal c/d		100,000	1/6/2011	Cash		100,000
				1/7/2011	***Bal b/d***		***100,000***

Sales A/C (3)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
30/6/2011	Bal c/d		145,000	11/6/2011	Cash		65,000
				19/6/2011	Cash		80,000
			145,000				**145,000**
				1/7/2011	***Bal b/d***		***145,000***

Furniture A/C (4)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
2/6/2011	Cash		40,000	30/6/2011	Bal c/d		40,000
1/7/2011	***Bal b/d***		***40,000***				

Purchases A/C (5)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Foli	Amount

						o	
7/6/2011	Cash		70,000	30/6/2011	Bal c/d		70,000
1/7/2011	***Bal b/d***		***70,000***				

Sundry Expenses A/C (6)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
16/6/2011	Cash		30,000	30/6/2011	Bal c/d		30,000
1/7/2011	***Bal b/d***		***30,000***				

Wages A/C (7)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
24/6/2011	Cash		50,000	30/6/2011	Bal c/d		50,000
1/7/2011	***Bal b/d***		***50,000***				

Drawings A/C (8)

Dr. **Cr**

Date	Details	Folio	Amount	Date	Details	Folio	Amount
24/6/2011	Cash		30,000	30/6/2011	Bal c/d		30,000
1/7/2011	***Bal b/d***		***30,000***				

Trial Balance as at 30/6/2011

S/No	**Name of Account**	**Dr**	**Cr**
1	Cash	260,000	
2	Capital		350,000
3	Sales		120,000
4	Purchases	70,000	
5	Furniture	70,000	
6	Sundry Expenses	70,000	
7	Wages	30,000	
		470,000	**470,000**

Trading, profit and loss account as at 30/6/2011

Dr. **Cr**

Details	Folio	Amount	Details	Folio	Amount
Purchases		70,000	Sales		145,000
Gross profit c/d		75,000			
		145,000			**145,000**
			Gross profit b/d		75,000
Sundry Exp		30,000	Net loss c/d		5,000
Wages		50,000			
		80,000			**80,000**
Net loss b/d		5,000			

Furniture and drawing items have not been used in preparing this account. They are used in preparing a balance sheet.

Balance sheet as at 30/60/2011

Dr. **Cr**

Liabilities	Folio	Amount	Assets	Folio	Amount
Capital		100,000	Fixed asset		
Less: Net loss		5,000	- Furniture		40,000
Less: Drawings		30,000	Current asset		
			- Cash		25,000
		65,000			**65,000**