

FINANCIAL ACCOUNTING 120

UNIT ONE: INTRODUCTION TO FINANCIAL ACCOUNTING

After you have studied this unit, you should be able to:

- Define financial accounting
- Explain the purpose of book keeping
- Explain the purpose of accounting
- Define business transactions
- Identify and explain types of business transactions
- List the main users of accounting information and explain the accounting information they are interested in.

INTRODUCTION

This unit introduces what financial accounting is and emphasises the reasons why accounting information is prepared.

ACCOUNTING: LANGUAGE OF BUSINESS

Accounting is said to be the language of business. It describes the transactions entered into by all kinds of organisations. A language is a means of social communication and involves a flow of information from one person to one or more other persons. As a language of business, it has words and terms that mean one thing in accounting, but whose meaning is completely different in ordinary usage. As with other languages, fluency in accounting language comes after a certain amount of practice.

Definition of Financial Accounting:

Financial Accounting can be defined as a branch of accounting that serves the needs of both internal and external decision makers. Financial Accounting is made of two phases: the record-making phase (commonly known as book-keeping) and the summarising phase.

Book keeping is the recording of business transactions which involve the transfer of money or money's worth to or from the business, as they occur, in the appropriate books of account, whether manually or computerised.

There are two main purposes of book keeping:

- To provide a record of trading from which, periodically, financial accounts can be produced.
- To provide a means of controlling the finances of the business.

The **summary phase** of financial accounting is concerned with classifying and summarising data, and the communication of such information to the owners of the business and those allowed to receive this information.

The main purpose of financial accounting is to provide information about the performance and position of a business to enable the users thereof to make assessments and decisions on the basis of this information.

NOTE: from the definitions given above, you should have noticed that accounting is not a synonym for book keeping. Book keeping is merely the record making phase of accounting.

THE PURPOSE OF ACCOUNTING.

The primary purpose of accounting is that of providing information which will help users make decisions. A business owner wants his or her accounting system to produce answers to the following questions:

- | | | |
|-------|---------------------------------------|------------------------|
| (i) | How well have I done? | (Profitability) |
| (ii) | What does the business own? | (Assets) |
| (iii) | What does the business owe to others? | (Accounts Payables) |
| (iv) | What is owed to the business? | (Accounts receivables) |

A traditional purpose of accounting has been that of stewardship, which implies that a financial statement is made to report events, performance or position.

THE ROLE OF ACCOUNTING

Accounting is concerned with the provision of economic information which will be useful to those directly and to some extent indirectly involved with an organisation.

THE CONCEPTUAL FRAME WORK

It is a statement of principles which provide generally accepted guidance for the development of new reporting practices and for challenging and evaluating the existing practice. The structure of most conceptual frame works is along the following:

- (a) Who are the users of financial information?
- (b) What are the information needs of users?
- (c) What types of financial statements will best satisfy their needs?
- (d) What are the characteristics of financial statements which meets these needs?
- (e) What are the rules for measuring items in the financial statements?

BUSINESS TRANSACTIONS

In defining book keeping, we did mention that book keeping records business transactions. What is then is a business transaction? **A business transaction is the act of buying and selling of goods and /or services.** It also includes the act of lending or borrowing money.

There are basically two types of business transactions that you will be meeting in your study of financial accounting – cash and credit transactions.

- a) **Cash transactions:** for you to understand what cash transactions are, you should first understand the term cash as used in financial accounting context. Cash could be either cheques, cash in hand or petty cash. Therefore, cash transactions are those transactions where the transfer of ownership of goods or the provision of services, takes place at the same time as payment (whether by cheque, cash or petty cash) to the supplier is made.
- b) **Credit transactions:** these are the transactions where the transfer of ownership of goods or the provision of services, takes place at some time before payment to the supplier is made.

ACTIVITY 1

Which of the transactions below are cash and those that are credit?

- a) Bought goods paying by cheque.
- b) Sold goods receiving cash two weeks later.
- c) Sold goods by cash.
- d) Bought goods paying by cheque are month later.

Feedback to this activity is at end of this unit

USERS OF ACCOUNTING INFORMATION

A business keeps accounts in order to satisfy the needs and rights of different user groups. Who are these users?

The main users of accounting information can be grouped as follows:

- Management
- Shareholders and potential shareholders
- Lenders
- Employees
- Government
- The business contact group
- The public

Having identified the main groups of users of accounting information, we should now look at the interest of each user group on the accounting information:

- a) **Management:** They make use of accounting information to analyse revenue and expenses which helps them in formulating plans and making decisions.
- b) **Shareholders and potential shareholders:** shareholders use accounting information to know how management has used their funds that they invested in the business. Both shareholders and potential shareholders are also interested in the future performance of the business and use past figures as a guide to the future.
- c) **Lenders:** they use the accounting information to assess the security of their loans, so as to ensure that the business is able to repay the capital and meet interest requirements on the due dates.
- d) **Employees:** they are interested in the information about the stability and profitability of their employers. This in turn helps them to assess the ability of their employers to provide better conditions of service.
- e) **Government:** through its agencies, the government requires accounting information in order to regulate the activities of entities, assess taxation, and provide a basis for national statistics on economical trends.

- f) **Business contact group:** this group includes customers, suppliers and competitors. Customers are interested in information about the business' continued existence (viability of the business). Suppliers are interested in information that enables them to assess the likelihood that amounts owing to them will be paid when due. **Competitors use accounting information for the purpose of comparisons.**
- g) **The public:** generally they are interested in information about the trends and recent developments in the prosperity of the business and the range of its activities. However, the specific interest of the public depends upon the group concerned e.g. the environmental pressure group will be interested in the performance of a business for environmental purposes.

SUMMARY

This unit has introduced what financial accounting is and emphasised why accounting information is prepared.

You should now be able to understand the relationship between book keeping and accounting.

FEEDBACK TO ACTIVITY 1

- a) Cash transaction
 - b) Credit transaction
 - c) Cash transaction
 - d) Credit transaction
-

REVIEW QUESTION

- a) List two internal user groups to whom financial accounting should be communicated.
- b) Briefly explain the kind of information needed by the two user groups you mentioned in (a).

Solutions to the review question at end of the Module

UNIT TWO: STARTING A BUSINESS

After you have studied this unit, you should be able to:

- Explain what is required to commence a business.
- State and explain the accounting equation.
- Explain the meaning of the terms: Assets, Capital and Liabilities.
- Explain the relationship between the accounting equation and the balance sheet.
- Explain how transactions affect items in the accounting equation.
- Draw up balance sheets after different transactions have occurred.

INTRODUCTION

This unit looks at the accounting equation and the effects of transactions on the accounting equation and the balance sheet.

COMMENCING A BUSINESS

Have you ever run a business, whether small or large? Whether you have run one before or not, I would want you to list things that you think are necessary for one to start a business.

I am sure you may have thought of things like: Money, premises, motor car, furniture, workers and many more other things.

Generally, we would say that for a business to start operations, it requires some resources. The owner supplies the initial resources and this is known as the **capital** of the business. The capital may take the form of cash, or other items such as a shop, furniture, stock etc. In addition to the resources provided by the owner, the business may also borrow resources from other entities. These resources borrowed from others, other than the owner are known as **liabilities** of the business. The total of all the resources that belong to the business are known as **assets** of the business.

One principle you should learn from the start of your studies in financial accounting is that the business and the owner(s) are treated as two separate entities. For this reason accounting records purely relates to the activities of the business entity and not to the activities of its owner.

From the above paragraphs we would then conclude that the owner(s) and other entities supplies what the business owns at any point in time. This therefore, leads us to the concept of what we call in accounting, the accounting equation.

THE ACCOUNTING EQUATION

The accounting equation states that at any point in time the assets of a business will always be equal to its liabilities.

Where the proprietor is the only one who provided the resources to the business, the accounting equation is:

$$\text{Assets} = \text{Capital}$$

If the proprietor and others supply the resources, the equation is:

$$\text{Assets} = \text{Capital} + \text{liabilities}$$

ASSETS, LIABILITIES AND CAPITAL

Since the accounting equation is based on the above terms, we should now look at these terms in more details.

ASSETS

Assets can be defined as tangible or intangible possessions of a business that have value. Assets can be grouped into two classes:

- i) **Fixed assets:** a fixed asset is any asset tangible or intangible acquired for use by the business, and not held for resale in the normal course of trading e.g. Land and buildings, Machinery, Furniture, Motor vehicles etc.
- ii) **Current assets:** these are assets which easily change form and are usually kept for a short life period e.g. stock, debtors, cash at bank, cash in hand.

LIABILITIES

Liabilities can be defined as the financial obligations of the business to outsiders. Liabilities can also be grouped into two classes:

- i) **Current liabilities:** these are liabilities that have to be paid within a short period of time (usually one year) e.g. creditors, bank overdrafts etc.
- ii) **Long term liabilities:** these are liabilities that need to be paid after a long period of time (i.e. after more than one year) e.g. Loans, Mortgage.

CAPITAL

Capital is special liability of the business. It is the amount that the business owes back to the owner of the business. When a business makes a profit from its trading, the capital of the business increases (i.e. any profit belongs to the owner of the business). However, when a business makes a loss or the owner withdraws cash or goods from the business, the capital of the business decreases (i.e. what the business owes the owner reduces).

EFFECTS OF TRANSACTIONS ON THE ACCOUNTING EQUATION

Having stated the accounting equation, we should now look at how transactions affect the equation. Before proceeding ahead think of how the transaction below would affect the accounting equation.

Bought a motor vehicle for business use, paying by cheque.

Compare what you thought of with the statement below.

Transactions have a double effect on the business and the accounting equation. This is known as the '**dual aspect of transactions**'. That is to say, for each and every transaction that the business makes or enters into, two items on the accounting equation are affected.

As for the above transaction, it affected the equation as follows:

A new asset – *motor vehicle* was introduced but the asset of *cash at bank* reduced.

ACTIVITY 1

For each transaction below list down the two items that are affected on the accounting equation, indication clearly whether the item is increasing or decreasing.

- a) Owner puts into the business more capital by cash.
- b) Bought items for resale on credit.
- c) Sold the items on credit
- d) Received a cheque from a customer as payment for items bought on credit.
- e) Paid by cheque the person who supplied the business items on credit.

Feedback to this activity is at end of this unit

EFFECTS OF TRANSACTIONS ON THE BALANCE SHEET

What is a balance sheet?

A balance sheet is a statement of assets and liabilities, showing the financial position of a business at a point in time.

The balance sheet and the accounting equation are interrelated in that; the balance sheet represents the accounting equation. Since the assets and liabilities of a business are always equal, then the balance sheet (which represents the equation) will also balance at any point in time.

Let us now look at a series of transactions and how they affect the balance sheet.

1. On January 1, 2006, H Milimo started business with K10 million cash at bank.

- *The effect of this transaction is that the business has new asset cash at bank and a liability, capital.*

The balance sheet would appear as follows:

H Milimo			
Balance sheet as at January 1, 2006.			
	K'000		K'000
Cash at bank	10 000	Capital	10 000
	<u>10 000</u>		<u>10 000</u>

NOTE: the left hand side of the balance sheet contains assets, and the right hands side contains liabilities.

You will see that the horizontal method used to present the balance sheet is not the conventional way of presenting it, but it has been used here to easily simplify the principle that assets are always equal to capital and liabilities.

2. On January 3, 2006, Milimo bought a building for K6 000 000 paying by cheque.

- *The effect of this transaction is that the cash at bank decreases and a new asset, building is added.*

The balance sheet would be as follows:

H Milimo			
<u>Balance sheet as at January 3, 2006.</u>			
	K'000		K'000
Building	6 000	Capital	10 000
Cash at bank	<u>4 000</u>		
	<u>10 000</u>		<u>10 000</u>

3. On January 7, 2006, Milimo buys goods for K4 000 000 from H Chisanga on credit.

- *The effect of this transaction is that a new asset, stock of goods is acquired and a liability, creditor for goods is created.*

The balance sheet would be as follows:

H Milimo			
<u>Balance sheet as at January 7, 2006.</u>			
	K'000		K'000
Building	6 000	Capital	10 000
Stock of goods	4 000	Creditor	4 000
Cash at bank	<u>4 000</u>		
	<u>14 000</u>		<u>14 000</u>

NOTE: the word 'goods' in accounting is used to refer to items bought for resale.

4. On January 10, 2006, Milimo bought goods paying immediately by cheque K1 000 000.

- *The effect of this transaction is that the stock of goods increases and cash at bank decreases.*

The balance sheet would be as follows:

H Milimo			
<u>Balance sheet as at January 10, 2006.</u>			
	K'000		K'000
Building	6 000	Capital	10 000
Stock of goods (4 000 + 1 000)	5 000	Creditor	4 000
Cash at bank (4 000 – 1 000)	<u>3 000</u>		
	<u>14 000</u>		<u>14 000</u>

5. On January 15, 2006, Milimo sold all the goods bought on 7th January 2006 for K5 000 000 on credit K Mweemba.

➤ *The effect of this transaction is that the stock of goods decreases, and a new asset, debtor, is added. In addition, a profit on the sale has been made and so this is added to the capital. This is because any profit/loss made by the business belongs to the owner and so will affect the owner's entitlement through the capital account.*

The balance sheet would be as follows:

H Milimo			
<u>Balance sheet as at January 15, 2006.</u>			
	K'000		K'000
Building	6 000	Capital	10 000
Stock of goods (5 000 – 4 000)	1 000	Add: profit	<u>1 000</u>
Debtor	5 000		11 000
Cash at bank	<u>3 000</u>	Creditor	<u>4 000</u>
	<u>15 000</u>		<u>15 000</u>

6. On January 20, 2006, Milimo paid H Chisanga by cheque K2 000 000.

➤ *The effect of this transaction is that the cash at bank decreases and the creditor decreases.*

The balance sheet would be as follows:

H Milimo			
<u>Balance sheet as at January 20, 2006.</u>			
	K'000		K'000
Building	6 000	Capital	10 000
Stock of goods	1 000	Add: profit	<u>1 000</u>
Debtor	5 000		11 000
Cash at bank (3 000 – 2 000)	<u>1 000</u>	Creditor (4 000 – 2 000)	<u>2 000</u>
	<u>13 000</u>		<u>13 000</u>

7. On January 28, 2006, Milimo received a cheque from K Mweemba for K4 000 000.

➤ *The effect of this transaction is that the cash at bank increases and the debtor decreases.*

The balance sheet would be as follows:

H Milimo				
<u>Balance sheet as at January 28, 2006.</u>				
	K'000			K'000
Building	6 000	Capital	10 000	
Stock of goods	1 000	Add: profit	<u>1 000</u>	
Debtor (5 000 – 4 000)	1 000			11 000
Cash at bank (1 000 + 4 000)	<u>5 000</u>	Creditor		<u>2 000</u>
	<u>13 000</u>			<u>13 000</u>

8. On January 31, 2006, Milimo withdrew K1 000 000 cash from the bank for personal use.

➤ *The effect of this transaction is that the cash at bank decreases and capital also decreases.*
 ➤ *The amount of cash or goods taken by the proprietor out of the business for his own private use is known as **drawings**.*

The balance sheet would be as follows:

H Milimo				
<u>Balance sheet as at January 31, 2006.</u>				
	K'000			K'000
Building	6 000	Capital	10 000	
Stock of goods	1 000	Add: profit	<u>1 000</u>	
Debtor	1 000		11 000	
Cash at bank (5 000 - 1000)	4 000	Less: drawings	<u>1 000</u>	
				10 000
		Creditor		<u>2 000</u>
	<u>12 000</u>			<u>12 000</u>

The following is a summary of the above transactions on assets, capital and liabilities:

Transaction	Effect
1. Owner introduces capital into bank	Increase in asset (bank) Increase in capital.
2. Buying a building paying by cheque	Decrease in asset (bank) Increase in asset (building)
3. Buying goods on credit	Increase in asset (stock of goods) Increase in liability (creditor)

4.	Buying good paying by cheque	Increase in asset (stock of goods) Decrease in asset (bank)
5.	Selling of goods on credit at a profit	Decrease in asset (stock of goods) Increase in asset (debtor) Increase in capital (profit)
6.	Paying a creditor by cheque	Decrease in asset (bank) Decrease in a liability (creditor)
7.	Cheque received from a debtor	Increase in asset (bank) Decrease in asset (debtor)
8.	Owner withdraws cash for personal use	Decrease in asset (bank) Decrease in capital (drawings)

OBSERVATION: You should have seen that every transaction affected two items. In some cases it changed two assets by increasing one and decreasing the other, while in some cases it affected an asset and liability by increasing an asset and also increasing a liability or decreasing both the asset and the liability.

Further you should have noticed that the balance sheet was balancing at all times. **This could therefore be concluded that no matter the number of transactions you have at hand the balance sheet will always balance.**

SUMMARY

The unit looked at the accounting equation which states that at any point in time the assets of a business will always be equal to the liabilities of the business. We have also seen that every transaction affects two items on the accounting equation and that two items in the balance sheet are affected, but despite this the equation and the balance sheet will always balance.

FEEDBACK TO ACTIVITY 1

- a) Cash in hand - increase
Capital – increase
- b) Stock of goods - increase
Creditor – increase
- c) Stock of goods - decrease
Debtor – increase

- d) Cash at bank - increase
Debtor – decrease
- e) Cash at bank - decrease
Creditor – decrease
-

REVIEW QUESTIONS

2.1. Fill in the missing amounts in the following table:

	Assets K'000	Liabilities K'000	Capital K'000
a)	128 600	84 000	?
b)	?	56 400	28 400
c)	250 400	?	114 800
d)	?	111 500	88 500
e)	216 500	104 300	?
f)	314 100	?	146 300

2.2. J Mwale had the following assets and liabilities as at 1st June 2006:

	K'000
Premises	20 000
Plant and machinery	14 000
Motor vehicles	10 000
Stock of goods	1 456
Debtors	2 484
Creditors	6 434
Cash in hand	1 200
Bank overdraft	4 608

Calculate his capital as at 1st June 2006.

2.3. The following transactions relate to the business of C Mwiinga, a trader in stationery. From the transactions, you are to draw up a balance sheet as at the end of each day to show the cumulative effect of transactions to date.

2006.

- May
1. Mwiinga commenced business, introducing K8,000,000 cash.
 2. Mwiinga deposited K7 000 000 into the bank
 5. Buys a motor car for K5 000 000 by cheque.
 6. Buys goods for K600 000 cash.
 10. Sold all the goods bought on 6th May 2006, for K1000 000 cash.
 14. Buys goods for K800 000 on credit from L Moono.
 16. Sold half of the goods bought on 14th May 2006 for K600 000 on credit to K Mwansa.

19. Paid L Moono K500 000 by cash.
22. Received a cheque for K450 000 from K Mwansa.
25. Proprietor drew K200 000 cash for personal use.
29. Paid rent of K300 000 by cheque.
31. Received a loan from ZANACO of K7 000 000 by cheque repayable in four years' time.

2.4. Simon Banda had the following assets and liabilities as at 1st June 2006:

Equipment K14 600 000; Motor vehicles K8 340 000; Stock of goods K5 140 000; Debtors K6 220 000; Cash at bank K8 580 000; Cash in hand K400 000 and Creditors K4 590 000.

During the first week of June ended 7th, Banda had the following transactions:

- a) Bought extra equipment on credit for K8 500 000.
- b) Bought goods paying by cheque K1 860 000.
- c) Paid a creditor by cheque K5 400 000.
- d) Received from debtors K3 200 000 by cheque and K800 000 in cash.
- e) Banda introduced more capital paying in by cheque K3 000 000.
- f) Sold goods which cost K2 500 000 for K3 125 000 on credit.

Required:

Draw up Simon Banda's balance sheet as on 7th June 2006, taking into account the above transactions.

Solutions to the review questions at end of the Module

UNIT THREE: BOOKS OF ACCOUNT – THE LEDGER

After you have studied this unit, you should be able to:

- Identify types of books of account
- Define the ledger
- Explain a ledger account
- Draw ledger accounts vertically and horizontally
- Explain the rule of double entry
- Explain the rules governing the principles of debiting and crediting an account
- Enter transactions in ledger accounts using the rule of double entry
- Balance off ledger accounts at the end of a period and bring down the opening balance to the next period
- Close off ledger accounts

- Distinguish between a debit and a credit balance
- Explain what the balances for different types of accounts disclose
- Explain classification of ledger accounts
- Identify the subdivisions of the ledger

INTRODUCTION

This unit begins by identify the types of books of account and then explains what a ledger is. It also introduces the double entry principle of recording business transactions.

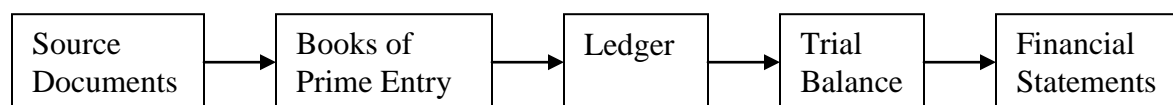
Finally, the unit looks at the classification of ledger accounts and the subdivisions of the ledger.

BOOKS OF ACCOUNT

From the previous unit, you should have seen how difficulty it is to keep up with the changes of a particular item as transactions are undertaken. This problem is solved by recording transactions in a set of accounting records.

Accounting records are any book which records the transactions of a business in a logical manner. These books where business transactions are recorded are commonly known as **books of account**. There are basically two types of these books; namely, the books of prime entry (or day books) and the ledger.

The stages of recording business transactions are as follows:



Source documents – a source document is an individual record of a business transaction. Examples are: sales invoice, purchases invoice, credit note, debit note, cash sales slips etc.

Books of Prime Entry – books that record similar transactions of each day, and used as an initial store of information of the business transactions prior to storing the information in the ledger.

We shall look at the books of prime entry later. As for this unit we shall concentrate on the ledger book.

THE LEDGER

What is a ledger?

A ledger is the main book of account where all business transactions undertaken have to be recorded. It is from this fact that all transactions have to be recorded in the ledger, that we call it as the main book of account.

The ledger book is made up of a set of accounts. An account is a summary record of information (changes) relating to a particular item. An account has two sides. The left hand side called the ‘debit side’ and the right side called the ‘credit side’. Each side of an account has the followings columns:

- i) Date column – for entering the date when a transaction takes place.

- ii) Details column – for entering particulars of a transaction.
- iii) Folio column – ‘folio’ means page. It is for cross-referencing of the double effect of a transaction.
- iv) Amount column – for entering the monetary value of a transaction.

The title of each account is written on across the top of the account at the centre.

We can present an account in two ways: vertically or horizontally. These presentations are illustrated below:

Vertical

Title of account				
		Debit (Dr)		Credit (Cr)
Date	Details	F	Amount	Amount
			K	K

Horizontal

Title of account							
Debit (Dr)				Credit (Cr)			
Date	Details	F	Amount	Date	Details	F	Amount
			K				K

NOTE: For the purpose of this course we shall be mainly using the vertical presentation.

RECORDING BUSINESS TRANSACTIONS

We now look at how to record business transactions in the ledger accounts.

You should remember that every business transaction has a double effect on the equation and the business. For this reason, we use the **double entry system** to record transactions.

Double entry system is a system where the double effect of every transaction is shown in the accounting records i.e. we have to show the effect of each transaction on each of the two items it affects. Under this system, **two** entries are made in the ledger accounts for each transaction – one entry to show an increase or decrease of one item and another to show the increase or decrease of the other item.

The rules for double entry bookkeeping are:

- a) A debit entry is made when there is:
 - i) an increase in the value of an asset
 - ii) a decrease in the amount of a liability
 - iii) an increase in the amount of an expense
 - iv) a decrease in the amount of income
- b) A credit entry is made when there is:
 - i) a decrease in the value of an asset
 - ii) an increase in the amount of a liability
 - iii) a decrease in the amount of an expense
 - iv) an increase in the amount of income

N.B.

1. Two new items have been introduced: income and expenses.
 - ❖ An income is the revenue from supplying goods and services to customers e.g. rent received from letting of a property, sales value of goods sold etc.
 - ❖ An expense is expenditure (cost) incurred in order to obtain the revenue e.g. in order to obtain revenue from sale of goods, you have to spend on acquiring or making the goods.
2. You should have also observed that the double entry rule for incomes and liabilities are the same, and that of assets and expenses are also the same.

EXAMPLE

We should now look at a series of transactions and see how they are recorded using the double entry principle.

Before looking at the double entries, you should first learn the following important points:

1. Each type of asset, liability, expense and income item will be recorded in a separate account e.g. expenditure on rent will be recorded in rent account separate from expenditure on insurance, which is recorded in an insurance account.
2. Only one account is required to record transactions affecting a particular item.

Question

G. Zulu commenced business on 1st January 20x1 with K10 000 000 in cash. He had the following transactions during the month:

- Jan. 2 Deposited K8 000 000 into the bank to open a bank account
- 3 Paid rent for premises by cash K500 000.
- 5 Bought a motor van for business use paying by cheque K6 000 000.
- 6 Bought goods on credit from A. Chola for K2 000 000.
- 10 Paid by cheque motor insurance K300 000.
- 14 Sold goods by cash K800 000.
- 15 Sold goods on credit to B. Phiri for K1 800 000.
- 20 Paid rates by cash K200 000.
- 22 Drew K100 000 for personal expenses from cash in hand.
- 24 Received a cheque for K1 500 000 from B. Phiri.
- 26 Deposited cash into the bank K1 000 000

28 Paid A. Chola by cheque K2 000 000.

31 Paid salaries by cheque K800 000 and by cash K400 000.

You are required to record the above transactions in the necessary ledger accounts for the month of January.

Solution

The steps required to answer the question are:

1. Identify the two accounts required for each transaction.
2. Identify the account to be debited and the account to be credited.
3. Make a summary of the accounts needed
4. Record the transactions in the ledger accounts.

Steps 1 & 2

Jan. 1 Cash – Dr
Capital – Cr

Jan. 2 Bank – Dr
Cash – Cr

Jan. 3 Rent – Dr
Cash – Cr

Jan. 5 Motor van – Dr
Bank – Cr

Jan. 6 Purchases – Dr
A. Chola – Cr

Jan 10 Motor insurance – Dr
Bank – Cr

Jan 14 Cash - Dr
Sales – Cr

Jan 15 B. Phiri - Dr
Sales – Cr

Jan 20 Rates – Dr
Cash – Cr

Jan 22 Drawings – Dr
Cash – Cr

Jan 24 Bank – Dr
B. Phiri – Cr

Jan 26 Bank – Dr
Cash – Cr

Jan 28 A. Chola – Dr
Bank – Cr

Jan 31 Salaries – Dr
Bank - Cr
Cash – Cr

Step 3

The summary of the accounts needed to record the above transactions are:

1. Capital account
2. Cash account
3. Bank account
4. Rent account
5. Motor van account
6. Purchases account
7. A. Chola account
8. Motor insurance account
9. Sales account

10. B. Phiri account
11. Rates account
12. Drawings account
13. Salaries account

Step 4

Ledger accounts

Capital account

Pg. 1

Date	Details	F	Dr	Cr
20x1			K'000	K'000
Jan 1	Cash			10 000

Cash account

Pg. 2

Date	Details	F	Dr	Cr
20x1			K'000	K'000
Jan 1	Capital		10 000	
2	Bank			8 000
3	Rent			500
14	Sales		800	
20	Rates			200
22	Drawings			100
26	Bank			1 000
31	Salaries			400

Rent account

Pg. 3

Date	Details	F	Dr	Cr
20x1			K'000	K'000
Jan 3	Cash		500	

Bank account

Pg. 4

Date	Details	F	Dr	Cr
20x1			K'000	K'000
Jan 2	Cash		8 000	

5	Motor van		6 000
10	Motor insurance		300
24	B. Phiri	1 500	
26	Cash	1 000	
28	A. Chola		2 000
31	Salaries		800

Motor van account

Pg. 5

Date	Details	F	Dr	Cr
20x1			K'000	K'000
Jan 5	Bank		6 000	

Purchases account

Pg. 6

Date	Details	F	Dr	Cr
20x1			K'000	K'000
Jan 6	A. Chola		2 000	

A. Chola account

Pg. 7

Date	Details	F	Dr	Cr
20x1			K'000	K'000
Jan 6	Purchases			2 000
28	Bank		2 000	

Motor insurance account

Pg. 8

Date	Details	F	Dr	Cr
20x1			K'000	K'000
Jan 10	Bank		300	

Sales account

Pg. 9

Date	Details	F	Dr	Cr
20x1			K'000	K'000
Jan 14	Cash			800
15	B. Phiri			1 800

B. Phiri account

Pg. 10

Date	Details	F	Dr	Cr
20x1			K'000	K'000
Jan 15	Sales		1 800	
24	Bank			1 500

Rates account

Pg. 11

Date	Details	F	Dr	Cr
20x1			K'000	K'000
Jan 20	Cash		200	

Drawings account

Pg. 12

Date	Details	F	Dr	Cr
20x1			K'000	K'000
Jan 22	Cash		100	

Salaries account

Pg. 13

Date	Details	F	Dr	Cr
20x1			K'000	K'000
Jan 31	Cash		400	
31	Bank		800	

BALANCING LEDGER ACCOUNTS

At certain intervals during the financial year (e.g. monthly, quarterly, half yearly) it will be necessary to **balance** each ledger account in order to ascertain the overall position recorded by the book keeping system. The word **balance** is an accounting term that means the difference between the two sides of an account.

In order to balance an account, the procedure is as follows:

- i) Add all the debit entries
- ii) Add all the credit entries
- iii) Compare both totals to determine the difference i.e. the balance
- iv) Insert the balance on the side that is lower, so that when added the debit total equals the credit total. This balance is known as 'balance carried down' (c/d).
- v) Insert the totals on both sides. The totals should be level with each other.
- vi) Insert the same balance as in (iv) above below the totals and on the opposite side to that in (iv) i.e. if the balance carried down was inserted on the debit side, then this balance is shown on the credit side. This balance is known as 'balance brought down' and is the opening balance of the next accounting period.

EXAMPLE

The following is an extract of a customer's account for the month of July 20x1.

C. Mate account

Date	Details	F	Dr	Cr
20x1			K'000	K'000
Jan 4	Sales		6 000	
7	Sales			600
21	Bank			4 000

Required:

Balance off the account as at 31 July 20x1

SOLUTION

Step 1. Total of debit entries = K6 000 000

2. Total of credit entries = K4 600 000
3. Balancing figure = K1 400 000

After balancing, the account of C. Mate will appear as follows:

C. Mate account

Date	Details	F	Dr	Cr
20x1			K'000	K'000
Jan 4	Sales		6 000	
7	Sales			600
21	Bank			4 000
31	Balance c/d			<u>1 400</u>
			<u>6 000</u>	<u>6 000</u>
Aug. 1	Balance b/d		1 400	

NOTE:

The date given to the balance c/d is the last day of that accounting period, where as the date for the balance b/d is the first day of the next accounting period.

CLOSING OFF LEDGER ACCOUNTS

If the total for debit entries is equal to the credit entries total, then an account has no balance and so it is closed. By simply inserting the totals on both sides the account is closed off.

DEBIT AND CREDIT BALANCES

If the debit total exceeds the credit total, the balance is called a **debit balance**. Alternatively, if the credit total exceeds the debit total, the balance is called a **credit balance**.

By balancing an account rather than reviewing a number of individual entries in each ledger account, the detail recorded therein will provide management with more useful information, as follows:

- a) An expense account balance will disclose the amount spent so far.
- b) An income account balance will disclose the amount received to date.
- c) An asset account balance will disclose the book value of the asset.
- d) A liability account balance will disclose the amount due to a creditor.

ACTIVITY 1

Go back to the example on recording transactions, and balance the ledger accounts as at 31st January 20x1.

For each account, indicate the type of balance i.e. whether debit or credit balance.

Feedback to this activity is at end of this unit

CLASSIFICATION OF ACCOUNTS

Accounts can be grouped into three classes:

- a) Personal accounts: - these are accounts of debtors and creditors e.g. John Banda account
- b) Nominal accounts: - these are accounts that exist in name only. All expenses and incomes accounts are nominal accounts e.g. rent account, commission received account.
- c) Real accounts: - these are accounts of the assets of the business e.g. land and buildings account, motor vehicles account etc.

ACTIVITY 2

Classify the following accounts into real, nominal and personal accounts.

- i) Premises account
- ii) Major Ltd account
- iii) Insurance account
- iv) A Muyunda account
- v) Bank account
- vi) Rent received account

Feedback to this activity is at end of this unit

SUBDIVISIONS OF THE LEDGER

In order to maintain control over the number of financial transactions, it is necessary to divide the activities of the accounting system into various departments, and instead of recording all transactions within one ledger; a separate ledger is maintained to record only one particular aspect of the business.

For example, a business will keep:

- a) **Cash book:** - a separate ledger book for cash and bank accounts.
- b) **Sales or debtors ledger:** - a separate ledger in which only activities with credit customers are recorded.
- c) **Purchase or creditors or bought ledger:** - a separate ledger in which only activities with suppliers who provide goods on credit terms to the business for resale are recorded.
- d) **General or nominal ledger:** - a separate ledger to record expenses, income, assets (excluding debtors) and liabilities (excluding creditors). In addition it also records the proprietor's capital and drawings accounts where the nominal ledger is not sub-divided into a **private ledger**.

ACTIVITY 3

Using the ledger accounts on pages 18 – 20, identify the ledger books into which each account would be recorded.

Feedback to this activity is at end of this unit

SUMMARY

The unit has looked at the most important rule in financial accounting – double entry principle. Make sure you understand this principle, as it is the basis of all further studies in financial accounting.

We have also looked at how to balance and close off ledger accounts and the information disclosed by balancing accounts. Finally we saw how ledger accounts can be classified, and the sub-divisions of the ledger book.

FEEDBACK TO ACTIVITY 1

- i) Capital account – credit balance of K10 million
 - ii) Cash account – debit balance of K600 000
 - iii) Rent account – debit balance of K500 000
 - iv) Bank account – debit balance of K1.4 million
 - v) Motor van account – debit balance of K6 million
 - vi) Purchases account – debit balance of K2 million
 - vii) A Chola account – account closed
 - viii) Motor insurance account – debit balance of K300 000
 - ix) Sales account – credit balance of K2.6 million
 - x) B. Phiri account – debit balance of K300 000
 - xi) Rates account – debit balance of K200 000
 - xii) Drawings account – debit balance of K100 000
 - xiii) Salaries account – debit balance of K1.2 million
-

FEEDBACK TO ACTIVITY 2

- i) Premises account – real account
 - ii) Major Ltd account – personal account
 - iii) Insurance account – nominal account
 - iv) A Muyunda account – personal account
 - v) Bank account – real account
 - vi) Rent received account – nominal account
-

FEEDBACK TO ACTIVITY 3

- i) Capital account – general ledger
 - ii) Cash account – cash book
 - iii) Rent account – general ledger
 - iv) Bank account – cash book
 - v) Motor van account – general ledger
 - vi) Purchases account – general ledger
 - vii) A Chola account – purchase ledger
 - viii) Motor insurance account – general ledger
 - ix) Sales account – general ledger
 - x) B. Phiri account – sales ledger
 - xi) Rates account – general ledger
 - xii) Drawings account – general ledger
 - xiii) Salaries account – general ledger
-

REVIEW QUESTION

B. Chanda commenced business with K4 500 000 which he put into a business bank account on 1st July 20x1.

During the month, his transactions were:

- July
- 8. Bought goods for resale on credit from L. Choolwe for K800 000.
 - 12. Bought a motor vehicle for use in the business for K2 500 000 paying by cheque.
 - 15. Paid for three months rent of premises by cheque K750 000.
 - 16. Bought goods paying by cheque K200 000.
 - 20. Sold all the goods bought on July 8, on credit to A. Chomba K1 000 000.
 - 25. Paid L. Choolwe by cheque K600 000.
 - 28. Received a cheque from A. Chomba for K1 000 000.
 - 31. Paid salaries by cheque K500 000.

You are required to record the above transactions in the ledger accounts of B. Chanda and then balance off the accounts at the end of the month.

Solution to the review question is at end of module

UNIT FOUR: TRIAL BALANCE

After you have studied this unit, you should be able to:

- Define a trial balance
- Explain the purpose of a trial balance
- Extract a trial balance from ledger accounts

INTRODUCTION

This unit introduces the trial balance technique for ensuring that within the books of account, each debit entry has a corresponding credit entry.

What is a Trial balance?

A trial balance is defined as a list of balances extracted from the ledger accounts arranged under debit and credit columns which when added the totals must be equal.

Having defined a trial balance, we can now look at its purpose. The purpose of a trial balance is check the arithmetic accuracy of the books of account and also check whether the double entry has been completed.

By virtue of the principle of double entry book-keeping, the totals of debit and credit balances must agree. Should this not be the case, then there must be an error in the books of account.

ACTIVITY 1

Imagine you have drawn up a trial balance after balancing ledger accounts, but the trial balance fails to balance. What errors would you have made in the books of account?

Feedback to this activity is at end of the unit

PREPARING A TRIAL BALANCE

The first task in preparing a trial balance is to balance all the ledger accounts, and then the balances must be extracted and entered on the trial balance. When extracting the trial balance, the following points should be taken note of:

- i) If a ledger account has a debit balance, the balance is entered on the debit side of the trial balance.
- ii) If a ledger account has a credit balance, the balance is entered on the credit side of the trial balance.
- iii) If a ledger account is closed, then no entry is taken to the trial balance.

EXAMPLE

The following transactions took place in June 20x2:

June 1 Amanda started business selling football boots and put K2 000 000 in the bank as initial capital.

2 Zanaco lent her K10 000 000 giving the money in cheque form.

3 Bought goods from Sports Ltd on credit for K2 960 000

4 Bought a motor van by cheque for K5 500 000

7 Made cash sales amounting to K1 050 000

8 Paid motor expenses in cash K150 000

9 Paid wages in cash K180 000

10 Bought goods on credit from Puma Ltd K850 000

14 Paid insurance premium by cheque K220 000

25 Received K150 000 commission in cash as a result of successful sales promotion of Adidas football boots.

30 Paid electricity bill by cheque K170 000

You are required to:

- a) write up the necessary ledger accounts and balance the accounts at the end of June, and
- b) extract a trial balance at the end of June.

SOLUTION

a)

Bank account

Date	Details	F	Dr	Cr
20x2			K'000	K'000
June 1	Capital		2 000	
2	Loan from Zanaco		10 000	
4	Motor van			5 500
14	Insurance			220
30	Electricity			170
30	Balance c/d			<u>6 110</u>
			<u>12 000</u>	<u>12 000</u>
July 1	Balance b/d		6 110	

Capital account

Date	Details	F	Dr	Cr
20x2			K'000	K'000
June 1	Bank			2 000
30	Balance c/d		<u>2 000</u>	
			<u>2 000</u>	<u>2 000</u>
July 1	Balance b/d			2 000

Loan account

Date	Details	F	Dr	Cr
20x2			K'000	K'000
June 2	Bank			10 000
30	Balance c/d		<u>10 000</u>	
			<u>10 000</u>	<u>10 000</u>
July 1	Balance b/d			10 000

Sports Ltd account

Date	Details	F	Dr	Cr
20x2			K'000	K'000
June 3	Purchases			2 960
30	Balance c/d		<u>2 960</u>	
			<u>2 960</u>	<u>2 960</u>
July 1	Balance b/d			2 960

Purchases account

Date	Details	F	Dr	Cr
20x2			K'000	K'000
June 3	Sports Ltd		2 960	
10	Puma Ltd		850	
30	Balance c/d			<u>3 810</u>
			<u>3 810</u>	<u>3 810</u>
July 1	Balance b/d		3 810	

Motor van account

Date	Details	F	Dr	Cr
20x2			K'000	K'000
June 4	Bank		5 500	
30	Balance c/d			<u>5 500</u>
			<u>5 500</u>	<u>5 500</u>
July 1	Balance b/d		5 500	

Sales account

Date	Details	F	Dr	Cr
20x2			K'000	K'000
June 7	Cash			1 050
30	Balance c/d		<u>1 050</u>	
			<u>1 050</u>	<u>1 050</u>
July 1	Balance b/d			1 050

Cash account

Date	Details	F	Dr	Cr
20x2			K'000	K'000
June 7	Sales		1 050	
8	Motor expenses			150
9	Wages			180
25	Commission received		150	
30	Balance c/d			<u>870</u>
			<u>1 200</u>	<u>1 200</u>
July 1	Balance b/d		870	

Motor expenses account

Date	Details	F	Dr	Cr
20x2			K'000	K'000
June 8	Cash		150	
30	Balance c/d			<u>150</u>
			<u>150</u>	<u>150</u>

July 1	Balance b/d	150	
--------	-------------	-----	--

Wages account

Date	Details	F	Dr	Cr
20x2			K'000	K'000
June 9	Cash		180	
30	Balance c/d		<u>180</u>	<u>180</u>
July 1	Balance b/d		180	

Puma Ltd account

Date	Details	F	Dr	Cr
20x2			K'000	K'000
June10	Purchases			850
30	Balance c/d		<u>850</u>	<u>850</u>
July 1	Balance b/d		850	

Insurance account

Date	Details	F	Dr	Cr
20x2			K'000	K'000
June14	Bank		220	
30	Balance c/d		<u>220</u>	<u>220</u>
July 1	Balance b/d		220	

Commission received account

Date	Details	F	Dr	Cr
20x2			K'000	K'000
June25	Cash			150
30	Balance c/d		<u>150</u>	<u>150</u>
July 1	Balance b/d		150	

Electricity account

Date	Details	F	Dr	Cr
20x2			K'000	K'000
June30	Bank		170	
30	Balance c/d		<u>170</u>	<u>170</u>
July 1	Balance b/d		170	

b)

**Trial balance
as at 30th June 20x2**

	Dr K'000	Cr K'000
Bank	6 110	
Capital		2 000
Loan account		10 000
Creditors (w1)		3 810
Purchases	3 810	
Motor van	5 500	
Sales		1 050
Cash	870	
Motor expenses	150	
Wages	180	
Insurance	220	
Commission received		150
Electricity	<u>170</u>	
	<u>17 010</u>	<u>17 010</u>

Workings

1. Creditors:	K'000
Sports Ltd	2 960
Puma Ltd	<u>850</u>
	<u>3 810</u>

FEEDBACK TO ACTIVITY 1

The error could be as a result of:

- i) An arithmetical error in the books of account
 - ii) Double entry has not been completed in the books of account.
-

REVIEW QUESTION

You are required to:

- a) show by means of ledger accounts how the following transactions would be recorded in the books of Ben Zulu, a second-hand book seller.

20x3

- May 1 Paid in bank K5 000 000 as capital
- 3 Took the lease of a stall and paid six months rent by cheque. The yearly rental was K300 000.

- 5 Purchased on credit from J Filamba books at cost of K275 000.
- 8 Spent K140 000 by cheque on the purchase of other books from W Siame.
- 12 Paid K25 000 by cheque for the repair of a broken lock.
- 16 Put an advertisement in the local newspaper at a cost of K20 000 paying by cheque.
- 19 Sold three volumes containing 'The complete works of Shakespeare' to a Malawian for K350 000 by cheque.
- 21 Sold a similar set on credit to a local school – Advantageous secondary school for K300 000.
- 23 Paid J Filamba by cheque K175 000 on account of the amount due to him.
- 25 Received a cheque for K100 000 from Advantageous secondary school.
- 26 Purchased cleaning materials at a cost of K20 000 and paid K30 000 to a cleaner, all by cheque.
- 30 Took K50 000 from the business to pay for his own groceries.

b) balance the various ledger accounts and extract a trial balance as at 31st May 20x3.

Solution to the review question at the end of the module

ANSWERS TO REVIEW QUESTIONS

UNIT ONE

- a) Internal users of accounting information are:
 - i) Management
 - ii) Employees
- b) i) Management: use accounting information to analyse revenue and expenses which helps them in formulating plans and making decisions.
- ii) Employees: are interested in information about the stability and profitability of their employers which in turn helps them to assess the ability of their employers to provide better conditions of service.

UNIT TWO

2.1.

- a) Capital = Assets - liabilities

$$= 128\,600\,000 - 84\,000\,000$$

$$= \mathbf{44\,600\,000}$$

b) Assets = Capital + liabilities

$$= 56\,400\,000 + 28\,400\,000$$

$$= \mathbf{84\,800\,000}$$

c) Liabilities = Assets - Capital

$$= 250\,000\,000 - 114\,500\,000$$

$$= \mathbf{135\,600\,000}$$

d) Assets = Capital + liabilities

$$= 88\,500\,000 + 111\,500\,000$$

$$= \mathbf{200\,000\,000}$$

e) Capital = Assets - liabilities

$$= 216\,500\,000 - 104\,300\,000$$

$$= \mathbf{112\,200\,000}$$

f) Liabilities = Assets - Capital

$$= 314\,100\,000 - 146\,300\,000$$

$$= \mathbf{167\,800\,000}$$

2.2.

Capital = Assets - liabilities

$$= 49\,140\,000 - 11\,042\,000$$

$$= \mathbf{38\,098\,000}$$

2.3.

Mwiinga			
<u>Balance sheet as at May 1, 2004.</u>			
	K'000		K'000
Cash in hand	<u>8 000</u>	Capital	<u>8 000</u>
	<u>8 000</u>		<u>8 000</u>

Mwiinga			
<u>Balance sheet as at May 2, 2004.</u>			
	K'000		K'000
Cash in hand	1 000	Capital	8 000
Cash at bank	<u>7 000</u>		
	<u>8 000</u>		<u>8 000</u>

Mwiinga

Balance sheet as at May 5, 2004.

	K'000		K'000
Motor car	5 000	Capital	8 000
Cash at bank	2 000		
Cash in hand	<u>1 000</u>		
	<u>8 000</u>		<u>8 000</u>

Mwiinga
Balance sheet as at May 6, 2004.

	K'000		K'000
Motor car	5 000	Capital	8 000
Stock	600		
Cash at bank	2 000		
Cash in hand	<u>400</u>		
	<u>8 000</u>		<u>8 000</u>

Mwiinga
Balance sheet as at May 10, 2004.

	K'000			K'000
Motor car	5 000	Capital	8 000	
Cash at bank	2 000	Add: profit	<u>400</u>	
Cash in hand	<u>1 400</u>			<u>8 400</u>
	<u>8 400</u>			<u>8 400</u>

Mwiinga
Balance sheet as at May 14, 2004.

	K'000			K'000
Motor car	5 000	Capital	8 000	
Stock	800	Add: profit	<u>400</u>	
Cash at bank	2 000			8 400
Cash in hand	<u>1 400</u>	Creditor		<u>800</u>
	<u>9 200</u>			<u>9 200</u>

Mwiinga
Balance sheet as at May 16, 2004.

	K'000			K'000
Motor car	5 000	Capital	8 000	
Stock	400	Add: profit	<u>600</u>	
Debtor	600			8 600
Cash at bank	2 000	Creditor		800
Cash in hand	<u>1 400</u>			<u> </u>

9 400

9 400

Mwiinga
Balance sheet as at May 19, 2004.

	K'000			K'000
Motor car	5 000	Capital	8 000	
Stock	400	Add: profit	<u>600</u>	
Debtor	600			8 600
Cash at bank	2 000	Creditor		300
Cash in hand	<u>900</u>			
	<u>8 900</u>			<u>8 900</u>

Mwiinga
Balance sheet as at May 22, 2004.

	K'000			K'000
Motor car	5 000	Capital	8 000	
Stock	400	Add: profit	<u>600</u>	
Debtor	150			8 600
Cash at bank	2 450	Creditor		300
Cash in hand	<u>900</u>			
	<u>8 900</u>			<u>8 900</u>

Mwiinga
Balance sheet as at May 25, 2004.

	K'000			K'000
Motor car	5 000	Capital	8 000	
Stock	400	Add: profit	<u>600</u>	
Debtor	150		8 600	
Cash at bank	2 450	Less: drawings	<u>200</u>	
Cash in hand	700			8 400
		Creditor		<u>300</u>
	<u>8 700</u>			<u>8 700</u>

Mwiinga
Balance sheet as at May 29, 2004.

	K'000			K'000
Motor car	5 000	Capital	8 000	
Stock	400	Add: profit (600 – 300)	<u>300</u>	
Debtor	150		8 300	

Cash at bank	2 150	Less: drawings	<u>200</u>	
Cash in hand	700			8 100
	<u>8 400</u>	Creditor		<u>300</u>
				<u>8 400</u>

Mwiinga
Balance sheet as at May 31, 2004.

	K'000			K'000
Motor car	5 000	Capital	8 000	
Stock	400	Add: profit (600 – 300)	<u>300</u>	
Debtor	150		8 300	
Cash at bank	2 150	Less: drawings	<u>200</u>	
Cash in hand	700			8 100
		Creditor		300
	<u>15 400</u>	Loan from Zanaco		<u>7 000</u>
				<u>15 400</u>

2.4

WORKINGS

- Capital as at 1st June 2004
= assets – liabilities
= 43 280 000 – 4 590 000
= 38 690 000

2. Adjustments

Equipment	14 600 000	Cash in hand	400 000
Addition	<u>8 500 000</u>	Debtor	<u>800 000</u>
	23 100 000		1 200 000
Cash at bank	8 580 000	Debtors	6 220 000
Purchases	(1 860 000)	Bank	(3 200 000)
Creditor	(5 400 000)	Cash	(800 000)
Debtor	3 200 000	Sales	<u>3 125 000</u>
Capital introduced	<u>3 000 000</u>		5 345 000
	7 520 000		
Creditors	4 590 000	Stock	5 140 000
Equipment	8 500 000	Purchases	1 860 000
Bank	<u>(5 400 000)</u>	Sales	<u>(2 500 000)</u>
	7 690 000		4 500 000

Profit = sales – cost
= 3 125 000 – 2 500 000

= **625 000**

Simon Banda
Balance sheet as at June 7, 2004.

	K'000		K'000
Equipment	23 100	Capital	38 690
Motor vehicle	8 340	Add: Capital introduced	3 000
Stock	4 500	profit (600 – 300)	<u>625</u>
Debtors	5 345		42 315
Cash at bank	7 520	Creditor	7 690
Cash in hand	<u>1 200</u>		
	<u>50 005</u>		<u>50 005</u>

UNIT THREE

Ledger accounts

Bank account

Date	Details	F	Dr	Cr
20x1			K'000	K'000
July 1	Capital		4 500	
12	Motor vehicle			2 500
14	Rent			750
16	Purchases			200
25	L Choolwe			600
28	A Chomba		1 000	
31	Salaries			500
31	Balance c/d			<u>950</u>
			<u>5 500</u>	<u>5 500</u>
Aug.1	Balance b/d		950	

Capital account

Date	Details	F	Dr	Cr
20x1			K'000	K'000
July 1	Bank			4 500
31	Balance c/d		<u>4 500</u>	<u>4 500</u>
Aug.1	Balance b/d		<u>4 500</u>	4 500

Purchases account

Date	Details	F	Dr	Cr
20x1			K'000	K'000
July 8	L Choolwe		800	
16	Bank		200	
31	Balance c/d		<u>1 000</u>	<u>1 000</u>
Aug.1	Balance b/d		<u>1 000</u>	<u>1 000</u>

L Choolwe account

Date	Details	F	Dr	Cr
20x1			K'000	K'000
July 1	Purchases			800
25	Bank		600	
31	Balance c/d		<u>200</u>	<u>800</u>
Aug.1	Balance b/d		<u>800</u>	200

Motor vehicle account

Date	Details	F	Dr	Cr
20x1			K'000	K'000
July12	Bank		2 500	
31	Balance c/d		<u>2 500</u>	<u>2 500</u>
Aug.1	Balance b/d		<u>2 500</u>	<u>2 500</u>

Rent account

Date	Details	F	Dr	Cr
20x1			K'000	K'000
July15	Bank		750	
31	Balance c/d		<u>750</u>	<u>750</u>
			<u>750</u>	<u>750</u>
Aug.1	Balance b/d		750	

A Chomba account

Date	Details	F	Dr	Cr
20x1			K'000	K'000
July20	Sales		1 000	
28	Bank		<u>1 000</u>	<u>1 000</u>
			<u>1 000</u>	<u>1 000</u>

Sales account

Date	Details	F	Dr	Cr
20x1			K'000	K'000
July20	A Chomba			1 000
31	Balance c/d		<u>1 000</u>	<u>1 000</u>
			<u>1 000</u>	<u>1 000</u>
Aug.1	Balance b/d			1 000

Salaries account

Date	Details	F	Dr	Cr
20x1			K'000	K'000
July31	Bank		500	
31	Balance c/d		<u>500</u>	<u>500</u>
			<u>500</u>	<u>500</u>
Aug.1	Balance b/d		500	

UNIT FOUR

a) Ledger accounts

Cash book

Bank account

Date	Details	F	Dr	Cr
20x3			K'000	K'000

May 1	Capital	5 000	
3	Rent		150
8	Purchases		140
12	Repairs		25
16	Advertising		20
19	Sales	350	
23	J Filamba		175
25	Advantageous Secondary School	100	
26	Cleaning		50
30	Drawings		50
31	Balance c/d		<u>4 840</u>
		<u>5 450</u>	<u>5 450</u>
June 1	Balance b/d	4 840	

General Ledger

Capital account

Date	Details	F	Dr	Cr
20x3			K'000	K'000
May 1	Bank			5 000
31	Balance c/d		<u>5 000</u>	
			<u>5 000</u>	<u>5 000</u>
June 1	Balance b/d			5 000

Rent account

Date	Details	F	Dr	Cr
20x3			K'000	K'000
May 3	Bank		150	
31	Balance c/d		<u>150</u>	<u>150</u>
			<u>150</u>	<u>150</u>
June 1	Balance b/d		150	

Purchases account

Date	Details	F	Dr	Cr
20x3			K'000	K'000
May 5	J Filamba		275	
8	Bank		140	
31	Balance c/d		<u>415</u>	<u>415</u>
			<u>415</u>	<u>415</u>
June 1	Balance b/d		415	

Repairs account

Date	Details	F	Dr	Cr
20x3			K'000	K'000
May12	Bank		25	
31	Balance c/d		<u>25</u>	<u>25</u>
June 1	Balance b/d		25	

Advertising account

Date	Details	F	Dr	Cr
20x3			K'000	K'000
May16	Bank		20	
31	Balance c/d		<u>20</u>	<u>20</u>
June 1	Balance b/d		20	

Cleaning account

Date	Details	F	Dr	Cr
20x3			K'000	K'000
May26	Bank		50	
31	Balance c/d		<u>50</u>	<u>50</u>
June 1	Balance b/d		50	

Drawings account

Date	Details	F	Dr	Cr
20x3			K'000	K'000
May30	Bank		50	
31	Balance c/d		<u>50</u>	<u>50</u>
June 1	Balance b/d		50	

Sales account

Date	Details	F	Dr	Cr
20x3			K'000	K'000
May19	Bank			350
21	Advantageous Sec. School			300
31	Balance c/d		<u>650</u>	<u>650</u>
June 1	Balance b/d		650	

Purchase ledger

J Filamba account

Date	Details	F	Dr	Cr
20x3			K'000	K'000
May 5	Purchases			275
23	Bank		175	
31	Balance c/d		<u>100</u>	
			<u>275</u>	<u>275</u>
June 1	Balance b/d			100

Sales ledger

Advantageous Sec. School account

Date	Details	F	Dr	Cr
20x3			K'000	K'000
May21	Sales		300	
25	Bank			100
31	Balance c/d		<u>300</u>	<u>200</u>
			<u>300</u>	<u>300</u>
June 1	Balance b/d		200	

b)

Ben Zulu

Trial balance as at 31 May 20x3

	Dr	Cr
	K'000	K'000
Bank	4 840	
Capital		5 000
Rent	150	
Purchases	415	
Repairs	25	
Advertising	20	
Cleaning	50	
Drawings	50	
Sales		650
Creditor		100
Debtor	<u>200</u>	
	<u>5 750</u>	<u>5 750</u>

UNIT FIVE: BOOKS OF PRIME ENTRY

After you have studied this unit, you should be able to:

- Define books of prime entry
- Identify the types of books of prime entry
- Explain what each book of prime entry is used for
- Identify the source document(s) used to prepare each book
- Enter transactions in each book of prime entry
- Distinguish between a trade discount and a cash discount
- Post each book to the ledger
- Extract a trial balance

INTRODUCTION

In this unit, we shall look at the second type of the books of account – the books of prime entry. These books are also known as either ‘journals’, ‘day books’ or subsidiary books’.

BOOKS OF PRIME ENTRY

These are books in which we first record transactions prior to storing the information in the ledger accounts. Each book records similar transactions of each day. Thus, the nature of the transaction determines the book in which it is entered into. Examples of these books are:

- Cash Book
- Purchases Day Book
- Sales Day Book
- Purchases Returns Day Book
- Sales Returns Day Book
- General Journal or Journal Proper
- Petty Cash Book

The vital point to grasp straight away is that entries in the books of prime entry (with the exception of the Cash book and Petty cash book) do not form part of the double entry system.

1. CASH BOOK

You should realize that in an organisation there are a number of cash transactions that take place. In order to maintain control over cash, a separate book called a **Cash book** is kept to record these transactions.

A Cash book is therefore a book where we record the cash transactions of an organisation. The book consists of two accounts: the cash account and bank account. The cash account records details of receipts in cash and payments made out in cash. The bank account contains details of money received and paid into the bank and payments made out by cheque.

There are two types of Cash books – a two column cash book and a three column cash book. A two column cash book has two columns – the cash column and bank column on both sides of the cash book. However, a three column cash book has in addition to the cash and bank columns, a discount column on both sides of the cash book.

PREPARING A CASH BOOK

You should remember that a cash book is part of the double entry system because of being made up of accounts. Therefore, when preparing the cash book, we follow the normal rules of double entry i.e.

We debit the cash book when:

- Cash is received
- Cheques or cash has been paid into the bank

We credit the cash book when:

- Cash is paid out
- Cheques have been paid out

To prepare a cash book, one would obtain the information from the following source documents:

- Cash sale slip
- Cash dockets (till roll)
- Receipts
- Cheque counter foils or cheque stubs
- Deposit slips
- Cash invoices

CONTRA ITEMS

Where a transaction's double entry is completed within the same book, such a transaction is known as a **contra item**. Examples of these transactions in the cash book are:

- i) Cash paid into the bank from cash till
- ii) Cash withdrawn from the bank for business use.

As the two accounts where double entry is completed are on the same page, we use the letter 'c' in the folio column to denote that an item is a contra (see below).

EXAMPLE

Enter the following transactions in the two-column cash book of D Nyirenda. Post it to the ledger and take out a trial balance as at 31st January 20x4.

- Jan
- 1 Nyirenda started business with K9 000 000 cash at bank and K6 600 000 cash in hand.
 - 3 Bought goods for cash K2 000 000
 - 6 Paid rent by cheque K1 500 000
 - 10 Cash sales K3 000 000
 - 12 Deposited cash into the bank K6 000 000
 - 16 Sales by cheque K5 500 000
 - 20 Bought goods paying by cheque K1 500 000
 - 22 Bought a motor vehicle paying by cheque K10 000 000
 - 24 Paid for traveling expenses by cash K400 000
 - 27 Withdrew cash from the bank for business use K4 500 000
 - 28 Bought a machine paying by cash K4 000 000
 - 30 Received a cheque for K2 500 000 as a loan from P Lubasi
 - 31 Paid salaries by cheque K2 000 000

SOLUTION

D Nyirenda's Two Column Cash book

Date	Details	F	Cash		Bank	
			Dr	Cr	Dr	Cr
20x4			K' 000	K'000	K'000	K'000
Jan 1	Capital		6 600		9 000	
3	Purchases			3 000		
6	Rent					1 500
10	Sales		3 000			
12	Bank/cash	c		6 000	6 000	
16	Sales				5 500	
20	Purchases					1 500
22	Motor vehicle					10 000
24	Traveling expenses			400		
27	Cash/bank	c	4 500			4 500
28	Machine			4 000		
30	Loan from P Lubasi				2 500	
31	Salaries					2 000
31	Balance	c/d		700		3 500

Feb 1	Balance	b/d	<u>14 100</u> 700	<u>14 100</u>	<u>23 000</u> 3 500	<u>23 000</u>
-------	---------	-----	----------------------	---------------	------------------------	---------------

NOTE: see how the contra items were recorded in the cash book. When using the vertical presentation we start with the account to be debited followed by the account to be credited.

General ledger

Capital account

Date	Details	F	Dr	Cr
20x4			K'000	K'000
Jan 1	Cash			6 600
1	Bank			9 000
31	Balance c/d		<u>15 600</u>	
			<u>15 600</u>	<u>15 600</u>
Feb 1	Balance b/d			15 600

Purchases account

Date	Details	F	Dr	Cr
20x4			K'000	K'000
Jan 3	Cash		3 000	
20	Bank		1 500	
31	Balance c/d			<u>4 500</u>
			<u>4 500</u>	<u>4 500</u>
Feb 1	Balance b/d		4 500	

Rent account

Date	Details	F	Dr	Cr
20x4			K'000	K'000
Jan 6	Bank		1 500	
31	Balance c/d			<u>1 500</u>
			<u>1 500</u>	<u>1 500</u>
Feb 1	Balance b/d		1 500	

Sales account

Date	Details	F	Dr	Cr
20x4			K'000	K'000
Jan 10	Cash			3 000
16	Bank			5 500
31	Balance c/d		<u>8 500</u>	
			<u>8 500</u>	<u>8 500</u>
Feb 1	Balance b/d			8 500

Motor vehicle account

Date	Details	F	Dr	Cr
20x4			K'000	K'000
Jan 22	Bank		10 000	
31	Balance c/d			<u>10 000</u>
			<u>10 000</u>	<u>10 000</u>
Feb 1	Balance b/d		10 000	

Travelling account

Date	Details	F	Dr	Cr
20x4			K'000	K'000
Jan 24	Cash		400	
31	Balance c/d			<u>400</u>
			<u>400</u>	<u>400</u>
Feb 1	Balance b/d		400	

Machinery account

Date	Details	F	Dr	Cr
20x4			K'000	K'000
Jan 28	Cash		4 000	
31	Balance c/d			<u>4 000</u>
			<u>4 000</u>	<u>4 000</u>
Feb 1	Balance b/d		4 000	

Loan from Lubasi account

Date	Details	F	Dr	Cr
20x4			K'000	K'000
Jan 30	Cash			2 500
31	Balance c/d		<u>2 500</u>	
			<u>2 500</u>	<u>2 500</u>
Feb 1	Balance b/d			2 500

Salaries account

Date	Details	F	Dr	Cr
20x4			K'000	K'000
Jan 31	Bank		2 000	
31	Balance c/d			<u>2 000</u>
			<u>2 000</u>	<u>2 000</u>
Feb 1	Balance b/d		2 000	

D Nyirenda
Trial balance as at 31 January 20x4

	Dr	Cr
	K'000	K'000
Bank	3 500	
Cash	700	
Capital		15 600
Purchases	4 500	
Rent	1 500	
Sales		8 500
Motor vehicle	10 000	
Machinery	4 000	
Traveling expenses	400	
Salaries	2 000	
Loan from Lubasi		<u>2 500</u>
	<u>26 600</u>	<u>26 600</u>

THREE COLUMN CASH BOOK

As mentioned earlier, a three-column cash book has an additional column for discounts. The discounts columns on both sides of the cash book are not accounts but simply memorandum columns (collecting points) where the discounts for a particular period are recorded.

What then is a discount?

A discount is defined as a reduction from the price of an item. There are two classes of discounts encountered in business, namely a trade discount and a cash discount.

a) Trade discount

This is a reduction from the catalogue price or price list given by one trader to another for bulky buying or for profit margin. Trade discount is used when calculating the invoice price and as such, does not enter the accounting records.

b) Cash discount

A cash discount is a reduction from the invoice price given for prompt payment within a given period of time. A business may have two types of cash discounts:

- i) **Discounts allowed:** these are cash discounts allowed by a business to its customers when they pay their accounts quickly.
- ii) **Discounts received:** these are cash discounts received by a business from its suppliers when it pays what it owes them quickly.

As a cash discount is reduction from the invoice price, an account for each type of discount is opened in the nominal ledger.

Posting cash discounts to the ledger

1. The total of discounts allowed on the debit side of the cash book is entered on the debit side of a discounts allowed account in the nominal ledger. The corresponding credit entries are entered in the debtors accounts in the sales ledger.
2. The total of discounts received on the credit side of the cash book is entered on the credit side of a discounts received account in the nominal ledger. The corresponding debit entries are entered in the creditors accounts in the purchase ledger.

NOTE:

Discounts allowed are losses to the business where as discounts received are gains to the business.

EXAMPLE

Enter the following transactions in the three-column cash book of J Pokololo, a general dealer. Balance off the cash book at the end of the month and post the cash book to the ledger.

20x5

May 1 Balances brought down from April:

Cash balance	K926 000
Bank balance	K 6 450 000
Debtors accounts:	
A Maambo	K240 000
B Kolwe	K460 000
Creditors accounts:	
V Mbao	K300 000
C Mwewa	K160 000

- 3 Cash sales K144 000.
- 4 Purchased goods by cheque K860 000.
- 5 A Maambo paid us by cheque K220 000, having deducted K20 000 cash discount.
- 8 Paid V Mbao's account by cash, deducting 5% cash discount.
- 10 Paid wages by cash K250 000.
- 14 Received K430 000 cash from B Kolwe, cash discount K30 000.
- 16 Deposited cash into the bank K600 000.
- 20 We paid C Mwewa by cheque, deducting 10% cash discount.
- 24 Sales by cheque K420 000.
- 30 Paid salaries by cheque K560 000.

SOLUTION

J Pokololo's Three Column Cash book

Date	Details	F	Cash		Bank		Discounts	
			Dr	Cr	Dr	Cr	All.	Rec.
20x4			K' 000	K'000	K'000	K'000	K'000	K'000
May 1	Balances	b/d	926		6 450			
3	Sales		144					

4	Purchases				860		
5	A Maambo			220		20	
8	V Mbao		285				15
10	Wages		250				
14	B Kolwe		430			30	
16	Bank/cash	c	600	600			
20	C Mwewa				144		16
24	Sales			420			
31	Salaries				560		
31	Balance	c/d	<u>365</u>	<u>365</u>	<u>6 126</u>	<u>50</u>	<u>31</u>
			<u>1 500</u>	<u>1 500</u>	<u>7 690</u>	<u>7 690</u>	
June 1	Balance	b/d	365	6 126			

General ledger

Sales account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 3	Cash			144
24	Bank			420
31	Balance c/d		<u>564</u>	<u>564</u>
			<u>564</u>	<u>564</u>
June 1	Balance b/d			564

Purchases account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 4	Bank		860	
31	Balance c/d		<u>860</u>	<u>860</u>
			<u>860</u>	<u>860</u>
June 1	Balance b/d		860	

Wages account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 10	Cash		250	
31	Balance c/d		<u>250</u>	<u>250</u>
			<u>250</u>	<u>250</u>
June 1	Balance b/d		250	

Salaries account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 30	Cash		560	
31	Balance c/d		<u>560</u>	<u>560</u>
June 1	Balance b/d		560	

Discounts Allowed account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 31	Total for the month		50	

Discounts Received account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 31	Total for the month			31

Sales ledger

A Maambo account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 1	Balance b/d		240	
5	Bank			220
5	Discount allowed		<u>240</u>	<u>20</u>
				<u>240</u>

B Kolwe account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 1	Balance b/d		460	
14	Cash			460
5	Discount allowed		<u>460</u>	<u>30</u>
				<u>460</u>

Purchase ledger

V Mbao account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 1	Balance b/d			300
8	Bank		285	
8	Discount received		<u>15</u>	
			<u>300</u>	<u>300</u>

C Mwewa account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 1	Balance b/d			160
20	Bank		144	
20	Discount received		<u>16</u>	
			<u>160</u>	<u>160</u>

NOTE:

1. The opening balances for debtors and creditors were not entered in the cash book but entered in the respective debtors and creditors accounts in the sales ledger and purchase ledger.
2. The corresponding double entries for the total discounts are entered in the personal accounts of debtors and creditors.
3. All. Stands for discount allowed while Rec. stands for discount received.

ACTIVITY 1

A three column cash book is to be written up from the following details, balanced off, and the relevant discounts accounts in the general ledger shown.

20x5

- March
- 1 Balances brought forward: cash K1 840 000 and bank K38 048 000.
 - 2 The following paid their accounts by cheque, in each case deducting 5% cash discount:
R Banda K1 120 000; E Tobwa K1 760 000; C Chola K2 400 000.
 - 4 Paid rent by cheque K960 000.
 - 6 J Kantu lent us K8 000 000 paying by cheque.
 - 8 We paid the following accounts by cheque in each case deducting a 2½% cash discount:
N Bwalya K2 800 000; P Tailoka K3 840 000; C Wamulume K6 400 000.
 - 10 Paid motor expenses in cash K352 000.
 - 12 B Hansengele pays us his account of K616 000 by a cheque of K592 000 in full settlement of his account.
 - 15 Paid wages in cash K1 280 000.
 - 18 The following paid their accounts by cheque in each case deducting 5% cash discount:
C Walubita K2 080 000; R Zulu & sons K2 720 000; H Malama K3 680 000.
 - 21 Cash withdrawn from the bank K2 800 000 for business use.

- 24 Cash drawings K960 000.
- 25 Paid T Muchona his account of K1 120 000 by cash K1 064 000 in full settlement of his his account.
- 29 Bought fixtures paying by cheque K5 200 000.
- 31 Received commission by cheque K704 000.

Feedback to this activity is at end of the unit

2. PETTY CASH BOOK

To start with, you should first understand that, the custom in accounting is to bank all monies received on the day of receipt, and to pay all or as many accounts as possible by cheque. The objective of this is to keep a minimum amount of cash in the business premises as possible and thus reducing the risk of theft. To this effect, the cash column of the cash book is normally of little use, hence sometimes the cash book is known as the bank cash book.

However, many organizations maintain a small amount of cash in the business called **Petty cash**. This is the amount of money kept in an office to cover small day-to-day items of expenditure such as postage, stationery, traveling expenses and sundry expenses.

A cheque for petty cash will be drawn and cashed at the bank. The cash is then handed to the petty cashier (the person in charge of petty cash). All payments made out of petty cash must be supported by authorized petty cash vouchers and are then recorded in the petty cash book.

Imprest system

This is a method by which a measure of control is kept of petty cash expenditure. The method operates as follows:

- At the beginning of the petty cash period (e.g. weekly, fortnightly, monthly) the petty cashier is given a fixed sum of money known as the 'petty cash float'. The double entry for this being:

Dr – petty cash book

Cr – bank account

- During the petty cash period, all payments made out of petty cash will be credited in the petty cash book.
- At the end of the petty cash period, the petty cash book is balanced, the amount in hand checked with the cash box, and the amount spent checked with receipts and petty cash vouchers. The petty cashier is then reimbursed the amount of cash spent so that he/she starts every new period with the same amount of float.

Analysis columns

Payments out of petty cash are analysed and grouped under analysis headings for each type of expenditure. The number of columns and the headings will depend on the nature and requirements of the business. This helps reducing the number of postings made to the general ledger. The total of each analysis column is then debited to the respective expense account in the general ledger. This completes the double entry for petty cash payments.

EXAMPLE

The following is a summary of the petty cash transactions of JK Ltd for May 20x5:

May 1. Received from cashier K300 000 as petty cash float

Payments for the month were as follows:

2. Postage	K18 000
3. Travelling	K12 000
4. Cleaning	K15 000
7. Petrol for delivery van	K22 000
8. Travelling	K25 000
9. Stationery	K17 000
11. Cleaning	K18 000
14. Postage	K5 000
15. Travelling	K8 000
18. Stationery	K9 000
18. Cleaning	K23 000
20. Postage	K13 000
24. Service of delivery van	K43 000
26. Petrol	K18 000
27. Cleaning	K21 000
29. Postage	K5 000
30. Petrol	K14 000

You are required to:

- a) Rule up a suitable petty cash book with analysis columns for expenditure on: cleaning, motor expenses, postage, stationery, and traveling.
- b) Enter the month's transactions
- c) Enter the receipt of the amount necessary to restore the imprest and carry down the balance for the commencement of the following month.
- d) Show how the double entry for the expenditure is completed.

Solution

Petty cash book

Received	Date	Details	Pcv No	Total	Cleaning	Motor Exp	Postage	Stationery	Travelling
K'000	20x5			K'000	K'000	K'000	K'000	K'000	K'000
300	May 1	Bank							
	2	Postage		18			18		
	3	Travelling		12					12
	4	Cleaning		15	15				
	7	Petrol		22		22			
	8	Travelling		25					25
	9	Stationery		17				17	
	11	Cleaning		18	18				
	15	Travelling		8					8
	18	Stationery		9				9	
	18	Cleaning		23	23				
	20	Postage		13			13		
	24	Service of van		43		43			
	26	Petrol		18		18			
	27	Cleaning		21	21				
	29	Postage		5			5		
	30	Petrol		<u>14</u>	<u>—</u>	<u>14</u>			
				286	<u>77</u>	<u>97</u>	<u>41</u>	<u>26</u>	<u>45</u>
286	31	Bank							
	31	Balance c/d		<u>300</u>					
<u>586</u>				<u>586</u>					
300	June 1	Balance b/d							

General ledger

Cleaning account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 31	Petty cash		77	

Motor expenses account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 31	Petty cash		97	

Postage account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 31	Petty cash		41	

Stationery account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 31	Petty cash		26	

Travelling account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 31	Petty cash		45	

ACTIVITY 2

You are to draw up a petty cash book with the following analysis columns: motor expenses, staff traveling expenses, postages, cleaning and a ledger account. You should restore the imprest on 1st October 20x5.

20x5

Sept. 1 Cashier gives K1 000 000 as float to the petty cashier.

Payments out of petty cash during September were:

	K'000
2 Petrol	120
3 J Kaluwe – travelling expenses	60
3 Postages	40
4 D Daka – travelling expenses	40
7 Cleaning expenses	20
9 Petrol	20
12 K Malina – travelling expenses	60
14 Petrol	60
15 V Mbewe – travelling expenses	100
16 Cleaning expenses	20
18 Petrol	40
20 Postages	40

22	Cleaning expenses	20
24	W Gondwe – travelling expenses	140
27	Settlement of M chapulu’s account in the purchases ledger	60
30	Postages	40

Feedback to this activity is at the end of the unit

3. PURCHASES DAY BOOK

You should by now know that the word ‘purchases’ as used in accounting, refers to items bought for resale, whether by cash or on credit.

The purchases day book is a book where we record items bought on credit for resale. The book is simply a list showing, the date of the transaction, the name of the supplier or creditor, the invoice number and the total value of the invoice.

The source document for the purchases day book (also known as purchases journal) is the purchase invoice (or original invoice).

Posting the book to the ledger

1. The total value of each purchase invoice is posted to the credit of each supplier’s account in the purchases ledger.
2. The total of the purchases day book for the period is posted to the debit side of the purchases account in the general ledger.

EXAMPLE

From the following transactions, you are to prepare the purchases day book, post the book to the ledger and extract a trial balance as at 31 January 20x5:

20x5

- Jan. 3 Credit purchases from: B Zimba K580 000; J Phiri K360 000.
 18 Bought goods on credit from: C Banda K900 000 less 10% trade discount.
 26 Bought goods on credit from: D Soko K600 000 and B Zimba K800 000 less 10% trade discount.

Solution

Purchases Day Book

Date	Details	Invoice no	F	Amount
20x5				K'000
Jan 3	B Zimba	004		580
3	J Phiri	098		860
18	C Banda	014		810
26	D Soko	066		600
26	B Zimba	042		<u>720</u>
31	Transfer to purchases account			<u>3 570</u>

General ledger

Purchases account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 31	Credit purchases for month		3 570	

Purchase ledger

B Zimba account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 3	Purchases			580
26	Purchases			720
31	Balance c/d		<u>1 300</u>	
			<u>1 300</u>	<u>1 300</u>
Feb 1	Balance b/d			1 300

J Phiri account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 3	Purchases			860
31	Balance c/d		<u>860</u>	
			<u>860</u>	<u>860</u>
Feb 1	Balance b/d			860

C Banda account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 18	Purchases			810
31	Balance c/d		<u>810</u>	<u>810</u>
Feb 1	Balance b/d		<u>810</u>	810

D Soko account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 26	Purchases			600
31	Balance c/d		<u>600</u>	<u>600</u>
Feb 1	Balance b/d		<u>600</u>	600

Trial balance as at 31 January 20x5

	Dr	Cr
	K'000	K'000
Purchases	3 570	
Creditors:		
B Zimba		1 300
J Phiri		860
C Banda		810
D Soko		<u>600</u>
	<u>3 570</u>	<u>3 570</u>

ACTIVITY 3

John Susu had the following credit purchases for the month of September 20x5:

20x5

- Sept. 4 From K Mwansa: 4 cases of sugar at K60 000 per case, 3 cases of Gesha soap at K20 000 each case. All less 10% trade discount.
- 12 From C Mapulanga: 10 reams of bond paper for K250 000.

20 From J Muleya: 2 dozens of staplers at K5 000 each stapler.

26 From R Mofu: 2 washing basins at K20 000 each, 10 water buckets at K15 000 each. All less 10% trade discount.

You are required to:

- a) Enter the above transactions into the purchases journal for the month
- b) Post the book to the ledger.

Feedback to this activity is at the end of the unit

4. SALES DAY BOOK

As we saw with purchases above, 'sales' in accounting terms refers to the sell of items previously bought with the intention of reselling them.

The sales day book is a book where we record goods sold on credit. Like the purchases day book, the sales day book is simply a list showing: the date of the transaction, the name of the customer or debtor, the invoice number and the total value of the invoice.

The source document for the sales day book (also known as sales journal) is the sales invoice (or duplicate invoice).

Posting the book to the ledger

1. The total value of each sales invoice is posted to the debit side of each customer's account in the sales ledger.
2. The total of the sales day book for the period is posted to the credit side of the sales account in the general ledger.

EXAMPLE

B Musonda had the following credit sales for the month of February 20x5:

20x5

Feb. 4 Sold goods to C Mate K348 000

- 13 Sold goods to Z Buumba K152 00
 21 Sales to C Mate K100 000
 24 Sales to M Chalwe K256 000
 28 Sales to Z Buumba K300 000 less 10% trade discount.

You are to prepare B Musonda's sales day book and post it to the ledger.

Solution

Sales Day Book

Date	Details	Invoice no	F	Amount
20x5				K'000
Feb 4	C Mate	0121		348
13	Z Buumba	0122		152
21	C Mate	0123		100
24	M Chalwe	0124		256
28	Z Buumba	0125		<u>270</u>
28	Transfer to sales account			<u>1 126</u>

General ledger

Sales account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Feb 28	Credit sales for the month			1 126

Sales ledger

C Mate account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Feb 4	Sales		348	
24	Sales		100	
28	Balance c/d		<u>448</u>	
			<u>448</u>	<u>448</u>
March 1	Balance b/d		448	

Z Buumba account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Feb 13	Sales		152	
28	Sales		270	
28	Balance c/d		<u>422</u>	
			<u>422</u>	<u>422</u>

March 1 Balance b/d 422

M Chalwe account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Feb 24	Sales		256	
28	Balance c/d			<u>256</u>
			<u>256</u>	<u>256</u>
March 1	Balance b/d		256	

Trial balance as at 28 February 20x5

	Dr	Cr
	K'000	K'000
Sales		1 126
Debtors:		
C Mate	448	
Z Buumba	422	
M Chalwe	<u>256</u>	
	<u>1 126</u>	<u>1 126</u>

ACTIVITY 4

C Simwanza, a sole trader specializing in material for Nigerian clothing , has the following purchases and sales for March 20x5:

- March 1 Bought from Mulila stores: silk K360 000, cotton K720 000. All less 25% trade discount
8 Sold to A Gondwe: linen items K252 000, woolen items K396 000. no trade discount.
15 Sold to B Hanzala: silk K324 000, linen K1 296 000, cotton items K1 080 000. All less 20% trade discount.
23 Bought from C Kwabe: cotton K792 000, linen K468 000. All less 25% trade discount.
24 Sold to D Shawa: linen items K378 000, cotton K432 000. All less 10% trade discount.
31 Bought from J Mudenda: linen items K2 478 000. Less 33⅓% trade discount.

Required:

- prepare the purchases and sales journals for C Simwanza from the above
- post the items to the personal accounts
- post the totals of the journals to the sales and purchases accounts.

Feedback to this activity is at end of this unit

5. PURCHASES RETURNS DAY BOOK

You should be aware that in business, suppliers do allow customers to return goods, if:

- Customers are oversupplied
- Goods sent are of a wrong colour, type or make.
- Goods are damaged on transit to the customer

The purchases returns day book is a book where we record goods returned to our suppliers.

The book is simply a list, showing the date of the transaction, the name of the supplier to whom goods have been returned, the debit note number and the amount involved.

Whenever goods are returned to a supplier, the customer sends a **debit note** to the supplier giving details of the goods and the reason for their return. The credit note that a customer receives from the supplier is simply evidence of the supplier's agreement and the amounts involved. Therefore, the source document for the purchases returns day book (also known as the returns outwards day book) is the **debit note**.

Posting the book to the ledger

1. The total value of each debit note is posted to the debit side of each supplier's account in the purchases ledger.
2. The total of the purchases returns day book for the period is posted to the credit side of the purchases returns account in the general ledger

EXAMPLE

Enter the following returns in the purchases returns day book and post the book to the ledger.
20x5

Jan 5 Returned goods to J Phiri K160 000
20 Returned goods to C Banda K200 000 less 10% trade discount.
28 Returned goods to B Zimba K180 000 less 10% trade discount.

Solution

Purchases returns day book

Date	Details	Debit note no	F	Amount
20x5				K'000
Jan 5	J Phiri	0010		160
20	C Banda	0011		180
28	B Zimba	0012		<u>162</u>
31	Transfer to purchases returns account			<u>502</u>

General ledger

Purchases returns account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 31	Returns for month			502

Purchase ledger

J Phiri account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 5	Purchases returns		160	

C Banda account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 20	Purchases returns		180	

B Zimba account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 28	Purchases returns		162	

6. SALES RETURNS DAY BOOK

The sales returns day book is a book where we record goods returned to us by our customers. The book is simply a list, showing the date of the transaction, the name of the customer who has returned goods, the credit note number and the amount of the allowance.

Whenever goods are returned by a customer, a **credit note** is sent to the customer showing the amount of the allowance given for the goods returned. Therefore, the source document for the sales returns day book (also known as the returns inwards day book) is the **credit note**.

Posting the book to the ledger

1. The total value of each credit note is posted to the credit side of each customer's account in the sales ledger.
2. The total of the sales returns day book for the period is posted to the debit side of the sales returns account in the general ledger

EXAMPLE

B Musonda experienced the following returns inwards during the month of February 20x5:

Feb 6 Returns from C Mate K84 000
 18 Returns from Z Buumba K42 000
 27 Returns from M Chalwe K60 000

Enter the above transactions in the sales returns day book and post the book to the ledger.

Solution

Sales returns day book

Date	Details	Credit note no	F	Amount
20x5				K'000
Feb 6	C Mate	0126		84
18	Z Buumba	0127		42
27	B Zimba	0128		<u>60</u>
28	Transfer to sales returns account			<u>186</u>

General ledger

Sales returns account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Feb 28	Returns for month		186	

Sales ledger

C Mate account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Feb 6	Sales returns			84

Z Buumba account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Feb 18	Sales returns			42

M Chalwe account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Feb 27	Sales returns			60

ACTIVITY 5

You are to enter up the sales, purchases and the returns inwards and returns outwards journals from the following details, then to post the items to the relevant accounts in the sales and purchases ledgers. The total of the journals are then to be transferred to the accounts in the general ledger.

20x5

- May
- 1 Credit sales: T Tamba K504 000; L Dimba K1 332 000; K Banda K1 305 000.
 - 3 Credit purchases: P Phiri K1 296 000; H Hantobolo K225 000; B Sinda K684 000.
 - 7 Credit sales: K Kwabe K801 000; N Malama K702 000; N Lombe K2 313 000.
 - 9 Credit purchases: B Mpafya K216 000; H Hantobolo K522 000; H Muleta K1 107 000.
 - 11 Goods returned by us to: P Phiri K108 000; B Sinda K198 000.
 - 14 Goods returned to us by: T Tamba K45 000; K Banda K99 000; K Kwabe K126 000.
 - 17 Credit purchases: H Hantobolo K486 000; B Mpafya K585 000; L Ntembe K675 000.
 - 20 Goods returned by us to: B Sinda K126 000.
 - 24 Credit sales: K Mutinta K513 000; K Kwabe K585 000; O Gondwe K1 008 000.
 - 28 Goods returned to us by: N Malama K216 000.
 - 31 Credit sales: N lombe K495 000.

Feedback to this activity is at end of this unit

7. JOURNAL PROPER (GENERAL JOURNAL)

The word journal means ‘a book containing the record of events as they occur day by day’. The journal is a book of prime entry where all transactions that cannot be recorded into the other books of prime entry are recorded. As you have seen with the other day books, the journal does not form part of double entry book keeping system.

Examples of entries made in the journal proper are:

- i) Purchase and sale of fixed assets on credit
- ii) Opening entries
- iii) Correction of errors
- iv) Transfer of items between accounts
- v) Creation, increase or decrease of provisions and reserves

The journal shows:

- i) The name(s) of the account(s) to be debited and the amount(s)
- ii) The name(s) of the account(s) to be credited and the amount(s)
- iii) A brief explanation of the transaction called a **narrative** (narration)

The layout for the journal is as follows:

Journal proper				
Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 1	Name of account to be debited		xxx	
	Name of account to be credited			xxx
	Narrative			

EXAMPLES:

To illustrate the recording of entries in the journal proper, we shall only look at three groups of entries:

- Purchase and sale of fixed assets on credit
- Transfers between ledger accounts
- Opening entries

a) Purchase and sale of fixed assets on credit

- i) On 4th May 20x5, a company bought a machine on credit from Major Ltd for K10 million.
Record the transaction in the journal and post it to the ledger.

Solution

Journal proper				
Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 4	Machinery		10 000	
	Major Ltd			10 000
	Purchase of a machine serial no: 1026 on credit.			

General ledger

Machinery account				
Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 4	Major Ltd		10 000	

Purchase ledger

Major Ltd account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 4	Machinery			10 000

- ii) Sold a motor vehicle on 10th June 20x5 for K15 million on credit to A Mulunda.
Show the journal entry and the postings to the ledger.

Solution

Journal proper

Date	Details	F	Dr	Cr
20x5			K'000	K'000
June 10	A Mulunda		15 000	
	Motor vehicle			15 000
	Sale of a motor vehicle on credit.			

General ledger

Motor vehicle account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
June 01	Balance b/d		15 000	
10	A Mulunda			15 000
			<u>15 000</u>	<u>15 000</u>

Sales ledger

A Mulunda account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
June 10	Motor vehicle		15 000	

b) Transfers

- i) Mululu is our debtor owing us K18 million as at 1st March 20x5. He is unable to pay his

account in cash, but offers a motor vehicle in settlement of the debt. The offer is accepted on 15th March 20x5.

Show the journal entry and the postings to the ledger.

Solution

Journal proper				
Date	Details	F	Dr	Cr
20x5			K'000	K'000
March 15	Motor vehicle		18 000	
	Mululu			18 000
	Acceptance of a motor vehicle in full settlement of the debt			

General ledger

Motor vehicle account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
March 15	Mululu		18 000	

Sales ledger

Mululu account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
March 01	Balance b/d		18 000	
15	Motor vehicle			18 000
			<u>18 000</u>	<u>18 000</u>

- ii) Our debtor, A Banji had had his business taken over by K Wana on 7th July 20x5. K Wana is now to pay the debt owed by A Banji of K5 million.

Show the journal entry and the postings to the ledger.

Solution

Journal proper				
Date	Details	F	Dr	Cr
20x5			K'000	K'000

July 7	K Wana	5 000	
	A Banji		5 000
	Transfer of the debt from A Banji to K Wana's account		

Sales ledger

A Banji account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
July 1	Balance b/d		5 000	
7	K Wana			5 000
			<u>5 000</u>	<u>5 000</u>

K Wana account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
July 7	A Banji		5 000	

c) Opening entries

These are the entries required to open up a new set of books e.g. when a trader decides to keep his books on a double entry principle. Opening entries are simply entries showing the financial position of a business as at the time a new set of books is to be opened. The excess of **assets** over **liabilities** at that date is the **capital** of the business.

In practice, opening entries may be made only once in the lifetime of the business. However, many book keeping exercises commence by requiring you to do the opening entries.

When opening a new set of books, all assets should have debit opening balances while liabilities and capital should have credit opening balances.

EXAMPLE:

B Maala has been in business for sometime without keeping proper accounting records. He has now decided to have a full double entry set of books.

His assets and liabilities on 1st May 20x5 are as follows:

Assets: Buildings K7 000 000; Motor van K4 500 000; Stock K1 200 000; Debtors: - C Bwalya K6 000 000, O Moono K400 000; Cash at bank K850 000 and Cash in hand K300 000.
Liabilities: Creditors:- W Chansa K750 000, E Kasonde K600 000.

The opening entries in his journal would be as follows:

Journal proper				
Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 1	Buildings		7 000	
	Motor van		4 500	
	Stock		1 200	
	Debtors: - C Bwalya		600	
	- O Moono		400	
	Cash at bank		850	
	Cash in hand		300	
	Creditors: - W Chansa			750
	- E Kasonde			600
	Capital (bal. Fig.)			<u>13 500</u>
			<u>14 850</u>	<u>14 850</u>
	Being assets, liabilities and capital entered to open a new set of books			

The entries are then posted to the ledger as follows:

General ledger

Buildings account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 1	Balance b/d		7 000	

Motor van account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 1	Balance b/d		4 500	

Stock account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 1	Balance b/d		1 200	

Capital account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 1	Balance b/d			13 500

Sales ledger

C Bwalya account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 1	Balance b/d		600	

O Moono account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 1	Balance b/d		400	

Purchases Ledger

W Chansa account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 1	Balance b/d			750

E Kasonde account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 1	Balance b/d			600

Cash book

Date	Details	F	Cash		Bank	
20x5			Dr	Cr	Dr	Cr
			K' 000	K'000	K'000	K'000
May 1	Balance b/d		300		850	

ACTIVITY 6

You are to show the journal entries required to record the following:

20x5

- Feb 1 John Banda's financial position was as follows: premises K20 000 000; Motor vehicle K25 000 000; stock K6 500 000; Creditor - A Motors Ltd K5 400 000; Bank K3 000 000; Cash K1 500 000; Debtor – j Mwale K6 000 000.
- Feb 5 Bought a another motor vehicle on credit from A Motors Ltd for K10 600 000.
- Feb 14 The business of our debtor j Mwale was taken over by P Muluti. Mwale's debt isa now to be paid by P Muluti.

Post the journal entries to the ledger.

Feedback to this activity is at end of this unit

8. BOOK KEEPING UP TO TRIAL BALANCE

From the books prepared so far, we can summarise the book keeping process as follows:

- i) Collect source documents: where original information is found
- ii) Enter transactions in the books of prime entry i.e. information is classified and them entered in the books.
- iii) Post the books to the ledger – where double entry of each transaction is completed
- iv) Extract a trial balance – to check the completion of double entry and the arithmetic accuracy of the accounts.

We have so far looked at each book individually, but the following question will illustrate the book keeping process involving a number of books of prime entry.

From the following details, you are to open up the books of R. Mwenda, via the journal proper, record the transactions using the appropriate day books, post the books to the ledger and then extract a trial balance as at 31 January 20x5:

20x5

- Jan. 1 R Mwenda's position was as follows: buildings K24 000 000; Motor vehicles K16 000 000; Stock K3 000 000; Debtors: V Lubinda K5 500 000, M Tembo K3 000 000; Cash at bank K4 200 000; Cash in hand K1 800 000; Creditors: D Banda K6 000 000, M Chilufya K1 000 000.
- 2 Bought goods on credit from: C Kapasa K4 500 000; M Chilufya K5 000 000.
- 4 Sold goods on credit to: M Tembo K2 500 000, V Lubinda K3 500 000.

- 5 Paid wages by cheque K200 000.
- 6 Paid insurance in cash K300 000.
- 8 Cash sales K3 200 000.
- 9 Bought goods paying by cheque K1 000 000.
- 10 Returned goods to C Kapasa K500 000, M Chilufya K1 000 000.
- 11 Goods returned to R Mwenda by V Lubinda K800 000, M Tembo K700 000.
- 13 Bought another motor van on credit from Toyota (Z) ltd for K14 000 000.
- 16 Received a cheque from V Lubinda for K7 500 000 in full settlement of his account.
- 18 M Tembo paid us by cash K4 000 000, cash discount K300 000.
- 20 Sales by cheque K10 000 000
- 24 Sent a cheque to D Banda for K5 500 000 in full settlement of her account.
- 26 Paid M Chilufya by cash K4 000 000, cash discount K1 000 000.
- 28 Deposited K4 000 000 cash into the bank .
- 30 Paid motor expenses by cheque K500 000.
- 31 Paid Toyota (Z) Ltd by cheque K14 000 000.

Solution

Step 1 In answering such a question you should first identify the books where to record each transaction. For this question, the books needed are:

- Jan
- 1 Journal proper
 - 2 Purchases day book
 - 4 Sales day book
 - 5 Cash book
 - 6 Cash book
 - 8 Cash book
 - 9 Cash book
 - 10 Purchases day book
 - 11 Sales returns day book
 - 13 Journal proper
 - 16 Cash book
 - 18 Cash book
 - 20 Cash book
 - 24 Cash book
 - 26 Cash book
 - 28 Cash book
 - 30 Cash book
 - 31 Cash book

Step 2 Having identified the books, you should now record the transactions in the respective

books. For our question, the entries in the books will be as follows:

Journal proper				
Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 1	Buildings		24 000	
	Motor vehicle		16 000	
	Stock		3 000	
	Debtors: - V Lubinda		5 500	
	- M Tembo		3 000	
	Cash at bank		4 200	
	Cash in hand		1 800	
	Creditors: - D Banda			6 000
	- E Kasonde			1 000
	Capital (bal. Fig.)			<u>50 500</u>
			<u>57 500</u>	<u>57 500</u>
	Being assets, liabilities and capital entered to open a new books			
Jan 13	Motor vehicle		14 000	
	Toyota (Z) Ltd			14 000
	Purchase of a motor vehicle from Toyota (Z) Ltd on credit			

Cash book								
Date	Details	F	Cash		Bank		Discounts	
20x5			Dr	Cr	Dr	Cr	All.	Rec.
			K' 000	K'000	K'000	K'000	K'000	K'000
Jan 1	Balances b/d		1 800		4 200			
5	Wages					200		
6	Insurance			300				
8	Sales		3 200					
9	Purchases					1 000		
16	V Lubinda				7 500		700	
18	M Tembo		4 000				300	
20	Sales				10 000			
24	D Banda					5 500		500
26	M Chilufya			4 000				1 000
28	Cash/bank	c		4 000	4 000			
30	Motor expenses					500		
31	Toyota (Z) Ltd					14 000		
31	Balance	c/d		<u>700</u>		<u>4 500</u>		
			<u>9 000</u>	<u>9 000</u>	<u>25 700</u>	<u>25 700</u>	<u>1 000</u>	<u>1 500</u>
Feb 1	Balance	b/d	700		4 500			

Purchases Day Book

Date	Details	Invoice no	F	Amount
20x5				K'000
Jan 2	C Kapasa			4 500
2	M Chilufya			<u>5 000</u>
31	Transfer to Purchases account			<u>9 500</u>

Sales Day Book

Date	Details	Invoice no	F	Amount
20x5				K'000
Jan 4	M Tembo			2 500
4	V Lubinda			<u>3 500</u>
31	Transfer to sales account			<u>6 000</u>

Purchases Returns Day Book

Date	Details	Debit note no	F	Amount
20x5				K'000
Jan 10	C Kapasa			500
10	M Chilufya			<u>1 000</u>
31	Transfer to Purchases returns account			<u>1 500</u>

Sales Returns Day Book

Date	Details	Invoice no	F	Amount
20x5				K'000
Jan 11	V Lubinda			800
11	T Tembo			<u>700</u>
31	Transfer to sales returns account			<u>1 500</u>

Step 3 The next step is to post the books to the ledger. For this question the postings will be as follows:

General ledger

Buildings account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 1	Balance b/d		24 000	

Motor vehicles account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 1	Balance b/d		16 000	
13	Toyota (Z) Ltd		14 000	
31	Balance c/d			<u>30 000</u>
			<u>30 000</u>	<u>30 000</u>
Feb 1	Balance b/d		30 000	

Stock account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 1	Balance b/d		3 000	

Capital account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 1	Balance b/d			50 500

Sales account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 8	Cash			3 200
20	Bank			10 000
31	Credit sales for the month			6 000
31	Balance c/d		<u>19 200</u>	
			<u>19 200</u>	<u>19 200</u>
Feb 1	Balance b/d			19 200

Purchases account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 9	Bank		1 000	
31	Credit purchases for month		9 500	
31	Balance c/d			<u>10 500</u>
			<u>10 500</u>	<u>10 500</u>
Feb 1	Balance b/d		10 500	

Wages account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 10	Cash		200	
31	Balance c/d		<u>200</u>	<u>200</u>
			<u>200</u>	<u>200</u>
Feb 1	Balance b/d		200	

Insurance account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 6	Cash		300	
31	Balance c/d		<u>300</u>	<u>300</u>
			<u>300</u>	<u>300</u>
Feb 1	Balance b/d		300	

Motor expenses account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 30	Bank		500	
31	Balance c/d		<u>500</u>	<u>500</u>
			<u>500</u>	<u>500</u>
Feb 1	Balance b/d		500	

Discounts Allowed account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 31	Total for the month		1 000	

Discounts Received account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 31	Total for the month			1 500

Purchases returns account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 31	Returns for the month			1 500

Sales returns account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 31	Returns for the month		1 500	

Sales ledger

V Lubinda account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 1	Balance b/d		5 500	
4	Sales		3 500	
11	Sales returns			800
16	Bank			7 500
16	Discount allowed			700
			<u>9 000</u>	<u>9 000</u>

M Tembo account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 1	Balance b/d		3 000	
4	Sales		2 500	
11	Sales returns			700
16	Bank			4 000
16	Discount allowed			300
31	Balance c/d			500
			<u>5 500</u>	<u>5 500</u>
Feb 1	Balance b/d		500	

Purchases Ledger

D Banda account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 1	Balance b/d			6 000
24	Bank		5 500	
16	Discount received		500	
			<u>6 000</u>	<u>6 000</u>

C Kapasa account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 2	Purchases			4 500
10	Purchases returns		500	
31	Balance c/d		4 000	
			<u>4 500</u>	<u>4 500</u>
Feb 1	Balance b/d			4 000

M Chilufya account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 1	Balance b/d			1 000
2	Purchases			5 000
10	Purchases returns		1 000	
26	Cash		4 000	
16	Discount received		<u>1 000</u>	
			<u>6 000</u>	<u>6 000</u>

Toyota (z) Ltd account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Jan 13	Motor vehicle			14 000
31	Bank		<u>14 000</u>	
			<u>14 000</u>	<u>14 000</u>

Step 4 The last step is to prepare a trial balance. From the above ledger accounts, the trial balance will be as follows:

Trial balance as at 31 January 20x5

	Dr	Cr
	K'000	K'000
Cash	700	
Bank	4 500	
Buildings	24 000	
Motor vehicle	30 000	
Stock	3 000	
Capital		50 500
Purchases	10 500	
Sales		19 200
Wages	200	
Insurance	300	
Motor expenses	500	
Discount allowed	1 000	
Discount received		1 500
Purchases returns		1 500
Sales returns	1 500	
Debtors	500	
Creditors		<u>4 000</u>

76 700

76 700

SUMMARY

In this unit we have looked at the second type of books of account – the books of prime entry. We have identified the different types of these books and looked at how to record transactions in the books. Finally we saw how to post the books to the ledger and extracting a trial balance thereafter.

Make sure that you thoroughly understand this unit as it summarises the bookkeeping process up to the trial balance.

FEEDBACK TO ACTIVITY 1

Three column cash book

Date	Details	F	Cash		Bank		Discounts	
			Dr K' 000	Cr K'000	Dr K'000	Cr K'000	All. K'000	Rec. K'000
20x5								
March 1	Balances	b/d	1 840		38 048			
2	R Banda				1 064		56	
2	E Tobwa				1 672		88	
2	C Chola				2 280		120	
4	Rent					960		
6	Loan from J Kantu				8 000			
8	N Bwalya					2 730		70
8	P Tailoka					3 744		96
8	C Wamulume					6 240		160
10	Motor expenses			392				
12	B Hansengele				592		24	
15	Wages			1 280				
18	C Walubita				1 976		104	
18	R Zulu & sons				2 584		136	
18	H Malama				3 496		184	

	24	W Gondwe	140		140			
	27	M Chapula	60					60
	30	Postage	<u>40</u>			<u>40</u>		
			880	<u>240</u>	<u>400</u>	<u>120</u>	<u>60</u>	<u>60</u>
	30	Balance c/d	<u>120</u>					
<u>1 000</u>			<u>1 000</u>					
120	June 1	Balance b/d						
880	1	Bank						

FEEDBACK TO ACTIVITY 3

a) Purchases Day Book

Date	Details	Invoice no	F	Amount
20x4				K'000
Sept 4	K Mwansa			270
12	C Mapulanga			250
20	J Muleya			120
26	R Mofu			<u>171</u>
30	Transfer to purchases account			<u>811</u>

Purchases Ledger

K Mwansa account

Date	Details	F	Dr	Cr
20x4			K'000	K'000
Sept 4	Purchases			270

C Mapulanga account

Date	Details	F	Dr	Cr
20x4			K'000	K'000
Sept 12	Purchases			250

J Muleya account

Date	Details	F	Dr	Cr
20x4			K'000	K'000
Sept 20	Purchases			120

R Mofu account

Date	Details	F	Dr	Cr
20x4			K'000	K'000

Date	Details	F	Dr	Cr
20x5			K'000	K'000
March 31	Purchases			1 652

Sales Ledger

A Gondwe account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
March 8	Sales		648	

B Hanzala account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
March 15	Sales		2 160	

D Shawa account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
March 24	Sales		729	

General ledger

Purchases account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
March 31	Credit purchases for the month		3 407	

Sales account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
March 31	Credit sales for the month			3 537

FEEDBACK TO ACTIVITY 5

Sales Journal

Date	Details	Invoice no	F	Amount
20x5				K'000
May 1	T Tamba			504
1	L Dimba			1 332
1	K Banda			1 305

7	K Kwabe	801
7	N Malama	702
7	N Lombe	2 313
24	K Mutinta	513
24	K Kwabe	585
24	O Gondwe	1 008
31	N Lombe	<u>495</u>
31	Transfer to sales account	<u>9 558</u>

Purchases Journal

Date	Details	Invoice no	F	Amount
20x5				K'000
May	3 P Phiri			1 296
	3 H Hantobolo			225
	3 B Sinda			684
	9 B Mpafya			216
	9 H Hantobolo			522
	9 H Muleta			1 107
	17 H Hantobolo			486
	17 B Mpafya			585
	17 L Ntembe			<u>675</u>
31	Transfer to purchases account			<u>5 796</u>

Returns inwards journal

Date	Details	Invoice no	F	Amount
20x5				K'000
May	14 T Tamba			45
	14 K Banda			99
	14 K Kwabe			126
	28 N Malama			<u>216</u>
31	Transfer to returns inwards account			<u>486</u>

Returns outwards Journal

Date	Details	Invoice no	F	Amount
20x5				K'000
May	11 P Phiri			108
	11 B Sinda			198
	20 B Mpafya			<u>126</u>
31	Transfer to returns outwards account			<u>432</u>

Sales Ledger

T Tamba account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 1	Sales		504	
14	Returns inwards			45
31	Balance c/d		<u>504</u>	<u>459</u>
June 1	Balance b/d		459	

L Dimba account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 1	Sales		1 332	

K Banda account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 1	Sales		1 305	
14	Returns inwards			99
31	Balance c/d		<u>1 305</u>	<u>1 206</u>
June 1	Balance b/d		1 206	

K Kwabe account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 7	Sales		801	
14	Returns inwards			126
24	Sales		585	
31	Balance c/d		<u>1 386</u>	<u>1 260</u>
June 1	Balance b/d		1 260	

N Malama account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 7	Sales		702	
28	Returns inwards			216
31	Balance c/d		<u>702</u>	<u>486</u>
June 1	Balance b/d		486	

N Lombe account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 7	Sales		2 313	
24	Sales		495	
31	Balance c/d			<u>2 808</u>
			<u>2 808</u>	<u>2 808</u>
June 1	Balance b/d		2 808	

K Mutinta account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 24	Sales		513	

O Gondwe account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 24	Sales		1 008	

Purchases Ledger

P Phiri account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 3	Purchases			1 296
11	Purchases returns		108	
31	Balance c/d		<u>1 188</u>	
			<u>1 296</u>	<u>1 296</u>
June 1	Balance b/d			1 188

H Hantobolo account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 5	Purchases			225
9	Purchases			522
17	Purchases			486
31	Balance c/d		<u>1 233</u>	
			<u>1 233</u>	<u>1 233</u>
June 1	Balance b/d			1 233

B Sinda account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 3	Purchases			684
11	Purchases returns		198	
31	Balance c/d		<u>486</u>	
			<u>684</u>	<u>684</u>
June 1	Balance b/d			486

B Mpafya account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 3	Purchases			216
17	Purchases			585
20	Purchases returns		126	
31	Balance c/d		<u>675</u>	
			<u>801</u>	<u>801</u>
June 1	Balance b/d			675

H Muleta account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 9	Purchases			1 107

L Ntembe account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 17	Purchases			675

General ledger

Sales account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 31	Credit sales for the month			9 558

Purchases account

Date	Details	F	Dr	Cr
------	---------	---	----	----

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 31	Credit purchases for the month		5 796	

Returns inwards account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 31	Returns for the month		486	

Returns outwards account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
May 31	Returns for the month			432

FEEDBACK TO ACTIVITY 6

Journal proper

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Feb 1	Premises		20 000	
	Motor vehicle		25 000	
	Stock		6 500	
	Debtors: - J Mwale		6 000	
	Bank		3 000	
	Cash		1 500	
	Creditors: - A Motors Ltd			5 400
	Capital (bal. Fig.)			<u>56 600</u>
			<u>62 000</u>	<u>62 000</u>
	Being assets, liabilities and capital as at this date			
Feb 5	Motor vehicle		10 600	
	A Motors Ltd			10 600
	Purchase of a motor vehicle on credit			
Feb 14	P Muluti		6 000	
	J Mwale			6 000
	Transfer of the debt from J Mwale to			

P Muluati's account as per letter dated

General ledger

Premises account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Feb 1	Balance b/d		20 000	

Motor vehicles account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Feb 1	Balance b/d		25 000	
5	A Motors Ltd		10 600	
28	Balance c/d			<u>35 600</u>
			<u>35 600</u>	<u>35 600</u>
March 1	Balance b/d		35 600	

Stock account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Feb 1	Balance b/d		6 500	

Capital account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Feb 1	Balance b/d			56 600

Sales ledger

J Mwale account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Feb 1	Balance b/d		6 000	
14	P Muluati			<u>6 000</u>
			<u>6 000</u>	<u>6 000</u>

P Muluti account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Feb 14	J Mwale		6 000	

Purchases Ledger

A Motors Ltd account

Date	Details	F	Dr	Cr
20x5			K'000	K'000
Feb 1	Balance b/d			5 400
5	Motor vehicle			10 600
28	Balance c/d		<u>16 000</u>	
			<u>16 000</u>	<u>16 000</u>
March 1	Balance b/d			16 000

Cash book

Date	Details	F	Cash		Bank	
20x5			Dr	Cr	Dr	Cr
			K' 000	K'000	K'000	K'000
Feb 1	Balances b/d		1 500		3 000	

END OF MODULE ONE