

# IPPE

# INTEGRATED POST PRIMARY EDUCATION PROGRAMME

## ACCOUNTANCY FOR STAGE II MODULE 1

### Basic Accounting

BALANCE SHEET AS AT 31 DECEMBER 2009

| Capital Liabilities        |                | Assets                |                |
|----------------------------|----------------|-----------------------|----------------|
| Capital                    | 250,000        | <b>Fixed assets</b>   |                |
| Add net profit             | <u>48,200</u>  | Premises              | 100,000        |
|                            | 298,200        | Furniture             | 25,000         |
| Less drawings              | <u>32,500</u>  | Motor (car) vehicle   | 60,000         |
|                            | 265,700        |                       |                |
| <b>Current liabilities</b> |                | <b>Current Assets</b> |                |
| Sundry creditors           | <u>52,800</u>  | Stock                 | 55,300         |
|                            |                | Sundry debtors        | 48,500         |
|                            |                | Cash at bank          | 29,100         |
|                            |                | Cash in hand          | <u>600</u>     |
|                            | <u>318,500</u> |                       | <u>133,500</u> |
|                            |                |                       | <b>318,500</b> |

Institute of Adult Education  
Integrated Post Primary Education Programme

657ACC

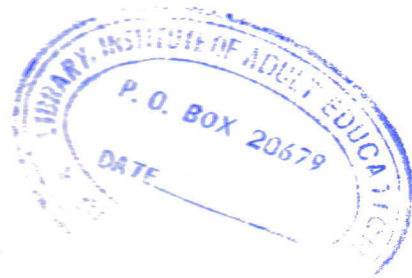
0012, F80

MODULE 1

657 ACC

# ACCOUNTANCY II

## Basic Accounting



IAE LIBRARY



000000103984

Institute of Adult Education  
Integrated Post Primary Education Programme

# Copyright

All rights reserved. No part of this publication may be reproduced in any form or any means, in full or in part, except for short extracts in fair dealings, for research or private study, critical scholarly review or discourse with an acknowledgement, without the written permission of the Institute of Adult Education.

**Institute of Adult Education  
Integrated Post Primary Education Programme**

P.O Box 20679,  
Dar Es Salaam,  
Bibi Titi Mohamed Street,  
Tanzania.

Fax: +255 22 2150836  
E-mail: [info@iae.ac.tz](mailto:info@iae.ac.tz)  
Website: [www.iae.ac.tz](http://www.iae.ac.tz)

## Acknowledgements

This module has been produced after the writing process of the Stage II Accountancy module for the IPPE programme, academic component. The IAE is grateful for financial and technical support from United Nations Children's Fund (UNICEF). Also the IAE thanks Ms Leonia Kassamia for superb coordination, Mr. Eric Samba for leading editing work and Dr. Wilberforce E. Meena for guiding the process. Specifically, the IAE wishes to recognize and appreciate insightful and critical contributions of the following writers of this module:

S. Liguu

Jovita T. Zacharia

Lughano S.

Tanzania Institute of Education

Benjamin Mkapa Secondary School

Institute of Adult Education

# Contents

|                                     |           |
|-------------------------------------|-----------|
| <b>About this module</b>            | <b>1</b>  |
| How this module is structured ..... | 1         |
| <b>Module overview</b>              | <b>3</b>  |
| Welcome to Basic Accounting .....   | 3         |
| General competence .....            | 3         |
| Study skills .....                  | 4         |
| Need help? .....                    | 5         |
| Module assessment .....             | 5         |
| <b>Getting around this module</b>   | <b>7</b>  |
| Margin icons .....                  | 7         |
| <b>Unit 1</b>                       | <b>9</b>  |
| Book-Keeping Procedures .....       | 9         |
| Introduction .....                  | 9         |
| Learning Outcomes .....             | 9         |
| Meaning of Book-keeping .....       | 9         |
| Reflection .....                    | 20        |
| Unit assignment .....               | 20        |
| <b>Unit 2</b>                       | <b>23</b> |
| Trial Balance .....                 | 23        |
| Introduction .....                  | 23        |
| Learning Outcomes .....             | 23        |
| Terminology .....                   | 23        |
| Meaning of Trial Balance .....      | 25        |
| Unit reflection .....               | 27        |
| Unit assignment .....               | 27        |
| <b>Unit 3</b>                       | <b>30</b> |
| Elementary Income Statement .....   | 30        |
| Introduction .....                  | 30        |
| Learning Outcomes .....             | 30        |
| Terminology .....                   | 30        |
| Trading Account .....               | 31        |

---

|   |           |
|---|-----------|
| Unit reflection.....                      | 37        |
| Unit assignment.....                      | 38        |
| <b>Unit 4</b>                             | <b>39</b> |
| <hr/>                                     |           |
| Books of Prime Entry .....                | 39        |
| Introduction.....                         | 39        |
| Learning Outcomes.....                    | 39        |
| Terminology.....                          | 39        |
| Meaning of books of prime entry.....      | 40        |
| Unit reflection.....                      | 64        |
| Unit assignment.....                      | 65        |
| <b>Unit 5</b>                             | <b>69</b> |
| <hr/>                                     |           |
| Bank Reconciliation Statement .....       | 69        |
| Introduction.....                         | 69        |
| Learning Outcomes.....                    | 69        |
| Bank Reconciliation Statement.....        | 70        |
| Unit reflection.....                      | 76        |
| Unit assignment.....                      | 76        |
| <b>Unit 6</b>                             | <b>77</b> |
| <hr/>                                     |           |
| Government Accounting Terminologies ..... | 77        |
| Introduction.....                         | 77        |
| Learning outcomes.....                    | 77        |
| Terminology.....                          | 77        |
| Unit reflection.....                      | 79        |
| Unit assignment.....                      | 79        |



## About this MODULE 1

This module has been produced by the Institute of Adult Education. All MODULE 1s produced by the Institute of Adult Education are structured in the same way, as outlined below.

### How this MODULE 1 is structured

#### The module overview

The module overview gives you a general introduction to the module. Information contained in the module overview will help you determine:

- If the module is suitable for you,
- What you will need to know,
- What you can expect from the module, and
- How much time you will need to invest to complete the module.

The overview also provides guidance on:

- Study skills,
- Where to get help,
- Unit assignments,
- Activity icons, and
- Units.

We strongly recommend that you read the overview *carefully* before starting your study.

#### The module content

The module is broken down into units. Each unit comprises:

- An introduction to the unit content,
- Learning outcomes,
- New terminologies,



Core content of the unit with a variety of learning activities,  
Unit reflection, and  
Unit assignments.

## Resources

For those interested in learning more on this subject, we provide you with a list of additional resources at the end of this MODULE 1; these may be books, articles or web sites.

## Your comments

After completing Basic Accounting we would appreciate if you would take a few moments to give us your feedback on any aspect of this module. Your feedback might include comments on:

- Module content and structure,
- Module reading materials and resources,
- Unit assignments,
- Module assessments,
- Module duration, and
- Module support (assigned tutors, technical help, etc.)

Your constructive feedback will help us to improve and enhance this module.

## Module overview

---

### Welcome to Basic Accounting

Welcome to Basic Accounting module, which has been prepared to enable you acquire a basic knowledge of accounting. The module is composed of six units which are: Book keeping procedures, Trial balance, elementary Income Statements, Books of prime entry, Bank Reconciliation, and Government Accounting Terminologies. This is the beginning of the module, you are advised to open a portfolio for storing the products of all the learning activities you will do in this module. You will then present the activities to your tutor during the face to face sessions for feedback.

---

### General competence



Upon completion of this module you should be able:

demonstrate the understanding and ability to apply accounting knowledge in daily life.

## Study skills



As an out of school learner your approach to learning will be different to that from your school days: you will choose what you want to study, you will have professional and/or personal motivation for doing so and you will most likely be fitting your study activities around other professional or domestic responsibilities.

Essentially you will be taking control of your learning environment. As a consequence, you will need to consider performance issues related to time management, goal setting, stress management, etc. Perhaps you will also need to learn about essay planning, coping with exams and using the web as a learning tool.

Your most significant considerations will be *time* and *space* i.e. the time you dedicate to your learning and the environment in which you engage in that learning.

We recommend that you take time now, before starting your self-study, to familiarize yourself with these issues. There are a number of excellent resources on the web. A few suggested links are:

- <http://www.how-to-study.com/>

The “How to study” web site is dedicated to study skills resources. You will find links to study preparation (a list of nine essentials for a good study place), taking notes, strategies for reading text books, using reference sources, test anxiety.

- <http://www.ucc.vt.edu/stdysk/stdyhlp.html>

This is the web site of the Virginia Tech, Division of Student Affairs. You will find links to time scheduling (including a “where does time go?” link), a study skill checklist, basic concentration techniques, control of the study environment, note taking, how to read essays for analysis, memory skills (“remembering”).

- <http://www.howtostudy.org/resources.php>

Another “How to study” web site with useful links to time management, efficient reading, questioning/listening/observing skills, getting the most out of doing (“hands-on” learning), memory building, tips for staying motivated, developing a learning plan.

The above links are our suggestions to start you on your way. At the time of writing these web links were active. If you want to look for more go to [www.google.com](http://www.google.com) and type “self-study basics”, “self-study tips”, “self-study skills” or similar.



---

## Need help?



Dear learner, in the course of your study, you may need help in various issues such as the location and how to get support from resource centres, clarification of various issues pertaining to your study materials (modules) and so on. If this happens, you are advised to ask for the help from your centre coordinator or facilitator, you can also visit the website of the Institute of Adult Education which is [www.iae.ac.tz](http://www.iae.ac.tz) or ask for help by using phone no. +255 22 2150838.

---

## Module assessment



After each unit, you will be required to attempt one unit assignment. These are not meant for submission rather for reflection on what you have learned in the whole module. You will also be given tests and assignments for submission as you will be guided by your module facilitator. You will also sit for mock examinations to accomplish your continuous assessment.

# Getting around this MODULE 1

## Margin icons

While working through this MODULE 1 you will notice the frequent use of margin icons. These icons serve to “signpost” a particular piece of text, a new task or change in activity; they have been included to help you to find your way around this MODULE 1.

A complete icon set is shown below. We suggest that you familiarize yourself with the icons and their meaning before starting your study.

|  |   |  |   |
|--|---|--|---|
| <br>Activity                  | <br>Assessment         | <br>Unit assignment          | <br>Case study     |
| <br>Discussion                | <br>Group activity     | <br>Help                     | <br>Note it!       |
| <br>Outcomes                | <br>Reading          | <br>Reflection             | <br>Study skills |
| <br>Reflection              | <br>Terminology      | <br>Time                   | <br>Tip          |
| <br>Computer-Based Learning | <br>Audio            | <br>Video                  | <br>Feedback     |
| <br>Competence              | <br>Basic Competence | <br>Answers to Assessments |   |



# Unit 1

## Book-Keeping Procedures

### Introduction

Dear learner, welcome to Unit 1. The main focus of this unit is to enable you to acquire a basic knowledge of book-keeping procedures. This unit has six sections which are: Importance of book keeping, business transactions, business entity, advantage of double entry, application of principle of double entry and balancing off accounting.

### Learning Outcomes



Upon completion of this unit you will be able to:

*Explain* the concept of book keeping and business entity.

*Describe* the principle of double entry system.

*Explain* classification of accounts.

### Meaning of Book Keeping



What comes in your mind when you hear the term Book Keeping?  
Discuss this with your friends.

Now compare your definition with the one given below:

**Book- keeping** is concerned with making records of business transactions or book keeping can be defined as an art of recording financial/business transactions in a set of books in terms of money or money's worth; or is the branch of accounting which deals with recording of financial data or events.

#### **Importance of studying book keeping:**

Discuss with your friends the importance of studying book keeping.

*Compare your answers with the following:*

Book Keeping is a very important subject in our daily life. Most of the people study it for a number of reasons, some of which are discussed below:



**(a) Determinant of profits**

The principle aim of any business is to make profit. It would be very difficult to ascertain whether a business is making profits or losses without the help of complete, accurate and up to date accounting records.

**(b) Knowledge of credit dealings**

Since most business transactions are conducted on credit basis, the proprietor will have to maintain accounting records in order to know the amount due from debtors and those owing to his creditors

**(c) Business control**

For an effective control of the business, a proprietor will have to maintain a proper accounting records of all his assets and liabilities which, in the long run will help him/her decide on matters such as expansion or contraction of the business as and when need arise. Depending on profitability, level of the business, by maintaining the movement of his assets and liabilities, a person will be able to detect errors, fraud and misappropriation and thus take corrective measures.

**(d) Reliable Financial Position**

It is very common for a business organization to seek financial assistance from external sources such as the bank. In such a case the credit worthiness of the business must be provided. Alternatively a businessman may decide to sell his business whereby the information contained in his accounting records will be the main influence in the determination of the sale price.

**(e) Fair Tax assessment**

The income Tax Department will require the submission of proper accounts for scrutiny in order to determine a fair tax charge.

**(f) Base for further planning**

Accounting records can provide sufficient data relating to sales, profit, loses and investments for making decisions about future programmes.

**Business Transactions**

Book-keeping was defined as an art of recording *financial or business transactions* in a set of books in terms of money or money worth . Now before we learn how to record our financial or business transactions in our books let us first look at the term business transactions.



---

Brainstorm with your friend on the terms business and transactions, then read the text below

---

1. *Transaction* is the movement of money or money worth from one person to another.
2. *Business transaction* is any activity which involves business or exchange of goods and services from one person to another which must be supported by money.
3. *Business* means an activity which involves buying and selling of goods and services for the purpose of making profit or loss. There are two main types of business transactions: - These are credit transactions and cash transactions, Sale of goods and services by cash is an example of a cash transaction while purchase of goods or service on credit is an example of a credit transaction, i.e., buying of an exercise book shs 600 cash, selling of an orange shs 100 cash.

### **Business entity**

It was indicated that Book Keeping is a practice associated with business which is carried out with the motive of making profit. This is contrasted with non business practices which usually carried out business without the motive of making a profit. It is important to make this distinction because there is a tendency by business owners to interfere with the operations of the business and ignoring the fact that the owner and the business are two different entities or bodies.

The Business entity concept implies that the transactions recorded in a firm's books are those ones which directly affect the business. The only time that the personal resources of the proprietor affect the firm's accounting records is when he brings new capital into the firm, or takes drawings out of the firm. Unlike personal transactions, every business requires that all business transactions be recorded properly. In the following section we shall discuss how business transactions are recorded.

### **Double Entry System**

Double entry is a book-keeping principle which calls for every debit entry to have a corresponding credit entry of the same amount. Double entry book-keeping is a system which requires all business transactions to be recorded twice in the books of accounts. One may wonder why we should do that. There are good reasons for making a double entry as we shall see in the next section.

*Do you keep records of things that you do? If so, how? If not, why?*



**Note:** Each transaction must be divided into two aspects or accounts so that one aspect should be debited and another be credited to make principle of double entry book keeping workable.

#### **Advantages of double entry**

It puts into records both aspect of every personal, losses, gains and assets

It helps to control business record

It ensures the accuracy of clerical work. That is, every credit balance should be equal to the debit balance.

The system helps in the preparation of final accounts

#### **Application of principle of double entry system**

We have seen how important the double entry system is in the recording of business transactions. In this section we shall learn how to apply the double entry system.

Business transactions are recorded in a book called *ledger*.

**Ledger** is main book of account which is used to record business transaction, both cash and credit transactions.

A ledger has two sides, left hand side and right hand side. The left hand side is used for debit entry and the right hand side is used for credit entry. The abbreviation used for these two terms are DR (Debit) and CR(Credit)

**Debit** means record all transactions which comes in e.g. money which comes should be recorded in debit side of cash accounts e.g. cash sales.

**Credit** means record all transactions which goes out e.g. any expenses paid by cash should be recorded in the credit side of cash accounts.

**An Account (A/C)** is the page of a ledger whereby two aspects of transaction are recorded; either debit or credit depending on nature of transaction. Note: accounts are opened in the ledger.

For example, John bought office furniture for cash. In this case you will have two accounts to make in the ledger, i.e., cash account and furniture account.

The ledger is ruled as under:-



**Debit (Dr)                      Account                      Credit (Cr)**

| Date | Particulars | Folio | Amount | Date | Particulars | Folio | Amount |
|------|-------------|-------|--------|------|-------------|-------|--------|
|      |             |       |        |      |             |       |        |
|      |             |       |        |      |             |       |        |

*What do we take into consideration when classifying things?*

The Date column: for recording the year, month and date of transaction.

Narration, or Details column or Particulars Column: for recording the name of the account where the corresponding entry goes.

Folio column: for recording a reference number, i.e., page of a ledger.

Amount column: for recording the value of transaction (amount) in monetary terms e.g. shs, \$, £, etc.

Dear learner, until now you have learned different technical terms which are used in application of double entry system. Now we introduce you to another subtopic known as classification of accounts. The classification of accounts play a very important role in deciding why and which account to be debited or credited.

### **Classification of accounts**

Accounts are divided into two main parts; personal accounts and impersonal accounts.

Impersonal accounts do not bear any name of a person and is divided into two parts:-

**Nominal Accounts**

This account record transactions which are not tangible like sales, purchases, salaries, water bills and many other receipts and payments.

**Real accounts**

These accounts record transactions which are tangible like buildings, cash, plant and machinery, vehicles, furniture.

A Personal account bears the name of the persons and organisations. The subgroups are as follows:



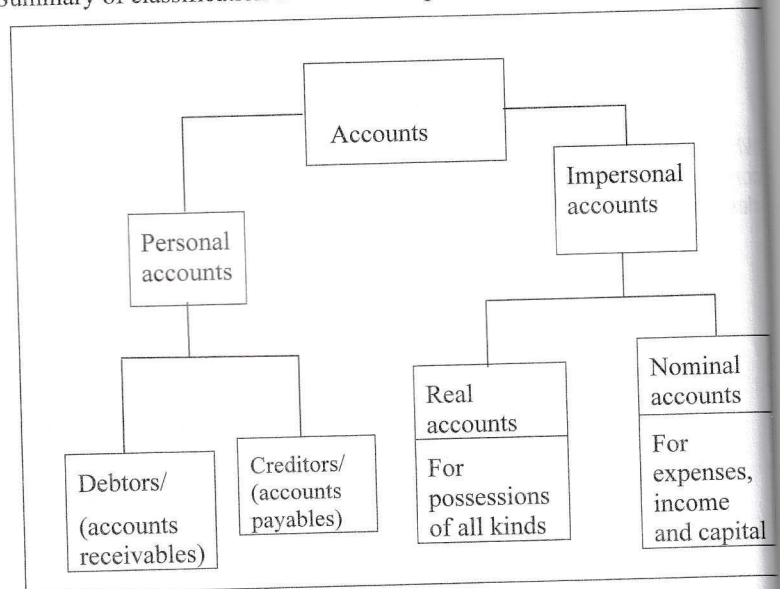
□ **Creditor's account**

Creditor is one who purchases goods/services without making immediate payments. All goods/services acquired without immediate payments are recorded into one account known as creditors account.

□ **Debtor's account**

This account represents the amount of money the business is owed by all the customers to whom it has sold on credit in the course of ordinary trade.

Summary of classification of accounts depicted below:-



Dear learner, you have already studied about the classification of accounts. The classification of Accounts introduces you to real application of double entry system through the golden rules as follow. Golden Rules of Accounts use the classification of Accounts to facilitate the guidance on why and how to debit and credit an account.

1. The Real Accounts: DR what comes in  
CR what goes out
2. The Nominal Account: DR Expenses & Losses  
CR Revenue/Income
3. Personal Accounts: DR The receiver



CR The giver

This stage of double entry system and Accounts enables you to establish rules for making double entry in case of any different transactions. When faced with any transaction, the following three points must be considered or remembered:

- (i) What two accounts are affected e.g. sold goods for cash shs 300. Two accounts involved on: Sales and Cash Accounts
- (ii) What type of accounts are they from (i) example;  
Cash accounts – Real Accounts  
Sales Accounts – Nominal Accounts
- (iii) Which account is to be debited and which to be credited.  
From (ii) Example; refers to the rules of  
Real Accounts i.e., DR what comes in the Account

CR what goes out of Account

Nominal Accounts i.e., DR expenses and Losses

CR Income/Revenue

Therefore, Cash Accounts is to be DR

Sales Accounts is to be CR

Dear learner, now you have achieved to practice different transactions through those three stage of questions i.e. (i), (ii) and (iii) so much that to understand the application of double entry system. Now remember the book-keeping needs practices so that to develop curiosity and competence.

**Illustrative example of double entry**

Kisanga started business with capital in cash 60,000 on Jan 1<sup>st</sup> 1990. He made the following:

Transactions during the month of Jan 1990:

|  |        |
|--|--------|
| Jan 2: purchased goods and paid cash     | 10,000 |
| Jan 3: Bought goods for cash             | 5,000  |
| Jan 7: Sold goods for cash               | 40,000 |
| Jan 8: Bought goods for cash             | 8,000  |
| Jan 9: Bought packing materials for cash | 1,500  |
| Jan 10: Paid transport charges           | 3,000  |



Dear Learner, now post the above transactions to cash account and complete double entry using the information provided above.

Compare your solution with the worked example provided below:

**Solution:**

| Debit (Dr) |             |       |        | Cash Account (L.1) |                  |       |        | Credit(Cr) |             |       |        |
|------------|-------------|-------|--------|--------------------|------------------|-------|--------|------------|-------------|-------|--------|
| Date       | Particulars | Folio | Amount | Date               | Particulars      | Folio | Amount | Date       | Particulars | Folio | Amount |
| 1/1/1990   | Capital     | L.2   | 60,000 | 2/1/1990           | purchases        | L.3   | 10,000 |            |             |       |        |
| 7/1/1990   | Sales       | L.4   | 40,000 | 3/1/1990           | purchases        | L.3   | 5,000  |            |             |       |        |
|            |             |       |        | 8/1/1990           | Purchases        | L.3   | 8,000  |            |             |       |        |
|            |             |       |        | 9/1/1990           | Packing material | L.5   | 1,500  |            |             |       |        |
|            |             |       |        | 10/1/1990          | Transport        | L.6   | 3,000  |            |             |       |        |
|            |             |       |        |                    |                  |       |        |            |             |       |        |
|            |             |       |        |                    |                  |       |        |            |             |       |        |

| Debit (Dr) |             |       |        | Capital account (L.2) |             |       |        | Credit (Cr) |             |       |        |
|------------|-------------|-------|--------|-----------------------|-------------|-------|--------|-------------|-------------|-------|--------|
| Date       | Particulars | Folio | Amount | Date                  | Particulars | Folio | Amount | Date        | Particulars | Folio | Amount |
|            |             |       |        | 1/1/1990              | Cash        | L.1   | 60,000 |             |             |       |        |
|            |             |       |        |                       |             |       |        |             |             |       |        |

| Debit(Dr) |             |       |        | Purchases account (L.3) |             |       |        | Credit(Cr) |             |       |        |
|-----------|-------------|-------|--------|-------------------------|-------------|-------|--------|------------|-------------|-------|--------|
| Date      | Particulars | Folio | Amount | Date                    | Particulars | Folio | Amount | Date       | Particulars | Folio | Amount |
| 2/1/1990  | Cash        | L.1   | 10,000 |                         |             |       |        |            |             |       |        |
| 3/1/1990  | Cash        | L.1   | 5,000  |                         |             |       |        |            |             |       |        |
| 8/1/1990  | Cash        | L.1   | 8,000  |                         |             |       |        |            |             |       |        |
|           |             |       |        |                         |             |       |        |            |             |       |        |

| Debit (Dr) |             |       |        | Sales account (L.4) |             |       |        | Credit (Cr) |             |       |        |
|------------|-------------|-------|--------|---------------------|-------------|-------|--------|-------------|-------------|-------|--------|
| Date       | Particulars | Folio | Amount | Date                | Particulars | Folio | Amount | Date        | Particulars | Folio | Amount |
|            |             |       |        | 7/1/1990            | Cash        | L.1   | 40,000 |             |             |       |        |



Debit(Dr) **Packing materials account (L.5)** Credit(Cr)

| Date     | Particulars | Folio | Amount | Date | Particulars | Folio | Amount |
|----------|-------------|-------|--------|------|-------------|-------|--------|
| 9/1/1990 | Cash        | L.1   | 1,500  |      |             |       |        |

Debit(Dr) **Transport account (L.6)n** Credit(Cr)

| Date      | Particulars | Folio | Amount | Date | Particulars | Folio | Amount |
|-----------|-------------|-------|--------|------|-------------|-------|--------|
| 10/1/1990 | Cash        | L.1   | 3,000  |      |             |       |        |

**Balancing off the accounts**

Record the following transactions in the ledger in the book of Lugano

1980

- Jan 1: Commenced business with cash .....800,000
- Jan 2: Purchased goods with cash.....300,000
- Jan 3: Paid office cleaning with cash.....2,000
- Jan 5: Sold all the goods for cash.....340,000
- Jan 7: Purchased goods for cash.....200,000
- Jan 10: Paid carriage on goods sold.....40,000
- Jan 10: Sold goods for cash.....300,000
- Jan 15: Paid wages.....10,000

**Required:**

- (a) Enter the above transactions in the cash book
- (b) Complete the double entry
- (c) Balance off the ledgers

Follow the procedure of posting transactions of Kisanga as illustrated above.

*Compare your response with the following worked example below:*

**Balancing off account**

Balancing off account means to make both sides of an account equal. Total of debit sides should be equal with total of credit side or arithmetical difference between the two sides of an account.

**Steps:**

- At the end of accounting period each side of account is totalized



- The difference between two sides inserted in the side which has a small amount (use balance c/d or c/f). Balance carry down (c/d) or carry forward (c/f) is the closing balance done in the period which has ended.
- If an account has an entry in only one side, the total from that side has to be transferred to another side. e.g. Capital a/c (L.2)
- The total to be inserted in the same line (Two totals should be written on a level with each other.
- Finally, brought down the balancing figure, for next accounting period. Balance brought down or forward (b/d or b/f) is the opening balance for the period which has just started.

**Debit (Dr)      Cash Account (L.1)      Credit (Cr)**

| Date      | Particulars | Folio | Amount           | Date      | Particulars       | Folio | Amount           |
|-----------|-------------|-------|------------------|-----------|-------------------|-------|------------------|
| 1/1/1980  | Capital     | L.2   | 800,000          | 2/1/1980  | purchases         | L3    | 300,000          |
| 5/1/1980  | Sales       | L.5   | 340,000          | 3/1/1980  | Cleaning          | L4    | 2,000            |
| 10/1/1980 | Sales       | L.5   | 300,000          | 7/1/1980  | Purchases         | L3    | 200,000          |
|           |             |       |                  | 10/1/1980 | Carriage outwards | L6    | 40,000           |
|           |             |       |                  | 15/1/1980 | Wages             | L7    | 10,000           |
|           |             |       |                  | 31/1/1980 | Balance           | c/d   | 888,000          |
|           |             |       | <b>1,440,000</b> |           |                   |       | <b>1,440,000</b> |
| 1/2/1980  | Balance     | b/d   | 888,000          |           |                   |       |                  |

**Debit(Dr)      Capital account (L.2)      Credit(Cr)**

| Date      | Particulars | Folio | Amount  | Date      | Particulars | Folio | Amount  |
|-----------|-------------|-------|---------|-----------|-------------|-------|---------|
| 31/1/1980 | Balance     | c/d   | 800,000 | 1/1/1980  | Cash        | L1    | 800,000 |
|           |             |       |         | 1/2/1'980 | Balance     | b/d   | 800,000 |

**Debit(Dr)      Purchases account (L.3)      Credit(Cr)**

| Date     | Particulars | Folio | Amount         | Date      | Particulars | Folio | Amount         |
|----------|-------------|-------|----------------|-----------|-------------|-------|----------------|
| 2/1/1980 | Cash        | L1    | 300,000        | 31/1/1980 | Balance     | c/d   | 500,000        |
| 7/1/1980 | Cash        | L.I   | 200,000        |           |             |       |                |
|          |             |       | <b>500,000</b> |           |             |       | <b>500,000</b> |
| 1/2/1980 | Balance     | b/d   | 500,000        |           |             |       |                |



Debit(Dr)      **Cleaning account (L.4)**      Credit(Cr)

| Date     | Particulars | Folio | Amount | Date      | Particulars | Folio | Amount |
|----------|-------------|-------|--------|-----------|-------------|-------|--------|
| 3/1/1980 | Cash        | L.1   | 2,000  | 31/1/1980 | Balance     | c/d   | 2,000  |
| 1/2/1980 | Balance     | b/d   | 2,000  |           |             |       |        |

Debit(Dr)      **Sales account (L.5)k**      Credit(Cr)

| Date      | Particulars | Folio | Amount         | Date      | Particulars | Folio | Amount         |
|-----------|-------------|-------|----------------|-----------|-------------|-------|----------------|
| 31/1/1980 | Balance     | c/d   | 640,000        | 5/1/1980  | Cash        | L1    | 340,000        |
|           |             |       |                | 10/1/1980 | Cash        | L1    | 300,000        |
|           |             |       | <b>640,000</b> |           |             |       | <b>640,000</b> |
|           |             |       |                | 1/2/1980  | Balance     | b/d   | 640,000        |

Debit(Dr)      **Carriage outwards account (L.6)**      Credit(Cr)

| Date      | Particulars | Folio | Amount        | Date      | Particulars | Folio | Amount        |
|-----------|-------------|-------|---------------|-----------|-------------|-------|---------------|
| 10/1/1980 | Cash        | L.1   | <b>40,000</b> | 31/1/1980 | Balance     | c/d   | <b>40,000</b> |
| 1/2/1980  | Balance     | b/d   | 40,000        |           |             |       |               |

Debit(Dr)      **Wages account (L.7)**      Credit(Cr)

| Date      | Particulars | Folio | Amount | Date      | Particulars | Folio | Amount |
|-----------|-------------|-------|--------|-----------|-------------|-------|--------|
| 15/1/1980 | Cash        | L.1   | 10,000 | 31/1/1980 | Balance     | c/d   | 10,000 |
| 1/2/1980  | Balance     | b/d   | 10,000 |           |             |       |        |

Dear learner, now you have covered how to record transactions, complete double entry and balancing off the accounts.



## Reflection



1. How well did you understand this unit? What main things did you learn?
2. What was the most interesting thing in this unit and why?
3. What challenges did you face in learning about book keeping procedures? How did you understand them.

## Unit assignment



Answer the following questions:

1. Define the following:
  - (a) Real accounts
  - (b) Nominal accounts
  - (c) Balancing off accounts
  - (d) Double entry principle
2. What are the risks of operating a business without recording?
3. Complete the following table and show which accounts are to be debited and which are to be credited:

| No  | Transactions                             | Accounts to be Debited | Accounts to be Credited |
|-----|--|------------------------|-------------------------|
|     | <b>Example:</b> Bought building for cash | Building account       | Cash A/C                |
| i   | Bought goods for cash                    |                        |                         |
| ii  | Sold goods for cash                      |                        |                         |
| iii | Paid wages for cash                      |                        |                         |
| iv  | Jovitha commenced business by cash       |                        |                         |
| v   | Cash paid to supplier                    |                        |                         |
| vi  | Cash received from debtor                |                        |                         |
| vii | Cash drawing                             |                        |                         |

4. Mary commenced business on first August 1999 by introducing shs 300,000 in cash.
  - August. 1. Purchased goods for cash..... 150,000
    1. Paid carriage on goods purchased..... 1,000
    2. Sold goods for cash..... 130,000
    3. Cash purchases..... 100,000



|     |                                 |         |
|-----|---------------------------------|---------|
| 14. | Cash sales.....                 | 500,000 |
| 15. | Paid water bill in cash.....    | 30,000  |
| 16. | Paid electricity.....           | 20,000  |
| 17. | Payment made for purchases..... | 45,000  |

**Required:**

Open cash account, complete double entry and balance off the accounts.

- i) Visit any business neighbourhood and ask them to show you their ledgers. List the differences and similarities of all ledgers. Discuss your report with your friend. Put this in your portfolio.



## Unit 2

### Trial Balance

#### Introduction

Welcome to unit two. In unit one you have covered importance of book keeping, business transactions, business entity, advantages of double entry, application of double entry, balancing off accounts and classifications of accounts. In this unit you will learn posting of ledgers balance to trial balance. This unit has four sections: Meaning of trial balance, feature of trial balance, structure of trial balance and posting of ledger balance to trial balance.

#### Learning Outcomes



Upon completion of this unit you will be able to:

*Define* the concept of trial balance.

*Explain* the features and structure of trial balance.

*Prepare* trial balance.

#### Terminology



|                           |   |
|---------------------------|---|
| <b>Accounting period:</b> | Is a trading period for the determination of financial position, normally it takes the period of twelve months, then final accounts should be prepared. |
| <b>B/d:</b>               | Brought forward, normally written at the beginning of the month   |
| <b>Business:</b>          | It is an undertaking by an individual or otherwise aimed at making profit   |
| <b>C/d:</b>               | Carried down, normally written at the end of the month.   |
| <b>Creditor:</b>          | Is a person to whom money owes  |
| <b>Debtor:</b>            | Is a person by whom money owes  |



|                                    |  |
|------------------------------------|--|
| <b>Liabilities:</b>                | These are the debt of the business and are to be paid for.   |
| <b>Purchases:</b>                  | Buying goods for reselling   |
| <b>Proprietor:</b>                 | The owner of the business  |
| <b>Transaction:</b>                | It is an act of receiving goods or services  |
| <b>Account:</b>                    | Account is the section in the ledger that bears title and number called folio on the top right corner of the account.  |
| <b>Drawings:</b>                   | Cash or goods taken from business for private use  |
| <b>Postings:</b>                   | Is the process of transferring journal entries debit and credit to the proper ledger.  |
| <b>Sales:</b>                      | Sales is amount earned/gaining after providing goods or services.  |
| <b>Gross Profit:</b>               | Is the excess of sales over the cost of goods sold.  |
| <b>Error of omission:</b>          | This is when a transaction is completely omitted from the record. e.g Sale of goods valued 50,000 cash no record made at all   |
| <b>Error of commission:</b>        | This is when the transaction is recorded in wrong account of the same class and the same balance. e.g. credit sales to Liguio has been debited to Ligula account   |
| <b>Error of principles:</b>        | This is where transaction is recorded without following fundamental accounting principle. e.g purchases of a car has been recorded to purchases account. Occur when a transaction is posted to a wrong account which is not of the same type as the correct account. |
| <b>Compensating errors:</b>        | This occurs when debit and credit in different account are over stated or under stated by the same amount, e.g. Purchases and sales has been understated by 1000.  |
| <b>Complete reversal of entry:</b> | Occurs when an account to be credited is debited and account to be debited is credited. e.g., sales made to Maurine has been credited to Maurine instead of being debited.   |



**Error of original entry:**

This error occurs when the figure transposed. In this case correct account is recorded with wrong figure (transposed) in the books of accounts e.g. Purchases of Tshs 9,600 was recorded in the books accounts as Tshs 6,900.

**Error of duplication:**

This occurs when figure has been posted twice and posted twice in the ledger. e.g cash sales recorded twice in both ledgers

### Meaning of Trial Balance



Is a list of the debit and credit balances in the accounts extracted from the ledger at a given date

Dear Learner, write down the features of the trial balance, share your response with friend(s).

You can compare your responses with the one given below.

The features of the trial balance are the following:-

Equal debits and credits have been recorded for all transactions

The debit or credit of each account has been correctly computed or calculated.

The addition of the account balances in the trial balances has been correctly performed

If the trial balance totals do not agree one error or more must have been made.

#### Objectives of Trial Balance

- (i) Checking of whether the double entry system has been followed properly,
- (ii) Checking arithmetical accuracy of the records i.e. addition, subtraction errors, etc.

**Note:** The balance brought down (b/d) on debt side of an account in the ledger should be transferred to the debit column of the trial balance and vice versa.



### Structure of Trial Balance

*pair the structure of the trial balance, write down your response,*

Compare your responses with the format given below.

#### KABIGI LTD TRIAL BALANCE AS AT 31.12.2009

| DETAILS                  | DR          | CR          |
|--------------------------|-------------|-------------|
| Cash Account             | xxx         |             |
| Capital Account          |             | Xxx         |
| Purchases Account        | xxx         |             |
| Sales Account            |             | Xxx         |
| Carriage Account         | xxx         |             |
| Wages Account            | xxx         |             |
| Machine Account          | xxx         |             |
| General Expenses Account | xxx         |             |
|                          | <b>XXXX</b> | <b>XXXX</b> |

---

Share with your colleague about posting of ledgers to trial balance  
Using example of Lugano

---

Compare your findings with solution below:-

#### LUGANO'S TRIAL BALANCE AS AT 31.1.1980

| DETAILS   | DR               | CR               |
|-----------|------------------|------------------|
| Cash      | 888,000          |                  |
| Capital   |                  | 800,000          |
| Purchases | 500,000          |                  |
| Sales     |                  | 640,000          |
| Carriage  | 40,000           |                  |
| Cleaning  | 2,000            |                  |
| Wages     | 10,000           |                  |
|           | <b>1,440,000</b> | <b>1,440,000</b> |

## Unit reflection



1. What surprised you mostly in this unit? Why did that surprise you?
2. How well did you understand this unit and why?
3. What was the most interested thing in this unit and why?
4. What was the obstacles in the process of learning this unit and why?
5. Are methods used in this unit relevant? Suggest other method which will be suitable.
6. What do you think is the most important information you learned from this unit? Why is this important?
7. What important information is missing in this unit and why?

## Unit assignment



The following questions will help you to assess yourself on how much you have understood this unit

1. (a) What do you understand by the term trial balance?  
(b) What are the main purposes of trial balance?
2. Post the following ledgers of Ndevu Urembo company Ltd in the trial balance

### 1: Cash Account

| Debit (Dr) |             |       |        | Credit (Cr) |             |       |        |
|------------|-------------|-------|--------|-------------|-------------|-------|--------|
| Date       | Particulars | Folio | Amount | Date        | Particulars | Folio | Amount |
| 28/6/2009  | Sales       |       | 15,000 | 30/6/2009   | Balance     | c/d   | 15,000 |
| 1/7/2009   | Balance     | b/d   | 15,000 |             |             |       | 15,000 |

**2: Capital account**

| Debit (Dr) |             |       |        | Credit (Cr) |             |       |        |
|------------|-------------|-------|--------|-------------|-------------|-------|--------|
| Date       | Particulars | Folio | Amount | Date        | Particulars | Folio | Amount |
| 30/6/2009  | Balance     | c/d   | 12,000 | 8/6/2009    | Cash        | F.2   | 12,000 |
|            |             |       |        | 1/7/2009    | Balance     | b/d   | 12,000 |

**3: Purchases account**

| Debit (Dr) |             |       |        | Credit (Cr) |             |       |        |
|------------|-------------|-------|--------|-------------|-------------|-------|--------|
| Date       | Particulars | Folio | Amount | Date        | Particulars | Folio | Amount |
| 3/6/2009   | Cash        | L.3   | 7,000  | 30/6/1980   | Balance     | c/d   | 7,000  |
| 1/7/2009   | Balance     | b/d   | 7,000  |             |             |       |        |

**4: Rent Account**

| Debit (Dr) |             |       |        | Credit (Cr) |             |       |        |
|------------|-------------|-------|--------|-------------|-------------|-------|--------|
| Date       | Particulars | Folio | Amount | Date        | Particulars | Folio | Amount |
| 5/6/2009   | Cash        | L.4   | 1,500  | 30/6/2009   | Balance     | c/d   | 1,500  |
| 1/7/2009   | Balance     | b/d   | 1,500  |             |             |       |        |

**5: Sales account**

| Debit (Dr) |             |       |        | Credit (Cr) |             |       |        |
|------------|-------------|-------|--------|-------------|-------------|-------|--------|
| Date       | Particulars | Folio | Amount | Date        | Particulars | Folio | Amount |
| 30/6/2009  | Balance     | c/d   | 16,500 | 8/6/2009    | Cash        | F.5   | 16,500 |
|            |             |       |        | 1/7/2009    | Balance     | b/d   | 16,500 |

**6: Machine account**

| Debit (Dr) |             |       |        | Credit (Cr) |             |       |        |
|------------|-------------|-------|--------|-------------|-------------|-------|--------|
| Date       | Particulars | Folio | Amount | Date        | Particulars | Folio | Amount |
| 3/6/2009   | Cash        | L.6   | 10,000 | 30/6/2009   | Balance     | c/d   | 10,000 |
| 1/7/2009   | Balance     | b/d   | 10,000 |             |             |       |        |



i) Kasamia started business on 1<sup>st</sup> July 2001 with cash 200,000

|  |         |
|--|---------|
| July 2. Bought goods for cash.....     | 120,000 |
| July 3. Bought furniture for cash..... | 20,000  |
| July 5. Paid transport charges.....    | 2,500   |
| July 6. Cash sales.....                | 170,000 |
| July 8. Bought goods for cash.....     | 15,000  |
| July 10. Purchased goods for cash..... | 5,000   |
| July 12. Paid rent.....                | 8,000   |
| July 15. Sold goods for cash.....      | 210,000 |
| July 18. Sold goods for cash.....      | 30,000  |
| July 20. Paid carriage.....            | 3,000   |
| July 21. Paid wages.....               | 1,500   |

Required.

- a) Post the above transactions to the cash account
- b) Complete double entry
- c) Prepare trial balance



## Unit 3

### Elementary Trading, Profit and Loss Account and Balance Sheet

#### Introduction

Dear Learner, in the unit two you have learnt about trial balance, where by all list of ledgers are kept. Now in this unit you will learn about elementary which is derived from Trial balance. This unit has three sections which are trading account, profit and loss account and the balance sheet.

#### Learning Outcomes



Upon completion of this unit you will be able to:

*Distinguish* trading account and profit and loss account.

*Post* transactions to trading, profit and loss account.

*Prepare* balance sheet.

#### Terminology



|                           |   |
|---------------------------|---|
| <b>Net profit:</b>        | The profit obtained when gross profit b/d or total income excess the total expenses.  |
| <b>Net Loss:</b>          | That loss occurred when total expenses exceed gross profit brought forward or total income.   |
| <b>Carriage inwards:</b>  | This the cost incurred for transporting goods purchased from the supplier to the buyer's location.  |
| <b>Carriage outwards:</b> | This is transport charged to the goods supplied.  |
| <b>Direct expenses:</b>   | These are expenses relating to purchase of goods (for resale) e.g. carriage inwards or carriage on purchases.   |
| <b>Indirect expenses:</b> | All expenses other than direct expenses are termed as indirect expenses. These include carriage outwards, indirect wages, salaries, electricity, rent, rates, insurance advertisement and others. |

## Trading Account



Dear learner, take a visit at small shop near your living area and examine the calculation of profits; discuss with your friends the purpose of trading.

*Compare your answer with the one given below:-*

The purpose of the trading is to determine the Gross Profit or Loss, cost of goods sold, including the expenses directly attributable to putting the goods into saleable condition.

The trading Account is prepared at the end of the trading period by closing the purchases Account and sales Account. Then transferring the purchases figure to debit of and sales figure to the credit of the Trading Account.

### Format of Trading Account

Dear learner you have seen the purpose the Trading Account, Now describe the format of the Trading Account.

You can compare your format with the one given below:-

#### TRADING ACCOUNT FOR THE YEAR ENDED 31.12.2009

| Dr                         |     | Cr          |                  |     |             |
|----------------------------|-----|-------------|------------------|-----|-------------|
| Details                    | Shs | Shs         | Details          | Shs | Shs         |
| Opening stock              |     | xxx         | Sales            | xxx |             |
| <b>Add Purchases</b>       | xxx |             | Return Inwards   | xxx |             |
| <b>Less Return outward</b> | xxx |             | Net sales        |     | xxxx        |
| Net purchases              |     | xxx         |                  |     |             |
| Goods available for sale   |     | xxxx        |                  |     |             |
| <b>Less Closing stock</b>  |     | xxx         |                  |     |             |
| Cost of Goods Sold         |     | xxx         |                  |     |             |
| Gross profit c/d           |     | xx          |                  |     |             |
|                            |     | <b>xxxx</b> |                  |     | <b>xxxx</b> |
|                            |     |             | Gross profit b/d |     | xx          |



**Illustration**

You have been given the following information relating to the Sugu Mbilinyi Ltd

Record the following transactions into the trading account for the year ended 31.12.2009

Opening Stock -----60,000  
 Purchases-----40,000  
 Sales-----120,000  
 Return Inward-----25,000  
 Return outward-----20,000  
 Closing stock-----35,000

*You have seen the format of the trading account, with your friends post the transactions to the trading account*

*Compare your results with the one given below;*

**TRADING ACCOUNT AS THE YEAR ENDED 31.12.2009**

| Dr                         |        | Cr            |                  |         |               |
|----------------------------|--------|---------------|------------------|---------|---------------|
| Details                    | Shs    | Shs           | Details          | Shs     | Shs           |
| Opening stock              |        | 60,000        | Sales            | 120,000 |               |
| <b>Add</b> Purchases       | 40,000 |               | Return Inwards   | 25,000  |               |
| <b>Less</b> Return outward | 20,000 |               | Net sales        |         | 95,000        |
| Net purchases              |        | 20,000        |                  |         |               |
| Goods available for sale   |        | 80,000        |                  |         |               |
| <b>Less</b> Closing stock  |        | 35,000        |                  |         |               |
| Cost of Goods Sold         |        | 45,000        |                  |         |               |
| Gross profit c/d           |        | 50,000        |                  |         |               |
|                            |        | <b>95,000</b> |                  |         | <b>95,000</b> |
|                            |        |               | Gross Profit b/d |         | 50,000        |



### Profit and Loss Account

Dear Learner, discuss with your friends the meaning of the Profit and Loss account

Compare your answer with the following:-

The profit and loss Account is credited with the gross profit brought in from Trading Account. It is also credited with any other revenue items, such as discount received, rent received, income from investment etc arising during the period.

#### PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31/12/2009

| Shs               |            | Shs              |            |
|-------------------|------------|------------------|------------|
| Indirect expenses | XXX        | Gross profit b/d | XXX        |
| Net profit        | <u>XX</u>  | Other incomes    | <u>XXX</u> |
|                   | <u>XXX</u> |                  | <u>XXX</u> |

If the Dr Side total of the profit and loss account is more than its Cr side total, the balance represents a **Net loss**. If the Cr side total is higher than the Dr side total, the balance represent a **Net profit**.

Net profit is added to the capital, while net loss is deducted from the capital, when preparing the balance sheet

Dear Learner you have seen some definitions and format of the profit and loss account, but mostly profit and loss account and trading account is joined together to form Trading and Profit and Loss Account or income statement.



**Illustrative example**

The following is a trial balance of Gwan Aliko on 31 December 2009

| NO | DETAILS            | DR                | CR                |
|----|--------------------|-------------------|-------------------|
|    | Capital            |                   | 250,000.00        |
|    | Drawings           | 32,500.00         |                   |
|    | Opening stock      | 46,100.00         |                   |
|    | Purchases          | 284,400.00        |                   |
|    | Sales              |                   | 415,300.00        |
|    | Return inwards     | 3,600.00          |                   |
|    | Returns outwards   |                   | 6,700.00          |
|    | Carriage inwards   | 27,900.00         |                   |
|    | Carriage outwards  | 10,000.00         |                   |
|    | Wages and salaries | 47,200.00         |                   |
|    | Furniture          | 25,000.00         |                   |
|    | Motor vehicle      | 60,000.00         |                   |
|    | Sundry debtors     | 48,500            |                   |
|    | Sunday creditors   |                   | 52,800.00         |
|    | Cash at bank       | 29100.00          |                   |
|    | Cash in hand       | 600.00            |                   |
|    | Discount allowed   | 3,400.00          |                   |
|    | Discount received  |                   | 1,900.00          |
|    | General expenses   | 31,700.00         |                   |
|    | Premises           | 100,000.00        |                   |
|    | Income rent        |                   | 23,300.00         |
|    |                    | <b>750,000.00</b> | <b>750,000.00</b> |

Closing stock shs 55,300



GWAN ALIKO  
TRADING ACCOUNT FOR THE YEAR ENDED 31<sup>st</sup> DEC 2009

| DR                       |                | CR                  |               |
|--------------------------|----------------|---------------------|---------------|
| Opening stock            | 46100          | Sales               | 415300        |
| Add Purchases            | 284400         | Less return inwards | 3600          |
| Less returns outwards    | <u>6700</u>    | Net sales           | <u>411700</u> |
|                          | 277700         |                     |               |
| Add carriage inwards     | <u>27900</u>   |                     |               |
| Goods available for sale | 305600         |                     |               |
|                          | 351700         |                     |               |
| Less : closing stock     | <u>55300</u>   |                     |               |
| Cost of goods sold       | <u>296400</u>  |                     |               |
| Gross profit c/d         | <u>115,300</u> |                     |               |
|                          | <u>411,700</u> |                     |               |
|                          |                | Gross profit b/d    | 115,300       |

After the gross profit has been calculated (by drawing up a trading account) the next stage is to ascertain the net profit. Net profit is the difference between gross profit and selling, distribution and administration expenses of the business

Example 2 above

From the above example show the profit and loss Account of Gwan Aliko for the year ended 31 December 2009

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31<sup>st</sup> Dec 2009**

| DR                 |                | CR                |                |
|--------------------|----------------|-------------------|----------------|
| Carriage outwards  | 10,000         | Gross profit b/d  | 115,300        |
| Wages and salaries | 47,200         | Discount received | 1,900          |
| Discount allowed   | 3,400          | Rent income       | <u>23,300</u>  |
| General expense    | <u>31,700</u>  |                   | 25,100         |
| Total expenses     | 92300          |                   |                |
| Net profit         | <u>48,200</u>  |                   |                |
|                    | <u>140,500</u> |                   |                |
|                    |                |                   | <u>140,500</u> |



**The Balance sheet**

Visit a nearby Library,  
Internet cafe find the  
meaning and format of  
the balance sheet

Compare your meaning and the format with the one given below.

Balance sheet is a statement showing the financial position of the business as at the close of each trading period.

In compiling the balance sheet all the Assets and Liabilities are set out in a classified form. On the right hand side shows the various assets and on the left hand side shows various Liabilities recorded.

**Note:** Balance sheet is the statement and therefore it has got no debit and credit sides.

Format of Balance sheet

**BALANCE SHEET AS AT 30<sup>TH</sup> JUNE 2009**

| Liabilities           | Shs | Assets         | Shs |
|-----------------------|-----|----------------|-----|
| Capital               | xxx | Furniture      | xxx |
|                       |     | Current assets |     |
| <b>Add</b> Net profit | xxx | Stock          | xxx |
| <b>Less</b> Drawings  | xxx | Debtor         | xxx |
| Current liabilities   |     |                |     |
| Creditors             | xxx | Cash           | xxx |
|                       | xxx |                | xxx |

---

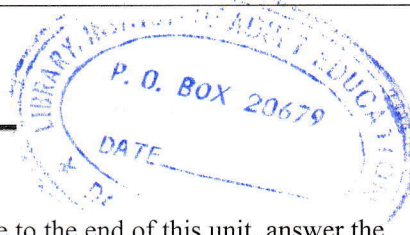
Dear learner you have seen the format of the balance sheet, Refer to the example of the Gwan Aliko Trial balance discuss with your friends posting of the transactions to Balance sheet statement

---

Compare your solution with the one given below:

GWAN ALIKO  
BALANCE SHEET AS AT 31 DECEMBER 2009

| Capital Liabilities        |                | Assets                |                |
|----------------------------|----------------|-----------------------|----------------|
| Capital                    | 250,000        | <b>Fixed assets</b>   |                |
| Add net profit             | <u>48,200</u>  | Premises              | 100,000        |
|                            | 298,200        | Furniture             | 25,000         |
| Less drawings              | <u>32,500</u>  | Motor (car) vehicle   | 60,000         |
|                            | 265,700        |                       |                |
| <b>Current liabilities</b> |                | <b>Current Assets</b> |                |
| Sundry creditors           | <u>52,800</u>  | Stock                 | 55,300         |
|                            |                | Sundry debtors        | 48,500         |
|                            |                | Cash at bank          | 29,100         |
|                            |                | Cash in hand          | <u>600</u>     |
|                            |                |                       | <u>133,500</u> |
|                            |                |                       | <b>318,500</b> |
|                            | <u>318,500</u> |                       |                |



## Unit reflection



Dear learner, now you have come to the end of this unit, answer the following questions to reflect back what you have covered

1. How well did you understand this unit and why?
2. What was the most interested thing in this unit and why?
3. What was the obstacles in the process of learning this unit and why?
4. Are methods used in this unit relevant? Suggest other method which will be suitable.
5. What do you think is the most important information you learned from this unit? Why is this important?
6. What is important information is missing in this unit and why?

## Unit assignment



The following questions will help you to assess yourself on how much you have understood this unit.

- The following is a trial balance of John Lugano, prepared at the end of year, from which the final accounts are prepared.

### JOHN LUGANO TRIAL BALANCE AS AT 31 DECEMBER 2008

|                    | <b>DR</b>        | <b>CR</b>        |
|--------------------|------------------|------------------|
| Sales              |                  | 1,860,000        |
| Purchases          | 1,155,600        |                  |
| Stock 1.1.2008     | 377,600          |                  |
| Carriage outwards  | 32,600           |                  |
| Carriage inwards   | 23,400           |                  |
| Return outwards    |                  | 35,500           |
| Salaries and wages | 244,700          |                  |
| Motor expenses     | 66,400           |                  |
| Returns inwards    | 44,000           |                  |
| Rent               | 57,600           |                  |
| Sundry expenses    | 120,200          |                  |
| Motor vehicles     | 240,000          |                  |
| Furniture          | 60,000           |                  |
| Debtors            | 457,700          |                  |
| Creditors          |                  | 304,500          |
| Cash at bank       | 387,600          |                  |
| Cash in hand       | 12,000           |                  |
| Drawings           | 205,000          |                  |
| Capital            |                  | 1,284,400        |
|                    | <b>3,484,400</b> | <b>3,484,400</b> |

Stock at 31 December 2008 was shs 500,000

Required:

- Prepare trading account,
- Prepare profit and loss account,
- Prepare balance sheet.

## Unit 4

### Books of Prime Entry

#### Introduction

Dear learner, welcome to this unit, in units one you have learnt about book keeping procedures, in that unit you have learnt about importance of learning book keeping, double entry and classification of accounts, in Unit 2 you have learnt about trial balance, you also learnt about trading, profit and loss accounts in unit three. In this unit you will learn posting of credit transactions to separate books. This unit has seven sections which are sales day book, purchases day book, sales returns day book, purchases returns, general journal, cash book and petty cash book.

#### Learning Outcomes



Upon completion of this unit you will be able to:

*Recording* transaction in the books of prime entry.

*Differentiate* between general journal and other journals.

*Recording* transactions to the petty cash book.

#### Terminology



- Credit note:** Is a document sent to a customer, showing the amount of the allowance given by a seller.
- Debit note:** A document sent by the customer to the supplier giving details of the goods and the reasons for their return.
- General journal:** Is used to record transaction of general nature.
- Invoice:** Is the document showing full details of the goods sold and the prices of the goods.
- Journal:** is a Latin word which means daily record.
- Journalizing:** Is the process of recording a transaction in a journal.



## Meaning of books of prime entry



Use the library search to find the meaning of books of prime entry, write down your findings.

Compare your finding with the one given below:

Books of prime entry which sometimes referred as books of original entry are the books in which we first record transactions. We have separate book for each kind of transaction. Therefore, the transaction will be entered to the book it specifically affects. Sales will be entered in one book, Purchases in another book, cash in another book and so on. We enter transactions in date wise so that transaction should be shown in date order.

Details relating to the sales are entered in a details column A folio column entry is made cross-referencing back to the original 'source document', e.g. the invoice.

The monetary amounts are entered in columns included in the books of original entry for that purposes.

### Types of books of Prime entry

The following are types of books of prime entry

- Sales day book or sales journal –for credit sales
- Purchase day book or Purchase journal-for credit purchases
- Sales return book or returns inward journal
- Purchases return book or returns outwards journal
- General journal( journal proper)
- Cash book-for receipt and payments of cash and bank cheque.

Show types of books of prime entry, write down your responses, compare your responses with the following text.

**Sales day book/ sales journal:** This book deals with recording of daily credit sales of goods.

---

Post the following transaction in the sales day book

---

Compare your results with the following:

Enter the item to the relevant accounts on the sales ledger and show the transfer to sales account in the general ledger.



December

|     |                          |        |
|-----|--------------------------|--------|
| 1.  | Credit sales to innocent | 20,000 |
| 2.  | Credit sales to Lyimo    | 60,000 |
| 3.  | Credit sales to Maurine  | 30,000 |
| 4.  | Credit sales to Lyimo    | 45,000 |
| 8.  | Credit sales to John     | 30,000 |
| 10. | Credit sales to Lyimo    | 17,000 |
| 17. | Credit sales to Selsa    | 10,000 |
| 19. | Credit sales to Mourine  | 10,000 |
| 27. | Credit sales to Lyimo    | 70,000 |

**SALES DAY BOOK**

Pg. 1

| Date   | Name of customer      | Invoice No | Folio No | Amount        |
|--------|-----------------------|------------|----------|---------------|
| Doc. 1 | Innocent              | 0001       | SL.4     | 20,000        |
| 2      | Lymo                  | 0002       | SL.3     | 60,000        |
| 3      | Mourice               | 0003       | SL.5     | 30,000        |
| 4      | Lymo                  | 0007       | SL.3     | 45,000        |
| 8      | John                  | 0006       | SL.6     | 30,000        |
| 10     | Lyimo                 | 0004       | SL.3     | 17,000        |
| 17     | Selsa                 | 0009       | SL.7     | 10,000        |
| 19     | Mourine               | 0008       | SL.5     | 10,000        |
| 27     | Lyimo                 | 0011       | SL.3     | <u>70,000</u> |
|        | Transfer to sales A/C |            | GL.8     | 292,000       |

**SALES LEDGER**

This ledger is used to maintain the personal accounts of all debtors.

| Dr     |             |       |        | Lyimo a/c (SL 3) |             |       |        | Cr   |             |       |        |
|--------|-------------|-------|--------|------------------|-------------|-------|--------|------|-------------|-------|--------|
| Date   | Particulars | Folio | Amount | Date             | Particulars | Folio | Amount | Date | Particulars | Folio | Amount |
| Dec,1  | Sales       | Pg 1  | 60,000 |                  |             |       |        |      |             |       |        |
| Dec.4  | Sales       | Pg1   | 45,000 |                  |             |       |        |      |             |       |        |
| Dec.10 | Sales       | Pg 1  | 17,000 |                  |             |       |        |      |             |       |        |
| Dec.27 | Sales       | Pg1   | 70,000 |                  |             |       |        |      |             |       |        |

| Dr    |             |       |        | Innocent a/c (SL 4) |             |       |        | Cr   |             |       |        |
|-------|-------------|-------|--------|---------------------|-------------|-------|--------|------|-------------|-------|--------|
| Date  | Particulars | Folio | Amount | Date                | Particulars | Folio | Amount | Date | Particulars | Folio | Amount |
| Dec,2 | Sales       | Pg 1  | 20,000 |                     |             |       |        |      |             |       |        |

| Dr     |             |       |        | Maurine a/c (SL 5) |             |       |        | Cr   |             |       |        |
|--------|-------------|-------|--------|--------------------|-------------|-------|--------|------|-------------|-------|--------|
| Date   | Particulars | Folio | Amount | Date               | Particulars | Folio | Amount | Date | Particulars | Folio | Amount |
| Dec,3  | Sales       | Pg 1  | 30,000 |                    |             |       |        |      |             |       |        |
| Dec.19 | Sales       | Pg1   | 10,000 |                    |             |       |        |      |             |       |        |

| Dr    |             |       |        | John a/c (SL 6) |             |       |        | Cr   |             |       |        |
|-------|-------------|-------|--------|-----------------|-------------|-------|--------|------|-------------|-------|--------|
| Date  | Particulars | Folio | Amount | Date            | Particulars | folio | Amount | Date | Particulars | folio | Amount |
| Dec,8 | Sales       | Pg 1  | 30,000 |                 |             |       |        |      |             |       |        |

| Dr     |             |       |        | Seba a/c (SL 7) |             |       |        | Cr   |             |       |        |
|--------|-------------|-------|--------|-----------------|-------------|-------|--------|------|-------------|-------|--------|
| Date   | Particulars | Folio | Amount | Date            | Particulars | Folio | Amount | Date | Particulars | Folio | Amount |
| Dec,17 | Sales       | Pg 1  | 10,000 |                 |             |       |        |      |             |       |        |



**GENERAL LEDGER**

This ledger contains the accounts relating to the proprietor/owner of the business and other normal transactions like purchases, sales, returns inward, expenses, etc.

**Dr                      Sales Account   Pg. 8                      Cr**

| Date | Particulars | Folio | Amount | Date   | Particulars | Folio | Amount  |
|------|-------------|-------|--------|--------|-------------|-------|---------|
|      |             |       |        | Dec 31 | Sales       | Pg 1  | 292,000 |

**Purchases day book/ Purchases journal:** This is the book used to record the daily credit purchases of goods.

Enter up the purchase day book from the following details and post the item to the relevant accounts in the purchases ledger and show the transfer to purchases account in the general ledger

- 1 oct. Bought from Usangu to Co. Ltd music cabinet 60,000
- 4 Oct. Purchased from Tumlonde Supply Company goods 80,000
- 9 oct. Bought from Green and Company goods for 80,000
- 15 oct. Bought from Green and Company goods for 50,000
- 22 oct. Purchased from Julia goods for 90,000
- 27 oct. Purchases from Tumlonde supply company goods 70,000
- 31 oct. Bought from Green and Company for 40,000

Compare your results with the following:



## Purchase day book:

Pg 1

| Date  | Supplier             | Invoice | Folio no | Amount  |
|-------|----------------------|---------|----------|---------|
| 1-Oct | Usangu Co.           | 50221   | PL2      | 60,000  |
| 4     | Tamlonde             | 461     | PL4      | 30,000  |
| 9     | Green Co.            | 463     | PL1      | 80,000  |
| 15    | Jalia                | 50227   | PL1      | 50,000  |
| 22    | Tamlonde             | 50664   | PL3      | 90,000  |
| 27    | Green Co.            | 561     | PL4      | 70,000  |
| 81    | Green Co.            | 570     | PL1      | 40,000  |
|       | Transfer to purchase |         | GL9      | 410,000 |

**PURCHASE LEDGER**

This ledger is used to maintain the personal accounts of all creditors.

PL1

Dr Green A/C Pg 1 Cr

| Date | Particulars | Folio | Amount | Date   | Particulars | Folio | Amount |
|------|-------------|-------|--------|--------|-------------|-------|--------|
|      |             |       |        | 9-Oct  | Purchase    | Pg 1  | 80,000 |
|      |             |       |        | 15-Oct | Purchase    | Pg 1  | 50,000 |
|      |             |       |        | 31-Oct | Purchase    | Pg 1  | 40,000 |

PL2

Dr USANGU A/C Pg 2 Cr

| Date | Particulars | Folio | Amount | Date  | Particulars | Folio | Amount |
|------|-------------|-------|--------|-------|-------------|-------|--------|
|      |             |       |        | 1-Oct | Purchase    | Pg 1  | 60,000 |

PL3

Dr JULIA A/C Pg 3 Cr

| Date | Particulars | Folio | Amount | Date | Particulars | Folio | Amount |
|------|-------------|-------|--------|------|-------------|-------|--------|
|------|-------------|-------|--------|------|-------------|-------|--------|



|  |  |  |  |   |          |      |        |
|--|--|--|--|---|----------|------|--------|
|  |  |  |  | 1 | Purchase | Pg 1 | 90,000 |
|--|--|--|--|---|----------|------|--------|

PL4

**Dr TUMLONDE A/C Cr**

| Date | Particulars | Folio | Amount | Date   | Particulars | Folio | Amount |
|------|-------------|-------|--------|--------|-------------|-------|--------|
|      |             |       |        | 4-Oct  | Purchase    | Pg 1  | 30,000 |
|      |             |       |        | 27-Oct | Purchase    | Pg 1  | 70,000 |

**Dr PURCHASE A/C Cr**

| Date   | Particulars | Folio | Amount  | Date | Particulars | Folio | Amount |
|--------|-------------|-------|---------|------|-------------|-------|--------|
| 31 Oct | Purchase    | Pg1   | 410,000 |      |             |       |        |

**Sales return/return inwards journal**

Go to the shopkeepers and ask them what factors lead to the return of goods, explain the meaning of sales return and format of sales return,

*Compare your findings with the following*

Factors lead to returns of goods are the following:

- Wrong colour,
- Wrong type,
- Wrong quality,
- Poor design,
- Damaged on transit.

This book records the details and amounts of goods returned by the debtors.

When customers return merchandize which they find to be unsatisfactory, either their money is refunded or their accounts are credited with the value of the goods returned.



The journal entry necessary to record this transaction in General journal is:

**Dr. Sales Returns**

**CR.** Cash/personal account to record return of goods by a customer made a refund for goods returns by a customer

Format of sales returns Journal SJ 1

| Date       | Account credited                       | Credit not no | Folio | Amount    |
|------------|--|---------------|-------|-----------|
| 1990 Jan 1 | Arshad Liguó                           | 18            | SL 11 | 300       |
| Jan 5      | Rozy Paul                              | 19            | SL 13 | 150       |
| Jan 8      | M. Chuachua                            | 20            | SL 22 | <u>40</u> |
| 31 Jan     | Transferred to return inward (R.I A/C) |               | GL 10 | 490       |

Sales ledger

Dr Arshad Liguó A/C Pg 11 Cr

| Date     | Particular      | Folio           | Amount |
|----------|-----------------|-----------------|--------|
| 1/1/1990 | Returns inwards | SJ <sub>1</sub> | 300    |

Dr Rozy Paul A/C Pg 3 Cr

| Date     | Particular      | Folio           | Amount |
|----------|-----------------|-----------------|--------|
| 5/1/1990 | Returns inwards | SJ <sub>1</sub> | 150    |

Dr M. Chuachua A/C Pg 22 Cr

| Date     | Particular      | Folio           | Amount |
|----------|-----------------|-----------------|--------|
| 8/1/1990 | Returns inwards | SJ <sub>1</sub> | 40     |

General ledger

Dr Returns Inwards A/C Pg 10 Cr



| Date      | Particulars           | Folio           | Amount |  |
|-----------|-----------------------|-----------------|--------|--|
| 31/8/1990 | Returns for the month | SJ <sub>1</sub> | 490    |  |

The individual debtors account is credited as the credit notes are issued. The total of the sales return journal, which should be extracted regularly, is debited to the sales returns account

**Purchases return book/returns outward journal**

Dear learner, Use library search, explain the meaning of Purchases return, its format and how to record

Compare your findings with the following

Format of Purchases returns Journal PJ<sub>1</sub>

| Date       | Account debited | Note no | Folio | Amount      |
|------------|-----------------|---------|-------|-------------|
| 1993 Jan 1 | Mary Guga       | 28      | PL 21 | 500         |
| Jan 5      | Asha Issa       | 29      | PL 23 | 250         |
| Jan 8      | Vincent John    | 30      | PL 32 | 400         |
| 31 Jan     | Transferred to  |         | PL 11 | <u>1150</u> |

**Purchases ledger**

Dr Mary Guga Pg 21 Cr

| Date     | Particulars      | Folio  | Amount |  |
|----------|------------------|--------|--------|--|
| 1/1/1993 | Returns outwards | PRJ 11 | 500    |  |

Cr Asha Issa pg 23 Cr

| Date     | Particulars      | Folio  | Amount |  |
|----------|------------------|--------|--------|--|
| 5/1/1993 | Returns outwards | PRJ 11 | 250    |  |

Dr Vincent John Pg 32 Cr



| Date     | Particulars      | Folio | Amount |
|----------|------------------|-------|--------|
| 8/1/1993 | Returns outwards | PRJ 1 | 400    |

### General Ledger

| Dr        | Returns Outwards      | Pg 11 | Cr     |
|-----------|-----------------------|-------|--------|
| Date      | Particulars           | Folio | Amount |
| 31/1/1993 | Returns for the month | PRJ 1 | 1150   |

This book record the details and amount of **goods** returned to the creditors.

When goods are returned to a supplier or a **price** adjustment is requested, the purchaser usually communicates **with** the seller in writing. The business document used to convey this information is the debit note

**Debit note:-** Inform the supplier (creditor) that **his account** is being debited or reduced by the amount indicated and **the reason** for the reduction in liability. Debit notes are listed in the **purchase** return book or journal

The personal accounts in the creditor ledger is debited **for** the amounts shown on the debt notes. To complete the double **entry**, the total of the purchases returns journal is credited to purchase returns account.

Generally, there are three types of ledgers sales ledger, in which the customer personal accounts are kept, purchases ledger, which keeps supplies personal accounts, and general ledger this contains the remaining double entry accounts, such as those relating to expenses, non-current assets, and capital

*What are the useful of these journals, write down your responses, Compare your responses with the following*



### Usefulness of a journal

The journal shows all the information about a transaction in one place and also provides an explanation of the transaction

The journal provides a chronological record of all the events in the life of a business.

The use of the journal prevents making of errors

Particular of every transaction must be recorded in the journal before posted to the ledger

### Example

Enter up the sales, purchases and returns day books from the following details. Post the individuals in the dual items to the relevant accounts in the sales and purchases Ledger and transfer the totals of the various day books to the general Ledger.

### 1996

June 1 Credit Purchases: R.Kingele shs 25,000, J.Kulwa shs 11,000,  
H. Rashid shs 40,000

June 5 Credit sales: T.Paul shs 50,000, G. John 35,000,  
A. Abdallar shs 60,000

June 7 Credit Purchases: B.John shs 4,800, R.Kipengele shs 1,800  
J.Kulwa shs 2,500

June 9: Goods returned by us to: R. Kingele Shs 3,500, J. Kulwa 3,000

June 10: Goods returned to us by G. John 5,000, A. Abdallar 3,500

June 12. Credit Purchases: B.John 3,000 R. Kipengele 10,000,  
J. Kulwa 1,500

June 15. Credit sales: G.John 2,000 T.Paul 2,500

June 18. Returned by us to: B.John 500, J. Kulwa 1,800

June 25. Goods returned to us by G. John 4,000



## Solution

## SALES DAY BOOK

Pg 1

| Date    | Particulars              | Invoice no. | Folio | Amount  |
|---------|--------------------------|-------------|-------|---------|
| 1996    |                          |             |       |         |
| June 5  | T. Paul                  | 71          | S.L 1 | 50,000  |
| June 5  | G. John                  | 72          | S.L 2 | 35,000  |
| June 5  | A. Abdallah              | 73          | S.L 3 | 60,000  |
| June 15 | G. John                  | 74          | S.L 2 | 2,000   |
| June 15 | T. Paul                  | 75          | S.L 1 | 2,500   |
| June 30 | Transferred to sales A/C |             | GL    | 149,500 |

## PURCHASES DAY BOOK

Pg 1

| Date        | Particulars                  | Invoice no. | Folio | Amount  |
|-------------|------------------------------|-------------|-------|---------|
| 1996 June 1 | R. Kipengele                 | 81          | PL-1  | 25000   |
| June 1      | J. Kulwa                     | 15          | PL-2  | 11,000  |
| June 1      | H. Rashid                    | 50          | PL-3  | 40,000  |
| June 7      | B. John                      | 17          | PL-4  | 4,800   |
| June 7      | R. Kipengele                 | 20          | PL-1  | 18000   |
| June 12     | B. John                      | 22          | PL-4  | 3,000   |
| June 12     | R. Kipengele                 | 94          | PL-1  | 10,000  |
| June 12     | J. Kulwa                     | 96          | PL-2  | 1,500   |
| June 30     | Transferred to purchases A/C |             | GL 2  | 113,300 |

## RETURNS OUTWARD BOOK

Pg 1

| Date    | Particulars               | Note no. | Folio | Amount |
|---------|---------------------------|----------|-------|--------|
| 1996    |                           |          |       |        |
| June 9  | R.Kipengele               | C-15     | PL-1  | 3,500  |
| June 9  | J.Kulwa                   | C-22     | PL-2  | 3,000  |
| June 18 | B.John                    | C-30     | PL-4  | 500    |
| June 18 | J.Kulwa                   | C-60     | PL-2  | 1,800  |
| June 30 | Transferred to R. Out A/C |          | GC-17 | 8,800  |



## RETURNS INWARD BOOK

Pg 1

| Date    | Particulars                | Note no. | Folio | Amount        |
|---------|----------------------------|----------|-------|---------------|
| 1996    |                            |          |       |               |
| June 10 | G. John                    | C-51     | S.L-2 | 5,000         |
| June 10 | A.Abdallah                 | C-52     | S.L-3 | 3,500         |
| June 25 | G. John                    | C-53     | S.L-2 | 4,000         |
| June 30 | Transferred to<br>R. I A/C |          | GL-18 | <b>12,500</b> |

## LEDGER ACCOUNTS

## PURCHASES LEDGER

## R. KIPENGELE

PL-1

| 1996                |               | 1996            |               |
|---------------------|---------------|-----------------|---------------|
| June 9 Credit note  | 3,500         | June 1 Invoice  | 25,000        |
| June 30 Balance c/d | 49,500        | June 7 Invoice  | 18,000        |
|                     |               | June 12 Invoice | 10,000        |
|                     | <b>53,000</b> |                 | <b>53,000</b> |

1<sup>st</sup> July Balance b/d 49,500

## J. KULWA A/C

PL-2

| 1996                |               | 1996            |               |
|---------------------|---------------|-----------------|---------------|
| June 9 Credit note  | 3,000         | June 1 Invoice  | 11,000        |
| June 18 Credit note | 1,800         | June 7 Invoice  | 2,500         |
| June 30 Balance c/d | 10,200        | June 12 Invoice | 1,500         |
|                     | <b>15,000</b> |                 | <b>15,000</b> |

**H. Rashid A/C****PL-3**

|  |  | 1996           |        |
|--|--|----------------|--------|
|  |  | June 1 Invoice | 40,000 |

**B. John A/C****PL-4**

| 1996                |              | 1996            |              |
|---------------------|--------------|-----------------|--------------|
| June 9 Credit note  | 500          | June 7 Invoice  | 4,800        |
| June 30 Balance c/d | 7,300        | June 12 Invoice | 3,000        |
|                     | <b>7,800</b> |                 | <b>7,800</b> |

**SALES LEDGER****T. Paul****PL-1**

| 1996            |               | 1996                |               |
|-----------------|---------------|---------------------|---------------|
| June 5 Invoice  | 50,000        | June 30 Balance c/d | 52,500        |
| June 15 Invoice | 2,500         |                     |               |
|                 | <b>52,500</b> |                     | <b>52,500</b> |

**G. John****SL-2**

| 1996            |               | 1996                |               |
|-----------------|---------------|---------------------|---------------|
| June 5 Invoice  | 35,000        | June 10 Credit note | 5,000         |
| June 15 Invoice | 2,000         | June 25 Credit note | 4,000         |
|                 |               | Balance c/d         | 28,000        |
|                 | <b>37,000</b> |                     | <b>37,000</b> |

**A. Abdallah****SL-3**

| 1996            |               | 1996                |               |
|-----------------|---------------|---------------------|---------------|
| June 5 Invoice  | 35,000        | June 10 Credit note | 5,000         |
| June 15 Invoice | 2,000         | June 25 Credit note | 4,000         |
|                 |               | Balance c/d         | 28,000        |
|                 | <b>37,000</b> |                     | <b>37,000</b> |

June 26 Balance b/d 28,000



GENERAL LEDGER

| Dr | Sales account | Pg 1    | Cr  |
|----|---------------|---------|---|
|    |               | 1996    |   |
|    |               | June 30 | Credit sales for 149,500<br>SOB the month |

| Dr | Purchases account | Pg 17   | Cr  |
|----|-------------------|---------|---|
|    |                   | 1996    |   |
|    |                   | June 30 | Credit purchases for 113,300<br>PDB the month |

| Dr | Returns outwards account | Pg 1    | Cr                                  |
|----|--------------------------|---------|-------------------------------------|
|    |                          | 1996    |                                     |
|    |                          | June 30 | Returns for the 8,800<br>PRJ, month |

| Dr | Returns outwards account | Pg 17   | Cr                                  |
|----|--------------------------|---------|-------------------------------------|
|    |                          | 1996    |                                     |
|    |                          | June 30 | Returns for RIJ the 12,500<br>month |

Dear learner, you have already learnt how to record the four books of original entry which are sales day book, Purchases day book, Sales returns and purchases returns, Now use library search write down the structure and uses of general journal.

*Compare your responses with the following*



### GENERAL JOURNAL

This book or diary which shows the account to be debited and to be credited together with their reason or narrations.

The rule of General Journal

| Date     | Account titles and Exploration               | F | Debit  | Credit |
|----------|--|---|--------|--------|
| 1980     | Cash   |   | 60,000 |        |
| August 1 | Hawa<br>capital invested cash<br>In business |   |        | 60,000 |
| August 5 | Land<br>Cash purchase land for office use    |   | 21,000 |        |
|          |  |   |        | 21,000 |

Typical uses of the General journal are

- Correction of errors
- To record opening and closing entries
- Purchase and sale of asset on credit
- Adjusting entries

Example

Credit purchase of fixed asset on 15 July 2001 Alex purchased a car value shs 5,000,000 from Japan co. ltd.

General Journal

| Date    | Details                              | Folio | Debit     | credit    |
|---------|--------------------------------------|-------|-----------|-----------|
| 2001    | Japan Co                             | Gl    | 5,000,000 |           |
| July 15 | Being credit<br>purchase of a<br>car | GL    |           | 5,000,000 |

**Example 2**

Correction of errors

The following have being discovered is the books of accounts of J.K. Nyerere.



- (i) Credit purchases of goods shs 50,000 from Sulaha has been posted as Silaha
- (ii) Cash sale shs 300,000 has been posted twice in the books of accounts.

**Solution:**

## Journal Entries to correct Errors

| Account Name  | Debit   | Credit |
|---|---------|--------|
| Dr. Sulaha A/c<br>Cr. Silaha A/C<br>Being credit purchases from Sulaha wrongly recorded to Silaha | 50,000  | 50,000 |
| Dr Sales<br>Cr. Cash<br>Being cash sales posted twice now corrected                               | 300,000 | 300,00 |

**CASH BOOKS**

Dear learner so far you learnt five books of original entry which are sales day book, purchases day book, sales returns, purchases returns and general journal. Now our last section of our unit is cash book. In this part you will learn how to make necessary entries in the cash book and how to include entries for discounts received from creditors and allowed to debtors, both in the cash book and in the general ledger

Visit nearby organization; ask the accountant of that organization the meaning of cash book, types of cash book and how each of the cash book is recorded.



*Compare the responses with the following:*

**Meaning of cash book**

Cash book is a book consists of the cash account and the bank account put together in one book. We used to show these two accounts on different pages of ledgers. This means that we can record all money received and paid by cash or by cheque on particular date on the same page.



The following are types of cash books:

- Single column cash book (cash account),
- Double column (two column) cash book,
- Three column cash book, and
- Petty cash book.

**(a) Single column cash book or cash account**

This type of cash book you have already learnt in unit one.

**(b) Two column cash book**

Dear learner, discuss in group the format of two column cash book,

*Compare your finding with the one given below.*

**Two column cash book**

| Dr   |             |       |      |      | Cr   |             |       |      |      |
|------|-------------|-------|------|------|------|-------------|-------|------|------|
| Date | Particulars | Folio | Cash | Bank | Date | Particulars | Folio | Cash | Bank |
|      |             |       |      |      |      |             |       |      |      |

*Dear learner, use the format to record cash account and bank account in the two column cash book. Read the following information of cash account and bank account to open two column cash book. Reserve solution in your portfolio*

The following information was obtained from the book of Mramba for the month of June 2006.

| Dr           |             |       |                | Cr   |             |       |                |
|--------------|-------------|-------|----------------|------|-------------|-------|----------------|
| CASH ACCOUNT |             |       |                |      |             |       |                |
| Date         | Particulars | Folio | Amount         | Date | Particulars | Folio | Amount         |
| 2006         |             |       |                | 2006 |             |       |                |
| 1/6          | Balance     | b/d   | 11,600         | 4/6  | Mguya       |       | 8,800          |
| 6/6          | P.Mateke    |       | 20,200         | 9/6  | T.Zakaria   |       | 15,600         |
| 13/6         | K.Karuna    |       | 56,100         | 20/6 | Wages       |       | 18,500         |
| 26/6         | S.Mugunda   |       | 16,600         | 30/6 | Rent        |       | 20,000         |
|              |             |       |                | 30/6 | Balance     | c/d   | 41,600         |
|              |             |       | <b>104,500</b> |      |             |       | <b>104,500</b> |



| Dr           |             |       |                | Cr   |             |       |                |
|--------------|-------------|-------|----------------|------|-------------|-------|----------------|
| BANK ACCOUNT |             |       |                |      |             |       |                |
| Date         | Particulars | Folio | Amount         | Date | Particulars | Folio | Amount         |
| 2006         |             |       |                | 2006 |             |       |                |
| 1/6          | Balance     | b/d   | 379,500        | 5/6  | Mamuya      |       | 21,500         |
| 3/6          | Yazidi      |       | 50,000         | 11/6 | Tiba        |       | 30,000         |
| 8/6          | Mwaipopo    |       | 16,800         | 22/6 | P.Mugu      |       | 116,500        |
| 18/6         | Odunga      |       | 62,200         | 30/6 | Balance     | c/d   | 340,500        |
|              |             |       | <b>508,500</b> |      |             |       | <b>508,500</b> |

### Contra-entries

Is the transfer of money from cash account to the bank account and vice versa. It completes double entry through the same cash book.



Two column cash book is a ledger that save two accounts at the same time and hence entries which appear in both sides of the cash and bank account is known as contra entry.

### Example

- i. Withdraw cash from the bank for office use  
Dr Cash Book (Cash Column)  
Cr Cash Book (Bank Column)
- ii. Deposit cash into Bank  
Dr Cash Book (Bank Column)  
Cr Cash Book (Cash Column)

### Example

December

|     |                                  |   |           |
|-----|----------------------------------|---|-----------|
| 1.  | Balance of cash in hand          | - | 50,000    |
| 2.  | Balance at bank                  | - | 1,000,000 |
| 3.  | Received cash from Moyo          |   | 25,000    |
| 4.  | Paid Shiwile by cheque           | - | 120,000   |
| 5.  | Mkiza paid his account by cheque |   | 30,000    |
| 6.  | Received cash from Lyimo         |   | 12,000    |
| 7.  | Paid Rent Loy cheque             |   | 50,000    |
| 8.  | Paid wages by cash               |   | 20,000    |
| 9.  | Paid cash at bank                |   | 10,000    |
| 20. | Draw cash from Bank for office   |   | 20,000    |



Enter the above transaction in the cash Book and balance it on 31st December and carry down the balance

### Solution

| Dr        |            |       |                |                  | Cr   |                     |       |                |                  |
|-----------|------------|-------|----------------|------------------|------|---------------------|-------|----------------|------------------|
| CASH BOOK |            |       |                |                  |      |                     |       |                |                  |
| Date      | Particular | Folio | Cash           | Bank             | Date | Particulars         | Folio | Cash           | Bank             |
| Dec1      | Balance    | b/d   | 50,000         | 1,000,000        | Dec3 | shiwile             | 18    | 1              | 12,000           |
| 2         | Moyo       | 10    | 25,000         |                  | 10   | Rent                | 11    |                | 50,000           |
| 4         | Mkiza      | 20    |                | 30,000           | 15   | Wages               | 20    | 20,000         |                  |
| 6         | Lyimo      | 70    | 12,000         |                  | 18   | Bank cash from bank | C     | 10,000         |                  |
| 18        | Cash       |       |                | 10,000           | 20   | Cash                | C     |                | 20,000           |
| 20        | Bank       | C     | 20,000         |                  |      | Balance             | c/d   | 77,000         | 850,000          |
|           |            |       | <b>107,000</b> | <b>1,040,000</b> |      |                     |       | <b>107,000</b> | <b>1,040,000</b> |
| Jan 1     | Bal        | b/d   | 77,000         | 850,000          |      |                     |       |                |                  |

### DISCOUNT AND THREE COLUMN CASH BOOK

'Discount is amount deducted from original price'

What factor do you think a seller can consider when offering discount to customers?

#### Types of discount

There are two types of discounts

- a. Trade discounts
- b. Cash discounts

#### (a) Trade discounts

Is the discounts offered to customer who purchase in large quantity or who buy goods for resale.

Is not included in the amount due in an invoice, offered at time of contract of sale therefore does not appear in the books of accounts.



**(b) Cash Discount**

Is the discount offered to the customer who pay promptly. This normally appear in the books of accounts

The firm will encounter cash discounts from two different angles, i.e. Discount allowed and discount received

**1. Discount allowed**

Firm allow cash discounts whom it sells goods i.e. receive less than what is in an invoice.

**2. Discount received**

Firm may receive cash discounts from the buyer i.e. pay less than what is in an invoice.

Discount allowed is an expense to a firm while discount received is an Income.

Use library search to find out the format of three column cash book.

Now try to solve the following questions

**Example**

Record the following transactions in the Three Column cash book of Kambimbaya Mayengo.

- September: 16 Balance b/f cash in hand 652,000  
                  Balance b/f Bank       9,847,000  
17 Paid transport in cash       222,000  
18 Issued a cheque to John Co  
                  Setting an Invoice of shs 7,500,000  
                  Deducting 2% cash discount  
19 Sold goods for cash shs 2,000,000 less  
                  2% cash discount  
20 Deposited cash with bank shs 1,500,000  
21 Received a cheque from John Nyika sh 2,940,000 after  
                  deduction of 2% cash discount  
22 Paid wages in cash shs 175,000  
23 Paid telephone bill cash shs 594,000  
24 With draw cash from Bank to be kept for office use shs  
                  750,000



- 25 Issued a cheque for shs 5,000,000 to Bakresa Company as part repayment of Loan
- 26 Received a cheque for sh 4,950,000 (after deducting of 1% cash discount) from P. Nasc
- 27 Paid by cheque to John and co. shs 2,600,000 less 2% cash discount
- 28 Issued cheque for salaries, shs 6,114,000
- 29 Sold goods for cash, shs 900,000 less 2% cash discount
- 30 Paid wages, shs 488,000.

Compare your findings with the following solution

| Dr   |                | CASH BOOK |                  |           |            | Cr   |                |       |                   |             |            |
|------|----------------|-----------|------------------|-----------|------------|------|----------------|-------|-------------------|-------------|------------|
| Date | Details        | Folio     | Discount Allowed | Cash      | Bank       | Date | Particulars    | Folio | Discount received | Cash        | Bank       |
| 16/9 | Balance        | b/f       |                  | 652,000   | 9,847,000  | 17/9 | Transport      |       |                   | Shs 222,000 | Shs        |
| 19/9 | Sales          |           | 30,000           | 1,970,000 |            | 18/9 | John&co        |       | 150,000           |             | 7,350,000  |
| 20/9 | Cash deposited | C1        |                  |           | 1,500,000  | 20/9 | Cash deposited | C1    |                   | 1,500,000   |            |
| 21/9 | J.Nyika        |           | 60,000           |           | 2,940,000  | 22/9 | Wages          |       |                   | 175,000     |            |
| 24/9 | Cash withdraw  | C2        |                  | 750,000   |            | 23/9 | Telephone      |       |                   | 594,000     |            |
| 26/9 | P.Ndisi        |           | 50,000           |           | 4,950,000  | 24/9 | Cash withdraw  | C2    |                   | 750,000     |            |
| 29/9 | Sales          |           | 18,000           |           | 882,000    | 25/9 | Bakhresa Loan  |       |                   |             | 5,000,000  |
| 30/9 | Balance        | c/f       |                  |           | 1,643,000  | 27/9 | John&Co        |       | 52,000            |             | 2,548,000  |
|      |                |           |                  |           |            | 28/9 | Salaries       |       |                   |             | 6,114,000  |
|      |                |           |                  |           |            | 30/9 | Wages          |       |                   | 488,000     |            |
|      |                |           |                  |           |            | 30/9 | Balance        | c/f   |                   | 393,000     |            |
|      |                |           | 158,000          | 3,372,000 | 21,762,000 |      |                |       | 202,000           | 3,372,000   | 21,762,000 |
| 1/10 | Balance        | b/f       |                  | 393,000   |            | 1/10 | Balance        | b/f   |                   |             | 1,643,000  |

**GENERAL LEDGER**

| PL   |             |       |        | JOHN A/C |                |       |           |
|------|-------------|-------|--------|----------|----------------|-------|-----------|
| Dr   |             |       |        | Cr       |                |       |           |
| Date | Particulars | Folio | Amount | Date     | Particular     | Folio | Amount    |
|      |             |       |        | Sept 18  | Bank           | CB    | 7,350,000 |
|      |             |       |        | Sept 18  | Disc. Received | CB    | 150,000   |
|      |             |       |        | Sept 27  | Bank           | CB    | 2,548,000 |
|      |             |       |        | Sept 27  | Disc Recived   | CB    | 52,000    |



| Dr      |                  |       |           | JOHN NYIKA |             |       |        | Cr |  |  |  |
|---------|------------------|-------|-----------|------------|-------------|-------|--------|----|--|--|--|
| Date    | Particulars      | Folio | Amount    | Date       | Particulars | Folio | Amount |    |  |  |  |
| Sept 21 | Bank             | CB    | 2,940,000 |            |             |       |        |    |  |  |  |
| Sept 21 | Discount allowed | CB    | 60,000    |            |             |       |        |    |  |  |  |

| Date | Particulars | Folio | Amount | Date | Particulars | Folio | amount |
|------|-------------|-------|--------|------|-------------|-------|--------|
|      |             |       |        |      |             |       |        |

The total discounts are posted to respective accounts in General Ledger at the end each month.

| Dr   |             |       |        | DISCOUNT RECEIVED |                     |       |         | Cr |  |  |  |
|------|-------------|-------|--------|-------------------|---------------------|-------|---------|----|--|--|--|
| Date | Particulars | Folio | Amount | Date              | Particulars         | Folio | Amount  |    |  |  |  |
|      |             |       |        | Sept 30           | Total for the month | CB    | 202,000 |    |  |  |  |

| Dr      |                     |       |         | DISCOUNT ALLOWED |             |       |        | Cr |  |  |  |
|---------|---------------------|-------|---------|------------------|-------------|-------|--------|----|--|--|--|
| Date    | Particulars         | Folio | Amount  | Date             | Particulars | Folio | amount |    |  |  |  |
| Sept 30 | Total for the month | CB    | 158,000 |                  |             |       |        |    |  |  |  |

### PETTY CASH

#### Meaning of Petty cash Book



*Dear learner use Library search to read petty cash book. Compare your findings with the following text.*

This is a type of cash book used to record payments made out of funds for various minor payments. It records the one receipt cash with several payments. The amount received is entered on the debit side of the petty cash book and the corresponding credit made in the cash books and the amount supplied should be enough to cover the estimated petty expenditure for stated period.



### Petty Cashier

Individually, brainstorm the term petty cashier, share pair, write down your responses, compare your findings with the following.

Petty cashier is the assistance of cashier who do assist the work of cashier such as receiving cash payments for small expenditure.

### Float

Have you ever heard the term float, what is the meaning of float in petty cash? Note down your thinking and compare with the text below.

Is the amount of money at which a petty cash starts with each period e.g. weekly or monthly?

### Imprest

Dear learner, think and share with friends the meaning of the term Imprest, compare your responses with the following text

Is a specific amount of cash given to the petty cashier to meet various small office expenses, e.g. weekly, monthly, etc, then after the amount spent should be reimbursed or restored.

### Petty cash expenditure

Use Library search, write down meaning of petty cash expenditure, compare your findings with the following:-

Are expenses incurred when cashier uses the given imprest e.g. telephone bills, tea, postage, travelling expenses.

Petty cash book is book of prime entry as part of ledger and double entry must be made to each transaction

In a group discuss double entry of recording either cheque paid to petty cashier or cash paid by petty cashier, compare your responses with the following.

CHEQUE PAID TO PETTY CASHIER

Dr Petty cash book

Cr Bank Account



CASH PAID BY PETTY CASHIER

Dr Respective expense account

Cr Petty cash book

**Format of the petty cash book**

| Date  | Particulars | PV no. | Receipts | Total | Transport | Stamps | Stationary | Sundry expenses | Folio | Ledger a/c |
|-------|-------------|--------|----------|-------|-----------|--------|------------|-----------------|-------|------------|
| Dec 1 | Cash book   | CB     | xxxx     |       |           |        |            |                 |       |            |
| 2     | Stationary  | PV 1   |          | xxxx  |           |        | xxxx       |                 |       |            |
| 2     | Bus fare    | PV 2   |          | xxxx  | xxxx      |        |            |                 |       |            |
| 3     | Stamps      | PV 3   |          | xxxx  |           | xxxx   |            |                 |       |            |
| 3     | Bus fare    | PV 4   |          | xxxx  | xxxx      |        |            |                 |       |            |
| 3     | Entainment  | PV 5   |          | xxxx  |           |        |            | xxxx            |       |            |
| 3     | J. Kamau    |        | xxxx     |       |           |        |            |                 |       |            |
| 5     | Bus fare    | PV 6   |          | xxxx  | xxxx      |        |            |                 |       |            |
| 5     | Refreshment | PV 7   |          | xxxx  |           |        |            | xxxx            |       |            |
| 6     | J. Smith    | PV 8   |          | xxxx  |           |        |            |                 | PL    | xxxx       |
| 31    | Bal c/d     |        |          | xxxx  |           |        |            |                 |       |            |
|       |             |        | xxxxx    | xxxxx |           |        |            |                 |       |            |
| 1/1   |             |        | xxxx     |       |           |        |            |                 |       |            |

You have given the following information in the last week of December

December 1 Received float of 150,000

2 Paid stationeries 20,000

2 paid bus fare 15,000

3 Paid for stamps 5,000

3 Paid bus fare 6,000

3 Paid for entertainment 30,000

3 Received shs 9,000 from John Kamau

5 Paid transport fare 20,000

5 Paid refreshment 12,000

6 Paid John Simon creditor 25,000

**PETTY CASH BOOK**

| Date  | particulars   | PV no. | Receipts | Total          | Transport | Stamps | Stationary | Sundry expenses | Folio | Ledger |
|-------|---------------|--------|----------|----------------|-----------|--------|------------|-----------------|-------|--------|
| Dec 1 | Cash book     | CB     | 150,000  |                |           |        |            |                 |       |        |
| 2     | Stationary    | PV 1   |          | 20,000         |           |        | 20,000     |                 |       |        |
| 2     | Bus fare      | PV 2   |          | 15,000         | 15,000    |        |            |                 |       |        |
| 3     | Stamps        | PV 3   |          | 5,000          |           | 5,000  |            |                 |       |        |
| 3     | Bus fare      | PV 4   |          | 6,000          | 6,000     |        |            |                 |       |        |
| 3     | Entertainment | PV 5   |          | 30,000         |           |        |            | 30,000          |       |        |
| 3     | J. Kamau      |        | 9,000    |                |           |        |            |                 |       |        |
| 5     | Bus fare      | PV 6   |          | 20,000         | 20,000    |        |            |                 |       |        |
| 5     | Refreshment   | PV 7   |          | 12,000         |           |        |            | 12,000          |       |        |
| 6     | J. Smith      | PV 8   |          | 25,000         |           |        |            |                 | PL    | 25,000 |
| 31    | Bal c/d       |        |          | 26,000         |           |        |            |                 |       |        |
|       |               |        |          | <b>159,000</b> |           |        |            |                 |       |        |
| 1/1   |               |        | 26,000   |                |           |        |            |                 |       |        |

Use the format given to record transactions to the petty cash book compare your finding with the one given below.

---

## Unit reflection



Dear learner, now you have come to the end of this unit, answer the following questions to reflect back what you have covered

How well did you understand this unit and why?

1. What was the most interested thing in this unit and why?
2. What was the obstacles in the process of learning this unit and why?
3. Are methods used in this unit relevant? Suggest other method which will be suitable.
4. What do you think is the most important information you learned from this unit? Why is this important?
5. What is important information is missing in this unit and why?



## Unit assignment



The following questions will help you to assess yourself on how much you have understood this unit.

What do you understand by the following terms

- a) Statement of account
- b) Returns outwards journal
- c) Differentiate between Credit note and debit note

**i)** You are to enter up the purchases Day book and the return outwards Day book from the following details, then post the transactions to the relevant accounts in the Purchases ledger and to show the transfer to the general ledger at the end of the month.

2005; May 1. Credit purchases from Jovita cash 35000

May 4. Credit purchases from the following: A. Classic 37000, B. Peter 42000, F. Tuge 75000, G. Ramadhani 140,000

May 5. Goods returned by us to the following: F. Tuge 4000, A. Classic 2500

May 15. Credit purchases from B. Peter cash 9000

**ii)** You are to enter up the sales, Purchases, returns inwards and returns outwards day books from the following details, then to post the items to the relevant accounts in the sales and purchases ledgers. The totals from the day books are then to be transferred to the accounts in the general ledger.

2003

June 1. Credit sales: Wahida 45000, Rozy 60000, Juma 50000.

June 3. Credit purchases: P. Paschal 63000, H. Hamis 25000, B. Said 35000

June 7 Credit sales: K. Ketu 45000, N. Mentu 75000, N. Leti 30000

June 12. Goods returned by us to: Paschal 6000, B. Said 6200

June 14. Goods returned to us: Wahida 7000, Rozy 9000, Juma 2500

**iii)** Record the following transaction in the Double column cash book of Lebi Sandube, a wholesaler



## October

|  |           |
|--|-----------|
| 1. Balance b/f cash in hand shs                | 750,000   |
| 1. Balance b/f cash at bank                    | 1,738,000 |
| 2. Issued a cheque to Lufingo, sh              | 1,216,000 |
| 3. Paid wages in cash shs                      | 17,000    |
| 4. Received cash from sales                    | 400,000   |
| 5. Deposited cash with Bank shs                | 400,000   |
| 6. Receives a cheque from Nathan Lebi          | 816,000   |
| 7. Paid wages in cash                          | 67,500    |
| 8. Issued a cheque for rent shs                | 250,000   |
| 9. Paid transport in cash sh                   | 29,500    |
| 10. Received a cheque from Lwitikolebi sh      | 311,700   |
| 11. With draw cash from bank for office use sh | 100,000   |
| 12. Issue cheque for telephone use shs         | 78,800    |
| 13. Received from M. Maina cash shs            | 95,000    |
| 14. Paid and cheque wages in cash shs          | 215,000   |
| 15. Paid transport in cash shs                 | 26,300    |

iv) Draw a three columns cash book from the following transactions

- Jan. 1. Balance b/f cash 96,000 bank shs 676,000
2. Cash sales shs 240,000
4. Received cheque from Anna shs 400,000 less 10% cash discount
5. Cash sales paid direct in to bank shs. 190,000
7. Paid IPP by cheque shs 540,000 less shs 40,000 cash discount
9. Cash sales shs 260,000
11. Cash purchases shs. 400,000 less 5% cash discount
11. Paid for transport shs 50,000 cash
13. Cash sales 560,000 less shs 30,000 cash discount
15. Paid cash into bank shs 500,000
17. Received a cheque shs 210,000 from Anna
24. Paid MT Patel by cheque shs 350,000 less 5% cash discount
27. Cash sales shs 50,000 less 10% trade discount and 5% cash discount
- 29 Withdraw cash from bank shs 200,000 and paid shs 200,000 salaries and 10,000 rent



30. Paid all cash into bank except shs 100,000

i) What do you understand by the following terms:

- a) Statement of account
- b) Returns outwards journal
- c) Differentiate between Credit note and debit note
- d) Petty cashier
- e) Float
- f) Petty cash expenditure
- g) Imprest
- h) Cash over age
- i) Petty cash vouchers

ii) You are to enter up the purchases Day book and the return outwards Day book from the following details ,then post the transactions to the relevant accounts in the Purchases ledger and to show the transfer to the general ledger at the end of the month.

**2005;**

May 1. Credit purchases from Jovita cash 35000

May 4. Credit purchases from the following: A. Classic 37000, B. Peter 42000, F. Tuge 75000, G. Ramadhani 140,000

May 5. Goods returned by us to the following : F. Tuge 4000, A. Classic 2500

May15. Credit purchases from B. Peter cash 9000

iii) You are to enter up the sales, Purchases, returns inwards and returns outwards day books from the following details, then to post the items to the relevant accounts in the sales and purchases ledgers. The totals from the day books are then to be transferred to the accounts in the general ledger.

2003

June 1: Credit sales: Wahida 45000,Rozy 60000, Juma 50000.

June 3: Credit purchases: P. Paschal 63000, H. Hamis 25000,B.Said 35000

June 7: Credit sales: K. Ketu 45000, N. Mentu 75000, N. Leti 30000

June12: Goods returned by us to: Paschal 6000, B. Said 6200

June 14: Goods returned to us: Wahida 7000,Rozy 9000,Juma 2500



2. Enter the following transaction in a petty cash book

|                            |        |
|----------------------------|--------|
| Jan 1. Received float of   | 80,000 |
| 3 Paid bus ticket          | 9,000  |
| 3 Paid stamps              | 5,000  |
| 4 Paid stationary          | 7,000  |
| 4 Paid postage             | 1,500  |
| 4 Paid for bus fare        | 20,000 |
| 5 Paid entertainment       | 5,000  |
| 6 Paid for stamps          | 3,500  |
| 7 Paid for sundry expenses | 10,000 |
| 8 Paid bus fare            | 12,000 |



## Unit 5

### Bank Reconciliation Statement

#### Introduction

Dear learner, welcome to this unit. In unit four you have learnt about books of prime entry, you learnt recording of transactions in specific book of prime entry, you have also covered recording transactions to the petty cash book. This unit has three sections which are concept of bank reconciliation statement, causes of different between cash book and bank statement balances, preparation of bank reconciliation statement

#### Learning Outcomes



Upon completion of this unit you will be able to:

*Explain* the meaning of bank reconciliation statement.

*Explain* causes of different between cash book and bank statement.

*Prepare* bank reconciliation statement.

#### Bank statement

Dear learner, have you ever heard about a bank, bank statement? Think individually and discuss with your friend, write down your responses,

*Compare your finding with the following:*

Bank is a firm which keeps records of business account or personal accounts in its own book. The bank periodically (normally monthly) sends a statement showing all the transactions through the bank to Customer. This is statement known as bank statement.

Bank statement should be always be checked against the cash book entries.



## Bank Reconciliation Statement

*Brainstorm about the term bank reconciliation statement;*

*Compare your findings with the following text*

Bank reconciliation is the process of comparing the transactions in the bank statement with those transactions recorded in the firm's cash book. Or is a calculation comparing the cash book balance with the bank statement balance.

Bank balance should reconcile each other, but there are circumstances which lead these two balances to vary even though the cashbook kept up to date by a business.

### Causes of different between cash book and bank statement

Dear learner, go to the library and read causes of different between cash book and bank statement,

*Compare your findings with the reasons provided below.*

**Unpresented cheque:** Cheque drawn and entered in cash book, but not presented at the bank for payment at the reporting date.

**Book errors:** amount credited or debited incorrectly.

**Bank charges:** Charge by Bank for operating an account.

**Cheque dishonoured:** Cheque rejected e.g. No enough fund figure and words differ.

**Direct credit:** All the amounts entered in the bank (NBC, NMB, etc) but not in cash book.

**Standing orders:** A firm may instruct its bank to pay regular amounts of money at a stated dates e.g. you may ask bank to pay shs. 2,000,000 for every 25<sup>th</sup> each month to pay water bills, telephone bills, wages etc.

**Standing order receipts:** A firm may instruct its bank to receive amounts of money at a stated date e.g. rent from tenants or dividend from various companies in which the firm own shares.



Dear learner you have seen that cash book balance and the bank balance sometimes differ thus cash book need to be updated by recording those items which are in bank statement but not available in cash book i.e. items like bank charges, standing orders, dishonoured cheques, direct credit etc.

Format of updating cash book will be as shown below.

**CASH BOOK**

|                          |       |                    |       |
|--------------------------|-------|--------------------|-------|
| Balance as per cash book | xxxx  | Bank charges       | xxxx  |
| Direct credit            | xxxxx | Standing orders    | xxxx  |
|                          |       | Dishonoured cheque | xxxx  |
|                          |       | Up dated balance   | xxxx  |
|                          | xxxxx |                    | xxxxx |

Dear learner you have seen that bank reconciliation must be made to clear the differences between cash book and bank balance. The reconciliation can be made by using two methods, either by starting with balance as per cash book or balance as per bank statement.

Dear learner, use various references in Libraries or internet search, prepare formats of bank reconciliation statements

Compare your findings with the following examples

**BANK RECONCILIATION STATEMENT**

|                                |              |
|--------------------------------|--------------|
| Balance as per cash book ..... | xxxx         |
| Add unrepresented cheques..... | xxxx         |
|                                | xxxxx        |
| Less uncredited cheques.....   | xxxx         |
| Balance as per bank statement  | <u>xxxxx</u> |

OR

**BANK RECONCILIATION STATEMENT**

|                                    |      |
|------------------------------------|------|
| Balance as per bank statement..... | xxxx |
|------------------------------------|------|



|                                   |       |
|-----------------------------------|-------|
| Add Uncredited cheques.....       | XXXX  |
|                                   | XXXXX |
| Less Unpresented cheques          | XXXXX |
| Balance as per adjusted cash book | XXXXX |

Dear learner you have seen the format of adjusting cash book and the format of preparing bank reconciliation,

Now with a group of three to four people observe the following question and try to observe amounts which causes the balances to differ.

### CASH BOOK

| <u>2009</u> | Shs         | <u>2009</u> |                   |             |
|-------------|-------------|-------------|-------------------|-------------|
| Jan 1       | 320         | Jan 10      | C. Morgan         | 110         |
| 16          | 160         | 20          | M. Mecarth        | 90          |
| 24          | 140         | 28          | Cheshire cc rates | 180         |
| 31          | 470         | 30          | M Peck            | 200         |
| 31          | <u>90</u>   | 31          | Balance c/d       | <u>600</u>  |
|             | <u>1180</u> |             |                   | <u>1180</u> |

### BANK STATEMENT OF EDINA LEBI

|                                | Withdrawal<br>Shs. | Deposit<br>Shs | Balance<br>Shs. |
|--------------------------------|--------------------|----------------|-----------------|
| Jan 1 Balance b/d              |                    |                | 320             |
| 12 10627                       | 110                |                | 210             |
| 16 Deposit                     |                    | 160            | 370             |
| 23 10628                       | 90                 |                | 280             |
| 24 Deposit                     |                    | 140            | 420             |
| 28 Direct debt                 | 180                |                | 240             |
| 31 Bank Giro credit R. Johnson |                    | 90             | <b>330</b>      |



Dear learner, you have seen that bank is Shs 330 while the cash book balance shows balance of shs 600. Identify which items are causing balances of cash book and bank balance to differ

Compare you findings with those given below.

There are:- Cheque had been paid to M. Peek on January 30 but was not submitted to the bank for withdrawal; this is known as unrepresented cheque and 470 received from J. Soames cash but not banked into cash book which is known as direct cash receipt.

The balance of cash book is Shs. 600 while that of bank balance is Shs. 330. This difference should be reconciled.

You have seen in example above items which causes bank balance and cashbook balance difference, now observe the following example and by using the same procedures identify the differences, update cash book and make bank reconciliation

Compare you results with the solution below.

You are given the cash Book of M. Mwakatobe

| <b>Cash Book</b> |                    |               |             |                    |               |
|------------------|--------------------|---------------|-------------|--------------------|---------------|
| <b>Dr</b>        |                    |               | <b>Cr</b>   |                    |               |
| <b>Date</b>      | <b>Particulars</b> | <b>Amount</b> | <b>Date</b> | <b>Particulars</b> | <b>Amount</b> |
| June 2           | Cash               | 4,000         | June 5      | Mohamed            | 500           |
| 4                | Masalu             | 200           | 9           | Cash               | 600           |
| 8                | Amani              | 300           | 15          | Pascal             | 450           |
| 15               | Mukasa             | 250           | 21          | Pasike             | 600           |
| 21               | Cash               | 400           | 25          | Shemsanga          | 350           |
| 25               | Juma               | 200           |             |                    |               |
| 27               | Riziki             | 150           |             | Balance            | <u>3300</u>   |
| 30               | Thomas             | <u>300</u>    |             |                    |               |
|                  |                    | <u>5,800</u>  |             |                    | <u>5,800</u>  |
| 1 July           | Balance b/d        | 3,300         |             |                    |               |



## Bank Statement of M. Mwakatobe

|        |                    | DR   | CR    | BALANCE |
|--------|--------------------|------|-------|---------|
|        |                    | Shs. | Shs.  | Shs.    |
| June 2 | Cash               |      | 4,000 | 4,000   |
| 8      | Cheque             |      | 200   | 4,200   |
| 8      | Bank Charges       | 5    |       | 4,195   |
| 9      | Mohamed            | 500  |       | 3,695   |
| 10     | Cheque             |      | 300   | 3,995   |
| 10     | Self               | 600  |       | 3,395   |
| 15     | Pascal             | 450  |       | 2,945   |
| 18     | Cheque             |      | 250   | 3,195   |
| 18     | Bank Charges       | 5    |       | 3,190   |
| 22     | Cash               |      | 400   | 3,590   |
| 30     | Cheque             | 150  |       | 3,440   |
| 30     | Bank charges       | 5    |       | 3,435   |
| 30     | Interest collected |      | 250   | 3,685   |

## Payments made but not presented to bank

|         |        |            |
|---------|--------|------------|
| 15 June | Pascal | 600        |
| 21 June | Pasike | 350        |
|         |        | <u>950</u> |

## Revenue Received but not banked

|      |        |            |
|------|--------|------------|
| 25/6 | Juma   | 200        |
| 27/6 | Riziki | 150        |
| 30/6 | Thomas | 300        |
|      |        | <u>650</u> |

## Amount banked but not recorded in cash book:

|      |                    |     |
|------|--------------------|-----|
| 30/6 | Interest collected | 250 |
|------|--------------------|-----|

## Amount drawn in bank but not in cash book

|      |              |            |
|------|--------------|------------|
| 18/6 | Bank charges | 5          |
| 18/6 | Bank charges | 5          |
| 30/6 | Cheque       | 150        |
| 30/6 | Bank charges | 5          |
|      |              | <u>165</u> |



- Amount drawn in bank statement but not in cash is known as Direct debit.
- Payments made in cash book but cheques not submitted to bank is known as unpresented cheques.
- Revenue received in bank statement but not recorded in cash book is known as direct credit.
- Revenue recorded in bank statement but not deposited to bank is known as cash on transit .

All these causes differences between cash book and the bank account which need to be reconciled.

**Cash book**

|               |              |                 |              |
|---------------|--------------|-----------------|--------------|
| Balance b/d   | 3,300        | Bank charges    | 15           |
| Direct credit | 250          | Standing orders | 150          |
|               |              | Updated balance | 3,385        |
|               | <b>3,550</b> |                 | <b>3,550</b> |

**BANK RECONCILIATION STATEMENT**

|                                      |                     |
|--------------------------------------|---------------------|
| Balance as per bank statement.....   | 3,685               |
| <b>Add</b> Uncredited cheques.....   | <u>650</u>          |
|                                      | 4,335               |
| <b>Less Unpresented cheques.....</b> | <u>950</u>          |
| Balance as per updated cash book     | <b><u>3,385</u></b> |

**OR**

**BANK RECONCILIATION STATEMENT**

|                                      |                     |
|--------------------------------------|---------------------|
| Balance as per cash book.....        | 3,385               |
| <b>Add</b> Unpresented cheque.....   | <u>950</u>          |
|                                      | 4335                |
| <b>Less uncredited cheque.....</b>   | <u>650</u>          |
| <b>Balance as per bank statement</b> | <b><u>3,685</u></b> |



## Unit reflection



Dear learner, now you have come to the end of this unit, answer the following questions to reflect back what you have covered

1. What surprised you most in this unit? Why did this surprise you?
2. How well did you understand this unit and why?
3. What was the most interesting thing in this unit and why?
4. What were the obstacles in the process of learning this unit and why?
5. Are methods used in this unit relevant? Suggest other methods which will be suitable.
6. What do you think is the most important information you learned from this unit? Why is this important?
7. What important information is missing in this unit and why?

## Unit assignment



The following questions will help you to assess yourself on how much you have understood this unit

|   |            |
|---|------------|
| The Edina Lebi Bank balance shows balance ..... | 3,101,950. |
| Direct banking amount .....                     | 1,000,000  |
| Dishonoured cheque .....                        | 20,000     |
| Unpresented cheque.....                         | 95,000     |
| Bank charges.....                               | 2,500      |
| Direct cheque received.....                     | 150,000    |
| Standing order .....                            | 15,000     |

Required:  
Update cash Book  
Prepare bank reconciliation by using both methods

## Unit 6

### Government Accounting Terminologies

#### Introduction

Dear learner, welcome to this unit, the main focus of this unit is to enable you to have basic knowledge of Government Accounting terminologies and source of government revenue used in daily life.

#### Learning outcomes



Upon completion of this unit you will be able to:

- Define common government accounting terminologies.
- Describe sources of government revenues.

#### Terminology



|  |  |
|--|--|
| <b>Receiver of revenues:</b>           | Is any person in the public service appointed in writing by PMG and charged with the duty of collecting and accounting for specified public monies.                        |
| <b>Accounting year:</b>                | Is the financial year of the government which starts from 1 <sup>st</sup> July and ends 30 <sup>th</sup> June the following year.  |
| <b>Regularity of expenditure:</b>      | Is the expenditure in the books of accounting which are supported by relevant supporting documents or is in confirming with the requirements of the financial regulations. |
| <b>Improperly vouched expenditure:</b> | Means expenditure in the books of accounting officers not supported by copies of relevant supporting documents.  |
| <b>Stale cheque</b>                    | Means a cheque drawn and remain in circulation for the period of more than six months.   |
| <b>Public finance committee:</b>       | Parliamentary standing committee responsible for government accounts.  |



- Special funds:** Is the fund set aside from the consolidated fund to meet a special purpose. It is under the authority of the Exchequer and Auditor General, e.g. Civil Contingency Fund.
- Consolidated fund:** Is a pool or fund whereby all government collectors of revenues deposit and from which all government expenditures are drawn. This fund is under the control of Controller and Auditor General.
- Public money:** Any money held by an officer in respect of the United Republic of Tanzania.
- Sub-Accounting officer:** Any officer appointed by accounting officer in writing and charged with the duties and responsibilities on the control of public funds for meeting expenditures.
- Treasury:** Ministry responsible for finance and includes such officer as may be deputed by the minister to exercise power and duties.

Dear learner You have seen the common terms used in government accounting and the purpose of government accounting unfortunately Government need funds to finance economic activities from various sources.

---

In a group of three to four people discuss various sources of government revenue.

---

Compare your findings with those given below.

- Taxation
- Rents and rates
- License and miscellaneous receipts
- Borrowings
- Grants and Aids
- Interests in Investments
- Dividends
- Bank Advances

---

## Unit reflection



1. How well did you understand this unit? What main things did you learn?
2. What was the obstacles in the process of learning this unit and why?
3. Are methods used in this unit relevant? Suggest other method which will be suitable.
4. What do you think is the most important information you learned from this unit? Why is this important?
5. What is important information is missing in this unit and why?

---

## Unit assignment



The following questions will help you to assess yourself on how much you have understood this unit:

1. Explain the following terminologies:
  - a) Government accounting
  - b) Public money
  - c) Sub accounting officer
  - d) Regularity of expenditure
  - e) Treasury
2. Mention and explain sources of government revenue.

Institute of Adult Education  
P.O Box 20679, Dar es Salaam  
Tel. 022 2150838/2151, Fax. 022 2150836  
Email: [info@iae.ac.tz](mailto:info@iae.ac.tz) Web: [www.iae.ac.tz](http://www.iae.ac.tz)