

Updated Curriculum

A Practical Approach
to
**Principles
of Accounting**

FORM

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Nyasha Goredema

Learner's Book

A Practical Approach
to
Principles of
Accounting

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Chapter

1

INTRODUCTION TO THE PRINCIPLES OF ACCOUNTING

Chapter objectives

By the end of this chapter, you should be able to:

- define accounting terms.
- state the different types of business activities and organisations in the local community.
- explain different types of business activities and organisations.
- distinguish between the different types of business organisations.
- explain the importance of accounting.
- identify the users of accounting information.

Introduction

The growth of businesses has led to the development of a system by which all activities involving money such as buying and selling of goods are recorded and accounted for. A lot of activities take place in any business and these activities are recorded in the books. The records are used for various purposes by a wide range of users. In this chapter, we will define terms that are used in accounting. We will also look at different business organisations, various business activities, uses and users of accounting information.

UNIT 1.1 DEFINITION OF TERMS

Principles of Accounting is distinguished by its own unique and language. Knowing these terms will make it easier to understand the subject. Given below are the terms used in principles of accounting and their definitions.

1. Business

Any entity registered or unregistered that undertakes commercial activities either for profit making or not for profit making. It is also referred to as an enterprise.

2. Accounts

The term refers to the records of business transactions. Summaries of business transactions are recorded and kept in different accounts.

3. Bookkeeping

Bookkeeping refers to the art of recording business transactions systematically in the books of accounts. It is not an event but rather a system that is ongoing. Transactions recorded are in monetary terms.

19. Net profit

This is the amount by which the total incomes are greater than the total expenses. Basically, it is the excess of income over expenses.

20. Net loss

This is the amount by which the expenses exceed the incomes of the business.

For example, Mrs Ncube's business made the total income of \$500 from selling eggs. Total expenses for the business amounted to \$350.

The net profit is $\$500 - \$350 = \$150$.

Given that the total expenses amounted to \$590 the net loss will be $\$590 - \$500 = \$90$.

Basically, these are the terms which are fundamental and ought to be known for better understanding of the subject. It is the knowledge of these terms that triggers the desire to know more and like the subject.

Activity 1.1 Practical exercise

1. Mr Moyo the owner of the business withdrew cash amounting to \$3 000 to pay fees for his form 1 child. He also took some exercise books from the shop worth \$500 for all his children.
 - (a) Calculate Mr Moyo's drawings for the year.
 - (b) Explain the effect of these drawings on his capital.
2. Mr Motsi sold goods for \$12 000 for cash to Mr Dube on 1 June. On 5 July goods amounting to \$19 000 were sold to Mr Dube on credit. Mr Dube paid \$11 000 in respect of goods sold to him on 5 July. How much does Mr Dube owe the business?

Exercise 1.1

1. A business selling blankets bought two motor vans worth \$12 000 for use in the delivery of goods to customers on 1 February. On the same date, the business bought baby blankets worth \$5 000 and adult blankets worth \$6 000 for resale. Calculate the amount of purchases for the business.
2. Mr Hove owns a small business that specialises in selling wedding rings. Each ring is sold at \$300. During the year 400 rings were sold for cash. Mr Hove also sold a motor vehicle for \$8 000 cash. How much are sales for Mr Hove? Explain your answer.
3. Explain the following terms;
 - (a) Sales.
 - (b) Purchases.
 - (c) Payables.
 - (d) Receivables.
 - (e) Drawings.

UNIT 1.2 TYPES OF BUSINESS ACTIVITIES AND ORGANISATIONS

Business activities

There are two major activities done by business. These are manufacturing and trading. A lot of things happen in business working day, things are bought and sold or used and money is paid and received for numerous reasons. All this happens in the process of either trading or manufacturing.

1. Trading

Trading refers to buying and selling of goods and provision of services normally for a gain. Goods are bought for resale (Purchases), some are sold to customers (Sales), bills are paid for (Expenses) and profits are realised or losses are suffered. All business organisations that buy and sell finished goods are involved in trading.

Manufacturing

This is the production or making of goods. Some companies produce goods and sell them. Companies like Lobels and Bakers Inn produce and sell bread while Bata makes and sells shoes. They buy raw materials and transform or process them into finished products. They do not buy finished products and sell but rather manufacture and sell.

Business organisations

There is quite a number of business organisations that are found whose main objective is profit making. There are also some which are not for profit making but this unit covers those whose activities are aimed at a profit.

2. Sole proprietor

The word 'sole' means 'one'. As the name suggests, this form of business is owned by one person who is normally the manager. They are called sole proprietors because the owner contributes capital alone. They are formed to make profit. They are alternatively referred to as sole traders and many of them fall into the category of small to medium enterprise. This is so because of their sizes. Less legal formalities are required of them to start operating.

Advantages of a sole trader

- There are few legal requirements to set up a sole trader business.
- The owner enjoys all the profits as he/she does not share them with anyone.
- There is independence in decision making, that is, the owner can make his/her decisions without consulting anyone.
- It offers an incentive to the owner to work and be efficient. The owner has personal contact with his customers.
- Privacy – no published accounts.

Disadvantages of sole proprietors

- Poor decisions due to lack of consultation.
- Limited capital.
- Responsible for the debts of the business.
- Lack of specialist skills as the proprietor may employ less qualified people.
- Suffers all losses and bears all the risks.
- The death of the owner terminates the legal existence of a sole trading business.

3. Partnerships

A partnership is formed between two and twenty people who agree to engage in a business activity for their joint benefit. The partnership is governed by a document called a partnership deed of agreement. This is a document that contains all what partners agreed as legally binding. Below are the contents of a deed of agreement.

- The amount of capital to be contributed by each partner.
- The profit or loss sharing ratios.
- Salary if any entitled to partners.

Write your advice in point form to James and John telling them the advantages and disadvantages of doing business together.

UNIT 1.3 IMPORTANCE AND USERS OF ACCOUNTING INFORMATION

Accounting information is of significant use to all kinds of business, whether small or large. This information is important to various users called stakeholders. Throughout the year bookkeepers and accountants gather and process accounting data into meaningful and usable information for different users. The performance of the business can be measured and evaluated using this accounting information. All the stakeholders who have interest in the affairs of the business make use of accounting information. Below are the importances of accounting information and its different users.

Importance of accounting information

- Used for measuring and evaluating performance of the business.
- Used for comparisons with other businesses.
- Used to measure the profitability of the business.
- Provide best information on how worthwhile it is to invest in the business.
- Provide information on how the business is using its resources to generate profits.
- Used to assess whether the business is capable of borrowing.
- Tax computations by government authorities.
- Enable period to period comparisons.

Users of accounting information

Accounting information is of paramount significance to a number of stakeholders. Below are some of the users of this information and the information they need.

1. Managers

These are the stewards of other people's investments. They are strategically important in the life of the business. Day by day, managers make very important decisions. They are the control center of the business and what they decide on has a bearing on the overall performance of the business. They constantly check to assess and see how well things are progressing financially and about the financial status of the business.

They need accounting information because it enables them to measure and evaluate performance of the business.

2. Owner(s) of the business

Owners need to know how their resources are being utilised in generating more profits. They are much concerned about profit and therefore want to be able to see whether or not the business is profitable.

They need to know whether or not the decisions being made by managers (stewards of their investments) are in their best interest. In addition, they want to know what the financial resources of the business are.

3. Prospective investors

Investors need to assess whether or not it is worthwhile to invest their resources in already established business. They need to know whether or not their investment (money) and interest are secured. Accounting information give them assurance of the return.

4. Prospective buyers

In event that the owner wants to sell the business, the prospective buyer will want to see the accounting information to see how the business was performing before and the possibility of future profit generations.

5. The banks

These are financial institutions which lends money the business. If the owner wants to borrow money for use in the business, then the bank will need such information to see whether or not the business has the capacity to borrow and payback.

6. Tax inspectors

Registered business operators pay tax therefore the tax inspectors need accounting information to be able to calculate the taxes payable.

There are many other stakeholders apart from those mentioned above who interest in the accounting information such as suppliers and employees. Accounting information should be readily available to them. It is important to note that without properly recorded accounting information a business would have many difficulties providing the information these various users require. Without accounting information no one can satisfactorily provide the information which all users require.

Activity 1.3 Educational tour

Visit at least two nearby retail shops, tuckshops or flea markets, or vendors and inquire on the following:

- (a) The range of products they sell.
- (b) Documents required to start such businesses.
- (c) The area they need to start such businesses.
- (d) How they relate with customers.
- (e) Whether they record all their business transactions and keep accounting records.

Interesting facts

1. Capital is not limited to money, but can be anything one can use to start a business.
2. Limited companies are regarded as legal persons.

Summary of the chapter

- All business transactions are systematically recorded in the books of accounts.
- Sole trades, partnerships and limited companies operate mainly to make profits.
- Accounting information is very important to various stakeholders in different ways and for that matter should be made available when needed.

Glossary of terms

Capital	– is the money or resources that are used to start a business.
Sales	– are goods sold to customers which have been bought for resale.
Purchase	–are goods bought for resale.
Assets	– are resources owned by the businesses and are divided into current and non-current assets.
Business	– any registered or unregistered entity that undertakes commercial activities for profit or not for profit making.
Drawings	– are goods or money which the proprietor takes for personal use. They reduce capital.
Liabilities	– all the money which the business owes to its suppliers and lenders.

Revision Exercises

Multiple Choice Questions

- Which of the following best explains capital?
 - Money or resources used to start a business.
 - Money used to buy proprietors car.
 - Money used to pay business bills.
 - Money withdrawn for personal use.
- A sole traders started a business with \$1 000 cash and furniture worth \$3 000. How much was his capital?
 - \$1 000
 - \$2 000.
 - \$3 000.
 - \$4 000
- Which of the following is not a non-current asset?
 - Motor vehicle.
 - Equipment.
 - Furniture.
 - Inventory.
- Which of the following is a current asset?
 - Receivables.
 - Payables.
 - Land.
 - Loan.
- Which statement is true about drawings?
 - Increase capital of the business.
 - Decrease capital of the business.
 - Have no effect on capital.
 - Are current assets.
- Which of the following is an example of an expense?
 - Purchases.
 - Sales.
 - Capital.
 - Rent.

Use the following to answer questions 7 and 8.

Mr Moto who owns a small business that specialises in selling jewellery took jewellery worth \$500 and gave them to his sisters. He also took \$700 which he used during the visit to his son's school. He used \$200 to pay the business rent and \$400 for the business electricity.

- How much were the drawings for the business?
 - \$500.
 - \$700.
 - \$1 200.
 - \$1 800
- How much were the expenses for the business?
 - \$600.
 - \$700.
 - \$400.
 - \$1 800.
- The following are users of accounting information except _____.
 - managers
 - banks
 - investors
 - vendors
- The following do not operate to make profit except _____.
 - supermarkets
 - churches
 - clubs
 - bars
- The following are the importance of accounting information except _____.
 - used for comparisons with other businesses
 - used in fighting competition
 - provide information on how the business is using its resources to generate profits
 - enable period to period comparisons

Structured Questions

1. List any two examples of the following:
 - (a) Tangible assets
 - (b) Intangible assets.
 - (c) Current assets.
 - (d) Current liabilities.
2. State the differences between a sole trader and a partnership.
3. Explain any four advantages and four disadvantages of:
 - (a) Sole traders.
 - (b) Partnerships.
4. Discuss any three business activities.
5. Explain the following users of accounting information stating the information they use.
 - (a) Investors.
 - (b) Managers.
 - (c) Banks.

THE ACCOUNTING CYCLE

Chapter objectives

By the end of this chapter, you should be able to:

- define the accounting cycle.
- memorise the stages of the accounting cycle.
- illustrate the stages of the accounting cycle.
- explain the stages of the accounting cycle.
- reproduce the accounting cycle.

Introduction

Accounting, as broad as it is, follows a process of a complete sequence of accounting procedures in respective order. It is a sequential order that is followed during each accounting period that is termed accounting cycle. Accounting cycle comprises of stages in which series of activities are accounted for in a chronological order. The cycle starts when a transaction takes place and end when that transaction is recorded in the financial statements of that particular accounting period.

UNIT 2.1 ACCOUNTING CYCLE

Accounting cycle is the sequence of accounting stages in which accounting information pass through in a chronological order. It is used to record, classify and summarise accounting information. The procedures involved in the accounting cycle are done repeatedly from one accounting period to another.

Accounting cycle enables the accounting information to be accounted for in an organised and systematic way that renders it more useful to different users. This implies that the accounting information is not recorded haphazardly making the process prone to so many errors.

Stages of the accounting cycle

There are six main stages in the accounting cycle. The accounting cycle starts with the basic stages that provide the information to start with in the cycle. These stages are the transactions and the source document. After these stages follows recording of transactions in subsidiary books and posting them to the ledger. Finally, the cycles ends with the preparation of financial statements. The six stages are listed below.

- transactions.
- source documents.
- subsidiary books.
- ledger.

If all the stages from transaction to the ledger were correctly done then the trial balance debit and credit totals must agree. The first step in the preparation of final accounts is the preparation of a trial balance. So, it is absolutely essential to extract the trial balance perfectly, so the last and final stage in the accounting cycle that is final accounts

6. Final accounts

The tertiary stage is comprised of the Trial balance and the final accounts. This is the final stage in the accounting cycle. Final accounts are a set of financial statements that are prepared at the end of an accounting period to ascertain whether a profit or loss was made and also to show the financial position of the business. Final accounts consist of the income statement and the statement of financial positions. These statements mark the end of both the accounting cycle and the accounting period.

Activity 2.1 Educational tour

Visit any established company or business and request to see used documents like, receipts, invoices, bank statements and vouchers. Check and write down the following:

- The name of the document.
- The date on which the transaction took place.
- The name of the business or company selling goods.
- The name of the business or company buying goods.
- Number of items bought or sold.
- The value or cost of items bought or sold.

Activity 2.2 Individual work

Formulate a diagram of your own illustrating the stages in the accounting cycle.

Exercise 2.1 Group work

State the importance of all the stages of the accounting cycle.

Interesting facts

1. Every single transaction passes through all the stages of an accounting cycle.
2. The accounting cycle consists of all the stages followed when recording accounting information.

Summary of the chapter

- The accounting cycle includes identifying and recording of accounting transactions.
- The accounting cycle provides a set of rules and steps to be followed to ensure financial statements are prepared accurately and timely.
- The first of the six stages in the accounting cycle is identifying the transactions, while the final is preparing financial statements.
- The accounting cycle is generally a year being an accounting period.

Glossary of terms

Accounting cycle	– the sequence of accounting stages in which accounting information pass through systematically. It is used to record, classify and summarise accounting information.
Subsidiary books	– these are the books of original or prime entry in which transactions are first recorded.
Trial balance	– a statement that contains a list of debit and credit balances that are extracted from ledger accounts on a specific date.

Ledger

– the main book of accounts in which entries from the journals are posted and summarised.

Final accounts

– end of year financial statements prepared to ascertain whether the business made profit or loss and to see the its financial position.

Revision Exercises**Multiple Choice Questions**

- Which of the following is the first step in the accounting cycle?

A. Capital.	B. Transactions.
C. Ledger.	D. Assets.
- Which of the following is not a subsidiary book?

A. Ledger.	B. Cash book.
C. Sales journal	D. Purchases journal.
- The following are source documents except _____.

A. cash book	B. receipt
C. invoices	D. voucher
- Complete the following;

Transactions → Sources documents → Subsidiary books → → Trial balance → Final accounts

- | | |
|--------------|---------------|
| A. Drawings. | B. Purchases. |
| C. Sales. | D. Ledger. |
- Which of the following marks the end of the accounting cycle?

A. Transactions.	B. Final accounts.
C. Trial Balance.	D. Ledger.

Structured Questions

- (a) Define the accounting cycle.
(b) Draw a diagram to illustrate the accounting cycle.
- Explain the following stages of an accounting cycle.
 - Source documents
 - Subsidiary books.
 - Ledger.
 - Trial balance.
- State any four books of prime entry.
- Why are financial statements prepared?

EXAMINATION 1

Paper 1: Multiple choice Questions

Time: 1 hour 30 minutes [40 marks]

Answer all questions. Choose the correct answer.

- Which of the following does not describe accounting?
 - Making money.
 - Useful for decision making.
 - Recording transactions.
 - Analysis and interpretation of financial information.
- The recording of transactions in the books of accounts is known as _____.
 - double entry
 - book keeping
 - accounting
 - presentation of information
- Which of the following user groups required the most detailed financial information?
 - Lenders.
 - Investor and potential investors.
 - Government agencies.
 - Customers.
- Which one of the following statements completely and correctly describes accounting?
 - Recording, classifying and summarising economic activities in a systematic way.
 - Recording, classifying and summarising all activities in useful manner.
 - Accounting is the systematic process of recording social activities only.
 - Recording, classifying and summarising economic activities by managers.
- Which of the following statement is true about the purpose of accounting?
 - The provision information to manager.
 - Provision of quantitative information to economic decision makers.
 - To check errors.
 - Provide financial figures.
- Which of the following takes place at the last stage of the accounting cycle?
 - Recording of transactions in the books of accounts.
 - Posting entries to the ledger.
 - Classification of transactions.
 - Preparation of financial statements.
- Internal users of accounting information include all of the following except _____.
 - employees
 - creditor
 - chief executive officer
 - chief financial officer
- External users of accounting information include all of the following except _____.
 - investors
 - government
 - directors
 - bankers
- Which of the following persons are most likely to use accounting information?
 - Business owners.
 - Government.
 - Suppliers.
 - Customers.
- A person who uses accounting information is _____.
 - a user
 - an external user
 - an accountant
 - a manager
- Which one of the following provides evidence of business transaction?
 - Subsidiary books.
 - Final accounts.
 - A source documents.
 - All of above.

Paper 2: Structured Questions

Time: 2 hours 30 minutes [100 marks]

Answer all the questions in this paper.

1. Define the following terms.
 - (a) Capital. [2]
 - (b) Assets. [2]
 - (c) Liabilities. [2]
 - (d) Payables. [2]
2.
 - (a) Define a sole trader. [2]
 - (b) State and explain four features of a sole trader. [8]
 - (c) State five advantages and five disadvantages of a sole trader. [10]
3.
 - (a) Define a partnership. [2]
 - (b) State and explain four features of a partnership. [8]
 - (c) State five advantages and five disadvantages of a partnership. [10]
4.
 - (a) State any five users of accounting information. [5]
 - (b) State one reason why each of the users in (a) above need accounting information. [5]
 - (c) Explain any five importance of an accounting information system. [10]
5.
 - (a) Define the accounting cycle. [2]
 - (b) Draw a diagram illustrating the accounting cycle. [8]
 - (c) Using the diagram, you have drawn above in (b), explain any four stages of the accounting cycle. [8]
 - (d) State two importances of following the sequence of the accounting cycle. [2]

Chapter objectives

By the end of this chapter, you should be able to:

- define data processing terms.
- state the methods used to process accounting data.
- list the advantages and disadvantages of each method.
- apply manual methods in processing data.

Introduction

The increase in technology has necessitated the development of accounting softwares that are used in the recording or capturing and processing of accounting data. This has made easier the work of processing accounting information. However, due to some reasons like lack of resources traditional ways of recording, capturing and processing of accounting data is still in use. Accounting data is processed either by manual or electronic methods. Both methods are important and they at times complement each other.

UNIT 3.1 DATA PROCESSING

Data processing is the conversion and manipulation of raw data into meaningful and usable information. Various data processing methods are used to convert raw data to meaningful information through a process. Data processing can be done manually using a pen and paper or electronically using modern data processing tools such as computers. There are two broad methods that are used in data processing and these are manual and electronic.

Data processing cycle

Both methods of data processing take the form of a cycle. Data processing refers to the transformation of raw data into meaningful output. Data collection involves getting the data needed for processing.

Manual data processing cycle.

1. Input

This is the first stage of the cycle where facts and figures are captured and collected. This stage is very important because the quality of data collected determine the quality of the output. At this stage facts about business transactions are gathered from source documents such as receipts, vouchers, bank statements and invoices.



Fig. 3.2 Processed data stored in files

In manual data processing, much of the work is done manually with a pen and a paper. For example, in offices, incoming tasks are stacked in the trays.

The processing of each task involves the use of the brain. The processed information from the out tray is then distributed to the people who need it or stored in a file cabinet or cupboards.

This means that more space is needed to store the large files for the future purposes. Huge files of processed data can be seen in offices as shown in fig. 3.2 above.

Advantages of manual methods

- The system is easy and simple to set up.
- Less risk of data loss since the files are free from virus corruptions.
- The process is very easy and simplified.
- It is easy to trace and locate errors.

Disadvantages of manual methods

- Time consuming and tiresome.
- High chances of error.
- Requires a lot of labour.
- Very slow.

Activity 3.2 Educational tour

Visit a small business like a tuck shop and inquire with the owners or shopkeepers on the following things:

- (a) The method that is used to collect, record, process and store their accounting data.*
- (b) The challenges that are faced when using that method.*

Exercise 3.2

1. What is manual data processing?
2. List any three advantages of using manual method of data processing.
3. Identify any three disadvantages of using manual method of processing data.

UNIT 3.3 ELECTRONIC METHODS

Electronic methods of data processing make use of an electronic device called a computer. A computer is an electronic device that is programmed to accept data input fed, manipulate and process data, produce and stores the output in various forms. Electronic data processing is also called computerised data processing.

Electronic data processing systems are designed to increase productivity, efficiency and improve the quality of work. Similar to a production process, electronic data processing follows a cycle where an input, that is raw data, is fed to a process that is computer system and software to produce output information and insight (finished product).

Programmed and automated computer systems are employed to carry out a series of operations on the data to present, interpret or obtain information. The process includes activities like data entry, summary, calculation and storage. A useful and informative output of accounting information is presented in various appropriate forms such as diagrams, reports, graphics and tables. Fig 3.3 below shows the physical components of a computer that are used during the process.

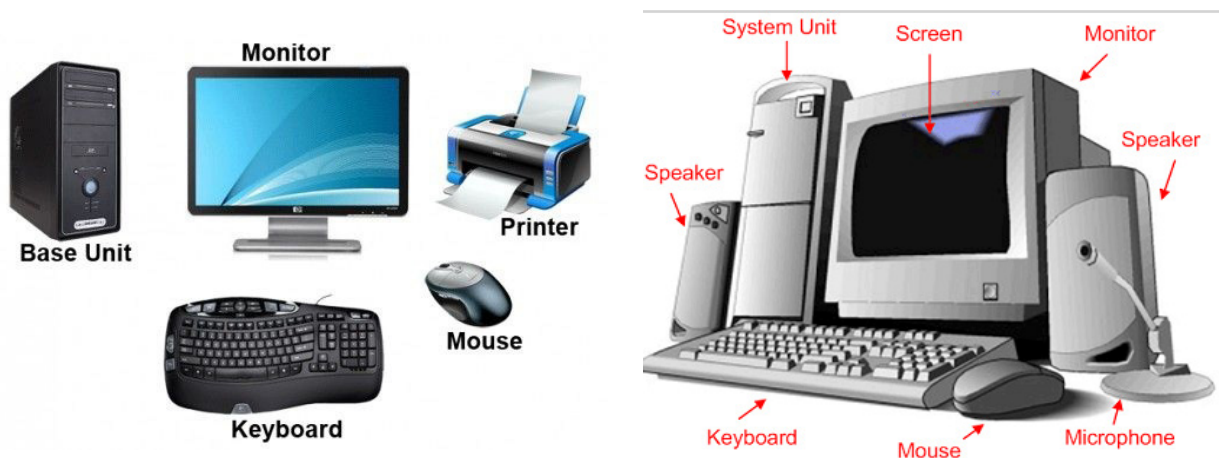


Fig. 3.3 Physical components of a computer

Functions of a computer

Just like the pen, the keyboard, mouse, scanner, barcode reader, joystick and screen (in case of touch screens) are used to enter or feed the data into the computer. Data processing that is the manipulation of raw data into meaningful information is done by the central processing unit (CPU). The CPU is labeled unit system on the figure above.

The processed data or meaningful information called output is given out by devices such as the monitor, also known as the screen or visual display unit, printer and speaker. The information can be stored on the computer or externally on storage devices such as hard drive disk, compact disk (CD), USB Flash Drive, Cloud Storage and tape.

Accounting software and packages used in electronic data processing

With the advances in technology, the electronic data processing method has improved. Businesses of all sizes are now able to use financial management softwares and other accounting packages to streamline accounting processes and reduce human error. Quite a number of different types of accounting packages available today can accomplish a variety of tasks, from data entry to reporting.

They can be integrated with other information and technology systems for enhanced functionality. Pastel and Excel are some of them. QuickBooks is one of the world's leading accounting packages helping small and medium-sized businesses manage their financial matter much easier and better.

- 13 *Paid rent by cash \$800.*
- 17 *Paid electricity by cheque \$300.*
- 21 *Bought goods for resale \$4 000 paying by cheque.*
- 25 *Paid wages for \$900 cash.*
- 29 *Sold goods on credit to A. Amos for \$3 500.*
- 31 *Paid A. Alet \$200 cash.*

Exercise 4.1

Record the following transactions in a Cash Book.

2016

- March 1 Started the business with cash \$9 000 and \$10 000 in the bank.
- 2 Bought goods for resale worth \$1 300 by cash.
- 3 Sold goods receiving cheque of \$4 000.
- 4 Bought packaging materials for \$600 cash.
- 5 Bought a vehicle for \$1 400 paying by cheque.
- 9 Sold goods for \$2 000 cash.
- 13 Paid rates and water by cash \$700.
- 17 Paid for general expenses by cheque \$300.
- 21 Bought goods for resale \$2 000 paying by cheque.
- 25 Paid salaries for \$500 cash.
- 27 Paid for insurance by cheque \$900.
- 29 Sold goods on credit to A. Amos for \$3 600.

UNIT 4.2 SALES JOURNAL

Sales journal

This is the book in which all goods sold on credit are recorded. No cash or cheques received are recorded in the book. Only those which are of trade are recorded here. It is alternatively known as a sale day book. Whenever goods are sold to customers on credit, an invoice is issued as documentary proof or evidence for the transaction. Every invoice contains an invoice number.

Format

Below is the general layout of all day books including the Sales Day Book.

Format for the sales day book

Date	Details	Folio	Dr	Cr

The entries in the Purchase journal will be individually posted to the personal accounts of each of suppliers showing the total amount owed to each of them by the business.

Activity 4.4 Group work

N. Jones provided you with the following transactions which took place in the month of the May 2018.

- 1 Credit purchases from B. Sonny \$6 000.
- 5 Credit purchases from H. Toffee \$6 200.
- 11 Credit purchases from J. Gove \$5 200.
- 17 Credit purchases from T. Moyo \$5 600.
- 19 Credit purchases from B. Banner \$3 000.
- 24 Credit purchases from S. Shiri \$2 000.
- 28 Credit purchases J. James \$1 000.

Required:

Enter the above transactions in the purchase day book of N. Jones for the month of May.

Exercise 4.4

G. Gara provided the following transactions which took place in the month of February 2013.

- 1 Credit purchases from the following S. Gona \$1 500, P. Penny \$2 000, G. Gara \$3 000, P. Love \$1 000.
- 7 Sold goods on credit to the following S. Samora \$4 000, P. Pinny \$5 000, B Bow \$65 000.
- 9 Credit purchases from V. Fera \$7 200.
- 10 Credit sales to P. Moyo \$4500, J. James \$7600, G. Farow \$8 000
- 12 Credit purchases from F. Fungai \$9 000.
- 15 Credit sales to B. Benny \$3 400, A. Junior \$2 300, P. Gate \$7200
- 17 Credit purchases from G. Donnie \$5 000.

Required:

Enter the above transactions in the Purchase and the Sales day books of G. Gara for the month of February.

UNIT 4.4 SALES AND PURCHASES RETURN JOURNAL

Sales return journal

The sales return journal is a book of original entry in which goods once sold to customers on credit but returned for various reasons are recorded. Customers may return goods for one or more of the following reasons, wrong colour, wrong size, damaged goods, and soiled goods. The source document used is called a credit note. When the seller agrees to take back goods returned and agrees to refund part of or the entire amount the buyer paid, the seller will send a credit note to the customer.

Note that the names, sales return outwards day book and sales returns journal are used interchangeably to refer to the same day book.

Below is the format that is used for both the sales return day book and the purchases return day book.

Format

Date	Details	Note number	Folio	Amount

The invoice column has substituted by the note number because of the difference in the documents used. All other columns serve the same purpose. Below is an example showing the entries in the sales returns journal.

Example 4.5

During the month of September 2018, the following transactions took place. Enter them in the sales returns journal.

- 1 The following customers returned goods back into the business P. Patson \$2 000, J. Jones \$5 000, S. Solo \$3 000.
- 7 A Phiri returned goods worth \$4 000.
- 19 The following customers returned goods into to the business P. Moto \$1 200, S. Money \$1 800.

Solution

Date	Details	Note no	Folio	Amount \$
2018				
Sept 1	P. Patson	001	SL23	2 000
	J. Jones	002	SL25	5 000
	S. Solo	003	SL29	3 000
7	A. Phiri	004	SL31	4 000
19	P. Moto	005	SL33	1 200
	S. Money	006	SL39	1 800
	Transfer to the returns inwards account		GL50	17 000

The total of all the returns inwards of \$17 000 is transferred to the debit side of the returns inwards account in the general ledger represented by GL. The individual entries will be posted to the individual accounts of the customers in the sales ledger. These entries will be posted as credits, reducing the amount owed to the business by customers.

Purchases returns journal

Like in the case of returns inwards, the business may return goods back to the suppliers for various reasons. For example, the business may return goods because they are damaged. So, if the suppliers agree to take the goods returned, the document called a debit note is sent by the customer as a proof with the details of the goods being and the reason for returning them.

The supplier may agree to give an allowance for the goods returned and the account of the supplier will be debited by that allowance hence the name debit note. There is no difference between the format of the returns inwards journal and the returns outward journal.

The following example illustrates recording of transactions in the returns outwards journal. The names purchases return outwards day book and purchases returns journal are used interchangeably to refer to the same day book.

Example 4.6

The following transactions took place during the month of November 2017. They are to be recorded in the Returns outwards Journal.

- The business returned goods to the following suppliers A. Motsi \$3 000, A. Pauline \$4 000, F. Zet \$6 000, P. Pen \$7 000.

Solution

Date	Details	Note no	Folio	Amount
2018				\$
Nov 2	A. Motsi	008	PL12	3 000
	F. Zet	009	PL16	4 000
	A. Pauline	010	PL18	6 000
	P. Pen	011	PL20	7 000
	Transfer to the returns outwards account.		GL 40	20 000

The total of all the returns outwards is posted to the credit side of the returns outwards account in the General ledger. The entries will be posted to the personal accounts of the suppliers in the purchases ledger. The entries will be posted as debits, reducing the amount owed to the suppliers by the business.

Activity 4.5 Group work

You are to enter the following transactions in either the Sales returns journal or Purchases returns journal. These transactions took place in the month of November 2018.

Nov 1. The following customers returned goods to the business A. White \$2 500, P. Green \$3 500, W. Black \$6 500, J. Small \$1 000, Y. Smoke \$4 500.

Nov 5. The business returned goods to the following suppliers P. Pink \$3 400, P. Pause \$3 600, J. Jack \$1 500, G. Gimmy \$5 000.

Exercise 4.5

Enter the following transactions in either the purchases returns journal or the sales returns journal.

January 2015

- 1 Goods returned to the business by the following customers F. Stink \$2 800, G. Gate \$3 700, V. Van \$1 900, P. Western \$2 800, A. Adams \$3 400.
- 5 The business returned goods to the following suppliers F. Vety \$6 000, S. Same \$ 3 800, P. Posit \$1 200, S. Amos \$4 900, M. Bean \$5 900, F. Bin \$1 000.

Interesting facts

- The cash book is a cash and bank account prepared simultaneously.
- A cash book can carry a credit balance in the bank column.
- A sales day book records a list of credit customers.
- A purchases day book records a list of credit customers.
- When customers return goods, the business refunds part of or the entire amount paid.

Summary of the chapter

- All transactions made by cash or cheque, be it receipts or payments, are recorded in the cash book.
- A cash book is both a cash account and a bank account.
- Purchases day book records all goods bought for resale on credit.
- The sales day book records only goods sold to customers on credit.
- Returns inwards journal is for goods returned by customers back into the business.
- Returns outwards journal is for goods returned by the business to suppliers.

Glossary of terms

Cash book	– subsidiary book in which only transactions by cash or cheques are recorded.
Invoice	– source document used when goods are bought or sold on credit.
Debit note	– document sent by the business to the suppliers with the details of goods being returned by the business.
Credit note	– document sent to the customer by the business after agreeing to take the goods returned into the business by customers.

Revision Exercises

Multiple Choice Questions

1. The cash book is for recording _____.
A. only cash transactions
B. both cash and bank transactions
C. all invoices
D. all business transactions
2. Which subsidiary book is part of the ledger?
A. Cash book
B. Sales journal
C. Purchase journal
D. Returns journal
3. In which book are credit sales recorded?
A. Purchase day book
B. Sales journal
C. Cash book
D. Ledger
4. Goods bought on credit are recorded in _____.
A. returns inwards journal
B. cash book
C. sales day book
D. purchase day book

5. Which document is used for credit sales?
 A. Invoice
 B. Receipt
 C. Debit note
 D. Credit note
6. Which document is sent when goods are returned into the business?
 A. Debit note
 B. Credit note
 C. Invoice
 D. Voucher

Structured Questions

1. From the following transactions prepare a two-column cash book and balance it:
 2015

- March
- 1 Started the business with cash \$8 000 and \$11 000 in the bank.
 - 2 Bought goods for resale worth \$11 500 by cash.
 - 3 Sold goods receiving cheque of \$5 000.
 - 4 Bought packaging materials for \$1 000 cash.
 - 5 Bought a furniture for \$2 000 paying by cheque.
 - 7 Bought goods on credit from A. Badza for \$1 200
 - 8 Sold goods for \$5 000 cash.
 - 10 Sold goods on credit to A. Maposa for \$ 1000
 - 12 Paid rates by cash \$900.
 - 15 Returned damaged goods worth \$200 to A. Badza
 - 18 Paid salaries and wages by cheque \$400.
 - 20 A Maposa returned goods worth \$100
 - 22 Bought goods for resale \$3 000 paying by cheque.
 - 26 Paid transport expenses for \$400 cash.
 - 27 Paid for insurance by cheque \$600.

2. You are to enter the following items in the sales journal, purchases journal, returns inwards journal, and the returns outwards journal.

2018

- July
- 1 Credit purchases from: L. Hillary \$8 000; M. Noel \$9 000; N. Senet \$10 500.
 - 2 Credit sales to: E. Roy \$4 600; E. Phibion \$7 800; F. Thomas \$5 000.
 - 6 Credit purchases from: R. Martin \$4600; P. Edmonton \$4 500; David \$7 500.
 - 7 Credit sales to: A. Greham \$15 000; H. Godfrey \$4 600; K. Ferry \$9 000.
 - 13 Returns outwards to: M. Noel \$1 500; N. Senet \$2 100.
 - 17 Returns inwards from: E. Phibion \$1 800; F. Thomas \$1 300.
 - 21 Credit sales to: E. Phibion \$7 000; F. Power \$4 600; E Lee \$420.
 - 24 Credit purchases from: C. Ferguson \$550; K. Energy \$9 000.
 - 25 Returns inwards from: E. Phibion \$1 700; K. Energy \$1 000.
 - 31 Returns outwards to: R. Martin \$1 300; C. David \$1 500.

EXAMINATION 2

Paper 1: Multiple Choice Questions

Time: 1 hour 30 minutes [40 Marks]

Answer all questions. Choose the correct answer.

- Which of the following is the journal recording cash transactions?
A. Cash book. B. Sales journal.
C. Purchase journal. D. General ledger.
- Which subsidiary book records goods sold on credit?
A. Cash book. B. Purchase journal.
C. Sales Journal. D. General journals.
- The sale of a motor van on credit is recorded in _____.
A. sales journal B. purchase journal
C. cash book D. general journal
- Furniture purchased on credit is recorded in _____.
A. general journal B. purchase journal
C. cash book D. purchases journal
- Which document is entered in the purchase journal?
A. Receipt. B. Bank statement.
C. Voucher. D. Invoice.
- A debit note is used in the _____.
A. returns inwards journal B. returns outwards journal
C. cash book D. sales journal
- An alternative name for the journal is _____.
A. day book B. ledger
C. sales D. returns
- Which journal records goods returned by customers?
A. Returns inwards journal. B. Returns outwards journal.
C. Cash book. D. Ledger.
- A transaction not recorded in a specialised journal is recorded in _____.
A. general journal B. cash book
C. general ledger D. sales journal
- Which of the following is not a subsidiary book?
A. Ledger. B. Cash book.
C. Sales Journal. D. Purchase journal.
- Which of the following books is both a journal and a ledger?
A. Cash Book. B. Purchase journal.
C. Sales Journal. D. Purchase journal.
- Cash received from credit customers is recorded in the _____.
A. Sales Journal. B. Cash Book.
C. Purchase day book. D. General ledger.
- The sum of individual suppliers' amounts in the purchase journal is transferred to the _____.
A. purchase day book B. purchase ledger
C. sales ledger D. cash book

Purchases Account

Date	Details	Folio	Amount	Date	Details	Folio	Amount
2015			\$	2015			\$
Jan 4	Cash		8 000				
6	J. Jones		6 000				
	Cash		5 000	Jan 31	Balance	c/d	28 000
16	P. James		9 000				
			28 000				28 000
	Balance	b/d	28 000				
Feb 1							

Sales Account

Date	Details	Folio	Amount	Date	Details	Folio	Amount
2015			\$	2015			\$
				Jan 7	J. Marshall		4 000
					Cash		10 000
Jan 31	Balance	c/d	21 000	12	G. Timson		7 000
			21 000		Balance	c/d	21 000
				23			21 000
				Feb 1			

J. Jones

Date	Details	Folio	Amount	Date	Details	Folio	Amount
2015			\$	2015			\$
Jan 31	Balance	c/d	6 000	Jan 6	Purchases		6 000
			6 000				6 000
				Feb 1	Balance	b/d	3 000

J Marshall

Date	Details	Folio	Amount	Date	Details	Folio	Amount
2015			\$	2015			\$
Jan 7	Sales		4 000	Jan 22	Cash		4 000
			4 000				4 000

Returns Inwards Account

Date	Details	Folio	Amount	Date	Details	Folio	Amount
2015			\$	2015			\$
Jan 26	J. Timson		500	Jan 31	Balance	c/d	500
			500				500
Feb 1	Balance	b/d	500				

Returns Outwards Account

Date	Details	Folio	Amount	Date	Details	Folio	Amount
2015			\$	2015			\$
Jan 31	Balance	c/d	1 000	Jan 27	P. James		1 000
			1 000				1 000
				Feb 1	Balance	b/d	1 000

Motor Van Account

Date	Details	Folio	Amount	Date	Details	Folio	Amount
2015			\$	2015			\$
Jan 8	Bank		12 000	Jan 31	Balance	c/d	12 000
			12 000				12 000
Feb 1	Balance	b/d	12 000				

Drawings Account

Date	Details	Folio	Amount	Date	Details	Folio	Amount
2015			\$	2015			\$
Jan 28	Cash		1 500	Jan 31	Balance	c/d	1 500
			1 500				1 500
Feb 1	Balance	b/d	1 500				

Stationary Account

Date	Details	Folio	Amount	Date	Details	Folio	Amount
2015			\$	2015			\$
Jan 5	Cash		2 000	Jan 31	Balance	c/d	2 000
			2 000				2 000
Feb 1	Balance	b/d	2 000				

Rent Account

Date	Details	Folio	Amount	Date	Details	Folio	Amount
2015			\$	2015			\$
Jan 3	Bank		5 000	Jan 31	Balance	c/d	5 000
			5 000				5 000
Feb 1	Balance	b/d	5000				

G Timson

Date	Details	Folio	Amount	Date	Details	Folio	Amount
2015			\$	2015			\$
Jan 23	Sales		7 000	Jan 31	Returns Inwards		500
			7 000		Balance	c/d	6 500
Feb 1	Balance	b/d	6 500				7 000

P. James

Date	Details	Folio	Amount	Date	Details	Folio	Amount
2015			\$	2015			\$
Jan 27	Returns		1 000	Jan 6	Purchases		9 000
Jan 31	Balance	c/d	8 000				9 000
			9 000	Feb 1	Balance	b/d	8 000

Extracting the trial balance.

Using the above ledger accounts the trial will be prepared as follows;

J. Mayo's trial balance as at 31 January 2015.

Details	Dr	Cr
Bank	3 000	
Capital		38 000
Cash	15 500	
Purchases	28 000	
Sales		21 000
Motor van	12 000	
Returns inwards	500	
Returns outwards		1 000
G. Timson	6 500	
Rent	5 000	
Drawings	1 500	
Stationery	2 000	
J. Jones		6 000
P. James		8 000
	74 000	74 000

You should have noticed that J. Marshall's account did not appear in the trial balance. The reason is that the account was closed. He does not owe the business anything. As you can see the trial balance sides have all agreed with each other. It is safe to conclude that when the double entry is completed correctly in all ledger accounts with correct figures, the trial balance should balance. However, in some cases the trial balance may agree even if there are errors made in the books.

The trial balance can be prepared at any time and agree. But usually it is extracted at the end of the accounting period so that it can be used to prepare financial statements like the income statement and the statement of financial position.

Activity 7.1 Group work

1. Explain the importance of a trial balance.
2. State the shortcomings of a trial balance.

2. Which of the following is true about a trial balance?
 - A. Should never balance.
 - B. Should agree.
 - C. Correct errors.
 - D. It is not important in accounting.
3. How is a trial balance extracted?
 - A. Transferring all transactions from the ledger.
 - B. Transferring all balances from the ledger.
 - C. Using totals from ledger accounts.
 - D. Closing all ledger accounts for the period.
4. Which of the following is a shortcoming of a trial balance?
 - A. It detects errors.
 - B. It double checks the double entry principle.
 - C. Can never agree.
 - D. Cannot prevent errors.
5. Which of the following has normal debit balances in the trial balance?
 - A. Sales.
 - B. Purchase.
 - C. Capital.
 - D. Payables.
6. Which of the following statements is incorrect?
 - A. $\text{Assets} - \text{Capital} = \text{Liabilities}$
 - B. $\text{Liabilities} + \text{Capital} = \text{Assets}$
 - C. $\text{Liabilities} + \text{Assets} = \text{Capital}$
 - D. $\text{Assets} - \text{Liabilities} = \text{Capital}$
7. Which of the following is not an asset?
 - A. Buildings.
 - B. Cash balance.
 - C. Debtors.
 - D. Loan from K. Harris
8. Which of the following is a liability?
 - A. Machinery.
 - B. Creditors for goods.
 - C. Motor vehicles.
 - D. Cash at the bank

Structured Questions

1. The following are transactions of January of J Parson a small to medium enterprise business for the month 2018.

- Jan 1 Started in business with \$20 500 cash and \$35 000 in the bank.
- 2 Deposited \$9 000 cash into the bank account.
- 3 Bought goods for cash \$6 000.
- 4 Bought goods on credit from: T. Mudawo \$10 000; H. Food \$8 000, W. Smith \$12 000, P. Garrett \$9 000.
- 5 Bought equipment on credit from Bright Suppliers Ltd \$7 000.
- 6 Sold goods on credit to: R. Hobson \$5 000, F. Bream \$15 000, D. Brian \$14 000; P. Gaul \$7 000.
- 8 Paid rent and rates by cheque \$1 500.
- 10 Bought fixtures on credit from Chile Ltd \$4 000.
- 11 Paid salaries in cash \$2 000 cash.
- 12 Sold goods for cash \$2 000 and \$17 000 by cheque.
- 14 Returned goods to: H. Food \$3 000; W. Smith \$2 000.
- 15 Bought van by cheque \$6 500.
- 16 Received loan from B. Barclay by cheque \$5 000.
- 18 Goods returned to us by: R. Hobson \$1 500; F. Bream \$3 000.
- 21 Cash sales \$14 000.
- 24 Sold goods on credit to: F. Bream \$12 000, D. Brian \$16 000.
- 26 We paid the following by cheque: H. Food \$4 000; W. Smith \$3 000.
- 29 Received cheques from: R. Hobson \$5 500, F. Bream \$4 500; D. Brian \$4 000.
- 30 Withdrew cash \$3 000 for personal use.

EXAMINATION III

Paper 1: Multiple choice Questions

Time: 1 hour 30 minutes [40 marks]

Answer all questions. Choose the correct answer.

1. A cash book is a _____.
A. only a subsidiary book
B. principal book
C. ledger
D. main book of accounts
2. The return of goods by a customer should be debited to _____.
A. return outwards
B. returns inwards account
C. purchases account
D. receivables' book
3. Another name for a sales journal is _____.
A. sales invoice
B. sales ledger.
C. daily sales
D. sales day book
4. Which of the following is not a book of prime or original entry?
A. Sales daybook.
B. Purchase daybook.
C. Sales ledger.
D. Cashbook.
5. There are two sets of books of accounts and these are _____.
A. journal and ledger
B. ledger and trail balance
C. trial balance and journal
D. income statement and the statement of financial positions
6. The business sent back \$2 000 of faulty goods to A. Photo. In which book of prime entry would will this transaction be recorded?
A. General Journal.
B. Purchase Return Journal.
C. Sales Journal.
D. Sales Return Journal
7. Which book of original entry will the bookkeeper use when correcting errors?
A. Cash book.
B. General journal.
C. Purchase day book.
D. Sales day book.
8. A written paper that provides the evidence of a transaction is a _____.
A. bank statement
B. source document
C. invoice
D. voucher
9. What differentiates an accounting transitions from any other sorts of transactions?
A. The accounts involved.
B. The date of the transaction.
C. The monetary value.
D. The parties involved.
10. Which of the following are books of prime entry?
A. Sales day book and trial balance.
B. Trial balance and accounts receivable ledger.
C. Cash book and a purchases journal.
D. Cash book and the income statement.
11. If a company uses special journals, purchase of goods on account should be recorded in which journal?
A. Cash receipts journal.
B. Purchases journal.
C. Cash disbursements journal.
D. General journal.
12. Nelson bought goods on credit from Jacky Suppliers but he finds that some of them are faulty. What document would Nelson send with the faulty goods?
A. Statement
B. Debit note
C. Sales invoice
D. Credit note

Paper 2: Structured Questions

Time: 2 hours 30 minutes [100 marks]

Answer all questions in this paper.

2015.

Use the information to answer questions 1 and 2.

1. Jan 1 Started the business with \$28 000 cash and \$34 000 bank.
- 2 Bought goods for resale worth \$11 500 by cash.
- 3 Sold goods receiving cheque of \$5 000.
- 4 Bought packaging materials for \$1 000 cash.
- 5 Bought a furniture for \$2 000 paying by cheque.
- 6 Sold goods on credit to P. Partson \$12 000.
- 8 Sold goods for \$5 000 cash.
- 9 Received \$6 000 cash from P. Partson.
- 12 Paid rates by cash \$9 000.
- 15 Paid salaries by cash \$3 000.
- 22 Credit purchases from A. Zuva \$8 000.
- 26 Paid transport expenses for \$500 cash.
- 27 Returned damaged goods worth \$1 000 to A. Zuva.
- 28 Paid for insurance by cheque \$800.
- 29 Paid A. Zuva \$5 000 by cheque.

Required:

- (a) Enter the transactions above in their relevant ledger accounts. [20]
- (b) Extract a trial balance as at 31 January. [20]
2. (a) Using a table, give the differences between a sole trader and a partnership. [10]
- (b) Give five advantages and five disadvantages of limited companies. [10]
3. (a) State any five importance and five shortcomings of a trial balance. [10]
- (b) Define non-current assets and give any four examples. [5]
- (c) Define current assets and give four examples. [5]
4. (a) Define the following accounting terms.
 - (i) Drawings. [2]
 - (ii) Expenses. [2]
 - (iii) Profit. [2]
 - (iv) Loss. [2]
 - (v) Inventory. [2]
- (b) State the four advantages of electronic data processing method over manual method. [4]
- (c) State five advantages of a partnership over sole trader. [5]
5. The following information is available for the business of J. Ratidzo for the month of June 2017.
 - June 1 Started the business with \$30 000 cash and \$40 000 bank.
 - 2 Bought goods for resale worth \$11 000 by cash.
 - 4 Sold goods receiving cheque of \$25 000.

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