

NEW TRENDS
in

Principles of Accounting

Form 2

LEARNER'S BOOK



EDULIGHT
B O O K S

Updated Curriculum

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AIMS OF THE BOOK

The aims of the New Trends in Principles of Accounting Book 2 are:

- (i) Expose learners to new trends of processing accounting data.
- (ii) Develop the nature, concepts and principles of accounting.
- (iii) Develop enterprise skills that will assist learners to be self-reliant.
- (iv) Apply practical modern skills, techniques and procedures in carrying out bookkeeping and accounting activities.
- (v) Instil accounting control procedures in learners.
- (vi) Appreciate the use of computers in accounting.

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SUBSIDIARY BOOKS**Objectives**

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

- define trade and cash discount
- calculate trade and cash discount
- explain the purpose of the petty cash book
- record transactions in appropriate books
- interpret the entries in the subsidiary books

KEY WORDS

- Cash book
- Cash discount
- List price
- Petty cash book
- Trade discount

Introduction

In Book 1 we discussed some of the subsidiary books that are used. A subsidiary book is the book where information from a source document is first recorded. It is like a diary where you jot down financial events as they happen. Subsidiary books discussed in book 1 include; the sales journal, sales returns journal, purchases journal, purchases returns journal, and the two column cash book. In this Chapter, we are going to discuss the cash book in more detail and also introduce the petty cash book and the journal proper.

The subsidiary books or journals so far discussed in Book 1 include:

- Sales journal – for recording credit sales.
- Sales returns journal – for recording sales returns from customers.

- Purchases journal – for recording credit purchases.
- Purchases returns journal – for recording returns to suppliers.
- Cash book – for recording cash and bank (or cheque) transactions.

Three column cash book

This cash book has three columns on both sides. Apart from the cash and bank columns, we have the '**discount**' column. Before we discuss the three column cash book, we need to look at the concept of **discount**. There are two main types of discounts which are **cash discount** (or settlement discount) and **trade discount**.

Trade discount

Trade discount is an allowance given to traders by manufacturers or wholesalers so that they may make profits on their sales. The discount attracts buyers to buy big quantities. This allowance is not given to consumers as they will not be buying the goods for resale but for final consumption.

Some wholesalers and manufacturers give this discount to their trading customers so that they retain a better trading relationship. This discount is calculated as a percentage of the marked price or catalogue price. Its effect is to reduce the catalogue or marked price.

Source documents for a cash book

- Cheque counterfoil/stub
- Till slip
- Receipts
- Bank statement
- Bank deposit slip
- Bank withdrawal slip

Example

James is a trader who bought furniture from Nyongolo Furnitures at a catalogue price of \$12 000. James was given a 10% trade discount. Calculate the

- i. Amount of the trade discount.
- ii. Amount James will record for furniture bought in his books.

Solution

- i) Trade discount = $10\% \times \$12\,000$
= \$1 200
- ii) Amount recorded = $\$12\,000 - \$1\,200$
\$10 800

Trade discount may be shown on the invoice as a deducted amount but is not recorded in the books of accounts by the buyer. This is because even if the trader settles the account beyond the earliest time, he/she does not lose it. The trader will always record the amount net of trade discount. In the example given above, the amount recorded in the trader's books is \$10 800.

Cash discount

Cash discount is an allowance or a reduction in price given to a buyer who pays the business promptly. The business would be happier to receive money from customers early rather than late. For this to happen, the business would give the customer a small incentive in the form of an invoice price reduction for early payment or settlement of their accounts. This cash discount is calculated as a percentage of the initial invoice price. The buyer would classify this discount as *discount received* while the seller would classify it as *discount allowed*.

When recording events that are subject to cash discount, both the amount actually paid and the discount should be shown in the accounts.

For example, Thomas Chamisa would give his customers 5% cash discount for early payment. If Tinei Soseru buys goods from Thomas Chamisa with an invoice price of \$2 000 and then pays his account in the earliest agreed time, he would get a discount of \$100 ($\$2\,000 \times 5\%$)

Example

- a) Benzyl Kamota gives his customers 3% cash discount for making an early payment. Alfred Mutero bought goods from Benzyl Kamota with an invoice

price of \$7 600. Alfred paid his account early.

Required:

- i) Calculate the cash discount entitled to Alfred.
- ii) Calculate the actual amount paid by Alfred.

Solution

i) Cash discount = $3\% \times \$7\,600$
= \$228

ii) Amount paid = $\$7\,600 - \228
= \$7 372

Task 1.1

Maria bought goods from Muchineripi for \$12 400. Muchineripi allows his customers a cash discount of 5% if they pay within 10 days. Given that Maria paid her account on the 8th day, calculate the following:

- a) Cash discount allowed to Maria.
- b) Actual amount paid by Maria.

- b) Tatenda allows her trade customers a 10% trade discount and a settlement discount of 5% for payments within 7 days. Maude bought goods with a list price of \$4 300 from Tatenda on 8 October 2019 and paid her account off on 13 October in the same month.

Calculate

- i) Trade discount
- ii) Invoice amount
- iii) Cash discount
- iv) Amount paid by Maude on 13 October.

Solution

- i) Trade discount = $\frac{10}{100} \times \$4\,300$
= \$430
- ii) Invoice amount = list price – trade discount
Invoice amount = \$4 300 - \$430
= \$3 870
- iii) Cash discount = 5% x invoice price
Trade discount = $\frac{5}{100} \times \$3\,870$
= \$193.50
- iv) Amount paid by Maude = invoice amount – cash discount
= \$3 870 - \$193.50
= \$3 676.50

Note

Cash discount is calculated based on net or invoice price. If both trade and cash discount are given, first calculate trade discount. It is then deducted from the list price to give invoice price. Cash discount is then calculated as a percentage of this invoice price. The amount actually paid is found by deducting cash discount from the invoice price.

Task 1.2

Chatunga allows his trade customers 10% trade discount and a 5% settlement discount for making a payment within 10 days. Grace bought goods with an invoice price of \$15 800 from Chatunga on 20 April. She paid her account on 29 April in the same year in full. Calculate the following:

- Trade discount
- Invoice amount
- Cash discount allowed to Grace.
- The actual amount paid by Grace.

Three column cash book

Now let us look at the three column cash book more closely. This cash book looks the same as a two column cash book. It however has an additional column for cash discount on both the debit side and the credit side. On the debit side (left hand side), we record the discounts the business has allowed its customers. On the right hand side (credit side), the business records the discount it receives from its suppliers.

The three column cash book looks like the one below.

<i>(DR Receipts)</i>			Three Column Cash Book						<i>(CR Payments)</i>		
Date	Details	Folio	Discount allowed (\$)	Cash (\$)	Bank (\$)	Date	Details	Folio	Discount received (\$)	Cash (\$)	Bank (\$)

Let us now make entries in this cash book by way of an example.

Nhamo Chikuti is a sole trader who keeps his cash and bank transactions in a three column cash book. His transactions for the month of November 2018 were as follows:

2018

- November
- 1 Cash in hand \$400, cash at bank \$6 700
 - 3 Cash sales \$1 500
 - 6 Paid wages in cash \$250
 - 7 Sold goods for cash \$860
 - 11 Received a cheque of \$960 from T. Law in full settlement of his account of \$1 000
 - 13 Paid sundry expenses \$145 in cash
 - 14 Paid Jimba's account of \$2 500 by cheque and received a 5% cash discount
 - 20 Paid wages by cheque \$250
 - 25 Paid A. Pundu by cheque \$800 and received a cash discount of 4%
 - 27 Deposited \$1 000 of the cash in the business bank account
 - 30 Purchased goods and paid by a cheque of \$600

Required:

- i) Record the transactions in a three column cash book
- ii) Post the cash book to the ledger

Solution

i)

Nhamo Chikuti's Three column Cash Book

Date	Details	Folio	Discount Allowed	Cash	Bank	Date	Details	Folio	Discount Received	Cash	Bank	
			\$	\$	\$				\$	\$	\$	
2018						2018						
Nov 1	Balance	b/d		400	6 700	Nov 6	Wages	GL		250		
	3	Sales	GL	1 500			13	Sundry expenses	GL	145		
	7	Sales	GL	860			14	Jimba	PL	125	2 375	
	11	T Law	GL	40	960		20	Wages	GL		250	
	27	Cash	C		1 000		25	A Pundu	PL	32	768	
							27	Bank	C		1 000	
							31	Purchases	GL		600	
								Balance	c/d		1 365	4 667
			40	2 760	8 660				157	2 760	8 660	
Dec 1	Balance	b/d		1 365	4 667							

Notes:

- i. The discount columns are just added up and not balanced. The discount on the debit side is called **discount allowed**. It is an expense to the business.
- ii. The discount on the credit side is called **discount received**. It is income to the business.
- iii. The expression **in full settlement** implies that discount has been deducted from the original amount. Thus the difference between what was paid and the original amount represents the discount.
- iv. The amount paid plus the discount should equal the original debt amount.

- v. *The transaction on the 27th is a **contra entry**. It affects both cash and bank accounts and the double entry is completed in the cash book. it is also called a **transfer**.*

ii. **To post CB to the ledger**

Sales account

2018				2018			
			\$				\$
Nov	30	Bal c/d	2 360	Nov	3	Cash	1 500
					7	Cash	860
			<u>2 360</u>				<u>2 360</u>
				Dec	1	Bal b/d	2 360

T Law account

2018				2018			
			\$				\$
Nov	30	Bal c/d	1 000	Nov	11	Bank	960
					11	Discount allowed	40
			<u>1 000</u>				<u>1 000</u>
				Dec	1	Bal b/d	1 000

Wages account

2018				2018			
			\$				\$
Nov	6	Cash	250	Nov	30	Bal c/d	500
	20	Bank	250				
			<u>500</u>				<u>500</u>
Dec	1	Bal b/d	500				

Sundry expenses account

2018				2018			
			\$				\$
Nov	13	Cash	145				

Jimba account

2018				2018			
			\$				\$
Nov	14	Bank	2 375	Nov	30	Bal c/d	2 500
		Discount received	125				
			<u>2 500</u>				<u>2 500</u>
Dec	1	Bal b/d	2 500				

A Pundu account

2018			\$	2018			\$
Nov	25	Bank	768	Nov	30	Bal c/d	800
		Discount received	32				
			800				800
Dec	1	Bal b/d	800				

Purchases account

2018			\$	2018			\$
Nov	25	Bank	600				

Discount Received account

2018			\$	2018			\$
Nov	30	Bal c/d	157	Nov	14	Jimba	125
					25	A Pundu	32
			157				157
				Dec	1	Bal b/d	157

Discount allowed account

2018			\$	2018			\$
Nov	11	T Law	40				

Note

- *All accounts debited in the cash book would be credited in the ledger.*
- *Accounts that were credited in the cash book would be debited in the ledger.*
- *Transfers and cash deposits are not posted to the ledger since the double entry is completed in the cash book.*
- *Discounts are recorded on the same side as they appear in the cash book.*

Task 1.3

Record the following transactions in the three column cash book of Mejury Chomi, a sole trader. Balance the cash book at the end of the month of November and post the cash book to the ledger.

2019

- Nov 1 Cash in hand \$400, cash at bank \$3 700.
- 4 Cash sales \$1 500.
- 7 Paid wages in cash \$350 and electricity \$450 by cheque.
- 8 Sold goods for cash \$860.
- 11 Received a cheque of \$960 from Shumi in full settlement of her account of \$1 100.
- 15 Paid sundry expenses \$245 in cash.
Withdrew \$100 from the bank for business use.
- 16 Paid Chipo's account of \$2 500 by cheque and received a 5% cash discount.
- 21 Paid wages by cheque \$1 250.
- 24 Deposited \$230 cash into the bank.
- 27 Paid M. Munashe by cheque \$1 800 and received a cash discount of 4%.
- 30 Purchased goods and paid by a cheque of \$2 600.

Task 1.4

Eastwise High School records its cash and bank transactions in a three column cash book. You are required to record its transactions for the month of April in a three column cash book. Balance the cash book at the end of November and post the cash book to the ledger.

2019

- Nov 1 Cash in hand \$1 400, cash at bank \$26 700.
- 2 School fees receipts in cash \$1 500 and in cheques \$12 000.
- 5 Paid wages in cash \$1 250 and by cheque \$2 300.
- 7 Sold goods for cash \$160 in the school tuckshop.
- 10 Bought stationery \$960 from Baroda Book Sellers and paid by cheque.

- 13 Paid sundry expenses \$145 in cash.
- 15 Paid Baroda account of \$2 500 by cheque and received a 5% cash discount.
- 24 Paid wages by cheque \$250.
- 25 Paid Mambo Books by cheque \$800 and received a cash discount of 4%.
- 30 Purchased desks and chairs from Mbiti Furnishers and paid by a cheque of \$600.

Petty cash book

Most organisations keep large sums of money in the bank for security reasons. Only small amounts are kept at the business premises to cater for very small expenditures which would not make much sense to transact through the bank. To record such small amounts, businesses use the **petty cash book**. Recording these small amounts in the petty cash book would ensure that the main cash book is left to cater for much more important movements of large amounts of money.

Thus the petty cash book is reserved for trivial expenditures such as bus fares, tea purchases, communication costs, stationery, purchase of newspapers, etc.

The petty cash is kept by the **Petty Cashier**. This is a junior member in the organisation in most cases. Any person who uses petty cash is required to complete a document called a **petty cash voucher**. This document will specify what the petty cash was used for and who authorised its use.

The voucher

This is the source document used to write up the Petty cash book. The voucher is written to confirm the occurrence of a petty cash transaction. This document will show the amount issued and the type of expenditure incurred. The date of the transaction and the person taking or claiming the petty cash will also appear on the voucher.

Vouchers are numbered and filed in sequential order for easy reference. Just like any other security document, security controls need to be imposed on the administration of the voucher.

A sample of a petty cash voucher is shown below.

Petty Cash

NUMBER	DATE	
DESCRIPTION OF ITEM/SERVICE PURCHASED		AMOUNT
CHARGE TO ACCOUNT		TOTAL
A-9672 / T-3006		
RECEIVED BY _____		APPROVED BY _____

Figure 1.1

Advantages of using a petty cash book

- i) **Reduction in numbers of transactions:** Many expenses of small nature are recorded in petty cash book. The number of transactions is reduced in the main cashbook.
- ii) **Reduction of errors:** As head cashier checks the accounts of previous month and gives advance for the coming month, thus, errors if any are reduced.
- iii) **Savings of time and labour:** As the petty expenses are recorded by petty cashier hence the labour and time of the head cashier is saved.
- iv) **Check on expenses:** From time to time the head cashier checks the account of petty cashier at any time so that the chances of misuse are minimized.
- v) **Control on petty expenses:** While checking the total of such expenses, the head cashier can put objections on undesirable expenses. Thus, expenses are controlled.
- vi) **Facility in posting:** Since only the total of various small expenses are recorded in cash book. Hence direct ledger posting becomes easy.
- vii) **Saving of space:** Only the total of all small expenses are recorded in cash book and also in ledger account. Thus, lot of space is saved.

The Petty Cash fund

A petty cash fund is established to pay for a business' small value items such as postage stamps, telegrams, teas, milk, cleaning materials, bus fares, etc. A fixed amount (called the float) is established for a period to cover such expenditures. A cheque is written for that fixed amount and the petty cashier cashes it out at the bank. The petty cashier is also given a cash receipt for filling as evidence of the float received. This receipt will be recorded by the following entries:

Debit: Petty Cash

Credit: Bank (if a cheque has been issued or a bank transfer was used) or Cash

Imprest petty cash system

The petty cashier has a fixed amount at the beginning of each period. During the period payments are paid out of Petty Cash account. The fund is restored to its original amount and the petty cash begins its new cycle. The imprest system (or petty cash system) is the reimbursement of the cash used up during the period.

The petty cash balance at the end of the period, plus the total of expenditures reimbursed to the petty cashier is equal to the float.

	\$
Petty cash balance at the end of the period	X
<i>add</i> Cash used up during the period	X
Agreed petty cash float	<u>X</u>

Example

A petty cash book is kept on an imprest system with the imprest amount of \$200 a week. During the week the following vouchers were issued in June 2016:

Date	Description	Voucher number	\$	c
June 1	Telegrams	X01	12	15
2	Writing paper, ink and staples	X02	17	32
3	Milk, teas and biscuits	X03	21	42
4	Postage stamps and envelopes	X04	18	21
5	Taxi fare	X05	23	45

Thus, the total amount spent during this period is \$92.55 and this is the amount the Petty Cashier is going to be reimbursed under the imprest petty cash system.

	\$
<i>Cash received at the start of the period</i>	200.00
<i>Cash used up in the period</i>	92.55
<i>Cash remaining</i>	107.45
<i>Cash reimbursed</i>	92.55
<i>Cash at the end of period</i>	<u>200.00</u>

Example of petty cash book

Receipts			Analysis of payments					
Debit	Date	Details	Petty Cash Voucher	Total payment	Telegrams & Postage	Stationery	Sundry expenses	Transport
	2016			\$	\$	\$	\$	\$
200.00	June 1	Bank	CB01					
	1	Telegrams	X01	12.15	12.15			
	2	Writing paper, ink and staples	X02	17.32		17.32		
	3	Milk, teas and biscuits	X03	21.42			21.42	
	4	Postage stamps and envelopes	X04	18.21	18.21			
	5	Taxi fare	X05	23.45				23.45
		Totals		92.55	30.36	17.32	21.42	23.45
		Balance c/d		107.45	GL1	GL2	GL3	GL4
200.00				200.00				
107.45	June 6	Balance b/d						
92.55		Bank	CB12					

The petty cash book is analysed into the following groups:

- Telegrams & Postages
- Stationery
- Sundry expenses
- Transport

Posting the Petty Cash Book to the General Ledger

Telegram & postage account

Date	Details	Folio	Amt	Date	Folio	Amt
2016				2016		
June 1	Petty cash	PCB11	12.15	June		
4	Petty cash	PCB11	18.21			

Stationery account

Date	Details	Folio	Amt	Date	Details	Folio	Amt
2016							
June 2	Petty cash	PCB11	17.32				

Sundry expenses account

Date	details	Folio	Amt	Date	Details	Folio	Amt
2016							
June 3	Petty cash	PCB11	21.42				

Transport account

Date	Details	Folio	Amt	Date	Details	Folio	Amt
2016							
June 5	Petty cash	PCB11	23.45				

Bank account

Date	Details	Folio	Amt	Date	Details	Folio	Amt
				2016			
				June 1	Petty cash		200.00
				5	Petty cash		92.55

Notes

- Telegram costs are recorded under a common account Telegrams & Postage account
- Writing paper, ink and staples are recorded in a Stationery account

- *Milk, teas and biscuits are recorded in a sundry expenses account*
- *Taxi fare is recorded in the transport account*
- *The amounts paid from bank to the cashier on 1st and 5th June are entered on the credit side of the Bank account in the ledger.*

Task 1.5

In groups or individually, search for more examples of petty cash records using www.google.com or any other search engine. Consult your teacher on the procedure.

Task 1.6

The Young Writers Club had the following petty cash transactions for the month of November 2018.

November	1	Cash	250.00
	2	Bought computer paper and stencils	46.00
	6	Bought paper clips and carbon	16.90
	9	Bus fares for 4 writers to a workshop	21.60
		Bought milk and sugar	9.50
	13	Postage stamps	14.00
		Bank charges	17.10
	17	Bought window cleaners and floor polish	19.67
	21	Telegrams	60.00
	26	Bought duplicating paper	35.80

- a) Write up the petty cash book with the following analysis columns:
 - Stationery
 - Office expenses
 - Travel expenses
 - Postage and telegrams
 - Cleaning materials
- b) Balance and reimburse the imprest on November 30, 2018.
- c) Post to the ledger

General journal

If there is a transaction that cannot be recorded in any of the above journals or

books of original entry, then such a transaction should be recorded in the **Journal** (also called **General Journal** or **Journal Proper**). The source document for the Journal is the journal voucher or the invoice. Examples of transactions to be recorded in the General Journal include:

- Entries for opening books of accounts.
- Credit purchases and sales of non-current assets.
- Correction of errors.
- Closing transfers.
- Adjustments at the end of the year.
- Purchase of consumables on credit.
- Returns of consumables.
- Bad debts written off.
- Drawings of non-cash items.
- Interest charged on overdue accounts.

When making records in the journal, it is important to note that:

- Liabilities are credited when increasing and debited when decreasing.
- Assets are debited when increasing and credited when decreasing.
- Debtors are debited when increasing and credited when decreasing.
- Creditors are credited when increasing and decreasing when decreasing.
- Gains are credited when increasing and debited when decreasing.

Format of the Journal

Date	Details	Folio	Debit	Credit
2020				
Jan 1	Account to be debited		X	
	Account to be credited			X
	<i>Narrative (short description of what happened)</i>			

In the details column, the account to be debited is first written and the amount is put in the debit column. The account to be credited is written with a slight indent before the amount is put in the credit column. A narration is then written to explain the transaction.

Example Recording non-current assets purchased on credit

- a) On 23 November 2017, T Jona bought machinery for \$2 500 on credit from N Ndebele. Show this in a journal entry.

Solution

Date	Details	Folio	Debit	Credit
2017				
Nov 23	Machinery account	GL	2 500	
	N. Ndebele account	PL		2 500
	<i>Credit purchase of machinery from N Ndebele</i>			

- b) On 8 May 2018, Moses Sibanda purchased machinery on credit from T K Machines for \$3 100.

Record this transaction in the journal

Solution

Journal entries				
Date	Details	Folio	Dr \$	Cr \$
2018				
May 8	Machinery account	GL	3 100	
	T K Machines account	PL		3 100
	<i>Purchases of machinery on credit from T K Machines</i>			

Recording non-current assets sold on credit

Example

On 19 October 2019, Monica Chitando sold old furniture to K Watadza on credit for \$700.

Record this sale in the journal.

Journal entries				
Date	Details	Folio	Dr \$	Cr \$
2019				
Oct 19	K Watadza account	SL	700	

Furniture account <i>Sale of furniture on credit from K Watadza</i>	GL	700
--	----	-----

Recording of consumables purchased on credit

Example

On 27 July 2018, Millerite International School bought toiletries on credit from N Richards for \$2 400.

Record the transaction in the Journal.

Solution

Journal entries				
Date	Details	Folio	Dr \$	Cr \$
2018				
July 27	Consumables (Toiletries) account N Richards account <i>Purchases of toiletries on credit from N Richards</i>	GL PL	2 400	2 400

Recording returns of consumables to suppliers

Example

On 29 July 2018, Millerite International School returned damaged consumables worth \$320 to N Richards.

Record this in Millerite International School's journal.

Solution

Journal entries				
Date	Details	Folio	Dr \$	Cr \$
2018				
July 29	N Richards account Consumables (Toiletries) account <i>Return of damaged toiletries to N Richards</i>	PL GL	320	320

Recording of bad debts written off

Example

John Lytton, a credit customer, owed \$3 500 on 2 August 2018. He was declared bankrupt on 10 August 2018 and the account was written off.

Record this in the journal.

Solution

Journal entries				
Date		Folio	\$DR	\$CR
2018 August 10	Bad Debts account	GL	3500	
	John Lytton account <i>John Lytton's account written off to Bad Debts account</i>	PL		3 500

Posting to ledger

We will now post the bad debts to the ledger.

John Lytton account

2018		\$	2018		\$
August 2	Balance b/d	3 500	August 10	Bad Debts	3 500
		3 500			3 500

Bad Debts account

2018		\$	2018		\$
August 10	John Lytton	3 500			

Notes

- John Lytton's account is first debited with the opening balance on August 2.
- It is then credited with the written off amount of \$3 500 to the Bad Debts account.

- The Bad Debts account is then debited with the \$3 500 to complete double entry.

Task 1.7

In pairs, post the above journals to the relevant ledgers. Show your answers to your teacher.

Consolidated example

Journalise the following transactions for B Chimbiti and post accounts to the ledger.

June	1	Started business with \$3 000 in the bank.
	4	Bought furniture and paid by cheque, \$900.
	11	Bought on credit a Refrigerator for storing perishables from M Fridge, \$ 650.

Solution

Journal entries

Date	Details	Ledger Folio	Amount to be debited \$	Amount to be credited \$
June 1	Bank	CB	3 000	
	Capital	GL		3 000
	<i>Starting capital.</i>			
4	Furniture	GL	900	
	Bank	CB		900
	<i>Furniture paid by cheque.</i>			
11	Refrigerator	GL	650	
	M Fridge	PL		650
	<i>Credit purchase of a refrigerator from M Fridge.</i>			

Ledger

Bank account

2018	\$	2018	\$
June 1 Capital	3000	June 4 Furniture	900
		June 30 Balance c/d	2100
	<u>3000</u>		<u>3000</u>
July 1 Balance b/d	2100		

Capital account

	\$		\$
		June 1 Bank	3000

Furniture account

	\$		\$
June 4 Bank	900		

Refrigerator account

	\$		\$
June 11 M Fridge	650		

M Fridge account

	\$		\$
		June 11 Refrigerator	650

SUMMARY

This chapter discussed the three column cash book, the petty cash book and the general journal. It also identified the relevant source documents and the recording procedures required for successful manipulation of questions involving those areas of the syllabus. You are now expected to go through all the practice questions at the end of this chapter.

Glossary

Cash discount: is an allowance or a reduction given to a buyer who pays the business promptly.

Discount allowed: is an allowance allowed by suppliers to their customers who pay promptly. It will be an expense to the supplier.

Discount received: is an allowance received by a customer from their supplier when they pay promptly. This will be treated by the customer as income.

Float or imprest amount: is the fixed amount the petty cashier is given at the beginning of each period.

Imprest system: is a system whereby a fixed amount is given to a petty cashier at the beginning of a period. Payments are made from this fixed amount during the month and the amount used will be replenished at the end of the month so that the amount is restored.

Petty cash fund: the amount set aside as petty cash by the organisation.

Trade discount: is an allowance given to traders by manufacturers or wholesalers so that they may make profits on their sales.

END OF CHAPTER QUESTIONS

Multiple Choice Questions

- 1) The cash book is a special ledger reserved for
 - A. Credit purchases and sales
 - B. Credit and cash sales transactions
 - C. Cash and bank transactions only
 - D. Cash purchases and sales only

- 2) Bank charges include
 - A. Stop orders and dishonoured cheques
 - B. Interest on bank loans and interest receivable
 - C. Commission or ledger fees
 - D. Bank loans and overdrafts

- 3) Which of following is a reason why cheques may not be dishonoured
- Account has insufficient funds
 - Cheque is post dated
 - Cheque is stale
 - Cheque is for amount less than account balance
- 4) Joram bought goods from T Moyo at a list price of \$3 000 and was given a 5% trade discount. The amount of trade discount is
- \$150
 - \$1 500
 - \$300
 - \$450
- 5) The source document for petty cash is
- Sales invoice
 - Purchases invoice
 - Receipt
 - Voucher

Structured Questions

- 1.1 The Young Writers Association completed the following petty cash transactions during the month of May 2016.

			\$
May	1	Cash balance	2 000
	3	Purchased computer paper and stencils	124
	6	Bus fare to a workshop	21
	6	Bank charges	45
	7	Postage stamps	40
	11	Bought coffee and milk	240
	19	Telegrams	70
	22	Bought duplicating paper	320
	24	Bought cold drinks for visitors	140
	26	Paid delivery fee for stationery	330
	28	Bought window cleaner	280

You are required to:

- Write up the Petty Cash Book with analysis columns under the headings; office expenses, travel expenses, postage and telegrams, cleaning materials and delivery expenses.

- b) Balance and replenish the imprest on 31 May 2016.
- c) Post the petty cash book to the ledger.
- d) Explain the imprest system in relation to the petty cash book.

1.2. The following transactions relate to I Simon.

2018			\$
January	1	Cash in hand	3 800
		Cash at bank	4 600
	2	Received cash from J Motsi, a debtor, less 5% cash discount	475
	3	Paid a creditor, W. Banda by cheque	700
	5	Paid wages in cash	300
	9	Received cash from a debtor, I Otis	600
	11	Paid in cash Moses's account less 5% cash discount	386
	14	Received a cheque from a debtor, T Munci, less 5% cash discount	570
	17	Received cash from P Ndhlovu	800
	18	Paid cash into the bank	800
	23	Paid in cash, N Ngoda's account less 3% cash discount	388
	25	Bank charges	25

- a) Enter the above transactions in a three column cash book of I Simon.
- b) Post the cash book to the ledger.

1.3. Kalusha Mlenga started into business on 1 July 2019 and below are his transactions for the month of July.

2019

- July
- 1 started business with \$2500 cash.
 - 3 deposited \$2 000 of the cash into the business bank account.
 - 6 received a loan \$1 200 cash from Thomas Chileshe.
 - 9 bought stationery \$270 on credit from Lusaka Book Shop.
 - 10 bought goods for resale \$1000 on credit from Costa Mbila.
 - 11 paid rent \$250 cash.
 - 14 paid Thomas Chileshe \$450 cash.
 - 15 bought a typewriter \$800 paying by cheque.
 - 17 sold goods to Lukiana Banda \$870 on credit.
 - 19 cash sales \$900.

- 20 cash purchases \$900
- 22 paid Costa \$750 paying by cheque.
- 23 Kalusha Mlenga took \$20 of the business cash for his own use.
- 26 received a cheque of \$500 from Lukiana Banda.
- 30 paid wages \$500 by cheque.

Required

- a) Name the journal used to record each transaction above.
- b) Prepare the following accounts and name the ledgers used for each account prepared.
 - i) Bank account
 - ii) Thomas Chileshe account
 - iii) Purchases account
 - iv) Costa Mbila account

THE LEDGER**Objectives**

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

- define the ledger
- post entries from subsidiary books to the ledger
- balance ledger accounts
- state the types of ledgers
- classify ledger accounts
- explain the entries in the ledger accounts

KEY WORDS

- Classification
- Posting
- Balancing ledger accounts
- Folio columns
- Ledger accounts
- Interpretation of ledger accounts

Introduction

The ledger is the main book of accounts. This is the permanent book where all similar events are recorded in accounts, e.g. capital account, cash account, expenses accounts and so on. A collection of all such accounts maintained by a business is called a ledger. All ledger accounts are balanced at the end of the accounting period and the trial balance is drawn up. The balances will then be used to prepare the final statements.

When recording events in the ledger you will remember that every transaction affects two accounts according to the dual concept of accounting. One account will be debited while the other account will be credited with an equal amount.

Use of folio numbers

Ledger accounts have a section that is called **folio**. It is the reference number. This section shows us where (page) the other account affected by the transaction is found. Let us look at the following account.

Bank account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
January 1	Capital	GL1	20 000	January 2	Purchases	GL5	6 000
28	Cash	CB1	5 500	16	Wages	GL11	5 000
				19	Drawings	GL16	1 200
				30	Nissan Zimbabwe	GL7	5 000

On 1 January the owner of the business deposited \$20 000 in the bank. This \$20 00 has been debited to the Bank account. The other half of the transaction is posted to the Capital account in General Ledger page 1. On 2 January the other \$6 000 is found in the Purchases account on page 5 of the General ledger. On 28 January the other \$5 500 is recorded in the Cash Book on page 1.

Can you now figure out where the Wages, Drawings and Nissan Zimbabwe accounts are found?

Let us now look at some transactions and prepare ledger accounts.

Example

Jonah Murova has presented you with the following details for his new business.

2020

- January
- 1 Started business with \$20 000 in the bank
 - 2 Bought goods for \$6 000 and paid by cheque
 - 4 Bought a delivery van on credit from Nissan Zimbabwe for \$11 400
 - 7 Bought computers on credit from Wisteck Computers \$ 8 300
 - 9 Sold goods \$4 200 cash
 - 10 Bought goods \$3 200 on credit from Machera Wholesalers
 - 12 Paid rent \$700 cash
 - 16 Paid wages \$ 5000 by cheque

- 19 Jonah withdrew \$1 200 from the bank for personal use
- 21 Received \$3 900 cash from sales
- 23 Paid insurance \$600 cash
- 28 Deposited \$5 500 of the cash into the bank
- 30 Paid Nissan Zimbabwe \$5 000 by cheque

Required:

Prepare relevant ledger accounts.

Solution

Capital account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
Jan 31	Balance	c/d	20 000	Jan 1	Bank	CB	20 000
			20 000				20 000
				Feb 1	Bal	b/d	20 000

Bank account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
Jan 1	Capital	GL	20 000	Jan 2	Purchases	GL	6 000
28	Cash	CB	5 500	16	Wages	GL	5 000
				19	Drawings	GL	1 200
				30	Nissan Zimbabwe	PL	5 000
				31	Bal	c/d	8 300
			25 500				25 500
Feb 1	Balance	b/d	8 300				

Purchases account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
Jan 2	Bank	CB	6 000	Jan 31	Balance	c/d	9 200
10	Machera Wholesalers	PL	3 200				
			9 200				9 200
Feb 1	Balance	b/d	9 200				

Delivery Van account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
Jan 4	Nissan Zimbabwe	PL	11 400	Jan 31	Balance	c/d	11 400
			11 400				11 400
Feb 1	Balance	b/d	11 400				

Nissan Zimbabwe account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
Jan 30	Bank	CB	5 000	Jan 4	Delivery Van	GL	11 400
31	Balance	c/d	6 400				11 400
			11 400	Feb 1	Balance	b/d	6 400

Computers account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
Jan 7	Wisteck Computers	PL	8 300	Jan 31	Balance	c/d	8 300
			8 300				8 300
Feb 1	Balance	b/d	8 300				

Wisteck Computers account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
Jan 31	Balance	c/d	8 300	Jan 7	Computers	GL	8 300
			8 300				8 300
				Feb 1	Bal	b/d	8 300

Sales account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
Jan 31	Balance	c/d	8 100	Jan 9	Cash	CB	4 200
			8 100	21	Cash	CB	3 900
							8 100
				Feb 1	Balance	b/d	8 100

Machera Wholesalers account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
Jan 31	Balance	c/d	3 200	Jan 10	Purchases	GL	3 200
			3 200				3 200
				Feb 1	Balance	b/d	3 200

Cash account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
Jan 9	Sales	GL	4 200	Jan 12	Rent	GL	700
21	Sales	GL	3 900	23	Insurance	GL	600
				28	Bank	CB	5 500
				31	Balance	c/d	1 300
			8 100				8 100
Feb 1	Balance	b/d	1 300				

Rent account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
Jan 12	Cash	CB	700	Jan 31	Balance	c/d	700
			700				700
Feb 1	Balance	b/d	700				

Wages account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
Jan 16	Bank	CB	5 000	Jan 31	Balance	c/d	5 000
			5 000				5 000
Feb 1	Balance	b/d	5 000				

Drawings account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
Jan 19	Bank	CB	1 200	Jan 31	Balance	c/d	1 200
			1 200				1 200
Feb 1	Balance	b/d	1 200				

Insurance account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
Jan 23	Cash	CB	600	Jan 31	Balance	c/d	600
			600				600
Feb 1	Balance	b/d	600				

Notes:

- i) *The above accounts are collectively called the ledger. They are prepared using information from the books of original entry looked at in chapter 1 in a process called **posting**.*
- ii) *Every transaction affects two accounts.*
- iii) *One account is debited and the other is credited.*
- iv) *Go through them again and try to do this example by yourself.*

Balancing Accounts

When all the entries have been entered in an account, the next step is to balance the account. As learnt in book 1, balancing is making the debit side of an account equal the credit side. This is in conformity with the accounting equation.

The entries on the debit side are added up and the total recorded on some paper. The entries on the credit side are also added up and the total recorded again. The two totals are then compared. If they are different, the difference is calculated and entered just after the last item on the side with the lower total as the balancing figure. The bigger total is now inserted in the totals box and ruled off with a line above and double lines below each total. The difference is brought down on the side with the bigger total but below the total as **balance brought down**.

If the totals after adding are equal, just enter them in each total box and rule off as explained before. The account is said to be self-balancing.

These procedures were followed when balancing the above accounts. Now try to work on the practice question below.

Task 2.1

Charlene Simbi is a young entrepreneur who has just started business as a retailer.

The following information relates to her business for the first month of operation.

2018

- May 1 Started business with \$10 000 cash.
4 Deposited \$6 000 in the bank.
7 Bought goods for resale \$2 500 cash.
11 Bought a computer on credit from ZingZhong Computers \$1 700.
17 Sold goods \$3 200 cash.
20 Paid rent by cheque \$800.
22 Cash sales \$750.
28 Bought goods on credit from Cheziya Wholesalers \$2 800.
30 Paid wages by cheque \$2 000.

In pairs, prepare Charlene's ledger accounts for balance them off where possible.

Sections of the ledger

The ledger is divided into sub groups of related accounts. This is done to avoid having too many accounts in one book. It reduces the level of clutter in the main ledger and makes it easy for accounts officials to easily locate the required accounts if needed at short notice. It also allows division of labour as several people may work on each type of ledger to reduce workloads.

The ledgers in use are the **Sales ledger**, the **Purchases ledger**, the **Cash book** and the **General Ledger**.

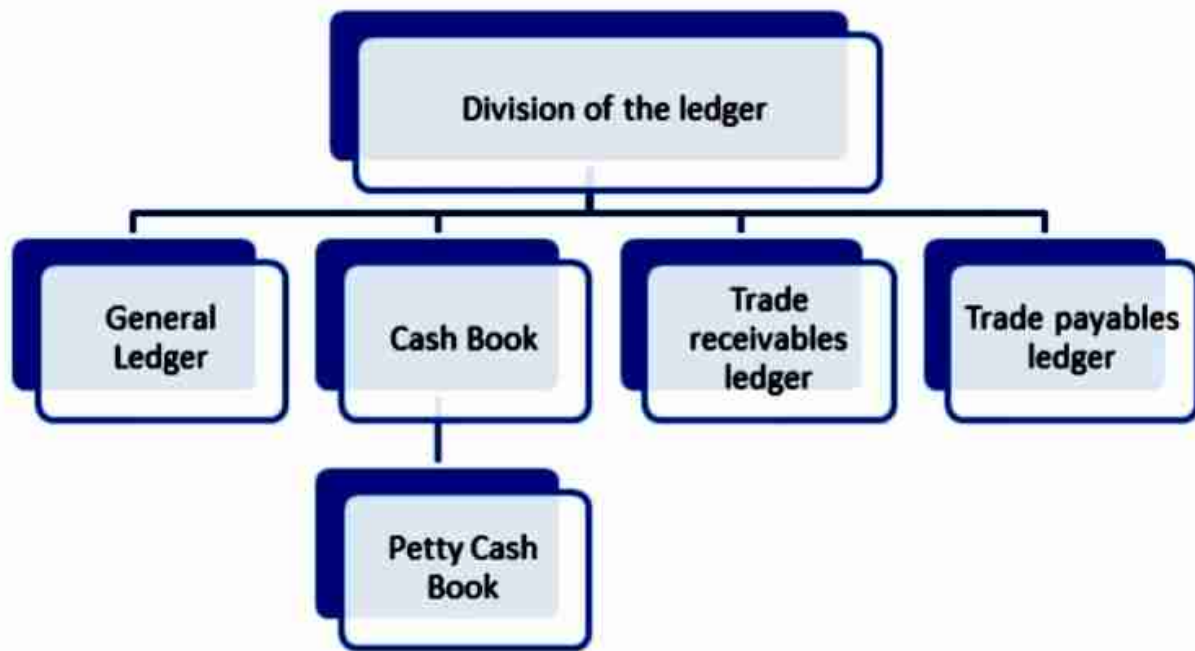


Fig 2.1 Divisions of the ledger

Sales ledger – This section of the ledger contains accounts of credit customers of the business. It is also called the debtor’s ledger or receivables ledger. Accounts kept in this ledger are classified as personal accounts. (*Classification of ledger accounts was covered in Book 1*)

Purchases ledger – This section of the ledger contains accounts of credit suppliers. It is also called the creditor’s ledger or payables ledger. . Accounts kept in this ledger are classified as personal accounts. (*Classification of ledger accounts was covered in Book 1*)

Cashbook – This section of the ledger contains the business’s bank and cash accounts.

General ledger/Nominal ledger – This section of the ledger contains all other remaining accounts which do not fit in the above ledgers. They include fixed assets, expenses, incomes and owner’s accounts.

Ledger account balances

The term **account balance** refers to the difference between the two sides of an account. After you have prepared the required ledger accounts, the next step is to interpret them. This means that you have to make sense out of the figures and draw some meaning from them. Each ledger account balance has a meaning

which it communicates to the users. For instance, cash account balance means the amount of cash asset in hand while buildings account balance represents the value of building at that date.

Look at the accounts below.

Bank account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2018			\$	2018			\$
January 1	Capital	GL	20 000	January 2	Purchases	GL	6 000
28	Cash	CB	5 500	16	Wages	CB	5 000
				19	Drawings	GL	1 200
				30	Nissan Zimbabwe	PL	5 000
				31	Balance	c/d	8 300
			25 500				25 500
February 1	Balance	b/d	8 300				

Interpretation:

The closing balance on 31 January is \$8 300. This means that on that date the amount in the bank was \$8 300 as per the account. On 1 February this person had \$8 300 in the bank.

Purchases account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2018			\$	2018			\$
Jan 2	Bank	CB	6 000	Jan 31	Balance	c/d	8 300
10	Machera Wholesalers	GL	2 300				
			8 300				8 300
Feb 1	Balance	b/d	8 300				

Interpretation:

By 31 January goods worth \$ 8 300 had been purchased.

Wisteck Computers account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2018			\$	2018			\$
Jan 31	Balance	c/d	8 300	Jan 7	Computers	GL	8 300
			8 300				8 300

			Feb	1	Balance	b/d	8 300
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Interpretation:

Wisteck Computers was owed \$8 300 for the computers that were bought on the 7th of January.

For the user of the accounts

The user of the accounts should be able interpret the account balances just as the preparer of the accounts. In addition he/she has to understand the entries and possibly try to convert them to the initial transactions. It is the ability to convert entries to transactions that gives the user more power of analysis.

Let us now look at the account below and try to interpret.

Bank account							
2020		\$	2020		\$		
January	1	Capital	20 000	January	2	Purchases	6 000
	28	Cash	5 500		16	Wages	5 000
					19	Drawings	1 200
						Nissan Zimba-	
					30	bwe	5 000
					31	Balance c/d	8 300
			25 500				25 500
February	1	Balance b/d	8 300				

Interpretation:

January 1: The owner deposited \$20 000 in the business bank account as starting capital.

January 2: The business purchased goods and paid by a cheque of \$6 000.

January 16: The business paid wages by a cheque of \$5 000.

January 19: The owner took a cheque of \$1 200 from the business for personal use.

January 28: The business deposited \$5 500 cash into the business bank account.

January 30: The business paid Nissan Zimbabwe by a cheque of \$5 000.

Remember that debit entries in the Bank account represent money being deposited into the bank while credit entries represent money that is being paid out of the bank to the indicated parties.

When you see any account, try to reconstruct the initial transactions and check

with someone to confirm the transactions.

Task

- 2.2 Try in pairs (or any group size) to interpret the entries Wisteck and Purchases accounts in the given solution above.
- 2.3 Download an account from the internet. Discuss the meaning of each entry in class.

SUMMARY

This chapter explored the sections of the ledger. We also looked at the posting of accounts to the ledger and balancing the accounts. Use of the folio column was explained. Entries and balances in the ledger accounts were discussed. These discussions are important in understanding of the accounting records.

Glossary

Posting: is to transfer an entry from a book of original entry to the ledger.

Balancing off ledger account: is to make the two totals of the ledger account agree.

Folio: is the ledger that contains the other entry that is required to complete double entry.

Cashbook: is the cash and bank account combined together.

Sales ledger: all accounts of customers.

Purchases ledger: all accounts of suppliers

General ledger: all accounts that cannot be classified in cashbook, sales and purchases ledgers.

END OF CHAPTER QUESTIONS

Multiple Choice Questions

1. A transaction affects
 - A. one account
 - B. two accounts
 - C. three accounts
 - D. four accounts
2. An account balance is -----
 - A. The difference between the two sides of an account.

- B. Total of the credit side of the account.
 - C. Total of the debit side of an account.
 - D. Sum of the totals of both sides.
3. All the following are ledgers except
- A. Sales ledger
 - B. Purchases ledger
 - C. Cash book
 - D. Sales returns journal
4. The account below has been balanced at the end of the month and the balance brought down on 1 February.

Bank account							
2020		\$					
January	1	Capital	20 000	January	2	Purchases	6 000
	28	Cash	5 500		16	Wages	5 000
					19	Drawings	1 200
					30	Nissan Zimbabwe	5 000
					31	Balance c/d	8 300
			25 500				25 500
February	1	Balance b/d	8 300				

The meaning of the balance on 1 February is

- A. We owe the bank \$8 300
 - B. There is an overdraft of \$8 300
 - C. We have \$8 300 in the bank account
 - D. We deposited \$8 300 on 1 February.
5. The transaction of January 19 in the bank account above means that
- A. The owner took \$1 200 from the business bank account for personal use
 - B. The owner withdrew \$1 200 from the business bank account for business use
 - C. The business paid \$1 200 to suppliers
 - D. Customers paid \$1 200 to the business

Structured Questions

2.1 M Mwale had the following transactions in June 20X5
20X5

- June
- 1 Started business with \$2 500 cash.
 - 2 Bought goods for resale \$550 cash.
 - 5 Sold goods \$1 230 on credit to N. Onyimo.
 - 8 Bought Furniture \$2 100 credit from Furniture Designs.
 - 12 Sold goods \$700 cash.
 - 14 Cash sales \$960.
 - 17 Paid rent \$150 cash.
 - 21 M Mwale took \$50 cash from the business for own use.
 - 25 Paid wages \$700 cash.
 - 29 Sold goods \$800 credit to N Onyimo.
 - 30 Paid \$1 500 cash to Furniture designs

Required:

Prepare and balance off the following accounts.

- a) Cash account
- b) Sales account
- c) Furniture designs account
- d) Drawings account

2.2 Amos Zingeni got into business on 1 May 20X9 as a General Dealer. His transactions for that month are given below.

20X9

- May
- 1 started business with \$4 500 in the bank,
 - 3 withdrew \$500 from the bank for business use,
 - 4 bought goods \$1 200 on credit from T Dumba,
 - 7 bought furniture on credit from Glen View Furnitures \$2 200,
 - 10 sold goods on credit \$1 850 to S Manyoni,
 - 11 returned damaged goods to T Dumba \$ 170,
 - 15 paid wages by cheque \$900,
 - 16 cash sales \$ 970,
 - 18 received a cheque of \$1 200 from S Manyoni,
 - 19 cash purchases \$1 000,
 - 20 paid T Dumba \$900 by cheque.

- a) Name any three ledgers used in accounting.

- b) Prepare the following ledger accounts for Amos Zingeni.
- (i) Purchases account
 - (ii) Sales account
 - (iii) S Manyoni account
 - (iv) Bank account

2.3 Mariyapera got into business as a farmer in Rusape on 1 May 2019. Her transactions for May were as follows.

2019

May	1	started farming business with \$15 000 in the bank and a tractor worth \$8 000.
	2	bought farming inputs for \$3 000 paying by cheque.
	6	bought a fence for the farm \$2 500 on credit from Zim Fences.
	11	bought some delivery scotch carts \$1 200 paying by cheque.
	17	bought stationery \$200 on credit from Watadza Stationers.
	21	paid electricity by cheque \$600.
	26	sold farm produce \$2 300 cash.
	29	paid wages \$3 400 by cheque.
	30	sold farm produce \$1 700 cash.
	31	sold farm produce \$2 300 on credit to Dopiro Supermarket.

You are required to prepare and balance the following accounts:

- a) Purchases account
- b) Sales account
- c) Capital account
- d) Bank account

2.4 Enter the following transactions in the appropriate ledgers for the month of August 2019 and balance off the accounts on 31 August.

2019

August	1	Started business with \$7 400 cash and \$600 in the bank.
	2	Paid \$6 000 of the opening cash into the bank.
	8	Bought goods on credit from J Antony \$480, K. Jonga \$570.
	9	Bought a machine by cheque \$3 800.
	10	Bought goods for cash \$390.

- 12 Returned goods to J Antony \$40.
- 15 Sold goods on credit \$210 to L Lunga, B Chari \$ 700.
- 18 Bought fixtures on credit from Phoenix Limited \$820.
- 21 Received goods from L. Lunga \$10, B. Chari \$80.
Received \$350 from B. Chari paying us the money by
- 23 cheque.
- 24 Sold goods for cash \$340.
- 27 We paid J Antony his account by cheque \$440.
- 29 We paid Phoenix Ltd by cheque £820.

2.5 From the following financial events,

- a) prepare all personal accounts,
- b) balance them off, and identify which balances represent receivables (debtors) and which are payables (creditors).

2019

- May 1 Credit sales P. Chimombe \$310; K Huku \$42; D. Tava \$1 100; Z. Matambo \$309.
- 2 Credit purchases from T Simion \$190; J Leonard \$163; V. Hore \$220; F Mreza \$290.
- 8 Credit sales to K Huku \$165; D. Tava £180.
- 9 Credit purchases from J Leonard \$355; F Mreza \$444.
- 10 Goods returned to us by D. Tava \$31; Z. Matambo \$96
- 12 Cash paid to us by Z. Matambo \$200
- 15 We returned goods to T Simion \$15; F Mreza \$20.
- 19 We received cheques from D. Tava \$550; P. Chimombe \$310.
- 21 We sold goods on credit to P. Chimombe 290; K Huku \$430.
- 28 We paid by cheque the following: T Simion \$175; F Mreza \$100; V. Hore \$180.
- 31 We returned goods to F Mreza \$18.

TRIAL BALANCE

Objectives

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

- prepare a trial balance
- explain purposes of preparing a trial balance

KEY WORD

- trial balance

Introduction

In the previous chapter we were mostly concerned with preparing ledger accounts and balancing them. In this chapter we are going to use the balances brought down in the accounts to extract a trial balance. Before we do this, however, we need to know what this trial balance is and why it should be extracted.

A trial balance is simply defined as a list of balances brought down in ledger accounts. All the accounts with balances are listed and their balances written down. Accounts with debit balances will have their balances entered on the debit column while those with a credit balance will be put on the credit column. Remember an account is said to have a **debit balance** if the debit side of the account is greater, and has a **credit balance** if the credit side is greater than the debit side.

Purpose of a trial balance

A trial balance is extracted for the following reasons:

- To check the arithmetic accuracy of the entries in the ledger accounts.
- It also helps to assess whether complete double entry principle have been observed in the accounts.
- It facilitates quick preparation of financial statements.

Task 3.1

Use any search engine to find more reasons for preparing a trial balance and write all findings. Discuss your findings in class.

In the next section of this chapter, we will explore the process of extracting a trial balance from the balanced ledger accounts.

Extracting a trial balance

Let us reproduce the accounts for Jonah Murova prepared in the previous chapter and extract the trial balance.

Capital account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
Jan 31	Balance	c/d	20 000	Jan 1	Bank	CB	20 000
			20 000				20 000
				Feb 1	Bal	b/d	20 000

Bank account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
Jan 1	Capital	GL	20 000	Jan 2	Purchases	GL	6 000
28	Cash	CB	5 500	16	Wages	GL	5 000
				19	Drawings	GL	1 200
				30	Nissan Zimbabwe	PL	5 000
				31	Bal	c/d	8 300
			25 500				25 500
Feb 1	Balance	b/d	8 300				

Purchases account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
Jan 2	Bank	CB	6 000	Jan 31	Balance	c/d	9 200
10	Machera Wholesalers	PL	3 200				9 200
			9 200				
Feb 1	Balance	b/d	9 200				

Delivery Van account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
Jan 4	Nissan Zimbabwe	PL	11 400	Jan 31	Balance	c/d	11 400
			11 400				11 400
Feb 1	Balance	b/d	11 400				

Nissan Zimbabwe account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
Jan 30	Bank	CB	5 000	Jan 4	Delivery Van	GL	11 400
Jan 31	Balance	c/d	6 400				
			11 400				11 400
				Feb 1	Balance	b/d	6 400

Computers account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
Jan 7	Wisteck Computers	PL	8 300	Jan 31	Balance	c/d	8 300
			8 300				8 300
Feb 1	balance	b/d	8 300				

Wisteck Computers account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
Jan 31	Balance	c/d	8 300	Jan 7	Computers	GL	8 300
			8 300				8 300
				Feb 1	Balance	b/d	8 300

Sales account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
Jan 31	Balance	c/d	8 100	Jan 9	Cash	CB	4 200
				Jan 21	Cash	CB	3 900
			8 100				8 100
				Feb 1	Balance	b/d	8 100

Machera Wholesalers account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
Jan 31	Balance	c/d	3 200	Jan 10	Purchases	GL	3 200
			3 200				3 200
				Feb 1	Balance	b/d	3 200

Rent account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
Jan 12	Cash	CB	700	Jan 31	Balance	c/d	700
			700				700
Feb 1	Balance	b/d	700				

Cash account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
Jan 9	Sales	GL	4 200	Jan 12	Rent	GL	700
21	Sales	GL	3 900	23	Insurance	GL	600
				28	Bank	CB	5 500
				31	balance	c/d	1 300
			8 100				8 100
Feb 1	Balance	b/d	1 300				

Wages account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
Jan 16	Bank	CB	5 000	Jan 31	Balance	c/d	5 000
			5 000				5 000
Feb 1	Balance	b/d	5 000				

Drawings account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
Jan 19	Bank	CB	1 200	Jan 31	Balance	c/d	1 200
			1 200				1 200
Feb 1	Balance	b/d	1 200				

Insurance account

Date	Details	Folio	Amnt	Date	Details	Folio	Amnt
2020			\$	2020			\$
Jan 23	Cash	CB	600	Jan 31	Balance	c/d	600
			600				600
Feb 1	Balance	b/d	600				

Preparation of the trial balance:

Step 1: list the accounts with balances brought down.

Jonah Murova's trial balance as at 31 January 2020

Account	Debit \$	Credit \$
Capital		
Bank		
Purchases		
Delivery vans		
Nissan Zimbabwe		
Computers		
Wisteck Computers		
Sales		
Machera Wholesalers		
Cash		
Rent		
Wages		
Drawings		
Insurance		
Totals		

Step 2: enter the balances on the correct sides as they appear in the balanced accounts.

Jonah Murova's trial balance as at 31 January 2020

Account	Debit \$	Credit \$
Capital		20 000
Bank	8 300	
Purchases	9 200	
Delivery vans	11 400	

Nissan Zimbabwe		6 400
Computers	8 300	
Wisteck Computers		8 300
Sales		8 100
Machera Wholesalers		3 200
Cash	1 300	
Rent	700	
Wages	5 000	
Drawings	1 200	
Insurance	600	
Totals	46 000	46 000

After all when we recorded the accounts, every debit entry had an equal credit entry recorded in another account in compliance with the double entry principle of accounting. Therefore, the two totals should be equal. If these two totals are different, it means that errors have occurred. The errors occur:

- i) When recording events in the journals or books of original entry.
- ii) When posting events to the ledger
- iii) When adding and subtracting figures during balancing off accounts.
- iv) When transferring balances to the trial balance.

When the errors occur, the right procedure would be to look for such errors and correct them.

Trial balance when a list of balances is given

Thabo had the following balances in his ledger on 31 May 2019.

	\$
Buildings	45 000
Furniture	15 000
Opening inventory	1 200
Sales	39 000
Purchases	23 000
Receivables	2 400
Payables	1 860
Stationery	900
Transport costs	500
Wages	4 300
Rent	10 830

Discount allowed	300
Discount received	400
Drawings	1 900
Cash	230
Bank	4 700
Capital	69 000

Required

Prepare Thabo's trial balance.

Solution

Thabo's trial balance as at 31 May 2019

	\$	\$
Buildings	45 000	
Furniture	15 000	
Opening inventory	1 200	
Sales	39 000	39 000
Purchases	23 000	
Receivables	2 400	
Payables	1 860	1 860
Stationery	900	
Transport costs	500	
Wages	4 300	
Rent	10 830	
Discount allowed	300	
Discount received	400	400
Drawings	1 900	
Cash	230	
Bank	4 700	
Capital	69 000	69 000

Notes

i) *Remember that:*

- *assets, expenses, and drawings are debited, while*

- *liabilities, income, and capital are credited.*
- ii) *From the list of balances, strike through all liabilities, incomes and capital amounts.*
- iii) *These are then recorded in the credit column.*
- iv) *The other amounts remain as debit entries.*
- v) *Now add up each column and write the totals in the relevant section for the total.*

The trial balance will appear as below.

Thabo's trial balance as at 31 May 2019

Account	Debit \$	Credit \$
Buildings	45 000	
Furniture	15 000	
Inventory	1 200	
Sales		39 000
Purchases	23 000	
Receivables	2 400	
Payables		1 860
Stationery	900	
Transport costs	500	
Wages	4 300	
Rent	10 830	
Discount allowed	300	
Discount received		400
Drawings	1 900	
Cash	230	
Bank	4 700	
Capital		69 000
Totals	110 260	110 260

SUMMARY

This chapter focused on preparing a trial balance from balanced ledger accounts. It then explored the procedure for preparing a trial balance when a list of balances has been provided.

Glossary

Trial balance: a list of balances extracted from ledger accounts

END OF CHAPTER QUESTIONS

1. Define the term **trial balance**.
2. List down the steps followed when extracting a trial balance from the ledger.
3. Name the two uses of a trial balance.
4. The following information was taken from the books of M. Hungwe for the month June 2018.

2018

- June
- 1 Started business with a capital of \$6 000 cash
 - 2 Paid cash into the bank \$3 000
 - 4 Purchased goods from B Khama on credit \$1 000
 - 7 Bought goods on credit from F Fashu \$440, K Tanda \$520, J Nhara \$340
 - 8 Cash sales \$2 000, credit sales \$1 300 to B Isaacs.
 - 12 Sold goods \$5 000 on credit to S Svosve.
 - 15 Returned goods to F Fashu \$40, J Nhara \$20
 - 18 Paid salaries \$400 and utilities \$350 all in cash.
 - 20 Received cheques from B Isaacs \$480, S Svosve \$2 000
 - 25 Withdrew \$2 100 from bank for office use.
 - 26 Bought stationery on credit from Tri Stationers \$320.
 - 28 Withdrew \$1 000 from the bank for personal use.
 - 30 Paid by cheque B Khama \$900, J Nhara \$340, K Tanda \$300

Post the transactions in the books of accounts and extract the trial balance on 30 June 2018.

5. Post the financial events of Kahari given below in relevant ledger accounts, balance them off and extract the trial balance.

2019

- June
- 1 Kahari commenced business with \$18 000 in the bank and \$2 000 cash.
 - 2 Purchased buildings on credit \$10 000 from Mude & Co.
 - 4 Purchased goods worth \$5 000 from Ariza Wholesalers on credit.
 - 6 Sold goods on credit to A Zama \$4 000 and Z Amato \$3 500.
 - 7 Cash purchases \$1 500.
 - 8 Cash sales \$2 000.
 - 10 Goods returned by A Zama \$150, Z Amato \$200.
 - 15 Paid rent \$250 cash.
 - 17 Withdrew \$2 500 from the bank for business use.
 - 20 Paid salaries \$1 800 cash.
 - 24 Withdrew \$250 cash for personal use.
 - 26 Paid a cheque of \$400 for insurance.
 - 27 Paid \$150 cash for stationery.
 - 29 Received \$900 cash from Z Amato.
 - 30 Paid Mude & co \$9 800 and Ariza Wholesalers \$3 400 both by cheque.

6. Amon Tekeshe's balances on 30 June 2019 were as follows:

	\$
Bank	4 700
Capital	38 470
Cash	4 100
Cleaning costs	500
Discount allowed	300
Discount received	400
Drawings	1 900
Inventory on 1 July 2018	1 200
Loan from Quick Bank	10 000
Machinery	15 000
Payables	1 860
Premises	30 000

Purchases	23 000
Receivables	2 400
Rent	10 830
Sales	39 000
Stationery	900
Wages	4 300
Inventory on 30 June 2019	9 000
Commission received	8 950

Prepare Amon Tekeshe's trial balance as at 30 June 2019

7. W Katiyo had the following balances on 31 March 2020.

	\$
Sales	20 000
Purchases	16 200
Purchases returns	2 100
Opening inventory	1 300
Buildings	6 000
Rent paid	3 400
Drawings	1 200
Sales returns	1 700
Stationery	2 100
Wages	9000
Commission receivable	4800
Discount allowed	1 600
Closing inventory	1 760
Discount received	800
Capital	16 800
Office equipment	2 000

Prepare a trial balance on 31 March 2020.

TRIAL BALANCE AND ERRORS**Objectives**

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

- state errors that are not revealed by a trial balance
- explain each of the errors
- state errors that are revealed by a trial balance

KEY WORD

- error

Introduction

Errors are **unintentional mistakes** made in recording accounting information. Errors can be committed in the process of carrying out the accounting process. There are two groups into which errors can be classified;

- a) Errors not affecting the trial balance: The trial balance still agrees though there are errors. In other words, these are errors *not revealed* by the trial balance.
- b) Errors affecting the trial balance: The trial balance does not agree because there are errors. In other words, these are errors *revealed* by the trial balance.

In this chapter we will learn about accounting errors and their descriptions.

Errors that do not affect the trial balance

There are principally seven errors which will not put the trial balance out of balance. These are generally called the **six errors** and are described below:

- (i) **Error of omission** – this is where a transaction is completely omitted from the books. Neither the debit entry nor the credit entry has been made. For

example, if we buy goods from S Supplier and received an invoice but did not record the invoice in the purchases day book, the trial balance will still balance.

- (ii) **Error of commission** – this occurs where the correct amount is recorded on the right side but in the wrong person’s account. For example, a credit sale to M Mazulu is recorded in the account of N Mazulu. The trial balance will still balance because a debit entry was made albeit in the wrong account.
- (iii) **Error of principle** – this occurs when an item is entered in the wrong class of account but on the correct side using the correct amount. For example, a purchase of machinery is recorded in the machinery repairs account. The purchase of machinery is a capital expenditure while machinery repairs are revenue expenditure. The trial balance will still balance because the entry was made on the required side albeit in the wrong class of account.
- (iv) **Compensating error** – this is where two or more errors cancel out each other. If, for example, any debit balance is overcast by \$10 while at the same time another credit balance is also overcast by \$10, the trial balance will still balance.
- (v) **Error of original entry** – this occurs when a transaction is wrongly captured from the source document. This results in an error being made in the journal. This error will also spread to the ledger. For example, a purchase invoice of \$136 is entered in the purchase daybook as \$186, the wrong figure will be consistently posted in the double entry system and as such the trial balance will still balance.
- (vi) **Complete reversal of entries** – this occurs when the correct amounts are used but are recorded on the wrong side of the respective accounts. For example, a payment of \$20 cash for rent is recorded by debiting the cash account and crediting the rent account. The trial balance will still balance since the same figure has been debited and credited.

Task 4.1

For each of the errors below, state the type of error that was made

- a) Rent for premises were debited to the premises account.
- b) Sales to R Chiposi were debited to R Chitosi’ account.
- c) Balance on cash account overstated by \$10 and a balance on sales account overstated by \$10.
- d) Cash sales were debited to the sales account and credited to the cash account.
- e) A return of goods to S. Sanduro was not recorded in the books.

Task 4.2

There are errors which do not affect the trial balance. In class explain the six errors that do not affect the trial balance.

Errors that affect the trial balance

When a trial balance is extracted and it fails to balance, one or more errors will have been made. Examples of errors that will throw the trial balance off balance are:

- (i) An error of addition within the trial balance. If either the credit figures or the debit figure (or both columns) are wrongly added up, the trial balance will not balance.
- (ii) An error of addition in one of the ledger accounts (arithmetic error or casting error) will put the trial balance off balance.
- (iii) Entering one figure on the debit and a different figure on the credit when making the double entry will produce a trial balance with different totals.
- (iv) Entering a figure in one account only instead of two accounts (single entry or incomplete double entry) will be in contradiction with the dual concept of accounting. This results in a trial balance which does not balance.
- (v) Entering a transaction twice on the same side of the ledger e.g. debiting both accounts (error of duplication) will also cause the trial balance not to balance.

If the trial balance fails to balance, the following steps should be followed:

- a) Check addition of the trial balance
- b) Check addition of each ledger accounts
- c) Check that each ledger account balance is appearing in the correct trial balance column
- d) Calculate the difference of the trial balance totals and try to find the figure
- e) Divide the difference by 2 and look up the figure.
- f) Check the double entry for all transactions.

Task 4.3

State whether the error below affects the trial balance or not.

- a) A payment of \$29 to a creditor, J Chaplin was debited to another creditor, T Chaplin.
- b) A receipt of \$200 cash from a debtor was not recorded in the books.
- c) A payment for the repairs of furniture was recorded in the furniture account.
- d) The buildings accounts was undercast by \$120.
- e) The rent balance was recorded on the credit side of the trial balance.
- f) Sales of \$130 cash were recorded by debiting crediting cash account and debiting sales account.
- g) Sales returns of \$76 were recorded by debiting the sales returns account by \$ 67 and crediting the debtor's account by \$76.

Task 4.4

Amara buys a new machine but the cost is entered in the machine repairs account.

- a) Name the type of error which has been made by Amara above.
Amara made further errors shown in the table below.
- b) Show by putting a tick (✓) in the correct column on the table below.

		Affects trial balance	Does not affect trial balance
i	The sales of \$200 to Amon were not recorded in the books.		
ii	Credit purchases of \$130 were debited to the supplier's account and credited to purchases account.		
iii	A cash receipt of \$98 was correctly recorded in the cash book but was recorded as \$89 in the customer's account.		
iv	The returns inwards account was under-cast by \$20.		
v	Returns from Moses were recorded in Returns inwards account only.		
vi	The purchase of motor vehicle was recorded in the motor vehicle expenses account		

- c) Name the type of error in (i) to (vi) above.

Task 4.5

In groups, name the type of error in each situation below.

- a) Returns inwards account was overcast by \$30 and returns outwards account was overcast by \$30.
- b) Purchase of furniture was recorded in Furniture repairs account.
- c) Cash sales were debited to sales account and credited to cash account.
- d) Cash purchase of goods for \$2 300 was debited to purchases account as \$3 200 and credited to cash account with \$3 200.

SUMMARY

In this chapter we discussed two types of accounting errors. The first type of errors does not affect the trial balance while the second affects the trial balance. It is essential for learners to be able to describe each type of error so that they can easily classify the errors.

Glossary

Error: is an unintentional mistake that happens during the process of accounting data capture or processing.

Trial balance: is the list of ledger account balances.

END OF CHAPTER QUESTIONS

1. List any **five** errors that will be shown by a trial balance.
2. Name **four** errors that will not be shown by a trial balance.
3. Identify the type of error made in each of the cases below:
 - i) A \$30 cash payment of rent was totally omitted from the books.
 - ii) A credit sale of \$320 to M Mazulu is recorded in the account of N Mazulu.
 - iii) A credit purchase of machinery \$3 100 is recorded in the machinery repairs account

- iv) The sales account is undercast by \$23 while the repairs account is also undercast by \$23.
 - v) A purchases invoice of \$136 is entered in the Purchases day book as \$36.
 - vi) Bank charges of \$85 were debited to the bank account and credited to the bank charges account.
 - vii) The purchases invoice number P002 from C Chiko of \$67 was entered in the books as \$76.
 - viii) A cheque of \$150 paid to M Madubule had been correctly entered in the cashbook but had not been entered in the personal account.
 - ix) The purchases account had been undercast by \$20.
 - x. A cheque of \$23 received from V Dota had been correctly entered in the cashbook but had been debited to V Dota's account.
 - xi) A receipt of \$98 from J Matope was correctly entered in the cashbook but was recorded as \$89 in the personal account.
 - xii) A debtor's account had been wrongly balanced as \$500 instead of \$540.
 - xiii) Goods \$70 returned by a debtor had been debited to his account.
 - xiv) A discount allowed of \$60 had been recorded in the cash book but not entered in the customer's account.
4. a) Copy and complete the following table stating the account to be debited, account to be credited and the subsidiary book used. An example has been done for you.

Transaction	Account to be debited	Account to be credited	Subsidiary book
1. Sold goods on credit to E Earth	E. Earth	Sales	Sales journal
2. Bought office expenses by cheque			
3. Bought a motor van on credit			
4. Owner took cash for personal use			
5. E Earth returned damaged goods			
6. Bought goods on credit from Small			
7. Paid for goods out of petty cash			
8. Owner took goods for private use			

vii) Complete the following table. Indicate with a tick (✓) whether each item is an asset or liability. The first item has been completed as an example.

	Asset	Liability
Office equipment	✓	
Prepaid rent		
Accrued wages		
Bank loan		
Inventory of goods for resale		
Inventory of stationery for office use		
Bank overdraft		

FINANCIAL STATEMENTS**Objectives**

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

- define income statements
- explain the need for income statements
- draw up income statements
- define statements of financial position
- prepare statements of financial position

KEY WORDS

- income statement
- statement of financial position

Introduction

Now that most of the bookkeeping tasks have been learnt, we now move on to the reporting part of the course. The accountant needs to report to the owners of the business periodically and reporting is by preparation of financial statements. These are made up of the Income statement and the Statement of financial position. These statements can also be referred to as the final or **end-of-year** accounts.

Financial statements are prepared for the following reasons:

- for the purposes of computing government tax,
- it is a requirement by the government,
- to show the financial position of the business,
- to show the financial performance of the business.

Income statement

The income statement is a statement that is prepared to show the profitability of the business. The owners need to know whether their business is making some profit or is loss making. This knowledge will help them to make appropriate decisions concerning their investment.

The income statement can be prepared in either the horizontal or vertical formats. However, horizontal presentation is outdated. We shall only use the vertical formats in this book.

The income statement is prepared for the following reasons:

- for the purposes of computing government tax,
- to measure the performance of the business,
- to calculate net profit or loss for the period,
- for comparison purposes.

The income statement comprises of two sections namely the:

- a) trading account
- b) profit and loss account.

Trading account

This section compares the revenue or sales made against the cost incurred in earning the revenue before accounting for operational expenses. It is used to calculate gross profit or gross loss.

HORIZONTAL FORMAT OF TRADING ACCOUNT

Getsi Trading account for the year ended 31 December 2020					
	\$	\$		\$	\$
Opening inventory		X	Sales	X	
<i>add</i> Purchases	X		<i>less</i> Sales returns	X	
Carriage inwards	X		Net sales/Turn over		X
Import duty	X		Gross loss		X
	X				
<i>less</i> Returns outwards	X	X			
Cost of goods available for sale		X			
<i>less</i> Closing inventory		X			
Cost of goods sold		X			
Gross profit		X			
		X			X

VERTICAL FORMAT OF TRADING ACCOUNT

Charlie's Trading account for the year ended 31 December 2020			
	\$	\$	\$
Sales			X
<i>less</i> Sales returns			X
Turnover			X
<i>less</i> <u>Cost of goods sold</u>			
Opening inventory		X	
<i>add</i> Purchases	X		
Carriage inwards	X		
	X		
<i>less</i> Returns outwards	X	X	
Cost of goods available for sale		X	
<i>less</i> Closing inventory		X	X
Gross profit/(loss)			X/(X)

Example

Kadewere's trial balance on 31 December 2018 is given below. Use it to prepare a trading account in both the horizontal and vertical format.

Kadewere's Trial balance as at 31 December 2018

	\$	\$
Sales		20 000
Purchases	16 200	
Purchases returns		2 100
Inventory	1 300	
Buildings	6 000	
Rent paid	3 400	
Drawings	1 200	
Sales returns	1 700	
Stationery	2 100	
Wages	9 000	
Commission receivable		4 800
Discount allowed	1 600	
Discount received		800
Capital		14 800
	<u>42 500</u>	<u>42 500</u>

Additional information

- Inventory on 31 December 2018 is valued as \$1 400.

Solution

Horizontal format

Kadewere's Trading account for the year ended 31 December 2020					
	\$	\$		\$	\$
Opening inventory		1 300	Sales	20 000	
add Purchases	16 200		less Sales returns	1 700	
less Purchases returns	2 100		Net sales/Turnover		18 300
Net purchases		14 100			
Cost of goods available for sale		15 400			
less Closing inventory		1 400			
Cost of goods sold		14 000			
Gross profit		4 300			
		18 300			18 300

Vertical format

Kadewere's Trading account for the year ended 31 December 2018			
	\$	\$	\$
Sales			20 000
less Sales returns			1 700
Turnover			18 300
less <u>Cost of goods sold</u>			
Opening inventory		1 300	
add Purchases	16 200		
less Purchases returns	2 100	14 100	
Goods available for sale		15 400	
less Closing inventory		1 400	14 000
Gross profit			4 300

Turnover

This is net sales and is found by deducting sales returns from sales.

Cost of goods sold

This is the value of goods sold. It is found by adding opening inventory to net purchases and then deducting inventory at hand on the last day of business.

Gross profit

This is the excess of turnover to cost of goods sold. If the cost of goods sold is more than turnover, the result is gross loss.

Trial balance as at 31 December 2018

	\$	\$
Sales		30000
Purchases	20 100	
Returns outwards		2100
Inventory	2 400	
Furniture	8 000	
Rent paid	3 400	
Drawings	2 000	
Returns inwards	1 700	
Electricity	2 100	
Wages	9 000	
Interest receivable		3800
Insurance	2 600	
Discount received		800
Capital		14600
	<u>51 300</u>	<u>51300</u>

Additional information

- Closing inventory is \$3 000

Exam note!

- *The vertical method is used for presentations but knowledge of the horizontal method will help learners have an edge in multiple choice questions which require double entry techniques.*

Task 5.1

Prepare a trading account from the trial balance to the left in:

- a) Horizontal format
- b) Vertical format

PROFIT AND LOSS ACCOUNT

Profit and loss account is the section of the income statement where net profit or loss is calculated. This is done by deducting total expenses from gross income and other income. If total income exceeds total expenses the result is net profit. Net loss happens when expenses exceed the income.

Horizontal format

Diana's Profit and loss account for the year ended 31 December 20XX

	\$	\$		\$	\$
<i>less</i> Expenses			Gross profit		X
Carriage outwards	X		<i>add</i> <u>Other income</u>		
Electricity	X		Discount received	X	
Rent	X		Commission received	X	
Stationery	X		Interest received	X	X
Wages	X				X
Interest payable	X		Net loss		X
Insurance	X				
Discount allowed	X				
Total expenses		X			
Net profit		X			
		X			X

Vertical format

Diana's Profit and loss account for the year ended 31 December 2020

	\$	\$	\$
Gross profit/(loss)			X/(X)
<i>add</i> <u>Other income</u> :			
Interest received			X
Profit on sale of vehicle			X
Total income			X
<i>less</i> <u>Expenses</u>			
Rent paid		X	
Discount allowed		X	
Interest paid		X	
Depreciation		X	
Wages		X	
Carriage outwards		X	X
Net profit/(loss)			X/(X)

Example

We are now going to prepare a profit and loss account for the year ended 31 December 2018.

Horizontal format

Kadewere's Profit and loss account for the year ended 31 December 2018

	\$	\$		\$	\$
<i>less</i> <u>Expenses</u>			Gross profit		4 300
Rent paid	3 400		<i>add</i> <u>Other income</u>		
Stationery	2 100		Discount received	800	
Wages	9 000		Commission received	4 800	5 600
Discount allowed	1 600				9 900
Total expenses		16 100	Net loss		6 200
		16 100			16 100

Vertical format

Kadewere's Profit and loss account for the year ended 31 December 2018

	\$	\$	\$
Gross profit			4 300
add <u>Other income</u> :			
Discount received		800	
Commission received		4 800	5 600
Total income			9 900
less <u>Expenses</u>			
Rent paid		3 400	
Discount allowed		1 600	
Stationery		2 100	
Wages		9 000	16 100
Net loss			6 200

Task 5.2

Go into pairs and use task 5.1 to prepare a profit and loss account.

Combined income statement

Now let us prepare the income statement in the earlier example using the vertical format.

- *Remember the format below for a combined profit and loss account!*

Kembo's Income statement for the year ended 31 December 20XX

	\$	\$	\$
Sales			X
<i>less</i> Sales returns			X
Turnover			X
<i>less</i> <u>Cost of goods sold</u>			
Opening inventory		X	
<i>add</i> Purchases	X		
Carriage inwards	X		
	X		
<i>less</i> Returns outwards	X	X	
Cost of goods available for sale		X	
<i>less</i> Closing inventory		X	
Cost of sales			X/(X)
Gross profit/(loss)			
<i>add</i> <u>Other income:</u>			
Interest received			X
Discount received			X
Profit on sale of vehicle			X
Total income			X
<i>less</i> <u>Expenses</u>			
Rent paid		X	
Discount allowed		X	
Interest paid		X	
Depreciation		X	
Wages		X	
Carriage outwards		X	X
Net profit/(loss)			X/(X)

Applying the question to the format above, you need to only used aspects whose data will have been provided in the question. The other items are ignored when not included in the question data. The solution will be as below.

Kadewere's Income statement for the year ended 31 December 2018

	\$	\$	\$
Sales			20 000
<i>less</i> Sales returns			1 700
Turnover			18 300
<i>less</i> <u>Cost of goods sold</u>			
Opening inventory		1 300	
<i>add</i> Purchases	16 200		
<i>less</i> Returns outwards	2 100	14 100	
Goods available for sale		15 400	
<i>less</i> Closing inventory		1 400	14 000
Gross profit/(loss)			4 300
<i>add</i> <u>Other income:</u>			
Commission receivable			4 800
Discount received			800
Total income			9 900
<i>less</i> <u>Expenses</u>			
Rent paid		3 400	
Discount allowed		1 600	
Stationery		2 100	
Wages		9 000	16 100
Net profit/(loss)			(6 200)

Note

➤ *The number in brackets () stands for a loss.*

Comprehensive example

We are going to prepare an income statement using information given below in vertical format. Remember we said the examiner favours this format!

Trial balance as at 31 December 2018

<i>Account</i>	<i>Debit \$</i>	<i>Credit \$</i>
Purchases	15 000	
Capital		15 610
Bank	9 000	
Sales		20 500
Carriage inwards	900	
Carriage outwards	1 200	
Returns inwards	550	
Returns outwards		840
Cash	400	
Inventory: 1 Jan 2018	1 200	
Payables		8 400
Receivables	6 500	
Insurance	2 600	
Electricity	1 800	
Commission paid	600	
Discount allowed	900	
Discount received		1 700
Stationery	800	
Wages	5 600	
Totals	47 050	47 050

Additional information:

- a) Closing inventory is valued at \$2 600

Solution

Income statement for the year ended 31 December 2018

	\$	\$	\$
Sales			20 500
<i>less</i> Sales returns			550
Turnover			19 950
<i>less</i> <u>Cost of goods sold</u>			
Opening inventory		1 200	
<i>add</i> Purchases	15 000		
Carriage inwards	900		
	15 900		
<i>less</i> Returns outwards	840	15 060	
Cost of goods available for sale		16 260	
<i>less</i> Closing inventory		2 600	13 660
Gross profit			6 290
<i>add</i> <u>Other income:</u>			
Discount received			1 700
Total income			7 990
<i>less</i> <u>Expenses</u>			
Carriage outwards		1 200	
Discount allowed		900	
Insurance		2 600	
Electricity		1 800	
Commission paid		600	
Stationery		800	
Wages		5 600	13 500
Net loss			5 510

Task 5.3

Prepare the income statement of Munashe from the trial balance below.

Munashe's Trial balance as at 31 December 2018

	\$	\$
Purchases	9 000	
Capital		11 810
Bank	6 000	
Sales		14 500
Carriage inwards	900	
Carriage outwards	1 200	
Returns inwards	550	
Returns outwards		840
Cash	1 400	
Inventory: 1 Jan 2018	1 200	
Payables		9 400
Receivables	6 500	
Insurance	2 600	
Electricity	1 800	
Rent paid	600	
Discount allowed	900	
Discount received		1 700
Stationery	800	
Wages	5 600	
Rent received		800
	39 050	39 050

Additional information:

Closing inventory was valued as \$4 000

Task 5.4

Using a search engine of your choice:

- a) Find at least six reasons for preparing an income statement.
- b) Compare and discuss your findings with those of your colleagues.

Task 5.5

The trial balance given below was derived in the example in Chapter 3. Go into groups and prepare an income statement in vertical format.

Jonah Murova's trial balance as at 31 January 2020

<i>Account</i>	<i>Debit \$</i>	<i>Credit \$</i>
Capital		20 000
Bank	8 300	
Purchases	9 200	
Delivery vans	11 400	
Nissan Zimbabwe		6 400
Computers	8 300	
Wisteck Computers		8 300
Sales		8 100
Machera Wholesalers		3 200
Cash	1 300	
Rent	700	
Wages	5 000	
Drawings	1 200	
Insurance	600	
Totals	46 000	46 000

Additional information:

- Closing inventory was valued as \$600

Statement of financial position

The statement of financial position is prepared to show the financial position of the business. The financial position shows the status of the business's resources and how they have been funded. Both non-current and current resources are listed. The source of funds in the form of capital, non-current and current liabilities are also shown. According to the accounting equation, the two should be equal.

Remember the accounting equation is given as:

$$\text{ASSETS} = \text{CAPITAL} + \text{LIABILITIES}$$

The purpose of a statement of financial position

- To show what the owner invested in the business,
- To show the assets and liabilities of the business,
- To show the financial position of the business.

Example 5.2

Let us now use this to prepare the statement of financial position for Nesta Marley whose trial balance is given below.

Trial balance as at 31 December 2018

	DR \$	CR \$
Purchases	15 000	
Capital		33 610
Bank	9 000	
Sales		20 500
Carriage inwards	900	
Carriage outwards	1 200	
Returns inwards	550	
Returns outwards		840
Cash	400	
Inventory: 1 Jan 2018	1 200	
Payables		8 400
Receivables	6 500	
Insurance	2 600	
Electricity	1 800	
Commission paid	600	
Discount allowed	900	
Discount received		1 700
Stationery	800	
Wages	5 600	
Buildings	10 000	
Vehicles	8 000	
	65 050	65 050

Additional information:

- a) Closing inventory was valued at \$2 600
- b) Net loss was calculated as \$5 510

VERTICAL FORMAT

Fish Hove's Statement of financial position as at 31 December 2019

	Cost	Acum. Deprecia- tion	Net Book Value
<u>Non-current assets</u>	\$	\$	\$
Land and buildings	X	X	X
Furniture	X	X	X
Vehicles	X	X	X
	X	X	X
<u>add Current assets</u>			
Inventory		X	
Receivables		X	
Prepayments		X	
Bank		X	
Cash		X	X
Total assets			X
<u>Equity and liabilities</u>			
Financed by:			
Opening Capital			X
<i>add</i> Net profit/less Net loss			X/(X)
			X
less Drawings			(X)
Closing Capital			X
<i>add</i> Current liabilities			X
			X
Non-current liabilities			X
			X

Components of the statement of financial position

Non-current assets: These are written in their *order of durability or permanency*. The more durable is written first and the less durable is written last. For each non-current asset, accumulated depreciation should be deducted from the cost to get the net book value. Total net book values should be established. Examples include buildings, furniture and machinery used in the business.

Current assets: These are written in the *order of liquidity*; the most difficult to turn into cash is written first and the cash is written last. Examples include inventory, receivables, prepaid expenses and accrued income.

Equity: Equity is made up of opening capital plus net profit (*net loss is deducted*) and then drawings are deducted.

Current liabilities: These are amounts we owe but should be paid off within the next accounting period. Examples include payables, amounts owed to suppliers and bank overdrafts.

Non-current liabilities: These are amounts owed to outsiders but will be paid after the next accounting period. Examples include bank loans payable after more than 12 months.

Let us now use this to prepare the statement of financial position for Nesta Marley in vertical format below.

Nesta Marley's Statement of financial position as at 31 December 2019

	Cost	Acum Depreciation	Net Book Value
	\$	\$	\$
<u>Non-current assets</u>			
Buildings	10 000	-	10 000
Vehicles	8 000	-	8 000
	18 000	-	18 000
<u>add Current assets</u>			
Inventory		2 600	
Receivables		6 500	
Bank		9 000	
Cash		400	18 500
Total Assets			36 500
<u>Equity and liabilities</u>			
Financed by (Equity):			
Opening Capital			33 610
Less Net loss			5 510
Equity			28 100
<u>add Current liabilities</u>			
Payables			8 400
			36 500

Task 5.6

Working in groups, use your answer to task 5.3 to prepare the statement of financial position for Munashe.

Task 5.7

Use your answer to task 5.5 to prepare the statement of financial position.

SUMMARY

In this chapter we discussed financial statements; the income statement and the statement of financial position. We also discussed the reasons for preparing the financial statements. For both statements we gave and explained the formats used in their preparation. These formats are very important and should be memorised and known. The examiner expects such formats in the examination. Several examples have been given to guide the learner in the learning process.

Glossary

Income statement: a statement prepared to show the business' profitability as a measure of performance.

Liquidity: is the speed at which an asset is converted into cash.

Order of liquidity: this is the order used when writing current assets in the statement of financial position. The most liquid asset is written last while the least liquid is written first.

Order of permanence: this is the order followed when listing non-current assets in the statement of financial position. The most permanent asset is written first while the least permanent is written last.

Statement of financial position: this is the financial position of the business at a given time. It shows the assets and liabilities at the given time.

END OF CHAPTER QUESTIONS

Multiple Choice Questions

- The income statement measures the
 - Profitability of the firm
 - Assets of the firm
 - Liabilities of the firm
 - Size of investment
- Turnover =
 - Sales – Returns inwards
 - Sales – Returns outwards
 - Purchases – Returns inwards
 - Purchases – Returns outwards
- The accounting equation is
 - Assets = Capital - Liabilities
 - Assets = Capital + Liabilities
 - Capital = Assets + Liabilities
 - Liabilities = Capital - Assets
- In the statement of financial position, current assets are arranged in the order of
 - permanence
 - value
 - alphabet
 - liquidity
- Non-current assets are written in order of permanence in the statement of financial position. Alec's non-current assets were Buildings \$45 000, Vehicles \$50 000, and Furniture \$20 000. In which order will Alec write them in the statement of financial position?
 - Vehicles, Buildings, Furniture
 - Furniture, Buildings, Vehicles
 - Buildings, Furniture, Vehicles
 - Buildings, Vehicles, Furniture
- Liquidity is a measure of
 - The permanency of assets
 - The easiness with which current assets become cash
 - The nature of fluids
 - The items in the statement of financial position
- The following are non-current assets except
 - Buildings
 - Furniture
 - Cash
 - Vehicles

Structured Questions

1. Chinotimba's trial balance is given below.

Trial balance as at 31 December 2019.		
	\$	\$
Capital		30 000
Furniture	10 000	
Inventory	1 500	
Buildings	14 000	
Inventory on 1 January 2019	1 000	
Sales		18 000
Purchases	14 000	
Returns outwards		1 100
Returns inwards	700	
Discounts	250	140
Stationery	170	
Rent	370	
Wages and salaries	5 800	
Insurance	1 500	
Accounts payable		4 450
Accounts receivable	3 000	
Drawings	1 400	
	<u>53 690</u>	<u>53 690</u>

Additional notes:

- Closing inventory is valued at \$800

You are required to prepare

- Trading account for year ended 31 December 2019
- Profit and loss account for the year ended 31 December 2019
- Prepare a statement of financial position as at 31 December 2019

2. Mandla Mpfu runs an advertising agency. His financial year ends on 31 March.

He provided the following information on 31 March 2019.

	\$
Motor vehicle at cost	12 480
Provision for depreciation of motor vehicle	5 460
Office equipment at cost	9 800
Provision for depreciation of office equipment	4 410
Revenue	94 060
Wages	42 000
Office expenses	6 250
Commission received	1 050
Rates and insurance	10 000

Required:

Prepare the income statement of Mandla Mpofu for the year ended 31 March 2019.

3. Jabulani Mduduzi had the following trial balance for his first year of business

Trial balance as at 31 December 2019		
<i>Account</i>	DR \$	CR \$
Purchases	15 000	
Capital		15 610
Bank	9 000	
Sales		20 500
Carriage inwards	900	
Carriage outwards	1 200	
Returns inwards	550	
Returns outwards		840
Cash	400	
Inventory: 1 Jan 2019	1 200	
Payables		8 400
Receivables	6 500	
Insurance	2 600	
Electricity	1 800	
Commission paid	600	
Discount allowed	900	
Discount received		1 700
Stationery	800	
Wages	5 600	
	47 050	47 050

	\$
Motor vehicle at cost	12 480
Provision for depreciation of motor vehicle	5 460
Office equipment at cost	9 800
Provision for depreciation of office equipment	4 410
Revenue	94 060
Wages	42 000
Office expenses	6 250
Commission received	1 050
Rates and insurance	10 000

Required:

Prepare the income statement of Mandla Mpofu for the year ended 31 March 2019.

3. Jabulani Mduduzi had the following trial balance for his first year of business

Trial balance as at 31 December 2019		
<i>Account</i>	DR \$	CR \$
Purchases	15 000	
Capital		15 610
Bank	9 000	
Sales		20 500
Carriage inwards	900	
Carriage outwards	1 200	
Returns inwards	550	
Returns outwards		840
Cash	400	
Inventory: 1 Jan 2019	1 200	
Payables		8 400
Receivables	6 500	
Insurance	2 600	
Electricity	1 800	
Commission paid	600	
Discount allowed	900	
Discount received		1 700
Stationery	800	
Wages	5 600	
	47 050	47 050

Additional notes:

The closing inventory was valued at \$2 600

Required:

Prepare the income statement for Jabulani Mduduzi for the year ended 31 December 2019 and the statement of financial position as at that date.

4. Netsai Runesu has given you the following trial balance and asked you to prepare an income statement for the year to 31 December and the statement of financial position as at that date.

Trial balance for Netsai Runesu as at 31 December 2020

	\$	\$
Purchases	7 000	
Capital		9 410
Bank	5 000	
Sales		14 500
Carriage on purchases	200	
Carriage on sales	300	
Returns inwards	250	
Returns outwards		840
Cash	400	
Inventory: 1 Jan 2020	1 200	
Payables		4 400
Receivables	6 500	
Insurance	1 600	
Electricity	500	
Rent	200	
Discount allowed	300	
Discount received		700
Stationery	800	
Wages	5 600	
	29 850	29 850

Additional notes:

- a) Closing inventory was valued at \$1 000

END-OF-YEAR ADJUSTMENTS

Objectives

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

- define accruals and prepayments
- show adjustments for accruals and prepayments in end of year financial statements.
- define depreciation
- state causes of depreciation
- calculate depreciation using the given methods

KEY WORDS

- Prepayments
- Accruals
- Depreciation
- Reducing balance method
- Straight line method
- Revaluation method

Introduction

The subject of Financial Accounting follows rules or regulations which make it possible for suitably educated people to easily understand or follow what is being reported on. Some of the rules or regulations followed are called accounting concepts. One critical concept is the **accrual** or **matching concept**. It states that a transaction such as a sale or a purchase is recognised at the time that it takes place and not the time when money is paid or received. Thus a credit sale is recognised in the year that it takes place even though money may be received in a future period. Some amounts are received earlier than the periods to which they relate.

This concept gives rise to amounts that remain unpaid or unreceived at the beginning or end of a period. Amounts that remain unpaid at the end of a period to which they relate are referred to as **accruals** while those that are received earlier than the periods to which they relate are called **prepayments**.

Prepayments and accruals for income and expenses

Prepaid expenses

These are expenses which are paid during this period but relate to the next period. Thus, they are not expenses for the current period. They will only be expenses in the next period. When calculating the expenses for this period in the income statement, amounts prepaid are deducted from the total paid in this period. The prepaid amounts become assets which are shown under the heading of **current assets** in the statement of financial position.

Example

During the year ended 31 December 2019, \$4 300 had been paid for insurance. On 31 December 2019, \$180 had been prepaid for insurance.

Required

- a) Prepare the insurance account.
- b) Show the treatment of prepaid insurance in
 - i) Income statement
 - ii) Statement of financial position

Solution

a)

Insurance account

2019				\$	2019			\$
Dec	31	Bank	CB	4 300	Dec	31	Income statement	4 120
							Prepaid	180
				4 300			c/d	4 300
2020								
Jan	1	Prepaid	b/d	180				

b) i)

Income statement extract for year ended 31 December 2019

	\$	\$	\$
Gross profit			X
<i>less Expenses</i>			
Insurance	4 300		
less Prepaid	180	4 120	

ii)

Statement of financial position extract as at 31 December 2019

	Cost	Acumm. De- preciation	Net Book Value
	\$	\$	\$
<u>Current assets</u>			
Prepaid insurance		180	

Accrued expenses

These are expenses which have been incurred in the current period but have not been paid for. In the income statement such amounts are added back to arrive at the total expenses incurred in the current period. In the statement of financial position, such amounts are shown under **current liabilities**.

Example

During the year that ended 31 December 2017, \$3 200 was paid for rent. At 31 December 2017, \$35 was accrued for rent.

You are required to:

- a) Prepare the rent account and balance it at 31 December 2017.
- b) Show how the accrued rent is treated in
 - i) Income statement
 - ii) Statement of financial position

Solution

a)

Rent account

2017				\$	2017			\$
Dec	31	Bank	CB	3200	Dec	31	Income statement	3235
		Accrued	c/d	35				
				3235				3235
					2018			
					Jan	1	Accrued	b/d
								35

b) i)

Income statement extract for year ended 31 December 2017

	\$	\$	\$
Gross profit			X
<i>less Expenses</i>			
Rent	3200		
<i>add Accrued</i>	35	3235	

ii)

Statement of financial position extract as at 31 December 2017

	Cost	Acumm. Depreciation	Net Book Value
	\$	\$	\$
<u>Current liabilities</u>			
Accrued rent		35	

Prepaid income

Prepaid income refers to income that has been received in the current period but the product or service has not been given to the customer. This income is also called income in advance. The income is **deducted** from the income received when preparing the income statement. When preparing the statement of financial position prepaid income is shown under **current liabilities**.

Example

During the year ended 31 December 2017, \$6 500 was received for school fees by Lockhorns High School. Of that amount, \$470 was paid in advance.

You are required to show how the fees paid in advance will be treated in:

- income statement
- statement of financial position.

Solution

a)

Income statement extract for year ended 31 December 2017

	\$	\$	\$
<u>Income</u>			
Fees		6 500	
Less Prepaid Fees		470	6 030

b)

Statement of financial position extract as at 31 December 2017

	Cost	Acumm. Depreciation	Net Book Value
	\$	\$	\$
<u>Current liabilities</u>			
Prepaid fees		470	

Accrued income

Accrued income is income that has been earned during the current period but has not been received. Such income is also called outstanding income or owing income. When preparing the income statement, such income is **added** to the income that has been received to calculate the total income earned for the year. When preparing the statement of financial position, accrued income is shown under **current assets**.

Example

During the year ended 31 December 2020, \$7 400 was received for rent. On 31 December 2020 \$620 was outstanding.

You are required to show how outstanding rent receivable would be shown in:

- a) Income statement
- b) Statement of financial position

Solution

a)

Income statement extract for year ended 31 December 2020			
	\$	\$	\$
<u>Income</u>			
Rent receivable		7 400	
<i>add</i> Outstanding rent		620	6 030

b)

Statement of financial position extract as at 31 December 2020			
	Cost	Acumm. Depreciation	Net Book Value
	\$	\$	\$
<u>Current assets</u>			
Outstanding rent receivable		620	

Task 6.1

During the year ended 31 December 2017, \$2 500 was paid for insurance. At the end of the year \$50 had been accrued for insurance. You are required to calculate the amount incurred for insurance in the year.

Task 6.2

During the year ended 31 December 2018, rent of \$1 300 was paid by cheque. At the end of the year \$70 had accrued for rent. You are required to calculate the amount incurred for rent during the year.

Task 6.3

During the year ended 31 December 2019, \$2 400 was received for commission. At 31 December \$120 was prepaid for commission. Calculate the amount for commission receivable in the year.

Comprehensive example

Kamunhu's trial balance as at 31 December 2017

	\$	\$
Sales		60000
Purchases	40000	
Returns inwards	3200	
Returns outwards		2400
Inventory: 1 January 2017	4200	
Freight charges	4700	
Customs duty	3100	
Cash	1600	
Bank overdraft		5200
Rent paid	4400	
Receivables	6200	
Payables		6200
Insurance	5100	
Stationery	3900	
Discount allowed	2800	
Discount received		1200
Furniture	15000	
Wages	4300	
Loan from QM Bank - payable 30 June 2023		15000
Interest receivable		200
Drawings	600	
Capital		8900
	<u>99100</u>	<u>99100</u>

Additional information:

- i) Inventory on 31 December 2017 was valued as \$5 200
- ii) Rent was accrued by \$500
- iii) \$1 200 was prepaid for insurance
- iv) \$800 is owing for wages.

Required to prepare:

- a) an income statement for the year ended 31 December 2017
- b) a statement of financial position as at 31 December 2017.

Solution

a)

Kamunhu Income statement for the year ended 31 December 2017

	\$	\$	\$
Sales			60 000
<i>less</i> Returns inwards			3 200
Turnover			56 800
<i>less</i> <u>Cost of goods sold</u>			
Opening inventory		4 200	
<i>add</i> Purchases	40 000		
Freight charges	4 700		
<i>Customs duty</i>	3 100		
	47 800		
<i>less</i> Returns outwards	2 400	45 400	
Cost of goods available for sale		49 600	
<i>less</i> Closing inventory		5 200	44 400
Gross profit			12 400
<i>add</i> <u>Other income</u>			
Discount received		1 200	
<i>Interest receivable</i>		200	1 400
Gross income			13 800
<i>less</i> <u>Operating Expenses</u>			
Rent (4400 + 500)		4 900	
Insurance (5100 - 1200)		3 900	
Stationery		3 900	
Discount allowed		2 800	
<i>Wages (4300 + 800)</i>		5 100	20 600
Net loss			6 800

b)

Kamunhu Statement of financial position as at 31 December 2017

	Cost	Acumm. Deprecia-tion	Net book Value
<u>Non-current assets</u>	\$	\$	\$
Furniture	15000	-	15 000
<i>add</i> <u>Current assets</u>			
Inventory		5 200	
Receivables		6 200	
Prepaid insurance		1 200	
Cash		1 600	14 200
Total assets			29 200
<u>Equity and Liabilities</u>			
<u>Financed by :</u>			
Capital			8 900
<i>less</i> Net loss			6 800
			2 100
<i>less</i> Drawings			600
			1 500
Equity			
<i>add</i> <u>Liabilities</u>			
<u>Current Liabilities</u>			
Payables		6 200	
Bank overdraft		5 200	
Accruals: Rent	500		
Wages	800	1 300	12 700
<u>Non-current liabilities</u>			
Loan from QM Bank			15 000
			29 200

Task 6.5

Trial balance for M Chunga as at 31 December 2015

	\$	\$
Capital		33 950
Sales		25 600
Purchases	16 700	
Drawings	3 100	
Inventory: 1 January 2015	4 350	
Premises	15 000	
Motor vehicles at cost	6 000	
Furniture and fittings at cost	4 800	
Debtors	5 330	
Creditors		3 140
Discounts	320	860
Insurance	620	
Salaries and wages	4 730	
Motor expenses	420	
Rent and rates	540	
Bank	1 040	
Cash	600	
	<u>63 550</u>	<u>63 550</u>

Additional information:

- i) Inventory at 31 December 2015 was valued at \$4 950
- ii) Rates paid in advance amounted to \$40
- iii) Salaries and wages outstanding were \$315
- iv) Insurance was prepaid by \$70

You are required to:

- a) Prepare the income statement account for the year ended 31 December 2015
- b) Prepare the statement of financial position as at 31 December 2015

Task 6.6

The trial balance of Supikai Murombo and the additional information at 31 December 2018 are as follows:

Trial balance for as at 31 December 2018		
	\$	\$
Capital		45 000
Sales		34 200
Purchases	21 000	
Drawings	4 033	
Inventory: 1 January 2018	5 200	
Commission receivable		6 043
Premises	20 000	
Motor vehicles at cost	7 600	
Furniture and fittings at cost	4 800	
Debtors	6 500	
Creditors		4 500
Discounts	1 320	1 860
Insurance	2 620	
Salaries and wages	14 730	
Motor expenses	420	
Rent and rates	540	
Bank	1 040	
Electricity payable	1 200	
Cash	600	
	<u>91 603</u>	<u>91 603</u>

Additional information:

1. Inventory on 31 December 2018 was valued as \$6,200
2. Electricity had accrued by \$230
3. Insurance was prepaid by \$340
4. \$130 was owing for rent

You are required to:

- a) Prepare the trading and profit and loss account for the year ended 31 December 2018
- b) Prepare the balance sheet as at 31 December 2018

Depreciation of non-current assets

Depreciation

Depreciation can be described as the amount by which a non-current asset loses value. It is regarded as the cost on non-current assets consumed during the period it is used by the business.

Causes of depreciation:

- Economic factors:

Economic factors will cause the scrapping of assets which are still in good working order. Examples here are;

- Obsolescence – this is when non-current assets become out-dated due to new improved products being developed. Remember manual typewriters used to have a lot of value in the 1980s but due to computers they have drastically lost value.
- Inadequacy – this is when a non-current asset becomes too small for the required job. For example, an ox-drawn plough has more value when used to plough small areas like one hectare. The same asset becomes of little value when ploughing huge areas like 100 hectares.

- Physical factors:

- Wear and tear – non-current assets like machinery and furniture wear out as a result of use.
- Erosion, rot, rust, decay – the asset of land erode as a result of weather conditions while metals are affected by rust and wood rots away due to natural conditions.

- Time:

Some assets deplete due to the passage of time. For example leases lapse after the agreed time. Inventions also have time limits before their patents expire. For such assets we usually use the term *amortisation* in place of depreciation.

- Depletion:

This is the wasting away of non-current assets due to their use or extraction. The asset depreciated or wastes away by the value of the asset extracted. Examples of such assets are natural resources such as oil wells, quarries and mines.

Depreciation can also be seen as the systematic allocation of the cost price of the asset over its economic life. **Economic life** of an asset is the period (in years) the asset is expected to be used economically by the organisation. This value lost becomes an expense for the organisation.

Methods for estimating depreciation expense

There are many methods used to estimate this value lost by a non-current asset. Three of the common methods are the *Straight Line Method*, the *Reducing (or Diminishing) Balance Method* and the *Revaluation Method*.

The Straight Line Method

It is used for assets whose useful lives can be estimated with accuracy. The method is also called the fixed instalment method since a fixed amount of the cost price is written off each year. The original cost is spread over the economic life after deducting the estimated selling price. The estimated selling price is also called the scrap value or residual value.

$$\text{Provision for depreciation} = \frac{\text{Original cost} - \text{Residual value}}{\text{Estimated life span in years/useful life}}$$

Notes

- Original cost is the cost incurred to acquire the asset.
- Estimated life span is the expected number of years the business will use the asset economically.
- Residual value is the amount the asset is expected to be sold for when it is disposed of after its life span.

Example 6.2

L Maonei bought a machine on 1 January 2015 for \$12 000. He expects the assets to be used economically for four years after which it will be sold for \$1 000. Calculate the amount to be provided for as depreciation each year if Maonei uses the straight line method.

Answer

$$\begin{aligned}\text{Provision for depreciation} &= \frac{\text{Original cost} - \text{Residual value}}{\text{Number of years assets is expected to be used}} \\ &= \frac{12\,000 - 1\,000}{4 \text{ years}} \\ &= \underline{\$2\,750}\end{aligned}$$

Example using a percentage

Tsotsi bought a grinding mill for \$20 000 on 1 January 2016. He depreciates machinery at 20% on cost. Calculate the depreciation charge.

Solution

$$\begin{aligned}\text{Depreciation charge} &= \frac{20}{100} \times \$20\,000 \\ &= \underline{\$4\,000}\end{aligned}$$

The Reducing Balance Method

This method is also called the *Diminishing Balance Method*. A fixed percentage is written down from the book value each year. Book value refers to the amount remaining after total depreciation is deducted from the original cost of the asset.

Example 6.3

L Maonei bought a machine on 1 January 2015 for \$12 000. He expects the asset to be used economically for four years. Calculate the amount to be provided for as depreciation each year if Maonei uses the reducing balance method at the rate of 10%.

SUMMARY

In this chapter we discussed events that happen after the extraction of the trial balance at the end of the accounting period. These give rise to adjustments to the accounts. Such adjustments are essential as they will help in giving true and fair view of the accounts. We discussed the accruals and prepayments of income and expenses as well as depreciation of non-current assets.

Glossary

Accrued expenses: these are expenses incurred in the current period but have not been paid for.

Depreciation: the loss in value in a non-current asset which is treated as an expense in the current period.

Prepaid expenses: these are expenses paid in the current period but they are for a future period.

Straight line method: a method that charges the same or a fixed amount of depreciation every year.

Reducing balance method: a method which charges more depreciation in earlier years compared to later years

Revaluation method: a method used to depreciate non-current assets of smaller value by comparing their value at the end of a period and the beginning of the period.

END OF CHAPTER QUESTIONS

Multiple choice questions

1. A debit balance on the rates account after the transfer to the Income Statement indicates
 - A. An asset and a prepayment
 - B. A liability and an accrual
 - C. An asset and an accrual
 - D. A liability and a prepayment
2. Which one of the following is a current liability?
 - A. Electricity accrued
 - B. Loan
 - C. Debtor for rent
 - D. Rates repaid
3. A machine costing \$1 000 is expected to have a useful life of 5 years and a residual value of \$100. Using the straight line method of depreciation, the depreciation charge for the year is
 - A. \$200
 - B. \$100
 - C. \$220
 - D. \$180
4. A machine was purchased on 1 January 2011 for \$1 250. Depreciation is charged at 20% using the reducing balance method. Calculate the depreciation charge for the year ended 31 December 2013.
 - A. \$750
 - B. \$512
 - C. \$160
 - D. \$640
5. The charge for depreciation in the income statement will reduce
 - A. Expenses
 - B. Profit
 - C. Current assets
 - D. Bank balance

Section B Structured questions

- 6.1 Define the term **depreciation**.
- 6.2 List three methods used to calculate depreciation.
- 6.3 A business purchased a delivery vehicle for \$50 000 cash. They have decided to use the vehicle for four years and sell it for \$10 000 after its economic life span. Use the straight line method to calculate the annual depreciation charge.
- 6.4 Describe the **revaluation method** of calculating depreciation and suggest the most appropriate non-current assets for which this method is applicable?

- 6.5 Musa bought a lorry on 1 January 2017 for \$30 000. It is Musa's policy to depreciate vehicles at 20% reducing balance method. Calculate the
- depreciation charges for each of the first 2 years
 - net book value of the vehicle after 2 years
- 6.6 Dhumukwa bought a motor vehicle \$4 200 cash on 1 January 2018. He depreciates his vehicles at the rate of 20% per annum using reducing balance method.
- You are required to calculate:
- Depreciation charge for the year ended 31 December 2018.
 - The net book value of the motor vehicle at the years ending 31 December 2018 and 2019.
- 6.7 Mudhara bought machinery on credit from Naison Ltd on 1 April 2016 for \$2 200. He expects the machinery to be used for 4 years after which it could be sold for \$200. Using the straight line method,
- You are required to
- Calculate the depreciation charge on 31 March 2017.
 - Calculate the net book value on 31 March 2017
- 6.8 Mudhara Achauya was advised that he could also depreciate the machinery using a diminishing balance method at 20% of net book value (NBV). If the cost was \$2 200 on purchase at 1 April 2016,
- Calculate the depreciation amounts for years ending 31 March 2017 and 2018
 - What will the net book value of the machinery be on 31 March 2017?
- 6.9 Answer the following questions
- Define the term depreciation.
 - List three causes of depreciation.
 - Identify ways in which depreciation can be slowed down.
 - Give three methods used to calculate depreciation.
- 6.10 Hunter Ltd bought a motor van for \$200 000 on 1 January 2020. Hunter Ltd depreciates its vehicles at 10% per annum using straight line method. Calculate the depreciation charge each of the years ending 31 December 2021, 2022 and 2023.

CAPITAL AND REVENUE EXPENDITURE

Objectives

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

- define capital expenditure and revenue expenditure
- differentiate capital expenditure from revenue expenditure

KEY WORDS

- Capital expenditure
- Revenue expenditure

Introduction

The expenditure incurred by businesses needs to be correctly classified. Some expenditure is of a revenue nature while other expenditure is of a capital nature. This classification is important since wrong classification may result in profits being wrongly reported in the income statement while in the statement of financial position some assets may be overstated or understated. Let us now look at these terms closely.

CAPITAL EXPENDITURE

This is money spent by a business on purchasing, improving or extending non-current assets. It includes:

- Money used to buy a non-current asset.
- Legal costs incurred in the purchase of non-current assets.
- Costs of carriage of the non-current assets.
- Costs of installing the non-current assets.

These costs will appear as part of non-current assets in the Statement of financial position.

Examples

- (i) \$2 000 used to buy furniture for use by the business.
- (ii) \$30 000 used to build the boys toilet block by Cheziya High School.
- (iii) \$300 used to pay registration fees for the director's car.
- (iv) \$7 000 paid for installing the alarm system at the premises.
- (v) The cost of painting the new boardroom.
- (vi) The wages paid to the builders constructing the new warehouse.

Task 7.1

In groups of four, use any search engine such as www.google.com to identify more examples of capital expenditure.

REVENUE EXPENDITURE

This is money spent on running a business on a day to day basis. This includes:

- Administration expenses.
- Costs of maintaining and running non-current assets.
- Costs of goods purchases for resale. Expenditure is matched against the revenue generated in the period.

If the capital and revenue expenditure are treated wrongly, the profit for the year will be incorrect and the value of assets in the statement of financial position will be inaccurate. It leads to asset and capital values being overstated or understated.

Examples

- i) \$20 paid for fuel for the secretary's car.
- ii) The amount paid for repainting the kitchen.
- iii) The wages paid to the warehouse employees.
- iv) The transport cost of purchases.
- v) The cost of renewing the vehicle insurance.
- vi) The cost of new tyres for the delivery vehicle.
- vii) Repairs to the ceiling.

Task 7.2

In class, discuss the concept of revenue expenditure, giving at least 10 examples of capital expenditure.

Difference between capital and revenue expenditure

Capital expenditure	Revenue expenditure
Shown in statement of financial position	Shown in income statement
Cost to acquire a new non-current asset	Cost to restore the condition of an asset
Cost incurred for the first time on a non-current asset	Cost incurred not for the first time on a non-current asset
A non-routine business cost	A routine business cost
Adds value to a non-current asset	Restores value to a non-current asset

Task 7.3

Go into groups of four and look up for the differences between capital and revenue expenditure using any search engine of your choice. Write the differences in a table like the one above.

Example

Classify the following transactions into capital and revenue expenditure.

Expenditure	Type of expenditure
Bought a tractor.	Capital
Bought diesel for the tractor.	Revenue
Paid registration fees for the new tractor.	Capital
Repairs to the tractor.	Revenue
Paid for new disc for tractor.	Capital
Bought a new centre pivot for the farm.	Capital
Electricity costs for using the centre pivot.	Revenue
\$2 500 was spent on the pivot as: \$2 000 was for new head lights (an improvement) and \$500 was for the repairs to the centre pivot.	Capital \$1 000 Revenue \$500
Constructed a new guardroom on the farm.	Capital

SUMMARY

Classification of expenditure into capital and revenue categories was the core of this topic. The two classes of expenditure were defined and numerous examples were given. The importance of correctly classifying the expenditure into the right category was discussed in the chapter.

Glossary

Capital expenditure: is the amount incurred or used to acquire non-current assets.

Revenue expenditure: the amount incurred or used on a more routine basis in running the business.

END OF CHAPTER QUESTIONS

Multiple Choice Questions

1. Capital expenditure is
 - A. money spent restoring non-current assets to their original working condition
 - B. money spent on repairing non-current assets on a day to day basis
 - C. money spent on running a business on a day to day basis
 - D. money spent by a business on purchasing, improving or extending non-current assets
2. Revenue expenditure is
 - A. money spent installing non-current assets to their working condition
 - B. money spent on buying non-current assets for use by the business
 - C. money spent on running a business on a day to day basis
 - D. money spent by a business on purchasing, improving or extending non-current assets
3. All the following are examples of capital expenditure except
 - A. Legal costs incurred in the purchase of non-current assets
 - B. Costs of installing the non-current assets
 - C. Costs of raw materials
 - D. Carriage costs on non-current assets
4. All the following are examples of revenue expenditure except
 - A. Cost of purchases
 - B. Wages of workers building the new warehouse
 - C. The cost of repainting the office
 - D. The cost of buying new tyres for the delivery vehicle

Structured Questions

- 7.1 Explain the difference between **capital expenditure** and **revenue expenditure**.
- 7.2 Give **two** reasons why expenditure should be correctly classified.
- 7.3 Show by a tick (✓) the group to which the following expenditures belong.

Type of expenditure	Capital expenditure	Revenue expenditure
Purchase of a taxi operation licence		
Installing a new air conditioning system		
Purchase of a car for the manager		
Fuel for the bus		
Servicing the bus		
Buying a new bus		
Painting a new building		
Repainting an old building		
Wages of workers building a new office		

BANK RECONCILIATION**Objectives**

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

- define bank reconciliation statements
- state the causes of differences between cash book and bank statement balances
- explain the importance of bank reconciliation statements
- prepare bank reconciliation statements

KEY WORDS

- bank statement
- cash book
- updating cash book
- reconciliation statement

Introduction

Businesses keep their money in the form of cash at their premises and some money is kept at the bank for security reasons. Only small amounts are kept as cash. Large sums are kept in bank current accounts. The bank will issue current account holders with cheque books containing cheques. The account holder would draw a cheque each time they would want to pay someone. These days cheques are not frequently used but people pay through bank transfers or any other electronic banking system available in the country of their residence.

Most companies have actually designed policies where all money is banked first before it is used. This makes its accountability easy as the bank periodically issues a statement called a bank statement to the customer. The bank statement will show the details of all money that has been banked into and withdrawn from the current account.

On the other side, companies keep a record of their receipts and payments in the cash book as seen in an earlier chapter. Since the records kept by the bank of money paid into and out of the bank by its clients should be the same (if time difference were ignored) the bank balance is expected to be the same as the balance in the bank column of the cash book. However, due to time difference in the recording of transactions, the balances reported by the bank and the business' cash book may differ. This difference is what the bank reconciliation statement is prepared to address. Thus, a bank reconciliation statement is drawn up to make the balance as per bank statement agree to the balance as per the cash book.

Importance of a bank reconciliation statement

A bank reconciliation statement will:

- help to reveal errors in the cash book and in the bank statement.
- helps to reveal the correct amount in the business bank account.
- enable the correct amount of cash at the bank to be established when preparing the statement of financial position.

Causes of difference in balances

The bank reconciliation statement is prepared to bring the balances in the cash book and the bank statement into agreement. The two balances may differ due to the following reasons:

- Payments and deductions by the bank such as stop orders, bank charges and interest on bank overdraft appearing on the bank statement but not yet on cash book. The business will not have used or entered them in the cash book. Stop orders, bank charges and interest on overdraft are deductions which the bank will effect without informing the business. The business will see these only when they receive the bank statement.
- Amounts received directly by the bank on behalf of the company and not yet appearing in the cash book, for instance, direct deposits. Such amounts will not have been included in the cash book.
- Cheques dishonoured by the bank will appear on the bank statement only. They will not have been entered on the cash book by the business.
- Errors made in the cash book. These errors will mean that the cash book balance will be inaccurate and hence will differ from that appearing on the bank statement.
- Unpresented cheques that have been recorded in the cash book.

Unpresented cheques are cheques issued to suppliers but have not been taken by the supplier to the bank. Thus they will not be appearing on the bank statement.

- Cheques and cash deposited into the bank but not yet appearing on the bank statement. The business will have factored such deposits when calculating the balance but the bank will not have done the same when preparing their bank statement.
- Errors made by the bank which appear on the bank statement. The errors will not be in the cash book and will have to be corrected by the bank so that the balance on the bank statement becomes correct.

Task 8.1

In groups, discuss

- a) the importance of a bank reconciliation statement.
- b) causes for the difference in the cash book and bank statement balances

Preparation procedure

The procedure of preparing the bank reconciliation statement is:

1. Tick off all entries which appear both on cash book and on statement
2. Update the cash book by recording all the unticked entries on the bank statement, e.g. stop orders, bank charges, interest, direct deposits, dishonoured cheques, etc. unticked entries on the debit of the bank statement are recorded on the credit of the cash book while unticked entries on the credit of the statement are entered to the debit of the cash book.
3. Prepare the bank reconciliation statement by accounting for unpresented cheques and deposits not yet on bank statement and/or errors in cash book.
4. Balance as per updated cash book should be made to agree with balance as per bank statement.

Formats of the reconciliation statements

There are two formats that are used depending on the balance on the bank statement or the balance in the cash book. We shall now look at each format.

- a) **If the cash book (bank column) has a debit balance**

Bank reconciliation statement as at 31 December 2020		
	\$	\$
Balance as per Cash Book		X
<i>add</i> <u>Unpresented cheques:</u>		
Cheque x	X	
Cheque y	X	X
		X
<i>less</i> <u>Uncleared deposits:</u>		
Deposit a	X	
Deposit b	X	X
Balance as per Bank Statement		X

- b) **If the cash book has a credit balance, the format becomes:**

Bank reconciliation statement as at 31 December 2020		
	\$	\$
Overdraft as per Cash Book		X
<i>less</i> <u>Unpresented cheques:</u>		
Cheque x	X	
Cheque y	X	X
		X
<i>add</i> <u>Uncleared deposits:</u>		
Deposit a)	X	
Deposit b)	X	X
Overdraft as per Bank Statement		X

Example

B Mugoni's cash book for November 2019 was as follows:

Cash book (bank columns only)							
2019		\$	2019		\$		
Nov	1	Bal b/d	532	Nov	8	Wages (Cheque 01)	250
	3	Sales	125		12	ZESA (Cheque 02)	60
	8	T Turo	200		20	Rent (Cheque 03)	110
	18	L Siziba	150		27	E West (Cheque 04)	100
					30	Balance c/d	487
			<u>1 007</u>				<u>1 007</u>
Dec	1	Bal b/d	487				

The bank statement for the same month was as follows:

Bank statement for the month of November 2019				
2019		Debit	Credit	Balance
		\$	\$	\$
November	1	Balance b/fwd		532 Cr
	2	Standing order: insurance	228	304 Cr
	4	Sales		429 Cr
	11	T Turo - Deposit	200	629 Cr
	12	Wages -Cheque 01	250	379 Cr
	18	Commission earned	50	429 Cr
	26	Direct debit: ZINWA	90	339 Cr
	30	Bank charges	25	314 Cr

Required

- Update the cash book.
- Prepare a bank reconciliation statement.

Solution

Step 1 Compare entries by ticking (✓) all common entries in both the cash book and bank statement. What is on the debit of the cash book will be found on the credit of the bank statement.

Cash book (bank columns only)

2019			\$	2019			\$
Nov	1	Bal b/d	✓532	Nov	8	Wages (Cheque 01)	✓250
	3	Sales	✓125		12	ZESA (Cheque 02)	60
	8	T Tsuru	✓200		20	Rent (Cheque 03)	110
	18	L Siziba	150		27	E West (Cheque 04)	100
	21	P Musa	40		30	Balance c/d	527
			1 047				1 007
Dec	1	Bal b/d	527				

Bank statement for the month of November 2019

2019		Debit	Credit	Balance
		\$	\$	\$
November	1	Balance b/fwd		✓532 Cr
	2	Standing order: insurance	228	304 Cr
	4	Sales		✓125 429 Cr
	11	T Tsuru - Deposit		✓200 629 Cr
	12	Wages -Cheque 01	✓250	379 Cr
	18	Commission earned		50 429 Cr
	26	Standing order: Insurance	90	339 Cr
	30	Bank charges	25	314 Cr

Step 2 Update the cash book

After ticking similar entries, start with the balance b/d on December 1 and use the unticked entries in the bank statement to enter in the cash book. The unticked entries which are in the debit column of the bank statement should be recorded to the credit of the cash book. The entries on the credit of the bank statement are recorded to the debit of the cash book. The updated and balanced cash book would appear as:

Updated Cash book

2019			\$	2019			\$
Nov	30	Bal b/d	527	Nov	30	ZINWA	90
		Commission earned	50			Insurance	228
						Bank charges	25
						Bal c/d	234
			577				577
Dec	1	Bal b/d	234				

Step 3 Bank reconciliation statement preparation

Bank reconciliation statement as at 30 November 2019

	\$	\$
Balance as per updated cash book		234
<i>add</i> <u>Unpresented cheques:</u>		
ZESA - Cheque 02	60	
Rent - Cheque 03	110	
E West - Cheque 04	100	270
		504
<i>less</i> <u>Uncleared Deposits:</u>		
L Siziba	150	
P Musa	40	190
Balance as per bank statement		314

Notes

- *We add unpresented cheques because we had deducted the amounts but the bank has not yet done so.*
- *We then deduct deposits which do not appear in the bank statement because the bank has not yet done the deduction.*
- *By reconciling the two balances we are trying to come to a similar position.*

Class Task

Buhle's cash book for October 20X4 was as follows:

Cash book (bank columns only)							
20X4			\$	20X4			\$
Oct	1	Bal b/d	730	Oct	8	Wages (Cheque 101)	250
	3	Transfer	155		12	Electricity (Cheque 102)	160
	8	V Thandazani	240		20	N Richards (Cheque 103)	210
	18	P Dlodlo	190		27	Edulight (Cheque 104)	120
			1 315		31	Balance c/d	575
Nov	1	Bal b/d	575				1 315

The bank statement for the same month is shown below:

Bank statement for the month of October 20X4

20X4		Debit	Credit	Balance
		\$	\$	\$
October	1			730
	2	228		502
	4		155	657
	11		190	847
	12	250		597
	15	210		387
	18		50	437
	26	190		247
	30	25		222

Required

- Update the cash book.
- Prepare a bank reconciliation statement.

Example of an overdraft

Amon Phiri had the following cash book.

Cash book (Bank columns only)									
2018				\$	2018				\$
May	2	C Chidhakwa	SL	1480	May	1	Balance	b/d	5010
	6	Sakunda Garage	SL	856		7	T Mhosva	PL	830
	15	Baroda Stationers	SL	430		10	N Ndhlovu	PL	320
	31	Balance	c/d	4694		18	R Sigula	PL	1300
				<u>7460</u>					<u>7460</u>

He also received the bank statement below from his bank.

Bank statement for the month of May 2018

		Debit	Credit	Balance
		\$	\$	\$
2018				
May	1 Balance b/d			5 010 Dr
	4 Deposit		1 480	3 530 Dr
	7 Cheque book	10		3 540 Dr
	8 Cheque 462	830		4 370 Dr
	9 Deposit		856	3 514 Dr
	21 Cheque 463	320		3 834 Dr
	25 Stop order - Econet	90		3 924 Dr
	30 Bank charges	26		3 950 Dr

Required

- Update the cash book.
- Prepare a bank reconciliation statement.

Solution

Tick common entries.

Cash book (Bank columns only)

2018				\$	2018				\$
May	2	C Chidhakwa	SL	1480✓	May	1	Balance	b/d	5010✓
	6	Sakunda Garage	SL	856✓		7	T Mhosva	PL	830✓
	15	Baroda Stationers	SL	430		10	N Ndhlovu	PL	320✓
	31	Balance	c/d	4 694		18	R Sigula	PL	1300
				<u>1300</u>					<u>1300</u>

Bank statement

	Debit	Credit	Balance
2018	\$	\$	\$
May 1 Balance b/d			5 010 Dr✓
4 Deposit		1480✓	3 530 Dr
7 Cheque book	10		3 540 Dr
8 Cheque 462	830✓		4 370 Dr
9 Deposit		856✓	3 514 Dr
21 Cheque 463	320✓		3 834 Dr
25 Stop order - Econet	90		3 924 Dr
30 Bank charges	26		3 950 Dr

a)

Updated Cash book (Bank columns only)

2018	\$	2018	\$
May 2 Balance c/d	4 820	May 1 Balance b/d	4 694
		7 Cheque book PL	10
		10 Econet PL	90
		18 Bank charges PL	26
	4 820		4 820

b)

Bank reconciliation statement as at 31 May 2018

	\$	\$
Overdraft as per cash book		4 820
less <u>Unpresented cheques:</u>		
R Sigula		1 300
		3 520
add <u>Uncleared cheques:</u>		
Baroda Stationers		430
Overdraft as per bank statement		3 950

SUMMARY

In this chapter we discussed the importance of preparing a bank reconciliation statement. Causes of the difference in the balance of the cash book and the bank statement were discussed. The procedure for preparing the bank reconciliation statement was explained. Easy to follow examples were given in the chapter.

Glossary

Unpresented cheque: a cheque issued to a supplier but not yet taken or presented to the bank by the payee.

Uncleared deposit: an amount deposited into the bank but not yet appearing on the bank statement.

Standing order: an instruction to the bank by the business to deduct money from the business bank account on a specific date of each month. This can only be cancelled on the orders of the business.

Dishonoured cheque: a cheque received by the business and deposited but later cancelled by the bank. The bank refuses to pay the amount to the payee due to some reasons. Normally the cheque will be labelled R/D meaning *refer to drawer*.

Stop order: an amount deducted from the business bank account on a fixed date of every month and paid or credited to another identified account.

Bank charges: the cost of maintaining the business bank account at the bank. The bank will charge the business a fee called bank charges or ledger fees.

Bank reconciliation statement: is a statement that makes the totals of the cash book agree to that of the bank statement

END OF CHAPTER QUESTIONS

Multiple Choice Questions

1. A bank reconciliation statement is a statement that
 - A. is prepared to bring the balances in the cash book and the bank statement to agreement.
 - B. detects errors in the cash book.
 - C. is prepared by the bank to correct its mistakes.
 - D. is used to update the cash book.
2. When updating the cash book, we use
 - A. unticked items in the cash book
 - B. unticked items in the bank statement
 - C. ticked items in the cash book
 - D. ticked items in the bank statement
3. The cash book balance may differ from the bank statement balance due to all except
 - A. dishonoured cheques
 - B. errors made by the bank which appear on the statement
 - C. unpresented cheques that have been recorded in the cash book
 - D. cheques and cash paid into the bank and appearing on the bank statement
4. When starting with a debit balance per cash book, unpresented cheques are
 - A. deducted from the balance
 - B. are added to the balance
 - C. have no effect on the balance
 - D. are used to update the cash book
5. Bank charges are
 - A. credited to the to the bank statement
 - B. credited to the cash book
 - C. not shown in the bank statement
 - D. debited to the cash book

Structured Questions

8.1 Jinda Guru's cash book (bank columns only) and bank statement are shown below. You are required to update the cash book and then produce a bank reconciliation statement.

Cash Book (Bank columns)

20X6				\$	20X6				\$
March	1	Balance b/d		1 500	March	3	L Dada (862)		400
March	5	Transfer	C	600	March	6	B Rudo (863)		600
March	12	Transfer	C	400	March	10	S Duiker (864)		300
March	31	Transfer	C	110	March	14	C Chindori (865)		150
					March	18	M Gonzo (866)		75
					March	23	Postage (867)		140
					March	30	Rent (868)		150
					March	31	Balance	c/d	795
				2 610					2 610
April	1	Bal b/d		795					

Bank statement

Date	Details		Cheque no.	Payments	Receipts	Balance
				\$	\$	\$
20X6						
March	1	B/fwd				1 500
March	5	Sundry credits			600	2 100
March	5	Transfer	C 862	400		1 700
March	9	Transfer	C 863	600		1 100
March	12	Sundry credits			400	1 500
March	18	Transfer	C 866	75		1 425
March	24	Transfer	C 864	300		1 125
March	24	Transfer	C 867	140		985
March	31	Bank charges		60		925
March	31	Direct debit: Insurance		100		825

Required:

- Update the cash book
- Prepare a bank reconciliation statement for the month of March 20X6

Note

Transfer is cash that has been deposited in the bank by the business. It is a contra entry as you may remember from your practice of the cash book transactions earlier in the studies. You are simply moving money from cash account into the bank account or vice versa.

8.2 The cash book of R Rwodzi for March 20X6 is as follows:

20X6		\$	20X6		\$		
March	16	G. Gavaza	292	March	1	Balance b/d	4 200
	21	F. Furau	369		6	Cheque 233 (T. Chaora)	184
	27	J. Jongwe	264		23	Cheque 234 (C. Chirenje)	251
	31	S. Tsuro	192		30	Cheque 235 (M. Mbiti)	160
	31	Balance c/d	4 182		30	Cheque 236 (S. Sinyoro)	504
			<u>5 299</u>				<u>5 299</u>
				April	1	Balance b/d	4 182

The bank statement of R Rwodzi for the month of March 20X6 was as follows:

20X6		Dr	Cr	Balance
		\$	\$	\$
March	1	Balance		4 200 O/D
	8	T. Chaora	184	4 384 O/D
	16	Cheque deposit	292	4 092 O/D
	20	M. Mbiti	160	4 252 O/D
	21	Cheque deposit	369	3 883 O/D
	31	C. Chido- Trader's transfer	88	3 795 O/D
	31	ZESA: standing order	32	3 827 O/D
	31	Bank charges	19	3 846 O/D

Required:

- Update the cash book
- Prepare a bank reconciliation statement for March 20X6.

8.3 Edulight Publishers' cash book (Bank columns only) showed the following:

Cash Book (Bank columns only)							
2019			\$	2019			\$
Oct	1	Balance b/d	340	Oct	3	Stationery (Chq. No. 221)	170
	3	Cash sales	2 300		9	Chipezeze Chq. No. 222)	1 400
	7	Cash C Amos (a debt- or)	500		12	Bradley Institute (Chq. No. 223	800
	15		760		17	T Mpofu (Chq. No. 224)	340
					22	L Mloyi Chq. No. 225)	490
					31	Balance c/d	700
			<u>3 900</u>				<u>3 900</u>
Nov	1	Bal b/d	700				

On 31 October 2019, a statement received from the CGB Bank was as follows:

2019			Debit	Credit	Balance
			\$	\$	\$
October	1	Balance b/fwd			340 Cr
	3	Sales		2 300	2 640 Cr
	5	Stationery (221)	170		2 470 Cr
	7	Transfer		500	2 970 Cr
	11	Chipezeze (222)	1 400		1 570 Cr
	21	T Mpofu (224)	340		1 230 Cr
	26	Direct debit - ZESA	300		930 Cr
	29	Credit transfer - Dividends		410	1 340 Cr
	31	Cheque deposit		150	1 490 Cr

Required

- Update the cash book.
- Prepare a bank reconciliation statement on 31 October 2019.

NOT-FOR-PROFIT-MAKING ORGANISATIONS

Objectives

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

- define key terms
- describe receipts and payments accounts
- draw up receipts and payments accounts
- prepare simple income and expenditure accounts
- draft statements of financial position

KEY TERMS

- surplus
- deficit
- accumulated fund
- subscriptions
- receipts and payments account
- income and expenditure account
- statement of financial position

Introduction

The organisations discussed so far are focused on making profit as their main objective. In this chapter our focus will shift to organisations that are not driven by the profit motive, but are interested in saving the interest of their members, providing entertainment, or reducing the plight of the vulnerable. Organisations of this type are called clubs and/or societies.

ACCOUNTS FOR CLUBS AND SOCIETIES

Societies and clubs are organisations that are not motivated with the idea of making profits. Their main aim is to provide facilities and services to their

members. These organisations are sometimes referred to as not-for-profit organisations/ non-profit making organisations.

Examples of clubs and societies (or not-for-profit organisations) are:

- Youth clubs
- Sports clubs
- Amateur drama clubs
- Boys scouts
- Girl brigades
- Churches

COMPARISONS

Comparison between trading (businesses) and non-trading (clubs and societies) concerns is given in the table below. Study this and understand these differences as they will help you understand the accounts which will follow.

Task 9.1

Discuss in pairs the difference between trading and non-trading organisations.

Businesses	Clubs and Societies
Set up to earn profit by selling goods and services	Set up to promote activities of interest to its members (cultural, recreational, intellectual, sports etc.)
Sell goods and services at more than cost price to earn profit	No value placed on the normal facilities provided to members
Business financed by owners' equity, most of which invested on setting up business	Financed by monthly or yearly subscriptions from members
Money received and paid are recorded in cash book	Money received and paid are recorded in receipts and payments account
Trading account (first part of income statement) to calculate gross profit or gross loss as Sales Revenue – Cost of Sales	If the club runs a restaurant, bar or canteen, a trading account is prepared to calculate profit from restaurant, bar or canteen as Trading Revenue – Trading Expenses

Main source of revenue is sales or fees received	Main source of income is subscriptions from members
Profit and loss account (second part of income statement) prepared to calculate net profit as Gross profit + Other Income - Expenses	Income and Expenditure account prepared to calculate surplus or deficit as Income - Expenditure
Accounting equation: Assets = Owners Equity + Liabilities	Accounting equation: Assets = Accumulated fund + Liabilities

Source of funds

The main source of income for such organisations is made up of subscriptions. These are payments made by members for the use of the club or society's facilities.

A treasurer collects money from members and also does the payments for the club; in fact he/she does the club's books. The books are made up of **receipts and payments account, income and expenditure account, and a statement of financial position.**

<u>Businesses</u>	<u>Clubs and Societies</u>
- Sale of goods	- Subscriptions
- Receipts from services	- Entrance fees/ gate takings
- Rent received	- Profit from sale of refreshments
- Commission received	- Profit from activities
- Discount received	- Interest received
- Interest received	- Donations
- Profits on disposal	

RECORDS PREPARED BY NON-PROFIT MAKING ORGANISATIONS

Non-profit making organisations prepare special records which differ from those prepared by profit making entities. It is important that you learn how to prepare and interpret these special accounts.

Receipts and payments accounts

This is a summary of the cash book. All money received is debited to this account while all payments are credited to this account. There are no adjustments for accruals or prepayments in this account.

Format of the receipts and payment account

Receipts and Payments Account			
<u>Receipts</u>	\$	<u>Payments</u>	\$
Balance b/d	X	Purchases	X
Profit from shop	X	Wages and salaries	X
Entrance fees	X	Hiring costs	X
Gate takings	X	Rates and insurance	X
Donations	X	General expenses	X
Interest received	X	Purchases on assets	X
Subscriptions	X	Balance c/d	X
	X		X
Balance b/d	X		

Example

Jaguar Athletics Club was formed three years ago. It has a warehouse where its members can purchase sportswear. On 1 April 2018 the club had \$2 200 in the bank. The treasurer provided the following list of receipts and payments for the year ended 31 March 2019.

	\$
Subscriptions received	5 860
Receipts from shop sales	3 860
Purchases of goods for resale	2 130
Wages - shop assistant	930
- athletics coach	2 700
Rates and insurance	328
General expenses	1 120
Purchase of new sports equipment	2 850
Athletics competition - entrance fees received	1 100
- cost of prize	660

Required:

Prepare the Club's receipts and payments account for the year ended 31 March 2019

Solution

Receipts and Payments Account			
<u>Receipts</u>	\$	<u>Payments</u>	\$
Balance b/d	2 200	Purchases	2 130
Shop sales	3 860	Wages of shop assistant	930
Entrance fees	1 100	Wages of athletics coach	2 700
Subscriptions	5 860	Rates and insurance	328
		General expenses	1 120
		Purchase of sports equipment	2 850
		Purchase of prize	660
		Balance c/d	2 302
	<hr/>		<hr/>
	13 020		13 020
Balance b/d	2 302		

The receipts and payments account is just like the cash book. It records the money that has been received and paid by the organisation. Both capital and revenue payments and receipts are recorded in this account. There is no distinction made between capital and revenue transactions.

Practice question

The treasurer of the Kitsiyatota Interact Club records all the money transactions in a cash book.

The Treasurer supplied you with the following information for the year ended 31 December 20X6.

On 1 January the club had cash balances of \$720.

During the year, the club received money from the following sources:

- Subscriptions from members totalling \$3 850
- Entrance fees for sports competitions raised \$620
- Donations totalled \$500
- A member lent the club \$800
- The Treasurer made the following payments during the year:
 - Rent for sports ground \$1 350
 - Purchase of new sports equipment \$2 500
 - Competition prizes \$450
 - Loan interest \$40
 - Coach hire for away matches \$900
 - Administration expenses \$170

You are required to prepare the Receipts and Payments account for the Interact Club for the year ended 31 December 20X6. **(10)**

Income and expenditure accounts

Income and expenditure account is just the same as the income statement of profit focused organisation. It measures the organisation's profitability to show whether the invested capital is growing or increasing.

FORMAT

Chirozvani Income and Expenditure account for the year ended 31 May 2016

<u>Income</u>	\$	\$
Subscriptions		X
Gate takings		X
Entrance fees		X
Donations		X
Profit from bar		X
Discount received		X
Total income		X
 <u>less Expenditure</u>		
Rent	X	
Stationery	X	
Wages	X	
Interest	X	
Hiring costs	X	
Depreciation	X	X
Surplus of income over expenditure/(deficit)		X/(X)

Preparation of income and expenditure account

This compares the Club's gains and the expenses incurred to make those gains. If gains are more than expenses, we say there has been a surplus of income over expenditure. If, on the other hand, expenses are more than income (gains), we say there has been a deficit of income over expenditure.

Profit focused organisation	Not-for profit focused organisation
1. Income statement	1. Income and expenditure account
2. Net profit	2. Surplus of income over expenditure
3. Net loss	3. Deficit of income over expenditure

The following should be made:

- Adjust for accruals and prepayments
- Do not include capital receipts and capital expenditure
- Only consider revenue receipts and expenditure
- Include depreciation on non-current assets.
- Assets and liabilities balances at the beginning or end of period are not included

Special note on subscriptions account

Subscriptions account			
	\$		\$
Subscriptions in arrears b/d	X	Subscriptions received in advance b/d	X
Income and expenditure	X	Subscriptions received during the year	X
Subscriptions received in advance c/d	X	Subscriptions in arrears c/d	X
	<u>X</u>		<u>X</u>
Subscriptions in arrears b/d	X	Subscriptions received in advance b/d	X

- *Amounts received for subscriptions during the year are treated as income and will be credited to the subscriptions account.*
- *Subscriptions not yet received (in arrears) are also credited (added to amount received) as they are debtors at the end of the year and they will be brought down as debits.*
- *Subscriptions received in advance are debited (deducted from the amount received) at the end of the year as they represent a liability which will be credited when brought down.*
- *The balancing figure is the amount to be transferred to the income and expenditure account.*
- *Subscriptions in arrears b/d are amounts of last year's subscriptions due but not yet received from members at the start of the current period.*
- *Subscriptions received in advance b/d refers to this year's amounts for subscriptions received last year from members.*

Example

The treasurer of the Polisi Interact Club records all the money transactions in a cash book. The Treasurer supplied you with the following information for the year ended 31 December 2016.

On 1 January the club had cash balances of \$720.

During the year, the club received money from the following sources:

- Subscriptions from members totalling \$3 850
- Entrance fees for sports competitions raised \$620
- Donations totalled \$500
- A member lent the club \$800

The Treasurer made the following payments during the year:

- Rent for sports ground \$1 350
- Purchase of new sports equipment \$2 500
- Competition prizes \$450
- Loan interest \$40
- Coach hire for away matches \$900
- Administration expenses \$170

In addition to the information in above, you are also given the following additional information:

- i) Some members have not paid their subscriptions for 2016 and owe the Club \$240
- ii) Other members have paid their subscriptions for the year ending 31 December 2017, \$80
- iii) Rent of sports ground was prepaid at 31 December 2016 by \$240
- iv) Administration expenses, \$30, were due on 31 December 2016
- v) At 1 January 2016, the Club's sports equipment was valued at cost \$11 300 – all sports equipment should be depreciated at 20% on cost for the year.

Required:

Prepare an Income and Expenditure Account for the year ended 31 December 2016. (10)

Solution

Polise Interact Club

Income and expenditure account for the year ended 31 December 2016		
<u>Income</u>	\$	\$
Subscriptions (3850 + 240 – 80)		4 010
Entrance fees		620
Donations		500
Total income		5 130
<u>Less Expenditure</u>		
Rent (1350 – 240)	1 110	
Competition prizes	450	
Administration expenses (170 +30)	200	
Loan interest	40	
Coach hire	900	
Depreciation [(11 300 + 2 500) x 20%]	2 760	5 460
Deficit		330

Notes:

- i) *Subscriptions not paid are added while subscriptions prepaid are deducted from the subscriptions paid for the year to get subscriptions for the year.*
- ii) *Rent paid is adjusted by deducting rent paid in advance.*
- iii) *Administration fees are adjusted by adding the amount accrued.*
- iv) *Depreciation is calculated on the total equipment. Thus equipment at the beginning is added to the equipment purchased during the year before calculating depreciation.*
- v) *Deficit is when the total expenditure exceeds total income.*
- vi) *Loan is not income since there is no activity done by the business which brought this income. Instead, it is a non-current liability.*

Practice question

The treasurer of the Eastwise Chess Club records all the money transactions in a cash book. The Treasurer supplied you with the following information for the year ended 31 December 2019.

On 1 January the club had cash balances of \$720.

During the year, the club received money from the following sources:

- Subscriptions from members totalling \$3 850
- Entrance fees for sports competitions raised \$620
- Donations totalled \$500
- A member lent the club \$800

The Treasurer made the following payments during the year:

- Rent for sports ground \$1 350
- Purchase of new sports equipment \$2 500
- Competition prizes \$450
- Loan interest \$40
- Coach hire for away matches \$900
- Administration expenses \$170

The treasurer also provided the following information:

- i) On 31 December 2019:
 - a) Insurance prepaid amounts to \$16
 - b) Wages of athletics coach outstanding were \$400
 - c) 15 members still owe their subscriptions of \$20 each for this year
 - d) 8 members have paid their subscriptions of \$20 each for the following year
 - e) Sports equipment is to be depreciated by \$780

- ii) Profit from the Club's shop was \$600

You are required to prepare the Club's income and expenditure account for the year ended 31 December 2019.

Statement of accumulated fund

Where a sole trader has **capital**, not-for-profit organisations have an **accumulated fund**. These are the same but seen from different organisations. Capital is found by solving the following equation:

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

Accumulated fund is found by solving the following related equation:

$$\text{Accumulated fund} = \text{Assets} - \text{Liabilities}$$

Assets at any time are added up and liabilities are also added up. Liabilities are then deducted from assets. The difference is the **accumulated fund** at the time.

Format for statement of affairs

Charachimwe statement of affairs as at 31 December 2020

<u>Assets</u>	\$	\$
Premises		X
Motor vehicle		X
Subscriptions owing from members		X
Insurance prepaid		X
Cash at bank		X
Cash in hand		X
<u>less Liabilities</u>		
Subscriptions prepaid by members	X	
Amounts owing for advertising	X	
Accumulated fund		X

Example

The Boy Scouts Club had the following assets and liabilities on 31 March 2017. Calculate their accumulated fund on that date.

	\$
Clubhouse	10 000
Club vehicle	3 000
Amounts owing from members	3 700
Amounts prepaid by members	1 800
Amounts owing for advertising	450
Insurance prepaid	750
Cash at bank	2 600
Cash in hand	60

Solution

Boy Scouts Club statement of affairs as at 31 March 2017

<u>Assets</u>	\$	\$
Clubhouse		10 000
Club vehicle		3 000
Amounts owing from members		3 700
Insurance prepaid		750
Cash at bank		2 600
Cash in hand		60
		20 110
<i>less</i> <u>Liabilities</u>		
Amounts prepaid by members	1 800	
Amounts owing for advertising	450	2 250
Accumulated fund		17 860

Statement of financial position

The statement of financial position is prepared in the same way as that of a sole trader. The only difference is that not-for-profit organisations do not have capital. They have accumulated fund instead.

Let us explore the following example.

Prepare the statement of financial position for the Nehanda Girls Club as at 31 December 2016.

Nehanda Girls Club's trial balance as at 31 December 2016

	\$	\$
Clubhouse	12 000	
Vehicle	8 000	
Bank loan		15 000
Subscriptions received		14 000
Groundsmen's wages	4 500	
General Expenses	2 700	
Cash at the bank	15 300	
Creditors for girls' uniforms		13 400
Accumulated fund at 1 January 20X6		5 800
Electricity paid	5 700	
	<u>48 200</u>	<u>48 200</u>

Additional notes:

- i) \$2 100 of subscriptions had accrued while \$3 200 was prepaid by 31 December 2016.
- ii) The income and expenditure account has shown a deficit of income over expenditure of \$4 060.
- iii) General expenses of \$1 260 was owing
- iv) Clubhouse is depreciated by 10% on cost while vehicles are depreciated at 20% on cost.

Solution

Nehanda girls club Statement of financial position as at 31 December 2016

	\$	\$	\$
<u>Non-current assets</u>			
Clubhouse	12 000	1 200	10 800
Vehicle	8 000	1 600	6 400
	20 000	2 800	17 200
<u>Current assets</u>			
Subscriptions owing		2 100	
Cash at bank		15 300	17 400
Total assets			34 600
<u>Equity and liabilities</u>			
Financed by:			
Accumulated fund			5 800
<i>less Deficit of income over expenditure</i>			4 060
			1 740
add <u>Current liabilities</u>			
Creditors for girls' uniforms		13 400	
Prepaid subscriptions		3 200	
General expenses		1 260	17 860
<u>Non-current liabilities</u>			
Bank loan			15 000
			34 600

SUMMARY

This chapter discussed the not-for-profit organisations. A comparison between not-for-profit organisations and profit making organisations was made. Special accounts prepared by not-for-profit organisations were discussed and relevant formats and examples were presented for the learner to follow when attempting practice questions.

Glossary

Surplus – This is when receipts are more than payments. In profit focused businesses it is the same as profit.

Deficit – This is when the receipts are less than the payments made by the business. In profit focused organisations it is the same as a loss.

Accumulated fund – This is the same as capital in a sole trader's business. It is the difference between the income generated and the expenses incurred by the organisation.

Subscriptions – This are the amounts which members contribute for the running of the organisation.

END OF CHAPTER QUESTIONS

Multiple Choice Questions

1. The main aim of not-for-profit organisations is
 - A. to provide facilities and services to their members
 - B. making the maximum profit in the year
 - C. receive donations
 - D. train its members in self-help projects
2. Surplus is when
 - A. income is exceeded by expenditure
 - B. income is more than expenditure
 - C. expenditure exceeds receipts
 - D. expenditure is more than income
3. The account prepared by clubs and societies for recording money received and paid is
 - A. Income and expenditure account
 - B. Cash book
 - C. Receipts and payments account
 - D. Income account

4. Accumulated fund =
- A. Assets + liabilities
 - B. Liabilities - Assets
 - C. Capital - Assets
 - D. Assets - liabilities
5. At the beginning of the year, \$320 subscriptions were in arrears. During the year \$15 300 was received for subscriptions. At the end of the year \$200 subscriptions were paid in advance. The subscriptions figure to be transferred to income and expenditure account is
- A. \$15 820
 - B. \$15 420
 - C. \$15 180
 - D. \$14 780

Structured Questions

- 9.1 The treasurer of Wise Owl Music Club prepared the **receipts and payment account** for the year ended 31 December 2018. She provided you with the following information.

Receipts and Payments Account

		Receipts		Payments	
2018			\$	2018	
Jan	1	Balance b/d	840	Dec	31
Dec	31	Subscriptions	5 750	Tuition fees	2 500
		Ticket sales	930	Hire of school facilities	48
		Loan from school	1 000	Purchases of musical instruments	3 800
		Donations from parents	450	Purchases of refreshments	280
				Loan interest	50
				Administration costs	140
				Balance c/d	2 152
			8 970		8 970

On 31 December 2018, the following additional information was also provided:

- i) Five members had not paid their subscriptions for the current year but eight other members had paid their subscriptions for the year ending 31 December 2019 in the current year ended 31 December 2018. Subscriptions were \$25 per member.
- ii) Tuition fees \$220 were due but unpaid at 31 December 2018.
- iii) Administration costs, \$60 were prepaid at 31 December 2018.
- iv) The Club owned musical instruments with a value of \$12 400 at 1 January 2018. All musical instruments are depreciated at a rate of 20% on cost for the year.

Required:

- a) Prepare an **Income and Expenditure Account** for the club for the year ended 31 December 2018. [18]
- b) State two differences between a receipts and payments account and an income and expenditure account. [4]
- c) List three items included in the **receipts and payments account** but not recorded in the **income and expenditure account**. [3]

[Total: 25]

9.2 (a) The treasurer of the Eastwise Braai Club records all the money transactions in a cash book.

The Treasurer supplied you with the following information for the year ended 31 December 2019.

On 1 January the club had cash balances of \$540.

During the year, the club received money from the following sources:

- Subscriptions from members totalling \$6 250
- Entrance fees for sports competitions raised \$320
- Donations totalled \$800
- A member lent the club \$1200

The Treasurer made the following payments during the year:

- Rent for sports ground \$2 350
- Purchase of new sports equipment \$2 500
- Competition prizes \$250
- Loan interest \$140
- Coach hire for away matches \$1 900
- Administration expenses \$370

You are required to prepare the Receipts and Payments account for the Eastwise Braai Club for the year ended 31 December 2016. (10)

(b) In addition to the information in (a) above, you are also given the following additional information:

- i) Some members have not paid their subscriptions for 2016 and owe the Club \$320
- ii) Other members have paid their subscriptions for the year 2015, \$100
- iii) Rent of sports ground was prepaid at 31 December 2016 by \$180
- iv) Administration expenses, \$90, were due on 31 December 2016
- v) At 1 January 2016, the Club's sports equipment was valued at cost \$10 300 – all sports equipment should be depreciated at 20% on cost for the year.

Required:

Prepare an Income and Expenditure Account for the year ended 31 December 2016. (10)

8.3 On 1 January 2019 the Arcadia Angling Club had the following assets:

	\$
Cash at bank	200
Tuckshop inventory	800
Clubhouse	12 500

During the year to 31 December 2019 the Club received and paid the following amounts:

<i>Receipts</i>	\$	<i>Payments</i>	\$
Subscriptions	3 500	Rent and rates	1 400
Tuckshop receipts	6 000	Extension to club house	8 000
Visitors' fees	650	Tuckshop purchases	3 600
Loan from bank	5 500	Secretary's expenses	250
Competition fees	820	Interest on loan	260
		Equipment for games	2 000

Addition information

- i) Tuckshop inventory on 31 December was valued as \$180.
- ii) Subscriptions in arrears amounted to \$130 while subscription in advance amounted to \$320.
- iii) Rent and rates were accrued by \$120.
- iv) Equipment is depreciated by 20% on cost.

Required

- a) Prepare an income and expenditure account for the year ended 31 December 2019.
- b) Prepare a statement of financial position as at 31 December 2019.

9.4 Chipadze Tsoro Club had the following assets on 1 January 2016:

	\$
Cash at bank	500
Bar inventory	400
Clubhouse	2500

The receipts and payments account was as follows:

Receipts and Payments account

<i>Receipts</i>	\$	<i>Payments</i>	\$
Balance b/d	500	Rent	1 400
subscriptions	4 200	Competition fees	1 700
Bar receipts	3 500	Coach hire	800
Visitors' fees	1 300	Bar purchases	1 300
Loan from ZTN Bank	7 500	Treasurer's expenses	2 250
Gate takings	620	Interest on loan	180
		Games Equipment	2 000
		Balance c/d	7 990
	17 620		17 620
Balance b/d	7 990		

Additional information:

- i) Bar inventory on 31 December 2016 was valued as \$360.
- ii) Treasurer's expenses were prepaid by \$440 while Coach hire of \$220 was still owing.
- iii) Clubhouse is depreciated at 20% on cost and Games Equipment are depreciated at 10% on cost.

You are required to:

- a) Prepare the income and expenditure account for the year ended 31 December 2016.
- b) Prepare the statement of financial position as at 31 December 2016.

REVISION TEST PAPERS

TEST 1

SECTION A

Answer all multiple choice questions

1. A business financial transaction is:
 - A. An act by the business involving the transfer of money or something of value
 - B. Recording the true status of the business
 - C. The amount of money used in the business
 - D. The recording of money received or paid by the business
2. Which of the following is not a business organisation?
 - A. A football club
 - B. A company
 - C. A partnership
 - D. A church
3. **Capital** is best described as:
 - A. Money used in a business
 - B. The amount of money or money's worth a business owes to other businesses
 - C. The amount of money or money's worth the owner has put in the business
 - D. The liabilities of a business
4. Buildings, machinery and cash owned by a business are collectively referred to as:
 - A. Expenses
 - B. Assets
 - C. Purchases
 - D. Liabilities
5. Trading goods are:
 - A. Goods bought for resale
 - B. Goods traded in for other goods
 - C. Assets bought for use in the business
 - D. Assets not yet paid for by the business

6. The dual concept of accounting state that for every transaction there must be:
 - A. Only one account affected
 - B. Only two accounts affected
 - C. Only three accounts affected
 - D. Only four accounts affected

7. Jagers bought a van for use in the business for \$2 000 on credit from Limoz Ltd. The entries required are:
 - A. Debit Jagers \$2 000 and credit Limoz Ltd \$2 000
 - B. Debit Limoz Ltd \$2 000 and credit Jagers \$2 000
 - C. Debit Van \$2 000 and credit Purchases \$2 000
 - D. Debit Van \$2 000 and credit Limoz Ltd \$2 000

8. The most important bookkeeping principle is
 - A. The business entity concept
 - B. The historical cost concept
 - C. The monetary measurement concept
 - D. The double entry concept

9. The opposite of a credit entry is
 - A. Credit entry
 - B. Double entry
 - C. Debit entry
 - D. Cash entry

10. Jairos bought goods on credit \$400 from Mairos. The correct entries in Jairos' books would be
 - A. Debit Jairos \$400 and credit Mairos \$400
 - B. Debit cash \$400 and credit Goods \$400
 - C. Debit Purchases \$400 and credit Mairos \$400
 - D. Debit Jairos \$400 and credit Purchases \$400

11. Which of the following is **not** an expense account?
 - A. Rent payable account
 - B. Commission receivable account
 - C. Electricity payable account
 - D. Salaries and wages payable account

12. Makwindi owns a grocery shop. He took \$20 worth of meat at cost price to braai for his son's birthday. The correct double entry for this transaction is
- Debit sales account and credit sales account
 - Debit drawings account and credit purchases account
 - Debit purchases returns account and credit purchases account
 - Debit sales returns and credit purchases
13. Which of the following would normally have a credit balance?
- Sales account
 - Purchases account
 - Drawings account
 - Furniture account
14. Use the following information received from Jongwe's books to answer questions 14 and 15

	\$
Sales	12 000
Drawings	500
Purchases	8 400
Opening stock	2 100
Closing stock	1 800
Expenses	2 600

Jongwe's gross profit is

- \$3 300
 - \$11 500
 - \$9 2000
 - \$700
15. The net profit for Jongwe is
- \$8 700
 - \$6 100
 - \$1 200
 - \$700
16. Which of the following statements is the accounting equation?
- Capital = Assets + Liabilities
 - Liabilities = Assets – Capital
 - Assets = Capital – Liabilities
 - Liabilities = Capital - Assets
17. Liabilities repayable within one year from the balance sheet date are called
- Loans
 - Current liabilities
 - Non-current liabilities
 - Long-term liabilities

18. Assets which are acquired for a longer period of use by the business are called
- A. Fixed liabilities B. Current assets
C. Non-current liabilities D. Non-current assets
19. The ease with which assets are converted into cash is called
- A. Equity B. Liquidity C. Circulation D. Bonding
20. Which of the following documents are used for making entries into the cash book?
- A. Voucher B. Receipt C. Invoice D. Debit note

SECTION B

Answer all three questions from this section

1. J. Chiwashure's trial balance as at 31 December 2016 is given below.

	\$	\$
Cash	280	
Purchases	10 200	
Capital		11 200
Bank	550	
Rates and electricity	220	
Buildings	6 000	
Salaries and wages	900	
Stock- 1 January 2016	2 400	
Sales		16 100
Returns inwards	200	
Returns outwards		250
Creditors		1 000
Debtors	4 000	
Furniture	2 500	
Stationery	150	
Drawings	600	
Rent receivable		120
Insurance	670	
	28 670	28 670

Additional information:

- i) Stock at 31 December 2016 was valued at \$2 400
- ii) Stationery was accrued by \$60
- iii) \$120 Rent receivable was owing
- iv) Insurance was prepaid by \$120

Required:

- a) Prepare a trading and profit and loss account for the year ended 31 December 2016. (13 marks)
- b) Prepare a balance sheet as at 31 December 2016. (12 marks)

2. M Mwale had the following transactions in June 2015

2015

- June 1 Started business with \$2 000 cash
- 2 Bought goods for resale \$450 cash
- 5 Sold goods \$230 on credit to N. Nyimo
- 8 Bought Furniture \$200 credit from Furniture Designs
- 12 Sold goods \$300 cash
- 17 Paid rent \$100 cash
- 21 J Mwale took \$50 cash for own use
- 25 Paid wages \$ 600 cash
- 29 Sold goods \$400 credit to N Nyimo
- 30 Paid \$100 cash to Furniture designs

Required:

Prepare and balance off the following accounts.

- e) Cash account (8 marks)
- f) Sales account (5 marks)
- g) Furniture designs account (1 mark)
- h) Drawings account (1 mark)

TEST 2

SECTION A

Multiple choice questions

Answer all by selecting the most appropriate answer from the given options. Each question carries 1 mark.

- The owner of a business is called a
 - a debtor
 - a bookkeeper
 - a proprietor
 - a capital
- Bookkeeping is the
 - the safe keeping of the books of accounts locked up in the safe
 - the systematic recording of business transactions in books of accounts
 - the safe keeping of bank books
 - taking stock of the accounts books at the end of every term
- The accounting equation is
 - assets = capital – liabilities
 - assets = liabilities – capital
 - assets = capital + liabilities
 - assets = capital + liabilities
- All the following are assets except
 - cash
 - furniture
 - land
 - drawings
- Tom Melusi started business with \$2800 cash. The accounts affected are
 - Tom Melusi and Cash
 - Tom Melusi and Business
 - Capital and Cash
 - started business and Cash
- Profit (or loss) can be calculated as
 - assets – liabilities = profit (loss)
 - income – expenses = profit (loss)

Section B

There are 3 longer questions in this Section, answer all.

1. The following transactions relate to Amanda Patel for the month of June 2015

Jun 1 started business with \$800 cash
Jun 5 bought goods for \$200 cash
Jun 7 sold goods for \$300 cash
Jun 25 Amanda took \$90 cash for personal use
Jun 30 sold goods \$120 on credit to Ronaldo

You are required to open, post and balance the following accounts for the month of June 2015

- a) Cash account (6 marks)
b) Sales account (4 marks)

2. Complete in a table (like the one below) by classifying the items given into assets, capital or liabilities.

Assets	Capital	Liabilities

- i) Bank overdraft
ii) Cash
iii) Motor vehicle
iv) \$2 000 used to start the business
v) Mr Mukwereti, a debtor
vi) Bank debit balance
vii) Computers in the business
viii) Amount owed to the bank
ix) A lorry brought into business by owner
x) Creditors for goods

(10 marks)

3. James Clever's trial balance as at 31 December 2019

	Debit	Credit
	\$	\$
Capital		22 000
Drawings	2 000	
Sales		25 000
Stock on 1 January 2019	1 800	
Purchases	16 200	
Creditors		1 500
Debtors	1 300	
Wages	2 400	
Rent	3 800	
Motor vehicles	12 000	
Cash	9 000	
	?	?

Additional information:

Stock at 31 December 2019 was \$2 300

You are required to:

- a) Prepare the trading and profit and loss account for the year ended 31 December 2019 (9 marks)
- b) Prepare the Balance sheet as at 31 December 2019 (11 marks)

Question 2

- a) Chipo Musiya started the business called Chicken Spice Take Away on 1 February 2016 with capital of \$6 000 cash and \$26 000 in the bank.

Other transactions for the month were:

2016		\$
February	2 Bought goods for cash	1 000
	3 Bought goods and paid by cheque	4 000
	4 Bought goods on credit from Chingore	7 000
	17 Cash sales	12 000
	22 Credit sales to M Silvester	7 000
	24 Cash paid into the bank	10 000
	25 Cash sales	3 500
	27 Cash paid into the bank	5 000
	28 Withdrew cash from the bank for business use	2 500
	Paid M Silvester by cheque	5 300

Enter the information in the Cash Book on the next page: (21)

b) From the transactions given, indicate which account is to be debited and credited in the following table. The first one was done for you as an example.

	Transaction	Account debited	Account credited
1	Withdrawal of money from bank for private use	<i>Drawings</i>	<i>Bank</i>
2	Payment for travelling expenses by cheque		
3	Cheque receipt for goods sold		
4	Cheque receipt for old furniture sold		

(6)

c) i) What is the importance of a petty cash voucher?

.....

 (1)

ii) Define the term **float** as it is used in Petty cash.

.....

 (1)

d) Post the Petty Cash Book to the ledger

(3)

Test 4

SECTION A

Answer all multiple choice questions in this section. Each question carries 2 marks

Question 1

An event which involves the transfer of money or monetary value within or between economic entities is referred to as

- A. Payment
- B. Transaction
- C. Delivery
- D. Profit

Question 2

Which of the following is **not** a business transaction?

- A. The ordering of the merchandise from a business manufacturer
- B. The receipt of money from a business customer
- C. The receipt of goods from a business supplier
- D. Paying of expenses

Question 3

Which of the following items is income?

- A. Cash on hand
- B. Motor vehicle
- C. Salaries paid
- D. Sales of merchandise

Question 4

Which of the following statements describes **capital**?

- A. A very large amount of money
- B. The amount invested in the business by the owner (or owners) of the business
- C. The amount borrowed from the bank to help start the business
- D. The amount of money taken from the business by the owner for his/her own use

Question 5

The bookkeeping system based on the dual aspects of business transactions is called

- A. The imprest system
- B. The dual entry system
- C. Two way entry system
- D. The double entry system

Question 6

In bookkeeping, the term **sales** refers to

- A. Anything sold by the enterprise
- B. Goods sold for cash only
- C. Goods sold at a price lower than the normal price
- D. The sale of goods purchased for resale

Question 7

M Gande, a trader, borrowed \$5 000 from CBZ Bank. Which of the following is true?

- A. His assets decreased by \$5 000
- B. His liabilities decreased by \$5 000
- C. His liabilities increased by \$5 000
- D. His net profit increased by \$5 000

Question 8

When goods are sold on credit to M Tongesai, the transaction is recorded as:

- A. Debit the stock account, credit M Tongesai account
- B. Debit M Tongesai account, credit the stock account
- C. Debit M Tongesai account, credit sales account
- D. Debit sales account, credit M Tongesai account

Question 9

The following cash account appeared in the books of T Tendeso.

Cash account										
2016				\$		2016				\$
October	1	Balance	b/d	450		October	3	Stationery		80
	13	Capital		850			27	Wages		1 000

The balance in the cash account on 31 October 2016 was:

- A. \$220 Dr
- B. \$1 000 Cr
- C. \$450 Dr
- D. \$850 Dr

Question 10

Which of the accounts below will have a debit balance?

- A. Cash account
- B. Capital account
- C. Bank Overdraft account
- D. Income account

Question 11

If a balance carried down is on the debit side of an account, the balance brought down will be on:

- A. The Debit side
- B. The Credit side
- C. Both sides
- D. Neither side

Question 12

Which of the following is an **incorrect** way of calculating gross profit/loss?

- A. Sales minus cost of goods sold
- B. Turnover minus cost of goods sold
- C. Net profit plus expenses
- D. Cost of sales minus expenses

Question 13

A firm had sales of \$15 000, cost of sales of \$9 000 and expenses of \$4 000. Which of the following is incorrect?

- A. Gross profit is \$15 000 minus \$9 000
- B. Net profit is \$15 000 minus \$9 000 minus \$4 000
- C. Net profit is \$15 000 minus (\$9 000 + \$4 000)
- D. Gross profit is \$9 000 plus \$4 000

Question 14

A document accompanying goods sold on credit is

- A. A credit note
- B. A debit note
- C. A receipt
- D. An invoice

Question 15

When a debtor returns goods, the supplier will first record them in the

- A. Purchases returns book
- B. Sales returns book
- C. Cash book
- D. Purchases day book

Question 16

Which of the following is **not** a book of original entry?

- A. The ledger
- B. The cash book
- C. The sales journal
- D. The purchases journal

Question 17

'Posting' in bookkeeping means

- A. Writing up the ledger from books of original entry
- B. Sending goods by registered post
- C. Sending letters through the post
- D. Balancing up all ledger accounts

Question 18

Which of the following documents is used to write up the sales journal?

- A. Copy of debit note
- B. Copy of credit note
- C. Copy of sales invoice
- D. Copy of the supplier's invoice

Question 19

An invoice received by C Chenjerai on 5 November 2016 showed a total of \$100 less 20% trade discount and 2.5% cash discount if paid within 30 days. If payment is made on 20 November, the amount actually paid would be

- A. \$100
- B. \$80
- C. \$97
- D. \$78

Question 20

The purchases journal is used to record goods

- A. Sold for cash
- B. Bought for cash
- C. Bought on credit
- D. Sold on credit

SECTION B

Answer all questions in this section

Question 21

The transactions in the books of M Kirimani for the month of November 2016 were as follows:

2016

- November 1 Started business with \$2 500 cash
- 5 Bought goods \$430 cash
- 9 Sold goods on credit to Renamos Investments \$210
- 12 Bought goods \$730 on credit from Marondera Store
- 16 Bought furniture \$ 250 cash
- 23 Sold goods \$390 cash
- 24 Paid rent \$300 cash
- 26 Paid wages \$200 cash
- 30 Sold goods \$400 on credit to Renamos Investments

Required:

Prepare and balance off the following accounts at 30 November 2016, bringing the balances down on 1 December 2016.

- a) Cash account (8 marks)
- b) Purchases account (4 marks)
- c) Renamos Investment account (4 marks)

Question 22

The trial balance of Rombe Rangu on 31 December 2015 was as follows:

	Debit	Credit
	\$	\$
Capital		25 600
Wages	3 500	
Rent	830	
Sales		9 300
Buildings	12 000	
Purchases	6 200	
Insurance	1 200	
Drawings	1 500	
Inventory (1 January 2015)	1 320	
Creditors		3 100
Debtors	3 350	
Motor vehicles	6 200	
Cash	1 900	
	38 000	38 000

Additional information:

- i) Inventory on 31 December was \$1 850

Required:

- a) Prepare a trading and profit and loss account for the year ended 31 December 2015 (12 marks)
- b) Prepare a balance sheet as at 31 December 2015 (13 marks)

Question 23

The following balances were extracted from the debtors' accounts of Mhofu on 1 February 2016

Name	Amount (Debit)
S Sithole	300
K Mande	250
Z Bopa	500
V Nzou	600

During the month Mhofu conducted the following credit sales transactions

Date	Customer	Invoice number	Amount
2016			
February 4	S Sithole	231	200
6	V Nzou	232	300
8	Z Bopoto	233	450
15	L Feso	234	600
22	K Mande	235	400
28	N Savadye	236	500

Required

- a) Record the transactions in the sales journal of Mhofu and balance it on 28 February 2016. (8 marks)
- b) Post entries to the following accounts in the Sales Ledger and balance them at 28 February 2016.
 - i) S Sithole (4 marks)
 - ii) Z Bopoto (4 marks)

TEST 5

- Which of the following statements is **incorrect**?
 - Assets – Capital = Liabilities
 - Liabilities + Capital = Assets
 - Liabilities = Assets - Capital
 - Assets = Liabilities - Capital
- Which of the following is **not** an asset?
 - Buildings
 - Cash balance
 - Debtors
 - Loan from K Harris
- Which of the following is a liability?
 - Machinery
 - Creditors for goods
 - Motor Vehicles
 - Cash at Bank

- Which of the following is **incorrect**?

	Assets	Liabilities	Capital
	\$	\$	\$
A	7850	1250	6600
B	8200	2800	5400
C	9550	1150	8200
D	6540	1120	5420

- Which of the following best describes the meaning of the term 'Purchases'?
 - Items bought
 - Goods bought on credit
 - Goods bought for resale
 - Goods paid for
- Which of the following should not be called 'Sales'?
 - Office fixtures sold
 - Goods sold on credit
 - Goods sold for cash
 - Sale of item previously included in 'Purchases'

7. Of the following, which are correct?

		Account to be debited	Account to be credited
(i)	Goods sold on credit to R Williams	R Williams	Sales
(ii)	S Johnson returns goods to us	Returns inwards	S Johnson
(iii)	Goods bought for cash	Cash	Purchases
(iv)	We returned goods to A Henry	A Henry	Returns inwards

- A. (i) and (iii) only B. (i) and (ii) only
 C. (ii) and (iv) only D. (iii) and (iv) only

8. What is the balance on the following account on 31 May 20X5?

C D Freddy					
20X5	\$		20X5		
May 1	Sales	205	May 17	Cash	300
	14 Sales	360		28 Returns	50
	30 Sales	180			

- A. A credit balance of \$395
 B. A debit balance of \$380
 C. A debit balance of \$395
 D. There is a nil balance on the account
9. Which of the following best describes a trial balance?
- A. Shows the financial position of a business
 B. It is a special account
 C. Shows all the entries in the books
 D. It is a list of balances on the books
10. Suppliers' personal accounts are found in the
- A. Nominal ledger B. General ledger
 C. Purchases ledger D. Sales ledger.
11. The Sales Day Book is best described as
- A. Part of the double entry system B. Containing customers' accounts
 C. Containing real accounts D. A list of credit sales.

12. When Lee makes out a cheque for \$50 and sends it to Young, then Lee is known as
- A. The payee
 - B. The banker
 - C. The drawer
 - D. The creditor.
13. When banking money into your current account you should always use
- A. A cheque book
 - B. A paying-in slip
 - C. A cash book
 - D. A general ledger.
14. A debit balance of \$100 in a cash account shows that
- A. There was \$100 cash in hand
 - B. Cash has been overspent by \$100
 - C. \$100 was the total of cash paid out
 - D. The total of cash received was less than \$100.
15. \$50 cash taken from the cash till and banked is entered
- A. Debit cash column \$50: Credit bank column \$50
 - B. Debit bank column \$50: Credit cash column \$50
 - C. Debit cash column \$50: Credit cash column \$50
 - D. Debit bank column \$50: Credit bank column \$50.
16. 'Posting' the transactions in bookkeeping means
- A. Transferring details from subsidiary books to the ledger
 - B. Entering items in a cash book
 - C. Making the second entry of a double entry transaction
 - D. Something other than the above.
17. Sales invoices are first entered in
- A. The Cash Book
 - B. The Purchases Journal
 - C. The Sales Account
 - D. The Sales Journal.
18. The total of the Sales Journal is entered on
- A. The credit side of the Sales Account in the General Ledger
 - B. The credit side of the General Account in the Sales Ledger
 - C. The debit side of the Sales Account in the General Ledger
 - D. The debit side of the Sales Day Book.

19. An alternative name for a Sales Journal is
- A. Sales Invoice
 - B. Sales Day Book
 - C. Daily Sales
 - D. Sales Ledger.
20. Entered in the Purchases Journal are
- A. Payments to suppliers
 - B. Trade discounts
 - C. Purchases invoices
 - D. Discounts received.
21. The total of the Purchases Journal is transferred to the
- A. Credit side of the Purchases Account
 - B. Debit side of the Purchases Day Book
 - C. Credit side of the Purchases Book
 - D. Debit side of the Purchases Account.
22. Credit notes issued by us will be entered in our
- A. Sales Account
 - B. Returns Inwards Account
 - C. Returns Inwards Journal
 - D. Returns Outwards Journal.
23. A business person withdrew \$500 from the bank for personal use. This is a
- A. Credit entry in the cash book
 - B. Debit entry in the cash book
 - C. Cash column entry in the cash book
 - D. Contra entry in the cash book
24. Inventories are
- A. Goods already sold
 - B. Non-current assets
 - C. Goods bought for use in the business
 - D. Goods bought for resale but not yet sold
25. Which of the following is **not** a business transaction?
- A. The business ordered goods from Allan Wilson
 - B. Receiving \$230 from a customer
 - C. Payment of \$300 for rent
 - D. The proprietor took \$190 for personal use

26. When goods are sold on credit to M Tongesai, the transaction is recorded as:
- A. Debit the stock account, credit M Tongesai account
 - B. Debit M Tongesai account, credit the stock account
 - C. Debit M Tongesai account, credit sales account
 - D. Debit sales account, credit M Tongesai account
27. If a balance carried down is on the debit side of an account, the balance brought down will be on:
- A. The Debit side
 - B. The Credit side
 - C. Both sides
 - D. Neither side
28. Given the following, what is the amount of Capital? Assets: Premises \$20 000; Stock \$8 500; Cash \$100. Liabilities: Creditors \$3 000; Loan from A Adams \$4 000.
- A. \$21 100
 - B. \$21 600
 - C. \$32 400
 - D. \$21 400
29. Which of the following is correct?
- A. Profit does not alter capital
 - B. Profit reduces capital
 - C. Capital can only come from profit
 - D. Profit increases capital
30. A cash discount is best described as a reduction in the sum to be paid
- A. If payment is made within a previously agreed period
 - B. If payment is made by cash, not cheque
 - C. If payment is made either by cash or cheque
 - D. If purchases are made for cash, not on credit.