ACCOUNTING FOR SECONDARY SCHOOLS

(First edition)

FELIX OUKO JOHN OKOTH GEORGE MBOYA

© Felix Ouko, 2022

All rights reserved. No part of this book may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording, or by any information storage and retrieval system, without the written permission of the Publisher, except where permitted by law.

ISBN-13: 9798513553052

Published and Printed by Elong'o Publishers

P.O Box 944, Narok Kenya

Email: info@elongopublishers.co.ke

Phone: +254742433826

Website: https://elongopublishers.co.ke

INTRODUCTION

Accounting for Secondary Schools has been authored with design, precision, and accuracy by a qualified teacher and examiner to enable students taking Business Studies to understand and tackle accounting questions appropriately and easily in examinations.

This book is elaborate with several examples that are simple and concise approaches and solutions that reinforce accounting knowledge. In addition, it has numerous questions at the end of every topic and some content on economics that require mathematical solutions. The topical questions are set in tandem with KCSE standards. It, therefore, guarantees excellence in the subject.

Students who drop Business Studies in earlier years of secondary education attribute this decision to fear of accounting. This book is therefore authored with the hope that many students will be able to take Business Studies as An Optional Technical Subject forthright. This will also be directly proportional to the number of students pursuing accounting as a career in universities and colleges.

Mr. Felix Ouko is a Teacher, and Examiner, having taught at Maseno School and Rockfield's Senior School. Mr. John Okoth is the current Deputy Principal (I) at Maseno School and a Senior Teacher of Accounting and Economics. Mr. George Mboya is a Certified Public Accountant (CPA), Teacher, and Examiner. He also has a Master's in Finance Management. This book is therefore authored with the need to demystify and simplify accounting to be an easy, relatable and practical subject of Business Studies.

TABLE OF CONTENT

CHAPTER 1 : DETERMINING NETWORTH OF A BUSINESS	1
CONCEPTS OF ASSETS, CAPITAL & LIABILITIES	1
ASSETS	1
LIABILITIES	2
CAPITAL /OWNERS CLAIM/OWNERS EQUITY	3
CHARACTERISTICS OF CAPITAL	3
BOOK KEEPING EQUATION	3
BALANCE SHEET	8
RULES IN PREPARATION OF A BALANCE SHEET	8
USES OF A BALANCE SHEET	19
CHAPTER 2: THE LEDGER AND TRIAL BALANCE	23
RECORDING INCREASE AND DECREASE OF ASSETS	24
RECORDING INCREASE OR DECREASE IN CAPITAL	26
RECORDING INCREASE & DECREASE IN LIABILITY & EXPENSES	29
RECORDING SALE AND PURCHASE OF STOCK	30
RECORDING RETURN OF GOODS	34
BALANCING OF LEDGER ACCOUNTS	36
ERRORS OF TRIAL BALANCE	42
CHAPTER 3: CASHBOOK	58
SINGLE COLUMN CASHBOOK	58
DOUBLE/ TWO COLUMN CASHBOOK	64
TRIPPLE/ THREE COLUMN CASHBOOK	69
CHAPTER 4: SOURCE DOCUMENTS	77
INVOICE	77
CREDIT NOTE	78
DEBIT NOTE	78
CASH RECEIPT	79
PAYMENT VOUCHER	79

JOURNALS/ BOOKS OF ORIGINAL ENTRY/ SUBSIDISRY BOOKS	80
SALES JOURNAL	
PURCHASES JOURNAL	
SALES RETURN / RETURN INWARDS JOURNAL	
PURCHASES RETURN/ RETURN OUTWARDS JOURNAL	
CASH RECEIPT JOURNAL	
CASH PAYMENT JOURNAL	114
GENERAL JOURNAL/ JOURNAL PROPER	
CHAPTER 5 : FINANCIAL STATEMENT	125
TRADING ACCOUNT	
DETERMINING GROSS PROFIT / GROSS LOSS	
FORMAT OF A TRADING ACCOUNT	
PROFIT & LOSS ACCOUNT	
CALCULATION OF NET PROFIT / NET LOSS	
TRADING PROFIT & LOSS ACCOUNT	141
CHAPTER 6 : FINANCIAL RATIOS	155
MARGIN	155
MARK UP	
RELATIONSHIP BETWEEN MARK UP AND MARGIN	
CURRENT RATIO/ WORKING CAPITAL RATIO	
RETURN ON CAPITAL	
ACID TEST/ LIQUIDITY RATIO/ QUICK RATIO	164
RATE OF STOCK TURNOVER	
TYPES OF CAPITAL IN A BALANCE SHEET	
CHAPTER 7 : CONSUMER PRICE INDEX	
MEASURING CPI USING SIMPLE AVERAGE	
MEASURING CPI USING WEIGHTED AVERAGE	
GLOSSARY	

NB: ATTEMPT THE QUESTIONS AFTER EVERY TOPIC

CHAPTER 1

DETERMINING NETWORTH OF A BUSINESS

CONCEPTS OF ASSETS, CAPITAL & LIABILITIES

ASSETS

These are resources, properties or possessions owned by the business. Assets have monetary value. Meaning that they can be quantified in terms of money. They are broadly categorized into two namely:

- Fixed assets
- Current assets

FIXED ASSETS

They are properties acquired for use by the business over a long period of time usually more than one year. They undergo appreciation or depreciation in value. They include;

- i. Furniture
- ii. Land
- iii. Buildings
- iv. Vehicles
- v. Machinery
- vi. Equipment

CURRENT ASSETS

Are assets acquired by the business for use for a short time usually not exceeding one year.

They do not undergo appreciation or depreciation of value. They include:

- i. Cash at hand
- ii. Cash at bank
- iii. Stock
- iv. Stationery
- v. Debts from debtors of the business
- vi. Prepayment

CHARACTERISTICS OF ASSETS

- i. They have monetary value
- ii. They are owned and controlled by the business
- iii. They are either fixed or current
- iv. Some appreciate or depreciate in value
- v. Their increase or decrease affect the value of capital

LIABILITIES

They are money or items that are borrowed by the business on credit. Individuals or institutions extending credit to businesses are creditors. Liabilities are classified into two:

- Long term liabilities
- Short term /current liabilities

LONG TERM LIABILITIES

Are liabilities whose repayment period exceed more than one year. They include.

- i. 2-year loan
- ii. Mortgages

SHORT TERM LIABILITIES

These are debts and liabilities owned by the business to other parties whose repayment period is not more than one year. They include:

- i. Stock bought on Credits.
- ii. Salaries and wages.
- iii. Expenses e.g. Electricity bill.
- iv. Overdrafts.
- v. Rent accruals.
- vi. Rent Owings

CHARACTERISTICS OF LIABILITIES

- i. They have monetary value.
- ii. Their increase or decrease affect Value of assets.
- iii. They are owned by outsiders (Creditors) to a business.
- iv. They have a repayment period i.e. more than or less than one year.

CAPITAL /OWNERS CLAIM/OWNERS EQUITY

These are money or items contributed by the owner of the business to start the business plus any additional profit that is reserved and ploughed back into the business. The value of capital is a determinant of the net worth of a business.

CHARACTERISTICS OF CAPITAL

- i. Are provided by owners of the business.
- ii. They have monetary value.
- iii. They increase due to increase in net profit or additional investments.
- iv. They decrease due to increase in net losses and drawings.

BOOK KEEPING EQUATION

It is an equation showing the relationship between Assets, Capital and Liabilities, where:

Assets= Capital + Liabilities

This therefore means that

- i. Capital=Assets Liabilities
- ii. Liabilities = Assets Capital

Fill the following table of capital, assets and liabilities

CONCEPT: Use and manipulate the book keeping equation as follows

$$A = C + L$$
$$C = A - L$$
$$L = A - C$$

Capital	Assets	Liabilities
	900,000	200,000
700,000		800,000
500,000	1,000,000	
	2,200,000	125,000
480,000	7,200,000	
503,000		300,000
	500,000	320,000
1,200,000		500,000
800,000		419,000

EXAMPLE 2

The following information belong to Tillen Traders.

Stock	50,000	Cash at hand	70,000
Furniture	190,000	Cash at bank	1,690,000
Debtors	209,000	Creditors	200,000
Bank overdraft	90,000	Motor vehicle	1,200,000
3-year loan	600,000	Salaries	200,000
Mortgage	500,000	Electricity bill	80,000
Stationery	100,000		

Find:

a) Fixed Assets

Fixed Assets = Furniture + Motor Vehicle Fixed Assets = 190,000 + 1,200,000 Fixed Assets = 1,390,000

b) Total Current Assets

Current Assets= Stock + Cash + Debtors + Stationery + Bank Current Assets = 50,000 + 70,000 + 209,000 + 100,000 + 1,690,000 Current Assets =2,119,000

c) Total Assets

Total Assets = Fixed Assets + Current Assets Total Assets = 1,390.000 + 2,119,000 Total Assets = 3,509,000

d) Total Current Liabilities

Current Liabilities = Creditors + Salaries + Bank Overdraft + Electricity Bill Current Liabilities = 200,000 + 200,000 + 90,000 + 80,000 Current Liabilities = 570,000

- e) Total Long-Term Liabilities
 Long-Term Liabilities= 3 Year Loan + Mortgage
 Long-term Liabilities = 600,000 +500,000
 Long-term Liabilities = 1,100,000
- f) Total Liabilities

Total Liabilities = Current Liabilities + Long-term Liabilities Total Liabilities = 570,000 + 1,100,000 Total Liabilities = 1,670,000 g) Capital

Capital = Assets – Liabilities Capital = 3,509,000 - 1,670,000Capital = 1,839,000

EXAMPLE 3

Fareed had the following items as at 5/7/20.

Building	500,000	Equipment	128,000
Motor Vehicle	250,000	Stock	360,000
Debtors	77,000	Bank	60,000
Cash	106,000	Bank Loan	600,000
Creditors	100,000	Overdraft	50,000

Calculate the amount of capital as at 5/7/20.

Capital = Assets – Liabilities

Assets = Buildings + Motor Vehicle + Debtors + Cash + Equipment + Stock + Bank Assets = 500,000 + 250,000 + 77,000 + 106,000 + 128,000 + 360,000 Assets = 1,421,000

Liabilities = Bank Loan + Creditors + Overdraft Liabilities = 600,000 + 100,000 + 50,000 Liabilities = 750,000

Capital = 1,421,000 - 750,000Capital = 671,000

The following information relates to Illa Traders as at 1st April 2020

Debtors	500,000	Overdraft	135,000
Creditors	95,000	Stock	1,000,000
Buildings	2,300,000	Bank loan	1,900,500
Cash at bank	700,000	Equipment	200,000

Find;

- a) Total Fixed Assets
 Fixed Assets = Buildings + Equipment
 Fixed Assets = 2,300,000 + 200,000
 Fixed Assets = 2,500,000
- b) Total Current Assets

Current Assets = Debtors + Cash at Bank + Stock Current Assets =500,000 + 700,000 + 1000, 000) Current Assets =2,200,000

c) Total Liabilities

Liabilities = Overdraft + Creditors+ Bank Loan Liabilities = 135,000+ 95,000+ 1,900,500 Liabilities =2,130,500

d) Capital

Capital=Assets – Liabilities Capital =4,700,000 -2,130,500 Capital = 2,569,500

BALANCE SHEET

It is a financial statement that shows the financial position of the business in terms of assets, capital and liabilities as at a particular date. A balance sheet is usually prepared at the end of a Trading/Accounting Period.

RULES IN PREPARATION OF A BALANCE SHEET

i. The name of the business must be stated as the tittle of the balance sheet at the middle.ie

TANGA TRADERS

ii. The word BALANCE SHEET must be written below the business name i.e.

TANGA TRADERS

BALANCE SHEET

iii. The date must be written AS AT a particular date i.e.

TANGA TRADERS

BALANCE SHEET

AS AT 31ST DEC 2020

- iv. If the balance sheet is in T format, then all ASSETS should be on the LEFT side of the balance sheet while CAPITAL and LIABILITIES on the RIGHT side of the balance sheet.
- v. On the right side of the balance sheet, all capital should be recorded before liabilities
- vi. On the left side of the balance sheet fixed assets should be recorded before current assets.
- vii. On the right side of the balance sheet long-term liabilities should be recorded before short term liabilities.
- viii. Because the balance sheet is a statement and not an account, the initials of DR {Debit} and CR {Credit} should not be used.
- ix. Totals of the balance sheet on the left side and on the right side MUST always balance. If not, then one should review the entries made.

TANGA TRADERS BALANCE SHEET AS AT 31ST DEC 2020

Assets	<u>Capital + Liabilities</u>
Fixed Assets	Capital
Motor Vehicle	
Furniture	<u>Liabilities</u>
Buildings	Long Term Liabilities
Machinery	3-Year Loan
Equipment	Mortgages
Land	Short Term Liabilities
Motorcycle	Creditors
Bicycle	Salaries And Wages
Current Assets	Electricity Bill
Stock	Bank Overdraft
Cash At Hand	
Cash At Bank	
Stationery	
Debtors	
Prepayment	
TOTALS	TOTALS

BALANCE SHEETS WITHOUT ADJUSTMENTS

EXAMPLE 5

Prepare a balance sheet of Wema traders using the information below for year ended 30/12/2020.

Cash at hand	17,000	Stock	10,000
Creditors	5,000	Motorcycle	50,000
Furniture	18,000	Premise	120,000
Debtors	19,000	3-year loan	91,000
Cash at bank	70,000		

WEMA TRADERS BALANCE SHEET AS AT 31ST DEC 2020

Assets		<u>Capital + Liabilities</u>	
Fixed Assets		Capital	208,000
Motor Cycle	50,000		
Furniture	18,000	<u>Liabilities</u>	
Premise	120,000	Long Term Liabilities	
		3-Year Loan	91,000
Current Assets			
Stock	10,000	<u>Short Term Liabilities</u>	
Cash At Hand	17,000	Creditors	5,000
Cash At Bank	70,000		
Debtors	19,000		
	304,000		304,000

The following information relates to Rie enterprises as at 31/12/2019

Creditor	600,000	Equipment	80,000
Motor vehicle	300,000	Prepayments	78,160
Bank loans	1,000,000	Buildings	5,000,000
Cash at bank	600,000	Cash at hand	100,000
Stock (1st Jan 20	20) 50,000	Debtor	200,000

Prepare Rie enterprises balance sheet and state the value of capital as at 31st Dec 2019

RIE ENTERPRISES

BALANCE SHEET

AS AT 31ST DEC 2019

<u>Fixed Assets</u>			
Motor Vehicle	300,000	Capital	5,758,160
Equipment	80,000		
Buildings	5,000,000		
Current Assets			
Cash at Hand	100,000	Current Liabilities	
Cash at Bank	600,000	Creditors	600,000
Debtors	200,000		
Prepayments	78,160		
	6,358,160		6,358,160

The following information relates to Illa traders as at 1st April 2019.

Debtors	500,000	Overdraft	135,000
Creditors	95,000	Stock	1,000,000
Buildings	2,300,000	Bank loan	1,900,500
Cash at bank	700,000	Equipment	200,000

Prepare Illa Traders Balance Sheet.

ILLA TRADERS

BALANCE SHEET

AS AT 1STAPRIL 2019

Fixed Assets		Capital	2,569,500
Equipment	200,000		
Buildings	2,300,000	Current Liabilities	
		Creditors	95,000
Current Assets		Overdraft	135,000
Debtors	500,000	Bank Loan	1,900,500
Stock	1,000,000		
Cash At Bank	700,000		
	4,700,000		4,700,000

Britney Enterprises had the following items as at 5/6/21.Prepare Britney Enterprises balance sheet.

Furniture	300,000	Motor vehicle	800,000
Cash	50,000	Bank	200,000
Prepayments	35,000	Rent income	20,000
Creditors	500,000	Debtors	49,000
Overdraft	300,000	Building	500,000
Machinery	400,000	Loan	1,000,000

BRITNEY ENTERPRISES

BALANCE SHEET

AS AT 5TH JUNE 2021

Fixed Assets		Capital	554,000
Furniture	300,000		
Motor Vehicle	800,000		
Building	500,000	Current Liabilities	
Machinery	400,000	Creditors	500,000
		Overdraft	300,000
Current Assets		Bank Loan	1,000,000
Prepayments	35,000		
Debtors	49,000		
Rent Income	20,000		
Bank	200,000		
Cash	50,000		
	2,354,000		2,354,000

BALANCE SHEETS WITH ADJUSTMENTS

Adjustments in the form of business transactions can be made on a balance sheet. Business transactions in the form of cash transactions and credit transactions have effect in items of the balance sheet either negatively or positively. Business transactions include:

- i. Cash Sale
- ii. Cash Purchases
- iii. Credit Sales
- iv. Credit Purchases

EFFECTS OF CASH SALES AND CASH PURCHASES ON THE BALANCE SHEET

EXAMPLE 9

Kinyua traders had the following items on their balance sheet as at 7/11 2017.

Cash	100,000
Bank	100,000
Capital	200,000
16/11/17 - Boug	ght stock worth 50,000 in cash.
20/11/17 - Sold	goods worth 30,000 in cash.

Prepare Kinyua traders balance sheet as at 20/Nov 2017.

The transaction on 16th introduces stock as an asset worth 50,000 and decreases cash by 50, 000.The transaction on the 20th reduces stock by 30,000 and increases cash by 30, 000.The new balance sheet items are;

Cash	(100,000 - 50,000) + 30,000
Stock	(50,000 - 30,000)
Bank	100,000
Capital	200,000

KINYYUA TRADERS BALANCE SHEET

AS AT 20/NOV 2017

Current Assets		<u>Capital</u>	
Cash	80,000	Capital	200,000
Stock	20,000		
Bank	100,000		
	200,000		200,000

EFFECTS OF CREDIT SALES AND CREDIT PURCHASES ON THE BALANCE SHEET

EXAMPLE 10

Ramba stores had the following balances as at 5/9/2019.

	Cash	300,000	Capital	700,000
	Stock	200,000	Premise	200,000
17/9/1	9 - Sold sto	ock worth 40,0	000 on credit	t .
18/9/1	9 - Acquire	ed stock worth	100,000 on	credit
Doub	a atawaa 1aa1			

Prepare Ramba stores balance sheet as at 20/9/19.

The transaction on 17/9/19 decreases stock by 40,000 and in turn introduces a debtor to the business of 40,000. On 18/9/19 - The stock account increases with 100,000 and a creditor of 100,000 is also introduced to the balance sheet items as follows;

Cash	300,000	Capital	700,000
Premise	200,000	Debtor	40,000
Creditor	100,000		
Stock	(200,000 -	40,000) + 1	00,000

RAMBA TRADERS BALANCE SHEET AS AT 20TH SEPT 2019

Current Assets		<u>Capital</u>	
Cash	300,000	Capital	700,000
Premise	200,000		
Stock	260,000	Current Liabilities	
Debtors	40,000	Creditor	100,000
	800,000		800,000

EFFECTS OF DRAWINGS, ADDITIONAL INVESTMENT, PROFIT AND LOSS ON CAPITAL IN A BALANCE SHEET

Drawings are cash or items taken from the business by the owners for personal use. They reduce capital and assets of the form in which they are drawn. Example;

15/1/19 - Joe withdrew 50,000 from the business for personal use.

Additional Investment are cash/ assets /items brought into the business by the owners. They increase capital and assets of the form in which they are added. Example;

17/2/20 - Mwita brought a personal pick up worth 500,000 to be used by the business for transportation.

Profits are gains made in the course of doing business. They increase capital and asset of the form in which they are added. Example;

20/4/18 - Sold stock worth 30,000 for 50,000 in cash.

Losses are reductions of assets and capital incurred by the business in the process of trading. Losses reduce assets and capital of a business. Example;

17/9/20 -Sold stock worth 50,000 for 40,000 in cash.

EXAMPLE 11

Tillen stores had the following items on their balance sheet as at 7/11/2017.

Building	700,000	Cash	500,000
Machinery	1,000,000	Motor vehicle	300,000
Bank	1,000,000	Capital	3,500,000

1/12- Withdrew 200,000 from the bank for personal use.

2/12- Bought a pick up worth 1000,000 to be used for transportation from his personal savings.

4/12- Ploughed back profit worth 300,000 9nto the business in the form of cash.

10/12- Business incurred a loss of 500,000 due to fire burning machinery.

Prepare Tillens balance sheet as at 5/12 2017.

CONCEPTS OF TRANSACTIONS

1/12- The **Drawing** of 200,000 reduces capital by 200,000. It also **reduces bank balances** by 200, 000. The new balances will therefore be:

Bank (1,000,000 -200,000) = 800,000 Capital (3,500,000- 200,000) =3,300,000

2/12- Additional Investment in the form of a pickup is added into the business. It therefore increases capital by 1000,000 and motor vehicle with 1000, 000. The new balance swill be:

Motor vehicle (300,000 + 1000, 000) =1300, 000 Capital (3300, 000 + 1000, 000) =4,300,000 4/12 - **Profit** of 300,000 ploughed back into the business **increases capital** by 300,000. It also **increases assets** in the form of cash by 300, 000. The new balances will therefore be:

Cash (500, 00 + 300,000) = 800,000 Capital (4300, 000 + 300,000) = 4,600,000

10/12 - A loss is incurred by the business due to fire. The machinery balance is reduced by 500,000 capital too is reduced by the same amount as follows:

Motor vehicle	1,300,000
Bank	800,000
Machinery	(100,000 - 500,000)
Building	700,000
Capital	(4,600,000-500,000)
Cash	800,000

TILLEN STORES

BALANCE SHEET

AS AT 5/12/2017

Fixed assets		<u>Capital</u>	
Buildings	700,000	Capital	4,100,000
Machinery	500,000		
Motor vehicle	1,300,000		
Current assets			
Bank	800,000		
Cash	800,000		
	4,100,000		4,100,000

USES OF A BALANCE SHEET

- i. It is used to determine the value of assets, capital and liabilities of a business.
- ii. It is used to compare performance of one business to another in terms of assets, capital and liabilities.
- iii. It is used by investors in making investment decisions pertaining to a particular business.
- iv. It is used by the government to determine corporate tax of a business.
- v. It is used by creditors of business to determine the credit worthiness before awarding loans and other financial assistance.

EXERCISE

1. The following balances were extracted from Toms Traders books as at $25^{\text{th}}/12/2015$.

Furniture	20,000	Prepayments	500,000
Creditors	7,000	Bank	1,200
Stock	3,000	Bank overdraft	8,000

In the last week of December, he made the following transactions.

Sold goods worth 2,500 on credit.

Purchases goods worth 3000 on credit.

Prepare Tom Traders balance sheet as at $31^{st}/12/2016$.

2. Jambo traders had the following balances as at 31^{st} April 2015.

Buildings	200,000	Debtors	8,000
Creditors	32,000	Stock	24,000
Cash	120,000	Bank	40,000
Loan	100,000	Capital	260,000

During the month of May, the following transactions took place.

Paid debts worth 90,000 in cash.

Sold goods worth 8400 in cash.

Received cash 2000 from a debtor.

Bought furniture at cash 20, 000.

Prepare Jambo Trades balance sheet as at 30/4 2015.

 The following balances of assets and liabilities belong to Merona traders as at 31st/12/ 2019.

Bank Overdraft	80,000	Stock	120,000
Land	200,000	Electricity	50,000

The business had drawings of 200,000 during the year. Prepare Merona Traders balance sheet.

4. The following balance sheet belong to Rua Traders as at 25th June 2016

RUA TRADERS BALANCE SHEET AS AT 25TH JUNE 2016

Buildings	400,000	Capital	800,000
Motor vehicle	250,000	Bank loan	540,000
Debtors	150,000	Creditors	60,000
Bank	600,000	Rent Owings	20,000
Stock	20,000		
	1,420,000		1,420,000

The following transactions took place in the subsequent week.

Rent owing's was fully cleared by cheque.

50,000 withdrawn from the business bank account for personal use.

Purchased goods worth 90,000 on credit.

Sold goods worth 50,000 for 65,000.

Prepare the new balance sheet as at 30th June 2016.

5. Ali's capital at the end of the year was 900, 000, during the year the following took place

Profit 200,000 Investment 90,000 Drawings 15,000

Determine Ali's initial capital.

6. The following opening balances were extracted from the books of Magana Traders

Furniture	56,000	Capital	80,000
Creditors	20,000	Debtors	25,000
Bank	11,000	Cash	8,000

The following transactions took place in the course of the month

Paid a creditor 45,000 in cash Took 3000 from bank for family use Bought stock of 18600 on credit Took a loan of 170,000 Purchased land worth 82,000 and paid by cheque Received 7300 from a debtor in cash

Prepare Magana Traders balance sheet at the end of June 2016.

7. The following balances were extracted from Blair traders on 31/1/2015

Machinery	80,000	Bank	350,000
Stock	30,000	Creditors	50,000
Debtors	20,000		

The following transactions took place in the month of February 2015.

2/2/2015 - Paid creditors 20,000 by cheque

27/2/2015 - Debtors paid 15,000 by cheque

Required: Prepare Blair's balance sheet as at 28/2/2015

8. Using + for **increase**, – for **decrease** and **o** for **no effect**, indicate the effect of the following transactions on assets, liabilities, capital and balance sheet totals

Transactions	Assets	Liabilities	Capital	Balance Sheet Totals
Bought goods worth 5000 on credit				
Sold goods worth 7000 in cash				
Took goods worth 12000 for personal				
use				
Added a personal motor vehicle worth				
1,000,000 for use by the business				
Bought furniture worth 30,000				
Made a loss of 60,000 from a business				
transaction				
Ploughed back a profit of 10,000 into				
the business				

CHAPTER 2: THE LEDGER AND TRIAL BALANCE

A ledger is a book of account where transactions are recorded. All transactions in a ledger must affect at least two ledger accounts. Ledgers use the Principle of Double Entry. Meaning that for every credit entry, there is a corresponding debit entry and vice versa

	DR			TITLE			CR
Date	Detail	Folio	Amount	Date	Detail	Folio	Amount

- i. **Tittle -** It records the name of the ledger account affected by a transaction. I.e. if a transaction affects cash account then the title of the account will be CASH A/C.
- ii. **Date** Indicates the date of transaction
- iii. **Details** It records the alternate account affected by the same transaction.
- iv. **Folio** It is used to record the classification of the affected ledger account and also for cross referencing. Ii can also be denoted as LF (Ledger Folio).
- v. **Amount** Records the amount involved in figures.
- vi. **Debit (DR)** Represents the left side of the ledger account.
- vii. Credit (CR) Represents the right side of the ledger account.

NB: The debit side and the credit side of ledger accounts are separated by a double line in the middle. Different rules are applied in making entries into different ledger accounts.

<u>RECORDING TRANSACTIONS INVOLVING INCREASE AND DECREASE OF</u> <u>ASSETS</u>

An increase in assets is debited while a decrease in assets is credited. Assets include Cash, Bank, Stock, Motor Vehicle, Buildings, Dividends, Furniture, Computer Photocopier, Prepayments etc.

EXAMPLE 1

July 5- Tillen bought a pickup worth 300,000 in cash.

This transaction affects motor vehicle account and cash account. Motor Vehicle Account will increase with 300,000 while Cash Account will reduce with 300,000. We therefore debit the increase in Motor Vehicle account and credit the decrease in Cash Account as follows;

DF	ĸ		Motor vehicle A/C				CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount	
5/7/19	Cash		300,000					

DR			Cash A/C			CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount	
				5/7/19	Motor		300,000	
					vehicle			

July 2/2019- Glen sold a building at 700,000 in cash.

This transaction will affect buildings account and cash account. Buildings Account will reduce by 500,000 and Cash Account will increase by 500,000. We therefore credit the decrease in Buildings Account and debit the increase in Cash Account as follows;

DR		Buildings A/C				C	R
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				7-2/19	Cash		700,000

DR

Cach	A/C
Cash	A/C

CR

Date	Detail	LF	Amount	Date	Detail	LF	Amount
July-2/19	Building		700,000				

EXAMPLE 3

Record the following transactions to a relevant ledger account.

2/1/2018 - Bought a building worth 3,000,000 in cash.

5/1/2018 - Sold motor vehicle worth 500,000 in cash.

17/1/2018 -Sold part of the building at 700,000 in cash.

19/1/2018 -Bought a motorbike at 200,000 in cash.

DR			Building A/C				CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount		
2/1/18	Cash		3,000,000	17/1/18	cash		700,000		

DR				Cash A/C	CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount
5/1/18	Motor vehicle		500,000	2/1/18	Building		3,000,000
17/2/18	Building		700,000	19/1/18	Motorbike		200,000

DR	Motor Vel			ehicle A/C			CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount	
				5/1/18	cash		500,000	

DR			Moto	orbike A/C		(CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount	
19/1/18	Cash		200,000					

RECORDING INCREASE OR DECREASE IN CAPITAL.

An increase in capital is credited while a decrease in capital is debited.

EXAMPLE 4

7/2/2018- Started a business with 800,000 in cash and 500,000 at bank.

This transaction will affect Capital, Cash and Bank Accounts. Capital will increase by 800,000 and 500,000 respectively. We therefore credit Capital Account by these two amounts. Cash Account will also increase with 800,000 and Bank Account with 500,000, being increase in assets we therefore debit both Cash and Bank Account;

D	DR Capital A/C						CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount		
				7/2/18	Cash		800,000		
				7/2/18	Bank		500,000		
D	DR Cash A/C					CR			

Date	Detail	LF	Amount	Date	Detail	LF	Amount
7/2/18	capital		800,000				

D	R	Bank A/C					CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
7/2/18	capital		500,000				

12/1/2015 - Mathew added 1,000,000 into the business in the form of cash.

This transaction will affect Capital and Cash Accounts. There will be increase in Capital with 1,000,000 therefore we credit Capital Account. There will also be increase in Cash Account therefore we also debit Cash Account being that it is an asset with 1,000,000.

DR Capital A/C							CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				12/1/15	Cash		1,000,000

DR Cash A/C				sh A/C			CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
12/1/15	Capital		1,000,000				

EXAMPLE 6

DR

Record the following transactions into their relevant ledger accounts

5/3/20 - Started a business with 300,000 in cash and 500,000 at bank

13/3/20 - Deposited 100,000 from his personal savings to the business via a cheque

31/3/20 - Made profit of 150,000 and ploughed it back to the business in the form of cash.

Cash A/C

CR

Date	Detail	LF	Amount	Date	Detail	LF	Amount
5/3/20	Capital		300,000				
31/3/20	Profit		150,000				

E	R			Bank A		CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount
5/3/20	Capital		500,000				
13/3/20	Additional		100,000				
	Investment						

DR				Capital A/	CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				5/3/20	Cash		300,000
				5/3/20	Bank		500,000
				13/3/20	Additional		100,000
					Investment		
				31/3/20	Profit		150,000

<u>RECORDING TRANSACTIONS INVOLVING INCREASE & DECREASE IN</u> <u>LIABILITY & EXPENSES</u>

An increase in liability is credited while a decrease in liability is debited. Expenses are examples of liability.

EXAMPLE 7

19/1/20- John borrowed a loan of 500,000 through his bank account

This transaction involves a liability in the form of a loan. It therefore affects Loan Account and Bank Account. We credit the increase in liability and debit the increase in Bank Account with 500,000 as follows;

DR		Loan A/C				CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				19/1/20	Bank		500,000

DR			Bank A/C				CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount	
19/1/20	Loan		500,000					

EXAMPLE 8

Record the following to relevant ledger accounts of Adipo Traders

14/2/17 - Paid back a loan of 180,000 in cash

20/2/17 - Paid electricity bill of 90,000 in cash

25/2/17 - Paid salaries of 100,000 in cash

On 14/2/17 - This transaction affects Loan and Cash Account. There is a decrease in liability in the form of a loan by 180,000. We debit Loan Account by a similar amount. We also credit Cash Account by 180,000.

On 20/2/17 - This transaction affects Electricity Account and Cash Account. There is decrease in liability by 90,000. Therefore, we debit Electricity Account and credit Cash Account by 90,000.

On 25/2/17 - This transaction affects Salaries Account and Cash Account. There is a decrease in liability (salaries) by 90,000. We therefore debit Salaries Account;

DR			Loan A/C			CR			
Date	Detail	LF	Amount	Date	Detail	LF	Amount		
14/2/17	Cash		180,000						
					·				
DR			С		CR				
Date	Detail	LF	Amount	Date	Detail	LF	Amount		
				14/2/17	Loan		180,000		
				20/2/17	Electricity		90,000		
				25/2/17	Salaries		100,000		
DR			Electricity A/C				CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount		
20/2/17	Cash		90,000						
DR			Salaries A/C				CR		
				r i					

Date	Detail	LF	Amount	Date	Detail	LF	Amount
25/2/17	Cash		100,000				

RECORDING SALE AND PURCHASE OF STOCK

Sales is disposal of goods in exchange for money or on credit. If goods are disposed for cash, then that is **Cash Sales**. However, when they are disposed on credit then that is **Credit Sales**. Debtors are individuals or businesses who owe the business as a result of credit sales.
Purchase is acquisition of new stock of goods in exchange of either cash or credit. When stock is acquired in cash then those are **Cash Purchases**. However, when acquired on credit then that is **Credit Purchases**. **Creditors** are those who lend the business stock on credit /credit purchases

NB: Sales and Purchases are recorded in either sales account or purchases account. There is no stock account.

EXAMPLE 9

Record the following transactions to their relevant ledger accounts.

7/8/17- Bought stock worth 90,000 from Vicmass on credit.9/8/17 -Sold goods worth 80,000 in cash.

On 7/8/17 credit purchases of 90,000 was made. Purchases Account and a Creditor's Account (Vicmass) are involved. We debit Purchases Account and credit Vicmass Account with 90,000 respectively.

On 9/8/17 cash sales of 80,000 was made. Sales Account and Cash Account are involved. We credit Sales Account and debit Cash Account with 80,000 respectively.

DR		Purchases A/C					CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount		
7/8/17	Vicmass		90,000						

D	R	Vicmass A/C					CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount		
				7/8/17	Purchases		90,000		

D	R	Sales A/C					CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount	
				9/8/17	cash		80,000	

D	R	Cash A/C					CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount		
9/8/17	sales		80,000						

EXAMPLE 10

Record the following transactions on relevant ledger accounts.

5/4/17- Acquired stock worth 400,000 in cash.

6/4/17-Sold goods worth 50,000 to Tillen on credit.

7/4/17- Bought stock worth 60,000 from Larry traders on credit.

9/4/17 -Sold goods worth 400,000 and was paid by cheque.

On 5/4/17 Cash Purchases of 400,000 is made. Purchases Account and Cash Account are involved. We debit Purchases Account and credit Cash Account with 400,000 respectively.

On 6/4/17 credit sales of 50,000 is made. Sales account and a debtor's account (Tillen) are involved. We credit sales account and debit Tillen's account with 50,000 respectively.

On 7/4/17 credit purchases of 60,000 was made. Purchases Account and a Creditor's Account (Larry Traders) are involved. We debit Purchases Account and credit Larry Traders Account with 60,000 respectively.

On 9/4/17 sales of 400,000 was made through bank. Sales Account and Bank Accounts are involved. We credit Sales Account and debit Bank Account with 400,000 respectively.

DR Purchase				es A/C			CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
5/4/17	Cash		400,000				
7/4/17	Larry		60,000				

DR			Cash	CR			
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				5/4/17	Purchases		400,000

DR			Sales A/C				CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				6/4/17	Tillen		50,000
				9/4/17	bank		400,000

DR			Tille	Tillen A/C				
Date	Detail	LF	Amount	Date	Detail	LF	Amount	
6/4/7	Sales		50,000					

DR		Larry A/C					CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount		
				7/4/17	Purchases		60,000		

D	DR Ban			ank A/C			CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
9/4/17	Sales		400,000				

RECORDING RETURN OF GOODS

Stock of goods which was previously sold or purchased can be returned. If stock that was sold to a buyer are returned by that buyer, then that is referred to **Sales Return** or **Return Inwards**.

Stock acquired or purchased by the business can also be returned to their originators. This is **Purchases Return** or **Return Outwards.**

EXAMPLE 11

Record the following transactions on relevant ledger accounts.

11/7/18 -Mwale returned goods worth 50,000 that were sold to him on credit.

13/7/18 -Returned goods worth 70,000 to Arunga stores for cash.

17/7/18- Returned defective goods worth 78,000 to Chatu Traders, a creditor.

On 11/7/18, Goods worth 50,000 are returned back to the business by Mwale, a debtor. Sales Return Account and Mwale, A Debtors Account are affected. We debit Sales Return Account with 50,000 and credit Mwale Account with 50,000.

On 13/7/18, Goods worth 70,000 are returned by the business to Arunga Stores. Purchases Return and Cash Account are affected. We credit Purchase Return Account with 70,000 and debit Cash Account with 70,000.

On 17/7/18, goods worth 78,000 are returned by the business to Chatu Traders, a creditor. We credit purchases return account with 78,000 and debit Chatu Traders account with 78,000

DR			Sales Return A/C				CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
11/7/18	Mwale		50,000				

DR			My	CR			
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				11/7/18	Sales		50,000
					Return		

D	DR Purchases				Ϋ́C		CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				13/7/18	Cash		70,000
				17/7/18	Chatu		78,000
					Traders		

DR				CR			
Date	Detail	LF	Amount	Date	Detail	LF	Amount
13/7/18	Purchases		70,000				
	Return						

DR			Ch	CR			
Date	Detail	LF	Amount	Date	Detail	LF	Amount
17/7/18	Purchases		78,000				
	Return						

BALANCING OF LEDGER ACCOUNTS

Assuming that Sarah traders had the following ledger account

DR	Sarah A/C					CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount	
7/4/19	Cash		700,000	19/4/19	Purchases		500,000	
17/4/19	Bank		190,000	21/4/19	Bank		60,000	
18/4/19	furniture		89,000					
			<u>979,000</u>				<u>560,000</u>	

This ledger account is not balanced because the total on the debit side do not tally with the total on the credit side. For a ledger to balance then the following equation applies

Total on CR = Total on DR

We balance the ledger as follows

Seek the side with a higher total by adding the entries
 DR TOTAL = 700,000+ 190,000 + 89,000 = 979,000
 CR TOTAL = 500,000 + 60,000 = 560,000

ii. Find the difference between the totals

979,000 - 560,000 = 419,000

- iii. Note that this difference is to be posted on the ledger account on the lesser side as balance carried down (c/d) and on the higher side as balance brought down (b/d)
- iv. The higher total is recorded on both sides of the ledger totals
- v. Balance carried down (c/d) is posted as a ledger entry at a particular date on the lesser side of the ledger below other entries and just above the leger total

vi. Balance brought down (b/d) is posted on the higher side of the ledger just below the total as ledger entry at a particular date as follows.

NB: Any balance carried down must be carried down.

DR			Sarah A/C	2			CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
7/4/19	Cash		700,000	19/4/19	Purchases		500,000
17/4/19	Bank		190,000	21/4/19	Bank		60,000
18/4/19	Furniture		89,000	30/4/19	Balance c/d		419,000
			<u>979,000</u>				<u>979,000</u>
30/4/19	Balance b/d		419,000				

Balance the following ledger accounts.

DR Larry Tra			Larry Trac	raders A/C CR			
Date	Detail	LF	Amount	Date	Detail	LF	Amount
7/1/19	Cash		800,000	19/1/19	Cash		300,000
17/1/19	Bank		700,000	21/1/19	Bank		160,000
18/1/19	Loan		130,000	23/1/19	Electricity		20,000
25/1/19	Furniture		100,000				

DR

Cash A/C

Date	Detail	LF	Amount	Date	Detail	LF	Amount
7/4/19	Mwale		700,000				

DR			Bank A/C				CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount		
				1/2/19	Furniture		80,000		

DR			Cash A/C				CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount		
2/8/17	Cash		900,000	1/8/17	Otieno		60,000		
3/8/17	Bank		70,000	5/8/17	Wamalwa		120,000		
7/8/17	Electricity		60,000	18/8/17	Purchases		700,000		
				20,8/17	William		500,000		

EXAMPLE 12

Record the following transactions belonging to Alpha Traders and balance them off:

2/4/15-Purchased a photocopier with 80,000 and paid by cheque.

5/4/15-Acquired stock worth 200,000 and paid in cash.

7/4/15-Sold goods worth 86,000 to Mwangi traders on credit.

15/4/15-Took a loan of 590,000 from equity bank.

19/4/15-Bought a delivery bike for 100,000 through a cheque.

21/4/15-Mwangi paid 70,000 in cash and 16,000 by cheque for a debt.

30/4/15-Paid salaries of 300,000 by cheque.

		CR		
Detail LF	Amount Date	Detail	LF	Amount
5 Bank	<u>80,000</u> 30/4/15	Balance		<u>80,000</u>
15 Balance b/d	80,000	c/d		
DetailLF5Bank15Balance b/d	Amount Date <u>80,000</u> 30/4/15 80,000 20/4/15	Detail Balance c/d	LF	Amou <u>80,00</u>

DF	DR Bank A/C						CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
14/4/15	Loan		590,000	2/4/15	Photocopier		80,000
21/4/15	Mwangi		16,000	17/4/15	Motorbike		100,000
				30/4/15	Salaries		300,000
				30/4/15	Balance c/d		126,000
			<u>606,000</u>				<u>606,000</u>
30/4/15	Balance b/d		126,000				

DF	R	Purchases A/C					CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount		
5/4/15	Cash		<u>200,000</u>	30/4/15	Balance c/d		<u>200,000</u>		
30/4/15	Balance b/d		200,000						

Cash A/C			CR
Date	Detail	LF	Amount
5/4/15	Purchases		<u>200,000</u>
			<u>200,000</u>
30/4/15	Balance b/d		130,000
	Cash A/C Date 5/4/15 30/4/15	Cash A/C Date Detail 5/4/15 Purchases 30/4/15 Balance b/d	Date Detail LF 5/4/15 Purchases 30/4/15 Balance b/d

DF	R	Sales A/C			Sales A/C					CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount			
30/4/17	Balance c/d		<u>86,000</u>	7/4/15	Mwangi		<u>86,000</u>			
				30/4/15	Balance b/d		86,000			

Ι	DR	Mwangi A/C				CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount
7/4/15	Sales		86,000	21/4/15	Cash		70,000
				21/4/15	bank		16,000
			<u>86,000</u>				<u>86,000</u>

Ι	DR	Loan A/C				CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount
30/4/15	Balance c/d		<u>590,000</u>	14/4/15	Bank		<u>590,000</u>
				30/4/15	Balance b/d		590,000

Ι	DR		Motorbike A/C				CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
17/4/15	Bank		<u>100,000</u>	30/4/15	Balance c/d		<u>100,000</u>
30/4/15	Balance b/d		100,000				

DR			Salaries A/C				CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
30/4/15	Bank		<u>300,000</u>	30/4/15	Balance c/d		<u>300,000</u>
30/4/15	Balance b/d		300,000				

The balances brought down from the above ledger entries are:

Ledger account	DR	CR
Photocopier	80,000	
Bank	126,000	
Purchases	200,000	
Cash		130,000
Sales		86,000
Mwangi		
Loan		590,000
Motorbike	100,000	
Salaries	300,000	

We can use this information to prepare a trial balance as follows.

ALPHA TRADERS

TRIAL BALANCE

AS AT 30/4/15

LEGDER ACCOUNT	DR	CR
Photocopier	80,000	
Bank	126,000	
Purchases	200,000	
Cash		130,000
Sales		86,000
Loan		590,000
Motorbike	100,000	
Salaries	300,000	
TOTALS	<u>806,000</u>	<u>806,000</u>

NB: A trial balance is a statement that shows that balances brought down from ledger accounts were correctly entered. If the totals of both the debit and credit side are equal then the ledger entries are correct. However, in case the total on the debit side is not equal to the total of the credit side then it means that the ledger entries are inappropriate.

ERRORS OF TRIAL BALANCE

Errors of a trial balance are broadly classified into two namely:

- I. Errors that can be detected by a trial balance.
- II. Errors that cannot be detected by a trial balance.

ERRORS THAT CAN BE DETECTED BY A TRIAL BALANCE

These errors cause a trial balance not to balance. Mostly they arise from ledger account entries or in transposing of balances brought down to the trial balance. They include:

- a) Recording of a transaction only in one ledger account.
- b) Transferring/posting a wrong balance brought down (b/d) to a trial balance.
- c) Posting a balance b/d on the wrong side of a trial balance.
- d) Entering different amounts of the same transaction in affected ledger accounts.
- e) Recording a transaction on the same side of affected accounts
- f) Arithmetic errors due to wrong addition or subtraction of figures.

A. Recording of a transaction only in one ledger account i.e.

17/7 started a business with 500,000 in cash and 800,000 in bank.

	DR		Cash	n A/C		(CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
17/7	Capital		<u>500,000</u>	31/7	Balance c/d		<u>500,000</u>
31/7	Balance b/d		500,000				

	DR			Bank	A/C		CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
17/7	Capital		800,000	31/7	Balance c/d		<u>800,000</u>
31/7	Balance b/d		800,000				

Assuming that these two accounts are opened then balanced off and capital account is not opened then the balances recorded in a trial balance as follows;

TRIAL BALANCE

Ledger account	DR	CR
Cash	500,000	
Bank	800,000	
TOTALS	<u>1,300,000</u>	

This trial balance does not balance because capital account was not created.

B. Transferring/posting a wrong balance brought down(b/d) to atrial balance

26/2 -Tambo acquired stock of 100,000 by cash.

DR Purch			nases A/C			CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount
26/2	Cash		<u>100,000</u>	28/2	Balance c/d		<u>100,000</u>
28/2	Balance b/d		100,000				

DR			Cash A/C			CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount	
26/2	Balance c/d		<u>100,000</u>	26/2	Purchases		<u>100,000</u>	
				28/2	Balance b/d		100,000	

Assuming that in the purchases account, we transfer a balance b/d of 400,000 instead of 100,000 to atrial balance as follows then if fails to balance as follows;

TRIAL BALANCE

Ledger account	DR	CR
purchases	400,000	
Cash		100,000
TOTALS	<u>400,000</u>	<u>100,000</u>

C. Posting a balance b/d on the wrong side of a trial balance.

5/7 - Ochar traders bought furniture worth 60,000 in cash.

9/8 - Took a loan of 300,000 from equity bank and received the amount in cash.

DR Fu			Furnitu	re A/C			CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
5/7	Cash		<u>60,000</u>	31/7	Balance c/d		<u>60,000</u>
31/7	Balance b/d		60,000				

	DR			CR			
Date	Detail	LF	Amount	Date	Detail	LF	Amount
9/8	Loan		300,000	5/7	Furniture		60,000
				31/7	Balance c/d		240,000
			<u>300,000</u>				<u>300,000</u>
31/8	Balance b/d		240,000				

	DR Loan A/C			A/C		CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount
31/8	Balance c/d		<u>300,000</u>	9/8	Cash		<u>300,000</u>
				31/8	Balance b/d		300,000

Assuming that a balance to be posted on the debit side is posted on the credit side of the trial balance and other balances posted correctly, the trial balance will not balance.

TRIAL BALANCE

Ledger Account	DR	CR
Furniture		60,000
Cash	240,000	
Loan		300,000
TOTALS	<u>240,000</u>	<u>360,000</u>

D. Entering different amounts of the same transaction in affected ledger accounts.

17/3 - Sold goods of 900,000 in cash.

DR Sales			A/C			CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount
31/3	Balance c/d		<u>900,000</u>	17/3	Cash		<u>900,000</u>
				31/3	Balance b/d		900,000

DR			Cash A/C				CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount	
17/3	Sales Balance b/d		<u>90,000</u>	31/8	Balance c/d		<u>90,000</u>	
17/3			90,000					

TRIAL BALANCE

DR	CR
	900,000
90,000	
<u>90,000</u>	<u>900,000</u>
	DR 90,000 <u>90,000</u>

E. Recording a transaction on the same side of affected accounts. For example, on the debit side only or on the credit side only.

19/4 - Acquired stock worth 500,000 and paid by cheque.

Ι	OR	Purchases A/C				CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount
30/4	Balance c/d		<u>500,000</u>	19/4	Purchases		<u>500,000</u>
				30/4	Balance b/d		500,000

DR Bank			k A/C CR			CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount
30/4	Balance c/d		<u>500,000</u>	19/4	Purchases		<u>500,000</u>
				30/4	Balance b/d		500,000

TRIAL BALANCE

Ledger account	DR	CR
Purchases		500,000
Bank		500,000
TOTALS		<u>1000,000</u>

F. Arithmetic errors

These occur during balancing of ledger accounts due to wrong addition or subtraction.

ERRORS THAT CANNOT BE DETECTED BY A TRIAL BALANCE.

These are errors which even made the trial balance would still balance. They include:

- A. Error of total omission
- B. Error of original entry
- C. Error of commission
- D. Compensating errors
- E. Error of principle
- F. Error of complete reversal

A. Error of total omission

It happens when a transaction takes place and no detail of it is recorded in a ledger document and consequently to a trial balance.

B. Error of original entry

Happens when amount of a transaction is altered and recorded in affected ledger account then the altered amount transferred to a trial balance.ie recording 20,000 instead of 200,000 as follows.

DR			Sales A/C			C	R
Date	Detail	LF	Amount	Date	Detail	LF	Amount
26/9	Balance c/d		<u>20,000</u>	26/9	Purchases		<u>20,000</u>
				26/9	Balance b/d		20,000

26/9/18 - Alvin Traders sold goods worth 200,000 in cash.

	DR		Cash A	A/C			CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
26/9	Sales		<u>20,000</u>	26/9	Balance c/d		<u>20,000</u>
26/9	Balance b/d		20,000				

ALVIN TRADERS

TRIAL BALANCE

AS AT 26/9/16

Ledger Account	DR	CR
Sales		20,000
Cash	20,000	
TOTALS	<u>20,000</u>	<u>20,000</u>

Note that even with this error of original entry the trial balance still balances.

C. Error of commission

This error occurs when entries are alternated because of confusion due to similarity of names of a given class of accounts.

17/7 - Sold goods worth 20,000 to Tanya on credit.

20/7 - Received 50,000 from Tanga for payment of goods that were sold on credit. NB: Both Tanya and Tanga belong to the same class of account of debtors.

	DR		Sales	s A/C			CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
17/7	Balance c/d		<u>20,000</u>	26/9	Tanga		<u>20,000</u>
				26/9	Balance b/d		20,000

	DR	Tanya A/C					CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
17/7	Sales		20,000	20/7	Cash		50,000
26/9	Balance c/d		30,000				
			<u>50,000</u>				<u>50,000</u>
				26/9	Balance b/d		30,000

	DR	Cash A/C				CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount
20/7	Tanya		<u>50,000</u>	20/7	Balance c/d		<u>50,000</u>
20/7	Balance b/d		20,000				

TRIAL BALANCE

AS AT 26/9/16

Ledger Account	DR	CR
Sales		20,000
Tanya		30,000
cash	50,000	
TOTALS	<u>50,000</u>	<u>50,000</u>

The trial balance balanced even though there was confusion in the two debtors' accounts of Tanya and Tanga.

D. Compensating errors

These are two errors whose effect cancel out in both sides of a ledger account.

17/9 - Purchased goods worth 500,000 in cash.

21/9 - Sold goods worth 500,000 in cash.

DR		Purchases A/C				CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount
17/9	cash		<u>500,000</u>	17/9	Balance c/d		<u>50,000</u>
17/9	Balance b/d		500.000				

Ι	DR	Cash A/C					CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
17/9	Sales		<u>500,000</u>	21/9	Purchases		<u>500,000</u>

Ι	DR	Sales A/C				CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount
21/9	Balance c/d		<u>500,000</u>	21/9	Cash		<u>500,000</u>
				21/9	Balance b/d		500,000

NB: In the cash account, the balance on the debit side cancels with the balance on the credit side and so no balance is brought down to a trial balance.

TRIAL BALANCE

AS AT 26/9/16

Ledger Account	DR	CR
Purchases	500,000	
Sales		500,000
TOTALS	<u>500,000</u>	<u>500,000</u>

E. Error of principle

It happens when a transaction is recorded in a different class of accounts. A transaction involving assets is recorded in expenses account and vice versa.

26/8 - Bought motor vehicle worth 500,000 in cash.

29/8 - Paid motor vehicle insurance of 50,000 in cash.

Assuming that in the entries, Motor Vehicle (An Asset) is recorded as a liability and Insurance (A Liability) treated as an asset as follows.

	DR	Motor vehicle A/C					CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
29/	Balance c/d		<u>50,000</u>	22/8	Cash		<u>50,000</u>
				21/9	Balance b/d		50,000

	DR Insurar						CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
26/8	cash		<u>500,000</u>	26/8	Balance c/d		<u>500,000</u>
26/8	Balance b/d		500,000				

DR

Cash A/C

CR

Date	Detail	LF	Amount	Date	Detail	LF	Amount
26/8	Motor vehicle		50,000	26/8	Insurance		<u>500,000</u>
	Balance c/d						
29/8			450,000				
			<u>500,000</u>				<u>500,000</u>
				29/8	Balance b/d		450,000

TRIAL BALANCE

AS AT 26/9/16

Ledger Account	DR	CR
Motor vehicle		50,000
Insurance	500,000	
cash		450,000
TOTALS	<u>500,000</u>	<u>500,000</u>

F. Error of complete reversal

It happens when transactions are recorded on the opposite side of ledger account. I.e. when a transaction that should be recorded on the credit side is recorded on the debit side of affected account and that which should be recorded on the debit side is recorded in the credit side. The trial balance still balances at this point.

14/1- Started a business with 500,000 in cash and 600,000 at bank.

DR Casl				h A/C			CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
14/1	Balance c/d		<u>500,000</u>	14/1	Cash		<u>500,000</u>
				14/1	Balance b/d		500,000

DR			Capital A/C				CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount		
14/1	Cash		500,000	14/1	Balance c/d		1100,000		
14/1	Bank		600,000						
	Balance b/d		<u>1100,000</u>				<u>1100,000</u>		

Ι	DR	Bank A/C				CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount
14/1	Balance c/d		<u>600,000</u>	14/1	Cash		<u>600,000</u>
				14/1	Balance b/d		600,000

TRIAL BALANCE

AS AT 26/9/16

Ledger Account	DR	CR
Cash		500,000
Capital	1100,000	
Bank		600,000
TOTALS	<u>1100,000</u>	<u>1100,000</u>

EXERCISE

1. Record the following transactions into respective ledger accounts.

5/8 - Started a business with 500,000 in cash and an overdraft of 60,000.

8/8 - Brought a personal motor vehicle worth 2,000,000 to be used by the business.

9/8 - Made a profit of cash 80,000 from a business transaction.

10/8 - Sold goods worth 50,000 and was paid by cheque.

11/8 - Withdrew 100,000 from bank account for personal use.

13/8 - Purchased furniture worth 90,000 in cash.

14/8 - Purchased stock worth 50,000 from Banda on credit.

2. Balance the following ledger accounts.

DR			Purchases A/C			CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount	
8/4	Cash		206,000	20/4	Furniture		230,000	
20/4	Bank		145,000					

DR			Motor ve	ehicle A/C	CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				5/1/18	Cash		500,000

DR			Bank A/C			CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount	
15/4	Bank		700,000	23/4	Cash		100,000	
15/4	Cash		100,000	19/4	Bank		90,000	
				24/4	Repairs		81,000	

DR He			Iella A/C	ella A/C			CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount		
22/4	Cash		50,000	22/4	Discount		87,300		
25/4	Drawing		5,000	25/4	Stationery		15,800		
25/4	Expenses		2,700						
25/4	Cash		58,200						

3. Record the following transactions into their relevant ledger accounts.

15/9 - Started a business with 300,000 in cash and 500,000 at bank.

16/9 - Purchased goods worth 90,000 on credit from Oyamo Traders.

18/9 - Took 1,000,000 from his personal savings to the business via a cheque.

19/9 - Made profit of 1500,000 and ploughed it back to the business.

20/9 - Sold goods worth 28,000 to Nasike on credit.

23/9 - Returned goods worth 20,000 to Oyamo Traders.

4. Record the following information in ledger accounts and balance them off then prepare appropriate trial balance for Wenwa traders.

5/5 - Started a business with 500,000 at bank and 100,000 in cash.

7/5 - Acquired stock worth 180,000 by cheque.

14/5 - Took a loan of 1,000,000 from NIC bank and amount was deposited in business account.

19/5 - Repaid a loan by 100,000 in cheque.

20/5 - Sold goods worth 90,000 to Mwangi on credit.

23/5 - Paid electricity bill of 90,000 by cash.

27/5 - Bought furniture worth 60,000 and paid by cash.

29/5 - Received 60,000 from Wamalwa a debtor in cash.

30/5 - Paid salaries worth 250,000 in cash.

- 5. Record and balance ledger accounts belonging to Olumbe stores and thereafter prepare a trial balance as at 7/6/14.
 - 5/2 Started business with 500,000 at Bank and 300,000 in Cash.
 - 7/2 Acquired stock worth 90,000 from Nisha on credit.
 - 9/2 Returned defective goods worth 20,000 to Nisha.
 - 15/2 Made credit sales of 30,000 to Mark.
 - 16/2 Sold goods worth 30,000 to Lucy who paid 15,000 by cheque and the rest in cash.
 - 17/2 Took a loan of 300,000 from equity bank.
 - 19/2 Withdrew 50,000 from the bank for personal use.
 - 20/2 Made a profit of 20,000 and ploughed it back to the business.
 - 21/2 Paid salaries with 200,000 in cash and 100,000 in bank.
- 6. Manga traders had the following transactions. Record then and extract a trial balance after balancing them off.
 - 1/1 Balances b/d cash 1500,000 and bank 1000,000.
 - 2/2 Purchased office equipment worth 60,000 through the bank.
 - 3/2 Bought stock worth 70,000 by cheque.
 - 9/2 Withdrew 60,000 from bank account for use as office petty cash.
 - 10/2 Mwangi returned goods worth 60, 000 to the business.
 - 14/2 Sold goods worth 60,000 on credit to Lizzy.
 - 15/2 Returned office equipment worth 20,000 for cash.
 - 19/2 Sold goods worth 5000 and deposited amount to bank account.
 - 25/2 Paid insurance fees of 60,000 in cash.

7. Identify and narrate the transactions on 19/5/21 and 21/5/21.

DR	R Sales Ret			turn A/C		CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount
19/5/21	Chiriku		500,000				

DR			Chir	CR			
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				19/5/21	Sales		500,000
					Return		

DR			Purcha		CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				21/5/21	Cash		700,000

DR			Cash		CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount
21/5/21	Purchases		700,000				
	Return						

- 8. Record the following transactions to respective ledger accounts, balance them off and extract a trial balance.
 - 1/7 Cash balance of 800,000 and bank (CR) 520,000.
 - 3/7 Bought a motorcycle for 20,000 in cash and 80,000 by cheque.
 - 4/7 Purchased stock worth 50,000 from Rioba on credit.
 - 7/7 Bought a computer by 15000 in cash.
 - 8/7 Withdrew 50,000 from bank to cash till.
 - 9/7 Made cash sales of 60,000.
 - 11/7 Received a cheque of 30,000 from Muni a debtor.
 - 18/7 Bought furniture for 15,000 in cash and 20,000 by cheque.
 - 20/7 Returned goods worth 20,000 to Rioba.

CHAPTER 3: CASHBOOK

A cashbook is a special ledger where cash at hand and cash at bank and at times discount is recorded. We have the following types of cashbooks.

- a) Single column cashbook.
- b) Double column cashbook.
- c) Three column cashbook.

A cashbook only records cash transactions and therefore no credit transactions or deferred payment is recorded in a cashbook.

A contra entry transaction denoted by letter "C" in a cashbook is a transaction that affects both cash at hand and cash at bank simultaneously in a cashbook.

NB: All incomes in a cashbook are recorded in the debit side of any cashbook while all withdrawals on the credit side of a cashbook.

SINGLE COLUMN CASHBOOK

It is a cashbook that records Cash at Hand separately from Cash at Bank.ie

CASH AT HAND

DR

SINGLE COLUMN CASHBOOK

CR

Date	Detail	LF	Amount	Date	Detail	LF	Amount

CASH AT BANK

DR

SINGLE COLUMN CASHBOOK

Date	Detail	LF	Amount	Date	Detail	LF	Amount

Entering transactions in a single column cashbook.

I. Contra transaction.

These two transactions are contra because they affect both Cash at Hand and Cash at Bank simultaneously. In entering them in the cashbook the first transaction is C1 and the second one C2.

EXAMPLE 1

The following information relates to Carlton enterprises in February 2014

- 1/2 Started business with 400,000 in bank and 50,000 cash.
- 3/2 Purchased a building worth 500,000 from bank loan.
- 7/2 Purchased goods worth 20,000 by cheque.
- 12/2 Repaid part of the bank loan 200,000 by cheque.
- 15/2 Purchased goods worth 90,000 on credit.
- 25/2 Withdrew 500,000 from bank account to cash till.
- 27/2 Deposited 20,000 from cash till to bank.
- 28/2 Received a cheque of 40,000 from a debtor.
- 29/2 Paid electricity 3,500 by cash.
- 1/3 The cheque on 28/2 was dishonored.

Required: Enter the above transactions to a single column cashbook.

CASH AT HAND

DR

SINGLE COLUMN CASHBOOK

Date	Detail	LF	Amount	Date	Detail	LF	Amount
1/2	Capital		50,000	27/2	Bank	C 2	20,000
25/2	Bank	C 1	500,000	29/2	Electricity		3,500

			C	CASH A	CASH AT BANK										
D	DR SINGLE COLUMN CASHBOOK														
Date	Detail	LF	Amount	Date	Detail	LF	Amount								
1/2	Capital		400,000	3/2	Building		500,000								
27/2	Cash	C 2	20,000	7/2	Purchases		20,000								
28/2	Debtor		40,000	12/2	Loan		200,000								
				25/2	Cash	C 1	500,000								
				1/3	Dishonored Cheque		40,000								

EXAMPLE 2

Record the following transactions in a single column cash book.

- 1/1 Balances B/D. Cash at Hand 5,400, Cash at Bank 15,000
- 3/1 Received a cheque 18,000 from Kimani.
- 4/1 Paid rent by cheque 13,500.

10/1 - Withdrew 5,000 from the bank for office use.

19/1 - Purchased office equipment for 25,000 paying 5,000 in cash and the

rest by cheque.

25/1 - Bought office stationery worth 10,000 in cash.

31/1 - Paid salaries in cash 200,000.

CASH AT HAND

DR

SINGLE COLUMN CASHBOOK

Date	Detail	LF	Amount	Date	Detail	LF	Amount
1/1	Balance b/d		5,400	19/1	Office Equipment		5,000
10/1	Bank	C 1	5,000	25/1	Stationery		10,000
				31/1	Salaries		200,000

CASH AT BANK

DR SINGLE COLUMN CASHBOOK CR Date Detail LF Amount Date Detail LF Amount 4/11/1Balance b/d 15,000 Rent 13,500 3/1 Kimani 18,000 10/1Cash C1 5,000 19/1 Office Equipment 20,000

EXAMPLE 3

Enter the following transactions into single column cash book of Mutesa Traders and balance them off:

- 1/1- Balance B/D Cash 100,000, Bank 25,000 CR.
- 2/1 Purchased stock worth 5,000 in cash.
- 4/1 Made sales of 20,000 and was paid in cash.
- 9/1 Paid wages 3,000 cash.
- 12/1 Deposited 150,000 from personal savings to bank account.
- 15/1 A debtor paid 65,500 by cheque.
- 20/1 Paid a creditor 10,500 cash.
- 22/1 Sold goods worth 200,000 and received a cheque of 160, 000, the rest to be paid later.

28/1 - Banked all the cash except 1,500.

CASH AT HAND

DR

SINGLE COLUMN CASHBOOK

Date	Detail	LF	Amount	Date	Detail	LF	Amount
1/1	Balance b/d		100,000	2/1	Purchases		5,000
4/1	Sales		20,000	9/1	Wages		3,000
				20/1	Creditor		10,500

CASH AT BANK

	DR	SING	LE COLUM	CR			
Date	Detail	LF	Amount	Date	Detail	LF	Amount
12/1	Additional		150,000	1/1	Balance b/d		25,000
	Investments						
15/1	Debtor		65,500				
22/1	Sales		160,000				
28/1	Cash		100,000				

NB: In order to find the amount available in the cash at hand as per the transaction on 28/1, the following applies.

```
Amount Available (Cash at Bank) = Debit Total (Bank) – Credit Total (Bank)
Amount Available (Cash at Hand) = Debit Total (Cash) – Credit Total (Cash)
```

Therefore, using the first formula.

Amount Available (Cash at Bank) = Debit Total (Cash) – Credit Total (Cash)

Debit Total (Cash) = 120,000 Credit Total (Cash) = 5,000 + 3,000 + 10,500 Credit Total (Cash) =18,500 Amount Available (Bank) = 100,000 - 18,500 Amount Available (Bank) = 101,500

We therefore transfer this amount to Cash at bank except 1,500by subtracting 1,500 from 81,500 as follows.

Transferred Amount =101,500 - 1,500 Transferred amount = 100,000 NB: When balancing cashbooks, the balance brought down (BD) in cash or bank column should always be equivalent to the amount left in that account /not transferred. For example in the transaction below:

28/1 - Banked all the cash except 1,500.

The balance brought down (B/D) in the cash column of the cashbook will be equivalent to 1,500.

EXAMPLE 4

The following information belongs to Matiangi ventures for the month of November 2020.

- 5/11 Started a business with 180,000 in cash and 200,000 at bank.
- 7/11 Received an overdraft of 50,000.
- 8/11 Purchased furniture worth 50,000 by cheque.
- 10/11 Received cash 30,000 from a debtor in repayment of a debt.

12/11 - Made sales of 70,000 where 50,000 was paid in cash and the rest to be paid later.

- 14/11 Paid expenses worth 50,000 through a cheque.
- 15/11 Withdrew 80,000 from bank account to cash.
- 16/11 Paid insurance fees of 50,000 in cash.

Prepare a single column cashbook for the above information.

CASH AT HAND

DR

SINGLE COLUMN CASHBOOK

Date	Detail	LF	Amount	Date	Detail	LF	Amount
5/11	Capital		180,000	8/11	Furniture		50,000
10/11	Debtor		30,000	16/11	Insurance		50,000
12/11	Sales		50,000				
15/11	Cash	C1	80,000				

CASH AT BANK

DR SING			LE COLUMN CASHBOOK				CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount		
5/11	Capital		200,000	7/11	Overdraft		50,000		
				14/11	Expenses		50,000		
				15/11	Cash	C1	80,000		

DOUBLE/ TWO COLUMN CASHBOOK

It is a cashbook with two cash columns on both the debit side and credit side the cashbook.

DR TWO COLUMN CASHBOOK CR

Date	Detail	LF	Cash	Bank	Date	Detail	LF	Cash	Bank

EXAMPLE 5

Enter the following transactions into a two-column cashbook.

1/2 - Had 12,500 cash and a bank overdraft of 5,000.

2/2 - Paid electricity bill of 1,100, water bill 800 and wages of 4,700 in cash.

- 3/2 Received cash 18,900 from a debtor.
- 7/2 Sold goods worth 7,150 in cash.
- 11/2- Made purchases of 6,400 by cheque.
- 13/2 Received a cheque of 100,000 from payment of dividends.
- 15/2 Withdrew 2,500 from bank for personal use.
- 17/2- Received a cheque of 15,900 from a debtor in clearance of a debt.
- 18/2 Deposited 20,000 from cash account to bank account.
- 23/2 The cheque on 17/2 was dishonored.
- 25/2 Used all money in bank to purchase furniture except 2,000.

Date	Detail	LF	Cash	Bank	Date	Detail	LF	Cash	Bank
1/2	Balance b/d		12,500		1/2	Balance b/d			5,000
3/2	Debtor		18,900		2/2	Electricity		1,100	
7/2	Sales		7,150			Water		800	
13/2	Dividends			100,000		Wages		4,700	
17/2	Debtor			15,900	11/2	Purchases			6,400
18/2	Cash	C1		20,000	15/2	Drawings			2,500
					18/2	Bank	C1	20,000	
					23/2	Dishonored cheque			15,900
					25/2	Furniture			86,100

NB: In order to find the amount available in the bank account as per the transaction on 25/2.the following applies.

Amount Available (Bank) = Debit Total (Bank) – Credit Total (Bank) Amount Available (cash) = Debit Total (cash) – Credit Total (cash)

Therefore, using the first formula.

Amount Available (Bank) = Debit Total (Bank) – Credit Total (Bank) Debit Total (Bank = 100,000 + 15,900Debit Total (Bank) = 115,900Credit Total (Bank) = 5,000 + 6,400 + 2,500 + 15,900Credit Total (Bank) = 29,800Amount Available (Bank) = 115,900 - 29,800Amount Available (Bank) = 86,100

We therefore transfer this amount to the cashbook except 2,000 by subtracting 2,000 from 86,100 as follows.

Transferred Amount = 86,100 - 2,000Transferred amount = 84,100 NB: When balancing cashbooks, the balance brought down (BD) in cash or bank column should always be equivalent to the amount left in that account / not transferred / not spent. For example in the transaction below:

25/2 - Used all money in bank to purchase furniture except 2,000.

The balance brought down (B/D) in the bank column of the cashbook will be equivalent to 2,000.

EXAMPLE 6

Record the following transactions into a two-column cashbook.

- 2/6 Started a business with 200,000 in cash and 60,000 at bank.
- 3/6 Bought furniture of 50,000 in cash.
- 4/6 Sold stock worth 10,000 in credit.
- 5/6 Withdrew 20,000 from bank account to cash.
- 7/6 Paid insurance of 20,000 by cheque.
- 9/6 Made cash sales of 50,000.
- 10/6 Withdrew 30,000 from cash till for personal use.
- 11/6 Received a cheque of 60,000 from a debtor.
- 13/6 Paid a creditor cash 20,000.
- 17/6 Paid electricity bill of 2,000.
- 20/6 Withdrew all money in cash account to bank account.
- 30/6 Paid salaries and wages of 100,000 by cheque.
| Date | Detail | LF | Cash | Bank | Date | Detail | LF | Cash | Bank |
|------|-------------|----|---------|---------|------|-------------|----|---------|---------|
| 2/6 | Balance b/d | | 200,000 | | 3/6 | Furniture | | 50,000 | |
| 5/6 | Sales | C1 | 20,000 | | 5/6 | Cash | C1 | | 20,000 |
| 9/6 | Debtor | | 50,000 | | 7/6 | Insurance | | | 200,000 |
| 11/6 | Cash | | | 60,000 | 10/6 | Drawings | | 30,000 | |
| 20/6 | | C2 | | 168,000 | 13/6 | Creditors | | 20,000 | |
| | | | | | 17/6 | Electricity | | 2,000 | |
| | | | | | 20/6 | Bank | C2 | 168,000 | |
| | | | | | 30/6 | salaries | | | 100,000 |

Record the following transactions into a two-column cashbook belonging to Arek Traders.

- 1/1 Cash balance of 80,000 and bank balance of 120,000.
- 3/1 Bought a bicycle for 2000 in cash and 8000 by cheque.
- 4/1 Paid rent of 10,000 by cheque.
- 7/2 Bought a computer by 15,000 in cash.
- 8/1 Withdrew 50,000 from bank to cash till.
- 9/1 Made cash sales of 60,000.
- 11/1 Received a cheque of 30,000 from a debtor.
- 18/1 Bought furniture for 15,000 in cash and 20,000 by cheque.
- 20/1 Paid warehouse charges of 30,000 by cheque.
- 25/1 Deposited all money in cash to bank account.

DR

TWO COLUMN CASHBOOK

CR

Date	Detail	LF	Cash	Bank	Date	Detail	LF	Cash	Bank
1/1	Balance		80,000	120,000	3/1	Bicycle		2000	8000
8/1	Bank	C1	50,000		4/1	Rent			10,000
9/1	Sales		60,000		7/1	Computer		15,000	
11/1	Debtor			30,000	8/1	Cash	C1		50,000
25/1	Cash	C2		158,000	18/1	Furniture		15,000	20,000
					20/1	Warehouse			30,000
					25/1	Bank	C2	158,000	

TRIPPLE/ THREE COLUMN CASHBOOK

It is a cashbook with two money columns (cash and bank) and a discount column on both the debit and credit side of the cashbook.

The discount on the debit side is discount allowed while on the credit side is discount received.

DR	THREE COLUMN CASHBOOK								CR		
Date	Detail	LF	Discount Allowed	Cash	Bank	Date	Detail	LF	Discount Received	Cash	Bank

DISCOUNT ALLOWED AND DISCOUNT RECEIVED

Discount Allowed

This is discount given to debtors by the business when they pay their debts within the discount period. It is recorded on the debit side of the cashbook.

Discount Received

This is discount given to the business by creditors when the business pays its debts within the discount period. It is recorded on the credit side of the cashbook.

EXAMPLE OF TRANSACTIONS INVOLVING DISCOUNTS

EXAMPLE 8

A. 30/7 - Received 30,000 from a debtor having deducted a 4% discount.

30,000 = 96%Discount $=\frac{4}{96} \times 30,000$ = 1250

B. **19/7** - Received cheque of 70,000 and 95,000 from Tindi and Nyale respectively having allowed each of them cash discount of 5%.

TINDI	NYALE
70,000 = 95%	95,000 = 95%
$5\% = \frac{5}{95} \ge 70,000$	$5\% = \frac{5}{95} \times 95,000$
5% = 3684.21	5% = 5000

C. 22/7- Received 100,000 in cash in full settlement of 120,000 debt from Hawa Maria

Discount = (120,000 - 100,000) = 100,000

D. 28/7- Koko a debtor settled her account of 80,000 in cash less 3% cash discount

$$80,000 = 100\%$$
$$3\% = (\frac{3}{100} \times 80,000)$$
Discount =2400

EXAMPLE 9

Enter the following transactions to a three-column cashbook belonging to Aol Traders.

1/2 - Started trading with cash 180,000 and bank 81,000 (CR).

2/2 - Bought goods by cash 42,000.

3/2 - Received cheques of from Marwa 4,750, Opondo 7,600 and Towett 11,400 having allowed them cash discount of 5% .

4/2 - Paid Michael 6,200 Sakaja 7,800 Tonge 3,000 in cash having deducted a 10% discount from each.

5/2 - Paid water, postage and rent expenses with 2,000, 3,000 and 5,000 respectively in cash.

7/2 - Deposited 22,000 to the business bank account.

8/2 - Withdrew 1,800 from bank account of the business for personal use.

9/2 - Received a cheque of 11,600 from Kiptoo in full settlement of a 12,000 debt.

10/2 - Deposited all cash in bank account except 1,000.

AOL TRADERS

THREE COLUNM CASHBOOK

	DR			FOR T	HE PERIO	D ENDED 10 FEB 2020				CR	
Date	Detail	LF	Discount	Cash	Bank	Date	Detail	LF	Discount	Cash	Bank
			Allowed						Received		
1/2	Capital			180,000		1/2	Capital				81,000
3/2	Marwa		250		4750	2/2	Purchases			42,000	
	Opondo		400		7600	4/2	Sakaja		866.70	7800	
	Towett		600		11,400		Michael		688.90	6200	
9/2	Kiptoo		400		11,600		Tonge		333.30	3000	
10/2	Cash	C1			110,000	5/2	Water			2000	
							Postage			3000	
							Rent			5000	
						8/2	Drawings				1800
						10/2	Bank	C1		110,000	
						10/2	Bal c/d			1000	62,550
			1650	180,000	145,350				1,888.90	180,000	145,350
10/2	Bal b/d			1000	62,550						

ЪΡ

EOD THE DEDIOD ENDED 10 EED 2020

EXAMPLE 10

On 1/1/15 Ndovu traders had 30,000 cash and 75,000 at bank. During the month the following transactions took place. Prepare the relevant cashbook.

- 2/1 Bought goods worth 15,500 in cash.
- 5/1 Received 23750 in cash after allowing 5% cash discount.
- 8/1 Withdrew 8900 from bank for personal use.
- 11/2 Mara a debtor settled her account of 16,800 by cheque of 16,000.
- 15/2 Made sales of 24250 in cash.
- 17/2 Paid Tawakal traders 29100 in cash less 3% cash discount.
- 20/2 Withdrew 15,000 from bank for personal use.
- 22/2 Koko a debtor settled her account of 40,000 by cheque less 3 discount.
- 25/2 Paid wages of 21000 in cash.

NDOVU TRADERS

CD

THREE COLUNM CASHBOOK

	DK			TOK THE TERIOD ENDED JAN (715								
Date	Detail	LF	Discount	Cash	Bank	Date	Detail	LF	Discount	Cash	Bank	
			Allowed						Received			
1/1	Bal b/d			30,000	75,000	2/1	Purchases			15,500		
5/1	Debtor		1250	23,750		8/1	Drawings				8900	
11/1	Mara		800	16,000		17/1	Tawakal		873	28,227		
15/1	Sales			24,250		20/1	Drawings				15,000	
22/1	Koko		1200	38,800		25/1	Wages			21,000		
						31/1	Bal c/d			68,073	51,100	
			<u>3250</u>	132,800	<u>75,000</u>				<u>873</u>	132,800	75,000	
31/1	Bal b/d			63,073	51,100							

FOR THE PERIOD ENDED JAN /15

EXAMPLE 11

DD

The following information belongs to Kampala Enterprises for the month of September 2020. Prepare a Three Column Cashbook.

5/9 - Purchased a printer with 80,000 in cash and 40,000 by cheque.

10/9 - Acquired stock worth 200,000 and paid in cash.

14/9 - Debtors Michael, Kirubi, Longe paid 62,000, 30,000, 78,000 respectively having been allowed 10% discount.

15/9 - Sold goods worth 86,000 in cash.

17/9 - Paid Tara traders 75,000 in cash less 3% cash discount.

18/9 - Received 90,000 by cheque from a debtor after allowing 5% cash discount.

20/9 - Kante a debtor settled her account of 210,000 in cash less 2% cash discount.

21/9 - Bought a delivery motorbike for 100,000 by cheque.

23/9 - Fally paid 70,000 in cash and 16,000 by cheque for a debt.

25/9 - Paid salaries of 300,000 by cheque.

26/9 - Paid by cheque Okembo, Alpha and Tamu 47,500, 76,000 & 114,000 having deducted 5% discount.

KAMPALA ENTERPRISES

THREE COLUNM CASHBOOK

	DR			FOR T	FOR THE PERIOD ENDED 26/9/20						CR	
Date	Detail	LF	Discount	Cash	Bank	Date	Detail	LF	Discount	Cash	Bank	
			Allowed						Received			
14/9	Michael		6,888	62,000		5/9	Printer			80,000	40,000	
	Kirubi		3,333	30,000		10/9	Purchases			200,000		
	Longe		8,666	78,000		17/9	Tara		2,250	72,750		
15/9	Sales			86,000		21/9	Motorbike				100,000	
18/9	Debtor		4,500		90,000	25/9	Salaries				300,000	
20/9	Kante		4,200	205,800		26/9	Okembo		2,500		47,500	
23/9	Fally			70,000	16,000		Alpha		4,000		76,000	
							Tamu		6,000		114,000	

EXERCISE

- 1. Enter the following transactions into a Two Column Cashbook and balance them off.
 - 2/6 Started a business with 60,000 in cash and 80,000 at bank.
 - 4/6 Bought furniture with 10,000 in cheque and 10,000 cash.
 - 6/6 Received cash 40,000 50,000 and 18,000 from Bongo, Ledama and Garre in

full settlement of debts.

9/6 - Withdrew 40.000 from bank to cash.

10/6 - Sold stock worth 50,000 in cash.

14/6 - Sold goods worth 83,000 and was paid 70,000 in cash. The rest to be paid later.

- 16/6 Purchased a computer with a cheque of 20,000.
- 20/6 Transferred all the money in cash account to bank account
- 2. Enter the following transactions to a Single Column Cashbook belonging to Nyongesa Enterprises
 - 12/10 Started a business with 50,000 in cash and 729,000 in bank.
 - 13/10 Withdrew 200,000 from bank to cash till.
 - 14/10 Paid rent worth 40,000 by cheque.
 - 16/10 Purchased furniture worth 40,000 in cash.

18/10 - Sold goods worth 35,000 in cash.

20/10 - Bought stationery worth 50,000 and paid 20,000 cash and the rest by cheque.

25/10 - Paid a creditor 100,000 by cheque.

3. Enter the following transactions into a Three Column Cashbook.

1/1 - Had the following balances Cash 800,000 and Bank (DR) 490,000.

3/1 - Purchased stock worth 60,000 in cash.

4/1 - Purchased a refrigerator worth 100,000, paid 50,000 in cash and the rest to be paid later.

6/1 - Sold stock worth 40,000 in cash.

7/1 - Odiero a debtor, paid 50,000 in cash in full repayment of a debt.

11/1 - Withdrew 50,000 from bank account to cash till.

12/1 - Olga, Mambo and Misiani repaid cash 150,000, 280,000 and 170,000 respectively in full settlement of debts less 10% discount.

15/1 - Paid 300,000 to Samba Traders after being allowed a discount.

18/1 - Received a cheque of 100,000 from Levy in full settlement of a debt.

20/1 - Deposited all money in cash till to bank account.

4. Record the following information into a Three Column Cashbook.

1/9 - Bought equipment worth 300,000 by cheque.

3/9 - Took a loan of 200,000 from equity bank.

5/9 - Withdrew 30,000 from bank account to cash till.

6/9 - Mutua a debtor repaid 600,000 less a 20% discount.

9/9 - Repaid Mwangi, Salome and Ali their debts of 80,000, 70,000 and 45,000 less 10% discount.

10/9 - Withdrew 50,000 from bank account for personal use.

12/9 - Olilo repaid a debt of 120,000 the discount allowed was 5,000.

16/9 - Deposited all money in cash till to bank till except 5,000.

- 5. Record the following transactions into a Single Column Cashbook.
 - 2/8 Had the following balances cash 500,000 and bank (CR) 60,000
 - 3/8 Bought stationery of 50,000 in cash.
 - 5/8 -Sold stock worth 100,000 in credit.
 - 6/8 Withdrew 10,000 from bank account to cash.
 - 7/8 Paid insurance of 16,000 by cheque.
 - 9/8 Made cash sales of 150,000.
 - 10/8 Withdrew 20,000 from cash till for personal use.
 - 15/8 Received a cheque of 60,000 from a debtor.
 - 13/8- Paid a creditor cash 20,000.
 - 19/8 Paid electricity bill of 2,000.
 - 20/8 Deposited all money in cash account to bank account.
 - 30/8 Paid salaries and wages of 100,000 by cheque.
- 6. Enter the following transactions into a two-column cashbook.
 - 7/3 Had the following balances: cash 800,000 and Bank (CR) 200,000.
 - 9/3 Sold furniture worth 50,000 in cash.
 - 10/3 Sold goods worth 40,000 and was paid via cheque.
 - 11/3 Deposited 60,000 from cash till to bank account.
 - 12/3 Paid Ayuma 50,000 in cash in full settlement of a debt.
 - 14/3 Withdrew 100,000 from bank account for personal use.
 - 16/3 Bought a plot with 100,000 in cash and the rest to be paid later.
 - 17/3 Paid 50% of the following expenses by cash and the rest by cheque.

Electricity	50,000
Salaries	200,000
Insurance	80,000
Rent	100,000

20/3 - Deposited all money in cash account to bank account.

7. Enter the following transactions into a Three Column Cashbook.

3/12 - Had the following balances cash 400,000 bank 3,000,000.

5/12 - Paid a creditor 600,000 by cheque less an 8 % discount.

7/12 - Received an interest of 10% of the current balance from the bank.

8/12 - Withdrew 40,000 from bank account for personal use.

10/12 - Received cash payment from the following debtors in full settlement of their debts. The discount allowed was 5%.

Zuchu	39,000
Mobeto	500,000
Hussein	56,000

13/12 - Withdrew 100,000 from bank account to cash till.

14/12 - Sold furniture worth 500,000 for 400,000 in cash.

15/12 - Purchased accessories worth 300,000. Paid cash 200,000 and the rest to be paid later.

20/12 – Deposited all cash to bank account except 50,000.

CHAPTER 4: SOURCE DOCUMENTS

These are documents that record initial details of business transactions such as date of transaction amount, and parties involved. Source documents act as evidence that business transaction took place and should therefore be stored properly for reference. Source documents include.

Invoice. Credit Note. Debit Note. Cash Receipts. Payment Voucher.

INVOICE

It is a source document sent by a seller to a buyer demanding for payment of goods and services that were sold on credit. An invoice has details such as;

- a) Sellers's name and address.
- b) Date.
- c) Buyer's name and address.
- d) Order number.
- e) Delivery note number.
- f) Description of goods sold.
- g) Price per item.
- h) Total amount involved.
- i) Discount if available.
- j) E and O.E statement (errors and omission expected).
- k) Signature of the seller.

A duplicate copy of the invoice is retained by the seller (sales invoice) while the original copy is sent to the buyer (Purchases invoice).

CREDIT NOTE

It is a source document by the seller to the buyer in order to correct an overcharge in the invoice. It is a document that reduces the amount to be paid by the buyer. It is usually printed in red to distinguish it from other documents.

Circumstances under which a credit note is issued.

- i. In case of an arithmetic error in the invoice resulting into an overcharge.
- ii. In case some goods sold are returned by the buyer.
- iii. When packaging containers whose values were included in the invoice are returned to the seller and are in good shape.
- iv. When the goods delivered to the buyer were of an inferior quality than what was ordered for.
- v. When some goods that were delivered were defaced, damaged and have not been replaced by the seller.
- vi. When a wrong item was charged that is, the Item being charged being too expensive.

DEBIT NOTE

It is a source document written by the seller to a buyer seeking to correct an undercharge on the invoice amount. It increases the amount to be paid by the buyer.

Circumstances under which a debit note is issued.

- i. If there is arithmetic error in the invoice resulting into an undercharge in the invoiced amount.
- ii. When goods are delivered in excess and their value is not included in the invoice.
- iii. When valuable containers whose value was not included in the invoice are not returned by the buyer or are damaged by the buyer.
- iv. When the quality of goods supplied exceed what was ordered for and there is need to adjust the invoiced amount.

CASH RECEIPT

It is a source document issued by sellers to buyers as a proof of payment in cash. It is prepared in duplicate and the original given to the buyer and a copy retained by the seller. It has the following details;

- i. Name and address of the buyer.
- ii. Name and address of the seller.
- iii. Date of transaction.
- iv. Description of goods sold.
- v. Amount of goods sold both in cash and words.

PAYMENT VOUCHER

It is a source document used when payment has taken place but however due to the nature and type of transaction, the organization is unable to generate a cash receipt. Payment vouchers are used in the following instances.

- i. When the amount of money involved is small/ petty.
- ii. When it is the policy of an organization that certain payments be made through a voucher e.g. Payment of laborers.
- iii. When the expenditure/ activity being paid for keeps recurring and there is need to compile them in one document.
- iv. In case an organization wants accountability in its cash disbursement systems, payment voucher can be used as a proof of payment.

JOURNALS/ BOOKS OF ORIGINAL ENTRY/ SUBSIDISRY BOOKS

Are books in which transactions are first recorded and summarized before being transferred to ledger accounts. They include:

- i. Sales Journal
- ii. Sales Return / Return Inwards Journal
- iii. Purchases Journal
- iv. Purchases Return/Return Outwards Journal
- v. Cash Receipt Journal
- vi. Cash Disbursement/Payment Journal
- vii. General journal/ Journal proper

SALES JOURNAL

It is used to record all credit sales before they are transferred to relevant ledger accounts.

The source document is **invoice issued**. Sales journal should not be used to record sales made in cash or even sale of fixed assets.

(Cash sales are recorded in a cash receipt journal while credit sale of fixed assets is recorded in a general journal)

FORMAT OF A SALES JOURNAL

SALES JOURNAL

Date	Details	Invoice Number	Ledger Folio	Amount

NB: After making entries on the sales journal, one is required to transfer those entries to respective debtor's ledgers and the total sales to a sales ledger without defying the rules of double entry in ledger accounts.

Jababu traders made the following sales on credit during the month of January 2020.

3/1 - Sold goods worth 15,000 to Leah. Invoice number 16.

5/1 - Sold goods worth 17,000 to Ambani. Invoice number 18.

7/1 - Sold goods worth 5000 to Warren. Invoice number 19.

10/1 - Sold goods worth 6000 to Fabian. Invoice number 20.

12/1 - Sold goods worth 17,000 to Myra. Invoice number 21.

Draw a sales journal and post the entries to relevant journal accounts.

Date	Details	Invoice	LF	Amount
		number		
3/1	Leah	16		15,000
5/1	Ambani	18		17,000
7/1	Warren	19		5,000
10/1	Fabian	20		6,000
12/1	Myra	21		17,000
12/1	(Total to be			60,000
	posted to sales			
	ledger account			
	(CR))			

SALES JOURNAL

DR			Sal	CR			
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				12/1	Debtors		60,000

DR		Leah A/C					CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount	
3/1	Sales		15,000					

DR		A	Ambani A/C			CR			
Date	Detail	LF	Amount	Date	Detail	LF	Amount		
5/1	Sales		17,000						

DR			Warren A	/C	CR			
Date	Detail	LF	Amount	Date	Detail	LF	Amount	
7/1	Sales		5000					

DR			Fabian A	A/C		CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount	
10/1	Sales		6000					

DR			Myra A/C		CR			
Date	Detail	LF	Amount	Date	Detail	LF	Amount	
12/1	Sales		17,000					

The following transactions relate to Sonia traders for the month of April 2010.

1/4 - Sold goods on credit to the following debtors.

 Owalla
 60,000

 Apii
 92,000

 Kengen
 106,000

 Mashi
 72,000

8/4 - Sold stock worth 80,000 and 100,000 to Olala and Mwai on credit respectively.

9/4 - Made cash sales of 60,000 to Lawi.

Record the above transactions to a sales journal and thereafter post to a relevant ledger account.

Date	Details	Invoice	LF	Amount
		number		
1/4	Owalla			60,000
1/4	Apii			92,000
1/4	Kengen			106,000
1/4	Mashi			72,000
8/4	Olala			80,000
8/4	Mwai			100,000
8/4	(Total to be			510,000
	transferred to sales			
	A/C (CR))			

SALES JOURNAL

Ι	DR			Sales A/	CR		
Date	Detail	LF	Amount	LF	Amount		
				8/4	Debtors		510,000

DR			Owalla A/C				CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount	
1/4	Sales		60,000					

DR			Apii A/C				CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
1/4	Sales		92,000				

DR			K	CR			
Date	Detail	LF	Amount	Date	Detail	LF	Amount
1/4	Sales		106,000				

DR M				ashi A/C	CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount
1/4	Sales		72,000				
D	DR Olala A/C					CR	
-	D			5	D 11		

Date	Detail	LF	Amount	Date	Detail	LF	Amount
4/8	Sales		80,000				

DR			Μ		CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount
4/8	Sales		100,000				

PURCHASES JOURNAL

It is a daily book used to record purchase of goods or stock on credit. The source document is **Invoice Received**. Any purchase made in cash should not be recorded in a purchases journal. Equally any purchase of fixed assets should not be recorded in a purchases journal.

FORMAT OF A PURCHASES JOURNAL

PURCHASES JOURNAL

Date	Details	Invoice	Ledger	Amount
		number	LF	

After making entries in a purchases journal, one is required to transfer the entries to respective purchases ledger and creditors ledger accounts.

Record the following transactions into a purchases journal and thereafter post the information to relevant ledger accounts for the month of august 2020.

- 6/8 Bought goods worth 60,000 on credit from Muma. Invoice number 222.
- 7/8 Bought stock worth 92,000 on credit from Ngala .Invoice number 232.
- 8/8 Bought goods from the following creditors.

Creditor	Amount	Invoice number
Onkoba	80,000	233
Mwendwa	70,000	234
Opedhi	60,000	235
Anne	81,000	236
Rehema	77,000	237
Akollo	40,000	238

10/8 - Bought goods worth 79,000 from Ramogi Traders in credit. Invoice no 240.

Date	Details	Invoice number	LF	Amount
6/8/20	Muma	222		60,000
7/8/20	Ngala	232		92,000
8/8/20	Onkoba	233		80,000
	Mwendwa	234		70,000
	Opedhi	235		60,000
	Anne	236		81,000
	Rehema	237		77,000
	Akollo	238		40,000
10/8/20	Ramogi	240		79,000
10/8/20	(Totals to be posted to			<u>639,000</u>
	purchases A/C (DR))			

PURCHASES JOURNAL

DR			Purchases A/C				CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount	
10/8/20	Creditors		639,000					

DR			Mu	ma A/C			CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				6/8/20	Purchases		60,000

DR		Nga	ala A/C			CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				7/7/20	Purchases		92,000

DR			Onk	ba A/C			
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				8/8/20	Purchases		80,000

DR			Mwend	iwa A/C			CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				8/8/20	Purchases		70,000

DR			Ope	CR			
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				8/8/20	Purchases		60,000

DR			А	anne A/C			CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				8/8/20	Purchases		81,000

DR			Rehema A/C				
Date	Detail	LF	Amount	Date	Detail	LF	Amount
4/8	Sales		80,000	8/8/20	Purchases		77.000

DR		CR					
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				8/8/20	Purchases		40,000

DR		CR					
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				10/9/20	Purchases		79,000

Record the following transactions in a purchases journal then to relevant ledger accounts for the month of December 2017.

9/12 - Purchased furniture worth 30,000 on credit. Invoice no 650.

10/12 - Bought goods worth 36,000 and 72,000 on credit from Lanya and Sifuna. Invoice no 651 and 652

11/12 - Bought goods worth 100,000 from Owenga on credit. Invoice number 653

12/12 - Sold goods worth 82,000 to Kasera on credit. Invoice number 654

13/12 - Bought goods worth 64,000 from Opat on credit. Invoice number 658

14/12 - Bought goods worth 69,000, 14,000 and 28,000 from Tindi, Lwanga and Sally on credit. Invoice numbers 659, 660 & 670 respectively

Date	Details	Invoice Number	LF	Amount
10/12/17	Lanya	651		36,000
10/12/17	Sifuna	652		72,000
11/12/17	Owenga	653		100,000
13/12/17	Opat	658		64,000
14/12/17	Tindi	659		69,000
14/12/17	Lwanga	660		14,000
14/12/17	Sally	670		28,000
	(Totals to be posted			<u>383,000</u>
	to the Purchases			
	ledger A/C (DR))			

PURCHASES JOURNAL

DR	DR Purchases A/C				DR Purchases A/C			CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount	
14/12/17	Creditors		383,000					

DR			Lan	ya A/C			CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				10/12/17	Purchases		36,000

DR Sifu				iuna A/C			CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				10/12/17	Purchases		72,000

DR		Owenga A/C					CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				11/12/17	Purchases		100,000

DR				Opat A/C			CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				13/12/17	Purchases		64,000

DR		Tindi A/C					CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				14/12/17	Purchases		69,000

DR	Lwanga A/C						CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				14/12/17	Purchases		14,000

DR				Sally A/C			CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
4/8/17	Sales		80,000	14/12/17	Purchases		28,000

DR Akoll				ollo A/C			CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				8/8/20	Purchases		40,000

DR	2	Ramogi A/C					CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				10/9/20	Purchases		79,000

SALES RETURN / RETURN INWARDS JOURNAL

It is a journal that is used to record goods returned to the business by debtors. The goods returned were initially sold on credit to debtors. The source document is **credit note issued**.

This journal however does not record the returning of goods that were sold in cash.

FORMAT OF A SALES RETURN JOURNAL

SALES RETURN JOURNAL

Date	Details	Credit Note	LF	Amount
		Number		

Record the following transactions to a sales return ledger

16/5/20 - Norah returned goods worth 40,000 that were sold on credit. Credit note 400.

17/5/20 - Poropcho returned goods worth 60,000 that were sold to him in cash

20/5/20 - Musa returned goods worth 70,000 that were sold to him on credit. Credit note 420

27/5/20 - Mumbi returned goods worth 42,000 that were sold to her on credit. Credit note 429

28/5/20 - Ochogo returned goods worth 15,000 that were sold to him on credit. Credit note 430

Date	Details	Credit Note	LF	Amount
		Number		
16/5/20	Norah	400		40,000
20/5/20	Musa	420		70,000
27/5/20	Mumbi	429		42,000
28/5/20	Ochogo	430		15,000
28/5/20	(Totals to be posted in			<u>167,000</u>
	Sales Return A/C (DR))			

SALES RETURN JOURNAL

DR			Sales R	CR			
Date	Detail	LF	Amount	Date	Detail	LF	Amount
28/5/20	Debtors		167,000				

DR			Norah A/C				CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount		
				16/5/20	Sales		40,000		
					Return				

DR			M	usa A/C	CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				20/5/20	Sales		70,000
					Return		

DR			Mu	umbi A/C			CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				27/5/20	Sales		42,000
					Return		

DR			Ochogo A/C				CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				28/5/20	Sales		15,000
					Return		

NB: The transaction on 17/5/20 is not recorded because it is a cash transaction.

EXAMPLE 6

Record the following transactions to a sales return journal.

1/4/19 - Nafula returned goods worth 62,000 credit note 102.

2/4/19 - Wanga returned goods worth 50,000 credit note 104.

3/4/19 - Bosire returned goods worth 19,000 credit note 105.

8/4/19 - Anyange returned goods worth 28,000 credit note 106.

9/4/19 - Abdul returned goods worth 63,000 credit note 109.

10/4/19 - Jeddy returned goods worth 30,000 receipt number 409.

12/4/19 - Ogallo returned goods worth 36,000 credit note 110.

13/4/19 - Silver returned goods worth 48,000 credit note 112

Date	Details	Credit Note	LF	Amount
		Number		
1/4/19	Nafula	102		62,000
2/4/19	Wanga	104		50,000
3/4/19	Bosire	105		19,000
8/4/19	Anyange	106		28,000
9/4/19	Abdul	109		63,000
12/4/19	Ogallo	110		36,000
13/4/19	Silver	112		48,000
	(To be posted on			<u>306,000</u>
	the Sales Return			
	ledger (DR))			

SALES RETURN JOURNAL

DR			Sale		CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount
13/4/19	Debtors		306,000				

D	R	Nafula A/C				CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount	
				1/4/19	Sales		62,000	
					Return			

	DR		V	Vanga A	CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				2/4/19	Sales		50,000
					Return		

DR			Ogu	tu A/C	CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				3/4/19	Sales		19,000
					Return		

DR			Anyange A/C				CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount		
				8/4/19	Sales		28,000		
					Return				

DR			Bosi	CR			
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				9/4/19	Sales		63,000
					Return		

DR Og			Ogallo	gallo A/C			CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount	
4/8	Sales		80,000	12/4/19	Sales		36,000	
					Return			

DF	R		Silver	CR			
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				13/4/19	Sales		48,000
					Return		

PURCHASES RETURN/ RETURN OUTWARDS JOURNAL

It is used to record goods initially bought /acquired /purchased on credit and are returned back to the creditors. The source document is **credit note received**. It does not record goods /stock purchased in cash and thereafter returned.

FORMAT OF A PURCHASE RETURN JOURNAL

PURCHASES RETURN JOURNAL

Date	Details	Credit Note	LF	Amount
		Number		

EXAMPLE 7

Record the following transactions to a purchase return journal.

19/2/18- Returned goods worth 100,000 to Ngeno trader. Credit note 142.

20/2/18- Returned goods worth 64,000 to Koru Traders. Credit note 143.

21/2/18-Returned goods worth 72,000 to Opere Enterprises. Credit note 144.

24/2/18- Returned goods worth 69,000 to Maleek Enterprise. Cash receipt no 69.

25/2/18- Returned goods worth 106,000 to Otumba. Credit note 145.

26/2/18- Returned goods worth 42,000 to Abala. Credit note 146.

27/2/18-Returned goods worth 100,000 to Omani. Credit note 147.

Date	Details	Credit Note	LF	Amount
		Number		
19/2/18	Ngeno	142		100,000
20/2/18	Koru	143		64,000
21/2/18	Opere	144		72,000
24/2/18	Otumba	145		106,000
25/2/18	Abala	146		42,000
26/2/18	Omani (Total to be posted to	147		100,000
	Purchases Return A/C (CR))			<u>484,000</u>

PURCHASES RETURN JOURNAL

DR			Purc	Purchases Return A/C			CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				27/2/8	Creditors		484,000

DR Ngen				io A/C			CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
19/2/18	Purchase		100,000				
	Return						

	DR			Koru A/C	CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount
20/2/18	Purchase		64,000				
	Return						

DR			Op	CR			
Date	Detail	LF	Amount	Date	Detail	LF	Amount
21/2/18	Purchase		72,000				
	Return						

DR			O	tumba A	CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount
25/2/18	Purchase		106,000				
	Return						

DR		Abala A/C			CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount
26/2/18	Purchase		42,000				
	Return						

DR		Omani A/C			CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount
25/2/18	Purchase		106,000				
	Return						

Record the following transactions into a purchase return journal.

9/9/20-Returned goods worth 49,000 to Jambi. Credit Note 550

10/9/20-Returned goods worth 112,000 to Syogombe. Credit note 560

11/9/20-Returned goods worth 52,000 to Salome. Credit Note 565

12/9/20-Returned goods worth 19,000 to Kirubi. Cash Receipt Number 630

PURCHASES RETURN JOURNAL

Date	Details	Credit Note	LF	Amount
		Number		
9/9/20	Jambi	550		49,000
10/9/20	Syongombe	560		112,000
11/9/20	Salome	565		52,000
	(Total to be posted			<u>213,000</u>
	to Purchases Return			
	A/C (CR))			

DF	R	Purchases Return A/C				CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				11/9/20	Creditors		213,000

DF	t l		Jai	mbi A/C			CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
9/9/20	Purchase		49,000				
	Return						

DR Syon		gombe A/C			CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount
10/9/20	Purchase		112,000				
	Return						

D	R	Salome A/C			CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount
11/9/20	Purchase		52,000				
	Return						

EXAMPLES COMBINING SALES, PURCHASES, SALES RETURN & PURCHASES RETURN JOURNAL

EXAMPLE 9

Enter the following transactions of Mustafa Traders into appropriate journals. For the month of February 2019.

4/2- Sold goods on credit to Mutuku worth 25,000. Invoice no. 0361.

5/2- Sold 5 bags of maize on credit to Moraa each at 21,000. Invoice no 0362.

7/2 -Sold goods worth 90,000 to Lali on credit. Invoice no 0363.

8/4- Bought goods worth 25,000 on credit from Juma. Invoice no 3502.

10/2- Issued credit note no 4002 to Moraa for 2 bags of maize.

14/2- Bought goods worth 15,000 on credit from Majengo traders. Invoice no 3503.

16/2- Issued credit note no 4003 to Mutuku for goods worth 25,000.

18/2- Goods worth 12,000 returned to Juma. Credit note no.5102.

19/2 - Goods amounting to 10,000 were returned to Majengo traders. Credit note no. 510.

Date	Details	Invoice	LF	Amount
		Number		
4/2/19	Mutuku	0361		25,000
5/2/19	Moraa	0362		105,000
7/2/19	Lali	0363		90,000
	(Totals to be posted			<u>220,000</u>
	to Sales A/C (CR))			

SALES JOURNAL

PURCHASES JOURNAL

Date	Details	Invoice	LF	Amount
		Number		
8/4/19	Juma	3502		25,000
14/2/19	Majengo	3503		15,000
	(Totals to be posted			<u>40,000</u>
	to Purchases A/C			
	(DR))			

SALES RETURN JOURNAL

Date	Details	Credit Note	LF	Amount
		Number		
10/2/19	Moraa	4002		42,000
16/2/19	Mutuku	4003		25,000
	(Totals to be posted			<u>67,000</u>
	to sales return A/C			
	(DR))			

PURCHASES RETURN JOURNAL

Details	Credit Note	LF	Amount
	Number		
Juma	5102		12,000
Majengo	5103		10,000
Totals to be posted			<u>22,000</u>
to purchases return			
A/C (CR)			
	Details Juma Majengo Totals to be posted to purchases return A/C (CR)	DetailsCredit NoteNumberJuma5102Majengo5103Totals to be postedto purchases returnA/C (CR)	DetailsCredit NoteLFNumberNumberJuma5102Majengo5103Totals to be postedto purchases returnA/C (CR)

Record the following transactions to relevant journals for the month of September 2020.

5/9- Bought goods worth 62,000 from Mwaura on credit. Invoice number 702.

6/9- Sold goods worth 20,000 to Wanyonyi on credit. Invoice no 607.

9/9- Bought goods worth 13,000 from Bukachi. Invoice no 703.

10/9- Sold goods worth 49,000 to Omwoyo. Invoice no 608.

11/9 -Sold goods worth 57,000 to Orengo. Invoice number 609.

12/9 - Returned goods worth 14,000 to Mwaura. Credit note no 205.

13/9 - Omwoyo returned goods worth 20,000. Credit note no 205.

14/9- Bought goods worth 43,000 from Sotik. Invoice no 704.

Date	Details	Credit Note	LF	Amount
		Number		
5/9/20	Mwaura	702		62,000
9/9/20	Bukachi	703		13,000
14/9/20	Sotik	704		43,000
	(Totals to be posted			<u>118,000</u>
	to Purchases A/C			
	(CR))			

PURCHASES JOURNAL

Date	Details	Credit Note	LF	Amount
		Number		
6/9/19	Wanyonyi	607		20,000
10/9/19	Omwoyo	608		49,000
11/9/19	Orengo	609		57,000
	(Totals to be posted			<u>126,000</u>
	to Sales A/C (CR))			

SALES JOURNAL

PURCHASES RETURN JOURNAL

Date	Details	Credit Note	LF	Amount
		Number		
12/9/19	Mwaura	125		14,000
	(Totals to be posted			<u>14,000</u>
	to Purchases Return			
	A/C (CR))			

SALES RETURN JOURNAL

Date	Details	Credit Note	LF	Amount
		Number		
13/9/19	Omwoyo	205		20,000
	(Totals to be posted			<u>20,000</u>
	to Sales Return A/C			
	(DR))			
EXAMPLE 11

Record the following transactions to the relevant subsidiary books for the month of July 2019 and thereafter post to relevant ledger accounts.

6/7- Sold goods worth 109,000 to Mboya. Invoice number 109.

7/7 -Sold goods worth 600,000 to Rono. Invoice number 102.

8/7- Sold goods worth 49,000 to Sankok. Invoice number 103.

9/7- Rono returned goods worth 69,000. Credit note no 207.

10/7 - Bought goods worth 43,000 from Nyawach. Invoice no 202.

11/7- Bought goods worth 730,000 from Ayako. Invoice number 203.

12/7- Bought goods worth 49,000 from Ojwang. Invoice number 204.

13/7- Returned goods worth 100,000 to Ayako. Credit note no 147.

14/7- Sankok returned goods worth 15,000. Credit note 208.

Date	Details	Invoice	LF	Amount
		Number		
6/7/19	Mboya	101		109,000
7/7/19	Rono	102		600,000
8/7/19	Sankok	103		49,000
	(Totals to be posted			<u>758,000</u>
	to Sales A/C (CR))			
	(Totals to be posted to Sales A/C (CR))			<u>758,000</u>

SALES JOURNAL

SALES RETURN JOURNAL

Date	Details	Credit	LF	Amount
		Note		
		Number		
9/7/19	Rono	207		69,000
14/7/19	Sankok	208		15,000
	(Totals to be posted			<u>84,000</u>
	to Sales Return			
	A/C (DR))			

PURCHASES JOURNAL

Date	Details	Invoice	LF	Amount
		Number		
10/7/19	Nyawach	202		43,000
11/7/19	Ayako	203		730,000
12/7/19	Ojwang	204		49,000
	(Totals to be posted			<u>822,000</u>
	to Purchases A/C			
	(DR)			

PURCHASES RETURN JOURNAL

Date	Details	Credit	LF	Amount
		Note		
		Number		
13/7/19	Ayako	147		100,000
	(Totals to be posted			<u>100,000</u>
	to Purchases Return			
	A/C (CR))			

	DR			Sales A/C			CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				8/7/19	Debtors		758,000

	DR		Purchases A/C			CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount
12/7/19	Creditors		822,000				

DR			Sale	CR			
Date	Detail	LF	Amount	Date	Detail	LF	Amount
14/7/19	Debtors		84,000				

DR Pu			Purchases	s return A/C			CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				13/7/19	Creditors		100,000

DR		Mboya A/C					CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount		
6/7/19	Sales		109,000	11/9/20	Creditors		213,000		

DR		Rono A/C				CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount	
7/7/19	Sales		600,000	9/7/19	Sales		69,000	
					Return			

DR			Sa	CR			
Date	Detail	LF	Amount	Date	Detail	LF	Amount
8/7/19	Sales		49,000	14/7/19	Sales		15,000
					Return		

DR		Nyawach A/C					CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount	
				10/7/19	Purchases		43,000	

DR A			Ayako A/	С		CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount
13/7/19	Purchases		100,000	11/7/19	Purchases		730,000
	Return						

DR				Ojwang A	/C		CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				12/7/19	Purchases		49,000

EXAMPLE 12

Cornell started business on 1/1/2020. The following is summary of his transactions during the month.

Invoice Received

- 3/1 Ogumbe Ltd 80,000
- 6/1 Jalango Traders 140,000
- 7/1 Rongai Ltd 160,000

Invoices Issued

- 4/1 Omar Ltd 50,000
- 6/1 Komarok Ltd 150,000
- 8/1 Jalango Trader 70,000

Credit Note Issued

- 11/1 Ondiek Ltd 6,000
- 14/1 Jacob Traders 4,000

Credit Note Received

- 12/1 Komarock ltd 3,000
- 24/1 Omar Traders 8,000
- 30/1 Rongai Ltd 12,000

Enter the above information into appropriate subsidiary books.

PURCHASES JOURNAL

Date	Details	Invoice	LF	Amount
		Number		
3/1	Ogumbe Ltd			80,000
6/1	Jalango Traders			140,000
7/1	Rongai Ltd			160,000
	(Totals to be posted to			<u>380,000</u>
	Purchases A/C (DR))			

SALES JOURNAL

Date	Details	Invoice	LF	Amount
		Number		
4/1	Omar Ltd			50,000
6/1	Komarok Ltd			150,000
8/1	Jalango Traders			70,000
	(Totals to be posted to			
	Sales A/C (CR))			<u>270,000</u>

SALES RETURN JOURNAL

Date	Details	Credit	LF	Amount
		Note		
		Number		
12/1	Komarock Ltd			3,000
24/1	Omar Traders			8,000
30/1	Rongai Ltd			12,000
	Totals to be posted to			<u>23,000</u>
	Sales Return A/C (DR)			

PURCHASES RETURN JOURNAL

Date	Details	Credit	Note	LF	Amount
		Number	ſ		
11/1	Ondiek Ltd				6,000
14/1	Jacob traders				4,000
	(Totals to be posted to				<u>10,000</u>
	Purchases Return A/C				
	(CR))				

CASH RECEIPT JOURNAL

It is a journal that records payments in the form of cash and cheque received by the business from debtors. It also records cash received by the business from sale of stock in cash. It also records discount allowed in payment by debtors. The source document is **payment receipt issued.**

NB: Cash Receipt Journal looks and operates like the debit side of A Three Column Cashbook.

FORMAT OF A CASH RECEIPT JOURNAL.

CASH RECEIPT JOURNAL.

Date	Detail	Receipt	LF	Discount	Cash	Bank
		Number		Allowed		

EXAMPLE 13

Enter the following transactions for Ngamia Traders into his cash receipt journal for the month of August 2020.

5/8 - Balance; cash 25,000, Bank 11,000.

9/8 - Received cheque of Ksh.5000 from Bob, less 10% cash discount.

13/8 - Cash sales 40,000 - Receipt no 0040.

17/8 - Transferred 10,000 to Bank.

20/8 - Received 11,680 from Bazenga after subtracting 3,200 discount - Receipt no 004.

Date	Detail	Receipt	LF	Discount	Cash	Bank
		Number		Allowed		
5/8/20	Balance				25,000	11,000
9/8/20	Bob			500		4,500
13/8/20	Sales	0040			40,000	
17/8/20	Cash					10,000
20/8/20	Bazenga	0041		3,200	11,680	
	(Totals to be posted to			<u>3,700</u>	<u>76,680</u>	<u>25,500</u>
	Discount Allowed A/C (DR),					
	Cash A/C (DR), Bank A/C					
	(DR))					

CASH RECEIPT JOURNAL

EXAMPLE 14

The following transactions relate to Alonzo traders for the month of March 2018.

2/3 – Received a cheque of 58,000 from Allan having allowed him discount of 5000-Receipt no 402.

- 3/3 Sold goods worth 90,000 Receipt no 403.
- 4/3 Made cash sales of 69,000 having allowed 3000 discount Receipt no 404.
- 5/3 Received payment of 40,000 from Otuoma- Receipt no 405.

Enter the transactions into a cash receipt journal and thereafter to a relevant ledger accounts.

Date	Detail	Receipt	LF	Discount	Cash	Bank
		Number		Allowed		
2/3/18	Allan	402		5,000		58,000
3/3/18	Sales	403			90,000	
4/3/18	Sales	404		3,000	69,000	
5/3/18	Otuoma	405			40,000	
	(Totals to be posted to			<u>8,000</u>	<u>199,000</u>	<u>58,000</u>
	Discount Allowed A/C (DR)					
	, Cash A/C (DR) , Bank A/C					
	(DR))					

CASH RECEIPT JOURNAL

DR

Discount allowed A/C

CR

Date	Detail	LF	Amount	Date	Detail	LF	Amount
5/3/18	Cash receipt		8,000				

DR

Cash A/C

CR

Date	Detail	LF	Amount	Date	Detail	LF	Amount
5/3/18	Cash receipt		199,000				

DR			Bank A/C				CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
5/3/18	Cash receipt		58,000				

DR			Allan A/C				CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount	
				2/3/18	Cash		58,000	
				2/3/18	Discount		5,000	

DR		Sales A/C				CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				3/3/18	Cash		90,000
				4/3/18	Discount		3,000
				4/3/18	Cash		69,000

DR Otuo			oma A/C			CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				5/3/18	Cash		40,000

EXAMPLE 15

Record the following transactions belonging to Bodo traders to a cash receipt journal for the month of June 2020.

5/6 - Sold goods worth 25,000 in cash. Receipt 105.

6/6 - Received a cheque of 39,000 from Anne having allowed a discount of 2,000. Receipt 106.

7/6 - Received cash 90,000 from Riek having allowed a discount of 3%. Receipt 107.

8/6 - Sold goods worth 96,000 in cash. Receipt 108.

9/6 - Received cash 50,000 from Riek having allowed him a discount of 5,000. Receipt 109.

Date	Detail	Receipt	LF	Discount	Cash	Bank
		Number		Allowed		
5/6/20	Sales	105			25,000	
6/6/20	Anne	106		2,000		39,000
7/6/20	Riek	107		2,783	90,000	
8/6/20	Sales	108			96,000	
10/6/20	Riek	109		5,000	50,000	
	(Totals to be posted			<u>9,783</u>	<u>261,000</u>	<u>39,000</u>
	to Discount Allowed					
	A/C (DR), Cash A/C					
	(DR), Bank A/C					
	(DR))					

CASH RECEIPT JOURNAL

DR	D	CR					
Date	Detail	LF	Amount	Date	Detail	LF	Amount
10/6/20	Cash Receipt		9,783				

DR		С			CR		
Date	Detail	LF	Amount	Date	Detail	LF	Amount
10/6/20	Cash Receipt		261,000				

DR		Bank A/C						
Date	Detail	LF	Amount	Date	Detail	LF	Amount	
10/6/20	Cash Receipt		39,000					

DR	Sales A/C						CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				5/6/20	Cash		25,000
				8/6/20	Cash		96,000

DR Anne A/C							CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				6/6/20	Discount		2,000
				6/6/20	Bank		39,000

DR

Riek A/C

CR

Date	Detail	LF	Amount	Date	Detail	LF	Amount
				7/6/20	Cash		90,000
				7/6/20	Discount		2,783
				10/6/20	Discount		5,000
				10/6/20	Cash		50,000

CASH PAYMENT JOURNAL

It is a journal that records payment of cash in the form of solid cash or by cheque. It also records discounts allowed to creditors. It also records purchase of stock in cash. The source document is **payment receipt received**.

NB: A Cash Payment Journal looks and operates like the credit side of a Three Column Cashbook.

FORMAT OF A CASH PAYMENT JOURNAL

Date	Detail	Receipt	LF	Discount	Cash	Bank
		Number		Received		

CASH PAYMENT JOURNAL

EXAMPLE 16

Record the following transactions belonging to Kariri Traders to a cash payment journal for the month of August 2019.

5/8 – Bought goods worth 45,000 in cash after being given a discount of 3000. Receipt 305.

7/8 – Paid a cheque of 89,000 to Chobo having received a discount of 3,000. Receipt 306.

9/8 – Paid cash 90,000 to Oti having been allowed a discount of 3%. Receipt 307.

10/8 - Purchased goods worth 96,000 in cash. Receipt 308.

12/8 – Paid 50,000 to Chobo having allowed him a discount of 5,000. Receipt 309.

Detail	Receipt	LF	Discount	Cash	Bank
	Number		Received		
Purchases	305		3,000	45,000	
Chobo	306		3,000		89,000
Oti	307		2,783	90,000	
Purchases	308			96,000	
Chobo	309		5,000	50,000	
(Totals to be posted to			<u>13,783</u>	<u>281,000</u>	<u>89,000</u>
Discount Received A/C					
(CR), Cash A/C (CR),					
Bank A/C (CR))					
	Detail Purchases Chobo Oti Purchases Chobo (Totals to be posted to Discount Received A/C (CR), Cash A/C (CR), Bank A/C (CR))	DetailReceipt NumberPurchases305Chobo306Oti307Purchases308Chobo309(Totals to be posted to Discount Received A/C (CR), Cash A/C (CR), Bank A/C (CR))	DetailReceipt NumberLFPurchases305Chobo306Oti307Purchases308Chobo309(Totals to be posted to Discount Received A/C (CR), Cash A/C (CR), Bank A/C (CR))Image: Chobo of the posted to of the	DetailReceiptLFDiscountNumberNumberReceivedPurchases3053,000Chobo3063,000Oti3072,783Purchases3082,783Chobo3095,000(Totals to be posted to13,783Discount Received A/C13,783(CR), Cash A/C (CR),8ank A/C (CR))	DetailReceiptLFDiscountCashNumberNumberReceivedReceivedReceivedPurchases3053,00045,000Chobo3063,0002,78390,000Oti3072,78390,000Purchases30896,00050,000Chobo3095,00050,000(Totals to be posted to13,783281,000Discount Received A/CIII(CR), Cash A/C (CR),IIIBank A/C (CR))IIII

CASH PAYMENT JOURNAL

EXAMPLE 17

Record the following transactions belonging to Kenya Traders to a cash payment journal for the month of April 2021 and thereafter to affected ledger accounts.

8/4 - Purchased goods worth 206,000 in cash. Receipt 607.

15/4 - Paid a cheque of 700,000 to Bubu having received a discount of 100,000. Receipt 608.

19/4 - Paid cash 90,000 to Bubu less 10% discount. Receipt 609.

20/4 - Paid for goods worth 145,000 by cheque after being given a discount of 30,000. Receipt 610.

22/4 - Paid cash 50,000 to Hela having allowed him a discount of 5,000. Receipt 611.

23/4 – Paid 100,000 to Bubu by cheque for goods that were acquired in credit. Receipt 612.

25/4 – Paid Hella 90,000 by cheque and 60,000 by cash less 3% discount on each payment. Receipt 613 and 614.

Date	Detail	Receipt	LF	Discount	Cash	Bank
		Number		Received		
8/4	Purchases	607			206,000	
15/4	Bubu	608		100,000		700,000
19/4	Bubu	609		9,000	81,000	
20/4	Purchases	610		30,000		145,000
22/4	Hella	611		5,000	50,000	
23/4	Bubu	612				100,000
25/4	Hella	613		2,700		87,300
25/4	Hella	614		1,800	58,200	
	(Totals to be posted			<u>148,500</u>	<u>395,200</u>	<u>1,032,000</u>
	to Discount					
	Received A/C (CR)					
	, Cash A/C (CR) ,					
	Bank A/C (CR))					

CASH PAYMENT JOURNAL

DR	DR Discount Received A/C			CR			
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				25/4	Cash payment		148,500

DR			(Cash A/O	2		CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				25/4	Cash payment		482,500

DI	R			Bank A/C			CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
				25/4	Cash payment		1,032,000

DI	R	Purchases A/C				CR	
Date	Detail	LF	Amount	Date	Detail	LF	Amount
8/4	Cash		206,000				
20/4	Bank		145,000				
20/4	Discount		30,000				

DR	-		Bu	bu A/C			CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
15/4	Bank		700,000				
15/4	Discount		100,000				
19/4	Cash		81,000				
19/4	Discount		9,000				
23/4	Bank		100,000				

DI	R		Hel	laA/C			CR
Date	Detail	LF	Amount	Date	Detail	LF	Amount
22/4	Cash		50,000				
22/4	Discount		5,000				
25/4	Bank		87,300				
25/4	Discount		2,700				
25/4	Cash		58,200				
25/4	Discount		1,800				

GENERAL JOURNAL/ JOURNAL PROPER

It is a book of original entry that records sale and purchase of fixed assets on credit, opening entries of new accounts, bad debts written off and sale of shares and debentures by companies.

FORMAT OF A GENERAL JOURNAL

Date	Detail	LF	Debit	Credit

GENERAL JOURNAL

NB: The Debit Side and the Credit Side of a General Journal Must Balance.

EXAMPLE 19

The following information belong to Embaramba Traders for the month of June 2019.

2/6 - Bought motor vehicle on credit from keno traders worth 250,000.

5/6 - Sold a lawn mower to Silwa traders on credit worth 40,000.

10/6 - Sold furniture whose book value was 20,000 for 25,000 on credit to Samba. Prepare the relevant book of original entry.

Date	Detail	LF	Debit	Credit
02/6/19	DR motor vehicle		250,000	
	Cr keno traders			250,000
	(Being purchase of Motor Vehicle			
	from Keno Traders on credit)			
5/6/19	Dr Silwa traders		40,0000	
	Cr Lawn Mower			40,000
	(Being sale of a Lawn Mower to			
	Silwa Traders on credit)			
10/6/19	Dr Samba		25,000	
	Cr Profit			5,000
	Cr Furniture			20,000
	(Being sale of furniture to Samba at a		<u>315,000</u>	<u>315,000</u>
	profit on credit)			

GENERAL JOURNAL

EXAMPLE 20

Enter following transactions to appropriate journal for Omega Traders.

3/3/18 - Sold an old van to Angawa Traders on credit at 120,000.

5/3/18 - Sold machinery for 100, 000 on credit to Rambo which had been purchased at 110, 000 two years earlier.

7/3/18 - Sold computer on credit to Arnold at 45, 000. The computer had cost 37,000 earlier.

Date	Detail	LF	Debit	Credit
3/3/18	Angawa traders		120,000	
	Old van			120,000
	(Being sale of a van to Angawa traders			
	on credit)			
5/3/18	Rambo		100,000	
	Loss at disposal		10,000	
	Machinery			110,000
	(Being sale of machinery at loss of			
	10,000 on credit to Rambo)			
7/3/18	Arnold		45,000	
	Gain at disposal			8,000
	Computer			37,000
	(Being sale of computer at profit of			
	8,000 to Arnold on credit)		<u>275,000</u>	<u>275,000</u>

GENERAL JOURNAL

EXAMPLE 21

Milamba started a business with the following assets and liabilities as at 5/6/19.

Motor vehicle	400,000	Machinery	500,000
Shares	500,000	Stock	80,000
Cash	600,000	Bank	400,000
Debtors	30,000	Creditors	400,000
Overdraft	30,000		

The book keeping equation is applicable here where

Assets = capital + liabilities

Date	Detail	LF	Debit	Credit
5/6/19	Motor vehicle		400,000	
	Machinery		500,000	
	Shares		500,000	
	Stock		80,000	
	Cash		600,000	
	Bank		400,000	
	Debtors		30,000	
	Creditors			400,000
	Overdraft			30,000
	capital			2,080,000
	(Being opening balances of assets,		<u>2,510,000</u>	<u>2,510,000</u>
	capital and liabilities for a new			
	business)			

GENERAL JOURNAL

EXERCISE

1. Indicate the source document for the following book of original entry.

	Books of original entry	Source document
i.	Sales of journal	
ii.	Purchase journal	
iii.	Sales returns journal	
iv.	Purchase returns journal	
v.	Petty cash book	
vi.	Cash receipt journal	

2. Identify the uses of the following journals.

Journal	Use
Sales	
Purchase	
Sales returns	
Purchase returns	
Cash payment	
Cash receipt	

3. Wetangula Traders made the following credit sales for the month of February 2021. Prepare a sales journal and open the relevant ledger accounts with this information.

2/2 - Sold goods worth 80,000, 100,000 and 150,000 to Namare, Ollie and Abongo respectively on credit.

3/2 - Sold goods in credit to the following debtors.

Mulinge	300,000
Salago	200,000
Wandegwa	400,000
Rotich	50,000
Gachimi	120,000
kirui	130,000
Masitsa	64,000

4. **Use** the following balances of Kenol Traders to prepare opening journal entries on 10/7/2021.

Cash at hand	317,000	Stock	310,000
Creditors	25,000	Motorcycle	150,000
Furniture	128,000	Premise	120,000
Debtors	319,000	3-year loan	191,000
Cash at bank	170,000		

5. The following transactions relate to Maara Traders in the month of September 2021. Enter them into appropriate journal.

3/9 - Sold land to Eddy Traders on credit at 4,200,000.

5/9 - Sold a warehouse for 1000, 000 on credit to Rigai which had been purchased at 1,310, 000 two years earlier.

17/9 - Sold a motorboat on credit to Ariana at 545, 000. The computer had cost 337,000 earlier.

6. Record the following transactions belonging to Rockfield Traders to a cash payment journal for the month of April 2021 and thereafter to affected ledger accounts.

1/11 - Purchased goods worth 1,200,000 in cash. Receipt 107.

3/11 - Paid cash 90,000 to Lawi less 10% discount. Receipt 108

8/11 - Paid a cheque of 800,000 to Lawi having received a discount of 100,000. Receipt 109.

12/11 - Paid for goods worth 230,000 by cheque less a discount of 30,000. Receipt 110.

14/11 - Paid 50,000 to Minai Traders having allowed him a discount of 10%. Receipt 111.

17/11 – Paid Benga 220,000 by cheque for goods that were acquired in credit. Receipt 112.

18/11 – Paid Hellon 290,000 by cheque and 60,000 by cash less 3% discount on each payment. Receipt 613 and 113.

7. Mwala traders made the following purchases for the month of September 2020. Prepare the relevant journal belonging to Mwala traders.

9/9 - Purchased stock worth 130,000 on credit. Invoice no 77.

10/9 - Bought goods worth 306,000 and 172,000 on credit from Asiyo and Sherry. Invoice no 78 and 79.

11/9 - Bought stock worth 150,000 from Harry on credit. Invoice number 80.

12/9 - Sold goods worth 89,000 to Kimwa on credit. Invoice number 81.

13/9 - Bought goods worth 114,000 from Shiti on credit. Invoice number 82.

14/9 - Bought goods worth 169,000, 114,000 and 128,000 from Tamika, walle and Salome on credit. Invoice numbers 83, 84 & 85 respectively.

CHAPTER 5

FINANCIAL STATEMENT

At the end of every Trading/Accounting Period businesses determine their performance by balancing all its financial accounts, preparing Trial Balances, preparing Trading Profit & Loss Accounts as well as Balance Sheets.

TRADING ACCOUNT

It is an account that is prepared at the end of an accounting period in order to determine the amount of Gross Profit or Gross Loss. Trading account use the following elements to calculate gross profit/ gross loss.

1. Opening stock

The amount of stock available at the start of an accounting period. It's usually closing stock carried forward to the next accounting period.

2. Purchases

Additional stock that is acquired by the business in the course of an accounting period. It's normally added to the opening stock.

Opening stock	XXX
ADD Purchases	XXX

3. Return outwards/ Purchases return

These are goods returned by the business to the suppliers. They are subtracted from purchases.

Opening stock	XXX
ADD Purchases	XXX
LESS purchases return	XXX

4. Carriage inwards/ Carriage on purchases

This is the cost of transporting goods from where they were purchased into the premise of the business. It's a component of purchases therefore must be added to purchases.

Opening stock	XXXX
ADD Purchases	XXXX
ADD Carriage inwards	XXXX
LESS Purchases return	XXXX
Cost of Goods Available	XXXX
For Sale (COGAS)	

5. Closing stock

The amount of stock that has remained unsold in the current accounting period. It's normally carried forward to the next accounting period as opening sock. Closing stock is usually subtracted from cost of goods available for sale (COGAS) to determine the cost of sales (COS).

Opening stock	XXXX
ADD Purchases	XXXX
ADD Carriage inwards	XXXX
LESS Purchases return	XXXX
Cost of Goods Available	XXXX
For Sale (COGAS)	
LESS Closing stock	XXXX
Cast of sales	VVVV

6. Sales

It is the amount of stock that has been disposed by the business in exchange for money during the accounting period. Net Sales is calculated by subtracting Return Inwards from Sales

7. Return inwards

This is stock that had initially been sold by the business to customers but is unfortunately returned to the business. It's usually subtracted from sales.

Sales	XXXX
LESS Return inwards	XXXX
Net sales	XXXX

8. Cost of goods available for sale (COGAS)

This is the total sum of all goods available in the business that can be availed for sale. It is calculated by adding opening stock to the stock acquired by the business through purchase then subtracting any goods returned buy the business to the suppliers in the form of purchases return.

For Sale (COGAS)	
Cost of Goods Available	XXXX
LESS Purchases return	XXXX
ADD Carriage inwards	XXXX
ADD Purchases	XXXX
Opening stock	XXXX

DETERMINING GROSS PROFIT / GROSS LOSS

EXAMPLE 1

Starehe had the following balances as at 3/12/21.

Opening stock	8,000	Purchases	42,000
Sales	50,000	Closing stock	18,000
_	_		

Determine the amount of gross profit.

Gross profit = Sales – COS

COS= (Opening stock + purchases – closing stock) COS = (8,000+ 42,000) – 18,000 COS = 32,000 Gross profit = 50,000 - 32,000Gross profit = 18,000

EXAMPLE 2

Lenana had the following balance for the year ended 31/4/20

Opening stock	50,000
Purchases	300,000
Return inwards	15,000
Sales	300,000
Return outwards	20,000
Closing stock	45,000
Carriage inwards	15,000

Determine the gross profit for the accounting period.

Gross profit = Net Sales - COS

Cost of S	<u>30,000</u>	
LESS closing stock	45,000	
LESS return outwards	20,000	
ADD carriage inwards	15,000	
ADD purchases	30,000	
COS = Opening stock	50,000	

Net sales = sales – return inwards

= 300,000 - 15,000 = 285,000 Gross profit = Sales - COS

> = 258,000 - 30,000= 228,000

EXAMPLE 3

The following balance belong to Owen Enterprises. For the year ending 15/2/20.

Sales	670,000	Purchases	380,000
Return inwards	40,000	Return outwards	20,000
Carriage inwards	10,000	Stock (15/2/19)	60,000
Stock (15/2/20)	70,000		

Determine gross profit for the accounting period.

Gross profit = Net Sales - COS

Net sales = sales - return inwards Net sales = 670,000 - 40,000 Net sales = 630,000

 $\cos =$

COS	360,000
LESS Stock (15/2/20)	70,000
LESS Return outwards	20,000
ADD Carriage inwards	10,000
ADD Purchases	380,000
Stock (15/2/19)	60,000

Gross profit = Net Sales – COS Gross profit = 630,000 – 360,000 Gross profit = 270,000

FORMAT OF A TRADING ACCOUNT

TITLE

TRADING ACCOUNT

DR FOR THE PERIOD ENDED 31/12/20			CR
Opening Stock	XXXX	Sales	XXXX
ADD Purchases	XXXX	LESS return inwards	XXXX
ADD Carriage Inwards	XXXX	Net Sales	XXXX
LESS Return Outwards	XXXX		
COGAS	XXXX		
LESS closing stock	XXXX		
COS	XXXX		
Gross profit c/d	XXXX		
	XXXXX		XXXXX
		Gross profit b/d	XXXX

EXAMPLE 1

Nyoike traders had the following balances as at 31/12/20.

Opening Stock	20,000	Purchases	270,000
Return Inwards	18,000	Sales	300,000
Return Outwards	20,000	Closing Stock	55,000
Carriage Inwards	10,000		

Prepare Nyoike's trading account.

NYOIKE TRADERS

TRADING ACCOUNT

DR 1	FOR THE PERIOD	ENDED 31 / 12/ 20	CR
Opening Stock	20,000	Sales	300,000
ADD Purchases	270,000	LESS Return inwards	18,000
ADD Carriage Inwa	urds 10,000	Net Sales	282,000
LESS Return Outwa	ards 20,000		
COGAS	280,000		
LESS closing stock	55,000		
COS	225,000		
Gross profit c/d	57,000		
	<u>282,000</u>		<u>282,000</u>
		Gross profit b/d	57,000

EXAMPLE 2

The following balances were derived from Muholo's books for the year ended 15/6/19.

Sales	900,000	Purchases	400,000
Return inwards	80,000	Purchases return	60,000
Carriage inwards	10,000	Opening Stock	100,000
Closing stock	90,000		

Prepare Trading Account for the trading period.

MUHOLO TRADERS

TRADING ACCOUNT

DR FOR TH	IE PERIOD	ENDED 15/6/19	CR
Opening Stock	100,000	Sales	900,000
ADD Purchases	400,000	LESS Return inward	80,000
ADD Carriage Inwards	10,000	Net Sales	820,000
LESS Return Outwards	60,000		
COGAS	450,000		
LESS closing stock	90,000		
COS	360,000		
Gross profit c/d	460,000		
	<u>820,000</u>		<u>820,000</u>
		Gross profit b/d	460,000

EXAMPLE 3

The following information relates to Alusiola Traders as at 20/6/20.

Stock (20/6/19)	300.000	Purchases	830,000
Return inwards	60,000	Sales	1,250,000
Return outwards	45,000	Carriage inv	wards 15,000
Stock (20/6/20)	10 % of purc	hase	

Prepare Trading Account.

Stock (20/6/20) = 10 % of purchases = 10/ 100 x 830,000 = 83,000.

ALUSIOLA TRADERS

TRADING ACCOUNT

DR	FOR THE PI	ERIOD ENDED 20/6/20	CR
Opening Stock	300,000	Sales	1250,000
ADD Purchases	830,000	LESS Return inwards	60,000
ADD Carriage Inwards	15,000	Net Sales	1,190,000
LESS Return Outwards	45,000		
COGAS	1,100,000		
LESS closing stock	83,000		
COS	1,017,000		
Gross profit c/d	173,000		
	1,190,000		1,190,000
		Gross profit b/d	173,000

NB: When the value of **Cost of Sales** is more than **Net Sales** then the business records gross loss as follows.

EXAMPLE 4

The following information belongs to Nyakisii Traders as at 5/4/21.

Opening stock	200,000	Purchases	500,000
Return (Sales)	19,000	Sales	200,000
Return (Purchases)	20,000	Closing stock	45,000
Carriage (Purchases	s) 16,000		

Prepare Trading Account.

NYARKISII TRADERS

TRADING ACCOUNT

DR FOR	THE PERIO	D ENDED 31 / 12/ 20	CR
Opening Stock	200,000	Sales	200,000
ADD Purchases	500,000	LESS Return (Sales)	19,000
ADD Carriage Inwards	16,000	Net Sales	181,000
LESS Return (Purchases)	20,000		
COGAS	696,000		
LESS Closing stock	45,000		
COS	651,000	Gross loss c/d	470,000
	<u>651,000</u>		<u>651,000</u>
Gross loss b/d	470,000		

EXAMPLE 5

The following information relates to Nandi Traders as at 15/6/20.

Opening stock	30,000	Purchases	460,000
Return inwards	60,000	Sales	350,000
Return outwards	23,000	Carriage inwards	12,000
Closing stock	46,000		

Prepare a Trading Account.

NANDI TRADERS

TRADING ACCOUNT

DR FOR THE PERIOD ENDED 31 / 12/ 20 CR

30,000	Sales	350,000
460,000	LESS Return Inwards	60,000
12,000	Net Sales	290,000
23,000		
479,000		
46,000		
433,000	Gross loss c/d	143,000
<u>433,000</u>		<u>433,000</u>
143,000		
	30,000 460,000 12,000 23,000 479,000 46,000 433,000 <u>433,000</u> 143,000	30,000 Sales 460,000 LESS Return Inwards 12,000 Net Sales 23,000 4000 479,000 Gross loss c/d 433,000 Gross loss c/d

PROFIT & LOSS ACCOUNT

It is a financial statement that determines the net profit or the net loss of a business by adding additional incomes to gross profit thereafter subtracting all expanses Examples of **income** normally added to gross profit include

- i. Rent Received
- ii. Interest Earned
- iii. Commission Received
- iv. Discount Received

Similarly common **expenses** that are normally subtracted from gross profit include;

- i. Salaries and Wages
- ii. Discount Allowed
- iii. Commission Allowed
- iv. Electricity
- v. Carriage Outwards
- vi. Postages and Stamps
- vii. Insurance Premiums
- viii. Rent Owing's

Gross loss b/d and all expenses are posted on the debit side of the profit and loss account while Gross profit b/d and additional income on the credit side of the profit and loss account.

PROFIT & LOSS ACCOUNT

DR FOR THE PERIOD ENDED 31 / 12/ 20			CR
Gross Loss B/D	XXXXX	Gross Profit B/D	XXXXX
Salaries and Wages	XXXXX	Rent Received	XXXXX
Discount Allowed	XXXXX	Interest Earned	XXXXX
Commission Allowed	XXXXX	Commission Received	XXXXX
Electricity	XXXXX	Discount Received	XXXXX
Carriage Outwards	XXXXX		
Postages and Stamps	XXXXX		
Insurance Premiums	XXXXX		
Rent Owing's	XXXXX		
Net profit c/d	XXXXX	Net loss c/d	XXXXX
	XXXXX		XXXXX
Net loss b/d	XXXXX	Net profit b/d	XXXXX

CALCULATION OF NET PROFIT AND NET LOSS

The following formula is applicable in calculating of **net profit /net loss.**

Net Profit/ Net Loss = Gross Profit B/D + Income – Expenses

NB: When the final amount is positive then that is Net Profit, however when the final amount is negative then that is Net Loss.

EXAMPLE 7

The following information belongs to Kasyoka Traders as at 31/12/20.

Gross profit	80,000	Rent Received	120,000
Salaries and Wages	50,000	Discount Allowed	3,000
Commission Allowed 6,000		Electricity	13,000

Carriage Outwards 18,000

A. Calculate net profit thereafter prepare profit and loss account.

Net Profit = Gross Profit B/D + Income – Expenses Income = 120,000Expenses = Salaries and Wages 50,000 **Discount Allowed** 3,000 Commission Allowed 6,000 Electricity 13,000 Carriage Outwards 18,000 90,000

Net profit = 80,000 + 120,000 - 90,000Net profit =110,000

B. Prepare profit and loss account for the above information.

PROFIT & LOSS ACCOUNT			
DR	FOR THE PER	IOD ENDED 31 / 12/ 20	CR
Salaries and Wages	50,000	Gross Profit b/d	80,000
Discount Allowed	3,000	Rent Received	120,000
Commission Allowed	6,000		
Electricity	13,000		
Carriage Outwards	18,000		
Net profit c/d	110,000		
	<u>200,000</u>		<u>200,000</u>
		Net profit b/d	110,000

KASYOKA TRADERS
The following information belongs to Nasio Traders.

Postages and Stamps	83,000
Rent Owing's	43,000
Commission Received	45,000
Insurance Premiums	34,000
Gross profit	600,000
Interest Earned	59,000

a. Calculate net profit

Net Profit = Gross Profit B/D + Income – Expenses Income = Interest Earned + Commission Received Income = 59,000 + 45,000 Income = <u>104,000</u>

Expenses = Postages and Stamps + Rent Owing's + Insurance Premiums Expenses = 83,000 + 43,000 + 34,000Expenses = $\underline{160,000}$ Net Profit = Gross Profit B/D + Income - Expenses Net profit = 600,000 + 104,000 - 160,000Net profit = $\underline{544,000}$

b. Prepare profit and loss account for the above information.

NASIO TRADERS

PROFIT & LOSS ACCOUNT

FOR THE PERIOD ENDED 31 / 12/ 20

DR

CR

Postages and Stamps	83,000	Gross Profit b/d	600,000
Rent Owing's	43,000	Interest Earned	59,000
Insurance Premiums	34,000	Commission Received	45,000
Net profit c/d	544,000		
	704,000		704,000
		Net profit b/d	544,000

TRADING PROFIT & LOSS ACCOUNT

It is financial statement that combines the concept of **Trading Account & Profit** and Loss account. It is used to calculate both **Gross Profit & Net Profit.**

TRADING PROFIT & LOSS ACCOUNT

DR FOR TH	IE PERIOD E	NDED 31 / 12/ 20	CR
Opening Stock	XXXX	Sales	XXXX
ADD Purchases	XXXX	LESS return inwards	XXXX
ADD Carriage Inwards	XXXX	Net Sales	XXXX
LESS Return Outwards	XXXX		
COGAS	XXXX		
LESS closing stock	XXXX		
COS	XXXX		
Gross profit c/d	XXXX	Gross loss c/d	XXXX
	XXXXX		XXXXX
Gross Loss B/D	XXXXX	Gross Profit B/D	XXXXX
Salaries and Wages	XXXXX	Rent Received	XXXXX
Discount Allowed	XXXXX	Interest Earned	XXXXX
Commission Allowed	XXXXX	Commission Received	XXXXX
Electricity	XXXXX	Discount Received	XXXXX
Carriage Outwards	XXXXX		
Postages and Stamps	XXXXX		
Insurance Premiums	XXXXX		
Rent Owing's	XXXXX		
Net profit c/d	XXXXX	Net loss c/d	XXXXX
	XXXXXX		XXXXXX
Net loss b/d	XXXXX	Net profit b/d	XXXXX

NB: One should not include items of the balance sheet in preparing trading profit and loss account.

Use the information in the following trial balance to prepare a trading profit and loss account for Murunga traders for the period ending 5/12/20.

Sales	890,000	Purchases	400,000
Opening Stock	80,000	Closing Stock	70,000
Return Inwards	59,000	Rent Received	47,000
Carriage (Purchases) 10,000	Salaries	62,000
Postage and Stamps	5,700	Repair	16,000
Insurance Fees	72,000	Commission Rece	eived 45,000

MURUNGA TRADERS

TRADING PROFIT & LOSS ACCOUNT

DR

FOR THE PERIOD ENDED 5/12/20

CR

Opening Stock	80,000	Sales	890,000
Add Purchases	400,000	Less Return Inwards	59,000
Add Carriage (Purchases)	10,000		
COGAS	490,000		
Less Closing Stock	70,000		
COS	420,000		
Gross Profit C/D	411,000		
	<u>831,000</u>		<u>831,000</u>
Salaries	62,000	Gross Profit C/D	411,000
Postage And Stamps	5,700	Rent Received	47,000
Repair And Maintenance	16,000	Commission Received	45,000
Insurance Fees	72,000		
Net Profit C/D	347,300		
	<u>503,000</u>		<u>503,000</u>
		Net Profit B/D	347,300

Prepare a Trading Profit & Loss Account for Yugeri Traders for 5/8/20.

Premise	1,000,000	Closing Stock	22,000
Creditors	30,000	Purchases	280,000
Sales	420,000	Return Outwards	19,000
Carriage Outward	s 37,200	Furniture	270,000
Opening Stock	45,000	Discount Received	22,000
Discount Allowed	1 76,000	Salaries	150,000
Commission Rece	eived 8,000	Electricity	12,000
Return Inwards	35,000	Carriage Inwards	5,400

YUGERI TRADERS

TRADING PROFIT & LOSS ACCOUNT

DR

FOR THE PERIOD ENDED 5/8/20

CR

Opening Stock	45,000	Sales	440,000
Add Purchases	280,000	Less Return Inwards	35,000
Add Carriage On Purchases	5,400		
Less Return Outwards	19,000		
COGAS	311,400		
Less Closing Stock	27,000		
COS	284,400		
Gross Profit C/D	120,600		
	<u>405,000</u>		<u>405,000</u>
Discount Allowed	76,000	Gross Profit C/D	120,600
Salaries and Wages	150,000	Discount Received	22,000
Electricity	12,000	Commission Received	45,000
Carriage Outwards	37,200	Net Loss C/D	87,600
	<u>275,200</u>		<u>275,200</u>
Net Loss B/D	87,600		

Prepare Trading Profit & Loss Account of Chacha Traders as at 12/2/17.

Opening stock	300,000	Purchases	400,000
Carriage inwards	15,000	Sales	390,000
Sales returned	20,000	Salaries	15,000
Discount Allowed	15,000	Commission Allowed	d 1,400
Interest Earned	26,000	Electricity	5,000
Carriage Outwards	s 4,500	Rent Received	18,000
Closing stock	50,000	Discount Received	46,000
Debtors	19,000	Commission Receive	d 32,000

CHACHA TRADERS

TRADING PROFIT & LOSS ACCOUNT

DR FO	R FOR THE PERIOD ENDED 12/2/17		
Opening Stock	300,000	Sales	390,000
Add Purchases	400,000	Less Sales Return	20,000
Add Carriage Inwards	15,000		
COGAS	715,000		
Less Closing Stock	50,000	Gross Loss c/d	295,000
COS	665,000		<u>665,000</u>
	<u>665,000</u>	Discount Received	46,000
Gross Loss b/d	295,000	Commission Received	32,000
Discount Allowed	15,000	Rent Received	18,000
Salaries and Wages	15,000	Interest Earned	26,000
Electricity	5,000		
Carriage Outwards	4,500	Net Loss c/d	213,900
Commission Allowed	1400		
	<u>335,900</u>		<u>335,900</u>
Net Loss b/d	213,900		

The	following	information	belonging	to	Salash	Traders	for	the	period	ended
31/1	2/21.									

Account	DR	CR
Sale / Purchases	345,000	427,000
Returns	17,000	20,000
Vehicle	640,000	
Carriage Inwards	12,000	
Carriage Outwards	8,000	
Discount		32,000
Stock (1/1/21)	54,000	
Commission	16,000	29,000
Electricity	21,000	
Rent	18,000	
Drawings	37,000	
Land	400,000	
Cash	105,000	
Loan		610,000
Bank / overdraft	82,000	95,000
Creditors		67,000
Insurance	15,000	
Capital		490,000
	<u>1,770,000</u>	<u>1,770,000</u>

Stock (31/12/21) was 75,000.

- a) Prepare Trading Profit & Loss Account with the above information.
- **b**) Prepare a Balance Sheet with the above information.

NB: In a Trial Balance, the balance brought down (b/d) for given accounts will always be as follows:

Debit (DR)		Credit (CR)	
i.	Purchases	i.	Sales
ii.	Return In / Sales Return	ii.	Return Outwards / Purchases
iii.	Commission Allowed		Return
iv.	Discount Allowed	iii.	Commission Received
v.	Interest Allowed	iv.	Discount Received
vi.	Carriage In	v.	Interest Received
vii.	Opening Stock	vi.	Rent Received / Rent Income
viii.	Drawings	vii.	Capital
ix.	Assets e.g.	viii.	Liabilities e.g.
•	Debtors	•	Loans
•	Cash	•	Overdraft
•	Vehicles	•	Creditors
•	Rent	•	Mortgage
•	Bank		
•	Building		
•	Machinery		
x.	Expenses e.g.		
•	Insurance		
•	Salaries & Wages		
•	Electricity		
•	Carriage Outwards		
•	Rent		
•	Rent Owings		

SALASH TRADERS

TRADING PROFIT & LOSS ACCOUNT

DR	FOR THE PERIOD ENDED 31/12/21		CR
Opening Stock	54,000	Sales	427,000
Add Purchases	345,000	Less Sales Return	17,000
Add Carriage Inwards	12,000		
Less return outwards	20,000		
COGAS	391,000		
Less Closing Stock	75,000		
COS	316,000		
Gross profit c/d	94,000		
	<u>410,000</u>		<u>410,000</u>
Commission Allowed	16,000	Gross profit b/d	94,000
Electricity	21,000	Discount Received	32,000
Insurance	18,000	Commission Received	29,000
Carriage Outwards	8,000		
Rent	15,000		
Net profit c/d	77,000		
	<u>155,000</u>		<u>155,000</u>
		Net profit b/d	77,000

NB: When preparing Balance Sheet, the **Net Profit / Net Loss** from the Trading Profit & Loss Account is used adjust capital.

SALASH TRADERS BALANCE SHEET AS AT 31/12/21

Fixed Assets		Capital	490,000
Vehicle	640,000	Add Net profit	77,000
Land	400,000	Less Drawings	37,000
Current Assets		Long Term Liabilities	
Bank	82,000	Loan	610,000
Stock	75,000		
Cash	105,000	Short Term Liabilities	
		Creditors	67,000
		Overdraft	95,000
	<u>1302,000</u>		<u>1,302,000</u>

The following trial balance belongs to Olum Traders as at 31/12/2020.

OLUM TRADERS

TRIAL BALANCE

AS AT 31/12/20

Account	DR	CR
Sale / Purchases	700,000	950,000
Carriage Outwards	40,000	
Opening Stock	125,000	
Fixed Assets	820,000	
Debtors	105,000	
Loan		85,000
Electricity	68,000	
Salaries	100,000	
Overdraft		103,000
Returns	15,000	24,000
Bank	25,000	
Rent	52,000	
Capital		888,000
	<u>2,050,000</u>	<u>2,050,000</u>

Closing Stock was 65,000.

- a) Prepare Trading Profit & Loss Account with the above information.
- **b**) Prepare a Balance Sheet with the above information.

OLUM TRADERS

TRADING PROFIT & LOSS ACCOUNT

FOR THE PERIOD ENDED 31/12/20

DR

CR

Opening Stock	125,000	Sales	950,000
Add Purchases	700,000	Less Sales Return	15,000
Less return outwards	24,000		
COGAS	801,000		
Less Closing Stock	65,000		
COS	736,000		
Gross profit c/d	199,000		
	<u>935,000</u>		<u>935,000</u>
Carriage Outwards	40,000	Gross profit b/d	199,000
Electricity	68,000		
Salaries	100,000		
Rent	52,000	Net Loss c/d	61,000
	<u>260,000</u>		<u>260,000</u>
Net Loss b/d	61,000		

OLUM TRADERS

BALANCE SHEET

AS AT 31/12/20

Fixed Assets		Capital	888,000
Fixed Assets	820,000	Less Net loss	61,000
Current Assets		Long Term Liabilities	
Bank	25,000	Loan	85,000
Stock	65,000		
Debtors	105,000	Short Term Liabilities	
		Overdraft	103,000
	<u>1,015,000</u>		<u>1,015,000</u>

EXERCISE

1. Merisho had the following items during an accounting period. Determine the gross profit for the accounting period ended 14/12/20 and prepare a trading account.

Opening stock	500,000	Purchases	130,000
Return inwards	5,000	Sales	300,000
Return outwards	30,000	Closing Stock	25,000
Carriage inwards	15,000		

2. Use the following information to determine the COGAS and prepare a trading account.

Opening stock	70,000	Purchases	300,000
Carriage inwards	5000	Return outwards	20,000
Sales	450,000	Closing stock	137,000
Return inwards	39,000		

3. Prepare a trading account with the following information for the period ended 31/10/21.

Opening stock	50,000	Purchases	330,000
Carriage inwards	20,000	Closing stock	30,000
Sales	450,000	Return inwards	30,000

4. Prepare a trading account with the following information for the period ended

11/1/21.

Opening stock	60,000	Purchases	300,000
Carriage inwards	15,000	Return outwards	34,000
Closing stock	100,000	Sales	590,000
Return inwards	25,000		

5. Use the following information to prepare a Trading Profit & Loss Account for the period ended 14/10/2.

Opening stock	100,000	Purchases	400,000
Carriage inwards	15,000	Return outwards	30,000
Sales	1,250,000	Closing stock	137,000
Return inwards	39,000	Discount allowed	30,000
Salaries	200,000	Carriage outwards	23,000
Electricity bill	50,000	Discount received	40,000
Commission recei	ived 30,000		

 Prepare Trading Profit & Loss Account using the following information belonging to Malesi Stores for the period ended 31/12/2. Closing Stock was 43,000.

Details	DR	CR
Bank	95,000	
Overdraft		53,000
Creditors		50,000
Return Outwards	9,000	
Return Inwards	13,000	
Discount	15,000	30,000
Opening Stock	50,000	
Purchases /Sales	330,000	407,000
Commission	10,000	15,000
Rent	14,000	9,000
carriage	4,000	3,000
Repair	12,000	
Insurance	15,000	
	<u>567,000</u>	<u>567,000</u>

7. The following information belongs to Marachi Traders.

	DR	CR
Stock	100,000	
Bank	35,000	
Purchases	180,000	
Sales		300,000
Returns	1,500	2,000
Rent		5,000
Electricity	12,000	
Carriage In	12,000	
Carriage Outwards	8,000	
Discount		32,000
Commission	14,000	30,000
Drawings	35,000	
Land	300,000	
Debtors /Creditors	100,000	67,000
Loan		705,000
Salaries	36,000	
Building	767,000	
General Expenses	30,500	
Capital		490,000
	<u>1631,000</u>	<u>1631,000</u>

MARACHI TRADERS TRIAL BALANCE AS AT 13/12/2020

Additional information: Closing stock was 42,000

Required:

- 1. Prepare Trading Profit & Loss Account.
- 2. Prepare a Balance Sheet with the above information.

 The following information relates to Calisto Enterprises. Prepare Profit & Loss Account.

Salaries	400,000	Electricity	33,000
Rent expenses	45,000		
Gross profit	1,300,000		
Rent income	150,000		
Commission receive	ed 145,000		
Discount received	30,000		
Commission allowed	d 89,000		
Discount allowed	46,000		

9. Prepare a Profit & Loss Account with the following information for the period ended 20/12/20.

Discount Allowed	30,000	Commission Received	30,000
Salaries & Wages	100,000		
Electricity Bill	50,000		
Carriage Outwards	23,000		
Gross Profit	200,000		
Discount Received	40,000		

CHAPTER 6

FINANCIAL RATIOS

A ratio is an expression of one figure in relation to another. Financial ratios include the following.

- Margin
- Mark up
- Average stock
- Rate of stock turnover

MARGIN

This is gross profit expressed as a fraction of the selling price/sales

 $Margin = \frac{Gross \operatorname{Profit}}{\operatorname{Selling Price/ Net Sales}}$ $Margin = Gross \operatorname{Profit}: \operatorname{Selling Price/ Net Sales}$ $Margin = \frac{Gross \operatorname{Profit}}{\operatorname{Selling Price/ Net Sales}} X 100$

Selling price is the price at which a commodity is disposed. It is normally inclusive of gross profit or gross loss.

EXAMPLE 1

James purchased goods worth 100,000 and later sold them for 12,000. Determine the margin %.

Margin % =
$$\frac{\text{Gross Profit}}{\text{Selling Price}} \times 100$$

Gross Profit = 12,000 -10,000
Gross Profit = 2,000
Sales = 12,000
 $\frac{2000}{12,000} \times 100$
16.67%

Calculate margin when the selling price is 420,000 and the gross profit is 60,000.

Margin % =
$$\frac{\text{Gross Profit}}{\text{Selling Price}} \times 100$$

Gross Profit = 60,000
Selling Price = 420,000
 $\frac{60,000}{420,000} \times 100$
14.285%

EXAMPLE 3

Calculate Gross Profit when margin is 18% and the selling price is 339,000.

Margin % = $\frac{\text{Gross Profit}}{\text{Selling Price}} \times 100$ Margin = 18% Selling Price = 339,000 18% = $\frac{\text{Gross Profit}}{339,000} \times 100$ Gross Profit = 18 X 3390 Gross Profit = 61,020

EXAMPLE 4

Calculate the Selling Price when Gross Profit is 98,000 and the Margin is 14%.

Margin % = $\frac{\text{Gross Profit}}{\text{Selling Price}}$ X 100 Margin = 14% Gross Profit = 98,000 14% = $\frac{98,000}{\text{Selling Price}}$ X 100 14(Selling price) = 9,800,000 Selling price = $\frac{9,800,000}{14}$ Selling price = 700,000

MARK UP

This is gross profit over cost of sales or a percentage of cost price.

Mark up = Gross profit/ Cost price or COS Mark up = gross profit: cost price or COS Mark up = Gross profit / cost price X 100

Cost price is the initial cost of acquisition of an item before it is resold. It is not inclusive of gross profit or gross loss. i.e.

If Muja bought an item at 30,000 and later sold it at 15,000 the **cost price** is 30,000 while the **selling price** is 15,000.

EXAMPLE 5

Otiende bought a bicycle at 20,000 and later sold it at 50,000. Calculate the mark up %.

Mark up =
$$\frac{\text{Gross profit}}{\text{Cost price}} \times 100$$

Gross profit = 50,000 - 20,000 = 30,000
Mark up = $\frac{30,000}{20,000} \times 100$
Mark up = 150%

RELATIONSHIP BETWEEN MARK UP AND MARGIN.

Mark up = $\frac{\text{Gross profit}}{\text{COS}}$

Margin compares Gross Profit to Net Sales

Markup compares Gross Profit to COS (Cost of Sale)

 $Margin = \frac{Gross profit}{Sales}$ But GP = sales- COS Sales = COS + GP COS = sales - GP If markup and margin share the same gross profit and cost of sales, then they have the following relationship.

If Mark Up = $\frac{1}{x}$ Then Margin = $\frac{1}{x+1}$ (Where x= sales and 1 = Gross profit) OR

If Margin $=\frac{1}{x}$ then Mark up $=\frac{1}{X-1}$ (Where x= sales and 1 = Gross profit)

EXAMPLE 6

Calculate gross profit if COS is 100,000 and margin is 25%.

Margin =
$$\frac{GP}{sales}$$

 $\frac{1}{4} = \frac{GP}{Sales}$ But sales = GP + COS
Therefore $\frac{1}{4} = \frac{GP}{(GP+COS)}$
 $\frac{1}{4} = \frac{GP}{(GP+100,000)}$
GP + 100,000 = 4GP
4GP - GP = 100,000
3GP = 100,000
Gross profit = $\frac{100,000}{3}$
Gross profit = 33,333.

Alternatively

Calculate gross profit if COS is 100,000 and margin is 25%.

Margin
$$=\frac{1}{4}$$

Markup $=\frac{1}{4-1}$
Markup $=\frac{GP}{COS}$
 $\frac{1}{3} = \frac{GP}{100,000}$
100,000= 3GP
Gross profit $=\frac{100,000}{3}$ Gross profit

= 33,333

Use the following information to prepare a trading account for Winga Traders for the period ended 5/6/19.

Opening Stock 200,000	Closing Stock 300,000
Purchases 500,000	Margin $\frac{1}{5}$

a) Find COS, Gross profit and Sales.

 $COS = Opening \; stock + purchases - closing \; stock$

COS = 200,000 + 500,000 - 300,000

COS = 400,000

Margin =
$$\frac{1}{5}$$

Mark up = $\frac{1}{5-1} = \frac{1}{4}$
Mark up = $\frac{\text{Gross Profit}}{\cos}$
 $\frac{1}{4} = \frac{\text{GP}}{400,000}$
4GP= 400,000
GP=100,000

Gross profit = Sales – COS 100,000 = Sales – 400,000 Sales = 100,000 + 400,000 Sales = 500,000

b) Prepare Trading Account.

WINGA TRADERS

TRADING ACCOUNT

FOR THE PERIOD ENDED 15/6/19

CR

Opening Stock	200,000	Sales	500,000
ADD Purchases	500,000		
COGAS	700,000		
LESS Closing Stock	300,000		
COS	400,000		
Gross profit c/d	100,000		
	500,000		500,000
		Gross profit b/d	100,000

CURRENT RATIO/ WORKING CAPITAL RATIO

It is current assets expressed as a ratio of current liabilities.

Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ Current Ratio = Current Assets: Current Liabilities

EXAMPLE 8

DR

The following balances belong to Onunga Traders. Calculate the current ratio.

Cash	80,000	Furniture	72,000
Bank	90,000	Debtors	70,000
Stock	80,000	Creditors	53,000
Salaries	90,000	Electricity	5,000

Current Assets = 80,000 + 90,000 + 70,000 + 80,000 = 320,000Current Liabilities = 53,000 + 90,000 + 5,000 = 148,000Current Ratio = $\frac{320,000}{148,000}$ Current Ratio = 2.162: 1

Calculate the working capital ratio using the information below.

Bank	1,000,000	Creditors	19,000
Loan	50,000	Stock	30,000
Wages	5,000		

 $Current ratio = \frac{Current Assets}{Current Liabilities}$

Current assets = 1,000,000 + 30,000Current liabilities = 19,000 + 50,000 + 5000Current ratio = $\frac{1,030,000}{74,000}$ Current ratio = 13.9: 1

EXAMPLE 10

Use the following information to calculate the working capital ratio.

Cash	50,000	Bank	72,000
Overdraft	30,000	Prepayment	49,000
Creditors	30,000	Debtors	17,000
Rent arrears	20,000		

Current ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ Current assets = 50,000 + 72,000 + 49,000 + 17,000 Current liabilities = 30,000 + 30,000 + 20,000 Current ratio = $\frac{188,00}{80,000}$ Current ratio = 2.35: 1

The following information belongs to Hakeem traders. Determine the working capital ratio.

Buildings	700,000	Stock	50,000
Cash	90,000	Bank	48,000
Creditors	100,000	Overdraft	100,000

Current ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ Current assets = 50,000 + 90,000 + 48,000 Current liabilities = 100,000 + 100,000 Current ratio = $\frac{188,000}{200,000}$ Current ratio =0.94: 1

RETURN ON CAPITAL

This is net profit as a ratio of capital invested. It measures the rate at which capital that is invested ploughs back profit.

Return on capital = $\frac{\text{Net Profit}}{\text{Capital Invested}} \times 100\%$ Return on Capital = Net Profit: Capital Invested

EXAMPLE 12

Odiera started a business with 500,000 in cash. He made a net profit of 300,000 during the year. Calculate his return on capital.

Return on capital = $\frac{\text{Net Profit}}{\text{Capital Invested}} \ge 100\%$ Return on capital = $\frac{300,000}{500,000} \ge 100\%$ Return on capital = 60%

Ligare started a business with 1,500,000 as capital. During the accounting period he made Gross profit of 400,000. He also had the following expenses.

Electricity 20,000 Salaries 150,000

Rent arrears 50,000

Determine the return on capital.

Net profit = Gross profit - Expenses Net profit = 400,000 - (20,000 + 150,000 + 50,000) Net profit = 400,000 - 220,000 Net profit = 180,000 Return on capital = $\frac{\text{Net Profit}}{\text{Capital Invested}} \times 100\%$ Return on capital = $\frac{180,000}{400,000} \times 100\%$ Return on capital = 45%

EXAMPLE 14

Olga started a business with capital amounting to 300,000. She made a net profit of 38,000 during the accounting period. Determine the return on capital.

Return on capital = $\frac{\text{Net Profit}}{\text{Capital Invested}} \ge 100\%$ Return on capital = $\frac{38,000}{300,000} \ge 100\%$ Return on capital = 12.6%

EXAMPLE 15

Bella started a business with 1,000,000 in cash and a loan of 300,000. At the end of the accounting period, she made a gross profit of 200,000. Determine the return on capital.

Capital = Assets - Liabilities Capital = 1,000,000 - 300,000 Capital = 700,000 Return on capital = $\frac{\text{Net Profit}}{\text{Capital Invested}} \ge 100\%$ Return on capital = $\frac{200,000}{700,000} \ge 100\%$ Return on capital = 28.57%

ACID TEST/ LIQUIDITY RATIO/ QUICK RATIO

It is a ratio of total current assets (less stock) expresses as a ratio of current liabilities.

 $Liquidity \ ratio = \frac{Current \ Assets - Stock}{Current \ Liabilities}$

This ratio enables businesses to determine how fast they can repay their liabilities without relying on stock.

EXAMPLE 16

Kitengela stores had the following balances as at 18/9/20. Determine the liquidity ratio

Furniture	1,000,000	Stock	20,000
Debtors	30,000	Salaries	50,000
Rent	70,000	Cash	100,000
Bank	55,000		

 $Liquidity \ ratio = \frac{Current \ Assets - Stock}{Current \ Liabilities}$

Current assets = 30,000 + 100,000 + 55,000Current liabilities = 50,000 + 70,000Liquidity ratio = $\frac{185,000 - 20,000}{120,000}$

Liquidity ratio = $\frac{165000}{120000}$

Liquidity ratio = 1.375:1

Mariakani enterprises had the following balances. Determine the acid test ratio.

Salary	120,000	Electricity	100,000
Rent	180,000	Cash	59,000
Prepayments	20,000	Stock	10,000
Bank	50,000		

Acid test ratio/liquidity test = $\frac{\text{Current Assets-Stock}}{\text{Current Liabilities}}$

Current assets = 59,000 + 20,000 + 50,000Current liabilities = 120,000 + 100,000 + 180,000Liquidity ratio = $\frac{129,000 - 10,000}{400,000}$

Liquidity ratio = $\frac{119,000}{400,000}$ Liquidity ratio = 0.2975: 1

EXAMPLE 18

Ayimba had the following items as at 5/6/21.

Buildings	900,000	Furniture	300,000
Bank	500,000	Cash	700,000
Stock	100,000	Prepayments	30,000
Debtors	27,000	Rent	50,000
Creditors	30,000	Rent accruals	40,000

Prepare the current ratio and acid test ratio.

a) Current ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ Current assets = 500,000 + 700,000 + 100,000 + 30,000 + 27,000Current liabilities = 50,000 + 30,000 + 40,000Current ratio = $\frac{1,357,000}{120,000}$ Current ratio = 11.3: 1 b) Liquidity ratio/Acid test ratio = $\frac{\text{Current Assets-Stock}}{\text{Current Liabilities}}$ Current assets = 500,000 + 700,000 + 30,000 + 27,000 Current liabilities =50,000 + 30,000 + 40,000 Liquidity ratio = $\frac{1,257,000-100,000}{120,000}$ Liquidity ratio = $\frac{1,157,000}{120,000}$ Liquidity ratio = 9.67: 1

RATE OF STOCK TURNOVER

It is COS (Cost of Sales) expressed as a ratio of average stock. It measures the rate at which a particular item of stock is bought or sold within the trading period.

Rate if stock turn over =
$$\frac{COS}{Average Stock}$$

Average stock = $\frac{Opening Stock + Closing Stock}{2}$

EXAMPLE 19

The following information belongs to Waititu Traders. Determine the rate of stock turn over.

Opening stock	500,000	Purchases	800,000
Carriage inwards	5,000	Closing stock	200,000

Rate if stock turn over = $\frac{COS}{Average Stock}$ Average stock = $\frac{Opening Stock + Closing Stock}{2}$ COS = (Opening Stock + Purchases + Carriage Inwards - Closing Stock) COS = (500,000 + 800,000 + 5,000 - 200,000) COS = 1,105,000 Average stock = $\frac{500,000 + 200,000}{2}$ Average stock = 350,000Rate of stock turnover= $\frac{1,105,000}{350,000}$ Rate of stock turnover = 3.157 Times.

EXAMPLE 20

Use the information below to determine the rate of stock turn over.

Opening Stock	290,000	Closing Stock	79,000
Sales	89,000	Purchases	150,000

Rate of stock turn over $=\frac{COS}{Average Stock}$ Average stock $=\frac{Opening Stock + Closing Stock}{2}$ Average stock $=\frac{290,000 + 79,000}{2}$ Average stock =184,500COS = (Opening Stock + Purchases - Closing Stock) COS = 290,000 + 150,000 - 79,000COS = 361,000Rate of stock turnover $=\frac{361,000}{184,500}$ Rate of stock turnover = 1.9566 Times.

EXAMPLE 21

The following information relates to Mkapa Traders.

Average stock 80,000

Rate of stock turnover 4 times

Mark up 20%

Determine.

- a) Cost of sales (COS)
- b) Gross profit.
- c) Net Sales.

a. Find Cost of Sales (COS)

Rate of stock turn over $=\frac{COS}{Average Stock}$ $4 = \frac{COS}{80,000}$ COS = 320,000

b. Find Gross Profit

 $Margin = \frac{20}{100} = \frac{1}{5}$ $Margin = \frac{1}{5}$ $Mark up = \frac{1}{5-1} = \frac{1}{4}$ $Mark up = \frac{Gross Profit}{COS}$ $\frac{1}{4} = \frac{GP}{320,000}$ 4GP= 320,000 GP=80,000

c. Find Net Sales

 $Margin = \frac{20}{100} = \frac{1}{5}$ $Margin = \frac{Gross Profit}{Net Sales}$ $\frac{1}{5} = \frac{80,000}{Net sales}$ Sales = 400,000

EXAMPLE 22

The following information belongs to Ohulu Traders.

ROSTO 5 times Opening stock 400,000 Closing stock 140,000 Gross profit 50,000

Determine.

- d) Average Stock
- e) Cost of Sales
- f) Margin
- g) Net Sales

a) Determine Average Stock

Average stock = $\frac{\text{Opening Stock + Closing Stock}}{2}$ Average stock = $\frac{400,000+140,000}{2}$ Average stock = 270,000

b) Determine Rate of Stock Turn Over

Rate of stock turn over = $\frac{COS}{Average Stock}$ $5 = \frac{COS}{270,000}$

COS = 1,350,000

c) Determine Markup

Mark up = $\frac{\text{Gross profit}}{\text{COS}}$ Mark up = $\frac{50,000}{1,350,000}$ Mark up = $\frac{1}{27}$ If Mark Up = $\frac{1}{x}$ Then Margin = $\frac{1}{x+1}$ Margin = $\frac{1}{27+1}$ Margin = $\frac{1}{28}$

d) Determine Margin

$$Margin = \frac{Gross Profit}{Sales}$$
$$\frac{1}{28} = \frac{50,000}{sales}$$
$$Sales = 1,400,000$$

TYPES OF CAPITAL IN A BALANCE SHEET

A. CAPITAL OWNED /INVESTED CAPITAL

It is capital contributed by the owners of a business plus the profits made less drawings and loss.

Capital Owned /Invested Capital = Capital + Profit – Drawings – Loss

A. BORROWED CAPITAL/ LOAN CAPITAL

This is capital borrowed by the business from external sources on long-term basis that is more than one year.

Borrowed Capital = Summation of All Long-Term Liabilities

B. WORKING CAPITAL

It is the difference between current assets and current liabilities.

Working Capital= Current Assets – Current Liabilities

C. <u>CAPITAL EMPLOYED</u>

It is the total sum of capital invested into the business from both owner's investment and external borrowing. It can be calculated in the following ways

a. Capital Employed = Fixed Assets + Working Capital

b. Capital Employed = Capital Owned + Long-Term Liabilities

c. Capital Employed = Total Assets – Short Term Liabilities

Kogo had the following balance sheet as at 12/6/20.

KOGO ENTERPRISES

BALANCE SHEET

AS AT 12/6/20

Fixed assets		Capital	2,184,000
Machinery	1,000,000	Add Net profit	80,000
Land	800,000	Less Drawings	49,000
Buildings	400,000		
Motor vehicle	250,000	Long term liabilities	
Current assets		Bank loan	540,000
Debtors	150,000	Mortgage	600,000
Bank	600,000		
Stock	120,000	Short term liabilities	
Cash	50,000	Creditors	60,000
Prepayments	20,000	Overdraft	120,000
Debtors	45,000		
Rent income	100,000		
	3,535,000		3,535,000

Find:

- a) Capital Owned.
- b) Borrowed Capital.
- c) Working Capital.
- d) Capital Employed.
- e) Current Ratio.
- f) Liquidity Ratio.

- a) Capital Owned = Capital + Net Profit Drawings
 Capital Owned = 2,184,000 + 80,000 49,000
 Capital Owned = 2,215,000
- b) Borrowed Capital = Summation of all Long-Term Liabilities
 Borrowed Capital = 540,000 + 600,000
 Borrowed Capital =1,140,000
- c) Working Capital= Current Assets Current Liabilities
 Current Assets = 150,000 + 600,000 + 20,000 + 50,000 + 120,000
 +45,000 + 100,000
 Current Assets = 1,085,000
 Current Liabilities = 60,000 + 120,000
 Current Liabilities = 180,000
 Working Capital = 1085,000 180,000
 - Working Capital = 905,000p
- d) Capital Employed = Fixed Assets + Working Capital Fixed Assets = 1,000,000 + 800,000 + 400,000 + 250,000 Fixed Assets = 2,450,000
 Capital Employed = 2,450,000 + 905,000
 Capital Employed = 3,355,000

OR

Capital Employed = Capital Owned + Long-Term Liabilities Capital Employed = 2,215,000 + 1,140,000 Capital Employed =3,355,000 **OR** Capital Employed = Total Assets – Short Term Liabilities

Capital Employed = 3,535,000 - 180,000

Capital Employed = 3,355,000

e) Current Ratio= Current Assets Current Liabilities

> Current Assets = 150,000 + 600,000 + 20,000 + 50,000 + 120,000 +45,000 + 100,000 Current Assets = 1,085,000 Current Liabilities = 60,000 + 120,000 Current Liabilities = 180,000

Current Ratio = $\frac{1,085,000}{180,000}$ Current Ratio =6.02: 1

F). Liquidity Ratio/Acid Test Ratio = $\frac{\text{Current Assets-Stock}}{\text{Current Liabilities}}$

Current Assets = 150,000 + 600,000 + 50,000 + 20,000 + 45,000 + 100,000Current Liabilities = 60,000 + 120,000Liquidity Ratio = $\frac{965,000 - 120,000}{180,000}$ Liquidity Ratio = $\frac{845,000}{180,000}$ Liquidity Ratio = 5.36:1

EXAMPLE 24

The following balance sheet belongs to Murage traders as at 5/9/20.

Find:

- a) Capital Owned
- b) Borrowed Capital
- c) Working Capital
- d) Capital Employed
- e) Current Ratio
- f) Liquidity Ratio

MURAGE ENTERPRISES

BALANCE SHEET

AS AT 5/9/20

Fixed assets		Capital	414,000
Premise	200,000		
Equipment	80,000	Long-term liabilities	
Furniture	94,000	Loan	300,000
Motor vehicle	400,000	Mortgage	500,000
Current assets		Short term liabilities	
Stock	60,000	Creditors	50,000
Debtors	90,000	Overdraft	30,000
Cash	140,000		
Bank	200,000		
Prepayment	30,000		
	1,294,000		1,294,000

- a) Capital Owned = Capital Drawings
 Capital Owned = 414,000 0
 Capital Owned = 414,000
- f) Borrowed Capital = Summation of all Long Term Liabilities
 Borrowed Capital = 300,000 + 500,000
 Borrowed Capital = 800,000
- g) Working Capital= Current Assets Current Liabilities
 Current Assets = 60,000 + 90,000 + 140,000 + 200,000 + 30,000
 Current Assets = 520,000
 Current Liabilities = 50,000 + 30,000
Current Liabilities = 80,000 Working Capital = 520,000 – 80,000 Working Capital = 440,000

h) Capital Employed = Fixed Assets + Working Capital Fixed Assets = 200,000 + 80,000 + 94,000 + 400,000 Fixed Assets = 774,000
Capital Employed = 774,000 + 440,000
Capital Employed = 1,214,000

OR

Capital Employed = Capital Owned + Long-Term Liabilities Capital Employed = 414,000 + 800,000 Capital Employed =1,214,000

OR

Capital Employed = Total Assets – Short Term Liabilities Capital Employed = 1,294,000 – 80,000 Capital Employed = 1,214,000 i) Current Ratio= $\frac{Current Assets}{Current Liabilities}$

Current Assets = 60,000 + 90,000 + 140,000 + 200,000 + 30,000 Current Assets = 520,000 Current Liabilities = 50,000 + 30,000 Current Liabilities = 80,000

Current Ratio= $\frac{520,000}{80,000}$ Current Ratio =6.5: 1 j) Liquidity Ratio/Acid Test Ratio = $\frac{\text{Current Assets-Stock}}{\text{Current Liabilities}}$

Current Assets = 90,000 + 140,000 + 200,000 + 30,000Current Liabilities =50,000 + 30,000Liquidity Ratio = $\frac{460,000 - 90,000}{80,000}$ Liquidity Ratio = $\frac{350,000}{80,000}$ Liquidity Ratio = 4.375:1

EXERCISE

- Calculate the Selling Price when Gross Profit is 108,000 and the Margin is 8%.
- 2. Calculate gross profit if COS is 1,220,000 and margin is 20%.
- 3. Onyancha bought a computer at 120,000 and later sold it at 180,000. Calculate the mark up %.
- 4. Calculate gross profit if COS is 500,000 and margin 20%.
- 5. Calculate the rate of stock turnover with the following information.

Opening stock	5,000,000
Closing stock	1,500,000
Purchases	6,000,000

6. Use the following information to calculate the average stock and the closing stock.

ROSTO	6 times
Opening stock	520,000
Purchases	530,000
Carriage inwards	30,000

7. Calculate markup, margin and net profit using the following information.

Sales	1,000,000
COS	800,000
Expense is	10% of sales

- 8. Use the following information to prepare a trading account for Laboso Traders for the month ended 15/12/20.
 - Opening Stock700,000Closing Stock200,000Purchases500,000Carriage Inwards50,000Return Outwards50,000Margin20%
- 9. Sankei started a business with 2,500,000 as capital. During the accounting period he made a Gross profit of 800,000. He also had the following expenses.

Electricity	200,000	Transport	150,000
Rent arrears	70,000		

Determine the return on capital.

10. The following information belongs to Hakeem traders. Determine the working capital ratio.

Buildings	500,000	Stock	100,000
Cash	190,000	Bank	48,000
Creditors	100,000	Overdraft	90,000

11. Calculate the working capital ratio using the information below.

Bank	7,000,000	Creditors	119,000
Loan	390,000	Stock	450,000
Overdraft	500,000		

- 12. Oparanya started a business with 1,500,000 in cash. He made a net profit of 500,000 during the year. Calculate his return on capital.
- 13. Use the following information to find COS, Gross profit and Sales respectively.

Opening Stock 500,000		Closing Stock 400,000
Purchases	800,000	Margin $\frac{1}{5}$

14. The following information belongs to Njenga Traders.

ROSTO 6 Times Opening Stock 800,000 Closing Stock 300,000 Gross Profit 400,000

Determine.

- a) Average stock
- b) Cost of sales
- c) Margin
- d) Net Sales
- 15. Use the following information to find the quick ratio.

Stock	100,000	Cash	190,000
Bank	200,000	Debtors	80,000
Overdraft	100,000	Electricity	10,000
Creditors	50,000		

16. Phoebe had the following items in her account on 5/7/21.

Opening Stock	500,000	Purchases 1	,700,000
Closing Stock	300,000	Carriage Inwards	50,000
Return Outwards	30,000	Margin	25%

Determine.

- a) Average stock
- b) Cost of sales
- c) Margin
- d) Net Sales
- e) Gross profit
- 17. The following information belongs to Nzakwa Stores.

Account	Debit	Credit
Sales		590,000
Purchases	300,000	
Return In/ Out	10,000	65,000
Prepayment	3,000	
Stationery	5,000	
Salaries	400,000	
Cash Bank	77,000	
Machinery	100,000	
Advertising	430,000	
Stock	89,000	
Overdraft	85,000	
Equity Loan		500,000
Furniture	70,000	
Building	65,000	
Creditors		300,000
Debtors	59,000	
Machinery	200,000	

- i. Prepare a Trading Profit & Loss Account with the above information
- ii. Thereafter prepare a Balance Sheet and find:
 - i. Capital Owned
 - ii. Borrowed Capital

- iii. Working Capital
- iv. Capital Employed
- v. Current Ratio
- vi. Liquidity Ratio

18. Use the following information to find he quick ratio.

Prepayments	1,000,000	Cash	500,000
Bank	2,000,000	Debtors	35,000
Short-term loan	600,000	Electricity	55,000
Salaries	300,000		

19. The following balance sheet belongs to Maleek Traders as at 15/3/21.

MALEEK TRADERS BALANCE SHEET

AS AT 15/3/21

Fixed Assets		Capital	1,457,000
Premise	1,200,000	Long-Term Liabilities	
Equipment	800,000	Loan	1,300,000
Furniture	104,000	Mortgage	500,000
Motor Vehicle	400,000		
Current Assets		Short Term Liabilities	
Stock	100,000	Creditors	240,000
Debtors	33,000	Overdraft	70,000
Cash	540,000		
Bank	300,000		
Prepayment	90,000		
	3,576,000		3,567,000

Find:

- a. Capital Owned
- b. Borrowed Capital
- c. Working Capital
- d. Capital Employed
- e. Current Ratio
- f. Liquidity Ratio
- 20. Kortney Enterprises had the following items as at 15/4/21. Prepare Kortney Enterprises Balance Sheet.

Furniture	300,000	Motor vehicle	800,000
Cash	50,000	Bank	200,000
Prepayments	35,000	Rent income	20,000
Creditors	500,000	Debtors	49,000
Overdraft	300,000	Building	500,000
Machinery	400,000	Loan	1,000,000

Determine.

- a) Capital Owned
- b) Borrowed Capital
- c) Working Capital
- d) Capital Employed
- e) Current Ratio
- f) Liquidity Ratio

CHAPTER 7

CONSUMER PRICE INDEX

It is a tool of measuring inflation or deflation by comparing prices of the same commodities in a base year and in a current year. The base year is the year of reference while the current year is the present year. The commodities used for measuring CPI must be general goods with high consumption indices.

CPI can be measured using

- A. Simple Average.
- B. Weighted Average.

A. MEASURING CPI USING SIMPLE AVERAGE

Simple average involves the use of this formula.

$$CPI = \sum \frac{\text{price of a comodity in the current year}}{\text{Price of the same commodity in the base year}} X 100$$

 $CPI = \sum \frac{P1}{P0} X \ 100\%$

Once you have calculated CPI for each commodity, one should divide the CPI amount with the number of commodities available.

EXAMPLE 1

The following table shows the prices of basic commodities in 2017 and in the current year.

Commodities	Price in the base year	Price in the current year	
	(2017)		
Sugar	98	130	
Salt	30	45	
Milk	40	60	
Bread	45	60	
Tea leaves	50	80	
Baking flour	45	65	

Calculate the rate of inflation using simple average.

$$CPI = \sum \frac{\text{price of a comodity in the current year}}{\text{Price of the same commodity in the base year}} X 100\%$$

$$CPI = \left(\frac{130}{98} + \frac{45}{30} + \frac{60}{40} + \frac{60}{45} + \frac{80}{50} + \frac{65}{45}\right) X 100\%$$

$$CPI = (1.33 + 1.5 + 1.5 + 1.33 + 1.6 + 1.444) X 100\%$$

$$CPI = (8.70 X 100)$$

$$CPI = 870$$
The number of commodities is 6
Therefore $CPI = \frac{870}{6}$

$$CPI = 145\%$$

AL	TER	RNA'	FIVE	LY
----	-----	------	-------------	----

Commodities	Price in the base	Price in the	CPI	CPI (%)
	year (2017)	current year		
Sugar	98	130	$\frac{130}{98} = 1.33$	133
Salt	30	45	$\frac{45}{-15}$	150
Milk	40	60	$\frac{1}{30} - 1.5$	150
Bread	45	60	$\frac{60}{40} = 1.5$	133
Tea leaves	50	80	$\frac{60}{45} = 1.33$	160
Baking flour	45	65	$\frac{80}{50} = 1.6$	144
			$\frac{65}{45} = 1.44$	
				<u>870</u>
				$\frac{870}{6}$
				CPI=145%

Comment from the above calculation.

The prices of goods went up by (145% - 100%) between 2017 and the current year.

The consumer purchasing power reduced by 45 % between 2017 and the current year.

OR

The living standards reduced by 45 % from 2017 to the current year.

EXAMPLE 2

The following table shows the prices of basic commodities in 2017 and in the current year.

Commodities	Price in the base year	Price in the current year
	(2012)	
Water	70	130
Cooking oil	180	250
Milk	50	70
Unga	95	140
sugar	80	150

Calculate the rate of inflation using simple average.

$$CPI = \sum \frac{\text{price of a comodity in the current year}}{\text{Price of the same commodity in the base year}} X 100\%$$

 $CPI = \left(\frac{130}{70} + \frac{250}{180} + \frac{70}{50} + \frac{140}{95} + \frac{150}{80}\right) X \ 100\%$ $CPI = (1.86 + 1.38 + 1.4 + 1.47 + 1.87) X \ 100\%$ $CPI = (7.98 X \ 100)$ CPI = 798The number of commodities is 6 Therefore $CPI = \frac{798}{5}$ CPI = 159.6%

ALTERNATIVELY

Commodities	Price in the base	Price in the	СРІ	CPI (%)
	year (2012)	current year		
Water	70	130	$\frac{130}{70} = 1.86$	186
Cooking oil	180	250	250 - 1.29	138
Milk	50	70	$\frac{1}{180} - 1.50$	140
Unga	95	140	$\frac{70}{50} = 1.4$	147
sugar	80	150	$\frac{140}{95} = 1.47$	187
			$\frac{150}{80} = 1.87$	
				<u>798</u>
				798 5
				CPI=159.6 %

Comment from the above calculation.

The prices of goods went up by (159.6 % - 100%) between 2012 and the current year.

OR

The consumer purchasing power reduced by 59.6 % between 2012 and the current year.

OR

The living standards reduced by 59.6 % from 2012 to the current year.

EXAMPLE 3

The following table shows the prices of basic commodities in 2020and in the current year. Calculate the rate of inflation using simple average.

Commodities	Price in the base year	Price in the current year
	(2020)	
Soap	50	100
Cooking oil	160	140
Sugar	130	70
Unga	200	140
bread	150	80

 $CPI = \sum \frac{\text{price of a comodity in the current year}}{\text{Price of the same commodity in the base year}} X 100\%$

$$CPI = \left(\frac{100}{50} + \frac{140}{160} + \frac{70}{130} + \frac{140}{200} + \frac{80}{150}\right) X \ 100\%$$
$$CPI = (2 + 0.875 + 0.538 + 0.7 + 0.533) X \ 100\%$$
$$CPI = (4.646 X \ 100)$$
$$CPI = 464.6 \%$$

The number of commodities is 6

Therefore CPI =
$$\frac{464.6}{5}$$

CPI = 92.92%

Comment from the above calculation.

The prices of goods went down by (100% - 92.92 %) between 2020 and the current year.

OR

The consumer purchasing power increased by 7.08 % between 2020 and the current year.

OR

The living standards increased by 7.08 % from 2020 to the current year.

ALTERNATIVELY

Commodities	Price in the base	Price in the	СРІ	CPI (%)
	year(2020)	current year		
Soap	50	100	$\frac{100}{50} = 2$	200
Cooking oil	160	140	140 - 0.875	87.5
Sugar	130	70	$\frac{1}{160} = 0.875$	53.8
Unga	200	140	$\frac{70}{130} = 0.538$	70
Bread	150	80	$\frac{140}{200} = 0.7$	53.3
			$\frac{80}{150} = 0.533$	
				<u>464.6</u>
				$\frac{464.6}{5}$
				CPI=92.92 %

Comment from the above calculation.

The prices of goods went down by (100% - 92.92 %) between 2020 and the current year.

OR

The consumer purchasing power increased by 7.08 % between 2020 and the current year.

OR

The living standards increased by 7.08 % from 2020 to the current year.

B. MEASURING CPI USING WEIGHTED AVERAGE

Weighted average involves the use of this formula.

 $CPI = \frac{\sum \text{ price of a comodity in the current year x Weight}}{\sum \text{ Price of the same commodity in the base year x Weight}} X 100$

$$CPI = \frac{\sum P1W}{\sum P0W} X 100\%$$

Weight of a commodity is the number of times a commodity is consumed. It shows the importance of the commodity.

EXAMPLE 4

Commodities	Price in the base	Price in the	Weight
	year (2015)	current year	
Sugar	98	130	6
Salt	30	45	3
Milk	40	60	7
Bread	45	60	8
Tea leaves	50	80	3
Baking flour	45	65	2

The following table shows the prices of basic commodities in 2015 and in the current year.

Calculate the rate of inflation using weighted average.

$$CPI = \frac{\sum \text{ price of a comodity in the current year x Weight}}{\sum \text{ Price of the same commodity in the base year x Weight}} X 100$$

 $CPI = \frac{(130 x 6 + 45 x 3 + 60 x 7 + 60 x 8 + 80 x 3 + 65 x 2)}{(98 x 6 + 30 x 3 + 40 x 7 + 45 x 8 + 50 x 3 + 45 x 2)} X 100\%$

$$CPI = \frac{(780 + 135 + 420 + 480 + 240 + 135)}{(588 + 90 + 280 + 360 + 150 + 90)} X 100\%$$
$$CPI = \frac{(2190)}{(1558)} X 100\%$$
$$CPI = 1.406 X 100\%$$
$$CPI = 140.6\%$$

Comment from the above calculation.

The prices of goods went up by (140.6 % - 100%) between 2015 and the current year.

OR

The consumer purchasing power reduced by 40.6 % between 2015 and the current year.

OR

The living standards reduced by 40.6 % from 2015 to the current year

ALTERNATIVELY

Commod	Price base	Weight	PO x W	Price	Weight	P1 x W
ities	year			current		
	(2015) (P0)			year (P1)		
Sugar	98	6	780	130	6	588
Salt	30	3	135	45	3	90
Milk	40	7	420	60	7	280
Bread	45	8	480	60	8	360
Tea	50	3	240	80	3	150
leaves	45	2	135	65	2	90
Baking						
flour			<u>1558</u>			<u>2190</u>
						$\frac{(2190)}{(1558)}$
Summati						1.406 x 100%
on \sum						CPI = 140.6%

Comment from the above calculation.

The prices of goods went up by (140.6 % - 100%) between 2015 and the current year.

OR

The consumer purchasing power reduced by 40.6 % between 2015 and the current year.

OR

The living standards reduced by 40.6 % from 2015 to the current year

EXAMPLE 5

The following table shows the prices of basic commodities in 2015 and in the current year.

Commodities	Price in the base	Price in the	Weight
	year	current year	
	(2019)		
Bread	50	70	5
Milk	100	150	10
Sugar	110	160	13
Unga	100	140	14
Tea leaves	40	70	3
Wheat flour	100	165	10

Calculate the rate of inflation using simple average.

$$CPI = \frac{\sum \text{ price of a comodity in the current year x Weight}}{\sum \text{ Price of the same commodity in the base year x Weight}} X 100$$

$$CPI = \frac{(70 \times 5 + 150 \times 10 + 160 \times 13 + 140 \times 14 + 70 \times 3 + 165 \times 10)}{(50 \times 5 + 100 \times 10 + 110 \times 13 + 100 \times 14 + 40 \times 3 + 100 \times 10)} X 100\%$$

$$CPI = \frac{(350 + 1500 + 2080 + 1960 + 210 + 1650)}{(250 + 1000 + 1430 + 1400 + 120 + 1000)} X 100$$
$$CPI = \frac{(7750)}{(5200)} X 100\%$$
$$CPI = 1.490 X 100\%$$
$$CPI = 149 \%$$

TVELY
TVELY

Commodities	Price base	Weight	PO x W	Price	Weight	P1 x W
	year			current		
	(2019)			year (P1)		
	(P0)					
Bread	50	5	250	70	5	350
Milk	100	10	1000	150	10	1500
Sugar	110	13	1430	160	13	2080
Unga	100	14	1400	140	14	1960
Tea leaves	40	3	120	70	3	210
Wheat flour	100	10	1000	165	10	1650
Summation \sum			<u>5200</u>			<u>7750</u>
						$\frac{(7750)}{(5200)}$
						1.490 x 100 %
						CPI = 149 %

Comment from the above calculation.

The prices of goods went up by (149 % - 100%) between 2019 and the current year.

OR

The consumer purchasing power reduced by 149 % between 2019 and the current year.

OR

The living standards reduced by 149 % from 2019 to the current year.

EXAMPLE 6

The following table shows the prices of basic commodities in 2021 and in the current yea

Commodities	Price in the base	Price in the	Weight
	year (2021)	current year	
Sugar	200	80	15
Cooking oil	250	150	5
Vegetables	200	160	13
Bread	150	130	10
Tea leaves	100	70	3
Flour	200	165	10

Calculate the rate of inflation using simple average.

$$CPI = \frac{\sum \text{ price of a comodity in the current year x Weight}}{\sum \text{ Price of the same commodity in the base year x Weight}} X 100$$

$$CPI = \frac{(80 \times 15 + 150 \times 5 + 160 \times 13 + 130 \times 10 + 70 \times 3 + 165 \times 10)}{(200 \times 15 + 250 \times 5 + 200 \times 13 + 150 \times 10 + 100 \times 3 + 200 \times 10)} X 100\%$$

$$CPI = \frac{(1200 + 750 + 2080 + 1300 + 210 + 1650)}{(3000 + 1250 + 2600 + 1500 + 300 + 2000)} X 100\%$$

$$CPI = \frac{(7190)}{(10650)} X 100\%$$
$$CPI = 0.675 X 100\%$$
$$CPI = 67.5 \%$$

ALTERNATIVELY

Commodities	Price base year	Weight	PO x W	Price current	Weight	P1 x W
	(2021) (P0)			year (P1)		
Sugar	200	15	3000	80	15	1200
Cooking oil	250	5	1250	150	5	750
Vegetables	200	13	2600	160	13	2080
Bread	150	10	1500	130	10	1300
Tea leaves	100	3	300	70	3	210
Flour	200	10	2000	165	10	1650
Summation \sum			<u>10650</u>			<u>7190</u>
						(7190) (10650)
						0.675 x 100 %
						CPI = 67.5 %

Comment from the above calculation.

The prices of goods went up by (100 % - 67.5%) between 2021 and the current year.

OR

The consumer purchasing power increased by 32.5 % between 2021 and the current year.

OR

The living standards increased by 32.5 % from 2021 to the current year.

EXERCISE

Commodities	Price in the base year	Price in the current
	(2017)	year
Cooking oil	2400	1400
Soap	187	140
Unga	200	78
Sugar	158	200
bread	150	80

1. Use simple average to compute CPI for the following basket of commodities.

2. Use simple average to compute CPI for the following basket of commodities.

Commodities	Price in the base	Price in the current
	year (2020)	year
Sugar	150	300
Vegetables	160	140
Bread	80	120
Tea leaves	178	140
Flour	130	180
Cooking oil	500	1000

3. Calculate CPI of the following basket of commodities using simple average.

Commodities	Price in the base year	Price in the current year
	(2020)	
Cereals	4000	3000
Vegetables	200	140
Flour	80	200
Cooking oil	400	600

Commodities	Price in the base	Price in the	Weight
	year (2021)	current year	
Sugar	120	180	11
Groceries	250	150	20
Bread	150	240	25
Cooking oil	500	1000	5
Tea leaves	100	70	7
Flour	200	165	6

4. Use weighted average to compute CPI for the following basket of commodities.

5. Use weighted average to compute CPI for the following basket of commodities.

Commodities	Price in the base	Price in the	Weight
	year (2017)	current year	
Unga	300	180	17
Milk	100	170	23
Sugar	150	250	5
Flour	130	230	30
Cooking oil	300	600	10

6. Use weighted average to compute CPI for the following basket of commodities.

Commodities	Price in the base	Price in the	Weight
	year (2021)	current year	
Milk	120	180	11
Groceries	250	150	20
Bread	150	240	25
Sugar	500	1000	5
Tea leaves	100	70	7
Flour	200	165	6

Commodities	Price in the base	Price in the	Weight
	year (2021)	current year	
Unga	4000	7000	23
Milk	599	1000	14
Sugar	199	500	5
Flour	600	3000	15
Cooking oil	4000	10000	5

7. Use weighted average to compute CPI for the following basket of commodities.

<u>Glossary</u>

- Acid Test/ Liquidity Ratio/ Quick Ratio It is a ratio of total current assets (less stock) expresses as a ratio of current liabilities.
- Assets These are resources, properties or possessions owned by the business.
- Average Stock- This is the average of opening stock and closing stock.
- **Balance Sheet -** It is a financial statement that shows the financial position of the business in terms of assets, capital and liabilities as at a particular date.
- **Book Keeping Equation Assets =** Capital + Liabilities.
- **Borrowed Capital / Loan Capital -** This is capital borrowed by the business from external sources on long-term basis that is more than one year.
- **Capital /Owners Claim/Owners Equity** These are money or items contributed or mobilized by the owner of the business to start the business plus any additional profit that is reserved and ploughed back into the business.
- **Capital Employed** It is the total sum of capital invested into the business from both owner's investment and external borrowing.
- **Capital Invested/ Owned** It is capital contributed by the owners of a business plus the profits made less drawings and loss.
- Cash Purchases This is when stock is acquired or purchased by a business in cash.
- **Cash Receipt -** It is a source document issued by sellers to buyers as a proof of payment in cash.
- **Cash Sales** It involves disposal of goods in exchange for cash.
- Credit Sales it involves disposal of goods on credit.
- **Cashbook** It is a special ledger where cash at hand and cash at bank and at times discount is recorded.
- **Consumer Price Index** It is a tool of measuring inflation or deflation by comparing prices of the same commodities in a base year and in a current year.
- **Contra transaction/ contra entry** These are transactions that affect both Cash at Hand and Cash at Bank simultaneously.
- **Credit Note** It is a source document by the seller to the buyer in order to correct an overcharge in the invoice. It increases the amount to be paid by the buyer.
- Credit Purchases It involves acquiring or purchasing goods on credit.
- **Creditors** These are individuals or other businesses who lend another business stock or goods on credit /credit purchases

Current Ratio/ Working Capital Ratio - It is current assets expressed as a ratio of current liabilities.

Debit Note - It is a source document written by the seller to a buyer seeking to correct an undercharge on the invoice amount. It increases the amount to be paid by the buyer.

Debtors - These are individuals or businesses who owe the business as a result of credit sales.

- **Discount Allowed.** This is discount given to debtors by the business when they pay their debts within the discount period. It is recorded on the debit side of the cashbook.
- **Discount Received -** This is discount given to the business by creditors when the business pays its debts within the discount period. It is recorded on the credit side of the cashbook.
- **Double Entry -** For every credit entry ledger account, there is a corresponding debit entry and vice versa.

Drawing - These are cash or items taken from the business by the owners for personal use.

- Folio It is used to record the classification of the affected ledger account and also for cross referencing.
- **Invoice -** It is a source document sent by a seller to a buyer demanding for payment of goods and services that were sold on credit.
- Ledger It is a book of account where transactions are recorded.
- Liabilities They are money or items that are borrowed by the business on credit.
- Losses These are reductions of assets and capital incurred by the business in the process of trading.

Margin - It is Gross Profit over Net Sales.

Markup - It is Gross Profit over COS (Cost of Sale).

Payment Voucher - It is a source document used when payment has taken place but however due to the nature and type of transaction, the organization is unable to generate a cash receipt.

Profits - These are gains made in the course of doing business.

Purchase – It is acquisition of new stock of goods in exchange of either cash or credit.

Purchases Journal - It is a daily book used to record purchase of goods or stock on credit. The source document is Invoice Received.

- **Purchases Return** / **Return Outwards.** Stock acquired or purchased by the business then returned later to their originators.
- Rate of Stock Turnover It is COS (Cost of Sales) over average stock.
- Return On Capital This is net profit over capital invested.
- Sales It is disposal of goods in exchange for money or on credit.
- Sales journal It is used to record all credit sales before they are transferred to relevant ledger accounts. The source document is invoice issued.
- Sales Return / Return Inwards Stock of goods which was previously sold or purchased can be returned.
- Sales Return / Return Inwards Journal It is a journal that is used to record goods returned to the business by debtors. The goods returned were initially sold on credit to debtors. The source document is credit note issued.
- **Trial balance -** It is a statement that balances balance brought down from ledger accounts. It is an indicator of correct ledger entries.
- Working Capital It is the difference between current assets and current liabilities.