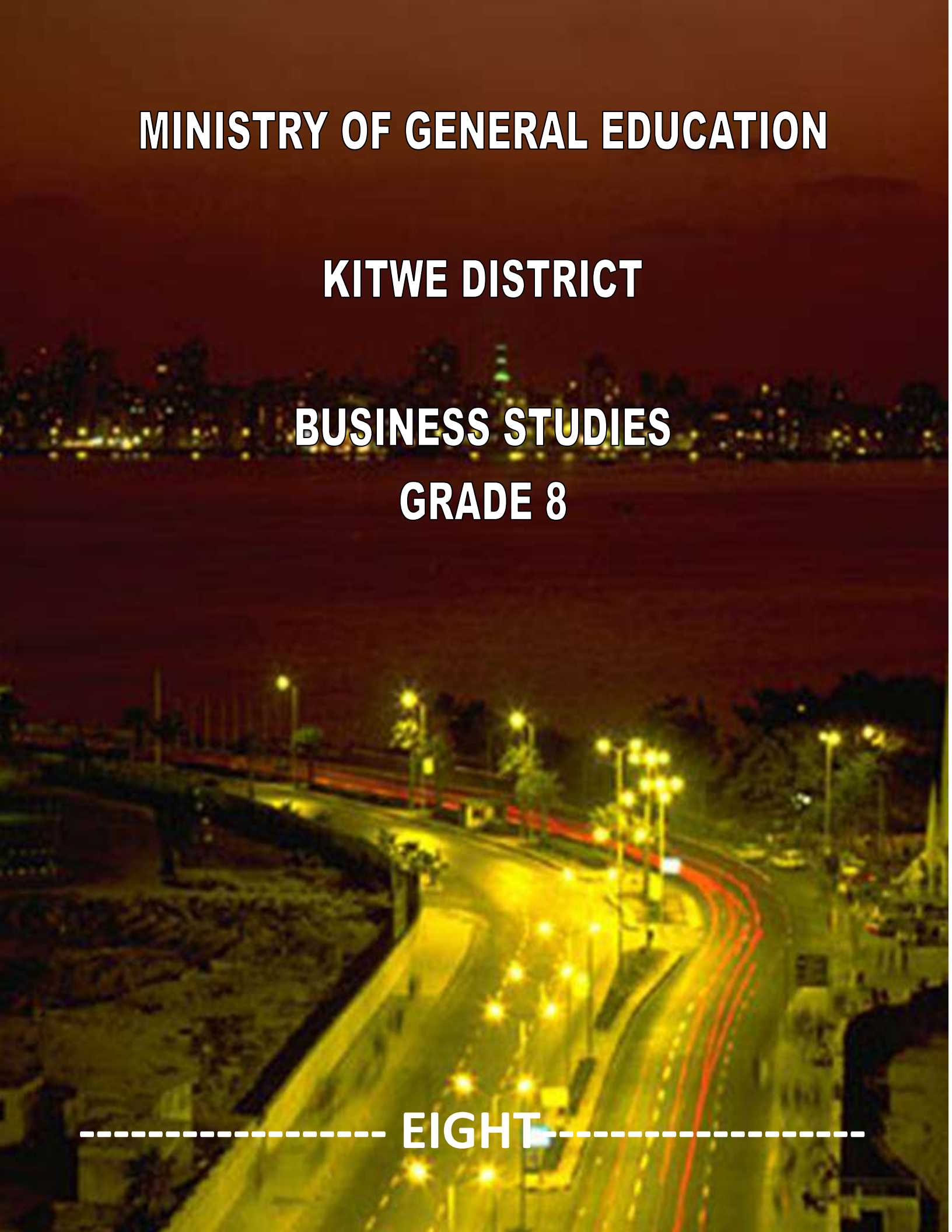




MINISTRY OF GENERAL EDUCATION

KITWE DISTRICT

**BUSINESS STUDIES
GRADE 8**

----- **EIGHT** -----

Contents

1. AN OFFICE
2. ENTREPRENEURSHIP
3. OFFICE STATIONERY AND EQUIPMENT
4. BUSINESS TRANSACTIONS
5. BOOKS OF ORIGINAL ENTRY
6. THE LEDGER
7. THE TRIAL BALANCE

1 AN OFFICE

1. State and explain the function of an office.
 - Computing
This means to do very involving work such as handling the calculations for salaries and wages and many more using a computer.
 - Analyzing data
It is the duty of the clerk or an officer to ensure that any data that arrives in the company is carefully studied. This enables management to suitably know what should be done on it.
 - Storing data
The data which might be useful to the company should be stored safely so that it can be referred to at a later stage. Storing data could be by using computer or filing cabinets.
 - Planning
An organization is simply a composition of several activities and planning, so that all these activities are consolidated. Analyzing of data, storing and all other activities are to be propagated towards the improvement of the company.
2. Identify the types of offices
 - Open office
 - Closed office
 - Virtual office

3. Interpret an organizational chart

Board of Directors

Managing Directors

General Manager

Administrational
Human Resource
Dept

Marketing/ Sales
Advertising Dept

Maintenance/

Legal Dept

Engineering Dept

Account/finance Procurement/purchasing Transport/logistic
Dept

4. State the functions of each department

i. Administration.

- Recruitment and sometimes training of new staff in the organization does not have a separate training department.
- Conducting inclusion course where new employees are exposed to the new working environment.
- It promotes, demotes and retires employees.
- Conducts interviews.
- Provision of housing facilities, recreation or entertainment and canteen facilities to employees. Etc.
- Attending to workers complaints

ii. Accounts/finance department.

- Preparation of salaries and wages for all employees in the organization unless the organization has the salaries and wages department.
- Preparation of the financial report for the organization.
- Safe keeping of the finances for the organization.
- Receives and makes payments for the organization.

iii. Human resource

- To recruit new employees in all departments of the organization.
- Looking after the welfare of all employees in the organization e.g healthy and safety issues etc.
- Keeping records of all employees in the organization.
- Promoting deserving employees and dismissing erring. Employees.
- Conducting induction trainings also arranging for in-service training.
- Arranging for pensions and voluntary separation of some employees.

iv. Marketing/ advertising/sales

- To portray and maintain a sound and positive image of an organization.
- To ensure that the goods being sold by the company are known to them.
- To offer free samples and all other means that should see the consumer morale to buy the goods provoked.
- To inform the consumers.
- To remind the consumers.
- To educate the consumers.
- To persuade the consumers.

v. Procurement/purchasing

- Procurement of all requirements for the business such as raw materials, stationery, machinery and etc.
- Follow all procurement procedures of the business.
- Keeps copies of documents for all goods, material and services bought.
- vi. Planning
 - Analysing data
 - Storing data
- vii. Maintenance/Engineering
 - To repair and maintain the property and equipment belonging to the company such as building machinery and equipment to ensure continuity in the production of goods.
 - To ensure good sanitation and safety in the working place and making it conducive to work in.
- viii. Transport and Logistics
 - Delivery of raw materials and other supplies to the business and also deliveries of goods to consumers.
 - It is also responsible for the movement of employees to and from the work place.
 - It ensures the movement of company executives to and from the meeting and places of appointments.
- ix. Legal
 - Responsible for legal documents of the documents of the organizations.
 - It also represents the organization on legal matters.

5. Identify the job opportunities available.

- Managing director
- General manager
- Financial manager
- Accounts clerk
- Registry clerk

6. Describe acceptable office etiquette?

- i. Appearance- An officer should always appear as presentable as possible at work.
- ii. Reliability- Reliability refers to how dependable a worker should be at the place of work.
- iii. Punctuality- Punctuality refers to how early a worker report for work
- iv. Loyalty-To be loyal at one's place of work means to support, listen to and care for fellow workers supervisors and the company one works.
- v. Courtesy- Courtesy at work means to have good manners, begin polite and kind
- vi. Responsibility-An officer should be responsible at work of place.

1. Who is an Entrepreneur?

ANS: (i) An entrepreneur is a person who runs a business and bears risks.

(ii) An Entrepreneur is a person who sees and uses an opportunity to start a new business.

2. State characteristics of a good entrepreneur.(qualities)

ANS: - Open to criticism

- Hard work
- Independence and organized
- Innovative and creative
- Responsive to feed back
- Risk taker
- Desire to achieve
- Problem solver
- Always positive
- Self-confident
- Action oriented

3. List ways of strengthening entrepreneurial abilities.

ANS: - Get help from other people such as friends, family and other business people

- Observe successful business people
- Get trained
- Communication
- Reading Books
- Get to know activities being done in the community

4. Identify entrepreneurial activities in your community.

ANS - Farming

- Fishing
- Poultry
- Bee keeping
- Dairy
- Trading
- Transport
- Hair dressing

5. Engaging into Entrepreneurial activities brings about.....

ANS - Creation of jobs

- Maintain free enterprise
- Promotion of health completion
- Generation of wealth
- Spreading prosperity
- Enhancing wealth stability
- Ensure innovation and creativity
- National Development

- Self-reliance
- Flexibility
- Self-employment

6. Identify three (3) business units

ANS - sole trader

- Partnership
- Cooperatives

7. Match the items in column A with those in column B

A	B
Sole Trader	Business owned and democratically run and controlled by its members
Partnership	Business run by one person who starts it and owns it
cooperatives	Two or more people work together to start and run the business

ANS.

A	B
Sole Trader	Business run by one person who starts it and owns it
Partnership	Two or more people work together to start and run the business
cooperatives	Business owned and democratically run and controlled by its members

8. Identify sources of business ideas

ANS. – self

- Friends
- Family members
- Reading books
- Media (Newspapers, Magazines etc.)
- Existing business

9. What do the acronym SWOT stands for?

ANS. – Strengths

- Weaknesses

- Opportunities
- Threats

10. Describe factors to consider before forming a company.

ANS.

- i. **Start-up capital:** capital is an important factor to consider before starting business it will determine the size of the business to be established. Therefore entrepreneurs need to find ways of getting money to start their business.
- ii. **Locality:** it refers to the area or place where the business will be established. Locality includes road network to bring in raw material and to transport finished products. Customers will also need roads to get to the business. Other issues to consider include whether there is good communication system and adequate infrastructure. The cost of the site should also be taken into consideration in relation to expected profits or turnover.
- iii. **Trading hours:** Time to open and close the business must suit the customer. Long trading hour can give a new business an advantage.
- iv. **Source of raw material:** it is important for the business to be located in a place where source of supply for raw material is reliable so as to ensure adequate stocking of good or raw material. This will help in maintaining customer loyalty as the goods will be in supply regularly.
- v. **Competitors:** The product you are dealing in must be in the position of being sold because there are a lot of such products on the market. You have to beat your competitors by making your products better than them or lowly priced than them.
- vi. **Advertising:** You need to know how to get your product message across to the customers. Advertise you products through radio, television, newspapers, billboards, internet or point of sale.
- vii. **Banking:** These are needed by the business for keeping money safe as well as borrowing money if necessary.
- viii. **Pricing:** decide on how much to charge for the products or services. A low-price strategy may force the business to use low-quality raw material. Alternatively, the business can go for the high-price, high quality strategy which may appeal to fewer clients, but will yield high profits. What is important in pricing is that customers must get value for their money.

11. Describe the documents needed for the formation of different types of businesses.

ANS

- i. **Business Permits:** these are licenses issued by local councils to enable one do business in their locality.
- ii. **Articles of partnership:** these are documents which a partnership business must have to specify:
 - Who the partners are and what the share of each partner is
 - The name of the partnership
 - The address and nature of the partnership
 - The date on which the partnership starts and how long it will exist
 - How much capital each partner will contribute and whether the partnership will pay interest on the capital
 - The bank account of the company and names of signatories on cheques
 - Partners to manage the company
 - Sharing of profits
 - How financial statements will be prepared
 - How to dissolve the partnership in case one partner dies
- iii. **Articles of Association:** is a document that shows how the internal running of the business will be. It contains the following:
 - Powers, duties and limitations of the Directors.
 - The procedure for calling the Annual General Meetings (AGM) held once per year between shareholders and Board of Directors to discuss important decisions for the company.
 - The voting procedures at the Annual General Meetings.
 - The procedure for settling disputes.
- iv. **Memorandum of Association:** it is a document that shows the relationship of the company with the people outside the company. The document contains the following:
 - The objectives of the company. (what the company deals in)
 - Registered address of the company.
 - Names, addresses and qualifications of the directors.
 - The amount of the authorized capital (maximum amount of capital a company is allowed to raise through the selling of shares)
 - A full statement that it is a limited liability company.

12. State the documents needed for the formation of the company.

ANS: - Articles of Association
- Memorandum of Association

13. State and explain the content of a business plan.

ANS

- i. **Executive summary:** this an attention capture at the front of the plan giving a brief description of the business and highlights the purpose of the business and how the purpose of the business will be achieved.

- ii. **Business idea:** This part briefly describe the purpose and goals of the business, the owners of the business and what was the need for the start of the business. If the business has been in existence long it outlines its history and performance to date. If the business is starting it gives a description of goods and services the business intends to off load on the market.
- iii. **Marketing plan:**
- iv. **Form of Business**
- v. **Staff**
- vi. **Legal responsibilities and insurance**
- vii. **Costing items**
- viii. **Financial planning**
- ix. **Required start -up capital**
- x. **Source of start-up capital**

14. Describe the functions of a business plan

ANS.

- i. It provides more clearer and organized business ideas.
- ii. It leads to putting down of ideas into written documents.
- iii. It is an operational plan
- iv. It is used for sourcing loans from leading institutions.
- v. Helps to determine viability of the business ideas
- vi. Provides an answer to the profitability of the business

15. Explain ways of financing businesses

ANS:

- i. **Savings:** personal savings where the owner of the business saves money to start up a business. These will include securities, real estate and other personal assets.
- ii. **Bank loans:** it is a financial transaction in which one party(the lender) agrees to give another party(the borrower) a certain amount of money with the expectation of total repayment which includes interest on the loan
- iii. **Borrowing** from friends or family members: friends and relatives may provide additional source of funds by means of leading or donations where there is a challenge for young entrepreneurs to obtain loans from lending institutions.
- iv. **Leasing:** this an agreement where the entrepreneur pays a monthly fee for using an asset, but does not become the owner until the end of the leasing period.

16. Describe desirable business ethics.

ANS:

- i. **Honesty** : free from cheating
- ii. **Integrity**: a business person must show high levels of moral behavior.
- iii. **Fairness**: a business person must be equitable without any injustice
- iv. **Loyalty**:
- v. **Dependability**: a business person should always keep his promise because customers prefer to deal with a dependable business person and employees prefer to work with a dependable employer.
- vi. **Flexibility**: a good entrepreneur should be so that they are willing to see another point of view. This will lead to have loyal customers.
- vii. **Punctuality**: doing things on time in business. To be punctual one has to keep time in all events in order to show value for other people's time.
- viii. **Responsibility**: must be counted as a worthy and trusted person

1. Identify the different types of stationery

- i. Paper- is used for writing, drawing and printing in an office.
- ii. Pens- This is used for writing on various kinds of documents
- iii. Rulers- these are used for measuring and making straight lines/edges of a drawing.
- iv. Envelopes- These are used for enclosing letters and other Correspondence.
- v. Rubbers- are used for erasing any written words in ink and pencil.
- vi. Stencils- These are used in duplicating machines.
- vii. Ink/toner-
- viii. Carbon paper-This is a special kind of paper that is linked on one side. It is used to produce more documents at the same time.
- ix. Correction fluid- A special white fluid for painting over/ covering incorrect text (for example tipeg)
- x. Tippex- is used for correcting mistakes or errors.
- xi. Filing clips- These are clips that are used to attach papers together in a file/folder.
- xii. Pins- are used for holding papers together.

2. Identify the different types of office equipment.

- Ink/spirit duplicators
- Filing cabinets
- Staplers
- Hole punchers
- Telephones
- Intercoms
- Desk calendar
- Date stamp
- Facsimile machine
- Stylus pen
- Calculating machine
- Photocopier
- Copy printer
- Computer
- Shredder
- Scanner
- Guillotine
- Typewriters

3. State the proper use of each office equipment.

- i. Typewriter- this is a machine used to type different types of documents e.g Letters, invoice etc
- ii. Ink/spirit duplicator- These are used to make many copies of the same document.

- iii. Filing cabinets-This is used for storing files and folders containing information kept for future reference.
- iv. Staplers-These are used for attaching paper together.
- v. Hole punchers-This is used for making holes on the edge of the papers the purpose of filing
- vi. Telephones- This office equipment is used for quick oral communication mainly over long distance.
- vii. Intercoms- This is a telephone system used within an organization and does not go out of the office.
- viii. Desk calendar- This year. It is useful the days for desk calendar.
- ix. Date stamp- This is a tool used as a seal or authority on documents. It shows the date and the office that has signed the document.
- x. Facsimile machine- It is equipment used to seal writer documents over a Distance.
- xi. Styles pen- is used for writing on a stencil.
- xii. Calculating machine- It is used to perform mathematical computation
- xiii. Photocopier- it used to produce many copies from the original
- xiv. Copy printer- is used for printing.
- xv. Computer- it is an electronic device used to create store or retrieve document stored in digital form.
- xvi. Shredder-this is used to destroy paper by cutting it into smaller pieces that cannot be mended back; it is used to destroy confidential information.
- xvii. Scanner- this is equipment used to capture documents e.g. maps, letter, pictures etc into the computer.
- xviii. Guillotine- it is a paper cutter. It is used to cut paper into different sizes so that the edges are straight.

Books of original entry are books in which transactions are recorded as they are posted to the relevant ledger accounts.

(1) What are the advantages of keeping books of original entry?

- ☐ Accounts can be found more easily by the use of the cross referencing nature of the books of original entry being kept.
- ☐ If records are lost then the ledgers and the books of original entry acts as a backup for each other.
- ☐ Acts as a 'listing device' for posting totals to various accounts, thereby saving labor.
- ☐ The commonly used books of original entry together with source document used to record transactions are:

(2) Books of Prime Entry , Transaction Type and Source Documents

BOOK	SOURCE DOCUMENT
Sales daybook (or Sales journal) for credit sales	invoice
Purchases daybook (or Purchases journal) for credit purchases	Purchase invoice
Sales returns day book/Returns inwards daybook (or Returns inwards journal)	Credit notes
Purchases returns daybook/Returns outwards daybook (or Returns outwards journal)	Debit notes
Cashbook for receipts and payments of cash and cheques	Cheque counterfoils (From the chequebook to show cheques paid out), paying in slips (Evidence of money paid into bank accounts), till rolls (Evidence of cash being received)
Petty cashbook	Petty cash vouchers
General journal	All transactions where Everything else not covered before first entered before posting them to the ledger

(3) what are the other names of books of original entry?

Books of original entry are also known as **subsidiary books or books of prime entry or prime entry books.**

(1) Identify the books of original entry

There are several types of books of original entry. some examples are :

-sales journal

-sales returns journal (returns inward journal)

-purchases journal

-purchases returns journal(returns outward journal)

-cash book

-general journal

-petty cash book

- **CASH BOOK** One/single column cash book

A cash book is a book in which we enter major cash transactions. The source document for the cash transaction include: receipt, cash sale slip and cherub counter foil.

There are three types of cash book.,namely:

(1) Two column cash book

(2) Three column cash book.

One column cash book

A column cash book is a cash book with bank account only or cash account column only.

QUESTION.

Enter the following information into E.Hamankolo's cash accounts for the month of January,2014 and balance off the account.

January 1	Started business with k 900 cash in hand.
January 3	Bought goods for cash k 2 000.
January 8	Paid rent by cash k 1 500.

January 10	Sold good k 3 000 cash.
January 17	Paid sundry Expenses by cash k 550.
January 25	Cash purchases k 1 500.
January 31	Bought motor vehicle by cash k 2 000.

Solution.

E.HAMANKOLO' S CASH ACCOUNT.

Date	Details		Dr (k)	Cr (k)
Jan 1	Capital		9 000 [1]	
3	Purchases			2 000 [1]
8	Rent			1 500 [1]
10	Sales		3000 [1]	550 [1]
17	Sundry expenses			1 500 [1]
25	Purchases			2 000 [1]
31	Motor vehicle			4 450 [1]
31	Balance	c/d		
			12 000 [1/2]	12 000 [1/2]
Feb 1	Balance	b/d	4 450 [1]	

Two column cash book

A two column cash book is a cash book that has both the cash account and the bank account.

Question

The following information relate to kangwa Cecilia a sole trader from which you are required to prepare a two column cash book.

2009

September 1 started business with K6000 cash and K10,000 bank

3 .paid for electricity by cash K500

6.bought goods by cheque K300

8.sold goods by cheque to nkandu K 1800

15.cash sales K200

19.wages K100 were paid by cash

25.bought equipment by cheque K4000

30.balance off the cash book.

SOLUTION

KANGWA CECILIA

TWO COLUMN CASH BOOK

DATE	DETAILS	F	CASH A/C		BANK A/C	
2009			DR	CR	DR	CR
	Capital		6000		10000	
	electricity					
	purchases			500		300
	sales				1800	
	sales		200			
	wages			100		
	equipment					4000
	balance	c/d		5600		7500



Feb 1	Balance		6200	6200	11800
		b/d	5600		7500

Notes

Drawings

Drawings is money taken out of the business for personal use. when you make a drawing, you pay yourself from future profits which will reduce your capital.

Contra –entry

a contra entry is a transaction that affects both the cash account and the bank account. The double entry for a contra entry is completed within the cash book. This means that a contra entry is never posted to the ledger when it comes to ledger posting.

Question

Write up the following transactions in B. Mango's two column cash book, bring down the balances..

2008

October 1 started business with cash K 50,000 and bank k200,000

2 paid cash for stamps K3,000.

3 paid Sunday expenses K 2,000 in cash

5 cherub for K8,000 received from luyando

9 cash sales K70,000

Paid K 60,000 cash into bank

15 settled K. Chibale' s account for K15,000 by cheque.

18 sent G. Mwape a cheque for K 5,000

23 paid advertising account K 4,000 in cash

25 cash sales K 80,000

Paid cash into bank K 50,000

26 paid salaries by cheque K60,000

28 Drew cheque for self K10,000

30 withdrew K30,000 from bank for business use

THREE COLUMN CASH BOOK

This cash book is similar to two column cash book except that it has an extra discount column added on the side. The extra discount columns are the (a) discount allowed that is added on the debit side.(b) discount received that is added on the credit side. The discount columns are used for entering the monetary discount value that a business allows to debtors/creditors who pay promptly.

Question

Enter the following in the three column cash book of M. Maila

2006

March 1 balance brought down from April: cash K290, bank K 654

7 bought goods by cheque K120

8 mama paid his account of 120 less 10% cash discount by cheque

9 paid the following by cash in each deducting 5% cash discount by cheque: R. T amulet
1 K 100 and V Robertson K80

12 rent was paid by cheque K30

15 withdrew cash from bank K 70

21 Received from Mable K100 by cheque in full settlement of his account of K110.

22 Bank interest received K 5

B. MWANGO TWO COLUMN CASH BOOK.

Date	Details	F	Cash	Account	Bank	Account
2008			DR	CR	DR	CR
			K	K	K	K
Oct 1	Capital		50,000		200,000	
2	Postage			3,000		
3	Sundry expenses			2,000		
5	D Ndhlovu		70,000		8,000	
9	Sales	@		60,000		
	Bank /cash				60,000	
15	K.chibale					15,000
18	G.mwape			4,000		5,000
23	Advertising		80,000			
25	Sales	@		50,000	50,000	
	Bank /cash					60,000
26	Salaries					10,000
28	Drawings		30,000			30,000
30	Cash /bank	@				198,000
31	Balance					
		c/d		111,000		
			230,000	230,000	318,000	381,00
Nov 1	Balance	b/d	111,000		198,000	

M. MAILA

THREE COLUMN CASH BOOK

Date	Details	F	Cash account		Bank account		Discount	
			Dr	Cr	Dr	Cr	All	Rec
2008			K	K	K	K	K	K
May 1	Balance	b/f	290		654			
7	Purchases					120		
8	Maoma				108		12	
9	R.Tamale							5
	V.Roberson			95				4
12	Rent			76		30		
15	Cash/bank	@	70			70		
21	Mable				100		10	
22	Interest				5			
30	Balance	c/d		189		647		
			360	360	867	867	22	9
June 1	Balance	b/d	189		647			

- ***PETTY CASH BOOK***

Impress System: It is a system where a reimbursement is made of the total amount paid in a period or it can also be called as a system where petty cashier begin each new accounting period with the same amount of petty cash.

Advantages Of Petty Cash Book:

1. The number of entries in the main cashbook is reduced.
2. The main cashier's burden is reduced.
3. The chances of mistakes in recording is minimized.
4. Posting become more easy with the Total's Analysis Columns.

Advantages of using Analysis columns:

It let us know the money spent on each different nature of small expense.

The double entry for each analysis column by transferring the totals of the analysis

Question

Chama is a sole-trader who keeps her Petty Cash Book on the impress system – the cash float amount being K100. Her transactions for the month of April were: K

April 1 Petty cash in hand 14.74

April 2 Petty cash received to restore the impress

April 4 Purchased envelopes 8.68

April 7 Paid wages 16.20

April 10 Purchased postage stamps 8.50

April 14 Bought printing paper 17.44

April 17 Cost of postages 6.76

April 26 Paid wages 16.66

April 28 Purchased envelopes 10.48

Required:

a) Draw up the Petty Cash Book for the month of April with analysis columns for stationery, wages and postages. (5 marks)

b) Balance the petty cash book at the end of the month, carry down the balance and show the cash received to restore the cash float back to k100 on 1st May. (5 marks)

c) Explain what is meant by the impress system. (3 marks)

d) What is the use of the analysis columns in a petty cash book

SOLUTION

RECIPT	DATE	DETAILS	DR	CR	INV NO	STATIONERY	WAGES	POSTAGE
100	APRIL							
	1	Balance b/d	14.78					
	2	Cash	85.26					
	4	Envelopes		8.68		8.68		
	7	Wages		16.20			16.20	
				8.50				
	10	Stamps		17.44				8.50
	14	Printing paper				17.44		
	17	Postage		6.76				6.76
	26	Wages		16.66			16.66	
	28	Envelopes		10.48		10.48		
15.28			100	84.72		36.6	32.86	15.26
84.72								

(c) imprest system: It is a system where a reimbursement is made of the total amount

paid in a period or it can also be called as a system where petty cashier begin each new accounting period with the same amount of petty cash

Fill in the blanks with suitable word/words:

- (I) The assistant of the Head Cashier is known as
- (ii) A separate cash book to record small transactions is called
- (iii) The amount which is paid to the petty cashier at the beginning of a period is known as
- (iv) Under Impress system of Petty Cash Book, the Petty Cashier is reimbursed with the amount equivalent to what he spent during the-----

. 2.7 Journals

journal is a book of prime entry which records transactions which are not routine (and not recorded in any other book of prime entry), for example:

- ☐ year-end adjustments
 - depreciation charge for the year
 - irrecoverable debt write-off
 - record the movement in the allowance for receivables
 - accruals and prepayments
 - closing inventory
- ☐ acquisitions and disposals of non-current assets
- ☐ opening balances for statement of financial position items
- ☐ correction of errors

The journal is a clear and comprehensible way of setting out a bookkeeping double entry that is to be made. Show if transactions are to be posted to the debtor or creditor side of the relevant ledger account.

2.1 Sales Day BOOK

A sales book is also known as sales day book is a book of prime entry in which are recorded the details of credit sales made by a businessman. Total of sales book shows the total credit sales of goods during the period concerned. Usually the sales book is totaled every month. The sales day book is written up daily from the copies of invoices sent out.

The source document for the sales daybook is the **sales invoice**. The sales book summarizes the daily sales made on credit terms (i.e. the goods are sold and payment is collected at a later date)

QUESTION

Chipilingu wholesalers made the following credit sales to the following customers in the month of February 2010

Feb 4 peter;K24,000, john k36,000,Michael k45,000

Feb 6 Alice k30,000

Feb 10 paul k15,000 ,James k18,000

Feb 15 peter k27,000, john k30,000

Feb 25 Ann k 48,000,mary k9,000

Enter the following information in the sales day book.

DATE	DETAILS	INVOICE NO	AMOUNT
2010			
fib 4	Peter	011	24,000
fib 4	John	012	36,000
fib 4	Michael	013	45,000
fib 6	Alice	014	30,000
fib 10	Paul	015	15,000
fib 10	James	016	18,000
fib 15	Peter	017	27,000
fib 15	John	018	30,000
fib 25	Ann	019	48,000
fib 25	Mary	020	9,000
fib 25	Total posted to the sales a/c		282,000

2.2 PURCHASES DAY BOOK / PURCHASES JOURNAL

Purchases book or purchases day book is a book of original entry maintained to record **credit purchases**. You must note that cash purchases will not be entered in purchases day book because entries in respect of cash purchases must have been entered in the cash book. At the end of each month, the purchases book is totaled. The total shows the total amount of goods purchased on credit. Purchases book is written up daily from the invoices received. The invoices are consecutively numbered. The invoice of each number is noted in the purchases book. The purchase day book summarizes the daily purchases made on credit terms (i.e. the goods are purchased and payment is made at a later date)

QUESTION

The following transactions for the month of August 2001 were extracted from the books of Luyando merchants.

August 6 goods bought on credit worth K54,000, invoice No 013 from Sharon traders.

August 8 credit purchases amounting to K 50,400, invoice No 002 from Mwambini traders.

August 15 credit purchases worth K60,000, invoice No 615 from Chalwe wholesalers.

August 21 purchased goods on credit amounting to K 15,000, invoice No 712 from Janet traders

August 28 bought goods on credit from omo traders worth K33,000,invoice No 216.

SOLUTION

DATE	DETAILS	INVOICE NO	AMOUNT
2013			
AUG 6	Sharon traders	013	54,000
8	Mwambini traders	002	50,400
15	Chalwe wholesalers	615	60,000
21	Janet traders	712	15,000
28	Omo traders	216	33,000
	Total to be posted to purchases account (debit)		212,400

2.3 Sales returns book

Sales returns book is also called returns inwards book. It is used for recording goods returned to us by our customers. The ruling of this book is exactly as for sales day book.

Credit Note: Customers who return goods should be sent a credit note. It is a statement sent by a business to another person showing the amount credited to the account of the later. Credit notes are serially numbered and are similar in form to the invoices. These are usually printed **in red ink**. Credit notes issued to customers are vouchers for the entries appearing in the sales returns book.

The sales returns book summarizes the daily return of goods sold on credit.

QUESTION

The following transactions took place during the month of October 2005 in the businesses of white traders.

Oct 5 banji traders returned goods amounting to K 90,0000.They were issued with a credit note No 204

Oct 15 Busiku returned part of the goods sold to him amounting to K60,000. He was issued with a credit note No 205

Oct 20 Miriam a customer returned wrong size goods which had been sold to her earlier on, worth K30,000. She was issued with credit note No 206.

Enter this information in the sales returns day book.

SOLUTION

WHITE TRADERS

SALES RETURNS JOURNAL

DATE	DETAILS	CREDIT NOTE NO.	AMOUNT
2005 Oct 5	Banji	204	90,000
Oct 15	Busiku	205	60,000
Oct 20	mirriam	206	30,000
	Total posted to returns inwards a/c		180,000

Purchases returns book

Purchases returns book is a book in which the goods returned to suppliers are recorded. It is also called returns outward book or purchases returns day book. Goods may be returned because they are of the wrong kind or not up to sample or because they are damaged etc. The ruling of this book is absolutely the same as of purchases day book. The book and entries are made therein just the same as those made in the purchases day book.

Debit Note:

When the goods are returned to the suppliers, intimation is sent to them through what is known as a **debit note**. These debit notes serve as vouchers for these entries. A debit note is a statement sent by a businessman to another person, showing the amount debited to the account of the latter.

The purchases returns book summarizes the daily return of goods bought on credit

30.4.14	112	Henry	1,600
30.4.14	56	Samna	750
30.4.14	7	Kamala	800
30.4.14	890	Nuwan	500
30.4.14	12	Diluka	1000

Total for 30.4.14 **4,650**

The total purchases returns for the day of 4,650 will be entered into the accounting ledgers in double entry format

Journal

The following appeared in the books of G K, Lubinda on 1 April,2017.

Cash		K 9,000
Bank		K 30,000
Plant and machinery		K 100,000
Fixtures and fittings		K 40,000
Stocks of goods		K 41,000
Debtors	- B.Zulu	K 4,000
	- P.Bwembya	K 2,600
Creditors	- P.Mwape	K 9,800
	- K.mulonga	K 6,000

Solution

Journal Entries as at 1 April,2017.

Date	Details	F	Debit (k)	Credit (cr)
	Cash		9,00	
	Bank		30,000	
	Plant and machinery		100,000	
	Fixtures and fitting		40,000	
	Stocks of goods		41,000	
	Debtors :B.Zulu		4,000	
	:p.Bwembya		2,600	
	Crditors :p.mwape			9,800
	:k.mulonga			6,000
	Being capital as at start			210,800
			226,600	226,600

THE LEDGER

- A ledger book is the main book of account where all business transactions undertaken have to be recorded. It is from this fact that all transactions have to be recorded in the ledger, that we call it as the main book of account.
- It is made up of a set of accounts. An account is a summary record of information (changes) relating to a particular item. It has sides. The left hand side called the debit side and the right side called the credit side.
- Each side of an account has the following columns.
 - i. Date column –for entering the date when a transaction takes place
 - ii. Detail column – for entering particular of a transaction
 - (iii) Folio column- folio means page. It is for cross referencing of the double effect of a transaction.
 - (iv) Amount column- for entering monetary value of a transaction.

The title of each account is written on cross the top of the account at the center. An account can be represented in two ways;

Vertically or horizontally, for example;

VERTICAL **TITLE**

DATE	DETAILS	F	DEBIT(OR)	CREDIT(R)
1			R	R

HORIZONTAL **TITLE**

DATE	DETAILS	F	AMOUNT	DATE	DETAILS	F	AMOUNT
------	---------	---	--------	------	---------	---	--------

TRIAL BALANCE

- It is a list of balances extracted from the ledger accounts arranged under debit and credit columns which when added the total must equal.
- The purpose of a trial balance is to check the arithmetic accuracy in the books of accounts and also to check whether the double entry has been completed.

DOUBLE ENTRY SYSTEM

This is also called the dual accounting concept i.e. for every debit, there is an equivalent credit. Assets or any other items of the accounting equation can increase or decrease, but assets will always be equal to capital + liabilities

Rules of DR and CR

Assets=Capital + Liabilities

Increase DR =CR + CR

Decrease CR =DR + DR

QUESTIONS

Complete the following table

	Transaction	Account to be debited	Account to be credited
<i>a</i>	Goods bought on credit from J Reid.	Purchases a/c	J Reids a/c
<i>b</i>	Goods sold on credit to B Perkins.	B Perkins. a/c	Sales a/c
<i>c</i>	Vans bought on credit from H Thomas	Vans a/c	H Thomas a/c
<i>d</i>	Goods sold, a cheque being received immediately	Bank account	Sales a/c
<i>e</i>	Goods sold for cash	Cash a/c	Sales a/c
<i>f</i>	Goods purchased by us returned to supplier, H Hardy.	H Hardy a/c	Purchases returns a/c
<i>g</i>	Machinery sold for cash.	Cash a/c	Machinery a/c
<i>h</i>	Goods sold returned by customer, J Nelson.	Sales returned a/c	J Nelsons a/c
<i>i</i>	Goods bought on credit from D Simpson.	Purchases a/c	D. Simpson a/c
<i>j</i>	Goods we returned to H Forbes.	H. Forbes a/c	P. returns a/c

QUESTIONS

Enter the following transactions in the account:

2009

May 1. Started business with 18,000 in the bank

Capital A/c

Date	details	F	Dr	Cr
2009				

Bank A/c

Date	Details	F	Dr	Cr
2009			k	K

5/1	Bank			18,000
-----	------	--	--	--------

5/1	capital		18,000	
-----	---------	--	--------	--

May 2 Bought goods on credit from B. Hard k1,455

Purchase A/c

Date	details	F	Dr	Cr
2009				
5/2	B. Hind		1,455	

B. Hinds A/c

Date	Details	F	Dr	Cr
2009			k	K
5/2	purchases			1,455

May 5 sold goods for cash k210

Sales A/c

Date	details	F	Dr	Cr
2009				
5/5	Cash			82

Cash A/c

Date	Details	F	Dr	Cr
2009			k	K
6/5	P. returns		82	

May 6 we returned good to B. Hind k82

Purchase returns A/c

Date	details	F	Dr	Cr
2009				
6/5	B. Hind			82

B. Hinds A/c

Date	Details	F	Dr	Cr
2009			k	K
6/5	P. returns		82	

B. Bwalya returned goods to us worth 250

B. Bwalya's A/c

Date	details	F	Dr	Cr
2009				
7/5	S. returns			250

Sales Returns A/c

Date	Details	F	Dr	Cr
2009			k	K
7/5	B. Bwalya		250	

CLASSIFICATION OF ACCOUNTS:

Accounts can be grouped into three classes;

- Personal accounts**: these are account of debtors and creditors of John Banda's account
- Nominal accounts**: these are accounts that exist in name only i.e. all expense and income accounts including capital are normal accounts example include rent account, commission received account.
- Real accounts**: these are account of the assets of the business i.e. accounts of all the possessions of the business example include land and buildings account, motor vehicle account e.t.c.

QUESTION

Classify the following accounts into **real**, **nominal** and **personal** accounts;

- (i) Premises
- (ii) Major ltd account
- (iii) Insurance account
- (iv) A. Muyunda's account
- (v) Bank account
- (vi) Rent received account
- (vii) Cash account

ANSWERS

1. Real 2. Personal 3. Nominal 4. Personal 5. Nominal 6. Nominal
7. Real

SUBDIVISION OF THE LEDGER

In order to maintain control over the number of financial transaction, the ledger is subdivided into;

- (a) **Cash book**. A book where cash and bank transactions are recorded
- (b) **Sales or debtors ledgers**. A book where we record all the accounts of our debtors or customers
- (c) **Purchases or creditors or bought ledger**: A book where we record all the accounts of our creditors or suppliers
- (d) **General or nominal ledger**: A book where we record real and nominal accounts ie expenses, income, assets (excluding debtors) and liabilities (excluding creditors)

QUESTIONS

From the following ledger accounts identity the ledger book into which each account would be recorded.

Answers

- | | |
|------------------------------------|--------------------|
| 1. Capital account | (general ledger) |
| 2. Cash account | (cash book) |
| 3. Bank account | (cash book) |
| 4. Rent account | (general ledger) |
| 5. Motor van account | (general ledger) |
| 6. Purchases account | (general ledger) |
| 7. A. chola's account (customer) | (sale's ledger) |
| 8. Motor insurance account | (general ledger) |
| 9. Sales account | (general ledger) |
| 10. B. Phiri's accounts (supplier) | (purchases ledger) |
| 11. Rates account | (general ledger) |
| 12. Drawings account | (general ledger) |
| 13. Salaries | (general ledger) |

1. Identify and explain the classes of accounts.

ANS:

- i. **Real Accounts:** these are accounts that contain names of assts. Examples include: machinery, Building, Premises, bank, cash etc.
- ii. **Nominal or fictitious** accounts: these are accounts used for calculating profits or loss in the business. They contain revenue expenditure (expenses) and revenue receipts (income). They include: rent, salaries, discount received, discount allowed, purchases, sales, commission received, rent received accounts etc.
- iii. **Personal accounts:** these are accounts that contain names of a person or company they are accounts of debtors (customers) and creditors (suppliers) of the business.

2. Classify the following accounts under the appropriate heading(real, personal or nominal)

	NAME OF ACCOUNT	CLASSIFICATION
I	Purchases	
li	Fixtures and fittings	
lii	Premises	
Iv	Lukwesa & sons Ltd	
V	Rent	
Vi	Sale	
Vii	Kunda & Kaoma Associates	
Viii	Water bills	
ix	cash	

SOLUTION

	NAME OF ACCOUNT	CLASSIFICATION
I	Purchases	Nominal
li	Fixtures and fittings	Real
lii	Premises	Real
Iv	Lukwesa & sons Ltd	Personal
V	Rent	Nominal
Vi	Sale	Nominal
Vii	Kunda & Kaoma Associates	Personal
Viii	Water bills	Nominal
ix	cash	Real

3. Identify the different types of the ledger.

ANS: - General Ledger

- Purchases ledger

- Sales Ledger
- Cash Book

THE DOUBLE ENTRY SYSTEM

The double entry system is the golden rule in bookkeeping which allows books to balance. In every transaction there are two aspects. One aspect is giving while the other aspect is receiving the same amount being given.

The aspect receiving is debited and the one giving is credited.

1. From the following information you are required to state the account to be debited and account to be credited.
 - i. Bought goods by cash
 - ii. Sold goods by cheque
 - iii. Paid for electricity by cash
 - iv. Paid mulenga by cheque
 - v. Cash sales
 - vi. Bought equipment by cash
 - vii. Rent was paid by cheque
 - viii. Received cash from chanda
 - ix. Stated business with cash at bank

SOLUTION

	TRANSACTION	ACCOUNT TO BE DEBITED	ACCOUNT TO BE CREDITED
i	Bought goods by cash	purchases	Cash
ii	Sold goods by cheque	Bank	Sales
iii	Paid for electricity by cash	Electricity	Cash
iv	Paid mulenga by cheque	Mulenga	Bank
v	Cash sales	Cash	Sales
vi	Bought equipment by cash	Equipment	Cash
vii	Rent was paid by cheque	Rent	Bank
viii	Received cash from chanda	Cash	chanda
ix	Started business with cash at bank	bank	Capital

The accounts were determined as follows:

- i. The key words here are bought and cash. From bought we come up with purchases and cash is an account on its own. The cash account is credited because it is giving money. The purchases is representing the account receiving therefore, it is debited.

- ii. From the sold we have sales. The other account is bank from the word cheque. Bank A/c is debited because it is receiving money when goods are sold by cheque and the sales A/c represents the account giving
- iii. The Accounts here are electricity and cash. The cash is credited because it is giving money to pay for electricity. Electricity is representing the account receiving therefore, it is debited.
- iv. Mulenga is debited because he is receiving money while cash is credited because it is giving to pay mulenga
- v. Cash is receiving money after selling the good hence debited and sales represents the account giving hence credited
- vi. We cannot call this one as purchases because the name of an asset (equipment) is given. The two accounts are Equipment and cash. Cash is credited because it is giving the money to buy and the equipment and equipment is debited because it is representing the account receiving.
- vii. Bank account is credited because money from the bank is used to pay for rent hence it is giving and the rent has received.
- viii. Chanda was giving out money by cash therefore, he is credited while cash was received and the cash account is debited.
- ix. Money was taken to the bank to start business therefore, the bank account received hence it is debited and money for starting business is called capital since the capital was given into the bank hence the capital account is credited.

2. From the following transactions write the account to be debited and account to be credited

	TRANSACTIONS	ACCOUNT TO BE DEBITED	ACCOUNT TO BE CREDITED
i	Purchased a motor vehicle by cheque K 14,000		
ii	Sold good to A. kaoma on credit K 7.000		
iii	Paid J motors by cheque K 4,500		
iv	Withdrew cash from the bank K2,000 for business use		
v	Paid wages and salaries by cheque K 8,000		
vi	Returned goods to B. Traders K500		

SOLUTIONS

	TRANSACTIONS	ACCOUNT TO BE DEBITED	ACCOUNT TO BE CREDITED
i	Purchased a motor vehicle by cheque K 14,000	Motor vehicle	Bank
ii	Sold good to A. kaoma on credit K 7.000	A. Kaoma	sales
iii	Paid J motors by cheque K 4,500	J. Motors	Bank
iv	Withdrew cash from the bank K2,000 for business use	cash	Bank
v	Paid wages and salaries by cheque K 8,000	Wages & salaries	Bank
vi	Returned goods to B. Traders K500	B. Traders	Returns outwards

Recording and balancing ledger accounts

1. The following transactions relate to Wakumelo & Associates. You are required to record the transactions in ledger accounts and balance the account at the end of the month.

2016

March 1. Started business with K 8.000 cash and K 9,000 at the bank

8 bought machinery by cheque K 4,000

12 sold good by cash K 2,000

18 purchased goods for resale by cheque K 5,000

22 deposited cash into the bank

SOLUTION

Capital A/C

Date	Details	F	Dr	Cr
2016			K	K
March 1	Cash			8,000
1	Bank			9,000
31	balance	c/d	17,000	
			17,000	17,000
April 1	Balance	b/d		17,000

Bank A/C

Date	Details	F	Dr	Cr
2016			K	K
March 1	capital		9,000	
1	machinery			4.000
18	purchase			5,000
22	cash		1,500	
31	balance	c/d		1,500
			10,500	10,500
April 1	Balance	b/d	1,500	

Cash A/C

Date	Details	F	Dr	Cr
2016			K	K
March 1	capital		8,000	
12	sales		2,000	
22	bank			1,500
31	balance	c/d		8,500
			10,000	10,000
April 1	Balance	b/d	8,500	

Machinery A/C

Date	Details	F	Dr	Cr
2016			K	K
March 8	Bank		4,000	

Sales A/C

Date	Details	F	Dr	Cr
2016			K	K
Marc 12	Cash			2,000

Purchases A/C

Date	Details	F	Dr	Cr
2016			K	K
March18	Cash		5,000	

NOTE:

- An account has a date, details, folio, Debit and Credit columns.
- A folio column is abbreviated by F, Debit by Dr and Credit by Cr. The folio is where page numbers are recorded.
- The details column gives a brief description of the transaction
- An account should have a Title on top e.g capital A/C etc.
- Before preparing ledger accounts, you have to make an analysis as to which account will be debited and which account will be credited.
- In the details column record the sister account.
- The account debited or credited is not the one written in the details column but the one on top, which is the title of the account.
- If you have already opened an account, you should not open another account but enter the amount in the account already opened.
- Each transaction should be entered twice according to the double entry principle.
- On march 1 bank and cash are debited, capital account is credited. The details in the bank and cash accounts will be capital while in capital there will be bank and cash.
- On 8th machinery account will be debited and bank account credited. Since we already have a bank account we will only open the machinery account and credit the bank account with K4, 000
- On 12th we sold goods and received cash so the cash account will be debited and credit the sales account. The cash account already exists so we will only open the sales account and debit the cash account with K2, 000.
- On 18th we bought goods paying by cheque the bank account gave out money for purchasing the goods. As such the bank account will be credited and the purchases account will be debited. Since we already have the bank account we will only open the purchases account and credit the bank account with K5, 000.
- On 22nd cash was deposited into the bank. The bank received the money so it will be debited and the cash will be credited. Since we will already have both accounts we will only record the entries in both accounts.

BALANCING LEDGER ACCOUNTS

Account with more than one entry need to be balanced. In this case only the Capital, Bank and cash accounts need to be balanced and with the rest it is not necessary to do so.

Procedure in balancing account.

- i. Add all debit and credit entries. Write the totals on a separate piece of paper.
- ii. Put the bigger amount on both sides of the account skipping a line enclosed in lines.
- iii. Find the difference between the bigger and smaller amount and put the difference where the shortage is. This figure is called a balance carried down (c/d) and has date at the end of that particular month or year.
- iv. The balance carried down is brought down on the opposite side of and is called brought down (b/d) and has a date at the beginning of the following month or year.
- v. If the b/d is on the debit side then the account has a debit balance and visa-visa.

- vi. In our question the bank account has a debit entry denoting that it received K10, 500 and paid out K9, 000 remaining with K1, 500 and the cash account received K10, 000 was paid out K1, 500 and remained with K8, 500.

THE DEBTORS AND CREDITORS LEDGER

- i. The Debtors/Sales Ledger: This is a ledger in which record of all transactions of credit customers are recorded. It consists of accounts of credit customers (Debtors) they have debit balances.
- ii. Creditors/Purchases Ledger: is a ledger in which record of all transactions of credit suppliers are recorded. It consist of accounts of credit suppliers (Creditors) they have credit balances.

1. Kaonga Traders is our debtor and had the following transactions in the month of May, 2016.

May 1 bought goods at K250 (invoice 125)

5 sent them credit note C31 for damaged goods returned K50

10 bought goods on credit K500 (invoice 146)

26 paid K650 (receipt 45)

You are required to record in Kaonga Traders' account in the Sales Ledger.

SOLUTION

THE SALES LEDGER

Kaoma Traders A/C

Date	Details	F	Dr	Cr
2016			K	K
May 1	Invoice 125		250	
5	Sales Returns			50
10	Invoice 146		500	
26	Cash Rec 45			640
31	balance	c/d		60
			750	750
June 1	Balance	b/d	60	

NOTE

- Being a Debtor kaoma Traders' account is debited whenever they purchased goods because they received the goods and whenever they made a payment and returned the goods their account is credited because they gave out money when they paid and gave out goods when they returned the goods.
- They have a debit balance of K60 indicating that they are still owing us K60.

2. The following ledger account appeared in the books of Chambinga Wholesalers in the month of January 2015

KAMUKOSHI'S ACCOUNT

Date	Details	F	Dr	Cr
Jan 2015				
1	Balance	b/f	3,550	
15	sales		45,060	
20	Returns inwards			(a)
25	Discount Allowed			6,500
30	Cash			31,540
31	Balance	c/d		5,000
			?	(b)
Feb 1 2015	Balance	b/d	5,000	

- i. Is Kamukoshi a Debtor or Creditor?
- ii. Calculate the missing figures of returns inwards on January 20, in (a).
- iii. What are the totals in Kamukoshi's Ledger Account in (b)?
- iv. In which ledger would Kamukoshi's Account be found?

SOLUTIONS

- i. Debtor because his balance b/f and sales are on the debit side indicating that he bought the goods.
 - ii. K 5,570
 - iii. K 48,610
 - iv. The Sales/ Debtors ledger since he is our Debtor.
3. Lumbwe Traders is our creditor. Record the following transactions in Lumbwe,s Account in the Creditors Ledger of our books of account.
- 2014
- June 1 Purchased goods on credit K450 (invoice225)
- 5 Received a Debit Note (D20) with damaged goods
- 26 Sent Lumbwe Traders a cheque for K 200 to pay part of our account (cheque No 465)

SOLUTION

Lumbwe Traders A/C				
Date	Details	F	Dr	Cr
2014			K	K
June 1	Invoice 225			450
5	Purchases Returns		20	
25	Cheque No 465		200	
26	Cash Rec 45			
30	balance	c/d	230	
			450	450
July 1	Balance	b/d		230

NOTE

- Being a creditor Lumbwe Traders' account is credited when he supplied the goods because he gave out the goods and he is debited when we returned the goods and when we paid because he received the goods and money respectively.
- He has a credit balance of K 230 indicating that we still own him K230

4. The following Ledger Account appeared in the books of Mwila Kalande in September 2012.

MBAZA's ACCOUNT				
Date	Details	F	Dr	Cr
Sep 2012				
1	Balance	b/f		2500
5	sales			1500
14	Purchases returns		200	
20	Bank		350	
30	Balance	c/d	(a)	
			?	(b)
Oct 1 2015	Balance	b/d		(c)

- i. What was the balance (a) on September 30 2012?

- ii. In which Ledger would Mbaza's account appear in Mwila Kalande's books of accounts
- iii. What were the totals (b) on Mbaza's account
- iv. Calculate the balance (c) and state the Balance of this account

SOLUTIONS

- i. K3,450
- ii. Purchases/Creditors Ledger
- iii. K 4,000
- iv. K 3,450 The account has a credit balance

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

WHAT IS A TRIAL BALANCE?

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

EXPLAIN THE PURPOSE OF THE TRIAL BALANCE?

The purpose of a trial balance is:

- To check the arithmetic accuracy or errors from the ledger.
- To check whether the double entry has been completed.
- To check fraud.

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

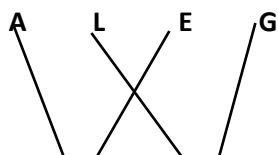
PREPARE A TRIAL BALANCE

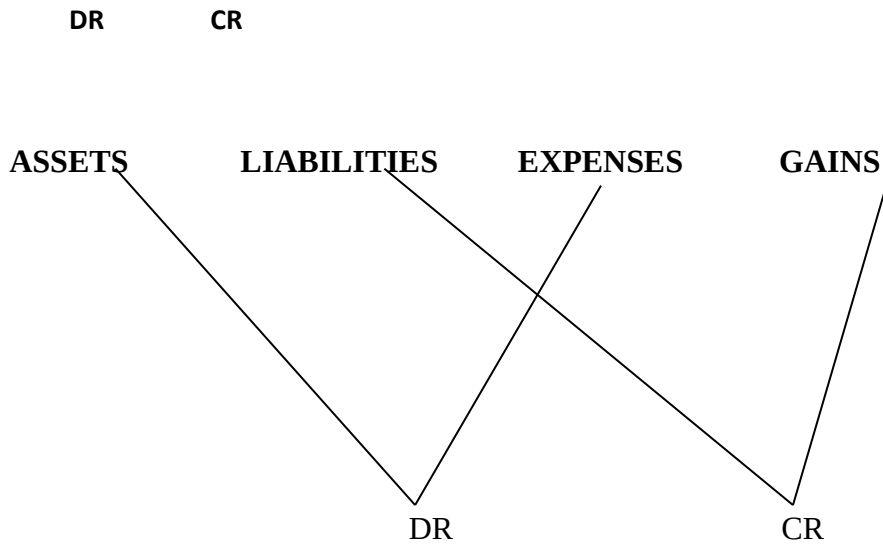
The first task in preparing a trial balance is to balance all the ledger accounts, and then the balances must be extracted and entered in the trial balance. When extracting the trial balance, the following points should be taken note of:

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

RULES OF THE TRIAL BALANCE

The ALEG principle:-





This means:-

DEBIT – ALL ASSETS AND EXPENSES

CREDIT- ALL INCOMES AND LIABILITIES

QUESTIONS

1. What is a trial balance?

ANS:

- i. **It is a list of balances extracted from ledger accounts.**
- ii. It is a list of all Debit and Credit Balances extracted from ledger account.

2. What is the purpose of a trial Balance?

ANS:

- i. To check for arithmetic accuracy
- ii. To check if double entry has taken place (checking for completion of double entry when recording in ledger accounts)

PREPARING A TRIAL BALANCE FROM A LIST OF BALANCES EXTRACTED FROM LEDGER ACCOUNTS.

3. J.JACOBS Traders had the following balances as at 31 January 2017.

	K		K
Banking	4600	Creditors	1400
Drawings	14000	Stock	10000
Sales	55500	Discount allowed	1400
Sales returns	4500	purchases	45000

Cash	2000	Furniture	13500
Rent	1500	Returns outwards	6500
Debtors	30000	Insurance	2500
Discount received	7000	Wages & salaries	7000
Capital	76300	Motor vehicle	15500
Stationery	1500		

You are required to extract a trial balance as at 31 January 2017.

SOLUTIONS

J.JACOBS' TRADERS TRIAL BALANCE AS AT 31 JANUARY 2017

Details	DR	CR
	<u>K</u>	<u>K</u>
Banking	4600	
Drawings	14000	
Sales		55500
Sales returns	4500	
Cash	2000	
Rent	1500	
Debtors	30000	
Creditors		14000
Discount received		7000
Stock	10000	
Discount allowed	1400	
Purchases	45000	
Returns outwards		6500
Wages & salaries	7000	
Capital		76300
Motor vehicle	15500	
Stationery	1500	
	153000	153000

NOTE:

To prepare a Trial Balance from a list of balances you need to identify account with debit balances and accounts with credit balances.

In this question you will notice that all Assets, expenses are debited and all gains and liabilities are credited. This can be summarized using acronym ALEG

Asset: Bank, Cash, Banking, Debtors, Stock, Motor vehicle.

Liabilities: Creditors

Expenses: Discount received, Purchases, Rent, Wages & salaries, Stationery, Sales returns

Gains: Discount received, Sales, returns outwards

4. The following trial balance was extracted by Kalombo on 31 December, 2017, failed to balance.

Trial balance as at 31 December, 2017.

DETAILS	F	DR (K)	CR (K)
Sales		150140	
Machinery			74800
Debtors		15200	
creditors		8500	
Rent and rates			2100
Carriages outwards			3500
purchases			90500
Capital			25000
Bank overdraft		2460	
		176300	195900

You are required to correct the trial balance prepared by Kalombo on 31 December 2017.

SOLUTION:

Trial balance as at 31 December, 2017.

DETAILS	F	DR (K)	CR (K)
Sales			150 140
Machinery		74 800	
Debtors		15200	
Creditors			8 500
Rent and rates		2 100	
Carriages outwards		3 500	
purchases		90 500	
Capital			25 000
Bank overdraft			2 460

		186 100	186 100
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NOTE:

In such a question, you need to identify entries which are wrongly post and post them correctly.

- i. Sales are a gain which should credited but were wrongly debited
- ii. Machinery is an asset should be debited but were wrongly credited
- iii. Creditors are a liability which should be credited but were wrongly debited
- iv. Rent and rates, carriages outwards and purchases are expenses which should be debited but were wrongly credited.
- v. Bank overdraft is also a liability which should be credited but was wrongly debited.

QUESTION 5

You are required to prepare a Trial Balance and balance it as at 31/03/09

	K
Purchases	61, 420
Sales	127, 245
Stock (inventory)	7, 940
Capital	25, 200
Bank overdraft	2, 490
Cash	140
Discount received	62
Discount allowed	2, 480
Returns inwards	3, 486
Returns outwards	1, 356
Carriage outwards	3, 210
Rent & insurance	8, 870
Allowance for doubtful debts	630
Fixtures and fittings	1, 900
Van	5, 600
Debtors	12, 418
Creditors	11, 400
Drawings	21, 400
Wages & salaries	39, 200
General office expenses	319

Solution

TRAIL BALANCE (as at 31st march, 2009)

Details	DR	CR
	K	K

Purchases	61, 420	
Sales		127, 245
Stock (inventory)	7,940	
Capital		25, 200
Bank overdraft		2, 490
Cash	140	
Discount received		62
Discount allowed	2, 480	
Returns inwards	3, 486	
Returns outwards		1, 356
Carriage outwards	3, 210	
Rent & insurance	8, 870	
Allowance for doubtful debts		630
Fixtures & fittings	1,900	
Van	5, 600	
Debtors	12, 418	
Creditors		11, 400
Drawings	21, 400	
Wages & salaries	39, 200	
General office expenses	319	
	168, 383	168, 383