ACCOUNTING FOR LAWYERS

INTRODUCTION

ACCOUNTANCY – This is the recording, classifying, and summarizing in a significant manner and in term of money or transactions and event which are in part at least of financial characters and interpreting the results.

FINANCIAL INFORMATIONS

1. **Budgeting - A budget** is a quantitative plan used as a tool for deciding which activities will be chosen for a future time period. In a business, the **budgeting** for operations includes the following:-
    - preparing estimates of future sales .
    - preparing estimates of future cash collections and disbursements (money paid out to run a business).
    - preparing estimates of the future day-to-day activities of the organization
    - summarizing these estimates into an income statement and balance sheet[1]
2. **Profit and Loss –** These are a summary of the income and expenses of a business that determine the profit made in a given time period. Profit and loss statements are usually performed periodically, either annually, quarterly or monthly.[2]
3. **Balance Sheet** – This is a statement of the assets, liabilities, and capital of a business or other organization at a particular point in time, detailing

1 **O'Sullivan, Arthur; Sheffrin, Steven M. (2003). Economics: Principles in Action. Upper Saddle River, New Jersey 07458: Pearson Prentice Hall. p. 502. ISBN 0-13-063085-3.**

2 **"Profit & Loss". Emerging Manager Forum. Retrieved 27 July 2016.**

the balance of income and expenditure over the preceding period.[3]

USERS OF ACCOUNTING INFORMATION

Internal & External

Accounting information helps users to make better financial decisions. Users of financial information may be both **internal and external** to the organization.

A - Internal users *(Primary Users)* of accounting information include the following:-

- **Management:-** for analyzing the organization's performance and position and taking appropriate measures to improve the company results.
- **Employees:-** for assessing company's profitability and its consequence on their future remuneration and job security.
- **Owners or Shareholders:-** for analyzing the viability and profitability of their investment and determining any future course of action.

B- External users *(Secondary Users)* of accounting information include the following:-

- **Creditors:-** for determining the credit worthiness of the organization. Terms of credit are set by creditors according to the assessment of their customers' financial health. Creditors include suppliers as well as lenders of finance such as banks.
- **Tax Authorities:-** for determining the credibility of the tax returns filed on behalf of the company. The more the Company makes profits the more taxes it pays.
- **Investors:-** for analyzing the feasibility of investing in the company. Investors want to make sure they can earn a reasonable return on their

3 **http://www.accountingcoach.com/balance-sheet/explanation**

investment before they commit any financial resources to the company.

- **Customers:-** for assessing the financial position of its suppliers which is necessary for them to maintain a stable source of supply in the long term.
- **Regulatory Authorities:-** for ensuring that the company's disclosure of accounting information is in accordance with the rules and regulations set in order to protect the interests of the stakeholders who rely on such information in forming their decisions.

ACCOUNTING CONCEPTS AND PRINCIPLES:-

1. **RELEVANCE -** Information should be **relevant to the decision making** needs of the user. Information is relevant if it helps users of the financial statements in predicting future trends of the business (Predictive Value) or confirming or correcting any past predictions they have made (Confirmatory Value). Same piece of information which assists users in confirming their past predictions may also be helpful in forming future forecasts.
    - **Example:-** A company discloses an increase in Earnings Per Share (EPS) from $5 to $6 since the last reporting period. The information is relevant to investors as it may assist them in confirming their past predictions regarding the profitability of the company and will also help them in forecasting future trend in the earnings of the company. Relevance is affected by the materiality of information contained in the financial statements because only material information influences the economic decisions of its users.

2. **RELIABILITY -** Information is reliable if a user can depend upon it to be **materially accurate and if it faithfully** represents the information that it purports to present. Significant misstatements or omissions in financial statements reduce the reliability of information contained in them.

- **Example:-** A company is being sued for damages by a rival firm, settlement of which could threaten the financial stability of the company. Non-disclosure of this information would render the financial statements unreliable for its users.

3. **TIMELINESS -** This refers to the need for accounting information to be presented to the users in time to fulfill their decision making needs. Timeliness of accounting information is highly desirable since information that is presented timely is generally more relevant to users while conversely, delay in provision of information tends to render it less relevant to the decision making needs of the users. Timeliness principle is therefore closely related to the relevance principle. Timeliness is important to protect the users of accounting information from basing their decisions on outdated information. Imagine the problem that could arise if a company was to issue its financial statements to the public after 12 months of the accounting period. The users of the financial statements, such as potential investors, would probably find it hard to assess whether the present financial circumstances of the company have changed drastically from those reflected in the financial statements.

4. **NEUTRALITY[4] -** Information contained in the financial statements must be free from bias. It should reflect a balanced view of the affairs of the company without attempting to present them in a favored light. Information may be **deliberately biased or systematically biased.**
   - **Example of deliberately biased -** A company is facing serious liquidity problems. Management may decide to window dress the financial statements in a manner that improves the company's current ratios in order to hide the gravity of the situation.
   - **Example of systematically biased -** Accounting policies within an organization may be overly prudent because of cultural influence of an over cautious leadership.

4 **http://accounting-simplified.com/financial-accounting/accounting-concepts-and-principles/neutrality.**

5. **MONEY MEASUREMENT CONCEPT IN ACCOUNTING[5] -** Means that only transactions and events that are capable of being measured in monetary terms are recognized in the financial statements. **All** transactions and events recorded in the financial statements must be reduced to a unit of monetary currency. **Where** it is not possible to assign a reliable monetary value to a transaction or event, it shall not be recorded in the financial statements. **However,** any material transactions and events that are not recorded for failing to meet the measurability criteria might need be disclosed in the supplementary notes of financial statements to assist the users in gaining a better understanding of the financial performance and position of the entity.
   - **Example:-** Skills and competence of employees cannot be attributed an objective monetary value and should therefore not be recognized as assets in the balance sheet. However, those transactions related to employees that can be measured reliably such as salaries expense and pension obligations are recognized in the financial statements.

6. **DUAL ASPECT CONCEPT OR DUALITY PRINCIPLE IN ACCOUNTING -** Dual aspect concept is the underlying basis for double entry accounting system which is based on the duality principle and was devised to account for all aspects of a transaction. Under the system, aspects of transactions are classified under two main types:-
   - **Debit -** is the portion of transaction that accounts for the increase in ***assets*** and ***expenses,*** and the decrease in ***liabilities, equity*** and **income.**
   - **Credit -** is the portion of transaction that accounts for the increase in ***income, liabilities*** and ***equity,*** and the decrease in ***assets*** and ***expenses.***

5 **http://accounting-simplified.com/financial/concepts-and-principles/money-measurement.**

7. **COMPARABILITY/CONSISTENCY[6] -** Financial statements of one accounting period must be comparable to another in order for the users to derive meaningful conclusions about the trends in an entity's financial performance and position over time.
    - **Example:-** If a company that retails leather jackets valued its inventory on the basis of FIFO method in the past, it must continue to do so in the future to preserve consistency in the reported inventory balance. A switch from FIFO to LIFO basis of inventory valuation may cause a shift in the value of inventory between the accounting periods largely due to seasonal fluctuations in price.

8. **UNDERSTANDABILITY[7] -** Transactions and events must be accounted for and presented in the financial statements in a manner that is easily understandable by a user who possesses a reasonable level of knowledge of the business, economic activities and accounting in general. If the accounting treatments involved and the associated disclosures and presentational aspects are too complex for a user to understand despite having adequate knowledge of the entity and accountancy in general, then this would undermine the reliability of the whole financial statements**.**
    - **Example:-** One of the main problems with the financial statements of ENRON was that it contained a very complicated structure of special purpose entities that were presented in a manner that concealed the financial risk exposure of the company. The accounting treatments of ENRON were not comprehensible by the capital market participants who consistently overvalued its worth until the inevitable collapse of its share price in 2001 upon the news of its bankruptcy.
9. **Substance Over Legal Form – This** is an accounting concept which means that the *economic substance* of transactions and events must be

6 **http://accounting-simplified.com/financial-accounting/accounting-concepts-and-principles/comparability.**
7 **http://accounting-simplified.com/financial-accounting/accounting-concepts-and-principles/understandability.**

recorded in the financial statements rather than just their *legal form* in order to present a true and fair view of the affairs of the entity.

10. **A GOING CONCERN?[8] -** These are the Financial statements that are prepared assuming that a business entity will continue to operate in the foreseeable future without the need or intention on the part of management to liquidate the entity or to significantly curtail its operational activities.

11. **ACCRUALS CONCEPT –** These are the Financial statements that are prepared under the Accruals Concept of accounting which requires that income and expense must be recognized in the accounting periods to which they relate rather than on cash basis. Under Accruals basis of accounting, income must be recorded in the accounting period in which it is earned. Expenses, on the other hand, must be recorded in the accounting period in which they are incurred. Accruals basis of accounting ensures that expenses are "matched" with the revenue earned in an accounting period. Accruals concept is therefore very similar to the matching principle.

12. **MATERIALITY - This** defines the threshold or cutoff point after which financial information becomes relevant to the decision making needs of the users. Information contained in the financial statements must therefore be complete in all material respects in order for them to present a true and fair view of the affairs of the entity.
    - **Example -** Size A default by a customer who owes only $1000 to a company having net assets of worth $10 million is immaterial to the financial statements of the company. However, if the amount of default was, say, $2 million, the information would have been material to the financial statements omission of which could cause users to make incorrect business decisions.

8 **http://accounting-simplified.com/financial-accounting/accounting-concepts-and-principles/going-concern.html**

THE DOUBLE ENTRY SYSTEM.

Double entry system of accounting or bookkeeping means two transactions which are Debit and Credit **OR** every business transaction that will involve two accounts (or more).

For example:- When a company borrows money from its bank, the company's Cash account will increase and its liability account Loans Payable will increase. If a company pays $200 for an advertisement, its Cash account will decrease and its account Advertising Expense will increase. Double entry also allows for the accounting equation **(assets = liabilities + owner's equity)** to always be in balance.

In our example involving Advertising Expense, the accounting equation remained in balance because expenses cause owner's equity to decrease. In that example, the asset Cash decreased and the owner's capital account within owner's equity also decreased.
A third aspect of double entry is that the amounts entered into the general ledger accounts as debits must be equal to the amounts entered as credits.[9]

Resources in the business (Dr) = Resources supplied by the owner (Cr)

Assets = Capital + liabilities

WHAT ARE ASSETS?

Assets - Are sometimes defined as resources or things of value that are owned by a company. Some examples of assets which are obvious and will be reported on a company's balance sheet include: cash, accounts receivable,

9 **www.accountingcoach.com/blog/what-is-the-double-entry-system**

inventory, investments, land, buildings, and equipment.

In addition, a company's balance sheet will also report prepaid expenses as an asset. For instance, if a company is required to pay its rent at the beginning of each quarter (January 1, April 1, etc.) the portion that is prepaid (not used up) as of the balance sheet date will be listed as a current asset.
A company may state that its employees are its most valuable asset. However, the employees cannot be included as an asset on the company's balance sheet. Similarly, a company may have successfully promoted its products, services and brands throughout the world and the brands are now the company's most valuable assets. Yet these brands and trademarks cannot be reported as assets on the company's balance sheet. (If a company purchases a brand from another company, the cost can be listed as an asset on its balance sheet.)[10]

WHAT IS 'CAPITAL'?

Capital - Refers to financial assets or the financial value of assets, such as cash and funds held in deposit accounts, as well as the tangible machinery and production equipment used in environments such as factories and other manufacturing facilities. Additionally, capital includes facilities, such as the buildings used for the production and storage of the manufactured goods. Materials used and consumed as part of the manufacturing process do not qualify.[11]

WHAT IS A LIABILITY?

A liability - is an obligation and it is reported on a company's balance sheet. A common example of a liability is accounts payable. Accounts payable arise when a company purchases goods or services on credit from a supplier. When the company pays the supplier, the company's accounts payable is reduced.

10 **www.accountingcoach.com/blog/what-are-assets**
11 **www.investopedia.com/terms/c/capital.asp**

Other common examples of liabilities include loans payable, bonds payable, interest payable, wages payable, and income taxes payable.[12]

EFFECTS OF TRANSACTIONS ON THE DOUBLE ENTRY

Examples:-

1. The Rent of Tshs 600/= is paid in Cash

Dr **Cr**

Date	Particular	F	Amount	Date	Particular	F	Amount
	Rent		600/=		Cash		600/=

2. Motor expenses amounting to Tshs 225 are paid by cheque

Dr **Cr**

Date	Particular	F	Amount	Date	Particular	F	Amount
	Motor expenses		225/=		Bank		225/=

LEDGER (BOOK).[13]

This the book which records classified and summarized financial information from journals (the 'books of first entry') as debits and credits, and shows their current balances. Also called book of final entry, due to Collection of an entire group of similar accounts in double-entry bookkeeping.

The Ledger contains the following in both columns:-

1. Date
2. Particular
3. Folio
4. Amount

12 **www.accountingcoach.com/blog/what-is-a-liability**
13 **http://www.businessdictionary.com/definition/ledger.html**

ACCOUNTING FOR LAWYERS

BY SOLICITOR KATURA

QUIZ..1

Ally started business on **1st January 1988** with **Tshs 5000/=** in the same month the following transactions occurred:-

1. January 2 purchased goods and paid on cash.....1000/=
2. January.3 Bought goods for cash.....500/=
3. January.4 Paid Wages in cash.....50/=
4. January.7 Sales goods for cash.....3000/=
5. January.8 bought for cash.....800/=
6. January.9 bought packing materials for cash.....20/=
7. January.10 paid transport charges.....30/=

Required: Enter the above in the appropriate ledger account by completing the double-entry.

5

CAPITAL ACCOUNT

Dr **Cr**

Date	Particular	F	Amount	Date	Particular	F	Amount
				J. 1	Cash		5000/=

CASH ACCOUNT

Dr **Cr**

Dat	Particular	F	Amount	Dat	Particular	F	Amount

e				e			
J.1	Capital		5000/=	J.2	purchase		1000/=
J.7	Sales		3000/=	J.3	Purchase		500/=
				J.4	Wages		50/=
				J.8	Purchase		800/=
				J.9	Purchase		20/=
				J.10	Transport		30/=

PURCHASES ACCOUNT

Dr **Cr**

Date	Particular	F	Amount	Date	Particular	F	Amount
J.2	Cash		1000/=				
J.3	Cash		500/=				
J.8	Cash		800/=				
J.9	Cash		20/=				

WAGES ACCOUNT

Dr **Cr**

Date	Particular	F	Amount	Date	Particular	F	Amount
J.4	Cash		50/=				

SALES ACCOUNT

Dr **Cr**

Date	Particular	F	Amount	Date	Particular	F	Amount
				J.7	Cash		3000/=

TRANSPORT ACCOUNT

Dr **Cr**

Date	Particular	F	Amount	Date	Particular	F	Amount

J.9	Cash		30/=				

QUIZ. 2

Katange started business on **1st June 1971** with **30,000/=** as Capital in Cash, other transactions were as follows:-

1. June.2 bought furniture for cash.....1000/=
2. June.3 bought goods for cash.....22,000/=
3. June.4 Sold goods for cash.....27,000/=
4. June.5 Paid carriage.....850/=
5. June.10 Cash sale.....12,000/=
6. June.15 bought goods for cash.....25,000/=
7. June.18 paid Rent.....1,200/=
8. June.20 Paid for advertisement.....750/=
9. June.22 sold goods for cash.....15,000/=
10. June.25 cash sales to date.....20,000/=
11. June.26 paid wages.....600/=
12. June.27 purchase goods for cash.....500/=
13. June.28 sold goods for cash.....350/=

ACCOUNTING FOR LAWYERS

BY SOLICITOR KATURA

CAPITAL ACCOUNT

Dr **Cr**

Date	Particular	F	Amount	Date	Particular	F	Amount
				Jn. 1	Cash		30,000/=

CASH ACCOUNT

Dr **Cr**

Date	Particular	F	Amount	Date	Particular	F	Amount
Jn.1	Capital		30,000/=	Jn.2	purchase		1000/=
Jn.4	Sales		27,000/=	Jn.3	Purchase		22.000/=
Jn.10	Sales		12,000/=	Jn.5	Carriage		850/=
Jn.22	Sales		15,000/=	J.n15	Purchase		25,000/=
Jn.25	Sales		20,000/=	Jn.18	Rent		1,200/=
Jn.28	Sales		350/=	Jn.20	Advertisement		750/=
				Jn.26	Wages		600/=
				Jn.27	Purchase		500/=

PURCHASES ACCOUNT

Dr **Cr**

Date	Particular	F	Amount	Date	Particular	F	Amount
Jn.2	Cash		1000/=				
Jn.3	Cash		22.000/=				
J.n15	Cash		25,000/=				
Jn.27	Cash		500/=				

ACCOUNTING FOR LAWYERS

BY SOLICITOR KATURA

SALES ACCOUNT

Dr **Cr**

Date	Particular	F	Amount	Date	Particular	F	Amount
				Jn.4	Cash		27,000/=
				Jn.10	Cash		12,000/=
				Jn.22	Cash		15,000/=
				Jn.25	Cash		20,000/=
				Jn.28	Cash		350/=

CARRIAGE ACCOUNT

Dr **Cr**

Date	Particular	F	Amount	Date	Particular	F	Amount
Jn.5	Cash		850/=				

RENT ACCOUNT

Dr **Cr**

Date	Particular	F	Amount	Date	Particular	F	Amount
Jn.18	Cash		1,200/=				

ADVERTISEMENT ACCOUNT

Dr **Cr**

Date	Particular	F	Amount	Date	Particular	F	Amount
Jn.20	Cash		750/=				

WAGES ACCOUNT

Dr **Cr**

Date	Particular	F	Amount	Date	Particular	F	Amount
Jn.26	Cash		600/=				

ACCOUNTING FOR LAWYERS

BY SOLICITOR KATURA

CLASSIFICATION OF ACCOUNTS

1. **PERSONAL ACCOUNT**
2. **IMPERSONAL ACCOUNT**

1. PERSONAL ACCOUNT - Is an **account** for use by an individual for that person's own needs. It is a relative term to differentiate them from those **accounts** for corporate or business use.

Personal Accounts can best be described as the **debtors and creditors accounts** that a business keeps in its accounting books. Also note that Capital account also comes under the category of Personal Accounts.

Example of Personal Accounts:
A business has a supplier named ABC Tools, an account will be opened in its name and all the credit purchases and payments with ABC Tools will be entered in its account.
The term "**Sundry**" usually refers Small or infrequent customers/companies that are not assigned individual ledger accounts but are classified as a group. **Sundry debtors** are such small entities that owe the company money. **Sundry creditors** are such small entities that the company owes money to.

2. IMPERSONAL ACCOUNT. Any account other than a personal account, being classified as either **a real account,** in which property is recorded, or **a nominal account,** in which income, expenses and capital are recorded. **OR** Accounts which are not held in the name of the persons or are directly related to the customers or suppliers of a business such as:-

1. **Real Accounts:-** Real Accounts are the Accounts that refers to the possessions of a business. The possessions may be tangible or intangible. The possessions are the Assets of a business.

- **Examples of Real** Accounts include Building, Furnitures & Fixtures, Vehicles, Inventory, Cash etc. Normally the books of business contains tangible assets that have physical existence. However there are intangible assets as well that can appear in the books of accounts for instance Copyrights, Trademarks, Goodwill, Patents are intangible nature but a business certainly possess them.

Summary of Real Accounts Explanation

- They are the accounts that a business possess like cash, inventory, building, goodwill, copyrights.
- Real accounts appear in the balance sheet.
- Real accounts are not closed at the year fiscal year end.
- Real accounts are not income & expenses accounts
- Real accounts are also called permanent account for the reason that they are not closed like income & expenses accounts but are carried forward to the next financial year.

2. **Nominal Accounts:-** The nominal accounts are all those accounts that are in the nature of **incomes (Revenue) and expenses** of a business. These accounts are closed at the financial year end with the income & expense summary to arrive at the net profit or loss amount.
    - **Examples of Nominal Accounts** are Sales Revenue, Services revenue, Cost of Goods Sold, selling and administrative expenses, Gains & Losses accounts.

Summary of Nominal Accounts Explanation

- They are of revenues & expenses nature
- Nominal Accounts are of temporary accounts that are closed at year end with the income and expense summary or profit & loss account for for this reason they are often referred to be temporary accounts
- Nominal accounts start at the year end with zero balance (or no balance)

and ends with no balance to carry forward (as all is transferred to income summary).

TRIAL BALANCE

This is a statement of all debits and credits in a Double-entry account book, with any disagreement indicating an error. The following terms are to be understood when dealing with Trial Balance:-

1. **"Balance c/d"** is an accounting term meaning (balance carried down), it is the balance of an account at the end of an accounting period, When you total-up the debit & credit sides of an account & put the difference on the shorter side, so as to agree the totals, you mention the difference as *c/d (balance carried-down)*, if it is to be carried forward to next month or a line below in the same page.
2. **"Balance b/d"** is as an accounting term meaning (balance brought down), when you start any account with the balance from the previous month or that appearing immediately above. **Hence** b/d is followed by c/d.
3. **"Balance c/f"** is an accounting term meaning (balance carried forward), When you total-up the debit & credit sides of an account & put the difference on the shorter side, so as to agree the totals, you mention the difference as c/f (balance carried-forward), if it is to be carried forward to new books of account or next year or new page.
4. **"Balance b/f"** is an accounting term meaning (balance brought forward), When you start any account with the balance from old books of account or previous year or that appearing on the earlier page, you mention the same as b/f (balance brought-forward). **Hence** b/f is followed by c/f.

QUESTION:-

ACCOUNTING FOR LAWYERS
BY SOLICITOR KATURA

KATURA commenced business on **1st January, 2016** with **Tshs 50,000/=** as capital in cash in a given month, the following transactions occurred:-

1. January 2: Purchases goods for cash.....25,000/=
2. January 3: Sold goods for cash.....29,000/=
3. January 5: Purchases goods for cash.....20,000/=
4. January 8: Bought packing materials.....500/=
5. January 9: Paid advertising charges.....800/=
6. January 15: Sold goods for cash.....32,000/=
7. January 20: Paid Rent.....500/=
8. January 21: Purchases goods for cash.....800/=
9. January 22: Paid Wages.....600/=

Required:- To enter the above transactions in the appropriate ledgers account and extract a Trial balance as at the particular date.

CAPITAL ACCOUNT

Dr **Cr**

Date	**Particular**	**Amount**	**Date**	**Particular**	**Amount**
31st Jan	**Balance c/d**	**50,000/=**	Jan. 1	Cash	50,000/=
		50,000/=			**50,000/=**
			1st	**Balance b/d**	**50,000/=**

			Feb		

SALES ACCOUNT

Dr **Cr**

Date	**Particular**	**Amount**	**Date**	**Particular**	**Amount**
31st Jan	**Balance c/d**	**61,000/=**	Jan.4	Cash	29,000/=
			Jan.15	Cash	32,000/=
		61,000/=			**61,000/=**
			1st Feb	**Balance b/d**	**61,000/=**

CASH ACCOUNT

Dr **Cr**

Date	**Particular**	**Amount**	**Date**	**Particular**	**Amount**
Jan. 1	Capital	50,000/=	Jan. 2	Purchase	25,000/=
Jan. 3	Sales	29,000/=	Jan. 5	Purchase	20,000/=
Jan. 15	Sales	32,000/=	Jan. 8	Package Materials	500/=
			Jan. 9	Advertisement Charges	800/=
			Jan. 20	Rent	500/=
			Jan. 21	Purchase	800/=
			Jan. 22	Wages	600/=
			31st Jan	**Balance c/d**	**62,800/=**
		111,000/=			**111,000/=**
1st Feb	**Balance b/d**	**62,800/=**			

PURCHASES ACCOUNT

Dr **Cr**

Date	**Particular**	**Amount**	**Date**	**Particular**	**Amount**
Jan. 2	Cash	25,000/=	**31st**	**Balance c/d**	**45,800/=**

			Jan		
Jan. 5	Cash	20,000/=			
Jan. 21	Cash	800/=			
		45,800/=			**45,800/=**
1st Feb	**Balance b/d**	**45,800/=**			

PACKAGING MATERIALS ACCOUNT

Dr **Cr**

Date	**Particular**	**Amount**	**Date**	**Particular**	**Amount**
Jan. 8	Cash	500/=	**31st Jan**	**Balance c/d**	**500/=**
		500/=			**500/=**
1st Feb	**Balance b/d**	**500/=**			

ADVERTISEMENT CHARGES ACCOUNT

Dr **Cr**

Date	**Particular**	**Amount**	**Date**	**Particular**	**Amount**
Jan. 9	Cash	800/=	**31st Jan**	**Balance c/d**	**800/=**
		800/=			**800/=**
1st Feb	**Balance b/d**	**800/=**			

RENT ACCOUNT

Dr **Cr**

Date	**Particular**	**Amount**	**Date**	**Particular**	**Amount**
Jan. 20	Cash	500/=	**31st Jan**	**Balance c/d**	**500/=**
		500/=			**500/=**
1st Feb	**Balance b/d**	**500/=**			

WAGES ACCOUNT

Dr **Cr**

Date	Particular	Amount	Date	Particular	Amount
Jan. 22	Cash	600/=	31st Jan	**Balance c/d**	**600/=**
		600/=			**600/=**
1st Feb	**Balance b/d**	**600/=**			

KATURA ENTERPRISES TRIAL BALANCE AS AT 31st January, 2016.

S/N	NAME OF ACCOUNT	Dr	Cr
1.	CASH	62,800/=	-
2.	CAPITAL	-	50,000/=
3.	PURCHASES	45,800/=	-
4.	SALES	-	61,000/=
5.	PACKAGING MATERIALS	500/=	-
6.	ADVERTISEMENT CHARGES	800/=	-
7.	RENT	500/=	-
8.	WAGES	600/=	-
		111,000/=	**111,000/=**

PREPARATION OF FINANCIAL STATEMENT

COMPONENTS:-

1. **TRADING ACCOUNT –** This is a statement that aims at determine the Gross profit and the Gross loss.
2. **PROFIT & LOSS ACCOUNT –** This is a statement that aims at determine the net profit and net loss.
3. **BALANCE-SHEET –** This is a statement of the assets, liabilities, and

capital of a business or other organization at a particular point in time, detailing the balance of income and expenditure over the preceding period.

IMPORTANT TERMS:-

1. **Gross profit - I**s the profit a company makes after deducting the costs associated with making and selling its products.
2. **Gross Loss –** This is when your business costs or expenses exceed your total income for your business.
3. **Net-profit -** This is the excess of Gross profit over expenses.
4. **Net-loss –** This is the excess of expenses over Gross loss.

TRADING ACCOUNT

A) DETERMINATION OF GROSS-PROFIT AND GROSS-LOSS

1. Example:- Purchased for the year ending **31st December, 1990. Tshs. 3000/=** and sale for the year ending **31st December, 1990. Tshs.3800/=.**

TRADING ACCOUNT FOR ENDED 31st December, 1990

Particular	**Amount**	**Particular**	**Amount**
Purchase	3000/=	Sales	3800/=
Balance c/d (Gross-profit)	**800/=**		
	3800/=		**3800/=**

2. Example:- Purchased goods for the year ending **31st December, 1980. Tshs.3000/=**, Sales for year ending **31st December, 1980. Tshs.2200/=**.

TRADING ACCOUNT FOR ENDED 31st December, 2016.

Particular	**Amount**	**Particular**	**Amount**
Purchase	3000/=	Sales	2,200/=
		Balance c/d (Gross-loss)	**800/=**
	3,000/=		**3,000/=**

B) DETERMINATION OF NET-PROFIT AND NET-LOSS

1. Example:- Assuming the expenses above were:-

1. Transport Tshs 50
2. Rent Tshs 200
3. Other expenses Tshs 150

TRADING ACCOUNT FOR ENDED 31st December, 2016.

Particular	**Amount**	**Particular**	**Amount**
Purchase	3000/=	Sales	3800/=
Balance c/d (Gross-profit)	**800/=**		
	3800/=		**3800/=**
		Balance b/d (Gross-profit)	**800/=**
Transport	50/=		
Rent	200/=		
Other expenses	150/=		
Balance c/d (Net-profit)	**400/=**		
	800/=		**800/=**

2. Example:- Assuming the expenses above were:-

1. Transport Tshs 350/=
2. Rent Tshs 200/=
3. Other expenses Tshs 400/=

TRADING ACCOUNT FOR ENDED 31st December, 2016.

Particular	Amount		Particular	Amount
Purchase	3000/=		Sales	3800/=
Balance c/d (Gross-profit)	**800/=**			
	3800/=			**3800/=**
			Balance b/d (Gross-profit)	**800/=**
Transport	350/=			
Rent	200/=			
Other expenses	400/=			
			Balance c/d (Net-loss)	**150/=**
	950/=			**950/=**

C) DETERMINATION OF CLOSING STOCK AND OPENING STOCK.

Closing Stock (unsold Stock) - Is the amount of inventory that a business still has on hand at the end of a reporting period. This includes raw materials, work-in-process, and finished goods inventory.

The Opening Stock for the next accounting period is the same as the closing **stock** from the immediately preceding period.

TRADING ACCOUNT FOR ENDED 31st December, 2016.

Particular	Amount	Particular	Amount
Purchase	3000/=	Sales	3800/=
Unsold stock	**(100/=)**		
	2900/=		
Balance c/d (Gross-profit)	**900/=**		
	3800/=		3800/=

TRIAL BALANCE AS AT 30th June, 1982

S/N	NAME OF ACCOUNT	Dr	Cr
1.	Capital	-	5000/=
2.	Purchase	3000/=	
3.	Sale	-	3600/=
4.	Stock 1 July, 1981	500/=	
5.	Stationery	40/=	
6.	Wages	200/=	
7.	Rent	80/=	
8.	Furnitures	500/=	
9.	Debtor John	100/=	
10.	Advertisement	400/=	
11.	Cash	3780/=	
		8600/=	**8600/=**

Additional information **Closing stock is 750.**

Required:- From the Trial balance given in the example above to prepare the Trading, Profit and Loss account.

TRADING ACCOUNT FOR ENDED 30th June, 1982.

Particular	Amount	Particular	Amount
Stock 1 July, 1981	500/=	Sale	3600/=
Purchased	3000/=		
Cost of goods available for sale	**3500/=**		
Unsold Stock	(750/=)		
Cost of goods sold	**2750/=**		
Balance c/d (Gross-profit)	**850/=**		
	3600/=		**3600/=**
		Balance b/d (Gross-profit)	**850/=**
Stationery	40/=		
Wages	200/=		

Rent	80/=		
Advertisement	400/=		
Balance c/d (Net-profit)	**130/=**		
	850/=		**850/=**

D) DETERMINATION OF RETURN INWARDS AND RETURN OUTWARD

RETURNS INWARDS - Are goods returned to the selling entity by the customer, such as for warranty claims or outright returns of goods for a credit. For the customer, this results in the following accounting transaction: A debit (reduction) of accounts payable. A credit (reduction) of purchased inventory.

RETURNS OUTWARDS - Are goods returned by the customer to the supplier. For the supplier, this results in the following accounting transaction: A debit (reduction) in revenue in the amount credited back to the customer.

TRIAL BALANCE AS AT 31st December, 1995.

S/N	Names of the Account	Dr	Cr
1.	Sale		39,000/=
2.	Purchases	29,200/=	
3.	Return inwards	1500/=	
4.	Return outwards		1,200/=

Required:- From the Trial balance given in the example above to prepare the Trading, Profit and Loss account.

TRADING ACCOUNT FOR ENDED 31st December, 1995.

Particular	Amount		Particular	Amount
Purchases	29,200/=		Sale	39.000/=
Return outwards	(1,200/=)		Return inwards	(1500/=)
	28,000/=			37,500/=

Balance c/d (Gross-profit)	**9500/=**			
	37,500/=			37,500/=

CARRIAGE

Carriage - This refers to ***the cost of transporting goods*** into a business from a supplier, as well as the cost of transporting goods from a business to its customers.[14]

Carriage in Accounting categorized into two:-

1. **Carriage inwards -** This is the shipping and handling costs incurred by a company that is ***receiving goods from suppliers*****.**
2. **Carriage outwards -** This is the shipping and handling costs incurred by a company that is ***shipping goods to a customer*****.**

TRIAL BALANCE AS AT 31st December, 1995.

S/N	Names of the Account	Dr	Cr
1.	Sale		39,000/=
2.	Purchases	27,800/=	
3.	Return inwards	1500/=	
4.	Return outwards		1,200/=
5.	Carriage inwards	2000/=	

Required:- From the Trial balance given in the example above to prepare the Trading, Profit and Loss account.

Particular	Amount	Particular	Amount
Purchased	27,800/=	Sale	39.000/=
Return outwards	(1,200/=)	Return inwards	(1500/=)
	26,600/=		37,500/=

14 **Tarr, Laszlo. *The History of the Carriage*. Arco Pub. Co, 1969.**

Carriage inwards	2000/=		
	28,600/=		
Balance c/d (Gross-profit)	**8,900/=**		
	37,500/=		**37,500/=**

BALANCE-SHEET

This shows the position of the business whereby the Gross-profit or Net-profit is taken to the balance-sheet.

Terms which are incorporated to the balance-sheet are:-

1. **Fixed Assets or Tangible Assets –** These are assets that are ***purchased for long-term use and are not likely to be converted quickly into cash***, such as land, buildings, machinery, motorcars, pictures, equipment etc.[15]
2. **Current Assets or Liquid Assets -** Is any asset which can reasonably be expected to be sold, consumed, or exhausted through the normal operations of a business within the current year or operating cycle (whichever period is longer). Typical current assets include cash, cash equivalents, short-term investments, accounts receivable, stock inventory, the portion of bank prepaid liabilities which will be paid within a year, closing stock, debtors**.**[16]

LIABILITIES

This is defined as ***the business debts from outsiders*** or future sacrifices of

15 **Dyckman, Intermediate Accounting, Revised Ed. (Homewood IL: Irwin, Inc. 1992),195.**

16 **J. Downes, J.E. Goodman, "Dictionary of Finance & Investment Terms", Barons Financial Guides, 2003; and J. G. Siegel, N. Dauber & J. K. Shim, "The Vest Pocket CPA", Wiley, 2005.**

economic benefits that the entity is *obliged* to make to other entities as a result of past transactions or other *past* events,[17] the settlement of which may result in the transfer or use of assets. E.g:- Money lending institutions such as Bank, outside suppliers of goods.

CAPITAL

Capital - can refer to ***funds raised to support a particular business*** or project. **Capital** can also represent the accumulated wealth of a business, represented by its assets less liabilities. **Capital** can also mean stock or ownership in a company.

EXAMPLE OF BALANCE-SHEET

ASSETS			**CAPITAL**		
(Fixed Assets)					
Furnitures	******		**Cash introduced**	*****	
Buildings	******	******	**Net-profit**	*****	*****
(Current Assets)			**(Current Liabilities)**		
Stocks	******		**Creditors**	*****	
Cash	******	******	**Accruals**	*****	*****
		*******			******

TRIAL BALANCE

S/N	**NAME OF THE ACCOUNT**	**DR**	**CR**
1.	Sales		37,500/=
2.	Purchased	28,000/=	
3.	Rent	10,800/=	
4.	Lighting Expenses	200/=	
5.	Furnitures	12,000/=	

17 **"Definition and Recognition of the Elements of Financial Statements" (PDF). Australian Accounting Standards Board. Retrieved 31 March 2015.**

6.	Debtors	7,100/=	
7.	Creditors		5,400/=
8.	Bank	3.120/=	
9.	Cash	180/=	
10	Capital		18,500/=
		61,400/=	**61,400/=**

Stock at close is worth Tshs 3000/=, Net-profit figure of Tshs 1500/=.

Required:- Prepare the Balance sheet as at 31st December, 1985.

BALANCE-SHEET AT 31st December, 1985

ASSETS			**CAPITAL**		
(Fixed Assets)					
Furnitures		12,000/=	Cash introduced	18,500/=	
			Net-profit	1,500/=	20,000/=
(C**urrent Assets)**			(**Current Liabilities)**		
Stock	3000/=		Creditors		5,400/=
Debtors	7,100/=				
Bank	3,120/=				
Cash	180/=	13,400/=			
		25,400/=			**25,400/=**

ACCRUALS – These are items which are showing that in the business we have debit or there is a service already done or we have already received a service in the entity but not yet paid. **E.g:-** Wages and Salaries

PREPAYMENT – This is happening when service not rendered but already we have been paid for that service. **E.g:-** Rent.

DEPRECIATION – This is whereby the value of assets are going down except Land, in account there is believe that the value of Land never goes down but always goes up the more it stays or used. Depreciation is expenses.

PROVISION FOR BAD DEBT – This is whereby the debtor doesn't want to pay back money (bad debt).

GOODWILL – This is the value of asset and this is considered before posting fixed assets.

EXERCISE. 1

From the following Trial Balance of Khatibu store owner, prepare a Trading account, Profit and Loss account and Balance-sheet taking into consideration the following adjusment:-

TRIAL BALANCE OF 31st December, 2016

S/N	NAME OF THE ACCOUNT	Dr	Cr
1.	Sales		400,000/=
2.	Purchases	350,000/=	
3.	Sales returned	5,000/=	
4.	Purchases returned		6,200/=
5.	Opening Stock at 1st January, 1997	100,000/=	
6.	Provision for bad debts	800/=	
7.	Wages & Salaries	30,000/=	
8.	Rate	6,000/=	
9.	Telephone	1,000/=	
10.	Shop fitting at cost	40,000/=	
11.	Van at cost	30,000/=	
12.	Debtors & Creditors	9,800/=	7000/=
13.	Bad debts	200/=	
14.	Capital		179,000/=
15.	Bank balance	3000/=	

16.	Drawings	18,000/=	
		593,000/=	**593,000/=**

Adjustment:-

1. Closing Stock at **31st December, 1997 Tshs 120,000/=**
2. Accrual Wages **5000/=**
3. Rate prepaid **Tshs 500/=**
4. The provision for Bad debt to be increased to **10%** of debtors.
5. Telephone Accruals outstanding **Tshs 220/=**
6. Depreciate shop fitting at 10% per annum and Van at **20%** per annum on cost.

Answer:-

TRADING, PROFIT AND LOSS ACCOUNT AT 31st December, 1997

Particulars	**Amount**	**Particulars**	**Amount**
Opening Stock	100,000/=	Sales	400,000/=
Purchases	350,000/=	Sales returned	(5,000/=)
Purchased returned	(6200/=)		**395,000/=**
Cost of goods available for sale	**443,800/=**		
Closing Stock	(120,000/=)		
Cost of goods sold	**323,800/=**		
Gross-profit c/d	**71,200/=**		
	395,000/=		**395,000/=**
		Gross-profit b/d	**71,200/=**
Wages & Salaries	30,000/=		
Accrual Wages	5000/=		

	35,000/=		
Rate	6,000/=		
Rate prepaid	(500/=) **5,500/=**		
Telephone	1,000/=		
Telephone accruals	220/= **1,220/=**		
Bad debts	200/=		
Shop fitting at cost	4,000/=		
Van at cost	6,000/=		
Provision for bad debts	180/= **52,100/=**		
Net-profit	**19,100/=**		
	71,200/=		**71,200/=**

Calculation for Provision for bad debt:-

Debtors

Provision for Bad debt to be increased to 10% of debtors. **9,800 x 10% =** 980/=

The provision for bad debts (800/=)

180/=

KHATIBU BALANCE-SHEET AT 31st December, 1985

ASSETS			**CAPITAL**		
(Fixed Assets)					
Shop fitting at cost	40,000/=		Capital	179,000/=	
	(4000/=)	**3,600/=**	Net-profit	19,100/=	
Van at cost	30,000/=		Drawings	(18,000)	**180,100**
	(6000/=)	**24,000/=**			
(Current			**(Current**		

Assets)			**Liabilities)**		
Closing stock		120,000	Creditors	7000/=	
Debtors	9,800/=		Expenses Owing	5,220/=	**12,220/=**
	(980/=)	**8,820/=**			
Prepaid		500/=			
Bank balance		3000/=			
		192,320			**192,320**

CASH BOOK

A Cash Book – This is a financial journal that contains all cash receipts and payments, including bank deposits and withdrawals. Entries in the cash book are then posted into the general ledger.

Types of Cash Books

1. Two Column cash book
2. Three Column cash book.

TWO/DOUBLE COLUMN CASH BOOK - This is one which consists of two separate columns on the debit side as well as credit side for recording cash and discount.

CASH

1995				**1995**		
May. 1	**Balance b/d**	**116/=**		May. 4	Njogore	88/=
May. 6	Morate	202/=		May. 9	Mwangingi	156/=
May. 13	Kute	561/=		May. 20	Wages	185/=
May. 26	Kagunda	166/=		May. 30	Rent	200/=
				May. 31	**Balance c/d**	**416/=**
		1045/=				**1045/=**
June.1	**Balance b/d**	**416/=**				

BANK

1995				**1995**		
May. 1	**Balance b/d**	**3795/=**		May. 5	Mungai	215/=
May. 3	Aziz	500/=		May. 11	Bwajuma	300/=
May. 8	Githae	168/=		May. 22	Mugu	1165/=
May. 18	Opondo	622/=		**May. 31**	**Balance c/d**	**3405/=**
		5085/=				**5085/=**
June.1	**Balance b/d**	**3405/=**				

CASH BOOK

Date	**Particular**	**Cash**	**Bank**		**Date**	**Particular**	**Cash**	**Bank**
May. 1	**Balance b/d**	**116/=**	**3795/=**		May. 4	Njogore	88/=	
May. 3	Aziz		500/=		May. 5	Mungai		215/=
May. 6	Morate	202/=			May. 9	Mwangingi	156/=	
May. 8	Githae		168/=		May. 11	Bwajuma		300/=
May. 13	Kute	561/=			May. 20	Wages	185/=	
May. 18	Opondo		622/=		May. 22	Mugu		1165/=
May. 26	Kagunda	166/=			May. 30	Rent	200/=	
					May. 31	**Balance c/d**	**416/=**	**3405/=**
		1045/=	**5085/=**				**1045/=**	**5085/=**

Example :- The following transactions are written up in the form of Cash Book. The folio columns are also filled in as though double-entry had been completed to the other ledgers.

1995

ACCOUNTING FOR LAWYERS

BY SOLICITOR KATURA

September. 1. Balance brought-forward from cost Month Cash.....200/= 2. Bank.....9,400/=

3. Received cheque from M. Mbotto.....1,150/=

4. Cash sales.....820/=

6. Paid Rent by Cash.....350/=

7. Baked Tshs. 500/= of the cash held by firm.....500/=

15. Cash sales paid directly into the Bank.....400/=

23. Paid cheque to M. Mugoiri.....2,770/=

29. Withdraw cash from Bank.....1,200/=

30. Paid wages in cash.....1,180/=

CASH BOOK

Date	**Particular**	**Cash**	**Bank**	**Date**	**Particular**	**Cash**	**Bank**
Sept. 1.	**Balance b/d**	**200/=**	**9,400/=**	Sept.6.	Rent	350/=	
3.	M. Mbotto		1,150/=	7.	Cash	500/=	
4.	Sales	820/=		23.	M. Mugoiri		2,770/=
7.	Cash		500/=	29.	Cash		1,200/=
15.	Sales		400/=	30.	Wages	1,180/=	
29.	Bank	1,200/=		**Sept.31**	**Balance c/d**	**190/=**	**7,480/=**
		2,220/=	**11,450/=**			**2,220/=**	**11,450/=**
Oct.1	**Balance b/d**	**190/=**	**7,480/=**				

CAPITAL AND RECURRENT EXPENDITURE

Normally in the business there are two expenditures:-

1. **Capital expenditure Or Capital expenses -** Is an expense where the benefit continues over a long period, rather than being exhausted in a short period. **E.g:-** Building Hospital, or Schools.
2. **Recurrent expenditure –** These are day to day or ongoing expenditures of an organization, such as paying salaries and traveling expenses, communication, stationeries. Etc.

PETTY CASH AND THE IMPREST SYSTEM

Petty Cash Accounting.

Petty cash is a small amount of cash that is kept on the company premises to pay for minor cash needs. **Examples** of these payments are office supplies, cards, flowers, and so forth. Petty cash is stored in a petty cash drawer or box near where it is most needed. There may be several petty cash locations in a larger business, probably one per building or even one per department. A separate accounting system is used to track petty cash transactions.

The Petty Cash System.

To set up a petty cash fund, the cashier creates a check in the amount of the funding assigned to a particular petty cash fund (usually a few hundred dollars). Alternatively, the cashier could simply count out the cash for the petty cash fund, if there are enough bills and coins on the premises. The initial petty cash journal entry is a debit to the petty cash account and a credit to the cash account.

The petty cash custodian then disburses petty cash from the fund in exchange for receipts related to whatever the expense may be. There is no journal entry at this point; instead, the cash balance in the petty cash fund continues to

decline, while the number of receipts continues to increase. The total of the receipts and remaining cash should equal the initial amount of petty cash funding at all times. However, recordation errors and theft may result in a variance from the initial funding amount.

Question:-

Record the following transaction in the petty cash book, balance it post to the appropriate ledger account and show the amount to be reimbursed to the petty cashier at the end of the week:-

January. 1. Received from cashier.....300/= 2. Paid bus fare.....35/=

3. Bought postage stamps.....50/=

4. Bought sundry stationeries.....25/=

5. Paid wages.....30/=

6. Paid Tax fare.....50/=

7. Paid postage and telephone.....30/=

PETTY CASH BOOK

Receipt	**F**	**Date**	**Details**	**v. n**	**Total**	**Travel**	**Postage**	**Wages**	**Stationeries**
300/=		Jan.1.	Cash						
		2.	Bus fare		35/=	35/=			
		3.	Postage Stamps		50/=		50/=		
		4.	Sundry Stationery		25/=				25/=
		5.	Wages		30/=			30/=	
		6.	Tax fare		50/=	50/=			

		7.	Postage & phone		30/=		30/=		
					220/=	**85/=**	**80/=**	**30/=**	**25/=**
			Balance c/d		**80/=**				
300/=					**300/=**				
		Jan. 8	**Balance b/d**		**80/=**				

PARTNERSHIP ACCOUNT

When two or more individuals engage in an enterprise as co-owners, the organization is known as a partnership. This form of organization is popular among personal service enterprises, as well as in the legal and public accounting professions. The important features of and accounting procedures for partnerships are discussed and illustrated below.

PROFIT AND LOSS SHARING RATIO

When a new partner is admitted, he should be given a portion of the profit of the firm. As the incoming partner is entitled to get a profit share, the profit share of all or some of the old partners will be reduced.

The profit shares of all the old partners will be reduced, if all of them make a sacrifice. What the old partners sacrifice, is in favour of the new partner. Thus, PROFIT SHARING RATIO should necessarily be changed when a new partner is admitted.

The ratio at which the profits should be divided among the old partners and the new partners is called the NEW PROFIT SHARING RATIO. After the admission of a new partner into the firm, NEW PROFIT SHARING RATIO should be found out, without which the profit cannot be divided among partners, including the new

partner.

FOR EXAMPLE:- Supposed the capitals were Juma Tshs 2000/= and Bura Tshs 1000/=, they would share the profit in the ratio of **2/3 to 1/3** even though the work to be done by each partner is similar.

PROFIT & LOSS SHARING RATIO ACCOUNT

YEAR	**1**	**2**	**3**	**4**	**5**	**TOTAL**
Net-profit	1,800/=	2,400/=	3,000/=	3,000/=	3,600/=	**13,800/=**
Juma **2/3**	1,200/=	1,600/=	2,000/=	2,000/=	2,400/=	**9,200/=**
Bura **1/3**	600/=	800/=	1,000/=	1,200/=	1,200/=	**4,600/=**

INTEREST ON CAPITAL

This is an expense to the firm and is debited to the profit and loss appropriation account. Interest is payable to the partners and hence, the partner's capital account is credited with the amount of interest.

INTEREST ON DRAWINGS.

This is the amount withdrawn by the partners for their personal use out of the firm is known as drawings. On these drawings, the partnership agreement may provide for charging interest. Drawings may be against profits or against capital.

FOR EXAMPLE:- Supposed Juma and Bure have decided to charge interest on drawings at **5% per-annum** end of their year was 30th December. The following Drawings are made:-

JUMA DRAWINGS

1st January - Tshs 100/ = 5/100 X 100 = 5 X 12/12 = 5

1st March - Tshs 240/ = 5/100 X 240 = 12 X 10/12 = 10

1st May - Tshs 120/ = 5/100 X 120 = 6 X 8/12 = 4

1st July - Tshs 240/ = 5/100 X 240 = 12 X 6/12 = 6

1st October - Tshs 80/ = 5/100 X 80 = 4 X 3/12 = 1

Total amount of the interest

26

BURA DRAWINGS

1st January - Tshs 60/ = 5/100 X 60 = 3 X 12/12 = 3

1st August - Tshs 480/ = 5/100 X 480 = 24 X 5/12 = 10

1st December - Tshs 240/ = 5/100 X 240 = 12 X 1/12 = 1

Total amount of the interest

14

PERFORMANCE RELATED PAYMENTS TO PARTNERS

For-example:- Tango and Charles have been in partnership for one year sharing profit and loss in the ratio of **3/5 for Tango** and **2/5 for Charles.** They are entitled to **5% per-annum** contest on capital where Tango having the capital of **Tshs 2000/=** and Charles **Tshs 6000/=** of the capital, and Charles is to have the salary of **Tshs 500/=** from the firm.

They are charged interest on drawings. Tango being charged **Tshs 50/=** and

Charles **Tshs 100/=.** The profit before any distribution of to the partners amounted to **Tshs 5000/=** for the year ended at **31st December 1997.**

PARTNERSHIP ACCOUNT FOR TANGO AND CHARLES

	Expenses	**Income**	**Total**
Net-profit			5,000/=
Add: Interest on drawings:-			
Tango		50/=	
Charles		100/=	150/=
Income			**5,150/=**
Interest on capital:-			
Tango 2,000 x 5%	100/=		
Charles 6,000 x 5%	300/=		
Salary	500/=		(900/=)
Net profit after expenses			**4,250/=**
Balance on profit:-			
Tango 3/5 x 4,250/=	**2,550/=**		
Charles 2/5 x 4,250/=	**1,700/=**		

PARTNER'S ACCOUNT

	Tango	**Charles**
Balance on profit	2,550/=	1,700/=
Salaries		500/=
Add: Interest on capital	100/=	300/=
	2,650/=	**2,500/=**
Less: Interest on drawings	50/=	100/=
	2,600/=	**2,400/=**

FOR-EXAMPLE:- Rajabu and Yahya are partners sharing profit and loss in the ratio of 3:2. Their balance-sheet was as follows:-

BALANCE-SHEET OF RAJABU & YAHYA AS 1.1.1989.

FIXED ASSETS			**CAPITAL**		
Buildings	20,000/=		Rajabu	36,000/=	
Machinery	18,000/=	**38,000/=**	Yahaya	27,000/=	**63,000/=**
CURRENT ASSETS			**LIABILITIES**		
Stocks	7,000/=		Creditors		9,000/=
Debtors	24,000/=				
Cash at Bank	3,000/=	**34,000/=**			
		72,000/=			**72,000/=**

Additional Information:- At the time of admission of SHANI, the assets and liabilities were revaluated as follows:-

1. Provision for a doubtful debt on debtors at **Tshs 2,400/=.**
2. Building and Machinery were revaluated at **Tshs 22,250/= and Tshs 20,000/=** respectively.
3. Creditors were paid at **Tshs 8,000/=** in full settlement.

Required:- To prepare revaluated account and to prepare new balance-sheet.

REVALUATION ACCOUNT

			FIXED ASSETS		
Provision for doubtful debt		2,400/=	Building	2,250/=	
Surplus:-			Machinery	2,000/=	**4,250/=**
Rajabu Capital	X 3/5	1,710/=	Creditors		1,000/=
Yahya Capital	X 2/5	1,140/=			
		5,250/=			**5,250/=**

NEW BALANCE-SHEET OF RAJABU & YAHYA AS 1.1.1989.

FIXED ASSETS			**CAPITALS**		

Building	22,250/=		Rajabu	36,000/=	
Machinery	20,000/=	**42,250/=**	Surplus	1,710/=	**37,710/=**
CURRENT ASSETS			Yahaya	27,000/=	
Stocks		7,000/=	Surplus	1,140/=	**28,140/=**
Debtors	24,000/=		**LIABILITIES**		
Doubtful debt	(2,400/=)	**21,600/=**	Creditors		8,000/=
Cash		3,000/=			
		73,850/=			**73,850/=**

ACCOUNT ERRORS

Accounting errors can occur in double entry bookkeeping for a number of reasons. Accounting errors are not the same as fraud, errors happen unintentionally, whereas fraud is a deliberate and intentional attempt to falsify the bookkeeping entries.

An accounting error can cause the trial balance not to balance, which is easier to spot, or the error can be such that the trial balance will still balance due to compensating bookkeeping entries, which is more difficult to identify.

TYPES OF ERRORS

1. Errors which do not affect the Trial balance.
2. Errors which do affect the Trial balance.

ERRORS WHICH DO NOT AFFECT THE TRIAL BALANCE

Accounting errors that do not affect the trial balance fall into one of five

categories as follows:-

1. ERRORS OF OMISSION IN ACCOUNTING

This occurs when a bookkeeping entry has been completely omitted from the accounting records.

For-example:- If we sold goods to Juma on Tshs 500/= but we did not enter it in neither Sales Account nor Juma personal Account at the end the Trial balance is going to balance because we have omitted from both sides.

JOURNAL ENTRY

ACCOUNT	DEBIT	CREDIT
Juma	500/=	
Sales		500/=

2. AN ACCOUNTING ERROR OF COMMISSION

This occurs when the correct item is entered to the correct type of account but the wrong account.

For example:- A purchase of goods from Abdallah M. Abdallah account was entered in error in the Abdallah B. Abdallah account.

JOURNAL ENTRY

ACCOUNT	DEBIT	CREDIT
Abdallah M. Abdallah	3000/=	
Abdallah B. Abdallah		3000/=

3. AN ERROR OF PRINCIPLE IN ACCOUNTING

This occurs when the bookkeeping entry is made to the wrong type of account.

For example:- if 1,000 sale is credited to the sundry expenses account instead of the sales account,

JOURNAL ENTRY

ACCOUNT	DEBIT	CREDIT
Sundry expenses	1000/=	
Sales		1000/=

4. A COMPENSATING ERROR

This occurs when two or more errors cancel each other out.

For example:- if the fixed assets account is incorrectly totaled and understated by 600/=, and the rent account is incorrectly totaled and overstated by 600/=,

JOURNAL ENTRY

ACCOUNT	DEBIT	CREDIT
Fixed assets	600/=	
Rent		600/=

5. AN ERROR OF ORIGINAL ENTRY

This occurs when incorrect amount is posted to the correct accounts. A particular example of an error of original entry is a transposition error where the numbers are not entered in the correct order.

For example:- if cash paid to a supplier of 2,140 was posted as 2,410 then the correcting entry of 270 would be.

JOURNAL ENTRY

ACCOUNT	DEBIT	CREDIT
Cash	270/=	
Account payable		270/=

Another example:- A Sale of Tshs 830/= to Jabiri Katura was entered in the book as Tshs 380/= then the correcting entry would be 450/=.

JOURNAL ENTRY

ACCOUNT	DEBIT	CREDIT
Jabiri Katura	450/=	
Sale		450/=

BANK RECONCILIATION

This is a process that explains the difference on a specified date between the bank balance shown in an organization's bank statement, as supplied by the bank, and the corresponding amount shown in the organization's own accounting records.

REASONS FOR BANK RECONCILIATION:-

1. **The cheque returned or dishonored –** This is whereby the cheque is received by the business and lodged (presented) to the bank but later ***discovered by the bank to have some irregularity***, the bank will not accept the cheque. This dishonoured cheque would first be recorded by the bank. Dishonoured cheques will be found on the payment side of the bank statement but not in cashbook of the business.

2. **The bank charges -** These represent ***payments of the business for some services provided by the bank***. These payments would

automatically be withdrawn from the business account by the bank so would first be on the bank's records. Bank Charges would be found on the payment side of the bank statement but not in the cash book.

3. **Errors in bank statement**. Errors or omissions by the bank can lead to a difference between the balance as per bank statement and the balance as per cash book. For instance, bank may incorrectly record the deposits or withdrawals of another account into the company's bank account.

4. **Direct Payments Or Direct Credits Or Direct Deposits –** These are ***amounts deposited directly by someone into an account of the company without notification to the accountant***. The payer rather than the payee in this case initiate the deposit. Direct Credits are useful where regular receipts are expected from known parties (such as rent, interest on investment, royalties, etc) who can deposit the money without the involvement of the payee. The deposit may be made through cash, cheque or a fund transfer.
   - **For-example:-** KATURA & Co. LTD receives rent amounting to $1000 on its leased property via direct credit into its bank account on 30th December, 2010. The Company has not recorded the rent received in its books.

5. **Direct Transfer Or Direct Debit -** This is ***an instruction to the bank to transfer funds to another account*** on a recurring (repeatedly) basis. The payment is initiated by the payee himself although the account in which the funds will be transferred needs to be first authorized by the payer. Direct Debits are useful where regular payments are to be made to certain parties such as in payment of credit card bills, lease rentals, interest on bank loan, etc.
   - **For-example:-** KATURA & Co. LTD pays office rent amounting to $1000 via direct debit on 30th December, 2010. The Company has not recorded the rent paid in its books.

6. **Standing Order -** This is an ***instruction to the bank to transfer funds of a specific amount to another account on a specific date*** on a recurring basis. It is very similar to a direct debit except that the amount and date of payment cannot be varied. The payment is initiated by the payee himself although the account in which the funds will be transferred needs to be first authorized by the payer. Standing orders are useful where regular payments of fixed amounts are to be made to certain parties such as the payment of mortgage rent and loan installments.
    - **For-example:-** KATURA & Co LTD has made a standing order to its bank to transfer an amount of $5000 on the last day of the month as security charges to a security company. On 31 December 2010, the bank statement shows a balance of $20,000 whereas the cash book balance is $25,000. The difference represents the amount of payment through standing order not yet recorded by KATURA Co. LTD.

7. **Unpresented cheques -** These represent ***cheques that have been issued by an entity to a customer or another third party but which have not presented to the bank*** by the reconciliation date. Entity records the payment in its cash book as soon as the cheque is issued to the person but the bank records the transaction when it receives the cheque. This causes a timing difference in the recording of the payment.
    - **For-example:-** KATURA & Co LTD purchases goods worth $2000 and writes a cheque of the same amount in favor of the supplier on 28 December 2010. The supplier however does not present the cheque until 3 January 2011. Therefore, $2000 of unpresented cheques should appear in the bank reconciliation on 31 December 2010 because the bank had not accounted for the transaction by that date even though ABC & Co. had recorded the payment in its cash book on the date of payment.

8. **Uncredited cheques –** This is the ***cheque which have been issued by the entity to the supplier or another third party but the entity not recorded the payment in its cash book*** as soon as it was issued due to different reasons, either forgotten or misplaced, while the Bank recorded the transaction when it received the cheque.

BANK RECONCILIATION METHODS

METHOD.1

Balance in hand as per cash-book			
	****		
Add:	Unpresented cheque	****	
	Credit transfer	****	*****
Less:	Bank charges		****
	Bank lodgment not yet entered in bank statement		****
	*****		
Balance in hand as per cash-book			******

METHOD.1

Balance in hand as per bank statement			
	****		
Add:	Bank charges		****
	Uncredited cheque		****
	*****		
Less:	Unpresented cheque	****	
	Credit transfer	****	*****
Balance in hand as per bank statement			
	******		

Example:-

On 31st January, 2009 a company cash-book shown a credit balance of 550/= on its current account which did not agree with bank statement balance while performing reconciliation. The following items were identified:-

1. Bank charges .....100/=
2. Transfer for debit account to current account.....700/=
3. Unpresented cheque in bank statement outstanding elodgment.....200/=
4. Bank in error debited the company account with cheque.....300/=

Required:- To show the original balance on the bank statement, find out the original balance of bank statement and first we need to work out the adjusted current cash book.

CASH BOOK.

METHOD.1

Balance in hand as per cash-book			
550/=			
Add:	Unpresented cheque	200/=	
	Credit transfer	700/=	
900/=			
1450/=			
Less:	Bank charges		100/=
	Bank in error		300/=

(400)

Balance in hand as per cash-book

1050/=

BANK STATEMENT.

METHOD.2

Balance in hand as per cash-book			
1050/=			
Add:	Bank charges	100/=	
	Bank in error	300/=	
400/=			
1450/=			
Less:	Unpresented cheque	200/=	
	Credit transfer	700/=	
(900)			
Balance in hand as per cash-book			550/=

THANK YOU

NO ONE IS PERFECT EXCEPT ALLAH.