Branches of accounting

1. Financial
2. Cost
3. Managerial
4. Auditing
5. Taxation
6. Forewic
7. Public
8. Environmental
9. Human resource
10. Accounting education

Accounting equation

Every business transaction has two aspects;

- Debited
- Credited

Financial accounting is based upon accounting equation. In case a firm is to be set up and start trading it.

The resources supplied by the owner to the business is called capital or equity

A business can borrow resources from other persons other than the owner. The sources are called liabilities

Resources owned by the business are called assets

\[
\text{Assets} = \text{liabilities} = \text{capital}
\]

\[
\text{Capital} = \text{A} - \text{L (assets} - \text{Liabilities)}
\]

\[
\text{Liabilities} = \text{Assets} - \text{Capital}
\]

Roles of accounting equation

1. Assets – if there is an increase in assets we shall debit. The increase is debited and when there is decrease we credit the asset account
2. Liabilities – when it increases we credit when there is a decrease we debit
3. Capital – when owners equity is decreased by the amount of revenue expenses.
4. Income or profit – the owners equity is increased by the amount of revenue income.
E. Philips 00158 SL – 02 120
TOTALS 1724

Totals to be transferred to sales a/c in the general ledger

Returns outwards day book

<table>
<thead>
<tr>
<th>DETAILS</th>
<th>CREDIT NOTE NO.</th>
<th>L.F</th>
<th>KSHS</th>
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<tbody>
<tr>
<td>N. Norman</td>
<td>0061</td>
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<td>N. Senior</td>
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<td>C. Denies</td>
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</table>

Totals to be transferred to return outwards a/c in the GL

Returns Inwards day book

<table>
<thead>
<tr>
<th>DETAILS</th>
<th>DEBIT NOTE NO.</th>
<th>L.F</th>
<th>KSHS</th>
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<tbody>
<tr>
<td>E. Philips</td>
<td>0015</td>
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<td>18</td>
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<tr>
<td>Thomas</td>
<td>0018</td>
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<td>Philips</td>
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<td>Rigby</td>
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<td>97</td>
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Totals to be transferred to return inwards a/c in the GL

M. Norman a/c

<table>
<thead>
<tr>
<th>DETAILS</th>
<th>KSHS</th>
<th>DATE</th>
<th>DETAILS</th>
<th>KSHS</th>
</tr>
</thead>
<tbody>
<tr>
<td>R/Outwards a/c</td>
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<td>purchases</td>
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<tr>
<td>Bal c/d</td>
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<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Bal b/d</td>
<td>470</td>
</tr>
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</table>

J. Cook a/c

<table>
<thead>
<tr>
<th>DETAILS</th>
<th>KSHS</th>
<th>DATE</th>
<th>DETAIL</th>
<th>KSHS</th>
</tr>
</thead>
<tbody>
<tr>
<td>R/Outward</td>
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<td>Purchases</td>
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<tr>
<td>Bal c/d</td>
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Current liabilities

Creditors                             24,870
WC = C.A – C.L =                                     111,166
Net assets =                                     237,272
Financial by                                     210,516
Capital                                           64,076
+ Net Profit                                     (37,320)
(-) drawings                                     237,272

Net liabilities

Ex 28.10a


Sales                                           127,245
(-) returns                                       (3,486)
Net sales                                         123,759
Loss cost
Open stock                                     7,940
(=) purchases                           61,420
(=) carriage inwards                                      61,199
(-) returns                                       (1,356)
(-) closing stock                                   (6805)

Gross profit                                     62,560
Add other income                                62
Less Expense                                     62,622
Discount allowed                                   2,480
Carriage outwards                                 3,210
Rate & insurance                                  3,670
(-) rent prepaid                                  (600)
Wages & salaries                                 39,200
Add accruals                                     3,500
General office expenses                         319
= owing office expense                           335
Dep. Of fixtures & fittings                           190
Dep. Of van                                       1,400
Increase in bad debts                              110
Net profit                                        3,927
### Sales ledger / debtors Control A/C

<table>
<thead>
<tr>
<th>DETAILS</th>
<th>KSHS</th>
<th>DATE</th>
<th>DETAILS</th>
<th>KSHS</th>
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</thead>
<tbody>
<tr>
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<td>Xxxx</td>
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<td>Bal b/d</td>
<td>Xxxx</td>
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<tr>
<td>Credit sales</td>
<td>Xxxx</td>
<td></td>
<td>Return inwards</td>
<td>Xxxx</td>
</tr>
<tr>
<td>B/R &amp; dishonoured</td>
<td>Xxxx</td>
<td></td>
<td>Discount allowed</td>
<td>Xxxx</td>
</tr>
<tr>
<td>Interest on overdue a/c</td>
<td>Xxxx</td>
<td></td>
<td>Cash received from debtors</td>
<td>Xxxx</td>
</tr>
<tr>
<td>Dishonoured cheques</td>
<td>Xxxx</td>
<td></td>
<td>Cheques received from debtors</td>
<td>Xxxx</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bal c/d</td>
<td>Xxxx</td>
<td>xxxx</td>
<td>Bal c/d</td>
<td>Xxxx</td>
</tr>
</tbody>
</table>

### Accounting for fixed assets

#### Depreciation in accounting

- Reduction invalid of a fixed assets in the cost of usage.

#### Fixed assets

- These assets of material value which are of long life and used.
- Fixed assets do not last forever. These come a time when they can be disposed of or written off.
- Depreciation is part of the original cost of a fixed assets consumed during its period of use in view by an organization.
- It is an expense to the business and therefore charged to the profit and loss account.
  - NB: the difference e in the cost price and residual value is called *Depreciation or amortisation & depletion*.

#### Reasons for providing depreciation of fixed assets

- To reflect the loss and value of the fixed assets
- To speed spared of the fixed assets based on the useful life
- To provide funds for future replacements of the assets

#### Causes of depreciation

- Wear and tear
- Time
- Erosion, rust and decay
- Economic factors
- Depletion
- Obsolescence’s
Methods of calculating depreciation

1. Straight line / fixed installment methods
   \[ \text{Dep} = \frac{\text{cost} - \text{scrap value}}{\text{life}} \]

2. Reducing balance / diminishing balance method / written down value (WDV) / double declining method depreciation is based on a fixed percentage based on a reducing balance from the current value
   
   Cost Kshs. 20,000
   Rate = 5% p.a
   Life = 5 years

   \[ (-)\text{Dep} = \frac{5}{100} \times 20,000 = 10,000 \]
   \[ = 19,000 \]
   
   \[ (-)\text{Dep} = \frac{5}{100} \times 19,000 \]

3. Revaluation method – assets is valued annually and the difference between the opening and closing balance is the depreciation

4. Sum of the digits method

5. Machine hour rate method

6. Unit of output method

Cost = 23,000
Life 4 years
Trade in allowance / step value Ksh. 4,000

a). purpose depreciation using a straight line method

\[ \text{Dep} = \frac{\text{cost} - \text{scrap value}}{\text{life}} \]
\[ = \frac{23000 - 4,000}{4} \]
\[ = \frac{19,000}{4} \]
\[ = 4,750 \]
## Stores ledger card – FIFO

<table>
<thead>
<tr>
<th>PURCHASES</th>
<th>ISSUES / SALES</th>
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<td>UNITS</td>
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<tr>
<td>Issues /sales</td>
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<td>Purchases</td>
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<td>Purchase</td>
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<td>Sales</td>
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<tr>
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12 x ½ = 06

<table>
<thead>
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<tr>
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<tr>
<td>Sales</td>
<td>-</td>
</tr>
<tr>
<td>sales</td>
<td>-</td>
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</tbody>
</table>

Valuation of closing stock

100 @ 18 = 1,800

Trading Account FIFO

Sales - 17,200
Less C.O.S
Open stock – 400 x 18 = 7,200
+ purchases 5,030 12,230
(-) closing stock (14,500) 10,780
Gross profit 6,420