Difference between Book-Keeping and Accounting

Book-keeping means the recording of transactions of a business in methodical manner so that information relating to them may be quickly obtained. It intends to bemechanical and repetitive.

Accounting includes the design of accounting system, preparation of financial statements, and development of budgets, cost studies, audits, income tax work, and computer applications to accounting processes and the analysis and interpretation of accounting information as an aid to making business decision.

Types of Business Firms

- Proprietorship—a business owned by one person
- Partnership—co-owned by two or more persons
- Limited Companies—owned by investors called stockholders (The business—not the owners—are responsible for the company's obligations.)

1.2 Users of Accounting Information

Accounting information is produced in form of financial statement. These financial statements provide information about an entity financial position, performance and changes in financial position.
Financial position of a firm is what the resources the business has and how much belongs to the owners and others.
The financial performance reflects how the business has performed, whether it has made profits or losses.
Changes in financial positions determine whether the resources have increased or reduced.
The users of accounting information have an interest in the existence of the firm. Therefore the information contained in the financial statements will affect the decision making process.

The following are the users of accounting information:

i. *Owners:* They have invested in the business and examples of such owners include sole traders, partners (partnerships) and shareholders (company). They would like to have information on the financial performance, financial position and changes in financial position. This information will enable them to assess how the managers of the business are performing whether the business is profitable or not and whether to make drawings or put in additional capital.
ii. *Customers:* Customers rely on the business for goods and services. They would like to know how the business is performing and its financial position. This information would enable them to assess whether they can rely on the firm for future supplies.

iii. *Managers:* The managers are involved in the day-to-day activities of the business. They would like to have information on the financial position, performance andchanges in financial position so as to determine whether the business is operating as per the plans. In case the plan is not achieved then the managers come up with appropriate measures (controls) to ensure that the set plans are met.

iv. *Lenders:* Lenders are long term providers of capital to the firm. They have provided loans and others sources of capital to the business. Such lenders include banks and other financial institutions. They would like to have information on the financial performance and position of the business to assess whether the business is profitable enough to pay the interest on loans and whether it has enough resources to pay back the principal amount when it is due.

v. *Government and its agencies:* The Government is interested in the financial performance of the business to be able to assess the tax to be collected in the case there are any profits made by the business. The other government agencies areinterested with the financial position and performance of the business to be able to come with National Statistics. This statistics measure the average performance of the economy.

vi. *Financial Analyst and Advisors:* Financial analyst and advisors interpret the financial information. Examples include stockbrokers who advise investors on shares to buy in the stock market and other professional consultants like accountants. They are interested with the financial position and performance of the firm so that they can advise their clients on how much is the value their investment i.e. whether it is profitable or not and what is the value. Others advisors would include the press who will then pass the information to other relevant users.

vii. *Employees:* They work for the business/entity. They would like to have information on the financial position and performance so as to make decisions on their terms of employment. This information would be important as they can use it to negotiate for better terms including salaries, training and other benefits.

They can also use it to assess whether the firm is financially sound and therefore their jobs are secure.

viii. *Members of the Public:* Institutions and other welfare associations and groups represent the public. They are interested with the financial performance of the firm. This information will be important for them to assess how socially responsible is the firm. This responsibility is in form the employment opportunities the firm offers, charitable activities and the effect of firm's activities on the environment.

ix. *Suppliers* They supply goods or services to the firm. The supplies are either for cash or credit. The suppliers would like to have information on the financial performance and position so as to assess whether the business would be able to pay up for the goods and services provided as and when the payment falls due.

TOPIC TWO: RECORDING BUSINESS TRANSACTIONS

Learning Objectives

Upon Completion of this topic you should be able to:

- Define the meaning of double entry book-keeping system
- Define assets, capital and liabilities
- Prepare simple balance sheet
- Explain what is meant by` double entry`
- Explain the debit and credit principles
- Record assets capital and liabilities in accounts
- Extract the ledger balances into trail balances
- Identify the purpose of trail balances

2.1 Introduction

A business can be set up in two ways-

i) Owner supplying all the resources

ii) Owner supplying some of the resources and the rest being supplied by outside parties.

The two cases bring out the *accounting equation* also called book- keeping equation

Case one: owner supplying all the resources

In this case we say that-

Resources in the business = Resources supplied by the owner…………… **(i)**

Resources in business are called *assets* and resources supplied by the owner are called *capital*

Therefore equation (i) can be re -written as-ASSETS

= CAPITAL

Case two: resources supplied by owner and outside parties

In this case we say that-

Resources in business = Resources supplied by the owner + Resources supplied by out- side parties… (ii)

The new term in the equation is *resources supplied by out side parties*, in accounting,we call them *liabilities.*

Therefore equation (ii) can be re-written as-

“ 30 Paid the month’s wages by cash Sh.117.
“ 31 The proprietor took cash for himself Sh.44.

Solution

Bank a/c

2002		Sh.	2002		Sh.
1/5	Capital	2,000	3/5	Furn& fitting	150
			24/5	Motor vehicle	300
21/5	Rent	5	31/5	Bal c/f	1,555
		2,005			2,005

Capital a/c

31/5	Bal c/f	2,000	1/5	Bank	2,000

Purchases a/c

2002		Sh.	2002		Sh.
2/5	M Rooks	175			
6/5	P Scot	114	31/5	Bal c/f	289
		289			289

Creditor – M Rooks a/c

2002		Sh.	2002		Sh.
18/5	Returns in	23	2/5	Purchases	175
31/5	Bal c/f	152			
		175			175

Furniture & Fittings a/c

2002		Sh.	2002		Sh.
3/5	Bank	150	31/5	Bal c/f	150
		150			150

Sh.

Sales a/c

2002		Sh.	2002		Sh.
31/5	Bal c/f	352	5/5	Cash	275
			23/5	U. Foot	77
		352			352

Cash in hand a/c

2002		Sh.	2002		Sh.
5/5	Sales	275	10/5	Rent	15
			12/5	Stationery	27
			30/5	Wages	117
			31/5	Bal c/f	116
		275			275

Sh.

P Scot a/c

2002		Sh.	2002		Sh.
31/5	Bal c/f	114	6/5	Purchases	114
		114			114

Expenses – Rent a/c

2002		Sh.	2002		Sh.
1/5	Bal c/f	15	10/5	Cash	15

Expenses – Stationery a/c

2002		Sh.	2002		Sh.
12/5	Cash	27	31/5	Bal c/f	27
		27			27

vii. Terms of sale

(ii) Purchases Invoice

A purchase invoice is raised by the creditor and sent to the firm when the firm makes acredit purchase. It shows the following:

i. Name and the address of the creditor/seller
ii. Name and address of the firm
iii. Date of the purchase (invoice date)
iv. Invoice number
v. Amount due
vi. Description of goods sold
vii. Terms of sale

(iii) Credit note

A credit note is raised by the firm and issued to the debtor when the debtor returnssome goods back to the firm. It's contents include:

i. Name and address of the firm
ii. Name and address of the debtor
iii. Amount of credit
iv. Credit note number
v. Reason for credit e.g. if goods sent but of the wrong type.

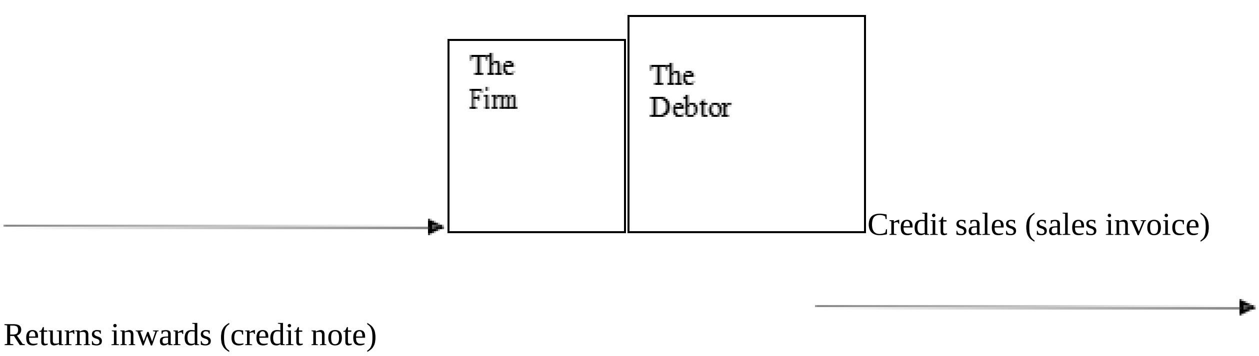
The purpose of the credit note is to inform the debtor or customer that the debtor's account with the firm has been credited i.e. the amount due to the firm has been reduced or cancelled.
The credit note may also be issued when the firm gives an allowance of the amounts due from the debtors.
From the context we can assume that all credit notes are issued when goods are returned.

(iv) Debit note

This is raised by the creditor and issued to the firm when the firm returns some goodsto the creditor. It includes the following items:

i. Name and address of the firm
ii. Name and address of the creditor
iii. Amount of debit
iv. Debit Note number
v. Reason for the debit

The purpose of the debit note is to inform the firm that the amount due to the creditorhas been reduced or cancelled.



utilized e.g. fuel receipt, bus ticket e.t.c.

M. Hyatt a/c

		Sh.			Sh.
3/5	Returns out	12			

		Sh.			Sh.
4/5	Returns Out	19			

T. Bills a/c

The following example 2.5 shows how the four journals are used.

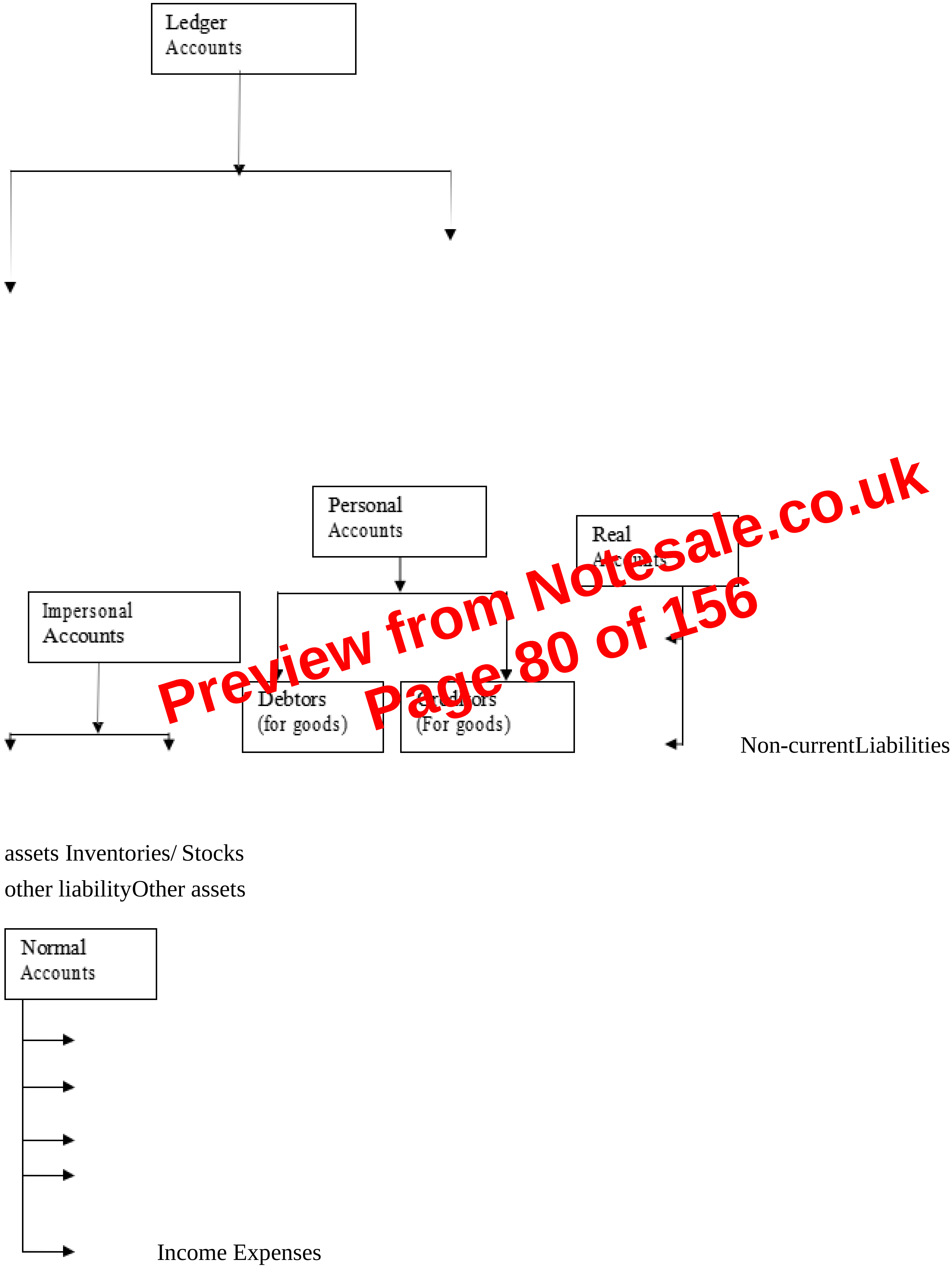
Example 2.3
You are to enter the following items in the books, post to personal accounts, and show transfers to the general ledger.

19x5

July	1	Credit purchases from: K Hill Sh.3800; M Norman Sh.500; N SeniorSh.106.
"	3	Credit sales to: E Rigby Sh.510; E Phillips Sh.246; F Thompson Sh.356.
"	5	Credit purchases from: R Morton Sh.200; J Cook Sh.180; D Edwards Sh.410; C Davies Sh.66.
"	8	Credit sales to: A Green Sh.307; H George Sh.250; J Ferguson Sh.185.
"	12	Returns outwards to: M Norman Sh.30; N Senior Sh.16.
"	14	Returns inwards from: E Phillips Sh.18; F Thompson Sh.22.
"	20	Credit sales to: E Phillips Sh.188; F Powell Sh.310; E Lee Sh.420.
"	24	Credit purchases from: Ferguson Sh.550; K Ennevor Sh.900.
"	31	Returns inwards from: E Phillips Sh.27; E. Rigby Sh.30.
"	31	Returns outwards to: J Cook Sh.13; C Davies Sh.11.

Study the solution provided:

Sales Journal		
Date	Detail	Amount(Sh)
3rd July	E.Rigby	510
3rd July	E.Phillips	246
3rd July	F.Thomspson	356
8th July	A.Green	307


Ledger Accounts
Personal Accounts
Real
Impersonal Accounts
Debtors (for goods)
(For goods)
Non-currentLiabilities
assets Inventories/ Stocks
other liabilityOther assets
Normal Accounts
Income Expenses

Creditor D

C/B	700	Purchases	800
Bal c/d	100		
	800		800

Purpose of Control Accounts

1. Provide for arithmetical check on the postings made in the individual accounts (either in the sales ledger or purchases ledger.)
2. To provide for a quick total of the balances to be shown in the trial balance as debtors and creditors.
3. To detect and prevent errors and frauds in the customers and suppliers account.
4. To facilitate delegation of duties among the debtors and creditors clerks.

4.2 Format of a Sales Ledger Control

Sales Ledger Control a/c

1. Balance b/d of the total debitbalances from previous period	1. Total credit balances of the sales ledger brought forward
2. Total credit sales for the period(from the sales journal)	2. Total cash received from credit customers/debtors (from cash book)
3. Refunds to customers (from cashbook)	3. Total cheques received from credit customers/debtors (fromcash book)
4. Dishonored cheques (from cashbook)	4. Total returns-inwards (returns-inwards journal)
5. Bad debts recovered (from general journal)	5. Total cash discount allowed to customers (from cash book)
	6. Bad debtorswritten-off (from general journal)
	7. Cash received from bad debtors recovered (cash book)
	8. Purchases Ledger contra
	9. Allowances to customers (price reduction in excess to discounts allowed)
6. Total credit balances of the sales Ledger carried forward	10. Total debit balance carried downto the next period – to be derived after posting all those transactions

In some cases, after checking for all errors that can affect the trial balance, the suspense a/c has a balance. This balance depends on whether it is a credit or debit and whether it ismaterial or not for purposes of proper accounting treatment. The following is the recommended approach:

Balance	Material	Not Material
Debit	Show as an asset (eg) other debtors	Charge in P& L as an expense
Credit	Show as a liability (eg)other creditors	Report as income in P&L

Example 5.3

A bookkeeper extracted a trial balance on 31 December 2002 that failed to agree by Sh.3,300, a shortage on the credit side of the trial balance. A suspense account was opened forthe difference.

In January 2003 the following errors made in 2003 were found:

(i) Sales daybook had been undercast by Sh.1, 000.
(ii) Sales of Sh.2, 500 to J Church had been debited in error to J Chane account.
(iii) Rent account had been undercast by Sh.700.
(iv) Discounts received account had been under cast by Sh.3, 000.
(v) The sale of a motor vehicle at book value had been credited in error to Sales account Sh.3, 600.

You are required to:

a) Show the journal entries necessary to correct the errors.
b) Draw up the suspense account after the errors described have been corrected.

Journal Entries

	Sh.	Sh.
Suspense	1,000	
Sales		,1000
Sales under cast of Sh.100 now corrected		
J Church	2,500	
J Chane		2,500
Sale to J Church posted to J Chane corrected		
Rent	700	
Suspense		700
Under cast in rent balance now corrected		
Suspense	3,000	
Discount received		3,000
Under cast in discount received balance now corrected		
Sales a/c	3,600	
Disposal		,3600
Sale of motor vehicle entered in sales a/c now corrected		

Suspense a/c

Sh.	Sh.

Note 1: These types of errors will have an effect of increasing the balance at bank e.g. an overstated deposit or an understated payment by the bank.

Note 2: These types of errors will have an effect of decreasing the balance at bank e.g. an understated deposit or an overstated payment by the bank, or making an unknown payment.

Format 2

Name:
Bank Reconciliation Statement as at 31/12

Sh. Sh.
Balance at bank as per bank statement xAdd: Uncredited deposits x
Add errors on bank statement (note 2) x xx
Less: Unpresented cheques x
Errors on bank statement (note 1) x (x)Balance at bank as per cashbook (updated)
x
===

Example 6.1

Draw up a bank reconciliation statement, after writing the cashbook up to date,ascertaining the balance on the bank statement, from the following as on 31 March 2003:

	Kshs
Cash at bank as per bank column of the cashbook (Dr)	38,960
Bankings made but not yet entered on bank statement	6,060
Bank charges on bank statement but not yet in cashbook	280
Un presented cheques C Clarke	1170
Standing order to ABC Ltd entered on bank statement, but not in cash book	550
Credit transfer from A Wood entered on bank statement, but not yet in cashbook	1,890

Solution

Cashbook – Bank

	19X9 £		19X9 £
31/3 Bal b/d	38960	Bank charges	280
		ABC (standing order)	550
A Wood (credit transfer)	1890	31/3 Bal C/D	40,020
	40,850		40,850

J. Richards
Bank Reconciliation Statement as at 31/12/2002

	£	£
Balance at bank as per cashbook – bank		1,863
Add: Unpresented cheques – (G Small)		115
		1,978
Less: Uncredited deposits		
K Wood	249	
M. Barret	178	(427)
Balance at bank as per statement of financial position		1,551
OR:		
Balance at bank as per statement of financial position		1,551
Add: Uncredited deposits:		
K. Wood	249	
M. Barret	178	
	1,978	
Less: Unpresented cheques	(115)	
Balance at bank as per cashbook – bank		1,863

6.3 Review Questions

Question one.

a) Explain the term "bank reconciliation" and state the reasons for its preparation.

(b) Ssemakula, a sole trader received his bank statement for the month of June 2001. At that datethe bank balance was Sh. 706,500 whereas his cash book balance was Sh.2, 366,500.

His accountant investigated the matter and discovered the following discrepancies:

1. Bank charges of Sh.3, 000 had not been entered in the cashbook.
2. Cheques drawn by Ssemakula totaling Sh.22, 500 had not yet been presented to the bank.
3. He had not entered receipts of Sh.26, 500 in his cashbook.
4. The bank had not credited Mr Ssemakula with receipts of Sh.98, 500 paid into the bank on 30 June 2001.
5. Standing order payments amounting to Sh.62, 000 had not been entered into the cashbook.
6. In the cashbook Ssemakula had entered a payment of Sh.74, 900 as Sh.79, 400.
7. A cheque for Sh.15, 000 from a debtor had been returned by the bank marked "refer to drawer" but had not been written back into the cashbook.
8. Ssemakula had brought forward the opening cash balance of Sh.329, 250 as a debit balance instead of a credit balance.
9. An old cheque payment amounting to Sh.44, 000 had been written back in the cashbook but the bank had already honored it.

Less: Returns Outwards	2,896		51,623	
Cost of goods available for sale			68,146	
Less: Closing stock		18,504		(49,642)
Gross Profit				43,586

(b) Profit and Loss Account

It shows the net profit or net loss that the business has made from all the activities during a financial period.

The net profit (or loss) is determined by deducting all the expenses from all the incomes of the same financial period.

In practice, the trading account is combined together with the net profit and loss account into one report called *comprehensive statement of income (formerly, trading, profit and loss account)* . Format is as shown below:

Name

Trading, Profit and Loss Account for the year ended 31/12/19xx

Sh. Sh. Sh.

Sales x

Less: Returns Inwards x

x

Less: Cost of sales

Opening stock x

Purchases x

Add: Carriage Inwards x

x

Less: Returns Outwards x x

Cost of goods available for sale x

Less: Closing stock x (x)

Gross Profit x

Discount received x

Rent received x

Interest received x

Other incomes x

x

Less: Expenses

Carriage Outwards x

Discounts allowed x

Postage & stationary x

Salaries & wages x

Rent paid x

Insurance & rates x

Telephone	800.00	
Rates	3,000.00	
Discount allowed	100.00	
Discount received		200.00
Rent received		2,000.00
Returns inwards	1,500.00	
Returns outwards		3,500.00
Stock at 01 Jan 2001	46,000.00	
Premises	80,000.00	
Stock as at 31 Dec 2001	41,000.00	
Fixtures and fittings	5,000.00	
Debtors and Creditors	4,800.00	7,500.00
Cash in Hand	200.00	
Cash in bank		12,000.00
Capital		11,000.00
Drawings	14,000.00	
Stock as at 31 Dec 2001		
		41,000.00
	328,700.00	328,700.00

Required

Prepare a statement of comprehensive income for the year ended 31 December 2002 anda statement of financial position as at that date. (20 marks)

Question two

The following is the trial balance of KSmooth as at 31 March 2002. Draw up a set offinal accounts for the year ended 31 March 2002.

	Dr	**Cr**
	Sh.	Sh.
Stock 1 April 2001	1,816,000	
Sales		9,234,000
Purchases	6,918,500	
Carriage inwards	42,000	
Carriage outwards	157,000	
Returns outwards		64,000
Wages and salaries	1,024,000	
Rent and rates	301,500	
Communication expenses	62,400	
Commissions payable	21,600	
Insurance	40,500	
Sundry expenses	31,800	
Buildings	2,000,000	
Debtors	1,432,000	

With the amount expected from the insurance.

If the insurance pays before the end of the financial period, it will not be necessary to create an insurance debtor so the following entries will be made:

Debit – cashbook.
Credit – asset disposal a/c

If the asset is not used anymore or scrapped by the firm, the appropriate entries will be made in the asset account and provision for depreciation a/c only.

Debit – asset disposal a/cCredit – asset a/c
With the cost of the asset no longer in use.

Debit – provision for depreciation for assetCredit – asset disposal
a/c
With the total depreciation provided to date.

The balance in the disposal a/c after the above entries will either be a debit balance or a credit balance. A credit balance represents a profit on disposal, which is reported in the profit and loss a/c together with other incomes. The entry will be:

Debit – asset disposal a/cCredit – P&L a/c
With the balance in the account.

A debit balance in the asset disposal a/c is loss on disposal which is reported in the P&L a/c as an expense and therefore the entry will be.

Example 8. 5

A firm has a motor vehicle costing Sh.1, 000 total depreciation provided to date isSh.800. The firm decides to trade in the motor vehicle with a new one the value of the new one being Sh.500. The supplier of the new vehicle agree with the firm that the old motor vehicle is worth Sh.300; therefore the difference will be paid by cash.

Motor vehicle a/c

	Sh.		Sh.
Bal b/d	1,000	Motor vehicle disposal	1,000
Disposals	300		
Cashbook	200	Bal c/d	500
	1,500		1,500
	=====		====

Calculation for Depreciation

31/12	Disposals	675	1/1	Bal b/d	865
	Bal c/d	555		P&L	365
		1,230			1,230

Date	Cost	Months	Depreciation charge		Sh.
1999					
1/1	900	12	20/100 x 900 x 12/12	=	180
1/10	600	3	20/100 x 600 x 3/12	=	30
					210
2000					
1/1	1,500	12	20/100 x 1,500 x 12/12	=	300
2001					
1/1	1,500	12	20/100 x 1,500 x 12/12	=	300
1/2	550	6	20/100 x 550 x 6/12	=	55
					355
2002					
30/9	900	9	20/100 x 900 x 9/12	=	135
31/12	550	12	20/100 x 550 x 12/12	=	110
31/12	600	12	20/100 x 600 x 12/12	=	120
					365

Plant Disposal a/c

2002	Sh.	2002		Sh.
Plant a/c	900	30/9	Provision for depreciation	675
P&L	50	30/9	Cashbook	275
	950			950

Statement of financial position (Extract)

	Non Current Assets	Cost	Total Depreciation	NBV
1999	Plant	1,500	(210)	1,290
2000	Plant	1,500	(510)	990
2001	Plant	2,050	(865)	1,695
2002	Plant	1,150	(555)	595

8.4 Revenue and Cost Recognition

Revenue and costs must be recognized as they are earned or incurred, not as money is received or paid. They must be matched with one another so far as their relationship canbe established or justifiably assumed, and dealt with in the profit and loss account of the

Although the cashbook is showing that rent received amounts Sh.22,000, the full rental income of Sh.24,000 will be reported in the Profit & Loss a/c as rent income and the accrued rent for Dec of Sh.2,000 will be reported in the statement of financial position as a current asset.

Expenses: Accrued Expenses

An accrued expense is an expense that is payable or due for payment but has not yet beenpaid during that period.
An accrued expense should be charged in the P&L account and shown in the statement offinancial position as a current liability.

Assume in the above example that the firm is meant to pay the rent thus it becomes an expense with the facts still the same i.e. Sh.2,000 payable in arrears. The ledger account will be as follows.

Cashbook

Year 1	Sh.	Year 1	Sh.
		Feb (rent 4 Jan)	2,000
		Mar (rent 4 Feb)	2,000
		Apr (rent 4 Mar)	2,000
		May (rent 4 Apr)	2,000
		June (rent 4 May)	2,000
		July (rent 4 June)	2,000
		Aug (rent 4 July)	2,000
		Sept (rent 4 Aug)	2,000
		Oct (rent 4 Sept)	2,000
		Nov (rent 4 Oct)	2,000
		Dec (rent 4 Nov)	2,000

Rent – Expenses

Year 1		Sh.2,000	Year 1	Sh.
C/B	Rent for Jan			
	Rent for Feb	2,000		
	Rent for Mar	2,000		
	Rent for Apr	2,000		
	Rent for May	2,000		

	Rent for June	2,000			
	Rent for July	2,000			
	Rent for Aug	2,000			
	Rent for Sept	2,000			
	Rent for Oct.	2,000			
	Rent for Nov	2,000			
31/12	Bal c/d	2,000	31/12	P&L	24,000
		24,000			24,000

The following is the summary of treatment for Accruals and Prepayments:
P&L

B/Sheet Current

Accrued - Report as

Income Assets

Income

Prepaid -Not reported Current

Liability

Accruals/
Prepayments

Current

Expense

Accrued - Charge as

an expense
Liability

The accruals and expenses items may also be adjusted in the relevant income and expenseaccounts so that the correct amount of expense or income is reported in the profit and lossaccount for the year.

8.7 Bad & Doubtful Debts

Some debtors may not pay up their accounts for various reasons e.g. a debtor may go out of business. When a debtor is not able to pay up his/her account this becomes a bad debt.Therefore the business/firm should write it off from the accounts and thus it becomes an expense that should be charged in the profit & loss account.
In practice a firm may also be unable to collect all the amounts due from debtors. This is because a section of the debtors will not honor their obligations. The problem posed by this situation is that it is difficult to identify the debtors who are unlikely to pay their accounts. Furthermore the amount that will not be collected may also be difficult to ascertain. These debts that the firm may not collect are called doubtful debts. A firm should therefore provide for such debts by charging the provision in the profit and loss account. Provision for doubtful debts maybe specific or general. Specific relate to adebtor whom we can identify and we are doubtful that he may pay the debt (if one of our debtor goes out of business).

Accounting for bad & doubtful debts.Bad debts

When a debt becomes bad the following entries will be made:

i. Debit bad debts account

Credit debtors account with the amount owing.

ii. Debit Profit and Loss Account

Credit bad – debts account to transfer the balance on the bad – debts account tothe Profit and Loss Account.

Doubtful Debts

A provision for doubtful debts can either be for a specific or a general provision. A specific provision is where a debtor is known and chances of recovering the debt are low. The general provision is where a provision is made on the balance of the total debtors i.e. Debtors less Bad debts and specific provision.
The accounting treatment of provision for doubtful debts depends on the year of trading and the entries will be as follows. If it is the 1st year of trading (1st year of making provision):

i. Debit P&L a/c.
ii. Credit provision for doubtful debts (with total amount of the provision).

In the subsequent periods, it will depend on whether if it is an increase or decreaserequired on the provision.
If it is an increase:

i. Debit P&L a/c.
ii. Credit provision for doubtful debts (with increase only).

If it is a decrease:
i. Debit provision for doubtful debts.
ii. Credit P&L a/c (with the decrease in provision only).

Example 8.9

Debtors x
Bad debts (x)x
Specific Provision (x)
x General Provision (x)
x

A firm started trading in the year 1999, the balance on the debtor's account was Sh.400,
00. Bad debts amounting to Sh.40, 000 were written off from this balance, there was a specific provision of Sh.5, 000 to be made to one of the debtors and a general provision of Sh.5% was to be made on the balance of the debtors. The ledger accounts of 1999 were as follows:

Debtors Provision for doubtful debts

1999 Sh. 1999 Sh.
Sh.

1999

Sh. 1999
Bal B/d 400,000
22,750
Bad debts 40,000

Bal c/d 360,000
31/12 Bal c/d 22,750 31/12 P&L

400,000 400,000

Bad debts

	Sh.
Debtors	400,000
Bad debts	(40,000)
	360,000
Specific Provision	(5,000)
	355,000
General Provision (5%)	(17,750)
	337,250

Profit & Loss A/C (Extract) for the year ended 31/12/99

	Sh.	Sh.
Expenses:		
Bad debts	40,000	
Increase in provision for D/debts	22,750	

Statement of financial position (Extract) as at 31/12/99

	Sh.	Sh.
Current Assets		
Stocks		x
Debtors	360,000	
Provision for D/debts	(22,750)	337,250
	337,250	337,250

In the year 2,000, the debtors balance goes up to Sh.500,000 from which bad debts ofSh.50,000 needs to be written off there is no specific provision but the general provision is to be maintained at 5%. The ledger accounts will be as follows:

Debtors	500,000
Bad debts	(50,000)
	450,000
General Provision (5%)	22,500
	427,500

Debtors

2000	Sh.	2000	Sh.
Bal b\d	500,000	Bad Debts	50,000
		Bal c\d	450,000
	500,000		500,000

Provision for Doubtful Debts

2000	Sh.	2000	Sh.
P\L	250	1\1 Bal b\d	22,750
Bal c\d	22,500		
22,750		22,750	

2002	Sh.
Bad debts	(1,860)
1860	

On 31 December 2001 there had been a total of debtors remaining of Sh.405,000. It was decided to make a provision for doubtful debts of Sh.5,500.
On 31 December 2002 there had been a total of debtors remaining of Sh.473,000. It was decided to make a provision for doubtful debts of Sh.6,000.

8.9 Revision Questions

Question one

James Mbuvi started a taxi business in Nairobi March 1990 under the firm name Mbuvi Taxis. The firm had two vehicles KA and KB, which had been purchased forSh.560, 000, and Sh.720, 000 respectively earlier in the year.

In February 1992 vehicle KB was involved in an accident and was written off. The insurance company paid the firm Sh.160, 000 for the vehicle. In the same year the firm purchased two vehicles, KC and KD for Sh.800, 000 each.

In November 1993 vehicle KC was sold for Sh.716, 000. In January 1994 vehicle KE was purchased for Shs.840, 000. In March 1994 another vehicle KF was purchased for Sh.960, 000.

The firm's policy is to depreciate vehicles at the rate of 25 per cent on cost on vehicles onhand at the end of the year irrespective of the date of purchase. Depreciation is not provided for vehicle disposed of during the year. The firm's year ends on 31 December.

Required:

a) Calculate the amount of depreciation charged in the profit and loss account for each of the five years.

b) Prepare the motor vehicle account (at cost).

c) Calculate the profit and loss on disposal of each of the vehicles disposed of by the company.

Question two

The financial year of H Seamers ended on 31 December 2002. Show the ledger accounts for the following items including the balance transferred to the necessary part of the final accounts, also the balances carried down to 2003:

a) Motor expenses: Paid in 2002 Sh.7,440; Owing at 31 December 2002 Sh.2,800.
b) Insurance: Paid in 2002 Sh.42,000; Prepaid as at 31 December 2002 Sh.3,500.
c) Stationery: Paid during 2002 Sh.18,000; Owing as at 31 December 2001 Sh.25,000; Owing as at 31 December 2002 Sh.49,000.
d) Rates: Paid during 2002 Sh.95,000; Prepaid as at 31 December 2001 Sh.2,200; Prepaid as at 31December 2002 Sh.2,900.
e) Seamers sub-lets part of the premises. Receives Sh.5,500 during the year ended 31 December 2002. Tenant owed Seamers Sh.1,800 on 31 December 2001 and Sh.2,100 on 31 December 2002

Question two

The financial year of H Seamers ended on 31 December 2002. Show the ledger accounts for the following items including the balance transferred to the necessary part of the final accounts, also the balances carried down to 2003:

a) Motor expenses: Paid in 2002 Sh.7,440; Owing at 31 December 2002 Sh.2,800.
b) Insurance: Paid in 2002 Sh.42,000; Prepaid as at 31 December 2002 Sh.3,500.