## 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

Ever y 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*

ASSEST = liabilities = capital

Capital = A - L (assets –Liabilities)

Liabilities = Assets – 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 iss 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

| DETAILS | DEBIT NOTE NO. | L.F | KSHS. |
|---|---|---|---|
| N. Norman | 0061 | PL – 2 | 30 |
| N. Senior | 0062 | PL – 3 | 16 |
| J. Cook | 0064 | PL – 6 | 13 |
| C. Denies | 0065 | PL – 7 | 11 |
| TOTALS | | | 70 |

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

Returns Inwards day book

| DETAILS | CREDIT NOTE NO. | L.F | KSHS |
|---|---|---|---|
| E. Philips | 0015 | SL – 2 | 18 |
| Thomas | 0018 | SL – 3 | 22 |
| Philips | 00181 | SL – 02 | 27 |
| Rigby | 001.56 | SL – 01 | 30 |
| TOTALS | | | 97 |

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



M. Norman a/c

| DETAILS | KSHS | DATE | DETAILS | KSHS |
|---|---|---|---|---|
| R/Outwards a/c | 30 | | purchases | 500 |
| Bal c/d | 470 | | | |
| | 500 | | | 500 |
| | | | Bal b/d | 470 |

J. Cook a/c

| DETAILS | KSHS | DATE | DETAIL | KSHS |
|---|---|---|---|---|
| R/Outward | 13 | | Purchases | 180 |
| Bal c/d | 167 | | | |
| | 180 | | | 180 |

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

J. WRIGHT TRADING PROFIT & LOSS A/C AS AT 31/3/2009

| | | |
|---|---|---|
| Sales | | 127,245 |
| (-) returns | | (3,486) |
| Net sales | | 123,759 |
| Loss cost | | |
| Open stock | 7,940 | |
| (=) purchases | 61,420 | |
| (=) carriage inwards | x | |
| (-) returns | (1,356) | |
| (-) closing stock | (6805) | 61,199 |
| 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) | 8,270 |
| Wages & salaries | 39,200 | |
| Add accruals | 3,500 | 42,700 |
| General office expenses | 319 | 335 |
| = owing office expense | 16 | |
| 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

| DETAILS | KSHS | DATE | DETAILS | KSHS |
|---|---|---|---|---|
| Bal b/d | Xxxx | | Bal b/d | Xxxx |
| Credit sales | Xxxx | | Return inwards | Xxxx |
| B/R & dishonoured | Xxxx | | Discount allowed | Xxxx |
| Interst on overdue a/c | Xxxx | | Cash received from debtors | Xxxx |
| Dishonoured cheques | Xxxx | | Cheques received from debtors | Xxxx |
| | | | Bad debts / written off | Xxxx |
| | | | Set-offs | Xxxx |
| | | | Bill received (B/R) | Xxxx |
| Bal c/d | Xxxx | | Bal c/d | Xxxx |
| | xxxx | | | xxxx |

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 cast of a fixed assets consumed during its period of use in viewed 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 armohsation & depletion*



Reasons for providing depreciation of fixed assets

- To reflect the loss and value or 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

   (-)Dep = 5/100 x 20,000

   = 10,000

   19,000

   (-) Dep – 5/100 x 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

| PURCAHSES | | | | | ISSUES / SALES | | | |
|---|---|---|---|---|---|---|---|---|
| DETAILS | UNITS | C.P.U | T.C | UNITS | C.P.U | T.C | UNITS | BALANCE |
| Open bal b/d | 400 | 18 | 7,200 | - | - | - | 400 | 7,200 |
| Issues /sales | - | - | - | 80 | 18 | 1,440 | 320 | 5,760 |
| Purchases | 180 | 16 | 2,880 | - | - | - | 500 | 8,640 |
| Purchase | 100 | 14 | 1,400 | - | - | - | 600 | 10,040 |
| Sales | - | - | - | 150 | 18 | 2,700 | 450 | 7,340 |
| Purchases | 50 | 15 | 750 | - | - | - | 500 | 8,090 |
| Sales | - | - | - | 260 | 170 @18 | 3,060 | 330 | 5,030 |
| | | | | | 90 @16 | 1,440 | 240 | 3,590 |
| sales | - | - | - | 140 | 90 @16 | 1,440 | 150 | 2,150 |
| | | | | | 50 @14 | 700 | 100 | 1,450 |
| | | | | | 12 x ½ = | 06 | | |

| PURCAHSES | | | | | ISSUES / SALES | | | |
|---|---|---|---|---|---|---|---|---|
| DETAILS | UNITS | C.P.U | T.C | UNITS | C.P.U | T.C | UNITS | BALANCE |
| Open bal b/d | 400 | 18 | 7,200 | - | - | - | 400 | 7,200 |
| Issues /sales | - | - | - | 80 | 18 | 1,440 | 320 | 5,760 |
| Purchases | 180 | 16 | 2,880 | - | - | - | 500 | 8,640 |
| Purchase | 100 | 14 | 1,400 | - | - | - | 600 | 10,040 |
| Sales | - | - | - | 150 | 100 @14 | 1,440 | 500 | 8,640 |
| | | | | | 50 @16 | 800 | 450 | 7,840 |
| Purchases | 50 | 15 | 750 | - | - | - | 500 | 8,590 |
| Sales | - | - | - | 260 | 50 @15 | 750 | 450 | 7,840 |
| sales | - | - | - | | 130 @16 | 2,080 | 320 | 5,760 |
| | | | | | 80 @18 | 1,440 | 240 | 4,320 |
| | | | | 140@ | 18 | 2,520 | 100 | 1,800 |



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 |