



Principles of Accounting Form 3

Principles of Accounting

Form 3

SAMPLE



GRAMSOL



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Book Features

TOPIC 2 SUBSIDIARY BOOKS

2



Objectives

By the end of the topic, learners should be able to:

- State the uses of the general journal
- Prepare journal entries
- Explain the entries in the general journal
- Post journal entries.

Catchy opening images

TOPIC 3 SUMMARY

- An account is a record of what has happened in the business relating to its finance, assets, liabilities, expenses, revenues and purchases.
- There are two types of accounts which are personal and impersonal accounts.
- Personal accounts are accounts of people whom the businesses deal during operations.
- An impersonal account is any other account that is not personal. They are classified into real and nominal accounts.
- Real accounts deal with tangible items such as buildings or premises whilst nominal accounts deal with intangible items such as expenses or services.
- The ledger is the principal book of accounts.
- Expenses, liabilities and revenues are nominal accounts whilst assets are real accounts.
- Sales ledger, cash book, purchases ledger and the general ledger are the four divisions of the ledger.
- Cash book is a subsidiary as well as the ledger.

Summary at the end of each topic

REVISION EXERCISE 3

Multiple Choice

Answer all questions

1. Which of the following books is the principal book of accounts?
A. Cash Book B. Ledger C. Journal D. Petty cash book
2. The personal accounts of credit customers are found in the _____.
A. Purchases journal B. Purchases ledger C. Sales journal D. Sales ledger
3. Which of the following is an example of personal account?
A. Cash B. Sales C. Capital D. Purchases
4. Which of the following is an example of a real account?
A. Electricity B. Fixtures C. Rent D. Stationery
5. Which of the following is an example of a set of personal accounts?
A. Drawings account, cash account, trade receivables account
B. Capital account, trade receivables account, trade payables account

Revision exercise at the end of each topic

TOPIC 1

DATA PROCESSING METHODS

SAMPLE

Objectives

By the end of the topic, learners should be able to:

- Apply the manual methods of processing data
- Demonstrate the use of electronic methods.

Computer hardware used include computers, network fibres and printers. Computer software include accounting packages such as Sage Pastel and Quicken, spreadsheets packages such as Excel, among others.

Advantages of electronic method of data processing

- It is the fastest method of data processing therefore less time is consumed and more work is done.
- It is more accurate as compared to manual data processing, therefore there are low chances of errors.
- Less paper work is required making it less investment required.
- Data can be quickly and easily stored and retrieved for future use.
- Accounting data can easily be updated.
- Automation of accounting functions implies that there is less labour cost because less employees will be required.
- Information can be stored in large quantities and is portable.
- Sensitive accounting data can be protected through the use of passwords, encryptions, among other security features.

Disadvantages

- It requires huge investments to acquire and maintain hardware and software licenses.
- Accounting data can be lost if the hardware is affected by a virus.
- Accounting software packages requires training which can be time consuming and expensive.
- The hardware and software packages are vulnerable to hacking and power cuts that may result in backlogs.

TOPIC 1 SUMMARY

- Data processing refers to the sorting of the business figures and facts so as to produce information that can be used for decision making by users of accounting information.
- Manual data processing involves the processing of accounting information without the aid of any electronic device or machine.
- Electronic data processing involves the use of computer hardware and software to record, classify, manipulate, present and summarise accounting data.
- Computer software include accounting packages such as Sage Pastel and Quicken, spreadsheets packages such as Excel.
- Hardware are physical parts of a computer whilst software are intangible parts of a computer.

Example 2.1

On 1 July 2019, bought office equipment worth \$8 500 on credit from Tee Ltd.

GENERAL JOURNAL

Date	Details	Folio	Dr (\$)	Cr (\$)
2019 July 1	Office equipment account Tee Ltd account Being an office equipment bought on credit from Tee Limited	GL PL	8 500	8 500

How to post entries from the general journal to the ledger

Posting of the entries from the general journal to the ledger follows the entries as recorded in the general journal. In this case, we debit the office equipment account and credit Tee Ltd account.

Office equipment account is prepared in the general ledger whilst Tee Ltd account is prepared in the purchases ledger.

GENERAL LEDGER:

Office equipment account						
2019 July 1	Tee Ltd	PL	\$ 8 500			

PURCHASES LEDGER:

Tee Ltd account							
				2019 Jul 1	Office equipment	GL	\$ 8 500

How to record non-current assets sold (disposed) on credit

Non-current assets sold (disposed) on credit are first entered in general journal before they are posted to the ledger. The non-current assets recorded in the general journal are those which were bought for use not for resale. On recording in the general journal, a customer's account is debited and the asset account is credited.

Example 2.2

On 3 July 2019, sold an old motor van worth \$2 000 on credit to Vee.

GENERAL LEDGER:

GENERAL JOURNAL

Date	Details	Folio	Dr (\$)	Cr (\$)
2019 Jan 1	Premises	GL	40 000	
	Office equipment	GL	20 000	
	Trade receivables: Hilder	SL	4 100	
	: Chimhenga	SL	3 300	
	: Chavani	SL	1 450	
	: Timire	SL	4 500	
	Inventory	GL	4 000	
	Bank	CB		1 000
	Cash	CB	800	
	Trade payables: Dee	PL		3 000
	: Pee	PL		5 400
	: Lloyd	PL		1 340
	Capital (balancing figure)	GL		67 410
			<u>78 150</u>	<u>78 150</u>
	Being assets and liabilities entered in books on this date.			

GENERAL LEDGER:

SAMPLE

Premises account

2019 Jan 1	Balance	b/d	\$ 40 000				
---------------	---------	-----	-----------	--	--	--	--

Office equipment account

2019 Jan 1	Balance	b/d	\$ 20 000				
---------------	---------	-----	-----------	--	--	--	--

Fixtures and fittings account

2019 Jan 1	Balance	b/d	\$ 4 000				
---------------	---------	-----	----------	--	--	--	--

Capital account

			2019 Jan 1	Balance	b/d	\$ 67 410	
--	--	--	---------------	---------	-----	-----------	--

SALES LEDGER:

Hilder account

2019 Jan 1	Balance	b/d	\$ 4 100				
---------------	---------	-----	-------------	--	--	--	--

Chimhenga account

2019 Jan 1	Balance	b/d	\$ 3 300				
---------------	---------	-----	-------------	--	--	--	--

Chavani account

2019 Jan 1	Balance	b/d	\$ 1 450				
---------------	---------	-----	-------------	--	--	--	--

Timire account

2019 Jan 1	Balance	b/d	\$ 4 500				
---------------	---------	-----	-------------	--	--	--	--

PURCHASES LEDGER:

Dee account

				2019 Jan 1	Balance	b/d	\$ 3 000
--	--	--	--	---------------	---------	-----	-------------

Pee account

				2019 Jan 1	Balance	b/d	\$ 5 400
--	--	--	--	---------------	---------	-----	-------------

Lloyd account

				2019 Jan 1	Balance	b/d	\$ 1 340
--	--	--	--	---------------	---------	-----	-------------

TOPIC 3

LEDGER

SAMPLE

Objectives

By the end of the topic, learners should be able to:

- Define the term account
- Classify ledger accounts
- Post entries from subsidiary books to appropriate divisions of the ledger
- Explain the entries in the ledger accounts
- Use reference numbers in the folio columns
- Interpret the final balances in the accounts.

Introduction

Transactions done by a business are first recorded in books of prime entry using information from source documents. This topic will discuss the different types of ledger accounts and how they are prepared. The books of prime entry represent the first record of any transaction in the books of accounts. These transactions will still need to be recorded in the main book of accounting; the ledger.

Account

An account is a record of what has occurred in the business in terms of its finance, assets, liabilities, expenses and revenues and purchases. The left side of an account is called debit side and the right side of an account is called the credit side.

The structure of an account

Dr				Name of the account				Cr	
Date	Details	Folio	Amount	Date	Details	Folio	Amount		

Classification of accounts

All business accounts are classified into personal and impersonal accounts.

Personal accounts

Personal accounts refer to the accounts of people whom the businesses deal with on its operations. These people include suppliers who provide goods and services to the business, customers whom the business supply goods and services and the owner who provide the capital to the business and some drawings of goods for personal use. Therefore, personal accounts include trade receivables, trade payables, capital and drawings. Capital and drawings accounts are regarded as the accounts of the owner of the business.

Impersonal accounts

Impersonal accounts are any other accounts that are not personal. They are classified into real and nominal accounts.

Real accounts

These are accounts of tangible items we can see and touch. On the other hand, they are regarded as accounts of what the business owns. They include premises (land and buildings), furniture, inventory, office equipment, fixtures and fittings, motor vehicles, cash in hand, plant, machinery and scooters.

Nominal accounts

These are accounts of items which we cannot see and touch. They are services in nature and exist in names only. Nominal accounts include all expenses and revenues accounts included in the income statement.

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- Sales ledger, cash book, purchases ledger and the general ledger are the four divisions of the ledger.
- Cash book is a subsidiary as well as the ledger.

REVISION EXERCISE 3

Multiple Choice

Answer all questions

1. Which of the following books is the principal book of accounts?
A. Cash Book B. Ledger C. Journal D. Petty cash book
2. The personal accounts of credit customers are found in the _____.
A. Purchases journal B. Purchases ledger C. Sales journal D. Sales ledger
3. Which of the following is an example of personal account?
A. Cash B. Sales C. Capital D. Purchases
4. Which of the following is an example of a real account?
A. Electricity B. Fixtures C. Rent D. Stationery
5. Which of the following is an example of a set of personal accounts?
A. Drawings account, cash account, trade receivables account
B. Capital account, trade receivables account, trade payables account

- x. Commission receivable account
 - xi. Drawings account [11]
2. Classify the following accounts under the following headings: Nominal, Personal and Real accounts.
[10]

Rent account	Receivables	Fixtures
Drawings	Cash	Sales
Land and buildings	Sundry expenses	Purchases
Stationery	Payables	Inventory
Cash at bank	Capital	Scooter
Advertising	Rates	Electricity
Computers	Motor vehicle	

3. a. Name the subsidiary book which is also part of the ledger. [1]
b. Explain the following types of the ledger:
- i. Cash book
 - ii. Nominal ledger
 - iii. Sales ledger
 - iv. Purchases ledger [8]
4. T. Chili is a trader she provides you the following information for the month of January 2019.

2019		\$
Jan 1	Cash account balance	8 500 Dr
	Bank account balance	15 000 Dr
05	Bought goods for resale, cash	1 850
06	Bought goods on credit from B. Moses	3 750
10	Cash purchases	2 680
11	Bought goods on credit from Gilder Dealers	2 450
13	Bought goods, made a bank transfer	3 800
15	Bought goods on cordite from soda	1 850
19	Returned goods to Gilder Dealers	150
20	Bought goods on credit from C. Trymore	3 600
22	Bought goods, paid by cheque	1 500
23	Returned goods to C. Trymore	200

TOPIC 4

TRIAL BALANCE AND ERRORS



Objectives

By the end of the topic, learners should be able to:

- Correct errors not revealed by the trial balance
- Define errors revealed by the trial balance
- State the errors revealed by the trial balance
- Correct errors revealed by the trial balance
- Define suspense account
- Prepare suspense account
- Define redrafted trial balance
- Prepare a redrafted trial balance.

Journal entry

	Dr (\$)	Cr (\$)
P. Wynn D. Wynn	600	600
A purchase of goods from D. Wynn incorrectly recorded in P. Wynn, now corrected		

Error of principle

This is whereby a transaction has been recorded in the correct side but in the wrong class of account. For instance, motor expenses \$500 was recorded in motor vehicles account. In this case, motor vehicle is an asset whilst motor expenses are an expense both have debit balances, but are in different classes of accounts. To correct the error, an entry recorded in asset account should be cancelled by debiting the motor vehicle account and then credit the correct account motor expenses account.

Journal entry

	Dr (\$)	Cr (\$)
Motor vehicle account Motor expenses account	500	500
Motor expenses recorded in error in motor vehicles account, now corrected		

Error of original entry

This is whereby a wrong figure has been used on completing the double entry of the transaction. On this error, the double entry is correct, the amount used is wrong. For example, a computer bought for \$5 400 on credit from Zee Ltd recorded in books as \$5 004. In this case, the amount used to complete the double entry was \$5 004 instead of \$5 400. The amount used was understated by \$396 and should be recorded in two affected accounts to add the amount understated following the double entry for the transaction. Therefore, computer account should be debited with \$396 and Zee Ltd should be credited with the same amount to correct the error.

Journal entry

	Dr (\$)	Cr (\$)
Computer account Zee Ltd	396	396
Computer bought credit from Zee Ltd for \$5 400 recorded as \$5 004 in books, now corrected		

Complete reversal entries

This is whereby the double entry of a transaction has been vice versed during recording of the transaction in books of accounts. The two affected accounts are correct but only that the account debited was supposed to be credited and vice versa. So, a double amount for the transaction should be used to complete the correct double entry, the first amount cancels the error and the second one is the correct entry for the transaction.

REVISION EXERCISE 4

Multiple Choice

Answer all questions

1. A purchase of stationery for use \$23.00 on credit was debited to the purchases account. This is error of _____.
A. Commission B. Original entry C. Omission D. Principle
2. A payment for \$100 for commission was correctly entered in cash book, but posted to the wrong side of the commission account. To correct this error, one would _____.
A. Debit suspense account \$100 Credit commission account \$100
B. Debit commission account \$100 Credit bank account \$100
C. Debit commission account \$200 Credit suspense account \$200
D. Debit suspense account \$200 Credit commission account \$200
3. Which of the following set of items appear on the debit side of the trial balance?
A. Carriage inwards and carriage outwards account.
B. Commission paid and commission earned account.
C. Discount received and discount allowed account.
D. Returns inwards and returns outwards account.
4. Which of the following errors would be revealed by the trial balance?
A. A sale of old car \$400 credited to the sales account.
B. A sale of goods on credit \$300 to M. Wood entered in W. Wood's account.
C. Insurance paid \$75 overlooked in the books of accounts.
D. Salaries paid \$650 correctly recorded in the cash book and incorrectly posted in salaries account as \$605.
5. Capital expenditure of \$2 000 was treated as a revenue expenditure in the financial statements. This is error of _____.
A. Principle B. Omission C. Commission D. Original entry
6. A trial balance is prepared in order to _____.
A. balance off the ledger accounts
B. correct errors in the ledger
C. prove the arithmetical accuracy of the ledger accounts.
D. draw up the suspense account.
7. The balance in the machinery account is overstated by \$1 000, so is the balance in the sales account. This is an example of _____.
A. compensating errors C. error of original entry

vi. Returns outwards \$500 was entered in the returns inwards account

Required to prepare:

- a. Journal entries to correct the above errors. Narrations are not required. [6]
 - b. Suspense account to clear the balance. [3]
2. The following errors were discovered in the books of Gumbo after the trial balance had failed to agree. The debits exceed the credits by \$2 006.
- i. The discount allowed account was overcast by \$1 200
 - ii. Air freight charges paid by cheque \$4 900 were entered in cash book only
 - iii. Ledger fees \$1 600 were completely omitted in the books of accounts
 - iv. Commission received \$2 600 were debited in commission account
 - v. An item of \$4 100 was debited twice in the general expenses account
 - vi. A sales ledger debit balance of \$3 000 of Clearance account had been omitted from the trial balance figure
 - vii. Carriage inwards \$500 were entered in carriage outwards account in error
 - viii. A sale of goods to Junior worth \$1 600 was correctly entered in the sales day book but entered in her account as \$1 006.

Required to:

- a. Prepare Journal entries for the above errors. Narrations are not required [8]
 - b. Prepare Suspense account [3]
 - c. Name the type of error in (ii), (iii) and (vii) [3]
3. Bristol extracted a trial balance and failed to agree. The difference was transferred to the suspense account. Further investigations revealed the following:
- i. Purchases day book had been undercast by \$2 000
 - ii. No entry had been made in respect of \$2 900 cash received for rent
 - iii. A purchase of office equipment \$7 000 for resale, was wrongly posted to the office equipment account
 - iv. Credit sales to Sam for \$950 was correctly entered in his account, but posted to the sales account as \$905
 - v. Discount received of \$295 incorrectly posted to discount allowed account
 - vi. A sales ledger debit balance of Christopher of \$205 was omitted in the trial balance figure

Required to:

- a. Prepare journal entries to correct the above errors. Narration are not required. [6]
- b. Prepare the suspense account, showing clearly the trial balance difference. [4]

End of Term 1 test

Multiple choice

1. The book of prime entry which is also part of the double entry is _____.
A. sales ledger B. purchases ledger C. nominal ledger D. cash book
2. Which of the following is not a special journal?
A. Cash book B. Sales journal C. Journal proper D. Purchases journal
3. The book of original entry used to record purchase of a second hand motor van on credit for use in business is _____.
A. purchases journal B. sales journal C. general journal D. cash book
4. The left side of an account is called _____.
A. receipts B. payments C. credit D. debit
5. The column written the name of the ledger in the general journal is _____.
A. date B. particulars C. folio D. amount
6. The other name for debtors is _____.
A. trade payables B. equity C. trade receivables D. inventory
7. Which accounting concept means similar items should receive a similar accounting treatment?
A. Going concern B. Matching C. Dual aspect D. Consistency
8. Which of the following statements is the application of the prudence concept?
A. Additional cash capital introduced into business by the proprietor debited to cash account and credited to the capital account
B. Provision for bad debts created on trade receivables
C. Office furniture purchased and recorded at its cost price
D. Charging depreciation on motor van using straight line method throughout the useful life
9. A trader included general expenses outstanding in the income statement at the end of the accounting period. Which accounting concept has been applied?
A. Dual aspect B. Matching C. Consistency D. Historical cost
10. Which of the following accounts is an income account?
A. Insurance B. Bad debts C. Sales D. Purchases
11. An account recorded money brought into business by the proprietor is _____.
A. bank B. cash C. capital D. drawings
12. Which of the following accounts is a real account?
A. Rent B. Furniture C. Sales D. Stationery

TOPIC 5

ACCOUNTING CONCEPTS



Objectives

By the end of the topic, learners should be able to:

- Define accounting concepts
- State six accounting concepts
- Explain each accounting concept and its application in financial statements.

Matching concept

The concept assumes that the revenue for the accounting period should be matched against the costs of the same accounting period. Income earned in the accounting period should be accounted for that period irrespective of the date of invoice or receipt of the money from the transaction. So, the revenues presented in the financial statements should be revenues for the accounting period irrespective of whether cash was received or not. Expenses presented in the financial statements should be the expenses for the accounting period irrespective of whether the expense was paid or not. Therefore, expenses and revenues presented in the financial statements should relate to the time covered by the income statement. The income statement is prepared on the accrual basis not on cash basis. The concept is also known as the accrual.

The treatment of the accruals and prepayments in the financial statements is the application of the matching concept. The spreading of the cost of the non-current asset on each accounting period also known as depreciation for the year is an application of the matching concept.

Consistency concept

The concept assumes that a transaction of the similar nature should be recorded in the same way in the same accounting period and in all future accounting periods. This enables easy comparisons of financial statements. For instance, when the business decides to use straight line method on its non-current assets, the method must be used consistently from one accounting period to the next. If there is inconsistency on the method used, comparison for the financial statements from one accounting period to another is impossible and therefore difficult to compare.

The use of same method of depreciation on similar non-current assets and the use of the same inventory evaluation method are the application of the consistency method.

Going concern concept

The concept assumes that the accounting records of the business should be maintained on the basis that business will operate foreseeable future and that the business and its assets are not expected to be sold off in the near future. When the business operates into the foreseeable future, the non-current assets should be shown in the statement of financial position at the net book value (carrying amount). If the business is not operated for foreseeable future, the non-current assets are shown in statement of financial position at their market value which are more meaningful than their net book value.

The disclosure of the non-current assets at their net book value (carrying amount) and the non-current liabilities and their repayable period and inventory at lower cost or net realisable value in the statement of financial position is the application of the going concern concept.

Example 6.3

The following balances were extracted from the books of Junior a sole trader on 31 March 2017. The balances were provided after the preparation of the trading account.

	\$
Insurance	4 500
Stationery	6 000
Gross profit b/d	66 900
Discount allowed	1 300
Rent receivable	3 400
Discount received	3 445
Carriage outwards	10 450
Salaries and wages	12 349
Motor expenses	7 890
Office expenses	5 600
Sundry expenses	4 569
Land and buildings at cost	20 000
Office equipment at cost	10 000

Required to:

Prepare the profit or loss account for the year ended 31 March 2017

Solution

Profit and loss account for the year ended 31 March 2017

	\$	\$
Gross profit b/d		66 900
Add other incomes		
Discount received		3 445
Rent receivables		3 400
Total incomes		<u>73 745</u>
Less expenses		
Insurance	4 500	
Stationery	6 000	
Discount allowed	1 300	
Carriage outwards	10 450	
Salaries and wages	12 349	
Motor expenses	7 890	
Office expenses	5 600	
Sundry expenses	<u>4 569</u>	(52 658)
Net profit for the year		<u><u>21 087</u></u>

Statement of financial position

The statement of financial position is prepared to show the assets, liabilities and the capital (equity) of the business at any particular period. It shows the financial position of the business at a certain date. The statement of financial position is prepared basing on the accounting equation which states that assets are equals to liabilities plus capital (equity). This topic mainly focuses on the treatment of adjustments. It will mainly focus on preparations of the statement of financial position showing the treatment of year-end adjustments.

Example 6.4

Philisani operates as a retailer. The following balances were extracted from his books on 31 October 2017.

Solution

Philisani's income statement for the year ended 31 October 2017

	\$	\$	\$
Sales			100 000
Less sales returns			(2 210)
Turnover			<u>97 790</u>
Less cost of goods sold			
Opening inventory		8 776	
Add purchases	66 000		
Less returns outwards (\$ 4 332 + 3 920)	(8 252)		
Net purchases	<u>57 748</u>		
Add carriage inwards	3 145		
Add Custom duty (\$8 00 – 3 000)	<u>5 000</u>		
		<u>65 893</u>	
		<u>74 669</u>	
Less closing inventory		<u>(7 800)</u>	
			<u>(66 869)</u>
Gross profit			30 921
Add other incomes			
Decrease in provision for bad debts			420
Total incomes			<u>31 341</u>
Less expenses			
Discount allowed		3 100	
Advertising \$(7 987 – 1 000)		6 987	
Stationery		4 000	
Salaries & wages		12 654	
Administration expenses		5 000	
General expenses		6 765	
Carriage on sales		2 500	
Interest on loan (5% x 28 000) x ½		700	
Depreciation: Motor van 20% x 47 050)		9 410	
Shop fittings		<u>1 100</u>	
			<u>(52 216)</u>
Net loss for the year			<u><u>20 875</u></u>

Statement of financial position as at 31 October 2017

	At cost	Accm depn	N.B.V
Non – current assets	\$	\$	\$
Motor vehicles	47 050	(21 410)	25 640
Shop fittings	18 000	(8 100)	9 900
	<u>65 050</u>	<u>(29 510)</u>	<u>35 540</u>
Add Current assets			
Inventory		7 800	
Trade receivables	21 000		
Less provision for bad debts	<u>1 680</u>		
Net trade receivables		19 320	
Prepaid expenses: Advertising		<u>1 000</u>	
		<u>28 120</u>	

TOPIC 7

END OF YEAR ADJUSTMENTS



Example 7.1

A motor van bought on 1 January 2015 costing \$20 000 and is expected to be used for 5 years. It has a scrap value of \$4 000. Calculate depreciation for each year.

$$\begin{aligned}\text{Depreciation} &= \frac{\text{Cost} - \text{residual value}}{\text{Estimated useful life}} \\ \text{Depreciation} &= \frac{\$(20\,000 - 4\,000)}{5 \text{ years}} \\ &= \$3\,200\end{aligned}$$

The residual value is also known as scrap value. In this case, at the end of each accounting period, the depreciation charged on the motor van is \$3 200 and is the one shown in the income statement as an expense.

Under straight line method depreciation can be calculated using the percentage of the cost of the non-current asset.

Reducing balance method

The method charges depreciation on fixed percentage of the net book value (carrying amount) of the non-current asset. Depreciation charged using balance method is higher in earlier accounting periods and lower in later accounting periods.

Example 7.2

Lee, a sole trader bought a motor vehicle \$50 000 on credit from Dee Ltd, on 1 January 2016. It is Lee's policy to depreciate her non-current assets at 20% per annum.

Calculate depreciation for the year 2016, 17 and 18 using:

- Straight line method
- Reducing balance method

Year	Straight line method	Reducing balance method
2016	20% x \$50 000 = \$10 000	20% x \$50 000 = \$10 000
2017	20% x \$50 000 = \$10 000	20% x \$(50 000 - 10 000) 20% x \$40 000 = \$8 000
2018	20% x \$50 000 = \$10 000	20% x \$(50 000 - 10 000 - 8 000) 20% x \$32 000 = \$6 400

for assets acquired and the depreciation charged for each accounting period is shown on below table.

Accounting entry	Account to be debited	Account to be credited
When an asset is purchased (acquired)	Asset account	Cash/bank or payables account if bought on credit
Depreciation for the year	Income statement (profit or loss account)	Provision for depreciation account

An asset account has debit balance and therefore increases by debiting it. So, all assets purchased are recorded at cost on the debit side of the asset account. A provision for depreciation account has credit balance.

Example 7.5

On 1 January 2016, a trader bought motor vehicle at cost \$10 000 by cheque. Depreciation on motor vehicle was to be charged at 20% per annum. Use both straight line and reducing balance method.

Required to prepare:

- Motor vehicle account
- Provision for depreciation account for the year 31 December 2016, 2017 and 2018

Solution

Motor vehicle account

2016 Jan 1	Bank	\$ 10 000 <u>10 000</u>	2016 Dec 31	Balance c/d	\$ 10 000 <u>10 000</u>
2017 Jan 1	Balance b/d	10 000			

Using straight line method:

Provision for depreciation account – 31 December 2016, 2017 and 2018

2016 Dec 31	Balance c/d	\$ 2 000 <u>2 000</u>	2016 Dec 31	Income statement	\$ 2 000 <u>2 000</u>
2017 Dec 31	Balance c/d	4 000 <u>4 000</u>	2017 Jan 1	Balance b/d	2 000
			2017 Dec 31	Income statement	2 000 <u>4 000</u>
2018 Dec 31	Balance c/d	6 000 <u>6 000</u>	2018 Jan 1	Balance b/d	4 000
			2018 Dec 31	Income statement	2 000 <u>6 000</u>
			2019 Jan 1	Balance b/d	6 000

Income statement extracts for the year ended 31 December 2015, 2016 and 2017

2015	\$
Gross profit	xxxx
Less expenses	
Depreciation for the year	<u>(5 250)</u>
Net profit / (loss) for the year	xxx
2016	
Gross profit	xxxx
Less expenses	
Depreciation for the year	<u>(7 025)</u>
Net profit / (loss) for the year	xxx
2017	
Gross profit	xxxx
Less expenses	
Depreciation for the year	<u>(10 472.50)</u>
Net profit / (loss) for the year	xxx

Statement of financial position as at 31 December 2015, 2016 and 2017

	At cost	Accumulated depreciation	Net book value
2015			
Non-current assets	\$	\$	\$
Motor vehicles	65 000	(5 250)	59 750
2016			
Non-current assets			
Motor vehicles	87 000	(12 275)	74 725
2017			
Non-current assets			
Motor vehicles	107 000	(22 747.50)	84 252.50

Workings

Year

2015	10% x \$40 000 =	\$4 000
	10% x \$25 000 x $\frac{1}{2}$ =	<u>\$1 250</u>
	Depreciation for year end 2015	<u>\$5 250</u>

2016	10% x \$(40 000 – 4 000)	
	10% x \$36 000 =	\$3 600
	10% x \$(25 000 – 1 250)	
	10% x \$23 750 =	\$2 375
	10% x \$10 000 x $\frac{3}{4}$ =	\$ 750
	10% x \$12 000 x $\frac{1}{4}$	<u>\$ 300</u>
	Depreciation for the year end 2016	<u>\$7 025</u>

REVISION EXERCISE 7.2

Multiple Choice

Answer all questions

1. What does a debit balance in the packaging materials account represents?
 - A. An amount paid for packaging materials
 - B. An amount not yet paid for packaging materials
 - C. Packaging materials used for the year
 - D. Unused packaging materials
2. What does a credit balance in the stationery account represents?
 - A. An amount paid for stationery
 - B. An amount not yet paid for stationery
 - C. Stationery used for the year
 - D. Unused stationery
3. An insurance account had debit balance of \$7 200 on 1 January 2017. A cheque payment of \$12 000 and cash payment of \$13 000 were made during the year. An amount of \$4 990 was paid in advance on 31 December 2017.

How much was transferred to the income statement?

 - A. \$32 200
 - B. \$27 210
 - C. \$37 190
 - D. \$25 000
4. A debit balance in the rent received account represents _____.
 - A. an amount of rent received due
 - B. an amount of rent received in advance
 - C. an amount of rent received during the year
 - D. an amount of rent paid in advance
5. Commission account had a credit balance of \$8 754 on 1 January 2016. A payment of \$18 900 was made by cheque. An amount of \$2 433 was outstanding on 31 December 2016.

How much was transferred to the income statement?

 - A. \$21 333
 - B. \$7 713
 - C. \$12 579
 - D. \$30 087
6. A business paid \$15 000 for electricity in the year 2018. The opening debit balance was \$1 000 and amount of electricity due was \$2 390 on 31 December.

What was the charge of electricity for the year 2018?

 - A. \$13 610
 - B. \$16 390
 - C. \$18 390
 - D. \$11 610
7. During the year ended 31 December 2016, a business paid \$37 000 for insurance. An amount of \$2 500 was unpaid on 31 December 2016.

How much was charged to the income statement (profit and loss account)?

 - A. \$34 500
 - B. \$39 500
 - C. \$37 000
 - D. \$2 500

	\$
Rent received account	799 Cr
Petrol account	607 Dr
Commission account	567 Dr

Fambai Supermarket subject parts of its premises at \$180 per month
2018

Jul 08: Received cash \$186 for rent

10: Bought petrol on credit from SHELL Ltd worth \$3 670

Aug 31: Paid commission on cash \$670

Sept 16: Bought petrol on cash \$400 and by cheque \$600

29: Paid commission on cash \$508 and by cheque

30: Received cash for rent \$107 and cheque \$4 500

Dec 29: Supplied further petrol worth \$5 000 on credit by SHELL Ltd less 10% trade discount

2019

Jan 2: Returned excess petrol to SHELL Ltd worth \$680 list price

June 28: Received cheque \$2 508 for rent

29: Paid commission by cheque \$1 050

On 30 June 2019, inventory of unused petrol was valued at \$700 and commission owing was \$606

You are required to prepare:

- Rent received account
- Commission account
- Petrol account [12]

- The following information was extracted from the books of Makandlela, a sole trader, who owns mini-buses in Kwekwe

	\$
Inventory on petrol on 1 May 2018	700
Petrol purchased on cash during the year	1 924
Petrol bought on credit from ABC Ltd	3 435
Petrol bought by cheque during the year	2 970
Inventory unpaid at the end of the year 30 April 2019	450
Inventory unused at the end of the year 30 April 2019	550

End of the year test

Multiple choice

1. The source document sent to customer when overcharged is _____.
A. debit note B. credit note C. invoice D. receipt
2. Which of the following is a disadvantage of computerised accounting system?
A. There is accuracy on capturing accounting data into system
B. There is large memory of storing data
C. There are high initial costs of acquiring hardware and training of staff
D. There is high speed of processing the accounting information
3. Which of the following is not a computer input device?
A. Mouse B. Scanner C. Keyboard D. Printer
4. When is the general journal used?
A. Record all purchases of non-current assets
B. Disposal of the non-current on credit
C. Record goods sold on credit to customers
D. Record cash discount given to the customers
5. Personal accounts of the credit suppliers are found in _____.
A. nominal ledger B. cash book C. purchases ledger D. sales ledger
6. Which of the following is an account recorded goods withdrawn by the owner for private use?
A. Capital B. Purchases C. Inventory D. Drawings
7. Sales account is found in which ledger?
A. Nominal ledger B. Cash book C. Purchases ledger D. Sales ledger
8. Which of the following accounts has debit balance?
A. Carriage outwards C. Returns outwards
B. Sales D. Provision for discount allowed
9. The book of prime entries for the contra entries in the control accounts is _____.
A. cash book B. general journal C. sales journal D. purchases journal
10. Sales returns and purchases returns were both overstated by \$120. What name is given to this error?
A. Commission B. Original entry C. Compensating D. Omission