



SECTOR: BUSINESS SERVICES

SUBSECTOR: ACCOUNTING

RTQF LEVEL 4

ACCFD401 MAINTAINING RECORDS AND FINANCIAL DOCUMENTS

ELEMENTS OF COMPETENCE

1. Prepare and record financial document

- 1.1. Proper Preparation of the financial documents to be sent to customers and suppliers
- 1.2. Proper Entering of financial documents into the appropriate books of prime entry
- 1.3. Correct Processing of payments from customers
- 1.4. Correct Processing of suppliers' invoices and credit notes

2. Maintain daily financial record

- 2.1. Proper maintaining daily financial records in accordance with organizational requirements for accounting purposes
- 2.2. Proper identifying and rectifying of discrepancies or errors in documentation or transactions to designated persons in accordance with organizational requirements
- 2.3. Accurate crediting and debiting of transactions and promptly enter into journals in accordance with organizational requirements

3. Maintain general ledger

- 3.1. Proper maintaining of general ledger in accordance with organizational requirements

3.2. Proper posting of transactions into general ledger in accordance with organizational reporting requirements

3.3. Proper reconciliation of systems for accounts payable and receivable with general ledger

3.4. Accurate preparation of trial balance from general ledger in accordance with organizational requirements

4. Monitor cash control

4.1. Proper ensuring of cash flow is accurately accounted for in accordance with organizational requirements

4.2. Right making and receiving of payments in accordance with organizational requirements

4.3. Careful following -up and collecting of outstanding accounts within designated time lines

4.4. Proper checking of payment documentation for accuracy of information and dispatch to creditors within designated time line

L.U.1: PREPARE AND RECORD FINANCIAL DOCUMENTS

Learning Outcome 1.1: Prepare the financial documents to be sent to customers and suppliers

❖ IDENTIFICATION OF SOURCE DOCUMENTS TO PREPARE SALES INVOICES AND CREDIT NOTES

- ✓ **Source document** is a document which contains the information about a subject of recording and constitutes an evidence of transaction.
- ✓ **Sales invoices or outgoing invoice:** Is an invoice from the point of view of seller. **sales invoice** is a document used to inform customers of the amount they owe in exchange for goods or services that were sold. An **invoice** generally lists the description and the quantity of the item sold or service provided

Example:

1) On November 28th 2006, KAPAKO RWANDA Company (Phone + 250 518646; P.O BOX 5053 Kigali; E-mail: kapako123@ yahoo.com), send to the MMM Company (Phone (+250) 0788302211; P.O BOX 160 Kigali), the invoice no 131/06 for furniture of:

* 100 items of Motorola E816 phones (product ID: P1003; unit price: 32 000Frw) and

* 120 items Nokia 3220 phones (product ID: P1000; unit price: 43 000Frw) VAT rate 18%

Required: Issue this invoice

ANSWER

KAPAKO RWANDA COMPANY

PHONE + (250) 518646

Date: November 28th 2006

B.P 5053 KIGALI RWANDA

E-mail: kapako123@yahoo.com

INVOICE no 131 /06

BILL TO

MMM Company

PHONE: (+250) 0788302211

P.O BOX: 160 Kigali

PRODUCT ID	DESCRIPTION	QUANTITY	UNIT PRICE	TOTAL VALUE
P1003	Motorola E816 phones	100	32 000	3 200 000
P1000	Nokia 3220 phones	120	43 000	5 160 000
SUBTOTAL				8 360 000Rwf
VAT (18%)				1 504 800Rwf
TOTAL				9 864 800Rwf

Only Nine million eight hundred sixty four thousand eight hundred Rwf

For Receipt

signature of Accountant

- ✓ **A purchase order** is a commercial document written and signed by buyer to be sent to a seller indicating merchandises or goods to be sold and the delivery and payment's conditions

The purchase order must be clearly written with accuracy (precision) in order to avoid any future dispute

Example: On February 1st 2007, BESTWAY MANUFACTURING LTD (P.O BOX 54781 NAIROBI) orders to LAVANET (P.O BOX: 23000 NAIROBI) the following items:

- * 200 items of carbon paper ref no 6 at 2,600Rwf
- * 2 000 items of envelopes ref. no 7 for 8, 000Rwf
- * 10 000 items of Onion sheet (papers pelures) no 10 for 1, 400Rwf

Time of delivery: 8 days; Method of payment: in cash Issue the purchase order no 435

Answer:

BESTWAY MANUFACTURING LTD				
P.O BOX 54781 NAIROBI				
PURCHASE ORDER No: 435				
TO LAVANET COMPANY				
P.O BOX 23000 NAIROBI				
Date February 1st 2007				
Please supply the following goods				
QUANTITY	DESCRIPTION	Ref. No	PRICE	VALUE
200	Carbon paper	6	13Rfw	2, 600 Rfw
2, 000	Envelopes	7	4Rfw	8, 000 Rfw

10, 000	Onion sheet (papers pelures)	10		1, 400 Rfw
	Only: twelve thousand Rwf			12, 000 Rfw
Period of delivery: 8 days				
Method of payment: cash in hand				
Prepared by Purchasing manager		AuthoglmDescribing basic		
sections of general ledger	Assets	Liabilities	Income	Expenses rized by
Top manager				

✓ **Delivery note:** The delivery note is a document issued by a seller and sent to a buyer at the moment of the delivery goods, when the invoice will be sent subsequently

it serves to verify if the goods delivered are conform with the order.

It gives the details of the transactions: - the date delivery

- the name of the buyer
- the nature and quantity of delivered goods
- the name of the ship

Example: On October 19th 2007, BAMBA Ltd had ordered the following goods (items):

- 12 tyres Michelin xzx – size: 165 – 13
- 12 inner tubes size 13D – 9

After receiving this purchased order, BESTWAY MANUFACTURING LTD, supplier makes the arrangement to deliver those goods

Issues the delivery note on October 19th, 2008

Answer:

BESTWAY MANUFACTURING LTD			
P.O BOX 54781 NAIROBI			
DELIVERY NOTE No:			
TO BAMBBA Ltd			
P.O BOX			
Date:			
	DESCRIPTION	SIZE	OBSERVATION
12	Tyres Michelin XSX	165 – 13	
12	Only: twelve thousand Rwf	13D – 9	
Sender	Receiver		

- ✓ **Sales Credit note:** a **credit note** is a letter sent by the supplier to the customer notifying the customer that he or she has been credited a certain amount due to an error in the original invoice or other reasons. A **credit note** is also known as a **credit memo**, which is short for "**credit memorandum**."
- ✓ **Goods returned note:** A **Goods Return Note** or **Form** acts as a receipt for the customer to show I have received back an item. It can be used (as in my case) where I deliver in a crate and charge a deposit for it on the invoice
- ✓ **Agreed discounts:** acknowledged discount

❖ **IDENTIFICATION OF SOURCE DOCUMENTS TO PREPARE PAYMENT VOUCHER:**

- ✓ **Purchases Invoice:** A commercial document or bill presented to a buyer by a seller or service provider for payment within a stated time frame that indicates what has been **purchased**, in what amount and for what price. A **purchase invoice** can be used to prove that something was bought and how much was paid for it.
- ✓ **Debit note:** A **debit note** is a document **used** by a vendor to inform the buyer of current debt obligations, or a document created by a buyer when returning goods received on credit. The **debit note** can provide information regarding an upcoming invoice, or may serve as a reminder for funds currently due.

Learning Outcome 1.2: Enter financial documents into the appropriate books of prime entry

❖ MAIN BOOKS OF PRIME ENTRY

1. **Sales day book:** a book in which non-cash sales are recorded with details of customer, invoice, amount and date; these details are later posted to each customer's account in the sales ledger.
2. **Purchase day book:** Purchase Day book (Purchase Register) is the book of original entry in which all the transactions relating to only credit purchase are recorded. Cash purchases do not find place in purchase day book as they are recorded in Cash book
3. **Sales returns day book:** Sales Return Book is that book in which we record the goods returned by the customers or buyers. It is also called “Return Inward Book”, “Sale Return Journal” and “Sale Returns Day Book
4. **Purchases returns day book:** A purchase returns journal (also known as returns outwards journal/purchase debits daybook) is a prime entry book or a daybook which is used to record purchase returns.
5. **Cash book:** A **cash book** 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.
6. **Petty cash book:** It's a cash book used to enter daily petty expenses like cost of stationery, postage and Xerox copy(photocopy) and so on. The petty cash book will be maintained by a separate cashier known as petty cashier in the accounting field. A petty cash is a cash book used to enter all small or petty expenses obtained

7. **The journal:** journal is a record of financial transactions in order by date. Traditionally, a journal has been defined as the book of original entry.

The main books of prime entry are:

- Sales day book
- Purchase day book
- Sales returns day book
- Purchases returns day book
- Bank Book
- Cash Receipts Book
- Cash Payments Book
- Petty Cash Receipts Book
- Petty Cash Payments Book
- Journal

Learning Outcome 1.3: Process payments from customers

❖ IDENTIFICATION OF THE PAYMENT RECEIVED

- ✓ Name of customers
- ✓ Amount paid
- ✓ Description of payment

(see practice exercises in notebooks)

Learning Outcome 1.4. Process suppliers' invoices and credit notes

❖ DEFINITIONS

- ✓ A **credit note** is issued in various situations to correct a mistake, such as when (1) an invoice amount is overstated, (2) correct discount rate is not applied, (3) goods spoil within guaranty period, or (4) they do not meet the buyer's specifications and are returned. Also called **credit memo**
- ✓ **The invoice** is used to track the sale of goods or services. On the contrary, **receipt** acts as documentation for the buyer that the amount of the merchandise has been

paid. The **invoice** indicates the total amount due whereas the **receipt** indicates the total sum paid along with the mode of payment.

❖ **DESCRIPTION THE DOCUMENTS INVOLVED IN THIS CHECKING PROCESS:**

- ✓ purchase order
- ✓ delivery note
- ✓ invoice
- ✓ credit note
- ✓ goods returned note

(see practice exercises in notebooks)

❖ **PREPARING AND PROCESSING BOOKKEEPING DOCUMENTS**

- ✓ Checking the accuracy of supplier invoices and credit notes against purchase orders, goods received and delivery notes
- ✓ Checking if the agreed trade and bulk discounts have been applied accurately
Recoding supplier invoices and credit notes

(see practice exercises in your notebooks)

L.U.2: MAINTAIN DAILY FINANCIAL RECORDS

Learning Outcome 2.1: Proper maintaining daily financial records in accordance with organizational requirements for accounting purposes

❖ **MAINTAIN DAILY FINANCIAL RECORDS IDENTIFYING SOURCE DOCUMENTS:**

- ✓ **Receipts for Goods Purchased with Cash Receipts for Cash Received**

The receipt is a written acknowledgement that something such as money or goods has been given to the person who issues the acknowledgement. It is a written proof showing that the payment or deposit of goods or money has been done. This document contains:

- The name and address of the depositor
- The word in letter "Receipt"

- The number of the document
- The nature (description) deposited (if it is money, you must specify the sum in figures (digit) and Letters)
- The name and signature of the receiver
- The date and reason of payment or deposit.

Example: Mr KAMANA Celestin (P.O BOX 200 Butare) pays to IRIS Enterprise, (shop specialized in

selling of flowers and Gift items, P.O box 322), The sum of 5, 000 Rwf in cash on 20 April 2007 for settlement of his invoice No 50 of April 10th, 2007.

Required: Issue the receipt No100.

Answer:

IRIS ENTERPRISE P.O BOX 322 KIGALI	<p>April 20th, 2007</p> <p>Re ce I p t No 1000</p> <p>Rwf :5, 000</p> <p>Kigali, April 20th 2007, received from Mr KAMANA Celestin</p> <p style="text-align: center;">P.O BOX 200Butare</p> <p>The sum of Five Thousand Rwf</p> <p>For payment of the invoice No 50 of April 10th 2007</p> <p style="text-align: center;">IRIS Enterprise</p> <p style="text-align: right;">Signature</p>
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Example: Mr RUGABA Jean, P.O BOX 320 Kigali lends a computer to Mr GAKUBA Cyprien P.O BOX 222 Kigali. To be remitted after two weeks.

GAKUBA Cyprien P.O BOX 222KIGALI	May 13 th , 2008
	<p>ReceiptNo 120</p> <p>Kigali, May 13th 2008, received from Mr RUGABA Jean</p> <p>P.O BOX 320 Kigali a computer to be pay back after fourteen days.</p> <p>.....</p> <p style="text-align: center;">Done, Kigali May 13th 2008</p> <p style="text-align: center;">GAKUBA Cyprien</p> <p style="text-align: center;">Signature</p>

- ✓ **Sales Invoice:** A **sales invoice** can be simply defined as the request of payment by the customer for goods sold or services provided the seller. An **invoice** generally lists the description and the quantity of the item sold or service provided. Companies use **sales invoices** to inform customers of the amount they owe in exchange for goods or services that were sold.
- ✓ **Purchase Invoices:** A commercial document or bill presented to a buyer by a seller or service provider for payment within a stated time frame that indicates what has been **purchased**, in what amount and for what price. A **purchase invoice** can be used to prove that something was bought and how much was paid for it.

Example:

1) On November 28th 2006, KAPAKO RWANDA Company (Phone + 250 518646; P.O BOX 5053 Kigali; E-mail: kapako123@ yahoo.com), send to the MMM Company (Phone (+250) 0788302211; P.O BOX 160 Kigali), the invoice no 131/06 for furniture of:

* 100 items of Motorola E816 phones (product ID: P1003; unit price: 32 000Frw) and

* 120 items Nokia 3220 phones (product ID: P1000; unit price: 43 000Frw) VAT rate 18%

Required: Issue this invoice

Answer:

KAPAKO RWANDA COMPANY

PHONE + (250) 518646 Date: November 28th 2006

B.P 5053 KIGALI RWANDA

E-mail: kapako123@ yahoo.com **INVOICE** no 131 /06

BILL TO

MMM Company

PHONE: (+250) 0788302211

P.O BOX: 160 Kigali

PRODUCT ID	DESCRIPTION	QUANTITY	UNIT PRICE	TOTAL VALUE
P1003	Motorola E816 phones	100	32 000	3 200 000
P1000	Nokia 3220 phones	120	43 000	5 160 000
SUBTOTAL				8 360 000Rwf
VAT (18%)				1 504 800Rwf
TOTAL				9 864 800Rwf

Only Nine million eight hundred sixty four thousand eight hundred Rwf

For Receipt

signature of Accountant

- ✓ **Suppliers Invoices:** this is the bill issued by a vendor for goods delivered or services rendered to a customer. The recipient of a **supplier invoice** issues its own **invoices** to its customers, and so may refer to **supplier invoices** as vendor **invoices** to more clearly differentiate them
- ✓ **Suppliers Statements:** they are an important accounting source document regularly issued to the business by a **supplier** of goods or services. The **statements** contain details of all invoices, credit notes, discounts and payments made on a **supplier** account according to the **supplier**
- ✓ **Bank statement:** it is a monthly document that shows you a summary of the money that goes in and out of your accounts. Check for errors, fees and any interest earned
- ✓ **A cash register** is a machine in a shop, pub, or restaurant that is used to add up and record how much money people pay, and in which the money is kept.
- ✓ **Bank slip:** A **deposit slip** is a form that is used to itemize the checks and cash being **deposited** into a **bank** account. The form contains the following information: The name on the account. The account number. The amount of each check being **deposited**
- ✓ **Cheque stubs:** A part of a **check** that is kept for record keeping purposes. For example, the **stub** is the part of a payroll **check** that includes information about the current **paycheck** as well as payments to date. The **check stub** can also be a carbon copy of a **check** that is made when the original **check** is written.
- ✓ **Credit Card Receipts:** A hard copy document that records when a transaction took place at the point of sale. The **receipt** contains a description of the transaction, which usually includes the date, the merchant name/location, a portion of the primary account number, the amount and the reference number.
- ✓ **Payroll Record:** Within a company, **payroll** is the combination of all of the financial **records** of their employees' **salaries**, wages, bonuses and deductions. In **accounting**, the term **payroll** signifies the amount that has been paid out to employees for the services they have done for the organization within a certain period of time.

➤ PAYROLL

A PAYROLL is a record listing the names of employees during a given period, the rate of pay, time worked, gross earnings, deductions for taxes and any other amount withheld and net pay.

Payroll contains different columns which are used to record some specific figures. One line is used for one worker. The names of workers are arranged alphabetically or according to the serial numbers of their clock cards. A separate wages sheet is prepared for each month.

The following procedure is adopted to prepare a payroll:

- a) The number of hours worked are multiplied by wage rate per hour. Overtime worked is multiplied by wage rate which is applicable to the overtime worked. In this way, gross wage of each employee is recorded into gross wages column.
- b) The income tax payable by each employee.
- c) The contributions of each employee regarding the N.S.S.F and national hospital Insurance fund are also shown into respective columns. These two are compulsory deductions and these amounts are paid by the employer on the behalf of employees to the respective departments.
- d) The total deductions for each employee are shown in a separate column
- e) Total deductions are subtracted from the gross wages and net wage are entered into another column.
- f) Any advance taken by employees or loan repayments are subtracted to find out the wages payables

PAYROLL											
No	Names	Total hours worked	Rate	Gross Wage	DEDUCTIONS				Net Wages	Advance Or loan repayment	Balance Due
					Tax	NSSF	FARG	TOTAL			

❖ PREPARING AND RECORDING GENERAL AND SPECIAL JOURNAL ENTRIES:

- ✓ **Sales Day Book:** A **Sales book** is a record of all credit **sales** made by a business. It is one of the secondary **book** of accounts and unlike cash **sales** which are recorded in cash **book**, **sales book** is only to record credit **sales**. A **Sales book** is also called **Sales Journal** or **Sales Day Book**.
- ✓ **Purchases Day book:** **Purchase Book** is a subsidiary **book** which records the transactions of credit **purchase** of goods for trading purpose. Cash **purchases** are recorded in the Cash **Book**. It is also known as **purchase** register or **purchase day book**
- ✓ **Returns Outward Book:** **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.
- ✓ **Returns Inward Book:** **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.
- ✓ **Cash book:** A **cash book** is a financial journal that contains all **cash** receipts and disbursements, including bank deposits and withdrawals. Entries in the **cash book** are then posted into the general ledger.
- ✓ **Petty Cash Book:** **Petty cash** is a system that funds and tracks small purchases such as parking meter fees that aren't suitable for check or credit card payments

Learning Outcome 2.2: Identify and rectify discrepancies or errors in documentation or transactions:

❖ COMPARING SOURCE DOCUMENTS WITH RECORDED TRANSACTIONS

- ✓ **Finding error in recorded transactions and rectifying errors in recorded transactions**

Those errors which do not affect the trial balance are usually corrected by the double entry system.

This is so because both debit and credit entry are affected:

a) Errors of omission

Errors of omission are corrected by posting the original entry as it should have been posted.

For example, we omit to post a payment to Shs 2,000 through the bank for wages;

The correction would be:

Dates	Particular or Explanation	Folio	Dr (Amount)	Cr (Amount)
	Wages account		2,000	
	Bank account			2,000

b) Errors of commission

In order to correct errors of commission, we must cancel out the wrong posting by an opposite entry to the original and post the item to correct account.

For example, we pay Shs 1,000 to D. Mawakili and debit the account of J. Mawakili

Error made

Dates	Particular or Explanation	Folio	Dr (Amount)	Cr (Amount)
	J. Mawakili account		1,000	
	Cash in hand account			1,000

Correction of this error

Dates	Particular or Explanation	Folio	Dr (Amount)	Cr (Amount)
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	D. Mawakili account		1,000	
	J. Mawakili account			1,000

c) **Errors of principal**

As with errors of commission, we must cancel out the original entry and post the amount to the correct account

For example, we debit building with 1,000Rwf paid in respect of repair to buildings

1) Error made

Dates	Particular or Explanation	Folio	Dr (Amount)	Cr (Amount)
	Building account		1,000	
	Cash in hand account			1,000

2) Correction of this error

Dates	Particular or Explanation	Folio	Dr (Amount)	Cr (Amount)
	Repairs to buildings account		1,000	
	Building account			1,000

d) **Compensating Errors**

We must analyze whether we have debit or credit the account with too much or too little.

We then debit the account if either we have previously debited too little or credited too much.

We credit the account if either we have originally credited too little or debited too much.

E.g. To correct an error where we have debited Rwf 1 500 to the wages account instead of Rwf 2 000 and credited Rwf 3 500 to the sales account instead of Rwf 4,000, the correct posting entry would be:

Correction of error

Dates	Particular or Explanation	Folio	Dr (Amount)	Cr (Amount)
	Wage account		500	
	Sales account			500

e) **Reversal of entries**

In this case we must reverse our original entry to cancel out that entry and post the transaction as it should have been posted in the first instance.

E.g. We pay postage of Shs 1,000 and we debit bank account and credit postage account when, of course, the entry should be the reverse.

Canceling of original entry

Dates	Particular or Explanation	Folio	Dr (Amount)	Cr (Amount)
	Postage account		1 000	
	Bank account			1 000

Posting of Correct entry

Dates	Particular or Explanation	Folio	Dr (Amount)	Cr (Amount)
	Postage account		1 000	
	Bank account			1 000

f) Error of original entry

If we have posted an amount which is less than the correct amount, we make an additional entry for the amount of the difference, posting to the same account as the original entry. If we have posted an amount which is greater than the correct amount, we make an entry for the original difference, posting to the same accounts as the original entry but in reverse- that is debit where we credited and credit where we debited. This will have the effect of reducing the value of the original entry to its correct amount.

E.g. We receive Shs 1 600 from P. Kioko but we debit the bank account with Shs 1 800 and credit P. Kioko

With Shs 1 800. The correcting entry will be:

Dates	Particular or Explanation	Folio	Dr (Amount)	Cr (Amount)
	P. Kioko account		200	
	Bank account			200

✓ Use of suspense account

Suspense accounts are used where a difference arises when we extract our trial balance and we are unable to locate the difference. Of course, every effort should be made to locate the difference and correct the errors, the suspense account being used only as a last resort.

Where we need to use a suspense account, we open the account with a balance representing the differences between the two sides of the trial balance.

- If debit balances are greater than credit balances ($Dr > Cr$), then the account is opened with a credit balance
- If credit balances are greater than debit balances ($Cr > Dr$), then the suspense account will be opened with a debit balance.

The balance will remain on the suspense account until the errors are located, possibly after the final accounts have been prepared.

When the errors are discovered we must correct them, using the suspense account.

If we have debited too little to an account or credited too much then we must debit that account and credit the suspense account. ***Dr. Account to correct the error***

Cr. Suspense account

If we have credited too little to an account or debited too much, then we must credit that account and debit the suspense account. ***Dr. Suspense account***

Cr. Account to correct the error.

Note: Errors which are corrected through the suspense account are those errors where, when recording transactions, the debit or credit entry was correct. In other words, they are those which can be corrected by a single entry.

E.g. R. Nasirembe's trial balance, extracted at April 30, 2010, failed to agree.

In early May the following errors were discovered.

1. The total of the returns outward book. Rwf 1,240 had not been posted to the ledger
2. An invoice received from W. Mbonze Rwf 1,000, had been mislaid. Entries for this transaction had therefore, not been made.
3. A payment for repairs to the motor vehicle Rwf 360 had been entered in the vehicle repairs account as

Rwf 300

4. When balancing the account of R. Raya in the ledger, the debit balance had been brought down in error as Rwf 260, instead of Rwf 620.

Dates	Particular or Explanation	F	Dr (Amount)	Cr (Amount)
	Suspense account		1 240	
	Return outward account			1 240
	<i>Being value of return outward as per return outward book not entered in ledger</i>			
	Purchases account		1 000	
	W. Mbonze account			1 000
	<i>Being value of purchases from W. Mbonze not posted to ledger</i>			
	Vehicle repairs account		60	
	Suspense account			60
	<i>Being difference between cost of motor Repairs 360 and amount actually posted 300</i>			
	R. Raya account		360	
	Suspense account			360
	<i>Being error in balance brought down on</i>			

	R. Raya' s account 620 instead of 260			
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❖ **DESCRIPTION OF THE DUAL ENTITY CONCEPT**

The basic principle of double entry system is that every debit has a corresponding and equal amount of credit. This therefore implies that each transaction involves two accounts in bookkeeping system i.e. one to be debited and another account to be credited or vice-versa.

❖ **DESCRIPTION OF THE NATURE OF THE ACCOUNTS:**

✓ **French GAAP chart of accounts layout**

The French generally accepted accounting principles chart of accounts layout is used in France, Belgium and many francophone countries. The use of the French GAAP chart of accounts layout (but not the detailed accounts) is stated in French law.

In France Liabilities and Equity are seen as negative Assets and not account types of themselves, just balance accounts.

Balance Sheet Accounts:

Class 1 Liability Accounts

Class 2 Asset Accounts

Class 3 Stocks Accounts

Class 4 Third-Party Accounts

Class 5 Financial Accounts

Class 6 Costs Accounts

Class 7 Revenues Accounts

Class 8 Special Accounts

❖ DESCRIPTION OF THE RULES/PRINCIPLES OF DEBIT AND CREDIT

The rules are the following for each type of account: Real accounts: **Debit** whatever comes in and, **credit** whatever goes out.

Personal accounts: Receiver's account is **debited**, and giver's account is credited. Nominal accounts:

All expenses and losses are **debited** and, all incomes and gains are credited.

L.U.3: MAINTAINING GENERAL LEDGER

Learning Outcome 3.1. Proper maintaining of general ledger in accordance with organizational requirements

❖ DESCRIBING BASIC SECTIONS OF GENERAL LEDGER

- ✓ **Assets:** Business assets are property or equipment that a company owns that are primarily used for running the business. When someone goes to get a business loan from a bank, they are usually getting the loan to help pay for the business assets they need to purchase
- ✓ **Liabilities:** is an obligation to, or something that you owe somebody else. Liabilities are defined as a company's legal financial debts or obligations that arise during the course of business operations.
- ✓ **Income:** Income is money (or some equivalent value) that an individual or business receives in exchange for providing a good or service or through investing capital. Income is used to fund day-to-day expenditures.
- ✓ **Expenses:** An expense is the cost of operations that a company incurs to generate revenue. As the popular saying goes, “it costs money to make money. (ledger exercises)”

Learning Outcome 3.2: Develop the design concept according to selected materials Post transactions into general ledger

❖ THE LEDGER

✓ **Definition:** A ledger is a book which contains various accounts held by enterprise.

In other words, ledger is a set of accounts, it contains all accounts of the business enterprise. A ledger may be also defined as a summary statement of all transactions relating to a person, assets, expense or income which have taken place during a given period of a time and shows their net effect.

✓ **Functions of ledger:** The ledger is an obligatory and very important document in business.

The ledger from the journal while the journal records the transactions from the accounting source documents such as invoice and receipts so as manage to open the accounts from the respective transactions.

The process of transferring the debit and credit items of transaction from the journal to their respective accounts in the ledger is called “**Posting**”

E.g. You are required to record the following transactions of Cecile’s enterprise in the journal and in the separate accounts:

May 1, Initial balance: Premises 320 000Shs, Material 450 000Shs, Cash in hand 120 000Shs;

Loan: 210 000Shs and Capital: 780 000Shs

May 6, buying of a computer on credit from Computer byte, his invoice no 5666: 90 000Shs

May 10, Purchase of goods for 54 000Shs from Kapako Ltd, 20 000Shs paid in cash and the balance to be paid after one month, her invoice no is 194/N10

May 15, Cash deposited into bank: 30 000Shs, banks slip no 455219

May 25, Payment of the Computer byte made by check no 651 (full settlement); Discount received 1%
3)

Dates	Particular or Explanation	Folio	Dr (Amount)	Cr (Amount)
May 1	Premises account	GL	320 000	
	Materials account		400 000	
	Cash in hand account		170 000	
	Capital account			680 000
	Loan account			210 000
	Introduction of initial balance			
May 6	Computer account		90 000	
	Computer bytes’ account			90 000

	Being buying computer on credit (Invoice no 5666)			
May 10	Purchases account KAPAKO (creditor) account Cash in hand account Being purchases goods (invoice no 194/N10)	GL	54 000	34 000 20 000
May 15	Bank account Cash in hand account Being deposit cash (bank slips no 455219)	GL	90 000	90 000
May 25	Computer bytes account Bank account Discount received account Being settlement of debt owed (cheque no 651)	GL	90000	89 100 900

PREMISES ACCOUNT

CAPITAL ACCOUNT

DEBIT	CREDIT
01/5 Balance b/d 320 000	

DEBIT	CREDIT
	01/5 Balance b/d 680 000

MATERIALS ACCOUNT

LOAN ACCOUNT

DEBIT	CREDIT
01/5 Balance b/d 400 000	

DEBIT	CREDIT
	01/5 Balance b/d 210 000

CASH IN HAND ACCOUNT

BANK ACCOUNT

DEBIT	CREDIT
01/5 Balance b/d 170 000	10/5 Purchases 20 000 15/5 Bank acc. 90 000

DEBIT	CREDIT
15/5 Cash in hand 90 000	25/5 Camp. byte 89 100

COMPUTER ACCOUNT

COMPUTER BYTES ACCOUNT

DEBIT	CREDIT
06/5 Comp. bytes 90 000	

DEBIT	CREDIT
May 25 Banks 89 100 Disc. Received. 900	06/5 Computer 90 000

PURCHASES ACCOUNT

KAPAKO (Creditor) ACCOUNT

DEBIT	CREDIT
10/5 Kapakoacc 34 000 Cash in hand 20 000	

DEBIT	CREDIT
	10/5 Purchases 34 000

DISCOUNT RECEIVED ACCOUNT

DEBIT	CREDIT
	25/5 Computer byte 900

Using correct procedure for balancing ledger accounts,

Distinguishing between debit and credit balances (see exercises)

Entering balances to be carried down, totals and balances brought down (see exercises)

Learning Outcome 3.3: Reconcile accounts payable and receivable with general ledger

- ❖ UPDATING THE DOCUMENTATION AND BALANCES OF PAYABLES AND RECEIVABLES
 - ✓ Reconciling differences between the accounts receivable to the general ledger
 - ✓ Reconciling the differences between the accounts payable and the general ledger
- ❖ PREPARING A WORKSHEET WITH THREE COLUMNS
 - ✓ Column for account titles
 - ✓ Column for debits,
 - ✓ Column for credits.

- ❖ FILLING IN ALL THE ACCOUNT TITLES AND RECORDING THEIR BALANCES IN THE APPROPRIATE DEBIT OR CREDIT COLUMNS
- ❖ TOTALING THE DEBIT AND CREDIT COLUMNS
- ❖ COMPARING THE COLUMN TOTALS.

L.U.4: MONITOR CASH CONTROL

Learning Outcome 4.1: Ensure cash flow is accurately accounted

❖ **RECORDING OF CASH SALES TRANSACTIONS**

- ✓ Recording of credit sales transactions
- ✓ Recording banking of cash sales transactions
- ✓ Reconciling of stock movement due to the cash and credit sales
- ✓ Maintaining the accounts receivable report

❖ **SALES DAY BOOK**

The sales day book records details of all credit sales by business. The book is written up from carbon copies of the sales invoices (outgoing invoices) which are sent to customers. It is listed according to dates and shows when the invoices was sent, the name of the customer,...

Note: * Cash sales are recorded in the cash book and not in the sales day book

* Sale of fixed assets on credit is however recorded in the General journal

At the end of period the last column is totaled and an entry made in the ledger as follows:

- **Debit.** Debtors account
- **Credit.** Sales account

Example: The following credit transactions took place in the firm of NDIZI during the month of February

02/2/2010 Sold 500 bunches of bananas at Shs 140 each, on credit to NNN exporters (invoice no 20/M)

02/2/2010 Sold on credit 70 bunches of bananas to BUTERA at Shs 150 each (Invoice no 21/M)

03/2/2010 Sold 1 200 bunches of bananas to KISII group at Shs 150 each less 33% trade discount
(invoice no 22/M)

10/2/2010 Sold 600 bunches of bananas at Shs 145 each to LODWARD receiving half the amount in
Cash

(Invoice no 23/M)

You are required to record all above transaction in the sales days book

Answer:

SALES JOURNAL

DATE	DETAILS	REF.	FOLIO	Amount	
				Amount	Amount
2010					
Fe. 02	NNN exporter 500 brunches bananas at 140Shs	20/M	GL		70 000
Fe. 02	BUTERA 70 bunches of bananas at 150 Shs	21/M	GL		10 500
Fe 03	KISII group 1 200 bunches of bananas at 150 Shs	22/M	GL	180 000	
	Less: 33% trade discount			<u>(59 400)</u>	120 600
Feb 10	LODWARD 145 bunches of bananas at 145 Shs	23/M	GL	87 000	
	Less: Cash sales			(43 000)	<u>43 500</u>
	Total posted to credit of Sales acc.				<u><u>44 600</u></u>

DEBIT	DEBTOR NNN ACCOUNT	CREDIT
02/2 Sales account	70 000	

DEBIT	DEBTOR BUTERA ACCOUNT	CREDIT
02/2 Sales account	10 500	

DEBIT	DEBTOR KISII ACCOUNT	CREDIT
03/2 Sales account	120 600	

DEBIT	DEBTOR LOWARD ACCOUNT	CREDIT
10/2 Sales account	43 500	

DEBIT	SALES ACCOUNT	CREDIT
		28/2 Invoice 244 600

Learning Outcome 4.2: Make and receive payments in accordance with organizational requirements

(See practice exercises about accounting source documents)