

SECTOR: BUSINESS SERVICES
SUBSECTOR: ACCOUNTING
RTQF LEVEL 4



ACCMJ401 MAINTINING JOURNAL

ELEMENTSOF COMPETENCE	Performance criteria PERFORMANCE CRITERIA
1. Open a new set of double entry book keeping records using the Journal	1.1 Proper Identification of natures of transactions according to the basic documents 1.2 Adequate analyzing the type of accounts according to the natures of transactions 1.3 Proper preparation of the journal entries to open a double entry set of book-keeping records for a new and existing business 1.4 Proper recording in the journal 1.5 Proper recording the journal entries in the ledger with reference of journal.
2. Use the Journal to correct errors disclosed and not disclosed by the trial balance.	2.1. Correct Identification of errors in the general ledger not disclosed by trial balance. 2.2. Proper recording journal entries in the general ledger to correct errors not disclosed by the trial balance. 2.3. Correct identification of the types of errors in a book keeping system that are not disclosed by extracting a Trial Balance 2.4. Proper identification of the types of errors in a book

	<p>keeping system that are disclosed by extracting a trial balance</p> <p>2.5. Adequate re-draft of a Trial Balance following the correction of errors.</p>
<p>3. Create and clear a suspense account using the Journal.</p>	<p>3.1. Correct balancing of a trial balance by recording the difference in a suspense account</p> <p>3.2. Proper preparation of journal entries to correct book keeping errors and clear the balance on a suspense Account</p> <p>3.3. Proper recording of the journal entries in the general ledger to clear the suspense account</p> <p>3.4. Adequate re-draft a trial balance following the correction of</p>

LU I. OPEN A NEW SET OF DOUBLE ENTRY BOOK KEEPING RECORDS USING THE JOURNAL

❖ THE SPECIMEN (OR LAYOUT/ ELEMENT) OF JOURNAL

(1) Date: In each page of the journal at the top of the date column, the year is written and in the next line, month and date of the first entry are written.

In this column, the date on which the transaction takes place is alone written.

(2) Particulars: In this column, the details regarding account titles and description are recorded.

The name of the account to be debited is entered first at the extreme left of the particulars column next to the date

The name of the account to be credited is entered in the next line

In the next line immediately to the account credited, a short explanation of the transaction is given which is known as “Narration”.

“Narration” may include particulars required to identify and understand the transaction and should be adequate enough to explain the transaction.

It usually starts with the word “Being” which means what it is and is written within parentheses.

(3) Ledger Folio: This column is meant to record the reference of the main book, i.e., ledger and is not filled in

when the transactions are recorded in the journal.

The page number of the ledger in which the accounts are appearing is indicated in this column, while the debits and credits are posted on the ledger accounts.

(4) Amount (Debit): The amount to be debited along with its unit of measurement at the top of this column

on each page is written against the account debited.

(5) Amount (Credit): The amount to be credited along with its unit of measurement at the top of this column on

each page is written against the account credited.

Role of journal: Journal record chronologically the transactions done by enterprise

It enables to verify, for every transaction, equality of debit and credit of double entry

It is legal book in the business

It is an evidence of transaction

Drawing (Layout) of journal: Graphically the journal is presented as follows:

Dates	Particular or Explanation	Folio	Dr (Amount)	Cr (Amount)
	The name of the account to be debited			
	The name of the account to be credited			
	<i>The narrative</i>			

Filling of journal

E.g. 03/01/2010: Paul begin his activity with a building of 400 000Rwf, stock of 300 000Rwf, bank 600 000Rwf

04/01/2010: Purchase of goods on credit 60 000Rwf from KAMANA

06/01/2010: Sold goods on credit to Robert 80 000Rwf,

09/01/2010: Purchase of wheelbarrow 40 000Rwf from KABERA on credit

Records the following transactions in journal

Answer:

Dates	Particular or Explanation	Folio	Dr (Amount)	Cr (Amount)
03/01	Building account Stock account Bank account Capital account <i>To record introduction of initial capital</i>	GL	400 000 300 000 600 000	1 300 000
04/01	Purchases account KAMANA account <i>Being purchase on credit, invoice no.....</i>	GL	60 000	60 000
06/01	ROBERT account Sales account <i>Being sales on credit, invoice no.....</i>	GL	80 000	80 000
09/01	Wheelbarrow account KABERA account <i>Being credit purchase of wheelbarrow.</i>	GL	40 000	40 000

E.g. In the month of April 2010, INGABIRE did the following transactions:

01/04 Bought goods on credit from Robert 87 000Rwf invoice no 0015/10

02/04 Deposit the amount in a bank 100 000Rwf deposit slip no 065/BP/10

06/04 Sold goods on credit to Peter 90 000Rwf, invoice no 05

09/04 Reimbursed a debt to Yvette 10 000Rwf

Records the following transactions in journal

Answer:

Dates	Particular or Explanation	Folio	Dr (Amount)	Cr (Amount)
01/04	Purchases account ROBERT account <i>Being credit purchases, invoice 0015/10</i>	GL	87 000	87 000
02/04	Bank account Cash in hand account <i>Being deposit, Deposit slip no065/BP/10.</i>	GL	100 000	100 000
06/04	PETER account Sales account <i>Being sales on credit, invoice no 05</i>	GL	90 000	90 000
09/04	YVETTE account Cash in hand account <i>Being reimbursement, receipt no...</i>	GL	10 000	10 000

Record of opening balances

The journal is used to record the opening balances of assets, liabilities and capital before they are posted to respective ledger accounts.

Where Capital is not known at the start of the period and where assets and liabilities are given the opening journal helps to ascertain that capital.

At beginning of accounting period the assets are debits whereas liabilities and capital are credits.

In journal total debit column should be always equal to total credit column.

E.g.1. Miss MELISA commenced business on January 2010 with a LUV PICK UP Valued at Rwf 275 000;

Land valued at Rwf 50 000 and Cash in hand Rwf 100 000

She also owed Rwf 7 000 to her Sister FABIENNE for money lent.

You are required to journalize this first situation of Miss MELISA's business ledger

Answer:

DATE	PARTICULAR	Folio	DR (Rwf)	CR (Rwf)
2010				
Jan 01	Land account		50 000	
	Motor Vehicles account		270 000	
	Cash in hand account		100 000	
	FABIENNE Loan acct			7 000
	Capita account			418 000
	(Being assets and liabilities at beginning of the period)			

E.g2. You are required to draw up the journal for the following transactions of Cecile's enterprise

May 01, Initial balance: furniture 320 000Shs, Material 450 000Shs, Cash in hand 123 000Shs;
Loan: 113 000Shs.

May 06, Purchase of a typewriter on credit from Nikuze, invoice no 5666; 180 000Shs

May 10, Purchase of goods for 240 000Shs from Nirere, half paid in cash and another half to be paid after

one month, her invoice no is 194/N10

May 15, Cash deposited into bank: 30 000Shs, banks slip no 45521

May 25, Payment of the typewrite made by check no 65

Answer:

Dates	Particular or Explanation	Folio	Dr (Amount)	Cr (Amount)
01/05	Furniture account Materials account Cash in hand account Loan account Capital account (Being assets and liabilities at beginning of the period)	GL	320 000 450 000 123 000	113 000 780 000
06/05	Typewriter account NIKUZE account <i>Being purchase, Invoice no 5666.</i>	GL	180 000	180 000
10/05	Purchases account NIRERE account Cash in hand <i>Being purchase of goods, inv. no 194/N10</i>	GL	240 000	120 000 120 000
15/05	Bank account Cash in hand account <i>Being deposit in the bank, B.S no45521</i>	GL	30 000	30 000
25/05	NIKUZE account Bank account <i>Being reimbursement ; receipt no....</i>	GL	180 000	180 000

❖ PROPER RECORDING THE JOURNAL ENTRIES IN THE LEDGER WITH REFERENCE OF JOURNAL

1) 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.

2) 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 Materials account Cash in hand account Capital account Loan account <i>Introduction of initial balance</i>	GL	320 000 400 000 170 000	680 000 210 000
May 6	Computer account Computer bytes account <i>Being buying computer on credit (Invoice no 5666)</i>		90 000	90 000
May 10	Purchases account KAPAKO (creditor) account Cash in hand account <i>Being purchases goods (invoice no 194/N10)</i>	GL	54 000	34 000 20 000
May 15	Bank account Cash in hand account <i>Being deposit cash (bank slips no 455219)</i>	GL	90 000	90 000
May 25	Computer bytes account Bank account Discount received account <i>Being settlement of debt owed (cheque no 651)</i>	GL	90000	89 100 900

PREMISES ACCOUNT

DEBIT	CREDIT
01/5 Balance b/d 320 000	

CAPITAL ACCOUNT

DEBIT	CREDIT
	01/5 Balance b/d 680 000

MATERIALS ACCOUNT

DEBIT	CREDIT
01/5 Balance b/d 400 000	

LOAN ACCOUNT

DEBIT	CREDIT
	01/5 Balance b/d 210 000

CASH IN HAND ACCOUNT

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

BANK ACCOUNT

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

COMPUTER ACCOUNT

DEBIT	CREDIT
06/5 Comp. bytes 90 000	

COMPUTER BYTES ACCOUNT

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

PURCHASES ACCOUNT

DEBIT	CREDIT
10/5 Kapako acc 34 000 Cash in hand 20 000	

KAPAKO (Creditor) ACCOUNT

DEBIT	CREDIT
	10/5 Purchases 34 000

DISCOUNT RECEIVED ACCOUNT

DEBIT	CREDIT

***LUII: USE THE JOURNAL TO CORRECT ERRORS DISCLOSED AND
NOT DISCLOSED BY THE
TRIAL BALANCE.***

❖ ERRORS DETECTED/DISCLOSE BY THE TRIAL BALANCE

The purpose of the T/B is to check the accuracy and validity of the books. It specifically detects the following errors:

- (a) Single entry i.e. failing to complete double entry. E.g. Cash sales where Sales A/s is credited but Cash A/c not posted.
- (b) Overcast (over debit or over credit of accounts) or undercast (under credit or under debit of accounts).
- (c) Two credits or two debits on the same side without the corresponding entries.
- (d) Transfiguration i.e. changing figures by mistakes when posting e.g. 58,000F as 85,000F.
- (e) Mistotaling e.g. if the total is 40,000F and you total 50,000F.

❖ ERRORS NOT DETECTED/DISCLOSED BY THE TRIAL BALANCE

When a T/B balances or agrees, it is not a guarantee that no errors were committed. Errors which cannot be detected by the T/B include:

- (a) ***Errors of original entry***

These errors originate from source documents e.g. invoices, vouchers, receipts, bank paying slip etc. These errors are carried throughout the accounting process i.e. from the journal to the ledger to the trial balance and eventually to the final accounts.

For example, goods were sold on credit for 95 000F, but was recorded in the sales invoice as 59 000F and the same figure is journalized.

(b) Errors of Omission

These are errors of omitting transactions from all books of accounts. If a transaction occurs and is not recorded anywhere, the T/B cannot detect such an error. If for example goods were bought for cash 65 000F and entries were not made in the cash and purchases account.

(c) Errors of commission

These errors are committed when an entry is made on wrong person's account or account title but the double entry properly effected. For instance, goods worth 400 000F were sold to Jane on credit but Joan's account was debited instead of the correct account of Jane. The sales account being properly credited.

(d) Errors of Principle

These are making entries on wrong classes or types of accounts. For instance, if a capital expenditure for say purchase of a motor vehicle is made, and it is debited to the purchases account instead of the correct motor vehicle account. Or if an old fixed asset was disposed off and the proceeds from this disposal or sale is entered in the sales account.

(e) Compensating errors

These are errors that cancel out in the trial balance. They get cancelled because the error on one side of the T/B is compensated by a similar error on the other side of the trial balance. For instance, if an item that appears on the debit side of the T/B e.g. Purchases is overcast by 280 000F and by coincidence another account that appear on the credit side of the trial balance says the sales account was also overcast by 280 000F. These errors will neutralize each other and the TB will agree as if no error was made.

(f) Errors of complete reversal entries

These are committed when entries are made on wrong sides of the accounts. For instance, if wages totaling 3 500 000F were paid cash and the bookkeeper debits the cash account and credits the wages account.

***LUIII: CREATE AND CLEAR A SUSPENSE ACCOUNT
USING JOURNAL***

❖ SUSPENSE ACCOUNT AND CORRECTION OF ERRORS

A suspense account is an account in which we put information that we don't know what to do with. It can be used for two applications:

Application 1:

Before preparing the final accounts/ financial statements, the T/B must agree. But in practice it may not balance.

- When a T/B is prepared and fails to balance and the difference between the debit and credit side is not too large, this difference is put into ***a suspense account*** so that the T/B can balance and final accounts are prepared. If the difference is too large the accountant must revisit all entries with a view of locating and correcting errors.
- After the final accounts have been prepared, during the forthcoming financial year, the errors which have caused the suspense a/c to appear in the books and statements must be located and corrected. **When the corrections are made, a suspense account will have a null balance and therefore will be closed.**

Application 2:

We can also use suspense account when we get a cheque from a person we don't know. In this case, we **debit the bank account and credit suspense account.**

Dr	Bank A/c	Cr	Dr	Suspense A/c	Cr
	Suspense A/c 2 000				Bank A/c 2000

The entries will remain there until you know somebody who sent that cheque to you. After knowing that person, you will debit Suspense Account to close it, and credit the account of the person who was paying.

Dr	Debtor Y's A/c	Cr	Dr	Suspense A/c	Cr
	Sales A/c 2 000	Suspense A/c 2 000		Debtor Y 2 000	Bank A/c 2 000

1. A T/B and drawn up accounts for the year ended 31 December 2008. There was a shortage of 292 000F on credit side for the T/B and the suspense account was opened. During 2009 the following errors made in 2008 were discovered:

- (i) A cheque of 55 000F received from sale of old office equipment had been entered in the sales account.
- (ii) Purchases day book have been overcast by 60 000F (Purchase day journal).
- (iii) A private purchase by cash of 115 000 had been included in the business purchases.
- (iv) Bank charges of 38 000F entered in the cash book had not been posted to the bank charges A/c.
- (v) A sale of goods 690 000F to Clay was correctly entered in the sale book but entered in the personal account of clay as 960 000F.

Required:

- a) Journal entries to correct the errors.
 b) Write up the suspense account showing the correction of the errors.

Solution:

a) Journal entries

Details	Dr (Frw)	Cr (Frw)
(i) Sales a/c Equipment disposal A/c (Being a correction of incorrect entry)	55 000	55 000
(ii) Suspense A/c Purchases A/c (Being a correction of error)	60 000	60 000
(iii) Drawing A/c Credit purchases (correction of error)	115 000	115 000
(iv) Bank charges A/c Suspense A/c (Ditto)	38 000	38 000
(v) Suspense A/c Clay's A/c	270 000	270 000

b)

Dr	Suspense Account	Cr
Purchases	60 000	Difference in books 292 000
Clay's account	<u>270 000</u>	Bank Charges <u>38</u>
000	<u>330 000</u>	
	<u>330 000</u>	

Example 2:

Kiyumba's bookkeeper extracted the T/B on 31 December 2004 which failed to agree by 330 000 F, a shortage on the credit side of the T/B A suspense A/c was opened for the difference.
 In January 2006, the following errors made in 2005 were discovered:

- i) Sales day book had been undercast by 100 000F
- ii) Sales of 250 000F to Maboko had been debited in error to Mabuno's account
- iii) Rent A/c had been undercast by 70 000F
- iv) Discount received account had been undercast by 300 000F
- v) The sale of a motor vehicle at book value had been credited to in error to sales A/c 360 000F.

Required:

- a) Show the journal entries necessary to correct the errors.
- b) Draw up the suspense account after the errors described have been corrected.
- c) If the net profit had previously been calculated at 7 900 000F for the year ended 31/12/2005. Show the calculation on corrected net profit

a) Journal entries:

Details	Dr (Frw)	Cr (Frw)
(i) Suspense A/c Sales A/c (Being a correction of error)	100 000	100 000
(ii) Maboko A/c Mabungo A/c (Ditto)	250 000	250 000
(iii) Rent A/c Suspense A/c (Ditto)	70 000	70 000
(iv) Suspense A/c Discount Received A/c	300 000	300 000

(Ditto)		
(v)Sales A/c	360 000	
Motor Vehicle Disposal A/c		360 000
(Ditto)		

b)

Dr	Suspense Account		Cr
	(Frw)		(Frw)
Sales A/c	100 000	Difference	330 000
Discount Received	<u>300 000</u>	Rent A/ c	<u>70 000</u>
Total	<u>400 000</u>	Total	<u>400 000</u>

c) Reported Profit..... 7 900 000F

Add items understating Profit

Sales undercast.....100 000
 Disc Received 300 000 400 000
 8 300 000F

Less items overcasting profit

Rent undercast 70 000 70 000
Corrected net profit 8 230 000

EXERCISE

Q1) Which of the following statements is true when provision for bad and doubtful debts is decrease

- a. a decrease in net profit b. a decrease in gross profit c. an increase in net profit
 d. an increase in gross profit

1) December 01 SAMIIR started a small business with Rwf 50 000 in a bank account.

December 02. He purchased goods on credit from RENE : Rwf 4 000

December 03. He paid rent by cheque : Rwf 400

December 04. He sold a goods on credit to HAMIDOU: Rwf: 6 000

December 05. He purchases a Motor vehicle by cheque : Rwf 10 000
 December 06. He paid electricity by cheque: Rwf 1 300
 December 12. He purchased goods on credit from HENRI:Rwf 3 000
 December 15. He withdrew an amount of Rwf 10 000 from his bank account
 December 18. He pays sundry expenses by cash : 1 400Rwf
 December 20. HAMIDOU settled his account in full by cash SAMIIR paid RENE by cheque
 December 23. He purchased goods on credit from RENE :Rwf 1 400
 December 24. He sold a goods on credit to THIERRY : Rwf: 7 000

Q2) Journalize the following transactions in the books of Mr.Chandran:

2001

Apr 1 Started business with cash Rs.40,000 and furniture Rs.10,000.

5 Paid tuition fee of the son Rs.1,000

8 Paid household expenses Rs.1,400.

10 Sold personal car for Rs.18,000 and the amount is brought into the business.

15 Withdrew goods for personal use Rs.2,000.

16 Sold goods to Navin on credit Rs.8,000.

18 Sold old typewriter Rs.1,000.

19 Purchase goods on credit from Ramesh Rs.20,000

20 Received interest on investment Rs.6,000.

22 Received commission from Manohar Rs.2,000.

23 Receive a cheque from Navin Rs.5,000.

25 Issued a cheque to Ramesh Rs.12,000

26 Received cash from Anand on account Rs.4,000

27 Paid cash to Bhagwan on account Rs.1,000.

28 Returned goods to Ramesh Rs.1,000.

29 Navin returned goods Rs.500.

30 Paid rent Rs.1,000.

Paid salaries Rs.12,000.

Q3) Journalise the following transactions in the books of Sabitha and post them in the Ledger:

2000

Apr. 1 Bought goods for cash Rs. 15,000

3 Sold goods for cash Rs. 19,000

5 Bought goods on credit from PeraraRs. 12,000

6 Sold goods on credit to RavindarRs. 16,000

8 Received from RavindarRs. 12,000

10 Paid to PeraraRs. 7,500

25 Bought furniture for cash Rs. 4,500

Q4) The suitable definition of a journal can be:

- a. a book for general purposes
- b. a subsidiary book of accounting
- c. a book which records credit transaction
- d. a book recording credit transactions which cannot be recorded in any other book

Q5) Which of the following should be entered in the journal?

- i. credit sale of goods
 - ii. bad debts written off
 - iii. sale of fixed assets
 - iv. cash payment for salaries
- a. i) and ii b. iii and iv c. i and iii d. iii and ii

Q6) Narration is important when journalizing because:

- a. it gives necessary explanation of the journal
- b. it gives clear description
- c. it computes double entry system
- d. it is part of single entry

Q7) One of the functions of the journal proper is:

- a. recording goods either returned in or not
- b. recording open entries
- c. recording transactions other than cash transaction
- d. recording cash transaction

Q8) Sale or buy of fixed assets on credit is recorded in:

- a. sales journal
- b. Sale or purchases journal
- c. return inwards journal
- d. none of the above

Q9) The main reason why errors are corrected through the journal proper is because if:

- a. provides a good record and explanation
- b. save time
- c. it is part of double entry

Q10) Which of the following should be recorded in the journal proper?

- a. sales of goods for cash
- b. sale of goods on credit
- c. sales returns
- d. sale of office furniture on credit

Q11) Mukwa started up a business on October 1, 2009.

During this month the following transactions took place:

October 1, He introduced cash as capital by depositing a cheque of \$ 200 000 into bank

October 2, Withdrawal the amount from Bank account: \$ 100 000.

October 4, Bought a second hand IBM typewriter for cash at \$ 6 000

October 5, Purchased merchandises by cheque amounting to \$ 11 000

October 7, He made further purchases of merchandise on credit from Sinda stores.

The merchandises were valued at \$ 12 400.

October 10, Made sales for cash amounting to \$ 5 400

October 12, Paid a three months' rent by cash \$ 4 200

October 13, He made further sales on credit to Mungwere Traders; the value of goods was \$ 8 000

October 15, Bought a pick up vehicle on credit from Mwangoji Motors for \$ 80 000.

He paid a cheque of \$ 10 000 and agreed to pay the balance of \$ 70 000 in November

October 21, Paid a cheque \$ 10 000 to Sinda stores in settlement of debt

October 26, Made further credit sales to Mungwere Traders.

The goods were invoiced at \$ 7 000

October 29, Received \$ 6 000 cash from Mungwere traders

October 30, Paid the month's wages amounting to \$ 2 000

i) Draw up the journal

ii) Record the above transactions in the accounts concerned and determine the balance of each account

Q12) Bibi Mali owner of a small retail outlet. She keeps a full set of accounts, including books of original entry.

A selection of her transactions during 2009 is given below

- (1) Purchased goods for resale on credit from D. Gisa Rwf 8,630
- (2) Cash sales Rwf 4,620
- (3) Received Rwf 5,000 from Esther (a debtor) on account; paid the full amount into bank.
- (4) Bought a motor van for use in the business Rwf 23,500 on credit from Floris Ltd.

The full debt is repayable before the end of the current accounting period

- (5) Paid the window cleaner out of petty cash Rwf 50 for cleaning the office windows.

You are required to record the above transactions in the journal

Q13) Turkey started a kiosk business with Rwf 120000 in the bank and 45000 in cash

2. Purchased goods Rwf 10500 on credit from Bull
3. Bought fixtures and fittings Rwf 9000 paying by cheque
5. Sold goods for cash Rwf 16500
6. Bought goods on credit Rwf 6840 from Cow
10. Paid rent by cash Rwf 900
12. Bought stationery Rwf 1620 paying by cash
18. Returned goods Rwf 1380 to Bull
23. Sold goods to Buffalo on credit for Rwf 4920
24. Bought an old motor cycle paying by cheque Rwf 18000
30. Paid wages for the month by cheque Rwf 7020

You are required to record the above transactions in the journal