

TOPIC THREE: BOOKS OF ACCOUNTS

Accounting cycle: The accounting cycle comprises a sequence of well-defined and interconnected steps that accountants and financial professionals follow to record, process, and report financial transactions. It offers a systematic approach to ensure that financial data is accurately recorded and that financial statements, such as income statements and balance sheets, are prepared consistently and promptly. The accounting cycle usually covers a specific period, such as a month, quarter, or fiscal year, depending on the reporting requirements of the entity.

What is Accounting Cycle?

Definition / Understanding

Key Phases

Significance

Conclusion



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Stages.

- Occurrence and documentation of transactions:** The initial step in the accounting cycle involves identifying and analyzing financial transactions. These transactions can encompass sales, purchases, investments, loans, and various other financial activities. Accountants must determine which accounts are affected by each transaction and whether it results in an increase or decrease in the account balances.
- Once transactions are identified, they are **recorded in the accounting system using a double-entry** accounting method. This means that every transaction affects at least two accounts, with one account debited (increased) and another account credited (decreased). This approach upholds the fundamental accounting equation: $\text{Assets} = \text{Liabilities} + \text{Equity}$.
- Posting to the General Ledger:** Transaction data is subsequently posted to the general ledger, which serves as the primary accounting record containing all the accounts used by the entity. Each account in the ledger is updated with the appropriate information from the transactions.

- d) **Trial Balance:** After all transactions are recorded and posted, a trial balance is prepared. This is a listing of all the ledger account balances, both debit and credit, designed to ensure that the accounting equation remains in equilibrium. Any discrepancies indicate errors in the recording process.
- e) **Adjusting Entries:** Adjusting entries are introduced at the end of the accounting period to account for accrued revenues, expenses, and other items that may not have been recorded during the regular transaction recording. These entries guarantee that the financial statements accurately represent the company's actual financial position.
- f) **Financial Statements:** Following the creation of adjusting entries, financial statements are prepared. The primary financial statements encompass the income statement, illustrating revenues and expenses, and the balance sheet, which presents the entity's assets, liabilities, and equity.
- g) **Closing Entries:** At the conclusion of the accounting period, temporary accounts (such as revenue and expense accounts) are closed, meaning their balances are transferred to the retained earnings account on the balance sheet. This procedure resets these accounts to zero for the new accounting period.
- h) **Post-Closing Trial Balance:** After closing entries are executed, a post-closing trial balance is compiled to verify that all temporary accounts have been appropriately closed and that the accounting equation remains in balance.

Significance of the Accounting Cycle

- 1. **Accuracy:** It ensures the accurate recording of financial transactions and the faithful representation of the entity's financial position in its financial statements.
- 2. **Consistency:** Following a structured accounting cycle fosters consistency in financial reporting, facilitating comparisons of financial data across different time frames.
- 3. **Transparency:** Well-documented and organized financial records enhance transparency, simplifying audits, compliance efforts, and earning the trust of stakeholders.
- 4. **Informed Decision-Making:** Timely access to accurate financial information generated through the accounting cycle is imperative for effective decision-making by both management and external stakeholders. **Source document:** When transactions occur, prepare evidence of the transactions of what are called source documents. These contain information to be recorded in the books of account. Example includes;
 - a) Buying and selling of goods and services
 - b) Returning goods

	Type of source document	Definition & description	Purpose /importance
1	Requisition form	It is official formal document on which a request is made. You have to fill the requisition form. It will detail such; name of goods/service, description, type and quantity. Store department will usually use this document	Helps to request for materials Helps to converted into a purchase order
2	Quotation	Formal statement setting out the estimated costs for a particular job/services for example cost for repairing a machine It is a document that seller provides to a buyer that offers good/services at stated price, under specific conditions deliver to buy/purchase	For a customer to know the costs of goods/services before they
3	An order	It is a basic document starting off the chain of events for provisioning the business organization with raw materials of finished goods requirements. When suitable conditions have been located, a purchasing officer or buyer will place orders for the supply of goods/services. This is duplicate, printed and having an address and details of the supplier, quantity, description, and price per unit, source of reference, time and place of delivery. Orders must be signed by authorized buyer only. AN EXAMPLE.	

		Erimu furniture co. ltd Po box 137, Kampala Email: erimu@yahoo.com No. 720 PURCHASE ORDER To;.....Quotation /Tender Ref..... Requisition No..... Please supply the following goods/services in good order and condition on or before.....and send the invoice immediately to General manager of Erimu co. ltd <table border="1"> <thead> <tr> <th>item</th><th>quantity</th><th>Unit price</th><th>total</th></tr> </thead> <tbody> <tr> <td>1. Zari</td><td>4</td><td>3.000</td><td>12,000</td></tr> <tr> <td>salt</td><td>5</td><td>2,500</td><td>12,500</td></tr> <tr> <td>2. Biscuits</td><td>6</td><td>2,000</td><td>12,000</td></tr> <tr> <td>3. Sweets</td><td></td><td></td><td></td></tr> <tr> <td>total</td><td></td><td></td><td></td></tr> </tbody> </table> Approved (Depart head) Authorized..... (Managing director)	item	quantity	Unit price	total	1. Zari	4	3.000	12,000	salt	5	2,500	12,500	2. Biscuits	6	2,000	12,000	3. Sweets				total				
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3. Sweets																											
total																											
4	Advice note	This is sent by the supplier to the buyer to advice receipt of order, and it indicates the time and conditions for fulfillment. It is a prudent course which improves the efficiency and even flow of supplies from a supplier to a buyer. Where documents are prepared in sets, advice note forms on of the sets prepared after receipt of the order.	Provides full details of the supplier's completion of the order from his/her customer																								

		MALUSIMBI HARDWARE LTD POBOX 720 Tel:..... Email: walusibi@yahoo.com Erimu furniture co. ltd Po box 137, Kampala Email: erimu@yahoo.com ADVICE NOTE NO. 346 Confirmation of your purchase order No. 123 The following goods will be dispatched to you from our warehouse against the respective prices on..... <table border="1"> <thead> <tr> <th>item</th><th>quant ity</th><th>Unit price</th><th>total</th></tr> </thead> <tbody> <tr> <td>4. Zari</td><td>4</td><td>3.000</td><td>12,000</td></tr> <tr> <td>salt</td><td>5</td><td>2,500</td><td>12,500</td></tr> <tr> <td>5. Biscuits</td><td>6</td><td>2,000</td><td>12,000</td></tr> <tr> <td>6. Sweets</td><td></td><td></td><td></td></tr> <tr> <td>total</td><td></td><td></td><td></td></tr> </tbody> </table> Sales manager..... Signature.....	item	quant ity	Unit price	total	4. Zari	4	3.000	12,000	salt	5	2,500	12,500	5. Biscuits	6	2,000	12,000	6. Sweets				total				
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5	Delivery note	Document prepared by the seller to accompany the delivery of the goods to the buyer. Its proof of the physical transfer Its gives a brief description of the goods to quantity, number of package, nature and quantity of goods being as quantity, quality. A qualified signature should be given if the goods are opened/damaged on receipt. The goods are then taken, recorded in the stores for costing purposes.	Provides proof of physical transfer of goods to the buyer who herself/himself authorized agent.																								

		MALUSIMBI HARDWARE LTD Date..... POBOX 720 Tel:..... Email: walusibi@yahoo.com To: Erimu furniture co. ltd DELIVERY NOTE NO. 36 Po box 137, Kampala Order no 720 Email: erimu@yahoo.com Please receive the below mentioned goods in good order and condition <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="width: 30%;">item</th> <th style="width: 15%;">quantity</th> <th style="width: 20%;">Unit price</th> <th style="width: 35%;">total</th> </tr> </thead> <tbody> <tr> <td>7. Zari</td> <td>4</td> <td>3.000</td> <td>12,000</td> </tr> <tr> <td> salt</td> <td>5</td> <td>2,500</td> <td>12,500</td> </tr> <tr> <td>8. Biscuits</td> <td>6</td> <td>2,000</td> <td>12,000</td> </tr> <tr> <td>9. Sweets</td> <td></td> <td></td> <td></td> </tr> <tr> <td> total</td> <td></td> <td></td> <td></td> </tr> </tbody> </table> Received by.....	item	quantity	Unit price	total	7. Zari	4	3.000	12,000	salt	5	2,500	12,500	8. Biscuits	6	2,000	12,000	9. Sweets				total					
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6	Goods received note	Records made to evidence the details of goods received, inspected, approved and placed in stock. Erimu furniture co. ltd Po box 137, Kampala Email: erimu@yahoo.com No. 112 GOODS RECEIVED NOTE No. 123 Supplier MALUSIMBI HARDWARE LTD Date..... POBOX 720 Tel:..... Email: walusibi@yahoo.com <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="width: 10%;">Item no.</th> <th style="width: 35%;">Description</th> <th style="width: 15%;">quantity</th> <th style="width: 15%;">Unit price</th> <th style="width: 25%;">total</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Zari salt</td> <td>4</td> <td>3.000</td> <td>12,000</td> </tr> <tr> <td>2</td> <td>Biscuits</td> <td>5</td> <td>2,500</td> <td>12,500</td> </tr> <tr> <td>4</td> <td>Sweets</td> <td>6</td> <td>2,000</td> <td>12,000</td> </tr> <tr> <td></td> <td>Total</td> <td></td> <td></td> <td></td> </tr> </tbody> </table> Goods received by Name.....Sign..... Checked and verified/certified by Name.....sign..... Stamp	Item no.	Description	quantity	Unit price	total	1	Zari salt	4	3.000	12,000	2	Biscuits	5	2,500	12,500	4	Sweets	6	2,000	12,000		Total				
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7	An invoice - Incoming invoices -out going invoices	a) shows a claim for money regarding goods sold on credit. It is a written demand for payment of goods purchased and sold on credit -Incoming invoices -received from the creditors -Outgoing invoices-sent to debtor INVOICE No. 213 Sold To: ERIMU FURNITURE CO. LTD MALUSIMBI HARDWARE LTD Email: walusibi@yahoo.com Po box 137, Kampala Email: erimu@yahoo.com POBOX 720 Tel:..... Invoice date... Order no. <table><tr><td>Item no.</td><td>Description</td><td>quantity</td><td>Unit price</td><td>total</td></tr><tr><td>1</td><td>Zari salt</td><td>4</td><td>3.000</td><td>12,000</td></tr><tr><td>2</td><td>Biscuits</td><td>5</td><td>2,500</td><td>12,500</td></tr><tr><td>4</td><td>Sweets</td><td>6</td><td>2,000</td><td>12,000</td></tr><tr><td></td><td>Total</td><td></td><td></td><td></td></tr></table> Prepared by.....	Item no.	Description	quantity	Unit price	total	1	Zari salt	4	3.000	12,000	2	Biscuits	5	2,500	12,500	4	Sweets	6	2,000	12,000		Total				
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8	Credit note	- Shows the decrease in a claim of money. Issued when part of the goods sold or purchased are returned or priced over-charged is reduced at a later stage -Out going credit notes- sent to debtors -Incoming credit notes- sent to creditors																										

		MALUSIMBI HARDWARE LTD POBOX 720 Email: walusibi@yahoo.com To: Erimu furniture co. ltd Po box 137, Kampala Email: erimu@yahoo.com Please receive the below mentioned goods in good order and condition <table border="1"> <thead> <tr> <th>item</th><th>quantity</th><th>Unit price</th><th>total</th></tr> </thead> <tbody> <tr> <td>10. Zari</td><td>4</td><td>3.000</td><td>12,000</td></tr> <tr> <td>salt</td><td>5</td><td>2,500</td><td>12,500</td></tr> <tr> <td>11. Biscuits</td><td>6</td><td>2,000</td><td><u>12,000</u></td></tr> <tr> <td>12. Sweets</td><td></td><td></td><td><u>36,500</u></td></tr> <tr> <td>total</td><td></td><td></td><td></td></tr> </tbody> </table>	item	quantity	Unit price	total	10. Zari	4	3.000	12,000	salt	5	2,500	12,500	11. Biscuits	6	2,000	<u>12,000</u>	12. Sweets			<u>36,500</u>	total				Date..... Tel:..... CREDIT NOTE 123 Oder no 720
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9	Debit note/supplementary invoice	a) - Sent by the seller to the buyer to correct for under- charge on the original invoice Erimu furniture co. ltd Po box 137, Kampala Email: erimu@yahoo.com To: MALUSIMBI HARDWARE LTD POBOX 720 Tel:..... Email: walusibi@yahoo.com DEBIT NOTE No. 12345 Please receive the below mentioned goods in good order and condition <table border="1"> <thead> <tr> <th>item</th><th>quantity</th><th>Unit price</th><th>total</th></tr> </thead> <tbody> <tr> <td>13. Zari</td><td>4</td><td>3.000</td><td>12,000</td></tr> <tr> <td>salt</td><td>5</td><td>2,500</td><td>12,500</td></tr> <tr> <td>14. Biscuits</td><td>6</td><td>2,000</td><td><u>12,000</u></td></tr> <tr> <td>15. Sweets</td><td></td><td></td><td><u>36,500</u></td></tr> <tr> <td>total</td><td></td><td></td><td></td></tr> </tbody> </table>	item	quantity	Unit price	total	13. Zari	4	3.000	12,000	salt	5	2,500	12,500	14. Biscuits	6	2,000	<u>12,000</u>	15. Sweets			<u>36,500</u>	total				
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total																											
10	Statement of account -statement of	The seller sends the statement of account to the buyer at the end of every month and it indicates the amount due from the buyer																									

	account sent by creditor to a debtor -Bank statement	MALUSIMBI HARDWARE LTD POBOX 720 Tel:..... Email: walusibi@yahoo.com STATEMENT <table><tr><th>Date</th><th>Invoice number</th><th>REF</th><th>Amount</th><th>Balance</th></tr><tr><td>1/8/2017</td><td>Invoice</td><td>4</td><td>12,000</td><td>10,000</td></tr><tr><td>5/8/2017</td><td>278/R</td><td>5</td><td>12,000</td><td>500</td></tr><tr><td>12/9/2017</td><td>Credit note Cheques 24</td><td>6</td><td>35,000</td><td>1,200</td></tr></table> <table><tr><td>Eleven thousand seven hundred shillings only Balance</td><td>11,500/= Balance</td></tr></table> Bank statement<table><tr><th>Date</th><th>details</th><th>withdrawals</th><th>deposit</th><th>balance</th></tr><tr><td>1/8/2017</td><td>Cheque 2810</td><td>200,000</td><td>200,000</td><td></td></tr><tr><td>5/8/2017</td><td>Cheque 210</td><td>10,000</td><td></td><td></td></tr><tr><td>12/9/2017</td><td>Cash</td><td></td><td></td><td></td></tr></table>	Date	Invoice number	REF	Amount	Balance	1/8/2017	Invoice	4	12,000	10,000	5/8/2017	278/R	5	12,000	500	12/9/2017	Credit note Cheques 24	6	35,000	1,200	Eleven thousand seven hundred shillings only Balance	11,500/= Balance	Date	details	withdrawals	deposit	balance	1/8/2017	Cheque 2810	200,000	200,000		5/8/2017	Cheque 210	10,000			12/9/2017	Cash				
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11	Remittance note	a) sent by the buyer to the seller together with a cheque at the end of the month and shows the details of the items against which that payment was made																																											

12	Receipt	Written acknowledgement of money received or paid out	
CASH RECEIPT FOR SERVICES. RECEIPT I have received from Mr/Mrs: _____ resident of _____, city of _____, State of _____, ZIP: _____, the sum of \$ _____, (_____ Dollars), referring to services such as: _____ PAYMENT WAS MADE BY: _____ Cash, _____ Check# _____, _____ Money Order or Cashier's Check# _____. Place and Date: _____, _____ of _____ 20____. Name: _____ Address: _____ _____ Signature Witness 1: _____ Witness 2: _____ Cash receipts represent a record of all financial transactions and the money generated through cash, check or credit sales, online sales, interest accrued through bank accounts or capital gained and investments. Receipts should be numbered and two copies. One copy is to be given to the payer and the other should be kept on file. Maintain a copy of all receipts and a log of all monies received. The log can be in electronic or manual (hand written) format and must contain the name of the payer, purpose of the payment, the amount received, and the form of payment (cash, check or credit).			

		Keep all checks and cash in a locked and secure area (preferably a safe) until it can be deposited. The sooner your checks and cash are deposited the less exposure to theft or loss of funds. Document all money transfers. If you are the one transferring money you should get a receipt as soon as possible. If you are the one receiving the transfer verify that the amount is actually what you are expecting before you provide a receipt.	
13	Pay in slip books	Are books containing sheets called pay-in slips which are used to record the deposit of money (cash, cheque) into the bank account	
14	Cheque	This is written order from the bank current account holder, addressed to his/her bank to pay a stated sum of money or to the order of the person named on the order or to its bearer	

1. BOOKS OF PRIME ENTRY/JOURNALS

A journal is a formal and chronological record of financial transactions before their values are accounted for in the general ledger as credits. This is where transaction's information is transferred from the source documents to the books of original entry. The journal is also known as the "Book of original entry/Subsidiary Books/Books of prime entry" and is the first place a transaction is listed/recorded. Companies must record each business transaction in the book of original journal entry, a step referred to as journalizing. Generally, journal entries are entered in the order of their transaction dates when transactions occurred. The books of prime entry are where transactions are first recorded. They are not part of the double-entry system, but may be expanded by the computer as a debit to one account and a credit to another account. For example, a cash receipts transaction may cause a debit (increase) to a cash account and a credit (decrease) to an accounts receivable account

Books of original entry/ daybooks/subsidiary books

Book of Original Entry	Transactions Recorded	Source Document Used
Sales day book/journal	All the sales invoices/credit sales of inventory (stock) to customers.	Sales invoices
Purchases day book/journal	All the purchase invoices/ credit purchases of inventory (stock)	Purchases invoices
Sales credits daybook/ sales returns journal / Return Inwards Journal	Goods returned by customers (all the sales credit notes / Returns inwards)	Credit note sent

Purchases credits daybook/purchases returns journal/Return Outwards Journal	Goods returned to suppliers (all the purchase credit notes / returns outwards)	Credit note received
Cash book / cash day book/journal	All cash and bank transactions, for example, cash sales, receipts from debtors (accounts receivables), and payments to creditors. For recording all money received as well as money paid out.	Bank deposit and withdrawal slips, cheques debit and credit card receipts
Petty Cash Book	Cash transactions of small value	Petty cash vouchers
General Journal	All transactions which cannot be recorded in any other book of original entry	Bills, receipts, vouchers, cancelled cheques.

The general journal/Journal/Journal proper

As you have seen, transactions can be entered directly into the accounts. However, this method makes identifying individual transactions or finding errors very difficult because the debit is recorded in one account and the credit in another. The solution is to record all transactions chronologically in a journal. The journal is sometimes called the book of original entry because it is where transactions first enter the accounting records. Later, the debit and credit portions of each transaction can be transferred to the appropriate accounts in the ledger.

A separate journal entry is used to record each transaction, and the process of recording transactions is called journalizing.

Most businesses have more than one kind of journal. The simplest and most flexible type is the general journal, the one we focus on in this chapter.

The general journal/Journal/Journal proper

Recall that this is the book of original entry also known as journal proper or principal journal, which used to record items of a non-routine nature which cannot be recorded in other books of prime entry. Unlike the subsidiary books, transactions in the general ledger are entered on a double entry basis and in the order of their occurrence. It is ruled with columns for date, details, folio and debit and credit amount columns and each transaction recorded therein is a true reflection of how such a transaction will appear in the ledger. A debit entry in the journal is still a debit entry in the ledger and likewise, a credit entry in the journal is still a credit entry in the ledger for the accounts concerned. Even though the journal is operated on double entry lines like the ledger, it remains subsidiary to the ledger. Whatever is entered in the journal has to be transferred to the ledger for permanent record.

Uses of a general journal

The general journal serves many useful purposes (*we have also seen this, but for emphasis*) such as the recording of:

- Opening balances at the beginning of a financial period.
- Purchase or sale on credit of non-trading items like non-current assets.
- Correction of errors made during the recording of transactions, balancing and closing accounts in the ledger.
- Transfer of amounts from one account to another in the ledger.
- Adjustments in accounts in respect of items relating to succeeding and preceding periods not connected with the present accounting period, which have not been taken into account.
- Adjustment at the close of the period (e.g. depreciation, bad debts, interest on capital).
- Closing accounts of a business at the end of its financial period.

A general journal is used to record transactions other than those specifically identified with other journals.

Entries in the general journal include the following information about each transaction:

1. The date.
2. The names of the accounts debited and the amounts on the same lines in the credit column.
3. The names of the accounts credited and the amounts on the same lines in the credit column.
4. An explanation of the transaction.
5. The account identification numbers, if appropriate.

Steps to record in the general journal

- Analyze the transaction
- Apply the rules of double entry
- Record the entry
- Post the entry
- Prepare Trial balance

The General journal

Date	Account Title And Explanations	Folio	a/c Debited (Shs)	a/c Credited (Shs)

Illustrations and solution

1. The following were the transactions of Sevo Ltd for the month of March 2014 AMOUNTS IN UGX ‘000’

March 1st started business with Ugx 14,000 cash at hand and 13,000 cash at Bank

March 4th bought goods for Ugx 1,700 cash

March 5th purchased a motor van for Ugx 11,100 by Cheque

March 8th sold goods for Ugx 1,400 cash

March 16th purchased more goods worth Ugx 1,600 on Credit from Chiko ltd

March 20th obtained a bank loan of Ugx 13,000 cash

March 23rd sold goods for Ugx 1,300 on credit to Doreen

March 26th Doreen paid Ugx 1,100 Cash

March 27th sold goods on credit to Fred for Ugx 1,200

March 30th Purchased goods from Paul on credit for Ugx 1,500

Required

Enter the above transactions in the general journal

Solution

SEVO general journal for the month of March 2014

Date	Account Title And Explanations	LP/Folio	Debit (Shs)	Credit (shs)
1 st march	Cash A/c Bank A/c Capital A/c Being cash at hand and Bank for starting Business	01 02 03	4,000,000 3,000,000	7,000,000
4 th	Purchases A/c Cash A/c Being purchases of goods using cash	04 01	700,000	700,000
5 th	Motor van A/c Bank A/c Being purchase of motor van using A cheque	05 02	1,500,000	1,500,000
8 th	Cash A/c Sales A/c Being sale of Goods for Cash	01 06	400,000	400,000
16 th	Purchases A/c Creditor's A/c Being Purchase of Goods on Credit From Chiko Ltd	04 07	600,000	600,000
20 th	Cash A/c Loan A/c Being a loan obtained	01 08	3,000,000	3,000,000
23 rd	Doreen's A/c (Debtor's A/c) Sales A/c To record sale of goods on credit to Doreen	09 06	300,000	300,000
26 th	Cash A/c Doreen's A/c To record Receipt of cash	01 09	100,000	100,000
27 th	Fred's A/c (Debtor's A/c)	09	200,000	

	Sales A/c To record sale of Goods to Fred on Credit	06		200,000
30 th	Purchases A/c Jean's A/c (Creditor's A/c) To record purchase of goods from Jean on credit	04 07	500,000	500,000
31 ST	TOTAL		14,300,000	14,300,000

2. Enter the following transactions of Yinna (U)ltd for the month of December ,2014 in a general journal, general ledger, trial balance and extract simple statement of financial position at that date

- i. On 1st Dec, Yinna ltd started business with cash of shs.2, 000,000 and shs.3, 000,000 at the bank.
- ii. On 3rd Dec, purchased goods for Ushs. 600,000 cash
- iii. On 6th Dec bought a Motor vehicle Ushs. 1,500,000 by cheque
- iv. On 7thDec, sold goods for Ushs.300,000 cash
- v. 15th Dec, purchased more goods on credit from TK ltd worth Ushs. 500,000
- vi. On 20th Dec obtained a bank loan of Ushs. 3,000,000 cash
- vii. 23rd Dec sold goods shs.200,000 on credit to Paul
- viii. On 25th Dec Paul paid Ushs. 80,000 cash
- ix. 26th Dec sold goods on credit to Mary for Ushs. 100,000
- x. 29th Dec purchased goods from John on credit for Ushs. 300,000

Advantages of Using Books of Original Entry

Whereas the use of books of original entry is a convenient way of the ultimate double entry rewriting, they also have disadvantages. The following are the advantages of books of original entry:

- (a) They eliminate unnecessary details from the ledger as only totals of the transactions are posted to the ledger accounts.
- (b) They contain some details which may become useful for reference and cross-checking such as quantities and unit prices, trade discount terms, etc.
- (c) They facilitate implementation of the double entry system as the risk of omission of one or both aspects of the entries is greatly reduced.
- (d) It is possible to have more information given in a subsidiary book than in the ledger. Every transaction in a subsidiary book is accompanied by a narration.
- (e) They minimize errors in recording transactions from source documents.

Disadvantages

- (a) Result in duplication of work.
- (b) May result in wastage of time.
- (c) Involve extra clerical labour and cost in terms of additional stationery for the journal.

Illustration and solution

1. The company sold goods on credit to the following people.

On May 1st sold goods to Jackie of Ugx. 400,000 and the invoice number was 011

On May 4th sold goods to James of Ugx 300,000, invoice number 016

On 7th sold goods to Peter Ugx 700,000, invoice number 018

On 10th sold goods to Meyer Ugx500,000 invoice number 020

Required: Prepare a Sales daybook

Sales Day Book

Date	Name of customer	Invoice number	Folio	amount
May 1 st	Jackie	011		400,000
4 th	James	016		300,000
7 th	Peter	018		700,000
10 th	Meyer	020		500,000
				1,900,000

2. The company bought the following goods on credit in the month of May

- On May 3rd bought goods from Stephen for Ugx.1,500,000,invoice number 10
- On 7th purchased from Brian for Ugx.3,000,000,invoice number 14
- On 20th purchased from Derrick for Ugx.2,000,000,invoice number 18
- On 22nd bought goods from Adrian for Ugx.700,000 ,invoice number 20

Required Record the above transactions in the purchases daybook

Purchases Day Book

Date	Name of creditor	Invoice number	Folio	Amount
May 3 rd	Stephen	10		1,500,000
7 th	Brian	14		3,000,000
20 th	Derrick	18		2,000,000
22 nd	Adrian	20		700,000
				7,200,000

3. The following customers returned goods to the company:

- On 3rd September David returned goods for Ugx.50,000 ,credit note number 012
- On 8th September Isaac returned goods for Ugx.80,000 ,credit note number 019
- On 20th September Deborah returned goods for Ugx.100,000, credit note number 020

Required Record the above transactions in return in wards daybook

Return in wards daybook

Date	Details	Credit number	note	Folio	Amount
3 rd September	David	012			50,000
8 th “	Isaac	019			80,000
20 th “	Deborah	020			<u>100,000</u>
Amounts to be transferred to the return inwards account					230,000

4. The company returned goods to the following suppliers

- On 4th May returned goods to peter of Ugx.80,000,debit note number 013
- On 28th May returned goods to Ivan of Ugx.130,000,debit note number 015
- On 30th May returned goods to Mark of Ugx.200,000,debit note number 018

Required: Record the above transactions in the return outwards daybook

Return outwards daybook

Date	Details	Debitnoten umber	Folio	Amount
4 th May	Peter	013		80,000
28 th May	Ivan	015		130,000
30 th May	Mark	018		<u>200,000</u>
Amounts to be transferred to the return outwards account				410,000

2. LEDGERS

Definition

A ledger is a book that has pages bound together or loosely connected, with each page containing the name of an account. All the transactions relevant to the account during a given period are entered on the concerned page. If the pages are bound together they constitute a book bound ledger, but if loosely connected together so that it is easy to extract a page or insert another, they constitute a loose-leaf ledger. A ledger could also be a stock of cards, each containing the name of an account. Such a ledger is called a card ledger. Also, a ledger in a computerized system could be a file which carries entries in cells. Three-column ledgers are usually card ledgers ruled with three columns for debit, credit and balance amounts in addition to columns for date and details. Such ledgers show the balance on the account after each transaction. They are posted using accounting machines and computers

The format of a ledger account

If a ledger account were to be kept in an actual book, rather than as a computer record, it might look like this:

For the rest of this chapter, we will assume that a manual system is being used, in order to illustrate fully the working of the ledger accounts. However, a computerized system performs the same functions although the actual ledger accounts may be 'hidden' inside the computer! There are two sides to the account, and an account heading on top, and so it is convenient to think in terms of 'T' accounts.

- a) On top of the account is its name.
- b) There is a left hand side, or debit side.
- c) There is a right hand side, or credit side.

Posting transactions from the Journals to the Ledgers

The transfer of transactions from the journals to the ledgers as we have already noted is referred to as **posting**. The transactions that appear in the debit column of the general journal will be posted to the debit side of the respective ledger. The transactions that appear in the credit column of the general journal will be posted on the credit side of the respective ledger account.

Double entry accounts are kept in various types of ledgers described as follows:

Sales ledger: This ledger, also known as debtors' ledger, contains personal accounts of credit customers or debtors. When a person buys goods on credit, an account is opened in his/her name in this ledger and will remain open until he/she settles the debt in full. A debtors' account is a personal account of a customer buying on credit whereas a sales account is an income account for amounts received from both cash and credit sales. It is

unnecessary to open an account in the sales ledger for someone who would purchase goods and pay for them immediately.

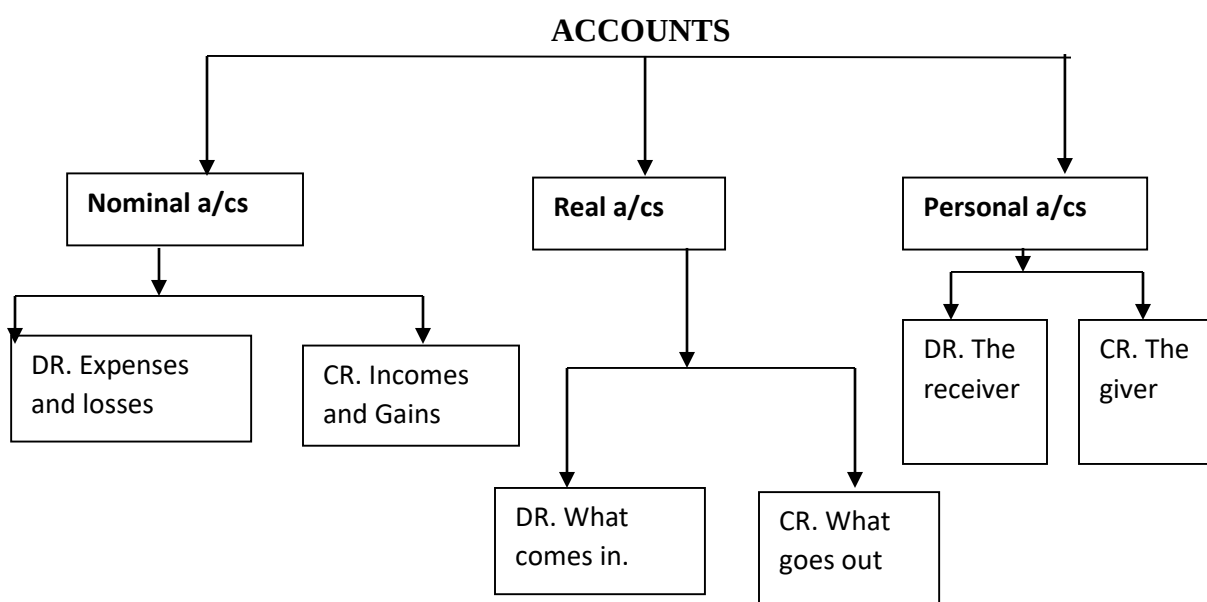
Purchases ledger: This ledger, also known as a creditors' ledger, contains the personal accounts of credit suppliers or creditors. All transactions affecting each and every creditor for goods for resale are posted to each creditors' personal account in the purchases ledger.

General ledger: This remaining accounts are recorded in the general ledger. They include nominal accounts (i.e. accounts for expenses and incomes, assets accounts, and personal accounts) except for stock debtors and stock creditors.

Balancing off an Account in the Ledger: To balance an account in the ledger is to ascertain the balance on the account. Add the amounts in the debit and credit sides separately. If the total debits are equal to the total credits, the account has zero balance and it is said to be closed off for the period. If totals of the two sides are different, transfer this difference to the side with a lesser amount so that the two sides are equal. If the debit side exceeds the credit side, the difference is placed on the credit side which represents a debit balance carried forward to the next period. If the credit side exceeds the debit side, the difference is placed on the debit side of the account and is a credit balance carried forward to the next period. The abbreviations "balance c/d" and "balance b/d" are used for balance carried down and balance brought down respectively.

Balances on Real and Personal Accounts

Real and personal accounts normally have balances carried forward to the next period. A debit balance on an asset account indicates the value of the concerned asset. We do not expect to have a negative value on an asset account and therefore canceling out the possibility of a credit balance on an asset. There is, however, a known exception; the bank account. Banks usually allow their customers to make an overdraw on their accounts, in form of a short-term loan. This is known as bank overdraft and it is shown on the bank account as a credit balance. A personal account with a debit balance indicates the money owed to the business and therefore the concerned account is a debtor. On the other hand, a creditor has a credit balance, to show that the business owes money to the concerned party.



Adapted from: Saleemi (1982)

We explain these as under;

Personal accounts - These accounts contain the name of a business, person or firm. In a ledger, there may be three types of personal accounts.

- **Capital account;** this account records the transactions between the proprietor and the business. Any amount invested or withdrawn by the proprietor is recorded in this account.
- **Creditors' account;** the persons to whom money is owed by the business are called creditors. The goods purchased on credit basis from suppliers create a liability of the business. These amounts owing to creditors are recorded in their personal accounts, which are opened separately for each creditor.
- **Debtors' account;** debtors are the persons owing money to the business. This money is owed to the business against goods sold to the customers on credit basis. A separate account is opened for each debtor.

Impersonal accounts – The accounts, which do not contain the name of any person or business, are called impersonal accounts. They may be of two kinds;

- **Real accounts;** these relate to tangible items. These accounts always represent something we can see, touch, or move. The accounts of assets like land and buildings, plant and machinery, motor vehicles, furniture and fittings and cash are real accounts.
- **Nominal accounts;** these relate to intangible items. These accounts record transactions for which we have nothing tangible to show; for example, purchases, rent, sales, wages and salaries, electricity, printing and stationery and so on.

ILLUSTRATION.

Kyadondo Tukole Enterprises had the following details on 1/7/2010.

Cash at hand Ugx.8,000,000

Cash at bank (2,000,000)

Land 4,000,000

Buildings 6,000,000

Motor vans 3,000,000

Loan 7,000,000

Capital ?

The following transaction occurred during the month of July 2010

1/7/2010. Cash sales 1,500,000

Cash purchases through bank 3,000,000

2/7/2010. Banked cash 4,000,000

4/7/2010. Sold a piece of land worth 1,800,000 receiving a cheque.

7/7/2010. Cash sales directly banked 1,200,000

18/7/2010. Paid 4,000,000 on bank loan.

22/7/2010. Additional capital cash 2,600,000

27/7/2010. Withdrew 800,000 from bank for office use.

Required: i) Journalise the above transactions.

(8 marks)

ii) Prepare Kyadondo Tukole Enterprises' ledger accounts duly balanced and extract a trial balance for the month.
(12 marks)

Total 20 marks.

THE GENERAL JOURNAL

DATE	DETAILS	LP	DEBIT	CREDIT
1/7/2010	Cash		1,500,000	
	Sales			1,500,000
	Being cash sales			
1/7/2010	Purchases		3,000,000	
	Bank			3,000,000
	Purchases by cheques			
2/7/2010	Bank		4,000,000	
	Cash			4,000,000
	Cash banked			
4/7/2010	Bank		1,800,000	
	Land			1,800,000
	Land sold through bank			
7/7/2010	Bank		1,200,000	
	Sales			1,200,000
	Sales directly banked			
18/7/2010	Loan		4,000,000	
	Cash			4,000,000
	Loan paid			

22/7/2010	Cash		2,600,000	
	Capital			2,600,000
	Additional capital in cash			
27/7/2010	Cash		800,000	
	Bank			800,000
	Cash withdrawn for biz use			

i) The ledgers

CASH a/c

DATE	DETAILS	LP	AMOUNT	DATE	DETAILS	LP	AMOUNT
1/7/2010	Bal.	b/d	8,000,000	2/7/2010	Bank		4,000,000
1/7/2010	Sales		1,500,000	31/7/10	Bal.	c/d	8,900,000
22/7/10	Capital		2,600,000				
27/7/10	Bank		800,000				
			12,900,000				12,900,000
1/8/2010	Bal.	b/d	8,900,000				

BANK a/c

DATE	DETAILS	LP	AMOUNT	DATE	DETAILS	LP	AMOUNT
2/7/2010	Cash		4,000,000	1/7/2010	Bal.	b/d	2,000,000
4/7/2010	Land		1,800,000	1/7/2010	Purchases		3,000,000
7/7/2010	Sales		1,200,000	18/7/10	Loan		4,000,000
31/7/10	Bal.	c/d	2,800,000	27/7/10	Cash		800,000
			9,800,000				9,800,000
				1/8/2010	Bal.	b/d	2,300,000

LAND a/c

DATE	DETAILS	LP	AMOUNT		DATE	DETAILS	LP	AMOUNT
1/7/2010	Bal.	b/d	4,000,000		4/7/2010	Bank		1,800,000
					31/7/10	Bal.	c/d	2,200,000
			4,000,000					4,000,000
1/8/2010	Bal.	b/d	2,300,000					

BUILDINGS a/c

DATE	DETAILS	LP	AMOUNT		DATE	DETAILS	LP	AMOUNT
1/7/2010	Bal.	b/d	6,000,000		31/7/10	Bal.	c/d	6,000,000
1/8/2010	Bal.	b/d	6,000,000					

MOTOR VANS a/c

DATE	DETAILS	LP	AMOUNT		DATE	DETAILS	LP	AMOUNT
1/7/2010	Bal.	b/d	3,000,000		31/7/10	Bal.	c/d	3,000,000
1/8/2010	Bal.	b/d	3,000,001					

LOAN a/c

DATE	DETAILS	LP	AMOUNT		DATE	DETAILS	LP	AMOUNT
18/7/10	Bank		4,000,000		1/7/2010	Bal.	b/d	7,000,000
31/7/10	Bal.	c/d	3,000,000					
			7,000,000					7,000,000
					1/8/2010	Bal.	b/d	3,000,000

CAPITAL**a/c**

DATE	DETAILS	LP	AMOUNT		DATE	DETAILS	LP	AMOUNT
31/7/10	Bal.	c/d	14,600,000		1/7/2010	Bal.	b/d	12,000,000
					22/7/10	Cash		2,600,000
			14,600,000					14,600,000
					1/8/2010	Bal.	b/d	14,600,000

PURCHASES a/c

DATE	DETAILS	LP	AMOUNT		DATE	DETAILS	LP	AMOUNT
1/7/2010	Bank		3,000,000		31/7/10	Bal.	c/d	3,000,000
1/8/2010	Bal.	b/d	3,000,000					

SALES a/c

DATE	DETAILS	LP	AMOUNT		DATE	DETAILS	LP	AMOUNT
31/7/10	Bal.	c/d	2,700,000		1/7/2010	Cash		1,500,000
					7/7/2010	Bank		1,200,000
			2,700,000					2,700,000
					1/8/2010	Bal.	b/d	2,700,000

KYADONDO TUKOLE ENTERPRISES

TRIAL BALANCE

AS AT 31/7/2010

DETAILS	LP	Dr. (UGX)	Cr. (UGX)
Cash		8,900,000	
Bank			2,800,000
Land		2,200,000	
Motorvans		3,000,000	
Buildings		6,000,000	
Loan			3,000,000
Capital			14,600,000
Purchases		3,000,000	
Sales			2,700,000
TOTAL		23,100,000	23,100,000

EXAMPLE 2

The following are the transactions of Kristine's business during her first month of trading.

- a. Kristine starts a business and pays in Shs 5,000,000 cash as capital
- b. The business buys a car for Shs 1,000,000 cash
- c. They buy goods for resale for Shs 500,000 cash
- d. They buy more goods for resale for Shs 600,000 on credit from Mr. A
- e. They pay rent of Shs 200,000 cash
- f. They sell half the goods for Shs 800,000 cash
- g. They sell the remaining goods on credit for Shs 900,000 to Mrs. X
- h. They pay Shs 400,000 cash on account of the amount owing to Mr. A
- i. They receive Shs 500,000 from Mrs. X
- j. Kristine withdraws Shs100,000 cash from the business
- k. Kristine received commission of Shs 400,000 cash from MTN for selling air time on their behalf.

Required: Record each transaction in t-accounts (Ledgers, balance off the each account and extract the balances from each and prepare a trial balance.

3. TRIAL BALANCE

The Purpose and Preparation of a Trial Balance

A **trial balance** is defined as a schedule of balances, both credit and debit, extracted from the accounts in the ledger. The trial balance is not an account but merely a list of balances for all assets, expenses and losses, liabilities, capital and income. Although the trial balance is not an account, the designation of the left side and the right side is usually followed, listing debit and credit items respectively.

The most commonly used method of coming up with a trial balance is by extracting from the various ledger accounts maintained by a business. As already noted each ledger account is balanced to ascertain the balance to be carried forward to the next accounting period. In the trial balance, asset account balances are recorded in the debit column while the accounts for liabilities and capital are recorded in the credit column. The nominal accounts, which relate to expenses and losses, are recorded in the debit column of the trial balance, but those that relate to items of income and revenue are recorded in the credit column of the trial balance. When constructing a trial balance therefore, place assets (e.g. motor vehicles, stock, cash in hand and at bank, etc); expenses (e.g. salaries and wages, rent and rates, discounts allowed, etc), in the debit column and liabilities (e.g. creditors, bank overdraft, unpaid salaries. Etc), revenues or incomes (e.g. sales, discounts received, rent received etc), in the credit column. A format of drawing a trial balance will be shown shortly.

If the accounts have been properly and accurately posted by the double entry system, the trial balance should balance (i.e. the amounts on the debit side must equal the amounts in the credit side). This shows evidence that every debit entry in one account had a corresponding credit entry in the other account.

The second method of extracting a trial balance is by use of control accounts. This method is explained in detail later in the book. It suffices to note however, the trial balances provides and serves as:

- a.** Proof of the arithmetical accuracy of the bookkeeping in the ledger. It is a test of the balances of the ledger accounts to check the entries made in the accounts.
- b.** Proof of the double entry posting accuracy of the book-keeping
- c.** Information for preparing final accounts (i.e. trading and profit and loss account for the year ending and a Statement of Financial Position as at a given date)

However, agreement of a trial balance is not sound proof that the bookkeeping has been carried out perfectly. There are certain bookkeeping errors that do not affect the agreement of a trial balance (we will return to this fact shortly). This limits the scope of a trial balance as a financial statement.

Errors not affecting the trial balance

Error type
1 error of Omission - a transaction is not recorded at all
2 Error of commission - an item is entered to the correct side of the wrong account (there is a debit and a credit here, so the records balance)
3 Error of principle - an item is posted to the correct side of the wrong type of account, as when cash paid for plant repairs (expense) is debited to plant account (asset) (errors of principle are really a special case of errors of commission, and once again there is a debit and a credit)
4 Error of original entry - an incorrect figure is entered in the records and then posted to the correct account Example: Cash Ugx1,000 for plant repairs is entered as Ugx100; plant repairs account is debited with Ugx100
5 Reversal of entries/error of complete reversal - the amount is correct, the accounts used are correct, but the account that should have been debited is credited and vice versa Example: Factory employees are used for plant maintenance:

Correct entry:
Debit: Plant maintenance
Credit: Factory wages
Easily done the wrong way round

6. Error of duplication

This error is committed when the same transaction is posted to the ledger twice along the correct principle of double entry system.

7 Compensating errors - two equal and opposite errors leave the trial balance balancing (this type of error is rare, and can be because a deliberate second error has been made to force the balancing of the records or to conceal a fraud) Yes, to correct each of the errors as discovered

RECORDING CASH TRANSACTIONS

Introduction

Cash and Cash transactions is an important and easy area to understand in accounting and bookkeeping. Every business and indeed every person receives cash and makes payments. All businesses and many people make a careful record of all receipts and payments. It is important to note that although cash is still used, most business receipts and payments are made through the banking system.

Receipts and payments of money are recorded in a book called the **cashbook**. The cashbook therefore is a book in which are recorded detailed particulars of all moneys received and paid. In essence, a cashbook is also a special journal. From the beginning of the double entry bookkeeping, businesses have found that a very large number of transactions consist of receiving and paying sums of money. Originally, these transactions involved actual payment and receipt of cash and hence the need to draw and keep a cashbook. In later times, while cash is still used, receipts and payments are also made by cheque through a bank account. Cash is still the pattern in many countries but in countries like in United States of America business transactions are almost wholly settled by cheque or some other bank instrument such as a direct debit. Other small and few cash transactions as do happen are recorded in the petty cash book. Thus, a cashbook is now used to record bank transactions but it is still called the cashbook. As result, there exists a relationship between a business's cashbook and records kept by the bank relating to a business's receipts and payments through the bank. This relationship is better examined through the medium of a business having to reconcile its cashbook (bank columns only) balance and the business's bank account balance. The process of reconciliation is what is known as bank reconciliation and hence bank reconciliation statements.

Types of Cash Books

One-column Cash Book

One-column cash book is the simplest version of a cash book being a mere ledger ruling with debit and credit columns and columns for dates, details, folio and amounts as shown. One the debit side are entered all cash receipts and on the credit side the cash payments. This is a typical cash account for businesses, which do not use and accept cheques

The specimen of a simple cash book is given as follows:

Dr. Receipts			Cr Payments		
Account title					
Date	Particulars	Amount	Date	Particulars	Amount

Balancing the Cash Book

The Cash book is balanced like any other account. The receipts column total will be more than the payments column total, the difference will be written on The Cr. Side as “By Bal c/d”

Example

Enter the following transactions in the single cash Book of Eliado.

2006

Jan 1 Cash in hand 12,000

Jan 5 Received from Ram 3,000

Jan 7 Paid Rent t 300

Jan 8 sold goods 7000

Jan 10 Paid Shyam 2000

Single Cash Book for Eliado for month of Jan 2006

Date	Particulars	Amount	Date	Particulars	Amount
2013		Shs	2013		Shs
Jan 1	To Bal b/d	12,000	Jan 7	By Rent	300
Jan 5	To Ram	3,000	Jan 10	By Shyam	2,000
Jan 8	To Sales	<u>7,000</u>	Jan 31	By Bal c/d	<u>17,000</u>
		<u>22,000</u>			<u>22,000</u>
	Bal b/d	17,000			

Two-column Cash Book

This is the most commonly used format of the cashbook. It involves recording bank and cash transactions. Bank transactions are recorded in the bank column and cash transactions are recorded in the cash column on Debit and Credit side respectively. A two-column cashbook has two amount columns on each side of the book. On the debit side, one column represents cash receipts, while the other represents bank receipts. Similarly, the cash and bank columns appear on the credit side to represent their respective payments.

The cashbook is balanced by comparing totals of each account column on either side in the same way the ledger accounts are balanced. For instance, in the following example the debit cash column totals Ugx.83, 200 while that of the credit side is Ugx. 45,456. To make the totals agree on both sides, a balance of Ugx.37, 744 is inserted on the credit side. The same rule applies to balancing off the bank columns.

Format of the Double Column Cash Book

Debit Side

Credit Side

Date	Particulars		Folio	Cash	Bank	Date	Particulars	Folio	Cash	Bank

Example

CONTRA/CROSSING ENTRIES

These are entries whose double entry is completed within the cash book. Contra entries are not posted to the ledger accounts because their double entry is completed with the cash book. Since both cash and bank accounts are in the cash book, it is possible to complete the double entry in the cash book if the transaction involves both accounts. When this happens it is described as a contra entry and they are identified by letter “C” in the folio column. If an amount is entered on the debit side of the cash book, and the exact amount is again entered on the credit side of the same account, it is called "contra entry". Similarly an amount entered on the credit side of an account also may have a contra entry on the debit side of the same account.

Contra entries are passed when:

Payment of cash into bank/ cash deposited into bank

Dr. Bank A/c

Cr. Cash A/c

Cheque is drawn (drew a cheque) for office use.

Dr. Cash A/c

Cr. Bank A/c

Cash is withdrawn from the bank for use in the office, Business use or any other business related activities.

Dr. Cash A/c

Cr. Bank A/c

Opened a bank account paying in cash, Banked Cash, Cashed Cheque

Dr. Bank A/c

Cr. Cash A/c

Drawings

This is when the business owner/ employees use the business money, stock or any other business resources for their own dealings or activities that do not benefit the business for example withdrawing money from business bank A/c for personal use.

Dr. Drawings A/c

Cr. Bank A/c

Taking away business purchases / stock for home use, giving relatives, boy and girl friends, parents

Dr. Drawings A/c

Cr. Purchases A/c

Example

The following transactions were extracted from the book of Duncan Mugumya for the period of March 2010.

March	1	Balance brought forward
		Cash Ugx.24,000 (Debit)
		Bank Ugx.28,400 (Debit)
March	1	Paid rent cash Ugx.2,400
March	2	Made payment for telephone and postage by cash Ugx.384
March	4	Paid by cash for sundry expenses Ugx.240
March	8	Sold goods and was paid by cash Ugx.59,200
March	10	Received payment by cheque from Jalia Ugx.3,840
March	11	Deposited cash in bank Ugx.28,800
March	13	Payment by cheque was made to BalakiPege Ugx.20,250
March	20	Paid for advertisement in cash Ugx.1,152
March	29	Sent cheque to William Kareithi Ugx.7,200
March	31	Drew cheque for own use Ugx.4,800
March	31	Paid Ugx.12, 480 cash into bank

Required: Show the above transactions in a two-column cashbook balance it off and bring down the balances. (Ignore double entry for the rest of the accounts).

Solution:**DUNCAN MUGUMYA**

Dr					Cash Book for the Month of March 2010					Cr				
2010	Details	F	Cash	Bank	2010	Details	F	Cash	Bank					
			Ugx.	Ugx.				Ugx.	Ugx.					
Mar 1	Balance b/f		24,000	38,400	Mar	Rent		2,400						
Mar 8	Sales		59,200		1	Telephone &		384						
Mar 10	Jalia			3,840	2	Postage								
Mar 11	Cash	C		28,800	4	Sundry expenses		240						
Mar 31	Cash	C		12,480	11	Bank	C	28,800						
					13	BalakiPege			20,250					
					20	Advertising		1,152						
					29	William Kareithi			7,200					
					31	Drawings			4,800					
					31	Bank	C	12,480						
					31	Bal c/f		37,744	51,270					
								83,520	83,520					
			83,200	83,520										
April 1	Bal b/d		37,744	51,270										

Three-column Cash Book

A three-column cashbook has an additional column on the debit side, to record discounts allowed and on the credit side the additional column records discounts received. Every debit entry made in the cashbook for discount allowed has a corresponding credit entry in the debtor's ledger, in the account of the debtor being allowed the cash discount. Similarly, every credit entry of discount received made in the cashbook, has a corresponding debit entry in the creditor's ledger in the account of the creditor from whom discount is received.

At the end of an accounting period, amounts in the discount column are separately added up for each column. Note that the discount columns, unlike the cash and bank columns, are not balanced off. Each discount column shows the actual totals. The totals are then posted into the general ledger in the respective discount accounts. The total of the discount allowed column is posted on the debit side of the discount allowed account likewise the total of the discount received columns are posted on the credit side of the discount received account.

It is important for you to understand the alternative method whereby a three-column cash book is not used. In this case, each individual discount entry is made in the general ledger, in the concerned account, instead of posting in it only total amounts. We illustrate this point before showing a three-column cashbook. First we make a distinction between trade and cash discounts.

Trade Discounts

In order to encourage customers to buy more, a supplier may offer his/her goods at a slightly, lower price to those customers buying in large quantities. The difference between the actual price and the lower price offered for buying in large quantity is called a trade discount. The supplier's invoice states the actual amount payable, net of trade discount. Trade discounts are thus not transactions to be recorded in the books of account.

Cash Discounts

In order to encourage credit customers to settle their accounts promptly, an allowance for prompt payment is given based on the firm's credit policy. This allowance for prompt payment is called a cash discount. To the credit supplier, it is a trading loss as the customer eventually pays less than the amount originally payable for the goods. This credit loss is called a discount allowed and it is treated as an expense against sales income. To the credit customer it is a trading gain as he/she pays less than the original price of the goods. This credit gain is called a discount received and it is treated as an income.

Format of the Three Column Cash Book:

Debit Side						Credit Side					
Date	Particulars	L.F.	Dis-allowed	Cash	Bank	Date	Particulars	L.F.	Dis-Received	Cash	Bank

Example

Record the following transactions of Seren Dippity, a retailer, in his three column cash book for the month of April 2006 amounts in Ugandan Shillings

April	01	Cash at bank	1,800
	03	Cash sales	1,490
	08	Paid cash for cleaning	124
	10	Received a cheque from B. Calm	1,500
	15	Purchases paid by cheque	1,380
	17	Paid rent by cheque	750
	19	Received a cheque from S. Leep to settle his account of 700 less 5% cash discount	
	21	Paid cash into bank	1,200
	24	Received 900 cash from P. Paine to settle his account of 950	
	26	Paid D. Serene by cheque to settle an account of 840 less 5% cash discount.	

SEREN DIPPITY THREE COLUMN CASH BOOK FOR THE MONTH OF APRIL 2006

Dr						Cr					
Date	Details (RECEIPTS)	F	Dis. All	Cash	Bank	Date	Details (PAYMENTS)	F	Dis. Rec	Cash	Bank
4/1	Balance b/f				1,800	4/8	Cleaning			124	
4/3	Sales			1,490		4/15	Purchases				1,380
4/10	B. Calm				1,500	4/17	Rent				750
4/19	S. Leep		35		665	4/21	Bank	C		1,200	
4/21	Cash	C			1,200	4/26	S. Serene		42		798
4/24	P. Paine		50	900		4/30	Balance c/d			1,066	2,237
			85	<u>2,390</u>	<u>5,165</u>				42	<u>2,390</u>	<u>5,165</u>
5/1	Balance b/d			1,066	2,237						

The petty cashbook and the imprest system

The Petty Cash Book

Where the practice is to bank all the cash & cheques received on a daily basis and to make all payments by cheque, small disbursements will be passed through a petty cashbook. This is a columnar form of book having on the credit side, analysis columns, with appropriate headings, for the more usual classes of expenditure. This method enables the petty cashier to analyze the expenditure as it occurs, carrying forward the totals from page to page until the end of the month. A separate column, headed “ledger” is usually provided to accommodate payments relating to personal A/Cs and those infrequent items of expenditure for which the analysis columns provided are unsuitable.

It is obvious that the combined totals of the analysis and “ledger” columns must be equal to the total expenditure for the period as shown in the “total payments” column.

The imprest system.

This is a system of dealing with petty cash transactions where a specified sum is definitely allotted to the person in charge of the petty cash book. This sum is handed to the petty cashier in the first instance, and at periodical intervals (monthly or otherwise as arranged) a cheque for the exact amount of petty cash disbursed for the period concerned is given to him thus bringing his cash balance up to the agreed figure again. Therefore at the beginning of each new period, the balance of petty cash in hand is always the fixed “**imprest**” amount. The cheques for the advances for petty cash are entered in the cashbook (Credit side) and posted to the debit side of the petty cash book.

The petty cashbook contains analysis columns as mentioned above, for analyzing the expenditure, and the total of these analysis columns are posted periodically to the debit of the appropriate nominal Accounts in the general ledger, or to the personal or real Accounts affected if any payments relating to such Accounts are made through the petty cash. By this method, the petty cash book is not only a book of original entry but it is also an essential part of the double entry book keeping system, and the balance of petty cash in hand must therefore be included in the trial balance.

Advantages of using the imprest system

- The amount of money in the hands of the petty cashier is limited to the imprest amount.
- Extravagance will be revealed by keeping a watch on the amount refunded to the petty cashier period by period.

- (c) At any time the amount of cash in hand plus expenses not reimbursed must equal the imprest amount that is say Ugx.20,000 or Ugx.30,000 thus facilitating a simple check.
- (d) To the petty cashier the system has the advantage that his liability to account for moneys expended can never exceed the imprest amount.
- (e) His “account” is normally agreed weekly or monthly and there is no possibility of him being required to account for transactions which occurred in the far distant past, as might otherwise be the case.

PREPARING BANK RECONCILIATION STATEMENTS

In this CHAPTER, we look at the way in which a business deals with any differences between the balance of the bank account in the cashbook and the closing balance of the bank account shown by the bank statement for the same period.

These differences are explained by a document known as a bank reconciliation statement: which lists

- Items, which are in the cashbook but not on the bank statement
- Items which are on the bank statement but not in the cash book

This process is an important one: it enables the business to update its cashbook and also helps to prove the accuracy of the bookkeeping of the business and the bank.

Cashbook-two column cash book

The Bank Statement

A bank statement is a copy of a bank account as shown by the bank records. Bank statements are sent out to customers on a regular basis, for example every month. This enables the customer to check their funds in the bank (or borrowing on overdraft) regularly and to update their own records of transactions that have occurred. It could be, for example, that the bank has not previously notified them of a certain deduction from the account, for example bank charges. An example of a bank statement is shown below: You should familiar with the details of payments – e.g. SO (standing order), DD (direct debit), BGC (bank giro credit), BACS (Bankers Automated Clearing Services).

Objectives

Prepare a Bank Reconciliation Statement

- Compare transactions that appear on both Cash Book and Bank Statement
- Update Cash Book from details of transactions appearing on Bank Statement
- Balance the bank columns of the Cash Book to calculate the revised balance

Complete a Bank Reconciliation Statement

- Enter correct date of the statement
- Enter the balance at bank as per the Cash Book
- Enter details of un presented cheques
- Enter sub-total on reconciliation statement
- Enter details of bank lodgements
- Calculate balance as per Bank Statement

THE NEED FOR AN ACCURATE CASH BOOK

Most organizations keep a record of their cash and bank transactions in a cashbook. The cashbook contains a record of both the cash account and the bank account and shows the balance in each account at the end of a period. Once the cashbook has been balanced off, it is usual to check the details with the records of the firm’s bank

transactions as recorded by the bank. To enable this check to be made the cashier will need to ensure that the cashbook is completely up-to-date and a recent bank statement has been obtained from the bank.

Often, when a comparison is made between the bank balances as shown in the firm's cash book with that shown on the bank statement, the two balances will be different. It is for this reason that a **bank reconciliation statement** is prepared to **reconcile** ('tally up') the two balances. The reconciliation may identify errors that may have been made in either the firm's cashbook or in the bank's records. Any corrections can then be made. An example of a bank reconciliation statement is shown below. As you can see, it is a very simple calculation.

WHY DO YOU NEED A BANK RECONCILIATION STATEMENT?

Bank reconciliation is the process of bringing cashbook and bank statement balances into agreement by adjusting an account balance reported by a bank to reflect transactions that have occurred since the reporting date. The process by which you compare the information in the company's records with the statements provided each month by the bank for the bank account and deal with the difference so that the bank's records and the company's records balance.

Banks furnish a depositor with a bank statement once each month. Included with the statement are usually the canceled cheques and any debit or credit memos that have affected the amount. During any month, besides the cheques drawn, the bank may deduct from the account amounts for service charges, returned cheques and for errors. The bank notifies the depositor of each deduction with a debit memo. The bank may also add amounts to the depositor's account for errors and interest. A credit memo is used to notify of any additions. A copy of each memorandum should be included with the monthly statement.

Entries on the customer's bank account in the bank

When a cheque or cash is deposited, the customer account will be credited in the bank. When the customer withdraws cash or when payments are made out of the customer's account, the account is debited.

Entries in the customer's cashbook (bank column)

The bank column of the cashbook shows the transactions of the customer with its bankers. A customer who deposits money debits his cashbook and when a withdrawal is made, the cashbook is credited.

Agreement of the cash and bank balances

When all receipts are deposited intact and all payments are made by check, the bank statement becomes a device for proving the cash in bank account. The proof normally begins with the preparation of a reconciliation of the bank balance. To simplify this process, request the cutoff date of the bank statement to be the last working day of the month. Thus, if all credits in the bank were also debited to the cashbook and all debits in the bank were credited in the cashbook and vice-versa, the two balances would agree and there would be no need of bank reconciliation. However, this is not always the case. The balance as per bank statement rarely agrees with the balance as per cashbook and thus the need to prepare a bank reconciliation statement.

'Reconciliation' between the cashbook and the bank statement final balance simply means **an explanation of the differences**. This explanation takes the form of a written calculation.

Need of Bank Reconciliation Statement

1. It helps to understand the actual Bank balance.
2. It helps to identify the mistakes in the Cash Book and the Pass Book.

3. It helps to detect and prevent frauds and errors in recording the Banking transactions.
4. It helps to incorporate certain expenditures/income debited/credited by Bank in the books of accounts.

Differences between the cash book and the bank statement can arise from.

Numerous things may cause the bank statement balance to differ from the cash balance in the general ledger

i) Outstanding Checks/ Unpresented cheques:

These are checks that have been written and are listed on the cash disbursement journal but have not cleared through the bank. They are drawn and credited in the cashbook but not presented to the bank for payment. These cheques are not debited to the bank statement.

ii) Unrecorded Deposits/ Uncredited cheques (also called Deposits in Transit):

Often deposits are made on the day following the last day of the month; consequently, these deposits do not appear on the bank statement for that month but they appear on the cash receipts journal. Deposited to the bank and debited to the cashbook but not credited by the bank.

iii) Direct debits, Charges for Services and Non-Collectable Items:

A bank often deducts amounts from a depositor's account for services rendered and for returned checks. The bank notifies you of each deduction with a debit memo. These deductions should be recorded as soon as they are received. They are debits in the bank statement not credited to the cashbook and payments effected by the bank without requiring a cheque to be issued by the account holder. Since cheques are not issued for such payments, they are not recorded in the cashbook yet debited in the bank statement. They include the following.

Bank charges,

The bank, for services offered to the account holder, levies these charges; they include ledger fees, commission and many others.

Standing orders (SO)

These are arrangements where the account holder instructs the bank to make certain routine and fixed type of payments directly to the payees on behalf of the account holder. The account holder does not issue cheques for these types of payments. Such transactions include; insurance premiums, paying utility organizations such as water bills and telephone charges. Others include paying interest and amortizing fixed installment loans.

If the deduction occurs close to the end of the month, it may not show on the bank statement.

iv) Direct credits and Interest earned: (credits in the bank statement not debited to the cashbook)

These are receipts that are directly credited to the bank statement without having been debited to the cashbook. For instance, some debtors may clear their indebtedness by paying directly to the payee's bank account and some accounts earn interest that is posted to the account by the bank at the end of the month making the bank statement the only notification.

Credit advice notes (credit memo) and debit advice notes

A credit advice note (credit memo) and a direct debit note for direct credits and direct debits are sent to the account holder and may not be included in the cashbook.

v) Clerical errors

Errors made in recording amounts or wrong postings in the cashbook or bank statement make the cashbook and bank statement balances disagree. Regardless of care and systems of internal control, both the bank and the depositor may make errors that affect a bank balance. These errors are not discovered until the balance is reconciled.

vi) Dishonoured cheques

When a bank refuses to pay or recognize a cheque as an instrument for transferring money from one person to another, such a cheque is a dishonoured cheque.

Why are cheques dishonoured?

- Lack of sufficient funds on the account
- Amount in words differing from amount in figures
- Drawer's signature differing from specimen signatures held by the bank
- Expired cheques (cheques get stale or expire six months from the date on the cheque).
- Alterations on the cheque not counter signed.
- If there is no account title on the cheque
- Where drawer's confirmation is required by contract and cheques are not confirmed.
- When the payee's identity is doubted
- For some cheques, if payment vouchers are required and are not presented

Benefits of bank reconciliation

The trader finds it necessary to draw a bank reconciliation statement following the benefits stated:

- a) Fraud may otherwise continue for some time without being detected.
- b) Errors in the cash book are immediately corrected.
- c) Errors detected on the bank statement are immediately brought to the attention of the bank for appropriate action.
- d) Delays in clearing deposits and presenting cheques are identified and dealt with.
- e) All the used and unused cheque leaves are accounted for.
- f) State cheques are identified and written back.
- g) Cash book balances and bank statement balances are agreed thereby confirming the correct bank balances.

PREPARING THE BANK RECONCILIATION STATEMENT

STEP ONE: Compare the deposits listed on the bank statement with deposits recorded in the cheque register and the cash receipts journal. Identify any differences and determine which is correct. List the deposits in transit for each account on the reconciliation form.

STEP TWO: Compare the canceled checks listed on each bank statement. Note any discrepancies. Review the previous month's reconciliation and check off the cheques that cleared during the current month that were outstanding last month. List any checks that are still outstanding. Verify all deposits in transit that were listed last month to assure that they have been recorded by the bank on the current statement.

STEP THREE: Compare each of the cheques with its entry in the cash disbursement journal. Identify any corrections or discrepancies. List any outstanding checks on the reconciliation form.

STEP FOUR: Determine if any debits or credits appearing on the bank statement need to be recorded in the cheque register. Make general journal entries to record them. Any corrections to deposits or

cheques noted should be made by general journal entries. Do not go back and change the cash disbursement or cash receipts journals. Changes to those records must be made in the following month through general journal entries. The purpose of reconciling the bank statement is to verify balances per your chequebook and to resolve discrepancies. If discrepancies or bank errors are found, notify the bank immediately.

STEP FIVE: Compare each of the cheques with its entry in the cash disbursement journal. Identify any corrections or discrepancies. List any outstanding checks on the reconciliation form. Determine if any debits or credits appearing on the bank statement need to be recorded in the cheque register. Make general journal entries to record them. Any corrections to deposits or cheques noted should be made by general journal entries. Do not go back and change the cash disbursement or cash receipts journals. Changes to those records must be made in the following month through general journal entries. The purpose of reconciling the bank statement is to verify balances per your chequebook and to resolve discrepancies. If discrepancies or bank errors are found, notify the bank immediately.

Bank statement

This is a summary of transactions between the account holder and the bank. The transactions include deposit and withdrawals to and from the account respectively. The bank statement also shows the running balance after every transaction. Banks prepare bank statements for their account holders at the end of each month or any time on request.

Relevance of Bank reconciliation

- Bank reconciliation strengthens an organizations internal control system through detection and prevention of fraud.
- When bank transactions are involved, manipulations in the cashbook can be discovered.
- It enhances accuracy of records.
- A mistake in either the cashbook or the bank statement can be discovered and corrected during the process of bank reconciliation

Methods of bank reconciliation

There are three major methods of bank reconciliation

- i) You can begin with the cashbook balance, adjusting, updating or correcting the cashbook and then preparing a bank reconciliation statement. The aim of this method is to arrive at the bank statement balance.
- ii) Beginning with the bank statement balance and working towards the cashbook balance.
- iii) Adjusting the cashbook balance and adjusting the bank statement balance. The aim is to show whether the two adjusted balances agree.

As are a number of methods or ways by which a bank reconciliation can be prepared the method adopted by this book is that prepare an adjusted cashbook (Bringing the cash book up to date) and then proceeding to prepare a reconciliation statement.

1. Enter the cash book balance
2. Add unpresented cheques
3. Deduct outstanding bank lodgment
4. Completing the reconciliation

Illustration

a) The following bank statement was received by New Designs ltd on 31 December, 2018

Date December,2018	Particulars	Debits Ugx	Credits Ugx	Balances Ugx
1 st	Bal b/d			2,000,000
2 nd	Bukenya Moses		50,000	2,050,000
8 th	Duuki Bran	150,000		1,900,000
10 th	Cheque No.021		93,000	1,993,000
14 th	Bukenya Stephen	88,000		1,905,000
16 th	Cheque No.031		300,000	2,205,000
18 th	Standing order	44,000		2,161,000
31 st	Bank charges	10,000		2,151,000

New Designs ltd

Cash Book

Date December, 2018	Particulars	Debit Ugx	Date December ,2018	Particular	Credit Ugx
1 st	Bal b/d	2,000,000	1 st	Duuki Bran	150,000
2 nd	Bukenya Moses	50,000	7 th	Cheque No.010	80,000
8 th	Cheque No.021	9,300	11 th	Kojja Blarks	90,000
10 th	Akullo Sylvia	79,000	26 th	Organge sports club	57,000
14 th	Bukenya Stephen	88,000	28 th	Cheque No. 029	50,000
15 th	Mukasa Brian	182,000	31 st	Balance c/d	1,981,300
		<u>2,408,300</u>			<u>2,408,300</u>

Note:

- 1) The bank dishonored cheque No. 010 written on December 7,2018
- 2) Any other error if found is deemed to have occurred in the cash book

Required:

- a) Prepare adjusted cash book of New Design ltd saloon as at 31/12/2018.
- b) Prepare bank reconciliation statement for the month ended 31/12/2018 for New Designs ltd

solution

New Design ltd adjusted cash book

as at December 31, 2018

Dr		Cr	
Bal b/f	1,981,300		
<u>Direct credits</u>		<u>Direct debits</u>	
DH chqn	80,000	Standing order	44,000
Chqn 031	300,000	Bank charges	10,000
Error	83,700	Error	176,000
		Bal c/d	2,215,000
	<u>2,445,000</u>		<u>2,445,000</u>

Bank reconciliation statement

Balance as per adjusted cash book	Ugx	Ugx
		2,215,000
Add: Un-presented cheques		
Kojja barks	90,000	
Organge sports club	57,000	
Chqn 029	<u>50,000</u>	<u>197,000</u>
		2,412,000
Less: Un-credited cheques		
Akullo Slyvia	79,000	
Mukasa Brian	<u>182,000</u>	<u>261,000</u>
Balance per the bank statement		2,151,000

QUESTION TWO

Joyce is an inexperienced bookkeeper for MAMA LOVINCE enterprise and needs assistance to complete the current account bank reconciliation for the month of May 2019. She has provided the following information. On 31 May 2019, the bank column of the cashbook showed a debit balance of 692,000/=. The bank statement on the same date showed a credit balance of 740,600/=. Comparisons of the cashbook and the bank statement for May showed the following;

- i. The bank made a direct debit of 30,000/= for a magazine subscription on 3rd May 2019.
- ii. A loan repayment of 180,000/= was paid by a standing order on 15th May 2019.
- iii. Bank charges of 10,800 and a loan interest of 24,000/= were charged to the account on 31st May 2019.
- iv. Cheques totaling 163,000/= paid into the bank in may had not been credited to the account on 31st May 2019.
- v. On May 4th, a credit transfer of 290,000/= was received from a customer, M. Walsumbi.
- vi. A cheque from M. Makumbi for 276,000/= banked on 29th May 2019 was returned unpaid on 31st May 2019.
- vii. Cheques drawn on 27th May 2019, totaling 335,400/= had not yet been presented to the bank.
- viii. A cheque entered in the cashbook as credit of 152,800/= should have been for 125,800/=.
 - ix. Kaka supplies Ltd was paid cheque for 80,000/= but returned it on 25th may 2019. Unpaid.

Required:

- a) Adjust MAMA LOVINCE enterprise' cashbook
- b) Prepare a bank reconciliation statement

solution

Mama Lovince's adjusted cash book as at May 30th , 2019

Bal b/f	692,000		
<u>Direct credits</u>		<u>Direct debits</u>	
Transfer	290,000	Magazine	30,000
Correction	27,000	Bank charges	10,800
DH reverse	80,000	Loan repayment	180,000
		Interest	24,000
		DH cheque	276,000
		Bal c/d	<u>568,200</u>
	<u>1,089,000</u>		<u>1,089,000</u>

Bank reconciliation statement

Balance as per adjusted cash book	Ugx	Ugx
		1,089,200
Add: <u>Un-presented cheques</u>		
Chqn not presented	<u>335,400</u>	<u>335,400</u>
		1,424,600
Less: <u>Un-credited cheque</u>		
Chn not credited	<u>163,000</u>	<u>163,000</u>
Balance per the bank statement		740,600

QUESTION THREE.

Mr. Bukenya runs a current account with Nile Bank. He has received a bank statement showing his transactions with the bank in the month of December 2004 as follows.

M. Bukenya

Bank statement for the month of Dec. 2004

Date	Particulars	Dr. (UGX)	Cr. (UGX)	Balance (UGX)
1/12/2004	Balance B/f			1,600,000
	Chq. No. 202		8,000,000✓	9,600,000
	Chq. No. 1002	1,000,000✓		8,600,000
	Chq. No. 204		500,000✓	9,100,000
	Chq. No. 1003	2,000,000✓		7,100,000
	Salary deposit		1,700,000	8,800,000
	S.O-MTN (Airtime)	100,000		8,700,000
	Bank charges	200,000		8,500,000

The following is an extract of his cashbook.

M. Bukenya's Cashbook

Date	Particulars	Debit (UGX)	Date	Particulars	Credit (UGX)
1/12/04	Balance b/f	1,600,000		Chq. No. 1001	500,000
	Chq. No. 201	1,000,000		Chq. No. 1002	1,000,000✓
	Chq. No. 202	8,000,000✓		Chq. No. 1003	2,000,000✓
	Chq. No. 203	4,500,000		Chq. No. 1004	2,500,000
	Chq. No. 204	500,000✓		Bal c/f	9,600,000
	Total	<u>15,600,000</u>		Total	<u>15,600,000</u>

Note: Ignore Dates

Required: Reconcile the bank statement and cashbook balances

Solution

Step 1: Check off all the transactions that appear both in the cashbook and bank statement with right amount on the right sides. (See items with the symbol (✓) in the question above).

Step 2: Prepare an adjusted cashbook as follows.

M. Bukenya's adjusted Cashbook

Date	Particulars	Debit (UGX)	Date	Particulars	Credit (UGX)
1/1/05	Balance b/f	9,600,000		D. Dr. S.O-MTN (Airtime)	100,000
	D. Cr. Salary	1,700,000		D. Dr. Bank charges	200,000
				Bal c/f	11,000,000
	Total	<u>15,600,000</u>		Total	<u>15,600,000</u>

Step 3: Prepare a bank reconciliation statement as follows

M. Bukenya's Bank reconciliation statement

Balance as per adjusted cashbook		11,000,000
Add: Unpresented cheques		
Chq. No. 1001	500,000	
Chq. No. 1004	2,500,000	<u>3,000,000</u>
		14,000,000
Less: Uncredited cheques		
Chq No. 201	1,000,000	
Chq No. 203	4,500,000	<u>(5,500,000)</u>
Balance as per bank statement		8,500,000

Illustration Four

Using the following information, prepare a bank reconciliation statement for Goodshed Ltd for the month of august.

Extracts form Goodshed Ltd's Bank reconciliation statement for the previous month

Bank charge	200,000
Commission	100,000
<u>Uncredited cheques</u>	
Cheque No. 004	1,000,000
Cheque No. 623	4,500,000
<u>Unpresented cheques</u>	
Cheque No. 10	500,000
Cheque No. 12	2,500,000
Cashbook error: cheque No. 14	1,700,000

Cashbook for the month of Aug. 2004

	Dr. ((UGX))			Cr. (UGX)
Bal b/f	9,600,000		Cheque No. 20	800,000
Cheque No. 2515	1,000,000		Cheque No. 21	1,200,000
Cheque No. 1119	500,000		Cheque No. 22	2,000,000
Cheque No. 990	3,000,000		Cheque No. 23	600,000
Cheque No. 224	2,400,000		Cheque No. 24	200,000
Cash	900,000		Cheque No. 26	1,400,000
Cheque No. 414	1,800,000		Cheque No. 27	2,400,000
Cheque No. 666	700,000		Cheque No. 28	700,000
Cash	1,300,000		Cheque No. 30	1,800,000
Cheque No. 804	2,100,000		S.O-Insurance	900,000
Cheque No. 707	3,400,000			
Cheque No. 31	1,300,000			
C.M Peter	900,000		Bal. C/f	16,900,000
Total	28,900,000		Total	28,900,000

Goodshed
Bank statement for the month of august 2004

	Dr. (UGX)	Cr. (UGX)	Balance (UGX)
Bal b/f			8,500,000
Cheque No. 22	2,000,000		6,500,000
24	200,000		6,300,000
623		4,500,000	10,800,000
990		3,000,000	13,800,000
C.M –Peter		900,000	14,700,000
Cheque No. 21	2,100,000		12,600,000
12	2,500,000		10,100,000
20	800,000		9,300,000
2515		1,000,000	10,300,000
1119		500,000	10,800,000
S.O –Insurance	900,000		9,900,000
Cheque No. 224		4,200,000	14,100,000
Cash		900,000	15,000,000
Cheque No. 26	1,400,000		13,600,000
27	2,400,000		11,200,000
6001		5,000,000	16,200,000
414		1,800,000	18,000,000
804	2,100,000		15,900,000
31	3,100,000		12,800,000
C.M –John		1,300,000	14,100,000
Cheque No. 28	700,000		13,400,000
Ledger fee	50,000		13,350,000
Dividend		1,500,000	14,850,000

Additional information;

- i) Any mistake in amounts was made in the cashbooks by an inexperienced bookkeeper.

- ii) Cheque No. 31 and 804 were entered on the wrong sides of the cashbook and bank statement respectively.

Solution

Goodshed

Adjusted cashbook			
	(UGX. 000)		(UGX. 000)
Bal b/f	16,900	<u>July 2004 D. Debits</u>	
Error on cheque No 224	1,800	Bank charge	200
Cheque No 6001(D. Credit.)	5,000	Commission	100
C.M (John)	1,300	<u>Aug 2004 D. Debits</u>	
Dividend	1,500	Ledger fee	50
Error on cheque No14	1,700	Error on cheque No. 21	900
		Error on cheque No. 31	4,400
		Bal. C/f	22,550
Total	28,200	Total	28,200

Goodshed bank reconciliation statement

	(UGX. 000)	(UGX. 000)	(UGX. 000)
Balance as per adjusted cashbook			22,550
Add: <u>Unpresented Cheques</u>			
Cheque No. 10		500	
Cheque No. 23		600	
Cheque No. 30		<u>1,800</u>	<u>2,900</u>
Less: <u>Uncredited cheques</u>			25,450
Cheque No.004	1,000		
Cheque No. 666	700		
Cheque No. 707	<u>3,400</u>	5,100	
Uncredited cash		1,300	
Bank error; Cheque No. 804		<u>4,200</u>	<u>10,600</u>
Balance as per bank statement			14,850

Exercise

The following information relates to the transactions of BRITT Ltd and its bankers for the month of January 2005.

CASHBOOK

Details	Dr. UGX (Millions)	Details	Cr. UGX (Millions)
Balance b/d	1300	Chq No. 400	150
Chq No. 650	2000	Chq No. 444	5000
Chq No. 256	1750	Chq No. 455	1000
Chq No. 181	3000	Chq No. 477	3700
Cash	3500	Chq No. 488	1700
Chq No. 555	4100	Chq No. 500	1100
Chq No. 284	550	Chq No. 511	1950
Chq No. 922	1650	Chq No. 544	600
Cash	2000	Chq No. 588	2800
Chq No. 805	7200	Chq No. 600	1900
Chq No. 695	6850	Chq No. 774	3900
Chq No. 885	3650	Balance c/d	13750
Total	37550	Total	37550

BANK STATEMENT

Particulars	Dr. (Millions)	Cr. (Millions)	Bal. (Millions)
Balance b/f			1300
Chq No. 411		100	1400
Chq No. 922	1650		(250)
Cash	2000		(2250)
Chq No. 477		37000	34750
Chq No. 511		1950	36700
Chq No. 495	4000		32700
Chq No. 905	4500		28200
Chq No. 544		600	28800

Chq No. 588	2800	31600
Minority interest dividends	400	32000
Cash	2500	29500
Chq No. 444	500	30000
Chq No. 455	1000	31000
Chq No. 181	300	30700
Cash	3500	27200
Chq No. 379	1800	25400
Chq No. 488	1700	27100
Chq No. 500	1100	28200
Chq No. 805	2700	25500
Chq No. 774	3900	21600
Chq No. 695	6850	14750
Bank charges	1000	13750
S.O-Interest	200	13550

Errors on cheques numbered 805 and 181 were made in the bank but any other errors are cashbook errors, while the bank dishonoured chq No. 650.

Required:

Reconcile the cashbook and bank statement balances and determine whether there was any fraud/undiscovered error and by how much?

Exercise 2

On 30/6/2004, the bank statement of MUBS Guild showed the bank account to have to have a debit balance of UGX 715,400,000. However, on the same date, the cashbook showed the bank account to have an overdraft of UGX 1,195,900,000.

A check of the bank statement against the cashbook revealed the following:

- i) *Cheques totaling UGX 3,168,400,000 paid to creditors had not been presented to the bank for payment.*
- ii) An amount of UGX 150 Millions paid as contribution to assist the Tsunami Victims was recorded as UGX 15 Millions.
- iii) Cheques amounting to 2,574,500,000 Shillings banked in the month did not appear on the bank statement.
- iv) Bank charges of 13,750,000 Shillings had been recorded in the cashbook as 17,350,000.
- v) A cheque of 35 Million Shillings for drawing had been recorded as 53 million in the cashbook.

Required:

- a) Adjust MUBS Guild cashbook.
- b) Reconcile the adjusted cashbook balance with the bank balance.
- c) State four major reasons why the cashbook balance most often differs from the bank statement balance as at any date.
- d) There is normally no serious need for preparation of a bank reconciliation statement Discuss.