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BOOKKEEPING

FORM FOUR

STUDYNOTES

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BILL OF EXCHANGE

Bill of exchange is legally defined as unconditional order in writing addressed by one person to another signed by a people to whom is addressed to Pay on demand at a fixed or determine future time sum certain in money to the order of a specified person or to the bearer.

PARTS FOR THE BILL OF EXCHANGE.

DRAWER: Is the one who draws / write the bill of exchange.

DRAWEE: He/she is a person to whom the bill is addressed, he become an acceptor as soon as he has signified this under taking to comply with the order contained on the bill.

PAYEE: Is a person or firm to whom or to whose order payment is to be made.

SPECIMEN TO BILL OF EXCHANGE

100,000 **SAME 15TH**
JAN 2013

Three month after the date pay

ALLY BAKARI or his order

The sum of one hundred thousand shilling (100,000)

To

CHAMBO DAUDI **EMIL FAHMI**

From the Example:

Emil Fahmi - Is a drawer

CHAMBO DAUDI -Is a drawee
Ally Bakari or his order - Is a payee

<u>ADVANTAGES OF THE BILL OF EXCHANGE</u>

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- It enable an exporter /creditor to obtain cash soon after good are dispatched
- The creditor may get money by discounting the bill
- He/she fixed the date of payment and if payment is not made, a creditor can sure on the

  Evidence of the bill of exchange he/she sells.
- The debtor also benefit by getting credit facilities

THE FOLLOWING ARE SOME USEFUL ILLUSTRATIVE PROBLEM ON BILLS TRANSACTION UNDER THE FOLLOWING CIRCUMSTANCES

- Where the bill received is retained by the drawer.
- Where the drawer endorse the bill (more than one endorsement).
- Where the drawer endorse the bill (only one endorsement).
- Where the bill endorsed by drawer by drawer and then discounted by the endorsee.
- Dishonoured for the bill.
- Renew the bill.

BILL RECEIVABLE.

The person to receive the money on the bill of exchange regards it as a bill receivable

Therefore the trader drawer a bill of exchange on his customer he records the details of the bill on the bill's Receivable book.

When the drawer received back the bill of exchange he can act in one of the following

- Hold the bill of exchange until maturity.
- Discounting the bill.
- Transfer the bill to another person who them requires all the right to it.

PAYMENT OF THE BILL ON MATURITY

a. On the books of the drawer

I when goods sold on credit

DR: Personal a/c with sales amounts

CR: Sales A/C

ii- When drawee accepts the bill of exchange

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DR: Bills receivable with value of the bill.

DR: Drawee

iii- When bill made on maturity (honoured).

DR: Cash at Bank

CR: Bill receivable

b. In the books of Drawee

i. When goods bought on credit.

DR: Purchases with the value of goods

CR: Drawers a/c bought.

ii. When bill drawn by the drawer accepted.

DR: Drawer with the amount of

CR: Bill payable the bills.

When at maturity the bills paid off

DR: Bills payable

CR: Cash at Bank

Example

Good has been sold by Hashimu to Mussa 1st for 200,000. A bill has been drawn end up by Hashim and accepted by Musa, the date of maturity being 31st March, Hashim keep the bill of exchange until the maturity then presented for payment. The bill was honored.

Required;

Show journal entries and accounts in the book Drawer and Drawee.

Solution:

In the books of Drawer (Hashim).

DR	SALES A/C		CR
	1/1	Musa	200,000

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DR MUSSA A/C CR

1/1 sales 200,000	

DR BILL RECEIVABLE A/C CR

1/1 Mussa 200,000	31/3 Bank 200,000

DR BANK A/C CR

31/3 bill receivable 200,000	

JOURNAL ENTRIES

DATE	DETAILS	DR	CR
1-Jan	i. Musa	200,000	
	Sales		200,000
	-Being goods sold on credit.		
1-Jan	ii. Bills receivable	200,000	
	Mussa		200,000

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	-Being bill of exchange accepted		
31/3.	iii. Bank Bills receivable -Being bill of exchange honoured.	200,000	200,000

In the books of Drawee (Mussa).

DR PURCHASES A/C CR

Hashimu 200,000	

DR HASHIMU A/C CR

	purchases 200,000

DR BILL PAYABLE A/C CR

Hashimu 200,000	

DR BANK A/C CR

	Bill payable 200,000

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JOURNAL ENTRIES

Date	Details	DR	CR
	Purchases	200,000	
	Hashim		200,000
	Being: Goods purchased on credit		
	Hashim	200,000	
	Bill payable		200,000
	Being: Bill of exchange Accepted		
	Bill payment	200,000	
	Bank		200,000
	Being: Bill of exchange honoured		

EXERCISE

Jumanne bought goods from Mwakipesile valued Tshs 4900/= on 1st Feb 1986. The bill was for three month credit the bill was drawn by Mwakipesile and accepted by Jumanne on the same date on due date the bill was paid by the drawee on maturity date

Required

a) Ledger account

b) Journal entries in the books of Jumanne

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IN THE BOOKS OF JUMANNE

PURCHASES ACCOUNT

1st Feb 1986 MWAKIPESILE 4900	To trading a/c 4900

BILL PAYABLE ACCOUNT

31st April 1986 bank 4900	1ST Feb 1986 MWAKIPESILE 4900

BANK ACCOUNT

	31st April 1986 bill payable 4900

JOURNAL ENTRIES

DATE	PARTICULAR	F	DR	CR
1st Feb 1986	Purchases a/c		4900	
	MWAKIPESILE			4900
	Being purchases of the goods			
1st Feb 1986	MWAKIPESILE		4900	
	Bill payable a/c			4900
	Being acceptance of the bill			
31st April 1980	Bill payable		4900	
	Bank a/c			4900
	Being payable of the bill			

2. IF THE BILL OF EXCHANGE DISCOUNTING AT THE BANK

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Example

Simple sold goods to Tembo 1st April for 300,000 and draw a bill of exchange to him on that date for 3 months which he accepted, on 2nd April Simba discounting the bill. The discount change being 4,000 the bill was honored

Required;

Show Journey Entries in the books of Drawer and Drawee

JOURNAL ENTRIES

Date	Details	DR	CR
1/4	Temba Sales Being: Goods sold on credit	300,000	 300,000
1/4	Bill Receivable Temba Being B.E. Accepted	300,000	 30,000
2/4	Bank Bill Receivable Being: B.E discounted	300,000	 300,000
2/4	Discount charges Bank Being: D changers transferred to P&L	4,000	 4,000
2/4	Profit and loss Discount charges Being: D charges trended to P&L	4,000	 4,000

DR **SALES A/C** **CR**

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	Temba	300,000

DR TEMBA A/C CR

sales	300,000		

DR BILL RECEIVABLE A/C CR

Temba	30,000	Bank	300,000

DR BANK A/C CR

Bill receivable	300,000		

DR DISCOUNT CHARGE A/C CR

Bank	30,000	P&I	300,000

NOTE

No entry on the books of drawer concerning the discount for bill of exchange

JOURNAL ENTRY DR CR

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1/4	Purchases Simba Being: Goods on credit	300,000	300,000
1/4	Simba Bill Payable Being: B.E Accepted	300,000	30,000
	Bill payable Bank Being: B.E honoured	300,000	30,000

EXERCISE

Show the journal entries and the ledgers A/c to record the following in the books of C. Kombo

Jan 3 sold goods to D. Daima for 400,000, D. Daima accept the Bill on the same date. Bill payable after 3 month discounted the bill at Bank for 394,000 Bill honoured by D. Daima.

Solution:

In the books of C. Kombo

Date	Details	DR	CR
3/1	D. Daima Sales Being: Goods sold on credit	400,000	400,000
3/1	Bill Receivable D. Daima Being B.E. Accepted	400,000	400,000
	Bank		

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	Bill Receivable	394,000	
	Being: D. Change by Drawer		394,000

DR SALES A/C CR

	D. Daima	400,000

DR D.DAIMA A/C CR

sales	400,000		

DR BILL RECEIVABLE A/C CR

D. Daima	400,000	Bank	400,000

DR BANK A/C CR

bill receivable	400,000		

DR DISCOUNTING CHARGE A/C CR

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Bank	6,000	P&l	6,000

DR **PROFIT AND LOSS A/C** **CR**

Discounting charge	6,000		

DISHONORED OF THE BILL OF EXCHANGE

When the debtor acceptor fails to make payment on maturity the bill it said to be **DISHONORED.**

ACCOUNTING ENTRIES.

-In the books of drawer.

i) When the bill is dishonored by drawee
DR: Personal A/C (Drawee) with the value of bill
DR: Bill receivable

ii) When noting charge paid by Drawee
DR: Drawee A/C with the amount of noting charge.
CR: Bank or Cash A/c

iii) When noting charge transfer to drawers A/c
DR: Cash or Bank
CR: Drawee account

-In the books of drawee

i) When at maturity the bill is dishonored
DR: Bill payable A/C with the value of bill
CR: Drawer A/c

ii) When the bill plus noting charge are paid off
DR: Drawer a/c
DR: Noting charge a/c

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CR: Cash/ bank with the amount.

EXAMPLE

On 1st June Twaha sold goods to Pinda for 500,000. A bill of exchange with maturity date of August was drawn up and accepts by Pinda.

On August Bill of exchange presented to pinda but he fails to pay it and the bill is therefore dishonoured. The bill is noted the entry being 20,000 which initially paid by Twaha.

Required.

-Show the accounting entries in the books of Twaha and Pinda

JOURNAL ENTRIES

Date	Details	DR	CR
1/6	Pinda a/c Sales a/c Being: Goods sold on credit	500,000	 500,000
1/6	Bill Receivable Pinda a/c Being B.E. Accepted	500,000	 50,000
	Pinda a/c Bill receivable A/c Being: B.E Dishonoured	500,000	 500,000
	Noting charge Bank Being: Noting has paid by drawer	20,000	 20,000
	Pinda a/c Noting charge	20,000	

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4/8	Being: Noting charge has paid by drawee		20,000

In the books of Drawee (PINDA).

DR PURCHASES A/C CR

Twaha 500,000	

DR TWAHA A/C CR

Bill payable 500,000	purchases 500,000 Bill payable 500,000

DR BILL PAYABLE A/C CR

Twaha 500,000	Twaha 500,000

DR BANK A/C CR

Noting charge 20,000	

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DR NOTING CHARGE A/C CR

	Bank 20,000

JOURNAL ENTRIES

Date	Details	DR	CR
1/6	Purchases a/c Twaha a/c Being: Goods sold on credit	500,000	500,000
1/8	Twaha a/c Bill payable a/c Being B.E. Accepted	500,000	50,000
4/8	Bill payable a/c Twaha a/c Being: B.E Dishonoured	500,000	500,000
4/8	Pinda a/c Noting charge Being: Noting charge paid by drawee.	20,000	20,000

EXERCISE

Asha sold goods to Bahati Tshs 300/= on 1st Jan 1990 Bahati accepted bill for

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three months and Asha discounted it with the banker for Tshs 280/= on due date the bill was paid by Bahati

Required

Journal entries and ledger in the books of Asha and Bahati

IN THE BOOKS OF ASHA

Workings:

Discounting charge = face value of the bill − cash received from the bank

SALES ACCOUNT

To trading a/c	300	1st Jan 1990 BAHATI	300

BAHATI ACCOUNT

1st Jan 1990 sales	300	1st Jan 1990 bill receivable	300

BILL RECEIVABLE ACCOUNT

1st Jan 1990 BAHATI	300	30th March 1990 banks	300

BANK ACCOUNT

30th march 1990 bill receivable	300	30th march 1990 discount charge	60

DISCOUNTING CHARGE A/C

30TH march 1990 bank	60	To profit and loss	60

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JOURNAL ENTRIES

DATE	PARTICULAR	F	DR	CR
1st Jan 1990	Purchases a/c		300	
	Asha a/c			300
	Being purchases of the goods			
1st Jan 1990	Asha a/c		300	
	Bill payable a/c			300
	Being acceptance of the bill			
31st march 1990	Bill payable		300	
	Bank a/c			300
	Being bill met on maturity date			

JOURNAL ENTRIES

DATE	PARTICULAR	F	DR	CR
1st Jan 1990	BAHATI		300	
	Sales a/c			300
	Being sales of the goods			
1st Jan 1990	Bills receivable A/C		300	
	BAHATI			300
	Being acceptance of the bill			
31ST march 1990	Bank a/c		300	
	Bill receivable a/c			300
	Being discounting of the bill			
31ST mach 1990	Discounting charges a/c		20	
	Bank			20
	Being discounting charges			

IN THE BOOKS OF DRAWEE

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PURCHASES ACCOUNT

1st Jan 1990 ASHA	300	To trading a/c	300

ASHA ACCOUNT

1st Jan 1990 bill payable	300	1st Jan 1990 purchases	300

BILL PAYABLE ACCOUNT

		1ST Jan 1990 ASHA	
31st march 1990 bank	300	300	

BANK ACCOUNT

		31st march 1990 bill payable	300

NB

Discounting of the bill of exchange

To discount the bill means to collect money from the bank before the due date (maturity date)

To discount the bill of exchange means to sell of less value than the face value of the bill

What the bank will do , is to pay drawer (seller) and the recover the money from the acceptor (buyer). At the sometime the bank charge the drawer the charges is known as discounting charges.

Discount charge = face value of the bill x rate of discount charge x months of the bill.

- No any effect in the books of drawee because the bill was discounted by the drawer and is one who borne the discount charge for selling his bill to the bank before the maturity date. But drawee has to wait until the date of maturity so as to present the bill to the bank for payment without knowing that the bill was discounted by the

drawer , that will enable bank to collect money which has been given to the drawer during bill discounted.

IF THE BILL IS DISCOUNTED AND DISHONORED.

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Definition

This occurs whereby the bill which was originally discounted by the drawer is now dishonoured

Example.

On 10th March Ahmed owned Salum 200,000 for goods supplied on that date, he accepted a bill at 3 month for the whole amount.

On March 13 Salum discounted the bill of exchange at bank the discounted charge being 10,000 on the due date Ahmed dishonoured the bill and the noting charge were 15,000.

Required.

-Show accounting entries in the books of drawer

- In the books of Drawer (Ahmed)

JOURNAL ENTRIES

Date	Details	DR	Cr
10/5	Salum a/c Sales a/c Being: Goods sold on credit	200,000	200,000
10/3	Bill receivable a/c Salum a/c Being B.E accepted	200,000	200,000
13/3	Bank a/c Bill receivable a/c Being: B.E. discounted	200,000	200,000
13/3	Discounting charges a/c Bank a/c Being: charge paid by drawer	10,000	10,000
13/3	Profit & Loss a/c Discounting charges a/c	10,000	

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	Being: D charges transfer to P&l		10,000
13/06	Salum a/c Bill receivable Being B.E dishonoured	200,000	200,000
13/06	Noting charge a/c Bank a/c Being noting charge paid by drawer	15,000	15,000
13/06	Salum a/c Noting charges a/c Being charge transfer to drawee	15,000	15,000

EXERCISE.1 (DISHONOURED BILL)

Nyangeta sold goods on 1st Jan 1990 to Masambe who accepted a bill of exchange on the same date payable three months times for Tshs 5000 on maturity the bill was presented to Masambe but failed to pay thus the bill was dishonoured it was noted and the noting charges amounted to Tshs 200/=

Required
Record the above transaction in the books of drawer and show the journal entries

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IN THE BOOKS OF DRAWER

DR	SALES ACCOUNT		CR
To trading a/c	5000	Nyangeta	5000

DR	NATOMI ACCOUNT		CR
1st Jan 1990 sales	5000	receivable	5000
31st march 1990 bill receivable (dish)	5000		
31st march 1990 bank noting charges	200		

DR	BILL RECEIVABLE ACCOUNT		CR
1st Jan 1990 Masambe	5,000	1st march 1990 masambe	5,000

DR	BANK ACCOUNT		CR
		31st march 1990 noting charge	200

NB

noting charges is an expenses to the drawer(seller) therefore should credited in the bank account in the books of drawer.

EXERCISE.2

Sudi sold of Tshs 4000/= to Chaka who received an acceptance from Chaka for two months. Sudi discounted the bill with the banker who charged him 8% discounting charges on maturity the bank failed to get money from Chaka, thus the bill was dishonoured noting charges amount to Tshs 350/=

Required:

a) Ledger account

b) Journal entries in the books of drawer.

IN THE BOOKS OF DRAWER

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DR	SALES ACCOUNT		CR
To trading a/c	4000	Chaka	4000

DR	CHAKA ACCOUNT		CR
Sales	4000	Bill receivable	4000
bill receivable (dish)	4000		
bank noting charges	350		

DR	BILL RECEIVABLE ACCOUNT		CR
Chaka	4000	Bank	4000
Bank (bill–dishonoured)	4000	Chaka (bill- dishonoured)	4000

DR	BANK ACCOUNT		CR
Bill receivable	4000	Discounting charge	53.30
		Noting charge	350
		Bill receivable (dishonoured)	4000

DR	DISCOUNTING CHARGE ACCOUNT		CR
Bank	53.30	To profit and loss	53.30

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JOURNAL ENTRIES

DATE	PARTICULAR	F	DR	CR
1st Jan 1990	Masambe		5,000	
	Sales a/c			5,000
	Being sales of the goods			
1st Jan 1990	Bills receivable A/C		5,000	
	Masambe			5,000
	Being acceptance of the bill			
31st march 1990	Massambe		5,000	
	Bill receivable a/c			5,000
	Being dishonour of the bill			
31stmarch 1990	Masambe a/c		200	
	Bank			200
	Being noting charges			

JOURNAL ENTRIES

DATE	PARTICULAR	F	DR	CR
	CHAKA		4000	
	Sales a/c			4000
	Being sales of the goods			
	Bills receivable A/C		4000	
	CHAKA			4000
	Being acceptance of the bill			
	Bank		4000	
	Bill receivable a/c			4000
	Being discounting of the bill			
	Discounting charge a/c		53.30	
	Bank a/c			53.30
	Being discounting charge charges			
	CHAKA		4000	
	Bill receivable			4000
	Being dishonour of the bill			
	CHAKA		350	
	Bank			350
	Being noting charge			
	Bill receivable		4000	
	Bank			4000
	Being dishonour of the discount of the bill			

EXERCISE 3

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On January 1st 1998 Anna sold goods to Bakari for Tshs 50,000/= and on the same day drew up him a bill for three month on January 4th 1998 discount it for Tshs 49000/= with the bankers. On due date the bill was dishonored and noting charges to Tshs 100/=

Required

a) Record the above transaction in the journal of Anna ignore narration

Open the ledger account in the books of Anna

IF THE BILL OF EXCHANGE ENDORSED

This is where by the bill of exchange negotiated (given) to someone else.

Example

The goods have been sold by Juma to Bakar on 1st Jan 12 for 400,000. A bill of exchange drawn by Juma and accepted by Bakari on Jan 2012. The date of maturity being 31 March 2012. The bill is endorsed to Ismail on 3st March. Show

-The ledger and Journal entire in the books of Juma.

JOURNAL ENTRIES

Date	Details	DR	Cr
1/1	Bakari a/c Sales a/c Being: Goods sold on credit	400,000	 400,000
1/1	Bill receivable a/c Bakari a/c Being B.E accepted	400,000	 400,000
3/3	Ismail a/c Bill receivable	400,000	 400,000

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	Being: B.E. discounted		
31/3	Bank a/c Ismail Being: B.E honoured	400,000	 400,000

DR SALES A/C CR

	Bakar	400,000

DR BAKAR A/C CR

sales	400,000		

DR BILL RECEIVABLE A/C CR

Bakar	400,000	Ismail	400,000

DR ISMAIL A/C CR

bill receivable	400,000	Bank	400,000

DR BANK A/C CR

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Ismail	400,000	

EXERCISE.

The goods has been sold by Mcharo to Abubakar and Ahmed for 500,000 and 100,000 respectively on 1st Jan. The bill of exchange drawn by Mcharo and accepted by Abubakari and Ahamed. The date of maturity being 3rd March, the bill drawn to Abubakar was discounted at bank by Mcharo for 496,000 on 5th Jan and the another 700,000 bill which drawn to Ahamed endorsed to Yusuf. Both bill are honored.

Required:

To show the ledger and journal entries in book of drawer.

-In the books of Drawer (Mcharo to Abubakar).

DR SALES A/C CR

	Abubakar	500,000

DR ABUBAKAR A/C CR

sales	500,000	

DR BILL RECEIVABLE A/C CR

Abubakar	500,000	

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DR BANK A/C CR

Bill rec.	500,000	Disc. charge	4,000

DR D. CHARGE A/C CR

Bank	4,000	P&L	4,000

DR PROFIT AND LOSS A/C CR

Disc. charge	4,000		

JOURNAL ENTRIES

DATE	DETAILS	DR	CR
1/1	Abubakar a/c	500,000	
	Sales a/c		500,000
	Being: Good sold on credit		

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1/1	Bill receivable a/c Abubakar a/c Being: BE Accepted	500,000	500,000
5/1	Bank a/c Bill receivable a/c Being B.E Discounted	496,000	496,000
5/1	Discounted charges a/c Bank a/c Being: D charges paid by drawer	4,000	4,000
5/1	Profit & loss a/c Discounting charge a/c Being: D charge transferred P&L	4,000	4,000

In the books of Drawer (Mcharo to Ahmed)

JOURNAL ENTRIES

DATE	DETAILS	DR	CR
1/1	Ahmed a/c Sales a/c Being: Good sold on credit	700,000	700,000
1/1	Bill receivable a/c Abubakar a/c Being: B.E Acceptant	700,000	700,000
5/1	Bill receivable Ahmed's a/c		

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	Being B.E Discounted	700,000	
5/1	Yusuf a/c Bill receivable a/c Being: B E endorsed to Yusuf		700,000
5/1	Bank a/c Yusuf a/c Being B.E honoured	700,000	700,000
		700,000	700,000

RENEWING A BILL OF EXCHANGE

Definition

To renew a bill of exchange means to extend the credit period by the duration of the bill.

To renew a bill means to extend the maturity date of the bill

This happen when the acceptor (drawer) of the bill may not be in the position to honor the bill on presentation and it may be mutually arrange that he accept a fresh bill(new bill) in place of the existing one interest is usually added to the new bill as compensation for the delayed payment

In the books of drawer (seller)

1. **When the bill is dishonoured**

DR: debtor (drawee) account

CR: bill receivable account

With the value of the bill

2. **When the drawee debtors accept a new bill**

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DR: bills receivable account

CR: debtor (drawee) account

With the new value of the bill with interest

3. **Interest on the new bill**

DR: debtor (drawee) account

CR: interest receivable account

value of interest

4. When the bill is honoured by the debtor

DR: bank account

CR: bills receivable account

With the value of the new bill

Example

On 1st Jan 1981 peter sold goods to Abdallah valued Tshs 4000/= on three month credit on 1st April 1981 Peter presented his bill to the bank but the bill was dishonored and he paid 25/= a charge on dishonored bill. It was arranged that he accept fresh bill in place of the existing one the interest of 50/= was charged for Abdallah honored the bill

Required:

Show the ledger account and journal in the books of peter

IN THE BOOKS OF DRAWER(PETER)

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DR	SALES ACCOUNT		CR
To trading a/c	4000	1ST Jan 1981 Abdallah	4,000

DR	ABDALLAH ACCOUNT		CR
1ST Jan 1981 Sales	4000	1stJan1981Bill receivable	4000
1ST April 1981 bill receivable (dish)	4,000	1st April bill receivable	4075
1ST April 1981 bank noting charges	25		
1st April 1981 interest receivable	50		

DR	BILL RECEIVABLE ACCOUNT		CR
1ST Jan 1981 Abdallah	4000	1st April Abdallah	4000
1st April 1981 Abdallah	4075	30th April bank	4075

DR	SALES ACCOUNT		CR
To trading a/c	4000	1ST Jan 1981 Abdallah	4,000

DR	ABDALLAH ACCOUNT		CR
1ST Jan 1981 Sales	4000	1stJan1981Bill receivable	4000
1ST April 1981 bill receivable (dish)	4,000	1st April bill receivable	4075
1ST April 1981 bank noting charges	25		
1st April 1981 interest receivable	50		

DR	BILL RECEIVABLE ACCOUNT		CR
1ST Jan 1981 Abdallah	4000	1st April Abdallah	4000
1st April 1981 Abdallah	4075	30th April bank	4075

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JOURNAL ENTRIES

DATE	PARTICULAR	F	DR	CR
1st Jan 1981	ABDALLAH		4000	
	Sales a/c			4000
	Being sales of the goods			
1st Jan 1981	Bills receivable A/C		4000	
	ABDALLAH			4000
	Being acceptance of the bill			
1st April	ABDALLAH		4000	
	Bill receivable a/c			4000
	Being dishonour of the bill			
1st April	ABDALLAH		25	
	Bank a/c			25
	Being noting charges			
1st April	ABDALLAH		50	
	Interest receivable			50
	Being interest receivable			
1st April	Bill receivable		4075	
	ABDALLAH			4075
	Being acceptance of the new bill			
30th April	Bank		4075	
	Bills receivable a/c			4075
	Being receipts of the new bill			

Example 2

On 1st Jan 1990 Juma sold goods to Hamis for Tshs 2000/= on three months credit. Hamis dishonored his obligation to Juma

The bill was noted for Tshs 300/= Hamis accepted a fresh bill with interest of 400/= on 30th May 1990, Hamis honored the new bill

Required

a) Ledger account

b) Journal entries in the books of accepted and drawer

IN THE BOOKS OF ACCEPTOR

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PURCHASES ACCOUNT

1st Jan 1990	Juma	2000	To trading	2000

JUMA ACCOUNT

1ST Jan 1990 bill payable	2000	1st Jan 1990 purchases	2000
31st march bill payable	2700	2nd march 1990 bill payable (dish)	2000
		31st march 1990 Noting charge	300
		31st march interest payable	400

BILL PAYABLE ACCOUNT

1ST Jan 1990 Juma (dish)	2000	1st Jan Abdallah	4000
30th May 1990 bank	2700	31st march Juma	2700

INTERST PAYABLE ACCOUNT

31ST march 1990 Juma	400	Profit and loss	400

DR NOTING CHARGE ACCOUNT CR

31st March 1990 Juma	300	Profit and loss	300

DR BANK ACCOUNT CR

		30TH May 1990 bills payable	2700

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JOURNAL ENTRIES

DATE	PARTICULAR	F	DR	CR
1st Jan 1990	Purchases		2000	
	Juma			2000
	Being purchases of the goods			
1st Jan 1990	Juma A/C		2000	
	Bill payable			2000
	Being acceptance of the bill			
31st march	Bill payable		2000	
	Juma a/c			2000
	Being dishonour of the bill			
31st march	Noting charge		300	
	Juma			300
	Being noting charges			
31st march	Interest payable		400	
	Juma			400
	Being interest receivable			
31st march	Juma		2700	
	Bill payable			2700
	Being acceptance of the new bill			
30th may	Bill payable		2700	
	Bank			2700
	Being receipts of the new bill			

IN THE BOOKS OF DRAWER

DR	SALES ACCOUNT		CR
To trading	2000	1ST Jan 1990 Hamis	2000

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DR	HAMIS ACCOUNT		CR
1ST Jan 1990 Sales	2000	1st Jan1981Bilreceivable	2000
1ST march 1990 bill receivable (dish)	2000	1st April bill receivable	2700
1ST march 1981 bank noting charges	300		
1st march 1981 interest receivable	400		

DR	BILL RECEIVABLE ACCOUNT		CR
1ST Jan 1990 Abdallah	2000	1st march Hamis (dish)	2000
1st march 1990 Abdallah	2700	30th may bank	2700

DR	INTERST RECEIVABLE ACCOUNT		CR
Profit and loss	400	1ST Jan 1990 Hamis	400

DR	BANK ACCOUNT		CR
1st Jan 1990 Bill receivable	2700	1st April 1981 Noting charge	300

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JOURNAL ENTRIES

DATE	PARTICULAR	F	DR	CR
1st Jan 1990	HAMIS		2000	
	Sales a/c			2000
	Being sales of the goods			
1st Jan 1990	Bills receivable A/C		2000	
	HAMIS			2000
	Being acceptance of the bill			
31ST march	HAMIS		2000	
	Bill receivable a/c			2000
	Being dishonour of the bill			
31st march	HAMIS		300	
	Bank a/c			300
	Being noting charges			
31st march	HAMIS		400	
	Interest receivable			400
	Being interest receivable			
31st march	Bill receivable		2700	
	HAMIS			2700
	Being acceptance of the new bill			
30th may	Bank		2700	
	Bills receivable a/c			2700
	Being receipts of the new bill			

EXERCISE

Show journal entries and bill and all ledger account to record the following transaction on the books E.china

June 4. Sold goods on credit of Tshs 5000/= to F.FELL

June 4 bill drawn and accepted by F.FELL Tshs 5180/= to include interest payable

After 3 months

Sept 7 bill dishonored by F. FELLI

Sept 8. Noting charge paid in cash Tshs 20/=

Sept 9. F.FELI agree to accept new bill for Tshs 5360/= to include noting and interest

For the further three months period

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Dec 31st F. FELI honored the new bill

IN THE BOOKS OF E. CHINA

DR	SALES ACCOUNT		CR
To trading	5000	June 4th F.FELI	5000

DR	F.FELI ACCOUNT		CR
4TH June sales	5000	June 4th bill receivable	5180
Interest receivable	180		
	5180		5180
7th Sept bill receivable (dish)	5180	9th Sept bill receivable	5360
8th Sept bank: noting charge	20		
Interest receivable	160		
	5360		5360

DR	INTERST RECEIVABLE ACCOUNT		CR
Profit and loss	340	4TH June F. feli	180
		F. feli	160
	340		340

DR	BILL RECEIVABLE ACCOUNT		CR
4TH June F.Feli	5180	7th Sept F.Feli (dish)	5180
9th Sept F.Feli	5360	Dec 31st bank	5360

DR	BANK ACCOUNT		CR
31st Dec bill receivable	5360	Sept 8th noting charge	20
		Balance c/d	5340
	5360		5360
Balance b/d	5340		

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JOURNAL ENTRIES

DATE	PARTICULAR	F	DR	CR
4TH June	F.FELI A/C		5000	
	Sales a/c			5000
	Being sales of the goods			
4TH June	Bills receivable A/C		5180	
	F.FELI A/C			5180
	Being acceptance of the bill			
4TH June	F.FELI A/C		180	
	Interest receivable			180
	Being interest receivable			
7th Sept	F.FELI A/C		5180	
	Bill receivable a/c			5180
	Being dishonour of the bill			
8th Sept	F.FELI A/C		20	
	Bank a/c			20
	Being noting charges			
9th Sept	Bill receivable		5360	
	F.FELI A/C			5360
	Being acceptance of the new bill			
9th Sept	F.FELI A/C		160	
	Interest receivable			160
	Being interest receivable			
31st Dec	Bank		5360	
	Bills receivable a/c			5360
	Being receipts of the new bill			

DISCUSSION QUESTIONS

On 1st Feb 2001 Salome for her own accommodation draws upon Thomas a bill for Tshs 5000/= for three months the bill is accepted be Thomas on due date Thomas meets the bill but her bank account didn't have a sufficient funds to meet the bill instead she pays Tshs 2000/= in cash and gives a bill for two month for 3000/= plus interest of 4% per annum this is dully met on maturity

Required

a) Give the journal entries in the books of Salome ignoring narration

b) Post to the relevant ledger account

JOINT VENTURE

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Is a temporary partnership, it is formed when two or more people undertaken a certain business acting together instead of doing it separately, e.g. Road constructing

Each person will set up Joint Venture with; payment made for the venture will be credited to the cash book and debited to the Joint Venture A/C.

Any money received will be debited to the cash book and credited to the Joint Venture.

DOUBLE ENTRY TRANSACTION.

(i) When payment is made.

DR: Joint Venture

CR: Cash Book

(ii) When good are supplied.

DR: Joint Venture A/C

CR: Purchases A/C

NB: This is for all Ventures, at the end of Venture each partner will make a copy of his own A/C and sent it to his co – partner.

A combined statement showing profit and loss will be prepared. This statement is known as **MEMORANDUM JOINT VENTURE A/C**

The memorandum joint venture A/C is not a double entry A/C.

It is drawn up only to find out:-

(a) The share of Net Profit or loss.

(b) To help to calculate the amount payable and renewable to close the venture.

Double entry transactions for profit obtained.

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(iii). Share profit

DR: Joint Venture

CR: Venture profit and loss

(iv) After that entry the Joint Venture A/C is balanced down. Thus will show:-

(a) If the balance is **CREDIT BALANCE** the person has receive more from the Joint Venture then have to pay that amount to the other person to close the Venture.

(b) If the balance of **DEBIT BALANCE** the person has receive less from the Joint Venture than he should get. He will need to receive each from other person to close the Venture.

EXAMPLE:-

Juma and Othman entered into Joint Venture agreed to share profit and loss equally:-

The following transactions are made:-

January 5:	Juma purchase goods worth	180,000/=
	Juma paid expenses	2,800/=
January 22:	Juma sold 1/3 of goods for	750,000/=
January 24:	Othman sold 2/3 of goods for	240,000/=
January 25:	Juma bought goods for	70,000/=
January 29:	Othman bought goods for	100,000/=

Required:-

Joint Venture A/C together with memorandum.

Solution:-

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- **In the books of Juma.**

DR JOINT VENTURE WITH OTHMAN CR

DR		JOINT VENTURE WITH OTHMAN		CR
Purchases		180,000	Sales	750,000
Expenses		2800		
Purchases		70,000		
Share profit		321,100		
Balance c/d		176,100		
		750,000		750,000
Cash to Othman		176,000	Balance b/d	176,000

- **In the books of Othman.**

DR JOINT VENTURE WITH JUMA CR

Purchases	100,000/=	Sales	245,000/=
Share profit	321,100/=	Balance c/d	176,100/=
	421,100/=		421,100/=
Balance b/d	176,000/=	Cash from Juma	176,100/=

JUMA AND OTHMAN

DR MEMORANDUM JOINT VENTURE CR

Purchases		350,000/=	Sales	995,000/=
Expenses		2,800/=		
SHARE PROFIT :-				
Juma	321,100			
Othman	321,000	642,200/=		
		995,000/=		995,000/=

EXERCISE;-

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Ponda and Rajab enter into joint venture to buy a lot of damaged cars, and to release them after repair. They agreed to share profit and lose equally after all owing 10% commission on sales made by the individual and an allowance of 2,500 each for services rendered.

The following summary of their transactions:-

	Ponda	Rajab
Damaged car bought	10,400/=	9,600/=
Towing change	1,100/=	
Spare	3,800/=	4,500/=
Mechanics wages paid	9,300/=	6,200/=
Advertising change paid		200/=
Other expenses paid	2,100/=	3,300/=
Proceeds of sales	33,000/=	34,000/=

Ponda took over one car at agreed value of 8,000 and Rajab took over some spare parts at agreed value of 6,000.

Required:-

Show the following A/C:-

(a) Joint Venture account in the books of individual partner.

(b) Memorandum Joint Venture A/C assuming that settlement between partner was made by cheque:

Solution:-- In the books of Ponda

DR JOINT VENTURE WITH JUMA CR

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Damaged car (purchases	10,400/=	Sales	33,000/=
Touring	1,100/=	Taken over	8,000/=
Spare	3,800/=		
Wages paid	9,300/=		
Expenses	2,100/=		
Commission	3,300/=		
Allowance	2,500/=		
Share of Profit	6,700/=		
Balance c/d	1,800/=		
	41,000/=		41,000/=
Cheque to Ponda	1,800/=	Balance b/d	1,800/=

- **In the books of RAJAB.**

DR **JOINT VENTURE WITH PONDA** **CR**

Damaged car (purchases	9,600/=	Sales	34,000/=
Spare	4,500/=	Taken over	600/=
Wages paid	6,200/=	Balance c/d	1,800/=
Advertising charge	200/=		
Expenses	3,300/=		
Commission	3,400/=		

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Allowance	2,500/=		
Share of Profit	6,700/=		
	36,400/=		36,400/=
Balance b/d	1,800/=		
		Cash from Ponda	1,800/=

PONDA AND OTHMAN

DR **MEMORANDUM JOINT VENTURE A/C** **CR**

Purchases	20,000/=	Sales	67,000/=
Towing	1,100/=	Taken over	8,600/=
Spare	8,300/=		
Wages	15,500/=		
Advertisement	200/=		
Expenses	5,400/=		
Commission	6,700/=		
Allowance	5,000/=		
SHARE OF PROFIT:-			
Ponda = ½ x 13,400 = 6,700			
Rajab = ½ x 13,400 = 6,700	13,400/=		
	75,600/=		75,600/=

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EXERCISE 1

Sara and Jane entered into venture of timber cargo from Mbeya all profit and losses are shared equally . it was agreed that Jane purchases the goods and Sara sell them. The cost of the venture was 50,000/= which was paid by Jane

Sara refunded half of the cost price immediately Jane incurred the following expenses

Loading expenses Tshs 1000/=

Transport expenses 3000/=

Sara undertook the following expenses

Unloading Tshs 1000/=

Selling expenses Tshs 2000/=

Sara sold the goods at sh 80,000/= payable by a bill at 3 months

The bill was discounted immediately at 5% per annum

Prepare the joint venture and the person account as they would appear in the books of Sara and Jane

EXERCISE 2

THOMAS ,WILLIAM ,and MARTIN entered in joint venture for dealing in carrot. The transaction connected with joint venture were 1992

January 8 MARTIN rented land cost Tsh 156/=

January 10 WILLIAM supplied seeds cost Tshs 48/=

January 17 THOMAS employed labor for planting Tshs 105/=

January 19 WILLIAM charged motor expense Tshs 17/=

January 30 THOMAS employed labor for fertilizing Tshs 36/=

January 28 THOMAS paid the following expenses

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Sundry expenses Tshs 10/= labor Tshs 18/= fertilizer account Tshs 29/=

March 17 MARTIN employed labor for lifting carrots Tshs 73/=

March 30 sales expenses paid by MARTIN Tshs 39/=

March 31 MARTIN received cash from sales proceeds gross Tshs 987/=

Required

Show the joint venture account in the books of THOMAS ,WILLIAM ,and MARTIN also show in full the method of arriving at the profit of the venture which is to be apportioned THOMAS $^{7}/_{12}$, WILLIAM

$^{1}/_{4}$, MARTIN $^{1}/4$

Solutions qn1

IN THE BOOKS OF SARA

DR JOINT VENTURE WITH JANE ACCOUNT Cr

Cost refunded to JANE	2500	Proceed from sales	80,000
Unloading	1000		
Selling expenses	2000		
Discount charges	1000		
Share profit	11,000		
Balance c/d	40,000		
	80,000		80,000
Cash to Jane		Balance b/d	40,000

IN THE BOOKS OF JANE

DR JOINT VENTURE WITH SARA ACCOUNT CR

Cost refunded to Sara	50,000	Cost refunded from Sara	25,000
Unloading	1000	Balance c/d	40,000
Selling expenses	3000		
Share profit	11000		
	65,000		65,000
Balance b/d	40,000	Cash from Sara	40,000

SARA AND JANE

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DR MEMORANDUM JOINT VENTURE ACCOUNT CR

SARA		Proceed from sales Sara	80,000
Cost refunded	25,000	Cost refunded	25,000
Unloading	1000		
Selling expenses	2000		
Discount charges	1000		
JANE			
Cost of the venture			
Loading expenses			
SHARE PROFIT			
Sara	11000		
Jane	11000		
	105000		105000

Solution qn2

THOMAS

DR JOINT VENTURE WITH WILLIAM AND MARTIN ACCOUNT CR

rented land cost	156	Balance c/d	620
Employment	105		
Employment	36		
Sundry expenses	10		
labour	18		
Fertilizer account	29		
Share profit	266		
	620		620
Balance b/d	620	Cash from martin	

WILLIAM

DR JOINT VENTURE WITH THOMAS AND MARTIN CR

Purchases (supplier)	48	Balance c/d	179
Motor expenses	17		
Share profit	114		
	179		179
Balance b/d	179	Cash from martin	

MARTIN

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DR JOINT VENTURE WITH HOE, PLANT CR

Laborer (wages)	73	Proceed from sales	982
Sales expenses	39		
Share profit	76		
Balance c/d	799		
	982		982
Cash to Thomas	620	Balance b/d	799
Cash to William	179		

THOMAS , WILLIAM AND MARTIN

DR MEMORANDUM JOINT VENTURE ACCOUNT CR

THOMAS		Proceed from sales	987
Land cost	156		
Employed labour wages	105		
Employed for fertilizer	36		
Sundry expenses	10		
Labour	18		
Fertilizer a a/c	29		
WILLIAM	266		
Purchases	4000		
Motor expenses	4000		
MARTIN			
Labour			
Sales expenses			
Share profit			
Plan	266		
hoe	114		
reap	76		
	987		987

CONSIGNMENT ACCOUNT

NATURE OF CONSIGNMENT.

When a trader sold directly to the customer which they are in home countries or overseas, these are ordinary sales.

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However a trader may sent goods to an agent to sell them for him, these goods are said to be **CONSIGNMENT**.

IMPORTANT TERM.

a) **CONSIGNMENT**: Are the goods sent to an agent to sell on behalf of the owner (trader).

b) **CONSIGNOR**: Is the person who sends the goods (the trader) on consignment.

c) **CONSIGNEE**: An agent who receives goods on consignment.

d) **COMMISSION**: An allowance given to an agent.

e) **DEL CREDERE COMMISSION**: An extra commission payable to an agent who will promise to pay any bad debts. OR
-Is additional commission which paid to consignee for defending the consignor for any loss from bad debtors.

THE MAIN FEATURES ARE;-

- The trader sends goods to an agent, the goods do not belong to an agent, his job is to sell them for a trader goods are owned by the trader until they are sold.
- The agent will store the goods until they are sold by him, he will have to pay some expenses but these will later be returned by the trader.
- The agent will receive the commission for the services.
- The agent will correct the money from the customer to whom he sells goods to.
- He will pay this over the trader after deducting his expenses and commission, statement from the agent to be trader showing this know as **ACCOUNT SALES.**

CONSIGNORS RECORDS

For each consignment to an agent a separate consignment a/c is opened this looks like trading profit and loss a/c for each consignment.

The purpose is to calculate the net profit or loss for each consignment.

Account needed;-

a) Goods send on consignment a/c (consignment outward a/c)

b) Consignment to……. a/c

c) Consignment a/c

ACCOUNT PROCEDURE USED IN THE BOOKS OF THE CONSIGNOR

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I. DR: consignment account

CR: consignment out wards
with the cost price of the goods that have been consigned

II. DR: consignment account

CR: cash book
with expenses or charges paid by the consignor

III. DR: consignee account

CR: consignment account
with gross proceeds of the consignment

IV. DR: consignment account

CR: consignee account
with expenses paid by the consignee

V. If the balance of consignment account i.e. balance brought down appear on the credit side , it is net profit on consignment and if the balance brought down appear on the debit side of consignment account , it is a net loss on consignment

VI. The balance on consignee's account represents the net amount to be sent to the consignor (net proceeds to the consignor)

VII. Transfer the balance of consignment out wards account to the trading account.

TYPES OF CONSIGNMENT

I. Consignment outward

The person who send goods to the consignee for sale on his behalf regards the consignment as consignment out ward

Performa invoice - is documents which comprises the following

a) Description of the goods.

b) The quantity or weight of the goods.

c) Shipping marks and other details.

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d) Minimum selling prices.

II. Consignment in wards

The person who receives goods or consignment from the consignor for selling, regards the goods as consignment in wards.

To person to whom goods are consignment , regards the consignment as consignment in wards

Expenses of the agent (consignee) and sales receipt when the sales have been completed, the consignee will send an account sale to the consignor.

The account sale will show;-

Sales		xxx
Less: expenses	xxx	
Commission now	xxx	xxx
Balance new paid		xxx

The double entry needed is.

iii) Sales
DR: Consignees a/c
CR: Consignment a/c

iv) Expenses consignee
DR: Consignment a/c
CR: Consignees a/c

EXAMPLE

D.Daima of London consigned 100 cartons of goods costing 1,800 to J. Jamal of Chelsea. He paid 3,500 for packing, 4,500 for railway freight and 3,600 for insurance, on receipts of goods Jamal paid 1,200 for Cartage 3,100 for storage and 2,500 for advertising.

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He sold all of the cartons of a uniform price of 2,600 each and remitted the proceeds by bank draft after deducting his expenses and 10% commission on gross sales

Show the relevant ledger in the books of D. Daima.

Solution

- **In the book of consignor (D.Daima).**

DR GOOD SENT ON CONSIGNMENT A/C CR

To trading	**180,000**	Consignment to J. Jamal	180,000

CR CONSIGNMENT TO J. JAMALS A/C CR

Goods send on Consignment	180,000	Sales Gross proceed	260,000
Packing	3,500		
Railway freight	4,500		
Insurance	3,600		
Congener expenses			
Cartage	1,200		
Storage	3,100		
Advertising	2,500		
Commission	26,000		
Profit on consignment	35,600		
	260,000		260,000

DR J. JAMALS A/C (CONSIGNEES) CR

Sales (Gross proceeds)	260,000	Cartage	1,200
		Storage	3,100
		Advertising	2,500
		Commission	26,000
		Bank sight draft	227,200
	260,000		260,000

IN THE BOOK OF CONSIGNEE.

The only item needed in the consignee record will be found from the account sale he sent to consignor after the goods have been sold.

He does not enter in double entry the goods received on consignment. They never belong to him, his job is to sell the goods of course he will keep a note of goods but not in double entry account record.

i) Cash from sale of consignment
DR: Cash book
CR: Consignor's a/c

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ii) Payment of consignment expenses
DR: Consignors a/c
CR: Profit and loss a/c

iii) Commission earned.
DR: Consignor a/c
CR: Profit and loss a/c.

iv) Cash to settle balance shown on account sale
DR: Consignors a/c
CR: Cash Book

EXERCISE:

S.Suleyman of Dar es Salaam sent 200 cases of goods each costing 1,500 to N. Nassor of Arusha.

He paid 2,400 for packing and 13,600 for freight. 10 cases were damaged and another five damaged on transit the transporter agreed to pay 14,000 as compensation.

On receipt of goods Nassor pay 4,000 for carriage to warehouse and 120 for storage, he sold the damaged cases at 100 each and the rest at 3,200 each. He draws a promissory note for the proceeds less his 10% commission on gross sales.

Show the account sales that Nassor would send to suleyman and relevant ledger account in the book of suleyman.

Working: 10 damaged cases sold at 100 @

10 x 100 = 1000

5 damaged cases where compensated at 14,000

185 undamaged cases were sold at 3,200

185 x 3200 = 592,000

Total sales = 592,000 + 1000 = 593,000

AN ACCOUNT SALE

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To S. Suleyman		N. Nassor	
Dar es salaam		Arusha	
Sales on goods on consignment			593,000
Less: Expenses Carriage	4000		
Storage	120		
Custom duty	60,000		
Commission	59,300		123,420
Bank sight draft			**469,580**

DR **GOODS SENT ON CONSIGNMENT** A/C CR

To trading a/c	300,000	Consignment to Nassor	300,000

- **Book of consignor (S. Suleiman)**

Goods sent on consignment	300,000		Sales	593,000
Consignors exp;			Compensation	14,000
Parking	2,400			
Freight	13,600			
		316,000		
Consignee exp;				
Carriage	4,000			
Storage	120			
Custom duty	60,000			
Commission	59,300	123,420		
Profit on consignment		167,580		
		607000		607000

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DR CONSIGNEES A/C (NASSOR) CR

Sales	593,000	Carriage	4,000
		Storage	120
		Custom duty	60,000
		Commission	59,300
		Bank sight draft	469,580
	59,300		59,300

UNSOLD STOCKS.

A part of consignment may remain unsold at a time when the financial year ends.

The main difference between completed consignment at the Balance sheet and uncompleted one is that, the unsold stock has to be valued and carried down to the following period. This stock will appear in the balance sheet of consignor as current assets.

CALCULATION OF UNSOLD STOCK (CALCULATION OF CLOSING STOCK)

The value of unsold stock is value at cost apportionment of expenses paid by the consignor and consignee , excluding selling and distribution expenses and commission paid to the consignee

The expenses are apportioned between the sold and unsold stock

ILLUSTRATION

a) Cost price = Number of units x unity price

b) Number of unity unsold x consignors expenses

Number of units consigned

c) Number of units unsold x consignee's expenses

Number of units received by consignee

Therefore

Unsold stock = A+B+C

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EXAMPLE 1

On 1st Jan Juma forwarded a consignment of 20cases of goods to a trader his agents in west Africa together with a pro forma invoice for Tshs 360/= on the following day the consignor paid the freight charges amounting to 55/= and insurance charges 9/= on 15th march 1990 an account sales was received from the agent showing that 15 cases were sold for Tshs 380/= and that landing and storage charges on the consignment amounting to Tshs 28/= had been paid by the agent

The agent commission of 5% of the gross proceeds was declared and the balance due was remitted by sight draft

Required

Records the above transaction in the books of consignor

DR CONSIGNMENT OUT WARD ACCOUNT			CR
To trading account	360	consignment to agent	360

CONSIGNMENT TO AGENT ACCOUNT

consignment outward	360	Gross proceed 100 x 26	380
Consignor expenses		Balance c/d	
Freight charges	55	a) 5x18 = 90	
Insurance charge	9	b) 5 x 64 / 20 = 16	
Consignee's expenses			
Loading and storage	28	c) 5 x 28 / 20 = 7	113
Commission 5%	19		
Net profit	22		
	483		483
Balance b/d	113		

CONSIGNEE 'S ACCOUNT (H.OGONGA)

gross proceeds	380	Loading	28
		Storage	19
		Sight draft c/d	333
	380		380
Balance b/d	4673		

EXERCISE

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Not kasuku of kigoma consigned to R.siku of Kyela Mbeya on 1st Jan 1992 the cost price of the goods was 20,000/= for 20 Cases Kasuku paid Tshs 20/= for insurance per case transport charges was 600/= siku paid warehouse (rent) expenses Tshs 1200/= wages Tshs 400/= and electricity Tshs 600/=

Siku sold 18/= cases Tshs 2100/= each an account sales was sent to kasuku to show part of the goods sold siku sent the money to kasuku by cheque and $2^1/_2$ % on the gross proceeds as del-credere commission

Required

a) Consignment to (R.siku) account

b) Consignee (R.siku) account

c) Goods set on consignment a/c

DR CONSIGNMENT OUT WARD ACCOUNT CR

To trading account	20,000	consignment to R.siku	20,000

CONSIGNEE 'S ACCOUNT

gross proceeds	37800	Warehouse (rent)	1200
		Wages	400
		Electricity	600
		Del- Commission $2^1/_2$	945
		Bank	34655
	37800		37800
Balance b/d	34655		

CONSIGNMENT TO R.SIKU A/C

consignment outward	20,000	Gross proceed	37800
Consignor expenses		Balance c/d	
Insurance	40	a) 2x1000 = 2000	
Transport charge	600	b) 2x 640 / 20 = 64	
Consignee's expenses			
Warehouse (rent) expense	1200	c) 2 x 2200 / 20 = 220	2284
Wages	400		
Electricity	600		
Del- Commission $2^1/_2$	945		
Net profit on consignment	16299		
	40084		40084
Balance b/d	2284		

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FINAL COMPLETION OF CONSIGNMENT

When the remainder of the consignment sold the consignment account can be closed. This will be done by transferring the final portion of profit & loss to the consignor p&l A/C. The detail will be found on the final account sales which the consignor a/c will have sent to the consignment.

From the above example as follows:-

vii) The final 20 cases where sold for 3,800 each

viii) Selling cost for those two (2) cases were Tshs 7,000

ix) Commission deducted of 10% on sales

Solution;-

DR CONSIGNMENT TO MOHAMED A/C DR

Goods sent on consignment	200,000	Sales	320,000
Carriage & Insurance	2500	Unsold stock c/d	40,800
Consignee exp			
Landing & Import	1500		
Selling cost	1600		
Commission	32,000		
Profit on consignment	123,200		
	360,800		360,800
Stock b/d	40,800	Sales	76,000
Selling cost	7,000		
Commission	7,600		
Profit on consignment	20,600		
	76,000		76,000

DR CONSIGNEE'S A/C CR

Sales	76,000	Selling cost	7,000
		Commission	7600
		Bank sight draft	61,400
	76,000		76,000

EXERCISE

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On 8th Feb. 2012, P.J of London trader consigned 120 cases of goods to M.B on agent in New zeland. The cost of the goods was sh 250 a case, P.J paid carriage to the port 14,700 and insurance 9,500.
On 31st March 2012, P.J receive an account sales from M.B showing that 100 cases had been sold for sh 350,000 and M.B Had been paid freight at the rate of sh 200 a case and port charge amounting to shs 18,600. M.B was entitled to a commission of 5% of sales.

A sight draft for the net amount due was endorsed with an account sale.

Req:-

You are required to show the account for the above transaction in the ledger of P.J and to show the transfer to P&L at 31st March 12.

DR	CONSIGNMENT TO MB A/C		CR
Goods sent on consignment	30,000	Sales	350,000
Carriage	14,700	Unsold stock	61,267
Insurance	9,300		
Consignees Exp			
Freight	24,000		
Port charge	18,600		
Commission	17,500		
Profit on Consignment(P&L)	297,167		
	411,267		**411,267**

DR	CONSIGNEE'S A/C		CR
Sales	350,000	Freight	24,000
		Port charge	18,600
		Commission	17,500
		Bank sight draft	289,900
	350,000		350,000

BILLS DRAWN AGAINST CONSIGNMENT

The consignee may divide to remit the next proceeds by a bill of exchange instead of cash remittance.

In this case the consignor.

DR: Bills receivable a/c

CR: Consignee a/c

with amount of bill.

DR: Cash book

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CR: Bills receivable A/C

When the bill is paid

EXAMPLE:

Ponda of Dar es salaam consigned to Saleh of Nairobi goods for the value of 150,000. Ponda paid 5,000 for freight and 1,000 for insurance; he drew a bill of exchange for 40,000 on Saleh as an advance which was duly accepted by Saleh. Ponda discounting the bill for 39,500.

4/5 the goods were sold by Saleh for 160,000,

His expense was 3,500 and commission 3,200, Saleh forward a draft for a balance.

Required:

-Show the ledger in the books of Ponda (consignor)

Solution:

DR	GOODS SENT ON CONSIGNMENT A/C		CR
Trading A/C	150,000	Consignment to Saleh	150,000

DR CONSIGNMENT TO SALEH A/C CR

Goods sent on consignment	150,000	Sales	160,000
Freight	5,000	Stock c/d	32,000

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Insurance	1,000		
Discount charge	500		
Consignee exp			
Expenses	3,500		
Commission	3,200		
Profit on consignment (P&l)	28,800		
	192,000		192,000

DR CONSIGNEE'S A/C (Saleh) CR

Sales	160,000	Expenses	3,500
		Commission	3,200
		Bill of exchange	40,000
		Bank	115,300
	160,000		160,000

EXERCISE (BILLS DRAWN AGAINST CONSIGNMENT)

TUMAINI of Japan consignment goods costing 70,000/= to his agents Hamisi of Singida Tanzania he drew on his agents a three month bill of exchange for 20,000/= against the consignment and discounted it upon acceptance for Tshs 19000/=

Tumaini paid following expenses

- Marine insurance …….. 3000/=
- Carriage from Dar to Singida ……. 5600/=

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- Port charges ……1800/=

Hamisi incurred the following cost

- Loading charges …….. 4800/=
- Carriage ……6800/=
- Port and other expenses …1600/=

Half of the consignment was sold and the following

Selling expenses were incurred …. 1400/=

- Agents commission was 10% plus 2% del-
credere commission on gross proceed which amounted shs 295000/=

Show ledger account in the book of
Tumain all calculation must clearly be shown account sale is not necessary

DR CONSIGNMENT OUT WARD ACCOUNT CR

To trading account	70,000	consignment to hamis	70,000

BILL OF EXCHANGE ACCOUNT

Consignee	20,000	Discount charges	1000
		Cash	19000
	20,000		20,000

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BILL OF EXCHANGE ACCOUNT

Consignee	20,000	Discount charges	1000
		Cash	19000
	20,000		20,000

CONSIGNEE 'S ACCOUNT

gross proceeds	295000	Landing charges	4800
		Carriage	6800
		Port and other expenses	1600
		Selling expenses	1400
		Commission 10%	29500
		Del- credere commission 2%	5900
		Bill of exchange	20,000
		Bank c/d	22500
	295000		295000
Balance b/d	22500		

CONSIGNMENT TO HAMIS

consignment outward	70,000	Gross proceed	295000
Consignor expenses		Balance c/d	
Marine insurance	3000	a) Value of unsold =35000	
Carriage	5600	b) 35000 x 10400= 5200	
Port charge	1800	70,000	
Discount	1000	c) 35000 x 13200 = 2200	46800
Consignee's expenses		70,000	
Landing charges	4800		
Carriage	6800		
Port and other expenses	1600		
Selling expenses	1400		
Commission 10%	29500		
Del- credere commission 2%	5900		
Net profit on consignor	210400		
	341800		341800
Balance b/d	46800		

DEPARTMENT ACCOUNT

For The enterprise which has branches about four, five and so on, we need to know the

Profit obtained in each branch or department.

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This will be obtained in each branch or department; this will be obtained by opening

Trading, Profit, and loss A/C for each year ended.

Example of department is chain or departmental store etc.

Every department carries on the business by buying and selling different commodities with

The aim of making profit.

Example:-

Ubungo Islamic school have two department in their store such as stationary depart and

Clothes depart.

	Stationary	**Clothes**
Stock of goods Jan	20,000	15,000
Purchases	110,000	30,000
Stock of goods Dec	30,000	25,000
Salary	180,000	90,000

Expenses were as follows:-

Rent and Rates:	Stationary dept	- 1,750
	Clothes dept	- 1,750
Administration expenses	= Stationary dept	- 3,000
	Clothes dept	- 1,800
Heat and lighting:	=Stationary dept	- 1,500
	Clothes dept	- 500

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General expenses: = Stationary dept - 1,000

Clothes dept - 200

Required: - Show Department (Trading, Profit & loss A/C)

Solution:-

DR. DEPARTMENTAL TRADING, PROFIT & LOSS A/C FOR THE YEAR ENDED CR

DETAILS	STAT.	CLOTHES	DETAILS	STAT	CLOTHES
Opening stock	20,000	15,000	Sales	180,000	90,000
Add:Purchases	110,000	30,000			
Cost of goods available for sale.	130,000	45,000			
Less Closing stock	30,000	25,000			
COGAS	100,000	20,000			
Gross profit c/d	80,000	70,000			
	180,000	**180,000**		**180,000**	**180,000**
			Gross profit b/d	80,000	70,000
Rents and Rates	1,750	1,750			
Administration Expenses	3,000	1,800			
Expenses	1,500	500			
Light and heart	1,000	200			
General Expenses	72,750	65,750			
Net Profit	**80,000**	**70,000**		**80,000**	**70,000**

ALLOCATION OF EXPENSES OF DEPARTMENTS.

Departmental expenses can be divided in the following:-

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(1)**Equally:-**

This included the expenses such as salary for a manager, General expenses, All expenses which benefits all department, Advertising.

(2) **In the ration of Sales (Turnover):-**

This includes expenses such as Advertisement, carriage out words, commission on sales, discount allowed, Bad depts., Return in ward etc.

(3) **In the ration of Purchases:-**

This includes expenses such as carriage in wards, Discount received, Return out wards, purchasing tax, warehousing, wages etc

(4) **Floor space occupied (Area)**

It consists of expenses like Rent and Rates lights and heating, Insurance for building, Repairs, Premises, insurances. All expenses related to maintenance of premises.

(5) I**n the ration of number of employee:-**

E.g. Staff salary, staff welfare, staff canteen, expenses.

(6) **Director apportioned to Department:-**

Includes depreciation on equipment used by one department and in no way benefit other department.

Expenses to any departments or incurred specifically for that department should be charged to that department.

Example:

Ahmed runs his business in three department books, stationary and clothes. The

Following information was extracted from his books:-

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Capital		250,000/=
Purchases:	Books	90,000/=
	Stationary	120,000/=
	Clothes	210,000/=
Sales during year:	Books	150,000/=
	Stationary	250,000/=
	Clothes	350,000/=
Stock Jan 2003:	Books dept	10,890/=
	Stationary dept	11,220/=
	Clothes dept	25,000/=
Stock Dec. 31 2003:	Books dept	11,210/=
	Stationary	13,100/=
	Clothes dept	28,300/=
Wages and salaries		13,800/=
Rent and Rates		10,800/=
Staff welfare		8,400/=
Light and heating		7,500/=
Advertising		4,500/=
Carriage in wards		28,000/=

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Carriage out wards 1,800/=

The following information about department as available:-

	Books	Stationary	Clothes
Floor area occupied	320	400	480
	12	18	20

Required:

(a) Apportionate expenses according to suitable basis.

(b) Draw up department Trading , profit and loss A/c

WORKING:-

Expenses: (1) **Wages and salaries (13,800)**

(No of employee)

12: 18: 20 =

6 8 19 = 25

B: 6/25 x 13,800 = 3,312

S: 9/25 x 13,800 = 4,965

C: 10/25 x 13,800 = 5,520

2) **Rents and Rates (10,800)**

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(Area occupied)

320 : 400 : 480

4 5 6 = 15

B: 4/15 x 10,800 = 2,880

S: 5/15 x 10,800 = 3,600

C: 6/15 x 10,800 – 4,320

3) Staff welfare (8400)

(No. of employee)

B: 6/25 x 8,400 = 2,016

S: 9/25 x 8,400 = 3,024

C: 10/25 x 8,400 = 3,360

4) **Light and heating (7,500)**

(Area occupied)

B: 4/25 x 7,500 = 2,000

S: 5/15 x 7,500 = 2,500

C: 6/15 x 7,500 = 3,000

5) **Advertising (4,500)**

(Equally)

B: 1/3 x 4,500 = 1,500

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S: 1/3 x 4,500 = 1,500

C: 1/3 x 4,500 = 1,500

6) **Carriage inwards (28,000)**

(Ratio of purchases)

90,000: 120,000 : 210,000

3 4 7

B: 3/14 x 28,000 = 6,000

S: 4/14 x 28,000 = 8,000

C: 7/14 x 28,000 = 14,000

Carriage outwards (1,800)

(Ratio of sales)

150,000: 250,000 : 350,000

3 5 7

B: 3/15 x 1,800 = 360

S: 5/15 x 1,800 = 600

C: 7/15 x 1,800 = 840

DR DEPARTMENTAL TRADING, PROFIT & LOSS A/C CR

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DETAILS	BOOKS	STATIONERY	CLOTH	DETAILS	BOOKS	STATIONERY	CLOTHES
Opening stock	10890	15000	25000	Sales	150,000	250,000	350000
Add purchase	90000	120000	210000				
	100890	131220	249000				
Add carriage Inward	6000	8000	14000				
COGAS	106890	139220	249000				
Less Closing stock	11210	13100	28,300				
	95680	126120	220700				
COGAS	54,320	123880	129,300				
Gross profit c/d	150,000	250,000	350,000		150,000	250,000	350,000
Carriage outward	360	600	840	Gross profit b/d	54320	123880	129,300
Wages & Salaries	3312	4965	5520				
Rent |& Rates	2880	3600	4320				
Staff welfare	2016	3024	3360				
Light & heat	2000	2500	3000				
Advertising	1,500	1500	1500				
Net profit	42252	107691	110760				
	54,320	123,880	129,500		54,320	123,880	129,500

DEPARTMENTAL BALANCE SHEET AS AT

Capital		xxx		F. ASSETS	
Add Net Profit	Dep. A	xx		Premises	xxxx
	Dep. B	xx		Motor Van	xxxx
xxxx					
Less Drawing		xxx	xxxx	c ASSETS:-	
Long term liability				Debtors	xxx
Loan from NBC			xxxx	Stock: Dept A	xxx
G. LIABILITIES				Dept: B	xxx
Creditors			xxxx	Bank	xxx
Bank overdraft			xxxx	Cash	xxx
			xxxx		xxxx

ENTER DEPARTMENT TRANSFER

Purchases made for one departmental may be sold in another departmental. In such a case, the item should be deducted from the figure for purchases of original purchasing department and added to the figure for purchases for the subsequent selling department.

EXERCISE

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The following information was extracted from a trader who maintains a department store with Department A and B:-

	Dept A	Dept B
Purchases	52,800	43,600
Sales	160,000	124,000
Opening stock	14,600	11,240
Closing Stock	12,400	8,654
Other income:-		
Discount Received		1,446
Commission Received		2,880
Expenses:-		
Delivery expenses		1,800
Insurance		2,816
Advertising		1,296

Additional information:-

-Advertising expenses to be apportioned equally

-Delivery to be appointed on sales

-Insurance to be appointed to the proportion 6.5 respective

Other income to be apportioned as:-

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-Commission received should be proportion to 1.5% purchases Tshs. 1400 made by Department A was sold in departmental B.

Show:-

Department Trading, Profit and Loss A/C in column form for the year ended 31 Dec. 2009,

Show all you're working.

Working:-

- Advertising 1296

Dept A: ½ x 1296 = 648

Dept B: ½ x 1296 = 648

- Delivery expenses 1800

Sales = 160,000 x 1800 = 184,000

Dept A: 160,000 x 1800 = 1014

284,000

Dept. B: 124,000 x 1800 = 786

284,000

- Insurance - 2816

6:5 (6 + 5) = 1536

Dept A: 6/11 x 2816 = 1536

Dept B: 5/11 x 2816 = 1280

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- Commission received 2880

Sales: A, 160,000 B, 124,000

Dept A: 20/100 x 160,000 = 32,000

Dept. B: 20/100 x 124,000 = 24800

320 x 248 = 568

Dept. A: 320/568 x 2880 = 1623

Dept. B: 248/568 x 2880 = 1257

- Discount received 1446

Purchases: A, 52800 B, 43600

Dept. A: 3/200 x 52800 = 792

Dept. B: 3/200 x 43600 = 654

792 + 654 = 1446

A: 792/1446 x 1446 = 792

B: 654/1446 x 1446 = 654

- Department A: Purchases - 52,800

(-) Goods transfer - 1,400

51,400

- Department B: Purchases 43,600

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(+) Goods transfer 1,400

45,000

DR. DEPARTMENTAL TRADING, PROFIT A/C FOR END CR

DETAILS	A	B	DETAILS	A	B
Opening stock	14600	11240	Sales	160000	124000
(+) Purchases	51400	45000			
COGAS	66000	56240			
(-) Closing stock	12400	8654			
(COGS)	55600	47586			
Gross profit C/d	106400	76414			
	160,000	124,000		160,000	124000
Advertising	648	648	Gross profit b/d	106400	76414
Delivery Expenses	1014	786	Commission received	1623	1257
Insurance	1536	1280	Discount received	792	654
Net profit	105617	75611			
	108815	78325		108815	78325

EXERCISE 1

Kelvin department store has three department which are electrical furniture and leisure goods from the details given below you are required to draw up the trading account of the firm for the year ended 31st Dec 2001 for each department and in total

	01/01/2001	31/12/2001
a) Stock		
Electrical	72,960/=	95,040/=
Furniture	207,576/=	193,800/=
Leisure	172,440/=	268,740/=

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b) Sales of the year

Electrical 358,080/=

Furniture 876,720

Leisure 565200/=

c) Purchases of the year

Electrical 218,340/=

Furniture 655,584/=

Leisure 328,656/=

d) Other expenses

Transport …….120,000/=

Other trading expense ……45,000/=

e) Other expenses are to be distributed to other department on the basis of sales

---

DEPARTMENT ACCOUNT

For The enterprise which has branches about four, five and so on, we need to know the

Profit obtained in each branch or department.

This will be obtained in each branch or department; this will be obtained by opening

Trading, Profit, and loss A/C for each year ended.

Example of department is chain or departmental store etc.

Every department carries on the business by buying and selling different commodities with

The aim of making profit.

Example:-

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Ubungo Islamic school have two department in their store such as stationary depart and Clothes depart.

	Stationary	Clothes
Stock of goods Jan	20,000	15,000
Purchases	110,000	30,000
Stock of goods Dec	30,000	25,000
Salary	180,000	90,000

Expenses were as follows:-

Rent and Rates:	Stationary dept	- 1,750
	Clothes dept	- 1,750
Administration expenses	= Stationary dept	- 3,000
	Clothes dept	- 1,800
Heat and lighting:	=Stationary dept	- 1,500
	Clothes dept	- 500
General expenses:	= Stationary dept	- 1,000
	Clothes dept	- 200

Required: - Show Department (Trading, Profit & loss A/C)

Solution:-

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DR. DEPARTMENTAL TRADING, PROFIT & LOSS A/C FOR THE YEAR ENDED CR

DETAILS	STAT.	CLOTHES	DETAILS	STAT	CLOTHES
Opening stock	20,000	15,000	Sales	180,000	90,000
Add:Purchases	110,000	30,000			
Cost of goods available for sale.	130,000	45,000			
Less Closing stock	30,000	25,000			
COGAS	100,000	20,000			
Gross profit c/d	80,000	70,000			
	180,000	**180,000**		**180,000**	**180,000**
			Gross profit b/d	80,000	70,000
Rents and Rates	1,750	1,750			
Administration Expenses	3,000	1,800			
Expenses	1,500	500			
Light and heart	1,000	200			
General Expenses	72,750	65,750			
Net Profit	**80,000**	**70,000**		**80,000**	**70,000**

ALLOCATION OF EXPENSES OF DEPARTMENTS.

Departmental expenses can be divided in the following:-

(1)**Equally:-**

This included the expenses such as salary for a manager, General expenses, All expenses which benefits all department, Advertising.

(2) **In the ration of Sales (Turnover):-**

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This includes expenses such as Advertisement, carriage out words, commission on sales, discount allowed, Bad depts., Return in ward etc.

(3) **In the ration of Purchases:-**

This includes expenses such as carriage in wards, Discount received, Return out wards, purchasing tax, warehousing, wages etc

(4) **Floor space occupied (Area)**

It consists of expenses like Rent and Rates lights and heating, Insurance for building, Repairs, Premises, insurances. All expenses related to maintenance of premises.

(5) I**n the ration of number of employee:-**

E.g. Staff salary, staff welfare, staff canteen, expenses.

(6) **Director apportioned to Department:-**

Includes depreciation on equipment used by one department and in no way benefit other department.

Expenses to any departments or incurred specifically for that department should be charged to that department.

Example:

Ahmed runs his business in three department books, stationary and clothes. The

Following information was extracted from his books:-

Capital		250,000/=
Purchases:	Books	90,000/=
	Stationary	120,000/=

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	Clothes	210,000/=
Sales during year:	Books	150,000/=
	Stationary	250,000/=
	Clothes	350,000/=
Stock Jan 2003:	Books dept	10,890/=
	Stationary dept	11,220/=
	Clothes dept	25,000/=
Stock Dec. 31 2003:	Books dept	11,210/=
	Stationary	13,100/=
	Clothes dept	28,300/=

Wages and salaries	13,800/=
Rent and Rates	10,800/=
Staff welfare	8,400/=
Light and heating	7,500/=
Advertising	4,500/=
Carriage in wards	28,000/=
Carriage out wards	1,800/=

The following information about department as available:-

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	Books	Stationary	Clothes
Floor area occupied	320	400	480
	12	18	20

Required:

(a) Apportionate expenses according to suitable basis.

(b) Draw up department Trading , profit and loss A/c

WORKING:-

Expenses: (1) **Wages and salaries (13,800)**

(No of employee)

12: 18: 20 =

6 8 19 = 25

B: 6/25 x 13,800 = 3,312

S: 9/25 x 13,800 = 4,965

C: 10/25 x 13,800 = 5,520

2) **Rents and Rates (10,800)**

(Area occupied)

320 : 400 : 480

4 5 6 = 15

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B: 4/15 x 10,800 = 2,880

S: 5/15 x 10,800 = 3,600

C: 6/15 x 10,800 – 4,320

3) Staff welfare (8400)

(No. of employee)

B: 6/25 x 8,400 = 2,016

S: 9/25 x 8,400 = 3,024

C: 10/25 x 8,400 = 3,360

4) **Light and heating (7,500)**

(Area occupied)

B: 4/25 x 7,500 = 2,000

S: 5/15 x 7,500 = 2,500

C: 6/15 x 7,500 = 3,000

5) **Advertising (4,500)**

(Equally)

B: 1/3 x 4,500 = 1,500

S: 1/3 x 4,500 = 1,500

C: 1/3 x 4,500 = 1,500

6) **Carriage inwards (28,000)**

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(Ratio of purchases)

90,000: 120,000 : 210,000

3 4 7

B: 3/14 x 28,000 = 6,000

S: 4/14 x 28,000 = 8,000

C: 7/14 x 28,000 = 14,000

Carriage outwards (1,800)

(Ratio of sales)

150,000: 250,000 : 350,000

3 5 7

B: 3/15 x 1,800 = 360

S: 5/15 x 1,800 = 600

C: 7/15 x 1,800 = 840

DR DEPARTMENTAL TRADING, PROFIT & LOSS A/C CR

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DETAILS	BOOKS	STATIONERY	CLOTH	DETAILS	BOOKS	STATIONERY	CLOTHES
Opening stock	10890	15000	25000	Sales	150,000	250,000	350000
Add purchase	90000	120000	210000				
	100890	131220	249000				
Add carriage Inward	6000	8000	14000				
COGAS	106890	139220	249000				
Less Closing stock	11210	13100	28,300				
	95680	126120	220700				
COGAS	54,320	123880	129,300				
Gross profit c/d	150,000	250,000	350,000		150,000	250,000	350,000
Carriage outward	360	600	840	Gross profit b/d	54320	123880	129,300
Wages & Salaries	3312	4965	5520				
Rent |& Rates	2880	3600	4320				
Staff welfare	2016	3024	3360				
Light & heat	2000	2500	3000				
Advertising	1,500	1500	1500				
Net profit	42252	107691	110760				
	54,320	123,880	129,500		54,320	123,880	129,500

DEPARTMENTAL BALANCE SHEET AS AT

Capital		xxx		F. ASSETS	
Add Net Profit	Dep. A	xx		Premises	xxxx
	Dep. B	xx		Motor Van	xxxx
xxxx					
Less Drawing		xxx	xxxx	C ASSETS:-	
Long term liability				Debtors	xxx
Loan from NBC			xxxx	Stock: Dept A	xxx
G. LIABILITIES				Dept: B	xxx
Creditors			xxxx	Bank	xxx
Bank overdraft			xxxx	Cash	xxx
			xxxx		xxxx

ENTER DEPARTMENT TRANSFER

Purchases made for one departmental may be sold in another departmental. In such a case, the item should be deducted from the figure for purchases of original purchasing department and added to the figure for purchases for the subsequent selling department.

EXERCISE

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The following information was extracted from a trader who maintains a department store with Department A and B:-

	Dept A	Dept B
Purchases	52,800	43,600
Sales	160,000	124,000
Opening stock	14,600	11,240
Closing Stock	12,400	8,654
Other income:-		
Discount Received		1,446
Commission Received		2,880
Expenses:-		
Delivery expenses		1,800
Insurance		2,816
Advertising		1,296

Additional information:-

-Advertising expenses to be apportioned equally

-Delivery to be appointed on sales

-Insurance to be appointed to the proportion 6.5 respective

Other income to be apportioned as:-

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-Commission received should be proportion to 1.5% purchases Tshs. 1400 made by Department A was sold in departmental B.

Show:-

Department Trading, Profit and Loss A/C in column form for the year ended 31 Dec. 2009,

Show all you're working.

Working:-

- Advertising 1296

Dept A: ½ x 1296 = 648

Dept B: ½ x 1296 = 648

- Delivery expenses 1800

Sales = 160,000 x 1800 = 184,000

Dept A: 160,000 x 1800 = 1014

284,000

Dept. B: 124,000 x 1800 = 786

284,000

- Insurance - 2816

6:5 (6 + 5) = 1536

Dept A: 6/11 x 2816 = 1536

Dept B: 5/11 x 2816 = 1280

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- Commission received 2880

Sales: A, 160,000 B, 124,000

Dept A: 20/100 x 160,000 = 32,000

Dept. B: 20/100 x 124,000 = 24800

320 x 248 = 568

Dept. A: 320/568 x 2880 = 1623

Dept. B: 248/568 x 2880 = 1257

- Discount received 1446

Purchases: A, 52800 B, 43600

Dept. A: 3/200 x 52800 = 792

Dept. B: 3/200 x 43600 = 654

792 + 654 = 1446

A: 792/1446 x 1446 = 792

B: 654/1446 x 1446 = 654

- Department A: Purchases - 52,800

(-) Goods transfer - 1,400

51,400

- Department B: Purchases 43,600

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(+) Goods transfer 1,400

45,000

DR. DEPARTMENTAL TRADING, PROFIT A/C FOR END CR

DETAILS	A	B	DETAILS	A	B
Opening stock	14600	11240	Sales	160000	124000
(+) Purchases	51400	45000			
COGAS	66000	56240			
(-) Closing stock	12400	8654			
(COGS)	55600	47586			
Gross profit C/d	106400	76414			
	160,000	124,000		160,000	124000
Advertising	648	648	Gross profit b/d	106400	76414
Delivery Expenses	1014	786	Commission received	1623	1257
Insurance	1536	1280	Discount received	792	654
Net profit	105617	75611			
	108815	78325		108815	78325

EXERCISE 1

Kelvin department store has three department which are electrical furniture and leisure goods from the details given below you are required to draw up the trading account of the firm for the year ended 31st Dec 2001 for each department and in total

	01/01/2001	31/12/2001
a) Stock		
Electrical	72,960/=	95,040/=
Furniture	207,576/=	193,800/=
Leisure	172,440/=	268,740/=

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b) Sales of the year

Electrical 358,080/=

Furniture 876,720

Leisure 565200/=

c) Purchases of the year

Electrical 218,340/=

Furniture 655,584/=

Leisure 328,656/=

d) Other expenses

Transport …….120,000/=

Other trading expense ……45,000/=

e) Other expenses are to be distributed to other department on the basis of sales

---

PARTNERSHIP ACCOUNT

Partnership may be defined as relationship between persons carrying on a business in common with a view of profit.

In a business partnership two or more persons jointly run a business.

Partnership may be defined as an association of two to twenty persons carrying on business in common with the view profit.

PARTNERSHIP AGREEMENT (ARTICLES OF PARTNERSHIP)

The points usually covered by such agreement are as follows

1. The duration of the partnership
2. The name of the partnership

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3. The sum to be contributed as capital by each partner
4. The ratio of profit or losses should be noticed or stated
5. The rate of interest if any to be allowed on capital (interest on capital)
6. The rate of interest on drawings
7. Address or place of the business
8. The date of starting the business

IN THE ABSENCE OF ANY PARTNERSHIP AGREEMENT

a) All profit or losses are to be shared equally between the partners.

b) All partners entitled to share equality in the capital (equal contribution of capital).

c) No partner is entitled to interest on capital on his capital before profit are ascertained.

THE USUALLY ACCOUNTING REQUIREMENT:-

(i)The capital to be contributed by each partnership.

(ii)The rate of interest, if any to be given on capital.

(iii)The ratio in which profit or loss to be shared.

(iv)The rate of interest, if any to be charged on partners to Drawings.

(v) Salaries to be paid to partners.

INTEREST OF CAPITAL

It is a reward to the partners for investing their private capital in the business. Since the partner investing the most is taking the greatest risk.

INTEREST ON DRAWING:

Act as a penalty to the partner to deter them from taking out more money from partnership in anticipation of profit than necessary.

The main purpose of this interest is to discourage the partners to withdraw money unnecessarily.

SALARIES:-

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Are given for investing more time for management in partnership. A partner may responsible to perform some extra duties as compared to the other partners, Then the only one partners works in the firm he/she may received salary allocated from profit.

PROFIT:-

Profit can be shared according:-

- To the capital which is contributed.
- Profit can be shared Equally
- Can be shared according to partner's agreement (deed) E.g.; 2:3:1: etc

This means A, B and C will be given two sixth, three sixth and one sixth.

CURRENT ACCOUNT

For each partner credited with profits interest on capital and salaries and Debited with drawing and interest on drawings. The balance of this A/C at the end of financial year will represented the amount of undraw (credit balance) or withdraw profit (Debited balance).

The debit balance of current A/C shows Assets while credit balance shows liabilities.

RESERVES:-

This is voluntary appropriation in order to strength the financial position of the business.

The amount settled for reserve can be debited to profit & loss appropriation A/C.

THE ACCOUNT ENTRIES

PROFIT & LOSS APPROPRIATION A/C

(i) Net profit: DR: Profit & Loss A/c

CR: Appreciation of P + L A/C

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(ii)Interest of capital: DR: Appropriation A/C

CR: Current A/c

(iii)Interest salaries: DR: Current A/c

CR: Appropriation a/c

(iv)Partners Salaries: DR: Appropriation a/c

CR: Current A/c

NOTE: If salaries have already been paid then cash A/C had a ready been credited.

Means: DR: Appropriation A/C

CR: Cash A/c

(v)Share of profit:-

DR: Appropriation a/c

CR: Current A/c

(vi)Share of loss (if any)

DR: Current a/c

CR: Appropriation A/c

(vii)Drawing:-

DR: Current a/c

CR: Drawing A/c for each partner

EXAMPLE:-

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Karim and Rashid are in partnership sharing P & L on the ratio of 3:2.

They are entitled to 5% interest on capital.

Karim's capital…… 40,000/=

Rashid's capital……120,000/=

Karim receives a salary of 5,000, Interest on drawing:-

Karim	1,000
Rashid	2,000

Net profit 100,000

Required. Show up (a) Profit & Loss Appropriation A/C

(a) Partners current A/C

Solution:-

DR PROFIT & LOSS APPROPRIATION A/C CR

Interest on capital :-		Net profit	100,000
Karim	2,000	Interest on drawings:	
Rashid	6,000	Karim	1,000
Salaries: Karim	5,000	Rashid	2,000
Share of profit: Karim 3/5 x 90,000	54,000		
Rashid 2/5 x 90,000	36,000		
	103,000		103,000

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DR. PARTNERS CURRENT A/C CR

Details	KARIM	RASHID	Details	KARIM	RASHID
Interest on drawing	1,000	2,000	Share of profit	54,000	36,000
			Salaries	5,000	-
Balance c/d	60,000	40,000	Interest on capital	2,000	6,000
	61,000	42,000		61,000	42,000
			Balance b/d	60,000	40,000

EXERCISE

Ally and Bakari are in Partnership sharing profit & Loss equally. They are entitled 6% interest on capital and 10% interest on Drawings.

Capital: Ally 500,000, Bakari 700,000

Drawing: - Ally 250,000, Bakari 300,000

Bakari receives salaries of 150,000

The net profit was 400,000

Required: - (a) Partners current A/C

(b) Partners capital A/C

(c) Profit and loss Appropriation A/C

DR. PARTNERS CURRENT A/C CR

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Details	ALLY	BAKARI	Details	ALLY	BAKARI
Int Interest on drawing	25,000	30,000	Share of profit	122,500	122,500
Ba Balance c/d	139,500	260,500	Salaries	-	150,000
			Interest on capital	42,000	18,000
	164,500	**290,500**		**164,500**	**290,500**
			Balance b/d	139,500	260,500

DR. PARTNERS

CURRENT A/C **CR**

Details	ALLY	BAKARI	Details	ALLY	BAKARI
Ba balance c/d	500,000	700,000	Cash	500,000	700,000
			Balance b/d	**500,000**	**700,000**

DR **PROFIT & LOSS APPROPRIATION**

A**/C** **CR**

In interest on capital :-		Net profit	400,000
Ally	42,000	Interest on drawings:	
Bakari	18,000	Ally	25,000
Salary; Bakari	150,000	Baka ri	30,000
Share of profit: Ally (1/2) 122,500			

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Bakari (1/2) 122,500	**245,000**		
	455,000		455,000

METHOD OF CAPITAL IN PARTNERSHIP A/C

Partner's capital account can be maintained either in:-

(i) Fixed capital method

(ii) Fluctuating capital method

(i) FIXED CAPITAL METHOD:-

In case of fixed capital method there are two accounts:-

- Partners capital A/C
- Partners current A/C

In this method the capital A/c for each partner remains by year at the figure of capital put into the firm by the partner.

The profit, interest on capital and salaries to which the partner may entitle are then credited to the separate current A/C for the partner and drawings and interest on drawings are debited to it.

EXAMPLE:-

Twalib and Kassim have been in partnership for one year sharing profit and loss in the ratio of Twalib 3/5, of Kassim 2/5, they entitled 5% interest on capital, Twalib having 200,000 capitals and 600,000 Kassim.

Kassim is to have salary of 50,000

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They are charged interest on drawing, Twalib being charged 5,000 and Kassim 10,000.

The net profit before any distribution to the partners amounted to 500,000 for the ended 31st Dec 2012.

NB: Drawing of 200,000 for each will appear.

Required: Show the necessary entries use the fixed capital method.

DR. PARTNERS CAPITAL A/C CR

Details	ALLY	BAKARI	Details	ALLY	BAKARI
Balance c/d	200,000	600,000	Balance b/d	200,000	600,000
			Balance b/d	200,000	600,000

DR PROFIT & LOSS APPROPRIATION A/C CR

Details	Amount	Details	Amount
Salaries Kassim	50,000	Net profit	500,000
Interest on : Kassim	30,000	Interest on drawings:	
Twalib	10,000	Twalib	5,000
		Kassim	10,000
Share of profit:			
T: ¾ x 425,000 = 255,000			
K: 2/5 x 425,000 = 170,000	425,000		
	515,000		**515,000**

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DR. PARTNERS CURRENT ACCOUNT CR

Details	TWALIB	KASSIM	Details	TWALIB	KASSIM
Drawings	200,000	200,000	Salary		50,000
Interest on drawing	5,000	10,000	Interest on capital	10,000	30,000
Balance c/d	60,000	40,000	Share of profit	255,000	170,000
	265,000	250,000		265,000	250,000
			Balance b/d	60,000	40,000

(ii) <u>FLUCTUATING CAPITAL METHOD:-</u>

In case of fluctuating capital method there is only one account is termed as capital A/C. The distribution of profit would be credited to the capital account and the drawings and interest on drawings debited.

Therefore the balance on the capital A/C will charge each year. I.e. it will be fluctuate the system is therefore called fluctuating capital method.

EXAMPLE:-

Refer example 1 above:-

DR. PARTNERS CAPITAL A/C CR

Details	TWALIB	KASSIM	Details	TWALIB	KASSIM
Drawings	200,000	200,000	Balance b/d	200,000	200,000
Interest on drawing	5,000	10,000	Interest on capital	10,000	30,000
			Salary	-	50,000
Balance c/d	260,000	640,000	Share of profit	255,000	170,000
	465,000	850,000		465,000	850,000

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			Balance b/d	260,000	640,000

EXAMPLE 2

Yusuph and Christopher began to trade in partnership on Jan 1980 Yusuph contributed Tshs 3000/= and Christopher 1000/= in cash they agreed as follows

- To share profit equally
- To allow interest on capital 6% p.a
- Christopher to get salary of Tshs 400/=
- Drawings Yusuph Tshs 400/= on 1st July and Christopher Tshs 200/= on 1st April, 1st July and 1st October
- To charge interest on drawings 6% p.a the net profit Tshs 2500/=

Show

a) Appropriation account

b) Partners capital

c) Partners current account

Workings

a) Interest drawings

Yusuph 6 x 400 x 6 = 12

100 12

Christopher

6 x 200 x 9 = 9

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100 12

6 x 200 x 6 = 6

100 12

6 x 200 x 3 = 3

100 12

Therefore total interest on drawings from Christopher is **9+ 6+ 3= 18**

b) Interest on capital

Yusuph = 6 x 3000 = 180

100

Christopher 6 x 1000= 60

100

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DR PROFIT AND LOSS APPROPRIATION ACCOUNT CR

Interest on capital		Net profit	2500
- Yusuph	180	Interest on drawing	
-Christopher	60	- Yusuph	12
Salary (Christopher)	400	- Christopher	18
Share profit			
Yusuph	945		
Christopher	945		
	2530		2530

DR PARTNER'S CAPITAL ACCOUNT CR

PARTICURAL	YUSUPH	CHRISTOPHER	PARTICULAR	YUSUPH	CHRISTOPHER
Balance c/d	3000	1000	Balance b/d	3000	1000
			Balance b/d	3000	1000

DR PARTNER'S CURRENT ACCOUNT CR

PARTICURAL	YUSUPH	CHRISTOPHER	PARTICULAR	YUSUPH	CHRISTOPHER
Drawings	400	600	Salary	-	400
Interest on drawings	12	18	Interest on capital	160	60
Balance c/d	713	787	Share profit	945	945
	1125	1405		1125	1405
			Balance b/d	713	787

EXERCISE 1

The partnership agreement between A, B and C contains the following agreement

a) The partnership fixed capital shall be A 10,000/= B 8000/= C 6000/=

b) A and B are each to n receive a salary of 600/= a year

c) Interest on capital is to be calculated at 5% per annum

d) A ,B , and C are to share profit and losses in the ratio of 3:2:1

e) No interest to be allowed on drawings or current account

On 1st Jan 1978 the balance on current account were A credit balance 500/= B credit 200/= credit 350/=

During the year the drawing were A 4500/= B 3000 and C 5000/= the profit and losses account for the year showed a net profit of 14500/=

Before charging interest on capital and partners salaries

Required

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a) Capital account of A,B, and C

b) Partners current account

c) Profit and loss appropriation on **a/c**

EXERCISE 2

Record the following facts on the personal account of A and B. two partners who are share profit and loss in the ratio of 5 to 3 and allow interest on capital at the rate of 4 percent per annum no interest is to be allowed or current on charges or drawings

B. is to be credited with a salary of 300/= for the year

	A.	B.
1st Jan capital account	4000	3000
30th Jan addition capital brought	1000	-
1st Jan current account	72 DR	100 CR
1st Jan – 31st Dec drawings	3650	3650/=

The partnership total divisible for the year after charging the salary was 7188/=

Required

a) Partners capital account

b) Partners current account

c) Profit and loss appropriation account

FINAL ACCOUNT IN PARTNERSHIP:-

(1) Profit and Loss Appropriation A/C

(2) Capital account for each partner (carrying the fixed capital and Fluctuating capital).

(3) Current Account

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(4) Balance sheet

Example: - 1

Mohamed and Mcharo are in partnership sharing profit and Loss equally. The following is their Trial balance as at 30th June 2010.

TRIAL BALANCE AS AT 30th JUNE 2010

	DR	CR
Building at cost	50,000	
Fixture at cost	11,000	
Provision for depreciation (fixture)		3,300
Debtors	16,243	
Creditors		11,150
Current account: Mohamed		1,306
Mcharo		298
Cash at bank	677	
Stock at 30th June 2009	41,979	
Sales		123,650
Purchases	85,416	
Carriage outwards	1,288	
Discount allowed	115	
Loan interest: Kassim	4,000	

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Office expenses	2,416	
Salaries and wages	18,917	
Bad debts	503	
Provision for bad debts		400
Loan from (Kassim)		40,000
Capital: Mohamed		35,000
: Mcharo		29,500
Drawings: Mohamed	6,400	
: Mcharo	5,650	
	244,604	244,604

Stock at 30th 2010

Required:

Prepare Trading and Profit and Loss, Appropriation account for the year ended 30th June 2010 and the Balance sheet as at that date:-

(a) Expenses to be accrued: Office exp 96.

(b) Depreciation Fixture 10% on reducing balance basis building Tshs. 1,000

(c) Reduce provision for bad debt t0 320

(d) Partnership salaries Tshs. 800 to Mohamed not yet entered.

(e) Interest on drawing Mohamed 180 and Mcharo 120.

(f) Interest on capital account balance at 10%

WORKING:-

Interest on capital:

Mohamed = 35,000 x 10/100 = 3,500

Mcharo = 29,500 x 10/100 = 2,950

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DR TRADING AND PROFIT &LOSS A/C YEAR ENDED 30th June 2010 CR

Opening stock		41,979	Sales	123,650
Add Purchases		85,416		
cost of goods available for sale		127,395		
Less Closing stock		56,340		
Cost of goods sold		71,055		
Gross profit c/d		**52,595**		
		123,650		123,650
Carriage outwards		1,288	Gross profit b/d	**52,595**
Discount Allowed		115	Provision for bad debts	80
Loan interest		4,000		
Salaries & wages	18,917			
Add Accrued	200	19,117		
Office expenses	2,416			
Add Accrued	96	2,512		
Bad debts		503		
Provision for depr				
- Building		1,000		
- Fixture		770		
NET PROFIT		23,370		
		52,675		**52,675**

DR PROFIT & LOSS APPROPRIATION CR

Salaries: Mohamed	800	Net Profit	23,370
Interest on Cap: Mohamed	3,500	Interest on Drawn:	
Mcharo	2,950	Mohamed	180
Share of profit:-		Mcharo	120
Mohamed = ½ x 16,420 =	8,210		
Mcharo = ½ 16,420 =	8,210		
	23,670		**23,670**

DR. PARTNERS CURRENT A/C CR

Details	MOH'D	MCHARO	Details	MOH'D	MCHARO
Drawings	6,400	5,650	Balance b/d	1,306	298
Interest on drawings	180	120	Share of profit	8,210	8,210

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Balance c/d	7,236	5,688	Salaries	800	-
			Interest on capital	3,500	2,950
	13,816	11,458		13,816	11,458
			Balance b/d	7236	5688

BALANCE SHEET AS AT 30th JUNE, 2010

LIABILITIES	AMOUNT		ASSETS	AMOUNT	
Capital: Mohamed	35,000		Fixed Assets		
Mcharo	29,500		Furniture	11,000	
Long term liabilities		64,500	Less: Prov for depr	4,070	
Loan from Kassim		40,000			6,930
			Building	50,000	
			Less: Prov for depr	1,000	49,000
Current Liabilities			Current Assets		
Mohamed	7,236		Debtors:	16,243	
Mcharo	5,688		Less: Prov for bad debts	320	
		12,924		15,923	
Accrues: Office exp	96		Stock	56,340	
Wages	200		Bank	677	
		296			72,260
Creditors		11,150			
		128,870			128,870

ADMISSION OF A NEW PARTNER

New partner may be admitted and usually for one of two reasons:-

I. For the sake of increasing capital

II. For the sake of management (supervision)

III. As an extra partner, either because the firm has growth or someone needed with different skills.

IV. To replace partners who are leaving the firm, this might because of retired or death of a partner

V. To avoid competition

In admitting a new partner two major problems arise:-

(i) Treatment of premium of goodwill of the firm.

(ii) Revolution of Assets and liabilities of the old firm.

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Condition of new partner:

i. To bring capital

ii To bring premium or goodwill

Example:

YUSUPH and Christopher began to trade in partnership on Jan 1980
Yusuph contributed Tshs 3000/= and Christopher 1000/= in cash they agreed as follows

- To share profit equally
- To allow interest on capital 6% p.a
- Christopher to get salary of Tshs 400/=
- Drawings Yusuph Tshs 400/= on 1st July and Christopher Tshs 200/= on 1st April, 1st July and 1st October
- To charge interest on drawings 6% p.a the net profit Tshs 2500/=

Show:

a) Appropriation account

b) Partners capital

c) Partners current account

Workings:

a) Interest drawings

Yusuph 6 x 400 x 6 = 12

100 12

Christopher

6 x 200 x 9 = 9

100 12

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1. 6 x 200 x 6 = 6

100 12

1. 6 x 200 x 3 = 3

100 12

Therefore total interest on drawings from Christopher is 9+ 6+ 3= 18

b) Interest on capital

Yusuph = 6 x 3000 = 180

100

Christopher 6 x 1000= 60

100

DR PROFIT AND LOSS APPROPRIATION ACCOUNT CR

Interest on capital		Net profit	2500
- Yusuph	180	Interest on drawing	
-Christopher	60	- Yusuph	12
Salary (Christopher)	400	- Christopher	18
Share profit			
Yusuph	945		
Christopher	945		
	2530		2530

DR PARTNER'S CAPITAL ACCOUNT CR

PARTICURAL	YUSUPH	CHRISTOPHER	PARTICULAR	YUSUPH	CHRISTOPHER
Balance c/d	3000	1000	Balance b/d	3000	1000
			Balance b/d	3000	1000

DR PARTNER'S CURRENT ACCOUNT CR

PARTICURAL	YUSUPH	CHRISTOPHER	PARTICULAR	YUSUPH	CHRISTOPHER
Drawings	400	600	Salary	-	400
Interest on drawings	12	18	Interest on capital	160	60
Balance c/d	713	787	Share profit	945	945
	1125	1405		1125	1405
			Balance b/d	713	787

EXERCISE 1

The partnership agreement between A, B and C contains the following agreement

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a) The partnership fixed capital shall be A 10,000/= B 8000/= C 6000/=

b) A and B are each to n receive a salary of 600/= a year

c) Interest on capital is to be calculated at 5% per annum

d) A ,B , and C are to share profit and losses in the ratio of 3:2:1

e) No interest to be allowed on drawings or current account

On 1st Jan 1978 the balance on current account were A credit balance 500/= B credit 200/= credit 350/=

During the year the drawing were A 4500/= B 3000 and C 5000/= the profit and losses account for the year showed a net profit of 14500/=

Before charging interest on capital and partners salaries

Required

a) Capital account of A,B, and C

b) Partners current account

c) Profit and loss appropriation on **a/c**

EXERCISE 2

Record the following facts on the personal account of A and B. two partners who are share profit and loss in the ratio of 5 to 3 and allow interest on capital at the rate of 4 percent per annum no interest is to be allowed or current on charges or drawings

B. is to be credited with a salary of 300/= for the year

	A.	B.
1st Jan capital account	4000	3000
30th Jan addition capital brought	1000	-
1st Jan current account	72 DR	100 CR
1st Jan – 31st Dec drawings	3650	3650/=

The partnership total divisible for the year after charging the salary was 7188/=

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Required

a) Partners capital account

b) Partners current account

c) Profit and loss appropriation account

TREATMENT OF PREMIUM OR GOODWILL

The new partner is required to pay some premium for goodwill as compensation to the old partners.

The amount in different to the amount paid in a business as a capital.

Premium for goodwill may be looked as a compensation paid by a new partner in a established business to the old performance to bring the business to its presents state.

There are five methods of dealing with questions of goodwill upon the admission of a new partner;-

(1) When goodwill is raised:-

If the new partner may have no cash resources beyond the capital introduced, hence the old partner agrees to raise the goodwill A/C.

Accounting entries:-

(a) When a new partner introduce capital

DR; Bank / Cash A/c

CR: New partner capital A/c

(b) When goodwill raised :

DR: Goodwill A/C

CR: Old partner capital A/C

EXAMPLE:-

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Mill and Salum are in partnership sharing profit and loss in proportion to the capital invested. Mill capital is 180,000 and Salum capital is 120,000.

They agreed to admit Nassor as a new partner but have no other sources a part from 60,000 he is contribute as capital. It is as ranged that goodwill of 45,000 be raised and the capital A/C of the old partner be created in the proportion in which they share profits. The profit on future is to be shared in the ration of 3: 2: 1 respectively.

Make journal entries to admit Nassor.

JOURNAL ENTRIES

DATE	DETAILS	DEBIT	CREDIT
	Cash	60,000	
	Nassor capital A/C		60,000
	-Being capital contributed by Nassor:		
	Goodwill A/C	45,000	
	Mill capital		27,000
	Salum capital		18,000
	-Being Goodwill is raised		

DR. PARTNERS CAPITAL ACCOUNT CR

DETAILS	MILL	SALUM	NASSOR	DETAILS	MILL	SALUM	NASSOR

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Balance c/d	207,000	138,000	60,000	Balance b/d	180,000	120,000	-----
				cash	-------	------	60,000
				goodwill	27,000	18,000	----
	207,000	138,000	60,000		207,000	138,000	60,000
				Balance b/d	207,000	138,000	60,000

DR GOODWILL A/C CR

Mills capital	27,000	Balance b/d		45,000
Salum capital	18,000			
	45,000			45,000

2) When goodwill paid and with drawn by the old partners:-

Accounting entries:-

(a) When goodwill paid

DR: Cash A/C

CR: Goodwill A/C

(b) When goodwill shared by the old partner

DR: Goods will A/C

CR: Old partner capital A/C

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(c) When goodwill withdraw by the old partners

DR: Partners capital A/C

CR: Cash A/C

EXAMPLE:

Hamis and Ally are in partnership sharing profit and losses in proportional to their capital which are Tshs. 150,000 and 90,000 respectively.

They admit Ponda as a partner on bringing into the business Tshs. 100,000 which was dully paid into the firms bank A/C.

If this sum Tshs. 60,000 represented Ponda's capital and Tshs. 40,000 is the goodwill for the admission into business.

The goodwill is taken out by the old partner. They agreed new share ration should be 5:3:2 respectively.

-Show the necessary entries for the admission of Ponda:

Solution

DR **JOURNAL ENTRIES** **CR**

DATE	DETAILS	DR	CR
	Bank	100,000	
	Ponda's capital		60,000
	Goodwill		40,000
	Being capital & Goodwill contribute by new partner		
	Goodwill	40,000	
	Hamis's capital		25,000

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	Ally's capital		15,000
	Being: Goodwill shared by the old partners		
	Hamisi	25,000	
	Ally	10,000	
	Bank		40,000
	Being goodwill drawn by new partners		

DR	GOOD WILL ACCOUNT		CR
Hamis	25,000	Bank	40,000
Ally	15,000		
	40,000		40,000

DR	BANK ACCOUNT		CR
Ponda's capital	60,000	Hamis's capital	25,000
Goodwill	40,000	Ally's capital	15,000
		Balance c/d	60,000
	100,000		100,000

DR. PARTNERS CAPITAL A/C CR

DETAILS	HAMIS	ALLY	PONDA	DETAILS	HAMIS	ALLY	PONDA
B Bank	25,000	25,000	-	Balance b/d	150,000	90,000	-
B Balance c/d	150,000	75,000	60,000	Bank	-	-	60,000
				Goodwill	25,000	10,000	-
	175,000	100,000	60,000		175,000	100,000	60,000
				Balance b/d	150,000	100,000	60,000

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3) When goodwill retained within a business:-

In this method the new partner paid a premium and the old partners decide to leave it in the business.

Account entries:-

When goodwill paid in cash

DR: Cash A/C

CR: Old partner capital A/C

EXAMPLE

On 1st Jan Juma and Hamis are in the partnership , each with capital of 15000/= and sharing profit equally decide to admit Hamada as a partner on condition that he brings in shs 10,000/= as capital and pays them a premium of 10,000/=

The profit in future are to be shares as follows juma $^2/_5$ hamis $^2/_5$ and hamadi $^1/_5$

Record the above transaction showing the admission of hamadi and how the premium remains in the partnership firms

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DR	CASH ACCOUNT		CR
Hamadi 's capital	10,000	Balance c/d	20,000
Premium-juma's capital	5000		
-hamis 's capital	5000		
	20,000		20,000
Balance b/d	20,000		

DR PATNERS' CAPITAL ACCOUNT CR

PARTICULAR	JUMA	HAMISI	HAMADI	PARTICULAR	JUMA	HAMISI	HAMADI
Balance c/d	20,000	20,000	10,000	Balance b/d	20,000	20,000	
				Cash Premium			10,000
	20,000	20,000	10,000		20,000	20,000	10,000
				Balance b/d	20,000	20,000	10,000

X , y, and z are in partnership sharing profit and losses in the ratio of 3: 3: 2 their balance sheet as at 1st Jan 1980 was as follows

BALANCE SHEET

Capital		Cash in hand	7000
X	15000	Cash at bank	23000
y	20,000	Bill receivable	15000
Z	18,000	Furniture and fitting	22000
Bank overdraft	6000	Land and building	17000
Creditor	18,000		
Bill payable	5000		
	84,000		84,000

EXAMPLE 2

On the above data they agreed to admit P into partnership on condition that contributes Tshs 18,000/= as his capital for a fourth share in the future profit in addition to that he must pay Tshs 12000/= has goodwill which remain in the business

Required show the necessary entries for P's admission and how the goodwill remains in the business or partnership

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DR CASH ACCOUNT CR

Balance b/d	7000	Balance c/d	37,000
P 'S capital	18,000		
P'S Goodwill	12,000		
	37,000		37,000
Balance b/d	37,000		

DR GOODWILL ACCOUNT CR

X'S capital	4500	Cash	12000
Y'S capital	4500		
Z'S capital	3000		
	12000		12000

DR PARTNERS' CAPITAL ACCOUNT CR

PARTICULAR	X	Y	Z	P	PARTICULAR	X	Y	Z	P
Balance c/d	19500	24,500	23,000	18,000	Balance c/d	15000	20,000	20,000	-
					Cash	-	-	-	18,000
					goodwill	4500	4500	3000	-
	19500	24,500	23,000	18,000		19500	24,500	23,000	18,000
					Balance b/d	19500	24,500	23,000	18,000

BALANCE SHEET

Capital		Cash in hand	37000
X	19500	Cash at bank	23000
y	24500	Bill receivable	15000
Z	23,000	Furniture and fitting	22000
P	18,000	Land and building	17000
Bank overdraft	6000		
Creditor	18,000		
Bill payable	5000		
	114,000		114,000

(4) When goodwill is raised and immediately written off:-

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This is when new partner does not pay any cash into the business as a goodwill rather than capital and the old partner decided to write off.

Account entries:-

(i) When goodwill is written off:-

DR: All partner capital A/C

CR: Goodwill A/C

(ii) When goodwill is written off:-

DR: All partner capital A/C

CR: Goodwill A/C

Example:-

Tamim and Nuhu are in partnership with capital of 400,000 cash, sharing profit and loss equally they agreed to admit Ally as a third partner in condition that all pay 400,000 as capital since Ally cannot raise any more fund. The partner decided that the goodwill of the business be valued at 150,000 and written off immediately. The new profit sharing ratio be 1/3 for each partner.

-Show the entries for the above transactions:-

Solution

DR	CASH ACCOUNT		CR
Ally's capital	400,000		

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DR GOODWILL ACCOUNT CR

Tamim	75,000	Tamim	50,000
Nuhu	75,000	Nuhu	50,000
		Ally	50,000
	150,000		150,000

DR PARTNERS CAPITAL A/C CR

DETAILS	T	N	A	DETAILS	T	N	A
Goodwill	50,000	50,000	50,000	Balance b/d	400,000	400,000	-
Balance c/d	425,000	425,000	350,000	Cash	-	-	400,000
				Goodwill	75,000	75,000	-
	475,000	475,000	400,000		475,000	475,000	400,000
				Balance b/d	425,000	425,000	350,000

EXERCISE 1

MAGE and ANA are in partnership sharing profit and losses in proportion to their capital which are 300,000/= and Tshs 200,000/= respectively. They agreed to admit Chekundu as a partner on condition that he pays into the firm Tshs 250,000/= of which Tshs 150,000/= is to be DANIEL capital contribution and Tshs 100,000/= the premium for his admission the cash is paid into the firm's banking account and the premium out to MAGE and ANA . the profit are shared on future as follows MAGE $^3/_8$ and ANA $^1/_4$

Required

Record DANIEL 's admission to be firm and the payment out of premium

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EXERCISE 2

Bwire and Wangaeli are in partnership sharing profit and losses equally interest on capital is allowed at 5% per annum

BALANCE SHEET

LIABILITIES	SHS	SHS	ASSETS	SHS	SHS
Capital			FIXED ASSETS		
Bwire	150,000		Premises	250,000	
Wangaeli	150,000	300,000	Machinery	170,000	420,000
Current account			Current assets		
Bwire	2500		Stock	20,000	
Wangaeil	1500	4000	Debtor	15000	
Long term liabilities			Cash	3000	38000
Mortgage loan		100,000			
Current liabilities					
Over draft		20,000			
Creditors		34,000			
		458000			458000

On 1st Jan 1989 the partners Gichomi on similar making the following arrangement

a) Gichomi to pay is 150,000/= as capital

b) Gichomi to pay Tshs 5000/= to the credit of current account

c) The money drawn immediately to repay the mortgage loan

d) The profit for the year ended 31st may 1990 amounted to Tshs 142500/= the partners drawing were as follows

Bwire 45,000/=

Wangaeli 47000/=

Gichomi 50,000/=

Required

Show balance sheet of the new partnership on 1st June 1989 Just after the admission of Gichomi

1. Prepare a profit and loss appropriation account and the current account of the partners for the year ended 31st may 1990.

LEMENTS OF AUDITING

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AUDIT AND INVESTIGATION

Definition

AUDIT

- Is the formal examination, correction, and official endorsing of financial account, especially those of a business undertaken annually by an accountant

- Inspection and verification of the accuracy of financial records and statements. Also involves systematic check or assessment especially efficient or effectiveness of an organization

AUDITING

- Is the examination of certain statement covering the transaction over certain period and financial position of an organization

- Is the examination financial statement covering over a period and ascertaining the financial position of organization on a certain date

AUDITOR

Is the an independent person appointed by company or an enterprise to examine its books of account

QUALITIES OF AN AUDITOR

I. Accounting knowledge.

An auditor should necessary have an academic qualification in accounting. This enable him to make evaluation and passing judgment of the financial records

II. Business knowledge.

An auditor should acquire a reasonable good knowledge in business e.g. world economic trend importing and exporting procedures business transaction marketing technique etc.

III. Independent to give out his opinion.

An auditor should act an independently he should not be subjected to the management supervision .

IV. Tactful.

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An auditor should maximize maximum care and skills in his/her daily activities

V. Common sense.

An auditor should have a good common sense and experience to conduct his/her work efficiently

OBJECTIVE OF AUDITING

Can categorized into two groups;
I. Primary objective.
II. Secondary objective.

I. Primary objective

- To review/examine the financial statement of the business and form an "independent opinion" as to whether they show true and fair view of the business.
- They are prepared according to the G.A.A.P and the auditor express his opinion by issuing what is called an audit report.
- To report if their any materials inconsistency between direct report and financial statement.

II. Secondary objective

1. Detection of errors and frauds
2. Prevention of errors and frauds
3. Reporting on the strength and/or weakness of the internal control system of the firm.
4. Providing constructive advice to the management for instance on how to handle and discharge various accounting responsibilities

TYPES OF AUDIT

1. CONTINUOUS AUDIT

Is the kind of an audit which involves details examination of the books of accounts at interval during the financial year. The auditor visits his client at regular or irregular intervals of the year and at the end of the year, he checks only profit and loss account and balance sheet

2. FINAL AUDIT/COMPLETED AUDIT

Is the kind of audit which is conducted at the end of the financial or trading period when all the account have been balanced and the trading and profit and loss account and balance sheet have been prepared.

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3.INTERIM AUDIT

Is the kind of an audit which is conducted at the particular date within the accounting period to ascertain the profit or loss as to enable the company is declared an interim dividend.

4.PROCEDURAL AUDIT

Is the type of audit which involves examining and reviewing the procedures used to process and record transactions in an organization. It also include the examination of the records from which financial statement were prepared. It help in revealing whether or not the procedure as prescribed by the management are being followed.

5.MANAGEMENT AUDIT

Is the comprehensive examination of an organization structure of a firm of its division, plans and objectives, its means of operation and its uses of human and non-human resources. management audit can reveal the strength and weakness of the management

6.STANDARD AUDIT

Is the types of audit which is conducted to ascertain whether the clients account system complies with the requirement /required level of standard set by the professional bodies.

7.BALANCE SHEET AUDIT

It refer to the verification of the value of an asset, liabilities, the balance of reserve and provision and the amount profit earned or loss incurred by a firm during a financial year by an auditor.

8.VOUCHING AUDIT

It refer to the kind audit where the auditor checks each and every transaction right from the origin in the books of prime entry till they are posted

9.INTERNAL AUDIT

This is describe as a review of operation and records sometimes continuous undertaken within a business by assigned staff.

- The person who perform this type of audit is known as internal auditor

10.EXTERNAL AUDIT

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- This is an independent person appointed by the shareholders (owner) outside the organization whose object is only to give a report about account prepared by directors or managers
- This is carried out by independent auditor(external auditor)

11.PRIVATE AUDIT

Under this type of audit the auditor will conduct an agreed limit of work

12.STATUTORY AUDIT

This is carried out under the provision of the law of the country i.e. all limited company are required to get their account audited

Example cooperative societies, banks , insurance, companies are required to get their account according to requirement of companies act.

13.INTERNAL CONTROL

- The whole system of control financial and otherwise established by the management in order to carry on the business of the enterprise in orderly manner. this cover not only financial and accounting checks but even those control designed to improve operational efficiency ensure adherence to company policies.

- Is the system established by the management within the company to check the movement of activities in the company of are going accordingly.

ELEMENT OF INTERNAL CONTROL

Is the system under which the work relating to carrying out and recording of transaction of transactions s allocated amongst various persons in such a manner that the work of one person is automatically checked by another and thus possibilities of fraud or errors or irregularity are minimized, if not completed eliminated.

It is an important tool of internal control it means the checks on day to day transactions which operate continuously as part of the routine system whereby the work of one person is checked by another employee.

INTERNAL CHECK

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This is the check of day to day transaction which operates continuously as a part of routine system among other things

Internal check should contain the following

- Division of responsibilities aiming at detection of errors and getting rid of misappropriation of funds
- Limitation of responsibilities and authority
- Relation of staff in various jobs so that no one deals with one aspect.
-

VERIFICATION

Is the examination of assets that they are actually held by the body concerned

INVESTIGATION

An investigation may be defined as an examination of the account and balance sheet of an organization and the supporting documents for a specific purpose of obtaining information to be submitted to an interested partly.

DIFFERENT BETWEEN INTERNAL CHECK AND INTERNAL AUDIT

INTERNAL CHECK

I. The entries are passed in such a way that the work of one clerk is automatically checked by another at the same time

II. The system is so derived that the chances of committing theft error of fraud are minimized

INTERNAL AUDIT

I. The work of clerk is checked by another after the former had finished the work

II. It is a device by which errors, frauds etc which have already been committed can be discovered.

CONTROLLER AND AUDITOR GENERAL

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This is an officer in the public services of the united republic of Tanzania who is appointed by the president and charged with the duties and the power of controlling payment from consolidation funds on behalf of the national assembly.

(three) duties of controller and auditor general.

I. Examine into the accounts of all accounting officers and receiver of revenue.

II. Examining of other people instructed in the revenue collection, receipts , custody, issue or payment of public money .
III. Controlling of payment from consolidated fund on behalf of the national assembly.

What are the duties of an auditor?

He should act with reasonable skill and care

- He is required to show in the report whether or not the financial statement of the business organization property reflect its finished position and operating results
- He is required to act according to professional ethics as stated in audit ordinance
- He must check cash in hand and the bank balance at least once per year.

AUDIT OPINION /REPORT

Is the independent comment made by the auditor to show whether the financial statement examined by him /her show a true and fair view of financial position of an organization.

- Auditor should explain

- Whether the financial statement have been audited in accordance which approved auditing standard

- Whether the obtained all the information and explanation required

- Whether in auditors opinion the financial statement give a true and fair view of the state affairs profit and loss and cash flow statement.

- Any materials in consistencies between the information contained in the directors report and the financial statement

TYPES OF AUDIT REPORT /OPINION

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types of audit report/opinion that auditor may express in his opinion.

I. Unqualified audit report /clean report

Is the report presented by auditor after auditing financial account of the firm to the management that every thing is alright in books of accounts.

II. Qualified audit report

When the auditor is unable to satisfy himself that the financial statements give a true and fair of the state of affairs and its profit and loss and cash flow statement he should quality the report by referring to all materials matters on which the auditor as reservation.

DISTINGUISH INTERNAL AUDIT AND STATUTORY/EXTERNAL AUDIT

	INTERNAL AUDIT	EXTERNAL AUDIT/ST
1. **APPOINTMENT**	Internal audit is appointed by management	Statutory auditor is appoi except in certain cases h company or the governm
2. **QUALIFICATION**	Internal auditor need not to possess qualification as laid down under company act	A statutory auditor must h
3. **STATUS**	Internal audit is an employee of the company	Statutory audit is an ind
4. **CONDUCT OF AUDIT**	An internal audit is a kind of continuous	Statutory is generally conducted aft final account
5. **SCOPE OF WORK**	Scope of work by internal auditor is determined by the management	Scope of work and responsibilities of statut by law
6. **OBJECT**	An internal auditor has a primary duty to find out whether any error or fraud has been committed	Statutory auditor has to report whether the and loss account of the c been drawn up in confo
7. **ADVICE MANAGEMENT**	Internal auditor has to make suggestions to the management as how to run the business effectively and to avoid wastage	Statutory auditor need to d he is specially asked
8. **CHECKING**	Internal audit has to check all transaction	Statutory auditor may ap
9. **REPORT**	Internal auditor has not submit any report to share holders	Statutory auditor has to

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1. **APPLICATION OF ACCOUNTANT ACT**	Internal auditor cannot be persecuted for professional misconduct unless he is certified account	Statutory auditor can be
1. **REMOVAL**	Internal auditor can be removed by management or directors	Statutory auditor can be by shareholders
2. **ATTENDANCE AT MEETING**	Internal auditor has not right to attend a meeting of the shareholders	Statutory auditor has s