Book-Keeping

for Secondary Schools

Student's Book Form Three

- Depreciation
- Bad debts and Doubtful debts

Adjustments

- **Accruals**
- **Prepayments**

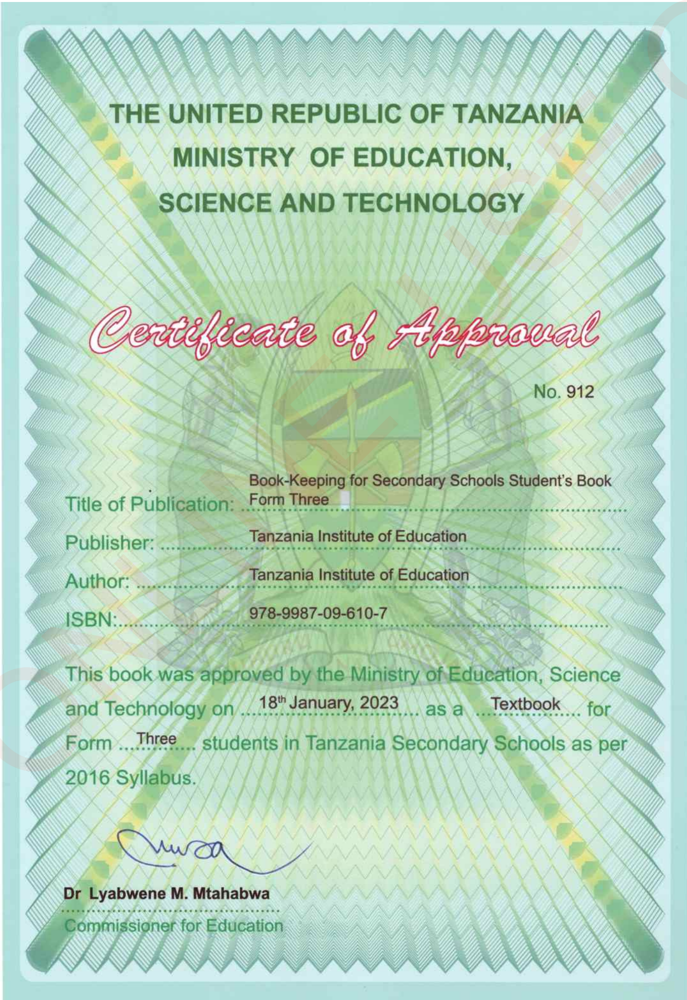
Tanzania Institute of Education

Book-Keeping

for Secondary Schools

Student's Book

Form Three



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Dr Lyabwene M. Mtahabwa
Commissioner for Education

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Tanzania Institute of Education
P.O. Box 35094
Dar es Salaam, Tanzania

Mobile numbers: +255 735 041 168 / 735 041 170
E-mail: director.general@tie.go.tz
Website: www.tie.go.tz

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Abbreviations and Acronyms

Dr	Debit
Cr	Credit
COGS	Cost of Goods Sold
IASB	International Accounting Standard Board
IAS	International Accounting Standard
MNMA	The Mwalimu Nyerere Memorial Academy
PPE	Property, Plant and Equipment
SUA	Sokoine University of Agriculture
TIE	Tanzania Institute of Education
TZS	Tanzanian Shilling
XYZ	Dummy enterprise
UDOM	University of Dodoma
UDSM	University of Dar es Salaam

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Writers: Mr January J. Timanywa (TIE), Dr Kamugisha A. Rwechungura (MNMA), Justo M. Lemesaya (UDSM), Gerado J. Onding'o (Waningo Secondary School), Godfrey F. Luanda (Morogoro Secondary School), Sylvia K. Benedict (Viwandani Secondary School) & Lucy B. Mgalla (Mwayunge Secondary School)

Editors: Dr Patrick R. Mbwile (UDSM), Mr Mashiku M. Makwani (UDOM), Ms Sarah D. Nkanzaga (Makurumla Secondary School) & Dr Hashim I. Mohamed (Language - SUA)

Designers: Mr Silvanus A. Mihambo & Ms Rehema H. Maganga

Coordinator: Mr January J. Timanywa

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Dr Aneth A. Komba
Director General
Tanzania Institute of Education

Preface

This textbook, *Book-Keeping for Secondary Schools,* is written specifically for Form Three students in the United Republic of Tanzania. It is written in accordance with the 2016 Book-Keeping Syllabus for Ordinary Secondary Education Form I-IV, issued by the Ministry of Education, Science and Technology. The book consists of six chapters, namely Adjustments for (accruals and prepayments; depreciation of non-current assets; bad debts and allowance for doubtful debts), Control accounts, Accounting for incomplete records and Accounting for not-for-profit organizations. Each chapter contains text, activities and exercises. You are encouraged to do all the activities, exercises and other assignments provided by your teacher. Doing so will enable you to develop the intended competencies.

Tanzania Institute of Education

Chapter One

Adjustments for accruals and prepayments

Introduction

In this chapter, you will learn the concept of adjustments and adjustments for accruals and prepayments. The competencies developed in this chapter will enable you to prepare a complete set of financial statements by considering adjustments for accruals and prepayment.

The concept of adjustments

The concept of adjustments in accounting requires an enterprise to carry out important adjustments on its financial record, in order to prepare financial statements that portray a true and fair view. This is because, some of the expenses incurred by the enterprise in one accounting period may be paid for in the next accounting period. Similarly, cash for some of the revenues earned in one accounting period may be received in the next period. Also, enterprises will find themselves in a situation where they have to pay for expenses that are not yet incurred and cash received for goods they have not yet sold or for service they have not yet rendered. In these cases, adjustments in the accounting records are important in dealing with such incidences. By doing so, the matching concept of accounting and the accrual concept of accounting are all met.

Accrual, and cash basis of accounting and the matching concept

In accounting, the accrual basis of accounting is a practice whereby revenue is recognized when earned, not when cash is received; and expenses are recognized when incurred not when paid for. On the other hand, the cash basis of accounting is the practice of recognizing revenue when cash has been received, and expenses when cash has been paid. Thus, the difference between accrual and cash basis of accounting lies in the timing when revenue and expenses are recognized in the books of accounts. Matching concept in book-keeping is a practice whereby enterprise recognize revenue and their related expenses in the same accounting period. The enterprise should prepare income statements along with the expenses that were exactly incurred to generate the reported income. The main purpose of the matching concept is to avoid misstating earnings for an accounting period.

Professionally, every enterprise is required to maintain its accounting records using the accrual basis of accounting. This has been put forward by the International Accounting Standard Board (IASB), which is the board responsible for regulating the accounting practice internationally. The International Accounting Standards (IAS) which are recommended to you are IAS 1 (Presentation of Financial Statements), IAS 7 (Statement of Cash Flows) and IAS 16 (Property, Plant and Equipment). IAS 1 which was issued by the IASB requires every enterprise to prepare its books of accounting under the accrual basis of accounting. However the board responsible for public sector accounting standards is the International Public Sector Accounting Standards Board (IPSASB).

The concept of adjustments in relation to the accrual and matching concepts

Adjustments of accounting records enable enterprises to prepare their financial statements by meeting the accrual and matching concept of accounting. These accounting concepts are related to the concept of adjustment in the sense that the accrual concept of accounting requires the enterprise to recognize revenues when earned not when cash is received and expenses when incurred, not when paid for. On the other hand, matching concept of accounting requires business enterprises to match revenues earned against expenses incurred in the process of generating that revenue in the same accounting period when ascertaining its performance and its financial position.

Adjustments of accounting entries enable the enterprise to determine its actual revenue and expenses that must be reported in the same accounting period when preparing its financial position at the year end. Without carrying out adjustments on accounting records, it would be difficult to determine the actual revenue earned and the expenses incurred in the accounting period, hence failing to adhere to accrual and matching concepts. Accounting adjustments refers to the action of passing adjusting entries in the books of accounts so as to make financial statements reflect more accurately the earned income and the incurred expenses under the accrual basis. Normally, adjustments are made at the end of the accounting period which can be at the end of the month or year. There are six common types of adjusting entries which include deferred revenue (unearned revenue), prepaid expenses, accrued revenue, accrued expenses, depreciation expenses and adjustments for bad and doubtful debts. These adjustments will be covered later in this book.

Accruals and prepayments

Accrual basis of accounting requires an accountant to recognise revenue when it is earned, not when it is received; and expenses when incurred, not when they are paid for. In accounting, there is a difference between earning and receiving revenue. Earning revenue occurs when services or goods have been consumed by a customer while receiving revenue occurs when we receive payments related to services or goods provided to customers. Moreover, there is a difference between incurring and paying an expense. An expense is incurred when we consume or use a service such as water or electricity services irrespective of whether we have paid for or not while an expense is paid for when actual payment is made.

Prepayment and accruals are concepts related to the accrual basis of accounting. Prepaid revenue refers to revenue received in advance (before it is earned). A prepaid expenses refer to expenses paid in advance (before they are incurred) for goods or services to be received in the future. Hence, there are two types of prepayments which are prepaid revenue and prepaid expenses. On the other hand, accruals refer to revenues not yet received (after being earned) and expenses not yet paid (after being incurred). Hence, there are two types of accruals which are accrued revenue and accrued expenses. These concepts are further elaborated below:

Accrued income

This occurs in situation where the company has provided the service has been provided but have not yet received the income from the customer. When preparing financial statements such amounts receivable from customers are treated as accrued income.

A good example of this situation is: suppose, rent receivable per year is TZS 120,000 and the actual cash received for rent from tenants is TZS 50,000 for the year. At the end of the year, TZS 70,000 is accrued rent.

- Accrued income is a current asset (which is recorded in the statement of financial position)
- The amount of revenue earned for the period, that is, TZS120,000 (and not TZS50,000) should be transferred to the income statement.

Prepaid revenue or income

This is a revenue or income received in advance before it is earned. This happens when cash has been received for a particular service before rendering the service and thus, the revenue has not yet been earned.

A good example of this situation is where, rent receivable per year is TZS 120,000 and the actual cash received for rent from tenants is TZS 150,000 for the year. At the end of the year, TZS 30,000 is a prepaid rent.

- Prepaid income is a current liability (it is recorded in the statement of financial position).

- The amount of revenue earned for the period should be transferred to the income statement.

Accrued expenses

These are expenses not yet paid but have been incurred. It occurs when cash has not been paid for a particular expense however, it is already incurred. Accrued expenses occur where an entity has already incurred expense such as salaries, wages but the payment for such expenses has not yet been made. The amounts remain outstanding at the end of the accounting period.

Example, rent payable per year is TZS 120,000 and the business has paid rent of TZS 100,000 only. Then TZS 20,000 is accrued rent expense

- Accrued expense is a current liability (it is recorded in the statement of financial position)
- The amount incurred for the period should be transferred to the income statement under expenses section.

Prepaid expenses

These are expenses paid for but not yet incurred. These occur when cash has been paid for a particular service before such service has been rendered to the business. Prepaid expenses occur in situations where payments for different expense items are made before the business has actually incurred. It is common to have such prepayments in expenses such as rent, electricity or mobile communication charges.

A good example of this situation is where, rent payable per year is TZS 120,000 and the business has paid cash for rent of TZS 200,000 for the year. Then, at the end of the year, TZS 80,000 is prepaid rent expense.

- Prepaid expense is a current asset (it is recorded in the statement of financial position)
- The amount of expense incurred for the period should be transferred to the income statement under expenses section

Recording accruals and prepayments

There are two approaches to recording accruals and prepayments

Approach I

The rule of recording accruals and prepayments

Balance of Account	Where to record
1. Prepaid/advance brought down	Debit side for expenses, Credit side for revenue
2. Accrued/outstanding/owing brought down	Opposite side (Credit side for expenses, debit side for revenue)
3. Prepaid/advance carried down	Credit side for expenses, debit side for revenue
4. Accrued/outstanding/owing carried down	Opposite side (debit side for expenses, Credit side for revenue)

Dr **Expenses account** **Cr**

Date	Details	Amount (TZS)	Date	Details	Amount (TZS)
	Prepaid expenses b/d	xxx		Accrued expenses b/d	xxx
	Cash	xxx		Prepaid expenses c/d	xxx
	Accrued expenses c/d	xxx		Income statement	xxx
		xxx			xxx
	Prepaid expenses b/d	xxx		Accrued expenses b/d	xxx

Dr **Revenue account** **Cr**

Date	Details	Amount (TZS)	Date	Details	Amount (TZS)
	Accrued revenue b/d	xxx		Prepaid revenue b/d	xxx
	Prepaid revenue c/d	xxx		Cash	xxx
	Income statement	xxx		Accrued revenue c/d	xxx
		xxx			**xxx**
	Accrued revenue b/d	xxx		Prepaid revenue b/d	xxx

Note: The balance of an account can be either prepaid or accrued balance. Prepaid or accrued balance brought down. This is a balance brought down at the beginning of the period. Prepaid or accrued carried down. This is a balance carried down at the end of the period.

Approach II

There is an alternative approach of recording prepayments and accruals in the books of accounts.

(a) ***For prepaid revenue***

(i). When payments are received for example, rent is received

Date	Details	Debit	Credit
	Cash	xxx	
	Rent revenue account		xxx
	To record cash received from rented premises		

(ii). When there is a prepaid revenue (for example, prepaid rent revenue)

Date	Details	Debit	Credit
	Rent revenue account	**xxx**	
	Prepaid rent revenue account		**xxx**
	To record part of rent received relating to the future period		

(b) ***For accrued revenue***

(i) When payments are received for example, is rent received:

Date	Details	Debit	Credit
	Cash	xxx	
	Rent revenue		xxx
	To record cash received from rented premises		

(ii) When there is an accrued revenue (for example accrued rent revenue)

Date	Details	Debit	Credit
	Accrued Rent revenue account	xxx	
	Rent Revenue account		xxx
	To record the amount of rent earned but not yet paid for		

Example 1.1

Accrued Income

The rent received during the year amounted to TZS 680,000 and the accrued rent receivable amounted to TZS 375,000 as at 31st December 2021. Show the necessary accounting entries in the books of Chumbe Enterprise.

***Approach I** (using two accounts to record rent)*

Dr — Rent income account — Cr

Date	Details	Amount (TZS)	Date	Details	Amount (TZS)
31/12/2021	Income statement	1,055,000		Cash	680,000
			31/12/2021	Accrued rent income	375,000
		1,055,000			1,055,000
1/1/2020	Accrued rent income	375,000			

Dr — Accrued rent income account — Cr

Date	Details	Amount (TZS)	Date	Details	Amount (TZS)
31/12/2021	Rent income	375,000	31/12/2021	Balance c/d	375,000
		375,000			375,000
1/1/2022	Balance b/d	375,000			

***Approach II** (Mixed accounts approach)*

Dr — Rent income account — Cr

Date	Details	Amount	Date	Details	Amount (TZS)
31/12/2021	Income statement	1,055,000		Cash	680,000
			31/12/2021	Balance c/d	375,000
		1,055,000			1,055,000
1/1/2022	Balance b/d	375,000			

Financial statements *(for both Approaches I and II)*

Chumbe Enterprise

Income Statements (extract) for the year ended 31 December 2022

	TZS
Gross profit	xxxxxxxx
Add: Rent income	1,055,000
Discount received	xxxxxx

Chumbe Enterprise

Statement of financial (extract) position as at 31 December 2022

	TZS	**TZS**
Current assets		
Accrued rent income	375,0000	
Inventory	xxxxxx	

Example 1.2

(a) ***Prepaid revenue***

The rent received during the year ending 31st August 2020 is TZS 200,000. At the end of the year, the prepaid rent revenue amounted to TZS 50,000. Account for the above entries in the books.

Dr **Rent revenue account** **Cr**

Date	Details	Amount (TZS)	Date	Details	Amount (TZS)
	Prepaid rent revenue	50,000		Cash	200,000
	Income statement	150,000			
		200,000			200,000

Dr **Prepaid rent revenue account** Cr

Date	Details	Amount (TZS)	Date	Details	Amount (TZS)
31/8/202	Balance c/d	50,000		Rent revenue	50,000
		50,000			50,000
			1/7/2020	Balance b/d	50,000

The balance of prepaid rent revenue account is transferred to the statement of financial position

(b) ***For prepaid expenses***

(i) When payments are made for example, Salary expense

Date	Details	Debit	Credit
	Salary expense	xxx	
	Cash/Bank		xxx
	To record salaries paid for the month/year.		

(ii) When there is prepaid Expense (for example, prepaid salary expense)

Date	Details	Debit	Credit
	Prepaid Salary expense	xxx	
	Salary expense		xxx
	To record salaries paid in advance.		

(c) ***For accrued expenses***

(i) When payments are made for, example: Salary expense

Date	Details	Debit	Credit
	Salary expense	xxx	
	Cash/Bank		xxx
	To record salaries paid for the month / year.		

(ii) When there is an accrued expense (for example Accrued salary expense)

Date	Details	Debit	Credit
	Salary expense	xxx	
	Accrued salary expense		xxx
	To record salary incurred but not yet paid for.		

Example 1.3

Accrued expense

Salary expense paid by Chumbe Enterprise during the year ending 31st December 2020 is TZS 1,000,000. At the end of the year, the accrued salary expense amounted to TZS 250,000. Account for the above entries in the books.

Approach I

Dr **Salary expense account** **Cr**

Date	Details	Amount (TZS)	Date	Details	Amount (TZS)
	Cash	1,000,000	31/12/2020	To income statement	1,250,000
31/12/2020	Accrued salary expense	250,000			
		1,250,000			1,250,000

Dr **Accrued salary expenses account** **Cr**

Date	Details	Amount (TZS)	Date	Details	Amount (TZS)
31/12/2020	Balance c/d	250,000		Salary expense	250,000
		250,000			250,0000
			1/1/2021	Balance b/d	250,000

Approach II (mixed)

Dr **Salary expense account** **Cr**

Date	Details	Amount (TZS)	Date	Details	Amount (TZS)
	Cash	1,000,000	31/12/2020	Income statement	1,250,000
31/12/2020	Accrued salaries c/d	250,000			
		1,250,000			1,250,000
			1/1/2021	Accrued salaries b/d	250,000

The accrued salary expense is transferred to the statement of financial position as a current liability and in the income statement as an expense.

Financial statements *(for both Approaches I and II)*

Chumbe Enterprise

Income Statement (extract) for the year ended 31 December 2021

	TZS
Gross profit	xxxxxx
Less: Expenses:	
Salary expense	(1,250,000)

Chumbe Enterprise

Statement of financial position (extract) 31 December 2021

	TZS	TZS
Current assets		
Accrued salary expense	250,000	

Exercise 1.1

The following expenses were paid out in the cash book:

Rent	TZS 2,700,000
Wages expenses	TZS 50,000
Water bills	TZS 300,000

On investigation, the following additional information was received:

(i) Rent accrued was TZS 100,000 on 1st January 2020. Also, prepaid rent was TZS 25,000 on 31st December 2020

(ii) Water bills accrued on 1st January 2020 was TZS 40,000 and by 31st December there was an advance of TZS 85,000

(iii) Wages expenses unpaid by 31st December was TZS 60,000

Required: Prepare relevant ledger accounts.

Deferred revenue (unearned revenue)

Deferred revenue is a liability (alternatively known as unearned revenue) on the statement of financial position of an enterprise. It is the amount that the enterprise receives as advance payment on its future revenue. Normally, this is in the form of customer owned goods and services, which have not been delivered yet. The payment is treated as a liability to the enterprise because there is still a possibility that the goods or services may not be delivered, or sometimes the buyer may cancel the order.

In the case of cancelled order, the enterprise will have to repay the customer, unless other payment terms were clearly stated in a signed contract. Deferred revenue is normally reported as a current liability on the statement of financial position. Examples of deferred revenue include rent payments received in advance and payment received on newspaper subscriptions.

Prepaid expenses

Prepaid expenses are treated as a type of asset (current asset) on the statement of financial position that results from a business making advanced payments for goods or services expected to be received in the future. In the books of accounts, prepaid expenses are initially recorded as assets, but their value is expensed over time onto the income statement. Typical examples of expenses that are usually paid in advance include telephone, internet, rent, salaries, taxes, equipment paid for before use, interest expenses and utility bills (electricity, water and sewage).

Activity 1.2

1. A small business owner has approached you claiming that there is no need of adjusting accounting records before financial statements are prepared. Using good examples, explain to this owner, why it is important to adjust accounting records before financial statements are prepared.
2. Using the internet or library which is nearby, explore more the meaning and importance of deferred revenue and prepaid expenses. Then write a short note which you will share with your fellow students.

Revision exercise 1

1. The following expenses were paid out in the cash book:

Electricity	TZS 1,300,000
Van expenses	TZS 90,000
Rent	TZS 100,000

On investigation, the following additional information was received:

(i) Electricity prepaid by TZS 70,000 on 1.1.2017 and unpaid was TZS 20,000 on 31st December 2017.

(ii) Rent accrued on 1.1.2017 was TZS 34,000 and by 31st December there was an advance of TZS 45,000.

(iii) Van expenses unpaid by 31st December was TZS 35,000.

Required:
Prepare ledger accounts for electricity, rent and van and the extracts of statement financial position and income statement.

2. The following trial balance was extracted from the books of Mzalendo at the close of business on 28th February 2019.

	Dr TZS	Cr TZS
Purchases and sales	9,280,000	15,716,500
Cash at bank	410,000	
Cash in hand	32400	
Capital account 1 March 2018		1,140,000
Drawings	1,710,000	
Office furniture	290,000	
Rent	340,000	
Wages and salaries	3,140,000	
Discounts	82,000	16,000
Accounts receivable and accounts payable	1,231,600	524,500
Inventory 1 March 2018	412,000	
Allowance for doubtful debts 1 March 2018		40,500
Delivery van	375,000	
Van running costs	61,500	
Bad debts written off	73,000	
	17,437,500	**17,437,500**

Additional information:

(a) Inventory 28th February 2019 was TZS 240,000

(b) Wages and salaries accrued at 28th February 2019 TZS 34,000

(c) Rent prepaid at 28th February 2019 was TZS 23,000

(d) Van running costs owing at 28th February was TZS 7,200

(e) Increase the allowance for doubtful debts by TZS 8,190

(f) Provide for depreciation as follows:

(i) Office furniture TZS 38,000

(ii) Delivery van TZS 125,000

Required:

Draw up the income statement for the year ending 28th February 2019 together with a statement of financial position as at 28th February 2019.

3. On 31st December 2019, containers in hand amounted to TZS 3,700,000. During the year to 31st December 2020, we paid TZS 54,960,000 for containers. There was no inventory of containers on 31st December 2020. On 31st December 2020, we still owed TZS 5,500,000 for containers already received and used. Show containers account.

4. From the following given details prepare rent and rates account for the year ended on 31st December 2020. Rent is payable at TZS 600,000 per annum. The rates of TZS 400,000 per annum are payable by instalments. At 1st January 2020 rent of TZS 100,000 had been prepaid in 2019. On 1st January 2020, rates (*local charges*) of TZS 400,000 were owed. During 2020, rates of TZS 450,000 were paid. During 2020 rates (council charges) TZS 500,000 was paid. On 31st December 2020, the rent of TZS 50,000 was owing, on 31st December 2020, the rates of TZS 60,000 had been prepaid.

5. The financial year of Mtamba ended 31st December 2019. Show ledger accounts for the following items including the balance transferred to the necessary part of the financial statements:

   (i) Rent expenses of TZS 93,400 was paid in 2019, owing at 31st December 2020 was TZS 17,300.
   (ii) Insurance expenses of TZS 81,500 was paid in 2019 while prepaid amount as at 31st December 2020 was TZS 13,400
   (iii) Advertising expenses was TZS 73,150; prepaid amount as at 31st December 2018 was TZS 21,500; owing as at 31st December 2019 was TZS 17,800.
   (iv) Electricity expenses of TZS 68,450 was paid 2019, prepaid amount as at 31st December 2018 was TZS 14,310; prepaid amount as at 31st December 2019 was TZS 12,140.

Chapter Two

Adjustments for depreciation of non-current assets

Introduction

In this chapter, you will learn the adjustments for depreciation of non-current assets. The competencies developed in this chapter will enable you to prepare a complete set of financial statements by considering all necessary adjustments for depreciation of non-current assets.

The concept of depreciation of non-current assets

In this chapter, the depreciation of non-current assets is presented in detail so as to make you understand well the concept of depreciation of non-current assets.

Non-current assets

Every organisation needs non-current assets in order to run its business smoothly. Understanding non-current assets requires reference to an International Accounting Standard (IAS) 16. This standard is dedicated to Property, Plant and Equipment (PPE) and derives the meaning of non-current assets from the way it defines current assets. For public sector accounting this is addressed by the International Public Sector Accounting Standard (IPSAS) 17.

According to IAS 16, a current asset meets the following criteria:

(i) It is expected to be realized in, or is intended for sale or consumption in the entity's normal operating cycle;
(ii) It is held primarily for the purpose of being traded;
(iii) It is expected to be realized within twelve months after the end of the reporting period; or
(iv) It is cash or cash equivalent.

According to the standard, assets other than those meeting the above criteria are called non-current assets.

Usually, non-current assets are categorised into two categories which are tangible and intangible non-current assets.

Tangible and intangible non-current assets

Something is tangible if it has physical substance. It is intangible if it does not have physical substance. Thus, a tangible non-current asset refers to an asset which can be seen, touched or felt.

The typical examples of tangible non-current assets include equipment, plant and machinery, motor van, furniture and fixtures. On the other hand, an intangible non-current asset is a non-current asset which does not exist physically. In other words, an intangible non-current asset cannot be seen, touched nor felt. Typical examples of an intangible non-current assets include goodwill, computer software, brand recognition and intellectual property such as patents, trademarks and copyrights.

Capital and revenue expenditures

Expenditure may be defined as payments made or liabilities incurred in exchange of goods or services in the normal operation of entity. This section will discuss the concept of capital expenditure and revenue expenditure in details. It will start by explaining the concepts of capital and revenue expenditure, then present the differences between capital and revenue expenditure. Further, it will present how capital and revenue expenditures are recorded in the books of accounts. The section will then conclude by discussing the concept of capital and revenue receipts.

Capital expenditure

The term capital expenditure refers to an investment or money spent by the business entity in acquiring non-current assets. This term also refers to those expenses incurred by the entity to improve the life span of the non-current assets, their productivity or capacity. It simply refers to those funds used to purchase or improve the productivity or capacity of the non-current assets that will be used by the enterprise for a long period. A typical example of capital expenditure includes the amount of money spent by the business to purchase vehicles, machinery, equipment, land or in constructing a building. The main aim of capital expenditure is to enable an enterprise to derive benefits to the enterprise by increasing its operating capability. For visual understanding, Figure 2.1 lists some of the typical examples of capital expenditure.

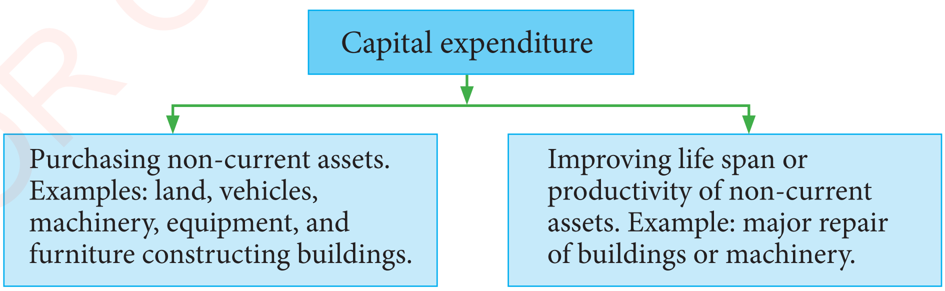

Figure 2. 1: *Examples of capital expenditure*

The main point to consider when one wants to determine whether money spent is a capital expenditure or not is to ascertain whether the expenditure aims at procuring a non-current asset that will be used for more than one accounting period by the entity. Also, capital expenditure refers to money spent to improve the capacity or productivity of those assets.

The cost related to capital expenditure that is recorded in the books of accounting is said to be capitalized. Thus, capitalization of expenditure refers to the recording of capital expenditure in the books of accounting. It should be noted that the cost of the non-current asset is not only the money paid to acquire the asset, rather the total cost incurred to get the asset into a usable form. For example, the cost to ship the assets from the seller to the premises of the enterprise, costs incurred for installation of the asset, legal costs incurred and any other related costs are capitalized to form cost of the asset.

Example 2.1

Mnazi Laundry Ltd paid TZS 1,000,000 to Mwembeladu Ltd for purchase of a washing machine. Mnazi Laundry Ltd also incurred additional costs amounting to TZS 200,000 as carrying costs, TZS 50,000 as inspection costs, TZS 40,000 as legal costs and TZS 180,000 as installation costs.

Required:

Calculate the cost of the machinery that will be recorded in the books of Mnazi Enterprise's books.

Solution

The cost of the washing machinery that will be recorded in the books is not only the money paid to Mwembeladu Ltd but also other costs that were incurred by Mnazi Laundry Ltd to bring the machine into operation. Therefore, the cost of washing machine is the sum of TZS 1,000,000 paid to Mwembeladu Ltd, TZS 200,000 as carrying costs, and TZS 50,000 as inspection costs. Also, Mnazi Laundry Ltd will record TZS 40,000 as legal costs and TZS 180,000 as installation costs. The total of these costs is TZS 1,470,000. Thus, the capital expenditure in relation to the washing machine is TZS 1,470,000.

Therefore: **TZS 1,470,000** = 1,000,000 + 200,000 + 50,000 + 40,000 + 180,000

Revenue expenditure

Revenue expenditure on the other hand, are the expenses incurred by the firm in running day to day operations of the enterprise. The expenditure may include employee wages, rent, electricity, insurance, stationery, taxes and internet connectivity. These expenses differ from capital expenditure in the sense that they are incurred to smoothly run the operations of the firm rather than to procure a non-current asset or to improve the productivity or capacity of the non-current assets. Normally, revenue expenditure is used within one accounting period and does not improve the useful life of the non-current asset. Typical examples of revenue expenditures include expenses for repairs of machines, repair of motor van, salaries, water bills, electricity bills, transportation expenses and stationery expenses. Revenue expenditure can easily be understood by studying Figure 2.2.

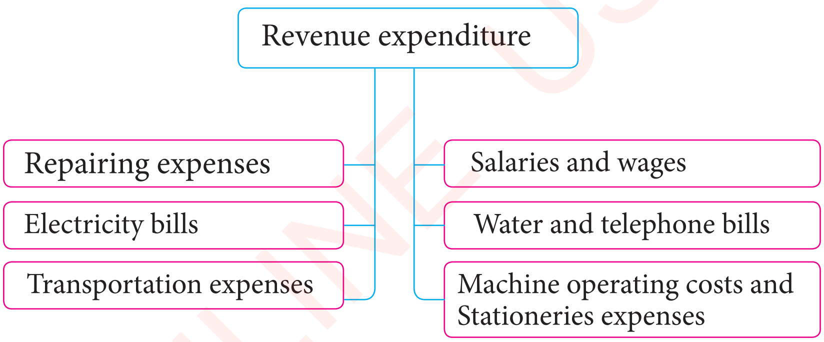

Figure 2. 2: *Examples of revenue expenditure*

Revenue expenditure is sub-divided into two categories: expenditure for generating revenue for a business and expenditure for maintaining an asset to generate revenue. Expenditures for generating revenue are important for meeting day-to-day operational costs of a business. On the other hand, expenditures for maintaining revenue are used to repair and make maintenance of the assets, in order to keep them in a working condition. This can include repairing and repainting of the assets.

The distinction between capital and revenue expenditure might seem confusing to students but in reality, it is simple to differentiate them. Let as consider this example: assume that the entity paid a total of TZS 2,500,000 to a contractor aiming to improve its premises. If 70 per cent of that amount was for improvements and the remaining 30 per cent was for the repair work such as painting; TZS 1,750,000 (2,500,000 x 70 per cent) will be treated as capital expenditure while TZS 750,000 (2,500,000 x 30 per cent) will be treated as revenue expenditure.

Another example that can be studied to understand the difference between capital and revenue expenditure is the purchase of machinery and other associated costs incurred in relation to the machine. The amount of money paid to purchase a machine is treated as capital expenditure. Adding extra equipment to the machine for improving life span of non-current asset are treated as capital expenditure while, electricity costs incurred when running the machine, oil costs for lubricating the machine, machine repair costs, and painting of the machine are treated as revenue expenditure.

Differences between capital and revenue expenditure

The differences between capital and revenue expenditure are presented in Table 2.1.

Table 2. 1: *The differences between capital and revenue expenditures*

	Capital Expenditure	Revenue Expenditure
1	Involves costs incurred for the acquisition of non-current assets, or to enhance the capacity of an existing asset that results in increasing its lifespan.	Involves costs incurred to facilitate the smooth operation of daily business activities.
2	Has physical appearance except for the intangible assets.	Has no physical appearance.
3	Appears as assets in the statement of financial position and some portion appears in the income statement e.g., depreciation.	Only appears in the income statement e.g., wages, salaries, rent and electricity.
4	Improves the productivity and performance of a non-current asset.	Maintains the non-current assets in a good working condition.
5	Increases the values of non-current assets. It does not decrease net profit of the entity.	Decreases the net profit of the entity. Does not increase the value of non-current assets.
6	These are recorded in non-current assets accounts and later in the statement of financial position.	These are recorded in expenses accounts and later appear in the income statement.

Treatment of capital and revenue expenditure in the books of accounts

One would be wondering why do we take troubles trying to determine whether an expenditure is capital or revenue. We study these concepts because, the way we classify the expenditure has an impact on the profit or loss reported in the income statement and on the value of assets shown on the statement of financial position.

Capital expenditure increases the value of the asset thus it is debited in the ledger account of the respective assets. The increased value as a result of capital expenditure is also shown in the statement of financial position as assets. On the other hand, revenue expenses are debited in the respective expense accounts such as repair costs account and are treated as a periodic cost. Revenue expenditure is charged in the income statement as an expense when determining the profit or loss of the respective period. Therefore, when the expense is incorrectly classified and treated in the account, it will result in incorrect figures in the income statement and in the statement of financial position. In other words, the reported profit or loss figure will be incorrect and the value of that asset shown in the statement of financial position will also be incorrect.

Capital and revenue receipts

Receipts of the business entity can be classified into two as capital receipts and revenue receipts. Capital receipts are realized from the sale of non-current assets. In other words, when the assets whose expenses were treated as capital expenditure at the time of their purchase are sold, the money realized from such a sale is known as capital receipts. On the other hand, other receipts realized from normal cause of the business such as the rent received and commission received are known as revenue receipts.

It should be noted that the receipts realized as capital receipts are not added to the entity's gross profit while the receipts realized as revenue receipts are added to the entity's gross profit. This is because capital receipts do not affect the profit or loss of the enterprise. For example, sale of long-term assets is one type of capital receipt during the disposal of property but revenue receipts affect the profit or loss of an enterprise after selling goods or services. Capital receipts are added to other income sections in the income statement.

Deferred revenue expenditure

Deferred revenue expenditure is money spent in one accounting period with the intention of creating revenue in the future accounting period. Deferred revenue expenditure is not as common as the first two (capital and revenue expenditures) but it also contributes to the increase in value of assets in the statement of financial position. In simple terms, deferred revenue expenditure refers to an advance payment for goods or services, the benefits of which is to be received by the organization in the future. Its benefits may occur later during the current accounting period or over the subsequent accounting periods.

Deferred revenue expenditure is similar to prepaid expenses. Before benefits of deferred revenue expenditure are received, the expenditure is treated as an asset in the statement of financial position. Gradually, when the portion of benefits is received, the asset value is then reduced by the corresponding amount and is charged off in the income statement of that period. Examples of deferred revenue expenditure include advance payment for rent on office space, advertising fees, insurance coverage and an intangible asset cost that is deferred due to amortization[1].

1. ***Amortization is the technique to pay off an obligation such as loan or mortgage gradually by periodic payments of principal and interest in order to reduce or write off the cost of an asset.***

Activity 2.1

A Form Two student was reading your book and encountered the concept of capital expenditure. This student wanted to know whether capital account learned in Form One class is related to the capital expenditure account presented in your book. Explain to this student whether capital expenditure account and capital account are related or different.

Effects of capital and revenue expenditure on financial statements

Capital expenditure increases the value of non-current assets of an enterprise. It is used to buy machines, land and equipment which simplify and speed up operations and production activities and makes an enterprise generate income. The value of non-current assets in the statement of financial position increases when the capital expenditure comes to effect. On the other hand, revenue expenditure (operating expenses) involves payments for the services received or purchasing goods for resale. They are recorded in the financial statements by deducting the expenditure from revenues the enterprise generates from sales in order to get a net income or profit for the accounting period. In this way, the revenue expenditure decreases the income of an enterprise.

Exercise 2.1

1. Explain what is meant by capital and revenue expenditures by sighting two examples for each term.
2. Describe the distinction between capital and revenue expenditures by classifying the following items:
   (a) Wages of workmen on building an extension to the firm's factory, and
   (b) The cost of rebuilding the wall of a factory.
3. Determine the effects of capital and revenue expenditures to the financial statements.
3. State the types of expenditure incurred in the following transactions.
   (a) Breakdown van purchased by Kamonyola.
   (b) Repairs of fruiter's van.
   (c) The cost of installing a new machine.
4. Give three examples of capital expenditure that might be undertaken by a restaurant proprietor, and three examples of revenue expenditure that might be incurred by a garage owner.

Depreciation

IAS 16 defines depreciation as the systematic allocation of the depreciable amount of an asset over its useful life. Depreciable amount is the cost of an asset or other amount substituted for cost, for example the fair value of an asset after evaluation less its residual value. Since non-current assets are acquired by businesses to be used in generating income for a long time (more than one accounting period), their treatment should not include expensing the whole amount (cost of the asset) to the income statement. This should neither happen in the year of purchase nor the year of disposal.

The matching principle of accounting requires that revenues generated during a period should be matched with the expenses (of the same accounting period only) incurred in generating those revenue. Non-current assets are used to generate revenues for more than one accounting period. This necessitates the allocation spreading of the cost of the assets over all the "benefiting" accounting periods. Depreciation is the concept used to allocate or spread the cost of an asset throughout its useful life.

Most of the non-current assets are subject to decrease in their value during their life time. For example, cars, machinery, furniture and fittings decrease in value overtime. Assets which depreciate are non-current assets and are termed as depreciable assets. IAS 16 defines depreciation as the systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of an asset or other amounts substituted for cost charge of an asset.

Reason for depreciation

Depreciation is charged on non-current assets to enable the application of the matching principle on the cost of such assets. It is common knowledge that non-current assets are acquired within an accounting period, however, contrary to current assets, non -current assets are used in the business for longer than one accounting period. Thus, it is not appropriate to charge the entire cost of the non-current asset as an expense in the period/year in which the asset was acquired. This is because by definition, non-current assets benefit the business for more than one accounting period. To adhere to the matching principle, it is therefore important that the cost of the non-current asset is allocated/spread systematically over the periods/years of its useful life. In doing so, the cost of such asset will be matched with the revenue has generated during the entire period of its useful life. The reason for charging depreciation is therefore to adhere to the matching principle when it comes to accounting for a non-current asset.

Methods of calculating depreciation

We have seen in the previous sections that non-current assets must be depreciated and the value of the asset that has been depreciated must be charged in the income statement so as to match depreciation expense with revenue earned during the period. In this sense, we have to learn how to calculate depreciation of non-current assets so as to know the appropriate amount to charge in the income statement. In book-keeping, there are several methods of calculating depreciation for non-current assets and the following sections gives the most common methods used which are straight-line method, reducing balance method and sum of the years' digit method.

Straight-line method

In this method, depreciation is charged constantly over the useful life of the asset. In other words, depreciation is calculated as a fixed amount every year or a fixed percentage of the original cost. In this method, residual value and the cost of an asset are taken into consideration when calculating depreciation of the non-current asset. When calculating depreciation, residual value is considered as the scrap value or the expected value of the non-current asset that will remain at the end of its useful life. In other words, scrap value of an asset is the estimated price that an asset has at the end of its useful life. Residual value refers to the estimated value of an asset after the asset has reached its end of useful life or fully depreciated. Normally, the length of an asset's lease period or useful life is inversely proportional to its residual value. The formula used to calculate depreciation under this method is presented hereunder.

$$D = \frac{CA - ERV}{ULA}$$

Whereby:

D = *Depreciation*; ***CA*** = *Cost of an Asset*

ERV = *Estimated Residual Value;*

ULA = *Useful Life of an Asset*

Where, the cost of an asset is the cost recorded in the ledger accounts; estimated residual value is the expected value of the asset at the end of its useful life; useful life of the asset is the number of years' non-current assets will be used by the enterprise.

Another formula that can be used to calculate depreciation under this method is the use of the depreciation rate, which is charged on the cost of an asset less its residual value as illustrated on the formula below:

$$D = (CA - ERV) \times DR$$

Whereby:

DR = *Depreciation Rate*

Activity 2.2

Use any browser of your choice, open Google search engine, thereafter type "*factors that cause non-current asset to depreciate*" as a keyword. Open at least three links and read them critically while noting down the factors that cause non-current asset to depreciate. Alternatively, you may use credible books to find out factors that *cause the value of non-current asset to depreciate*. Summarize your reading for discussion with your colleagues.

Example 2 .2

A motor van was bought for TZS 20,000,000 by Chumbe Enterprise and it is expected to have the scrap value of TZS 3,000,000 after its useful life of 5 years.

Required:

(i). Calculate depreciation charges for each year using the straight-line method

(ii). Show accumulated depreciation and the book value of the asset over the life time of the motor van.

(iii). Prepare extracts of the income statement and the statement of financial position for each year indicating how depreciation will be treated.

Solution

Step (i): *Listing given data*

We start by noting down data given in the example:

Cost of an asset	TZS 20,000,000
Residual value	TZS 3,000,000
Useful life of the asset	5 years

Then we write the formula which is used to calculate depreciation under this method. The formula is given hereunder:

$$D = \frac{CA - ERV}{ULA}$$

Then we substitute data given in the question to the formula

$$= \text{TZS } \frac{20{,}000{,}000 - 3{,}000{,}000}{5}$$

$$= \text{TZS } \frac{17{,}000{,}000}{5}$$

$$= \text{TZS } \mathbf{3{,}400{,}000}$$

Therefore, the motor van is depreciated at **TZS 3,400,000** per year.

Step (ii): *Recording depreciation value*

Table 2.2 shows depreciation, accumulated depreciation and book value of the asset each year.

Table 2.2: *The depreciation, accumulated depreciation and net book value*

Year	Cost	Depreciation	Accumulated Depreciation	Net Book value
	TZS	TZS	TZS	TZS
1	20,000,000	3,400,000	3,400,000	16,600,000
2		3,400,000	6,800,000	13,200,000
3		3,400,000	10,200,000	9,800,000
4		3,400,000	13,600,000	6,400,000
5		3,400,000	17,000,000	3,000,000

From Table 2.2, it can be seen that depreciation was constant at TZS 3,400,000 from year 1 to year 5. In each year, that amount must be charged in the income statement as deprecation charge or expense. The accumulated depreciation records the total depreciation charged since the day the asset was purchased. Therefore, it indicates that, at the end of year 1, the total depreciation charged with regard to the asset was TZS 3,400,000 while it was TZS 6,800,000 in year 2 and so forth. The book value of an asset is the net value of the asset after deducting accumulated depreciation from the cost of the non-current asset. For example, Table 2.2 indicates that at the end of year 4 the accumulated depreciation was TZS 13,600,000 and the book value of the asset was TZS 6,400,000. This is equal to subtracting accumulated depreciation at year 4 from the cost of the motor van that was TZS 20,000,000. In other words, TZS 6,400,000 is the difference between the cost of the motor van (TZS 20,000,000) and the accumulated depreciation at the end of year 4 (TZS 13,600,000).

Step (iii): *Preparing income statement and statement of financial position*

In the financial statements, depreciation expense is deducted from the gross profit at each end of the year. The allowance for depreciation expense is shown as follows:

Chumbe Enterprise

Income Statement (extract) for the year ended 31 December year 1, 2, 3, 4 and 5

	TZS
Year 1	
Gross profit	xxx
Less: Expenses	
Depreciation	(3,400,000)
Year 2	
Gross profit	xxx
Less: Expenses	
Depreciation	(3,400,000)
Year 3	
Gross profit	xxx
Less: Expenses	
Depreciation	(3,400,000)
Year 4	
Gross profit	xxx
Less: Expenses	
Depreciation	(3,400,000)
Year 5	
Gross profit	xxx
Less: Expenses	
Depreciation	(3,400,000)

The statement of financial position (extract) will look as follows:

Chumbe Enterprise

Statement of Financial Position (extract) as at the end of Year 1, 2, 3, 4 and 5

	TZS	TZS
Year 1		
Non-current assets		
Motor Van	20,000,000	
Less: Accumulated depreciation	(3,400,000)	
Net book value or carrying value		16,600,000
Year 2		
Non-current assets		
Motor Van	20,000,000	
Less: Accumulated depreciation	(6,800,000)	
Net book value or carrying value		13,200,000
Year 3		
Non-current assets		
Motor Van	20,000,000	
Less: Accumulated depreciation	(10,200,000)	
Net book value or carrying value		9,800,000
Year 4		
Non-current assets		
Motor Van	20,000,000	
Less: Accumulated depreciation	(13,600,000)	
Net book value or carrying value		6,400,000
Year 5		
Non-current assets		
Motor Van	20,000,000	
Less: Accumulated depreciation	(17,000,000)	
Net book value or carrying value		3,000,000

Reducing balance method

Under this method, depreciation is charged as a percentage of the written down[2] or book value of the asset (cost minus accumulated depreciation). At the beginning of the period, the depreciation cost is zero. This method is also known as the ***diminishing or declining balance method***. Under this method, depreciation charged decreases over the useful life of the asset. The formula used under this method is given hereunder:

Depreciation = (Cost of an asset - Accumulated) x Depreciation rate

2. *Written down value is an accounting term for reduction in the book value of an asset when its fair market value (FMV) has fallen below the carrying book value, and thus becomes an impaired asset.*

Example 2.3

Chumbe Enterprise bought a motor van for TZS 10,000,000 and is expected to have a scrap value of TZS 1,500,000 after its useful life time of 3 years.

Required:

(i). Calculate the depreciation charge for the motor van for three years using the diminishing balance method and the rate of depreciation of 20% per annum.

(ii). Show the accumulated depreciation and the book value of the asset over the life time of the motor van.

(iii). Prepare the income statement and the statement of financial position extracts for each year indicating how depreciation charge will be treated.

Solution

(i). The first step is to calculate the depreciation charge for each year. This is done in Table 2.3.

Table 2. 3: *The depreciation charge for each year*

	TZS
Year 1	
Cost	10,000,000
Less: Year 1 depreciation: 10,000,000 × 20%	(2,000,000)
Net book value or carrying value at the end of year 1	8,000,000
Year 2	
Net book value or carrying value at the beginning of year 2	8,000,000
Less: Year 2 depreciation: 8,000,000 × 20%	(1,600,000)
Net book value or carrying value at the end of year 2	6,400,000
Year 3	
Net book value or carrying value at the beginning of year 3	6,400,000
Less: Year 3 depreciation: 6,400,000 × 20%	(1,280,000)
Net book value or carrying value at the end of year 3	5,120,000

As seen in Table 2.3 depreciation charged is 2,000,000; 1,600,000 and 1,280,000 for year 1, 2 and 3 respectively. It can be seen that under this method, the percentage charged remains constant while the depreciation amount will keep on decreasing. The student should note that the scrap value is not useful when calculating depreciation under this method and thus is ignored.

(i) The Table 2.4 shows depreciation, accumulated depreciation and book value of the asset for each year.

Table 2. 4: *The depreciation, accumulated depreciation and book value of asset for each year*

Year	Cost TZS	Depreciation TZS	Accumulated Depreciation TZS	Book value TZS
1	10,000,000	2,000,000	2,000,000	8,000,000
2		1,600,000	3,600,000	6,400,000
3		1,280,000	4,880,000	5,120,000

Information presented in Table 2.4 can be interpreted in the same way as how we interpreted data under the straight-line method.

(ii) In the financial statements, the allowance for depreciation is shown as follows:

Chumbe Enterprise
Income Statement (extract) for the year ended 31 December year 1, 2 and 3

	TZS
Year 1	
Gross profit	xxxxxxx
Less: Expenses	
Depreciation	(2,000,000)
Year 2	
Gross profit	xxxxxxx
Less: Expenses	
Depreciation	(1,600,000)
Year 3	
Gross profit	xxxxxxx
Less: Expenses	
Depreciation	(1,280,000)

Chumbe Enterprise

Statement of Financial Position (extract) as at the end of Year 1, 2, and 3

	TZS	TZS
Year 1		
Non-current assets		
Motor Van	10,000,000	
Less: Accumulated depreciation	(2,000,000)	
Net book value or carrying value		8,000,000
Year 2		
Non-current assets		
Motor Van	10,000,000	
Less: Accumulated depreciation	(3,600,000)	
Net book value or carrying value		6,400,000
Year 3		
Non-current assets		
Motor Van	10,000,000	
Less: Accumulated depreciation	(4,880,000)	
Net book value or carrying value		5,120,000

Sum of the years' digits method

In this method, higher depreciation is charged at early years in the life of an asset and lower depreciation in the later years. The formula used to calculate depreciation is:

$$D = \frac{NYR}{SYD} \times (CA - RV)$$

Whereby:

D = *Depreciation* =; ***NYR*** = *Number of Years Remaining;* ***SYD*** = *Sum of Years Digits;* ***CA*** = *Cost of an asset;* ***RV*** = *Residual Value*

Where, the number of years remaining refer to the number of years remaining before the asset reaches its scrap value; sum of years' digits is the total of years the asset will be used in the organization; Cost refers to the purchase cost of the asset and scrap value is the value of the asset at the end of its useful life time.

Example 2.4

Chumbe Enterprise bought a machinery costing TZS 500,000 on 1st January 2017. The useful life of this machine is estimated to be 5 years with scrap value of TZS 50,000 at the end of year 5.

Required:

(i). Calculate depreciation for five years using sum of years' digits method.

(ii). Show accumulated depreciation and the book values over the life time of the motor van.

(iii). Prepare extracts of the income statement and the statement of financial position for each year indicating how depreciation charge will be treated.

Solution

First, we have to calculate the sum of the years' digits.

Sum of the years' digits in this case is 1+2+3+4+5 = 15

Therefore, the sum of the years' digits is 15

Alternatively, the following formula can be used to determine the sum of the years' digit

$$\textbf{Sum of the Years' digits} = \frac{n\,(n+1)}{2}$$

Whereas, **n** = estimated useful life of an asset.

If we substitute the data into the equation: -

$$= \frac{5\,(5+1)}{2}$$

$$= 15$$

Even after using the formula, the sum of the years' digits is 15 equals to what we obtained when we added those digits. Therefore, either of the method can be used to calculate the sum of the years' digits.

After we have obtained the sum of the years' digits as 15, then the next step is to calculate depreciation, whose formula under this method is given as:

$$D = \frac{NYR}{SYD} \times DC$$

Whereby:

D *= Depreciation =;* ***NYR*** *= Number of Years Remaining;* ***SYD*** *= Sum of Years Digits;* ***CA*** *= Cost of an asset;* ***RV*** *= Residual Value ;* ***DC*** *= Depreciable Cost;* ***HC*** *= Historical Cost*

Whereas, ***DC = HC - RV***

The Table 2.5 is used to summarize the calculation of depreciation in example 2.4

Table 2. 5: *The summary of depreciation calculation in example 2.4*

Year	Working	Depreciation (TZS)
2017	$\frac{5}{15} \times (500{,}000 - 50{,}000)$	150,000
2018	$\frac{4}{15} \times (500{,}000 - 50{,}000)$	120,000
2019	$\frac{3}{15} \times (500{,}000 - 50{,}000)$	90,000
2020	$\frac{2}{15} \times (500{,}000 - 50{,}000)$	60,000
2021	$\frac{1}{15} \times (500{,}000 - 50{,}000)$	30,000

Table 2.5 summarises how depreciation charge was calculated over five years. It can be seen that, in year 2017, 2018, 2019, 2020 and 2021 the numbers of years remaining were 5, 4, 3, 2 and 1 respectively. The sum of the years remains the same each year since this figure does not change. Another figure that remains constant in each year is the depreciable amount which is the difference between cost and residual value. Therefore, the data above indicate that depreciation charge in 2017, 2018, 2019, 2020 and 2021 were TZS 150,000, TZS 120,000, TZS 90,000, TZS 60,000 and TZS 30,000 respectively.

Table 2.6 shows depreciation, accumulated depreciation and book value of the asset for each year.

Table 2. 6: *The depreciation, accumulated depreciation and net book value of asset for each year*

Year	Cost TZS	Depreciation TZS	Accumulated Depreciation TZS	Net Book value TZS
2017	500,000	150,000	150,000	350,000
2018		120,000	270,000	230,000
2019		90,000	360,000	140,000
2020		60,000	420,000	80,000
2021		30,000	450,000	50,000

Information presented in the Table 2.6 can be interpreted in the same way as how we interpreted data under the straight-line method. The net book values of these two methods in each year are different.

(iii) In the financial statements, the allowance for depreciation is shown as follows:

Chumbe Enterprise

Income Statement (extract) for the year ended 31 December year 1, 2, 3, 4 and 5

	TZS
Year 1	
Gross profit	xxxxxx
Less: Expenses	
Depreciation	(150,000)
Year 2	
Gross profit	xxxxxx
Less: Expenses	
Depreciation	(120,000)
Year 3	
Gross profit	xxxxxx
Less: Expenses	
Depreciation	(90,000)
Year 4	
Gross profit	xxxxxx
Less Expenses	
Depreciation	(60,000)
Year 5	
Gross profit	xxxxxx
Less: Expenses	
Depreciation	(30,000)

Chumbe Enterprise

Statement of Financial Position (extract) as at the end of Year 1, 2, 3, 4 and 5

	TZS	**TZS**
Year 1		
Non-current assets		
Machinery	500,000	
Less: Accumulated depreciation	(150,000)	
Net book value or carrying value		350,000
Year 2		
Non-current assets		
Machinery	500,000	
Less: Accumulated depreciation	(270,000)	
Net book value or carrying value		230,000

Year 3		
Non-current assets		
Machinery	500,000	
Less: Accumulated depreciation	(360,000)	
Net book value or carrying value		140,000
Year 4		
Non-current assets		
Machinery	500,000	
Less: Accumulated depreciation	(420,000)	
Net book value or carrying value		80,000
Year 5		
Non-current assets		
Machinery	500,000	
Less: Accumulated depreciation	(450,000)	
Net book value or carrying value		50,000

Revaluation Method

Revaluation method[3] involves determining the difference between the value of a non-current asset at the beginning and at the end of an accounting period. The difference between these values is considered as depreciation. Usually under this method, revaluation is determined by taking into consideration the market value of a non-current asset at the end of an accounting period.

3. The revaluation method is an accounting approach where the carrying value of a non-current asset is regularly adjusted to reflect its fair market or current value.

The formula used under this method is given as:

Depreciation = Original cost - New cost after revaluation

Example 2.5

A motor vehicle was bought on 1st January 2019 at cost of TZS 3,500,000. At the end of the year, that is 31st December 2019, the asset was revalued and the new value was TZS 2,900,000.

Required: Calculate depreciation of this motor van at the end of 2019.

Solution

To calculate depreciation of the asset, the following formula is used:

Depreciation = Original cost - New cost after revaluation

Whereas, original cost = TZS 3,500,000

Cost after revaluation = TZS 2,900,000

Therefore,

Depreciation = TZS 3,500,000 – TZS 2,900,000

= TZS 600,000

The depreciation charge of the motor van at the end of 2019 is **TZS 600,000**

Recording of non-current assets acquisition

Journal entries are passed to record the acquisition or purchase of non-current assets. When the entity purchases non-current assets, the following journal entries are always passed:

Journal

Date	Details	Debit	Credit
	Non-current asset	xxx	
	Bank or Cash or Accounts payables		xxx
	To record acquisition of a non-current asset		

Example 2.6

The enterprise purchased a machinery costing TZS 500,000 on 1st May 2019 by cheque.

Required: Show journal entries and ledger accounts that record this transaction.

Solution

We start by identifying two accounts that are involved in the transaction, namely, the Bank and Machinery (a non-current asset).

Therefore, we debit Machinery account and credit Bank account.

Journal entries will be made as follows:

Journal

Date	Details	Debit (TZS)	Credit (TZS)
1/5/2019	Machinery	500,000	
	Bank		500,000
	To record the purchase of machinery		

Then, the ledger accounts will then be prepared as follows:

Dr **Machinery account** **Cr**

Date	Details	Amount (TZS)	Date	Details	Amount (TZS)
1/5/2019	Bank	500,000			

Dr **Bank account** **Cr**

Date	Details	Amount (TZS)	Date	Details	Amount (TZS)
			1/5/2019	Machinery	500,000

Accounting records for depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. All non-current assets must be depreciated, to allow the enterprise to match expenses and revenue that occurred in the same accounting period. When depreciation is recorded in the books of accounts, it is charged in the income statement as an expense. Later, depreciation expense will be closed to the income statement, and the accumulated depreciation account balance will be posted to the statement of financial position.

There are two approaches of recording depreciation. The first approach, uses two sets of double entries, one recording depreciation charge for the year and the other one closing the recorded depreciation to the income statement. The second approach uses one set of double entries, one entry going to the accumulated depreciation account and the other one going directly to the income statement. See example 2.7 for illustration.

Example 2.7

A plant, which was bought by Chumbe Enterprise on 1st January 2020 by cheque for TZS 50,000,000 is expected to have a scrap value of TZS 10,000,000 at the end of its useful life of 2 years.

Required:

(i) Calculate depreciation for each year taking into consideration that the business closes it books of accounts on 31st December each year and depreciation is calculated using straight line method.

(ii) Prepare the depreciation expense and the accumulated depreciation account

(iii) Prepare the extracts of income statement and the statement of financial position showing how depreciation charge will be treated.

Solution

(i) The first step is to calculate depreciation using straight line method. The formula used under this method is given as:

$$\text{Depreciation} = \frac{\text{(Cost of an asset – Estimated residual value)}}{\text{(Useful life of an asset)}}$$

(ii) From the data given, the cost of an asset is TZS 50,000,000; the estimated residual value is TZS 10,000,000 and useful life of the asset is 2 years.

Then, we substitute data on the formula:

$$= \frac{\text{TZS } (50{,}000{,}000 - 10{,}000{,}000)}{2 \text{ years}}$$

$$= \frac{40{,}000{,}000}{2}$$

$$= \textbf{TZS 20,000,000}$$

Therefore, depreciation charge for the plant is TZS 20,000,000 for each year. After calculating depreciation, the second step is to post these entries to the appropriate ledger accounts. We will start by opening the ledger account for the plant (a non-current asset).

DR **Plant account** **CR**

Date	Details	Amount (TZS)	Date	Details	Amount (TZS)
1/1/2020	Bank	50,000,000	31/12/2020	Balance c/d	50,000,000
1/1/2021	Balance b/d	50,000,000	31/12/2021	Balance c/d	50,000,000
1/1/2022	Balance b/d	50,000,000			

(ii) The second step is to open the ledger accounts for depreciation

Approach I: Using two sets of journal entries and two sets of ledger accounts

Year 2020:

Date	Details	Debit (TZS)	Credit (TZS)
31/12/2020	Depreciation expense	20,000,000	
	Accumulated Depreciation		20,000,000
	To record depreciation charge for the year		

The amount of depreciation expense will be reported as an expense in the income statement for the year.

Year 2021:

Date	Details	Debit (TZS)	Credit (TZS)
31/12/2021	Depreciation expense	20,000,000	
	Accumulated Depreciation		20,000,000
	To record depreciation charge for the year		

The amount of depreciation expense will be reported as an expense in the income statement for the year.

Dr **Depreciation expense account** **Cr**

Date	Details	Amount (TZS)	Date	Details	Amount (TZS)
31/12/2020	Accumulated depreciation	20,000,000	31/12/2020	Charge for the year *(income statement)*	20,000,000
		20,000,000			20,000,000
31/12/2021	Accumulated depreciation	20,000,000	31/12/2021	Charge for the year *(income statement)*	20,000,000
		20,000,000			20,000,000

Dr **Accumulated depreciation account** Cr

Date	Details	Amount (TZS)	Date	Details	Amount (TZS)
31/12/2020	Balance c/d	20,000,000	31/12/2020	Depreciation expense	20,000,000
		20,000,000			20,000,000
			1/1/2021	Balance b/d	20,000,000
31/12/2021	Balance c/d	40,000,000	31/12/2021	Depreciation expense	20,000,000
		40,000,000			40,000,000
			1/1/2022	Balance b/d	40,000,000

Approach II: Using only one set of journal entries and only one ledger account

An alternative approach involves the use of only one account to record both depreciation and the accumulated depreciation (accumulated provision for depreciation) account.

Dr **Accumulated depreciation account** Cr

Date	Details	Amount	Date	Details	Amount
		TZS			TZS
31/12/2020	Balance c/d	20,000,000	31/12/2020	Charge for the year *(Transfer to income statement)*	20,000,000
		20,000,000			20,000,000
			1/1/2021	Balance b/d	20,000,000
31/12/2021	Balance c/d	40,000,000	31/12/2021	Charge for the year	20,000,000
		40,000,000			40,000,000
			1/1/2022	Balance b/d	40,000,000

(iii) The third and final step is to indicate how the depreciation charge is treated in the income statement and in the statement of financial position. The extract of the income statement for the year ending 2020 and 2021 is presented here under:

Chumbe Enterprise

Income Statements for the years ended on the 31 December 2020 and 2021

		TZS
2020		
Gross profit	xxxxxxxx	
Less: Expenses		
Depreciation	(20,000,000)	
		xxxxxxxx
2021		
Gross profit	xxxxxxxx	
Less: Expenses		
Depreciation	(20,000,000)	
		xxxxxxxx

Depreciation charge is an expense; thus, it must be included among other expenses when determining the performance of the enterprise. Therefore, depreciation must be deducted from the gross profit in order to arrive at the net profit figure. The statement of financial position, is presented as an accumulated depreciation where it reduces the value of the asset being depreciated. The statement of financial position with explanations are presented below.

Chumbe Enterprise

Statements of financial position (extract) as at the end of year 2020 and 2021

	TZS	**TZS**
2020		
Non-current assets		
Plant	50,000,000	
Less: Accumulated depreciation	(20,000,000)	
Net book value or carrying value		30,000,000
2021		
Non-current assets		
Machinery	50,000,000	
Less: Accumulated depreciation	(40,000,000)	
Net book value or carrying value		10,000,000

When recording accumulated depreciation in the statement of financial position we are dealing with closing balances (balance carried down) of two accounts of each year, that is balance carried down from an asset account less balance carried down from the accumulated depreciation account, refer to example 2.7. From the statement of financial position presented above, the following points can be noted:

(i). The figure of accumulated depreciation is deducted from the value of the asset in order to arrive at the net book value of the asset. Therefore, it is not the figure of depreciation calculated each year that goes to the statement of financial position (in this case TZS 20,000,000) rather it is the total of deprecation from the date of purchase. This means that at the end of 2020 the plant had already been depreciated by TZS 20,000,000 leaving it with the book value of TZS 30,000,000. At the end of year 2021 it was again charged with TZS 20,000,000 depreciation, making the total (accumulated) depreciation charged to be TZS 40,000,000, and the remaining value of the plant at the end of 2021 to be TZS 10,000,000.

(ii). Assets will always be presented on the statement of financial position by using their original cost. Therefore, we do not use the carrying value (book value) when presenting non-current assets on the face of the financial statement. This means that even when an asset has the book value of TZS 10,000,000; it must be presented on the statement of financial position using its cost TZS 50,000,000 less accumulated depreciation which is TZS 40,000,000. By doing so we satisfy the accounting principle known as the historical cost concept.

Example 2.8

A machine (X) was bought on 1st January 2018 for TZS 10,000,000. On 1st July 2018, a second machine (Y) was bought for TZS 8,000,000 and a third machine (Z) was bought for TZS 20,000,000 on 1st April 2019. Depreciation on machinery is charged at the rate of 20 per cent per annum on reducing balance method and the business closes its books of accounts on 31st December each year.

Required:

(i) Prepare an accumulated depreciation account

(ii) Prepare Machinery account

(iii) Show relevant financial statements extracts for each of the years ended 31st December 2018, 2019 and 2020.

Solution

(i) The first step is to calculate the amount of depreciation charged per each machine annually. With the aid of a chart, we will calculate depreciation.

Calculation of depreciation for each machine

Machine X

Year 2018	
Cost	10,000,000
Less: Year 2018 depreciation: $10{,}000{,}000 \times 20\% \times \frac{12}{12}$	(2,000,000)
Net book value or carrying value	8,000,000
Year 2019	
Net book value or carrying value	8,000,000
Less: Year 2019 depreciation: $8{,}000{,}000 \times 20\% \times \frac{12}{12}$	(1,600,000)
Net book value or carrying value	6,400,000
Year 2020	
Net book value or carrying value	6,400,000
Less: Year 2020 depreciation: $6{,}400{,}000 \times 20\% \times \frac{12}{12}$	(1,280,000)
Net book value or carrying value	5,120,000

Machinery Y

Year 2018	
Cost	8,000,000
Less: Year 2018 depreciation: $8{,}000{,}000 \times 20\% \times \frac{6}{12}$	(800,000)
Net book value or carrying value	7,200,000
Year 2019	
Net book value or carrying value	7,200,000
Less: Year 2019 depreciation: $7{,}200{,}000 \times 20\% \times \frac{12}{12}$	(1,440,000)
Net book value or carrying value	5,760,000
Year 2020	
Net book value or carrying value	5,760,000
Less: Year 2020 depreciation: $5{,}760{,}000 \times 20\% \times \frac{12}{12}$	(1,152,000)
Net book value or carrying value	4,608,000

Machinery Z

Year 2019	
Cost	20,000,000
Less: Year 2019 depreciation: $20{,}000{,}000 \times 20\% \times \frac{9}{12}$	(3,000,000)
Net book value or carrying value	17,000,000

Year 2020	
Net book value or carrying value	17,000,000
Less: Year 2020 depreciation: $17{,}000{,}000 \times 20\% \times \frac{12}{12}$	(3,400,000)
Net book value or carrying value	13,600,000

Note from the above computations of deprecation for machine X, Y and Z. When calculating depreciation of the non-current asset, we consider the number of months that assets have been in use in the business. Thus, we charge depreciation on the asset based on those months when the asset was in use. For example, machinery Y, was bought on 1st July 2018. This means that the asset was used only for six months in that year before the year come to an end. That is why we multiplied its cost which was TZS 8,000,000 by depreciation rate that was 20 per cent and the number of months it was used in the business that is $\frac{6}{12}$. The same logic is used for other assets that were not purchased from the beginning of the accounting period and those which were disposed before the year end. After the calculation of depreciation for each asset, then it is time to calculate the total depreciation charge for all assets in year 2018, 2019 and 2020. This information is summarized in Table 2.7.

Table 2. 7: *The depreciation schedule for machinery: reducing balance method*

Machinery	Date of Purchase	Date of Sale	Cost	Depreciation 2018	2019	2020
			TZS	TZS	TZS	TZS
X	1/1/2018	-	10,000,000	2,000,000	1,600,000	1,280,000
Y	1/7/2018	-	8,000,000	800,000	1,440,000	1,152,000
Z	1/4/2019	-	20,000,000	NIL	3,000,000	3,400,000
	Total to Income statement			**2,800,000**	**6,040,000**	**5,832,000**

Therefore, the depreciation charge for all the machinery in 2018 was TZS 2,800,000; in 2019 depreciation charge was TZS 6,040,000 and in 2020 the charge was TZS 5,832,000. After obtaining the depreciation cost, we can now proceed with posting transactions in ledger accounts.

(ii) Machinery account

Dr **Machinery account** **Cr**

Date	Details	Amount (TZS)	Date	Details	Amount (TZS)
1/1/2018	Bank/cash (X)	10,000,000			
1/7/2018	Bank/cash (Y)	8,000,000	31/12/2018	Balance c/d	18,000,000
		18,000,000			**18,000,000**
1/1/2019	Balance b/d	18,000,000			
1/4/2019	Bank/cash (Z)	20,000,000	31/12/2019	Balance c/d	38,000,000
		38,000,000			**38,000,000**
1/1/2020	Balance b/d	38,00,000	31/12/2020	Balance c/d	38,000,000
		38,000,000			**38,000,000**
1/1/2021	Balance b/d	38,000,000			

Dr **Depreciation expense account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
31/12/2018	Accumulated depreciation	2,800,000	31/12/2018	Charge for the year (*income statement)*	2,800,000
		2,800,000			2,800,000
31/12/2019	Accumulated depreciation	6,040,000	31/12/2019	Charge for the year *(income statement)*	6,040,000
		6,040,000			6,040,000
31/12/2020	Accumulated depreciation	5,832,000	31/12/2020	Charge for the year (*income statement)*	5,832,000
		5,832,000			5,832,000

Dr Accumulated depreciation account Cr

Date	Details	Amount (TZS)	Date	Details	Amount (TZS)
31/12/2018	Balance c/d	2,800,000	31/12/2018	Depreciation expense	2,800,000
		2,800,000			2,800,000
			1/1/2029	Balance b/d	2,800,000
31/12/2019	Balance c/d	8,840,000	31/12/2019	Depreciation expense	6,040,000
		8,840,000			8,840,000
			1/1/2020	Balance b/d	8,840,000
31/12/2020	Balance c/d	14,672,000	31/12/2020	Depreciation expense	5,832,000
		14,672,000			14,672,000
			1/1/2021	Balance b/d	14,672,000

(iii) The third and final step is to indicate how the depreciation charge is treated in the income statement and in the statement of financial position. The extract of the income statements for the year ending 2018, 2019 and 2020 is presented hereunder: -

Income Statements (extract) for the years ended 31 December 2018, 2019 and 2020

	TZS	TZS
2018		
Gross profit	xxxxxxx	
Less: Expenses		
Depreciation	(2,800,000)	
		xxxxxxx
2019		
Gross profit	xxxxxxx	
Less: Expenses		
Depreciation	(6,040,000)	xxxxxxx
2020		
Gross profit	xxxxxxx	
Less: Expenses		
Depreciation	(5,832,000)	
		xxxxxxx

The extract of the statement of financial position as at 31st December 2018, 2019 and 2020 is presented here under: -

Statements of financial position (extract) as at the end of Year 2018, 2019 and 2020

	TZS	TZS
2018		
Non-current assets		
Machinery	18,000,000	
Less: Accumulated depreciation	(2,800,000)	
Net book value or carrying value		15,200,000
2019		
Non-current assets		
Machinery	38,000,000	
Less: Accumulated depreciation	(8,840,000)	
Net book value or carrying value		29,160,000
2020		
Non-current assets		
Machinery	38,000,000	
Less: Accumulated depreciation	(14,672,000)	
Net book value or carrying value		23,328,000

Exercise 2.2

Ms. Saida started her business on 1st January 2020 dealing with sea food. On 1st January 2021, she purchased deep freezer by cheque accounting to TZS 2,400,000. On 1st July 2020, she purchased cutting machine which amounted to TZS 1,500,000 by cash. On 1st October 2021, she purchased another deep freezer for TZS 1,800,000 and April 2021, she purchased machine for TZS 1,200,000 respectively for her new shop. Depreciation was charged at a rate of 20 per cent per annum by using a straight-line method.

Required:

By using the information given, prepare:

(a) Machine account,

(b) Accumulated depreciation account,

(c) Income statement extract for the year ended on 31st December 2020, 31st December 2021 and 31st December 2022.

(d) Statement of financial position as at 31 December 2020, 31st December 2021 and 31st December 2022.

Disposal of non-current assets

Sometimes the enterprise might want to sell some of its non-current assets. Reasons that might cause the enterprise to dispose its non-current assets include desire to replace with modern technology, incapacity of the asset, damage or accident that may compromise usefulness of the asset. No matter what the reason for the disposal of the asset is, the accounting entries are all the same as we are going to see shortly.

When a non-current asset is disposed-off, all of its traces have to be completely removed from the books of accounts. The process of completely removing all the traces of non-current assets in the books of accounts is known as de-recognition. When the non-current asset is being derecognized, it means that the cost of that asset must be eliminated in the respective non-current asset disposal account. Similarly, the accumulated depreciation of that non-current asset needs also to be eliminated in the accumulated depreciation account and transferred to the disposal of non-current asset account. In short, the concept of accounting for disposal of non-current assets is based on the fact that the recorded cost of the non-current assets and the corresponding amount of accumulated depreciation must all be reversed.

When the non-current asset is sold, there is a possibility of realizing a gain or a loss. The gain or loss recognized must be reported in the same accounting period in which the disposal of the non-current asset took place. The gain or loss on disposal of the non-current asset is calculated as the difference between net disposal proceeds and its book value or carrying value. The amount obtained due to sell of non-current is transferred on the income statement, more detailed is demonstrated on example 2.9.

The depreciation policies for recording depreciation

The enterprises should decide which category is useful for them when they calculate depreciation provisions for non-current assets bought or sold. In principle, there are two main categories of calculating depreciations for assets bought or sold during an accounting period.

(a) ***Full period's depreciation on the assets***

This category ignores dates during the accounting period that assets were bought or sold. It uses full period's depreciation on the assets in use at the end of the period. The assets sold will have no provision for depreciation regardless how may months they were in use. Equally, the assets will undergo full period of depreciation provision, calculated even though they may not have been owned throughout the whole of the period.

(b) ***Basis of one month's ownership***

One month's provision for depreciation is equated to one month's ownership. Normally, fractions of months which is number of days used in a month are ignored. This category is more precise than category one. The first category is the one, normally used in practice but if you want the depreciation for examination purposes, where the dates on which assets are bought and sold you better use category two. If no dates given use category one but you should indicate that you are assuming this is the category to be adopted.

Accounting entries for the disposal of non-current assets

When there is a sale of non-current assets, the following entries are always passed.

(i). Transfer the cost price of the non-current asset sold to a non-current asset disposals account:

Date	Details	Debit	Credit
	Non-current asset disposal account	xxx	
	Non-current asset account		xxx
	To transfer the cost of the disposed asset from the asset account		

(ii). Transfer the accumulated depreciation already charged to the non-current assets' disposal account:

Date	Details	Debit	Credit
	Accumulated Depreciation: non-current asset	xxx	
	Non-current asset disposal account		xxx
	To transfer accumulated depreciation to the assets disposed account		

(iii). For the amount received on disposal:

Date	Details	Debit	Credit
	Cash	xxx	
	Non-current asset disposal account		xxx
	To record the amount received as disposal of an asset		

(iv). Transfer the difference (*that is the amount needed to balance the non-current asset disposals account*) to the income statement.

(a) If the non-current asset disposal account shows a credit balance (if more has been credited to the account than has been debited to it), there is a profit on the sale or disposal:

Date	Details	Debit	Credit
	Non-current asset disposal accounts	xxx	
	Gain on disposal account		xxx
	To record the gain on disposal of asset to the income statement		

(b) If the non-current asset disposal accounts show a debit balance, there is a loss on sale. charge a loss to the income statement as an expense

Date	Details	Debit	Credit
	Loss on disposal account	xxx	
	Non-current asset disposals account		xxx
	To record the loss on disposal of asset to the income statement		

Let us consider example 2.9 that will help us demonstrate how to record transactions relating to the disposal of non-current assets.

Example 2.9

Ngaramtoni Enterprise bought a motor vehicle (T734 BXY) worth TZS 15,000,000 on 1st July 2016. On 1st February 2017, bought another motor vehicle (T219 CAB) worth TZS 9,000,000 was bought. On 1st April 2018, the enterprise decided to sell a motor vehicle T734 BXY for TZS 11,000,000. Taking into consideration that the motor vehicle depreciated at the rate of 10 per cent per annum, using the straight-line method and the accounting period of the company ends on 30 June each year; you are required to prepare:

(i) Motor vehicle account
(ii) Accumulated depreciation account
(iii) Motor vehicle disposal account
(iv) An extract of the statement of financial position for the year ended 30th June 2017 and 2018.

Solution

The first step is to calculate depreciation for each Motor vehicle for year 2017 and 2018.

For Motor vehicle T734 BXY, depreciation is calculated as follows:

$$2016/2017\text{: } 15{,}000{,}000 \times 10\% \times \frac{12}{12} = 1{,}500{,}000$$

$$2017/2018\text{: } 15{,}000{,}000 \times 10\% \times \frac{9}{12} = 1{,}125{,}000$$

Depreciation for Motor vehicle T219 CAB

$$2016/2017\text{: } 9{,}000{,}000 \times 10\% \times \frac{5}{12} = 375{,}000$$

$$2017/2018\text{: } 9{,}000{,}000 \times 10\% \times \frac{12}{12} = 900{,}000$$

After the calculation of depreciation for each asset, then it is time to calculate the total depreciation charge for all assets in year 2016 and 2017. This information is easily summarized in Table 2.8.

Table 2. 8: *The depreciation schedule for motor vehicle: straight line method*

Motor vehicle	Date of purchase	Date of Sale	Cost	Depreciation		Total to Disposal
				2016/17	**2017/18**	
			TZS	**TZS**	**TZS**	**TZS**
T734 BXY	1/7/2016	1/4/2018	15,000,000	1,500,000	1,125,000	2,625,000
T219 CAB	1/2/2017	-	9,000,000	375,000	900,000	-
	Total to Income statement			**1,875,000**	**2,025,000**	

Therefore, the depreciation charge for all machinery in 2016/2017 was TZS 1,875,000 and in 2017/2018 the charge was TZS 2,025,000. After obtaining the depreciation cost, we can now proceed with posting transactions in ledger accounts.

(i)

Dr **Motor vehicle account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
1/7/2016	Bank/cash (T734 BXY)	15,000,000	30/6/2017		
1/2/2017	Bank/cash (T219 CAB)	9,000,000		Balance c/d	24,000,000
		24,000,000			24,000,000
1/7/2018	Balance b/d	24,000,000	1/4/2018	Motor Vehicle disposal (T734 BXY)	15,000,000
			30/6/2018	Balance c/d	9,000,000
		24,000,000			24,000,000
1/7/2018	Balance b/d	9,000,000			

(ii)

Dr **Accumulated depreciation account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
30/6/2017	Balance c/d	1,875,000	30/6/2017	Transfer to income statement	1,875,000
		1,875,000			1,875,000
30/6/2018	Motor vehicle disposal (T734 BXY)	2,625,000	1/7/2017	Balance b/d	1,875,000
30/6/2018	Balance c/d	1,275,000	30/6/2018	Transfer to income statement	2,025,000
		3,900,000			3,900,000
			1/7/2018	Balance b/d	1,275,000

(iii)

Dr **Motor vehicle disposal account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
1/4/2018	Motor vehicle (T34 BXY)	15,000,000	1/4/2018	Cash	11,000,000
			30/6/2018	Accumulated depreciation	2,625,000
			30/6/2018	Transfer to income statement	1,375,000
		15,000,000			15,000,000

(iv)

Ngaramtoni Enterprise

Income Statements for the years ended 30 June 2017 and 2018

	TZS
2017	
Gross profit	xxxxxxxx
Less: Expenses	
Depreciation	(1,875,000)

2018	
Gross profit	xxxxxxxx
Less: Expenses	
Depreciation	(2,025,000)
Motor vehicle disposal (loss)	(1,375,000)

Ngaramtoni Enterprise

Statements of financial position as at 30 June 2017 and 2018

	TZS	**TZS**
2017		
Non-current assets		
Motor vehicle	24,000,000	
Less: Accumulated depreciation	(1,875,000)	
Net book value or carrying value		22,125,0000
2018		
Non-current assets		
Machinery	9,000,000	
Less: Accumulated depreciation	(1,275,000)	
Net book value or carrying value		7,725,000

Example 2.10

Fuoni Enterprise whose financial year ends 31st December every year, bought two buildings in the village namely **N1** and **N2** both on 1st January 2015 for TZS 6,400,000 and TZS 3,700,000 respectively. Fuoni enterprise, also bought the third and fourth building namely **N3** and **N4** on 1st July 2017 for TZS8,730,000 and on 1st October 2017 for TZS 5,700,000 respectively. The first two buildings, that is, **N1** and **N2** were sold for a price of TZS 2,530,000 on 30th September 2018 and TZS 2,740,000 on 30th June 2019 respectively. Depreciation on these buildings is 25 per cent per annum calculated using straight line method.

Required:

(i) Prepare buildings account
(ii) Prepare accumulated depreciation account
(iii) Prepare disposal of building account
(iv) Prepare extracts of the income statement and the statement of financial position for the year ended 31st December 2015, 2016, 2017, 2018 and 2019.

Solution

The first step in solving this problem is to calculate depreciation for each building. From the information given, depreciation is charged at the rate of 25 per cent per annum using the straight-line method. Therefore, depreciation for each building is calculated as follows:

Building N1	
2015	$6,400,000 \times 25\% \times \frac{12}{12} = 1,600,000$
2016	$6,400,000 \times 25\% \times \frac{12}{12} = 1,600,000$
2017	$6,400,000 \times 25\% \times \frac{12}{12} = 1,600,000$
2018	$6,400,000 \times 25\% \times \frac{9}{12} = 1,200,000$

Building N2	
2015	$3,700,000 \times 25\% \times \frac{12}{12} = 925,000$
2016	$3,700,000 \times 25\% \times \frac{12}{12} = 925,000$
2017	$3,700,000 \times 25\% \times \frac{12}{12} = 925,000$
2018	$3,700,000 \times 25\% \times \frac{12}{12} = 925,000$
2019	$3,700,000 \times 25\% \times \frac{6}{12} = 462,500$

Building N3	
2017	$8,730,000 \times 25\% \times \frac{6}{12} = 1,091,250$
2018	$8,730,000 \times 25\% \times \frac{12}{12} = 2,182,500$
2019	$8,730,000 \times 25\% \times \frac{12}{12} = 2,182,500$

Building N4	
2017	$5,700,000 \times 25\% \times \frac{3}{12} = 356,250$
2018	$5,700,000 \times 25\% \times \frac{12}{12} = 1,425,000$
2019	$5,700,000 \times 25\% \times \frac{12}{12} = 1,425,000$

After the calculation of depreciation for each asset, then it is time to calculate the total depreciation charge for all assets in year 2015, 2016, 2017, 2018 and 2019. This information is summarized in Table 2.9.

Table 2.9: *The depreciation schedule for building: straight line method – 25%*

Building	Date of Purchase	Date of sale	Cost (TZS)	Depreciation					Total to Disposal
				2015	2016	2017	2018	2019	
				TZS	**TZS**	**TZS**	**TZS**	**TZS**	**TZS**
N1	1/1/2015	30/9/2018	6,400,000	1,600,000	1,600,000	1,600,000	1,200,000	-	6,000,000
N2	1/1/2015	30/6/2019	3,700,000	925,000	925,000	925,000	925,000	462,500	4,162,500
N3	1/7/2017		8,730,000	-	-	1,091,250	2,182,500	2,182,500	
N4	1/10/2017		5,700,000	-	-	356,250	1,425,000	1,425,000	
	Total to statement of Income			**2,525,000**	**2,525,000**	**3,972,500**	**5,732,500**	**4,070,000**	

Therefore, the depreciation charge for the buildings in 2015, 2016, 2017, 2018 and 2019 were TZS 2,525,000; TZS 2,525,000; TZS 3,972,500; TZS 5,732,500 and TZS 4,070,000 respectively.

(i)

Dr **Building account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
1/1/2015	Bank /cash (N1)	6,400,000	31/12/2015	Balance c/d	10,100,000
1/1/2015	Bank/cash (N2)	3,700,000			
		10,100,000			10,100,000
1/1/2016	Balance b/d	10,100,000	31/12/2016	Balance c/d	10,100,000
1/1/2017	Balance b/d	10,100,000			
1/7/2017	Bank/cash (N3)	8,730,000			
1/10/2017	Bank/cash (N4)	5,700,000	31/12/2017	Balance c/d	24,530,000
		24,530,000			24,530,000
1/1/2018	Balance b/d	24,530,000	30/92018	Building disposal (N1)	6,400,000
			31/12/2018	Balance c/d	18,130,000
		24,530,000			24,530,000
1/1/2019	Balance b/d	18,130,000	30/12/2019	Building disposal (N2)	3,700,000
			31/12/2019	Balance c/d	14,430,000

		18,130,000			18,130,000
1/1/2020	Balance b/d	14,430,000			

(ii)

Dr **Accumulated depreciation account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
31/12/2015	Balance c/d	2,525,000	31/12/2015	Income statement	2,525,000
			1/1/2016	Balance b/d	2,525,000
31/12/2016	Balance c/d	5,050,000	31/12/2016	Income statement	2,525,000
		5,050,000			5,050,000
			1/1/2017	Balance b/d	5,050,000
31/12/2017	Balance c/d	9,022,500	31/12/2017	Income statement	3,972,500
		9,022,500			9,022,500
30/9/2018	Disposal (N1)	6,000,000	1/1/2018	Balance b/d	9,022,500
31/12/2018	Balance c/d	8,755,000	31/12/2018	Income statement	5,732,500
		14,755,000			14,755,000
30/12/2019	Disposal (N2)	4,162,500	1/1/2019	Balance b/d	8,755,000
31/12/2019	Balance c/d	8,662,500	31/12/2019	Income statement	4,070,000
		12,825,000			12,825,000
			1/1/2020	Balance b/d	8,662,500

(iii)

Dr **Building disposal account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
30/9/2018	Building (N1)	6,400,000	30/9/2018	Cash	2,530,000
31/12/2018	Income statement	2,130,000	31/12/2018	Accumulated depreciation (N1)	6,000,000
		8,530,000			8,530,000
30/6/2019	Building (N2)	3,700,000	30/6/2018	Cash	2,740,000
31/12/2019	Income statement	3,202,500	31/12/2019	Accumulated depreciation (N2)	4,162,500
		6,902,500			6,902,500

(iv)

Fuoni Enterprise

Income Statements for the years ending 30 June 2015, 2016, 2017, 2018 and 2019

	TZS	TZS
2015		
Gross profit	xxxxxxxx	
Less: Expenses		
Depreciation	(2,525,000)	xxxxxxxx
2016		
Gross profit	xxxxxxxx	
Less: Expenses		
Depreciation	(2,525,000)	xxxxxxxx
2017		
Gross profit	xxxxxxxx	
Less: Expenses		
Depreciation	(3,9725,500)	xxxxxxxx
2018		
Gross profit	xxxxxxx	
Add: Gain on disposal (building N1)	2,130,000	
Less Expenses		
Depreciation	(5,732,500)	xxxxxxxx

2019		
Gross profit	xxxxxxx	
Add: gain on disposal (building N1)		
	3,202,500	
Less: Expenses		
Depreciation	(4,070,000)	xxxxxxxx

Fuoni Enterprise

Statements of financial position as at 30 June 2015, 2016, 2017, 2018 and 2019

	TZS	TZS
2015		
Non-current assets		
Buildings	10,100,000	
Less: Accumulated depreciation	(2,525,000	
Net book value or carrying value		7,575,000
2016		
Non-current assets		
Buildings	10,100,000	
Less: Accumulated depreciation	(5,050,000)	
Net book value or carrying value		5,050,000
2017		
Non-current assets		
Buildings	24,530,000	
Less: Accumulated depreciation	(9,022,500)	
Net book value or carrying value		15,507,500
2018		
Non-current assets		
Buildings	18,130,000	
Less: Accumulated depreciation	(8,755,000)	
Net book value or carrying value		9,375,000
2019		
Non-current assets		
Buildings	14,430,000	
Less: Accumulated depreciation	(8,662,500)	
Net book value or carrying value		5,767,500

Exercise 2.3

1. Mwakyusa Enterprise has been in business since 1st January 2019. On 1st January 2019, the company purchased machinery (W) for TZS 3,400,000. On 1st August 2019, they bought machinery (X) for TZS 1,000,000. On 1st October 2020 they purchased another machinery (Y) for TZS 2,000,000 and on 1st April 2021 they purchased machinery (Z) for TZS 800,000. Depreciation to be charged at the rate of 10 per cent diminishing balance method.

   Required:
   Show the machinery account and accumulated depreciation on machinery account for the year ended on 31st December 2021.

2. on 1st January 2019, Mwanamalundi purchased a lorry for 10,000,000 and another on 1st October 2020 for 12,000,000. The first motor lorry was sold on 30th June 2021 for 7,200,000. The business's financial year ends on 31st December. The machinery is to be depreciated at 10 per cent, using the equal instalment method. The machinery is to be depreciated at the end of each year. No depreciation is to be charged on any machinery disposed of during the year.

   Required:
   Prepare: The Lorry account; accumulated depreciation on the lorry account, disposal account, income statement and statement of financial position for the year ended on 31st December 2020.

Revision exercise 2

1. Kigaze Enterprise started business on 1st January 2019. On 1st January 2019 the enterprise purchased computer (a) for TZS 1,200,000. On 1st July 2019 the enterprise bought a computer (b) for TZS 750,000. On 1st October 2020 they purchased another computer (c) for TZS 900,000 and on 1st April 2022 they purchased a computer (d) for TZS 300,000.

   It is the policy of Kigaze to charge depreciation at the rate of 20 per cent using the diminishing balance method.

   Required:
   (a) Prepare the computer account.
   (b) Prepare an accumulated depreciation account.
   (c) Income statement extracts for the years ended on 31st December 2019, 2020, 2021 and 2022.
   (d) Statement of financial position as at 31st December 2019, 2020, 2021 and 2022.

2. Musoma Raha Enterprise, whose financial position ends on 31st

December. At 1st January 2018, the enterprise bought a motor van for TZS 60,000,000. On 1st July 2019 they bought the second motor van for TZS 45,000,000 and sold off the first motor van for TZS 26,000,000. On 1st February 2020 they bought another motor van worth 30,000,000 and another motor van was bought on 1st July 2020. On 1st April 2021, they disposed-off the second motor vehicle after being damaged due to an accident. The policy of the enterprise is to depreciate the Motor van at the rate of 20 per cent per annum using a straight-line method.

Required:

Show the following for the years ended on 2018, 2019 and 2020

a) Motor van account

b) Accumulated depreciation on motor van account

c) Motor van disposal account

d) Extracts of Income statement and statement of financial position

3. Makongeni traders extracted from his books the following trial balance as at 31st December 2019.

	DR TZS	CR TZS
Capital 1 January 2019		1,432,000
Drawings	144,000	
Cash at bank	24,000	
Bad debts	1,600	
Accounts receivable and payable	78,400	56,000
Cart	240,000	
Cement mixer	320,000	
Communication expenses	8,000	
Rates	48,000	
Salaries and wages	240,000	
Provision for doubtful debts		6,400
Stock at 1st January 2019	800,000	
Returns	40,000	49,600
Purchases	2,800,000	
Sales		3,200,000
	4,744,000	**4,744,000**

Additional information:

i) Rates prepaid TZS 4,000
ii) Accrued wages TZS 40,000
iii) Communication expenses outstanding TZS 1,760
iv) Stock at 31/12/2019 TZS 960,000
v) Provision for doubtful debts to be increased to 10 per cent of debtors
vi) Depreciation of cement mixer at 10 per cent per annum and cart at 20 per cent per annum on cost

Required:

Prepare an Income statement for the year ending 31st December 2019 and a statement of financial position as at that date.

Chapter Three

Adjustments for bad debts and doubtful debts

Introduction

In this chapter, you will learn the adjustments for bad and doubtful debts. The competencies developed in this chapter will enable you to prepare a complete set of financial statements by considering all necessary adjustments for bad and doubtful debts.

Adjusting for Bad debts and allowance for doubtful debts

To most businesses, sales are always on credit. This means that cash is not received immediately after the sale is made rather it is received sometimes in the future. When the firm sells its goods on credit, the persons to whom the sales were made owe the firm thus, they are expected to pay in the future. In Accounting, the persons to whom sales were made on credit are known as debtors and the amounts of money they owe to the entity is treated as current assets of the entity. These amounts are shown on the statement of financial position as current assets. It should be noted that, some of the amounts owed to debtors might not be received by the entity due to various reasons. Therefore, the value of debtors in the statement of financial position may need to be reviewed. In this section, we will see how to adjust the debtors figure shown in the statement of financial position so as to account for the amount of money that might not be received from customers to whom sales were made on credit – debtors. The amount of money owed by debtors may or may not be paid. However, based on available information, if it is in the business opinion that some may not be paid, such amounts may be treated as either bad debts or doubtful debts.

Bad debts

Bad debts refer to those debtors who will not be able to pay their debts due to various reasons. The debtor is classified as bad when the enterprise has satisfied itself that the debtor will not be able to settle the account. The enterprise might classify the debtor as bad when the debtor:

(a) Has been declared bankrupt, thus cannot meet debt obligations

(b) Has refused to pay one of a number of invoices

(c) Has refused to pay part of the invoices

(d) When it is concluded that the debtor cannot meet his/her obligation, e.g., incapacitated, dead etc.

When an enterprise classifies the debtor as bad debtor then the enterprise needs to pass necessary entries in its books of accounting so as to account for those debtors who became bad. The following is the double entry for recording bad debts:

Date	Details	Debit	Credit
	Bad debt account (with the amount of the bad debts)	xxx	
	Debtor account in the sales ledger		xxx
	To record amounts of debtors to be written-off.		

At the end of the accounting period, the total of bad debts is charged in the income statement as an expense. In this sense, bad debts are expenses to the enterprise, thus are deducted from the gross profit. This makes it necessary for the enterprise to effectively evaluate their customers to determine their creditworthiness before selling goods on credit to them. With regard to debtors, when these debtors turn to be bad, they reduce an amount the business expected to receive from debtor.

Example 3.1

During the year 2021, Michenzani Traders had several debtors (let us assume 20) but two of them turned to be bad debts. One among those debtors is Kishegeshe Enterprise. The other one is Mugabe Enterprises. Transactions that took place in 2021 in relation to these debtors who eventually turned to be bad are as follows:

- 3rd March, 2021 goods worth TZS 600,000 were sold on credit to Kishegeshe Enterprise.
- 19th May, 2021 goods worth TZS 300,000 were sold on credit to Mugabe Enterprises.
- 2nd June, 2021 Kishegeshe paid Michenzani Traders TZS 200,000 in terms of cheque.
- 13th October, 2021 both Kishegeshee Enterprise and Mugabe Enterprises were declared bankrupt thus unable to pay their debts.

Required:

Pass necessary ledger transactions in the books of Michenzani Traders to show the effect of bad debts.

Solution

Ledger account for debtors, bad debt and income statement (extract) are prepared as follows:

Dr **Kishegeshe Enterprise account** **Cr**

Date	Details	Amount (TZS)	Date	Details	Amount (TZS)
3/3/2021	Sales	600,000	2/6/2021	Bank	200,000
			31/12/2021	Bad debts	400,000
		600,000			600,000

Dr **Mugabe Enterprises account** **Cr**

Date	Details	Amount (TZS)	Date	Details	Amount (TZS)
15/5/2021	Sales	300,000	31/12/2021	Bad debts	300,000

Dr **Bad debts account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
31/12/2021	Kishegeshe Enterprise	400,000	31/12/2021	To income statement	700,000
31/12/2021	Mugabe Enterprises	300,000			
		700,000			700,000

Michezani Traders

Income statement (extract) for the year ended 31 December 2021

	TZS
Gross profit	xxxxxx
Less: Expenses	
Bad debts	(700,000)

Recovery of bad debts

Some debts which were once written off as 'bad debts' may be recovered. When this happens, profits have to be reversed since the previous write-off of bad debts had an effect on the previously reported profits. In the income statement, recovered bad debts will be treated differently from normal business receipts (revenue). They will be reported as other incomes received. In addition to the recording of receipts from the recovered bad debts as other income, transactions should also be passed to reinstate such amounts in the Debtors' accounts. This aims at setting proper historical records in the customers' accounts. Two entries will have to be passed for this purpose.

(i) The first one being:

Journal entry

Date	Details	Debit	Credit
	Debtors account	xxx	
	Bad debts recovered		xxx
	To record the receipt of amounts previously written off as bad debts.		

At the end of the period, the bad debts recovered account will have to be closed and posted in the income statement as other income.

(ii) The second entry to be passed is as shown below:

Journal entry

Date	Details	Debit	Credit
	Cash or Bank	xxx	
	Debtors account		xxx
	To record the receipt of amounts previously written off as bad debts.		

Example 3.2

During the year 2021 Michenzani Traders had several account receivables, but two of them turned to be bad debts. One among these accounts are Kishegeshe Enterprise and another one is Mugabe enterprise. Transactions that took place in 2021 in relation to these accounts who eventually turned to be bad debts are as follows:

- 3rd March 2021 goods worth TZS 600,000 were sold on credit to Kishegese Enterprise.
- 19th May 2021 goods worth TZS 300,000 were sold on credit to Mugabe Enterprise.
- 2nd June 2021 Kishegese paid Michenzani Traders TZS 200,000 in term of cheque.
- 13rd October 2021 both Kishegeshe Enterprise and Mugabe Enterprise

were declared bankrupts, thus unable to pay their debts.

- 30th November 2022 Kishegese Enterprise whose debt of TZS 400,000 was written off as bad debts, on 13th October 2021 settled her account in full amount.

By the help of the information provided, prepare the following accounts for the year 2021 and 2022:

(a) Account receivable
(b) Bad debts account
(c) Bad debts recovered account
(d) Extract the income statement

Solution

Dr — Account receivables — Cr

Date	Details	Amount TZS	Date	Details	Amount TZS
3/3/2021	Kashegeshe enterprise	600,000	2/6/2021	Bank	200,000
19/5/2021	Mugabe enterprise	300,000	31/12/2021	Bad debts	700,000
		900,000			900,000
30/11/2022	Bad debts recovered	400,000			

Dr — Bad debt expense account — Cr

Date	Details	Amount TZS	Date	Details	Amount TZS
31/12/2021	Account receivables	700,000	31/12/2021	Transferred to income statement	700,000

Dr — Bad debts recovered account — Cr

Date	Details	Amount TZS	Date	Details	Amount TZS
31/12/2022	Other income	400,000	30/11/2022	Account receivable	400,000

Dr Other income account Cr

Date	Details	Amount TZS	Date	Details	Amount TZS
31/12/2022	Transfer to income statement	400,000	30/11/2022	Bad debts recovered	400,000

Michezani Traders
Income statement for the year ending 2021 and 2022

		TZS
2021	Gross profit	xxxxxx
	Less: Expenses	
	Bad debts	(700,000)
2022	Gross profit	xxxxxx
	Add: Bad debts recovered	400,000

Allowance for doubtful debts

We have seen in the previous section that bad debts are debtors that have turned bad that they are unable to settle their accounts or obligations. A bad debt is a loss to the business, therefore is written off in the books of accounts and charged in the income statement as an expense in that particular accounting period. In other words, debtors are classified as bad when the enterprise is certain that will not be able to receive any payment from those debtors because of the existing situation. Therefore, the figure of debtors presented on the statement of financial position is the net figure after deducting the value of bad debts. It should be noted that, debtors remaining after deducting bad debts must also be considered for allowance of doubtful debts. The allowance for doubtful debt was previously known as provision for doubtful debts.

The allowance for doubtful debts refers to the provision made by the entity on assumption that some of the debtors may not pay their debts. The main difference between bad debts and the allowance for doubtful debt is that the debtor is classified as bad when the entity is certain that it will not receive any payment from that debtor. On the other hand, the allowance for doubtful debts is provided as an estimate on the figure of “good debtors” (those who had not been classified as bad) that some of these “good debtors” may not be able to pay their debt. The provision of doubtful debts is used under accrual basis accounting, so that an expense is recognized for probable bad debts as soon as invoices are issued to customers rather than waiting several months to find out exactly which invoices turned out to be uncollectable.

The allowance for doubtful debts is provided differently by different entities. Some take the per centage of total debtors such as 3 per cent of debtors as doubtful debts; others consider the aging of the debt and others use past experience in determining the allowance for doubtful debts. Any method that is used to provide for the allowance of doubtful debts does not matter to a book-keeper since the ledger entries are the same regardless of the method used to obtain the allowance for doubtful debts.

In Book-keeping, the allowance for doubtful debt reduces the total value of debtors. In other words, the allowance for doubtful debts must be subtracted from the figure of debtors to get the net value of debtors the entity is expecting to receive money from.

Accounting entries for allowance for doubtful debts

The double entries / journal entries for the allowance of doubtful debts are as follows:

Approach I: *(Direct approach: on set of double entries)*

The year in which the allowance is made for the first time:

Date	Details	Debit	Credit
	Income statement (with the amount of the allowance)	xxx	
	Allowance for doubtful debts		xxx
	To close the allowance for doubtful debts to the income statement.		

Note: *Deduct it from gross profit as an expense.*

Approach II: *(Two sets of double entries)*

Date	Details	Debit	Credit
	Doubtful debts expense	xxx	
	Allowance for doubtful debts		xxx
	To record an allowance for doubtful debts		

Example 3.3

As at 31st December 2019, the books of Kufakunoga Enterprise indicated that the figure of accounts receivables after deducting bad debts was TZS 2,000,000. Kufakunoga Enterprises estimated that 3 per cent of account receivable (TZS 60,000) will not be able to honour their debts, therefore they must be provided for the allowance of doubtful debts.

Required:
Show how the allowance for doubtful debts will be recorded in the books of Kufakunoga Enterprise.

Solution

Approach II (Using two accounts to record doubtful debts)

Dr **Doubtful debts expense account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
31/12/2019	Allowance for doubtful debts	60,000	31/12/2019	To income statement	60,000
		60,000			60,000

Dr **Allowance for doubtful debts account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
31/12/2019	Balance c/d	60,000	31/12/2019	Doubtful debts expense	60,000
		60,000			60,000
			1/1/2020	Balance b/d	60,000

In the financial statements, the allowance is shown as follows:

Kufakunoga Enterprise

Income statement (extract) for the year ended 31 December 2019

	TZS
Gross profit	xxx
Less: Expenses	
Doubtful debts expense	(60,000)

Kufakunoga Enterprise

Statement of financial position (extract) as at 31 December 2019

	TZS	**TZS**
Current assets		
Accounts receivable	2,000,000	
Less: Allowance for doubtful debts	(60,000)	
		1,940,000

Increasing the allowance for doubtful debts

Increase in allowances for doubtful debtors occurs when the business management perceive that many of its debtors may not be able to pay their dues. This situation may be caused by unsatisfactory assessment of debtors' creditworthiness or general economic downturn. When you need to create or increase a provision for doubtful debt, you enter entry on the credit side of the account. However, when you need to decrease or remove the allowance you enter entry on the debit side. The impact that allowance for doubtful accounts has on income statement is the charge to bad debt expense when the allowance is initially funded. Any write-offs of accounts receivable against the allowance for doubtful accounts only impact the statement of financial position.

Considering the same business of Kufakunoga enterprises in the previous example; in 2020, the allowance for doubtful debts was kept at 3 per cent of the total debts but the accounts receivable increased to TZS 2,800,000. It should be recalled that the allowance for 2019 was TZS 60,000 and this amount is therefore carried forward to 2020. It should be noted that in the year 2020 the allowance for doubtful debts is TZS 84,000 (TZS 2,800,000 X 3%). Therefore, in 2020, we only need to provide for the allowance of doubtful debts for an extra TZS 24,000 (TZS 84,000-TZS 60,000). The double entry to record this transaction in the books of Kufakunoga enterprises will be as follows:

Date	Details	Debit	Credit
	Income statement (Increase in the amount)	xxx	
	Allowance for doubtful debts Account		xxx
	To record an increase in the allowance for doubtful debts.		

Note: Deduct it from gross profit as an expense.

Solution

Approach I *(Mixed account approach)*

Dr **Allowance for doubtful debts account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
	Balance c/d	84,000	1/1/2020	Balance b/d	60,000
			31/12/2020	Income statement	24,000
31/12/2020		84,000			84,000
			1/1/2021	Balance b/d	84,000

In the financial statements, the allowance is shown as follows:

Kufakunoga Enterprise

Income statement (extract) for the year ended 31 December 2020

	TZS
Gross profit	xxx
Less: Expenses	
Allowance for doubtful debts (increase)	(24,000)

Kufakunoga Enterprise

Statement of financial position (extract) as at 31 December 2020

	TZS	TZS
Current assets		
Accounts receivable	2,800,000	
Less: Allowance for doubtful debts	(84,000)	
		2,716,000

Reducing the allowance

In the above section, we looked on how double entry is completed when there is an increase in the allowance for doubtful debts. In this section, we will see how double entries is completed when there is a decrease in the allowance for doubtful debts. In simple terms, the journal entries for the decrease in the allowance for doubtful debts is completed by doing the opposite of what we did when we were recording the increase.

Date	Details	Debit	Credit
	Allowance for doubtful debts Account	xxx	
	Income statement (decrease in the amount)		xxx
	To record a decrease in the allowance for doubtful debts.		

Example 3.4

Considering the same business of Kufakunoga enterprise as in the previous example; in 2021 the allowance for doubtful debts continued to be kept at 3 per cent of the total debts but the accounts receivable decreased to TZS 2,200,000 from TZS 2,800,000 reported in 2020. It should be recalled that the allowance for 2020 was TZS 84,000 and this amount is therefore carried forward to 2021.

It should be noted that in the year 2021 the allowance for doubtful debts was TZS 66,000 (TZS 2,200,000 x 3%). Therefore, in 2021, we only need to provide for the allowance of doubtful debts for TZS 18,000 being the amount decreased (TZS 84,000-TZS 66,000). The double entry to record this transaction in the books of Kufakunoga enterprise will be as follows:

Date	Details	Debit	Credit
	Allowance for doubtful debts Account	xxx	
	Income statement (with the decreased amount)		xxx
	To record a decrease in the allowance for doubtful debts.		

(Mixed account approach)

Dr **Provision for doubtful debts account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
31/12/2021	Income statement	18,000	1/1/2021	Balance b/d	84,000
31/12/2021	Balance c/d	66,000			
		84,000			84,000
			1/1/2022	Balance b/d	66,000

In the financial statements, the allowance is shown as follows:

Kufakunoga Enterprise
Income Statement (extract) for the year ended 31 December 2021

	TZS
Gross profit	xxxxx
Add: reduction in provision for doubtful debts	18,000

Kufakunoga Enterprise
Statement of financial position (extract) as at 31 December 2021

		TZS
Current assets		
Accounts receivable	2,200,000	
Less: Allowance for doubtful debts	(66,000)	
		2,134,000

Important point to note in this section is that the increase in the provision for doubtful debts is deducted in the income statement as expenses. On the other hand, the decrease in the provision for doubtful debts is added to the gross profit as a gain.

Exercise 3.1

1. Explain the concept of allowance for doubtful debts accruals and prepayments and discuss their accounting treatments.
2. Briefly discuss the following terms: bad debts; bad debts recovery; and increase doubtful debts.
3. At 31st December 2019, the debtors figure amounted to TZS 5,000,000. It is estimated that 10 per cent of the debts is proved to be doubtful.

   Required:

   Prepare a provision for doubtful debts account and determine the amount transferred to the Income statement.
4. Demonstrate the relationship between bad debts and provision for doubtful debts.
5. Distinguish between the following:

   (a) Debtors and provision for doubtful debts.

   (b) Bad debts recovery and increase in provision for doubtful debts.

Preparation of comprehensive financial statements with adjustments

Financial statements are prepared to determine the financial performance of a business entity. Financial statements consist of an Income statement and the statement of financial position. Accounting standards (IAS – 1 & 7) require an organisation to prepare other sets of financial statements such as statement of cash-flows, statement of changes in equity and the notes to the financial statements. These are outside the scope of this textbook. When there are adjustments of accounting entries, the financial statements will be affected. In this textbook you will be introduced to two formats of preparing financial statements. It is your duty to make sure, you study and understand both formats thoroughly. When you prepare a financial statement of an enterprise you must choose one format, but your choice should adhere to the enterprise policy. The following are comprehensive examples on the preparation of comprehensive financial statements with adjustments of accounting entries.

Example 3.5

The following financial records were taken from the records of Alvin Enterprise as at 31st December 2018.

Alvin Enterprise

Trial balance as at 31 December 2018

Details	**Debit TZS**	**Credit TZS**
Stock at 1st January 2018	464,400	
Capital 1st January 2018		648,000
Purchases and sales	2,057,400	3,777,300
Cash	8,100	
Discounts	129,600	83,700
Bank		391,500
Sales returns	72,900	
Purchases returns		51,300
Stationery	194,400	
Insurance	156,600	
Allowance for doubtful debts		59,400
Building	108,000	
Motor cycle	189,000	
Accounts receivable and Accounts payable	1,071,900	545,400
Drawings	259,200	
Advertising	804,600	
office expenses	40,500	
Total	**5,556,600**	**5,556,600**

Additional notes:

(a) Stock at close was TZS 386,100

(b) Advertising owing at 31st December 2018 was TZS 18,900 and office expenses accrued at TZS 1,800

(c) Insurance prepaid as at 31st December 2018 was TZS 16,200

(d) An increase in the provision for doubtful debts by TZS 13,500 to TZS 72,900

(e) Depreciation of building is charged at 10% using the straight-line method and motor cycle is depreciated at TZS 27,000.

Required:

Prepare the income statement for the year ended on 31st December 2018 and the statement of financial position as at that date.

Solution

Working 1: Calculation of advertising expenses

Dr Advertising expense account Cr

Date	Details	Amount TZS	Date	Details	Amount TZS
	Cash	804,600	31/12/2018	Income statement	823,500
31/12/2018	Accrued advertising c/d	18,900			
		823,500			823,500
			1/1/2019	Accrued advertising b/d	18,900

Working 2: Calculation of office expenses

Dr **Office expenses account** Cr

Date	Details	Amount TZS	Date	Details	Amount TZS
	Cash	40,500	31/12/2018	To income statement	42,300
31/12/2018	Accrued office expenses c/d	1,800			
		42,300			42,300
			1/1/2019	Accrued office expenses b/d	1,800

Working 3: Calculation of Insurance expenses

Dr **Insurance expenses account** Cr

Date	Details	Amount	Date	Details	Amount
	Cash	156,600	31/12/2018	Prepaid insurance c/d	16,200
			31/12/2018	To income statement	140,400
		156,600			156,600
1/1/2019	Prepaid insurance b/d	16,200			

We will first prepare the income statement.

Alvin Enterprise
Income statement for the year ended 31 December 2018

Details	**TZS**	**TZS**	**TZS**
Sales			3,777,300
Less: Sales returns			72,900
Net sales			3,704,400
Less: Cost of goods sold			
Opening stock		464,400	
Add: Purchases	2,057,400		
Less: Purchases returns	51,300		
Net purchases		2,006,100	
Cost of goods available for sale		2,470,500	
Less: Closing stock		386,100	
Cost of goods sold			2,084,400
Gross profit			1,620,000
Add: Discount received			83,700
			1,703,700
Less: Expenses			
Discount allowed		129,600	
Stationery		194,400	
Insurance (W3)		140,400	
Increase of provision for bad debts		13,500	
Advertising (W1)		823,500	
Office expenses (W2)		42,300	
Depreciation: Building		10,800	
Motor cycle		27,000	
Total expenses			1,381,500
Profit			**322,200**

Note: W1 = Working 1, W2 = Working 2 and W3 = working 3

Alvin enterprise
Statement of financial position as at 31 December 2018

Details		**TZS**	**TZS**	**TZS**
Non-current assets		**Cost**	**Depreciation**	**Carrying value**
Building		108,000	10,800	97,200
Motor cycle		189,000	27,000	162,000
Total non-current assets		**297,000**	**37,800**	**259,200**
Current assets				
Stock		386,100		
Accounts receivables	1,071,900			
Less: Provision for doubtful debts	72,900			
		999,000		
Cash		8,100		
Prepaid Insurance		16,200		
Total current assets			1,409,400	-
Current liabilities				
Creditors		545,400		-
Bank overdraft		391,500		
Advertising Owing (accrued)		18,900		
Owing office expenses		1,800		
Total current liabilities			(957,600)	
Working capital				451,800
Capital employed				**711,000**
Financed by:				
Capital at start			648,000	
Add: net profit			322,200	
				970,200
Less: Drawings				259,200
Capital at end				**711,000**

Example 3.6

The following trial balance was taken from the records of Kopundo Enterprise, as at 31st December 2020.

Kopundo Enterprise
Trial balance as at 31 December 2018

Details	**Debit TZS**	**Credit TZS**
Inventory at 1st January 2020	1,140,000	
Debtors	2,850,000	
Creditors		5,510,000
Allowance for bad debts		190,000
Purchases and sales	6,840,000	8,170,000
Capital		11,096,000
Returns	380,000	285,000
Rent	475,000	
Advertising	570,000	
Bad debts	551,000	
Discount allowed	380,000	
Interest received		380,000
Drawings	1,520,000	
Carriage	1,140,000	
Machinery	3,800,000	
Furniture	5,700,000	
Bank overdraft		855,000
Cash	1,140,000	
Total	**26,486,000**	**26,486,000**

Additional information as at 31st December 2020:

i) Inventory was TZS 1,520,000
ii) TZS 133,000 of rent was still owing
iii) Advertising paid in advance amounted to TZS 152,000.

iv) Allowance for bad debts is to be maintained at 10% on debtors.

v) Carriage amount include TZS 380,000 as carriage inwards.

vi) Depreciation is to be charged at a rate of 5% per annum on all non-current assets.

vii) Interest receivable for TZS 95,000 had not been received by the year end.

Required:

Prepare Kopundo's Enterprise income statement for the year ended 31st December 2020 after considering the above adjustments and the statement of financial position as at 31st December 2020.

Solution

Working 1: Calculation of rent expenses

Dr **Rent expense account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
31/12/2020	Cash	475,000	31/12/2020	Income statement	608,000
	Accrued rent c/d	133,000			
		608,000			608,000
			1/1/2021	Accrued rent b/d	133,000

Working 2: Calculation of advertising expenses

Dr **Advertising expense account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
	Cash	570,000	31/12/2020	Prepaid advertising c/d	152,000
			31/12/2020	Income statement	418,000
		570,000			570,000
1/1/2021	Prepaid advertising b/d	152,000			

Kopundo Enterprise

Income statement for the year ended 31 December 2020

Details	**TZS**	**TZS**	**TZS**
Sales			8,170,000
Less: Sales returns			380,000
Net sales			7,790,000
Less: Cost of goods sold			
Opening stock		1,140,000	
Add: Purchases	6,840,000		
Carriage inwards	380,000		
	7,220,000		
Less: Purchases returns	285,000		
Net purchases		6,935,000	
Cost of goods available for sale		8,075,000	
Less: Closing Stock		1,520,000	
Cost of goods sold			6,555,000
Gross Profit			1,235,000
Add: Discount received			380,000
Accrued interest revenue			95,000
			1,710,000
Less: Expenses			
Increase in allowance for doubtful debts		95,000	
Rent (W1)		608,000	
Bad debts		551,000	
Advertising (W2)		418,000	
Discount allowed		380,000	
Carriage outwards		760,000	
Depreciation: Machinery (3,800,000 x 5%)		190,000	
Furniture (5,700,000 x 5%)		285,000	
Total Expenses			3,287,000
Loss			**(1,577,000)**

Note: W1 = Working 1, W2 = Working 2

Kopundo Enterprise

Statement of financial position as at 31 December 2020

Details	**TZS**	**TZS**	**TZS**
Non-current assets			
Machinery		3,800,000	
Less: Accumulated depreciation		190,000	
			3,610,000
Furniture		5,700,000	
Less: Accumulated depreciation		285,000	
			5,415,000
Total non-current assets			9,025,000
Current asset			
Stock		1,520,000	
Accounts receivable	2,850,000		
Less: provision for doubtful debts	285,000		
		2,565,000	
Cash in hand		1,140,000	
Advertising prepaid		152,000	
Interest income accrued		95,000	
Total current asset			5,472,000
Total assets			**14,497,000**
Capital & Liability			
Capital at start		11,096,000	
Less: net loss		1,577,000	
		9,519,000	
Less: Drawings		1,520,000	
Capital at end			7,999,000
Current Liabilities			
Accounts payable		5,510,000	
Bank overdraft		855,000	
Rent owing		133,000	
Total current liabilities			6,498,000
Total capital and liabilities			**14,497,000**

Comprehensive Example 3.7: - Adjustments

The following Trial balance has been extracted from the ledger of Mr Nyamagwegwe, a sole trader. Trial balance as at 31st May 2020.

	Dr	Cr
Details	**TZS**	**TZS**
Sales		69,039,000
Purchases	41,175,000	
Carriage	2,572,000	
Drawings	3,900,000	
Rent, rates and insurance	3,311,000	
Postage and stationery	1,500,500	
Advertising	665,000	
Salaries and wages	13,210,000	
Bad debts	438,500	
Allowance for doubtful debts		65,000
Accounts Receivable	6,060,000	
Accounts Payable		3,235,500
Cash in hand	88,500	
Cash at bank	501,000	
Stock as at 1st June 2019	5,963,500	
Equipment at cost	29,000,000	
Accumulated depreciation		9,500,000
Capital		26,545,500
Total	**108,385,000**	**108,385,000**

The following additional information as at 31st May 2020 is availed to you:

(i) Rates have been prepaid by TZS 440,000.

(ii) Rent is accrued by TZS 105,000.

(iii) TZS 1,105,500 of carriage represents carriage on purchases.

(iv) Equipment is to be depreciated at 15 per cent per annum using the straight-line method.

(v) The allowance for doubtful debts to be reduced by TZS 20,000.

(vi) Stock at the close of business has been valued at TZS 6,775,500.

Required:
Prepare income statement for the year ended 31st May 2020 and the statement of financial position as at that date.

Solution

Workings:

Dr Allowance for doubtful debts account Cr

Date	Details	Amount (TZS)	Date	Details	Amounts (TZS)
31/05/2020	To income statement	20,000	1/6/2019	Balance b/d	65,000
31/05/2020	Balance c/d	45,000	1/6/2020		65,000
		65,000			
				Balance b/d	45,000

Dr Rent, rates and insurance account Cr

Date	Details	Amount (TZS)	Date	Details	Amounts (TZS)
	Cash	3,311,000	31/5/2020	To income statement	2,976,000
31/05/2020	Accrued rent c/d	105,000	31/5/2020	Prepaid rates c/d	440,000
		3,416,000			3,416,000
1/6/2020	Prepaid rates b/d	440,000	1/6/2020	Accrued rent b/d	105,000

Calculation of depreciation

Depreciation charge for the year = (15% x 29,000,000 x $\frac{12}{12}$ = 438,500

Dr Depreciation account Cr

Date	Details	Amount TZS	Date	Details	Amount TZS
31/05/2020	Accumulated depreciation	4,350,000	31/5/2020	To income statement	4,350,000
		4,350,000			4,350,000

Dr Accumulated depreciation account Cr

Date	Details	Amount TZS	Date	Details	Amount TZS
			1/6/2019	Balance b/d	9,500,000
31/05/2020	Balance c/d	13,850,000	31/05/2020	Depreciation	4,350,000
		13,850,000			13,850,000
			1/6/2020	Balance b/d	13,850,000

Working for carriage outwards:

Carriage (Total as per trial balance) = Carriage inwards + Carriage outwards

2,572,000 = 1,105,500 + carriage outwards

Therefore, carriage outwards = 2,572,000 – 1,105,000 = 1,466,500

Mr Nyamagwegwe Sole Trader

Income statement for the year ended 31 May 2020

	TZS	TZS	TZS
Sales			69,039,000
Less: Cost of goods Sold			
Opening stock		5,963,500	
Add: Purchases	41,175,000		
Carriage inwards	1,105,500	42,280,500	
Cost of goods available for sale		48,244,000	
Less: Closing stock		6,775,500	
Cost of Goods sold			41,468,500
Gross Profit			27,570,500
Add: Decrease: allowance for doubtful debts			20,000
			27,590,500
Less operating expenses:			
Rents, rates and insurance:		2,976,000	
Carriage outward		1,466,500	
Depreciation (equipment)		4,350,000	
Postage and stationaries		1,500,500	
Advertising		665,000	
Salaries and wages		13,210,000	
Bad debts		438,500	24,606,500
Profit			**2,984,000**

Mr Nyamagwegwe Sole Trader
Statement of financial position as at 31 May 2020

		TZS	TZS
Non-current Assets			
Equipment		29,000,000	
Less: accumulated depreciation		13,850,000	
Net book value			15,150,000
Current Assets			
Debtors	6,060,000		
Less: Provision for doubtful debts	45,000		
Net debtors		6,015,000	
Stock		6,775,500	
Cash in hand		88,500	
Cash at Bank		501,000	
Prepaid rates		440,000	
Total current assets			13,820,000
Total Assets			**28,970,000**
Capital and Liabilities			
Capital	26,545,500		
Less: Drawings	3,900,000		
		22,645,500	
Net profit for the year		2,984,000	
Total capital			25,629,500
Liabilities			
Creditors		3,235,500	
Accrued rent		105,000	
Total liabilities			3,340,500
Total capital and liabilities			**28,970,000**

Revision exercise 3

1. At 30th September 2021, the debtors figure amounted to TZS 10,000. It is estimated that 2% of debts is proved to be bad debts.

   Required:

   Prepare a provision for bad debts account, showing the amount transferred to the income statement.

2. Bantuleisha started her business on 1st January 2020 and prepares her accounts as at to 31st December every year. For the year ended on 31st December 2020, written off bad debts amounted to TZS 14,000. It was also, found necessary to create a provision for doubtful debts allowance of TZS 2,000 in 2021, debts amounting to TZS 1,500 were to be proved bad and were written off. Kanjoka, whose debt of TZS 6,000 was written off as bad in 2020, settled her account in full on 30th November 2021. As at 31st December 2021 the total debtors were 600,000. It was decided to bring the provision up to 5 per cent of this figure on that date. In 2022 TZS 32,500, debts were written off during the year and another recovery of TZS 2,500 was made in respect of debts written off in 2020. As at 31st December 2022, the total debtors were 400,000 and the provision for doubtful debts is to be retained as 5% on debtors.

   Required:

   i) Prepare bad debts accounts for 2020, 2021 and 2022.
   ii) Prepare bad debts recovered account of the same year 2020, 2021 and 2022.
   iii) Prepare the provision for bad and doubtful debts for 2020, 2021 and 2022.
   iv) Prepare the provision extract of the income statement account for the year 2020, 2021 and 2022.

3. A business started on 1st January 2017 with a financial year ending on 31st December each year. The data of debtors, written off bad debts and the estimated provision for doubtful debts at the end of the year is as given below:

Year to 31 December	Debtors at the end of the year after bad debts written-off	Bad debts written off during the year	Provision for doubtful debts at the end of the year
	TZS	TZS	TZS
2017	700,000	50,000	14,000
2018	600,000	42,000	12,000
2019	800,000	60,000	15,000
2020	650,000	52,000	14,000

Required

Show the above in the respective accounts, extract the income statement for each year and the statement of financial position.

4. Mr Baharia has been trading for some years in electronics equipment. The following list of balances has been extracted from his ledger as at 31th March 2019.

Details	**Amount in TZS**
Fixtures and Fittings – at cost	3,622,200
Provision for depreciation	1,890,600
Depreciation	362,220
Trade debtors	735,000
Stock as at 1st April 2018	469,620
Cash	16,020
Bank	133,200
Bad debts	60,240
Capital	2,516,610
Sales	7,796,100
Creditors	595,200
Return Outward	402,210
Provision for bad debts	15,360
Discount allowed	69,180
Discount received	52,500
Purchases	4,070,400
Return inwards	168,720
Carriage outward	136,860
Drawings	553,200
Carriage inwards	354,900
Insurance and rates	779,190
Electricity	330,300
Stationery	72,300
Rent	179,400
Salaries and wages	1,155,630

The following additional information as at 31st march 2019 is available:

(a) Stock at the close of business was valued at TZS 532,500.
(b) Insurance have been advanced by TZS 33,600.
(c) Electricity is owing by TZS 40,800.
(d) Rates have been prepaid by TZS 163,050.
(e) The provision for bad debts is to be adjusted so that it is 3% of debtors.

Required:

Prepare Mr Baharia's Income statement for the year ended on 31st March 2019 and the statement of financial position as at 31st March 2019.

5. Mr Chapakazi has been trading for some years as a wine merchant. The following list of balances have been extracted from his ledger as at 30th April 2020, the end of his most recent financial year.

	TZS
Capital	8,388,700
Sales	25,987,000
Trade Creditors	1984,000
Returns outwards	1,340,700
Provision for doubtful debts	51,200
Discounts allowed	230,600
Discounts received	175,000
Purchases	13,568,000
Returns inwards	562,400
Carriage outwards	456,200
Drawings	1,844,000
Carriage inwards	1,183,000
Rent, rates and insurance	2,597,300
Heating and lighting	1,101,000
Postage, stationery and telephone	241,000
Advertising	598,000
Salaries and wages	3,852,100
Bad debts	200,800
Cash in hand	53,400
Cash at bank	444,000
Stock as at 1 May 2019	1,565,400
Trade debtors	2,450,000
Fixtures and fittings – at cost	12,074,000
Provision for depreciation on fixtures and fittings – as at 30 April 2020	6,302,000
Depreciation	1,207,400

The following additional information as at 30th April 2020 is available:

(a) Stock at the close of business was valued at TZS 1,775,000.

(b) Insurances have been prepaid by TZS 112,000.

(c) Heating and lighting are accrued by TZS 136,000.

(d) Rates have been prepaid by TZS 543,500.

(e) The provision for doubtful debts is to be adjusted so that it is 3 per cent of trade debtors.

Required:

Prepare Mr Chapakazi's income statement for the year ended on 30 April 2020 and a statement of financial position as at that date.

Chapter Four

Control accounts

Introduction

Control accounts are used to summarise sales ledgers and purchases ledgers. They are used to check the arithmetic accuracy of ledgers. In this chapter, you will learn the concept of control accounts, usefulness of control accounts and the preparation of records for control accounts. The competencies developed in this chapter will enable you to manage debtors and creditors records because the largest volume of business transactions take place between the business, its debtors (accounts receivables) and creditors (accounts payables).

The concept of control accounts

A control account is a summary account maintained in the general ledger. It helps to check whether the balance it holds in the general ledger agrees with the total of all individual accounts held in the corresponding subsidiary ledgers. The balances posted in the control accounts are obtained from the books of prime entry (example, sales journal and purchases journal) and the control account is used to compare or reconcile the total of such balances with those from the individual accounts held in the subsidiary ledgers. The total of all accounts in the sales ledger and purchases ledger will have to agree with the balances reported in the control accounts. Subsidiary ledgers therefore, give details on the balances that are summarized in the control accounts.

Control accounts are prepared by incorporating to the opening balances of all entries that increase the balances and all entries that reduce the balances during the period and then are balanced-off to arrive at closing balances. This process is aimed at clarifying and rechecking the accuracy of the individual accounts in the sales and purchases ledgers. If there will be any differences between the balancing figures from the control accounts and the totals of all accounts in the subsidiary ledgers, such discrepancies or errors must be rectified before posting of the same in the main ledger.

When control accounts are part of the general ledger, they are considered as part of the double entry system. This is because the general ledger will balance without the inclusion of individual accounts held in the subsidiary ledgers. Sales ledgers and purchases ledgers are called subsidiary ledgers because they keep track on the movement of individual accounts (debtors and creditors respectively) and therefore providing details on balances appearing in the control accounts. The list of balances extracted from the subsidiary ledgers must always tally with the balance of the control accounts. If they do not, then there could have been a mistake made during calculations and/or posting.

The importance of control accounts

The following are the details on the importance of control accounts:

(i). **Help to check the arithmetic accuracy of the ledgers**

Control accounts help to check the arithmetic accuracy of entries made in individual accounts in the sales ledger and purchases ledger. Without preparing control accounts, the enterprise could face the problem of checking the arithmetic accuracy of entries made in individual accounts.

(ii). **Detect and prevent fraud in the suppliers' and customers' accounts**

Control accounts should be prepared by different people and not those who prepared entries in the books of original entry and in the ledger accounts. When there is a separation of book-keeping duties, the control account provides an independent check and helps to safeguard against fraud.

(iii). **Facilitate the preparation of financial statements**

In case of incomplete records, control accounts help to determine missing figures such as sales, discount allowed, purchases and account balances. This enables the preparation of financial statements.

(iv). **Control accounts help to identify errors**

Control accounts enable the comparison among individual balances in the sales or purchases ledgers. This can be done weekly or monthly and it can be easier to find errors than before the existence of control accounts.

(v). **Facilitate internal checks**

Where there is a separation of clerical (book-keeping) duties, the control accounts provide an internal check. A person posting entries to the control accounts will act as an automatic check on another person whose job is to post entries to the sales and purchases ledger accounts.

(vi). **Control accounts help in calculating missing figures**

Control accounts help in the calculation of missing figures when all other entries in the ledger accounts are known. For example, if we know the amount of opening debtors balance, credit sale, and the amount collected from debtors during the accounting period then we can calculate the closing debtors balance.

Advantages and disadvantages of control accounts

Advantages

Let us outline some of the advantages of control accounts:

(a) Provide a checking mechanism to detect errors and fraud at an early stage,

(b) Remove bulky details from the general ledger,

(c) Trial balance figures provide a summary of totals rather than individual accounts,

(d) Larger companies can set up accounting departments for specific areas, and this increases the number of employments,

(e) Minimize the likelihood of fraud because different staff independently maintain control account records and subsidiary ledger,

(f) Provide a summary of transactions recorded in various subsidiary ledger which are useful in the management for policy formulation and create the division of accounting work and resulting in specialization work.

Disadvantages (Limitations)

The following are the limitations of control accounts. Control accounts:

(a) Cannot detect all types of errors e.g., error of original entry, error of principle, error of commission, complete reversal of entries, compensating error and error of omission.

(b) Cannot guarantee the arithmetical accuracy of the ledger. This is because errors such as omission and commission would not be shown by the use of control accounts. The arithmetical accuracy would not be confirmed as the errors because it appears in both the control account and the individual account.

(c) Cannot act as a deterrent against fraud unless internal checks are carried out,

(d) Do not provide the details of the transactions, but it only provides a summary of each transaction,

(e) Can be done where business follow double entry system but for single entry system, it is hard to find missing information,

(f) Are used for large companies where huge number of transactions are processed but small business control account is not a necessity.

Preparing records for control accounts

The preparation of records for control

account consists of the following two accounts namely sales ledger control account and purchases ledger control account. Hereunder is the discussion of how these two control accounts are prepared.

Sales ledger control account

Sales ledger or debtors' control account is a summary account which checks the arithmetic accuracy of the sales ledger. It enables us to see at a glance whether the general ledger balance for the sales ledger agrees with the total of all the individual trade receivable accounts held within the sales ledger. This control account contains the summarized information of all the trade receivables accounts in the sales ledger. This control account is also known as total trade receivables control account or account receivables control account or sales ledger control account or debtors control account.

Table 4.1 presents the information recorded in the sales ledger control account.

Table 4. 1: *Sales ledger control account information*

	Information	Source of information
1	Opening debtors	List of debtors' balances brought down from the end of the previous period.
2	Credit sales	Total from the sales journal (also known as sales day book).
3	Sales returns	Total of the sales returns journal (sales returns day book).
4	Cheques received	Cash book: bank column on receipts side. List extracted or the total of a special column for cheques which has been included in the cash book.
5	Cash received	Cash book: cash column on received side. List extracted or the total of a special column for cash which has been included in the cash book.
6	Discounts allowed	Total of discounts allowed column in the cash book.
7	Closing debtors	List of debtors' balances carried down at the end of the period.
8	Bad debts and bad debts recovered	Total of amounts agreed for writing off at the end of the period. Also amounts recovered from previously written off debts. Taken from the total of journal entries made during the period to record the same.
9	Interest charged on customers' overdue debts	Journal entries to recognize interest on overdue accounts receivables. A total of these entries will be posted in the sales ledger control account.
10	Refunds given to customers	List of refunds given to customers extracted from the cash book.

11	Dishonoured cheques	List of cheques not honoured by the bank.
12	Set off: purchases ledger balance	A contra account to set off balances for suppliers who are also debtors. Journal entries are made to record these amounts.

Take a look at the format of sales ledger control account below. What do you think are the similarities between control account and individual trade receivables account?

Format of sales ledger/debtors' control account

Dr **Sales ledger control account** **Cr**

Date	**Details**	**Folio**	**Amount TZS**	**Date**	**Details**	**Folio**	**Amount TZS**
1/1/2020	Balance	b/d	xxx	1/1/2020	Balance	b/d	xxx
	Sales (Credit sales from sales journal)		xxx		Sales returns		xxx
	Bad debts recovered		xxx		Cash received		xxx
	Refunds given to customers		xxx		bank		xxx
	Interest charged to customers		xxx		Bad debts		xxx
	Bank: dishonoured cheques		xxx		Discount allowed		xxx
					Set off: purchases Ledger		xxx
31/12/2020	Balance	c/d	xxx	31/12/2020	Balance	c/d	xxx
			xxx				xxx
1/1/2021	Balance	b/d	xxx	1/1/2021	Balance	b/d	xxx

Items not entered in sales ledger control account

Items which should not be entered in sales ledger control account are discussed in this section. In the previous section we saw the format of the sales ledger control account and items that are supposed to be posted in that account. Hereunder are the items that are not supposed to be recorded in the sales ledger control account.

(i) **Cash sales**

Cash sales are recorded in the cash book but not in the sales ledger. Thus, cash sales should not be entered in the sales ledger control account which checks the arithmetic accuracy of the sales ledger (Credit sales).

(ii) **Increase or decrease in the provision for doubtful debts**

The provision for doubtful debts account is kept in the general ledger. An increase or a decrease in the provision for doubtful debts affects the general ledger but not the Sales ledger. Thus, it should not be recorded in the Sales ledger control accounts.

Activity 4.1

Find and read different book-keeping books. In your reading find out the reason why cash sales transactions should not appear in debtors control accounts. Note down the answers on your notebook for sharing with your friends at your school.

Example 4.1

Draw up a sales ledger control account for the year ended on 30th April 2020 from the following information of Masasi Enterprise.

	TZS
Discount allowed	27,000
Cheque received from customer	807,300
Credit sales	1,035,000
Bad debts	10,350
Sales returns	18,900
Sales ledger balance on 1 April 2020	603,720

Solution

Dr **Sales ledger control account** **Cr**

Date	Details	Folio	Amount TZS	Date	Details	Folio	Amount TZS
1/4/2020	Balance	b/d	603,720		Bank		807,300
	Sales		1,035,000		Bad debts		10,350
					Sales returns		18,900

					Discount allowed		27,000
				30/4/2020	Balance	c/d	775,170
			1,638,720				1,638,720
1/1/2020	Balance	b/d	775,170				

Example 4.2

The following financial information is provided by Malinyi Enterprise for the month of January 2019.

			TZS
Credit Sales			158,800
Cash sales			120,000
Returns inwards			5,400
Returns outwards			9,000
Bad debts			1,840
Interest charged to customer for unpaid amount			440
Cash received			167,400
Dishonoured cheque			1,520
Refund given to credit customer			3000
Balances:			
Debit balance	-	1 January 2019	198,000
Credit balance	-	1 January 2019	1,280
Debit balance	-	31 January 2019	187,120
Credit balance	-	31 January 2019	1,280

Use the information provided to prepare debtors control account for the month of January 2019.

Solution

Malinyi Enterprise

Dr **Sales ledger control account** **Cr**

Date	Details	Folio	Amount TZS)	Date	Details	Folio	Amount TZS
1/1/2019	Balance	b/d	198,000	1/1/2019	Balance	b/d	1,280
	Sales		158,800		Bad debts		1,840
	Interest charged		440		Sales returns (Returns inwards)		5,400
	Dishonoured cheque		1,520		Cash		167,400
	Refund given to customers		3,000	31/1/2019	Balance	c/d	187,120
31/1/2019	Balance	c/d	1,280				
			363,040				363,040
1/2/2019	Balance	b/d	187,120	1/2/2019	Balance	b/d	1,280

Exercise 4.1

Prepare a sales ledger control account for the year ended on 30th June 2018 from the following information of Miss Mwendapole Business Enterprise.

	TZS
Discount allowed	54,000
Cheque received from customer	902,300
Credit sales	3,045,000
Bad debts	20,350
Sales returns	40,900
Cash received	50,000
Set off against purchases	20,000
Sales ledger balance 1 July 2017	517,200

Purchases ledger control account

Purchases ledger control account is a summary account which checks the arithmetic accuracy of purchases ledgers. It enables us to see at a glance whether the general ledger balance for the purchases ledger agrees with the total of all the individual trade payable accounts held within the purchases ledger. This control account contains the summarized information of all the trade payables accounts in the purchases ledger. It is also known as total trade payables control account or payables control account or purchases ledger control account or creditors control account. Table 4.2 presents information which is usually recorded in the purchases ledger control account.

Table 4. 2: *Purchases ledger control account information*

	Information	Source of information
1	Opening creditors	A list of creditors' balances brought down from the end of the previous period.
2	Credit purchases	The total from the purchases journal (also known as purchases day book).
3	Returns outwards	The total of the purchases returns journal (purchases returns day book).
4	Cheques paid	Cash book: bank column on payments side. List extracted or the total of a special column for cheques which has been included in the cash book.
5	Cash paid	Cash book: cash column on payments side. List extracted or the total of a special column for cash which has been included in the cash book.
6	Discounts received	The total of discounts received column in the cash book.
7	Closing creditors	A list of creditors' balances carried down at the end of the period.
8	Interest charged on debt by suppliers	Journal entries to recognize interest charged by suppliers on overdue accounts payables. A total of these entries will be posted in the purchases ledger control account.
9	Refunds from suppliers	A list of refunds received from suppliers extracted from the cash book
10	Dishonoured cheques	A list of cheques not honoured by the bank.
11	Set off: sales ledger balance	A contra account to set off balances for suppliers who are also debtors. Journal entries are made to record these amounts.

Take a look at the format of purchases ledger control account given below. What do you think are the similarities between this account and the individual trade payables accounts?

Format of purchases ledger control account

Dr **Purchases ledger control account** **Cr**

Date	**Details**	**Folio**	**Amount (TZS)**	**Date**	**Details**	**Folio**	**Amount (TZS)**
	Purchase returns		xxx	1/1/2020	Balance	b/d	xxx
	Cash paid		xxx		Purchases (Credit purchases from purchase journal)		xxx
	Bank		xxx		Interest on debt		xxx
	Discount received		xxx		Dishonoured cheque		
	Set off: sales ledger		xxx		Refunds from suppliers		xxx
31/12/2020	Balance	c/d	xxx				
			xxxx				xxxx
				1/1/2021	Balance	b/d	xxx

Items not entered in the purchases ledger control account

In the previous section we saw the format of the purchase ledger control account and items that are supposed to be posted in that account. Students should know that there is one item which is cash purchases that should not be posted in the purchases ledger control account.

Why do you think cash purchases should not be included in the purchases ledger control accounts? This is because cash purchases are recorded in the cash book. Therefore, cash purchases should not be entered in the purchase ledger control account which checks the arithmetical accuracy of the credit purchases ledger.

Activity 4.2

Use Google search to look for information on why cash purchases transactions do not appear in creditors control accounts. Then, write a brief note that you will share with your fellow students during breaks.

Example 4.3

Draw up a purchases' ledger control account for the month of June 2017.

	TZS
June 1: Creditors balance	311,200
Totals for June:	
Credit purchases	451,300
Purchases return	25,200
Cash paid to Creditors	418,400
Discount received	8,800

Solution

Dr **Purchases ledger control account** **Cr**

Date	Details	Folio	Amount TZS	Date	Details	Folio	Amount TZS
1/6/2017	Cash		418,400	1/6/2017	Balance	b/d	311,200
	Discount received		8,800		Credit Purchases		451,300
	Purchases returns		25,200				
30/6/2017	Balance	c/d	310,100				
			762,500				762,500
				1/7/2017	Balance	b/d	310,000

Example 4.4

The following information was extracted from the books of Sky Blow Enterprise for the month of June 2021.

Creditors balance 1 June 2021	350,000
Totals of the month:	
Credit purchases	569,000
Returns outwards	30,950
Discount received	23,160
Cheque paid to suppliers	220,500
Cash paid to suppliers	62,600
Interest charged by suppliers	9,500
Cash refund from suppliers	14,000

Required:

Prepare purchases ledger control account of Sky Blow Enterprise for the month of June 2021.

Solution

Dr **Purchases ledger control account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
	Discount received	23,160	01/06/2021	Balance b/d	350,000
	Returns outwards	30,950		Credit purchases	569,000
	Cheque paid to suppliers	220,500		Interest charged by suppliers	9,500
	Cash paid to suppliers	62,600		Cash refund from suppliers	14,000
30/6/2021	Creditors balance c/d	605,290			
		942,500			**942,500**
			01/7/2021	Creditors balance b/d	605,290

Set-off between sales ledger and purchases ledger

In some instances, the same business may be a debtor as well as a creditor. At the end of the period, the two balances may be settled by simply cancelling them against each other. In this case, no actual payments are made but the balances of the same amount are cancelled against each other. The entry passed for this purpose is termed as set-off or contra entry. For example, ABC Enterprise, sold goods on credit to XYZ Enterprise worth TZS 500,000 and at the same time ABC Enterprise purchased goods on credit worth TZS 600,000 from XYZ Enterprise. In this case, ABC Enterprise is both a debtor and creditor at the same time to the extent of TZS 500,000. This amount of TZS 500,000 can simply be set-off in both sales' ledger and purchases ledger as a means of making settlement. The following journal entry is required for set off:

Date	Details	Debit TZS	Credit TZS
	Purchases ledger control account	500,000	
	Sales ledger control account		500,000
	To record contra entries for the subsidiary ledger		

Thereafter, the actual payment shall be made of the remaining balance of TZS 100,000.

Activity 4.3

In groups, visit your School Bursar's office and request the Bursar to explain in detail the importance of sales ledger control account and purchase ledger control account when they manage debtors' or creditors' records. After your discussion, write short notes which you will use as a part of your learning portfolio. You should also identify the individual debtors and creditors.

Example 4.5

Nungwi Fishing Enterprise has invested in the fishing industry. From the following financial information, prepare the purchases ledger control account for the month of July 2019.

		TZS
1/7/2019	Purchases ledger balance b/d	104,500
	Total of the month:	
	Credit purchases	369,500
	Returns outwards	51,590
	Discount received	26,840
	Cheque paid to suppliers	226,600
	Cash paid to suppliers	63,800
	Interest charged by Creditor	10,000
	Set off against sales ledger	12,000
	Cash refund from Creditors for overpaid amount	13,000

Dr **Purchases ledger control account** **Cr**

Date	Details	Folio	Amount TZS	Date	Details	Folio	Amount TZS
	Purchases returns		51,590	1/7/2019	Balance	b/d	104,500
	Discount received		26,840		Purchases		369,500
	Bank (cheque)		226,600		Interest charges		10,000
	Cash		63,800		Cash (refund)		13,000
	Set off: sales		12,000				
31/7/2019	Balance	c/d	116,170				
			497,000				497,000
				1/8/2019	Balance	b/d	116,170

Example 4.6

The following information was extracted from the books of Ngasa Enterprise for the month of July 2019.

		TZS
Sales ledger balance July 1:	DR	3,595,240
	CR	141,460
Purchases ledger balances July 1:	DR	71,566
	CR	3,305,280
Credit purchases		3,158,144
Cash purchases		2,500,500
Credit sales		3,815,636
Cash sales		8,570,000
Cheque received from customers		2,915,550
Cheque paid to suppliers		3,159,860
Petty cash paid to creditors		30,492
Petty cash received from debtors		53,328
Bad debts		40,920
Return outwards		44,000
Return inwards		43,494
Discount allowed		669,548

Discount received	282,700
Debt collection expenses charged to debtors	14,630
Interest charged by creditors	21,472
Debtors cheque dishonoured	74,360
Interest charged to debtor on an overdue account	34,012
Sales ledger debit balance transferred to purchases ledger	50,160
Sales ledger balance: July 31 (Credit balance)	78,980
Purchases ledger balance: July 31 (Debit balance)	40,920

Required:

Prepare sales ledger control account and purchases ledger control account.

Solution

Dr **Sales ledger control account** **Cr**

Date	Details	Folio	Amount TZS	Date	Details	Folio	Amount TZS
1/7/ 2019	Balance	b/d	3,595,240	1/7/2019	Balance	b/d	141,460
	Sales (credit)		3,815,636		Bank		2,915,550
	Debts collection		14,630		Petty cash		53,328
	Dishonoured cheque		74,360		Bad debts		40,920
	Interest charged		34,012		Sales returns		43,494
30/7/2019	Balance	c/d	78,980		Discount allowed		669,548
					Set off: purchases ledger		50,160
				30/7/2019	Balance	c/d	3,698,398
			7,612,858				7,612,858
1/8/2019	Balance	b/d	3,698,398	1/8/2019	Balance	b/d	78,980

Dr **Purchases ledger control account** **Cr**

Date	Details	Folio	Amount TZS	Date	Details	Folio	Amount TZS
1/7/2019	Balance	b/d	71,566	1/7/2019	Balances	b/d	3,305,280
	Bank		3,159,860		Purchases		3,158,144
	Petty cash		30,492		Interest charged by Creditors		21,472
	Purchases returns		44,000	30/7/2019	Balance	c/d	40,920
	Discount received		282,700				
	Set off: Sales ledger		50,160				
31/7/2019	Balance	c/d	2,887,038				
			6,525,816				6,525,816
1/8/2019	Balance	b/d	40,920	1/8/2019	Balance	b/d	2,887,038

Revision exercise 4

1. The following information was extracted from the books of Kahama Mining Enterprise for March 2017.

	TZS
Total debtors at 31 March 2017	1,073,870
Bad debts written off	146,740
Sales returns	97,980
Discount allowed to debtors	110,400
Cash received from debtors	1,529,500
Total debtors at 1 March 2017	2,642,700
Sales journal total during the month	315,790

Required:

Prepare account receivable control accounts of Kahama Mining Enterprise for March 2017.

2. Prepare a purchases ledger control account from the following information for the month of September 2020

	TZS
Purchases returns	7,686
Cash paid to suppliers	271,355
Discount received from suppliers	6,209
September 1: *Creditors balance*	25,732
Purchases journal	295,799
September 30: *Creditor's balance*	?

3. The following information was obtained from the books of Kashaga Enterprise for the year 2021.

	TZS
January: Dishonoured cheque	115,200
Bad debts written off	8,820
Refunds to customers	18,000
Cheque received from customer	225,000
Returns from customers	57,420
Discount allowed	35,550
Cash received from customers	27,000
Sales ledger balance b/d	196,200
Credits sales for the year	742,500
Interest charged on debtors	25,000

Required:
Prepare debtors control account of Kashaga Enterprise for the year 2021.

4. (a) Briefly explain the purpose of preparing control accounts
   (b) From the following information prepare sales ledger control account and purchases ledger control account.

Opening balances 1 November 2019

Details		TZS
Purchases ledger	Dr	125,280
	Cr	1,718,400
Sales ledger	Dr	2,105,280
	Cr	34,560

Transactions during the year

Purchases	9,529,920
Purchases return	368,640
Sales	12,598,560
Sales return	151,200
Cash from debtors	10,974,240
Discount allowed	406,080
Cash paid to supplier	8,413,920
Discount received	239,040
Cash refunded to customers	24,960
Bad debts	71,760
Transfer from debtors to creditors ledger account	19,200

Closing balances 30 November 2019

Details		TZS
Purchases ledger	Dr	110,960
	Cr	?
Sales ledger	Dr	?
	Cr	65,280

5. The following information was obtained from the books of Mama Kijiti Shop for the month of February 2019.

	TZS
Purchases journal	275,800
Sales journal	482,580
Cash sales	144,200
Cash purchases	30,800
Cash received from customer	368,200
Cash paid to supplier	270,480
Sales returns	17,500

Purchases returns	6,230
Bad debts	8,680
Discount allowed	48,930
Discount received	33,250
Interest charged to customers	2,520
Customers cheque dishonoured	6,090
Sales ledger transferred to purchases ledger	8,610
Sales ledger balance - 1/2/2019: Dr	333,200
Sales ledger balance - 1/2/2019: Cr	9,450
Purchases ledger balance - 1/2/2019: Dr	2,450
Purchases ledger balance - 1/2/2019: Cr	129,220
Sales ledger balance - 28/2/2019: Cr	3,360
Purchases ledger balance - 28/2/2019: Dr	11,830

Required:

Prepare sales ledger control accounts and purchases ledger control account as at 28th February 2019.

6. Explain the sources of information used to prepare sales ledger control account and purchases ledger control account.

7. The following information was extracted from the books of Buturi Enterprise for the month of January 2021.

		TZS
Debtors balance 1 January 2021	Dr	1,248,400
	Cr	12,840
Creditors balance 1 January 2021	Dr	6,440
	Cr	1,104,840
Cash from customers		1,326,080
Cash paid to suppliers		1,185,000
Credit sales		1,468,760
Credit purchases		871,040
Interest charged to customers		600
Customers cheque dishonoured		12,600
An allowance made to Credit customers		60,840
An allowance made by Credit suppliers		56,640
Bad debts		22,320
Returns to suppliers		16,840
Returns from customers		31,280
Purchases ledger set off against sales ledger		4,500

Required:

Prepare necessary control accounts from the above information as at 31st January.

8. Mr. Faki provided the following financial information as an extract from the books of accounts for the month of July 2019.

Details		TZS
Sales ledger balance July 1:	Dr	4,695,540
	Cr	245,470
Purchases ledger balances July 1:	Dr	81,766
	Cr	4,505,320
Credit purchases		4,259,244
Cash purchases		3,601,500
Credit sales		4,515,736
Cash sales		7,574,700
Cheque received from customers		3,011,450
Cheque paid to suppliers		4,258,460
Petty cash paid to creditors		21,492
Petty cash received from debtors		43,628
Bad debts		51,930
Return outwards		64,500
Return inwards		33,894
Discount allowed		569,748
Discount received		383,800
Debt collection expenses charged to debtors		54,330
Interest charged by creditors		18,482
Debtors cheque dishonoured		85,460
Interest charged to debtor on an overdue account		54,622
Sales ledger debit balance transferred to purchases ledger		60,360
Sales ledger balance: July 31 (Credit balance)		58,670
Purchases ledger balance: July 31 (Debit balance)		61,530

Required:

Prepare account receivable control account and account payable control account for Mr Faki for the month of July 2019.

9. The financial year of Chai-bora Enterprise ended on 30th November 2020. You have been asked to prepare sales ledger control account and purchases ledger control account in order to produce end of the year figure for debtors and creditors for draft statement of the financial position.

Details	TZS
Sales:	
Cash	275,000,000
Credit	214,000,000
Purchases:	
Cash	11,000,000
Credit	397,000,000
Discount allowed (all to credit customer)	4,000,000
Discount received (all from credit suppliers)	2,000,000
Refund given to cash customer	4,000,000
Total receipts from customers	480,000,000

Total payment to suppliers	403,000,000
Balance in sales ledger set off against balance in the purchases ledger	56,000
Bad debts written off	624,000
Credit note issued to credit customers	3,312,000
Credit notes received from credit suppliers	1,182,000

According to the financial statements for the previous year, debtors and creditors as at 1st December 2019 were TZS 21,000,000 and TZS 34,000,000 respectively.

10. The following information was extracted from the books of GSN Enterprise for the month of January 2020:

Details		**TZS**
Debtors balance 1st January 2020	Dr	6,890,500
	Cr	350,100
Creditors balance 1st January 2020	Dr	90,750
	Cr	6,670,800
Cash sales		10,650,500
Purchases on Credit		6,416,100
Cash purchases		3,100,200
Sales on Credit		46,700,500
Bad debts written off		60,500
Cash paid to suppliers		22,628
Cash received from debtors		43,838
Discount allowed		865,326
Discount received		518,800
Sales returns		880,250
Purchases returns		525,650
Cheque received from customers		5,211,256
Cheque paid to suppliers		6,105,115
Interest charged by Creditors		31,288
Interest charged to debtors on overdue accounts	Cr	53,900
Purchases ledger set off against sales ledger	Dr	42,500
Sales ledger balance 31st January 2020		69,880
Purchases ledger balance 31st January 2020		78,890

Required:

Prepare necessary control accounts from the given information and bring down closing balances as at 31st January.

Chapter Five

Accounting for incomplete records

Introduction

In this chapter, you will learn the concept of incomplete records; profit or loss determination and missing figures; and how to prepare financial statements from single entry and incomplete records. The competencies developed in this chapter, will enable you to prepare financial statements from information that do not follow the double entry system.

The Concept of incomplete records

Based on the dual aspects of the transaction, every transaction must be recorded in the books of accounting using the double entry system. This principle requires every transaction to be recorded twice. That is, every debit entry should have a corresponding credit entry. After posting transactions in the books of accounting using the double entry system of book-keeping, ledger accounts are balanced at the end of the accounting period and the trial balance is prepared using the debit and credit balances extracted from ledger accounts. From the trial balance, financial statements which are income statement (statement of comprehensive income) and statement of financial position are prepared.

The best practice of recording transactions in the books of accounts is to use double entry principle. There are instances where books are not prepared using the double entry system of book-keeping. In such cases transactions are only recorded in one account. When a transaction is recorded only in one account then it is said to be a single entry and therefore, it is an incomplete record. A good example is the *Mama lishe* type of businesses as they are usually not conversant with book-keeping. When Mama lishe makes a sale, she will usually only record in her diary on a page written 'sales'. When she makes purchases, she only records on the page written purchases. She will list all the expenses incurred on the pages of her diary without following the double entry system of book-keeping. Because of this reason, her records are termed as single entry or incomplete records. In simple terms, incomplete records refer to a system of Book-Keeping which does not follow the double entry system. Instead, it uses informal accounting system such as a single-entry system to record its financial transactions.

Consider another example where an enterprise prepares its books of accounting using the double entry system of book-keeping. If for example, before the enterprise has prepared its financial statements, part of its financial records is destroyed by fire or lost, such an enterprise will have incomplete records since part of its records cannot be found when preparing its financial statements due to destruction by fire or loss of records.

The enterprises that have incomplete records may be required to prepare their sets of financial statements for different reasons. For example, the enterprise may approach a bank for a loan facility so as to expand its business. In order for the bank to consider the loan application from the enterprise, it may insist that the enterprise submits its financial statements for inspection. The question to be asked is, how will the enterprise be able to prepare its financial statements without maintaining appropriate accounting records? Therefore, this chapter will take you through the process on how an enterprise can prepare financial statements even if parts of its records are missing or the enterprise has been recording its transactions without using the double entry system of book-keeping.

Features of single-entry system

The following are the features of the single-entry system of record keeping:

Cash book

In the single-entry system, the cash book is maintained for recording the cash receipts and payments of business during accounting period. Only one cash book is maintained in which both the private and business transactions are recorded.

Original vouchers

This plays an important role under single entry system, it helps to gather information such as amount, date of transaction, discount (if any) and other information.

Personal account

Single entry system maintains personal accounts of all the creditors and debtors to determine the amount of credit purchases and sales during the accounting period. The real and nominal accounts are ignored under this system.

No fixed rules (systematic method)

The single-entry system has no fixed set of rules or principles for preparing the different financial statements and for recording business transactions in the case of incomplete records. In this case there is a variation in its application from one business to another since there are no fixed rules.

Lack of uniformity

The system of recording business transactions under the single-entry system differs from one enterprise to another as recording is made as per their policy and convenience.

Personal transactions are mixed up with business transactions

Owners' personal transactions are mixed up with business transactions. It is difficult to separate the business expenses and personal expenses of the owners. A good example is maintenance expense of a car which is used by the owner for business operations and for domestic purposes.

Estimation of profit or loss

The profit or loss of the business is estimated out of the information available at hand. In this situation, the exact profits or losses are difficult determined. The profits or losses are estimates, and so is the financial position of the business.

Final accounts

Since real and nominal accounts information is not available, it is difficult to prepare the final accounts in the single-entry system. The figures of liabilities and assets are calculated from the information at hand, but they are estimates. Hence, the statement of affairs is prepared instead of the statement of financial position.

Suitable for small business

The information provided by this system is inaccurate and not unreliable, yet this system is time and cost saving. Therefore, it is suitable for small business units that are not forced to keep records of business transactions as per double entry system.

Reasons for incomplete records

When discussing the concept of incomplete records in the previous section, we highlighted some of the reasons that may cause the enterprise to have incomplete records. In this section, the details of the possible reasons for incomplete records are discussed. Hereunder are the common reasons for incomplete records:

(i). **Poor accounting knowledge and skills**

When the owner of the enterprise does not possess proper accounting knowledge and has no one with proper accounting knowledge to help the enterprise maintain its books, it is more likely that, the maintained records will be incomplete. The person who has proper accounting knowledge will be able to maintain the books of accounting using double entry system of book-keeping and thus producing complete records.

(ii). **Less expensive**

Some small business firms such as Mama lishe or Baba lishe may decide to keep their accounting transactions in terms of single entry, since doing so is less expensive compared to hiring a professional accountant. These small business firms usually keep their financial transactions in the diary without following the rules of double entry system of book-keeping. A person does not need any accounting knowledge to record business transactions in a diary. This method is cheaper compared to hiring a professional accountant.

(iii). **Time Saving**

This method is time saving in the sense that only a few records are maintained under such a system. Information related to profit can immediately be ascertained without going with the lengthy process of the formal accounting cycle.

(iv). **Accidental damage or loss of part of the records**

Sometimes, the enterprise might be keeping its records using the double entry system of book-keeping but unfortunately, before the financial statements are prepared at the year end, some of its financial records are lost or destroyed. In this case, the enterprise has remained with incomplete records only.

(v). **Intentional manipulation**

The accounting records may be incomplete because of intentional manipulation. Employees that try to commit fraud or otherwise steal from the business may neglect to record accounting transactions to cover their ill intentions.

The role of double entry in incomplete records

In incomplete records, the business does not use double entry book-keeping system to record transactions related to cash account, personal accounts of debtors and creditors as per double entry system. Instead, information relating to cash sales, cash purchases are recorded partially and information related to depreciation and the like are not recorded at all. The role of double entry system is to rectify this problem by making sure that, all records are recorded in the corresponding accounts.

Strengths and weaknesses of incomplete records

Although keeping incomplete records is not the best practice, the entity may employ it to keep its financial records. This practice has its strengths and weaknesses also known as advantages and disadvantages of incomplete records. Hereunder, are the strengths of incomplete records.

Strengths of single-entry and incomplete records

Single entry has the following advantages:

(i). ***Single entry system is easy to understand and it is simple to maintain and keep***

There are no any fixed sets of principles associated with single entry system, so it is easy to implement as well.

(ii). ***Not require skilled staff and professional accountants***

Single entry system is an economical system as it does not require skilled staff and professional accountants to implement the accounting procedures for the enterprise. In addition, only a few number of books is required to record financial transactions in a single-entry system.

(iii). ***It is easy to calculate the profit or loss***

In a single-entry system, it is easy to calculate the profit or loss. The amount of loss and profit for a particular period can be calculated by getting the difference between the opening capital and the closing capital balances of the period.

(iv). ***Single entry and incomplete records are cost effective***

In a single-entry system, we do not require professional accountants to audit or examine financial reports. Thus, the cost is very low compared to double-entry book-keeping system.

(v). ***Confidentiality***

In the single-entry system, the business owner runs and controls most of the accounting activities. For that case, it is easy to maintain the confidentiality of the account and the business.

(vi). ***Cost effective.***

In small business, double-entry accounting is highly costly. For this reason, a single-entry system is the best way of keeping financial records by a person who is less educated but skilled in accounting.

Weaknesses of single-entry records and incomplete records

The following are the weaknesses of single-entry records and incomplete records:

(i). ***Single entry system is an unscientific and unsystematic system***

There are no any set rules or principles that make it generic and that standardize the accounting system.

(ii). ***Absence of double entry system***

This kind of system is an incomplete system as it does not record the two aspects of the accounting procedures.

(iii). ***It is difficulty to prepare a true trial balance***

It is difficulty to prepare a true trial balance and to check the arithmetical accuracy of the accounts. This is because accounts are not maintained under the double entry system of book-keeping.

(iv). ***It is difficult to ascertain the true profitability of the business***

It is difficult to ascertain the true

profitability of the business since the profit is found out based on the available information and estimates. Due to this tax authorities discourage this method since it is hard to ascertain tax payable by enterprise.

(v). ***It is difficult to ascertain financial position***

It is difficult to ascertain the financial position of the business. This is because the available information from incomplete records are only estimated values of assets and liabilities. Therefore, it is difficult to ascertain the real financial position of an enterprise at the year end.

Activity 5.1

In groups prepare a note on how you would raise awareness among small business owners to record their business transactions using double entry system of book-keeping, instead of using single entry system, a common practice used by small businesses. In your note, include the discussion on the weaknesses and strengths of using single entry and incomplete records in businesses.

Profit or loss determination and missing figures

As noted before, this topic will take you through how to deal with incomplete records and prepare financial statements from those incomplete records. This section therefore will show you how to determine profit and how to compute missing figures form incomplete records.

Computation of profit or loss using change in net worth

Usually, every enterprise wants to ascertain its performance by determining its profitability or the profit figure. When the enterprise keeps incomplete records, it can determine its profit or loss figure through the comparison of capital at the end of the period and net worth at the beginning of the period (capital at start). The basis of this method is that profit or loss for the period makes one of the reasons for the change in net worth between the beginning and the end of the year. Other reasons that can lead to a change in net worth are as follows:

(i). Owner introduction of additional capital during the period; and
(ii). Drawings by the owner during the period.

This means that if we know the capital at the end and start of the period, then we can determine the profit or loss for the period by eliminating the effects of additional capital and drawings made by the owner during the year. The capital at the start and end can be obtained using the figures for assets and liabilities at the beginning and at the end of the period. These can be computed using a statement of affairs, which applies to accounting equation by comparing the figures for assets and liabilities at the beginning and at the end of the period.

Once the figure of capital at the end and at the start is known, we can determine a profit or a loss by looking at each of the following four possible scenarios:

(i). There were neither drawings nor additional capital during the period;
(ii). The owner made some drawings during the period;
(iii). The owner introduced additional capital during the period; or
(iv). The owner made both drawings and additional capital during the period.

Let us have a look at each of the four scenarios and the way profit or loss can be ascertained:

No drawings or additional capital during the period

In this case, the figure of profit is simply the difference between capital at the end and capital at the start of the period. Statement of profit or loss during the period can thus be prepared as follows:

Statement of profit or loss for the period

	Amount TZS
Capital at the end of the period	xxx
Less: Capital at the beginning of the period	xxx
Profit (loss) for the period	xxx

Drawings with no additional capital during the period

The owners made some drawings but there was no additional capital during the period. In this case, there are two possible explanations for the change in net worth during the period. One is the drawings made during the period and another one is profit made during the period. Thus, the profit figure is calculated by taking into account the effect of drawings on the capital at the end, before deducting the figure of capital at the start. The drawings made during the year cause capital at the end to be lower than it should have been. This means that one needs to add the figure of drawings to the figure of capital at the end before deducting capital at the start.

Statement of profit or loss during the period can be prepared as follows:

Statement of profit or loss for the period:

	Amount TZS	Amount TZS
Capital at the end of the period	xxx	
Add: Drawings	xxx	xxx
Less: Capital at the start of the period		xxx
Profit (loss) for the period		xxx

Drawings with additional capital during the period

The owners made some drawings and additional capital during the period. In this case, there are three possible explanations for the change in net worth during the period, namely the profit/ loss, drawings and additional capital introduced in the business. We have already learnt how to deal with drawings. The additional capital would cause the capital at the end to be higher than it would have been in the absence of such capital addition. Thus, the profit figure is calculated by taking into account the effect of drawings on the capital at the end, as well as the effect of the additional capital introduced during the year, before deducting the figure of the capital at the start. This means that in addition to dealing with drawings, one needs to deduct the figure of additional capital from the capital at the end before deducting the capital at the start.

Statement of profit or loss during the period can in this situation be prepared as follows:

Statement of profit or loss for the period.

	Amount TZS	Amount TZS
Capital at the end of the period	xxx	
Add: Drawings	xxx	xxx
		xxx
Less: Additional capital during the year		xxx
		xxx
Less: Capital at the start of the period		xxx
Profit (loss) for the period		xxx

If the answer above is a positive figure, then it is a profit and if the answer is negative, then it is a loss.

Ascertainment of opening and closing capital using statement of affairs

It may happen that opening and closing capital figures are not known. A statement of affairs is used purposely to ascertain missing figures including opening capital and closing capital. A statement of affairs is similar to a statement of financial position in its format. However, they differ because the objective of the statement of affairs is to compute missing figures such as capital.

A statement of affairs can also be used to ascertain other missing figures of assets and liabilities. For ascertainment of opening capital, a statement of affairs at the beginning of the period is prepared using information available at the beginning of the period. For ascertainment of closing capital, a statement of affairs at the end of the year or period is prepared using information available at the end of the period. The statement of affairs, just like the statement of financial position, is prepared based on the accounting equation formula shown below:

Assets = Capital + Liabilities

Hence, Capital = Assets – Liabilities

The statement of affairs will record figures of assets and liabilities, and hence determine the amount of capital. The following is a format of the statement of affairs for the ascertainment of capital. In this case, total assets are determined minus total liabilities, in order to arrive at the figure of capital.

Chumbe Enterprise
Statement of Affairs as at (date, Month, Year)

	TZS	TZS	
Non-current assets			
Land	xx		
Machinery	xx		
Building	xx		
Total non-current assets		xxx	
Current assets			
Stock	xx		
Accounts receivables	xx		
Cash	xx		
Total current assets		xxx	
Total Assets		xxx	(A)
Liabilities			
Long term liabilities			
Loan		xx	
Current Liabilities			

Accounts payables	xx		
Bank overdraft	xx		
Accrued expenses	xxx		
Total current liabilities		xxx	
Total liabilities		xxx	(B)
Capital = Total assets (A)-Total liabilities (B)		xxx	

Hence capital = total assets minus total liabilities as shown above.

The difference between statement of affairs and statement of financial position

The statement of affairs is often confused with the statement of financial position, since both list out assets and liabilities of an enterprise. Table 5.1 shows the differences between the two:

Table 5. 1: *The difference between statement of affairs and statement of financial position*

	Statement of affairs	Statement of financial position
1	The objective of preparing a statement of affairs is to ascertain the balance of capital on a particular date.	The objective of preparing a statement of financial position is to evaluate the accuracy of financial position of business unit on a particular date.
2	Prepared on the basis of estimates and information provided by the owner.	Prepared on basis of a trial balance.
3	Prepared when the accounts are maintained under a single-entry system of bookkeeping.	Prepared under a system of double-entry bookkeeping.
4	Prepared under a situation where either the accounts are incomplete or destroyed.	Prepared when the accounts are complete and fully maintained as per the accounting standards.
5	Is based on incomplete records, hence it is not reliable.	Shows a clear picture of the financial position of a business unit and is more reliable.
6	Suitable for small enterprise.	Suitable for all types of business units, whether a sole proprietorship, a partnership firm, a co-operative, or not-for-profit organization.
7	It is not possible to detect the entries that have been missed or not recorded.	The omission of transactions can be easily discovered and restored from the accounting records.

8	It does not tally; hence the arithmetic accuracy of the balancing figure cannot be judged.	Both sides of a statement are always equal, ensuring an arithmetic accuracy of the financial records.

Example 5.1

The following is the financial information of Temeke Enterprise. Capital at 1st July 2019 is TZS 240,000; capital at 30th June 2020 was TZS 400,000; capital brought in by owners during the year was TZS 100,000; the owners withdrew TZS 60,000 during the year.

Use the information provided to compute the amount of net profit or loss for the year and prepare an income statement.

Solution

(i) Solving by calculation or formula

From the formula:

Opening capital + Profit + Additional capital – Drawings = Closing capital

Thus,

Net profit = (Closing capital + drawings) - opening capital - new capital introduced

Data given:

Closing capital is TZS 400,000; drawings is TZS 60,000; opening capital is TZS 240,000 and new capital introduced is TZS 100,000.

Therefore: substituting the values in the formula: -

Net profit = 400,000 + 60,000 - 240,000 -100,000

Net Profit = TZS120,000

(ii) Solving using the income statement

Temeke Enterprise
Income Statement for the year ending 30 June, 2020

	TZS
Closing capital	400,000
Add: Drawings during the year	60,000
	460,000
Less: Additional capital introduced	(100,000)
Opening capital	(240,000)
Profit made during the year	**120,000**

Both methods arrived at the same answer: profit made during the year is TZS 120,000

Example 5.2

Kyela Business Enterprise has invested in farming activities. They do not keep complete books of accounts. However, the following information is available as at 31st December 2019 and 2020.

	31 December 2019	31 December 2020
Bank	90,000,000	60,000,000
Cash	60,000,000	80,000,000
Inventory	800,000,000	900,000,000
Account receivables	240,000,000	400,000,000
Plant	100,000,000	100,000,000
Account payables	600,000,000	400,000,000
Machinery	80,000,000	80,000,000

During the year 2020, the company introduced TZS 120,000,000 as an additional capital and withdrew TZS 80,000,000 as Drawings. Depreciation is provided at the rate of 10 per cent on machinery and 5 per cent on plant.

Required:
Determine the profit or loss for the period by preparing the income statement.

Solution

It is known that:
Net profit = Closing capital + drawings - opening capital - new capital introduced

In this question, the opening and the closing capitals are not known. They should be computed by preparing statement of affairs at the beginning to ascertain opening capital; and preparing the statement of affairs at the end of year to ascertain closing capital. Thereafter, the income statement is prepared to ascertain the net profit or loss.

Kyela Business Enterprise
Statement of affairs as at 31 December 2019

	TZS	TZS	
Non-current assets			
Plant	100,000,000		
Furniture	80,000,000		
Total non-current assets		**180,000,000**	
Current assets			
Inventory	800,000,000		
Account receivable	240,000,000		
Bank	90,000,000		
Cash	60,000,000		
Total current assets		**1,190,000,000**	
Total Assets		**1,370,000,00**	**(A)**
Liabilities			
Current Liabilities			
Account payable		**600,000,000**	
Total liabilities		**600,000,000**	**(B)**
Capital = Total assets (A)-Total liabilities (B)		**770,000,000**	**(A-B)**

After we have obtained capital at the beginning of the period, we are now ready to prepare the statement of affairs at the end of the period, that is, 31st December 2020.

Kyela Business Enterprise

Statement of Affairs as at 31 December 2020

	TZS	TZS
Non-current assets		
Plant	100,000,000	
Less: Depreciation (5% × 100,000,000)	(5,000,000)	95,000,000
Machinery	80,000,000	
Less: Depreciation (10% × 80,000,000)	(8,000,000)	72,000,000
Total non-current assets		**167,000,000**
Current assets		
Inventory	900,000,000	
Account receivable	400,000,000	
Bank	60,000,000	
Cash	80,000,000	
Total non-current assets		**1,440,000,000**
Total Assets		**1,607,000,000 (A)**
Liabilities		
Current Liabilities		
Account payable		**400,000,000**
Total liabilities		**400,000,000 (B)**
Capital = Total assets (A)-Total liabilities (B)		**1,207,000,000 (A-B)**

Then the income statement is as presented hereunder:

Kyela Business Enterprise

Income Statement for the year ending 31 December, 2020

	TZS
Closing capital	1,207,000,000
Add: Drawings during the year	80,000,000
	1,287,000,000
Less: Additional capital introduced	(120,000,000)
Opening capital	(770,000,000)
Profit made during the year	397,000,000

Determination of missing information to facilitate preparation of financial statements

Incomplete records results in missing financial information which may hinder the preparation of financial statements. Therefore, missing information should be determined using various techniques in order to facilitate the preparation of financial statements. Missing financial information includes sales, purchases, debtors balance, creditors balance, stock, cash balance, expenses and other items.

Accountants know from their experience that certain accounts have a specific pattern. If all known amounts affecting that account have been entered in ledger accounts, then accountants can say that the balancing figures in these accounts are the missing amounts of that account. Missing information can be determined through the preparation of:

(i). Accounts receivable control account
(ii). Accounts payable control account
(iii). Inventory account
(iv). Cash book
(v). Capital and drawing accounts
(vi). Statement of affairs
(vii). Expenses and income accounts incorporating accruals and prepayments

Determining missing information using accounts receivable control account

The accounts receivable control account (debtors control account) can be used to determine missing figures such as credit sales, cash received from debtors, discount allowed, debtors balance at the beginning or end. The preparation of accounts receivable control accounts has been discussed in Chapter Two of this book.

Example 5.3

Kidatu Enterprise provides the following financial information as at 28th February 2022.

	TZS
Debtors at 1 February 2022	100,000
Cash sales during the month	250,000
Credit sales during the month	400,000
Cash received from Credit customers	300,000
Bad debts	30,000
Discount allowed	40,000

Required:

Determine the closing balance of debtors on 28th February 2022.

Solution

Dr **Accounts receivable control account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
1/2/2022	Debtors b/d	100,000		Cash	300,000
	Sales (Credit)	400,000		Discount allowed	40,000
			28/ 2/2022	Bad debts	30,000
			28/2/2022	Debtors (balancing figure)	130,000
		500,000			500,000
1/ 3/2022	Debtors balance b/d	130,000			

Debtors (*account receivables*) as at 28th February 2022 are obtained as a balancing or missing figure through the preparation of accounts receivable control accounts.

Determining missing information using accounts payable control account

The accounts payable control account (creditors control account) can be used to determine missing figures such as purchases, cash paid to creditors, discount received, creditors balance at the beginning or end. The preparation of creditors control account has been discussed in Chapter Two of this book.

Example 5.4

Iringa Enterprise provides the following financial information as at 28 February 2021.

	TZS
Creditors at 1 February 2021	?
Cash purchases during the month	300,000
Credit purchases during the month	490,000
Cash paid to credit suppliers	400,000
Discount received	50,000
Creditors at 28 February 2021	80,000

Required: Determine opening balance of Creditors on 1st February 2021.

Solution

Dr **Account payable control account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
	Cash	400,000	1/2/2021	Creditors balance b/d (balancing figure)	40,000*
	Discount received	50,000		Purchases (Credit)	490,000
28/2/2021	Creditors balance c/d	80,000			
		530,000			530,000
			1/3/2021		80,000

*Creditors balance as at 28th February 2021 is obtained as a balancing or missing figure through the preparation of Creditors control accounts. The opening balance of Creditors is TZS 40,000.

Determining missing information using cash book

A cash book can be used to determine missing figures. This is through the preparation of cash book using the available information and thereafter determining the missing figure. The missing amounts that can be found out using cash book include:

(a) Opening or closing balances of cash or bank
(b) Amounts paid to suppliers (cash paid to trade payables)
(c) Drawings
(d) Amounts received from customers (trade receivables)
(e) Cash sales
(f) Sundry expenses paid

The following is the format of cash book that can enable the determination of missing figure.

Dr **Cash Book** **Cr**

Date	Details	Cash	Bank	Date	Details	Cash	Bank
	Balance b/d	xx	xx		Balance b/d (if overdraft possible only for bank column)		xx
	Cash sales	xx			Cash receipts banked (contra)	xx	
					Cash paid to trade payables	xx	xx
	Cash receipts banked (contra)		xx		Sundry expenses	xx	xx
	Cash received from trade receivables	xx	xx		Personal Drawings	xx	xx
	Cash withdrawn from bank (contra)	xx			Cash withdrawn from bank (contra)		xx
	Balance c/d (if overdraft		xx		Cash paid to trade payables	xx	xx
					Balance c/d (if positive balance)	xx	
		xxx	xxx			xx	xx
	Balance b/d	xx	xx		Balance b/d		xx

Example 5.5

The following information has been extracted from ABC Enterprise for the year ended 30th June 2020.

	TZS
Cash balance on 1 July 2019	50,000
Cash sales	600,000
Credit sales	200,000
Receipts from debtors	150,000
Payments to creditors	100,000
Salaries	100,000
Drawings	70,000
Equipment purchases	200,000

Required:
Determine cash balance at the end of the period on 30th June 2020.

Solution

Cash balance at the end of the period can be determined through the preparation of cash book.

Dr **Cash book** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
1/7/2019	Balance b/d	50,000		Creditors (payments)	100,000
	Sales (cash)	600,000		Salaries	100,000
	Debtors (receipts)	150,000		Drawings	70,000
				Equipment	200,000
			30/7/2019	Balance c/d	330,000
		800,000			800,0000
1/8/2019	Balance b/d	330,000			

Cash balance at 30th June 2020 is TZS 330,000.

Note:
In case there are cash sales and credit sales, then cash sales should be added with credit sales to obtain total sales for the period which shall be shown in the income statement. In the same manner, if there are cash purchases and credit purchases, then cash purchases should be added with credit purchases to obtain total purchases figure

which shall be recorded in the income statement.

Example 5.6

Michenzani Enterprise does not keep full accounting records, but the following information is available in respect of their accounting period ending 31 December 2020.

	TZS
Trade debtors 1 Jul. 2020	250,000
Trade Creditors 1 Jul. 2020	300,000
Cash sales	400,000
Cash purchase	300,000
Cash received from debtors	100,000
Cash paid to creditors	70,000
Discount allowed	30,000
Discount received	20,000
Trade debtors 31 Dec. 2020	300,000
Trade creditors 31 Dec, 2020	400,000

Required:

(i) Determine credit sales and credit purchases

(ii) Determine total sales and total purchases

Solution

(i). In order to determine credit sales, we prepare debtors control account below.

Dr **Account receivables control Account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
1/1/2020	Debtors balance b/d	250,000		Discount allowed	30,000
	Credit sales. (Missing figure)	180,000		Cash	100,000
			31/12/2020	Debtors balance c/d	300,000
		430,000			430,000
1/1/2021	Debtors balance b/d	300,000			

Credit sales is **TZS 180,000**

In order to determine credit purchases, we prepare creditors control account below

Dr **Account payables control Account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
	Cash	70,000	1/1/2020	Creditors balance b/d	300,000
	Discount received	20,000		Credit purchases (missing figure)	190,000
31/12/2020	Creditors balance c/d	400,000			
		490,000			490,000
			1/1/2021	Creditors balance b/d	400,000

Credit purchases is **TZS 190,000**

(ii) Total sales and total purchases

Total sales = cash sales + Credit sales

400,000 + 180,000

Total sales = TZS 580,000

Total purchases = cash purchases + Credit purchases

= 300,000 + 190,000

Total Purchases = TZS 490,000

Determining missing information using the concepts of mark-up and margin

The missing information can sometimes be determined by using the concepts of mark-up and margin. A margin is the gross profit expressed as a per centage of sales. It is the ratio of gross profit on sales. The relationship between sales, cost of sales and gross profit is expected to remain stable over a period. These relationships are expressed as percentages and used for the purpose of finding missing figures. These percentages will be used in combination with the inventory account mentioned earlier for this purpose.

Sales – Cost of goods sold = Gross profit

$$Margin = \frac{Gross\ profit}{Sales} \times 100\%$$

A mark-up is the gross profit expressed as a percentage of the cost of goods sold. It is the ratio of gross profit on the cost of goods sold.

$$Mark\ up = \frac{Gross\ profit}{Cost\ of\ goods\ sold} \times 100\%$$

If there is a missing figure of either gross profit, sales, cost of goods sold or other related figures, these can be computed using a mark-up and a margin.

Relationship between a margin and a mark-up

The profit margin and a mark-up are directly related to each other. If one of them is known, it is possible to find the other easily. Profit margins and mark-ups are separate accounting terms that use the same inputs and analyze the same business activities and finally show different results. The key relationship between a margin and a mark-up is that both a profit margin and a mark-up use revenue and costs as part of their calculations. The main difference between the two is that a profit margin refers to sales minus the cost of goods sold while a mark-up is the amount by which the cost of a good is increased in order to get to the final selling price.

Example 5.7

Suppose you are given that; sales are TZS 100,000 and the cost of goods sold (cost price) is TZS 80,000. Find the following

a) A gross profit (b) A mark-up (c) A margin (d) establish the relationship between mark-up and margin

Solution

a) Gross profit = Sales-cost of goods sold

= 100,000 - 80,000 = 20,000

Therefore, Gross profit is TZS 20,000

b) $$Mark\ up = \frac{Gross\ profit}{Cost\ of\ goods\ sold} \times 100\%$$

$$= \frac{20,000}{80,000} \times 100\%$$

$$= 25\% \text{ or } \frac{1}{4} \times 100\%$$

Therefore, mark-up can be said to be 25% or simply $\frac{1}{4}$

c) $Margin = \dfrac{Gross\ profit}{Sales} \times 100\%$

$= \dfrac{20,000}{100,000} \times 100\%$

$= 20\%$ or $\frac{1}{5} \times 100\%$

Therefore, margin = 20%

Relationship between mark-up and margin

In the above question, mark-up is $\frac{1}{4}$ and margin is $\frac{1}{5}$.
If a mark-up is known, to find the margin takes the same numerator as the numerator of the margin too. Then for the denominator of the margin, take the total of the mark-up's denominator plus its numerator. For example:

Mark-up		Margin
$\frac{1}{4}$	$\frac{1}{4+1} =$	$\frac{1}{5}$

Figure 5.1: *Known Mark-up*

If the margin is known, to find the mark-up takes the same numerator to be the numerator of the mark-up, then for the denominator, take the figure of the margin's denominator less its numerator:

Margin		Mark-up
$\frac{1}{5}$	$\frac{1}{5-1} =$	$\frac{1}{4}$

Figure 5.2: *Known Margin*

Example 5.8

Arusha Enterprise earns a gross profit margin of 25%. The sales during the year 2015 were TZS 500 million. The opening inventory was TZS 40 million and the closing inventory was TZS 60 million. What is the value of (a) the cost of goods sold (b) the purchases?

Solution

If, $Margin = 25\% = \frac{1}{4}$, then

$Mark\text{-}up = \frac{1}{4 - 1} = \frac{1}{3}$

Then, *Gross profit = Sales × gross profit margin*

500,000,000 × 25% = 125,000,000

Sales - Cost of goods sold = Gross profit

500,000,000 - cost of goods sold = 125,000,000

Cost of goods sold = Sales – Gross profit: 500,000,000 – 125,000,000

Cost of goods sold = TZS 375,000,000

(b) Calculation of Purchases figure.

	TZS
Opening inventory	40,000,000
Add: purchases	?
Cost of goods available for sale	?
Less: closing inventory	(60,000,000)
Cost of goods sold	375,000,000

Therefore:

Purchases = (cost of goods sold + Closing inventory) - Opening inventory

= (375,000,000 + 60,000,000) - 40,000,000

= 435,000,000 - 40,000,000 = 395,000,000

Basing on above calculation, purchases is TZS 395,000,000

Determining missing information using stock account

Typically, small businesses debit the value of goods purchased to the purchases account and not the inventory account. Inventory at the end of the period is recognized as an asset. However, some enterprises do prepare an inventory account. Even when this account is not maintained regularly, it may be prepared for the limited purpose of finding out balancing figures. A typical inventory account is as follows:

Dr **Inventory account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
	Opening inventory (b/d)	xx		Cost of goods sold	xx
	Goods purchased	xx		Goods stolen	xx
				Goods destroyed	xx
				Closing inventory (c/d)	xx
		xxx			xxx
	Closing inventory b/d	xxx			

Instead of preparing a stock account, sometimes, a statement is prepared for this purpose.

Example 5.9

Patrick gives the following information:

	TZS
Opening inventory	100,000
Closing inventory	70,000
Goods purchased	500,000
Cost of goods sold	300,000

Some goods were stolen, calculate the value of the stolen goods.

Solution

Dr **Inventory account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
	Opening inventory (b/d)	100,000		Cost of goods sold	300,000
	Goods purchased	500,000		Goods stolen (missing figure)	230,000
				Closing inventory	70,000
		600,000			600,000

The stolen goods stock is TZS 230,000, calculated using inventory account.

Example 5.10

Mvula Enterprise conducts its business operations in Morogoro. It owns a warehouse which had been damaged by a fire accident as at the end of its financial period. After the fire accident, the following financial information was retrieved:

Purchases during the year TZS 1,150,000; stock at the beginning of period TZS 160,000; Sales during the year TZS 1,400,000. It is known that the company has a mark-up of 25 per cent.

Required:

Determine the value of stock destroyed in the fire accident.

Solution

If, *Mark-up* = $25\% = \frac{1}{4}$, then then we can obtain margin

$$Margin = \frac{1}{4+1} = \frac{1}{5} \times 100\% = 20\%$$

Sales = 1,400,000

Gross profit = Sales × margin

= 1,400,000 × 20%

Gross profit = TZS 280,000

Cost of goods available for sale-closing stock = cost of goods sold

Closing stock = cost of goods available for sale - Cost of goods sold

Then, Cost of goods sold = Sales-gross profit

= TZS 1,400,000 - 280,000

Cost of goods sold = TZS 1,120,000

Computation of stock lost in fire (which is also closing stock)

	TZS
Opening stock	160,000
Add: Purchases	1,150,000
Cost of goods available for sale	1,310,000
Less: Cost of goods sold	(1,120,000)
Closing stock/stock destroyed	**190,000**

Therefore, value of stock destroyed by fire is TZS 190,000

Determining missing information using expenses account and income account

Expenses and Income accounts can be used to determine expenses incurred and income earned which should be transferred to the Income statement. It can also be used to determine accrued/prepaid expenses and Income/revenue which shall be recorded in the statement of financial position. These concepts have been discussed in Chapter one of this book under prepayments and accruals.

Example 5.11

XYZ Enterprise provides the following information during the year ending 31st December 2021. Prepaid rent expenses at the beginning of year TZS 20,000; rent expenses paid TZS 200,000; accrued rent expenses at the end TZS 30,000 and prepaid rent expenses at the end of year TZS 40,000. Determine the amount of rent expenses chargeable to income statement.

Solution

In this case, rent expense account is prepared

Dr **Rent expense account** **Cr**

Date	Details	Amount (TZS)	Date	Details	Amount TZS
1/1/2021	Prepaid rent b/d	20,000		Income statement (Missing figure)	210,000
	Cash	200,000	31/12/2021	Prepaid rent c/d	40,000
31/12/2021	Accrued rent c/d	30,000			
		250,000			250,000
1/1/2022	Prepaid rent b/d	40,000	1/1/2022	Accrued rent b/d	30,000

Rent expenses incurred which should be recorded in Income statement is TZS 210,000

Exercise 5.1

1. Iringa Enterprise, earns a gross profit margin of 20 per cent. Sales during the year 2019 were TZS 200 million. The opening inventory was TZS 10 million and the closing inventory TZS 30 million. What is the value of (a) cost of goods sold (b) Purchases?

2. Ms. Bhoke provides the following financial information as at 31st March 2022.

	TZS
Account receivable at 1 April 2021	200,000
Cash sales during the month	500,000
Credit sales during the month	800,000
Cash received from Credit customers	700,000
Bad debts	10,000
Discount allowed	90,000
Returns Inwards	6,000

Required:
Determine closing balance of debtors on 31 March 2022.

Preparation of financial statements

The financial statements need to be prepared after completing double entry of all transactions and making sure that all the necessary and the missing information required has been obtained. All missing information shall be computed as explained above. There is no specific way of computing missing figures: it always depends on available information. Thereafter, financial statements are prepared as usual.

Example 5.12

The following is a summary of Igunga Enterprise's bank and cash account for the year ended 31st December 2020.

Dr **Cash book** **Cr**

Date	Details	Cash	Bank	Date	Details	Cash	Bank
1/1/2020	Balance b/d	7,200	101,700		Creditors		648,000
	Debtors	45,000	855,000		Rates	4,500	18,000
					Sundry expenses		16,200
					Drawings	46,800	
				31/12/2020	Balance c/d	900	274,500
		52,200	956,700			52,200	956,700
1/1/2021	Balance b/d	900	274,500				

The following information is also available

	31st December 2019	31st December 2020
Sundry debtors	TZS 99,000	TZS 118,800
Sundry creditors	TZS 36,000	TZS 58,500
Rates accrued	-	TZS 4,500
Cash at Bank	TZS 101,700	TZS 274,500
Cash in hand	TZS 7,200	TZS 900
Stock	TZS 143,100	TZS 153,000
Furniture	TZS 72,000	TZS 64,800

You are required to prepare Income statement for the year ended 31st December 2020 and statement of financial position of Igunga Enterprise. as at 31st December 2020.

Solution

Working 1: Determination of opening capital using statement of affairs

Igunga Enterprise
Statement of Affairs as at 31 December 2020

	TZS	TZS
Non-current assets		
Furniture		72,000
Current assets		
Stock	143,100	
Debtors	99,000	
Bank	101,700	
Cash	7,200	
Total current assets		351,000
Total assets		**423,000**
Liabilities		
Current liabilities		
Creditors		(36,000)
Capital (missing figure) (assets-liabilities)		387,000
Capital + Liabilities		**423,000**

Working 2: The determination of sales using debtors control account

Dr **Debtors control account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
1/1/2020	Debtors balance b/d	99,000		Cash	900,000
	Sales (missing figure)	919,800	31/12/2020	Debtors Balance c/d	118,800
		1,018,800			1,018,800
1/1/2021	Debtors balance b/d	118,800			

Working 3: The determination of purchases using creditors control account

Dr **Creditors control account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
	Cash	648,000	1/1/2020	Balance b/d	36,000
31/12/2020	Creditors Balance c/d	58,500		Purchases (missing figure)	670,500
		706,500			706,500
			1/1/2021	Creditors Balance b/d	58,500

Working 4: The provision for depreciation of furniture

TZS 72,000 - 64,800 = 7,200

Working 5: The determination of rates incurred to be recorded in Income statement

Dr **Rates account** **Cr**

Date	Details	Amount (TZS)	Date	Details	Amount (TZS)
	Cash	4,500	31/12/2020	Income statement	27,000
	Bank	18,000			
31/12/2020	Balance c/d	4,500			
		27,000			27,000
			1/1/2020	Accrued rates b/d	4,500

Iguunga Enterprise

Income Statement for the year ended 31 December 2020

	TZS	TZS
Sales (W2)		919,800
Less: Cost of goods sold		
Opening stock	143,100	
Add: purchases (W3)	670,500	
Cost of goods available for sale	813,600	
Less: closing stock	(153,000)	
Cost of goods sold		660,600
Gross profit		259,200
Less: Expenses		
Rates (W5)	27,000	
Provision for depreciation: furniture (W4)	7,200	
Sundry expenses	16,200	
Total expenses		(50,400)
Profit		**208,800**

Igunga Enterprise

Statement of Financial Position as at 31 December 2020

	TZS	TZS
Non-current assets		
Furniture		72,000
less: Accumulated depreciation		(7,200)
		64,800
Current assets		
Stock	153,000	
Debtors	118,800	
Bank	274,500	
Cash	900	
Total current assets		547,200
Total assets		**612,000**
Capital & liabilities		
Capital		
Capital at start	387,000	
Add: net profit	208,800	

	595,800	
Less: Drawings	(46,800)	
Capital at end		549,000
Liabilities		
Current liabilities		
Creditors	58,500	
Rates accrued	4,500	63,000
Capital & liabilities		**612,000**

Activity 5.2

Ami owns a shop in Pemba. The business prepares incomplete financial records due to poor knowledge and skills. As an expert, advise him on any four approaches he can use to determine or compute missing figures using incomplete records.

Example 5.13

Ms Zuhura a sole proprietor has found that he has very little time available to keep full accounting records. The following information is available

	1 Jan. 2021	**31 Dec. 2021**
Premises	TZS 280,000	TZS 280,000
Fixtures and fittings	TZS 56,000	?
Inventory	TZS 126,000	TZS 154,000
Trade debtors	TZS 19,600	TZS 25,200
Bank balance	TZS 18,200	?
Trade creditors	TZS 37,800	TZS 46,200
Advertising (owing)	TZS 14,000	TZS 5,600
Lighting and heating (Prepaid)	TZS 5,600	TZS 8,400

The summary of his bank account is as follows;

Receipts	**TZS**
Cheque from debtors	288,400
Payments	
Cheque to suppliers	257,600
Sundry expense	14,000
Fixture and fitting	11,200

Drawings	44,800
Lighting and heating	14,000
Advertising	21,000
Rent	25,200

Additional information:
Ms. Zuhura had taken goods worth TZS 1,400 for private use during the year.

Required:
Prepare the income statement for the year ended December 2021 and the statement of financial position as at 31st December 2021. Show all workings.

Solution

Working 1: The determination of opening capital using statement of affairs

Ms Zuhura
Statement of affairs as at 1 January 2021

	TZS	TZS
Non-current assets		
Premises	280,000	
Fixtures and Fittings	56,000	
Total non-current assets		336,000
Current assets		
Stock	126,000	
Debtors	19,600	
Bank	18,200	
Lighting and heating	5,600	
Total current assets		169,400
Total assets		**505,400**
Liabilities & capital		
Liabilities		
Current liabilities		
Creditors	37,800	
Advertising owing (Accrued)	14,000	
		(51,800)
Capital (missing figure)		453,600
Liabilities and capital		**505,400**

Working 2 – The determination of closing balance of bank as at 31st December 2021.

Dr **Bank account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
1/1/2021	Balance b/d	18,200		Suppliers (Creditors)	257,600
	Debtors	288,400		Sundry expenses	14,000
31/12/2021	Balance c/d (missing figure)	81,200		Fixtures and fittings	11,200
				Drawings	44,800
				Lighting and heating	14,000
				Advertising	21,000
				Rent	25,200
		387,800			387,800
			1/1/022	Balance b/d	81,200

Working 3: The determination of sales amount using debtors control account

Dr **Debtors control account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
1/1/2021	Debtors Balance b/d	19,600		Bank	288,400
	Sales (missing figure)	294,000)	31/12/2022	Debtors balance c/d	25,200
		313,600			313,600
1/1/2022	Debtors Balance b/d	25,200			

Working 4: The determination of purchases amount using creditors control account

Dr **Creditors control account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
	Bank (suppliers)	257,600	1/1/2021	Creditors balance b/d	37,800
31/12/2021	Creditors Balance c/d	46,200		Purchases (missing figure)	266,000
		303,800			303,800
			1/1/2022	Creditors balance b/d	46,200

Working 5: The determination of lighting and heating expenses incurred, to be recorded in income statement.

Dr **Lighting and heating account** **Cr**

Date	Details	Amount (TZS)	Date	Details	Amount (TZS)
1/1/2021	Prepaid b/d	5,600	31/12/2021	Prepaid lighting and heating c/d	8,400
	Bank	14,000	31/12/2021	Income statement	11,200
		19,600			19,600
1/1/2017	Prepaid lighting and heating b/d	8,400			

Working 6: The determination of Advertising expenses incurred, to be recorded in income statement.

Dr **Advertising expense account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
	Bank	21,000	1/1/2021	Accrued advertising b/d	14,000
31/12/ 2021	Accrued advertising c/d	5,600		Income statement	12,600
		26,600			26,600
			1/1/2022	Accrued advertising b/d	5,600

Working 7: Furniture and Fittings

Dr **Fixtures and Fittings account** Cr

Date	Details	Amount TZS	Date	Details	Amount TZS
1/1/2021	Balance b/d	56,000	31/12/2021	Balance c/d	67,200
	Bank	11,200			
		67,200			67,200
1/1/2022	Balance b/d	67,200			

Working 8: Drawings

Dr **Drawings account** Cr

Date	Details	Amount TZS	Date	Details	Amount TZS
1/1/2021	Bank	44,800	31/12/2021	Balance c/d	46,200
	Purchases	1,400			
		46,200			46,200
1/1/2022	Balance b/d	46,200			

Ms. Zuhura
Income Statement for the year ended 31 December 2021

	TZS	TZS
Sales (W3)		294,000
Less: cost of goods sold		
Opening stock	126,000	
Add: purchases (W4)	266,000	
Cost of goods available for sale	392,000	
Less: Drawings of stock	(1,400)	
Less: closing stock	(154,000)	
Cost of goods sold		(236,600)
Gross profit		57,400
Less: Expenses		
Lighting and Heating (W5)	11,200	
Advertising (W6)	12,600	
Sundry expenses	14,000	
Rent	25,200	
Total expenses		63,000
Loss		(5,600)

Note: W3 = Working 3, W4= Working 4, W5 = Working 5, W6 = Working 6

Ms. Zuhura

Statement of Financial Position as at 31 December 2021

	TZS	TZS
Non-current assets		
Premises		280,000
Fixtures and fittings		67,200
		347,200
Current assets		
Stock	154,000	
Debtors	25,200	
Lighting and heating prepaid	8,400	
		187,600
Total assets		**534,800**
Capital & liabilities		
Capital at start	453,600	
Less: net loss	5,600	
	448,000	
Less: Drawings	(46,200)	
Capital at end		401,800
Liabilities		
Current liabilities		
Creditors	46,200	
Bank overdraft	81,200	
Advertising accrued	5,600	
Total current liabilities		**133,000**
Total capital and liabilities		**534,800**

Example 5.14

Maruku Enterprise, has invested in retail business. They do not keep full set of accounting records. From the following incomplete records provided to you, prepare Income statement for the year ended 30th June 2021 and statement of financial position as at that date.

	30 June 2020	30 June 2021
Furniture	TZS 200,000	TZS 240,000
Inventory	TZS 120,000	TZS 40,000
Accounts receivable	TZS 240,000	TZS 280,000
Prepaid expenses	-	TZS 80,000
Accounts payable	TZS 80,000	?
Accrued expenses	TZS 24,000	TZS 40,000
Cash	TZS 44,000	TZS 12,000

Receipts and payments during the year

Receipts from account receivables	TZS 840,000
Paid to account payables	TZS 400,000
Carriage inwards	TZS 80,000
Drawings	TZS 240,000
Sundry expenses	TZS 280,000
Furniture purchased	TZS 40,000

Other information includes:

There was a considerable amount of cash sales. Credit purchases during the year amounted to TZS 460,000. Provide a provision for doubtful debts to the extent of 10 per cent on debtors.

Solution

Working 1: The determination of opening capital using statement of affairs

Maruku Enterprise
Statement of affairs as at 30 June 2020

	TZS	TZS
Non-current assets		
Furniture		200,000
Current assets		
Inventory	120,000	
Account receivables	240,000	
Cash	44,000	
		404,000
Total assets		**604,000**
Current liabilities		
Account payables	80,000	
Accrued expenses	24,000	
		104,000
Capital (missing figure)		500,000
Total Liabilities and capital		**604,000**

Working 2: The determination of cash sales using cash account

Dr **Cash account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
1/7/2019	Balance b/d	44,000		Accounts payable	400,000
	Accounts receivable	840,000		Carriage inwards	80,000
	Sales (missing figure)	168,000		Drawings	240,000
				Sundry expenses	280,000
				Furniture	40,000
			30/6/2020	Balance c/d	12,000
		1,052,000			1,052,000
1/7/2020	Balance b/d	12,000			

Working 3: The determination of credit sales using accounts receivable control account

Dr **Accounts receivable control account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
1/7/2019	Debtors Balance b/d	240,000		Cash	840,000
	Credit sales (missing figure)	880,000	30/6/2020	Debtors balance c/d	280,000
		1,120,000			1,120,000
1/7/2020	Debtors Balance b/d	280,000			

Total sales = cash sales + Credit sales
= 168,000 + 880,000
= 1,048,000
Therefore, total sales is **TZS 1,048,000**

Working 4: The determination of creditors balance at the end using accounts payable control account.

Dr **Accounts payable control account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
30/6/2020	Cash	400,000		Creditors balance b/d	80,000
	Creditors balance c/d	140,000	1/7/2019	Purchases	460,000
		540,000			540,000
			1/7/2020	Balance b/d	140,000

Working 5: The determination of sundry expenses incurred to be recorded in Income statement

DR **Sundry expenses account** **CR**

Date	Details	Amount (TZS)	Date	Details	Amount (TZS)
	Cash	280,000	1/7/2019	Accrued sundry b/d	24,000
30/6/2020	Accrued sundry c/d	40,000	30/7/2020	Income statement	216,000
			30/6/2020	Prepaid sundry c/d	80,000
		320,000			320,000
1/7/2020	Prepaid sundry b/d	80,000			

Working 6: The provision for bad debts

280,000 x 10% = 28,000

Maruku Enterprise

Income Statement for the year ended 30 June 2021

	TZS	TZS
Sales (W3)		1,048,000
Less: cost of goods sold		
Opening inventory	120,000	
Add: purchases	460,000	
Carriage inwards	80,000	
Cost of goods available for sale	660,000	
Less: closing stock	(40,000)	
Cost of goods sold		(620,000)
Gross profit		428,000
Less: Expenses		
Provision for doubtful debts	28,000	
Sundry expenses (W5)	216,000	
Total expenses		244,000
Profit		184,000

Note: W3 – Working 3, W5 = working 5

Maruku Enterprise
Statement of Financial Position as at 30 June 2021

		TZS	TZS
Non-current assets			
Furniture			240,000
Current assets			
Inventory		40,000	
Account receivables	280,000		
Less: Provision for doubtful debts	(28,000)	252,000	
Prepaid expenses		80,000	
Cash		12,000	384,000
Total assets			**624,000**
Capital and liabilities			
Capital		500,000	
Add: Net profit		184,000	
		684,000	
Less: Drawings		(240,000)	444,000
Current liabilities			
Account payables		140,000	
Accrued expenses		40,000	180,000
			624,000

Exercise 5.2

Mr. Bundala's business started his business on 1st January 2021 under a single-entry basis. From his rough notes, he maintained the following information.

	1 Jan. 2021	31 Dec. 2021
Motor vehicle	252,000	252,000
Machinery	105,000	105,000
Fixtures and fittings	56,000	56,000
Furniture	280,000	420,000
Stock	122,500	187,250
Debtors	175,000	285,000
Creditors	224,000	266,000
Cash	-	29,960

(i). Additional value of furniture TZS 130,000 bought by Mr. Bundala

(ii). Drawing for the year TZS 200 per day in 365 days

(iii). Depreciation to be maintained at the rate of 20% per annum for each asset

Required:

(a) Prepare the statement of financial position as at 1st January 2021 and 31st December 2021.

(b) Prepare the statement of profit for the year ended 31st December 2021.

Revision exercise 5

1. F. Mroso maintains his account under the single-entry system. As at January 1 2020 the balance of his assets and liabilities were as follows:

	TZS
Creditors	135,000
Loan from Mama Dai	189,000
Bank overdraft	45,000
Building	405,000
Furniture	90,000
Machinery	315,000
Stock	945,000
Debtors	22,500
Cash	13,500

During the year 2020, his drawings were TZS 270,000. He bought furniture for cash TZS 135,000 from a private sources. On the 31st December 2020 the balance of assets and liabilities were as follows: -

	TZS
Creditors	136,000
Bank overdraft	184,000
Loan from Sam	4,800
Building	72,000
Furniture	40,000
Machinery	56,000
Stock	324,000
Debtors	40,000
Cash	11,200

You are required to prepare:

(i). A statement of financial position as at 1 January 2020

(ii). A statement of financial position as at 31 December 2020

(iii). A tatement of profit and loss for the year 2020

2. Ngaramtoni Enterprise does not keep full accounting records, but the following information is available in respect of their accounting period for the year ending 31 December 2021.

	TZS
Trade debtors 1 Jan. 2021	500,000
Trade Creditors 1 Jan. 2021	600,000
Cash sales	800,000
Cash purchases	600,000
Cash received from debtors	200,000
Cash paid to creditors	140,000
Discount allowed	60,000
Discount received	40,000
Trade debtors 31 Dec. 2021	600,000
Trade Creditors 31 Dec. 2021	800,000

Required:

(i). Determine credit sales and credit purchases

(ii). Determine total sales and total purchases

3. Wilmar & Sons Enterprise maintains only some records which he thinks are sufficient to run the business. On 1st April 2020, his capital was TZS 12,217,440. He had also introduced TZS 240,000 during the year as additional capital and took TZS 1,536,000 for his personal use from the business. On 31st march 2021 his position was as follows:

Furniture TZS 8,400,000; building TZS 3,200,000; stock TZS 880,000; Bank TZS 646,080; cash TZS 245,440; due from customers TZS 275,360; due to Creditors TZS 1,050,880.

Required:

Determine the net profit or loss by Wilson & Sons during the year.

4. Lindi Enterprise deals with cashew nuts trade but it does not keep proper books of accounts. The following financial information is available as at 30 November 2019.

	TZS
Cash in hand	1,840,000
Cash at bank	35,344,000
Fixture and fittings	64,000,0000
Stock	267,840,000
Account receivable	190,240
Account payable	144,832
Motor van	48,000

During the year to 30st November 2020, their drawings was TZS 120,960,000. Additional capital introduced in business amounted to TZS 44,800,000. Extra fixtures and fittings were bought for TZS 32,000,000. At 30st November 2020 their assets and liabilities were;

Cash 1,344,000; bank overdraft TZS 2,640,000; stock TZS 343,856,000; accounts payable TZS 96,032,000; accrued expenses TZS 3,776,000; fixtures and fittings TZS 9,600,000; motor van to be valued at TZS 40,000,000; Accounts receivable TZS 253,136,000; prepaid expenses TZS 1,152,000.

Required:

Prepare a statement showing profit or loss made by the company for the year ended 30st November 2020.

5. The following is a summary of Mr Deo bank account who kept records under a single-entry basis for the year 2020.

Dr **Cash account** **Cr**

Date	**Details**	**Amount**	**Date**	**Details**	**Amount**
		TZS			**TZS**
1 Jan. 2020	Balance b/d	945,000		Creditors	15,847,500
	Debtors	22,328,000		Sundry expenses	1,375,000
	Bank loan	1,000,000		Personal expenses	1,547,500
				Motor expenses	658,000
				Salaries and wages	821,000
				Cash Drawn from bank	2,700,000
			20 Dec 2020	Balance c/d	1,324,000
		24,273,000			24,273,000

The following information is also available

	1 Jan. 2020	31 Dec. 2020
Cash balance	24,000	46,500
Suppliers for goods	2,448,500	2,566,000
Trade debtors	3,006,500	3,566,000
Sundry expenses unpaid		125,000
Motor expenses (in advance)	141,000	156,000
Machinery	1,400,000	1,200,000
Stock	5,581,500	6,510,000

Cash payment were: salaries and wages TZS 61,000, credit suppliers TZS 321,000; salaries TZS 349,000.

Required:

Prepare Mr Deo's financial statements for the year ended 31 December 2020. Show all necessary workings.

6. The following information has been extracted from the books of S. Kopondo who does not keep his records under double entry system for the year ending 31 December 2021.

	1 Jan. 2021	31 Dec. 2021
Stock	64,400	784,000
Debtors	126,000	168,000
Creditors	378,000	462,000
Cash	224,000	-
Bank	347,200	-

During the year, S. Kopondo provided the dash and bank transactions as follows:

Cash transactions:	**TZS**
Cash sales	1,941,800
Cash purchases	188,300
Lighting and heating	94,500
Rent	238,000
Drawing	294,000
Cash paid into bank	1,130,000

Bank transactions: **TZS**

Sales by cheque	756,000
Bought machinery by cheque	560,000
Furniture purchased by cheque	70,000

Additional information:

(i). S. Kopondo took goods worth TZS 32,760 for personal use

(ii). Depreciates:

- Machinery at the rate of 2 per cent on cost
- Furniture at the rate of 20 per cent on cost

(iii). Provides 5 per cent for doubtful debts on outstanding debtors

Required:

(a) Prepare a statement of affairs to determine the value of opening capital.

(b) Prepare an income statement for the year ending 31 December 2021.

(c) Prepare a statement of financial position as at 31 December 2021.

7. Swao is a sole trader who does not maintain his accounting records on a double entry system. Assets and liabilities on the dates shown below were as follows:

	1 Jan. 2020	**31 Dec. 2020**
Capital	4,365,600	4,365,600
Stocks	753,600	891,600
Prepaid insurance	300,000	43,200
Building	4,200,000	4,200,000
Sundry income received in advance	48,000	81,600
Loan from bank	1,440,000	?
Salaries and wages owing	110,400	90,000
Motorcycle	216,000	?
Account payable	955,200	1,116,000
Account receivable	474,000	488,400
Furniture and fitting	720,000	636,000

The summary of cash book shows the following position: -

Dr **Cash account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
1/1/2020	Balance b/d	525,600		Loan interest	72,000
	Account receivable	7,357,200		Personal expenses	432,000
	Cash sales	2,563,200		Salaries and wages	998,400
	Sundry income received	744,000		Insurance	196,800
	Addition capital	600,000		Payment to suppliers	6,031,200
				Loan repaid on 31 Dec. 2020	1,200,000
				Purchase	976,800
				Travelling expenses	338,400
				Ledger fee	18,000
				Miscellaneous expenses	872,400
				Motorcycle	360,000
			31 Dec. 2020	Balance c/d	294,000
		11,790,000			11,790,000
1/1/2021	Balance b/d	294,000			

Additional information is available as follows:

(a) Motorcycle is depreciated at 20 per cent on the year-end balance

(b) Discount received and allowed amounted to TZS 163,200 and TZS 147,600 respectively

(c) During the year he took goods for personal use amounting to TZS 60,000

(d) The loan interest at the rate of 10 per cent Per annual

Required:

(i). Income statement for the year ended 31 December 2020.

(ii). Statement of financial position as at 31 December 2020.

8. On 1st May 2019 Joho Sumbe, who is a retailer, had the following balances in her books:

Premises TZS 70,000,000; Equipment TZS 8,200,000; Vehicles TZS 5,100,000; Stock TZS 9,500,000; Trade debtors TZS 150,000. Joho Sumbe does not keep proper books of account, but bank statements covering the 12 months from 1 May 2019 to 30th April 2020 were obtained from the bank and summarised as follows:

Money paid into bank:	**TZS**
Extra capital	8,000,000
Shop takings	96,500,000
Received from debtors	1,400,000
Payments made by cheque:	
Paid for stock purchased	70,500,000
Purchase of delivery van	6,200,000
Vehicle running expenses	1,020,000
Lighting and heating	940,000
Sales assistants' wages	5,260,000
Miscellaneous expenses	962,000

It has been discovered that, in the year ending 30th April 2020, the owner had paid into the bank all shop takings apart from cash used to pay:

(i) TZS 408,000 miscellaneous expenses and (ii) TZS 500,000 per month drawings.

At 30 April 2020:

TZS 7,600,000 was owing to suppliers for stock bought on credit.

The amount owed by trade debtors is to be treated as a bad debt. Assume that there had been no sales on credit during the year.

Stock was valued at TZS 13,620,000.

Depreciation for the year was calculated at TZS 720,000 (equipment) and TZS 1,000,000 (vehicles). You are asked to prepare an income statement for the year ended 30 April 2019.

(Show all necessary workings separately.)

9. Kaizerege Enterprise prepares its financial statements annually to 30th

April and stock-taking is carried out on the following weekend. 30th April 2020 was a Wednesday. A stock which had a value of TZS2,118,540 was taken on the premises 3rd May.

The following additional information is ascertained from Kaizerege Enterprise:

(i) The cash and Credit sales totaled TZS 39,100 during the period 1st to 3th May.

(ii) Purchases recorded during the period 1st to 3th May amounted to TZS 25,670 but, of this amount, goods to the value of TZS 9,010 were not received until after 3th May.

(iii) Sales returns during 1st to 3th May amounted to TZS 3,740.

(iv) The average ratio of gross profit to sales is 20%.

(v) Goods in stock at 30th April and included in stock-taking on 3th May at TZS 5,100 were obsolete and valueless.

Required:

Ascertain the value of the stock on 30th April 2020 for inclusion in the financial statements of Kaizerege Enterprise.

10. Mwarami does not keep proper records of his business, he gives you the following information: opening capital TZS 2,000,000; closing capital TZS 2,500,000; drawings during the year TZS 60,000; capital added during the year TZS 75,000.

Required:

11. Determine Net profit or loss for the year by preparing a statement

Chapter Six

Accounting for not-for-profit organisations

Introduction

There are various organisations established to provide services to the society such as charity, sports clubs and religious organisations. Book-keeping procedures for not-for-profit organisations are quite different from profit making organisations. In this chapter, you will learn the nature of not-for-profit organisations and their book-keeping records. Also, you will learn how to prepare financial statements of not-for-profit organisations. The competencies developed in this chapter, will enable you to prepare financial statement for not-for-profit organisations.

Nature of not-for-profit organisations

You may be wondering if there are any organisations whose aim is not to make profit. The truth is that, there are some organisations that are established not for the purpose making profits. These types of organisations are established to provide social services to the society. Typical examples include trade unions, sports clubs, foundations, churches, mosques, and national charities. The objective of these organisations is the provision of social services rather than profit making. For example, organisations such as trade unions exist not for profit making but rather bargaining for better working conditions for employees.

The difference between not-for-profit and profit-making organisations

Not-for-profit organisations and profit-making organizations differ mainly on the motive of their existence. Profit-making organisations exist for the aim of making profit but not-for-profit organisations exists solely for providing social services to the society. Even though this is the main difference between these two organisations, following discussion presents other differences.

(a) Motive

A not-for-profit organisation is established for the greater good of the community while profit-making organisations are established to provide financial benefit to its owners or shareholders. Even though a profit-making organisation are established to serve a community by providing goods and services to the society the main motive behind its establishment is to make profit.

(b) **Taxes**

Taxes are paid on income generated from economic activities. Not-for-profit organizations are not established for making profit; however, they are required to pay taxes when they engage in income generating activities. While profit making organizations pay taxes against their net income as required by the law, not-for-profit organizations pay taxes only when they have activities that generate taxable income.

(c) **Financial statements**

Not-for-profit accounting is focused on tracking contributions made to an organisation and how they are spent. It includes the preparation of receipts and payments account, income and expenditure statement and the statement of financial position. On the other hand, financial statements prepared in the case of profit-making organisations include the statement of comprehensive income, statement of changes in the equity and statement of financial position.

(d) **Major source of income**

The major source of income for profit making organisation is from operations and provision of services while the major source of income for not-for-profit organisations is donations, subscriptions, membership fee and charities.

(e) **Liquidation**

When a profit-making organisation goes out of business, its assets can be liquidated and the proceeds are distributed among the owners or the shareholders. But when a not-for-profit profit organisation goes out of business, its remaining assets must be given to another not-for-profit organisation.

(f) **Accounting results**

Not-for-profit organizations have surplus or deficit while profit making organizations have profit or loss in the end of accounting period.

Source of funds for not-for-profit organisations

The source of funds of not-for-making organizations include: subscriptions, donations, membership fees, charities, profit from selling non-current assets, such as, vehicles, machines and used furniture, grants, bank interest and investments.

Need for accounting records for not-for-profit organisations

Even though we have seen that not-for-profit organisations are established without the aim of making profit, they are still required to maintain their accounting records. These organisations are required to maintain their accounting records so that they are able to ascertain cash receipts and cash payments during the accounting period. Furthermore, the maintained accounting records enable these organisations to ascertain their financial performance through the preparation of income and expenditure statements. Also, not-for-profit organisations need to maintain their accounting records so that they can be able to ascertain their accumulated funds, liabilities and assets owned. Accounting records maintained by these organisations are also required by government authorities which intend to assess and monitor the operations of not-for-profit organizations.

Distinction between books of accounts of not-for-profit and profit-making organisations

Since the existence of not-for-profit organisations such as those of charities, clubs and associations is not mainly for making profit; these organisations do not prepare the income statement rather they prepare either the receipts and payments account or the income and expenditure statements. The set of financial statements prepared at the end of the period by not-for-profit organisations include:

(i). Receipts and payments account
(ii). Income and expenditure statement
(iii). Statement of financial position

More discussions on the accounts and statements for not-for-profit organisations will be done later in this chapter. For now, let us differentiate the books of accounts and statements used in not-for-profit organisation from those of profit-making organisations. Table 6.1 illustrates important books of accounts prepared for profit entities and those of the not-for-profit entities.

Table 6. 1: *Books of accounts of not-for-profit and profit-making organisations*

	Profit making organisations	Not-for-profit organisations
1.	Cash book	Receipts and payments account
2.	Income statement	Income and expenditure statement
3.	Statement of financial position	Statement of financial position

Table 6.1 indicates that while profit making organisations prepare cash books to record their cash and bank transactions, not-for-profit organisations prepare the receipts and payments account to record their receipts and payment transactions. Also, profit-making organisations prepare the income statement in order to ascertain the performance of the organisation while the income and expenditure statement is prepared in the case of not-for-profit organisations to serve that purpose. Lastly, both not-for-profit organisations and profit-making organisations prepare the statement of financial position so as to ascertain the financial position of their organisations. On the other hand, the differences between not-for-profit

organisations and profit-making organizations are explained in Table 6.2.

Table 6. 2: *The differences between not-for-profit and profit-making organisations*

	Not-for-profit organisations	Profit-making organizations
1	Aim to provide services to its members and society.	Aim to make profit and grow their businesses.
2	Subscribers are the members.	Proprietors are the owner of the businesses.
3	The profit earned is called surplus; and when the expenditure is greater than income is called deficit.	The operating results of business can be either a profit or a loss.
4	Surplus or deficit is determined through comparing income and related expenditure in the income and expenditure.	Profit or loss is determined through comparing income and related expenses in the income statement.
5	The resources used to setup an organization is called accumulated fund.	The resources used to setup a business is called capital.

Book-Keeping records of a not-for-profit organisations

Not-for-profit organisations like profit organisations, need to maintain their books of accounting. Hereunder, we present the preparation of books of accounts maintained by the not-for-profit organisations.

Receipts and payments account

This is a summary of the cash book for a specific period for a not-for-profit organisation. It reveals everything about what happened financially during the period and records all cash receipts and cash payments irrespective of whether they are capital or revenue in nature. The receipt and payment account shows only cash transactions. It includes capital receipt and capital payment also, its balance represent cash in hand, bank balance or bank overdraft.

Characteristics of the receipts and payments account

The characteristics of the receipts and payments account are:

(a) It is a summary of all cash transactions made by the entity during the accounting period.

(b) There is no distinction between capital and revenue receipts and payments while recording transactions.

(c) It starts with the opening balance of cash and bank and ends with the closing balance of cash and bank.

(d) All receipts are recorded on the debit side (receipt column) and all the payments are recorded on the credit side (payment column) of the account.

(e) All cash transactions which are incurred during the accounting period are recorded in this account irrespective of whether they relate to the past, present (current) or future period.

(f) Non-cash transactions, examples bank overdraft, letters of credit, bills purchased and discounted and repayment on bills discounted) are not recorded in this account.

Some of the very small not-for-profit organisations which do not have any assets other than cash and no liabilities maintained, should only prepare receipts and payments accounts. For the other not-for-profit organisations, a receipts and payment accounts serves the purpose of a trial balance and becomes the basis for the preparation of financial statements which are income and expenditure statement and the statement of financial position.

Activity 6.1

In a group of five students, survey your living environment by identifying at least three not-for-profit organisations operating in your area. Find out the books of accounts that they use in their operations. Write a report that you will use to present findings in your next class.

Preparation of the receipts and payments account

Like all other ledger accounts, the receipts and payments account also have two sides, a debit side and a credit side. All receipts, whether by cash or by cheque, are recorded on the debit side of the account (receipts column) whereas all payments are recorded on the credit side of the account (payments column).

There are no separate columns for cash and bank transactions. Both cash and bank transactions are merged to avoid contra entries. It starts with the opening balance of cash and bank and ends with the closing balance of cash and bank. A general format of the receipts and payments account is as follows:

A format of the receipts and payments account.

Dr **Receipts and payments account** **Cr**

Date	Receipts	Amount TZS	Date	Payments	Amount TZS
	Balance b/d			Purchase of assets	xx
	Cash	xx		Printing and stationery	xx
	Bank	xx		Repairs and renewal	
					xx
	Subscriptions:			Rent and taxes	xx
	Previous year	xx		Postage	xx
	Current year	xx		Investments	xx
	Next year	xx		Conveyance	xx
	Entrance fees	xx		Charity	xx
	Donations for specif-	xx		Insurance premium	xx
	ic fund				
	General donations	xx		Honorarium	xx
	Life membership fees	xx		Upkeep of ground	xx
	Government grants	xx		Telephone charges	
	Legacies	xx		Newspaper and maga-	xx
				zines	
	Dividend	xx		Balance c/d	
				Cash	xx
				Bank	xx
	Interest	xx			
	Rent	xx			
	Sale of old maga-	xx			
	zines				
	Sale of non-current	xx			
	assets				
	Sundry receipts	xx			
	Balance c/d				
	Bank overdraft	xx			
		xxx			xxx
	Balance b/d				
	Cash	xxx		Balance b/d (overdraft)	xxx
	Bank	xxx			

Example 6.1

From the following information, prepare receipts and payments account for Odemba's Club for the year ending 31st December 2021.

	TZS
Cash at bank	1,180,000
Club wages	3,640,000
Stadium expenses	1,480,000
Transport	200,000
Stationery expenses	190,000
Subscription received	5,740,000
Rent income	580,000

Solution

Dr **Receipts and payments account** **Cr**

Date	Receipts	Amount TZS	Date	Payments	Amount TZS
1/1/2021	Cash at bank	1,180,000		Club wages	3,640,000
	Subscription	5,740,000		Stadium expenses	1,480,000
	Rent income	580,000		Transport costs	200,000
				Stationery expenses	190,000
			31/12/2021	Balance c/d	1,990,000
		7,500,000			7,500,000
1/1/2022	Balance b/d	1,990,000			

Exercise 6.1

Rorya football club has provided to you the following information for the year to 31st December 2019.

	TZS
Bank balance 1 January 2019	1,062,000
Payment to suppliers	148,500
Groundsman wages	327,600
Repair stands	261,000
Transport cost	99,000
Subscription received	516,600
Donation received	5,166,000
Secretary expenses	522,000

Required: Prepare Rorya football club receipts and payments for the year ending 31st December 2019.

Accumulated fund account

A profit-oriented entity has a capital account. Not-for-profit oriented organizations have an accumulated fund account. In effect, an accumulated fund account is the same as a capital account as it represents the difference between assets and liabilities. In a profit-oriented entity, capital is obtained as follows:

Capital = Assets – Liabilities

For a non-profit-oriented organisation, capital is obtained as follows:

Accumulated fund = Assets – Liabilities

Therefore, capital is called accumulated fund in not-for-profit oriented organisations.

Statement of affairs

Statement of affairs is a statement prepared using incomplete records in order to ascertain missing figures such as the accumulated fund (capital). It is prepared like a normal statement of financial position whereby the objective is to ascertain accumulated fund or any other missing items of assets and liabilities. It can be prepared at the end of an accounting period. In order to ascertain accumulated fund, total assets and total liabilities are taken into consideration and the difference between these two is taken as accumulated fund.

Therefore: Accumulated fund = Assets – Liabilities

Example 6.2

Using the following information of Micheweni Football Club, ascertain the accumulated fund as at 31st December 2020.

	TZS
Land and building	10,000,000
Sports equipment	1,000,000
Debtors	500,000
Loan	2,000,000
Creditors	6,000,000
Fixtures and fittings	900,000
Cash	1,500,000
Bank	3,000,000
Accrued salary expenses	600,000

Solution

Micheweni Football Club

Statement of affairs as at 1 January 2021

	TZS
Non-current assets	
Land and Building	10,000,000
Sports Equipment	1,000,000
Fixtures and fittings	900,000
	11,900,000

Current assets	
Debtors	500,000
Bank	3,000,000
Cash	1,500,000
	5,000,000
Total assets	**16,900,000**
Less: Liabilities	
Loan	(2,000,000)
Creditors	(6,000,000)
Accrued salary	(600,000)
Total liabilities	**8,600,000**
Accumulated fund (missing figure)	**8,300,000**

Exercise 6.2

Using the following information of Mbeya Football Club, ascertain accumulated fund as at 30th June 2020.

	TZS
Premises	8,000,000
Machinery	6,000,000
Accounts receivable	1,300,000
Bank loan	1,000,000
Creditors	2,500,000
Furniture	1,500,000
Cash	2,500,000
Bank	1,000,000
Prepaid rent expense	600,000
Prepaid commission receivable	100,000

Financial statements of not-for-profit organisations

Financial statements of not-for-profit organisations consist of income and expenditure statements and statements of financial position. Financial statements are prepared to ascertain the financial performance and financial position of not-for-profit organisations. Income and expenditure statement is prepared to determine the financial performance of the entity while the statement of financial positions is useful in identifying assets, liabilities and accumulated fund of the entity. In case there are missing figures, they should be computed before financial statements are prepared.

Income and expenditure statement

It is similar to the income statement prepared for profit making organisations. If income is greater than expenditure amount, the excess amount is known as a surplus and if the amount of expenditure exceeds that of income, then it is referred to as a deficit. The purpose of preparing the income and expenditure statements is to ascertain a surplus or a deficit for a particular accounting period.

Characteristics of an income and expenditure statement

(a) All expenses of revenue in nature related to a particular period are recorded in the expenditure side on an accrual basis.

(b) Similarly, all revenue related to a particular period are recorded in this statement on an accrual basis.

(c) Only current years' income and expenses are recorded in this statement. Amounts outstanding for current period are added and the amounts related to another period are deducted.

(d) If income is greater than expenditure, it is called a surplus and is added to the capital or general fund in the statement of financial position.

(e) If expenditure is more than the income, it is called a deficit and is deducted from the capital or general fund in the statement of financial position

An income and expenditure statement follows the same rules as the income statement that is prepared by profit making organisations. The differences arise from the terms used.

Table 6.3 provides a comparison between terminologies of financial statements prepared by profit making organisations and those of not-for-profit organisations.

Table 6. 3: *Comparison of terminologies used in* **financial statements**

	Profit-oriented organisations	**Non-profit-oriented organisations**
1	Income statement	Income and expenditure statement
2	Net profit	Surplus of income over expenditure
3	Net loss	Deficit of Income over Expenditure

The format of Income and expenditure statement

Chumbe Enterprise
Income and expenditure statement for the year ended ……

	TZS	TZS
Income		
Subscriptions	xxx	
Bar profit	xxx	
Club collections	xxx	
Donations from		xxx
members	xxx	
Less: **Expenditures**		
Club expenses	xxx	
Rent	xxx	
Ground hire	xxx	(xxx)
Surplus/ Deficit		xxx / (xxx)

Income statement for a special purpose

Sometimes there are reasons why a not-for-profit organisation would want to prepare an income statement also known as statement of comprehensive income. This is when something is done to make profit. The profit is not to be kept, but used to pay for the main purpose of the organisation. For instance, a football club may organise and run dances which people pay to attend. Any profit from these helps to pay football expenses. For these dances, an income statement would be drawn up. Any profit (or loss) would be transferred to the income and expenditure account.

Treatment of items in the financial statements of not-for-profit organisations

When preparing the books of accounts of not-for-profit organisations, there are some financial records that must be kept, which are not found in the books of profit-making organisations that we are used to. Hereunder is the presentation of items found in the financial statements of not-for-profit organisations.

(i) Subscriptions

It is a regular payment received by not-for-profit organisations from members each year. It is the main source of income and is of a recurring nature. It is treated as a revenue receipt. It is shown on the debit side of the receipts and payments account and on the top side of the income and expenditure statement. However, the figure taken for subscriptions is not the same in both sides. The receipt and payment account records the subscription amount on the actual receipt basis whereas the income and expenditure statement record it on the accrual basis. The subscription which is outstanding at the end of the year is shown on the assets side of the statement of financial position and the subscription which is received in advance at the end of the year is shown on the liabilities side of the statement of financial position.

Activity 6.2

In groups of five students, consult any religious organization's staff for a discussion on how their organization raise funds required to finance projects. While discussing, ask regarding how they prepare the income statements and the statements of financial position. After your discussion, compare the knowledge you have gained from the religious staff and knowledge you have learnt in the classroom. Note down new things you have learnt for future use.

Example 6.3

Calculate the amount of subscription to be shown in income and expenditure statement of Ileje Football Club for the year ending 31st December 2021 from the following information:

	TZS
Subscriptions received during the year	1,000,000
Subscriptions outstanding (owing) as on 31 December 2020	80,000
Subscriptions outstanding (owing) as on 31 December 2021	100,000
Subscriptions received in advance as on 31 December 2020	60,000
Subscriptions received in advance as on 31 December 2021	40,000

Solution

Subscription account

Dr					Cr
Date	**Details**	**Amount TZS**	**Date**	**Details**	**Amount TZS**
1/1/2021	Accrued b/d	80,000	1/1/2021	Prepaid b/d	60,000
	Income and expenditure	1,040,000		Cash	1,000,000
31/12/2021	Prepaid c/d	40,000	31/12/021	Accrued c/d	100,000
		1,160,000			1,160,000
1/1/2022	Accrued b/d	100,000	1/1/2022	Prepaid b/d	40,000

Subscription of TZS 1,040,000 has been earned for the year, and it will be recorded in an income and expenditure statement.

Exercise 6.3

The following items relate to subscriptions for the year 2021. Total subscription received during the year by cash was TZS 11,200,000.

	1 Jan. 2021 TZS	31 Dec. 2021 TZS
Subscription in Arrears	1,708,000	2,030,000
Subscription in Advance	2,240,000	2,800,000

Required:

Show the subscription account indicating the amount to be transferred to the income and expenditure statement.

(ii) Donation

This is an amount received by a not-for-profit organisation from any entity by way of a gift. The entity making the donation may be an individual, a firm or an enterprise and the gift may be in cash or kind. Donations are recorded as receipts in the receipts and payments account.

(iii) Legacy

It is an amount received by a not-for-profit organisation in accordance with the will of a deceased person. It is recorded as a receipt in the receipts and payments account.

(iv) Entrance fees

It is an amount collected from new members of the organisation at the time of admission. It is recorded as a receipt in the receipts and payments account.

(v) Life membership fees

It is a fee charged by a not-for-profit organisation for granting membership to a person, which is valid for life. It is recorded as a receipt in the receipts and payments account.

Treatment of expenses in a not-for-profit organisations

The guiding principle to decide on the treatment of expenses in a not-for-profit organisation is the same as that followed by a profit-making organization. The expenses incurred for the current accounting period, whether paid or not, should be considered in the income and expenditure statement. Similarly, expenses related to the previous or future accounting period, though paid in the current year, should be excluded from the income and expenditure statement and should be shown in the statement of financial position.

Example 6.4

From the information given below, ascertain the amount of salaries to be charged to the income and expenditure statement for the year ending on 31st December 2020.

Total salaries paid for the year (according to Receipts and Payments account) in TZS	
Salaries paid in advance as on 31 December 2019	19,500,000
Salaries paid in advance as on 31 December 2020	8,700,000
Outstanding salaries as on 31 December 2019	11,300,000
Outstanding salaries as on 31 December 2020	10,500,000
Cash received in the year	375,200,000

Solution

Dr **Salaries account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
1/1/2020	Prepaid b/d	19,500,000	1/1/2020	Accrued b/d	11,300,000
	Cash	375,200,000		Income and expenditure statement	385,200,000
31/12/2020	Accrued c/d	10,500,000	31/12/2020	prepaid c/d	8,700,000
		405,200,000			405,200,000
1/1/2021	Prepaid b/d	8,700,000	1/1/2021	Accrued b/d	10,500,000

Calculation of cost of supplies and materials consumed

Consumable supplies and materials for not-for-profit organisations include items such as sports material, medicines, stationery, postage and other office supplies. These items are usually purchased in large quantities during the year and are not fully consumed by the end of the accounting period. The amount to be charged to the income and expenditure statement for such consumables is the cost of supplies and materials consumed, and it is calculated by using the following format:

	TZS
Opening stock of supplies	xx
Add: Purchases made during the year	xx
	xx
Less: Closing stock of supplies	xx
Amount to be charged to income and expenditure statement	xxx

Example 6.5

Calculate the cost of sports material to be charged to the income and expenditure statement of Migebuka sports club for the year ended 31st March 2019 on the basis of the following information:

	Year ended 31st March 2018	Year ended 31st March 2019
Stock of sports material	TZS 75,000	TZS 60,000
Creditors for sports material	TZS 20,000	TZS 20,600

The amount paid to the creditors for sports material during the year was TZS 190,000.

Solution

To determine purchases made during the year, we prepare creditors control account

Dr **Creditors control account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
	Cash	190,000	1/4/2018	Balance b/d	20,000
31/3/2019	Balance c/d	20,600		Purchases (missing figure)	190,600
		210,600			210,600
			1/4/2019	Balance b/d	20,600

Purchases of sports materials is **TZS 190,600**

Statement of computing cost of sports materials consumed

	TZS
Opening stock of supplies	75,000
Add: Purchases made during the year	190,600
	265,600
Less: Closing stock of supplies	60,000
Amount to be charged to income and expenditure account	205,600

Example 6.6

The following is a summary of the receipts and payments of the Misungwi Rotary Club during the year ended 31st July 2020.

Misungwi Rotary Club

Dr Receipts and payments account for the year ended 31 July 2020 Cr

Date	Receipts	Amount (TZS)	Date	Payments	Amount (TZS)
	Cash and bank balances b/d	420,000		Secretarial expenses	326,000
	Sales of competition tickets	874,000		Rent	2,804,000
	Members' subscriptions	3,974,000		Visiting speakers' expenses	2,550,000
	Donations	354,000		Donations to charities	70,000
	Refund of rent	1,000,000		Competition prizes	540,000
	Balance c/d	26,000		Stationery and printing	358,000
		6,648,000			6,648,000
				Balance b/d	26,000

The following valuations are also available:

As at 31 July	2019	2020
	TZS	TZS
Equipment (original cost TZS 2,840,000)	1,950,000	1,560,000
Subscriptions in arrears	130,000	170,000
Subscriptions in advance	20,000	74,000
Owing to suppliers of competition prizes	116,000	136,000
Stocks of competition prizes	76,000	92,000

Required:

(a) Calculate the value of the accumulated fund of the Misungwi Rotary Club as at 1st August 2019.

(b) Reconstruct the following accounts for the year ended 31 July 2020:

(i) The subscriptions account

(ii) The competition prizes account

Solutions

Calculation accumulating fund using statement of affairs

(a) **Accumulated fund 1 August 2019**

	TZS
Equipment	1,950,000
Stock of prizes	76,000
Subscriptions in arrears	130,000
Cash and bank	420,000
Total assets	**2,576,000**
Subscriptions in advance	20,000
Prize Suppliers	116,000
Total liabilities	**136.000**
Accumulated fund (Total assets – total liabilities)	**2,440,000**

(b) (i) **Subscriptions account**

Dr **Subscriptions account** **Cr**

Date	**Details**	**Amount TZS**	**Date**	**Details**	**Amount TZS**
	Subscriptions in arrears b/d	130,000		Subscriptions in advance b/d	20,000
	Subscriptions in advance c/d	74,000		Cash	3,974,000
	Income and expenditure statement	3,960,000		Subscriptions in arrears c/d	170,000
		4,164,000			**4,164,000**

(ii) **Competition prizes account**

Dr		Competition prizes Account			Cr
Date	**Details**	**Amount TZS**	**Date**	**Details**	**Amount TZS**
	Competition prizes stock b/d	76,000		Creditors balance b/d	116,000
	Cash	540,000		Income and expenditure statement	544,000
	Creditors balance c/d	136,000		Competition prizes stock c/d	92,000
		752,000			**752,000**

Exercise 6.4

From the information given below, ascertain the amount of rent expenses chargeable to income and expenditure statement for the year ending on 30th June 2020.

	TZS
Rent paid for the year	4,877,600
Rent paid in advance as on 30 June 2019	253,500
Rent paid in advance as on 30 June 2020	113,100
Accrued rent as on 30 June 2019	146,900
Accrued rent as on 30 June 2020	136,500

The statement of financial position for not-for-profit organisations

A statement prepared by not-for-profit organization looks similar to the one prepared by profit making organisations. It is prepared on the basis of the receipts and payments account and the income and expenditure statement, and is based on the same accounting principles which are applicable to a profit-making organisation. However, while profit making organisations use the term capital, not-for-profit organisations use the term accumulated fund.

Example 6.7

Mchakamchaka Sports Club had the following assets and liabilities on 31st December for the year shown:

	2020	2021
Accumulated fund	TZS 8,000,000	TZS 7,680,000
Owing salaries	TZS 112,000	-
Refreshment bill accrued by the club	NIL	TZS 64,000
Sports ground	TZS 4,000,000	?
Furniture	TZS 208,000	?
Sports equipment at valuation	TZS 1,920,000	TZS 1,600,000
Motor van	TZS 1,040,000	?
Subscription accrued	TZS 80,000	TZS 48,0000

The following summary of the club's receipts and payments was prepared by its treasurer for the year ending 31st December 2021.

Dr **Receipts and payments account** **Cr**

Date	Receipts	Amount TZS	Date	Payments	Amount TZS
1 Jan.2021	Balance b/d	864,000		Salaries	992,000
	Subscription	3,680,000		Travelling	1,248,000
	Donation	336,000		Stationery & postage	96,000
	Gate collection	1,040,000		Lighting and heating	80,000
	Sale of old sports equipment	160,000		Refreshments	832,000
				Purchases of new equipment	640,000
				Purchase of new motor van	608,000
				Repairs to sports equipment	112,000

				Maintenance of sports ground	544,000
			31 Dec.2021	Balance c/d	928,000
		6,080,000			6,080,000
1 Jan. 2022	Balance b/d	928,000			

Additional information:

(a) Sports ground was acquired several years ago on a 100 years lease for TZS 8,000,000

(b) The old sport equipment sold during the year had a book value of TZS 240,000

(c) Charge depreciation on furniture at TZS 48,000 and motor van at TZS 560,000

Required:

(i) Prepare the club's Income and expenditure statement as at 31st December 2021.

(ii) Prepare a statement of financial position as at 31st December 2021.

Solution

Working 1: Determination of subscription earned to be transferred to income and expenditure statement.

Dr **Subscription account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
1/1/2021	Accrued subscription b/d	80,000	31/12/2021	Cash	3,680,000
31/12/2021	Income and expenditure statement	3,648,000	31/12/2021	Accrued subscription c/d	48,000
		3,728,000			3,728,000
1/1/2022	Accrued subscription b/d	48,000			

Dr **Salaries account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
2021	Cash	992,000	1/1/2021	Accrued subscription b/d	112,000
			31/12/2021	Income and expenditure statement	880,000
		992,000			992,000

Dr **Refreshment account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
2021	Cash	832,000	31/12/2021	Income and expenditure statement	896,000
31/12/2021	Accrued subscription c/d	64,000			
		896,000			896,000
			1/1/2022	Accrued subscription b/d	64,000

Dr **Sports equipment account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
1/1/2021	Balance b/d	1,920,000	31/12/2021	Disposal	240,000
31 Dec. 2021	Cash	640,000	31/12/2021	Depreciation	720,000
			31/12/2021	Balance c/d	1,600,000
		2,560,000			2,560,000
1/1/ 2018	Balance b/d	1,600,000			

Dr **Disposal account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
2021	Sports equipment	240,000	31 Dec. 2021	Cash	160,000
				Income and expenditure statement	80,000
		240,000			240,000

Dr **Furniture account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
1/1/2021	Balance b/d	208,000	31/12/2021	Depreciation	48,000
			31/12/2021	Balance c/d	160,000
		208,000			208,000
1/1/2018	Balance b/d	160,000			

Dr **Motor van account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
1/1/2021	Balance b/d	1,040,000	31/12/2021	Depreciation	560,000
	Cash	608,000	31/12/2021	Balance c/d	1,088,000
		1,648,000			1,648,000
1/1/2022	Balance b/d	1,088,000			

Mchakamchaka Sports Club

Income and expenditure statement for the year ended 31 December 2021

	TZS	TZS
Income		
Subscription	3,648,000	
Donations	336,000	
Gate collection	1,040,000	5,024,000

Less: Expenditures		
Salaries	880,000	
Refreshment	896,000	
Depreciation of sports equipment	720,000	
Loss on disposal of sports equipment	80,000	
Depreciation of sports ground	80,000	
Depreciation of furniture	48,000	
Depreciation of motor-van	560,000	
Travelling	1,248,000	
Stationery & postage	96,000	
Lighting & heating	80,000	
Repairs to sports equipment	112,000	
Maintenance of sports ground	544,000	5,344,000
Deficit		320,000

Mchakamchaka Sports Club
Statement of financial position as at 31 December 2021

	TZS	TZS
Non-current assets		
Sports Equipment		1,600,000
Sports ground		3,920,000
Furniture		160,000
Motor van		1,088,000
		6,768,000
Current assets		
Cash	928,000	
Accrued subscriptions	48,000	976,000
		7,744,000
Accumulated fund & liabilities		
Accumulated fund		8,000,000
Less: deficit		(320,000)
		7,680,000
Current liabilities		
Accrued refreshments		64,000
		7,744,000

Example 6.8

Given below is the receipts and payments account for the year ended 31st December 2021 for Mtungi Social Club.

Dr **Receipts and payments account** **Cr**

Date	Receipts	Amount	Date	Payments	Amount
1/1/2021	Balance b/d	5,200,000		Club expenses	650,000
	Subscription 2021	6,500,000		Rent	1,950,000
	Subscription 2022	1,300,000		Ground hire	1,300,000
	Club collection	5,850,000		Equipment	9,750,000
	Donation from members	7,800,000		Purchases of refreshment	4,550,000
	Sales of refreshments	7,150,000			
			31/12/2021	Balance c/d	15,600,000
		33,800,000			33,800,000
1/1/2022	Balance c/d	15,600,000			

Additional information

a) Stock of refreshment at 1 January 2021 TZS 1,300,000
b) Stock of refreshment at 31 December 2021 TZS 1,950,000
c) Prepaid rent at 31 December 2021 TZS 650,000
d) Ground hire owing 31 December 2021 TZS 325,000
e) Subscription arrears 31 December 2021 TZS 1,950,000

Required:

(i). Mtungi social club income statement as at 31 December 2021
(ii). The income and expenditure statement for the year ended 31 December 2021
(iii). A statement of financial position as at 31 December 2021

Solution

Working 1: The Determination of subscriptions earned to be recorded in the income and expenditure statement.

Dr **Subscription account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
31/12/2021	Income and expenditure statement	8,450,000	2021	Cash	6,500,000
31/12/2021	Subscription in advance c/d	1,300,000	2021	cash	1,300,000
			31/12/2021	Subscriptions in arrears c/d	1,950,000
		9,750,000			9,750,000
1/1/2022	Subscriptions in arrears b/d	1,950,000	1/1/2022	Subscription in advance b/d	1,300,000

Working 2: The determination of rent incurred to be recorded in the income and expenditure statement.

Dr **Rent account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
2021	Cash	1,950,000	31/12/2021	Prepaid rent c/d	650,000
				Income and expenditure statement	1,300,000
		1,950,000			1,950,000
1/1/2022	Prepaid rent b/d	650,000			

Working 3: The determination of ground hire incurred to be recorded in the income and expenditure statement.

Dr **Ground hire account** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
2021	Cash	1,300,000	31/12/2021	Income and expenditure	1,625,000
31/12/2021	Accrued ground hire c/d	325,000			
		1,625,000			1,625,000
			1/1/2022	Accrued ground hire b/d	325,000

Working 4: The determination of an accumulated fund (Opening capital) at the beginning of the year using statement of affairs.

Mtungi Social Club
Statement of affairs as at 1 January 2021

	TZS
Current Assets	
Stock of refreshment	1,300,000
Cash at bank	5,200,000
	6,500,000
Less: **Liabilities**	NIL
Accumulated fund (missing figure)	6,500,000

Mtungi Social Club
Refreshment income statement for the year ended 31 December 2021

	TZS	TZS
Sales of refreshment		7,150,000
Less: cost of goods sold		
Opening stock	1,300,000	
Add: Purchases	4,550,000	
Cost of refreshment available	5,850,000	
Less: closing stock	(1,950,000)	
Cost of goods sold		(3,900,000)
Gross profit		3,250,000

Mtungi Social club

Income and expenditure statement for the year ended 31 December 2021

	TZS	TZS
Income		
Subscriptions		8,450,000
Club profit		3,250,000
Club collection		5,850,000
Donations from members		7,800,000
		25,350,000
Less: Expenditures		
Club expenses	650,000	
Rent	1,300,000	
Ground hire	1,625,000	(3,575,000)
Surplus		21,775,000

Mtungi Social Club

Statement of financial position as at 31 December 2021

	TZS	TZS
Non-current assets		
Equipment		9,750,000
Current assets		
Stock	1,950,000	
Rent prepaid	650,000	
Accrued subscription	1,950,000	
Cash at bank	15,600,000	20,150,000
		29,900,000
Accumulated fund & liabilities		
Accumulated fund		6,500,000
Add: Surplus		21,775,000
		28,275,000
Current liabilities		
prepaid Subscriptions	1,300,000	
Accrued Ground hire	325,000	1,625,000
		29,900,000

Activity 6.3

Organize yourselves in groups to discuss any four income generating activities which not-for-profit organizations can establish in order to obtain profits as a source of funds for running their activities.

Revision exercise 6

1. Namungo Social Club Treasurer provides the following information for the year ending 30th April 2021.

	TZS
Cash balance at 1 May 2020	1,707,200
Club purchases	4,699,200
General expenses	272,000
Club cash sales	6,448,000
Subscriptions	2,848,000
Miscellaneous receipts	89,600
Electricity bill	809,600
Repairs to equipment	521,600
Maintenance of ground	212,800
Telephone charges	164,800
Sundry expenses	230,400
Donations from members	283,200
Loan interest payable	155,200
Wages	224,000
Gate collections	823,000

From the above information, prepare Namungo Social Club's receipts and payments account for the year ending 30th April 2021.

2. Ndanda Club charges its members an annual subscription of TZS 463,800 per member. It accrues for subscription at the end of each year and also adjusts for subscription received in advance. On 1st January 2020, 18 members owed TZS 8,348,400 for the year 2019 and in December 2019, 4 members paid for the year 2020.

   During the year 2020, we received cash for subscriptions as follows;

For 2019	TZS 8,348,400
For 2020	TZS 160,474,800
For 2021	TZS 3,246,600

   Required:
   Prepare the subscription account

3. From the following details of Morogoro Charity Hospital, prepare the income and expenditure statement for the year ended 2019 and the statement of financial position as at 31st March 2019.

Dr Receipts and payments account Cr

Date	Receipts	Amount	Date	Payments	Amount
1/4/2018	Balance b/d	7,130,000		Medicines	30,590,000
	Subscriptions	47,996,000		Doctor's honorarium	9,000,000
	Donations	14,500,000		Salaries	27,500,000
	Interest on bank fixed deposit	7,000,000		Petty expenses	461,000
	Charity shows proceeds	10,450,000		Equipment	15,000,000
				Charity shows expenses	750,0000
			31/12/2019	Balance c/d	3,775,000
		87,076,000			87,076,000
1/4/2019	Balance b/d	3,775,000			

Additional information:

	As on 31 March 2018	As on 31 March 2019
Subscriptions due	TZS 240,000	TZS 280,000
Subscriptions received in advance	TZS 64,000	TZS 100,000
Stock of medicines	TZS 8,810,000	TZS 9,740,000
Equipment (cost less depreciation)	TZS 21,200,000	TZS 31,600,000
Building (cost less depreciation)	TZS 40,000,000	TZS 38,000,000

Interest on bank deposit was received for the full year at the rate of 7%

4. The following are the details of receipts and payments of Tembo Football Club for the year ended 31st December 2019.

Dr Receipts and payments for the year ended 31 December 2019 Cr

Date	Receipts	Amount	Date	Payments	Amount
1/1/2019	Cash balance b/d	4,500,000		Salaries (11 months)	1,100,000
	Subscriptions:			Tournament expenses	1,600,000
	2018	100,000		Investments	1,000,000

	2019	2,400,000		Furniture	400,000
	2020	200,000		Stationery	1,200,000
	Sale of old furniture (original cost 200,000)	140,000		Sports expenses	15,000,000
	Tournament receipts	2,000,000		Newspaper and magazines	200,000
	Sports fund	10,000,000		Rent paid up to February 2017	1,400,000
	Donations for sports	3,000,000	31 Dec. 2019	Cash balance c/d	440,000
		22,340,000			22,340,000

Other information

(i) The club has 300 members each paying an annual subscription of TZS 10,000. TZS 70,000 is still outstanding for the year 2018. In 2018, 10 members had paid their subscriptions for 2019 in advance.

(ii) Stock of stationery as on 31st December 2019 was TZS 100,000 and TZS 140,000 as on 31st December 2019.

(iii) On 1st January 2019, the club owned land & building valued at TZS 20 million and furniture worth TZS 1.3 million. Interest accrued on investment at the rate of 6% per annum for 3 months.

Required:

Prepare the income and expenditure statement for the year ended and the statement of financial position of Tembo Football Club for the year ended 31st December 2019.

5. The following trial balance of Gymkana Golf Club was extracted from the books as on 31 December 2019:

6.

	DR TZS	CR TZS
Building	142,000,000	
Equipment	18,600,000	
Profits from raffles		6,508,000
Subscriptions received		183,400,000
Wages of Gymkana staff	29,200,000	
Gymkana stocks 1 January 2019	9,400,000	
Gymkana purchases and sales	41,300,000	84,600,000
Greenkeepers' wages	21,500,000	
Golf professional's salary	37,000,000	
General expenses	910,000	
Cash at bank	3,924,000	
Accumulated fund at 1 January 2019		29,326,000
	303,834,000	303,834,000

Additional Note:

(i). Gymkana Golf Club purchases and sales were on a cash basis. Gymkana stocks at 31 December 2019 were valued at TZS 6,410,000.

(ii). Subscriptions paid in advance by members at 31st December 2019 amounted to TZS 1,870,000.

(iii). Provide for the depreciation of equipment TZS 2,400,000.

Required:

(a) Prepare Gymkana's income statement for the year ended 31 December 2019.

(b) Prepare the income and expenditure statement for the year ended 31 December 2019, and a statement of financial position as at 31 December 2019.

7. Vijana Social Club has provided the following trial balance as at 31 December 2021.

	DR TZS	CR TZS
Subscription during the year		6,860,000
Subscription arrears for previous years	98,000	
Donations		2,198,000
Motor expenses	294,000	
Rent	1,848,000	
Transport charges	1,106,000	
Wages	2,744,000	
Rates	896,000	
Stationery	938,000	
Cash at bank	4,256,000	
Office machine	2,940,000	
Sports ground	1,890,000	
Accumulated fund		7,952,000
	17,010,000	**17,010,000**

Required:

(a) Prepare the income and expenditure statement for the year ending 31 December 2021.

(b) A statement of financial position as at that date but taking into account the following;

(c) Sports ground to be depreciated at 20% and office machine at 10% per annum.

(d) The outstanding subscription of previous years is to be written off as a bad debt.

(e) Subscription due for the year of account and not yet paid TZS 84,000.

8. Dodoma Football Club has the following information on 1st January 2019.

	TZS
Bank	463,800
Dodoma Football Club stock	1,855,200
Club house building	28,987,500

During the year to 31st December 2019 the club had the following receipts and payments.

Dr Receipts and payments account Cr

Date	Receipts	Amount TZS	Date	Payments	Amount TZS
	Subscription 2019	8,116,500		Rent	3,478,500
	Subscription 2020	881,220		Extension to the club house	18,552,000
	Club income	13,914,000		Club purchases	8,696,000
	Visitors' fees	1,507,350		Professional salary	556,560
	Loan from bank	12,754,500		Club expenses	1,391,400
	Competition fee	1,901,580		Interest on loan	602,940
				Game equipment	4,638,000

Note:

a) The club stock on 31 December 2019 was TZS 2,087,100.

b) The games equipment should be depreciated by 20 per cent on cost per annum.

Required:

(i). Prepare Dodoma Football Club income statement as at 31 December 2019.

(ii). Prepare an Income and expenditure statement for the year ended 31 December 2019.

(iii). Prepare statement of financial position as at 31 December 2019.

9. (a) What are non-trading organisations?

(b) Discuss the difference between the receipts and payments accounts and the income and expenditure statement.

c) Write short notes on the following terminologies:

(i) Surplus

(ii) Accumulated fund

(iii) Depreciation

10. The following trial balance was extracted from the books of Juhudi Sports Club at the end of 31 December 2020.

Trial balance as at 31 December 2020

	DR TZS	CR TZS
Club building	11,520,000	
Equipment	4,352,000	
Purchases	8,140,800	
Sales		13,030,400
Club stock 1 Jan. 2020	1,868,800	
Bank	2,380,800	
Subscription received		7,372,800
Accumulated fund		19,020,800
Salary for secretary	3,072,000	
Wages of workers	4,505,600	
Telephone	742,400	
Office furniture	1,024,000	
Insurance and rates	1,049,600	
Cash	51,200	
Electricity expenses	716,800	
	39,424,000	**39,424,000**

Additional notes:

(i). Club stock as at 31 December 2020 was TZS 2,099,200.

(ii). No subscription has been paid in advance but subscription in arrears as 31st December 2020 was TZS 76,800.

(iii). Advance insurance was TZS 51,200

(iv). Provision for depreciation

a) Sports equipment was TZS 512,000

b) Office furniture was TZS 102,400

Required:

(a) Juhudi Sports Club income statement

(b) The income and expenditure statement

(c) A statement of financial position as at 31 December 2020

11. Read the following and answer the questions below. On 1 January 2020 Mwadui Club had the following assets:

	TZS
Cash	200,000
Mwadui Sports Club inventory	800,000
Buildings	12,500,000

During the year to 31st December 2020 the club received and paid the following amounts:

Dr **Receipts and payments account** **Cr**

Date	Receipts	Amount TZS	Date	Payments	Amount TZS
	Subscriptions 2020	3,500,000		Salaries	1,500,000
	Subscriptions 2021	380,000		Extension to building	8,000,000
	Club income	6,000,000		Club purchases	3,750,000
	Guests' fees	650,000		Secretarial expenses	240,000
	Loan from bank	5,500,000		Interest on loan	260,000
	Competition fees	820,000		Club expenses	600,000
				Sports equipment	2,000,000

Notes: The club stock on 31st December 2020 was TZS 900,000

The sports equipment should be depreciated by 20%.

(a) Prepare an income and expenditure statement for the year ended 31st December 2020.

(b) Prepare the statement of financial position as at 31st December 2020.

12. During the year ended 31 December 2019, Bwiikizo treasurer provided the following information:

		TZS
(i).	Equipment bought for cash	2,400,000
(ii).	Paid stationery by cash	315,000
(iii).	Paid rent	880,000
(iv).	Competition expenses	512,000
(v).	Purchases of snacks	820,000
(vi).	Subscription received by cash	2,464,000
(vii).	Competition fees	796,800
(viii).	Sales of snacks	1,772,800

Additional information is available as at 1 January 2019:

(i) Subscription paid for next year TZS 128,000.

(ii) Outstanding rent TZS 160,000.

(iii) Stock of snacks to be valued at TZS 112,000.

(iv) Equipment is to be depreciated at the rate of 20% per annum

Required:

(a) Prepare Bwiikizo's receipts and payments account for the year 31st December 2019.

(b) The income and Expenditure statement for the year ending 31st December 2019.

(c) A statement of financial position as at that date.

13. A summary information from Mahaza Church is revealed as indicated below. The information contains collections from bookshop sales and expenses incurred for the period ending 31th December 2021.

Dr **Cash book Summary** **Cr**

Date	Details	Amount TZS	Date	Details	Amount TZS
1/1/2021	Balance b/d	4,320,000		Purchase of equipment	1,140,000
	Tithe collections	12,654,000		Parish worker fuel	4,800,000
	Profit from parish bookshop	16,560,000		Printing and stationery	312,000
				Security expenses	660,000
				Equipment repair	630,000
				Servant garments	19,200,000
				Miscellaneous expenses	288,000
			31/12/21	Balance c/d	6,508,000
		33,538,000			33,538,000
1/1/2022	Balance c/d	6,508,000			

Further information:

(i) At 1 January 2021, equipment was valued at TZS 6,000,000.
(ii) Depreciate equipment at the rate of 25% for the year 2021.
(iii) At 31 December 2021, fuel paid in advance for the Parish worker was TZS 1,200,000.
(iv) At 31 December 2021, there was TZS 75,000 owing for printing.

Required:
(a) Prepare an income and expenditure account for the year ended 31 December 2021.
(b) Prepare a statement of financial position as at 31 December 2021.

13. On 1 January 2018, Amani Madrasatul had the following assets:

	TZS
Cash at bank	400,000
Madrasatul stocks	1,600,000
Madrasatul buildings	25,000,000

During the year to 31 December 2018, Amani Madrasatul received and paid the following amounts:

Dr Receipts and payments account for the year ended 31 December 2018 Cr

Date	Receipts	Amount TZS	Date	Payments	Amount TZS
	Dhaka received	7,000,000		Rent and rates	3,000,000
	Dhaka received	760,000		Extension to Madrasatul	16,000,000
	Madrasatul income	12,000,000		Madrasatul food purchases	7,500,000
	Visitor' Swadakha	1,300,000		Secretarial expenses	480,000
	Non-interest-bearing loan	11,000,000		Other expenses	520,000
	Competition fees	1,640,000		Madrasatul breakfast expenses	1,200,000
				Games equipment	4,000,000
				Balance c/d	10,000,000
		33,700,000			33,700,000
	Balance b/d	10,000,000			

Additional information given:

Madrasatul stock on 31 December 2018 was TZS 1,800,000. Games equipment should be depreciated by 20 per cent.

(a) Prepare an income and expenditure statement for the year ended 31 December 2018.

(b) Prepare a statement of financial position as at 31 December 2018.

Glossary

Adjustments Are accounting journal entries made at the end of the accounting period after a trial balance has been prepared.

Accrual concept A practice whereby revenue is recognized when earned not when cash is received and expenses are recognized when incurred not when paid for.

Accrued Refers to expenses or incomes which are outstanding and have not been paid or gained.

Appreciation Is the opposite of depreciation, it means permanent increase in the value non-current assets

Bad debt Refer to those debtors who will not be able to pay their debts due to various reasons.

Browser A computer program which enables computer users to navigate different web pages in the internet.

Depreciation It is a gradual decrease in the value of non-current assets overtime.

Depletion It is depreciation of non-current assets of wasting character.

Equity Equity is comprised of share capital of a business and reserves. These are amounts that will remain when a business is liquidated and all liabilities paid off. For a company being sold, equity refers to the value of the company less any liabilities of the company not transferred during the sale.

Incomplete records Accounting records which are not fully following double entry system.

Margin The gross profit expressed as the per centage of sales.

Mark-up The gross profit expressed as the per centage of cost of sales.

Not-for-profit organization	Entities established with no intention of generating profits but providing services/benefits to its members and the society.
Purchases ledger control account	Is a summary account which checks the arithmetical accuracy of the purchases ledger.
Portfolio	A collection of documents or news kept in one file or folder for future use.
Profit making organization	Entities established with a motive of generating profits through selling goods and services.
Sales Ledger Control Account	Is a summary account which checks the arithmetical accuracy of the sales ledger.
Statement of affairs	Is a statement prepared using incomplete records in order to ascertain missing figures such as capital.
Subscription	It is a regular payment received by the not-for-profit organisations from members on a regular basis.

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Form Three