THE NATURE AND CONTEXT OF ACCOUNTANCY

- **Brief history of Accounting:-**

  Early references to the subject of accounting may be found in the works of certain ancient oriental writers. However, the systematic approach to double entry system of book keeping and accounting as we know today has dated back to the late thirteenth century. In 1494, Luca Pacioli a Franciscan Monk living in Italy, published his well known work, Summa de Arithmetical, Geometric, Proportion, Promortionalita. It was Primary a study of mathematics but it also included a section on bookkeeping procedures.

- **The Meaning of the term "Accounting":**

  What is accounting?

  Is the art of recording, classifying and summarizing in a significant manner in terms of money transaction which are financial character and interpreting the results.

- ***Branches / fields of Accounting:-***

  There are three major fields of Accounting which are:-

  1. Financial Accounting.
  2. Management Accounting.
  3. Government Accounting.

1.Financial Accounting:-

This is an accounting field which concern with the provision of financial information about the business firm mainly to external users.

2. Management Accounting:-

This is an accounting field which concern with the provision of accounting information to internal users, which is the management of the firm. The kinds of financial reports and data which management accounting offers are aimed to help management in planning and controlling business operations and in decision making.

3. Government Accounting:-

This is an accounting field counter parting for the government sector. There are however, basic differences between the two which explain why government accounting has come to be considered as a separate area of accounting.

ILLUSTRATION

In July 2009 a Rajabu started a tailoring shop. The following are his transactions for the first week.

July 1: He opened the shop with invested capital consisting of sewing machine of 50,000/= and 3,000/= in cash

July 2: He bought tread, needles and other sewing supplies costing 500/=

July 3: He completed a shirt for a customer and received 400/= for his Services.

July 4: His neighbor Mr. Jumanne asked him to repair 2 pairs of trousers which he has done. He was promised to be paid 300/= at the end of the month.

July5: He sewed a baby's and was paid 200/= by the baby's mother.

July 6: He bought chairs for his shop from Mwenye Furniture for 2,000/= on credit.

POINT TO NOTE:-

1. We DR: What comes in

   CR: What goes out

2. We DR: received

   CR: giver

- **Requirement:**

  1. Journalise
  2. Open relevant ledger a/c
  3. Draw a trial balance

ANSWER

JOURNAL ENTRIES

DATE	DETAILS	DEBIT	C
July 1	Sewing machine	50,000	
	Cash	3,000	
	Capital		5
	(Being capital of 53,000 invested in opening shop).		
July 2	Tread, Needles etc.	500	
	Cash		5
	(Being sewing supplies bought at the cost of 500/=)		
July 3	Cash	400	
	Sales		4
	(Being a shirt sold to customer)		
July 4	Debtors	300	
	Sales		3
	(Being the cost of repair of trousers paid on credit)		
July 5	Cash	200	
	Sales		2
	(Being baby's dress sold on cash)		
July 6	Chairs	2,000	
	Mwenge Furniture		2
	(Being purchased chairs from Mwenge Furniture on credit)		

LEDGERS

DR. SEWING MACHINE A/C CR

July 1: Capital	50,000	July 31$^{st:}$ Bal. C/	
	50,000	50,000	
August 1: Bal b/d	50,000		

DR CASH A/C CR

July 1: Capital	3,000	July 2nd Sewing equ
3rd July Sales	400	
5th July Sales	200	31st July 2009 Balar
	3600	
August 1: Bal b/d	3,100	

DR CAPITAL A/C CR

31st July Balance c/d	53,000	1st July Sewing machine
		1st July Cash
	53,000	
		1st August Balance b/d

DR SEWING SUPPLIES A/C CR

2nd July: Cash	500	July 31st Bal. C
	500	
1st August Balance b/d	500	

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

31st July 2009 Shirt Bal c/d	900	3rd July Cash
		4th July Debtors
		5th July
	900	
		1/1/2010Balance b/d

TRIAL BALANCE AS AT 31ST DECEMBER 2009

DETAILS	DEBIT	CREDIT
Cash	3,100	
Sales		900
Capital		53,000
Sewing equipments	500	
Debtors	300	
Chairs	2,000	
Sewing machine	50,000	
Mwenge Furniture		2,000
	55900	**55900**

DR. TRADING, PROFIT AND LOSS A/C FOR THE YEAR ENDED 31ST DEC 2009 CR

Purchases	500	Sales
Gross profit c/d	400	
	900	
Net profit	400	Gross profit b/d

BALANCE SHEET (EXTRACT)

Capital	53,000
Add: Net profit	400
	53,400
Liabilities:-	**Current Assets**:
Trade creditors	2,000
	55,400

EXAMPLE

Record the following transaction in journal entries,open ledgers,close ledgers,prepare trial balance :-

1. Purchase of Tshs. 100,000/= of goods on credit.
2. Withdrawal of Tshs. 10,000 cash by the owner for his birthday party.
3. Collection of Tshs. 10,000/= from Imamu Jones who is a credit customer of the firm.
4. Return of 10,000/= of goods to a supplier because there are faulty. The original purchase was on credit terms
5. Payment of Tshs. 150,000/= by the business to a supplier or account of an amount due to the supplier.
6. Purchase of machinery for Tshs. 300,000/= on credit
7. Additional cash of Tshs. 100,000 invested in the business by the proprietor
8. Payment of Tshs. 120,000/= in cash for goods supplied
9. Got a loan of Tshs.1,000,000/= from NBC through a bank account at Ubungo branch.

JOURNAL ENTRY

DATE	PURCHASES	DEBIT	CR
	a) Purchases	100,000	
	Bank creditors		10
	(Being goods bought on credit)		
	b) Drawings	10,000	
	Cash		10
	(Being cash withdrawn for B'day party)		
	c) Cash	10,000	
	Imamu Jones (creditors)		10
	(Being cash collected from Imamu Jones)		
	d) Supplier / creditor	10,000	
	Return outwards		10
	(Being goods returned to supplier because they are faulty)		
	e) Supplier / creditors	150,000	
	Cash		15
	(Being payments made to supplier)		
	f) Machinery	300,000	
	Creditors		30
	(Being Machinery bought on credit)		
	g) Cash	100,000	
	Capital		10
	(Being cash invested in the bank by proprietor)		
	h) Purchases	120,000	
	Cash		12
	(Being cash paid for goods supplied)		
	i) Cash	1,0	
	NBC		1,

LEDGERS

DR **CASH**
A/C **CR**

July 1st Imamu Jones	10,000	July 2Drawing
July 7Capital	100,000	July 5 Creditor
July 9 Loan(NBC)	1000,000	July 8 Purchases
		July 31 Balance c/d
	1,110,000	
Aug 1 Balance b/d	830,000	Balance b/d

DR **PURCHASES**
A/C **CR**

Creditors	100,000	
Cash	120,000	Balance c/d
	220,000	
Balance b/d	220,000	

DR **CREDITORS A/C**
CR

Returns	10,000	
Cash	150,000	Machinery
Balance c/d	250,000	Cash
	410,000	
		Balance b/d

TRIAL BALANCE EXTRACT

DETAILS **DEBIT** **CREDIT**

Cash	830,000	
Purchases	220,000	
Creditors		250,000
Loan (NBC)		1,000,000
Machinery	300,000	
Return outward	10,000	
Capital		100,000
Drawings		10,000
	1,360,000	1,360,000

EXERCISE

Daktari Jaribu , DDS , her own dental practice . Her books had the followings accounts and balances as of 1st October.

Cash Tshs. 341,200/=, Debtors Sh. 597,500/=, office supplies Tshs. 39,000/=, Equipment Tshs. 3,012,500/=, Surgery supplies Tshs. 155,000/=, Creditors Tshs. 96,500/=, Capital Tshs. 4,048,700.

Following are the transactions in the practice of her profession during October.

Oct. 1: Paid office rent for October Tshs. 80,000/=

2: Purchased equipment on credit Tshs. 290,000/=

3: Purchased X – ray film and other surgery supplies on credit Tshs. 25,000/=

5: Received cash on account from patients Tshs, 472,500/=

9: Paid cash to creditors Tshs. 175,000/=

14: Paid cash for renewal of insurance policy Tshs. 51,000/=

17: Paid from the business bank account Tshs. 170,000/= being personal and family expenses.

20: Paid invoices for laboratory analyses Tshs. 31,500/=

22: Cash received from cash paying patients Tshs 295,000/=

24: Paid miscellaneous expenses Tshs. 11,200

26: Paid electricity bills Tshs. 32,500/=

30: Recorded all fees charged to credit patients for service performed during October Tshs. 571,500/=

30: Recorded use of Tshs. 55,000/= worth of surgery supplied.

Required:-

(a) Open ledger accounts and insert opening balances.

(b) Record the above transactions in a two column journal

(c) Post the journal to the ledger and

(d) Balance off the ledger

(e) Extract a trial balance

CORRECTION OF ACCOUNTING ERRORS

INTRODUCTION

Error-Mistake

Rectification-Correction

Errors may occur

1.While the transactions are initially recorded.

2.While the ledge account are being recorded.

3.While the trial balance is bean prepared.

CLASSIFICATION OF ERRORS

1.Arithmetical error

Error occur due to

a) Adding

b) Subtracting

c) Multiplying

d) Dividing

2.Clerical error

These are errors which arises due to falling to complete double entry system.

The Accounting errors are classified into two types which are;

- Errors which do not affect the agreement of the Trial balance.
- Errors which affect the agreement of the Trial balance.

1.ERRORS WHICH DO NOT AFFECT THE AGREEMENT OF A TRIAL BALANCE RESULT DUE TO:-

1. Omission of figure(s); It is among the errors in which it occurs when a transaction is completely omitted from the books.

Example: If we sold Tshs. 10,000/= goods to Usama but did not enter it in either sales or Usama's personal account, the trial balance will still balance.

2. Commission; This is where the correct amount is entered but in the wrong personal account.

Example: where a sale of 100/= to K. Asaad is entered in the account of B. Asaad . It will be noted that the correct class of account was used; both the account concerned being personal accounts.

3. Original entry:

This error occurs when the original figure is incorrect, yet double entry is still observed using this incorrect figure. An instance of this could be where there were sales of 4500/= goods but an error is made in calculating the sales Invoice. If sales was calculated as 4300/= and credited as Sales and debited to the personal account of the customer, the customer, the trial balance will still balance.

4. Reversal of entries;

Where the correct accounts are used but each item is shown on the wrong side of account.

Example: Supposed we had purchased goods at 1200/= the double entry of which is Cr. Cash 1200/= and Dr. purchases 1200/=. In error it is entered as Cr. Purchase1200/= and Dr. Cash 1200. The Trial balance will still agree.

5. Application of principle;

Where an item is entered in which wrong class of account.

6. Compensating of figures;

Where errors cancel out each other. If the Sales account was added up to be 600/= too high and the purchases a/c also added up to be 600/= too high, then these two errors would cancels out in the trial balance.

2.ERRORS WHICH AFFECT THE AGREEMENT OF A TRIAL BALANCE RESULT:

(i) Incorrect additions either total too great or too small in any account.

(ii) Entering an item on only one side of the book.

For instance, if the debit entry is made but not the credit entry (once recording only).

(iii) Posting an entry twice in the books of accounts on the same side.

E.g. Dr. Sales 500 and Dr. Cash A/C 500 or vice – versa.

(iv) Failing to post an entry to the trial balance.

E.g. Balance of 100/= From Discount a/c is totally forgotten, not posted to trial balance through an account has been prepared.

(v) Entering one figure on the debit side of the books but another figure on the credit side.

E.g. If 800/= for cash received from K. Usama is entered in the cash book but 8,000/= is entered in respect of it in Usama's A/c

SUSPENSE ACCOUNT

Is an A/C opened and used in corrections errors which can cause disagreement of the trial balance.

Since errors are discovered in trial balance, so as to prepare final accounts at the end of accounting period to enable work on the trial balance is often transferred to a temporary ledger account called suspense account. Either by debiting or crediting.

EFFECTS OF BOOK-KEEPING ERROR ON PROFIT

Sometime final account are prepared before detection and correction of errors which have been committed in the course of book-keeping for the period.

The trading, profit and loss account drawn up on the basis of erroneous trial balance will them show a wrong gross profit and net profit for the period ending.

Even the balance sheet will reveal a wrong financial position as at the end of the period under review

COMPUTATION OF CORRECT GROSS PROFIT AND NET PROFIT

The following hints should be followed when calculating the correct gross profit and net profit.

1. Errors which direct affecting gross profit.

Are those errors which involve items normally posted to determine net income realized from sales or turnover. Involves items appear in the trading account.

2. Errors direct affecting net profit

Are those errors which are normally posted to the profit and loss account to determine net profit for the period or items appeared in the profit and loss account.

3. Errors involving personal account

Eg real account

HOW TO COMPLETE/CORRECT NET PROFIT FOR THE YEAR

Profit for the year ****

Add:any income undercast *

Any payment overcast * **

******

Less: any payment undercast *

any income overcast ** ***

corrected profit ***

Illustration;-

Show journal entries necessary to correct the following errors:-

(a) A selling of goods 70,000/= to Halima, had been posted to Halimu's a/c.

(b) The purchase of machine from Lamu for 1,600,000/= had been omitted from the books.

(c) The purchase of office furniture 800,000/= had been posted to office furniture expenses.

(d) A receipt of cash from Halima 88,000/= had been entered in the wrong side of the accounts.

(e) A cheque of 115,000/= paid to Ram had been correctly entered in the cash book but not in Rama's account.

(f) The purchases A/c has been under cast by 120,000/=

(g) The following accounts have been under cast;

(i) Rent…………………………………......10,000/=

(ii) Discount received……………………...2, 000/=

(iii) Return Inwards………………………...3, 000/=

(h) The following accounts had been over added;-

(i) Sales……………………….....11, 000/=

(ii) Purchases…………………..5,000/=

(iii) Carriage inwards………6,000/=

Requirements:

- Open up journal entry account.
- Suspense a/c.

JOURNAL ENTRY

S/N	DETAILS	DEBIT
	a) Halima's a/c	
	Halimu's a/c	70,000
	(Commission error is now being corrected)	
	b) Machine	
	Lamu	1,600,000
	(Omission of figure is now being corrected)	
	c) Office furniture	
	Office furniture expenses	800,000
	(Application of prince is now being corrected)	
	d) Cash	
	Hamim	176,000
	(Being cash received from Hamim)	
	e) Ram	
	Suspense	115,000
	(Being error of commission)	
	f) Purchases	
	Suspense	120,000
	(Being purchases under cast)	
	i. Rent	
	Suspense	10,000

(Being discount received under cast)

ii. Suspense

Discount received 2,000

(Being cash paid for goods supplied)

iii. Return inwards

Suspense 3,000

h. (i)Sales

Suspense 11,000

(Being sales over added)

(ii)Suspense

Purchases 5,000

(Being carriage inwards over added)

(iii) Suspense

Carriage inwards 6,000

(Being carriage inwards over added)

DR SUSPENSE A/C CR

Discount received	2,000	Ram	115,000
Purchases	5,000	Purchases	120,000
Carriage inwards	6,000	Rent	10,000
Diff in books	246,000	Return Inwards	3,000
		Sales	11,000
	259,000		259,000

Below are particulars regarding Jones Ogooli's FinaL A/c? The net profit per accounts is found to be Shs. 154,000. The balance sheet when drawn up appeared to be as follows:-

Exercise

Draft balance sheet as at 31/12/1986

LIABILITIES		**ASSETS**
	T*shs:*	
Capital bal. at 1/1/86	1,000,000	Plant and machinery cost
Add: Net profit	154,000	Less: Depreciation
	1,154,000	9
Less: Drawings	72,000	
	1,082,000	**CURRENT ASSETS:**
CURRENT LIABILITIES:-		Stock 170,000
Creditors	109,000	Debtors 50,000
Suspense A/c	9,000	Cash 30,000
	12,000,000	

The following errors were subsequently detected and corrected:-

1. The cash sales entry entered in cash book only Tshs. 6,000/=
2. Drawings (cash) completely omitted from books Tshs. 1,000/=.
3. Rent account under cast Tshs. 2,000/=.
4. Creditor Mr. Burasa paid , but entry in his ledger A/c.

Requirements:

- Open up journal entry account.
- Suspense a/c.
- Statements of corrected net profit

INTRODUCTION:

- Any business firm must have an asset in conducting its activities.
- Assets are the possessions of the business.
- They are things of value that the firm utilizes in conducting business
- They are the actual resources that are in the business.
- Assets include land, building, machinery , stock of goods, debtors cash.
- Assets are financed by capital and liabilities or in technical terms are financed by equities.

DEFINITION OF RESERVE:

It is an amount set aside out of profits (i.e. from the profit and loss account or any surpluses for unidentified or Unspecified purposes.

KIND OF RESERVES:

Reserved can be classified into the following major categories.

1. Revenue reserve
2. Capital reserve

1.REVENUE RESERVE

Is a fund / amount created by voluntary transferring part of the profit kind normally becomes part of the name of that reserve.

TYPES OF REVENUE RESERVE

1. Specific reserves: These reserves created out of revenues profit for a specific purpose.

2. General reserve: These are reserves created out of revenue profit for general purposes.

2. **CAPITAL RESERVES.**

These are reserves which are created out of the capital profits. These reserves are not available for distribution among shareholders as dividend in the case of companies.

Examples or sources of capital reserve:

1. Profit on sale of fixed assets: it should be noted that capital profit is only excess of sale price over the cost of fixed asset.
2. Profit prior to incorporation.
3. Premium on issue of shares of debentures.
4. Profits on redemption of debentures
5. Profit on for feature of shares.
6. Surplus on revaluation of fixed assets
7. Amount transferred out of profits to capital.

PROVISION

Provision usually means any amount written off or retained by way of providing depreciation, renewals or diminution in the value of asset or retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy.

Difference between reserve and provision

1. A reserve is an appropriation of profit while a provision is a charge against profits .in other words true profits cannot be determined without making adjustment for the provisions required.
2. Creation of reserves increases proprietor's funds while creation of provisions decreases his funds in the business.
3. Provisions are created to meet some known contingency, the amount of which cannot be precisely determined .Reserves are created to meet some financial position of the business, while creation of previsions help in maintaining the exiting financial position.

PROVISION FOR BAD AND DOUBTFUL DEBTS.

Bad debts:

1. Accounting entries on bad debts.

Dr; bad debts a/c

Cr; debtors a/c

Then at the end of accounting period.

Dr: P&L

Cr: bad debts

2. Discount allowed

Dr: P&L

CR: Provision for discount allowed.

3.Treatment on provision for B.D D
i.In the first year:

Dr: P&L

Cr: provision for B. D.D

ii. Decrease in provision for B.D.D

Dr .Provision for B.D.D

Cr: P&L
iii. Increase in provision
Dr: P&L
CR: Provision for B.D.D

EXAMPLE

List of debtors.

YEAR	**DEBTORS**
2008	100,000
2009	150,000
2010	145,000
2012	140,000

Rate of provision for B.D.D is 10% P.A

Draw Up:

1. provision for B.D.D A/C

2. balance sheet as at 31. 12. 2000 – 2011

2008: 100,000 x 10/100 = 10,000

2009: 150,000 x 10/100 = 15,000

2010: 145,000 x 10/100 = 14,500

2011: 140,000 x 10/100 = 14,000

DR PROVISION FOR BAD AND DOUBTFUL DEBTS A/C CR

31.12.2008	Balance c/d	10,000	31.12.2008	P
31.12.2009	Balance c/d	15,000	1.1.2009	E
			31.12.2009	P
		15,000		
31.12.2010	P & L	500	1.1.2010	E
31.12.2010	Balance c/d	14,500		
		15,000		
31.12.2011	P & L	500	1.1.2011	E
31.12.2011	Balance c/d	14,000		
		14,500		
		1.1.2012		I

BALANCE SHEET AS AT 31.12.2008

	2008	Debtors	100,0
		less: Provision for B.B.D	10,0
	2009	Debtors	150,0
		less: Provision for B.B.D	15,0
	2010	Debtors	145,0

		less: Provision for B.B.D	14,5
	2011	Debtors	140,0
		less: Provision for B.B.D	14,0

BAD DEBTS RECOVERED.

- when bad debts recorded

Dr: cash / bank

Cr: bad debt recoverable a/c

Then at the end of accounting period:

Dr: bad debts recoverable a/c

Cr: P & L

QUESTIONS:

1. A business makes a provision for bad debts and discount allowed at a rate of 6% and 3% of debtors respectively

The debtors balance as at 31st December were;

1995 85,000

1996 75,000

1997 90,000

You are required to show the necessary entries in the provision accounts, profit and loss account and balance sheets for those years.

1. A trader makes a provision for discounts received at the rate of 4% of creditors at the end of the year. The creditors balance as at 31st December were.

19 -2 12,000

19-3 15,000

19-4 10,000

19-5 13,000

You are required to show the necessary entries in the provision for discount received account, profit and loss account and balance sheet as at for these gears.

3. The following items appear in A white trial balance dated 31st December 19-7

		DR
		Tsh
Bad debts		3,000
Discount allowed		1,420
Discount received		
Trade debtors		70,000
Trade creditors		

It is white's policy to keep the provision for bad debts. Discount allowed and discount received at the rate of 5%, 2.5% and 6% on debtors.

You are required to show the entries in:-

1.The P & L account (extract) for the year ended 31 .12. 19-9
2. Balance sheet (extract) as at 31. 12. 19-9

CALCULATION (1)

Provision for bad debts at a rate of 6%

1995: 85,000 x 6/100 = 5,100

1996: 75,000 x 6/100 = 4500

1997: 90,000 x 6/100 = 5400

DR PROVISION FOR BAD AND DOUBTFUL DEBTS A/C CR

31.12.1995	Balance c/d	5100	31.12.195	p&L
31.12.1996	p&l	600	1.1.1996	balance b/d

31.12.1996	Balance c/d	4500		
		5100		
			1.1.1997	balance b/d
31.12.1997	Balance c/d	5400		p&l
		5400		
			1.1.1998	balance b/d

DR PROFIT AND LOSS A/C CR

31.12.1995	provision for B.D.Debts	5100	31.12.1996	provision for B.D
31.12.1997	provision for B.D.Debts	900		

4. E.C Commenced business on 1st January 1997 and his account end to 31 December, every year. For the ended 31. 12. 1997, bad debts written off amounted to 1200/=, if was also found necessary to create the provision for doubt of 2,000/= in 1998, debts, amounting to 1600, proved bad and were w/o. Mrs Lema, whose debts of 350 was w/o as bad in 1997 settled her account in full on 30.11.1998. As at 31.12.1998 total debts outstanding were 56,000 it was decided to bring provision up to 5% on this figure of that date.In 1999, 2,350 debts were w/o during the year, and another recovery of 150 was made in respect of debts w/o in 1997. As 31st .12.1999, total debts outstanding were 42,000; the provision for doubtful debt is to be maintained at 5% of this figure.

You are required to prepare:-

1. Bad debts a/c.
2. Provision for bad debts a/c.
3. Bad debts recovery a/c.

CALCULATION (4)

DR BAD DEBTS A/C CR

31.12.1997	Debtors	1200	31.12.1997	p&
31.12.1998	Debtors	1600	31.12.1998	p&
31.12.1999	Debtors	2350	31.12.1999	p&

DR PROVISION FOR BAD AND DOUBTFUL DEBTS A/C CR

31.12.1997	Balance c/d	2,000	31.12.1997	p&l
31.12.1998	Balance c/d	2,800	1.1.1998	balanc
			31.12.1998	p&l
		2,800		
31.12.1999	p&l	700	1.1.1999	balanc
31.12.2000	Balance c/d	2,100		
		2,800		
			1.1.2000	balanc

Workings:

31.12.1998: 56000 X 5/100 = 2800

31.12.1999: 42000 X 5/100 = 2100

DR BAD BEBTS RECOVERY A/C CR

31.12.1998	p&l	350	31.12.1998	cash/ban
31.12.1999	p&l	150	31.12.1999	cash/ban

PROVISIONS FOR DEPRECIATION

Depreciation

Is that part of the original cost of a non – current asset that is consumed during its period of use by the business, OR Is the fall in value of an asset.

- **Causes of Depreciation:**

1. Physical deterioration:-

    1. Wear and tear.

    2. Erosion , rust and decay.

2. Economic factors:-

    1. Obsolescence.

    2. Inadequacy.

    3. Time.

    4. Depletion.

- **METHODS OF CALCULATING DEPRECIATION CHARGES:-**

    (i) **Straight line method:**

    In this method, the number of years of use is estimated. The cost is then divided by the number of years.

    Example

    If a van was bought for 22,000 and we thought we could keep it for four years and then sell it for 2,000. What depreciation to be charged each year would be?.

    (disposal value)/(Estimated number of year).

    Depreciation = (22,000-2,000)/4 = 20,000/4 = 5,000/=

    Therefore, Depreciation to be per year is 5,000/=

(ii) Reducing balance method:-

In this method, a fixed percentage for depreciation is deducted from the cost in the first year. In the second and the third years the same percentage is taken of the reduced balance. This method is also known as "**Diminishing balance method"** A machine is bought for 10,000/= and depreciation is to be charged at 20%. The calculations of the first three years would be as follows:-

cost		10,000
1st year	Depreciation (20%)	-2,000
	Remaining value 1st year	8,000
2nd year	Depreciation (20%) of 8,000	-1,600
	Remaining value 2nd year	6,400
3rd year	Depreciation (20%) of 6,400	-1,280
	Remaining value 3rd year	5,120

(iii) **Units of output method:-**

This method establishes the total expected units of output expected from the assets. Depreciation, based on cost less salvage value, is then calculated for the period by taking that period units of output as a proportion of the total expected output over the life of the asset. A machine which is expected to be able to produce 10,000 widgets over its useful life. It has cost 6,000/= and has an expected salvage value of 1,000/=. In year 1 a total of 1500/= widgets are produced and in year 2 the production is 2500 widgets.

(Cost – salvage value) x { Period's production Total expected production}

Year 1: (6000 – 1000) x (31500)

10,000

= 5000 x 3/20 = 1500 = 750

2

Year 2: 5000 x 2,500

= 10000

= 1,250

= Year 1: = 750/= Depreciation

= Year 2: = 1,250/= Depreciation

(iv) Sum of years digit method:-

Given an asset costing 3,000/= which will be in use for five years, the calculation will be:-

Sum of years digit = n/2 (n + 1)

= 5/2 (5 +1)

= 5/2 x 6 = **15**

1^{st} year : 5/15 x 3000 = 1,000

2^{nd} year: 4/15 x 3,000 = 800

3^{nd} year: 3/15 x 3,000 = 600

4^{th} year: 2/15 x 3,000 = 400

5^{th} year: 1/15 x 3,000 = 200

<u>3,000</u>

(v) Depletion unit method:-

A quarry was bought for 5000/= and it was expected to contain 1,000 tonnes of salable materials, then for each tonne taken out we would depreciate it by 5/=,(Since 5000 ÷ 1,000) = 5. This can be shown as;

(cost of asset)/(Expected total contents in units) x Number of units taken

(vi) Machine hour method:-

With a machine the depreciation provision may be based on the number of hours that the machine was operated during the period compared with the total expected running hours during the machines life with the business.

ASSIGNMENT:

A Company, which makes up its financial statements annually to 31st DEC, provides for depreciation of its machinery at the rate of 15% per annum using the reducing balance method.

On 31/12/2008, the machinery consisted of three items purchased as shown:-

On 1st January 2006 (Machine A)	2,000
On 1st September 2001 (Machine B)	4,000
On 1st May 2008 (Machine C)	3,000

Required:

Your calculations showing the depreciation provision for the year 2008.

Calculations:

	Machine A	**Machine B**	**Machine C**
Bought on 1.1.2006	2,000		
15% × 2,000	-300		
	1,700		
Bought on 1.9.2006		4,000	
15% × 1,700	-255		
15% × 4,000 × 4/12		-200	
	1,445	3,800	
Bought on 1.5.2007			3,000
15% × 1,445			
15% × 3,800	-217	-570	
15% × 3,000 × 8/12			-300
	1,228	3,230	2,700

ASSIGNMENT:-

A machine which cost Tshs. 200,000 is to be depreciating at the rate of 20% p.a. On the straight line method. Assuming this machine was purchased on 1st January 19-7. Show the entries to record this as at 31st Dec 19-7, 19-8 and 19 – 9, by applying two alternative methods.

Workings:-

Straight line method:-

19 – 7: 200,000 x 20,000 = 40,000

19 – 8: 200,000 x 20/100 = 40,000

19 – 9: 200,000 x 20/100 = 40’000

METHOD 1:

ENTRIES IN THE ASSET A/C

DR. **MACHINERY A/C** **CR**

1.1.1997	cash	200,000	31.12.1997	P&L
			31.12.1997	Balance c/d
		200,000		
1.1.1998	Balance b/d	160,000	31.12.1998	P&L
			31.12.1998	Balance c/d
		160,000		
1.1.1999	Balance b/d	120,000	31.12.1999	P&L
			31.12.1999	Balance c/d
		120,000		
1.1.2000	Balance b/d	80,000		

DR **PROFIT AND LOSS A/C** **(EXTRACT)** **CR**

31.12.1997	Depreciation	40,000
31.12.1998	Depreciation	40,000
31.12.1999	Depreciation	40,000

BALANCE SHEET

	31.12.1997 Machinery <u>160,000</u>

	31.12.1998 Machinery 120,000 31. 12. 1999 Machinery 80,000

METHOD 2:

DR MACHINERY A/C CR

1.1.1997 Cash	200,000	31.12.1997 Balance c/d	
1.1.1998 Balance b/d	200,000	31.12.1998 Balance c/d	
1.1.1999 Balance b/d	200,000	31.12.1999 Balance c/d	

DR PROVISION FOR DEPRECIATION A/C CR

31.12.1997 Balance c/d	40,000	31.12.1997 P&L	
		1.1.1998 Balance b/d	
31.12.1998 Balance c/d	80,000	31.12.1998 P&L	
	80,000		80,(
31.12.1999 Balance c/d	120,000	1.1.1999 Balance b/d	
		31.12.1999 P&L	
	120,000		120,

PROFIT AND LOSS A/C (EXTRACT)

31.12. 1997 Provision for depreciation	40,000
31.12.1998 Prov. for depreciation	40,000
31.12.1999 Provision for depreciation	40,000

BALANCE SHEET (EXTRACT)

ASSETS
NON-CURRENT ASSETS

31.12.1997	Machinery	200,000
	Less: Provision for depreciation	40,000
31.12.1998	Machinery	200,000
	Less: Provision for depreciation	80,000
31.12. 1999	Machinery	200,000
	Less: Provision for depreciation	120,000

DISPOSAL OF A NON-CURRENT ASSET:-

- Accounting treatment:-

1. When we buy assets:-

DR: Asset a/c.

CR: Cash / Bank / Creditor.

2. Annual provision for depreciation:-

DR: P &L

CR: Provision for depreciation

3. When asset sold / disposal :-

1st step: DR: Disposal a/c at cost.

CR: Asset a/c

2nd step: Dr. Cash / Bank} Selling price of the asset

Cr. Disposal

3rd step: Dr. Provision for depreciation} with the amount of Prov.

Cr. Disposal for depreciation Of the asset sold.

4th step: Dr. P & L } In case of loss on disposal.

Cr. Disposal.

Or

Dr. Disposal } In case of gain on disposal.

Cr. P & L

A machine bought on 1.1.2008 for 1,000,000 and sold on 1.1.2010 for 500,000. Depreciation per annum is 10% on straight line method.

Draw up: - Disposal a/c

-Provision for depreciation a/c
-P & L a/c

DR MACHINERY A/C CR

1.1.1998 Cash	1,000,000	31.12.2008 Balance c/d
1.1. 2009 Balance b/d	1,000,000	31.12.2009 Balance c/d
1.1.2010 Balance b/d	1,000,000	1.1.2010 Disposal

DR. PROVISION FOR DEPRECIATION A/C CR

31.12.2008 Balance c/d	100,000	31.12.2008 P & L
31.12. 2009 Balance c/d	200,000	1.1 .2009 Balance b/d
		31.12.2009 P & L
	200,000	20
1.1.2010 Disposal	2,000,000	1.1.2010 Balance b/d

DR DISPOSAL A/C CR

1.1.2010	Machine	1,000,000	1.1.2010	Cash/Bank
				Provision for deprecia

				P&L
		1,000,000		

ASSIGNMENT

1. A motor vehicle was purchased for Tshs. 400,000 on 1st January 1996. Depreciation was to be provided at the rate of 25% per annum on diminishing balance method. Show the entries as 31.12.1996, 1997, and 1998 in the following a/c.

(a) Motor vehicle a/c.

(b) Provision for depreciation on motor vehicle a/c.

(c) P & L a/c (Extract).

(d) Balance sheet (Extract).

2. Best view hotel had crockery valued at sh. 65,000 on 1.1.1987. During 1987, they purchased some more crockery for sh. 50,000 and on 31.12.1987; it was valued at Sh. 100,000. Calculate the depreciation charge of crockery for the year ending 31.12.1987 and show the entries in the relevant a/c' s.

3. Kilimanjaro Company Limited acquired the following fixed assets during 1986.

(a) Furniture and fitting for Tshs. 10,000. These are expected to be depreciation at 20% per annum. Date of purchase 1.1.1986.

(b) Premises on a 99 years lease for Tshs. 198,000. Date of acquisition 17:1986.

(c) Motor van for Tshs. 45,000. It is expected to have a useful life of 7 years and leave a scrap value of shs. 3,000. Date of purchase 1.09.1986.

The company has no other fixed assets. It maintains a provision for depreciation a/c for each fixed asset.

you are required to calculate the following:-

1. The balance on motor van a/c on 31.12.1987.
2. The balance of provisions for depreciation on furniture and fittings a/c on 31.12.1987.
3. The book value of premises on 31.12.1987.
4. The amount of depreciation charged to profit and loss a/c on all fixed assets at the end of 1987.
5. On 1st January 1986 Kahawa Transporters LTD, purchased three motor vehicle costing shs. 108,000 each. The useful life of these vehicles was estimated to be five years with a disposal value of shs. 8,000

for each vehicle.

The company's normal practice is to use straight line method for depreciation.

One of the vehicles was damaged in an accident and was sold on 1.1.1986 for Tshs. 45,000.

Required:

Prepare the following a/c for the three years ended 31.12.1986, 1987, and 1988:-

1. Motor vehicle a/c.
2. Motor vehicle disposal a/c.
3. Provision for depreciation on Motor vehicle a/c.

The following transactions relate to AJS limited in respect of plant and machinery:-

1. On 1st March 1986 machine M. 5 purchased for Tshs. 120,000. The estimated useful life being 5 years and having a residual value of sh.20, 000.
2. On 1.1. 1987 machine M.6 purchased for Tshs. 180,000. The estimated useful life being 7 years and having a residual value of Tshs. 40,000.
3. On 1.9.1988 machine M.5 was given a part exchange for machine M.7, the allowance being sh. 40,000, machine M.7 costs Tshs 200,000 will an estimated useful life of 10 years and having a residual value of sh. 60,000.

Assume full depreciation expenses in the year of purchase, and ignore depreciation in the year of sale.

Required:-

Plant and machinery a/c and the related depreciation and disposal a/c in respect of the three years ending 31.12.1989.

WORKINGS/SOLUTIONS

FOR ASSIGNMENT. 1

DR MOTOR VEHICLE A/C CR

1.1.1996	Cash	400,000	31.12.1996 Balance c/d
1.1.1997	Balance b/d	400,000	31.12.1997 Balance c/d
1.1.1998	Balance b/d	400,000	31.12.1998 Balance c/d
1.1.1999	Balance b/d	400,000	

DR PROVISION FOR DEPRECIATION A/C CR

31.12.1996	Balance c/d	100,000	31.12.1996 P&L
			1.1.1997 Balance b/d
31.12.1997	Balance c/d	175,000	31.12.1997 P&L
		175,000	175,0
31.12.1998	Balance c/d	231,250	1.1.1998 Balance b/d
			31.12.1998 P&L
		231,250	231,2
			1.1.1999 Balance b/d

DR. PROFIT AND LOSS A/C (EXTRACT) CR

31.12.1996	Prov. for depreciation	100,000
31.12.1997	Prov. for depreciation	75,000
31.12.1998	Prov. for depreciation	56,250

BALANCE SHEET (EXTRACT)

31.12.1996	Motor vehicle
	Less: Depreciation
31.12.1997	Motor vehicle

	Less : Depreciation
31.12.1998	Motor vehicle
	Less :Depreciation

Other method:-

SINKING FUND:-

- According to this method, the amount charged by way of depreciation is invested in a certain securities carrying a particular rate of interest.
- The amount received from an account of interest from this security is also invested from time to time together with annual amount charged by way of depreciation.
- At the end of useful life of the asset, when replacement is required, the securities are sold away and money realized on account of the sale of securities is used for the purchase of a new asset.

ACCOUNTING ENTRIES

1. On setting aside the amount of depreciation;

DR: Depreciation a/c or P+L a/c

CR: Depreciation Fund a/c

Note: The amount to be charged by way of depreciation is determined on the basis of the sinking fund table.

For investing the money charged by way of depreciation;

DR: Depreciation Fund Investment a/c

CR: Bank a/c.

(b) At the end of each sub sequence accounting year:-

(i) For receipt of interest

DR: Bank a/c

CR: Depreciation Fund a/c

(ii) For setting aside the amount of depreciation:-

DR: P & L a/c

CR: Depreciation Fund a/c

(iii) For investing money:-

DR: Depreciation fund investment a/c

CR: Bank (annual installment + Interest received)

2. At the end of last year, for the receipt of interest;

DR: P & L

CR: Depreciation

3. For setting aside the amount of depreciation :-

DR: P & L

CR: Depreciation

4. For the sale of Investment:-

DR: Bank.

CR: Depreciation Fund investment a/c.

The profit or loss on the sale of depreciation Fund investment will be transferred to a depreciation Fund a/c

For the sale of old asset;

DR: Bank

CR: Assets

The balance on the depreciation Fund represents accumulated depreciation. It will be transferred to the old assets a/c.

The proceeds or the sales realized on the a/c of it sale and investment will be utilized in the purchase of the new assets.

DR New asset

CR: Bank

ILLUSTRATION (1)

Sunshine Company Ltd bought a plant on 1.1.2005 for a sum of Tshs 100,000/= having a useful life of 5 years. It is estimated that the plant has the scrap value of Tshs 16,000/= at the end of its useful life.

Sunshine Co. decided to charge depreciation according to depreciation fund method. The depreciation fund invest are expected to earn an interest of 5% p.a. The sink Fund table shows that Tshs 0.180975. If invested yearly at 5% p.a produce Tshs 1 at the end of 5 years. The investments are sold at the end of 5th year. For sum Tshs 65,000 A new plant was purchased for Tshs 120,000 on 1.12010. The scrap of the old plant realizes Tshs 17,000. You are required to prepare:-

1. Plant a/c
2. New plant a/c
3. Depreciation plant a/c
4. Depreciation Fund investment a/c

DR **PLANT**
A/C **CR**

1.1.2005 cash	1,000,000	31.12.2005 balance c/d	
1.1.2006 balance b/d	1,000,000	31.12.2006 balance c/d	
1.1.2007 balance b/d	1,000,000	31.12.2007 balance c/d	
1.1.2008 balance b/d	1,000,000	31.12.2008 balance c/d	

1.1.2009	balance b/d	1,000,000	31.12.2009 balance c/d
1.1.2010	balance b/d	1,000,000	

DR DEPRECIATION FUND A/C CR

Teacher.ac

FREE EDUCATION RESOURCES FOR AFRICA

31.12.2005	Balance c/d	15,202	31.12.2005	P&L
			01.01.2006	Balan
31.12.2006	Balance c/d	31,164		Bank
				P&L
		31,164		
31.12.2007	Balance c/d	47,924	01.01.2007	Balan
				Bank
				P&L
		47,924		
31.12.2008	Balance c/d	65,522	01.01.2008	Balan
				Bank
				P&L
		65,522		
31.12.2009	Balance c/d	84,000	01.01.2009	Balan
				Bank
				P&L
		84,000		
			01.01.2010	Balan

DR. DEPRECIATION AND INVESTMENT A/C CR

2005	Bank	15,202	31.12.2005
1.1.2006	Balance b/d	15,202	
	Bank (15202+760)	15,962	31.12.2006
		31,164	
1.1.2007	Balance b/d	31,164	
	Bank (15,202+1558)	32,722	31.12.2007
		63,886	
1.1.2008	Balance b/d	63,886	
	Bank (63886+2396)	66,282	31.12.2008
		130,168	
1.1.2009	Balance b/d	130,168	
	Bank(130,168+3276)	133,444	31.12.2009
		263,612	
1.1.2010	Balance b/d	263,612	

DR DEPRECIATION FUND INVESTMENT A/C CR

2005	Bank	15,202	31.12.2005	Balance
01.01.2006	Balance b/d	15,202	31.12.2006	Balance
	Bank (15202+760)	15,962		
		31,164		
1.1.2007	Balance b/d	31,164		
	Bank (15202+1558)	16,760	31.12.2007	Balance c
		47,924		
1.1.2008	Balance b/d	47,924		
	Bank (15202 + 2396)	17,598	31.12.2008	Balance
		65,522		
1.1.2009	Balance b/d	65,522	31.12.2009	Balance

Bank	17,578	
	83,100	
1.1.2010 Balance b/d	83,100	

FINANCIAL STATEMENTS ANALYSIS AND INTERPRETATION

RATIO ANALYSIS

A ratio is one number expressed in terms of another number to show the relationship between the numbers. For example the relationship between 24 and 6 is 24/6 or 4:1 indicating that the former figure is four times as greater as the letter figure/ a variation is to use a base of 100. This is Called percentage. Using the figure at 24 and 6, the percentage become 24/6 x 100 = 400%.

Financial statements (trading profit and loss A/C and balance sheet) are produced not just for their own sake, but for the use to which they can be put by the various parties interested in different aspects of these statements.

Example

1. The DIRECTORATE – interested in overall figure which show whether the company is profitable and whether it is on a sound financial footing.
2. In a manufacturing business, foremen may be concerned with time taken to complete a job or material usage.
3. Department and general managers are concerned about measurements relating to matters falling within their individual responsibilities.
4. Shareholders (actual and prospectively are interested in their earnings (current & future) out of which dividend can be paid, the security of dividend (dividend cover) return on their investment (yield) etc.
5. External interested parties include loan creditors, for example debenture holders who are concerned that the company is solvent and there is adequate cover for their interest trade creditors (actual and prospective) who want to be assured that the company is both solvent and liquid, that is it has adequate cash or cash convertible resources to metal current liabilities as they fall due to financial statement analysis consists of applying any tools and techniques to financial statement (other relevant data to obtain useful information). This information is shown as significant relationship between data and trends in those data assessing the company, past performance and current financial position.

The information shows the results or consequences of prior management decisions. In addition, the information is used to make predictions that many users of financial statements.

In financial statement analysis, it is drawn that there are certain important relationships. (expressed by means of RATIOS) between items within the trading A/C, the profit & loss A/C and balance sheet between the items of one statement and another, ratio analysis is a further helping hand to the interested parties of accounting information in marking their rational decisions.

CATEGORIES OF ACCOUNTING RATIOS

Normally classified according to the aspects of business they are designed to highlight. These aspect fall under the following categories.-

- Financial soundness and stability, short & long terms. During the short term, the interest is liquidity and during the long term the interest is solvency.
- Profitability and return on equity or assets.
- Activity or efficiency measures.
- Capital structure and gearing measures.
- Market based ratios.

FINANCIAL SOUNDNESS AND STABILITY

These ratios measure the ability of the firm to meet its:

1. Current of working capital ratio

Working capital is the excess of current assets over current liabilities. The current ratio indicates the ability of a company to pay its current liability from current assets. In this may show the strength of the company's working positions. It is calculated as:

Current ratio = (Current Assets)/(Current Liabilities).

The current ratio provides a better index of a company's ability to pay current debts than does the absolute amount of working capital.

N.B:

A number greater than one indicates a firm has the ability ot meet its current liabilities and vice versa. But this is not conclusive evidence.

2. Acid test / Quick Asset ratio

Current ratio assumes that current assets could be turned cash immediately. However not all current assets can be readily converted into cash. The acid test ratio recognizes this limitation and excludes stocks and prepaid expenses on its computation because they might not be readily convertible into cash.

The formula is:-

Acid test ratio = (Quick assets)/(current liabilities)

OR

(current assets-stock-prepaid expenses)/(current liability)

3. Debt service coverage ratio/ time interest came / interest coverage ratio

It measures the ability of a firm to service from operations this ratio is computed as.

Interest coverage ratio = (profit before interest and tax)/(Annual interest payment).

4. Debt repayment coverage ratio.

Gives an indication of the length of time it will take to repay borrowings out of profit of the business.

It is calculated as:-

= (long term liabilities+current liabilities+current assets)/(Annual profit after interest and income tax)

5. Time preferred dividend earned ratio

This measure the ability of a company to make preferred dividend payments each year. It given as:-

= (Net profit after interest and tax)/(Annual preferred divided)

B: PROFITABILITY AND RETURN ON EQUITY OR ASSETS

Ratios falling into this group measure the ability of a firm to generate profit'

The ability can be measured according to volume of sales or resources employed in generating the profits. These ratios measure the rate of profitability ratios. Profit is taken to be net profit prior to interest and taxes. Ratios falling under this group are:-

1. **Group margin / Gross profit ratio**

Specific trades / industries. The sales figure is VAT exclusive. A high gross profit percentage does not result in a large (absolute) figure of gross profit.

It is given by:-

(Gross profit)/Sales X 100

2. Operating margin / Net profit ratio/ Net profit to sales percentage reflects the percentage of each shilling of net sales that becomes net operating profit / Net profit.

The sales figure is VAT exclusive.

It is calculated as:-

Operating margin / Net profit ratio = (Profit before interest and tax)/(Net sales) x 100

Or

(Net operating income)/(Net sales) x 100

3. **Return on capital employed (ROCE).**

This ratio measures profit per value of net assets. The net assets figure is arrived at by using the following alternative formula:-

Capital employed –

1. Fixed assets + current assets - current liabilities

2.Total assets - current liabilities

It is given by the formula

Return on capital employed =

4. **Return on total assets.**

This ratio measures the ability of a firm in utilizing its total assets to generate profits

It is given by the formula, Return by total assets = x 100.

5**. Return on owner's equity**

This ratio measures the return earned by the company on each shillings of shareholders equity invested.

It is given by:

$$\text{ROOE} = \frac{\textit{profit after interest and tax}}{\textit{Ordinary share capital or equity}}$$

C. ACTIVITY OR EFFICIENCY RATIOS

Various aspects of the efficiency with which assets can be used, can be derived from turn over ratios

The most important ones are;-

1.Inventory turnover

This ratio shows the number of times a company's average inventory / stock is sold during a period. If the rate is too low or decreasing this may indicate over – stocking or presence of obsolete merchandise.

If it is too high it may indicate under stocking or other problems, depending on the nature of the business and industry.

It is given as:

$$\text{Inventory turnover} = \frac{\textit{Cost of goods sold}}{\textit{Average stock}}$$

2. Accounts receivable turnover

This is the number of times per year that the average amount of receivable – is collected. Amount receivable – debtor. Amount A/C payable – creditor.

It is given as:-

$$\text{Accounts receivable turnover ratio} = \frac{\textit{Net credit sales or net sales}}{\textit{Average net Account received}}$$

This ratio provides an indication of how quickly the receivable (debtors) are collected.

3. **Debtors average collection period/ Average collection period for accounts receivable.**

Good credit control is an important aspect of sound financial management. The average length of time.

It is given by:-

Debtors average collection period=

$$\frac{debtors\ x\ 365days\ of\ 52weeks\ or\ 12months}{credit\ sales}$$

Or

$$=\frac{365\ days\ or\ 52days\ or\ 12\ months}{Account\ receivable\ turnover}$$

Creditors average payment period.

To put the debtors average collection period in perspective credit period granted to customers should not be out of line with the credit period granted by suppliers. Good financial management should ensure a proper balance. This ratio indicates the average period measured in terms of months, weeks or days for which creditors remain unpaid.

It is given by:-

$$\text{Creditors average payment period} = \frac{credits\ x\ 365days\ or\ 52\ days}{credit\ purchases}$$

4. **Total assets turn over / sales to total assets ratio**

This ratio measures the efficiency with which a company uses its assets to generate sales.

That is it indicates how much does a shilling of an asset generate in terms of sales value. The larger the total asset turn over the larger will be the income on each shilling invested in the assets of the business.

It is given by:-

$$\text{Total assets turn over} = \frac{\textit{Net sales}}{\textit{Average total assets}}$$

5. **Sales to capital employed ratio**

It indicates the efficiency of utilization of capital employed in generating revenue.

It is given by:-

$$\text{Sales to capital employed} = \frac{\textit{Net sales}}{\textit{Capital employed}}$$

D. CAPITAL STRUCTURE AND GEARING MEASURES

Under this category the following ratios can be looked as equity or longer solvency ratios.

Show the relationship of debt and equity financing in a company. It measure the riskiness of business.

1. Equity or stock holders equity ratio

It indicates the proportion of total assets, that is provided by stock holders (owners) on any given date.

The formula for the equity ratio is

$$\text{Equity ratio} = \frac{\textit{stockholders equity}}{\textit{Total assets}}$$

2**. Stock holders' equity to debt ratio.**

This indicates the measure of the relative proportion of stock holders and creditors.

It is given by:-

$$\text{Stock holders' equity to debt ratio} = \frac{stockholders\ equity}{Total\ debt}$$

3. **Long term debt to share holders funds**

It indicates the extent of cover for fixed liabilities (loans, debentures).

It is given by:-

$$= \frac{fixed\ external\ liabilities\ or\ long\ term\ debts}{Ordinary\ shareholder\ fund}$$

4. **Gearing**

This ratio defines the proportion of debt capital and ordinary shares/equity capital. It indicates the degree of vulnerability of earnings available for ordinary shares.

Given by:-

$$= \frac{fixed\ inerest\ loans + preference\ share\ capital}{ordinary\ share\ capital}$$

NB.

Some companies use ordinary share holder's funds as denominator i.e. ordinary share capital plus reserves and some use the book value of loans and shares. Usually a gearing of greater than 1:1 is high and less than 1:1 is low. In practice greater than 0.6:1 is regarded as high and less than 0.2:1 as low, with the range between these two extremes being regarded as relatively high or relatively low.

E. MARKET BASED RATIOS

These are additional ratios that can be computed when data from stock exchange are incorporated. The most common ones are as follows:-

1. **Dividend per share**

Indicates the dividend and retention policy of the company when used in line with earnings per share (below)

It is calculated as;

$$= \frac{Total\ dividend}{Number\ of\ ordinary\ shares}$$

2. **Dividend yield (on common stock)**

Indicates "current return on investment" that is it measures the real rate of return comparing the dividend paid and the market price of a share or that it measures the return on the shares invested using current market price of the shares.

It is given by:-

$$= \frac{Dividend\ per\ share}{Market\ price\ per\ share}$$

It provides the investor with measure of the opportunity cost of his or her investment in terms of yield.

3. **Dividend cover**

It indicates the ability of a firm to sustain dividend payments out of its distributable profit.

4. **Earnings per share (EPS)**

It indicates the amounts of the net profit after tax (but before extra ordinary items) attributable to each ordinary share in issue, and racing for dividend during the period.

It is calculated as follows:-

$$= \frac{Net\ profit\ after\ nterest\ and\ tax}{Number\ of\ ordinary\ shares\ issued}$$

N.B.

Earnings available to common stock holders (ordinary) share holders) is equal to Net profit after tax (net income) minus the current years preferred dividends, whether such dividends have been declared or not. And it presents the fund which supports the distribution of profit by the way of dividend to ordinary share holders.

5. **Price earnings ratio(P/E) ratio**

It is usually used in establishing the market value of a company. It indicates the number of years purchase of the earnings and is regarded internationally as an indicator of future performance. It acts as the index of whether a stock is relatively cheap or expensive based on ratio.

The price earnings ratio is calculated by using the following formula;-

$$= \frac{current\ market\ price\ per\ ordinary\ share}{Earnings\ per\ share}$$

6. **Earning yield**

It indicates potential return on investment. It highlights the amount earned on the ordinary share relative to their market price.

It is given by:-

$$= \frac{Earning\ per\ share}{Market\ price\ per\ share}$$

LIMITATIONS OF RATIO ANALYSIS

In using ratios,the analyst must keep a few general limitations in mind.The main limitations attached to it are:-

1.It lacks standard values for the ratio, therefore scientific analysis is not possible.

2.As there are no standard with to compare, it fails to throw light on the efficiency of any activity of the business.

3.It gives only the relationship between different variables and the actual magnitudes are not known through ratio.

4.Ratio are derived from the financial statement and naturally reflect their drawbacks.

5.If fails to indicate immediately where the mistake or error lies

6.It does not take into consideration the market and other changes.

7.Seasonal factors can upset ratio analysis.

8.The basis of asset valuation can be misleading.

9.A set of account never shows a complete picture of a company's activates.

10.Ratios vary enormously between different industries.

PROBLEM

The trading stock of Joan street, retailer, has been reduced during the year ended 31st march 2008 by Tshs 6000 from its commencing figure of Tshs 21000. A number of financial ratios and related statistics have been compiled relating to the business of Joan street for the year ended 31st march 2008 these are shown below:-

Net profit as % net capital employed (see below)

Net profit	15
Sales	9
Sales	166 2/3

Net capital employed

Fixed assets	45%

Working capital ratios

Current assets	400%
Current liabilities	
Acid test ratio	
Bank + Debtors	275%
Current liabilities	
Gross profit	25%
Sales	
Debtor's collection period:	
Debtors x 365days	36 ½ days
Sales	
Stock turn over (based on average stock for the year	10 times

Prepare the trading and profit and loss account for the year ended 31st 2008 and balance sheet as at that date of Joan Street in as much detail as possible.

Note:

Take the closing figure at 31st march 2008.

Solution

Opening stock 21000

Closing stock = 21000 - 6000 = 15000

$$\text{Average stock} = \frac{Opening\ stock}{2}$$

$$= \frac{2100+15000}{2} = \frac{36,000-18,000}{2}$$

$$\text{Stock turn over} = \frac{costs\ of\ goods\ sold}{Average\ stock}$$

$$= \frac{\text{cost of goods sold}}{18000}$$

Cost of goods sold = 18000 x 10 = 180,000

Open stock + purchases – closing stock = cost of goods sold

21000 + purchases - 15000 = 180000

Purchases = 180,000 + 15000 - 21000

= 174,000/=

Gross profit = 25%

Sales = 25/100 = ¼-1 = 1/3 x 60,000

Sales = GP + Cost of goods sold

= 60,000 + 180,000

= 240,000

Net capital employed

Current assets = 400

Current liabilities 100

Current assets = 4 current liabilities

Working capital = CA - CL

But CA = 4CL

WC = 4CL - CL

WC = 3CL

Working capital = capital employed - fixed assets

WC = 144,000 - 108,000

WC = 3600

WC = 3C.L

36000 = 3C.L

3 3

C.L =12000

Debtors x 365 = 36 ½

Debtors x 365 = 36 ½

Sales 240,000

365 debtors = 36 ½x 240000

Debtors = 24,000

	Trading and profit & loss A/C for the year ended 31/3/2008		
opening stock	21000	sales	240,000
add: purchases	174000		
cost of goods available or sale		195000	
less: closing stock	15000		
cost of goods sold	180000		

gross profit c/d		60000			
240,000	240,000				
expenses	38400	gross profit b/d		60,000	
net profit	21600				
60,000	60,000				
	BALANCE SHEET AS AT 31 DECEMBER 2008				
Capital	122,400	fixed assets		108,000	
Add; Net profit		21600	**current assets**		
144,000	stock	15000			
current liabilities		12000	debtors	24,000	
	bank	9000			
156,000	156,000				

EXERCISE

The balance sheet and supplementary data for the KWABWANYENYE LTD.

Are shown below:

Kwabwanyenye ltd

Balance sheet December 31, 1997

Assets	Tshs
Cash in hand a/c	50,000
Marketable securities	80,000
Accounts receivable, net C.A	70,000

Inventory A.C		150,000
Building F.A		400,000
Less: accumulated depreciation	100,000	300,000
		600,000
Liabilities and stock holders equity		**TSHS**
Accounts payable C.L		30,000
Bank payable C.L		10,000
Mortgage notes payable due in 2000 L.K		40,000
Bonds payable 10% due Dec 31,2002 L.L		100,000
Common stock, Tshs 100 par value capture		300,000
Retained earnings reserve		120,000
Total liabilities and stock holders equity		600,000

Supplementary data:

- 1997 net income Tshs 60,000
- 1997 cost of goods sold Tshs. 540,000
- 1997 sales Tshs. 900,000
- Inventory January 1, 1997 Tshs 100,000
- Interest expenses Tshs 15000
- 1997 net income before interest and taxes Tshs 130,000
- Net accounts receivable on January 1, 1997 Tshs 50,000
- Total assets on January 1, 1997 Tshs 540,000
- 1997 divided paid Tshs 240,000
- Current market price per share Tshs 150

Require: compute the following ratios:

- Current ratio
- Acid test ratio
- Accounts receivable turn over
- Inventory turn over
- Total assets turn over

- Equity ratio
- EPs of common stock
- P/E ratio
- Dividend yield
- Gearing
- Earnings yield
- Debtors days

a. Current ratio $= \dfrac{current\ assets}{current\ liabilities}$

$$\frac{(50{,}000 + 70{,}000 + 150{,}000)}{30{,}000} = \frac{270{,}000}{30{,}000} = \frac{27}{3} = 9{:}1$$

b. Acid test ratio $= \dfrac{current\ assets - stock}{current\ liablities}$

$$= \frac{270{,}000 - 150{,}000}{30{,}000} = 12/3 = 4.1$$

c. Account receivable turn over $= \dfrac{Net\ credit\ assets}{Average\ net\ receivable}$

$$\frac{70{,}000 + 50{,}000}{2}$$

$$= \frac{20{,}000}{60{,}000} = 1/3$$

$$= 0.33 \text{ or } 1/3 \text{ times.}$$

d. Inventory turnover $= \dfrac{cost\ goods\ sold}{Average\ stock}$

$$\frac{\underline{150{,}000 + 100{,}000}}{2}$$

$$= \frac{540{,}000}{125{,}000}$$

$$= 4.32 \text{ times}$$

e. Total assets turn over $= \dfrac{Net\ sales}{Average\ total\ assets}$

$$= \frac{600{,}000 + 540{,}000}{2} = 570{,}000$$

f. Equity ratio $= \dfrac{Stockholders\ equity}{Total\ assets}$

$$= \frac{300{,}000 + 120{,}000}{600{,}000} = \frac{420{,}000}{600{,}000} = 4{:}3$$

g. P/E ratio $= \dfrac{market\ price\ per\ share}{Earning\ per\ share}$

$= \frac{150}{20}$

$= 7.5$

h. Dividend yield $= \frac{dividend\ per\ share}{market\ per\ share}$

But dividend and per share $= \frac{Total\ dividend}{number\ of\ ordinary\ share}$

$= \frac{240{,}000}{3000}$

$= 80$

Dividend yield $= \frac{80}{150}$

$= 8:15$

Gearing $= \frac{fixed\ interest\ loans + preference\ share\ capital}{ordinary\ share\ capital}$

$\frac{150{,}000}{300{,}000}$

$= \frac{15}{300} = 0.05$

BRANCH ACCOUNT

BRANCH ACCOUNTS/ACCOUNTING

Is an accounting system in which separate accounts are maintained for each branch of a corporate entity or organization the primary objectives of branch accounting are better accountability and control, since portability and efficiency can be closely tracked at the branch level.

Branch accounting may involve added experience for an organization in terms of accounting and infrastructure. This is because it may be necessary to appoint branch accountant to insure accurate financial reporting and compliance with head office procedure and process.

Aim of branch

i. To find out profit or loss generated by each branch (profit ascertainment at each branch).

ii. To check up the movement of goods and cash flow to and from the branch. (To ensure strict control is institute at the branch to prevent wastage of resources).

iii. To ascertain the financial position of each branch on a particular date.

iv. To know the cash and goods requirements of each branch.

There are two types of Branches

1. Dependent Branches
2. Independent Branches

What is Dependent Branches is the branch which does not maintain its own set of books of accounts. All records have to be maintained by head office or head quarter.

Dependent branches has divided into two branches, which are

1. Home branches
2. Foreign branches

FEATURES OF DEPENDENT BRANCH.

1. It does not maintain its own set of books. The head office maintains all records transactions.
2. Generally all books goods are supplied to the branch by head office
3. All extenders are supplied
4. Cash received by the banks from his debtors are remitted to the head office.

ADVANTAGES OF BRANCH ACCOUNT

1. Reduce burden of the head office

2. High degree of sales
3. Less cost of operating.

Systems of Accounting

- Debtors system
- Stock and debtors system
- Final account system

DEPENDENT BRANCHES

1. Dependent branches is where branches don't keep complete account

2. Such branches have limited power for their operations i.e this branches do not keep complete account as per double entry .

3. Usually, such braches keep cash book, customers account and stock register therefore trial balance cannot be prepared in the books of the branch.

4. The head office has overall control over accounts such branch has following characteristics.

5. Branches set goods supplied by the head office. Under special circumstances only, a branch is allowed to purchase from the market.

6. All cash received by the branch is remitted to the head office

7. The head office remits cash for branch expenses. However a branch may be allowed to keep some petty cash balance

8. All accounts of branch assets such as furniture, premises e.t.c are maintained in head office books.

9. A branch keeps memorandum records of its transactions hence, trial balance n books of branch cannot be maintained or prepared

10. Goods are supplied by head office to branch either and cost price or above cost

N.B:

Head office will maintain separate record for the transaction related, to each branch so that profit or loss calculated

.Account in the books of the head office may be maintained according to any of the following records to such branches

.Debtors methods

.Bank

Debtors methods

Under this method, the branch account is prepared in the books of H/O to ascertain profit or loss of each bank

- The nature of branch account is that of nominal account
- In branch a/c all transactions between H.O and in branch are shown
- Balance in branch a/c represents profit or loss of the branch. As debtors.

The following are the journal entries

1. For opening balances of assets or branch (induct ally)

Dr. Branch a/c

CR: Assets/Branch assets

2. For goods sent to branch

DR. Branch a/c

CR: Goods sent to branch a/c

1. For cash remitted by head office

Dr: Branch a/c

CR: Cash a/c

2.For goods returned by branch to head office

DR. Goods sent to branch a/c

CR. Branch a/c

3. For goods returned by debtors directly to H.O

Dr. Goods sent to branch a/c

Cr. Branch a/c

4. For cash received from branch

Dr. Cash

CR: Branch a/c

5. For closing balances of branch assets

DR: Branch assets a/c (separately)

CR: Branch a/c

6. For closing balances of branch liabilities

DR: Branch a/c

CR: Branch liabilities

7. For credit of balance of branch a/c being profit

DR: Branch a/c (Profit and profit a/c)

CR: Trading a/c purchases a/c

ILLUSTRATION (1)

F LTD opened a branch in 2009 at Dodoma the figure for 2009 are given below

- Cash sent to branch or expenses 35,000
- Stock on 31st Dec 2009 40,000
- Sundry debtor 31st Dec. 2009 17,000
- Goods sent to branch 250,000
- Sales (cash) 100,000

  (Credit) 180,000

- Cash received form debtor 160,000

Give journal entries and ledger a/c for 2009

DR BRANCH ACCOUNT CR

Cash	35,000	Cash	35,000
GOODS SENT TO BRANCH	250,000	Credit sales	100,000
		Collection from debtor	180,000
		Closing balance	160,000
		Stock	40,000
		Sundry debtors	17,000

	212,000		
	497,000	**497,000**	

JOURNAL ENTRIES

DETAILS	**DEBIT**	**CREDIT**
Dodoma branch a/c	250,000	
Goods sent to branch a/c	250,000	
Being goods sent to Dodoma branch		
Dodoma branch a/c	35,000	35,000
Cash/Bank	35,000	
Being cash sent to Dodoma branch		
Bank / Bank	260,000	
Dodoma branch a/c	260,000	
Being cash collected from debtors		
Stock	40,000	
Debtor	17,000	
Dodoma branch a/c	**57,000**	

ILLUSTRATION 1.

Dar Es Salaam had a branch at Dodoma Goods sent by head office at invoice price which is at price of 20% on invoice price. All expenses price which is at price of 20% on invoice price. All expenses of the branch are paid by the head office (H.O) Particular

Opening balances:
Stock at invoice price 11,000
Debtors 17,000
Petty cash 100
Cash sent to branch at invoice price 20,000
Expenses made by the H.O 600
Rent 200
Salaries and other expenses 900
Remittance made to H.O
Cash sales 2,650
Cash collected from debtors 21,000
Goods returned by branch at invoice price 400
Balance at the end

Stock at invoice price	13,000
Debtors at the end	2,000
Petty cash	25

From the book of Head office draw up Branch a/c

ILLUSTRATION 2.

The Balance LTD in Arusha is having a branch at Tanga. Goods are invoiced to the branch at 20%. Branch has been instructed to send all cash daily to the head office. All expenses are paid by Head office except petty cash expenses which are made by Branch manager.

From the following details prepare branch a/c in the book of B. B trace Ltd

Stock 1st Jan 1995 (choice price)	15,000
Sundry debtors Jan 1995	9,000
Cash in hand 1st Jan 1995	400
Office furniture 1st Jan 1995	1,200
Goods invoiced from the H.O at invoiced price was	80,000
Goods returned to the H.O was	1,000
Goods returned by debtors amount was	30,000
Cash sales	50,000
Credit sales	30,000
Discount allowed to debtors	300
Expenses made by H.O	
Rent	1,200
Salaries	2,400
Stationary and painting	300
Petty expenses paid by branch manager	
Stock at 31st December 1995 (choice price)	14,000

Depreciation is to be provided in Branch furniture at 105 pc.

You are required to draw up Tanga a/c in the book of B. furniture

When goods are sent or inserted to the branch at a higher than price cost (sent goods to invoice price)

When the goods are sent by the head office to the branch at sale or invoice price that is cost + same percentage of profit the branch manager is required to sell the goods at invoice price only otherwise it is a allowed by H.O to sell at either higher or lower than invoice price.

Head office will maintain branch accounting in the same line as in previous discussion but the entry relating to goods, sent to branch, goods returned by branch to H.O closing and opening stock at the branch will be at invoice price and in order to complete the P/L of the branch.

The following adjustment entry will have to be passed in the Head Office, closing and opening stock at the branch will be at invoice price and in order to complete the P/L of the branch.

1. For adjustment of excess price of the opened stock of branch
    DR: Stock reserve a/c
    CR: Branch A/c
2. For adjustment of excess price of goods sent to branch less returned to H.O

DR: Goods sent to branch a/c
CR: Branch a/c

With the profit loaded Always closing stock should be valued at cost or market price whichever is lower (according to prudence (stock valuation) this is based on principle of conservation (prudence) i.e. Asset should not be overvalued means no profit should be anticipated and loss should be provide furthermore, the unsold stock lay in the branch will not earn any profit unless sold. For the adjustment of excess price unsold goods at branch

DR: Branch A/c
CR: Stock Reserve a/c

Working the illustration 1.

For adjustment of excess price of goods sent to branch, less with goods returned by branch to H.O.

Goods sent to branch 20,000

Less Goods returned to H.O 400

19600 X20/100= 3920

- For adjustment of opening stock of the branch

  11,000 x 20/100 = 2200 (stock reserve)

- For adjustment of excess price of closing stock of the branch:

  13,000 x 20/100 = 2600 (stock reserve)

DR DODOMA BRANCH OF NSTU IN DSM CR

Opening balance		Stock reserve on opening

Stock	11,000	
Debtors	1700	**CASH REMITTANCES**
Petty cash	100	Cash sales
		Cash collected from debtor
Goods sent to branch	20,000	Goods returned by branch
		Goods sent to branch (profit loaded)
EXPENSES OF BRANCH		
Rent	600	
Wages	200	**CLOSING BALANCE**
Salaries	900	Stock
		Debtors
Stock reserve (losing stock)	2600	Petty cash
Profit (P+L)	8095	
	45195	45195

While preparing branch a/c care should be taken with respect to the following items.

1. **Credit sales, sales return, bad debts, discount allowed**

- These items are not shown in branch a/c
- Net effects of these items is automatically given directly in branch a/c by showing opening balance, debtors, cash received from debtors a/c and closing balance from debtors however these items will be and closing balances from debtors however these items will be used for preparing memorandum branch debtors a/c.

Depreciation of fixed assets

- This is also not showed in branch a/c, i.e when open and closing balance of fixed assets are shown, the effects of depreciation is automatically there.

Loss of stock and Surplus of Stock

- This is also not showed in branch a/c but amount of claim if any is credited in branch a/c

Expenses incurred by branch

- Expenses actually paid by the branch are not shown in branch a/c but amount remitted by H.O to branch for remitting expenses is debited to branch a/c
- If actual amount spent by branch is less, the cash balance is shown as a part of closing balances of branch asset in the credit side of the branch a/c

If opening balance of branch cash is 100/= cash remitted by Head office to branch is 6000/= and closing balance of branch with cash is 500.

DR	BRANCH A/C		CR
Opening balance	1000	Closing balance	500
Cash remitted	6000		

STOCK AND DEBTORS SYSTEM /METHODS

- Under this system account related to branch are maintained in a more comprehensive and detailed manner as compared to debtors system.
- Under this system separate a/c are prepared for various accounting function.
- The accounting procedures under this system depends upon policy of the H.O will regards to pricing of goods sent to branch.
- Therefore. H/O adopts one at the following methods /systems for invoicing goods.

1. At cost to H/O
2. At selling price of the branch.
3. At cost price + fixed margin of profit.

In this case, branch may sell goods at higher or lower than the invoice price.

The accounting procedures under this above three situations are as follows

1. Branch stock A/c
2. Goods sent to branch A/c
3. Branch debtors A/c
4. Branch expenses A/c
5. Branch profit and loss A/c
6. Branch cash A/c

ACCOUNTING ENTRIES

-When goods are sent to the branch

DR: Branch stock A/c
CR: Goods sent to branch A/c

-If goods are returned by branch

DR. Goods sent
CR. Branch stock ac

If goods are returned by customs

DR: Branch expenses a/c
CR: Cash

When cash sales are made at the branch

DR: Cash

CR: Branch stock A/c

-When sales on credit

DR: Branch debtor's a/c
CR: Branch sock a/c

-When cash is received on a/c of debtors

DR: Branch expenses A/c

CR: Branch stock A/c

-For loss of stock

DR: Branch (P+L) A/c

CR: Branch (P+L) A/c

-For balance of branch stock A/c (gross profit)

DR: Branch stock

CR: Branch expenses A/c

-For balance of goods sent to branch a/c

DR: Goods sent to branch A/c
CR: Trading A/c

-For cash remitted by branch to H/O
DR: Cash A/c
CR: Branch Cash A/c

-For net profit as per branch
DR: Branch (P+L) A/c
CR: General P+L A/c

ILLUSTRATION 1

Stock of branch of (January 1.2002)	7,560
Goods from H/O	35,500
Total sales	46,760
Cash sales	16,750
Goods returned to H/O	350
Stock at branch (31.12.2001)	6,950
Debtors on (1.1.2002	13,000
Cash paid by customer	24,600
Discounts and commission to customers	1,360
Bad debts	300
Rents, Rates & Taxes	900
Salaries & wages	3,650
Goods returned by customers	300

NOTES: J&S trading invoices goods to Chamwino branch at cost which sales on credit as well as on cash.

From information given prepare;

1. Branch stock a/c
2. Branch debtors a/c
3. Branch expenses a/c

NOTE: Cash is immediately remitted branch top H/O expenses are paid directly by H/0

1. Journal entry.
2. Relevant ledgers.

DR BRANCH DEBTORS A/C CR

Balance b/f	13,000	Cash
Credit sales	30,010	Bad debts
		Discount Allowed

		Balance c/d
	43,010	

DR BRANCH DEBTORS A/C CR

Bal b/f	13,000	Cash paid
Credit sales	30,000	Bad debts
		Discount allowed
		Goods returned by customers
		P&L
	43,010	

DR BRANCH STOCK A/C CR

Stock of branch b/d	7,560	Cash sales
Goods returned by customers	300	Credit sales
Debtors	13,000	Goods returned to H/O
Goods sent to branch	35,500	Balance c/d
	56,360	
Balance b/d	9,250	

DR BRANCH EXPENSES A/C CR

Discount & commission	1350	P .& L	
Bad debts	300		
Rent &rates and taxes	900		
salaries and wages	3650		
	6210		

The following important Aspects

NOTE
1. Stock and debtors system, when goods have been invoiced to branch at selling price.

2. In this case, values of opening stock, goods sent to branch goods returned by branch stock a/c since invoice price and sales price are the same.

3. Closing balance of the stock a/c will represent value of closing stock at invoice price and if value of opening stock, goods sent to branch, sales and closing stock are given and after showing the value of closing stock as given, then there is some difference in branch stock a/c, it will represent either shortage or surplus of stock.

4. Accounting Records When goods are invoiced to branch at price above cost an additional account known as branch stock adjustment a/c is prepared. In this a/c the difference between invoice price and cost of opening stock, goods sent to branch, goods returned by branch closing stock, shortage of stock and surplus of stock are shown. Balance of this a/c represents gross profit. This is transferred to branch profit and loss a/c.

Accounting entries on Branch stock Adjustment.
For correcting loading on goods sent;
DR: Goods sent to branch a/c
CR: Branch adjustment a/c

For least price that is invoice price difference of credit sales;
DR: Branch stock a/c
CR: Branch adjustment a/c

For the adjustment of inflated price of the opening stock;
DR: Stock reserve
CR: Branch adjustment a/c

For the adjustment of loading on goods returned;
DR: Branch adjustment a/c
CR: Goods sent to branch a/c

For the adjustment of inflated price of the closing stock;
DR: Branch adjustment
CR: Branch expenses

Finally, from transferring profile from branch adjustment a/c to general profit and loss (P&L);
DR: Branch adjustment a/c
CR: General (P&L) A/C

From transferring loss from branch adjustment a/c to general P&L;
DR: General (P&L) A/C
CR: Branch adjustment a/c

Example.

On 1st JANUARY 2008 the goods invoiced by Shinyanga trader to its Tabora branch were Tshs 48,000 at selling price, being 331/3 % on cost price. For six month ending 30th June 2008 the branch returned showed that the sales was Tshs 24,000. The goods invoiced at Tshs 2000 were returned by the branch to H/O. The closing stock at Tabora branch (2008) was Tshs 16, 800 at selling price. Prepare various a/c under stock and debtors system.

DR TABORA BRANCH STOCK A/C CR

Goods sent to branch	48,000	sales	24,0
		Goods returned by branch	2,000
		shortage on stock	5,200
		balance c/d	16,80
	48,000		48,00
balance c/d	16,800		

DR GOODS SENT TO BRANCH A/C CR

Branch adjustment	12,000	stock
Trading	36,000	
	48,000	

DR BRANCH STOCK ADJUSTMENT A/C CR

P&L	7,800	Good sent
Balance c/d	4,200	
	12,000	
		Balance b/d

EXERCISES

1. C'Company Ltd opened a shop at dare s salaam at 1st January 2004, goods were invoiced at selling price which was fixed by adding 25% to the cost. From the following particular related to 2004 and 2005. Ascertain profit or loss made in two years by the stock and debtors system. Goods sent to.

	2004	2005
Goods sent,Branch (invoice per value)	140,400	265,200
Credit sales	50,000	160,000
Cash received from debtors	62,400	151,400
Discount Allowed to customs	1,600	2,600
Goods returned by customers	2,000	1,500
Rent	1,200	1,500
Salaries	6,000	8,000
Sundry expenses	800	1,000
Defective clothes, found in sales w/0 (at invoice price)		200
Branch stock at Branch 31st Dec		47,800

NOTE:

-In branch stock a/c if the entire figure is entered at cost price no need for stock reserve.

-If goods are returned from debtors, to branch, no loading on goods sent.

Required;-

-Open relevant ledger account.

2.Company sent goods to B. Branch at cost price 25% you are given the following particulars

Opening stock at branch at cost	5,000
Goods sent to branch at invoice price	20,000
Loss in transit at invoice price	2,500
Theft at invoice price	1,000
Loss in weight (normal) at invoice price	500
Sales	25,500
Expenses	8,000
Closing stock at branch at cost	6,000
Claim receipt from insurance company for loss in transits	2,000

You are required to prepare in the head office

1. Branch stock a/c
2. Branch adjustment a/c
3. Branch profit and loss a/c

-Show all workings.

SOLUTION (For Exercise 2)

DR BRANCH STOCK A/C CR

Opening stock	6,250	sales branch debtors
Goods sent to branch	20,000	loss In transit
Profit over invoice price	10,750	loss by theft
		loss in weight
		Balance c/d
	37,000	

DR BRANCH STOCK ADJUSTMENT A/C CR

Loss in transit (loading)	500	stock reserve (opening)
loss in weight(normal)	100	Goods sent to branch
loss by theft (loading)	200	branch stock
Gross profit	1,500	
Stock reserve (closing stock)	13,700	
	16,000	16,000

DR BRANCH PROFIT AND LOSS A/C CR

Expense	8,000	Branch stock adjustment	
loss in transit	2,000	Insurance claim	
loss by theft	800		
loss in weight	400		
Net profit	4,500		
	15,700		15,70

NOTE:

-In this case closing stock is given at cost to branch that is at invoice price.

-Invoice price and sales are not the same there for balance of branch stock a/c represent excess of sales over invoice price.

METHOD 2:

DR BRANCH STOCK A/C CR

DETAILS	MEMO	COST	DETAILS	
Balance b/d	6,500	5,000	branch debtors	
Goods sent to branch	20,000	16,000	loss in transit	
profit over invoice	10,750	-	loss in weight	
Gross profit	-	13,700	loss by theft	
			balance c/d	
	37,000	34,700		
Balance b/d	7,500	6,000		
DR	**PROFIT OR LOSS ACCOUNT CR**			
Branch expenses	8,000	Gross profit b/d		

loss by theft	800	Insurance claim		
loss in transit	2,000			
loss in weight	400			
Net profit	4,500			
	15,700			

ILLUSTRATION

A branch sells all his goods at uniform mark up of 50% profit on cost price. Credit customers are to pay their accounts director to the head office.
1st January 20 x 9 -stock at cost 2,000

- Debtors 400

During the year ended 31st 12. 20 x 9 Goods sent to branch at cost 7000
Sales cash 6,000

Credit 4,800

Cash remitted by debtors to head office Tshs 4,500

As at 31 Dec 20 x 9 stock at cost Tsh 1,800, debtors Tsh 700

Draw up i) Branch stock a/c

ii)Branch debtors a/c

iii) Branch goods sent to

iv)Branch adjustment a/c

DR BRANCH STOCK A/C CR

DETAILS	MEMO	COST	DETAILS	MEMO
Balance b/d	3,000	2,000	sales: cash	6,000
Goods sent to branch	10,500	7,000	credit	4,800

Gross profit	-	3,600	Balance c/d	2,700
	13,500	12,600		13,500
balance b/d	27,00	18,00		

Workings

2000 X 50% = 1000 + 2000 = 3000

7000 X 50%=3500 +7000 = 10500

1800 X 50 % = 900 + 1800 = 2700

DR BRANCH DEBTORS A/C CR

balance b/d	400	cash
branch stock	4,800	Balance c/d
	5,200	
Balance b/d	700	

DR GOODS SENT TO BRANCH A/C CR

Adjustment	3500	Branch stock
Trading	7000	
	10,500	

DR B.S. ADJUSTMENT A/C CR

Gross profit	3,600	Balance b/d
Balance c/d	900	Goods sent
	4,500	

EXERCISE 3

Osha limited whom head office is at chamazi operates a branch at Swahili street. All goods are purchased by head are invoiced to and sold by the branch at cost plus 33 1/3%. Further than the sales. Ledge kept at Swahili, all of the transactions of the branch during the year ended 28th Feb.

Stock on hand 1st March 2006 at invoice price 440

Debtors on 1st March 2006 at invoice price .... .3941

Stock on hand, 28th February 2007 at invoice price..............................3948

Goods sent from chamazi during the year at invoice price 2480

Sales credit 21,000

Cash...2,400

Returns to head office at invoice price..1,000

Invoice value of goods stolen 600

Bad debt written off 148

Cash from debtors 22,400

Normal loss at invoice price due to wastage amounted to.........................100

Discount allowed to debtors...420

Your are required to write up;-

I / The branch stock A/C

Ii/The branch debtor's A/C

All of the a/c to be prepared is as they would appear in the head office books

Point to Note

- Selling Price = Cost Price + Profit
- Cost Price = Selling price – Profit

DR BRANCH STOCK A/C CR

DETAILS	MEMO	COST	DETAILS	MEMO
Balance b/d	4,400	3,300	sales: cash	2,400
Goods sent branch	24,800	18,600	credit	21,000
P&L(Gross Profit)		5,850	Returns to H/O	1,000
			Goods stolen	600
			Normal loss	100
			Damage/ wastage	152
			Balance c/d	3,948
	29,200	27,750		29,200

4400 x 25% = 1100

24800 x 25% = 6200

3948 x 25% = 987

DR BRANCH DEBTORS A/C CR

Balance b/d	3,941	cash
Branch stock	21,000	Discount allowed
		Bad debts
		Balance c/d
	24,941	

BRANCH KEEPING FULL SYSTEM OF ACCOUNT

(INDEPENDENT BRANCH A/C)

- Branch keeps full books of accounts with exception of balance sheet.
- Goods sent to branch is equal to purchases for the branch.
- Branch prepared its own final a/c and trial balance and sends this copy to the H/O for their operations in H/O books.
- A head office also maintains the branch a/c in his books
- It's also measure of the personal a/c

N: B (i) Goods in transit

1. In case of debtors system
   DR: Goods sent to branch a/c
   CR: Branch

2. In case of debtors stock system
   DR: Goods sent to branch a/c
   CR: Branch stock a/c

(ii)Cash in transit

1. In case of debtors system
   DR: Goods sent to branch a/c
   CR: Branch stock
2. In case of debtor's stock system, treatments are the same.

(iii) Goods in transit and cash in transit will appear as an asset in the balance sheet.

1. Goods in transit added up of closing stock of an a/c
2. Goods in transit added up of closing stock of an a/c
3. Expenses incurred by branch paid by H.O

DR: Branch exp a/c
CR: Branch a/c

ILLUSTRATION (1)

The following trial balances as on 31st December 19-8 were extracted from the books

	Head office		Branch	
	Tshs	Tshs	Tshs	Tshs
Johnson-capital		155,000		
Drawings	27,500			
Purchases	984,750			
Cost of processing	25,250			
Sales		640,000		410,00
Goods sent to/received by branch		462,000	440,000	

Selling and general expenses	94,500		10,600	
Debtors/creditors	154,800	300,700	56,800	5,400
Head office/branch-current Account	194,900			130,75
Balance at bank	76,000		38,750	
				546,15
	1,557,700	**1,557,700**	**546,150**	

You ascertain that:

1. Goods charges by head office to the branch in December ,19-8 at Tshs 22,000 were not received or recorded by the branch until January,19-9, and a remittance of Tsh 42,150 from the branch to head office until January,19-9.any necessary adjustments in respect of these items are to be made in the head office accounts.
2. Stock-taking at the branch disclosed a shortage of goods of a selling value of Tshs 10,000.there was no shortage or surplus at head office.
3. The cost of the stock of unprocessed goods at head office on 31st December,19-8 was Tshs 50,000.

For the purpose of the separate trading account of the head office, stocks are to be valued at cost.in the case of the separate accounts of the branch, stocks are to be valued at the price charged by head office. Any necessary adjustments are to be made in the head office profit and loss account. You are required to prepare in columnar form for (i) the head office (ii)the branch, and (iii) the business as a whole:-

a) Trading and profit and loss accounts for the year ended 31st December 19-8 and,

b) Balance sheet as on that date

SOLUTION:

Trading account and profit and loss account for the year ended 31st December, 19-8

	Head office	Branch		Head office
Purchases	984,750		sales	640,000
			Goods sent to branch(received)	440,000
Less closing stock of up processed goods	50,000			
			In transit	22,000

	934,750		Goods lost	
Cost processing	25,250		Closing stock	28,000
	960,000			
Goods from head office		440,000		
Gross profit c/d	140,000	49,200		
	1,130,000	489,200		**1,130,000**
Selling and general expenses	94,500	10,600	Gross profit b/d	140,000
Goods lost		8,800		
Provision for unrealized :				
1.on branch stock	6,400			
2.goods on transit	2,000			
Net profit	67,100	29,800		
	170,000	49,200		**170,000**

Balance sheet as at 31st December, 1990

	Head office	Branch		Head office	Bran
Capital	155,000		Branch current account	160,550	
Add: Net profit	96,600		Current asset		
	251,900		Stock	28,000	70,4
Less: drawings	27,500		Stock of unprocessed goods	50,000	
	24,400		Goods in transit	22,000	
Head office current account		160,550	Debtors	154,800	56,8
Creditors	300,700	5,400	Bank	76,000	38,7
Provisional for unrealized profit:			Cash in transit	42,150	
Stock	6,400				
Goods in transit	2,000				
	533,500	**165,950**		**533,500**	**165,**

ILLUSTRATION 3

A is in business as a retailer in light machinery with a head office at Loliondo and a branch at Bagamoyo. All purchases are made at the head office. Any goods sent to branch are invoiced at cost. Branch manager is entitled to a commission of 10% of branch net profit after charging such commission. The following trial balance was drawn up on 31st March 2012.

TRIAL BALANCE AS AT 31ST MARCH 2012

DETAILS	H/OFFICE DR	H/OFFICE	BRANCH

		CR	DR
Capital		100,000	
Drawings	12,000		
Stock 1st April	28,200		16,400
Purchases	381,300		
Sales		328,100	
Goods from H.O to branch		110,600	110,600
Head office/branch a/c	15,600		
Debtors	37,700		17,800
Creditors		41,300	
Administration expenses	33,000		6,400
Selling and distribution expenses	25,800		3,800
Motor vehicle, Net of depreciation	20,000		7,500
Furniture, Net off depreciation	10,500		3,400
Managers commission only			1,200
Cash at bank	15,900		4,400
	580,000	580,000	171,500

NOTES:

1. Stock on 31 March 2012 Head office 41,400 and branch 17,580. There were no stock in transit
2. Charge 20% depreciation using reducing balance method on motor vehicle and furniture
3. Charge 30% depreciation of H.O admin expenses (including depreciation of fixed asset to branch)

Required;-

Draw up final a/c of A for the year ended 31st March 2012 showing the profit loss made by the Head Office and branch separately and balance sheet as at that date.

DR TRADING, PROFIT AND LOSS A/C FOR THE YEAR ENDED 31ST MARCH 2012 CR

DETAILS	HEAD OFFICE	BRANCH	DETAILS	HEAD OFFIC
Opening stock	28,200	16,400	Sales	328,100
Add: Purchases	38,300	-		110,600
Good received		110,000		
G.A.F.S	409,500	127,000		
Less: C/stock	41,400	17,580		
G.A.F.S	409,500	127,000		
Less: C/stock	41,400	17,580		
C.O.G.S	368,100	109,720		
Gross profit c/d	70,600	46,480		
	438,700	155,900		438,700
Admin expenses	23100	16300	Gross profit b/d	70,600
D&D Expenses	25800	3,800		
Depr: Furniture	2100	680		
Depr: M. Vehicle	4000	1500		
Managers com	-	2200		
Net profit	**15600**	**22000**		
	70,600	**46,480**		**70,600**

FINANCIAL POSITION AS AT 31ST MARCH 2012

NON-CURRENT ASSETS			
Motor vehicle	22,000		
Furniture	11,120		33,120
CURRENT ASSETS			
Closing stock	58,980		
Branch a/c	15,600		
Debtors	55,500		
Cash at bank	20,300	150,380	

CURRENT LIABILITIES			
Creditors	41,300		
Owing	1000		
Head office a/c	15,600	-57,900	92,480
			125,600
FINANCED BY			
Capital			100,000
Add: Net profit			37,600
			137,600
Less Drawings			12,000
			125,600

ILLUSTRATION ON PREPARING BRANCH CURRENT A/C

AND H/O CURRENT A/C.

P Limited as a head office In Moshi and branch at Lindi. Lindi branch maintains a full set of accounts. During March 2009 the following transactions took place between Head office and branch.

Balance on branch current a/c was 12560
Motor vehicle bought by Head office at cost 2200
Goods returned by branch to head office was 530
Cash remitted by branch to head office was 5120
Goods Branch managers salaries paid by head office 350
Goods sent to branch...4990

Required;-
-Draw up Branch current a/c in head office books and
-Draw head office current a/c in the ledger of the branch.

IN THE BOOKS OF HEAD OFFICE

DR BRANCH CURRENT A/C CR

balance b/d	12560	Goods returned to h/o
cash: motor vehicle	2200	cash remittance
cash: manager's salaries	350	
Goods sent to branch	4990	
	20,100	balance c/d
	20,100	
balance b/d	14,450	

IN THE BOOKS OF BRANCH

DR H/O CURRENT A/C CR

Goods returned by branch	530	balance b/d
cash remittance	5120	cash: motor vehicle
		cash: manager's salaries
balance c/d	14,450	Goods sent to branch
	20,100	
		balance b/d

INVESTMENT ACCOUNT

- It can be divided into two main classes
- To spend money for the purpose of generating income

1. Government stocks e.g.: treasury bills, bonds etc
2. Investment in limited companies e.g. shares, stock / debenture

Terms used in investment account

1. Sales and purchases of investment \investment can be either bought or sold without interest (Cum-div)

2. Interest (Cum-div)

3. Without interest (ex – div)

NOTE:

1. General (Cum-div) means that the purchase price includes interest accrued / interest outstanding to date of purchase. For this case it should be excluded from the capital value.

2. Generally (ex – div) means that the purchase price includes interest accrued /interest outstanding to date of purchase for this case it should be excluded from the capital value.

Accounting treatments /records.

Records: Particulars of money invested in different type of securities e.g Government stock, shares, debentures etc.

Per value (Nominal value)

1. Purchase price – capital value

2. Interest received / Accrued

3. Different between **cum-div** and **Ex – div**

1. The purchase price include the interest accrued up to date of purchase where as this is not included in the case of ex – interest.
2. Nothing is payable for interest accrued where as it is payable in case of ex – interest.
3. Purchase drive is more than the real price of the security but the purchase price is the real price in case of ex –interest.

Date	Details	F	Nominal	Income	Cost/capital	date	Details	F	Nominal	Income	Cost/capital

PROCEDURES IN RESPECT OF FIXED INTEREST SECURITIES

Purchase "Cum-div"

- Stamp duty
- Brokerage
- Transfer fees etc.

1. Calculate the dividend accrued from the date it was last paid to the date of purchase this amount represent the income content in the purchase consideration.

2. We debit income columns with figure calculated in "b" above and the balance of purchase price to the cost column

3.We have to credit income column with income when received.

Purchase ("ex – Div")

1. Debit cost column with total purchase price inclusive of all expenses.
2. Calculate the dividend from the date of purchase to the data of payment. This amount represent the income deluded from the
3. By means of journal entries debit cost column with figures At in (ii) and credit income column with the same amount.

Sales ("Cum-div")

1. Work out the net proceeds of sales after deducting /reducing or brokerage
2. calculate the div. This amount represents the income deducted from the sales.

- On receipt of interest credit this cost Column.

Sales ("Ex – div")

1. The amount of dividend or interest by which the sell price reduced is debited.
2. The whole of the profit proceed are credited to the net column.

calculation on profit or loss on sale of investment

Profit /loss on sale of investment

Profit
/loss

$$\longrightarrow \frac{\text{Investiment Sold}}{\text{Total Investment}} \times \text{Total Cost} \quad -$$

Note: Profit is when amount received from sale of investment is greater than the cost of investment sold

while loss is when amount from sale of investment is less that the cost of investment sold.

ILLUSTRATION

On 31st March 2006, ABC Ltd purchased 160,000/= 4% government stock at 92 cum-div brokerage charges
amounted to 6400 interest is half yearly on 30th June and 31st December. On 1st June 2008, 90,000/=
of the stock was sold at 94 ex – div Brokerage chargers to 3800 show investment for the year 2006 and 2008

DR **4% Government stock Account** **CR**

DATE	DETAILS	NOMINAL	INCOME	COST	DATE	DETAILS	NOMINAL	INCOME	CO
2006					2006				
31.3	Purchase	160,000	1,600	152,000	30.6	Interest(Bank)		3,200	
	Profit & Loss		4,800		31.12	Interest(Bank)		3,200	
					31.12	Balance c/d	160,000	-	15
		160,000	**6,400**	**152,000**			**160,000**	**6,400**	**15**
2007				152,000	2007				
01.01	Balance b/d	160,000			30.06	Interest(Bank)		3,200	
	P&L		6,400		31.12	Interest(Bank)		3,200	
					31.12	Balance c/d	160,000	-	15

		160,000	**6,400**	**152,000**			**160,000**	**6,400**	**15**
2008					2008				
01.01	Balance b/d	160,000		152,000	01.06	Sales	90,000	-	80
01.06	P&L(Adjustment)		300		01.06	Adjustment			
31.12	P&L		4,300		30.6	Interest(Bank)		3,200	
					31.12	Interest(Bank)		1 ,400	
					31.12	Balance c/d	70,000	-	70
		160,000	**4,600**	**152,000**			**160,000**	**4,600**	**15**
2009									
01.01	Balance b/d	70,000		70,900					

WORKINGS

1. 160,000 x 92% = 147,200

Add: Brokerage = 6,400

153,600

Less: Interest

4/100 x 160,000 x 3/2= 1,600

Cost =152,000

1. Calculation of interest receivable

   160’000 x 4/100 x 6/12 = 3,200

2. Sales of interest

   90’000 x 94% = 84,600

   Add: Interest

   4/100 x 90’000 x 1/12 = 300

   84,900

Less: Brokerage 3,800

Actual sales 81,100

PROFIT /LOSS ON SALE OF INVESTMENT

Sales proceeds	90’000 x 94%
Add: Interest	
Less: Brokerage	
Actual sales	
Less cost of sold (90,000/160,000 ×152,000)	
Loss on sale of investment	

On 31st March 2006, I am limited purchase 800’00/= 4% government stock cum-div at 92 and brokerage was 32,000/= interest is paid on 30tha June and 31st December. On 1st June 450,000/= of the stock was sold at 94 ex-div brokerage amounting to 19,000/=. The Company repairs final account annually to 30th September show 4% government stock a/c in the company’s books making suitable approximate between capital and revenue ignore income tax.

Show profit I loss on sale of investment.

Notes

1. Interest cum-div i.e. buyer shall not pay any amount way of interest since it is cum-div

   Ex – div i.e. the buyer is to pay interest.

BROKERAGE

-Any amount paid by way of brokerage for purchase security shall be taken as a part of a cost of securities.

-Any brokerage paid on sales of securities should be deduced from the sale price of the securities.

-Profit & loss on sale of securities, in case any securities are sold during the year, any profit or loss on sale of such securities is usually transferred to the P & L A/C.

-Valuation /valued securities, at the end of accounting year the securities are usually valued on the basis of "Cost" "or" whichever is lower or whichever is less or market price.

-Any loss account of such valuation should be transferred.

-When the ordinary shares purchase, the full cost investment including expenses is debited to the cost column.

-There is no apportion ate of dividend on the purchase or sale of ordinary shares.

- The holders of ordinary shares are mostly entitled to receive some bonus share and right issues.

BONUS ISSUE

- When successful companies issue bonus to capitalize their reserve, the shareholders are not required to pay any amount for such shares.
- The number of shares should be entered in the number of face value (nominal column) and nothing could be added in the amount of principle or cost column.

RIGHT ISSUE

- If shares are first offered to the existing share holders as a matter of their rights, such shares are called RIGHT ISSUE such shares may be purchase by the share holders.

ILLUSTRATION I

A.B.C Ltd Bought 10,000 ordinary shares of each 1 shillings in Sahara Ltd on first April, 2008 at a cost 12,000/= on 1st August, 2008, Sahara Ltd made a bonus issue of 1 share for every 5 share held.

On 7th October, 2008 a (Dividend which applied to the bonus share) at 6% was received for the year ended 31st August 2008.

A.B.C Ltd Sold 300 of shares on 30th October for 3450 show Ordinary share a/c recording the above in the books of ABC Ltd.

Workings:

1: 5

X: 10,000

Bonus = 2000

Dividend:

12,000 * 6% = 720

IN THE BOOKS OF ABC

DR **ORDINARY SHARE A/C** **CR**

Date	Details	Nominal	Income	Cost	Date	Details
1.4.08	purchase (bank)	10,000		12,000		dividend(ban
1.8.08	bonus issue	2,000				sales(bank)
	P&L		720			balance c/d
		12,000	720	12,000		
	balance c/d	9000		8,550		

ILLUSTRATION II

Wewe limited purchased 20000 Ordinary shares of 11= each in mimi limited on 1st January, 2009 at the cost of 30,000/= on 1st July, mimi Limited announced a right issue of 2 Ordinary shares for every 5 held on that date at 1.75/= per share. Wewe limited took up 60% of the entitlement and sold the remaining 40% at 0.8 per share. Wewe limited received a divided of 25% record these transaction in the books of wewe limited for the year ended 31st December 2009.

Workings

- Taken up: x 8,000 = 8,000 shares x 1.75 = 14,000
- Right sold: [[8,000*40%]*0.8]->2560
- Ordinary share = 20,000

  Right issue = 4,800

  Dividend 25% x 28,000 = 7,000

DR ORDINARY SHARE INVESTMENT ACCOUNT CR

Date	Details	Nominal	Income	Cost	Date	Details
1.1.2009	purchases	20,000		30,000	01.07.2009	right issue
1.7.2009	right taken up	8,000		14,000		sale bank
31.12.2009	P&L		7,000		31.12.2009	Dividend rec
					31.12.2009	Balance c/d
		28,000	7000	44,000		
1.1.2010	balance b/d	28,000		41,400		

NOTES:

- Right taken entered in nominal column the number of shares taken up and in cost column the cost of these shares.
- Right sold /Right issue sold credit proceeds of sale in cost column.
- These sale does not reserves in profit or but reduces the average cost of share holder.

EXERCISE

1. Cd ltd bought 2000 ordinary of 1/= each in 5 ltd on 1st April 2008 at cost of 24000/= on 1st August, 2008, 5 ltd made a bonus issue on 1 share for every 5 shares held. On 7th October 2008, a (Dividend) which applied to the braes Shan of 6% was received for year ended.

CD Ltd sold 6000 of the shares on 31st October, 2008 setta the made such apportion ate as practice.

2. X Ltd bought 10,000 Ordinary Share of 1/= each in B Ltd on 1st 1.2009 at a cost of 15,000/= On 1st July, B Ltd announced the right issue of 2 Ordinary shares for every 5 held on that date at 1.25 per share X Ltd look up 50% of the entitlement and sold the remaining 50% at 0.6 per share.

X Ltd received a dividend of 20% on Ordinary share in B Ltd on 31.12.2009