BUSINESS STUDIES NOTES

FORM 2

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**SOURCE DOCUMENTS AND BOOKS OF ORIGINAL ENTRY**

These are documents containing the information that makes basis of making entries in the books of accounts. They act as evidence that the transaction actually took place. They includes

* **Cash sale receipt**: - a document that shows that cash as been received or paid out of the business either in form of cash or cheque. It is a source document that is mainly used in making records in the cash journals cash book, cash accounts or bank accounts. If the receipt is received, it means payments has been made and therefore will be credited in the above accounts, or taken to cash disbursement/payment journals, while when issued, it means cash/cheque has been received and therefore will be debited in the above accounts or taken to cash receipt journals
* **Invoice**: - a document issued when the transaction was done on credit to demand for their payment. If the invoice is an incoming invoice/invoice received, then it implies that the purchases were made on credit, and if it is an outgoing/invoice issued then it implies that sales were made on credit.

The incoming invoice will be used to record the information in the purchases journals/diary, while an outgoing invoice will be used to record information in sales journals/diaries

* **Credit note**: - a document issued when goods are returned to the business by the customer or the business return goods to the supplier and to correct any overcharge that may have taken place. If it is received, then it means part of the purchases has been returned and therefore the information will be used to record information in the purchases return journals, while if issued then it means the part of sales has been returned by the customers and therefore used to record the information in the sales return journals/diaries
* **Debit note**: - a document used to correct an undercharge that may have taken place to inform the debtor to pay more. It therefore acts as an additional invoice
* **Payment voucher**: - a document used where it is not possible to get a receipt for the cash/cheque that has been received or issued. The person being paid must sign on it to make it authentic. It is therefore used to record information just as receipts

**Books of original entries/Journals/Diaries/day’s books/Subsidiary books**

These are books where the transactions are listed when they first occur, with their entries being made on a daily basis before they are posted to their respective ledger accounts. The information in the source documents are used to make entries in these books. The books of original entries include:

* Sales journals
* Sales return journals/Return inwards journals
* Purchases journals/creditors journals/bought journals
* Purchases return journals/return outwards journal
* Cash receipt journals
* Cash payment/cash disbursement journals
* Three column cash book
* The petty cash book
* Analysis cash book
* General journals/journal proper
  1. **Sales journals**

This is used to record credit sales of goods before they can be recorded in their various ledgers. The information obtained in the outgoing invoice/invoice issued is used to record the information in this journal as the source document

The overall total in the sales journal is therefore posted in the sales account in the general ledger on credit side and debtors account in the sales ledger as a debit entry

Sales journal

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Particulars/details | Invoice no | Ledger folio | amount |
|  |  |  |  |  |

Example:

The following information relates to Tirop traders for the month of June 2010

June 1: Sold goods to wafula on credit of ksh 200, invoice no 0114

2: Sold to the following debtors on credit; Wanjiru ksh 400, Musyoka ksh 300, Wafula ksh 300

5: sold goods on credit to Wanjiru of ksh 300

10: Sold goods to the following on credit Kanini ksh 100, Wafula ksh 500, Wanjiru ksh 600

12: Sold goods on credit to musyoka of ksh 350

Required:

Prepare the relevant day book for the above transactions; hence post the various amounts to their respective individual accounts

**Sales journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Particulars/details | Invoice no | Ledger folio | amount |
| June 2010:  1  2  2  2  5  10  10  10  12  15 | Wafula  Wanjiru  Musyoka  Wafula  Wanjiru  Wanjiru  Wafula  Kanini  Musyoka  Totals posted to the sales account (Cr) | 0114 | SL  SL  SL  SL  SL  SL  SL  SL  SL  GL | 200  400  300  300  300  600  500  100  350  3050 |

(Post the rest to their individual debtors account)

* 1. **Sales Return Journals/Return inwards journals**

This is for recording the goods that the customers/debtors have returned to the business. It uses the information in the credit note issued as a source document to prepare it. The information is therefore recorded to the return inwards account in the general ledger, while the individual’s entries are reflected (credited) also in their respective debtors account for double entry to be completed. It takes the following format

**Sales return journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Particulars/details | Credit note no | Ledger folio | amount |
|  |  |  |  |  |

For example;

Record the following transaction for the 2007 in their relevant diaries, hence post them to their respective ledger accounts;

May 1: goods that had been sold to M Okondo of shs 2600 on credit was returned to the business

“ 2: G. Otuya returned good worth shs 1320 that was sold to him on credit to the business

“ 8: the following returned goods that had been sent to them on credit to the business H Wati shs 3500, Muya shs 4700 M Okondo shs 2900

“ 12: G Otuya returned goods worth shs 5400 that were sold on credit to the business

“ 30: Goods worth sh 8900 that had been sold on credit to G Otuya were returned to the business

**Sales Return journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Particulars/details | Credit note no | Ledger folio | amount |
| May 2007:  1  2  8  8  8  12  30 | M Okondo  G Otuya  H Wati  Muya  M Okondo  G Otuya  G Otuya  Totals posted to Return Inwards a/c (Dr) |  | S.L  S.L  S.L  S.L  S.L  S.L  S.L  GL | 2600  1320  3500  4700  2900  5400  8900  29320 |

(Post the entries to the individual ledger a/c’s (Cr))

* 1. **Purchases Journal**

This is used to record the credit purchase of goods. The totals are then debited in the purchases account in the general ledger, while the individual’s creditors accounts are credited. It used the invoices received/incoming invoices as it source document. It takes the following format;

Purchases journal

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Particulars/details | Invoice no | Ledger folio | amount |
|  |  |  |  |  |

For example

The following information relates to Mikwa Traders for the month of April 2011. Record them in their relevant day’s book, hence post the entries to their relevant ledger accounts.

April 2011;

“ 2. Bought goods worth shs 25 000 on credit from Juma, Invoice no 3502

3. Bought goods worth shs 16 500 from kamau on credit, invoice no 2607

6. Bought goods worth shs 12 700 from Juma on credit, invoice no 3509

8. Purchased goods of shs 25 200 from juma, invoice no 3605; shs 17 500 from Kamau, invoice no 3700; shs 45 000 from Wamae wholesalers, invoice no 3750

15. Purchased goods of shs 9 200 from Wamae wholesalers on credit, invoice no 3762

18. Bought goods of shs 17 000 from Kamau on credit, invoice no 3802

24. Purchased goods of shs 36 000 from Juma suppliers on credit, Invoice no 3812

**Purchases Day book**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Particulars/details | Invoice no | Ledger folio | amount |
| April 2011:  2  3  6  8  8  8  15  18  24 | Juma  Kamau  Juma  Juma  Kamau  Wamae  Wamae  Kamau  Juma  Totals posted to the Purchase account (Dr) | 3502  2607  3509  3605  3700  3750  3762  3802  3812 | PL  PL  PL  PL  PL  PL  PL  PL  PL  GL | 25 000  16 500  12 700  25 200  17 500  45 000  9 200  17 000  36 000  204100 |

(Post the individual entries to their relevant accounts in the ledger (crediting))

* 1. **Purchases Return Journals/Return outwards Journals**

This is used to record goods that have been returned to the creditors by the business, reducing the value of the goods that had been purchased. It uses the credit note received as the source documents, with the totals being in the purchases return account while the individual creditor’s accounts are debited in their respective ledger accounts. It takes the following format

**Purchases return journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Particulars/details | Credit note no | Ledger folio | amount |
|  |  |  |  |  |

For example;

Record the following transaction in the purchases return day book for Njiru’s traders for the month of June 2010, hence post the information into their relevant ledger accounts.

June 2010;

“ 3. Returned goods worth shs 400 that had been bought from Nairobi stores, credit note no 56

“ 8. Return goods of shs 1 200 to Matayos store, Credit no 148

“19. Had some of their purchases returned to the following; Njoka enterprises shs 700, credit note no 205, Nairobi Stores shs 600, credit note no 58, Matayos store shs 1 000 credit note no 191

“26. Returned goods worth shs 1 800 to Njoka enterprise credit note no 210

“30. Return goods worth shs 1 020 to Matayos store, credit note no 200

* 1. **Cash receipt Diaries**

This is used to record all the cash and cheques that have been received in the business. They may be many that posting directly in the cash book may be tedious and are therefore first recorded here. It totals are posted to the cash and bank accounts in the general ledger (Dr), while the individual accounts are credited in their respective accounts in the ledger. It uses the cash receipt issued and bank slips received as the source documents. It takes the following format;

**Cash receipt journal**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Date | Particulars/details | Receipt no | Ledger folio | Disc allowed | cash | bank |
|  |  |  |  |  |  |  |

* 1. **Cash payment Journals**

This is used to record cash and cheques that have been issued to the creditors/out of the business. Its totals are credited (Cr) in the cash and bank account and the individual accounts are debited (Dr) in their respective accounts It uses the cash receipt received and bank slips issued as the source documents. It takes the following format;

**Cash Payment journal**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Date | Particulars/details | Receipt no | Ledger folio | Disc received | cash | bank |
|  |  |  |  |  |  |  |

For example:

Record the following transactions into their relevant day books of Onyango traders, hence post the entries to their respective ledger accounts and balance them off;

May 2011:

“1. Cash sales amounting to ksh 3 000, receipt no 0112

“2. Paid the following creditors by cheque after having deducted a cash discount of 10% in each case; H. Mwangi ksh 1 500, J. Mwaniki ksh 1 600, N. Mugo ksh 1 200

“3. Receive the following Chaques from debtors in settlement of their debts after having deducted 5% cash discount in each case; Lucy kshs 22 800 cheque no 0115, Otieno kshs 8 550 cheque no 0011, Martha ksh 1 330 cheque no 0016

“5. Paid for repairs in cash kshs 16 000, receipt no 0251

“10. Paid Juma in cash kshs 9 500, receipt no 0295

“14. Cash sales kshs 17 000, receipt no 02714

“15. Banked kshs 6 000 from the cash till

“15. Received cash from Mary of kshs 13 500, receipt no 0258

“16. Cash sales of kshs 26 400 was directly banked, bank slip no 40152

“20. Cash purchases of kshs 8 920, receipt no 117

“22. Cash purchases of kshs 15 200 was paid for by a cheque, cheque no 512

**Cash receipt journal**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Date | Particulars/details | Document no | Ledger folio | Disc allowed | cash | bank |
| May 2011  1  3  3  3  14  15  15  16 | Sales  Lucy  Otieno  Martha  Sales  Cash  Mary  Sales  Totals to be posted to the cash and bank a/c (Dr) | 0112  0115  0011  0016  02714  0258  40152 | GL  SL  SL  SL  GL  “c”  SL  GL | 1200  450  700  2 350 | 3 000  17 000  13 500  33 500 | 22 800  8 550  1 330  6 000  26 400  65 080 |

(Post the totals and the entries to their respective accounts)

**Cash Payment journal**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Date | Particulars/details | Document no | Ledger folio | Disc Received | cash | bank |
| May 2011  2  2  2  5  10  15  20  22 | H. Mwangi  J. Mwaniki  N. Mugo  Repairs  Juma  Bank  Purchases  Purchases  Totals to be posted to the cash and bank a/c (Cr) | 0251  0295  117  512 | PL  PL  PL  GL  PL  “c”  GL  GL | 166.70  177.70  133.30  477.30 | 16 000  9 500  6 000  8 920  40 420 | 1 500  1 600  1 200  15 200  19 500 |

(Post the totals and the entries to their respective accounts)

* 1. **The petty Cash book**

This is used to record money that has been set aside to make payments that does not require large amounts, such as cleaning, staff tea, posting letters, etc. it is always kept by the petty cashier, under the supervision of the main cashier. The amount received by the petty cashier is always debited, while the payments made from the same is credited. The credit side also contains the analytical columns for various items of expenditure. The amount credited is also extended to the analysis column for the specific item. At the end of the stated period, the petty cash book is balanced, and the totals are posted to their individual accounts. The individual’s accounts are debited with the totals of the analytical columns, while the cash account is credited by the main cashier for the total that was spent in the petty cash book.

Petty cash book can also be operated on an imprest system, where the petty cashier receives a given amount of money at an intervals (imprest) to spend, and report back to the main cashier at the end of the period on how the money has been spent and the balance still remaining for re-stocking (reimbursed), and only the amount spent can be reimbursed so that at the beginning of the period the petty cashier will always have the full amount (cash float).

For example:

A petty cashier of sina chuki traders operate a petty cash book on an imprest of kshs 2 500 on a monthly basis. On 1st February 2010, she had cash in hand of shs 150 and was reimbursed the difference by the main cashier to restore her cash float. The following payments were made during the month of February 2010

Feb; 1. Travelling expenses kshs110

2. Correcting fluid kshs 200

3. Sugar for staff tea ksh 180

4. Stamps kshs 255

10. Telephone kshs 255

15. Entertainment kshs 130

18. Postage stamps kshs 100

20. Bread for staff tea kshs 148

25. Fare kshs 200

26. Duplicating ink kshs 250

27. Entertainment kshs 400

28. Telephone kshs 100

28. Atieno a creditor was paid ksh 150

Required;

Prepare a petty cash book from the above information and post the totals to the relevant ledger accounts.

Sina Chuki Traders

Petty Cash Book

For month of Feb. 2010

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Receipt sh | L.F | Date | Details | Vouch no | Total sh | Travel exp | Office exp | Staff tea | postage | Telephone | Ent. | Ledger a/c |
| 150  2 350  2500  22 | C.B | 2010  Feb 1  1  1  2  3  4  10  15  18  20  25  26  27  28  28 | Bal b/d  Reimbursement  Travelling exp  Correcting fluid  Sugar  Stamps  Telephone  Entertainment  Stamps  Bread  Fare  Duplicating ink  Entertainment  Telephone  Atieno  Totals  Bal c/d  Bal b/d |  | 110  200  180  255  255  130  100  148  200  250  400  100  150  2478  22  2500 | 110  200  310 | 200  250  450 | 180  148  328 | 255  100  355 | 255  100  355 | 130  400  530 | 150  150 |

The totals in the analytical columns are Debited in the individual accounts, with the petty cash book totals being credited in the cash account.

* 1. **The general Journal/Journal proper**

This one is used to record purchases or sales of fixed assets of the business on credit. These assets do not form part of the stock since the business does not deal in them, however the business may decide to buy or sell them for one reason or the other.

In this journal, the account to be debited begins at the margin, while the account to be credited is indented from the margin, with a narration below them put in brackets. The narration simply explains the nature of the transaction that has taken place. The individual entries are then posted to their respective accounts by either debiting or crediting depending on the transactions. It takes the following format;

**General journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Particulars/details | Ledger folio | Dr shs | Cr shs |
|  |  |  |  |  |

For example;

Journalise then following transactions which took place in the business of J Opuche during the month of March 2005

March 5; Purchased office furniture on credit for shs 25 000 from miugiza Furniture Limited

10; Sold old duplicating machine for shs 15 000 to samba academy on credit

15; Bought a new motor vehicle for shs 800 000 from explo motors Ltd, paying shs 300 000 in cash and balance was to be settled at a later date

18; Sold old vehicle to Mara Secondary school for shs 500 000 on credit

25;The owner converted personal electronic calculator valued at shs 9 000 into business asset

27; Sold old computers valued at shs 20 000 for shs 15 000 on credit to Mara secondary school

30; Sold old dining chairs worth shs 10 000 to Maendeleo for shs 15 000 on credit

**General journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Particulars/details | Ledger folio | Dr shs | Cr shs |
| March 2005  5  10  15  18  25  27  30 | Office Furniture a/c  Miugiza a/c  (Being a credit purchase of office furniture from Miugiza)  Samba Accademy a/c  Duplicating Machine a/c  (Being credit sales of duplicating machine to Samba academy)  Motor vehicle a/c  Cash a/c  Explo Motors a/c  (Being purchase of motor vehicle from explo. motors, paying part in cash and part on credit)  Mara Sec sch a/c  Motor vehicle a/c  (being the credit sale of old motor vehicle to mara sec sch)  Calculators a/c  Capital a/c  (being conversion of private calculator to business asset)  Mara Sec. Sch. a/c  Loss on disposal a/c  Computer a/c  (being credit sale of old computers to Mara school at a loss of 5 000)  Maendeleo a/c  Furniture a/c  Gain on disposal a/c  (being the credit sale of dining chairs to maendeleo at a gain of 5 000) |  | 25 000  15 000  800 000  500 000  9 000  15 000  5 000  15 000  1 384 000 | 25 000  15 000  300 000  500 000  500 000  9 000  20 000  10 000  5 000  1 384 000 |

The entries are then transferred to their respective accounts in the ledger, with the ones debited in the journals being debited and the ones credited being credited.

The Journal proper can also be used to show the opening entries and the closing entries. That is;

* ***Opening entries***

The opening entries are the entries of the assets and liabilities at the beginning of the trading periods to facilitate the opening of different accounts for them. They are the balance b/d for the assets and liabilities of the business.

The assets to be debited are recorded first, followed by the liabilities and capital to be credited. Incase the capital is not given, it can be calculated using the book keeping equation, that is A = C + L. the narration then follows the entries.

The opening entries are necessary when;

* A business that did not keep complete accounting records would like to start keeping
* Opening up new sets of accounting books, after closing the old ones
* Starting accounting records for a business which has been bought, though was in full operation

For example;

The following balances were extracted from Martine’s store that did not keep complete records, and would like to start keeping on 1st January 2011. Prepare for them their relevant subsidiary book to show the balances.

Shs

Motor vehicles 230 000

Machinery 40 000

Creditors 10 000

Debtors 5 000

Cash in hand 20 000

Stock 10 000

Insurance prepaid 5 000

Bank 25 000

Premises 335 000

Capital 660 000

**Martine’s Store**

**General journal**

**On 1st January 2011**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Particulars/details | Ledger folio | Dr shs | Cr shs |
| 2011 January 1 | Premises  Motor vehicle  Machinery  Debtors  Cash  Insurance prepaid  Bank  Stock  Capital  Creditors  (being the records of assets, liability and capital at the beginning of new period) |  | 335 000  230 000  40 000  5 000  20 000  5 000  25 000  10 000  670 000 | 660 000  10 000  670 000 |

* **Closing entries**

At the end of the trading period the business asses how it carried out its trade and the amount of profit it made by preparing the Trading profit and loss account and the balance sheet to show its financial position. These are prepared by the information obtained from the ledgers. That is, all the nominal accounts (sale, purchase, expenses and revenue accounts), both opening and closing stocks are transferred to the trading profit and loss account through the trial balance and general journals, while the rest are taken to the balance sheet.

***Uses of general journal***;

* To record purchases of fixed assets on credit
* To record sales of fixed assets on credit
* To correct errors by checking the balances
* To record the opening and closing entries
* To write off bad debts
* To record the inter ledger transfers
* To issues shares and debentures in companies
* To make end of the year adjustments for the final accounts

In the table below, indicate the books of original entry that the information obtained from the given source documents are used to prepare

|  |  |
| --- | --- |
| **Source Document** | **Books of Original entry** |
| Sales Invoice/invoice issued/Invoice retained/invoice copy | Sales journals |
| Purchases Invoice/Invoice received/Original invoice | Purchases journals |
| Credit note issued/Credit note retained/Credit note copy | Return inwards/Sales return journals |
| Credit note received/credit note original | Return outwards/purchases return journals |
| Original receipt/Receipt received | Cash payment/Analysis cash book/ Cash book |
| Receipt copy/Retained receipt | Cash receipt journal/Analysis cash book/cash book |
| Petty cash voucher | Petty cash book |

Uses of Journals

* To relive ledger of many details
* To record more details about the transaction that are not found in the ledger
* To facilitate tracing of errors
* To facilitate the preparation of control accounts
* To curb frauds and promote efficiency, since they are prepared by different people from the ones handling ledgers

***Assignment:***

***(Exercise 1B pages 50 and 51, Nos16 and 18 in Inventor book 4, KLB Students book)***