

Illustrated
Book-keeping
for
Secondary Schools

FORM



Student's Book



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Preface

This is the first edition of **Illustrated Book-keeping Book for Secondary Schools Form Two** that contains both textbook notes and review questions with answers for students and teachers regarding the Book-keeping course for Tanzanian Secondary Schools. It has been written in accordance with the new Book-keeping subject syllabus for ordinary secondary education issued in 2016.

The book is designed to meet the demands of the Secondary School Book-keeping subject syllabus for Form Two and the needs of any other students learning business subjects and is organised to provide students with what has been found to be the most appropriate sequencing of chapters to enable them to build a stable foundation for accounting knowledge. The language used is simplified as much as possible to enhance profound understanding to most Tanzanian students.

This book is resourceful and consists of many illustrations and examples as prescribed in the current new syllabus. Hence, it is expected that students and teachers will find this book very helpful in the course of learning and teaching respectively.

In order to make the best use of this resource, students should consider the following matters which are a proven path to success:

- At the beginning of each chapter, there is a list of learning objectives. These will lead students to know what is needed and what will be covered as per new syllabus requirements.
- By the end of each chapter, students will have to check what has been learnt against the recap of the entire chapter that follows the main text.
- After the main text, students will find a number of illustrations which will enhance their knowledge of the notes which will assist them to comfortably do various exercises which will enable students to understand the lessons well.
- Further, for some chapters, step-by-step processes in attempting particular problems have been found to facilitate learning and breaking down the entire cycle for understanding concepts. Chapters such as: recording transactions in books of original entry, bank reconciliation and correction of errors have been covered in this manner.
- Students should study as many illustrations in the book as possible at the points where they appear. This is very important. They will reinforce students' learning and facilitate making concrete some of the ideas that may otherwise appear very theoretical and distant.

- The answers for each chapter are provided at the end of the book. Students should not look at the answers before they attempt the questions otherwise they will just be cheating themselves. Once they have attempted questions, they can then check the answers at the end of the book and make sure they understand them before moving on.
- Students should attempt questions when they reach their sections, i.e. multiple choice questions, matching items, filling in the gaps and narrative questions. If they get any wrong answer, they should revise the chapter and redo the exercises before moving on to a new chapter. Student should show the workings for problem solving questions to earn maximum assigned marks for a particular question.
- Questions have been set to facilitate review of materials covered in the main text of a particular chapter.
- Teachers should guide students to find time to do as many exercises as possible.

We wish you all the best in your studies and we trust that this book will enable you to pass your examinations well; and we trust that you will get the rewards you deserve!

Enjoy learning...

TQ Publishers Ltd.

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Columnar Cash Book

Learning objectives

By the end of this chapter, you should be able to:

- (a) Describe the meaning of Columnar Cash Book,
- (b) Describe the meaning of Bank transactions,
- (c) Understand accounting treatment of contra entries,
- (d) Discuss the need for columnar cash book,
- (e) Understand posting of necessary entries into two-column and three-column cash book,
- (f) Complete double entry by posting to ledgers and
- (g) Explain the meaning of Bank overdraft.

Introduction

Columnar cash book is one of the books of original entry in which transactions relating to receipts and payments are recorded, including bank deposits and withdrawals. It plays dual roles of being a book of original entry as well as a ledger.

There are three common types of the cash books, namely:

- (a) Single column cash book,
- (b) Two (double) column cash book and
- (c) Three (triple) column cash book.

The single column cash book was discussed in Illustrated Book-keeping for secondary schools Form One, and in this chapter, recording as well as posting to relevant ledgers for other types of cash books will be covered in detail.

1.2 Meaning of columnar cash book

Columnar cash book is a cash book in which receipts and payments are recorded along with additional columns to facilitate recording of bank transactions and cash discounts. Columnar cash books which will be covered in this chapter are:

- (a) Two column cash book and
- (b) Three column cash book.

(a) Two column cash book

A two or double column cash book is a type of cash book in which there are two columns for amount on each side whereby one is used to record cash transactions, and the other one is used to record bank transactions. When a business entity keeps a bank account, it becomes necessary to record respective transactions for deposits and withdrawals.

Format 1.1: Two-column Cash Book

Two-column Cash Book									
Dr					Cr				
Date	Details	Folio	Cash	Bank	Date	Details	Folio	Cash	Bank

(b) Three column cash book

A three-column cash book (also referred to as triple column cash book) is the most exhaustive type/form of cash book which has three columns for amount on both receipt (Debit) and payment (Credit) sides to facilitate recording of transactions involving cash, bank and discounts.

A three-column cash book is usually maintained by business entities which make and receive payments in cash as well as by bank and which frequently receive and allow cash discounts.

Format 1.2 Three-column Cash Book

Three-column Cash Book											
Dr						Cr					
Date	Details	Folio	Discount Allowed	Cash	Bank	Date	Details	Folio	Discount Received	Cash	Bank

Purpose for each column in two and three – column cash book (Format 1.1 and 1.2 above) are being discribed in the next page

The purpose of each column is briefly explained below:

Items (i) – (v) apply for both two-column and three-column cash books, and items (vi) – (vii) apply only for three-column cash book.

- (i) **Date:** This column is used to enter the transaction date.
- (ii) **Details:** The particulars column is used to write the name of the account to be debited or credited in the ledger as a result of a cash or bank transaction.
- (iii) **Folio:** Folio, as its literal meaning says, is a sequence of numbers of words for the purposes of dividing a book into meaningful parts or just for reference. The folio column is used in Journals as well as in Ledgers. It usually contains the reference in forms of short codes of relevant accounts and journals with page numbers for easy linking between journals and ledgers and referencing.
- (iv) **Cash:** The amount of cash received (net of any discount allowed) is recorded on the debit side and the amount of cash paid (net of any discount received) is recorded on the credit side in cash columns. These columns are totaled and balanced like a ledger account.
- (v) **Bank:** The amount received (net of any discount allowed) made through bank is recorded on the debit side and the amount paid (net of any discount received) is recorded on the credit side in cash columns. These columns are totaled and balanced like a ledger account.
- (vi) **Discount allowed:** This is applicable for a three-column cash book where cash discounts allowed by a business to its customers are recorded when they pay their accounts earlier than the prescribed days.
- (vii) **Discounts received:** This is applicable for a three-column cash book where cash discounts received by a business from its suppliers are recorded when it pays what it owes earlier than the prescribed days.

1.2 Bank transactions

A bank account is opened by a business entity to facilitate transactions with various parties. The entity is allowed to deposit and make withdrawals. There are many types of bank accounts, but through the current account, the account holder is allowed to issue an order to the bank by using cheque leaves to authorise payments. For these services, the bank charges the business entity bank charges and other applicable fees.

It is safe for a business entity to make transactions through the banking system, especially when the volume is significant.

A business entity which operates a bank account is required to record those transactions in its ledgers; hence two columns are required in the cash book, i.e. Cash and Bank transactions. The bank column contains details of the payments made by cheque and direct transfer from the bank account and of the money received and paid into the bank account. The bank will have a replica of the account in its own books.

Sometimes, cash is deposited into a bank account in full or partly. Where the whole of the cash received is banked, immediately the receipt can be treated in exactly the same manner as a cheque received, i.e. it can be entered directly into the bank column. Furthermore, if a business requires cash, it may withdraw cash from the bank.

Periodically, or on request from a business entity, a bank will send a copy of the account in its books to the business entity. This document is known as the *bank statement*. When the entity receives the *bank statement*, it checks against the bank column in its cash book to ensure that there are no errors. Based on information in the bank statement, the entity reconciles its records in the cash book and makes appropriate adjustments. Bank reconciliation topic will be covered thoroughly in Chapter 3.

1.3 Accounting treatment of contra entries

A contra entry is defined as a book-keeping entry that is recorded in the opposite side of an earlier entry to cancel its effect on the account balance. *Contra* is a Latin word which means *opposite*.

A contra entry is recorded in the cash book by making 'C' in the respective folio column. When an entry affects both cash and bank accounts, it is called a contra entry. In contra entries, both the debit and credit aspects of a transaction are recorded in the cash book itself.

A contra entry is posted in the following scenarios:

- (a) When cash is deposited to a bank,
- (b) When cash is withdrawn from a bank and
- (c) When fund is transferred from one bank account to another.

Illustration 1.1: Contra entry

These entries are known as contra entries and a mark 'C' is placed in the folio column to indicate that the double entry is on the side of the same book.

Below is an example of a two-column cash book with contra entries:

Date 2017	Particulars	Amount Tshs.
Jan 1	Ujiji Supermarket started business with capital	10,000
Jan 2	Opened a bank account and paid cash	7,500
Jan.20	Paid cash into the bank	1,700
Jan.25	Withdrew cash from the bank	1,200

Solution for illustration 1.1

Ujiji Supermarket

Two-column Cash Book									
Dr					Cr				
Date	Details	Folio	Cash	Bank	Date	Details	Folio	Cash	Bank
2017 Jan					2017 Jan				
01	Capital		10,000		02	Bank	C	7,500	
02	Cash	C		7,500	20	Bank	C	1,700	
20	Cash	C		1,700	25	Cash	C		1,200
25	Bank	C	1,200		31	Balance c/d		2,000	8,000
			<u>11,200</u>	<u>9,200</u>				<u>11,200</u>	<u>9,200</u>
Feb 01	Balance b/d		2,000	8,000					

1.4 The need for columnar cash book

The following is the importance of the columnar cash book:

- It saves time and cost. All entries made in the 'Bank' column of the double column cash book form part of the double entry system and hence a separate bank account is not needed to be opened in a ledger.
- Both cash transactions and bank transactions are recorded in the same book. So, both cash balance and bank balance are easily available from the same book at any time.
- It facilitates estimating cash requirements and disbursements.
- It supports effective safeguarding and controlling over cash and banking transactions.

1.5 How to post necessary entries in a columnar cash book

The steps of recording transactions in a columnar cash book are almost the same as for the single column cash book covered in a Illustrated Book-keeping Book for Secondary School Form One. The only difference between the two types of cash books is that the two-column and the three-column cash books have additional column for 'Bank' transactions while the three-column cash book has both 'Bank' and 'Discount' columns. Below are the steps involved in recording transactions in the two-column and the three-column cash books.

(a) Two column cash book

- Step 1: Recording the name of an entity and title of the primary book of account:
At this step, the name of an entity is identified, for example Ujiji Supermarket and the type of books of original entry is mentioned, i.e. two-column cash book.
- Step 2: Recording cash transactions:
All cash receipt transactions are recorded in the cash column on the debit side while all cash payment transactions are recorded in cash column on the credit side of the double column cash book.
- Step 3: Recording bank transactions:
When a cheque is received and the same is deposited into a bank account on the same date, the amount of the cheque is recorded on the bank column on the debit side of the cash book. Sometimes cash is received and deposited into bank account, and in the same way, cash is also withdrawn from a bank account.
- Step 4: Recording contra entries:
Contra entries involve cash and bank accounts and are recorded on both debit and credit sides of two-column or three-column cash book at the same time. Such entries are not posted to any ledger account because both debit and credit aspects of transactions are handled within the cash book and the double entry transaction is completed.
- Step 5: Balancing and posting a two-column cash book
Both 'Cash' and 'Bank' columns of the double column cash book are summarised and balanced at the end of an appropriate accounting period. All cash transactions relating to cash receipts (debit) are entered on the left side and all transactions relating to cash payments (credit) are entered on the right side.

When a cash book is maintained, a separate cash book in the ledger is not opened. The cash book is balanced in the same way as an account in the ledger. But it may be noted that in the case of the cash book (cash transactions only), there will always be debit balance because cash payments can never exceed the total of cash receipts and opening balance of cash in hand.

Illustration 1.2: Two column cash book

Complete the two-column cash book of Ujiji Supermarket for the following transactions in the month of January 2018:

- Jan. 1 Ujiji Supermarket started business with Tshs. 10,000,000 in cash
- Jan. 2 Opened bank account and paid in Tshs. 7,500,000
- Jan. 4 Purchased goods for resale by cheque Tshs. 5,000,000
- Jan. 6 Bought furniture by cheque Tshs. 1,500,000
- Jan. 9 Paid for transport Tshs. 20,000
- Jan. 9 Cash sales Tshs. 3,000,000
- Jan. 12 Cash sales paid directly into bank Tshs. 2,000,000
- Jan. 15 Received cheque from Mussa Tshs. 1,500,000
- Jan. 18 Cash sales Tshs. 780,000
- Jan. 20 Paid cash into bank Tshs. 1,700,000
- Jan. 22 Cash sales Tshs. 1,700,000
- Jan. 24 Paid Maji Matitu Company Ltd by cheque Tshs. 2,500,000
- Jan. 25 Withdrew cash from bank Tshs. 1,200,000
- Jan. 26 Paid rent Tshs. 750,000 by cash.
- Jan. 26 Cash from bank Tshs. 720,000
- Jan. 26 Paid salaries Tshs. 750,000

Solution for illustration 1.2

Ujiji Supermarket

Dr		Two-column Cash Book								Cr
Date	Details	Folio	Cash	Bank	Date	Details	Folio	Cash	Bank	
2018					2018					
Jan					Jan					
01	Capital		10,000,000		02	Bank	C	7,500,000		
02	Cash	C		7,500,000	04	Purchases			5,000,000	
09	Sales		3,000,000		06	Furniture			1,500,000	
12	Sales			2,000,000	06	Transport		20,000		
15	Mussa			1,500,000	20	Bank	C	1,700,000		
18	Sales		780,000		24	Maji Matitu Co. Ltd			2,500,000	
20	Cash	C		1,700,000	25	Cash	C		1,200,000	
22	Sales		1,700,000		26	Salaries		750,000		
25	Bank	C	1,200,000		26	Rent		750,000		
26	Bank	C	720,000		26	Cash	C		720,000	
					31	Balance c/d		6,680,000	1,780,000	
			<u>17,400,000</u>	<u>12,700,000</u>				<u>17,400,000</u>	<u>12,700,000</u>	
Feb										
01	Balance b/d		6,680,000	1,780,000						

(b) Three column cash book

The steps of recording transactions in a three-column cash book are almost the same as those for a double-column cash book as described above. The only difference between the two types of cash books is that in the three-column cash book, a column for 'Discount' is added.

The following are the steps to be followed when preparing a three-column cash book:

- Step 1: Recording the name of an entity and a title of the primary book of account:
At this step, the name of an entity is identified, for example Ujiji Supermarket and the type of a books of original entry is mentioned, e.g. three-column cash book.
- Step 2: Recording cash transactions:
All cash receipt transactions are recorded in the cash column on the debit side while all cash payment transactions are recorded in the cash column on credit side of the double column cash book.
- Step 3: Recording bank transactions:
When a cheque is received and the same is deposited into a bank account

on the same date, the amount of the cheque is recorded in the bank column on the debit side of the cash book.

Step 4: Recording contra entries:

A contra entry is an entry which involves cash account and bank account, and which is recorded on both debit and credit sides of the three-column cash book at the same time. This entry is not posted to any ledger account because both debit and credit aspects of the transaction are handled within the cash book and the double entry transaction is completed.

Step 5: Recording cash discounts

The rate of cash discount is usually stated as a percentage. Full details of the percentage allowed, and the period within which payment is to be made, are quoted on all sales documents by the seller. An extra column is added on each side of the cash book in which the amounts of discounts are recorded. Discounts received are recorded in the discount column on the credit side of the cash book, and discounts allowed in the discount column on the debit side of the cash book.

Step 6: Balancing and posting a three-column cash book

Both cash column and bank column of a three column cash book are summarised and balanced at the end of an appropriate accounting period. All cash transactions relating to cash receipts (debits) are recorded on the left side and all transactions relating to cash payments (credits) are recorded on the right side.

When a cash book is maintained, a separate cash book in the ledger is not opened. The cash book is balanced in the same way as an account in the ledger. However, it may be noted that in the case of the cash book, there will always be a debit balance because cash payments can never exceed cash receipts and cash in hand.

The discount column is only totaled. It is not balanced because it does not work as an account. In a general ledger, two separate accounts are maintained for discount allowed and discount received.

Cash discounts and their treatment in the books

A cash discount is a deduction allowed by the seller of goods or by the provider of services in order to motivate customers to pay within a specified time.

Business entities prefer early settlement of debts, and therefore they may accept discounts if the debt is settled in full before the due dates. The amount of reduction of the sum to be paid is known as 'cash discount'. It is still called cash discount, even if the account is paid by cheque or by direct transfer into a bank account. The discount rates are normally quoted in percentage.

The total of discount column on the debit side of a cash book represents the total cash discount allowed to customers during the period and is posted to the discount allowed account maintained in the ledger. The total of discount column on credit side represents the total cash discount received from suppliers during the period and is

posted to the discount received account maintained in the ledger. Discount allowed is an expense and discount received is an income of the business.

Discount allowed is defined as the discount given to debtors when they pay their accounts early.

Discount received is the discount received by a business from its suppliers when the businesses pay their accounts quickly.

The discounts are then posted to respective customers and suppliers accounts. The total from discounts columns are transferred to the discount allowed account and discount received account respectively in the general ledger at the end of each month to complete the double entry book-keeping for discounts.

Unlike the cash discount, another type of discount is *Trade discount* which is allowed to trade for purchase of relatively large quantities (buy in bulk). For example, a high volume wholesaler might be entitled to a 40% trade discount, while a medium volume wholesaler is given a 30% trade discount. A retail customer will receive no trade discount and will have to pay the published or listed price. Trade discount is done through issued invoices.

So, cash discount is additional discount for a prompt settlement of the amount due within a specified time.

Illustration 1.3: Three-column cash book

Complete the three-column cash book for a given transactions of Mwanzo Trading Company:

Jan.

1. Balance brought forward: cash Tshs. 960,000, bank Tshs. 6,750,000.
2. Cash sales Tshs. 2,700,000.
4. Received cheque from Anna Tshs. 4,000,000 less 10 per cent cash discount.
5. Cash sales paid directly into bank Tshs. 1,900,000.
7. Paid Maji Matitu Company Ltd by cheque Tshs. 5,000,000 less Tshs. 250,000 cash discount.
9. Cash sales Tshs. 2,800,000.
11. Cash purchased Tshs. 4,000,000, with 5 per cent discount received
11. Paid for transport Tshs. 50,000
13. Cash sales Tshs. 2,560,000 less Tshs. 60,000 cash discount.
15. Paid cash into bank Tshs. 5,000,000.
17. Received cheque from Iddi Tshs. 3,000,000 less 10 per cent cash in discount.
20. Received cheque Tshs. 3,000,000 from Anna. With 30 percent discount allowed.
24. Paid Haule by cheque Tshs. 3,200,000 less 5% cash discount.
27. Cash sales Tshs. 2,000,000 less 10% trade discount and 5% cash discount.
29. Withdrew cash from bank Tshs.2,000,000 and paid Tshs. 1,200,000 salaries.
30. Paid rent Tshs.1,200,000 by cash and deposited all cash in, leaving a balance of Tshs. 500,000.

Solution for illustration 1.3

Mwanzo Trading Company Limited

Dr						Cr					
Three-column Cash Book											
Date	Details	Folio	Discount Allowed	Cash	Bank	Date	Details	Folio	Discount Received	Cash	Bank
xxxx Jan						xxxx Jan					
01	Balance b/d			960,000	6,750,000	07	Maji Matitu Co. Ltd ⁷		250,000		4,750,000
02	Sales			2,700,000		11	Purchases ⁸		200,000	3,800,000	
04	Anna ¹		400,000		3,600,000	11	Transport			50,000	
05	Sales				1,900,000	15	Bank	C		5,000,000	
09	Sales			2,800,000		24	Haule ⁹			160,000	3,040,000
13	Sales ²		60,000	2,500,000		29	Cash	C			2,000,000
15	Cash	C			5,000,000	29	Salaries			1,200,000	
17	Iddi ³		300,000		2,700,000	30	Rent			1,200,000	
20	Anna ⁴		900,000		2,100,000	30	Bank ⁶	C		920,000	
27	Sales ⁵		90,000	1,710,000		31	Balance c/d			500,000	13,180,000
29	Bank	C		2,000,000							
30	Cash ⁶	C			920,000						
			<u>1,750,000</u>	<u>12,670,000</u>	<u>22,970,000</u>				<u>610,000</u>	<u>12,670,000</u>	<u>22,970,000</u>
Feb 01	Balance b/d			500,000	13,180,000						

Note:

Discount allowed on cheque received of Tshs. 4,000,000 of which 10% was deducted and therefore only Tshs. 3,600,000 was received¹

Discount allowed on cash sales of Tshs. 2,560,000 of which Tshs. 60,000 was deducted²

Discount allowed on cheque received of Tshs. 3,000,000 of which 10% was deducted and therefore only Tshs. 2,700,000 was received³

Discount allowed on cheque received of Tshs. 3,000,000 of which 30% was deducted and therefore only Tshs. 2,100,000 was received⁴

Discount allowed on cash sales of Tshs. 2,000,000 where Trade discounts of 10% was given (Tshs. 200,000) which leaves Tshs. 1,800,000. Subsequently, 5% on Tshs. 1,800,000 equals to Tshs. 90,000 was allowed. Given that Trade discount is not recorded in the Cash Book, only discount allowed is recorded⁵

Tshs. 920,000 was transferred to Bank after leaving only Tshs. 500,000 i.e. (960,000+2,700,000+2,800,000+2,500,000+1,710,000+2,000,000-3,800,000-50,000-5,000,000-1,200,000-1,200,000-500,000)⁶

Discount received on cheque payment of Tshs. 5,000,000 of which Tshs. 250,000 was deducted and therefore only Tshs. 4,750,000 was paid⁷

Discount received on cash purchases of Tshs. 4,000,000 of which 5% was deducted and therefore only Tshs. 3,800,000 was paid⁸

Discount received on cheque payment of Tshs. 3,200,000 of which 5% was deducted and therefore only Tshs. 3,040,000 was paid⁹

Illustration 1.4: Three column cash book

Complete the three-column cash book of Ujiji Supermarket for the following transactions in the month of May 2018:

2018		Amount
May 1	Balances brought down from April	
	Cash balance	2,900
	Bank balance	65,400
	Debtor accounts:	
	B. Kamachumu	12,000
	N. Kimboriko	28,000
	D. Sandakalawe	4,000
	Creditor accounts:	
	U. Badokukopa	6,000
	A. Aluatani	44,000
	R. Longtudo	10,000
2	B. Kamachumu paid us by cheque, having deducted 2.5 per cent cash discount Tshs. 300	11,700
8	We paid R. Longtudo his account by cheque, deducted 5 per cent cash discount Tshs. 500	9,500
11	We withdrew cash from the bank for business use	10,000
16	N. Kimboriko paid us his account by cheque, deducting 2.5 per cent discount Tshs. 700.	27,300
25	We paid office expenses in cash	9,200
28	D. Sandakalawe paid us in cash after deducting 5 per cent cash discount.	3,800
29	We paid U. Badokukopa by cheque less 5 per cent cash discount Tshs. 300	5,700
30	We paid A. Aluatani by cheque less 2.5 per cent cash discount Tshs. 1,100	42,900

Solution for illustration 1.4

Ujiji Supermarket

Dr

Three-column Cash Book

Cr

Date	Details	F	Discount Allowed	Cash	Bank	Date	Details	F	Discount Received	Cash	Bank
2018 May						2018 May					
01	Balance b/d			2,900	65,400	08	R. Longtudo		500		9,500
02	B. Kamachumu		300		11,700	11	Cash	C			10,000
11	Bank	C		10,000		25	Office expenses			9,200	
16	N. Kimboriko		700		27,300	29	U. Badokukopa		300		5,700
28	D. Sandakalawe		200	3,800		30	A. Aluatani		1,100		42,900
						31	Balance c/d			7,500	36,300
			<u>1,200</u>	<u>16,700</u>	<u>104,400</u>				<u>1,900</u>	<u>16,700</u>	<u>104,400</u>
June											
01	Balance b/d			7,500	36,300						

Posting to ledgers

As usual, after recording transactions in the books of prime entry, appropriate ledger accounts need to be updated accordingly as per rules of posting to complete the double entry.

Illustration 1.5: Posting into ledgers

From the three-column cash book of Ujiji Supermarket updated in previous page, below are the posting into ledgers as per illustration 1.4:

2018	Amount
May 1 Balances brought down from April	
Cash balance	2,900
Bank balance	65,400
Debtors accounts:	
B. Kamachumu	12,000
N. Kimboriko	28,000
D. Sandakalawe	4,000
Creditors account:	
U. Badokukopa	6,000
A. Aluatani	44,000
R. Longtudo	10,000
2 B. Kamachumu paid us by cheque, having deducted 2.5 per cent cash discount Tshs.300	11,700
8 We paid R. Longtudo his account by cheque, deducting 5 percent cash discount Tshs. 500	9,500
11 We withdrew Tshs. 10,000 cash from the bank for business use	10,000
16 N. Kimboriko paid us his account by cheque, deducting 2.5 percent discount Tshs. 700.	27,300
25 We paid office expenses in cash	9,200
28 D. Sandakalawe paid us in cash after deducting 5 per cent cash discount Tshs.200.	3,800
29 We paid U. Badokukopa by cheque less 5 per cent cash discount Tshs. 300.	5,700
30 We paid A. Aluatani by cheque less 2.5 per cent cash discount Tshs. 1,100.	42,900

Solution for illustration 1.5

Ujiji Supermarket

Dr						Cr					
Three-column Cash Book											
Date	Details	F	Disc. Allowed	Cash	Bank	Date	Details	F	Disc. Received	Cash	Bank
2018 May						2018 May					
01	Balance b/d			2,900	65,400	08	R. Longtudo		500		9,500
02	B. Kamachumu		300		11,700	11	Cash	C			10,000
11	Bank	C		10,000		25	Office expenses			9,200	
16	N. Kimboriko		700		27,300	29	U. Badokukopa		300		5,700
28	D. Sandakalawe		200	3,800		30	A. Aluatani		1,100		42,900
						31	Balance c/d			7,500	36,300
			<u>1,200</u>	<u>16,700</u>	<u>104,400</u>				<u>1,900</u>	<u>16,700</u>	<u>104,400</u>
June											
01	Balance b/d			7,500	36,300						

Sales Ledger (extract)

Dr				B. Kamachumu				Cr			
Date	Details	Folio	Amount	Date	Details	Folio	Amount				
2018 May 01	Balance b/d		12,000	2018 May 02	Bank		11,700				
				02	Discount allowed		300				
			<u>12,000</u>				<u>12,000</u>				

Dr				N. Kimboriko				Cr			
Date	Details	Folio	Amount	Date	Details	Folio	Amount				
2018 May 01	Balance b/d		28,000	2018 May 16	Bank		27,300				
				16	Discount allowed		700				
			<u>28,000</u>				<u>28,000</u>				

Sales Ledger (continued)

Dr		D. Sandakalawe				Cr	
Date	Details	Folio	Amount	Date	Details	Folio	Amount
2018 May 01	Balance b/d		4,000	2018 May 28	Cash		3,800
				28	Discount allowed		200
			<u>4,000</u>				<u>4,000</u>

Purchases Ledger (extract)

Dr		R. Longtudo				Cr	
Date	Details	Folio	Amount	Date	Details	Folio	Amount
2018 May 08 08	Bank Discount received		9,500 500	2018 May 01	Balance b/d		10,000
			<u>10,000</u>				<u>10,000</u>

Dr		U. Badokukopa				Cr	
Date	Details	Folio	Amount	Date	Details	Folio	Amount
2018 May 29 29	Bank Discount received		5,700 300	2018 May 01	Balance b/d		6,000
			<u>6,000</u>				<u>6,000</u>

Dr		A. Aluatani				Cr	
Date	Details	Folio	Amount	Date	Details	Folio	Amount
2018 May 30 30	Bank Discount received		42,900 1,100	2018 May 01	Balance b/d		44,000
			<u>44,000</u>				<u>44,000</u>

General Ledger (extract)

Dr		Office Expenses				Cr	
Date	Details	Folio	Amount	Date	Details	Folio	Amount
2018 May 25	Cash Book		9,200	2018 May			

Dr		Discount Received				Cr	
Date	Details	Folio	Amount	Date	Details	Folio	Amount
2018 May				2018 May 31	Cash Book		1,900

Dr		Discount Allowed				Cr	
Date	Details	Folio	Amount	Date	Details	Folio	Amount
2018 May 31	Cash Book		1,200	2018 May			

1.6 Bank overdraft

A bank overdraft is defined as an arrangement by a bank with its client to withdraw more cash than what is deposited. A business entity may borrow from a bank by means of an overdraft. This means that the business entity is allowed to pay more out of its bank account than the balance held.

When an entity's bank account has a negative balance, it is said to be running a bank overdraft which is reported as current liability in the balance sheet.

Illustration 1.6: A cash book with bank overdraft position

Record the following transactions in two column cash books and identify bank overdrawn.

June 2018

- 1 Ujiji Supermarket started business with a capital of Tshs. 1,000,000 which was paid into a business bank account.
- 3 Purchased goods, Tshs. 400,000 on credit from Wholesalers Ltd. Paid rent, Tshs. 25,000 by cheque.
- 11 Sold goods worth Tshs. 150,000 on credit to local stores.
- 14 Withdrew Tshs. 20,000 from the bank for office use and paid advertising expenses, Tshs. 6,000 in cash.
- 20 Paid the amount due to Wholesalers Ltd. by cheque.
- 22 Cash sales Tshs. 75,000. Paid Tshs. 80,000 cash into the bank.
- 27 Owner of Ujiji Supermarket took Tshs. 5,000 cash for personal use. Bought fixtures Tshs. 660,000 and paid by cheque.

Solution for illustration 1.6

Ujiji Supermarket

Dr					Cr				
Two-column Cash Book									
Date	Particulars	Folio	Cash	Bank	Date	Particulars	Folio	Cash	Bank
2018 June					2018 June				
01	Capital			1,000,000	03	Rent			25,000
14	Bank	C	20,000		14	Cash	C		20,000
22	Sales		75,000		14	Advertising		6,000	
22	Cash	C		80,000	20	Wholesalers Ltd			400,000
30	Balance c/d			25,000	22	Bank	C	80,000	
					27	Drawings		5,000	
					27	Fixtures			660,000
					30	Balance c/d		4,000	
			<u>95,000</u>	<u>1,105,000</u>				<u>95,000</u>	<u>1,105,000</u>
July 01	Balance b/d		4,000		July 01	Balance b/d			25,000

From the above illustration, it is noted that the bank account was overdrawn by Tshs. 25,000 as credit side total exceeds the debit side total. Under normal circumstance, without any pre-arranged facility with the bank, the business entity cannot spend more than the balance held in the bank account.

Recap of key issues covered in the chapter:



1. A columnar cash book is a cash book in which receipts and payments are recorded with additional columns to facilitate recording of bank transactions and cash discounts.
2. A two or double column cash book is one in which there are two amount columns on each side. One is used to record cash transactions, and the other one is used to record bank transactions.
3. The three-column cash book (also referred to as triple column cash book) is the most exhaustive type of cash book which has three amount columns on both receipt (Debit) and payment (Credit) sides to record transactions involving cash, bank and discounts.
4. Cash discount is the name given for discount for quick payment even where the payment was made by cheque or by direct transfer into the bank account, rather than by payment in cash.
5. A multiple column cash book is often used to further reduce the entries made in the general ledger.
6. A contra entry is defined as an entry which is recorded to reverse or offset the other side of an account. If a debit entry is recorded in a cash account, it will be recorded on the credit side of the bank account and vice versa.
7. A bank overdraft is defined as an arrangement by the bank with its client to withdraw more cash than outstanding balance maintained at the bank account.
8. Importance of columnar column cash book is:
 - it saves time and cost. All entries made in the `bank` column of a double column cash book form part of the double entry system and hence a separate bank account is not needed to be opened in a ledger.
 - both cash transactions and bank transactions are recorded in the same book. So, both cash and bank balances are easily available from the same book at any time.
 - helpful in ascertaining the true cash position. If a cash book is not maintained, the true position of cash cannot be ascertained.
 - it helps in the effective safeguarding and controlling of cash and banking transactions.



Exercise

1

Section A: Choose the most correct answer

1. A receipt and payment transactions journal does not show _____.
 - A. bank balance
 - B. receipt from sales of assets
 - C. cheques paid out during the year
 - D. the accumulated fund
2. Contra entries are recorded in a _____.
 - A. cash book with discount column
 - B. cash book with cash and bank column
 - C. simple cash book
 - D. petty cash book
3. On which side of cash book is cash deposited by a debtor into a bank is recorded?
 - A. Credit column
 - B. Both sides
 - C. Debit side
 - D. None of the above
4. _____ is a financial journal that contains all cash receipts and payments, including bank deposits and withdrawals.
 - A. Columnar cash book
 - B. Ledger
 - C. Transaction
 - D. All above
5. The discount columns of the cash book record _____.
 - A. discounts for trade customers
 - B. discounts for prompt payments
 - C. discounts for bulk buying
 - D. VAT on discount
6. The three column cash book records _____.
 - A. cash transactions and cheque transactions only
 - B. cash transactions, bank transactions and cash discounts
 - C. cash transactions and credit transactions only
 - D. credit transactions and cash discounts only
7. _____ is a cash book in which only cash transactions are recorded.
 - A. A single-column cash book
 - B. A two-column cash book
 - C. A three-column cash book
 - D. All of above
8. A single column cash book always shows _____.
 - A. credit balance
 - B. debit balance
 - C. overdraft of cash book
 - D. none of the above

9. _____ is the book in which columns with amount for cash as well as bank transactions are found.
- A petty cash book
 - A single-column cash book
 - A ledger
 - A two-column cash book
10. _____ is an allowance which a business entity makes to customers who pay their bills promptly.
- Money
 - Cash discount
 - Credit discount
 - VAT on discount
11. _____ is known as an entry which is recorded to reverse or offset the other side of an account.
- Single entry
 - Adjusting entry
 - Double entry
 - Contra entry
12. Posting a transaction in book-keeping means _____.
- making the first entry of a double entry transaction
 - transferring an entry or item from a book of original entry to a proper account in a ledger
 - recording a transaction
 - none of the above
13. The amount of reduction of the sum to be paid is known as _____.
- Cash
 - Cash discount
 - Contra-entry
 - Payments
14. _____ is a discount granted when relatively large quantities of goods are bought by a trader
- Discount received
 - Quantity discount
 - Invoice
 - Cash discount
15. _____ is the other name for the two-column cash book.
- Double column cash book
 - Petty cash book
 - Single column cash book
 - Three column cash book
16. _____ is the cash discount granted by a business to its customers when they pay their dues quickly.
- Discount received
 - Payment voucher
 - Discount allowed
 - Petty cash
17. Discounts allowed are _____.
- deducted by a business when it pays cash
 - deducted by a business when it receives cash
 - given by a business when it buys in bulk
 - received by a business when it buys in bulk
18. A credit balance in the bank column of the cash book means _____.
- more is spent than what has been received
 - there is a posting error
 - there is some amount is stolen
 - there is a totalling error

19. Discount received is advantageous to the buyer because _____ .
- A. it reduces the quantity of goods on credit
 - B. it reduces the value of goods bought on credit
 - C. it reduces the time to pay for goods bought on credit
 - D. it reduces cash to be paid for the goods bought on credit
20. A bank overdraft means _____ .
- A. having more receipts than payments
 - B. withdrawing more than the outstanding balance
 - C. a firm bought too many goods
 - D. the amount of money by which a bank account is withdrawn

Section B: Answer the following questions

21. Define the following terms:
- (a) Double column cash book.
 - (b) Cash book.
 - (c) Contra entry.
22. In which scenarios contra-entry transactions are recorded in a cash book?
23. Write short notes on the followings:
- (a) Three column cash book.
 - (b) Difference between discount allowed and discount received.
24. Is it possible for a cash column to have a credit balance? Give reasons.
25. Mention three types of cash books.
26. Give reason why a cash book is both a ledger and a journal.
27. Is there need for a business entity to maintain a cash book? Give at least four reasons.
28. What do you understand by the term 'Quantity discount'?
29. What do you understand by the term 'Bank overdraft'?
30. Define the term 'Cash discount'.

Section C: Fill in the blanks with the most correct word(s).

31. In a three-column cash book, receipts are recorded on _____ side and payments on _____ side.
32. The objective of maintaining a cash book is to record all _____ and _____.
33. Deduction allowed by a seller of goods or by a provider of services in order to motivate customers to pay within a specified time is known as _____.
34. In a three-column cash book, discount received is recorded on _____ side and discount allowed on _____ side.
35. In order to distinguish a contra-entry from other transactions recorded in a cash book, a letter _____ is used.

Section D: Match word(s) from List A with those in List B

36. List A

- (i) Cash book
- (ii) Posting
- (iii) This is one of the importance of having the two-column cash book
- (iv) Quantity discount
- (v) Contra entries
- (vi) Cash receipts
- (vii) Bank overdraft
- (viii) Cash payments
- (ix) Drawings

List B

- A. discount given to customers if they buy goods in bulk.
- B. are recorded in cash column on the debit side of the cash book.
- C. the act of transferring an entry or item from a book of original entry to the proper account in a ledger.
- D. are recorded in cash column in credit side of the cash book.
- E. cash or goods taken from the business for personal use.
- F. one of the principal books of accounts.
- G. both cash and bank transactions are easily recorded at any time.
- H. the same transactions recorded in both sides of the cash book.
- I. withdrawing of cash from a bank account more than the available balance.

Section E: Write TRUE if a statement is correct or FALSE if a statement is not correct

- 37.** (i) The two-column cash book records only cash payments.
(ii) The balance of a cash book indicates net incomes.
(iii) The discount allowed column appears on the debit sides of the cash book.
(iv) The discount received column appears on both sides of the cash book.
(v) A cash book is one of the subsidiary books.
(vi) A bank overdraft is an arrangement between a bank and its client allowing the client to withdraw more cash than what is deposited.
(vii) Recording of transactions in the subsidiary books is the first step in the account cycle.
(viii) The total of a discount column on the debit side of a cash book represents the total cash discount allowed to customers during a certain period.
(ix) A contra entry is a book keeping entry that is recorded on the opposite side of an earlier entry to cancel its effect on the account balance.
(x) A double column cash book among other things, consists of a discount allowed column and a discount received column.

Section F: Problem solving questions

- 38.** Post the following transactions in the three-column cash book of Mwanzo Trading Company. Balance off the cash book and show the discounts accounts in the general ledger.
- 1 July, 2016 balances brought forward: cash Tshs. 23,000; Bank Tshs. 456,000.
 - 2 Cash sales Tshs. 45,000.
 - 3 The following debtors paid their accounts by cheque each deducting of 5%. Cash discount S. Mshana Tshs. 46,000, H. Willa Tshs.62, 000 and J. Abduel Tshs. 54,000.
 - 4 Paid rent by cheque Tshs. 70,000.
 - 5 Paid wages by cheque Tshs. 130,000.
 - 6 Paid the following creditors accounts by cheque, in each case deducting 2%. Discount: L. Ngosha Tshs. 30,000, H. Kapalata Tshs. 40,000, L. Charles Tshs.60, 000.
 - 7 Deposited Tshs. 50,000 cash to bank account.
 - 8 Bought stationery Tshs. 6,000, paying cash.

39. Complete the double column cash book for Ujiji Supermarket using the following information.
- 1 March, 2017 balance brought down from last month: Cash Tshs. 32,500; Bank Tshs. 864,000.
 - 2 Paid insurance Tshs. 200,000 by cheque.
 - 3 Cash sale Tshs. 60,000.
 - 4 Purchased by cheque Tshs. 325,000.
 - 5 S. Robby paid us Tshs. 425,000 by cheque.
 - 6 Bought stationery Tshs. 4,000 paying by cash.
 - 7 Paid wages by cheques Tshs. 135,000.
 - 8 Mary Swai paid by cheque Tshs. 60,000 for goods previously sold on credit.
 - 9 Received cheque of Tshs. 200,000 owing from A. Suleiman.
 - 10 Paid rent Tshs. 30,000 by cash.
40. From the following particulars, prepare a double column cash book for Ujiji Supermarket.
- 2015
- April
- 1 Tshs. 150,000 cash balance in the cash book
 - 2 Took Tshs. 142,500 out of the cash box and paid it into the bank.
 - 3 Bought goods for Tshs. 37,500 by cheque.
 - 4 Received a cheque for Tshs. 7,950 from S. Lukali.
 - 15 Paid Tshs. 6,750 rent by cheque.
 - 16 Paid Tshs. 1,050 on cleaning account by cash.
 - 19 Paid M. Kabwe Tshs. 4,500 by cash.
 - 20 Sales for Tshs. 30,000 in cash.
 - 21 Received a cheque for Tshs. 22,500 from M. Kato.
 - 21 Received Tshs. 52,500 cash from D. Mrope.
 - 30 Withdrew Tshs. 75,000 from the cash box and paid into the bank account.

41. Record the following particulars in the double column cash book of Mwanzo Trading Company Ltd.

2017

- May
1. Tshs. 80,000 cash in the cash box and Tshs 100,000 in the bank.
 2. Drew Tshs. 50,000 from the bank to add to the money in the cash box.
 4. Paid K. Lucy Tshs. 2,375 in cash.
 10. Purchased goods for Tshs. 1,000 in cash.
 12. Sold goods for Tshs. 10,000 in cash.
 15. A. Devis paid Tshs. 3,000 in cash to settle his account.
 16. Bought a motor vehicle spare part for Tshs. 100,000 and paid cash
 19. Paid Tshs. 1,500 in for sundry expenses.
 23. Received a cheque for Tshs. 40,000 from V. Ernest.
 23. Paid rates in cash Tshs. 10,000.
 29. Paid rent in cash Tshs. 15,000.
 30. Drew Tshs. 5,000 from the bank to increase cash in the cashbox
 31. Paid wages in cash Tshs. 7,500.

42. From the transactions of Mwanzo Trading Company, update the three column cash book transactions and ensure posting into ledgers as per details below:

2017	Particulars	Amount (Tshs)
April 1	Balances brought down from April:	
	Cash balance	5,800
	Bank balance	130,800
	Debtors accounts:	
	B. Nkwabi	24,000
	N. Hamisi	56,000
	D. Juma	8,000
	Creditors account:	
	U. Mwita	12,000
	A. Rhobi	88,000
	R. Haule	20,000
2	B. Nkwabi paid us by cheque, having deducted 2.5 per cent cash discount Tshs.600	23,400

2017	Particulars	Amount (Tshs)
8	We paid R. Haule his account by cheque, deducting 5 percent cash discount Tshs 1,000	19,000
11	We withdrew Tshs. 20,000 cash from the bank for business use	20,000
16	N. Hamisi paid us his account by cheque, deducting 2.5 percent cent discount Tshs 1,400.	54,600
25	We paid office expenses in cash	18,400
28	D. Juma paid us in cash after having deducted 5 per cent cash discount Tshs 400	7,600
29	We paid U. Mwita by cheque less 5 per cent cash discount Tshs. 600	11,400
30	We paid A. Rhobi by cheque less 2.5 per cent cash discount Tshs. 2,200	85,800

43. Record below transactions in the books of Ujiji Supermarket. Show the cash and bank accounts in a two-column cash book and balance the cash book at the end of the month, then post into sales ledger, purchases ledger, general ledger and nominal ledger.

2018	Particulars	Amount (Tshs)
June 1	Ujiji Supermarket started business with a capital of Tshs. 1,000,000 which was paid into a business bank account.	
3	Purchased goods Tshs. 400,000 on credit from wholesalers Ltd. Paid rent Tshs. 25,000 by cheque.	
11	Sold goods Tshs. 150,000 on credit to local stores.	
14	Withdrew Tshs. 20,000 from the bank for office use and paid advertising expenses, Tshs. 6,000 in cash.	
20	Paid the amount due to Wholesalers Ltd. by cheque.	
22	Cash sales Tshs. 75,000. Paid Tshs. 80,000 cash into the bank.	
27	Ujiji Supermarket owner took Tshs. 5,000 cash for its personal use. Bought fixtures Tshs. 360,000 and paid by cheque.	