



NEAR EAST UNIVERSITY TRNC



**RESEARCH ON ACCOUNTING
IN TRNC**

NEAR EAST UNIVERSITY TRNC



*Thanks for,
My Advisor;
Prof. Dr. Mevlüt ÇAĞLAR
Commander* *Mevlüt Çağlar*
Atilla SAHİN

SOURCES :

1. Managament of ETI Ltd.
2. Managament of DENİZ & Co. Ltd.
3. Managament of The NEAR EAST BANK Ltd.

Mehmet ERDEMELİ
91845

ACCOUNTING MEMORANDUM IN TRNC

	page
CHAPTER 1 ECONOMIC INFORMATION ABOUT TRNC	
1.1 General Outlook	1
1.2 Employment	2
1.3 Monetary Management	2
1.4 Banking System	2
1.5 Balance and Payments	2
CHAPTER 2 ACCOUNTING IN TRNC	
2.1 What is accounting	4
2.2 Accounting Techniques	6
2.2.1 Books and Ledgers	6
2.2.2 Control Accounting	7
2.2.3 The Trial Balance	8
2.2.4 The Journal	10
2.3 Incomplete Records	14
2.4 Accounting Policies	23
CHAPTER 3 UNUSUAL BANK TRANSACTIONS	
3.1 Bank Loans and Interest Payable	28
3.2 Dishonored Cheques	29
3.3 Bank Charges and Bank Interest on Overdrafts	31
3.4 Interest Receivable on Deposit Accounts	32
CHAPTER 4 PARTNERSHIP ACCOUNTING	
4.1 The Partnership Capital and Partnership Accounting	34
4.2 Partnership Final Account The Appropriation Accounts	35
4.3 Appropriating Account Loss	37
CHAPTER 5 CAPITAL AND REVENUE EXPENDITURE AND RECEIPTS	
5.1 Capital and Revenue Expenditure	39
5.2 Capital and Revenue Receipt	40
5.3 The Calculation of Profits-Revenue Accounts	41
5.4 Arriving At A "True" Profit Figure	42
5.5 Doubtful Cases Capital or Revenue Expenditure	45
CHAPTER 6 CONTROL ACCOUNTING	
6.1 The Need for Control Accounts	47
6.2 The Sub-Division Of The Ledger	48
6.3 Preparing A Control Account	49
6.4 Control Accounts In The Ledger	50
6.5 Other Names For The Control Accounts	50
6.6 The Control Account Which Is Wrong	

CHAPTER 7 VALUE ADDED TAX ACCOUNTING

7.1 What Is Value Added Tax (VAT) ?	51
7.2 Criticism Of VAT	53
7.3 Double Entry And The VAT Account	53
7.4 VAT Figures For The Accounting Entries	56

CONCLUSION	61
------------	----

ACCOUNTING MEMORANDUM IN T R N C

I-I: GENERAL OUTLOOK :

AS A RESULT OF THE TURKISH PEACE OPERATION OF JULY 1974 GENUINE PEACE WAS BROUGHT TO THE ISLAND. THE LIVING CONDITIONS OF THE TURKISH CYPRIOT PEOPLE, WHICH WERE CURTAILED BY THE GREEK CYPRIOT EMBARGO AND SUPPRESSION IMPROVED SUBSTANTIALLY UNDER THE NEW CONDITIONS CREATED BY THE TURKISH PEACE OPERATION.

THE ECONOMIC POLICY OF THE GOVERNMENT HAS BEEN IN THE DIRECTION OF PROVIDING THE APPROPRIATE INSTITUTIONS AND TAKING THE NECESSARY MEASURES IN ORDER TO MOBILIZE THE AVAILABLE HUMAN AND PHYSICAL RESOURCES TO IMPROVE THE LIVING STANDARDS OF THE TURKISH CYPRIOT PEOPLE.

I-II. EMPLOYMENT :

THERE IS NO ACUTE UNEMPLOYMENT PROBLEM IN THE "TRNC" AND ACCORDING TO THE RECORDS OF THE LABOUR OFFICE THE NUMBER OF REGISTER UNEMPLOYED HAS SHOWN A CONTINUOUS DECLINE SINCE 1978. UNEMPLOYMENT RATE FOR THE YEAR 1986 IS ESTIMATED TO BE 2.4 % , COMPARED TO 4.5 % IN 1978.

ACCORDING TO THE 1996 FIGURE; AROUND 32.4 % OF EMPLOYMENT IS PROVIDED BY AGRICULTURE WHICH IS THE MAIN SECTOR OF THE ECONOMY; 10.2 % BY INDUSTRY; 7.2 % BY CONSTRUCTION; 23.4% BY PUBLIC SERVICES AND 9.3 % BY TRADE AND TOURISM SECTORS. IT IS BELIVED THAT A CONSIDERABLE SEASONAL UNEMPLOYMENT EXISTS IN AGRICULTURE AND TOURISM.

I-III. MONETARY MANAGEMENT :

THE MAINTENANCE OF MONETARY STABILITY HAVE RECEIVED FIRST PRIORITY THE GOVERNMENT OF THE TRNC THIS IS REFLECTED BY THE ESTABLISHMENT OF A CENTRAL BANK IN 1983. AS A NECESSARY INSTITUTION FOR MONETARY POLICY. IT IS EXPECTED THAT THE MEASURES TAKEN IN THIS REGARD WILL ENHANCE THE PROPENSITY TO SAVE AND ALSO CHECK THE OUT FLOW OF DOMESTIC SAVINGS TO FOREIGN COUNTRIES.

I-IV. BANKING SYSTEM :

THE BANKING SYSTEM IN NORTHERN CYPRUS IS VERY WELL ORGANIZED. BANKS ARE EFFICIENT WELL EQUIPPED AND EMPLOY EXPERIENCED AND WELL TRAINED STAFF. THEY PROVIDE ALL TYPES OF BANKING SERVICES AND THEY HAVE PROVED FLEXIBLE ENOUGH TO SATISFY THE CONTINUOUSLY DIVERSIFYING NEEDS OF THE BUSINESS COMMUNITY. THEY HAVE BRANCH OFFICES AND CORRESPONDANCE IN MANY IMPORTANT TRADING CENTERS OF THE WORLD.

APPROVALS FOR SETTING UP OF NEW LOCAL BANKS OR OPENING OF BRANCHES OF FOREIGN BANKS IN THE TRNC ARE GRANTED ACCORDING TO THE BANKING ACT. 1976.

I-V. BALANCE OF PAYMENTS :

THE CONSISTENT TRADE DEFICIT IS FINANCED PARTLY THROUGH EARNINGS FROM INVISIBLES, MAINLY TOURISM. THE IMPORTS WITH EASIER POLICY WHEREBY BY THE IMPORTERS ARE ALLOWED TO PROCURE THEIR OWN FOREIGN EXCHANGE REQUIREMENTS IN FREE MARKETS, HAS BEEN A SIGNIFICANT FACTOR IN REDUCING THE DEFICIT IN THE

BALANCE OF PAYMENT. CONSIDERABLE AMOUNT OF AID AND CREDIT PROVIDED BY TURKEY HAS ALSO CONTRIBUTED TO THE IMPROVEMENT OF THE BALANCE OF PAYMENT POSITION. THE TRANSITIONAL PROGRAMME FOR 1977, ENVIGAGES A MORE LIBERAL POLICY OF IMPORTATION THROUGH HARD CURRENCY AS A RESULT OF THE IMPROVEMENTS OF THE FOREIGN EXCHANGE POSITION OF THE COUNTRY OVER THE RECENT YEARS.

THE CONTINUOUS INCREASE IN IMPORTS HAS CAUSED A PARALLEL INCREASE IN THE TRADE DEFICIT, WHICH STANDS AT \$.96 MIL. IN 1996. THE INCREASE IN THE BALANCE OF PAYMENTS DEFICIT IS DUE MAINLY TO THE GROWING NEED FOR CAPITAL INVESTMENT GOODS DERIVING FROM DEVELOPMENT EFFORTS AND TO THE INCREASING PROSPERITY OF THE PEOPLE NECESSITATING LARGER IMPORTS OF CONSUMER GOODS.

NET TOURISM REVENUES, ACCOUNTING FOR \$ 48.5 MIL. IN 1996, HAS BEEN SINGLED OUT AS A VITAL ELEMENT FOR THE IMPROVEMENT OF THE BALANCE OF PAYMENTS POSITION.

II. I. WHAT IS ACCOUNTING ?

ACCOUNTING CONTAINS ELEMENTS BOTH OF SCIENCE AND ART. THE IMPORTANT THING IS THAT IT IS ~~NOT~~[?] MERELY A COLLECTION OF ARITHMETICAL TECHNIQUES BUT A SET OF COMPLEX PROCESSES DEPENDING ON AND PREPARED FOR PEOPLE. THE HUMAN ASPECT, WHICH MANY PEOPLE, ESPECIALLY ACCOUNTANTS, FORGET, ARISES BECAUSE:

A.

1. MOST ACCOUNTING REPORTS OF ANY SIGNIFICANCE DEPEND, TO A GREATER OR LESSER EXTENT, ON PEOPLE'S OPINIONS AND ESTIMATES.

2. ACCOUNTING REPORTS ARE PREPARED IN ORDER TO HELP PEOPLE MAKE DECISIONS.

3. ACCOUNTING REPORTS ARE BASED ON ACTIVITIES WHICH HAVE BEEN CARRIED OUT BY PEOPLE.

B.

BUT WHAT SPECIFICALLY IS ACCOUNTING ? IT IS VERY DIFFICULT TO FIND A PITHY DEFINITION THAT IS ALL INCLUSIVE BUT WE CAN SAY THAT ACCOUNTING IS CONCERNED WITH ;

THE PROVISION OF INFORMATION IN FINANCIAL TERMS THAT WILL HELP IN DECISIONS CONCERNING RESOURCE ALLOCATION, AND THE PREPARATION OF REPORTS IN FINANCIAL TERMS DESCRIBING THE EFFECT OF PAST RESOURCE ALLOCATIONS DECISIONS.

AS YOU CAN SEE , ACCOUNTING IS NEEDED IN ANY SOCIETY REQUIRING RESOURCE ALLOCATION AND ITS USEFULNESS IS NOT CONFINED TO "CAPITALIST" OR "MIXED" ECONOMIES.

C.

AN ACCOUNT IS CONCERNED WITH THE PROVISION AND INTERPRETATION OF FINANCIAL INFORMATION. HE DOES NOT, AS AN ACCOUNTANT, MAKE DECISION. MANY ACCOUNTANTS DO OF COURSE GET DIRECTLY INVOLVED IN DECISION MAKING BUT WHEN THEY DO THEY ARE PERFORMING A DIFFERENT FUNCTION.

D.

ACCOUNTING IS ALSO CONCERNED WITH REPORTING ON THE EFFECTS OF PAST DECISIONS. BUT ONE SHOULD CONSIDER WHETHER THIS IS DONE FOR ITS OWN SAKE OR WHETHER IT IS DONE IN ORDER TO PROVIDE INFORMATION WHICH IS HOPEFUL WILL PROVE HELPFUL IS RELEVANT ONLY IF IT CAN BE USED TO HELP IN MAKING CURRENT AND FUTURE DECISIONS, FOR WE CAN HOPE THAT WE SHALL BE ABLE TO INFLUENCE THE FUTURE BY MAKING APPROPRIATE DECISIONS BUT WE CAN NOT REDO THE PAST.

THUS THE MEASUREMENT OF PAST RESULT IS A SUBSIDIARY ROLE, BUT BECAUSE OF THE HISTORICAL DEVELOPMENT OF ACCOUNTING AND, PERHAPS, BECAUSE OF THE LIMITATIONS OF THE PRESENT STATE OF THE ART, " BACKWARD LOOKING" ACCOUNTING SOMETIMES APPEARS TO BE AN END IN ITSELF AND NOT AS MEANS THAT WILL HELP IN ACHIEVING A MORE FUNDAMENTAL OBJECTIVE.

II.II. ACCOUNTING TECHNIQUES IN TRNC

II.II.1. BOOKS AND LEDGERS :

IN ORDER TO AVOID SWAMPING THE "DOUBLE ENTRY SYSTEM WITH DETAILED TRANSACTION RECORDS , THERE "BOOKS OF PRIME ENTRY". EXAMPLES OF THESE THE CASH BOOK, DEBTORS JOURNAL AND CREDITORS JOURNAL .THESE BOOKS RECORD THE DETAILS OF THE HIGH-VOLUME TRANSACTIONS.ALL THESE WOULD ONCE HAVE BEEN BOUND BOOKS IN ORDER TO STOP THE REMOVAL OR INSERTION OF PAGES . NOW THEY MAY BE LOOSE-LEAF BOOKS,CARDS OR COMPUTER RECORDS THAT ARE CONTROLLED IN OTHER WAYS , BUT THEY MAY STILL BE CALLED "BOOKS".

AT THE END OF THE DAY TOTALS FROM THE BOOKS OF PRIME ENTRY CAN BE TURNED INTO DOUBLE ENTRIES AND FED INTO THE ACCOUNTING SYSTEM.FOR EXAMPLE,THE FIGURE FOR SALES ON CREDIT WILL BE THE TOTAL OF THE SALES DAY BOOK. IN THE CASE OF CASH SALES THE INITIAL RECORD WILL APPEAR IN THE CASH BOOK.

THE BUSINESS MAY RUN A SYSTEM IN WHICH THE DOUBLE ENTRY ACCOUNTS CAN ONLY BE AFFECTED BY ENTRIES ON PREPRINTED FORMS. THE ENTRIES ARE PROCESSED BY AN EMPLOYEE WHOSE JOB IT IS TO MAINTAIN THE "LEDGERS".THE FORMS MAY BE PINK FOR DEBIT AND WHITE FOR CREDIT.THERE WILL BE MANY TRANSACTIONS THAT ARE SUFFICIENTLY INFREQUANT NOT TO NEED DAY BOOKS.WHEN THE SALARIES ARE PAID AT THE END OF EACH MONTH, THE PINK AND WHITE SLIPS ARE COMPLETED BY THE SALARIES CLERK AS PART OF THE MONTHLY ROUTINE.

LEDGERS ARE LARGE BOOKS COMPRISING THE VARIOUS PIECES OF PAPER THAT MAKE UP THE ACCOUNTS.IT MAY NOW BE THE CASE

THAT A LEDGER AS A MAGNETIC TAPE OR A SET OF CARDS. THE SALES LEDGER CONTAINS THE ACCOUNTS OF THE DEBTORS; THE PURCHASE LEDGER CONTAINS THE ACCOUNTS OF CREDITORS. THESE TWO LEDGERS ARE PERSONEL LEDGERS, AS THEY DEAL WITH DEBTS TO AND FROM PERSONS.

II.II.2. CONTROL ACCOUNTING :

A USEFUL TECHNIQUE TO AID CONTROL AND TOTALING OF ACCOUNTS IS THE MAINTENANCE OF "CONTROL ACCOUNTS", THAT IS KEEPING OF RUNNING TOTALS OF LADGER ACCOUNTS. THE TECHNIQUE IS MOST FREQUENTLY FOUND IN USE WITH A "DEBTORS LEDGER" OR A "CREDITORS LEDGER".

LET US CONSIDER A DEBTORS LEDGER WITH A CONTROL ACCOUNT. EACH TIME THERE IS AN INCREASE (DEBIT) OR A DECREASE (CREDIT) ON ANY DEBTORS ACCOUNT, THE CONTROL ACCOUNT IS ALTERED BY THE SAME AMOUNT. FROM TIME TO TIME THE INDIVIDUAL ACCOUNTS ARE BALANCED AND ADDED TOGETHER TO ENSURE THAT THEIR TOTAL IS THE SAME AS THE RUNNING TOTAL. IT IS POSSIBLE, OF COURSE, TO KNOW AT ANY TIME WHAT THE TOTAL DEBT IS BY LOOKING AT THE RUNNING TOTAL.

IF THE DEBTORS ACCOUNTS ARE PART OF THE DOUBLE ENTRY SYSTEM, THE CONTROL CANNOT BE, BECAUSE IT DUBLICATES THE SAME INFORMATION. IN THIS CASE THE CONTROL ACCOUNT IS CALLED A "MEMORANDUM ACCOUNT". IN PRACTICE IT MAY BE MORE USEFUL IF THE DEBTORS ACCOUNTS ARE MEMORANDA AND THE CONTROL ACCOUNT IS THE REAL ACCOUNT, BECAUSE FOR PURPOSE OF PREPARING A BALANCE SHEET THE TOTAL ONLY WILL BE THE BALANCE THAT IS RECORDED.

II.II.3. THE TRIAL BALANCE :

AT THE END OF THE ACCOUNTING YEAR (OR AT ANY TIME DURING THE YEAR WHEN A BALANCE SHEET OR PROFIT AND LOSS ACCOUNT IS NEEDED) THE PROCESS OF BALANCING ACCOUNTS AS DESCRIBED IN THE PREVIOUS MUST BE PERFORMED. HAVING BALANCED THE ACCOUNTS, A PROCEDURE KNOWN AS EXTRACTING A "TRIAL BALANCE" IS USUALLY CARRIED OUT. THIS IS DONE BEFORE THE BALANCES ARE TRANSFERRED BY DOUBLE ENTRY TO THE PROFIT AND LOSS ACCOUNT OR RECORDED ON THE BALANCE SHEET. WHEN ALL THE TRANSACTIONS ARE MARSHALLED TOGETHER, IF THERE IS A LACK OF BALANCE BETWEEN THE TOTAL OF DEBITS AND THE TOTAL OF CREDITS, THERE MUST HAVE BEEN AN ERROR AT SOME OF THE MANY THOUSANDS OF TRANSACTIONS DURING THE YEAR HAVE BEEN RECORDED INCORRECTLY. IT IS USEFUL TO SPOT AS MANY AS POSSIBLE BEFORE THE ACCOUNTING PROCESS GOES ANY FURTHER.

TABLE 1-1 CONTAINS A POSSIBLE TRIAL BALANCE EXTRACTED FROM THE BOOKS OF THE BUSINESS OF "ETI" ON DECEMBER....97. ANY ERRORS REVEALED BY IMBALANCE HAVE ALREADY BEEN CORRECTED IN THE TRIAL BALANCE.

THE SORT OF ERRORS THAT MAY OCCUR DURING THE ACCOUNTING YEAR ARE AS FOLLOWS:

- (1) "ERRORS OF POSTING", WHERE ONE PART OF THE DOUBLE ENTRY IS RECORDED ON THE WRONG SIDE WHEN TRANSFERRING INFORMATION FROM JOURNALS TO LEDGERS;
- (2) "ARITHMETIC ERRORS", WHERE THE ADDITION AND BALANCING PROCESSES ARE INACCURATE;
- (3) "OMISSION OF AN ACCOUNT", WHERE THE BALANCE ON AN ACCOUNT

IS NOT RECORDED ON THE TRIAL BALANCE;

AND "MISREADING A BALANCE", WHERE A BALANCE IS TRANSFERRED TO THE TRIAL BALANCE BUT IS OF THE WRONG AMOUNT OR IS PUT IN THE WRONG COLUMN.

TABLE 1.1 TRIAL BALANCE EXTRACTED FROM THE BOOKS "ETI" AT 31.12

ITEM	(\$)	DEBITS	CREDITS
CAPITAL			20,000
FREEHOLD PREMISE		10,000	
FIXTURES AND FITTINGS AT COST		4,500	
DEPREC.PROVISION AT 1.1.99			900
OPENING STOCK AT 1.1.99		4,800	
PURCHASES		11,600	
SALES			16,500
DRAWINGS BY ETI		2,400	
DEBTORS		2,100	
CREDITORS			1,600
WAGES AND SALARIES		800	
LIGHTING AND HEATING		100	
RENT AND RATES		300	
MISCELLANEOUS EXPENSES		200	
CASH AND BANK BALANCES		2,200	
		<u>39,000</u>	<u>39,000</u>

II.II.4. THE JOURNAL :

THE JOURNAL USED TO BE A BOOK OF ACCOUNT THROUGH WHICH PASSED ENTRIES FOR ALL TRANSACTIONS THAT DID NOT AFFECT THE OTHER BOOKS OF PRIME ENTRY. LIKE THE OTHER BOOKS OF PRIME ENTRY THE JOURNAL WAS OUTSIDE THE DOUBLE ENTRY SYSTEM. AS A ^{lt}RESULT NOT ONLY COULD EVERY ENTRY IN THE ACCOUNTS BE TRACED TO THE CORRESPONDING ENTRY THAT MADE UP THE DOUBLE ENTRY, BUT ALSO EVERY DOUBLE ENTRY COULD BE TRACED TO A BOOK OF PRIME ENTRY.

IT IS NOW MORE USUAL FOR ROUTINE ENTRIES (MONTHLY SALARY PAYMENTS) TO PASS TO THE ACCOUNTS WITHOUT BEING ENTERED IN EITHER A DAILY CASH BOOK OR THE JOURNAL. HOWEVER THE JOURNAL MAY STILL BE VERY USEFUL FOR KEEPING A RECORD OF UNUSUAL TRANSACTIONS (THE PURCHASE OF FIXED ASSETS, THE CORRECTION OF ERRORS IN THE ACCOUNTS OR THE OPENING OF A NEW ACCOUNTS). NOW JOURNAL ENTRIES ARE USUALLY MADE USING PREPRINTED AND NUMBERED JOURNAL SHEETS MADE UP ON ONE DAY DURING THE YEAR. THE NARRATIVE AFTER EACH SET OF ENTRIES WILL BE USEFUL IN THE FUTURE AS AN EXPLANATION OF THE ORIGIN OF THE ENTRIES. EACH JOURNAL SHEET MUST BALANCE IN ORDER TO ENSURE THAT THE WHOLE ACCOUNTING SYSTEMS REMAINS IN BALANCE.

AT THE END OF THE YEAR THERE WILL BE A VARIETY OF ENTRIES THAT ARE NECESSARY BEFORE THE ACCOUNTS CAN BE PROPERLY DRAWN UP. THESE CLOSING AND ADJUSTING ENTRIES ARE SUFFICIENTLY UNUSUAL THAT, IN ORDER TO TRACE THEM AND UNDERSTAND THEM LATER ON, IT WILL BE SENSIBLE TO PASS THEM THROUGH THE JOURNAL.

IN THE CASE OF "ETI" BUSINESS (THE TRIAL BALANCE OF WHICH IS SHOWN IN TABLE 1.1) THE YEAR-END ENTRIES MAY RESULT FROM THE FOLLOWING INFORMATION:

- (1) TEN PER CENT DEPRECIATION FOR THE YEAR SHOULD BE PROVIDED COST OF FIXTURES AND FITTINGS.
- (2) RATES HAVE BEEN PAID IN ADVANCE TO THE EXTENT OF \$50.
- (3) SPECIFIC BAD DEBTS OF \$100 ARE TO BE WRITTEN OFF.
- (4) A PROVISION FOR FUTURE BAD DEBTS OF 10% OF DEBTORS IS TO BE SET UP FOR THE FIRST TIME.
- (5) CLOSING STOCK IS VALUED AT \$5,000.

THESE ENTRIES ARE SHOWN IN FIGURE 1.1 .THEY CAN NOW BE ADDED TO THE PREVIOUS TRIAL BALANCE AS IN TABLE 1.2 , AFFECTING THE ASTERISKED BALANCE.THE ADJUSTMENTS THAT HAVE BEEN MADE ARE SHOWN IN THE RIGHT-HAND COLUMNS. THE TRIAL BALANCE STILL WORKS. THE NEXT STAGE IS TO TRANSFER ALL THE REVENUE AND EXPENSE BALANCES TO A PROFIT AND LOSS ACCOUNT BY CLOSING THE ACCOUNTS,USING DOUBLE ENTRY AS SEEN; AS THE BALANCE ARE TRANSFERRED, THE RECORD IN THE TRIAL BALANCE CAN BE TICKED. TABLE1.3 ALL THE REMAINING UNTICKED BALANCES IN THE TRIAL BALANCE (TABLE 1.2) WILL BE ASSET, LIABILITY OR CAPITAL BALANCES. THESE CAN NOW BE RECORDED ON THE BALANCE SHEET . IT WOULD BECOME PARTICULARLY CLEAR THAT THE BALANCE SHEET IS ASPECIAL KIND OF DOCUMENT IF ONE SAW THE TRADITIONAL T.R.N.C. FORMAT WHICH SHOVED THE ASSETS ON THE RIGHT (THE CREDIT SIDE!), AS AN EXAMPLE, IN TABLE 1.4. THE COMPANIES ACT DOES NOT NOW ALLOW THIS FOR MOST COMPANIES,BUT SOME PARTNERSHIP

Item	Debits	Credits	Adjustment already made	
			Debits	Credits
Capital		200000		
Freehold premises	10000			
Fixtures	4500			
Depreciation provision at 31.12.99		1350		+450
Depreciation charge	450		+450	
Opening stock(in trading account)	4800			
Closing stock(in trading account)		5000		+5000
Closing stock(in asset account)	5000		+5000	
Purchase	11600			
Sales		16500		
Drawings	2400			
Debtors	2000		-100	
Creditors		1600		
Wages and salaries	800			
Lighting and heating	100			
Rents and rates	250		-50	
Rates(opening balance for next year)	50		+50	
Bad debts	300		+100	
			+200	
Provision for bed debts		200		+200
Miscellaneous expenses	200			
Cash and bank balance	2200			
	44650	44650	+5650	+5650

Table 1.2 Trial balance of ETI at 31.12.99 after journal sheet adjustment (\$)

AND SOLE TRADERS STILL USE IT. IN THE CASE ABOVE EXAMPLE, WHEN ALL THE BALANCES IN THE TRIAL BALANCE HAVE BEEN USED, THE BALANCE SHEET IN THE TABLE 1.4 WILL RESULT.

JOURNAL SHEET		
DATE : 31.12.99	\$ Debits	\$ Credit
Depreciation charge Depreciation provision Being 10% depreciation for the year on \$ 4,500 cost	450	450
Rates (opening balance for next year) Being the recognition of \$ 50 paid in advance	50	50
Bad debts Debtors Being the writing-off of specific bad debts	100	100
Bad debts Provision for bad debts Being the setting up of aprovision, 10% of \$2,000	200	200
Stock Trading account Being the recording of the closing stock	5,000	5,000
T O T A L	5,800	5,800

Figure 1.1 Journal Sheet of ETI 31.12.99

Opening stock	4800	Sales	16500
Purchase	11600		

	16400		
less Closing stock	5000		

	11400		
Gross profit c/d	5100		
	=====		16500
	16500		=====
Wages and salaries	800	Gross profit b/f	5100
Lighting and heating	100		
Rent rates	250		
Depreciation	450		
Bad debts	300		
Miscellaneous expenses	200		

	2100		
Net profit c/d	3000		

	5100		5100
	=====		=====
		Net profit b/f	3000

Table 1.3 Trading and profit and loss account of ETI 31.12

II.III. INCOPLETE RECORD :

SOME BUSINESSES DO NOT OPERATE A FULL DOUBLE - ENTRY ACCOUNTING SYSTEM. A SMALL TRADER MAY NOT UNDERSTAND THE ADVANTAGES OF A SUCH SYSTEM OR MAY THINK THAT THE EXPERTISE AND TIME NEEDED WILL BE TOO COSTLY FOR A BUSINESS WITH A RELATIVELY SMALL NUMBER OF A TRANSACTION EACH YEAR .THIS SITUATION SHOULD NOT ARISE IN A LIMITED COMPANY BECAUSE THE COMPANISE ACT REQUIRES PROPER ACCOUNTING RECORDS TO BE KEEPT. HOWEVER, IT IS POSSIBLE THAT, DUE TO DAMAGE OR LOSS, SOME OF THE ACCOUNTING RECORDS OF A LIMITED COMPANYMAY BE MISSING.

IN ALL THESE CASES PROFIT WILL STILL NEEDED TO BE CALCULATED FOR THE INFORMATION OF MANAGERS AND OWNERS AND FOR THE PURPOSE OF THE INLAND REVENUE .DEPENDING ON THE EXTENT OF THE INCOMPLETENESS OF THE RECORDS, IT WILL BE NECESSARY FOR AN ACCOUNTANT TO THE WORK RANGING FROM THE LOGICAL DEDUCTION OF MISSING FIGURES TO GUESSWORK BASED ON THE MEMORIES OF THE PROPRIETER AND A KNOWLEDGE OF THE BUSINESS . THE ACCOUNT IS AIDED BY KNOWING THAT ANY INCREASE IN THE NET ASSETS OF THE BUSINESS MUST BE DUE TO PROFIT , ASSUMING THAT THERE HAS BEEN NO NET INTRODUCTION OF CAPITAL.

AT WORST, THEN, A CLOSING BALANCE SHEET CAN BE PREPARED FROM INFORMATION ABOUT THE ASSETS AND LIABILITIES. THE BALANCING ITEM IN IT WILL BE THE CLOSING CAPITAL . THIS CLOSING BALANCE SHEET IS COMPARED WITH THE OPENING BALANCE SHEET ; IF THERE IS NONE , IT WILL HAVE TO BE ESTIMATED . THE DIFFERENCE BETWEEN THE EARLIER AND THE LATER CAPITAL FIGURES IS THE PROFIT. IF THERE HAVE BEEN DRAWINGS OR CAPITAL INTRODUCTION, THE FOLLOWING FAMILIAR EQUATION CAN BE USED:

opening capital+profit+introductions-drawings=closing capital

CLEARLY, THIS METHOD PROVIDES VERY LITTLE INFORMATION FOR OWNERS AND MANAGERS TO ENABLE THEM TO MAKE DECISIONS ABOUT INVESTMENT, PRICING, EXPENSE CONTROL AND SO ON. ALSO , THE RISK OF UNDETECTED THEFT AND FRAUD ARE MUCH HIGHER WHEN THERE IS NO COMPLETE ACCOUNTING SYSTEM. SO, IN ALL CASES, ATTEMPTS SHOULD BE MADE TO CALCULATE PROFIT BY COMPARISON OF REVENUES AND EXPENSES, LEAVING COMPARISON OF OPENING AND CLOSING CAPITAL AS A CHECK.

ONE PARTICULAR EXAMPLE OF INCOMPLETE RECORDS WHERE THIS MAY BE POSSIBLE IS CALLED SINGLE ENTRY. HERE THE SMALL TRADER MAY BE MERELY MAINTAINING A CASH BOOK. HOWEVER, STARTING , WITH THIS, DOUBLE ENTRIES CAN BE CREATED. SUPPOSE THAT, AFTER THE RECEIPTS AND THE PAYMENTS HAVE BEEN COMBINED TOGETHER BY TYPE, THE CASH BOOK OF ETI BUSINESS APPEARS AS IN TABLE 1.5.

BY ANALYSING THE OUTSTANDING INVOICES AND BY MAKING A PHYSICAL STOCK CHECK, THE ACCOUNTANT FINDS THAT AT 31.12.96:

DEBTORS ARE	\$ 1,500
CREDITORS ARE	\$ 1,250
STOCK IS	\$ 2,400

(1) Opening balance 1.1.96	1000	(5) Drawing by ETI	1500
(2) Cash sales	7500	(6) Fixtures bought	1200
(3) Payments by debtors	4000	(7) Purchases in cash	3500
(4) Extra capital introduced	2500	(8) Payments creditors	5000
		(9) Rent and rates	900
		(10) Wages	1400
		(11) Closing balance	
		31.12.96	1500
	-----		-----
	15000		15000
	=====		=====
(11) Opening balance 1.1.97	1500		

Table 1.5 Cash account of ETI as at 31.12.96 (\$)

LET ASSUME THAT A BALANCE SHEET AS AT 31. DECEMBER....95 IS ALSO AVAILABLE (TABLE 1.6) FROM ALL THIS INFORMATION THE ACCOUNTANT CAN CONSTRUCT DOUBLE ENTRIES FOR THE YEAR AND THEN PRODUCE A PROFIT AND LOSS ACCOUNT.

THIS WILL NOW BE DONE, USING THE REFERENCE NUMBERS IN THE CASH ACCOUNT (TABLE 1.5) TO IDENTIFY THE OTHER PARTS OF EACH DOUBLE ENTRY. ENTRY 1 IN THE CASH ACCOUNT HAS A DOUBLE

ENTRY IN THE PREVIOUS YEAR'S CASH ACCOUNT; ENTRY 2 WILL HAVE ITS PARTNER IN THE SALES ACCOUNT, AND SO ON.

COST.....=C

CUMMULATIVE DEPRECIATION...=D

NET BOOK VALUE.....=N

		(C)	(D)	(N)
Capital (at 1.1.95)	20000	Fixed asset:		
Profit (year 31.12.95)	1500	Premise	15000	15000
	-----	Fixtures	4000	3000
	21500		-----	-----
Less Drawings	700		19000	18000
	-----		=====	=====
Capital (at 31.12.95)	20800	Current asset:		
Current liabilities :		Stock	1600	
Creditors	1100	Debtors	1300	
	-----	Cash	1000	3900
	21900			-----
				21900

Table 1.6 Balance sheet of ETI as at 31.12.95 (\$)

DEBTORS CONTROL ACCOUNT (\$)

Balance 31.12.95	1300	(3) Cash	4000
* Sales	4200	Balance 31.12.96	1500
	-----		-----
	5500		5500
	=====		=====
Balance 31.12.96	1500		

SALES OCCOUNT (\$)

Trading a/c	11700	(2) Cash	7500
	-----	Debtors	4200
	11700		-----
	=====		11700
			=====

THE CREDIT SALES HAVE BEEN WORKED OUT TO BE \$ 4,200 BY MAKING THE DEBTORS ACCOUNT BALANCE. THESE SALES HAVE DOUBLE ENTRY IN THE SALES ACCOUNT. THE BALANCE ON THE SALES (\$ 11700) IS TRANSFERRED TO THE TRADING ACCOUNT (below) . LET US CONTINUE :

CREDITORS CONTROL ACCOUNT (\$)

(8) Cash	5000	Balance 31.12.95	1100
Balance 31.12.96	1200	* Purchase	5100
	----		----
	6200		6200
	=====		=====
		Balance 31.12.96	1200

PURCHASING ACCOUNT (\$)

(7) Cash	3000	Trading a/c	8600
Creditors	5100		----
	----		8600
	8600		=====
	=====		

THE PURCHASES HAVE BEEN CALCULATED AS \$ 5,100 BECAUSE THAT MAKES THE CREDITORS ACCOUNT BALANCE. THE DOUBLE ENTRY FOR THIS IS IN THE PURCHASES ACCOUNT. THE REMAINING ACCOUNTS BELOW ALSO FROM THE CASH ACCOUNT.

RENT AND RATES ACCOUNT (\$)

(9) Cash	900	Profit and loss a/c	900
	---		---
	900		900
	=====		=====

WAGES ACCOUNT (\$)

(20) Cash	1400	Profit and loss a/c	1400
	----		----
	1400		1400
	=====		=====

CAPITAL ACCOUNT (\$)

Balance 31.12.96	23300	Balance 31.12.95	20800
	-----	(4) Cash	2500
	23300		-----
	=====		23300
			=====
		Balance 31.12.96	23300

DRAWINGS ACCOUNT (\$)

(5)	1500		
	-----		-----

THERE SHOULD ALSO BE ACCOUNTS FOR THE FIXED ASSETS AND STOCK. SUPPOSE THAT STRAIGHT LINE DEPRECIATION FOR FIXTURES SHOULD BE PROVIDED AT 10 PER CENT EACH YEAR ON COST :

PREMISE (\$)

Balance 31.12.95	15000		
	-----		-----

FIXTURES (at cost) (\$)

Balance 31.12.95	4000	Balance 31.12.96	5200
(6) Cash	1200		-----
	-----		5200
	5200		=====
	=====		=====
Balance 31.12.96	5200		

PROVISION FOR DEPRECIATION (\$)

Balance 31.12.96	1520	Balance 31.12.95	1000
	----	Depreciaton charge	520
	1520		----
	====		1520
			====
		Balance 31.12.96	1520

DEPRECIATION CHARGE (\$)

Depreciation provision	520	Profit and loss a/c	520
	---		---
	520		520
	===		===

STOCK ACCOUNT (\$)

Balance 31.12.95	1600	Trading a/c	1600
	----		----
	1600		1600
	====		====
Trading a/c	2400		

THE PROFIT AND LOSS ACCOUNT WILL NOW HAVE BEEN PREPARED (TABLE 1.7). IT CONTAINS THE OTHER HALVES OF VARIOUS ENTRIES IN THE ACCOUNTS ABOVE.

THE YEAR ENDED BALANCE SHEET SHOWN IN TABLE 1.8 WILL BE COMPILED COLLECTING TOGETHER ALL THE REMAINING BALANCES . THE READER SHOULD CHECK THAT THESE (AND ONLY THESE) BALANCES CAN BE FOUND ON THE PRECEDING ACCOUNT.

Table 1.7 Trading and profit and loss account of ETI for year ending 31.12.96 (\$)

Opening stock	1600	Sales	11700
Purchase	8600		

	10200		
Less Closing stock	2400		

Cost of goods sold	7800		
Gross profit c/d	3900		

	11700		11700
	=====		=====
Wages	1400	Gross profit b/f	3900
Rent and rates	900		
Depreciation	520		
Net profit c/d	1080		

	3900		3900
	=====		=====
		Net profit b/f	1080

Table 1.8 Balance sheet of ETI as at 31.12.96 (\$)

		(C)	(D)	(N)
Capital (at 1.1.96)	23300	Fixed assets:		
Net profit (year to 31.12.96)	1080	Premises	15000	15000
	-----	Fixtures	5200	1520 3680
	24380		-----	-----
	=====		20200	1520 18680
less Drawings	1500		=====	=====
	-----	Current assets:		
Capital (31.12.96)	22880	Stock	2400	
Current liabilities:		Debtors	1500	
Creditors	1200	Cash	1500	5400
	-----		-----	-----
	24080			24080

Table 1.4 Balance sheet of ETI as at 31.12.99 (\$)

		(C)	(D)	(N)	
Owners interest:					
Capital(at 1.1.99)	20000				
Net profit for year	3000				

	23000				
		Fixed asset:			
		Freehold premises	10000	10000	
		Fixtures fittings	4500	1350	3150
			----	----	----
			14500	1350	13150
			=====	=====	
less Drawings	2400				

Capital(31.12.99)	20600				
Current liabilities:		Current asset:			
Creditors	1600	Stock		5000	
		Debtors	2000		
		less Provision	200	1800	

		Prepaid expense		50	
		Cash at bank		2200	9050
				----	----
	22200				22200

II.IV. ACCOUNTING POLICIES :

THE ACCOUNTS HAVE BEEN PREPARED UNDER THE HISTORICAL-COST CONVENTION, AS MODIFIED BY THE REVALUATION OF CERTAIN FIXED ASSETS, IN COMPLIANCE WITH THE PROVISION OF THE COMPANIES U.K-T.R. ACCOUNTING STANDARDS.

THE GROUP ACCOUNTS ARE THE RESULT OF THE CONSOLIDATION OF THE ACCOUNTS OF THE COMPANY AND ITS SUBSIDIARIES, WITH APPROPRIATE ADJUSTMENT.

IN ORDER TO FACILITATE THE PREPARATION OF THE GROUP ACCOUNTS. THE RESULTS OF BUSINESSES ACQUIRED OR SOLD ARE INCLUDED IN THE PROFIT AND LOSS ACCOUNT FROM THE DATE OF ACQUISITION OR TO THE DATE OF DISPOSAL.

FOREIGN CURRENCY :

ASSETS AND LIABILITIES IN FOREIGN CURRENCIES HAVE BEEN TRANSLATED AT THE QUOTED RATES OF EXCHANGE AT 31 AUGUST 1996 DIFFERENCES ARISING ON TRANSLATION OF INVESTMENTS IN OVERSEAS SUBSIDIARIES TOGETHER WITH EXCHANGE GAINS OR LOSSES ON RELATED BORROWINGS IN FOREIGN CURRENCIES ARE DEALT WITH IN RESERVES. OTHER EXCHANGE DIFFERENCES ARE REPORTED AS PART OF THE TRADING PROFIT. PROFITS AND LOSSES ARISING IN FOREIGN CURRENCIES HAVE BEEN TRANSLATED AT THE AVERAGE RATES OF EXCHANGE FOR THE PERIOD 1 AUGUST 1995 TO 31 JULY 1996.

FIXED ASSET :

PROFITS AND LOSSES ARISING ON THE DISPOSAL OF FIXED ASSETS ARE BASED ON HISTORICAL COST.

THE ACCOUNTING TREATMENT FOR ADDITIONS TO GOODWILL IS CONSIDERED ON AN INDIVIDUAL BASIS AND ELIMINATION AGAINST RESERVES HAS BEEN SELECTED AS APPROPRIATE FOR THE CURRENT YEAR. BRANDS, BOTH ACQUIRED AND CREATED WITHIN THE GROUP, ARE INCLUDED AT THEIR CURRENT COST. SUCH COST, WHICH IS REVIEWED ANNUALLY, IS NOT SUBJECT TO AMORTISATION.

DEPRECIATION :

NO DEPRECIATION IS PROVIDED ON LAND. OTHER TANGIBLE FIXED ASSETS ARE DEPRECIATED ON A STRAIGHT LINE BASIS OVER THE PERIOD OF THEIR ESTIMATED USEFUL LIVES, WHICH VARY WIDELY, AND ARE MAINLY AS FOLLOWS:

FREEHOLD PROPERTIES	:	20 TO 75 YEARS
LONG TERM LEASEHOLD PROPERTIES	:	20 TO 75 YEARS
SHORT TERM LEASEHOLD PROPERTIES	:	10 TO 50 YEARS
PLANT AND EQUIPMENT	:	3 TO 20 YEARS
ROAD TRANSPORT	:	3 TO 5 YEARS

PROGRESS PAYMENTS ARE NOT DEPRECIATED.

LEASING :

ASSETS HELD UNDER FINANCE LEASES ARE INCLUDED WITHIN TANGIBLE FIXED ASSETS. OPERATING LEASE CHARGES ARE WRITTEN OFF AS THEY ARE INCURRED.

STOCKS :

STOCKS AND WORK IN PROGRESS ARE VALUED AT THE LOWER OF COST, INCLUDING AN ADDITION FOR PRODUCTION OVERHEADS WHERE APPROPRIATE, AND NET REALISABLE VALUE.

RESEARCH AND DEVELOPMENT EXPENDITURES :

ALL REVENUE EXPENDITURE IS CHARGED AGAINST PROFITS IN THE YEAR IN WHICH IT IS INCURRED.

RATIONALISATION AND CLOSURE COSTS :

CONTINUING RATIONALISATION COSTS ARE CHARGED BEFORE STATING THE TRADING PROFIT. CLOSURE COSTS OF MAJOR SITES ARE TREATED AS AN EXTRAORDINARY ITEM.

PROFITS AND LOSSES UNRELATED TO THE CLOSURE OF MAJOR SITES ARE REPORTED AS PART OF THE TRADING PROFIT.

TAXATION :

TAXATION IS PROVIDED ON THE BASIS OF THE PROFITS INCLUDED IN THE PROFIT AND LOSS ACCOUNT ADJUSTED FOR FISCAL PURPOSES. DEFERRED TAXATION IS ACCOUNTED FOR ALL TIMING DIFFERENCES TO THE EXTENT THAT IT IS CONSIDERED SUCH DIFFERENCES MAY REVERSE IN THE FORESEEABLE FUTURE AND HAS BEEN COMPUTED AT THE RATES OF TAX ANTICIPATED TO BE APPLICABLE WHEN THE TIMING DIFFERENCES ARE EXPECTED TO REVERSE.

IN ACCORDANCE WITH LOCAL CONDITIONS AND PRACTICES IN THE COUNTRY CONCERNED, THE GROUP MAKES CONTRIBUTIONS TO VARIOUS FUNDED RETIREMENT SCHEMES WHICH COVER THE MAJORITY OF EMPLOYEES. THE CHARGE TO THE PROFIT AND LOSS ACCOUNT IS BASED ON THE COST OF PROVIDING PENSIONS ON A SYSTEMATIC BASIS OVER THE PERIODS BENEFITING FROM THE SCHEME MEMBERS SERVICES.

ANY DIFFERENCE BETWEEN THE CHARGE TO THE PROFIT AND LOSS ACCOUNT AND THE CONTRIBUTIONS PAID TO THE SCHEME IS INCLUDED IN THE BALANCE SHEET, AS AN ASSET OR LIABILITY.

CONVERTIBLE BONDS :

THE GROUP HAS CHANGED ITS ACCOUNTING POLICY WHICH COMPLIES WITH THE ACCOUNTING STANDARDS BOARD'S CONSENSUS RELATING TO SUPPLEMENTAL INTEREST. PRIOR YEAR FIGURES HAVE BEEN RESTATED ACCORDINGLY. PROVISION IS BEING MADE ANNUALLY THROUGH THE PROFIT AND LOSS ACCOUNT FOR THE SUPPLEMENTAL INTEREST WHICH WOULD BE PAYABLE ON THE 9 JANUARY 1999 REDEMPTION DATE ON THE WHOLE OF THE CONVERTIBLE BONDS WHICH WERE OUTSTANDING AT 31 AUGUST 1996.

GROUP PROFIT AND LOSS ACCOUNT
For the financial year ended 31 August 1996

	1996	1995
	\$	\$
External sales	1531.4	1771.4
Net operating cost	(1385.7)	(1591.6)
Trading profit	145.7	179.8
Interest	6.7	(29.6)
Supplemental interest	(2.2)	(2.2)
Profit before exceptional item	150.2	148.0
Exceptional item	-	(17.0)
Profit ordinary activities before tax	150.2	131.0
Taxation	(45.1)	(39.8)
Profit on ordinary activities after tax	105.1	91.2
Minority interests	(0.1)	(3.7)
Extraordinary items after taxation	105.0 (25.6)	87.5 130.4
Profit attributable to X company	79.4	217.9
Dividends	(47.9)	(45.6)
Profit retained	31.5	172.3
Earnings per Ordinary share		
Before exceptional item	25.5p	28.1p
After exceptional item	29.5p	24.8p

BALANCE SHEETS
At 31 August 1996

	The Group		The Company	
	1996	1995	1996	1995
	\$		\$	
FIXED ASSETS				
Intangible assets	608.0	588.0	-	-
Tangible assets	466.5	454.0	-	-
Shares in subsidiary undertakings	-	-	791.6	419.2
	<u>1074.5</u>	<u>1042.0</u>	<u>791.6</u>	<u>419.2</u>
CURRENT ASSETS				
Stocks	145.2	135.4	-	-
Debtors	206.4	219.2	245.3	430.4
Short term deposits	150.7	155.1	148.8	152.7
Cash at bank and in hand	78.0	63.2	9.8	12.3
CREDITORS DUE WITHIN ONE YEAR				
Borrowings	(29.1)	(33.0)	(14.9)	(15.4)
Other	(383.3)	(407.6)	(374.8)	(554.8)
	<u>167.9</u>	<u>132.3</u>	<u>14.2</u>	<u>25.2</u>
Net current asset				
	<u>1242.4</u>	<u>1174.3</u>	<u>805.8</u>	<u>444.4</u>
Total assets less current liabilities				
CREDITORS DUE AFTER MORE THAN ONE YEAR				
Borrowings	(122.0)	(80.4)	(113.4)	(61.7)
Other	(52.4)	(80.4)	(317.6)	(19.3)
Provision for liabilities and charges	(20.8)	(20.1)	(10.4)	(8.6)
	<u>1047.2</u>	<u>1004.9</u>	<u>364.4</u>	<u>354.8</u>
CAPITAL AND RESERVES				
Called up share Capital	95.5	95.3	95.5	95.3
Share premium account	51.7	51.0	51.7	51.0
Revaluation reserve	594.0	578.1	-	-
Other reserves	306.0	280.5	217.2	208.5
	<u>1047.2</u>	<u>1004.9</u>	<u>364.4</u>	<u>354.8</u>
Shareholders funds				
	<u>1047.2</u>	<u>1004.9</u>	<u>364.4</u>	<u>354.8</u>

X COMPANY 1996 ANNUAL REPORT

III. UNUSUAL BANK TRANSACTION :

III.I. BANKS LOANS AND INTEREST PAYABLE :

WHEN A BANK LENDS MONEY TO A CUSTOMER IT MAY DO SO IN TWO WAYS. FIRST IT MAY PERMIT AN OVERDRAFT WHICH SIMPLY MEANS THAT IT WILL ALLOW THE CUSTOMER TO DRAW CHEQUES TO A GREATER VALUE THAN THE AMOUNTS PAID IN TO HIS CURRENT ACCOUNT . OVERDRAFTS ARE ONLY INTENDED TO BE SHORT-TERM AFFAIRS, HELPING THE CUSTOMER TO OVERCOME A TEMPORARY SHORTAGE OF CASH. THEY MAY BE RECALLED AT ANY TIME, WHICH MEANS THAT THE CUSTOMER CAN BE REQUIRED TO PAY IN OVERDRAFT. IT IS MOST UNLIKELY THAT HE CAN DO SO, OTHERWISE HE WOULD NOT BE OVERDRAWN, SO THAT WHERE A BANK CALLS IN OVERDRAFTS, THEY MAY IN FACT HAVE TO FORMALIZE THE OVERDRAFT BY MAKING A PROPER LOAN TO THE CUSTOMER.

WHEN A BANK LOAN IS ARRANGED, THE CUSTOMER ENTERS IN TO A FORMAL ARRANGEMENT TO BORROWS SUM OF MONEY AND REPAY IT OVER SEVERAL YEARS. THE SUM OF MONEY IS THEN ENTERED INTO HIS CURRENT ACCOUNT, BUT A SECOND LOAN ACCOUNT IS OPENED. INTEREST ARRANGEMENTS VARY THESE DAYS. IN THE CASE SHOWN IN FIGURE 3.1 THE INTEREST HAS BEEN ADDED FOR THE FULL PERIOD. THE LOAN ACCOUNT IS DEBITED WITH THE LOAN AND INTEREST , REPAYABLE BY MONTHLY INSTALMENTS. THE CUSTOMER WILL TAKE SIMILAR ACTION IN HIS OWN ACCOUNTS. THE JOURNAL ENTRY WOULD BE AS FOLLOWS :

19..					\$	\$J
Jan.	I	Bank A/C	Dr.	CB 95	300.00	
		Interest Payable A/C	Dr.	L 171	54.00	
		Bank Loan A/C		L 172		354.00
		Being loan negotiated with X Bank at this date at 9% over two years.				

Figure 3.1A Bank loan

POSTED TO THE LEDGER AND THE CASH BOOK THE ENTRIES WOULD

E:

Cash Book (Bank Column Only)

CB 95

19..		\$
Jan.	1 Bank Loan	J 1 300.00

Interest-Payable A/c

L 171

19..		\$
Jan.	1 Bank Loan	J 1 54.00

Bank Loan A/c

L 172

19..		\$
Jan.	1 Bank interest	
	Patable J 1	354.00

Figure 3.1 Posting a bank loan to the ledger accounts

THE REPAYMENTS ON THE LOAN WOULD BE DEDUCTED BY THE BANK AT THE AGREED DATES, THE CUSTOMER CREDITING HIS CASH BOOK AND DEBITING BANK LOAN ACCOUNT SO THAT THE LOAN IS GRADUALLY EXTINGUISHED. SUCH A BANK LOAN IS, OF COURSE, A LONG-TERM LIABILITY ON THE BALANCE SHEET.

III.II. DISHONoured CHEQUES :

WHEN A CUSTOMER PAYS BY CHEQUE, THE CHEQUE IS DEBITED IN THE CASH BOOK AND CREDITED DATES, THE CUSTOMER'S ACCOUNT. VERY OFTEN THE CHEQUE IS NOT FOR THE FULL AMOUNT OF THE DEBT, SINCE THE CUSTOMER DEDUCTS DISCOUNT FOR PAYING PROMPTLY . SOMETIMES THE CHEQUE IS RETURNED BY THE BANK , MARKED REFER TO DRAWER IN OTHER WORDS ASK THE DEBTOR WHY HE HAS GIVEN YOU A CHEQUE WHEN HE HAS NO FUND TO COVER IT IN HIS ACCOUNT. USUALLY THE DEBTOR WILL THEN SEE HIS BANK AND ARRANGE TO HAVE THE CHEQUE HONOURED AT A SUBSEQUENT PRESENTATION.

IN THE MAENTIME THE CREDITOR SHOULD TAKE ACTION TO RES-TORE THE DEBT, IN FULL THE DEBTOR. CLEARLY HE HAS NOT PAID , AND THE DEBT SHOULD BE RESTORED TO HIS ACCOUNT. THIS REQUIRES NOT ONLY THE RESTORATION OF THE VALUE OF THE CHEQUE, BUT DISCOUNT AS WELL, THE VALUE OF THE ORIGINAL DEBT, SINCE HE IS NOT ENTITLED TO ANY DISCOUNT NOW THAT THE CHEQUE HAS BEEN DISHON- OURED. THE EFFECT OF THIS IS TO RESTORE THE FULL DEBT TO THE DEBTORS ACCOUNT, AND THE SAME TIME RECOVER THE DISCOUNT ON THE DISCOUNT ALLOWED ACCOUNT. WE SHALL NOT LOSE THIS DISCOUNT NOW, AS THE DEBTOR WILL HAVE TO PAY IN FULL. REMEMBER , DISCOUNT IS ONLY GIVEN TO DEBTORS WHO PAY PROMPTLY. A TYPICAL JOURNAL EN-TRY WOULD BE AS FOLLOWS:

19..	19	A. Debtor	Dr.	L 57	\$	\$ J 7
Jan.		Bank A/c		CB 9	150.00	
		Discount allowed		L 168		142.50
		A/c				7.50
		Being dishonoured				
		cheque returned				
		marked refer to				
		drawer at this date				

Figure 3.2 Journalizing a dishonoured cheque
-30-

THESE ENTRIES WOULD THEN BE POSTED TO THE ACCOUNT AS FOL-
 LOWS IN EACH CASE THE FOLIO J 7 INDICATES THE JOURNAL ENTRY
 THE OTHER FIGURES HAVE BEEN PUT IN TO MAKE THE ACCOUNT SEN-
 SIBLE AND AS IT WOULD APPEAR IN PRACTICE.

A. Debtor A/c				L 57			
19..		\$		19..		\$	
Jan. 1	Balance	B/d	150.00	Jan. 15	Bank	CB 5	142.50
19	Bank and			15	Discount		
	Discount	J 7	150.00		allowed	CB 5	7.50
Cash Book (Bank column Only)							
				19..		\$	
				Jan. 19	Dishonoured		
					cheque		
					A. Debtor	J 7	142.50
Discount-Allowed A/c							
19..		\$		19..		\$	
Jan. 8	Sundry discount	CB 3	142.50	Jan. 19	A. Debtor	J 7	7.50
15	"	"	CB 5 138.65				

Figure 3.3 Dishonoured-cheque entries in the accounts

III.III. BANK CHARGES AND BANK INTEREST ON OVERDRAFTS :

STRICTLY SPEAKING, JOURNAL ENTRIES ARE NOT NECESSARY FOR
 ITEMS WHICH APPEAR AS ORIGINAL ENTRIES IN THE CASH BOOK, FOR
 THIS BOOK IS UNIQUE IN HAVING A DUAL FUNCTION -IT IS BOTH OF
 ORIGINAL ENTRY AND A PART OF THE LEDGER. HOWEVER, AS WE HAVE
 ALREADY SEEN, BANK LOANS AND DISHONOURED CHEQUES ARE MATTERS
 OF SUCH IMPORTANCE THAT SOME FORMAL RECORD OF THEM IS DESIR-
 ABLE, AND THE JOURNAL ENTRY-WITH IT IS NARRATION EXPLAINING
 THE CIRCUMSTANCES OF THE TRANSACTIONS.

SOME ACCOUNTANTS WOULD ALSO REGARD A SIMPLE JOURNAL EN-
 TRY FOR BANK CHARGES AND BANK INTEREST ON OVERDRAFTS AS DES-

IRABLE.MANY EXAMINING BODIES REGARD THE ABILITY TO THINK IN JOURNAL-ENTRY FORM ESSENTIAL TO ACCOUNTING,AND THEY ASK THE STUDENT IN THE RUBRIC THE INSTRUCTION TO A QUESTION TO JOURNALIZE ALL TRANSACTIONS.THIS IS NOT AN UNREASONABLE REQUEST, AS THE JOURNAL ENTRY IS INDEED ESSENTIAL TO A CLEAR UNDERSTANDING OF DOUBLE ENTRY.

DOUBLE ENTRIES FOR BANK CHARGES AND BANK INTEREST PAYABLE ON OVERDRAFTS WOULD ARISE USUALLY AS A RESAULT OF RECEIVING A BANK STATEMENT. IF THE ACCOUNT IS OVERDRAWN , THE BANK WILL INCREASE A CONSIDERABLE CHARGE FOR INTEREST .THESE CHARGES MUST NOW BE ENTERED IN THE CASH BOOK,CREDITING THE CASH BOOK AND DEBITING BANK CHARGES ACCOUNT OR INTEREST PAYABLE ACCOUNT OR INTEREST PAYABLE ACCOUNT.IF IT IS DECIDED TO JOURNALIZE THESE ENTRIES,TYPICAL JOURNAL ENTRIES WOULD BE AS FOLLOWS:

19..						
June	30	Bank Charges A/c Dr. Bank A/c Being charges as per bank statement at this date	L 72 CB 4	\$ 4.50	\$ J I 4.50	
June	30	Interest payable A/c Dr. Bank A/c Being interest on overdraft Payable as per bank statement	L 71 CB 4	7.21	7.21	

Figure 3.4. Journalization bank charges

III.IV. INTEREST RECEIVABLE ON DEPOSIT ACCOUNTS :

A DEPOSIT ACCOUNT IS ONE WHERE SURPLUS FUNDS ARE DEPOSITED WITH THE BANK. THESE ACCOUNTS EARN INTEREST , USUALLY AT 2% BELOW MINIMUM LENDING RATE, AND IN THEORY ARE NOT SUPPOSED TO BE DRAWN UPON WITHOUT GIVING THE BANK SEVEN DAYS NOTICE. IN FACT THE BANK WILL USUALLY MAKE FUNDS AVAILABLE IF REQUESTED, BUT CHARGES SEVEN DAYS INTEREST ON THE MONEY WITHDRAWN. NORMALLY THE DEPOSIT ACCOUNT IS LEFT UNTOUCHED BY THE DEPOSITOR AND INTEREST IS ADDED AT INTERVALS. THIS INTEREST IS ADDED AT THE BANKS CONVENIENCE, AND IT IS UNLIKELY THAT THEY WILL NOTIFY THE DEPOSITOR, BUT SHOULD BE ASKED, AND A STATEMENT IS SENT TO HIM, HE WILL ADD THE INTEREST RECEIVED TO HIS DEPOSIT ACCOUNT, AND CREDIT IT AS A PROFIT TO INTEREST RECEIVED ACCOUNT. THE JOURNAL ENTRY WILL BE:

19..				\$	\$ J 1
June	30	Bank Deposit A/c Dr.	L 37	25.00	
		Interest Received A/c	L 52		25.00
		Being interest received on Deposit A/c at 10% for quarter ended 30th			

Figure 3.5. Interest received on a bank loan

PARTNERSHIP ACCOUNT :

I. THE PARTNERSHIP CAPITAL AND THE PARTNERS ACCOUNTS :

IT IS USUAL TO KEEP THE ORIGINAL CAPITAL CONTRIBUTIONS THE PARTNERS RECORDED UNCHANGED IN THEIR CAPITAL ACCOUNTS. THAT IS TO SAY, THE CAPITAL ACCOUNT IS NOT VARIED FROM YEAR TO YEAR AS PROFIT IS PLOUGHED IN TO THE BUSINESS OR DRAWINGS ARE MADE FROM TIME TO TIME. THE CAPITAL ACCOUNTS REMAIN AT THE ORIGINAL FIGURE FOR THE DURATION OF THE PARTNERSHIP.

SINCE IT IS ESSENTIAL TO HAVE SOME ACCOUNT TO WHICH PROFITS MAY BE CREDIT, AND FROM WHICH DRAWINGS MAY BE DEDUCTED EACH PARTNER HAS A CURRENT ACCOUNT WHERE THESE ADJUSTMENTS MAY BE MADE. EACH PARTNER THEREFORE HAS THREE ACCOUNTS.

(A) A CAPITAL ACCOUNT, CREDITED WITH THE ORIGINAL CAPITAL CONTRIBUTED BY THE PARTNER, AND REMAINING UNCHANGED DURING THE LIFE OF THE PARTNERSHIP.

(B) A CURRENT ACCOUNT, CREDITED WITH ALL PROFITS EARNED AND DEBITED AT THE END OF THE YEAR WITH ALL DRAWINGS, WHETHER IN CASH OR IN KIND.

(C) A DRAWINGS ACCOUNT, INTO WHICH CASH DRAWINGS ARE ACCUMULATED AS THE MONTHS GO BY. THIS ACCOUNT IS CLEARED AT THE END OF THE FINANCIAL YEAR INTO THE CURRENT ACCOUNT OF THE PARTNER.

TYPICAL PARTNERSHIP ACCOUNTS ARE ILLUSTRATED BELOW. FOR PRIVACY THEY ARE OFTEN RECORDED IN A SEPARATE LEDGER, CALLED THE PRIVATE LEDGER, AND KEPT BY THE PARTNERS SEPARATE FROM THE ORDINARY BOOKS OF ACCOUNT.

Capital A/c (A Partner)				L 1	
				19..	\$
Jan. 1 Bank A/c				J 1	3000.00
Current A/c (A Partner)				L 2	
19..	\$			19..	\$
June 30 typewriters				Dec. 31 Salary	J 8 1200.00
A/c	J 4	25.00		Dec. Interest on	
Dec. 31 Drawings				capital	J 8 1180.00
A/c	J 8	1550.00		Dec. 31 share of	
Dec. 31 Balance	c/d	232.50		Residue of	
				Profit	J 8 427.50
	\$	1807.50			\$ 1807.50
		=====			=====
				19..	
				Jan. 1 Balance	B/d 232.50
Drawings A/c (A.Partner)					
19..	\$			19..	\$
Mar. 31 Bank CB 5	400.00			Dec.31 Current A/c	J 8 1550.00
June 30 Bank CB 12	400.00				
Sep. 30 Bank CB 19	400.00				
Dec. 31 Bank CB 27	350.00				
	\$	1550.00			\$ 1550.00
		=====			=====

Figure 4.1. A Partner's account

IV.II. PARTNERSHIP FINAL ACCOUNTS THE APPROPRIATION ACCOUNTS:

THE ACCOUNTS OF PARTNERSHIPS ARE IDENTICAL WITH THE ACCOUNTS OF SOLE TRADERS, AS TO ROUTINE BOOKS OF ORIGINAL ENTRY, THE LEDGER AND THE FINAL ACCOUNTS, THE TRADING AND PROFIT AND LOSS ACCOUNTS. WHERE THEY DIFFER FROM THE ACCOUNTS OF SOLE TRADERS IS IN THE ALLOCATION OF THE PROFITS BETWEEN THE PARTNERS. THIS REQUIRES A SPECIAL ACCOUNT, CALLED THE APPROPRIATE ACCOUNT, THOUGH SOME ACCOUNTANTS REGARD IT MERELY AS A SECTION

OF THE PROFIT AND LOSS ACCOUNT AND CALLED IT THE APPROPRIATION SECTION OF THE PROFIT AND LOSS ACCOUNT.

IN THE APPROPRIATION ACCOUNT THE NET PROFIT ACHIEVED, INSTEAD OF BEING CREDITED TO THE CAPITAL ACCOUNT AS WITH A SOLE TRADER, IS APPROPRIATED BETWEEN THE PARTNER IN ACCORDANCE WITH THE PARTNERSHIP AGREEMENT. THE CHIEF MATTERS ENTERING INTO THE CALCULATIONS ARE AS FOLLOWS, AND THEY ARE ENTERED IN THE ORDER SHOWN BELOW.

(A) THERE MAY BE GOODWILL TO BE WRITTEN OFF.

(B) A PARTNER, OR PARTNERS, MAY BE ENTITLED TO A PARTNERSHIP SALARY.

(C) A PARTNER, OR PARTNERS, MAY BE ENTITLED TO INTEREST ON CAPITAL.

(D) THE RESIDUE OF THE PROFIT WILL THEN BE SHARED UP BETWEEN THE PARTNERS IN THE AGREED MANNER.

IT ALSO SOMETIMES HAPPENS THAT PARTNERS MAY BE CHARGED INTEREST ON DRAWINGS, WHICH APPEAR AS A CREDIT ITEM ON THE APPROPRIATION ACCOUNT. THE APPROPRIATION ACCOUNT SHOWN IN FIGURE 4.2. ILLUSTRATES THESE MATTERS. IT REFERS TO THE PARTNERSHIP OF AHMET AND MEHMET IN THE EXAMPLES GIVEN BELOW:

AHMET AND MEHMET ARE IN PARTNERSHIP WITH CAPITAL OF \$ 5000 AND \$ 3000 RESPECTIVELY. THE PARTNERSHIP AGREEMENT PROVIDES THAT

(A) PROFITS SHALL BE SHARED $\frac{5}{8}$ AND $\frac{3}{8}$ AFTER GIVING

(B) MEHMET SALARY OF \$ 800 AND GIVING

(C) BOTH PARTNERS INTEREST ON A CAPITAL AT 6% PER ANNUM.

(D) PARTNERS ARE ALSO TO PAY INTEREST ON DRAWINGS CALCULATED AT 6% PER ANNUM.

DRAW UP THE APPROPRIATION ACCOUNT OF THE PARTNERSHIP, GIVEN THAT AHMET DRAWINGS WERE \$ 1500, DRAWN IN TWO HALVES ON JUNE 30th AND DECEMBER 31st, while MEHMET HAD DRAWN \$ 1400 , IN FOUR EQUAL AMOUNTS ON MARCH 31st, JUNE 30th , SEPTEMBER 30th AND DECEMBER 31st. THE NET PROFIT FOR THE YEAR WAS \$ 4800. \$ 500 IS TO BE WRITTEN OFF THE GOODWILL ACCOUNT.

Appropriation A/c (for year ending December 31st 19..)				L 184	
19..	\$	\$	19..	\$	
Dec. 31. Goodwill		500.00	Dec. 31. Net Profit	4800.00	
31. Salary Ahmet		800.00	31. Interest on Drawings Ahmet	22.50	
31. Interest on Capital Ahmet	300.00		31. Interest on Drawings Mehmet	31.50	
Mehmet	180.00				
	-----	480.00			
31. Share of Residue Ahmet	1921.25				
Mehmet	1152.75				
	-----	3074.00			

		\$ 4854.00		\$ 4854.00	
		=====		=====	

Figure 4.2. An Appropriation Account of a partnership

IV.III. APPROPRIATING A LOSS :

SOMETIMES IT HAPPENS THAT THERE IS A NET LOSS ON THE YEAR'S ACTIVITIES. THIS MIGHT APPEAR TO GIVE SOME DIFFICULTY, BUT IN FACT IT PRESENTS NO PROBLEMS. THE VARIOUS ITEMS OF SALARY, INTEREST ON CAPITAL, ARE STILL GIVEN TO THE PARTNERS ENTITLED TO THEM. OF COURSE THIS INCREASES THE LOSS , BUT THE

FINAL SHARING OF THE RESIDUE APPROPRIATES THIS LOSS IN A PRO-
 PER MANNER. FIGURE 4.3. ILLUSTRATES THE SITUATION, USING SIMI-
 LAR FIGURES TO THOSE IN FIGURE 4.2.

Appropriation A/c

(for year ending december 31st.19..) L 184

19..			19..		
Dec.	31.		Dec.	31.	
	Net loss	\$		Interest on	\$
	Salary (Mehmet)	800.00		Drawings	
	31. Interest on Capital			Ahmet	22.50
	\$			Mehmet	31.50
	Ahmet	300.00		31. Share of loss	
	Mehmet	180.00		Ahmet	1741.25
	-----			Mehmet	1044.75
		480.00			-----
		-----			\$ 2840.00
		\$ 2840.00			=====
		=====			

Figure 4.3. Appropriating a loss

V. CAPITAL AND REVENUE EXPENDITURE AND RECEIPTS :

V.I. CAPITAL AND REVENUE EXPENDITURE :

WHENEVER WE SPEND MONEY WE RECEIVE SOMETHING IN RETURN.
THESE ITEMS MAY BE CLASSIFIED AS FOLLOWS.

(A) ITEMS WHICH LAST ALONG TIME, AND ARE USED IN THE BUSINESS OVER PERIOD OF YEARS. THESE ARE CALLED CAPITAL ASSETS OR CAPITAL EXPENDITURE. EXAMPLES ARE LAND AND BUILDINGS , PLANT AND MACHINERY, FIXTURES AND FITTING, MOTOR VEHICLES , LEASES ON PROPERTY, PATENT RIGHTS.

(B) ITEMS WHICH DO NOT LAST ALONG TIME , BUT ARE QUICKLY USED FOR THE BENEFIT OF THE BUSINESS AND ARE THEN LOST FOR ALL TIME. EXAMPLES WOULD BE POSTAGE STAMPS, TELEPHONE CALLS, PETROL AND OIL FOR MOTOR VEHICLES. THESE ARE CALLED REVENUE ITEM OR REVENUE EXPENDITURE.

(C) ITEMS WHICH ARE PURCHASED FOR RESALE , OR PURCHASED FOR MANUFACTURE BEFORE BEING RESOLD. IN MANY CASES THE WHOLE PURPOSE OF THE BUSINESS IS TO MANUFACTURE A FINISHED PRODUCT FROM CERTAIN RAW MATERIALS. MOREOVER THE INTENTION IS TO THE SO IN THE MINIMUM POSSIBLE TIME, WITHOUT TAKING YEARS OVER THE MATTER , SO THAT ALL SUCH ITEMS MAY BE REGARDED AS REVENUE ITEMS.

(D) SERVICES, WHICH ARE OBTAINED IN RETURN FOR THE MONEY PAID. THESE SERVICES ARE USUALLY THE RESULT OF CONTRACTS OF SERVICES OR CONTRACTS FOR SERVICES. WHICHEVER THEY ARE , THEY MAY USUALLY BE REGARDED AS RELATIVELY SHORT TERM , AND THEREFORE BE COUNTED AS REVENUE ITEMS.

IT FOLLOWS THAT THE DURATION OF USE OF AN ITEM HOW LONG IT LASTS IS CRUCIAL IN DECIDING WHETHER IT IS CAPITAL OR REVENUE EXPENDITURE. THE DIVIDING LINE CHOSEN IS ONE YEAR BECAUSE THE GOVERNMENT CLAIMS ITS SHARE OF THE REWARDS OF ANY ENTERPRISE ANNUALLY. THEREFORE THE FOLLOWING DEFINITIONS ARE APPROPRIATE.

V.II. CAPITAL AND REVENUE RECEIPTS :

WHEN A BUSINESS RECEIVES MONEY IT MAY BE A CONTRIBUTION BY THE PROPRIETOR, PARTNERS OR SHAREHOLDERS TOWARDS THE CAPITAL OF THE FIRM, IN OTHER WORDS A CAPITAL RECEIPT. ALTERNATIVELY IT MAY BE A RESULT OF THE FIRMS ACTIVITY IN THE CURRENT PERIOD, PART OF ITS REWARDS FOR OFFERING GOODS OR SERVICES TO THE PUBLIC. SUCH ITEMS WOULD INCLUDE PAYMENTS RECEIVED FROM CUSTOMERS AND DEBTORS FOR GOODS SUPPLIED; OR FEES RECEIVED FOR SERVICES RENDERED. ALL SUCH ITEMS ARE REVENUE RECEIPTS AND MUST BE SET AGAINST THE REVENUE EXPENSES IN ORDER TO DETERMINE THE PROFITABILITY OF THE BUSINESS FOR THE PERIOD UNDER DISCUSSION.

THE ONLY OTHER KIND OF RECEIPT IS A RECEIPT OF MONEY WHEN A LOAN OR A MORTGAGE ON PROPERTY IS ARRANGED. THIS IS LIKE A CONTRIBUTION OF CAPITAL TO THE BUSINESS BY SOMEONE OUTSIDE THE BUSINESS, NOT THE PROPRIETOR. IT IS REGARDED AS A CAPITAL ITEM, BUT THE INTEREST CHARGED FOR THE USE OF THE MONEY WILL BE A REVENUE EXPENSE OF THE PERIOD IN WHICH BECOMES DUE.

V.III. THE CALCULATION OF PROFITS -REVENUE ACCOUNTS :

WE HAVE ALREADY SEEN THAT CAPITAL EXPENDITURE AND CAPITAL RECEIPTS DO NOT ENTER INTO THE CALCULATION OF A BUSINESSMAN'S PROFIT FOR TAXATION PURPOSES. IT IS ONLY THE REVENUE EXPENDITURE AND REVENUE RECEIPTS WHICH ARE SET AGAINST ONE ANOTHER TO DISCOVER THE PROFIT OR LOSS ON THE PERIOD CONCERNED. THIS, WE ALREADY KNOW; IS DONE TRADING ACCOUNT AND PROFIT AND LOSS ACCOUNT OF A BUSINESS ENTERPRISE. HOWEVER SOME BUSINESSMEN FIND THE TERMS PROFIT AND LOSS DISTASTEFUL. THUS DOCTORS DO NOT LIKE TO SAY WE MADE A PROFIT OF \$ 25.50 OUT OF FARMER HASAN'S BROKEN LEG, AND ORGANIZATIONS LIKE THE RENAULT AUTOMOBILE CLUB WOULD NOT SPEAK OF MAKING PROFIT OUT OF THE MEMBERS.

FOR THE REASONS, THE FOLLOWING NAMES HAVE BEEN DEVISED OVER THE YEARS.

(A) "REVENUE ACCOUNT" FOR A PROFESSIONAL PARTNERSHIP OF LAWYERS, DOCTORS, DENTIST. THIS IS THE ACCOUNT WHERE REVENUE EXPENDITURE WILL BE SET AGAINST REVENUE RECEIPTS TO DISCOVER THE EXCESS OF FEES OVER EXPENSES.

(B) " TRADING AND PROFIT AND LOSS ACCOUNT " THE ACCOUNTS USED BY BUSINESS ENTERPRISES TO DISCOVER PROFITS OVER PERIOD BY SETTING REVENUE EXPENDITURE AGAINST REVENUE RECEIPTS.

(C) "INCOME AND EXPENDITURE ACCOUNTS" THE NAME GIVEN TO THE ACCOUNTS OF A NON PROFIT MAKING BODY TO DETERMINE THE SURPLUS, OR DEFICIT, CONTRIBUTED BY THE MEMBERS.

V.IV. ARRIVING AT A "TRUE" PROFIT FIGURE :

IN ORDER TO ARRIVE AT A TRUE PROFIT FIGURE WE MUST OBEY THE FOLLOWING RULES:

(A) "REVENUE EXPENDITURE" ENSURE THAT THE PERIOD UNDER CONSIDERATION CARRIES EVERY PENNY OF LOSS THAT IT SHOULD CARRY, BUT NOT A PENNY MORE.

(B) "REVENUE RECEIPTS" ENSURE THAT THE PERIOD UNDER CONSIDERATION IS CREDITED WITH EVERY PENNY EARNED IN THE PERIOD, BUT NOT PENNY MORE.

TO ENSURE THESE TWO THINGS, WE BECOME INVOLVED IN A NUMBER OF ADJUSTMENT. THESE ADJUSTMENTS ARE CONCERNED WITH TWO IDEAS, THE CAPITALIZATION OF REVENUE EXPENDITURE AND THE REVENUEIZATION OF CAPITAL EXPENDITURE. REVENUEIZATION IS AN AWKWARD WORD, BUT IT IS USED TO CONVEY THE IDEA OF CONVERTING A CAPITAL ITEM INTO A REVENUE ITEM.

(1) THE CAPITALIZATION OF REVENUE EXPENDITURE :

SOMETIMES WE PAY OUT MONEY FOR SOMETHING WHICH EVENTUALLY BECOMES A CAPITAL ASSET. THUS WE MIGHT EMPLOY OUR WORKMEN TO EXTEND THE FACTORY CANTEEN, OR TO ERECT MACHINERY AND SHELVING BELTING SYSTEMS. IF WE WERE TO CHARGE THESE EXPENSES AS A LOSS IN THE PROFIT AND LOSS ACCOUNT, WE SHOULD BE MAKING THIS YEAR BEAR THE ENTIRE LOSS FOR AN ASSET THAT WILL LAST SEVERAL YEAR. TO OVERCOME THIS DIFFICULTY WE CAPITALIZE THE REVENUE EXPENDITURE, REMOVING IT FROM THE LOSS ACCOUNT AND TRANSFERRING IT TO ON ASSET ACCOUNT.

EXAMPLES :

A. SHOPKEEPER IS A BUILDER'S MERCHANT. HE ALSO UNDERTAKES SMALL CONTRACTS FOR HOUSEHOLDERS IN THE AREA , EMPLOYING SIX MEMBERS OF STAFF FOR THE PURPOSE. IN FEBRUARY THERE IS LITTLE WORK ABOUT, AND HE DECIDES TO USE THIS LABOUR FORCE TO REDE- SING THE SHOP PREMISES AND REDECORATE. THE LABOUR COST INVOL- VED IS \$ 245.00, AND MATERIALS ARE USED FROM STOCK AT A COST OF \$ 450.00. THE PREMISES ARE CALCULATED TO INCREASE IN VALUE BY \$ 1000.00 AS A RESULT. MAKE THE ENTRIES AS AT FEBRUARY 28TH TO CAPITALIZE THIS REVENUE EXPENDITURE.

HOW SHOULD SHOPKEEPERS RECORD THESE MATTERS IN HIS AC- COUNT ? CLEARLY THE WAGES WILL ALREADY HAVE BEEN DEBITED IN WAGES ACCOUNT AND THE MATERIALS WILL BE DEBITED IN PURCHA- SES ACCOUNT. WHAT HE HAS TO DO IS TO CAPITALIZE THE REVENUE EXPENDITURE, CHANGING IT TO CAPITAL ASSET "PREMISES" INSTEAD OF TWO REVENUE LOSSES WAGES AND PURCHASES. IN ADDITION HE HAS MA- DE A PROFIT OUT OF THE WORK, SINCE THE PREMISES ARE NOW BELIE- VED TO BE WORTH \$ 1000.00 EXTRA. THIS PROFIT IS TO BE TREATED AS CAPITAL PROFIT, NOT A REVENUE PROFIT, AND WILL BE CREDIT TO APPRECIATION OF BUILDINGS ACCOUNT. THE JOURNAL ENTRY WILL BE AS SHOWN IN FIGURE 5.1.

19..				\$	\$ J 111
Feb. 28	Premises A/c	Dr.	L 1	1000.00	
	Wages A/c		L 25		245.00
	Purchase A/c		L 38		450.00
	Appreciation of Buildings A/c		L152		305.00
	Being capitalization of revenue expenditure in- curred in improving shop layout				

Figure 5.1. Capitalizing revenue expenditure

THE JOURNAL ENTRIES, ASSUMING SOME IMAGINARY FIGURES AL-
READY EXISTING ON THE ACCOUNTS, WOULD BE AS SHOWN IN FI-
GURE 5.2

PREMISE A/c					L I	
<hr/>						
19..			\$			
Jan. 1	Balance	B/d	6000.00			
Feb. 28	Wages etc.	J 111	1000.00			
<hr/>						
Wages A/c					L 25	
<hr/>						
19..			\$	19..	\$	
Jan.31.	Cash	CB 5	280.00	Feb.28.	Premises A/c J 111	245.00
Feb.28.	Cash	CB 17	330.00			
<hr/>						
Purchases A/c					L 38	
<hr/>						
19..			\$	19..	\$	
Jan.31.	Sundry			Feb.28.	Premises A/c	
	Creditors	PDB			J 111	245.00
			114875.00			
Feb.28.	Sundry					
	Creditors	PDB				
			163850.00			

19..	\$
Feb.28.Premises A/c J 111	305.00

Figure 5.2 Ledger accounts affected by capitalization of revenue expenditure.

(2) THE REVENUE- IZATION OF CAPITAL EXPENDITURE :

THERE IS OF COURSE NO SUCH WORD AS REVENUE-IZATION , BUT IT USED HERE TO CONVEY THE IDEA THAT ALL CAPITAL ASSETS DO EVENTUALLY GET WRITTEN OFF TO PROFIT AND LOSS ACCOUNT OVER THE YEARS OF THEIR USEFUL LIFE. IF THE TRADING PERIOD HAS USED UP SOME OF THE LIFE OF AN ASSET; WHETHER IT IS MACHINERY, FURNITURE, LOOSE TOOLS, PATENT RIGHTS, ROYALTIES OWNED OR ANY ORDER ASSET THAT IS SLOWLY CONSUMED IN THE SERVICE OF THE BUSINESS, THEN THAT ASSET MUST BE DEPRECIATED BY A FAIR AMOUNT FOR THE USE MADE DURING THE YEAR, OR OTHER PERIOD CONCERNED.

V.V. DOUBTFUL CASES CAPITAL OR REVENUE EXPENDITURE :

SOMETIMES IT IS DIFFICULT TO DECIDE WHETHER AN ITEM SHOULD BE TREATED AS CAPITAL OR REVENUE EXPENDITURE . CAPITAL EXPENDITURE LASTS LONGER THAN A YEAR, AND GIVES US SOMETHING OF PERMANENT BENEFIT TO THE FIRM. THERE ARE SOME EXPENSES WHICH SEEM TO THE FIRST PART, WITHOUT DOING THE SECOND . FOR EXAMPLE, REPAINTING THE PREMISES USUALLY LASTS SEVERAL YEARS, BUT IT ONLY GIVES US A PROPERTY THAT IS RESTORED TO IT IS ORIGINAL NEW CONDITION NO EXTRA VALUE IS REALLY ADDED THOUGH THE DETERIORATION OF THE PREMISES MAY BE AVOIDED . IN SUCH CASES IT IS UP TO THE ACCOUNTANT TO MAKE UP HIS MIND WHAT TO

DO.MOST ACCOUNTANTS WOULD PROBABLY FEEL THAT THE CONSIDERABLE EXPENDITURE INVOLVED SHOULD BE SPREAD OVER MORE THAN ONE YEAR OTHERWISE THIS YEARS PROFITS WILL TAKE SERIOUS KNOCK.PROBABLY A DECISION TO CAPITALIZE THE REVENUE EXPENDITURE AND SPREAD IT OUT OVER THIS YEAR AND THE NEXT THREE YEARS WOULD BE SOUND IDEA.TO DO THIS WE COULD OPEN A REPAIRS AND DECORATIONS SUS- PENSE ACCOUNT,AND WRITE IT OFF IN FOUR INSTALMENTS . THIS AC- COUNT IS SHOWN IN FIGURE 5.3.

Repairs and Decorations Suspense A/c				L 77			
19..			\$	19..			\$
May.31	Bank A/c	J 15	600.00	Dec.31	Profit and		
				Loss	A/c	J 29	150.00
				31	Balance	c/d	450.00
			-----				-----
			\$ 600.00				\$ 600.00
			=====				=====
Next year				Next year			
Jan.1	Balance	B/d	450.00	Dec.31	Profit and		
				Loss	A/c	J 58	150.00
				31	Balance	c/d	300.00
			-----				-----
			\$ 450.00				\$ 450.00
			=====				=====
Year 3				Year 3			
Jan. 1	Balance	B/d	300.00	Dec.31	Profit and		
				Loss	A/c	J 98	150.00
				31	Balance	c/d	150.00
			-----				-----
			\$ 300.00				\$ 300.00
			=====				=====
Year 4				Year 4			
Jan. 1	Balance	B/d		Dec.31	Profit and		
			\$ 150.00	Loss	A/c	J 145	\$ 150.00
			=====				=====

Figure 5.3. Temporary capitalization of a revenue expense

VI. CONTROL ACCOUNTS :

VI.I. THE NEED FOR CONTROL ACCOUNTS :

THERE ARE MANY TYPES OF CONTROL ACCOUNTS, WHICH AS THEIR NAME IMPLIES SEEK TO GIVE MANAGEMENT CONTROL OVER SOME ASPECT OF A BUSINESS. THE WORK OF DEVISING ADEQUATE CONTROLS OVER ACCOUNTING PROCEDURES IS NECESSARILY FAIRLY ADVANCED. IN A BOOK ON THE PRINCIPLES OF ACCOUNTING IT IS ONLY POSSIBLE TO ILLUSTRATE THE SIMPLEST TYPES OF CONTROL ACCOUNTS. USUALLY THE EXAMINATION SYLLABUSES AT THIS LEVEL REQUIRE AN UNDERSTANDING OF SALES-LEDGER CONTROL ACCOUNTS AND PURCHASES - LEDGER CONTROL ACCOUNTS IN ORDER TO UNDERSTAND THESE THE READER MUST FIRST UNDERSTAND WHY THEY ARE NECESSARY. THE REASON IS THAT THE SUB-DIVISION OF THE LEDGER, AS BUSINESS HAS GROWN MORE COMPLEX, HAS ENABLED MANAGEMENT TO DELEGATE THE POSTING OF LEDGERS TO LESS EXPERIENCED EMPLOYEES. CONTROL ACCOUNTS ARE DESIGNED TO CHECK ON THE WORK OF THESE EMPLOYEES AND ENSURE THAT ERRORS ARE DISCOVERED.

VI.II. THE SUB-DIVISION OF THE LEDGER :

WHEN THE WORK OF KEEPING THE LEDGER BECAME TOO GREAT FOR SINGLE COUNTINGHOUSE CLERK, THE LEDGER HAD TO BE SUB - DIVIDED INTO SECTIONS EACH OF WHICH WOULD PROVIDE EMPLOYMENT FOR AN INDIVIDUAL CLERK. FIRST THE CASH BOOK WAS INTRODUCED, WITH THE CASHIER IN CHARGE OF IT. FOR SECURITY REASONS THE PRIVATE ACCOUNTS WERE REMOVED INTO A PRIVATE LEDGER, KEPT BY THE PROPRIETOR HIMSELF, OR THE ACCOUNTS. THE VERY NUMEROUS DEBTORS ACCOUNTS WERE REMOVED INTO SEPARATE DEBTORS LEDGER. LATER THESE

WERE MECHANIZED INTO A CARD SYSTEM OPERATED BY JUNIOR TYPIST. THE LESS NUMEROUS CREDITORS ACCOUNTS WERE THEN REMOVED INTO LOCSE-LEAF CREDITORS LEDGER SYSTEMS WHICH AGAIN WERE KEPT BY JUNIOR STAFF. THIS LEFT THE GENERAL LEDGER, CONTAINING THE NOMINAL ACCOUNTS AND THE REAL ACCOUNTS. THIS LEDGER WAS USUALLY KEPT BY A CHIEF ACCOUNTS CLERK, WHOSE RESPONSIBILITY INCLUDED THE PREPARATION OF THE TRIAL BALANCE.

VI.III. PREPARING A CONTROL ACCOUNT :

WHEN DRAWING UP A CONTROL ACCOUNT THE CLERK HAS TO PREPARE, ON A SINGLE PAGE, AN EXACT REPLICA OF THE ENTIRE SECTION OF THE LEDGER BEING KEPT BY EACH JUNIOR ACCOUNTS CLERK OR ACCOUNTING MACHINE OPERATOR. NATURALLY THE PREPARATION OF CONTROL ACCOUNTS IN MECHANIZED OR COMPUTERIZED ACCOUNTING IS VERY SOPHISTICATED, BUT IT FOLLOWS THE BASIC PRINCIPLES OUTLINED BELOW. IN ORDER TO FOLLOW THE PROCEDURE IT IS NECESSARY TO CONSIDER THE TYPES OF ENTRY MADE BY—FOR EXAMPLE—THE JUNIOR KEEPING THE "F-K" DEBTORS LEDGER. THE FIRST ACCOUNT IN THE LEDGER-CARD SYSTEM IS "X" ACCOUNT. FIGURE 6.1. THIS ACCOUNT IS SHOWN WITH THE "F-K" CONTROL ACCOUNT IMMEDIATELY BELOW IT. YOU SHOULD COMPARE THE TWO, WITH THE HELP OF THE NOTES PROVIDED.

X A/c				DL 171			
19..		\$		19..		\$	
July 1st	Balance B/d	127.50		July 3rd	Bank CB 17	121.12	
9th	Sales SDB 5	68.60		3rd	Discount		
14th	Sales SDB 6	174.75			Allowed CB 17	4.13	
27th	Sales SDB 9	38.50		14th	Contra J 21	2.25	
				17th	Returns SRB 3	15.00	
				31st	Balance c/d	266.85	
		-----				-----	
		\$ 409.35				\$ 409.35	
		=====				=====	
Aug. 1st	Balance B/d	266.85					

F-K DEBTORS LEDGER CONTROL ACCOUNT				CL 29			
19..		\$		19..		\$	
July 1st	Balance B/D	17254.50		July 1st	Balance B/d	84.50	
31st	Sales SDB11	8572.65		31st	Bank CB 29	15175.65	
31st	Carriage J 9	708.00		31st	Contras J 11	422.50	
31st	Dishonoured			31st	Returns SRB7	202.80	
	cheques J 12	76.30		31st	Bad		
31st	Balance c/d	28.50			Debts J 13	127.65	
				31st	Motor Ve		
					hicles J 15	540.00	
				31st	Balance c/d	10086.85	
		-----				-----	
		\$ 26639.95				\$ 26639.95	
		=====				=====	
19..		\$		19..		\$	
Aug. 31st	Balance B/d	10086.85		Aug. 31st	Balance B/d	28.50	

Figure 6.1.A debtors control account compared with an individual debtors account.

VI.IV. CONTRA ACCOUNTS IN THE LEDGER :

WHEN THE LEDGER IS SUB-DIVIDED IT OFTEN HAPPENS THAT A FIRM WILL APPEAR IN TWO SECTIONS OF THE LEDGER, AS A DEBTORS LEDGER AND AS A CREDITOR IN THE CREDITORS LEDGER . IT MEANS THAT WE HAVE DEALINGS WITH THIS FIRM IN BOTH CAPACITIES; SELLING TO IT AND BUYING FROM IT. KEEPING TWO ACCOUNTS IN THIS WAY IS THE MOST CONVENIENT METHOD , SINCE THE TWO SETS OF

LEDGERS MAY BE IN QUITE DIFFERENT PARTS OF THE BUILDINGS . AT THE END OF THE MONTH THE SMALLER ACCOUNT WILL BE SET OFF AGAINST THE LARGER ACCOUNT ,AND THE WORDS "PER CONTRA" OR "CONTRA" WRITTEN TO EXPLAIN THAT AN "OPPOSITE" ACCOUNT IS BEING CANCELLED OUT BY THIS ENTRY.THIS IS A RATHER DIFFERENT KIND OF "CONTRA ENTRY" FROM THE TYPE YOU ARE FAMILIAR WITH IN THE THREE-COLUMN CASH BOOK.

VI.V. OTHER NAMES FOR THE CONTROL ACCOUNTS :

CONTROL ACCOUNTS ARE OFTEN CALLED BY OTHER NAMES .SOMETIMES THEY ARE CALLED TOTAL ACCOUNTS,OR ADJUSTMENT ACCOUNTS, AND SOMETIMES THE SYSTEM IS CALLED THE SELF BALANCING LEDGER SYSTEM.EACH OF THESE NAMES IS SIMPLY A VARIATION ON CONTROL ACCOUNTS ,AND YOU SHOULD TREAT ANY EXERCISE REFERRING TO THEM AS BEING IDENTICAL WITH THE CONTROL-ACCOUNT SYSTEM DESCRIBED IN THIS SECTION.

VI.VI. THE CONTROL ACCOUNT WHICH IS WRONG :

THE PURPOSE OF THE CONTROL ACCOUNT IS TO DISCOVER MISTAKES IN THE WORK OF JUNIOR MEMBERS OF STAFF.IT IS THEREFORE VERY REGRETTABLE IF THE CONTROL ACCOUNT IS INCORRECTLY PREPARED,SINCE IT MAY MEAN THAT STAFF ARE KEPT BEHIND BECAUSE THEIR LEDGERS DO NOT BALANCE WHEN IN FACT THE ACCOUNTANT IS AT FAULT.TO SAVE LOSS OF FACE,THE YOUNG ACCOUNTANT SHOULD BE PARTICULARLY CAREFUL IN THE PREPARATION OF THE CONTROL ACCOUNTS,AND SHOULD APPROACH THE DISCOVERY OF ERRORS IN A SET OF LEDGERS IN A FRIENDLY AND CONCILIATORY WAY.



VII. VALUE ADDED TAX ACCOUNTING

VII.I. WHAT IS A VALUE ADDED TAX ?

A VALUE ADDED TAX IS A TAX IMPOSED ON CONSUMERS WHEN THEY PURCHASE GOODS, BUT COLLECTED AT SEVERAL POINTS ALONG THE CHAIN OF PRODUCTION, DISTRIBUTION AND TRADE , WHEREVER VALUE IS ADDED.

SUPPOSE A FARMER PLANTS FLAX, AND IN DUE COURSE HARVESTS THE CROP AND SELLS IT TO THE MERCHANT. AT THAT POINT OF SALE THE FARMER MAKES HIS PROFIT ON THE FARMING ACTIVITY, AND WE SAY VALUE HAS BEEN ADDED - THE ORIGINAL SEED THE FARMER SAVED TO PLANT HAS GROWN AND IS NOW WORTH MORE. THE MERCHANT TRANSPORTS THE FLAX TO THE FACTORY OWNER AT A PROFIT. MORE VALUE HAS BEEN ADDED, FOR THE FLAX IS WORTH MORE NOW THAT IT HAS BEEN SHIFTED AWAY FROM THE LONELY FARMLAND INTO THE CITY WHERE THE WORKS IS SITUATED. THE LINEN MASTER SEPARATES THE FIBRES AND MAKES THE LINEN INTO LINEN GOODS. HE SELLS THEM TO A RETAILER . MORE VALUE HAS BEEN ADDED FOR THE FLAX IS NOW TURNED INTO A CONVENIENT ARTICLE, READY TO BE USED. THE RETAILER SELLS THE LINEN GOODS TO THE HOUSEWIVES WHO VISIT SHOP, CHARGING THEM A PROFIT MARGIN TO PAY FOR THE SERVICES HE PROVIDES . MORE VALUE HAS BEEN ADDED, IN NEEDS AND HER FAMILY BUDGET. AT THIS POINT THE VALUE ADDED TAX IS PAID BY THE HOUSEWIFE, AND FOR CONVENIENCE WE WILL SAY THAT THE RATE OF TAX IS 15% AS IT IS AT THE MOMENT IN THE T.R.N.C.

IT MIGHT APPEAR TO BE SENSIBLE THAT THE RETAILER SHOULD NOW PAY OVER THE TAX COLLECTED TO THE REVENUE AUTHORITIES, AND

THAT WOULD BE THE END OF THE MATTER, BUT THIS IS NOT HOW "VAT" IS COLLECTED. VAT IS COLLECTED AT EVERY POINT ALONG THE CHAIN FROM PRODUCTION TO CONSUMPTION WHERE VALUE HAS BEEN ADDED. THIS CAN BEST BE FOLLOWED IF WE TAKE THE ACTUAL EXAMPLE GIVEN ABOVE, BUT INSTEAD OF ONE ITEM WE WILL THINK OF ABOUT FIFTY ITEMS ON THESE THE TOTAL VALUE WILL BE \$ 250+\$ 37.50 TAX , SO THAT THE FINAL PRICE WILL BE \$ 287.50 TO THE HOUSEWIFE CONCERNED. NOTE THAT IN "VAT" ANYTHING PURCHASED FOR USE IN A BUSINESS IS CALLED AN INPUT, AND THE TAX ON IT IS CALLED INPUT TAX. ANYTHING SUPPLIED BY A BUSINESS, SUCH AS A GOOD SOLD TO A CUSTOMER OR A SERVICE PERFORMED FOR A CUSTOMER IS CALLED AN "OUTPUT" IS CALLED OUTPUT TAX.

"VAT" CAN BE FIXED AT ANY RATE , AND ORIGINALLY WAS INTENDED TO BE A VERY WIDESPREAD TAX A LOW RATE-SAY ABOUT 3 % . FOR POLITICAL REASONS IT WAS DECIDED NOT TO IMPOSE THE TAX ON FOODSTUFFS. AT ONCE THIS MEANT THAT THE TAX SPREAD WAS MUCH REDUCED, SO THAT A 3% LEVEL WOULD NOT RAISE THE MONEY REQUIRED AND WHEN A NUMBER OF OTHER CONTROVERSIAL ITEMS. AT TIMES THIS RATE MAY VARY, OR A MULTI-RATE SYSTEM MAY BE INTRODUCED . VERY SMALL BUSINESSES NEED NOT REGISTER FOR "VAT", BUT CANNOT CLAIM BACK "VAT" ON INPUTS. IF THEY FEEL AGGRIEVED ABOUT THIS , THEY MAY REGISTER VOLUNTARILY. THE CURRENT RATES FOR "VAT" AND DETAILS ABOUT THE "VAT" SYSTEM, REGISTRATION, RETURNS , ARE OBTAINABLE IN THE T.R.N.C. OFFICERS.

VII.II. CRITICISM OF V A T :

OPPENENTS OF THE "VAT" SYSTEM CLAIM WITH SOME JUSTIFICATION THAT IS A CUMBERSOME WAY TO COLLECT TAX. WHEN WE THINK THAT EVERY SINGLE FIRM HAS TO KEEP "VAT" RECORDS TO PLAY THEIR PART THE COLLECTION SYSTEM, AND IS REQUIRED TO ISSUE TAX INVOICES ON EVERY GOOD OR SERVICE IT SUPPLIES, WE CAN SEE HOW CUMBERSOME IT IS. IT IS QUITE IMPOSSIBLE FOR SOME FIRMS TO ISSUE A TAX INVOICES WHEN THEY SUPPLY GOODS - FOR EXAMPLE A CONFECTIONER CANNOT ISSUE A TAX INVOICE EACH TIME HE SELLS A BAR OF CHOCOLATE. SO CUSTOMS HAVE HAD TO INVENT A WIDE VARIETY OF WAYS OF COLLECTING TAX.

VII.III. DOUBLE ENTRY AND THE VAT ACCOUNT :

WHAT THE "VAT" SYSTEM HAS DONE TO THE BOOKS OF MOST BUSINESS-APART FROM CREATING A TREMENDOUS AMOUNT OF EXTRA WORK IN KEEPING RECORDS-IS TO ADD ONE NEW ACCOUNT, THE " VAT " ACCOUNT. THIS IS THE ACCOUNT OF THE FIRM WITH CUSTOMS AND EXCISE DEPARTMENT, AND SINCE THE DEPARTMENT WILL USUALLY BE A CREDITOR IT MIGHT REASONABLY BE PLACED IN THE CREDITORS LEDGER. MOST FIRMS ADD VALUE TO THE GOODS THEY BUY, AND THEY SELL THEM AT A PROFIT AS FINISHED GOODS, SO IT STANDS TO REASON THAT THE " VAT " THEY CHARGE THEIR CUSTOMERS WILL BE HIGHER THAN THE " VAT " THEY PAY TO THEIR SUPPLIERS WHEN BUYING THE GOODS OR RAW MATERIALS. A TYPICAL " VAT " ACCOUNT WOULD THEREFORE LOOK LIKE FIGURE 7.1. NOTE THAT THE OUTPUT TAX ON SALES IS A CREDIT ITEM AT THE END OF EACH MONTH, COMING FROM SPECIAL COLUMN IN SALES DAY BOOK WHERE THE " VAT " ON SALES CAN BE ACCUMULATED

AS THE MONTH GOES BY.THE INPUT TAX ON PURCHASES COMES SIMILARLY FROM A SPECIAL COLUMN IN THE PURCHASES DAY BOOK . WHERE " VAT " IN PAID ON CAPITAL ITEMS LIKE FURNITURE IT MAY BE RECLAIMED AS A DIFFERENCE BETWEEN THE TWO SIDES IS THE AMOUNT PAYABLE TO CUSTOMS AND EXCISE DEPARTMENT AT THE END OF THE " VAT " QUARTER.

Customs and Excise Department VAT Account							CL27
19..			\$	19..			\$
Jan.31	VAT on purchase	PDB3	328.27	Jan.31	VAT Sales	SDB 5	712.48
Feb.17	Capital item	J7	42.50	Feb.28	VAT on Sales	SDB 8	498.25
Feb.28	VAT on purchase	PDB4	436.25	Mar.31	VAT on Sales	SDB12	1385.66
Mar.11	Capital item	J 14	27.40				
Mar.31	VAT on purchase	PDB9	492.60				
Mar.31	Balance	c/d	1269.37				
			<u>\$2596.39</u>				<u>\$2596.39</u>
Apr.8	Bank	CB 5	1269.37	Apr.1	Balance	B/d	1269.37

Figure 7.1.A typical VAT Account

SOME TRADES SELL GOODS WHICH ARE ZERO RATED , SUCH AS FOODS,BOOKS,NEWSPAPERS AND CHILDRENS CLOTHING.IN THESE CIRCUMSTANCES THEY MAY FIND THAT THE DEBIT SIDE GREATER THAN THE CREDITS SIDE,FOR THEY ARE NOT CHARGING " VAT " TO THEIR CUSTOMERS.IN THIS CASE CUSTOMS AND EXCISE DEPARTMENT ARE NOT CREDITORS BUT DEBTORS.THE DEPARTMENT OWES THE RETAILER MONEY. SINCE IT MIGHT CAUSE HARDSHIP TO RETAILERS PAYING " VAT " IF THEY HAD TO WAIT FOR THESE REFUNDS FOR THREE MONTHS , IT IS

POSSIBLE FOR THEM TO RECEIVE THE REFUNDS ON A MONTHLY BASIS. THE " VAT " ACCOUNT WOULD THEREFORE BE IN THE DEBTORS LEDGER AND MIGHT APPEAR AS SHOWN IN FIGURE 7.2. NOTE THAT AS THE CUSTOMS AND EXCISE DEPARTMENT ARE DEBTORS THEY SETTLE UP EACH MONTH, NOT QUARTLY. NOTE THAT THE FIRM CONCERNED DOES HAVE SOME INPUT TAX TO PAY CAPITAL ITEMS, SERVICES AND ALSO ON EXPENSE ITEMS SUCH AS STATIONARY, TELEPHONE, WHICH ARE LABELLED NOMINAL LEDGER ITEMS IN THE ACCOUNT. THE FIRM DOES NOT APPEAR TO DEAL IN ANY STANDARD RATED ITEMS AS NEITHER PURCHASES NOR SALES APPEAR ON THE ACCOUNT.

Customs and Excise Department VAT Account				DL 18			
19..			\$	19..			\$
Apr. 1	Balance	B/d	147.52	Apr. 12	Refund from	CB8	147.52
					Customes		
8	Capital	J 5	23.62				
	item						
9	Capital	J 6	17.25	30	Balance	c/d	135.83
	item						
30	Service	J12	50.40				
30	Nominal	N63	38.56				
	Ledger						
			\$ 283.35				\$283.35
			=====				=====
May. 1	Balance	B/d	135.83				

Figure 7.2. A VAT ACCOUNT in a zero-rated trade

SOME TYPES OF BUSINESS DEAL IN BOTH ZERO-RATED AND STANDARD RATED ITEMS, IN WHICH CASES CUSTOMES MAY SOMETIMES BE A DEBTOR AND SOMETIMES A CREDITOR . THE TRADER MUST DECIDE WHETHER TO ASK FOR HIS ACCOUNT TO BE SETTLED MONTHLY OR QUARTERLY. THE LATTER MAY BE PREFERABLE IF CUSTOMS ARE ONLY OCCO-

SIONALLY THE DEBTOR SINCE THE " VAT " PAYABLE BY THE TRADER CAN BE IN A DEPOSIT ACCOUNT FOR THREE MONTHS EARNING THE TREADER INTEREST . A TRADER WHO EXPORTS GOODS MAY ALSO FIND CUSTOMS IS A DEBTOR, AND MAY THEREFORE PREFER A PROMPT SETTLEMENT.

VII.IV. VAT FIGURES FOR THE ACCOUNTING ENTRIES :

THE FIGURES REQUIRED FOR THE PREPARATION OF THE " VAT " ACCOUNT ARE OBTAINED FROM THE ORIGINAL DOCUMENTS, THE INVOICES AND CREDIT NOTES DISPATCHED OR RECEIVED. THESE ORIGINAL DOCUMENTS ARE OF COURSE ENTERED IN DAY BOOKS . A NUMBER OF IMPORTANT POINTS ARISE AS A RESULT OF THE NEED TO KEEP " VAT " RECORDS. THESE ARE:

(A) THE FIGURES FOR " VAT " MUST BE DISTINGUISHED FROM THE PURCHASE PRICE OF THE GOODS BOUGHT, AND THE SELLING PRICE OF THE GOODS SOLD. THE FIGURES TAKEN TO PURCHASES ACCOUNT AND SALES ACCOUNT MUST BE THE " NET OF VAT " FIGURES.

(B) THE CUSTOMER MUST BE DEBITED WITH THE FULL SALE PRICE, INCLUDING " VAT ", AND THE SUPPLIER MUST CREDIT WITH THE FULL PURCHASE PRICE, INCLUDING " VAT " .

IN ORDER TO OBTAIN THESE FIGURES THE FOUR DAY BOOKS HAVE BEEN MODIFIED WITH A " VAT " COLUMN AS SHOWN IN FIGURES 7 . 3
7.6. FOR CAPITAL ITEMS RECORDED IN THE JOURNAL PROPER THE JOURNAL ENTRY WILL BE AS SHOWN IN FIGURE 7.7.

DATE	DETAILS	F	VALU EXCLUDING VAT	VAT	TOTAL PURCHASE
					See Note (a)
			See Note (b)	See Note (c)	

Figure 7.3.The modified Purchases Day Book

NOTES :

(A) CREDIT EACH SUPPLIERS ACCOUNT WITH THE TOTAL VALUE OF THE PURCHASE (INCLUDING VAT)

(B) DEBIT THE PURCHASE ACCOUNT WITH THE NET " OF THE TAX " PRICE CHARGED BY THE SUPPLIER.

(C) DEBIT THE " VAT " ACCOUNT WITH THE " VAT " CHARGED BY THE SUPPLIER (INPUT TAX).

DATE	DETAILS	F	VALUE EXCLUDING VAT	VAT	TOTAL SALES
					See Note (a)
			See Note (b)	See Note (c)	

Figure 7.4. The modified Sales Day Book

NOTE :

(A) DEBIT EACH CUSTOMERS ACCOUNT WITH THE TOTAL VALUE OF THE GOODS OR SERVICES SUPPLIED (INCLUDING VAT).

(B) CREDIT THE SALES ACCOUNT WITH THE " NET OF TAX " CHARGE TO THE CUSTOMER.

(C) CREDIT THE " VAT " ACCOUNT WITH THE " VAT " CHARGED TO THE CUSTOMER (OUTPUT TAX).

DATE	DETAILS	F	VALUE EXCLUDING VAT	VAT	TOTAL PURCHASES RETURNS
					See Note (a)
			See Note (b)	See Note (c)	

Figure 7.5. The modified Purchases Returns Book

NOTES :

(A) DEBIT EACH SUPPLIERS ACCOUNT WITH THE TOTAL VALUE OF THE RETURNS (INCLUDING VAT).

(B) CREDIT THE PURCHASES RETURNS ACCOUNT WITH THE " NET OF-TAX " VALUE OF THE RETURNED GOODS.

(C) CREDIT HTE " VAT " ACCOUNT WITH THE " VAT " NO LONGER BEING CHARGED BY THE SUPPLIER (INPUT TAX CANCELLED .

DATE	DETAILS	F	VALUE EXCLUDING VAT	VAT	TOTAL SALES RETURNS
					See Note (a)
			See Note (b)	See Note (c)	

Figure 7.6. The modified Sales Returns Book

NOTES:

(A) CREDIT EACH CUSTOMER WITH THE TOTAL VALUE OF THE GOODS RETURNED (INCLUDING " VAT ").

(B) DEBIT SALES RETURNS ACCOUNT WITH THE " NET OF TAX " VALUE OF THE RETURNED GOODS.

(C) DEBIT " VAT " ACCOUNT WITH THE " VAT " NO LONGER BEING CHARGED TO THE CUSTOMER (OUTPUT TAX CANCELLED).

19..					\$	\$
July	14	Plant and Machinery	Dr.	L 76	1500.00	
		VAT Account	Dr.	L 125	225.00	
		XYZ Machine co.Ltd.		L 63		1725.00
		Being purchase of				
		shaping machine ML				
		127356 at this date				

Figure 7.7. A Journal entry showing " VAT " ON A CAPITAL ITEM

Conclusion
CONCLUSION

THE PRINCIPLE OF ACCOUNTING FORM THE BASIS OF KNOWLEDGE ESSENTIAL TO ANYONE WHO HAS TO TAKE PART IN KEEPING ACCURATE RECORDS OF THE FINANCIAL AFFAIRS OF ANY BUSINESS . TODAY MORE AND MORE FIRMS USE COMPUTERIZED OR MECHANIZED SYSTEMS OF ACCOUNTING, AND NEVER HAS IT BEEN SO VITAL FOR ANY ONE CONTEMPLATING A BUSINESS CAREER TO UNDERSTAND THE METHODS OF BOOK-KEEPING AND ACCOUNTING THAT LIE BEHIND IT. WHETHER THE TRANSACTIONS OF A BUSINESS ARE RECORDED AND PROCESSED BY COMPUTER, OR ARE HAND-WRITTEN IN BOOKS OF ORIGINAL ENTRY, THE BASIC THINKING IS THE SAME. NO ONE CAN BE HOPE TO UNDERSTAND EITHER THE SOPHISTICATED PROGRAMMING OF A COMPUTER, OR THE SIMPLE DAY-TO-DAY ENTRIES IN A LEDGER WITHOUT A THROUGH GROUNDING IN THE ACCOUNTING SYSTEM COMMON TO BOTH.

THE THAT BALANCE SHEETS MUST NOW BE PRESENTED IN ONE OF TWO FORMATS GIVEN THE LOGICAL HORIZONTAL STYLE ALREADY USED IN THE REST OF EUROPE, WITH ASSETS ON THE LEFT AND LIABILITIES ON THE RIGHT ; OR THE VERTICAL STYLE . THE LATTER FORMAT IS FAVOURED BY SOME ACCOUNTANTS FOR TECHNICAL PRINTING REASONS, BUT IS LESS SATISFACTORY ON THEORETICAL ACCOUNTING GROUNDS.

Acknowledgments

This study was conducted under the supervision of Professor Mevlut Caglar. His guidance and attitude for this study have transcended the bounds of ordinary thesis supervision. My appreciation for all that is beyond expression. I am indebted to him for his suggestion, criticism and encouragement in the creation of form, content and scope this dissertation. It has been a great pleasure to work with him and to have had the opportunity to enrich my knowledge with his expression.

I owe special thanks to Colonel Atilla Sahin for helps.