

# Financial ACCOUNTING

ACCOUNTING PROFESSION OPTION  
For Rwandan Schools

Senior

5

Teacher's Guide

EXPERIMENTAL VERSION

KIGALI, 2023



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## FOREWORD

Dear Student,

Rwanda Basic Education Board (REB) is honored to present Senior 5 Financial Accounting book for the students of Accounting Profession Option which serves as a guide to competence-based teaching and learning to ensure consistency and coherence in the learning of the Financial Accounting. The Rwandan educational philosophy is to ensure that you achieve full potential at every level of education which will prepare you to be well integrated in society and exploit employment opportunities.

The government of Rwanda emphasizes the importance of aligning teaching and learning materials with the syllabus to facilitate your learning process. Many factors influence what you learn, how well you learn and the competences you acquire. Those factors include the relevance of the specific content, the quality of teachers' pedagogical approaches, the assessment strategies and the instructional materials available. In this book, we paid special attention to the activities that facilitate the learning process in which you can develop your ideas and make new discoveries during concrete activities carried out individually or in groups.

In competence-based curriculum, learning is considered as a process of active building and developing knowledge and meanings by the learner where concepts are mainly introduced by an activity, situation or scenario that helps the learner to construct knowledge, develop skills and acquire positive attitudes and values.

For efficiency use of this textbook, your role is to:

- Work on given activities which lead to the development of skills;
- Share relevant information with other learners through presentations, discussions, group work and other active learning techniques such as role play, case studies, investigation and research in the library, on internet or outside;
- Participate and take responsibility for your own learning;
- Draw conclusions based on the findings from the learning activities.

To facilitate you in doing activities, the content of this book is self-explanatory so that you can easily use it yourself, acquire and assess your competences. The book is made of units as presented in the syllabus. Each unit has the following structure: the unit title and key unit competence are given and they are followed by the introductory activity before the development of Financial Accounting and concepts that are connected to real world problems more especially to production, finance and economics.

The development of each concept has the following points:

- Learning activity which is a well set and simple activity to be done by students in order to generate the concept to be learnt;
- Main elements of the content to be emphasized;
- Worked examples; and
- Application activities to be done by the user to consolidate competences or to assess the achievement of objectives.

Even though the book has some worked examples, you will succeed on the application activities depending on your ways of reading, questioning, thinking and handling calculations problems not by searching for similar-looking worked out examples.

Furthermore, to succeed in Financial Accounting, you are asked to keep trying; sometimes you will find concepts that need to be worked at before you completely understand. The only way to really grasp such a concept is to think about it and work related problems found in other reference books.

I wish to sincerely express my appreciation to the people who contributed towards the development of this book, particularly, REB staff, development partners, Universities Lecturers and Secondary School Teachers for their technical support. A word of gratitude goes to Secondary Schools Head Teachers, Administration of different Universities (Public and Private Universities) and development partners who availed their staff for various activities.

Any comment or contribution for the improvement of this textbook for the next edition is welcome.

**Dr. MBARUSHIMANA Nelson**

**Director General, REB**

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**Joan MURUNGI**

Head of CTLR Department

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# PART I. GENERAL INTRODUCTION

## 1.1. The structure of the guide

The teacher's guide of Financial Accounting is composed of three parts:

**Part I** concerns general introduction that discusses methodological guidance on how best to teach and learn Financial Accounting, developing competences in teaching and learning, addressing cross-cutting issues in teaching and learning and Guidance on assessment.

**Part II** presents a sample lesson plan. This lesson plan serves to guide the teacher on how to prepare a lesson in Financial Accounting.

**Part III** is about the structure of a unit and the structure of a lesson. This includes information related to the different components of the unit and these components are the same for all units. This part provides information and guidelines on how to facilitate students while working on learning activities. More over, all application activities from the textbook have answers in this part.

## 1.2. Methodological guidance

### 1.2.1. Developing competences

Since 2015 Rwanda shifted from a knowledge based to a competence-based curriculum for pre-primary, primary, secondary education and recently the curriculum for profession options such as TTC, Associate Nurse and Accounting programs. This called for changing the way of learning by shifting from teacher centred to a learner centred approach. Teachers are not only responsible for knowledge transfer but also for fostering students' learning achievement and creating safe and supportive learning environment. It implies also that students have to demonstrate what they are able to transfer the acquired knowledge, skills, values and attitude to new situations.

The competence-based curriculum employs an approach of teaching and learning based on discrete skills rather than dwelling on only knowledge or the cognitive domain of learning. It focuses on what learner can do rather than what learner knows. Students develop competences through subject unit with specific learning objectives broken down into knowledge, skills and attitudes/values through learning activities.

In addition to the competences related to Financial Accounting, students also develop generic competences which should promote the development of the higher order thinking skills and professional skills in Financial Accounting

teaching. Generic competences are developed throughout all units of Financial Accounting as follows:

Generic competences	Ways of developing generic competences
Critical thinking	All activities that require students to calculate, convert, interpret, analyse, compare and contrast, etc have a common factor of developing critical thinking into students
Creativity and innovation	All activities that require students to plot a graph of a given algebraic data, to organize and interpret statistical data collected and to apply skills in solving problems of production/ finance/ economic have a common character of developing creativity into students
Research and problem solving	All activities that require students to make a research and apply their knowledge to solve problems from the real-life situation have a character of developing research and problem solving into students.
Communication	During Financial Accounting class, all activities that require students to discuss either in groups or in the whole class, present findings, debate ...have a common character of developing communication skills into students.
Co-operation, interpersonal relations and life skills	All activities that require students to work in pairs or in groups have character of developing cooperation and life skills among students.
Lifelong learning	All activities that are connected with research have a common character of developing into students a curiosity of applying the knowledge learnt in a range of situations. The purpose of such kind of activities is for enabling students to become life-long students who can adapt to the fast-changing world and the uncertain future by taking initiative to update knowledge and skills with minimum external support.

Professional skills	Specific instructional activities and procedures that a teacher may use in the class room to facilitate, directly or indirectly, students to be engaged in learning activities. These include a range of teaching skills: the skill of questioning, reinforcement, probing, explaining, stimulus variation, introducing a lesson; illustrating with examples, using blackboard, silence and non-verbal cues, using audio – visual aids, recognizing attending behaviour and the skill of achieving closure.
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The generic competences help students deepen their understanding of Financial Accounting and apply their knowledge in a range of situations. As students develop generic competences they also acquire the set of skills that employers look for in their employees, and so the generic competences prepare students for the world of work.

### 1.2.2. Addressing cross cutting issues

Among the changes brought by the competence-based curriculum is the integration of cross cutting issues as an integral part of the teaching learning process-as they relate to and must be considered within all subjects to be appropriately addressed. The eight cross cutting issues identified in the national curriculum framework are: *Comprehensive Sexuality Education, Environment and Sustainability, Financial Education, Genocide studies, Gender, Inclusive Education, Peace and Values Education, and Standardization Culture.*

Some cross-cutting issues may seem specific to particular learning areas/ subjects but the teacher need to address all of them whenever an opportunity arises. In addition, students should always be given an opportunity during the learning process to address these cross-cutting issues both within and out of the classroom.

Below are examples of how crosscutting issues can be addressed:

Cross-Cutting Issue	Ways of addressing cross-cutting issues
<p><b>Financial Education:</b></p> <p>The integration of Financial Education into the curriculum is aimed at a comprehensive Financial Education program as a precondition for achieving financial inclusion targets and improving the financial capability of Rwandans so that they can make appropriate financial decisions that best fit the circumstances of one's life.</p>	<p>Through different examples and calculations of financial performance and financial position, Financial Accounting Teachers can lead students to discuss how to make appropriate financial decisions.</p>
<p><b>Gender:</b> At school, gender will be understood as family complementarities, gender roles and responsibilities, the need for gender equality and equity, gender stereotypes, gender sensitivity, etc.</p>	<p>Financial Accounting Teachers should address gender as cross-cutting issue through assigning leading roles in the management of groups to both girls and boys and providing equal opportunity in the lesson participation and avoid any gender stereotype in the whole teaching and learning process.</p>
<p><b>Inclusive Education:</b> Inclusion is based on the right of all students to a quality and equitable education that meets their basic learning needs and understands the diversity of backgrounds and abilities as a learning opportunity.</p>	<p>Firstly, Financial Accounting Teachers need to identify/recognize students with special needs. Then by using adapted teaching and learning resources while conducting a lesson and setting appropriate tasks to the level of students, they can cater for students with special education needs. They must create opportunity where students can discuss how to cater for students with special educational needs.</p>

<p><b>Peace and Values Education:</b> Peace and Values Education (PVE) is defined as education that promotes social cohesion, positive values, including pluralism and personal responsibility, empathy, critical thinking and action in order to build a more peaceful society.</p>	<p>Through a given lesson, a teacher should:</p> <p>Set a learning objective which is addressing positive attitudes and values,</p> <p>Encourage students to develop the culture of tolerance during discussion and to be able to instil it in colleagues and cohabitants;</p> <p>Encourage students to respect ideas from others.</p>
<p><b>Standardization Culture:</b> Standardization Culture in Rwanda will be promoted through formal education and plays a vital role in terms of health improvement, economic growth, industrialization, trade and general welfare of the people through the effective implementation of Standardization, Quality Assurance, Metrology and Testing.</p>	<p>With different word problems related to the effective implementation of Standardization, Quality Assurance, Metrology and Testing, students can be motivated to be aware of health improvement, economic growth, industrialization, trade and general welfare of the people.</p>

### **Guidance on how to help students with special education needs in classroom**

In the classroom, students learn in different way depending to their learning pace, needs or any other special problem they might have. However, the teacher has the responsibility to know how to adopt his/her methodologies and approaches in order to meet the learning need of each student in the classroom. Also teachers need to understand that student with special needs, need to be taught differently or need some accommodations to enhance the learning environment. This will be done depending to the subject and the nature of the lesson.

In order to create a well-rounded learning atmosphere, teachers need to:

- Remember that students learn in different ways so they have to offer a variety of activities (e.g. role-play, music and singing, word games and quizzes, and outdoor activities);

- Maintain an organized classroom and limits distraction. This will help students with special needs to stay on track during lesson and follow instruction easily;
- Vary the pace of teaching to meet the needs of each student. Some students process information and learn more slowly than others;
- Break down instructions into smaller, manageable tasks. Students with special needs often have difficulty understanding long-winded or several instructions at once. It is better to use simple, concrete sentences in order to facilitate them understand what you are asking.
- Use clear consistent language to explain the meaning (and demonstrate or show pictures) if you introduce new words or concepts;
- Make full use of facial expressions, gestures and body language;
- Pair a student who has a disability with a friend. Let them do things together and learn from each other. Make sure the friend is not over protective and does not do everything for the one with disability. Both students will benefit from this strategy;
- Use multi-sensory strategies. As all students learn in different ways, it is important to make every lesson as multi-sensory as possible. Students with learning disabilities might have difficulty in one area, while they might excel in another. For example, use both visual and auditory cues.
- Below are general strategies related to each main category of disabilities and how to deal with every situation that may arise in the classroom. However, the list is not exhaustive because each student is unique with different needs and that should be handled differently.

**Strategy to help students with developmental impairment:**

- Use simple words and sentences when giving instructions;
- Use real objects that students can feel and handle. Rather than just working abstractly with pen and paper;
- Break a task down into small steps or learning objectives. The student should start with an activity that she/he can do already before moving on to something that is more difficult;
- Gradually give the student less help;
- Let the student with disability work in the same group with those without disability.

**Strategy to help students with visual impairment:**

- Help students to use their other senses (hearing, touch, smell and taste) and carry out activities that will promote their learning and development;
- Use simple, clear and consistent language;

- Use tactile objects to help explain a concept;
- If the student has some sight, ask him/her what he/she can see;
- Make sure the student has a group of friends who are helpful and who allow him/her to be as independent as possible;
- Plan activities so that students work in pairs or groups whenever possible;

**Strategy to help students with hearing disabilities or communication difficulties**

- Always get the student's attention before you begin to speak;
- Encourage the student to look at your face;
- Use gestures, body language and facial expressions;
- Use pictures and objects as much as possible.
- Keep background noise to a minimum.

**Strategies to help students with physical disabilities or mobility difficulties:**

- Adapt activities so that, students who use wheelchairs or other mobility aids, can participate.
- Ask parents/caregivers to assist with adapting furniture e.g. the height of a table may need to be changed to make it easier for a student to reach it or fit their legs or wheelchair under;
- Encourage peer support when needed;
- Get advice from parents or a health professional about assistive devices if the student has one.

**Adaptation of assessment strategies:**

At the end of each unit, the teacher is advised to provide additional activities to help students achieve the key unit competence. These assessment activities are for remedial, consolidation and extension designed to cater for the needs of all categories of students; slow, average and gifted students respectively. Therefore, the teacher is expected to do assessment that fits individual students.

Remedial activities	<p>After evaluation, slow students are provided with lower order thinking activities related to the concepts learnt to facilitate them in their learning.</p> <p>These activities can also be given to assist deepening knowledge acquired through the learning activities for slow students.</p>
Consolidation activities	<p>After introduction of any concept, a range number of activities can be provided to all students to enhance/ reinforce learning.</p>
Extended activities	<p>After evaluation, gifted and talented students can be provided with high order thinking activities related to the concepts learnt to make them think deeply and critically. These activities can be assigned to gifted and talented students to keep them working while other students are getting up to required level of knowledge through the learning activity.</p>

### **Guidance on assessment**

Assessment is an integral part of teaching and learning process. The main purpose of assessment is for improvement of learning outcomes. Assessment for learning/ Continuous/ formative assessment intend to improve students' learning and teacher's teaching whereas assessment of learning/summative assessment intends to improve the entire school's performance and education system in general.

### **Continuous/ formative assessment**

It is an on-going process that arises during the teaching and learning process. It includes lesson evaluation and end of sub unit assessment. This formative assessment should play a big role in teaching and learning process. The teacher should encourage individual, pair and group evaluation of the work done in the classroom and uses appropriate competence-based assessment approaches and methods.



Formative assessment is used to:

- Determine the extent to which learning objectives are being achieved and competences are being acquired and to identify which students need remedial interventions, reinforcement as well as extended activities. The application activities are developed in the student Book and they are designed to be given as remedial, reinforcement, end lesson assessment, homework or assignment
- Motivate students to learn and succeed by encouraging students to read, or learn more, revise, etc.
- Check effectiveness of teaching methods in terms of variety, appropriateness, relevance, or need for new approaches and strategies. Financial Accounting teachers need to consider various aspects of the instructional process including appropriate language levels, meaningful examples, suitable methods and teaching aids/ materials, etc.
- Help students to take control of their own learning.

In teaching Financial Accounting, formative or continuous assessment should compare performance against instructional objectives. Formative assessment should measure the student's ability with respect to a criterion or standard. For this reason, it is used to determine what students can do, rather than how much they know.

### **Summative assessment:**

The assessment can serve as summative and informative depending to its purpose. The end unit assessment will be considered summative when it is done at end of unit and want to start a new one.

It will be formative assessment, when it is done in order to give information on the progress of students and from there decide what adjustments need to be done.

The assessment done at the end of the term, end of year, is considered as summative assessment so that the teacher, school and parents are informed of the achievement of educational objective and think of improvement strategies. There is also end of level/ cycle assessment in form of national examinations.

### **When carrying out assessment?**

Assessment should be clearly visible in lesson, unit, term and yearly plans.

- Before learning (diagnostic): At the beginning of a new unit or a section of work; assessment can be organized to find out what students already know / can do, and to check whether the students are at the same level.

- During learning (formative/continuous): When students appear to be having difficulty with some of the work, by using on-going assessment (continuous). The assessment aims at giving students support and feedback.
- After learning (summative): At the end of a section of work or a learning unit, the Financial Accounting Teacher has to assess after the learning. This is also known as Assessment of Learning to establish and record overall progress of students towards full achievement. Summative assessment in Rwandan schools mainly takes the form of written tests at the end of a learning unit or end of the month, and examinations at the end of a term, school year or cycle.

### **Instruments used in assessment.**

**Observation:** This is where the Financial Accounting teacher gathers information by watching students interacting, conversing, working, playing, etc. A teacher can use observations to collect data on behaviours that are difficult to assess by other methods such as attitudes, values, and generic competences and intellectual skills. It is very important because it is used before the lesson begins and throughout the lesson since the teacher has to continue observing each and every activity.

### **Questioning**

- a) Oral questioning:** a process which requires a student to respond verbally to questions
- b) Class activities/ exercise:** tasks that are given during the learning/teaching process
- c) Short and informal questions usually asked during a lesson
- d) Homework and assignments:** tasks assigned to students by their teachers to be completed outside of class.

Homework assignments, portfolio, project work, interview, debate, science fair and Financial Accounting competitions are also the different forms/instruments of assessment.

## **1.2.5. Teaching methods and techniques that promote active learning**

The different learning styles for students can be catered for, if the teacher uses active learning whereby students are really engaged in the learning process. The main teaching methods used in Financial Accounting are the following:

**Dogmatic method** (the teacher tells the students what to do, what to observe, how to attempt, how to conclude)

**Inductive-deductive method:** Inductive method is to move from specific examples to generalization and deductive method is to move from generalization to specific examples.

**Analytic-synthetic method:** Analytic method proceeds from unknown to known, 'Analysis' means 'breaking up' of the problem in hand so that it ultimately gets connected with something obvious or already known. Synthetic method is the opposite of the analytic method. Here one proceeds from known to unknown.

**Skills lab method:** Skills lab method is based on the maxim "learning by doing." It is a procedure for stimulating the activities of the students and to encourage them to make discoveries through practical activities.

### **Problem solving method, Project method and Seminar Method**

The following are some active techniques to be used in Financial Accounting:

- Group work
- Research
- Probing questions
- Practical activities
- Modelling
- Brainstorming
- Quiz Technique
- Discussion Technique
- Scenario building Technique

### **What is Active learning?**

Active learning is a pedagogical approach that engages students in doing things and thinking about the things they are doing. Students play the key role in the active learning process. They are not empty vessels to fill but people with ideas, capacity and skills to build on for effective learning. Thus, in active learning, students are encouraged to bring their own experience and knowledge into the learning process.

The role of the teacher in active learning	The role of students in active learning
<ul style="list-style-type: none"> <li>– The teacher engages students through active learning methods such as inquiry methods, group discussions, research, investigative activities, group and individual work activities.</li> <li>– He/she encourages individual, peer and group evaluation of the work done in the classroom and uses appropriate competence-based assessment approaches and methods.</li> <li>– He provides supervised opportunities for students to develop different competences by giving tasks which enhance critical thinking, problem solving, research, creativity and innovation, communication and cooperation.</li> <li>– Teacher supports and facilitates the learning process by valuing students' contributions in the class activities.</li> </ul>	<ul style="list-style-type: none"> <li>– A learner engaged in active learning:</li> <li>– Communicates and shares relevant information with fellow students through presentations, discussions, group work and other learner-centred activities (role play, case studies, project work, research and investigation);</li> <li>– Actively participates and takes responsibility for his/her own learning;</li> <li>– Develops knowledge and skills in active ways;</li> <li>– Carries out research/investigation by consulting print/online documents and resourceful people, and presents their findings;</li> <li>– Ensures the effective contribution of each group member in assigned tasks through clear explanation and arguments, critical thinking, responsibility and confidence in public speaking</li> <li>– Draws conclusions based on the findings from the learning activities.</li> </ul>

### Main steps for a lesson in active learning approach

All the principles and characteristics of the active learning process highlighted above are reflected in steps of a lesson as displayed below. Generally, the lesson is divided into three main parts whereby each one is divided into smaller steps to make sure that students are involved in the learning process. Below are those main part and their small steps:

## 1. Introduction

Introduction is a part where the teacher makes connection between the current and previous lesson through appropriate technique. The teacher opens short discussions to encourage students to think about the previous learning experience and connect it with the current instructional objective. The teacher reviews the prior knowledge, skills and attitudes which have a link with the new concepts to create good foundation and logical sequencings.

## 2. Development of the new lesson

The development of a lesson that introduces a new concept will go through the following small steps: discovery activities, presentation of students' findings, exploitation, synthesis/summary and exercises/application activities.

### Discovery activity:

#### Step 1:

- The teacher discusses convincingly with students to take responsibility of their learning
- He/she distributes the task/activity and gives instructions related to the tasks (working in groups, pairs, or individual to prompt /instigate collaborative learning, to discover knowledge to be learned)

#### Step 2:

- The teacher let students work collaboratively on the task;
- During this period the teacher refrains to intervene directly on the knowledge;
- He/she then monitors how the students are progressing towards the knowledge to be learned and boosts those who are still behind (but without communicating to them the knowledge).

### Presentation of students' findings/productions

- In this part, the teacher invites representatives of groups to present their productions/findings.
- After three/four or an acceptable number of presentations, the teacher decides to engage the class into exploitation of students' productions.

### Exploitation of students' findings/ productions

- The teacher asks students to evaluate the productions: which ones are correct, incomplete or false

- Then the teacher judges the logic of the students' products, corrects those which are false, completes those which are incomplete, and confirms those which are correct.

### **Institutionalization or harmonization (summary/conclusion/ and examples)**

- The teacher summarizes the learned knowledge and gives examples which illustrate the learned content.

### **Application activities**

- Exercises of applying processes and products/objects related to learned unit/sub-unit
- Exercises in real life contexts
- Teacher guides students to make the connection of what they learnt to real life situations.
- At this level, the role of teacher is to monitor the fixation of process and product/object being learned.

## **3. Assessment**

In this step the teacher asks some questions to assess achievement of instructional objective. During assessment activity, students work individually on the task/activity. The teacher avoids intervening directly. In fact, results from this assessment inform the teacher on next steps for the whole class and individuals. In some cases, the teacher can end with a homework/ assignment. Doing this will allow students to relay their understanding on the concepts covered that day. Teacher leads them not to wait until the last minute for doing the homework as this often results in an incomplete homework set and/or an incomplete understanding of the concept.

## PART II: SAMPLE LESSON PLAN

Term	Date	Subject	Class	Unit N°	Lesson N°	Duration	Class size
1	20/02/2023	Financial accounting	S 5	1	4 of 7	80 minutes	50 students
<b>Type of special education needs to be catered for in the lesson and number of learners in each category</b>				One student with physical disabilities			
<b>Unit title</b>		<b>Year-end adjustments</b>					
<b>Key unit competence</b>		<b>To be able to carry out adjustments and prepare adjusted trial balance</b>					
<b>Title of the lesson</b>		<b>Depreciation for non-current assets</b>					
<b>Instructional objective</b>		Non-current assets may be characterized as assets that will generate economic value for one or more fiscal periods into the future. For example, consider a business that owns manufacturing equipment; an effective management team will use that equipment to manufacture products for as long as it is safe and practical to do so. The economic benefit materializes in the future when those products are sold to generate revenue and then, these assets decrease their original value progressively.					
<b>Plan for the class</b>		Inside the class in U shape arrangement					
<b>Learning materials</b>		Various school fixed assets will be available including motor vehicle, building, land, furniture, equipment, plant and machinery, etc.					
<b>References</b>		Entrepreneurship for Rwanda year 5, Taxation year 5, Management Accounting year 5					
<b>Timing for each step</b>		Description of teaching and learning activity				Generic competences and cross-cutting issues to be addressed + a short explanation	
	Think-pair-share; students make discussion on different fixed assets, especially tangible assets and content harmonization from different group presentations.						
		Teacher activities		Learner activities			

<p>Introduction</p> <p>5 minutes</p>	<ul style="list-style-type: none"> <li>- Revision on the previous lesson related to financial statement for a sole trader</li> <li>- Show to the learners the relationship between the previous lesson and the new one</li> <li>- Guide the learners to discover the current lesson</li> <li>- Share the objectives of the lesson with the students</li> <li>- Ask the students to show the link between learning objective and key unit competence.</li> </ul>	<ul style="list-style-type: none"> <li>- Answer the questions on the financial statements for a sole trader</li> <li>- Discover the title of the current lesson</li> </ul>	<p><b>Communication:</b></p> <p>Through answering questions and peer discussion.</p>
<p>Development of the lesson</p> <p><b>a) Discovering activity</b></p> <p>20 minutes</p>	<ul style="list-style-type: none"> <li>- Ask students to observe all fixed assets, especially tangible ones, held by an entity,</li> </ul>	<p>Listen carefully to the given instructions</p> <p><b>FORMING THE GROUPS</b></p>	<p><b>CORETATION, INTERPERSONAL MANAGEMENT AND LIFE SKILLS:</b> students share ideas in groups</p>



	<p>consider the state of the assets at the time of acquisition and the state of these assets at the time we are, after a long time of holding. Then, the students discover the lesson of the day</p> <ul style="list-style-type: none"> <li>- Describe the depreciation</li> <li>- This activity will be done first individually, shared in pairs and then in large groups according to learners sitting arrangement.</li> <li>- Instruct the students that the activity will be done within 20 minutes and the presentation will be done using gallery work</li> </ul>	<p>Students arrange themselves in teams and sit together in their respective groups</p> <ul style="list-style-type: none"> <li>- Work individually or in pairs to describe the depreciation,</li> <li>- In their groups, they share and agree on the meaning, causes and factors of depreciation</li> </ul>	<p><b>CRITICAL THINKING:</b></p> <p>Students analyze situations they find in their localities and come up with the meaning, causes and factors of depreciation</p> <p><b>COMMUNICATION:</b></p> <p>Students discuss in groups and answer to the questions</p>
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<p><b>b)Presentation</b></p> <p>25 minutes</p>	<ul style="list-style-type: none"> <li>- Teacher moves around in groups to guide them as they attempt to answer the questions</li>   <li>- Special attention must be taken to students with disabilities</li>   <li>- Invite the students to hang their work on the present board, allow students to do gallery work</li> </ul>	<ul style="list-style-type: none"> <li>- Group presentation about depreciation</li>   <li>- Each group hangs its answer on present boards</li>   <li>- Each team moves around to read the presentation of the other groups while taking notes and asking for more clarification where they do not understand.</li>   <li>- Harmonize their findings and come up with the meaning, causes and factors of depreciation</li> </ul>	<p><b>RESEARCH AND PROBLEM SOLVING:</b></p> <p>Through discussion and research, students describe the meaning, causes and factors of the depreciation.</p>
<p><b>c)Exploitation 20 minutes</b></p>	<p>Invite each representative group to come and describe the depreciation</p> <p>To ask group by group if they agree with the presentation and make a comment where it is necessary</p>		<p><b>COMMUNICATION:</b></p> <p>Students discuss and communicate verbally while presenting their work and commenting on other group works</p> <p><b>FINANCIAL EDUCATION</b></p> <p>Students learn how to transact cheap and convenient transactions contrarily to expensive ones.</p>

**d)Synthesis**

5 minutes

Help the students to come up with the summary on depreciation and allow them to take notes.

- Depreciation is a decrease in value of an asset
- Depreciation is caused by tear and wear, obsolescence, passage in time, use, technology, etc
- Depreciation factors are the cost, depreciation rate, annual depreciation, net book value and scrap value

**INCLUSIVE EDUCATION**

Taking into account students with physical disability while writing notes on board and giving them more time ( depending on their physical disability)

**e)Conclusion 5**

minutes

**APPLY QUESTIONS:**

- a)Explain the depreciation
- b)Discuss the causes and factors of depreciation
- Advise students to think about the causes and factors of depreciation
- Emphasize on what would be the annual accounting entries when an asset is progressively depreciated

**Expected answers:**

students may come up with different answers:

**Answers:**

1. Depreciation is the decrease in value of an item

**Critical thinking:**

Students develop critical thinking and reasoning skills while answering questions from the groups

		<p>2. The causes of depreciation are use, obsolescence, passage in time, tear and wear, technology, ect.</p> <p>3. Its factors are origin cost, annual depreciation, depreciation rate, scrap value and the net book value</p> <p>4. Its annual accounting record involves debiting fixed asset depreciation expense account and crediting provision for depreciation on fixed asset account</p>	
<b>Teacher self-evaluation</b>	The lesson is well delivered in general and all students pass at the first time of assessment		

## PART III: UNIT DEVELOPMENT

**1.1. Key unit competence:**

To be able to carry out adjustments and prepare an adjusted trial balance

**1.2. Prerequisite**

The students have already acquired the basic knowledge and skills of accounting in Financial Accounting subject (Senior 4), which will facilitate understanding this unit.

**1.3. Cross-cutting issues to be addressed:**

**Gender education:** the teacher should bear in mind that everyone, girls and boys have equal opportunities and rights to study. Therefore, when forming group activities, assigning tasks and responsibilities, asking questions and giving feedback, the teacher should include both girls and boys.

**Financial education:** Teacher and students should know that resources and materials used in teaching and learning activities must not be mismanaged. This issue will also be addressed when introducing the accounting and its main purpose, which can also be helpful in using resources effectively. Students will put in mind that misusing materials is wasting money.

**Inclusive education:** To make teaching and learning process inclusive, the teacher must understand individual differences and consider them when organizing and setting teaching and learning activities. Teacher will use teaching approaches, methods and techniques that cater for students' diversities and encourage them to maximize their full potential in classroom.

**Peace and value education:** Through teaching and learning, the culture of peace and values should be promoted. In group, students learn to share resources and ideas with respect. They also learn to solve their problems in peaceful manner.

**Environmental sustainability:** While teaching, both teacher and students should keep in mind that protecting the environment is everyone's responsibility.

**Genocide studies:** Teacher and students should understand the circumstances leading to the genocide and the remarkable story of recovery and re-establishing national unit. They must comprehend their role in ensuring that genocide never happens again.

#### **1.4. Guidance on the introductory activity:**

- Form groups of three to four students
- Invite students to ready the scenario from student book, share ideas and then answer related questions
- Guide the students' discussions
- Ask students to present their findings
- Supplement students' presentations and link students' answers on the new lesson

#### **Possible answer**

1. The reason of making adjustments is to reflect the real current status of the organization because sometimes it is not possible to keep all accounts up to date all times.
2. At least four types of transactions that may be the cause of the adjustment:
  - Depreciation
  - Prepayments and accruals
  - Provisions for bad and doubtful debts
  - Disposal of non-current assets
3. The difference between adjusted trial balance and unadjusted trial balance:
  - The trial balance is prepared first, whereas adjusted trial balance prepared post-trial balance. The trial balance excludes some entries like accrued expenses, accrued income, prepaid income, prepaid expenses and depreciation, whereas adjusted trial balance includes the same.
  - A trial balance is a list of closing balances of ledger account on a particular point in time. In contrast, adjusted trial balance is a list of general accounts and their balances at a point of time after the adjusting entries have been posted.

## 1.5. List of lessons and lesson development

No	Lesson title	Learning objectives	Number of periods
1	Closing stock	<ul style="list-style-type: none"><li>- Explain the meaning of the closing stock</li><li>- Determine the use of the closing stock</li></ul>	4
2	Bad and doubtful debts	<ul style="list-style-type: none"><li>- Explain the meaning of bad and doubtful debts</li><li>- Provide for bad and doubtful debts</li></ul>	4
3	Prepayments and accruals	<ul style="list-style-type: none"><li>- Explain the meaning of the prepaid income</li><li>- Make journal entries for prepaid income</li><li>- Explain the meaning of the prepaid expenses</li><li>- Make journal entries for prepaid expenses</li><li>- Explain the meaning of the accrued income</li><li>- Make journal entries for accrued income</li><li>- Explain the meaning of the accrued expenses</li><li>- Make journal entries for accrued expenses</li></ul>	6

No	Lesson title	Learning objectives	Number of periods
4	Depreciation for non-current assets	<ul style="list-style-type: none"> <li>- Explain the meaning of the depreciation</li> <li>- Identify the causes of the depreciation</li> <li>- distinguish the reasons for providing for depreciation</li> <li>- determine the methods of charging the depreciation</li> </ul>	8
5	Disposal of non-current asset	<ul style="list-style-type: none"> <li>- explain the meaning of the non-current asset disposal</li> <li>- determine the gain or loss on the non-current disposal</li> </ul>	6
6	Provision for discount allowed	<ul style="list-style-type: none"> <li>- explain the provision for discount allowed</li> <li>- determine the reasons for provision for discount allowed</li> </ul>	6
7	Adjusted trial balance	<ul style="list-style-type: none"> <li>- explain the reason for adjusted trial balance</li> <li>- distinguish the unadjusted trial balance from the adjusted trial balance</li> <li>- prepare the adjusted trial balance</li> </ul>	8
8	Assessment		3
Total number of periods			45



## Lesson 1: Closing stock

### a. Learning objectives

- Explain the meaning of the closing stock
- Determine the use of the closing stock

### b. Teaching resources

Computers (desktop & laptops), projectors, text books, internet, marker pens and chalkboard

### c. Prerequisites/revision/introduction

The purpose of accounting is to provide a means of recording, reporting and interpreting economic data. In order to this, an accounting system must be designed. Among the day-to-day activities, the purchases and sales are major activities in the existence of a trade business. But, sometimes, all goods available for sales are not sold by the end of the accounting period. The precision of that stock is relevant in order to determine the real performance and financial position of the business.

### d. Learning activities

#### Activity 1.1

- Invite student to read individually the question in the student book and work in pairs to share with the classmate.
- Make some pairs to make presentations.
- Provide constructive feedback.

#### Possible answers answers to learning activity 1.1

- a) The accounting terminology for goods not yet sold at reporting date is closing stock.
- b) When determining the cost of goods sold, these unsold goods are subtracted from the goods available for sales.

### e. Application activities 1.1

- Invite students to read, discuss in pairs the application activities in student books;
- Have some pairs to present their findings;
- Ask other pairs to supplement
- Give constructive feedback

### Possible answers

1. The closing stock is defined as the amount of inventory that a business still has on hand at the end of a reporting period. This includes raw materials, work-in-process, and finished goods inventory.
2. In determining the cost of goods sold, it is subtracted from the goods available for sales as under:

Opening stock + Purchases - Closing stock = **Cost of goods sold**

3. Various methods applied in calculating the recorded value of the closing stock are the following:
  - First in, first out method (FIFO)
  - Last in, first out method (LIFO)
  - Weighted average method
4. Answer by yes or no:
  - The opening stock for the next reporting period is the same as the closing stock from the immediately preceding period: **Yes**
  - The closing stock for the next reporting period is the same as the opening stock from the immediately preceding period: **No**
  - The opening stock from the immediately preceding period is the same as the closing stock for the next reporting period: **No**
  - The opening stock for the next reporting period is the same as the opening stock from the immediately preceding period: **No**

## Lesson 2: Bad and doubtful debts

### a. Learning objectives

- Explain the meaning of bad and doubtful debts
- Provide for bad and doubtful debts

### b. Teaching resources

Computers (desktops & laptops), projectors, text books, internet, marker pens and chalkboard

### c. Prerequisites/Revision/Introduction

As known, in large businesses most of transactions are made on credit basis. Due to various reasons, the outstanding amounts in debtor accounts are likely not to be collected fully or partly and then, the book keeper has a task of providing for this unknown liability, otherwise it would be unfair to include these amounts in assets of the business.

### d. Learning activities

- Invite student to read individually the question in the student book and work in pairs to share with the classmate.
- Make some pairs make presentations.
- Provide constructive feedback.

#### Possible answers

a) Two reasons why a debt may be uncollectable:

- Failure to pay despite persistent reminders,
- Death of the debtor,
- Bankruptcy of a debtor,
- Default of a debtor, ...

b) When someone who owes me money informed me that he/she will not pay due to insolvency, I will write him/her off and then provide for bad and doubtful debt.

### e. Application activities 1.2

- Invite students to read, discuss in pairs the application activities in student books;
- Have some pairs to present their findings;
- Ask other pairs to supplement
- Give constructive feedback

#### Possible answers

1. Any two reasons why a debt may be uncollectable

- Failure to pay despite persistent reminders,
- Death of the debtor,
- Bankruptcy of a debtor,
- Default of a debtor, ...

2. When it is confirmed that the customer will not settle his/her account, the supplier will write him/her off and then provide for bad and doubtful debts.
3. The respect steps to adjust the provision for bad and doubtful debts  
Answer:
  - To write off debtors
  - To provide for bad and doubtful debts
4. Bad debts refer to the sum due from the debtors, which remains unrealized, and so they are written off in the company's books of accounts; whereas Doubtful debts refer to the debt, with which there is an uncertainty, as to the degree to which amount will be recovered from the debtor.

## Lesson 3: Prepayments and accruals

### a. Learning objectives

- Explain the meaning of the prepaid income
- Make journal entries for prepaid income
- Explain the meaning of the prepaid expenses
- Make journal entries for prepaid expenses
- Explain the meaning of the accrued income
- Make journal entries for accrued income
- Explain the meaning of the accrued expenses
- Make journal entries for accrued expenses

### b. Teaching resources

Computers (desktops & laptops), projectors, text books, internet, marker pens and chalkboard

### c. Prerequisites/Revision/Introduction

As known, in large businesses most of transactions are made on credit basis, reason why, by the end of the accounting period, some accounts which are not updated due to all unrecorded or inaccurately recorded transactions must be adjusted to show the real performance and picture of the business.

#### d. Learning activities 1.3

- Invite student to read individually the question in the student book and work in pairs to share with the classmate.
- Make some pairs make presentations.
- Provide constructive feedback.

#### Possible answers

Some reasons why expenses or income may be incurred /occurred by the end of the reporting period but remain unpaid or uncollected may include the following:

- The expense or income concerns more than one accounting period,
- It may depend on the agreement between parties.

#### e. Application activities 1.3

- Invite students to read, discuss in pairs the application activities in student books;
- Have some pairs to present their findings;
- Ask other pairs to supplement
- Give constructive feedback

#### Possible answers

1. Distinguish prepaid income from prepaid expenses
  - Prepaid income is amount received and recorded in the firm's cash book and other ledgers but which have not yet been fully earned by the end of the accounting period while
  - Prepaid expenses are payments made during the current period in respect of expenses for the following accounting period.
2. . Accrued expenses are expenses incurred by the end of the present period, but remain unpaid or still owing by the end of the period.
  - Accrued income is income earned in the present accounting period but remains uncollected by the end of the period.
3. Answer by yes or no:
  - Accrued income is a current liability: **no**
  - Accrued expense is a current asset: **no**
  - Prepaid income is a current liability: **yes**
  - Prepaid expense is a current asset: **yes**

To adjust for accrued expenses, debit the amount outstanding to the respective expenses account and credit it to the liability account: **Yes**

## Lesson 4: Depreciation of non-current assets

### a. Learning objectives

- Explain the meaning of the depreciation
- Identify the causes of the depreciation
- distinguish the reasons for providing for depreciation
- determine the methods of charging the depreciation

### b. Teaching resources

Computers (desktops & laptops), projectors, text books, internet, marker pens and chalkboard

### c. Prerequisites/Revision/Introduction

Non-current assets are characterized by generating economic benefits for one or more fiscal periods in the future. These assets decrease their original value progressively due to use, obsolescence, wear and tear, technology, etc

### d. Learning activities

- Invite student to read individually the question in the student book and work in pairs to share with the classmate.
- Make some pairs to make presentations.
- Provide constructive feedback.

### Possible answers

#### Answers to learning activity 1.4

- a) The causes why a fixed asset decreases its value may include the following:
- Use
  - Wear and tear
  - Obsolescence
  - Passage in time
  - Technology,
- b) The decrease in value of an asset is called **depreciation**

### e. Application activities 1.4

- Invite students to read, discuss in pairs the application activities in student books;
- Have some pairs to present their findings;
- Ask other pairs to supplement
- Give constructive feedback

#### Possible answers

1. Depreciation is defined as the decrease in value of an asset. It may be also defined as the loss of value sustained by non-current asset over its lifetime in the business.
2. Some four causes for depreciation:
  - Use
  - Wear and tear
  - Obsolescence
  - Technology
  - Economic factors
  - Passage of time
3. The depreciation methods
  - Straight line method
  - Reducing balance method
  - Sum of years method
  - Unit of production method
4. The remaining book value is (c) **RWF 1,800,000**
5. a) Solve for the depreciation per hour.

Depreciation per hour =  $(FC - SV) / \text{Total number of hours}$

Depreciation per hour =  $(400,000 - 20,000) / 38000$

Depreciation per hour = 10

b) Solve for the depreciation at the end of 2<sup>nd</sup> year.

Depreciation = 10 (6,000)

Depreciation = RWF  
60,000

## Lesson 5: Disposal of non-current asset

### a. Learning objectives

- Explain the meaning of the non-current asset disposal
- Determine the gain or loss on the non-current disposal

### b. Teaching resources

Computers (desktops & laptops), projectors, text books, internet, marker pens and chalkboard

### c. Prerequisites/Revision/Introduction

A business holds a number of non-current assets. As there is no obligation to keep them until the end of their useful life, it is on its behalf to keep them or decide to dispose some of them through different ways.

### d. Learning activities 1.5

- explain the meaning of the non-current asset disposal
- determine the gain or loss on the non-current disposal

#### Possible answers

1. Because the company doesn't use the old machine through to its inadequacy, it may be decided to sell it.
2. In the books of account, the old machine will be eliminated

### e. Application activities 1.5

- Invite students to read, discuss in pairs the application activities in student books;
- Have some pairs to present their findings;
- Ask other pairs to supplement
- Give constructive feedback

#### Possible answers

1. Different ways of disposing an asset:
  - Donation
  - Trading-in
  - damage



2. When the asset has been sold, the asset account must be closed off in order to eliminate it from the books
3. The equality of total debit records and neither total credit records in disposal account means that neither gain nor loss have been made when disposing the non-current asset.
4. Motor van account

a) **Dr** **Motor vehicle account** **Cr**

2004 Jan.1 <sup>st</sup> bank	<u>180,000</u>	2004 dec.31 <sup>st</sup> Bal c/d	<u>180,000</u>
	<u>180,000</u>		<u>180,000</u>
2005 Jan.1 <sup>st</sup> bal.b/d	<u>180,000</u>	2005 dec. 31 <sup>st</sup> bal c/d	<u>180,000</u>
	<u>180,000</u>		<u>180,000</u>
2006 Jan 1 <sup>st</sup> bal b/d	<u>180,000</u>	2006 dec 31 <sup>st</sup> disposal	<u>180,000</u>
	<u>180,000</u>		<u>180,000</u>

b) **Dr** **Provision for depreciation account** **Cr**

2004 dec. 31 <sup>st</sup> bal. c/d	30,000	2004 dec. 31 <sup>st</sup> P&L a/c	30,000
	30,000		30,000
2005 dec.31 <sup>st</sup> bal.c/d	<u>60,000</u>	2005 Jan.1 <sup>st</sup> Bal.b/d	30,000
		2005 dec. 31 <sup>st</sup> P&L	<u>30,000</u>
<u>60,000</u>		<u>60,000</u>	
2006 dec.31 <sup>st</sup> disposal	<u>90,000</u>	2006 Jan.1 <sup>st</sup> bal. b/d	60,000
		2006 Jan.31 <sup>st</sup> P&L	<u>30,000</u>
<u>90,000</u>		<u>90,000</u>	

c) **Disposal account**

**Dr** **Disposal account** **Cr**

2006 dec 31 <sup>st</sup> Motor van	180,000	2006 dec. 31 <sup>st</sup> bank	350,000
Dec 31 <sup>st</sup> P&L a/c	<u>260,000</u>	dec. 31 <sup>st</sup> acc.dep.	<u>90,000</u>
	<u>440,000</u>		<u>440,000</u>

## Lesson 6: provision for discount allowed

### a. Learning objectives

- Explain the provision for discount allowed
- Determine the reasons for provision for discount allowed

### b. Teaching resources

Computers (desktops & laptops), projectors, text books, internet, marker pens and chalkboard

### c. Prerequisites/Revision/Introduction

In a business, the quick cash inflow means more. To stimulate customers to settle their accounts promptly or buy a bulk quantity, the business allows discount to them. For it, it decreases its expected net profit because of being an operating expense.

### d. Learning activities 1.6

- Invite student to read individually the question in the student book and work in pairs to share with the classmate.
- Make some pairs make presentations.
- Provide constructive feedback.

### Possible answers

1. These businesses allow this kind of discount in order to motivate their customers to pay their accounts promptly and the businesses benefit quick cash in.
2. This discount will reduce the expected net profit because of being an operating expense

### e. Application activities

- Invite students to read, discuss in pairs the application activities in student books;
- Have some pairs to present their findings;
- Ask other pairs to supplement
- Give constructive feedback

### Possible answers

1. These businesses allow this kind of discount in order to motivate their customers to pay their accounts promptly and the businesses benefit quick cash in.
2. This discount will reduce the expected net profit because of being an operating expense
3. Answer by true or false:
  - a) Trade Discount is a subtraction from the list price of the goods, allowed by the trader to the customer at an agreed rate. On the contrary, a Cash Discount is a discount allowed to the customer, when he/she makes cash payment of the goods purchased, within the stipulated time

Answer: **true**

- b) Cash discount is allowed on both cash and credit transactions. In contrast, a trade discount is allowed to the customers only on cash payments

Answer: **false**

- a) Trade Discount is provided to increase sales in bulk quantity, while Cash discount is given to the customers to encourage early and prompt payment

Answer: **true**

## Lesson 7: Adjusted trial balance

### a. Learning objectives

- Explain the reason for adjusted trial balance
- Distinguish the unadjusted trial balance from the adjusted trial balance
- Prepare the adjusted trial balance

### b. Teaching resources

Computers (desktops & laptops), projectors, text books, internet, marker pens and chalkboard

### c. Prerequisites/Revision/Introduction

When reporting, the accounting information provided to different users must be accurate in order to give the real performance and financial position of a business. The correct financial statements are drawn up on the basis of adjusted trial balance so as to achieve this objective.

### d. Learning activities

- Invite student to read individually the question in the student book and work in pairs to share with the classmate.
- Make some pairs make presentations.
- Provide constructive feedback.

#### Possible answers

1. Yes, because it includes some unrecorded transactions of the business in order to show the correct performance and picture of the company
2. It helps to ensure that entries are done correctly; if balances entered into financial statements are incorrect, the financial statements themselves will be inaccurate, and the total must be equal.

### e. Application activities

- Invite students to read, discuss in pairs the application activities in student books;
- Have some pairs to present their findings;
- Ask other pairs to supplement
- Give constructive feedback

#### Possible answers

1. Yes, because it includes some unrecorded transactions of the business in order to show the correct performance and picture of the company
2. It helps to ensure that entries are done correctly; if balances entered into financial statements are incorrect, the financial statements themselves will be inaccurate, and the total must be equal.
3. The trial balance is prepared first, whereas adjusted trial balance prepared post-trial balance. The trial balance excludes some entries like accrued expenses, accrued income, prepaid income, prepaid expenses and depreciation, whereas adjusted trial balance includes the same.

A trial balance is a list of closing balances of ledger account on a particular point in time. In contrast, adjusted trial balance is a list of general accounts and their balances at a point of time after the adjusting entries have been posted.

### **a. Summary of the unit**

Regardless of the type of the business or the accounting system used, it is not possible to keep all accounts up to date at all times. At the end of each financial year, some accounts must be updated by adjusting entries. Adjustments or provisions are normally made for bad and doubtful debts, depreciation, prepaid expenses and income, accrued expenses and income, provisions are also made for corporation taxes payable and for appropriations such as payment of dividends or proposed dividends, transfers to reserves etc.

After adjusted entries are recorded and affected accounts in the adjusted trial balance, the accounts will reflect the current status of the organization and financial statements can then be prepared.

### **b. Additional Information**

The content provided in the student's text book has holistically covered the information that a student needs in this unit. However, the teacher should look for more application activities to supplement the ones presented in the main content. This will help students to get the required skills to make journal entries for adjustments and prepare the adjusted trial balance.

### **c. End unit assessment**

#### **Possible Answers to end unit assessment activities**

##### **1. Answer by yes or no:**

- The opening stock for the next reporting period is the same as the closing stock from the immediately preceding period: yes
- The closing stock for the next reporting period is the same as the opening stock from the immediately preceding period: No
- The opening stock from the immediately preceding period is the same as the closing stock for the next reporting period: No
- The opening stock for the next reporting period is the same as the opening stock from the immediately preceding period: No

##### **2.**

- Bad debts refer to the sum due from the debtors, which remains unrealized, and so they are written off in the company's books of accounts;
- Doubtful debts refer to the debt, with which there is an uncertainty, as to the degree to which amount will be recovered from the debtor.

3.
  - Accrued income is a current liability: **No**
  - Accrued expense is a current asset: **No**
  - Prepaid income is a current liability: **Yes**
  - Prepaid expense is a current asset: **Yes**
  - To adjust for accrued expenses, debit the amount outstanding to the respective expenses account and credit it to the liability account: **Yes**
4. The equality of total debit records and neither total credit records in disposal account means that neither gain nor loss have been made when disposing the non-current asset.
5. Different ways of disposing an asset:
  - Donation
  - Trading-in
  - Damage
6. It helps to ensure that entries are done correctly; if balances entered into financial statements are incorrect, the financial statements themselves will be inaccurate, and the total must be equal.

RWF 93,000

7. The amount expected to be realized from the accounts receivable is the balance of account receivable (RWF 100,000) less the balance of allowance for doubtful debts account (RWF 7,000).
8. Depreciation rate:  $1 - \sqrt[n]{\text{scrap value} / \text{cost}} \times 100$

Depreciation rate = 20.25%

#### Depreciation schedule

Year	cost	rate	Ann. depr	Acc. Depr	N.B.V
1(4 months)	15,500,000	20.25%	1,046,250	1,046,250	14,453,750
2	14,453,750	20.25%	2,926,884	3,973,134	11,526,866
3	11,526,866	20.25%	2,334,190	6,307,324	9,192,676
4	9,192,676	20.25%	1,861,517	8,168,841	7,331,159
5	7,331,159	20.25%	1,484,560	9,653,401	5,846,599
6(8 months)	5,846,599	20.25%	789,290	10,442,691	5,057,309

9.

Opening stock.....	150,000
Purchases.....	340,000
Less: Purchases return.....	<u>(70,000)</u>
	270,000
Add: Carriage inwards.....	<u>30,000</u>
Net purchases.....	300,000
Cost of goods available for sale.....	450,000
Less: Closing stock.....	<u>(80,000)</u>
Cost of goods sold.....	370,000

#### d. Additional activities

##### 1.9.1. Remedial activities

1. Distinguish bad debts from doubtful debts

Answer :

- Bad debts refer to the sum due from the debtors, which remains unrealized, and so they are written off in the company's books of accounts;
- Doubtful debts refer to the debt, with which there is an uncertainty, as to the degree to which amount will be recovered from the debtor.

2. Answer by yes or no:

- Accrued income is a current liability: *No*
- Accrued expense is a current asset: *No*
- Prepaid income is a current liability: *Yes*
- Prepaid expense is a current asset: *Yes*
- To adjust for accrued expenses, debit the amount outstanding to the respective expenses account and credit it to the liability account: *Yes*

3. In disposal account, the total debit records must be compared to the total credit records. What is the meaning of the equality of total debit records and credit records in the disposal account?

**Answer:**

The equality of total debit records and credit records in the disposal account means that when disposing the fixed asset, there is no gain nor loss.

4. At the end of the fiscal year, account payable has a balance of RWF 100,000 and allowance for doubtful debts account has a balance of RWF 7,000. The expected net realizable value of the account receivable is:
- a) RWF 7,000
  - b) RWF 93,000
  - c) RWF 100,000
  - d) RWF 107,000

**Answer:**

RWF 93,000

The amount expected to be realized from the accounts receivable is the balance of account receivable (RWF 100,000) less the balance of allowance for doubtful debts account (RWF 7,000).

5. A manufacturing Company Limited acquired a plant of RWF 15,500,000 on 31<sup>st</sup> March 2015 while its accounting period starts on 1<sup>st</sup> January every year. The management administration decided to depreciate the plant using declining balance method in 5 years at the end of which, remaining value of the plant will be RWF 5,000,000

As an accountant of the organization, what is the schedule of depreciation you propose to administration manager?

**Answer:**

Depreciation rate:  $1 - \sqrt[n]{\text{scrap value} / \text{cost}} \times 100$

Depreciation rate = 20.25%

Depreciation schedule



Year	cost	rate	Ann. depr	Acc. deprec	N.B.V
1(9 months)	15,500,000	20.25%	2,354,063	2,354,063	13,145,937
2	13,145,937	20.25%	2,662,052	5,016,115	10,483,885
3	10,483,885	20.25%	2,122,987	7,139,102	8,360,898
4	8,360,898	20.25%	1,693,082	8,832,184	6,667,816
5	6,667,816	20.25%	1,350,233	10,182,147	5,317,853
6(3 months)	5,317,853	20.25%	269,216	10,541,363	5,048,637

### 1.9.2. Consolidation activities

- The book keeper of Mella Enterprise Ltd prepared the following trial balance for the financial year ended 31<sup>st</sup> march 2020:

Particulars	Dr. (RWF)	Cr. (RWF)
Cash	800,000	
Bank	2,500,000	
Debtors	3,000,000	
Stock 1/4/2019	600,000	
Vehicle, cost	7,000,000	
Equipment, cost	5,000,000	
Purchases	4,000,000	
Wages	1,000,000	
Electricity	200,000	
Rent	700,000	
Bad debts	30,000	
Sales returns	50,000	
Sales discounts	60,000	
Drawings	2,060,000	

<b>Particulars</b>	<b>Dr. (RWF)</b>	<b>Cr. (RWF)</b>
Cash	800,000	
Bank	2,500,000	
Debtors	3,000,000	
Stock 1/4/2019	600,000	
Vehicle, cost	7,000,000	
Equipment, cost	5,000,000	
Purchases	4,000,000	
Wages	1,000,000	
Electricity	200,000	
Rent	700,000	
Bad debts	30,000	
Sales returns	50,000	
Sales discounts	60,000	
Drawings	2,060,000	
Creditors		2,000,000
Income taxes payable		3,500,000
Purchases returns		500,000
Discounts received		80,000
Sales		12,000,000
Provision for bad debts 1/4/2017		60,000
Capital		6,860,000
Long term bank loan		<u>2,000,000</u>
	<u>27,000,000</u>	<u>27,000,000</u>

Information for adjustments:

- i) Closing stock at the end of the year was valued at RWF 1,500,000
- ii) Additional provision of 1% of the debtors has to be made against bad debts on 31/3/2020
- iii) Of the rent paid, RWF 100,000 is for the financial year commencing on April 1<sup>st</sup> 2020
- iv) Wages of RWF 300,000 accrued
- v) Motor vehicle is to be depreciated by 20% and equipment by 10% on cost per annum

**Required:**

- a) Provide journal entries for all the adjustments
- b) Prepare Mella's adjusted trial balance

**Possible answer:**

**a. Journal entries for adjustments**

Date	Particulars	Debit	Credit
31/03/2020	Bad debts To prov. for bad debts (Being provision for bad debts)	30,000	30,000
31/03/2020	Prepaid rent To rent (Being rent paid in advance)	100,000	100,000
31/03/2020	Wages To accrued wages (Being accrued wages)	300,000	300,000
31/03/2020	Depreciation expense on vehicle To prov. for dep. on veh. (Being depreciation on vehicle)	1,400,000	1,400,000
31/03/2020	Deprec. expense on equipment To prov for dep.on equip. (Being deprec. for equipment)	500,000	500,000

**b. Adjusted trial balance**

<b>Particulars</b>	<b>Debit</b>	<b>Credit</b>
Sales		12,000,000
Sales returns	50,000	
Stock on 1 <sup>st</sup> April 2019	600,000	
Purchases	4,000,000	
Purchases returns		500,000
Discount received		80,000
Wages	1,300,000	
Electricity	200,000	
Rent	600,000	
Bad debts	60,000	
Sales discount	60,000	
Depreciation on vehicle	1,400,000	
Depreciation on equipment	500,000	
Vehicle	7,000,000	
Equipment	5,000,000	
Debtors	3,000,000	
Prepaid rent	100,000	
Bank	2,500,000	
Cash	800,000	
Creditors		2,000,000
Income tax payable		3,500,000
Accrued wages		300,000
Capital		6,860,000
Drawings	2,060,000	

Particulars	Debit	Credit
Long-term bank loan		2,000,000
Provision for bad debts		90,000
Provision for depreciation on vehicle		1,500,000
Provision for depreciation on equipment		<u>400,000</u>
Total	<u>29,230,000</u>	<u>29,230,000</u>

### 1.9.3. Extended activities

- The following trial balance was extracted from the books of Brian, a sole trader at 31 December 2014

Particulars	Debit RWF '000'	Credit RWF '000'
Capital, 1 <sup>st</sup> January 2014		3,165,620
Purchases	923,600	
Sales		1,968,160
Purchases returns		5,600
Sales returns	16,160	
Discount allowed	18,200	
Discount received		14,080
Wages and salaries	622,000	
Rates	49,000	
Insurance	35,000	
General expenses	81,200	
Trade debtors	368,000	
Trade creditors		322,400
Bank overdraft		80,400
Stock in trade, 1 January 2014	122,000	

Land and buildings at cost	1,700,000	
Plant and machinery at cost	1,230,000	
Motor vehicle at cost	562,000	
Drawings	208,200	
Cash in hand	40,200	
prov. For dep.:		
Motor vehicle		112,400
Plant and machinery		<u>307,500</u>
	<u>5,976,160</u>	<u>5,976,160</u>

**Additional information:**

1. Stock in trade on 31<sup>st</sup> December 2014 amounted to RWF 148,840
2. Rates paid in advance as at 31<sup>st</sup> December 2014 amounted to RWF 7,000
3. Outstanding electricity bill as at 31<sup>st</sup> December 2014 (this included in general expenses) amounted to RWF 3,580
4. Debtors include an irrecoverable amount of RWF 5,600
5. A five per cent provision for doubtful debts is to be made on the recoverable debtors.
6. Depreciation is to be provided on the motor vehicle and plant and machinery at the rates of 20% and 25% respectively on the reducing balance method. No depreciation is to be provided on land and building.
7. Included in the wages and salaries is an amount of RWF 62,000 paid to the domestic workers of Brian.
8. Outstanding wages and salaries as at 31<sup>st</sup> December 2014 amounted to RWF 24,800.

**Required:**

- a) Make journal entries for adjustments
- b) Prepare the adjusted trial balance

**Solution:****a. Journal entries for all adjustments**

2. Dr: prepaid rates:	7,000
Cr: rates:	7,000
3. Dr: General expenses:	3,580
Cr: Accrued electricity:	3,580
4. Dr: bad debts:	5,600
Cr: debtors:	5,600
5. Dr: bad debts:	18,120
Cr: provision for bad debts:	18,120
6. Dr: Depreciation expense on motor vehicle:	89,920
Cr: provision for depreciation on motor vehicle:	89,920
Dr: Depreciation expense on plant and machinery:	230,625
Cr: provision for depreciation on plant and machinery:	230,625
7. Dr: drawings:	62,000
Cr: wages and salaries:	62,000
8. Dr: Wages and salaries:	24,800
Cr: Accrued wages and salaries:	24,800

**b. Adjusted trial balance**

Particulars	Debit	Credit
Sales		1,968,160
Returns inwards	16,160	
Stock	122,000	
Purchases	923,600	
Purchases returns		5,600
Discount received		14,080
Wages and salaries	584,800	

<b>Particulars</b>	<b>Debit</b>	<b>Credit</b>
Rates	42,000	
Prepaid rates	7,000	
Insurance	35,600	
General expenses	84,780	
Accrued electricity		3,580
Discount allowed	18,200	
Bad debts	23,720	
Provision for bad debts		18,120
Provision for depreciation on motor veh.		202,320
Provision for depreciation on plant m.		538,125
Land and buildings	1,700,000	
Plant and machinery	1,230,000	
Motor vehicle	562,000	
Debtors	362,400	
Cash	40,200	
Creditors		322,400
Bank overdraft		80,400
Capital		3,165,620
Drawings	270,200	
Accrued wages and salaries		24,800
Depreciation on motor vehicle	89,920	
Depreciation on plant and machinery	<u>230,625</u>	
<b>Total</b>	<b><u>6,343,205</u></b>	<b>6,343,205</b>



# FINANCIAL STATEMENTS FOR A SOLE TRADER FOLLOWING ADJUSTMENTS

## 2.1. Key Unit competence:

To be able to prepare financial statements of a sole trader following adjustments

## 2.2. Prerequisite (knowledge, skills, attitudes and values)

During this unit, students need to revise some contents studied in previous lessons. The preparation of financial statements in senior 4 unit 10. This unit requires to go back and to read again the preparation of trial balance, and preparation of financial statements without adjustments.

## 2.3. Cross-cutting issues to be addressed

**Note:** The examples below are just to guide you on how to address cross-cutting issues throughout the unit but this does not mean that these are the only ones. You can address and give students opportunities to discuss all the crosscutting issues where possible taking consideration of their environment or community.

1. **Inclusive education:** In addition to all having equal opportunities to study, emphasis has to be put on how we all regardless of our background, economic or social setup have right to timely and properly prepare their financial statements as our needs are the same. Students need to understand that this unit should not discriminate but promote inclusiveness of all...etc.
2. **Financial education:** it makes a strong contribution to the wider aims prepare financial statements. It makes learning relevant to real life situations. Financial education has a key role of not only improving knowledge of personal but also transforming the knowledge of financial Statements into action.
3. Refer to other cross-cutting issues as identified in the curriculum framework.

## 2.4. Guidance on introductory activity

This introductory activity intends to raise students' attention and interest on financial Statements preparation to be prepared by sole proprietors taking into consideration the adjustments.

- Guide students to read the case study from the text book
- Guide them to work in pairs
- Have some pairs make presentations?
- Give constructive feedback and guide towards the lesson (you can use additional simulating questions)

### Possible Answers to introductory activity

- a) Financial statements to be prepared are: Statement of Profit or Loss, Statement of Financial Position and Statement of Cash Flow.
- b) Main components of:  
Statement of Profit or Loss: Trading Account, and Profit  
Statement of Financial Position: assets, liabilities and owner's Equity

## 2.5. List of lessons/sub-heading

Headings		Lesson title/ sub-headings	Learning objectives	Number of periods
		Introductory activity	Raise the students' curiosity	1
	2.1.1.	Determination of Gross Profit (or Gross Loss) after adjustments	Prepare the trading Account after adjustments	7
2.1. Statement of Profit or Loss/ Income Statement	2.1.2.	Determination of net profit (or Loss)	Prepare the profit or Loss Account after adjustments showing the net profit or Loss	7

	2.1.3.	Income statement/ Statement of Profit or Loss in service firms	Prepare Income statement/ Statement of Profit or Loss in service firms	7
2.2. Balance sheet (statement of Financial position)	2.2.1.	Difference between trial balance and Statement of Financial Position	Differentiate trial balance and Statement of Financial Position	3
	2.2.2.	Preparation and presentation of statement of Financial position	Prepare the Statement of financial position after the adjustments	7
	2.2.3.	Prepare the Statement of Financial Position showing working capital and capital employed	Prepare the Statement of Financial Position showing working capital and capital employed	7
2.3. Cash flow statement (statement of cash flow)	2.3.1	Rules of preparing statement of cash flow in Indirect method	Describe different rules to be followed in order to prepare the Statement of Cash Flow in indirect method	3

	2.3.2.	Prepare cash flow Statement/ statement of Cash Flow	Prepare cash flow statement using indirect method	7
2.4. End unit assessment				2

## Lesson 1: Trading, Profit and Loss Account /income statement/ Statement of Profit or Loss

### a. Learning objective

Prepare the trading Account after adjustments

Prepare the profit or Loss Account after adjustments showing the net profit or Loss

Prepare Income statement/ Statement of Profit or Loss in service firms.

The prepared Statement of Profit or Loss will provide the Net profit/Loss to be taken in Statement of Financial Position which will be discussed in lesson 2.

### b. Teaching resources

**Basic materials for a class/ lesson to be conducted:** Students' books, internet, case studies and any other trustworthy and reliable resources to enhance learning.

### c. Prerequisites/Revision/Introduction

Students have the basic knowledge on preparation of income statement without adjustments from senior four, learning unit 10, which will help them to prepare it using adjustments.

### d. Learning activities

#### Activity 2.1

- Facilitate students to form small and manageable groups
- Ask them to read the case study
- Guide them while they are discussing
- Distribute the flip charts and markers
- Ask the group representatives to present their results
- Give the constructive feedback

### Possible Answers

- a) Statement of profit or Loss
- b) Components of income statement: Trading Account and Profit and Loss Account

### Application Activity 2.1

- Help students to form groups accordingly
- Guide them where they do not understand
- Each group should have time to present to their classmates
- Give constructive feedback

### Adjustments:

- a) Closing stock 17,750
- b) Prepaid insurance =1,120
- c) Accrued heating & lighting =12,370 (= 11,010+1,360)
- d) Prepaid rates=5,435
- e) Rent, rates and insurance =25,973-1,120-5,435=19,418
- f) Provision for bad debts=24,500\*3/100=735
- g) Increase in provision for bad debts=735-512=223

### Amandi

#### Income statement for the period ended 30 April 2020

	RWF	RWF	RWF
Sales			259,870
Sales returns			<u>5,624</u>
			254,246
Opening stock		15,654	
Purchases	135,680		
Returns outwards	13,407		
Carriage inwards	<u>11,830</u>		
Net purchases		<u>134,103</u>	
CGAS		149,757	

	RWF	RWF	RWF
Closing stock		<u>17,750</u>	
CGS			<u>132,007</u>
Gross profit			122,239
Discount received			<u>1,750</u>
			123,989
<b>Expenses:</b>			
Discount allowed		2,306	
Carriage outwards		4,562	
Rent, rates and insurance		19,418	
Heating and lighting		12,370	
Postage, stationery and telephone		2,410	
Advertising		5,980	
Salaries and wages		38,521	
Bad debts		2,008	
Depreciation		12,074	
Increase in provision for bad debts		<u>223</u>	<u>99,872</u>
<b>NET PROFIT</b>			<u>24,117</u>

## Lesson 2: Balance sheet (statement of financial position)

### a. Learning objectives

Differentiate trial balance and Statement of Financial Position

Prepare the Statement of financial position after the adjustments

Prepare the Statement of Financial Position showing working capital and capital employed

The prepared Financial Position will be used to prepare the \statement of Cash Flow which will be discussed in Lesson 3.

### **b. Teaching resources**

**Basic materials for a class/ lesson to be conducted:** students' books, internet, case studies and any other trustworthy and reliable resources to enhance learning.

### **c. Prerequisites/Revision/Introduction (Guidance on how to start the lesson)**

As they have studied balance sheet in S4, unit 10, they know the elements of Balance Sheet and its format which will be used to prepare the statement of financial position with adjustments.

### **d. Learning activities**

- Facilitate students to form small and manageable groups
- Ask them to read the case study
- Guide them while they are discussing
- Distribute the flip charts and markers
- Ask the group representatives to present their results
- Give the constructive feedback

### **Possible Answers to learning activity 2.2**

1. the statement of financial position.

### **Application Activity 2.2**

- Request students to form small and manageable groups group
- Distribute the printed application sheets
- Guide students in discussion
- Help them to understand the question
- One of group representatives presents its results and help the whole class to make conclusion.
- Give them a clear and constructive feedback

### Possible Answers to application activity 2.2.

1. The statement of financial position figure is RWF 47,744,000 less the allowance of RWF 3,500,000 i.e. RWF 44,244,000
2. Door Consultancy Balance Sheet as at 31/8/2019

	<b>Cost</b>	<b>Acc. dep.</b>	<b>NBV</b>
	<b>RWF'000'</b>	<b>RWF '000'</b>	<b>RWF'000'</b>
<b>Fixed assets:</b>			
Land	100,000	-	100,000
Furniture and fittings	20,000	4,000	16,000
Motor vehicles	<u>50,000</u>	<u>10,000</u>	<u>40,000</u>
	<u>170,000</u>	<u>14,000</u>	156,000
<b>Current assets:</b>			
Consultancy fees receivable (Debtors) 8,000+3,500)		11,500	
Prepaid office supplies		500	
Cash balance		14,000	
		26,000	
<b>Less: current liabilities:</b>			
Bank balance (overdraft)	5000		
Unearned Consultancy fees(Creditors) (4,000-2,000)	2000		
Loan interest payable (accrued)	3000		
Electricity payable	7000		
Corporation tax payable	28,800		
<b>Net current liabilities</b>		<b>45,800</b>	



	Cost	Acc. dep.	NBV
	RWF'000'	RWF '000'	RWF'000'
NET ASSETS (WORTH)			(19,800)
			<u>136,200</u>
Financed by:			
Capital			40,000
Net profit after tax			67,200
			<b>107,200</b>
Less: Drawings			<u>(1,000)</u>
Owner's equity			106,200
Long-term liabilities:			
3% BK loan			<u>30,000</u>
<b>CAPITAL EMPLOYED</b>			<b><u>136,200</u></b>

### Lesson 3: Cash flow statement / Statement of Cash Flow

#### a. Learning objectives

Describe different rules to be followed in order to prepare the Statement of Cash Flow in indirect method

Prepare statement of cash flow with using indirect method

#### b. Teaching resources

**Basic materials for a class/ lesson to be conducted:** students' books, internet, case studies and any other trustworthy and reliable resources to enhance learning.

### **c. Prerequisites/Revision/Introduction (Guidance on how to start the lesson)**

As they have studied the direct method of a cash flow in senior 4, unit 10, they know to prepare will use the acquired knowledge to prepare an indirect cash flow statement.

### **Learning activities**

#### **Activity 2.3**

- Help students to form small and manageable groups
- Ask them to read the case study
- Guide them while they are discussing
- Distribute the flip charts and markers
- Ask the group representatives to present their results
- Give the constructive feedback

#### **Possible Answers to activity 2.3**

- a) Cash-flow statement.
- b) Cash inflows, cash outflows, net cash position.

#### **Application Activity 2.3**

- Facilitate students to Form small and manageable groups
- Distribute sheets in which questions are written
- Facilitate discussions in pairs
- Provide constructive feedback and deeper explanations

#### **Possible Answers to application activity 2.3**

1. Four uses of Statement of Cash Flow
  - i) To reconcile the opening cash balance to the closing cash balance
  - ii) To show how cash has been utilized in the business within a given accounting period
  - iii) Cash Flow statements shows the sources of cash in the business in terms of inflows
  - iv) It also shows whether the firm is able to meet its obligations when they fall due i.e. the ability to meet its liabilities.
  - v) It is a requirement of the International Financing Reporting Standard

## MARIA

### 2. Cash flow statement as at 30 April 2015

	RWF
Net profit as at 30/4/2015	85,000
Add: depreciation	<u>2,000</u>
	87,000
Increase in stock	(28,000)
Decrease in debtors	5,000
Increase in current liabilities	<u>11,000</u>
Net cash flow from operating activities	75,000
investing activities:	
Acquisition of non-current assets	(28,000)
Financing activities:	
Additional capital introduced	20,000
Increase in Drawings	<u>15,000</u>
Increase in cash and cash equivalent (net cash position)	<u>52,000</u>

### SKILLS LAB

#### Guidance to the lab:

- Facilitate students to Form small and manageable groups in your class.
- Give them clear instruction on what they have to do, by when and how.
- Ask each group to select the representatives (note taker, time keeper, presenter)
- Move around the groups as you provide necessary clarifications and guidance
- Give room for students to present their work
- Give necessary constructive feedback as you conclude the lesson

### **Guidance on the skills lab activity:**

In conducting this skills lab activity, manage the students visiting any neighboring sole proprietorship business and checking its financial statements and where necessary to visit the school library and computer laboratory.

#### **i) Build**

Given that students visit the library,

- Remind students on the expected objective for visit, the library attendance and computer lab attendance.
- Help them to be grouped and remember to mix both boys and girls
- Let each team have the representative
- Ensure they have where to keep necessary notes from the findings
- Distribute questions for their research
- Check their understanding of the assignment
- Remind them that everybody full participation is mandatory.

#### **ii) Practice**

During research on internet, care about the following concerns:

- Guide students on accessing the real financial accounting books
- Ensure that books are available for all
- Respond to any questions for clarification and support accordingly

For the visit, library attendance and computer lab visit, a concept note is needed to describe what has been covered during the class lesson and state what are students and teacher's expectations.

#### **iii) Present**

During the group presentation, the teacher must assess whether the student participation in the skills lab activity was effective by:

- Selecting randomly anyone in all groups to present the report on behalf of team members.
- Allow students to ask question to their fellows.

All team members presenting are expected to contribute to the plenary by answering some questions that the presenter is not covering as well as expected.

#### **iv) Conclusion**

The teacher emphasizes on the objective of the research reminding students that they were expected to understand and express their views on preparation of Financial Statements of a Sole trader after adjustments.

## 2.6. Summary of the unit

This unit describes the main financial statements prepared by sole traders following adjustments which are statement of Profit or Loss aims of ascertaining the financial performance of a business, statement of financial position prepared to ascertain the financial performance of a business organization and statement of cash flow (indirect method) with the aim of knowing the movement of cash in a business.

It provides necessary explanation, worked examples, activities and end unit assessment that will help the teacher to facilitate in teaching this unit.

## 2.7. Additional information for teachers

Because of limited time, the unit does not contain enough exercises. In this regard the teacher is recommended to use additional exercises on preparation of financial statements from different sources such as textbooks from different writers to make the content more understandable. This will help to strengthen the teaching-learning on preparation of financial statements.

## 2.8. End unit assessment

- Distribute assessment sheets to the students
- Give clear and concise instructions
- Invigilate the assessment
- Collect the assessment sheet
- Give clear and concise constructive feedback

### Answers to end unit assessment activities

#### 1. Reasons why profit generated differs from amount of cash flow

1. In generating the profit, accrual concept was the basis while in cash flows accrual concept is not used
2. In determination of profit, provision for expenses is put into consideration but when preparing cash flows there are no provisions for expenses
3. While calculating the profits only revenue expenditure is considered but when preparing cash flows both revenue and capital expenditure are considered.

## 2. Adjustments:

1. Wages:  $1,000,000 + 300,000 = 1,300,000$
2. Rent:  $700,000 - 100,000 = 600,000$
3. Increase in Provision for bad debts:  $3,000,000 * 1/100 = 30,000$
4. Bad debts:  $30,000 + 30,000 = 60,000$
5. Provision for bad debts:  $60,000 + 30,000 = 90,000$
6. Depreciation on vehicle:  $7,000,000 * 20\% = 1,400,000$
7. Depreciation on equipment:  $5,000,000 * 10\% = 500,000$

### Mella Enterprises

#### Income statement for the period ended 31 March 2020

	RWF	RWF	RWF
Sales			12,000,000
Less: Sales returns			<u>50,000</u>
Net sales			11,950,000
Less: Cost of goods sold:			
Opening stock		600,000	
Purchases	4,000,000		
Less: Purchases returns	<u>500,000</u>		
Net purchases		<u>3,500,000</u>	
Cost of goods available for sales		4,100,000	
Closing stock		<u>1,500,000</u>	
Cost of goods sold			<u>2,600,000</u>
Gross profit			9,350,000
Add: miscellaneous revenues:			
Discount received			<u>80,000</u>
			9,430,000

	RWF	RWF	RWF
Less: Operating expenses:			
Wages (see note 1)		1,300,000	
Electricity		200,000	
Rent (see note 2)		600,000	
Bad debts (see note 3)		60,000	
Sales discounts (see note 4)		60,000	
Depreciation			
-vehicle (note 5)		1,400,000	
-Equipment (note 5)		<u>500,000</u>	<u>4,120,000</u>
<b>NET PROFIT</b> (Note 6)			<u>5,310,000</u>

### Mella Enterprises

#### Balance sheet as at 31/3/2020

	Costs "RWF"	Acc. dep. "RWF"	N.B.V. "RWF"
<b>Fixed assets:</b>			
Vehicle	7,000,000	1,400,000	5,600,000
Equipment	<u>5,000,000</u>	<u>500,000</u>	<u>4,500,000</u>
	<u>12,000,000</u>	<u>1,900,000</u>	<u>10,100,000</u>
<b>Current assets:</b>			
Closing stock		1,500,000	
Debtors	3,000,000		
<b>Less:</b> Provision for bad debts (see note 8)	<u>90,000</u>	2,910,000	
Prepaid rent		100,000	

	Costs "RWF"	Acc. dep. "RWF"	N.B.V. "RWF"
Bank		2,500,000	
Cash		<u>800,000</u>	
		7,810,000	
<b>Less: current liabilities:</b>			
Creditors	2,000,000		
Income taxes payable	3,500,000		
Accrued wages	<u>300,000</u>	<u>5,800,000</u>	
<b>Working capital or Net current assets</b>			<u>2,010,000</u>
<b>NET ASSETS</b>			<u>12,110,000</u>
Financed by:			
Capital			6,860,000
Net profit (see note 6)			<u>5,310,000</u>
			12,170,000
Less: Drawings			<u>2,060,000</u>
Owner's equity			10,110,000
Long term liabilities:			
Long-term Bank loan			<u>2,000,000</u>
<b>CAPITAL EMPLOYED</b>			<u>12,110,000</u>



## 2.9. Additional activities

### 2.9.1. Remedial activities

The following balances were part of the trial balance of Claude on 31/12/2012:

Sales .....	18 590	Stock on 1 <sup>st</sup> January 2012:	2 050
Purchases.....	11 170	Rent.....	640
Wages and salaries.....	2 140	Insurance.....	590
Bad debts.....	270	Telephones.....	300
General expenses.....	180		

On 31 December 2012 you ascertain that:

- the rent for four months of 2013, \$ 160 has been paid in 2012
- \$ 290 is owing for wages and salaries
- insurance has been prepaid \$ 190
- stock is valued at \$ 3 910

Draw up trading and profit and loss accounts

#### Answer:

Sales.....		18 590
<b>Less</b> cost of goods sold		
Opening stock.....	2 050	
<b>Add</b> Purchases .....	11 170	
	13 220	
<b>Less</b> Closing stock.....	3 910	<u>9 310</u>
<b>Gross profit</b> .....	.....	<b>9 280</b>
<b>Less</b> Operating expenses		
Rents (640 – 160).....	480	
Wages and salaries (2 140 + 290)	2 430	

Insurance (590 - 190).....	400	
Telephone (300 + 110).....	410	
Bad debts.....	270	
General expenses.....	180	<u>4 170</u>
<b>Net profit</b> .....	.....	<b>5110</b>

### 2.9.2. Consolidation activities

The following trial balance was taken from the books of MM on December 31<sup>st</sup>, 2010

	Debit (RWF)	Credit (RWF)
Purchases and Sales.....	70 000 000	80 000 000
Return.....	1 000 000	1 240 000
Stock on January 1 <sup>st</sup> December 2010.....	20 000 000	.....
Provision for bad debts.....	.....	160 000
Wages and Salaries.....	7 200 000	.....
Carriage outwards.....	200 000	.....
Store fittings.....	8 000 000	.....
Motor Van.....	6 000 000	.....
Debtors and creditors.....	1 960 000	1 400 000
Bad debts.....	40 000	.....
Capital .....	.....	35 800 000
Bank balance.....	600 000	.....
Drawings.....	3 600 000	.....
	<u>118 600 000</u>	<u>118 600 000</u>

Adjustment: 118 600

- a) Closing stock on 31<sup>st</sup> December 2010 is RWF 24 000 000
- b) Accrued wages RWF450 000
- c) Carriage outwards prepaid RWF 20 000
- d) Provision for bad debts to be increased to 10 per cent of debtors
- e) Depreciation on store fittings RWF800 000 and Motor Van RWF1 200 000

Required: i) prepare a trading and profit and loss account

- ii) Present a Balance sheet of MM at the end of the accounting period

**Answer:**

**MM**

**Income statement for the period ended 31 December 2010**

Sales (80 000 000 – 1 000 000).		79 000 000
<b>Less</b> Cost of goods sold		
Opening stock.....	20 000 000	
Add Purchases (70 000 000 – 1 240 000)	<u>68 760 000</u>	
	88 760 000	
Less Closing stock.....	24 000 000	<u>64 760 000</u>
<b>EqualGross profit</b> .....	.....	<b>14 240 000</b>
 <b>Less</b> Operating expenses		
Wages and salaries (7 200 000 + 450 000)	7 650 000	
Carriage outward (200 000 – 20 000).....	180 000	
Bad debts.....	40 000	
Provision for doubtful	36 000	
(1 960 000 x 10% – 160 000)		
Depreciation: * Store fitting.....	800 000	
* Motor Van.....	1 200 000	<u>9 906 000</u>
<b>EqualNet profit</b> .....	.....	<b>5 334 000</b>

## BALANCE SHEET

	COST	DEPREC.	N.B.V		COST
<b><u>Fixed Assets</u></b>				Capital (bal b/d)	35 800 000
Store fittings	8 000 000	800 000	7 200 000	<i>Add</i> Net Profit	<u>4 334 000</u>
Motor van	6 000 000	1 200 000	4 800 000		40 134 000
				<i>Less</i> Drawings	<u>3 600 000</u>
				Capital (bal c/d)	36 534 000
<b><u>Current Assets</u></b>					
Stock (closing)			24 000 000		
Debtors	1 960 000	196 000	1 764 000	<b><u>Current Liabilities</u></b>	
Prepaid expenses			20 000	Creditors	1 400 000
Banks			600 000	Expenses owing	450 000
			<b>38 384 000</b>		<b>384 000</b>

### 2.9.3. Extended activities

The following trial balance was extracted from the books of Brian, a sole trader at 31 December 2014

	RWF '000'	RWF '000'
Capital, 1 January 2014		3,165,620
Purchases	923,600	
Sales		1,968,160
Purchases returns		5,600
Sales returns	16,160	
Discount allowed	18,200	
Discount received		14,080
Wages and salaries	622,000	
Rates	49,000	
Insurance	35,600	
General expenses	81,200	
Trade debtors	368,000	
Trade creditors		322,400
Bank overdraft		80,400
Stock in trade, 1 January 2014	122,000	
Land and buildings at cost	1,700,000	
Plant and machinery at cost	1,230,000	
Motor vehicle at cost	562,000	
Drawings	208,200	
Cash in hand	40,200	
prov. For dep.:		
Motor vehicle		112,400
Plant and machinery	=	<u>307,500</u>
	<u>5,976,160</u>	<u>5,976,160</u>

**Notes:**

1. Stock in trade on 31st December 2014 amounted to RWF 148,840
2. Rates paid in advance as at 31st December 2014 amounted to RWF 7,000
3. Outstanding electricity bill as at 31 December 2014 (this included in general expenses) amounted to RWF 3,580
4. Debtors include an irrecoverable amount of RWF 5,600
5. A five per cent provision for doubtful debts is to be made on the recoverable debtors.
6. Depreciation is to be provided on the motor vehicle and plant and machinery at the rates of 20% and 25% respectively on the reducing balance method. No depreciation is to be provided on land and building.
7. Included in the wages and salaries is an amount of RWF 62,000 paid to the domestic workers of Brian.
8. Outstanding wages and salaries as at 31st December 2014 amounted to RWF 24,800.

**Required:**

- a) A trading, profit and Loss Account for the year ended 31st December 2014
- b) A Statement of Financial Position as at 31 December 2014

**Solution****Workings:**

W1 Wages and salaries =  $622,000 - 62,000 + 24,800 = 584,800$

Accrued wages and salaries = 24,800

W2 provision for bad debts

Debtor b/d                      368,000

Less: bad debts W/O              5,600

362,400

Provision for bad debts =  $362,400 \times 5/100 = 18,120$

W3 depreciation on motor vehicle =  $562,000 - 112,400 = 449,600$

Depreciation =  $449,600 \times 20/100 = 89,920$

W4 depreciation on plant and machinery =  $1,230,000 - 397,500 = 922,500$

Depreciation =  $922,500 \times 25/100 = 230,625$

W5 drawings =  $208,200 + 62,000 = 270,200$

## Brian

### Trading, Profit and Loss account for the year ended 31 December 2014

	RWF	RWF	RWF
Sales			1,968,160
Less: returns inwards			<u>16,160</u>
			1,952,000
Cost of goods sold:			
Opening stock		122,000	
Purchases	923,600		
Returns outwards	<u>(5,600)</u>	<u>918,000</u>	
		1,040,000	
Closing stock		<u>(148,840)</u>	<u>(891,600)</u>
Gross profit			1,060,400
Discount received			<u>14,080</u>
			1,074,480
Expenses:			
Wages and salaries (W1)		584,800	
Rates	49,000		
Less: Prepaid	<u>(7,000)</u>	42,000	
Insurance		35,600	
General expenses	81,200		
Add: accrued electricity	<u>3,580</u>	84,780	
Discount allowed		18,200	
Bad debts W/O		5,600	
Provision for bad debts (W2)		18,120	
Depreciation on Motor vehicles (W3)	89,920		
Plant and machinery (W4)	<u>230,625</u>	<u>320,545</u>	<u>(1,109,645)</u>
Net loss			<u>35,165</u>

## BRIAN

### Balance Sheet as at 31<sup>st</sup> December 2014

	Cost RWF	Acc. Dep. RWF	Net RWF
<b>Non-current assets:</b>			
Land and buildings	1,700,000	-	1,700,000
Plant and machinery	1,230,000	538,125	691,875
Motor vehicles	<u>562,000</u>	<u>202,320</u>	<u>359,680</u>
	<u>3,492,000</u>	<u>740,445</u>	<u>2,751,555</u>
<b>Current assets:</b>			
Stock		148,400	
Prepaid rates		7,000	
Debtors	362,400		
Less: provision for doubtful debts	<u>18,120</u>	344,280	
Cash in hand		<u>40,200</u>	
Total current assets		<u>539,880</u>	
<b>Less: current liabilities:</b>			
Trade creditors		322,400	
Bank overdraft		80,400	
Accrued electricity		3,580	
Accrued wages		24,800	
Total current liabilities		<u>431,180</u>	
Net current assets			<u>108,700</u>
Net worth of assets			<u>2,860,255</u>
<b>Financed by:</b>			
Capital		3,165,620	
Add: Net profit (Loss)		<u>(35,1650)</u>	
		3,130,455	
Drawings		<u>(270,200)</u>	
<b>CAPITAL EMPLOYED</b>			<u>2,860,255</u>



### 3.1. Key Unit competence

To be able to prepare financial statements for a partnership business

### 3.2. Prerequisite (knowledge, skills, attitudes and values)

During this unit, students need to revise some contents studied in previous lessons. The Partnership in senior 4 to unit 1, and to revise some contents studied in formulation of partnership in senior 4 to unit 10 (Financial Accounting).

### 3.3. Cross-cutting issues to be addressed

**Note:** The examples below are just to guide you on how to address cross-cutting issues throughout the unit but this does not mean that these are the only ones. You can address and give students opportunities to discuss all the crosscutting issues where possible taking consideration of their environment or community.

1. **Financial education:** it makes a strong contribution to the wider aims of formulating partnership. It makes learning relevant to real life situations. Financial education has a key role of not only improving knowledge of personal but also transforming the knowledge of putting partnership into action.
2. **Inclusive education:** In addition to all having equal opportunities to study, emphasis has to be put on how we all regardless of our background, economic or social setup have right to study that do not discriminate as our needs are the same. Students need to understand that this unit should not discriminate but promote inclusiveness of all...etc.
3. Refer to other cross-cutting issues as identified in the curriculum framework.

### 3.4. Guidance on introductory activity

This introductory activity intends to arise students' attention meaning of partnership, their agreement, and the account used in partnership.

- Guide students to read the case study from the text book
- Guide them to work in pairs
- Have some pairs make presentations?
- Give constructive feedback and guide towards the lesson (you can use additional simulating questions)

#### Possible Answers to introductory activity

1. A group of individuals who are trading together with the intention of making a profit. This is Partnership.
2. Partnership agreement is a contract between two or more business partners. The partners use the agreement to outline their rights responsibilities and profit and loss distribution. The agreement also sets the general partnership rules.
3. Profit and loss account (income statement); Partnership appropriation account; Partners' capital account, Balance sheet (statement of financial position)

### 3.5. List of lessons/sub-heading

#### Unit 3: Partnership Accounts

Headings		Lesson title/ sub-headings	Learning objectives	Number of periods
		Introductory activity	Arouse the curiosity of students on the content of unit 3.	1
3.1. introduction to partnership	3.1.1.	Meaning of partnership business and related terms	Explain partnership business and related terms.	4

Headings		Lesson title/ sub-headings	Learning objectives	Number of periods
	3.1.2.	partnership agreement	Describe partnership agreement	2
3.2. Introduction to partnership accounts	3.2.1	Meaning of partnership account	Explain partnership account	3
	3.2.2	Accounting entries	Records the transactions related to partners contribution	
3.3 Components of partnership final accounts	3.3.1	Profit and loss account (income statement)	Prepare Profit and Loss Account	4
	3.3.2	Partnership appropriation account	Prepare partnership appropriate account	4
		Partners' current account	Prepare partners' current account	2
	3.3.3	Partners' capital account	Prepare partners' capital account	4
	3.3.4	Balance sheet (statement of financial position)	Prepare Balance Sheet (Statement of Financial Position)	4
End unit assessment				2

## Lesson 1: Introduction to partnership accounts

### a. Learning objective

- Explain partnership business and related terms.
- Describe partnership agreement

### b. Teaching resources

**Basic materials for a class/ lesson to be conducted:** Desks, students' books, internet, flip charts, markers, case studies and any other trustworthy and reliable resources to enhance learning.

### c. Prerequisites/Revision/Introduction

Students have the basic knowledge on partnership business and the important of working as group.

### d. Learning activities

#### Activity 3.1

- Facilitate students to form small and manageable groups
- Ask them to read the case study
- Guide them while they are discussing
- Distribute the flip charts and markers
- Ask the group representatives to present their results
- Give the constructive feedback

#### Possible Answers to activity 3.1

1. A partnership is a group of individuals who are *trading* together (d) with the intention of making profit.
2. The most types of for- profit partnership are:
  - General partnership
  - Limited partnership
  - Limited liability partnership
3. Advantages and disadvantages of partnerships

#### Advantages of partnership

- More capital is raised from bigger membership
- Better skills from a variety of members

- Better decisions can be made compared to sole proprietors
- Partnerships are easy to form compared to limited companies
- Risks are minimal as they are spread across many members.
- Partnerships can easily access credit from financial institutions since lenders find it easier to deal with a group of people than one individual
- Partnerships are easier to form compared to limited companies.

### **Disadvantages of partnerships**

- Profits are reduced as they are shared among many members
- Partners have unlimited liability\_ they have equal sharing when it comes to the liabilities of a partnership
- Delays in decision making compared to sole proprietors
- They are not permanent in nature because the death or retirement of a partner may lead to its dissolution

Business usually depends on active partners and is likely to be affected in case they die

### **Application Activity 3.1**

- Facilitate students to form groups accordingly
- Guide them where they do not understand
- Each group should have time to present to their classmates
- Give constructive feedback

#### **a. Possible Answers to Application Activity 3.1**

A partnership deed usually contains the following;

- Capital to be contributed by each member.
- Names of partners
- Profit and loss sharing ratios
- Salaries paid to partners
- Partners drawing rights and interest on drawings
- Preparation and auditing of books of accounts
- Duties, powers and liabilities of each member.
- Basis of valuation of good will
- Methods of dealing with the death, retirement and insolvency of partners

- Methods of admission of a new partner
- Method of settling the accounts in case of dissolution.

### Where no partnership deed exists

- Profits and losses are shared equally
- There will be no interest on capital
- There will be no interest on drawings
- No payment of salaries to partners
- If a partner gives a loan to the partnership business, he is entitled to 5% interest per annum.

### Types of goodwill:

In accounting, goodwill is classified into:

- Inherent goodwill,
  - Purchased goodwill and
  - Negative goodwill.
- 1. Purchased goodwill** arises from a defined financial transaction and hence its recorded in the financial statement like any other assets in accordance with international financial reporting standard 3 IFRS3-BUSINESS COMBINATION. IFRS3 Provides for immediate write-off of goodwill after acquisition or amortization for a period not exceeding twenty years using straight-line method.
  - 2. Inherent goodwill** on the other hand arises out of normal carrying out of the business activities. It is never recorded in the books because recording it would mean anticipating gains that would only be realized on the sale of the business that may never happen.
  - 3. Negative goodwill** arises when the realizable value of the business sold as a going concern is exceeded by the fair market value realized from individual assets.

## Lesson 2: Introduction to partnership accounts

### a. Learning objectives

Explain partnership account,

Records the transactions related to partners' contribution.

## b. Teaching resources

**Basic materials for a class/ lesson to be conducted:** Desks, students' books, internet, flip charts, markers, case studies and any other trustworthy and reliable resources to enhance learning.

## c. Prerequisites/Revision/Introduction (Guidance on how to start the lesson)

As they have studied Double-Entry in S4, unit 3, they know the elements can be debited and credited and its format.

## d. Learning activities

### Activity 3.2

- Facilitate students to form small groups
- Ask them to read the case study
- Guide them while they are discussing
- Distribute the flip charts and markers
- Ask the group representatives to present their results
- Give the constructive feedback

### Possible Answers to activity 3.2

1. In case of additional capital contributed.

Dr. cash/bank/asset a/c

Cr. Individual partner capital a/c

2. In case of interest on capital

Dr. Interest on capital a/c

Cr. Individual partner's current a/c

3. In case of any drawings

Dr. Individual partner's current a/c

Cr. Cash/bank/asset a/c

4. In case of any interest on drawings

Dr. Individual partner's current a/c

Cr. Interest on drawings

5. Salaries paid to a partner

Dr. Salaries a/c

Cr. Individual partner's current a/c

6. Share of profits by a partner

Dr. Income statement a/c

Cr. Individual partner current a/c

7. Share of loss by a partner

Dr. Individual partner current a/c

Cr. Income statement a/c

### **Application Activity 3.2**

- Request students to form group
- Distribute the printed application sheets
- Guide students in discussion
- Help them to understand the question
- One of group representatives presents its results and help the whole class to make conclusion.
- Give them a clear and constructive feedback

### **Possible Answers to application activity 3.2.**

#### **Types of accounting entries**

They are three primary types of accounting entries, which are noted below:

#### **1. Transaction entry**

A transaction entry is the primary type of business event for which the accountant would create an accounting entry. Examples of accounting transactions are the recordation of an invoice to a customer, an invoice from a supplier, the receipt of cash and the purchase of a fixed asset. This type of accounting entry is used under both the accrual basis and cash basis of accounting.

#### **2. Adjusting entry**

An adjusting entry is a journal entry used at the end of an accounting period to adjust the balances in various general ledger accounts to more closely align the reported results and financial position of a business to meet the requirements of an accounting framework, such as **GAAP** or **IFRS**. This type of accounting entry is used under the accrual basis of accounting.



### 3. Closing entry

A closing entry is a journal entry used at the end of an accounting period to shift the ending balances in all revenue, expense, gain, and loss accounts (known as temporary accounts) into the retained earnings account. Doing so empties out the temporary accounts, so that they can begin accumulating transactional information in the next accounting period.

## Lesson 3: Components of partnership final accounts

### a. Learning objectives

- Prepare Profit and Loss Account
- Prepare partnership appropriate account
- Prepare partners' current account
- Prepare partners' capital account
- Prepare Balance Sheet (Statement of Financial Position)

### b. Teaching resources

**Basic materials for a class/ lesson to be conducted:** Desks, students' books, internet, flip charts, markers, case studies and any other trustworthy and reliable resources to enhance learning.

### c. Prerequisites/Revision/Introduction (Guidance on how to start the lesson)

As they have studied the income statement in senior 4, they know to prepare will use the acquired knowledge to prepare profit and loss account, balance sheet, etc.

### d. Learning activities

#### Activity 3.3

- Facilitate students to form small groups
- Ask them to read the case study
- Guide them while they are discussing
- Distribute the flip charts and markers
- Ask the group representatives to present their results
- Give the constructive feedback

### Possible Answers to activity 3.3

The document can help them to know if they got a profit or loss is: Income statement

### Application Activity 3.3

- Facilitate students to form small and manageable groups
- Distribute sheets in which questions are written
- Facilitate discussions in pairs
- Provide constructive feedback and deeper explanations

### Possible Answers to application activity 3.3

#### Nziza and Mwiza partnership

#### Trading, Profit and Loss appropriation account for the year ended 30 June 2001

Details	FRW'000'	FRW'000'	FRW'000'
Sales			1,236,500
Less: cost of goods sold			
Opening stock		419,790	
Add: purchases		<u>854,160</u>	
		1,273,950	
Less: closing stock		<u>650,000</u>	<u>623,950</u>
Gross Profit			612,550
Add: reduction provision for bad debts			<u>800</u>
			613,350
Less expenses:			
Salaries and wages	189,170		
Add: accrued	<u>1,500</u>		
			190,670

Details	FRW'000'	FRW'000'	FRW'000'
Office expenses	24,160		
Add: accrued	<u>800</u>	24,960	
Carriage outwards		12,880	
Discounts allowed		1,150	
Bad debts		5,030	
Loan interest		40,000	
Depreciation: fixtures	7,700		
Buildings	<u>12,000</u>	<u>19,700</u>	<u>294,390</u>
Net profit			318,960
Add: interest on drawings:			
Nziza		1,500	
Mwiza		<u>1,100</u>	
Less: interest on capital			2,600
Nziza	35,000		
Mwiza	<u>29,500</u>	64,500	
Salary: Nziza		<u>1,500</u>	<u>66,000</u>
			<u>255,560</u>
Balance of profits to be shared			
Nziza 1/2		12,750	
Mwiza 1/2		<u>12,750</u>	<u>255,560</u>

## Nziza and Mwiza partnership

### Balance sheet as at 30 June 2001

Particulars	RWF'000'	RWF'000'	RWF'000'
Non- current assets:			
Buildings	900,000	262,000	638,000
Fixtures	<u>110,000</u>	<u>40,700</u>	<u>69,300</u>
		302,700	707,300
Current assets	1,010,000		
Stock		650,000	
Debtors	162,430		
Less: provision for bad debts	<u>3,200</u>	159,230	
Bank		<u>6,770</u>	
		816,000	
Less current liabilities:			
Creditors	261,500		
Accruals	<u>2,300</u>	<u>263,800</u>	<u>552,200</u>
			<u>1,259,500</u>
Financed by:			
Capital account: Nziza		350,000	
Mwiza		<u>295,000</u>	645,000
Current accounts: Nziza		111,840	
Mwiza		<u>102,660</u>	214,500
Long term liabilities: bank loan			<u>400,000</u>
			<u>1,259,500</u>

## SKILLS LAB

### Guidance to the lab:

By guidance of the teacher, students carry out of visit to nearest partnership business; they observe the interest of working together in terms of raising capital, students also observe how the books of such entity are kept, they ask for previous financial statement in order to know how they shared profits and losses and there after they come up with their presentation on the findings

Students are also encouraged to visit the ICPAR website in order to have sufficient results.

#### i) Build

Given that students visit the ICPAR website,

- Remind students on the expected objective for the computer lab attendance
- Help them to be grouped and remember to mix both boys and girls
- Let each team have the representative
- Ensure they have notebooks where to keep necessary notes from the findings
- Distribute questions for their research
- Check their understanding of the assignment
- Remind them that everybody full participation is mandatory.

#### ii) Practice

During research on internet, care about the following concerns:

- Guide students on accessing the real website
- Ensure that internet is connected for all
- Respond to any questions for clarification and support accordingly

For the internet research and business visit, a concept note is needed to describe what has been covered during the class lesson and state what are students and teacher's expectations.

#### iii) Present

During the group presentation, the teacher must assess whether the student participation in the skills lab activity was effective by:

- Selecting randomly anyone in all groups to present the report on behalf of team members.

- Allow students to ask question to their fellows.

All team members being presenting are expected to contribute to the plenary by answering some questions that the presenter is not covering as well as expected.

#### **iv) Conclusion**

The teacher emphasizes and remind on the objectives of the research. After this discovery, students should be able to prepare financial statements for a partnership business.

### **3.6. Summary of the unit**

This unit describes the partnership as another form of business than sole proprietorship, how it is formed based on the partnership deed, the accounting entries for increasing capital, admission of new partners and the accounting entries when a partner retired. This unit also deals with how partners share profit or loss realized by the entity. Therefore, the knowledge gained by the students at the end of this unit will help them to perform the accounting not only for partnerships but also other forms of business organizations.

### **3.7. Additional information for teachers**

Because of limited time, the unit does not contain enough exercises. In this regard the teacher is recommended to use additional exercises on preparation of partnership accounts from different sources such as textbooks from different writers to make the content more understandable. This will help to strengthen the teaching-learning on partnership.

### **3.8. End unit assessment**

- Distribute assessment sheets to the students
- Give clear and concise instructions
- Invigilate the assessment
- Collect the assessment sheet
- Give clear and concise constructive feedback

## Answers to end unit assessment activities

- Fixed capital accounts are maintained, the capital account records the partner's capital contribution only.

A current account is opened up where partner's dealings with the partnership are recorded e.g. interest on capital, interest on drawings, partner's salaries etc.

Under fluctuating capital balance method, the capital account records, the capital contributions and other partners' dealings with the partnership

e.g. salaries, interest on capital, drawings, interest on drawings, share of profits etc.

Fluctuating capital accounts is a combination of:

- Fixed capital accounts and
- Current accounts

- Partnership Profit & Loss Appropriation account for the year ended 31/12/2006**

	RWF'000'	RWF'000'	
Expenses:		Gross Profit	980,000
Salaries and Wages	38,000	Interest received	20,000
Rent and Rates	150,000		
Electricity	80,000		
Stationery	63,000		
Depreciation on buildings	20,000		
Depreciation on motor van	<u>30,000</u>		
Total expenses	(381,000)		
Net Profit c/d	<u>619,000</u>		
	<b><u>1,000,000</u></b>		<b><u>1,000,000</u></b>
Interest on loan (5%) Opio	100,000	Net Profit b/d	619,000

	RWF'000'	RWF'000'
Share of Profits:		
Okello	173,000	
Opio	173,000	
Ouma	<u>173,000</u>	
	<b><u>619,000</u></b>	<b><u>619,000</u></b>

**b. Partners current account**

Details	Okello	Opio	Ouma	Details	Okello	Opio	Ouma
Drawings	200,000	150,000	120,000	Balance b/d	20,000	60,000	40,000
				Share of profit	173,000	173,000	173,000
				Interest on loan		100,000	
Balance c/d	<u>183,000</u>	<u>93,000</u>		Balance b/d	7,000		
					<u>200,000</u>	<u>333,000</u>	<u>213,000</u>
	<u>200,000</u>	<u>333,000</u>	<u>213,000</u>	Balance b/d	183,000	93,000	
Balance b/d	7,000						



### 3.9. Additional activities

#### List of account balances as at 30 September 2009

Printing, stationery and postage	3,500	
Sales		322,100
Inventory in hand at 1 October 2009	23,000	
Purchases	208,200	
Rent and rates	10,300	
Staff salaries	44,800	
Telephone charges	2,900	
Motor vehicle running costs	5,620	
Discounts allowable	950	
Discount receivable		
Sales returns	2,100	370
Purchases returns		
Carriage inwards	1,700	6,100
Carriage outwards	2,400	
Fixtures and fittings: at cost	26,000	
Accumulated for depreciation		11,200
Motor vehicles: at cost	46,000	
Accumulated for depreciation		25,000
Allowance for doubtful debts		300
Drawings:		
Brick	24,000	
Stone	11,000	
Current account balance at 1 October 2008		
Brick		3,600
Stone		2,400
Capital account balances at 1 October 2008		
Brick		33,000
Stock		17,000
Receivables	9,300	
Payables		8,400
Balance at bank	7,700	
	<b>429,470</b>	<b>429,470</b>

## Brick and Stone.

### Income statement and appropriation account

For the year ended 30 September 2009

	FRW	FRW
Sales		322,100
Returns in		(2,100)
		320,000
Opening inventory	23,000	
Purchases (208,200-1,000)	207,200	
Returns out	(6,100)	
Carriage in	1,700	
Closing inventory	(32,000)	
		<u>(193,800)</u>
Gross profit		126,200
Other Income		
Discounts received		370
		126,570
Expenses		
Telephone charges (2,900+400)	3,300	
Printing and stationery and postage	3,500	
Rent and rates (10,300-600)	9,700	
Heat and light	8,700	
Staff salaries	44,800	
Motor vehicle running expense	5,620	
Discount allowable	950	
Carriage outwards	2,400	
Depreciation on fixtures and fittings	2,600	
Depreciation on motor vehicles	9,200	
Interest on loan (10% x 10,000x3/12)	250	
		<u>(91,020)</u>
Net profit		35,550

	FRW	FRW
Salaries Stone (12,000/12 months' x 6 months)		(6,000)
Residual profit		<u>29,550</u>
Share of profit		
Brick $3\frac{3}{5} \times 29,550$	17,730	
Stone $2\frac{2}{5} \times 29,550$	<u>11,820</u>	
		<u>29,550</u>

Notice the way the appropriation account has been combined with the income statement.

Statement of financial position as at 30 September 2009

	FRW	FRW	FRW
Non-current assets	Cost	Dep'n	Net
Furniture and Fittings	26,000	(13,800)	12,200
Motor Vehicles	46,000	(34,200)	11,800
			<u>24,000</u>
<b>Current Assets</b>			
Inventory		32,000	
Receivables (or accounts receivable)	9,300		
Allowance for bad debts	<u>(300)</u>	9,000	
Prepaid expense		600	
Bank		7,700	
			<u>49,300</u>
			<u>73,300</u>
<b>Capital accounts</b>			
Brick		23,000	
Stone		17,000	
			40,000
<b>Current accounts</b>			

Brick	2,800	
Stone	11,700	
		<u>14,500</u>
		<u>54,500</u>
<b>Noncurrent liabilities</b>		
10% Loan-Brick		10,000
<b>Current liabilities</b>		
Payables	8,400	
Accrued expense	<u>400</u>	
		<u>8,800</u>
		<u>73,300</u>

### 3.9.1. Remedial activities

Mr. Okello and Mr. Kenzo started a business in partnership on 1st January, 2020 without any agreement. Mr. Okello introduced capital of RWF 80,000 and Mr. Kenzo RWF 60,000. On March 1st, 2020 Mr. Okello advanced the amount of RWF 20,000 by way of loan at an interest rate of 3% per annum. The profit for the year ended 31st, December 2020 was amounted to RWF 22,000.

**Required:** Prepare Profit and Loss Appropriation Account at the end of 2020

**Answer:**

**Okello and Kenzo P&L Appropriation A/C for the period ended 31<sup>st</sup> December,2020**

Description	Amount (RWF)	Description	Amount (RWF)
Interest on loan(20,000*3%*10/12)	500	Net Profit b/d	22,000
Profit distribution:			
Okello (21,750/2)	10,750		

Description	Amount (RWF)	Description	Amount (RWF)
Kenzo(21,750/2)	10,750		
<b>Total</b>	<b><u>22,000</u></b>	<b>Total</b>	<b><u>22,000</u></b>

### 3.9.2.Consolidation activities

1. Dudu and Amina are in partnership sharing profits and losses in the ratios of 3:2 respectively. During the year ended 31/12/2005 the net loss was RWF 12,000. The following information was also available:
  - i) Partners drawings were: Dudu RWF4,000 and, Amina RWF 3,000
  - ii) Interest is charged on partner's capital and charged on drawings at 5% p.a.
  - iii) Amina is entitled to a salary of RWF 2,500 p.a
  - iv) The balances of the partner's capital accounts were:
    - Dudu 20,000
    - Amina 10,000

#### Required:

- a) Profit & Loss Appropriation account
- b) Partners fluctuating capital accounts

#### Answer

##### a. Partnership Profit & Loss Appropriation account for the year ended 31/12/2005.

Net loss	12,000	<b>Interest on drawings</b>	
		Dudu	200
		Amina	150
			350
<b>Interest on capital:</b>			
Dudu	1,000		
Amina	<u>500</u>		
	1,500		

Salary(Amina)	<u>2,500</u>	<b>Share of losses:</b>	
		Dudu (3/5)	9,390
		Amina (2/5)	<u>6,260</u>
	<u>16,000</u>		<u>16,000</u>

### b. Partners Fluctuating Capital Accounts

Details	Dudu	Amina	Details	Dudu	Amina
Drawings	4,000	3,000	Balance b/d	20,000	10,000
Interest & Drawings	200	150	Interest on Capital	1,000	500
Share of Losses	9,390	6,260	Salary		2,500
Balance c/d	7,410	3,590			
	<b>21,000</b>	<b>13,000</b>		<b>21,000</b>	<b>13,000</b>
			Balance b/d	<b>7,410</b>	<b>3,590</b>

### i) Extended activities

1. Abby and Lucky are in partnership and the trial balance extracted from their books on 31/12/1998.

#### Trial balances at 31/12/1998

Particulars	FRW '000'DR	FRW '000'CR
Premises	60,000	
Carriage	1,000	
Bad debts	500	
Purchases and Sales	160,000	280,000
Returns	800	
Salaries	14,000	
Rate and Taxes	4,00	

Particulars	FRW '000'DR	FRW '000'CR
Insurance	1,400	
Cash at bank	7,000	
Stock at 1/1/1998	35,000	
Fixtures and Fittings	45,000	
Office expenses	26,000	
Capital: Abby		60,000
Lucky		60,000
Current accounts:		
Abby		1,500
Lucky	1,000	
Drawings: Abby	8,000	
Lucky	9,000	
Debtors and Creditors	80,000	50,000
Provision for bad debts		2,500
Discounts allowed	1,000	
Discount received		
Rent	1,100	800
	<b>454,800</b>	<b>454,800</b>

**Additional information:**

- i) Stock as 31/12/1998                      28,000
- ii) FRW 600 of carriage is for carriage in
- iii) Depreciation on Fixtures at        10%
- iv) Interest is charged on partners 'capitals and drawings
- v) Partners' salaries FRW 5,000 to Abby
- vi) FRW 4,000 of office expenses was accrued
- vii) Residue profits are divided equally
- viii) Provision for bad debts to equal to 10% of debtors.

**Required:** i. Trading profit & Loss Appropriation account.

ii) Balance sheet.

**i) Trading Profit & Loss Appropriation account for the year ended 31/12/1998**

Opening stock	35,000	Sales	280,000
Add: Purchases	160,000	Less: Returns in	<u>800</u>
Less: Return out	<u>600</u>	Net Sales	279,200
Net purchases	159,400		
Add: Carriage in	<u>600</u>		
Cost of goods available for sale	195,000		
Less: Closing stock	<u>28,000</u>		
Cost of Goods sold	167,000		
Gross Profit c/d	<u>112,200</u>		<u>        </u>
	<u>279,200</u>		<u>279,200</u>
Less: Expenses		Gross Profit b/d	112,200
Carriage out	400	Discount received	<u>800</u>
Bad debts	500		
Salaries	14,000		
Rates and Taxes	4,000		
Insurance	1,400		
Office expenses	26,000		
Add: Accrued	<u>4,000</u>		
	30,000		
Discount allowed	1,000		<u>111,400</u>
Rent	1,100		
Depreciation on Fixtures	4,500		<u>        </u>
Increase in provision	<u>5,500</u>		<u>        </u>



Total expenses		62,400		
Net profit	c/d	<u>49,000</u>		
		<u>111,400</u>		
<b>Interest on Capital</b>				
Abby	6,000			
Lucky	<u>6,000</u>	12,000		
Salary(Abby)		5,000		
<b>Share of Profits</b>				
Abby		16,850		
Lucky		16,850		
		<u>50,700</u>		
			Net profit	b/d 49,000
			Interest on drawings	
			Abby	800
			Lucky	<u>900</u>
				1,700
				<u>50,700</u>

**ii) Balance sheet as at 31/12/1998**

<b>Fixed Assets</b>			<b>Capital &amp; Liabilities</b>		
Premises		60,000	<b>Capital accounts</b>		
Fixtures Fittings	45,000		Abby	60,000	
Less: Depreciation	<u>4,500</u>	40,500	Lucky	<u>60,000</u>	120,000
<b>Current assets</b>			<b>Current accounts</b>		
Stock		28,000	Abby	18,550	
Debtors	80,000		Lucky	<u>14,950</u>	33,500
Less: Provision for debts	<u>800</u>	72,000	<b>Current liabilities</b>		
Cash at bank		<u>7,000</u>	Creditors		50,000
		<u>207,500</u>	Accrued office expenses		<u>4,000</u>
					<u>207,500</u>

**Note to additional activities:** The teacher should choose to use further additional activities after evaluating the understanding level of each student in class.

**4.1. Key unit competence:**

To be able to prepare financial statements for non-profit organizations

**4.2. Prerequisite (knowledge, skills, attitudes and values)**

During this unit, students need to revise some contents studied in previous lessons. The preparation of financial statements in senior 4 unit 10. This unit requires to go back and to read again the preparation of trial balance, and preparation of financial statements without adjustments.

**4.3. Cross-cutting issues to be addressed**

**Note:** The examples below are just to guide you on how to address cross-cutting issues throughout the unit but this does not mean that these are the only ones. You can address and give students opportunities to discuss all the crosscutting issues where possible taking consideration of their environment or community.

- 1) Inclusive education:** In addition to all having equal opportunities to study, emphasis has to be put on how we all regardless of our background, economic or social setup have right to timely and properly preparation of financial statements for non-profit organizations students need to understand that this unit should not discriminate but promote inclusiveness of all...etc.
- 2) Financial education:** It makes a strong contribution to the wider aims of preparation financial statements for non-profit organizations. It makes learning relevant to real life situations. Financial education has a key role of not only improving knowledge of personal but also transforming the knowledge of financial Statements into action.
- 3) Peace and value education:** During group activities, the teacher encourages students to respect their peers' opinions.

#### 4.4. Guidance on introductory activity

Guide students to read the case study from the text book

- Guide them to work in pairs
- Have some pairs make presentations?
- Give constructive feedback and guide towards the lesson (you can use additional simulating questions)

#### Possible Answers to introductory activity

1. Receipts and payments account
2. Income and expenditure account
3. Balance sheet

#### 4.5. List of lessons/sub-heading

Headings	Lesson title/sub-headings	Learning objectives	Number of periods
4.1. Introduction to non-profit	1. Types of revenues	Explain format and elements of receipt and payment account for non-profit organizations	2
	2. Capital receipt		2
4.2. Organizations	3. Revenue receipt		1
	4. Types of expenditure		1
	5. Capital expenditure		2
	6. Revenue expenditure		2

4.3. Accounts for non-profit organizations	7. Receipts and payments account	Explain format and elements of income and expenditure account for non-profit organizations	6
	8. Income and expenditure account	Explain format and elements of income and expenditure account for non-profit organizations	6
	9. Balance sheet	Explain format and elements of balance sheet for non-profit organizations	6
End unit assessment			2

## Lesson 1: Introduction to non-profit organizations

### a. Learning objective

Explain format and elements of receipt and payment account for non-profit organizations

**Basic materials for a class/ lesson to be conducted:** Students' books, internet, case studies and any other trustworthy and reliable resources to enhance learning.

### b. Prerequisites/Revision/Introduction

Students have the basic knowledge on preparation of statement of non-profit making organization without **Unit 3:** Financial statements for a sole trader and partners senior five, Learning unit two, which will help them to prepare statement of non-profit organizations

### c. Learning activities

#### Activity 4.1

- Facilitate students to form small and manageable groups
- Ask them to read the case study
- Guide them while they are discussing
- Distribute the flip charts and markers
- Ask the group representatives to present their results
- Give the constructive feedback

#### Possible Answers to learning activity 4.1

The following are their differences;

- In NPOs a cash book is replaced by receipts and payments A/C
- Profit and loss A/c is replaced by income and expenditure A/C
- Capital is replaced by accumulated funds
- Net profit is called excess of income over expenditure
- Net loss is called excess of expenditure

### d. Application Activity 4.1

- Help students to form groups accordingly
- Guide them where they do not understand
- Each group should have time to present to their classmates
- Give constructive feedback

#### Possible Answers to Application Activity 4.1

##### a. Subscription A/c

Income & expenditure a/c	800,000	Bank/Cash	1,000,000
Advance c/f	<u>300,000</u>	Subscription due	<u>1,00,000</u>
	<u>1,100,000</u>		<u>1,100,000</u>

## Lesson 2: Accounting for non-profit making organization

### Learning Activity 4.2

- Facilitate students to form small and manageable groups
- Ask them to read the case study
- Guide them while they are discussing
- Distribute the flip charts and markers
- Ask the group representatives to present their results
- Give the constructive feedback

### Answer to learning Activity 4.2

1. Although this school is a non-profit organization, it has to account for the funds it receives
2. The ministry of Rwanda would monitor the performance of this school by doing regular audits to ensure no mismanagement of funds through the budget implementation.
3. The school is expected to prepare income and expenditure and the balance sheet to ascertain the difference in their performance and the position of the school in terms of the assets and liabilities.
4. Financial performance is monitored to assess the economy, effective and efficiency in non-monitory terms.
5. There is also a need to assess if the school is attaining its mission and progressing as it gives what is expected to its students. This is done by comparing the school with other schools e.g grades of the students in subjects.

## Application Activity 4.2

**Answer:**

### Kigali Arena Social club bar trading account for the year ended 31/12/2021

Bar opening stock	200,000	Bar Sales	1,100,000
Add: Bar purchases	<u>700,000</u>		
<b>Cost of goods for sale</b>	<b>900,00</b>		
<b>Less:</b> Bar Closing stock	300,000		
Cost of goods sold	600,000		
Bar Gross profit	<u>500,000</u>		
	<u>1,100,000</u>		<u>1,100,000</u>

### Kigali Arena Social Club income and expenditure account for the year ended 31/12/2021

<b>Less:</b> Expenses		Bar Gross profit	500,000
Club disco collections	100,000	Subscriptions	1,000,000
Rent	300,000	<b>Add:</b> Outstanding 300,000	1,300,000
<b>Less:</b> prepaid rent	<u>100,000</u> 200,000	Club disco collections	900,000
Ground hire	200,000	Donations	1,200,000
<b>Add:</b> Ground hire due	50,000		
	<u>250,000</u>		
Total expenditure	550,000		
Surplus c/d	<u>3,350,000</u>		<u>3,900,000</u>
	<u>3,900,000</u>	Surplus b/d	3,350,000

Accumulated fund=Asset

<b>Assets:</b> Cash	800,000	
Bar stock	200,000	<u>1,000,000</u>
Thus Accumulated fund=		1,000,000

### Kigali Arena Social Club Balance sheet as at 31/12/2021

<b>Fixed assets</b>		Accumulated fund	1,000,000
Equipments	1,500,000	Add: Surplus	<u>3,350,000</u>
			<b>4,350,000</b>
<b>Current assets</b>		<b>Current liabilities</b>	
Bar stock	300,000	Subscription	200,000
Outstanding Subscription	300,000	Ground hire dues	<u>50,000</u>
Cash	2,400,000		
Prepaid rent	<u>100,000</u>		
	<u>4,600,000</u>		<u>4,600,000</u>

#### 4.6. Summary of the unit

This unit provided explained details on introduction to Non-profit making organizations, their types of revenues and accounts. The knowledge gained from this will contribute to perform the any accounting of the same form of business.

#### 4.7. Additional Information for Teachers

To be successful in this unit, teachers are required not only relay on this book but also to consult other books of financial accounting.

#### 4.8. End unit assessment

What are final accounts for non-profit organizations?

- Receipts and payment account
- Trading and profit and loss account
- Income and expenditure account
- Both a and c

**Answer: D**

From the following receipts and payments account for Gikoba foot ball club and the additional information is provided. Prepare an income and expenditure account for the year ended 31<sup>st</sup> December 2021.



### Receipts and payments Account

	FRW		FRW
Subscriptions	380,000	Wages	72,000
Donations	80,000	Travelling	64,000
		Printing and stationery	25,000
		Purchase of sports equipments	80,000
		Purchase of new desk	10,000
		Rent	40,000
		Insurance	20,000
		General	32,000
		Balance c/d	<u>117,000</u>
	<u>460,000</u>		<u>460,000</u>

#### Additional information on 31 December 2021

- I) The club consists of 200 members paying annual subscription of FRW 2,000 and only 180 members had paid their subscription fully while 10 had paid for 2022.
- II) Wages outstanding amounted to FRW 8,000 insurance prepaid FRW 6,000, stock of unused stationery FRW 2,500.

#### Required:

1. Prepare Income and expenditure statement
2. Extract the balance sheet

#### Answer

##### 1. Income and expenditure statement for Gikoba foot ball club as at 31 December 2021

Subscription	380,000	
Less: in advance	(20,000)	360,000
Add: arrears		40,000
Donations		<u>80,000</u>
		<u>480,000</u>

Less: Expenditures

Wages	72,000		
Add: outstanding	8,000	80,000	
Travelling		64,000	
Printing and stationery	25,000		
Less: stock	(2,500)	22,500	
Rent		40,000	
Insurance	20,000		
Less: prepaid	(6,000)	14,000	
General expenses		32,000	<u>252,500</u>
Surplus income over expenditure			<u>227,000</u>

**2. Balance sheet for Gikoba foot ball Club as at 31 December 2021**

<b>Non-current assets</b>	<b>FRW</b>	<b>FRW</b>
Equipments		80,000
Furniture		<u>10,000</u>
		<u>90,000</u>
<b>Current assets</b>		
Stock of stationery	2,500	
Prepaid insurance	6,000	
Subscription due	40,000	
Cash in hand	<u>117,000</u>	
	<u>165,500</u>	
<b>Less: Current liabilities</b>		
Wages due	8,000	
Subscription in advance	<u>20,000</u>	
Net current assets		137,500

Net worth assets

227,500

Workings

### Subscription

Paid for the year 2021 (180,000x FRW2000) = FRW 360,000

Paid in advance 2022 (10 x FRW 2,000) = FRW 20,000

In arrears 2021 (20 x FRW 2,000) = FRW 40,000

## 4.9. Additional activities

### 4.9.1. Remedial activities

1. Receipts and payments account is a summary of
  - a) Incomes and expenses
  - b) Cash receipts and payments
  - c) Balances of various ledger accounts
  - d) None of the above

**Answer: A**

2. Where, is the specific donation received shown in the final accounts of non-profit organizations?
  - a) Liabilities side of the balances sheet
  - b) Assets side of the balance sheet
  - c) Credit side of the income and expenditure account
  - d) Debit side of income and expenditure

**Answer: C**

3. Match the following;

Non-profit making organizations	Profit making organizations
1. Income and expenditure account	1. 1.Trading and profit and loss Account
2. Surplus of income over expenditure	2. 2.Net profit
3. Deficit of income over expenditure	3. 3.Net loss

### Answer

Non-profit making organizations	Profit making organizations	Answer
Income and expenditure account	1.Trading and profit and loss Account	A=1
Surplus of income over expenditure	2.Net loss	B=3
Deficit of income over expenditure	3.Net profit	C=2

### 4.9.2.. Consolidate activities

1. Which of the following transactions will be recorded in the income and expenditure account?
  - a) Purchase of a fixed asset
  - b) Capital expenditure incurred on a fixed asset
  - c) Profit on a sale of a fixed asset
  - d) Receipts from sale of a fixed asset

### Answer: C

2. Income and expenditure is based on
  - a) Cash accounting
  - b) Accrual accounting
  - c) Both a and b
  - d) Neither a or b

### Answer: B

3. Motto club member charges its members an annual subscription of FRW 20 per member. It accrues for subscription owing at the end of each year and also adjusts for subscription received in advance.

I) On 1 January 2021 18 members had not yet paid their subscriptions for the year 2020.

II) In December 2020, 4 members paid FRW 80 for the year 2021.

III) During the year 2021 it received FRW 420 in cash for subscriptions:

Year	2020	2021	2022
FRW	360	6,920	140

IV) At 31 December 2021, 11 members had not paid their 2021 subscriptions.

### Answer

Dr		Subscriptions		Cr	
<b>2021</b>		FRW		<b>2021</b>	FRW
1 January	Owing b/d	360		1 January	Prepaid b/d 80
31 December		7,220		31 December	Bank 7,420
31 December	Prepaid c/d	<u>140</u>		1 December	owing c/d <u>220</u>
		<u>7,720</u>			<u>7,720</u>
<b>2022</b>				<b>2022</b>	
1 January	Owing b/d	220		1 January	prepaid b/d 140

### 4.9.3. Extended activities

- Advanced rent paid by non-profit organization is
  - An expense
  - A liability
  - An asset
  - Equity

#### Answer: C

- Which of the following is considered as a non-profit organization
  - Audit firm
  - Charitable organization
  - Insurance company
  - Corporation

#### Answer: B

- A summary of the Gasasa Club is shown below. From it, and the additional information, you are to construct an income and expenditure account for the year ended 31 December 2021, and a balance sheet as at that date.

### Cash book

Debit	Cash Book Summary		Credit
	FRW '000		FRW'000
Balance at 1.1.2021	1,440	Purchase of equipment	380
Collections at matches	4,218	Rent for pitch	1,600
Profit on sale of refreshments	5,520	Printing and stationery	104
		Secretary's expenses	220
		Repairs to equipment	210
		Grounds man's wages	6,400
		Miscellaneous expenses	96
		Balance at 31.12.2021	2,168
	11,178		11,178

#### Further information:

- At 1.1.2021 equipment was valued at FRW2,000,000
- Depreciate all equipment 25 per cent for the year 2021
- At 31.12.2021 rent paid in advance was FRW400,000
- At 31.12.2021 there was FRW25,000 owing for printing

## Answer

### Gasasa Club Income and Expenditure Account for the year ending 31 December 2021

	FRW'000	FRW,000
Income Collections at matches		4,218
Collections at matches		5,520
Profit on refreshments		9,738
Less Expenditure:		
Rent for pitch (1,600 – 400)	1,200	
Printing and stationery (104 + 25)	129	
Secretary's expenses	220	
Repairs to equipment	210	
Grounds man's wages	6,400	
Miscellaneous expenses	96	
Depreciation of equipment	476	<u>8,731</u>
Surplus of income over expenditures		1,007

### Balance Sheet as at 31 December 2021

	FRW '000	FRW'000
Equipment	2,380	
Less Depreciation	(476)	1,904
Current assets		
Prepayment	400	
Cash	2,168	
	2,568	
Less Current liabilities		
Expenses owing	(25)	2,543
		<u>4,447</u>
Financed by:		
Accumulated fund		
Balance at 1.1.2021 (2,000 + 1,440)		3,440

	FRW '000	FRW'000
Add Surplus of income over expenditure		1,007
		4,447



**5.1. Key unit competence:**

To be able to prepare accounts for public sector organizations

**5.2. Pre-requisite**

In Senior 4, students have studied how to record transactions in the books of accounts and then how to prepare financial statements of a sole trader. In previous units 1 and 2 also, they have acquired the knowledge on the preparation of financial statements after adjustments. Unit 3 was about accounting for partnerships and unit 4 was for accounting for non-profit organization. Based on the knowledge described above, the students in this unit; will be able to understand the accounting for public sector entities and how to prepare different financial statements for those entities.

**5.3. Cross-cutting issues to be addressed**

**Gender:** The teacher should bear in mind that all student (girls and boys) have equal opportunities and rights to study. When forming group activities, assigning tasks and responsibilities, asking questions, and giving feedback teacher should include both girls and boys.

**Financial education:** Teacher and students should know that resources and materials used in teaching and learning activities must not be mismanaged. This issue will also be addressed when studying techniques of managing different resources especially cash and other assets. Students will learn to make budgets for resources and materials and manage them well. They will put in mind that misusing materials is wasting money.

**Inclusive education:** To make teaching and learning process inclusive, the teacher must understand individual differences and consider them when organizing and setting teaching and learning activities. Teacher will use teaching approaches, methods and techniques that cater for students' diversities and encourage them to maximize their full potential classroom.

**Peace and value education:** through teaching and learning, the culture of peace and values should be promoted. In group, students learn to share resources and ideas with respect. They also learn to solve their problems in peaceful manner.

**Environmental sustainability:** The accounting students should learn and understand that when they work for or conduct the business organization, the environment should be preserved.

**Standardization Culture:** Under this issue, the teacher should help students to understand the importance of standards as a pillar of economic development and in the practices, activities and lifestyle of the citizens. It is intended that the adoption of standardization culture should have an impact upon health improvement, economic growth, industrialization, trade and general welfare of the people.

#### **5.4. Guidance on introductory activity**

- Form groups of four students
- Invite students to read the scenario from student book, share ideas and then answer related questions
- Guide the students' discussions
- Ask students to present their findings
- Supplement students' presentations and link students' answer on the new lesson

#### **Possible answers**

Financial statements for public organizations

Pursuant to Article 107 of the Ministerial Order No. 001/16/10TC of 26/01/2016 relating to financial regulations a complete set of entity financial statements should contain a minimum of the following:

- Statement of financial performance showing revenues and expenditures;
- Statement of appropriation comparing budget against actual out-turn;
- Statement of financial position showing assets and liabilities;
- Statement of cash flows
- Statement of accounting policies applied in preparing and presenting the financial statements;
- Disclosure notes and schedules relevant to enhancing fair presentation of the statements
- Information on subsidiary entities under management and control of the entity

## 5.5 List of lessons/sub-heading

Headings	#	Lesson title/sub-headings	Learning objectives	Number of periods
PFM legal framework		Introductory activity	Arouse the curiosity of students on the content of unit 5	1
	1	Introduction to Public Sector Accounting	Describe public sector accounting	3
	2	Public Finance	Describe public finance	2
	3	PFM legal framework and institution arrangement	Describe PFM legal framework and institution arrangement	3
	4	Accounting policy	Describe accounting policy	3
5.2 Record Government Revenue and Expenditure	1	Government standard chart of accounts	Prepare government standard chart of accounts	2
	2	Purpose of government accounting	Describe the purpose of Government Accounting	2
	3	Source of government finance	Describe source of government finance	3
	4	Role of IFMIS in effective PFM	Describe the role of IFMIS in effective PFM	2
	5	Recording government revenue and expenditure	Record government revenue and expenditure	2

Headings	#	Lesson title/sub-headings	Learning objectives	Number of periods
5.3 Preparation of financial statements for public institutions	1	Statement of financial performance	Prepare statement of performance	2
	2	Statement of financial position	Prepare statement of financial position	2
	3	Cash flow statement	Prepare statement of cash flows	2
	4	Statement of change in net assets	Prepare statement of change in assets	2
	5	Statement of comparison of budget versus actual budget	Prepare statement of comparison of budget versus actual budget	2
5.4 Government budget in accordance with the requirements of IPSAS24	1	Government budgeting	Describe government budgeting	2
	2	International Public Sector Accounting Standards(IPSAS)	Describe International Public Sector Accounting Standards	3
End unit assessment				2

## Lesson 1: PFM legal framework

- Describe public sector accounting
- Describe public finance
- Describe PFM legal framework and institution arrangement

### a. Teaching resources

Internet, Manual of public Financial Management (PFM) policies and Procedures (MINECOFIN)

## b. Prerequisites/Revision/introduction (guidance on how to start the lesson)

Students have learnt accounting for transactions of a sole trader in senior 4 and also they have previously learnt in unit 1 and 2 how to prepare financial statements of a sole trader; unit 3 was about accounting for partnerships and finally unit 4 was for accounting for non-profit organizations. Therefore the competences gained will enable to learn and perform the public sector accounting.

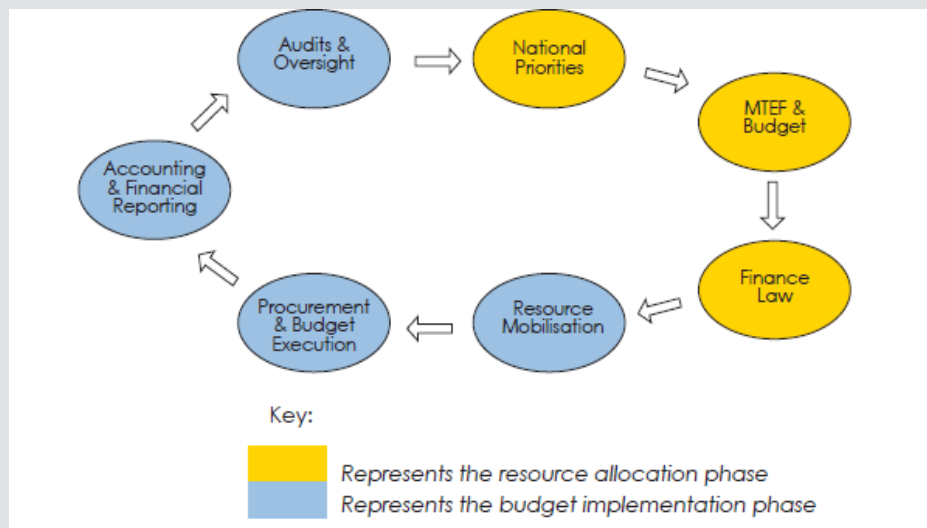
## c. Learning activities

### Activity 5.1

- Put the students in groups ask them to read the scenario in student book.
- Guide students' discussions
- Invite students to share their findings in plenary

### Answers 5.1

#### PFM cycle



### a. Application activities 5.1

- Distribute small sheets of paper on which it is written a scenario;
- Split students into groups
- Invite students to share ideas in groups;
- Ask each group to present findings;
- Provide supplements

## Answers to Application Activity 5.1

### 1. The correct answer is D. This is because monetary policy is not an argument but a tool

A is not correct answer because market failure is one of the arguments that justify government intervention in economies. Market failure means that the operations of the market distort economic outcomes and therefore, some measure of government intervention is required to improve efficiency.

B is not a correct answer since redistribution refers to where governments actively try to move income or wealth from wealthy individuals to those in society who are less well off. This situation describes government intervention

C is not a correct answer since political ideology means the idea of the government. The ideas of the government direct the economy of the country and thus this is a form of government intervention.

### 2. The correct answer is B- Budgets should be approved by the legislature, which should be able to effectively scrutinize government plans

A is not the correct answer since the government's national budget does not run from 30th June to 1st July but rather from 1st July to 30th June

C is not a correct answer because financial reports are not subject to dependent but independent external audit and scrutiny.

D is not a correct answer since there should be both predictability and control in the budget.

### 3. The correct answer is B- All the aspects provided are fundamental aspects of treasury management

A is not a correct answer since it only includes one aspect while all the three aspects provided are fundamental aspects of treasury management

C is not a correct answer because it excludes option (ii) which also a fundamental aspect of treasury management

D is not a correct answer because there is a correct answer among the answers provided which is B.

## Lesson 2: Record Government Revenue and Expenditure

### a. Learning objectives

- Prepare government standard chart of accounts
- Describe the purpose of Government Accounting
- Describe source of government finance
- Describe the role of IFMIS in effective PFM
- Record government revenue and expenditure

### b. Teaching resources

Internet, Manual of public Financial Management (PFM) policies and Procedures (MINECOFIN)

### c. Prerequisites/Revision/Introduction(guidance on how to start the lesson)

The students have acquired the knowledge about recording transactions for different business entities from senior four. That knowledge gotten enables them to understand the recording transactions for public entities.

### d. Learning activities 5.2

#### Activity 5.2

- Invite students to read the questions
- Let them have time to brainstorm the answers
- Let them share information as they sit on chairs
- Ensure that there is no student who does not understand the questions.

#### Answers to activity 5.2

Public entities should at a minimum maintain the following books of accounts in electronic or manual form:

- Cash book
- Petty cash book
- General ledger
- Accounts payable ledger
- Accounts receivable ledger
- The journal

### **e. Application activity 5.2**

- Put students in small groups
- Ask students to read questions and discuss them
- Have each group presentation in plenary
- Provide supplements to students' presentations

### **Answers to Application Activity 5.2**

#### **Cash versus Accruals Accounting**

##### **a. Cash basis**

If applying a cash basis, the police department would report the purchase of the stationary in the year ending December 2013, as the hospital made the payment for the stationary on 3 January

2013.

Under cash accounting, the dates of ordering or receiving the stationary, as well as invoice date, are irrelevant.

##### **b. Modified cash basis, with one month specified period**

The police department paid for the stationary on 3 January 2013, so this would be within the one month specified period. Under such as modified cash basis, the cash payment for the stationary would actually be reported in the financial year ending 31 December 2012.

##### **c. Accruals basis**

Under an accruals basis, the police department would report the stationary purchase as expenditure in the financial year ending 31 December 2012, as the stationary was received and payment owed before the financial year end.

Although the actual payment for the stationary had not been made by 31 December 2012, the amount owing would be included as a current liability in the statement of financial position.

## **Lesson 3: Preparation of financial statements for public institutions**

### **a. Learning objectives**

- Prepare statement of performance Record transactions in sales journal
- Prepare statement of financial position



- Prepare statement of cash flows
- Prepare statement of change in assets
- Prepare statement of comparison of budget versus actual budget

### **b. Teaching resources**

Internet, Manual of public Financial Management (PFM) policies and Procedures (MINECOFIN)

### **c. Prerequisites/Revision/Introduction guidance on how to start the lesson)**

In previous lesson student learnt how to record transactions known by a public entity in different books of accounts. In this lesson, students will know more about preparation of different financial statements of public institutions.

### **d. Learning activities 5.3**

#### **Activity 5.3**

- Let students read question individually.
- Encourage him/her to take time to reflect on it.
- Let the students share with the peers what they think.
- Let them make presentation of their ideas
- Make synthesis and make conclusion considering the purpose of activity.

#### **Answers to activity 5.3**

**Financial statements prepared by any public entity are as follows**

- Statement of performance showing financial performance of the entity
- Statement of financial position showing the assets and liabilities of the entity
- Statement of cash flow that shows inflow and outflow of cash and cash equivalent
- Statement of change in net assets
- Statement of Comparison of Budget and Actual Amounts

### **e. Application activities 5.3**

- Distribute small sheets paper on which it is written activity
- Split students into small groups
- Ask each group to give its solution
- Provide supplements

## Answers to Application Activity 5.3

### Users of Public Sector Financial Statements

The specific users will depend on the public sector entity chosen but some core users and reasons for their information needs may include:

- a) **Lenders** – will ultimately be interested in whether they will receive their loan back, so they will be interested in levels of debt, income and liquidity levels of the public sector entity.
- b) **Service users** – to assess whether the public sector entity is achieving its objectives and will continue to provide services in the future, such as whether it continues to be a going concern and the adequacy of financial reserves.
- c) **Employees** – to gain assurance that the public sector entity will have sufficient cash to pay their salaries (liquidity) and pensions (levels of debt) and will continue to provide jobs (continues to be a going concern).
- d) **Tax payers** – to determine whether the public sector entity is operating economically and efficiently, such as by whether it is making a surplus or deficit.

## Lesson 2: Government budget in accordance with the requirements of IPSAS24

### a. Learning objectives

- Describe government budgeting
- Describe International Public Sector Accounting Standards

### b. Teaching resources

Internet, Manual of public Financial Management (PFM) policies and Procedures (MINECOFIN) July 2019

### c. Prerequisites/Revision/Introduction guidance on how to start the lesson)

In previous lesson, students have learnt how financial statements for a public entity are prepared from recorded events. The package of knowledge gained will contribute to understand and prepare public entity budget based on the requirements of IPSASs governing the preparation of budget of public organizations.

#### d. Learning activities 5.4

##### Activity 5.4

- Let students read question individually.
- Encourage him/her to take time to reflect on it.
- Let the students share with the peers what they think.
- Let them make presentation of their ideas
- Make synthesis and make conclusion considering the purpose of activity.

##### Answers to activity 5.4

- a) The tool is the medium –term Expenditure Framework (MTEF) – the MTEF provide a link between long term policies or strategies and shorter term annual budgeted expenditure, aiming to ensure that expenditure incurred is on areas to address strategic goals.

MTEF is a multi-year budget plan. Most MTEF will cover three or four years and this can vary by country. In Rwanda MTEF covers three years and the first year overlaps with current fiscal budget since both cover the same period. The remaining years are mostly rolled forward with the second year serving as a base for the following year’s fiscal budget.

- b) The objectives of the MTEF are the following :
- Improved macroeconomic balance, especially fiscal discipline
  - Better resource allocation (both inter- and intra –sectoral)
  - Greater budgetary predictability for ministries
  - More efficient use of budgetary monies
  - Greater political accountability for public expenditure outcomes through more legitimate decision-making processes
  - Greater credibility of budgetary decision making

#### e. Application activity 5.4

- Distribute small sheets paper on which it is written activity
- Split students into small groups
- Ask each group to give its solution
- Provide supplements

## Answers to Application Activity 5.4

The **recurrent or revenue budget** refers to the annual budget that covers a single financial year.

The **development or capital budget** refers to the budget that tends to cover several years because expenditure on a development project will usually be over a number of financial years.

The main difference between the recurrent and development budgets comes from the benefit and timing of their respective expenditures.

For instance, recurrent or revenue expenditures relate to everyday running costs or payments on items that will not have a long-term benefit to the organization these include everyday expenses such as staff salaries, office supplies, employees training costs, water and electricity bills, communication costs, etc.

The development or capital expenditures on the other hand, relate to payments on items that will benefit the organization in the long term, usually taken as more than one financial year. These refer to construction of office building, purchase of hospital ambulances, purchase of laboratory equipment, etc.

Though the recurrent and development budgets are presented separately, it is important to note that they should not be isolated as often capital projects will actually have implications on the recurrent budget e.g., if a government builds a district hospital which will be operational in four years' time, from that point in four years' time the recurrent budget must include running costs for doctors and other medical staff, medical supplies, etc. The integration of both budgets is highly important during the budget formulation process.

From items provided in the scenario, laboratory equipment and office building fall under development or capital expenditures while medical staff salaries, electricity bills, training of medical staff and office supplies fall under recurrent or revenue expenditures.

## SKILLS LAB

### Guidance on the skills lab activity

With the teacher, students conduct a research and then carry a visit to nearest Public sector entity. They ask for some books of accounts held by the entity and available financial statements for previous years from the Accountant officer. They observe, and share findings thereafter.

### **i) Build**

Given that students make a research on Accounting for Public Sector

- Remind students on the expected objective Accounting for Public Sector
- Help them to be grouped and remember to mix both boys and girls
- Let each team have the representative
- Ensure they have where to keep necessary notes from the findings
- Distribute questions for their research

### **ii) Practice**

- Guide students on accessing the real materials
- Ensure that books in the library are available for all
- Respond to any questions for clarification and support accordingly

### **iii) Present**

- Choose randomly any two teams to present their findings
- Allow students to ask question to their fellows

### **iv) Conclusion**

The teacher emphasizes on the objective of the research and the visit reminding students that after presentation they should be able to prepare accounts for public sector organizations

## **5.6. Summary of the unit**

This unit provided explained details on Public sector organizations, source of government finance and public expenditure, creating chart of accounts and recording transactions of public entities in the books of accounts preparation of financial statements and budgeting in public organizations based on the requirements of IPSASs.

## **5.7. Additional Information for Teachers**

To be successful in this unit, teachers are required to consult the website of MINECOFIN for update on new policies and procedures adopted in PFM.

## 5.8. End Unit Assessment

### Possible Answers

1. **The correct answer is B because it includes all the benefits of IFMIS given in the question and it excludes (iii) which is not a benefit of IFMIS**

A is not the correct answer because it excludes point (ii) which is also a benefit of using IFMIS

C is not correct because it includes (iii) which is not a benefit of IFMIS

D is not a correct answer because it excludes point (ii) which is a benefit of using IFMIS and includes point (iii) which is not a benefit of IFMIS

2. **The correct answer is D because there is not correct answer from options A to C.**

**The IPSAS that guide the presentation of Property, Plant and Equipment (PPE) is IPSAS 17**

A is not a correct answer because IPSAS 16 deals with Investment property and not PPE

B is not a correct answer because IPSAS 1 deals with presentation of financial statements and not PPE

C is not a correct answer because IPSAS 19 deals with provisions. Contingent liabilities and contingent assets and not PPE

1. There are a range of overall internal controls that can be put in place in relation to the implementation of IFMIS to minimize the risk of going over the budget financially and time wise. These are the following:
  - i) **Change management:** create, maintain, and evaluate changes required throughout the public sector and create a change management strategy as soon as establishing an IFMIS is envisioned.
  - ii) **Ensuring project commitment:** by politicians and management at all levels
  - iii) **Creating legal framework:** Legal guidance on roles and responsibilities of all public entities in relation to IFMIS is helpful

- iv) Solving technical challenges:** Technical appraisal should be undertaken before IFMIS implementation to ensure that resulting IFMIS meets user needs and is able to carry out the required tasks
- v) Capacity building and training:** a comprehensive capacity building program should be established so that staffs are equipped to confidently use the IFMIS. Ongoing training will ensure that IFMIS is sustainable
- vi) Phased approach to implementation:** This is for example implementing one module across all public entities
- vii) Project implementation team and plan:** A project implementation team should be in place to oversee the implementation of IFMIS. The project team should include at least a project manager, accountant, IT specialist, change manager and IT specialist. The plan should include immediate, medium- and long-term tasks and objectives

## 5.9. Additional activities

### 5.9.1. Remedial activities

1. What type of accountability refers to where governments are accountable to the electorate for the authority that has granted to them
  - A. Managerial
  - B. Political
  - C. Authority
  - D. Responsibility
2. Entity X controls entity Y and Z. what term refers to entities X,Y and Z
  - A. Economic entity
  - B. Controlling entity
  - C. Controlled entity
  - D. Consolidated financial statements
3. What is the main reason why public sector entities hold assets
  - A. To generate cash
  - B. To provide services
  - C. To invest for future
  - D. To retain employees

4. Which international Public Accounting Standards (IPSAS) oversees of consolidated financial statements?

- A. IPSAS 1
- B. IPSAS 14
- C. IPSAS 23
- D. IPSAS 35

5. Which of the following would be prepared by a public sector entity using a cash basis?

- i) Statement of financial position
- ii) Statement of financial performance

- A. (i) only
- B. (ii) only
- C. Neither (i) or (ii)
- D. Both (i) and (ii)

6. Briefly explain how a cash accounting basis may be modified.

**Answers:**

1. B Political. Political accountability relates to governments who are accountable to the electorate for the authority that has been granted to them. Managerial accountability refers to managers being held accountable for the responsibilities that have been delegated to them. Authority means having the power or right to make decisions and give orders or directions. Responsibility means having control over something or someone.
2. A Economic entity. An economic entity is a controlling entity (X) and its controlled entities (Y and Z). The consolidated financial statements refer to the actual statements prepared for entities X, Y and Z.
3. B to provide services. The primary objective of public sector entities is to provide services and this is the main reason they hold assets. Sometimes the assets may generate cash or be attractive to employees, and the assets may include investments for the future, but these are not the primary reasons why such assets are held.



4. D IPSAS 35. IPSAS 1 is the Presentation of Financial Statements, IPSAS 14 is for Events after the Reporting Date and IPSAS 23 is Revenue from Non-Exchange Transactions.
5. C neither (i) or (ii). A statement of financial position and statement of financial performance would both be prepared under an accruals basis. A cash basis would only prepare a statement of cash receipts and payments.
6. Pure cash accounting may be modified in a variety of ways and the exact natures of such modifications vary by the country or entity.

One of the most common ways to modify a cash accounting basis is by having a specified period, where the accounts are kept open for a time after the financial year end. For example, there may be one month after year end where cash flows that relate to the previous financial year will be recognized within that financial year. Under pure cash accounting, there would be a strict cut off at year end irrespective of the year to which the transactions related.

Another way the cash basis may be modified is the provision of additional information rather than simply the basic statement of cash receipts and payments. For example, an entity may disclose or prepare a statement of assets and liabilities. This modification provides users with a much fuller picture of the entity rather than simply the cash flows during the year.

### 5.9.2. Consolidation activities

Public sector entities may adopt the use of cash or accrual basis. In Rwanda, as per the current Public Financial Management (PFM) manual, except for subsidiary entities affiliated to decentralized entities, public entities are required to maintain their books on a modified accrual basis of accounting.

- a) As per the current PFM manual explain how the modified cash basis (previously used) differ from modified accrual basis (currently used)
- b) List Five (5) examples of exceptional items that will remain reported on cash basis under the current modified accrual basis
- c) A Rwandan public entity has acquired an item of property, plant, and equipment on 1 May 2020 at a cost of RWF 10,000,000 paying a half on the same date while the other half was paid later in July 2020.

## Required:

Explain how this transaction will be reported for the year ended 30 June 2020 under (i) cash basis and under (ii) full accrual basis.

### Answer:

a) Under the “**modified cash basis**”, the main basis of accounting is cash i.e., for all intents and purposes economic transactions of a reporting entity are measured, recorded, and reported on the basis of cash, with a few exceptions to the general rule, where certain economic events are identified, measured, recorded, and reported on, not strictly on receipt or payment of cash, but are “*accrued*”.

Conversely where the main basis of recognizing, measuring, recording, and reporting on economic events and transactions is the “*accrual basis*” but the reporting entity has allowed a few exceptions to the general rule, for example certain of its expenses and or income are only recognized on cash payment (cash outflow) or receipt of cash (cash inflow), then the basis of accounting is referred to as “**modified accrual basis**”.

**b) examples** of exceptional items that will remain reported on cash basis under the current modified accrual basis are:

- i) Public debts (Principal and interests)
- ii) Inventories
- iii) Non exchange transactions
- iv) Non-Current assets (Tangible and intangible non-current assets)
- v) Investments excluding those directly made by public entities and
- vi) Students’ loans

### C) Cash Basis

The item of property plant and equipment was bought partly cash and partly on credit. So, if we are using cash accounting the only capital expenditure that would be recorded in the year ended 30 June 2020 is RWF 5,000,000 because that is the amount of cash that changed hands.

The fact that the asset cost is RWF 10,000,000 is irrelevant since the cash basis of accounting only considers cash transactions. The crucial point under cash basis of accounting is the point when cash changes hands and in this case on May 1st, 2020, only 5million changed hands.

### Accrual basis:

Under accrual basis, the entity would record the acquisition of PP&E at a cost of RWF 10,000,000 recognizing cash payment of RWF 5,000,000 and a payable of RWF 5,000,000 since the accrual basis unlike cash basis accommodate the liabilities. More to this the entity will have to estimate the useful life and residual value of the PP&E item to calculate the depreciation attributable to the current year assuming for example pro rata basis of depreciation is used.

### 5.9.3. Extended activities

Budget process does not stop once the budget has been approved. Actual results should be compared on a regular basis with the budget results. The frequency with which such comparison is made depends very much on organizational circumstances and the sophistication of its control systems. This process of comparing budget and actual is known as budget monitoring. While preparing budgeting monitoring reports two key features of budget control systems surface and those are virements and profiling.

**a) In relation to budget monitoring, differentiate virements from profiling and give an example for each**

b) Your line manager has given you the following monitoring report showing over/underspent for the three months for July to September 2020 in relation to the relevant expenditure:

	<b>Original budget for the year ending 30 June 2021 (RWF M)</b>	<b>Original Budget for the quarter from July to September 2020 (RWF M)</b>	<b>Actual expenditure for the quarter from July to September 2020 (RWF M)</b>	<b>Variance (RWF M)</b>
Events Management	240	60	120	60
Repairs and maintenance	160	40	80	40
Salary and wages	800	200	400	200

You have also been given the following information:

1. The budget for event management for the year ended 30 June 2021 is RWF 240 million. The entity expected to have only two events during the fiscal year of equal budget with one taking place in the first quarter ending 30 September 2020 and the second in the last quarter ending 30 June 2021
2. The annual budget for repairs and maintenance is RWF 160 million and is payable in four equal installments in July, September, December, and May.
3. The salary and wages budget for the year was budgeted at RWF 800 million and RWF 600 million should be apportioned equally to all months of the year while RWF 200 is salary for casual workers who would all be used in the first quarter ending 30 September 2020

**Required:**

Prepare a revised budget monitoring report for your line manager and provide explanation of any changes made (if any) for each line item,

**Answer**

- a) -Virements are when budgeted funds or monies are moved from one budget heading to another during the budget year. This may be due to one budget heading overspending and another budget heading being under budget so recognize some flexibility in the original budget set.

Example: for example, virements up to a certain value may be permitted (subject to appropriate authorization) within an individual sector but not between sectors, such as from education to health.

-Profiling is how the total annual budget is split across the months to show the timing of the budget spending over the year. This is crucial for budget monitoring since it could determine whether a budget heading shows an overspent or not.

**Example:** For example, if a budget heading has a budget for the year of RWF 24 million, this could reasonably be split across the year as RWF 1 million each month, depending on how the amount is spent, the actual spending can be compared with the budget on a given time basis to identify over/under spending.

	<b>Profiled Budget from the July to September 2020 (RWF M)</b>	<b>Actual expenditure from the July to September 2020 (RWF M)</b>	<b>Variance (RWF M)</b>
Event Management	120	120	0
Repairs and maintenance	80	80	0
Salary and wage	350	400	50

**Explanation for the changes made:**

- i) Event Management:** After Profiling we realize that the budget for event management was related to two events of which one happen in the first quarter ended September 2020. Since the total budget is RWF 240 million, evenly allocating the budget would mislead and so the budget must be allocated on two events i.e., RWF 120 million per each
- ii) Repairs and maintenance:** The original budget for the first quarter had split the repairs and maintenance budget over the four quarters producing RWF 40 million per each quarter. This had not considered the timing of contract payments i.e., in July, September, December and May. Taking the installments into account will mean that two installments of RWF 40 million each are made in in the first quarter ending 30 September 2020 and so the profiled budget becomes RWF 80 million, and actual expenditure is also RWF 80 million leaving a variance of zero instead of RWF 40 million
- iii) Salary and wages:** The original budget for the first quarter had split the overall salary and wages budget over 12 months counting RWF 200 for the first quarter without considering the fact that the salary for the casual workers i.e., RWF 200 million would wholly be spent in the first quarter while the 600 million would be split over 4 quarters i.e., RWF 150 million per each quarter. Profiling thus leaves a variance of RWF 50 million instead of RWF 200 million.

**6.1. Key unit competence:**

To be able to prepare books of accounts for a limited Liability company

**6.2. Pre-requisite**

In previous units 3, 4 and 5, students have studied how to prepare books of accounts for partnerships, non-profit making organization and public entities respectively. In senior four also students have applied accounting for a sole proprietorship. Therefore, based on the package of knowledge gained from those different units covered previously, the students will highly perform the book keeping of limited liability companies.

**6.3. Cross-cutting issues to be addressed**

**Gender:** The teacher should bear in mind that all student (girls and boys) have equal opportunities and rights to study. When forming group activities, assigning tasks and responsibilities, asking questions, and giving feedback teacher should include both girls and boys.

**Financial education:** Teacher and students should know that resources and materials used in teaching and learning activities must not be mismanaged. This issue will also be addressed when studying techniques of managing different resources especially cash and other assets. Students will learn to make budgets for resources and materials and manage them well. They will put in mind that misusing materials is wasting money.

**Inclusive education:** To make teaching and learning process inclusive, the teacher must understand individual differences and consider them when organizing and setting teaching and learning activities. Teacher will use teaching approaches, methods and techniques that cater for students' diversities and encourage them to maximize their full potential classroom.

**Peace and value education:** through teaching and learning, the culture of peace and values should be promoted. In group, students learn to share resources and ideas with respect. They also learn to solve their problems in peaceful manner.

**Environmental sustainability:** The accounting students should learn and understand that when they work for or conduct the business organization, the environment should be preserved.

**Standardization Culture:** Under this issue, the teacher should help students to understand the importance of standards as a pillar of economic development and in the practices, activities and lifestyle of the citizens. It is intended that the adoption of standardization culture should have an impact upon health improvement, economic growth, industrialization, trade and general welfare of the people.

#### 6.4. Guidance on introductory activity

- Form groups of four students
- Invite students to read the scenario from student book, share ideas and then answer related questions
- Guide the students' discussions
- Ask students to present their findings
- Supplement students' presentations and link students' answer on the new lesson

#### Possible answers

On issue of shares, Company open different accounts such as Share Capital, application account, allotment, share premium account etc.

#### 6.5. List of lessons/sub-heading

Headings	Lesson title/sub-headings	Learning objectives	Number of periods
6.1. Introduction to limited liability company	1. Company as corporate legal body	– Explain a limited company	4
	2. Difference between sole trader, partnership and limited liability company	– Describe characteristics of a limited company	4
		– Explain the types of share capital	4

Headings	Lesson title/sub-headings	Learning objectives	Number of periods
	3. Shares and share capital	<ul style="list-style-type: none"> <li>- Differentiate a limited company from a sole trader and partnership</li> <li>- Share</li> <li>- Share capital</li> </ul>	4 4 4
6.2.Accounting and adjustments of shares	1. Stages on issue of shares 2. Issue of shares 3. Over and under subscription 4.Forfeiture and reissue of forfeited shares	<ul style="list-style-type: none"> <li>- Explain all stage on issue of shares</li> <li>- Record journal and ledger entries for shares issued by installment.</li> <li>- Describe over and under subscription</li> <li>- Explain forfeiture and reissue off forfeited shares</li> </ul>	4 4 4 4
End of unit assessment			3

## Lesson 1: Introduction to limited liability Company

### a) Learning objectives

- Explain a limited company
- Describe characteristics of a limited company
- Explain the types of share capital
- Differentiate a limited company from a sole trader and partnership

### b) Teaching resources

Internet, company accounts books, Financial accounting books

### c) Prerequisites/Revision/introduction (guidance on how to start the lesson)

Students have learnt accounting for transactions of a sole trader in senior 4 and also they have previously learnt in unit3,4 and 5 accounting for partnerships, accounting for non-profit making organizations and public sector accounting respectively. Therefore the competences gained will enable to learn and perform the introduction to limited liability accounts.



## **d) Learning activities**

### **Activity 6.1**

- Put the students in groups ask them to read the scenario in student book.
- Guide students' discussions
- Invite students to share their findings in plenary

### **Answers 6.1**

#### **Benefits of Companies:**

- Shareholders enjoy limited liability
- Larger capital is raised through larger membership
- Risk of fraud is minimized because their accounts are audited annually.
- They are more permanent in nature because the death or retirement of a
- Shareholder does not affect the company.
- Companies can easily access funds from financial institutions.
- Companies operate in legal frame work-companies Act.

## **e) Application activities 6.1**

- Distribute small sheets of paper on which it is written a scenario;
- Split students into groups
- Invite students to share ideas in groups;
- Ask each group to present findings;
- Provide supplements

### **Answers to Application Activity 6.1**

1. A Share is a unit of capital to a company.
2. Ordinary shares are shares which does not carry a fixed rate of dividends, their dividend rate is determine by the board of directors and are paid after preference shareholders while preference shares are shares that carry a fixed rate of dividends and they are paid before ordinary shares

## Lesson 2: Accounting and adjustments of shares

### a) Learning objectives

- Explain all stage on issue of shares
- Record journal and ledger entries for shares issued by installment.
- Describe over and under subscription
- Explain forfeiture and reissue off forfeited shares

### b) Teaching resources

Internet, company accounts books, Financial accounting books

### c) Prerequisites/Revision/Introduction (guidance on how to start the lesson)

In previous lesson, students have acquired the knowledge about a limited liability company, its characteristics, types of share capital and its difference from other forms of business. That knowledge gotten enables them the accounting and adjustments of shares.

### d) Learning activities 6.2

#### Activity 6.2

- Invite students to read the questions
- Let them have time to brainstorm the answers
- Let them share information as they sit on chairs
- Ensure that there is no student who does not understand the questions.

#### Answers to activity 6.2

- a) A share issue at par means that the company is only raising the nominal value of the shares and nothing extra.

A share issue at a premium is the most common form of issuing shares. This is when the company sells the shares for a value much higher than the nominal value i.e. a RWF100 share being issued at RWF250. For each share, RWF100 will be credited to share capital and RWF150 to the share premium account.

A share issue at a discount is where shares are issued at a value below the par/nominal value.

2. This statement is largely true as the financial statements are based on historical cost accounting, where we are concerned about the nominal value of the shares as well as the price we paid for them initially.

The only time a company will take the share price into consideration, is when they set the rights price, which is usually lower than the market value of the shares.

### c) Application activity 6.2

- Put students in small groups
- Ask students to read questions and discuss them
- Have each group presentation in plenary
- Provide supplements to students' presentations

### Answers to Application Activity 6.2

1.  $\text{RWF } 5,000,000 \times 125 = \text{RWF } 625,000,000$
2. (i) Authorized share capital =  $500,000 \text{ shares} \times 120 \text{ RWF} = 60,000,000 \text{ RWF}$   
ii) Issued share capital =  $380,000 \text{ shares} \times 120 \text{ RWF} = 45,600,000 \text{ RWF}$   
iii) Called up share capital =  $380,000 \text{ shares} \times 100 \text{ RWF} = 38,000,000 \text{ RWF}$   
iv) Un Called up share capital =  $380,000 \text{ shares} \times 20 \text{ RWF} = 7,600,000 \text{ RWF}$   
v) Paid up share capital =  $380,000 \text{ shares} \times 80 \text{ RWF} = 30,400,000 \text{ RWF}$

## SKILLS LAB

One of the group members will present the records made by the group to the rest of the class.

### Guidance on the skills lab activity

To do this skills lab activity, students can either visit library or request students to make a research on the internet where it is needed.

#### i) Build

Given that students visit the required website,

- Remind students on the expected objective for the computer lab attendance
- Help them to be grouped and remember to mix both boys and girls
- Let each team have the representative
- Ensure they have where to keep necessary notes from the findings
- Distribute questions for their research

## ii) Practice

- Guide students on accessing the real website
- Ensure that internet is connected for all
- Respond to any questions for clarification and support accordingly

## iii) Present

- Choose randomly any two teams to present their findings
- Allow students to ask question to their fellows

## iv) Conclusion

The teacher emphasizes on the objective of the research reminding students at the end of the skills lab activity, they have to be able to prepare books of accounts for a limited Liability company

## 6.6. Summary of the unit

This unit provided explained details on introduction to limited liability company describes the characteristics of a limited liability Company, explains different types of shares and related accounting entries. The knowledge gained will contribute to perform the any accounting for the same form of business.

## 6.7. Additional Information for Teachers

To be successful in this unit, teachers are required to not rely on this book but also to consult other books of company accounting and financial accounting.

## 6.8. End Unit Assessment

### Possible Answers

#### Journal entries in the books of UCT co. ltd

Date	Particulars	Dr	Cr
1 June 2018	Bank A/c To share application A/c (Being the application received for 285,000 shares @20RWF each	5,700,000	5,700,00

Date	Particulars	Dr	Cr
1 July 2018	Share application A/c To Share capital A/c To Share allotment A/c To Bank A/c  (Being share application on 100,000 shares each @20 RWF transferred to share capital on 225,000 shares adjusted towards allotment and on 35,000 Shares refunded)	5,700,000	2,000,000 3,000,00 700,000
1 July	Share allotment A/c To share capital A/c To share premium A/c  (Being share allotment due on 100,000 shares each @70 RWF including a premium of 20 RWF)	7,000,000	5,000,000 2,000,000
1 July 2018	Bank A/c To share allotment A/c  (Being share allotment money received)	4,000,000	4,000,000
1 September	Share on first and final call A/c To share capital A/c  (Being money on share call due on 100,000 shares each @30 RWF)	3,000,000	3,000,00
1 September	Bank A/c To share on first and final A/c  (Being share on first and final call amount received)	3,000,000	3,000,00

## Summary

Category	Number of shares applied	Number of shares allotted	Amount received on the application	Application money required	Adjusted towards allotment	Amount due on allotment	Amount received on the allotment	Refund
A	25,000	25,000	500,000	500,000	-	1750,000	1,750,000	-
B	225,000	75,000	4,500,000	1,500,000	3,000,000	5,250,000	2250,000	225,000
C	35,000	Nil	700,000	-	-	-	-	70,000
<b>Total</b>	<b>285,000</b>	<b>100,000</b>	<b>5,700,000</b>	<b>2,000,000</b>	<b>3,000,000</b>	<b>7,000,000</b>	<b>4,000,000</b>	<b>70,000</b>

## 6.9. Additional activities

### 6.9.1. Remedial activities

1. What are the advantages of a company?

#### Answer

#### Advantages of companies

- Shareholders enjoy limited liability
  - Larger capital is raised through larger membership
  - Risk of fraud is minimized because their accounts are audited annually.
  - They are more permanent in nature because the death or retirement of a shareholder does not affect the company.
  - Companies can easily access funds from financial institutions.
  - Companies operate in legal frame work-companies Act.
2. Ngowa co. ltd has an authorized share capital of RWF 50 m divided into 200,000 ordinary shares of each RWF 250. The directors issued 100,000 shares to the public on the following terms;

50 RWF on application

100 RWF per share on allotment

50 RWF per share on 1<sup>st</sup> call (8th Sept)

50 RWF on 2<sup>nd</sup> and final call (5<sup>th</sup> Oct)

Applications were received for 120,000 shares on 17<sup>th</sup> July and Allotment was made on 3<sup>rd</sup> August on which date excess application money was returned to unsuccessful applicants. All the installments were received on the due dates.

### Required:

Calculate;

- a) Application money
- b) Allotment money
- c) Excess application money
- d) Share capital on the first call
- e) On the second and final call

### Answer:

Application money =  $120,000 \times 50 = 6,000,000$

Allotment money =  $100,000 \times 100 = 10,000,000$

Excess application money =  $20,000 \times 50 = 1,000,000$

Share capital on the first call =  $100,000 \times 50 = 5,000,000$

Share capital on the second and final call =  $100,000 \times 50 = 5,000,000$

### 6.9.2. Consolidation activities

1. Define the following;
  - I) A share
  - II) Share premium
  - III) Nominal value
  - IV) Forfeiture of share
  - V) Authorized shares

### Answer

- I) A share is a unit of capital to a company.
- II) **Share premium:** this is the amount at which the shares are issued at a price above the par value or the nominal value
- III) Nominal value is the value of the share as stated in the memorandum of association
- IV) Forfeiture of share is the cancellation of shares from the shareholder for non-payment
- V) Authorized shares: these are shares that allowed by the company to issue to the public as stated in the memorandum of association of that company.

2. MURT Ltd was incorporated on 1 April 2020. Shares were offered to the public on 9 April on the following terms:

**Ordinary shares**

- RWF 50 per share payable on application
- RWF30 per share payable on allotment
- RWF 40 per share to be called at the discretion of directors

Applications were received for 60,000 ordinary shares. When applications closed on 1 June 2019, the directors allotted 50,000 ordinary shares to the successful applicants and decided to refund excess application money to the unsuccessful applicants. All cash due on allotment was received by 30 June.

On 1 August, the directors resolved to make a first and final call on the ordinary shares due on 1 October.

By 30 October, call money in respect of 6,000 ordinary shares remained unpaid. The directors resolved to forfeit ordinary shares concerned.

The ordinary shares forfeited were reissued on 15 November as fully paid for RWF 100 per share. Expense of reissue amounted to RWF 15,000.

**You are required to prepare:**

- General journal entries to record the above transactions and show the forfeited shares entries

**Answer**

**General journal entries and forfeited shares entries**

MURT Ltd

**General Journal**

Dates	Accounts and explanations	Debit	Credit
2019		RWF	RWF
1-Apr	Bank A/c	3,000,000	
	To Ordinary share application A/c		3,000,000
	Money received on applications for 60,000 ordinary shares @ 50 per shares		



<b>Dates</b>	<b>Accounts and explanations</b>	<b>Debit</b>	<b>Credit</b>
<b>2019</b>		<b>RWF</b>	<b>RWF</b>
<i>1-Apr</i>	Ordinary share application A/c To Ordinary share capital Transfer of application money to share capital as per allotment resolution, 50,000 ordinary shares	2,500,000	2,500,000
<i>1-Apr</i>	Ordinary share application A/c To Bank Refund of excess application money to unsuccessful applicants 10,000 ordinary shares @50	500,000	500,000
	Ordinary share allotment A/c To Ordinary share capital A/c Amount due on allotment	1,500,000	1,500,000
<i>30 - Apr</i>	Bank To Ordinary share allotment A/c (Receipt of money due on allotment)	1,500,000	1,500,000
<i>1-Jun</i>	Ordinary share first and final call A/c Ordinary share capital A/c Money due on first and final call for 50,000 ordinary shares	2,000,000	2,000,000

<b>Dates</b>	<b>Accounts and explanations</b>	<b>Debit</b>	<b>Credit</b>
<b>2019</b>		<b>RWF</b>	<b>RWF</b>
30-Sep	Dr Bank A/c Cr Ordinary Share First and Final Call A/c Money received on First and final call for 50,000-6,000 ordinary shares @40 each	1,760,000	1,760,000
30-Sep	Ordinary share capital A/c To Ordinary share first and final call A/c To Forfeited shares A/c Forfeiture of 6,000 ordinary shares held by .... called to RWF120	720,000	240,000 480,000
15 Oct	Bank Forfeited shares account To Ordinary share capital Reissue of forfeited shares to .....	600,000 120,000	720,000
15 Oct	Forfeited shares account To Bank Expenses of reissue	15,000	15,000
15 Oct	Forfeited shares account To Capital reserve account Profit from reissue of forfeited shares transferred to capital reserve	345,000	345,000

### 6.9.3. Extended activities

1. Give five reasons to why it is important to form companies?

**Answer:**

1. Companies protect shareholders against personal liabilities. This is because shareholders have limited liability.
  2. Company are the source of revenue to the government as they pay taxes e.g corporate tax
  3. Companies are permanent in nature as compared to partnerships and sole trading
  4. Companies leads to increase in sales and more profits
  5. Companies increase possibilities of raising funds by the shareholders in form of dividends
2. TURU Ltd issued 10,000 shares of RWF10 each for a premium of RWF2, payable as RWF 3 on application, RWF 5 upon allocation (including premium), RWF 2.50 upon first call, and the remaining RWF on final call.

Except for Mugabo, who owned 500 shares, who failed to pay allotment money as well as both calls, and Muntu, who had 1,000 shares, who failed to pay both calls money, all the shares were subscribed, and all the money was lawfully received. Mugabo and Muntu's shares were given up.

Muntu's shares were reissued for RWF 4 full paid up, while the forfeited shares of Mugabo were reissued for RWF 7 fully paid up. Prepare journal entries in the books of the company.

## Answer

### Journal entries in the Books of TURU ltd.

Date	Particulars	Dr	Cr
	Bank A/C	30,000	
	To share application A/C ( Being application money received on 10,000 shares each at RWF 3 per share)		30,000
	Share application A/c To share application A/C (Being application money transferred to share capital)	30,000	30,000
	Share allotment A/C To share capital A/C To share premium A/C (Being allotment money due on 10,000 shares at RWF per share)	50,000	30,000 20,000
	Bank A/C Share allotment A/C (Being first call money received on 9,500 shares at RWF 2.5 each)	47,500	47,500
	Share first call A/C To share capital A/C (Being first call due on 10,000 shares at RWF 2.5 each)	25,500	25,000
	Bank A/C To share first call A/C (Being first call money received on 8,500 shares at RWF 2.5 each)	21,500	21,500

Date	Particulars	Dr	Cr
	Share Final call A/C To share capital A/C (Being final call money due on 10,000 shares each at RWF 2.5)	15,000	15,000
	Bank A/C To share final call A/C (Being the final call money received on 8,500 shares each at RWF 1.5)	12,750	12,750
	Share capital /C (1,500×2) Share premium A/C (500×2) To share allotment A/C To share first call A/C To share final call A/C <b>To share forfeiture A/C</b> (Being 1,500 shares forfeited for non-payment of allotment and calls money)	15,000 10,000	2,500 3,750 2,250 <b>7,500</b>
	Bank A/C (500×7+1,000×5) Share forfeiture A/C(1,500+5,000) To share capital A/C (1,500×10) (Being 1,500 shares of Mugabo and Muntu re-issued)	8,500 6,500	15,000
	Share forfeiture A/C To capital reserve (Being gain on forfeited share transferred to capital reserve)	<b>1,000</b>	<b>1,000</b>

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