# ICT IN ACCOUNTING

## ACCOUNTING PROFESSION OPTION

for Rwandan Schools

## Senior

**5**

Kigali 2023

# FOREWORD

Dear Student,

Rwanda Basic Education Board (REB) is honoured to present Senior 5 ICT in 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 ICT in 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 in accounting system.

For efficient 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 8 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 ICT in Accounting systems concepts that are connected to real world problems more specially to 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 ICT in Accounting systems, 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 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.**

# ACKNOWLEDGEMENT

I wish to express my appreciation to the people who played a major role in the development of this ICT in Accounting book for Senior 5 students in Accounting Profession Option. It would not have been successful without active participation of different education stakeholders.

I owe gratitude to different universities and schools in Rwanda that allowed their staff to work with REB in the in-house textbooks production initiative.

I wish to extend my sincere gratitude to Universities Lecturers, Secondary schools teachers and staff from different education partners whose efforts during writing exercise of this book were very much valuable.

Finally, my word of gratitude goes to the Rwanda Basic Education Board staff who were involved in the whole process of in-house textbook elaboration.

**Joan MURUNGI**
**Head of CTLR Department**

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# Unit 1 INTRODUCTION TO ACCOUNTING SOFTWARE

**Key Competences of the Unit:** Identify and classify the accounting software

### Introductory activity

Companies are adopting innovative enterprise solutions to help them stay ahead of their competitors. Nevertheless, many still rely on spreadsheets to perform vital financial functions. It is not a promising way for companies to remain relevant in this new digital economy.

1. Why does your company need accounting software?

2. What type of accounting software that you can recommend to your company?

Accounting software is a computer program that maintains account books on computers, including recording transactions and account balances. Accounting software describes a type of application software that records and processes accounting transactions within functional modules such as accounts payable, accounts receivable, payroll, and trial balance. It functions as an accounting information system. The software program records and processes business transactions and keep them in well-designed database.

Software that records and processes accounting transactions within functional modules such as accounts payable, accounts receivable, payroll, and trial balance. It functions as an accounting information system. The software program records and processes business transactions and keep them in well-designed database.

## 1.1. Classification of accounting software

### Learning Activity 1.1

1. What are the classes of accounting software?

Accounting software is used to collect information about and report on the financial viability of the business. This software is critical to the proper administration of an organization. Businesses whether large or small, decide the type of accounting software depending on the type and the circumstances under which each type would be used.

The accounting software is classified into the following four categories:

### a) Spreadsheets

To help with bookkeeping, businesses often use Spreadsheet programs such as Microsoft Excel or Google Spreadsheets. It can be used to almost any basic accounting need. For example, it can be used to list expenses, sales or other relevant financial data, and even to handle more advanced accounting functions. Generally, only a very simple business should rely solely on Spreadsheets to handle accounting; for most others, spreadsheets usually complement other accounting processes.

### b) Commercial Accounting Software

Commercial accounting software such as QuickBooks or Peachtree can handle most, if not all, of a small- to mid-size business's accounting needs. Accounting software work with almost any business, and allow to create customized functions to fit a commercial entity's specific needs.

### c) Enterprise Accounting Software

Larger companies may have enormously complex operations, and enterprise accounting software helps in managing this complexity. Accounting software for larger enterprises often integrates accounting with other services provided by the software, such as workflow management, business intelligence and project planning.

### d) Custom Accounting Software

Sometimes, a business creates its own accounting software. In that case, the software is called custom accounting software. Most popular accounting software are QuickBooks, Sage line (50, 100,200, 1000), Tally, Sage Pastel, Best books, Cash flow manager, Xero, Fresh books, SAP and Account Mate.

**Application activity 1.1**

1) Give an example of an Enterprise Accounting software and explain what such a software can do

## 1.2. Types of application software and examples

1) What do you understand by accounting software?

2) Identify any 3 types of accounting software used in computerized accounting and give at least two examples per each?

An application program (software application, or application, or app for short) is **a computer program designed to carry out a specific task other than one relating to the operation of the computer itself, typically to be used by end-users**. Word processors, media players, and accounting software are examples.

The following are the main types of application software:

a. Word Processing Software: Google Docs, Microsoft Word, WordPad and Notepad

b. Database Software: MySQL, Microsoft SQL Server, Microsoft Access, Oracle, IBM DB2 and FoxPro

c. Spreadsheet Software: Google Sheets, Apple Numbers and Microsoft Excel

d. Multimedia Software: Media Player, Winamp, QuickTime and VLC Media Player

e. Presentation Software: Google Slides, Microsoft Powerpoint, Keynotes, Prezzy

f. Enterprise Software: customer relationship management (CRM) software (HubSpot, Microsoft Dynamic 365)), project management tools (Jira, Monday), marketing automation tools (Marketo, HubSpot), enterprise resource planning (ERP) software (SAGE, Oracle, Microsoft Dynamics), treasury management system (TMS) software (SAP S/4HANA Finance, Oracle Treasury), business intelligence (BI) software (SAP Business Intelligence, MicroStrategy, Microsoft Power BI)

g. Information Worker Software: Documentation tools, resource management tools

h. Communication Software: Zoom, Google Meet, Skype

i. Educational Software: Dictionaries – Encarta, Britannica; Mathematical:

MATLAB; Others: Google Earth, NASA World Wind

j.  Simulation Software: Flight and scientific simulators

k.  Content Access Software: Accessing content through media players, web browsers

l.  Application Suites: Apache OpenOffice, Microsoft Office365, Apple's iWork, LibreOffice, G-Suite, Oracle E-Business Suite

### Application activity 1.2

1)  Give at least two examples for each of the following types of software:
    a)  Word Processing Software
    b)  Database Software
    c)  Spreadsheet Software: Google

## 1.3. Types of Software Required for Business Activities:

### Learning Activity 1.3

In a business, the use of the program is to develop business productivity. From slight to large-scale companies, computer program needs for companies can vary depending on conditions.

1)  Identify and explain the most 5 types of software required for the business activities?

In a business, the use of the program is to develop business productivity. From slight to large-scale companies, computer program needs for companies can vary depending on conditions.

**Here are the most vital tools for business activities, among others:**

**a) Accounting software**

It is undeniable that recording finances in the business is the most sensitive thing for the company—financial records related to money in and out money services for daily business and long-term activities. The manual accounting process is very time-consuming, such as bookkeeping, calculating the depreciation of assets, and others. The larger the business, even the existence of branches, it is crucial for a company to have an automated accounting system to reduce the creation time.

### b) Inventory management software:

Developers develop program stock goods to help the company know how many items entered, the number of goods that came out, and the remaining stock of goods stored in the warehouse. HashMicro provides an Inventory Management System that offers accurate stock control, raw material management, and other advanced features to ensure you always get a comprehensive view of your inventory. With inventory apps, there's no need to guess when and how much inventory you should repost. Through the use of an easy system, you can control the business more optimally.

### c) Software CRM

CRM software can help a company improve its customer satisfaction. With the CRM system, all corporate affairs related to customer service, marketing, and sales are carried out more regularly and systematically.

So CRM systems allow upselling for companies that take advantage of customer's buying habits and give customers premium products that fall into their previous purchase category. Furthermore, this system facilitates cross-selling by interacting with customers to determine their needs.

### d) Software HRM

The more complex the organizational structure of your business, the more difficult it is to manage human assets. Making hundreds of invoices, pays lips, taxes, and reimbursements is something that management happens periodically. Thus, all activities related to human management require a more practical system. With the complete HRIS Software, automate your company's HR and employee administration tasks.

### e) Software ERP (Enterprise Resource Planning)

is a package of systems and software companies use to manage their daily business activities, such as financial management, procurement, production, projects, HR, etc

**Application activity 1.3**

a) By doing a research explain in detail ERP by showing what it can do.
b) Give examples of ERP software

## 1.4. Use of Accounting Software

**Learning Activity 1.4**

Mr. Kamana is a bookkeeper of Tuzamurane rice processing company located in Kigali city. He is in charge of recording and keeping various companies' transactions related to purchases of raw materials and other inputs, sales revenues, inventory movements, business debtors and creditors, payroll processing and diversified expenses incurred by the business either by cash or cheque as well. He uses manual method of keeping and maintaining those records; i.e recording in handbooks writing with pen. This requires him to have each book for each particular journal, ledger and for final reports. Additionally, it becomes difficult for him to meet the deadline for preparing and submitting end of period reports, since he needs to get data from many scattered books. One day, he wakes up early morning and went at work as usual, and he was surprised of finding some of the accounting books that were kept in shelves were burnt in the office due to fire short circuit in the administrative building. All data recorded in those books were lost and he was obliged to review the source documents and ask some concerned people to try to restore some lost information, but he managed to get only little information back.

1. Identify the problems that prevented Kamana from assuming his responsibilities timely and effectively

2. What are the negative impacts of using manual method of keeping and maintaining accounting records for Tuzamurane rice processing company?

3. What would Tuzamurane ltd company have helped Kamana to perform well his duties?

### 1.4.1 General purpose Application software

Application program software is a computer program designed to carry out a specific task other than one relating to the operation of the computer itself, typically to be used by end-users. Word processors, media players, and accounting software are some of examples. Application Software is a program that does real work for the user. It is mostly created to perform a specific task for a user. Application Software acts as a mediator between the end-user and System Software. It is also known as an application package. It is a user-specific and is designed to meet the requirements of the user.

General purpose application software is software used to perform a broad variety of tasks and is useful to nearly all computer users such as Word Processing, Graphics Editing, and Spreadsheets applications. Word-processing is general purpose software since it makes use of a computer for creating, modifying, and viewing, storing, retrieving, and printing documents. Similarly, graphic software is general purpose software since it allows computer systems for creating, editing, drawings, graphs, etc.

Additionally, accounting software is also classified under general purpose application software category because it is designed to perform accounting operations from basic invoicing and billing, to tax calculations and project management, accounting software is an essential tool for your business' financial data. It also helps manage clients, reconcile bank accounts, and generate insightful financial reports that help your business grow smoothly and continuously.

### 1.4.2 Special purpose application software

Special purpose application software is a type of software created to execute one specific task. Special purpose software is typically created to meet a specific business need and does not need to perform a wide range of other duties. Because it will only be purchased by users who require the specific capabilities it provides, special purpose software is frequently more expensive than general purpose software.

For example, printing tax notices, a camera application on your phone will only allow you to take and share pictures and a chess game which only allow you to play chess.

### 1.4.3 Custom application Software

Is a type of application software made for an individual or business that performs tasks specific to their needs? For example, if you had a home business, you may hire someone to create a custom software program to help print and view invoices. By creating custom software, you can have a program that does exactly what you need and not most of what you need.

Mr. RUKUNDO has recently finished his secondary studies in Tourism department at JIJUKA secondary school. He knows little on computer software, except some basic skills about Microsoft Word and Excel, learnt in computer skills module while at school. Before going to University, he wants to improve his skills in computer literacy especially in gaining knowledge about different software used in real world business if he wants to join the faculty of Accounting.

1. How will you explain him the meaning of application software?

2. What are the types of application software will you recommend him and how are they differentiated?

## 1.5 Manual and computerized Accounting Me

**Learning Activity 1.5**

Many years ago, people used traditional methods of keeping accounting records, which is keeping hard copies of books like sales day book, purchase day book, cashbook ledger and others. But today people are using accounting software installed into their computers to record and keep accounting information.

1. What is the difference between those two methods?

2. What are the advantages and disadvantages of each of them?

### 1.5.1 Manual accounting

Accounting is a means of collecting, summarizing, analyzing and reporting in monetary terms, information about the business transactions."

It is the analysis and interpretation of book-keeping records. It includes not only the maintenance of accounting records but also the preparation of financial and economic information which involves the measurement of transactions and other events relating to the entity. It is a science of keeping the business records in a regular and most systematic manner so as to know the business results with minimum trouble.

Accounting is done manually where the accountant keeps different books of

account or can be computerized where the accounting software is installed into a computer and the books of account are managed in the computer.

### 1.5.2 Computerized accounting

Computerized accounting refers to carrying out accounting functions or processes using computers. It involves recording and analyzing financial transactions electronically over accounting software. The computerized accounting uses the concept of databases. For this purpose, an accounting software is used to implement a computerized accounting system. It does away the necessity to create and maintain journals, ledgers, etc., which are essential part of manual accounting.

Summary difference between Manual accounting and Computerized accounting data

| Point of Difference | Manual Accounting | Computerised Accounting |
|---|---|---|
| 1. Recording | Recording of financial transactions is are through books of original entry | Data content of these transactions is stored in well-designed database |
| 2. Classification | Transactions recorded in the books of original entry are further classified by posting them into ledger accounts. This results in transaction data duplicity. | No such data duplications is made |
| 3. Summarising | Transactions are summarised to produce trial balance by ascertaining the balances of various accounts. | The generation of ledger accounts is not a necessary condition for trial balance. |
| 4. Adjusting | Adjusting entries are made to adhere to the principle of matching | There is nothing like making adjusting entries for errors and rectifications. |
| 5. Financial statements | The preparation of financial statements assumes the availability of trial balance. | The preparation of financial statements is independent of producing the trial balance. |

Accounting framework is the application environment of the computerized accounting system. A healthy accounting framework in terms of accounting principles, coding and grouping structure is a pre-condition for any computerized accounting system. The computerized accounting is one of the database-oriented applications wherein the transaction data is stored in well- organized database. The user operates on such database using the required interface and also takes the required reports by suitable transformations of stored data into information. Therefore, the fundamentals of computerized accounting include all the basic requirements of any database-oriented application in computers.

### Application activity 1.5

1. What do you understand by manual accounting?

2. Define the term computerized accounting.

3. Give the merits and demerits of both computerized accounting and manual accounting.

## 1.6. Characteristics of accounting data

### Learning Activity 1.6

1. Basing on the accounting principles, how are accounting data differentiated from other data

2. What are the characteristics of accounting data?

3. How can they be kept safely and easily found and interpreted?

Accounting data are raw facts, events, numbers and transactions, which have been collected, recorded, stored but are not yet processed. Accounting data consist of numbers and characters (i.e. alphabets and special symbols) which are used to record facts and events about activities occurring in a business.

The following are some characteristics of accounting data:

### 1.6.1 Uniqueness

Data uniqueness is achieved when information in the dataset only appears once. This data quality dimension measures the extent of duplication. **Uniqueness** points out that there should be no data duplicates reported. Each data record should be unique; otherwise the risk of accessing outdated information increases.

### 1.6.2 Codes

This is a system of words, letters, figures, or symbols used to represent others, especially for the purposes of secrecy. Codification is used to distinguish an accounting element from another.

### 1.6.3 Statutory requirements

Statutory requirements are those requirements which are applicable by virtue of law enacted by the government. These are enacted by passing the law in the legislative assembly or parliament. A regulatory requirement can be termed as administrative legislation that constitutes or constraints rights and allocates responsibilities.

### 1.6.4 Editing restrictions

Editing restrictions are usually used to prevent unwanted changes to a Word document as they allow people to view the contents of the document but not make any changes. Accounting data must not allow every people to change them.

**Application activity 1.6**

1.  Briefly explain the characteristics of accounting data.

## 1.7 Role, strengths and weaknesses of accounting software

**Learning Activity 1.7**

Betty is an accountant at ABC Agro-processing industry since 2015. Since she become an employee of that company, she used manual system in recording and keeping company's accounting information, until 2020 where the company adopted computerized accounting method and purchased Sage line 100 software. Since then she could store the documents in well-designed database, sharing them easily to the manager of the company, and prepare income statement, cash flow statement and balance sheet easily. Nevertheless, she is constrained by the lack of power which stops her work sometimes, damages of computer operating system which causes her to lose some data and fear that other people may hack her user name and password and access her data.

1.  What were the benefits of replacing manual accounting with computerized accounting to Betty and to the ABC industry in general?

2.  What are the challenges faced when using accounting software in bookkeeping?

### 1.7.1 Role of accounting software

The role of accounting software in today's business world is immense and enormous. As businesses have become larger and expanded their activities, technology developed, it is almost impossible to run cross-border business without using accounting software.

The importance of accounting software can be summarized as follow:

#### a. Large Volume of Transactions

In the present-day business environment, the transactions of a business are normally large in volume. The accounting software can store and process such voluminous transactions with speed and accuracy.

#### b. Scalability

Accounting software is scalable to handle the growing transactions.

#### c. Security

The accounting data under the computerized environment is safer than the accounting data under the manual system. The data can be kept secure by using a password, *i.e.,* allowing only authorized users to access the data.

#### d. Timely Reporting

Availability of reports on time enables the management to take quick decisions, which is an important element for the success of an enterprise. Accounting software makes these reports available as and when required.

#### e. Lower Cost

The cost of maintaining books of accounts under the computerized process using accounting software is lower in comparison to the manual process.

#### f. Less Paper Work

Under the computerized process, there is less paper work as compared to the paper work in the manual process. Information can be shared digitally without printing hard copies.

#### g. Flexible Reporting

Reporting under the computerized process is flexible in comparison to the manual process. The database can be processed further to obtain the desired report. For example, data relating to debtors can be analyzed to ascertain the list of customers to whom sales above certain balance has been made in an accounting year or of the regular customers of the enterprises and so on.

### h. Queries

Replies to queries based on external factors can be obtained easily under a computerized process. For example, list of debtors who have not paid on time can be taken out by processing the database.

### i. Accurate

Computer statements are far more accurate in comparison to manual statements.

### j. Updating:

Updating and treatment of wrong transactions are easily done.

### k. Financial Statements

From the day book, the Voucher Posting software can manage the general ledger, trial balance and balance sheet.

## 1.7.2 Strengths of accounting software

Accounting software has a wide range of strengths, internal factors that enable the user of accounting software to perform his/her tasks efficiently. These include:

- **Simple data entry:** It is typically fast, straightforward and only required once
- **Fast processes:** delays, for example between a sale and invoicing, are minimal
- **Digital record keeping:** essential for Making Tax Digital for VAT
- **Automation of reports** and analysis: eg on profit and loss, debtors and creditors, customer accounts, inventory counts, sales, forecasting, etc
- **Automation of tasks:** eg calculating pay, producing payslips, calculating and submitting VAT, etc
- **Reduction of errors:** eg transposition of figures, incorrect or incomplete recording of transactions, etc
- **Integration with other systems:** such as online banking and e-filing. Using accounting software can help you save time and money, and offer you valuable insight into your business. If you choose the package carefully, investing in a computerized accounting system can be one of the best decisions you can make for the business.

## 1.7.3 Weaknesses of accounting software

In spite of its importance in managing both small and larger businesses, accounting software has also some weaknesses in its use. Some of them include

cost of installation, cost of training, power failure, data corruption, and high cost of training software operators, some limitations of the software are self-decision making and maintenance.

### a. Cost of Installation

Computer hardware and software needs to be updated from time to time with availability of new versions. As a result, heavy cost is incurred to purchase a new hardware and software from time to time.

### b. Cost of Training

To ensure efficient use of computer in accounting, new versions of hardware and software are introduced. This requires training and cost is incurred to train the staff personnel.

### c. Power failure

Computers cannot work without being connected to electrical power. Therefore, accounting software cannot be used in areas where there is no electrical line

### d. Data Corruption

The data can get corrupted through viruses that may come in through the internet or the use of external input devices without scanning them for viruses.

### e. High cost of training software operators

Untrained computer operators can lead to loss of data.

### f. Limitations of Software

The software is developed on the basis of the experiences of the team of developers. As such, it may not be able to deal with a specific problem that may arise.

### g. Self-Decision Making

The computer cannot make a decision like human beings. It is to be guided by the user.

### h. Maintenance

Computer requires to be maintained properly to help maintain its efficiency. It requires a neat, clean and controlled temperature to work efficiently.

### i. Dangers for Health

Extensive and wrong use of computer may lead to many health problems such as

muscular pain, eyestrain, and backache, etc. This affects adversely the working efficiency and increases medical expenditure.

**Application activity 1.7**

1. Discuss the role of using accounting software in business

2. Even though accounting software has numerous advantages in business management, it has some weaknesses. Discuss about those strengths and weaknesses of accounting software.

# Unit 2

# INSTALLING AND UNINSTALLING ACCOUNTING SOFTWARE (SAGE LINE 100)

**Key Unit Competence:** Install the SAGE LINE 100 **(Accounting Software)**

## 2.1: Installing Sage Line 100

### Learning Activity 2.1

Assume you are hired as an accountant of a secondary school, which is still managing its accounting records manually. The school has desktop computers in the office of Accountant, Secretary, Director of Discipline, Director of Studies and in the School Manager's office. Additionally, the school has a computer lab equipped with 30 computers. No accounting software is installed in any of those computers owned by the school. The primary task you are given is to replace the manual accounting with computerized accounting as soon as possible, using SAGE line 100 software, to be able to start your work and be confirmed as permanent employee of the school.

1. What are you going to do in order not to lose your job?

2. How will you get SAGE line 100 installed into your office computer?

### 2.1.1 Steps to install Sage line 100

As discussed in the previous section, accounting software like other software can work only when they are installed in a computer. The following are the steps to be followed in installing SAGE line 100 in a personal computer:

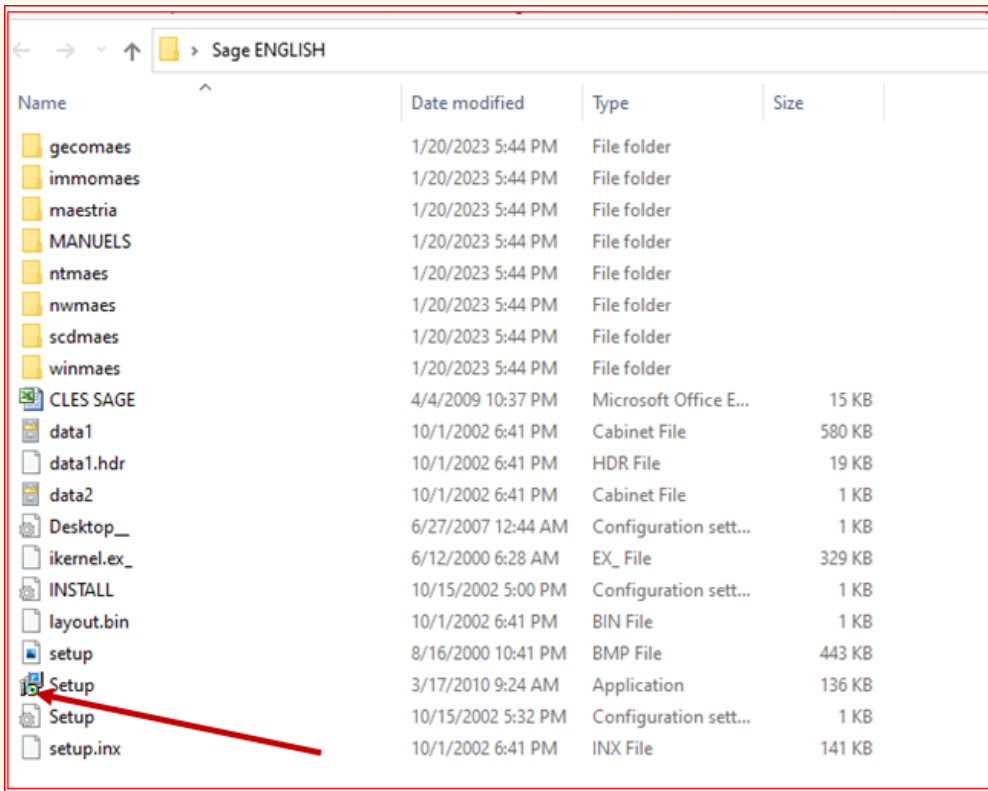1.  First open Sage English set up file and double click on set up



*Figure 2.1. Sage line 100 set up*

2.  After you are welcomed to install Shield wizard for Sage line 100 windows appeared and then click on **Next**.
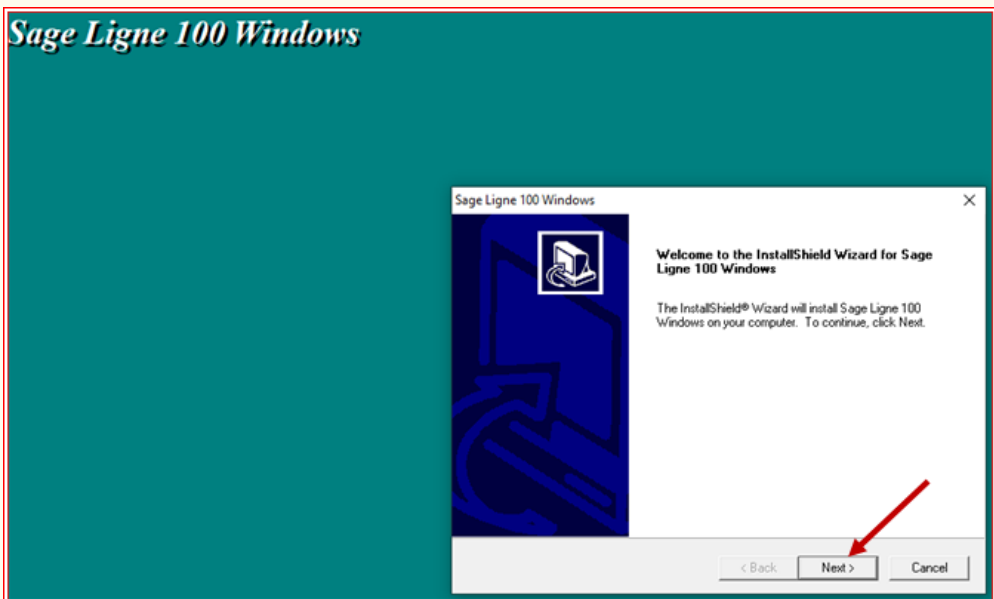


*Figure 2.2. Welcome to install shield wizard*

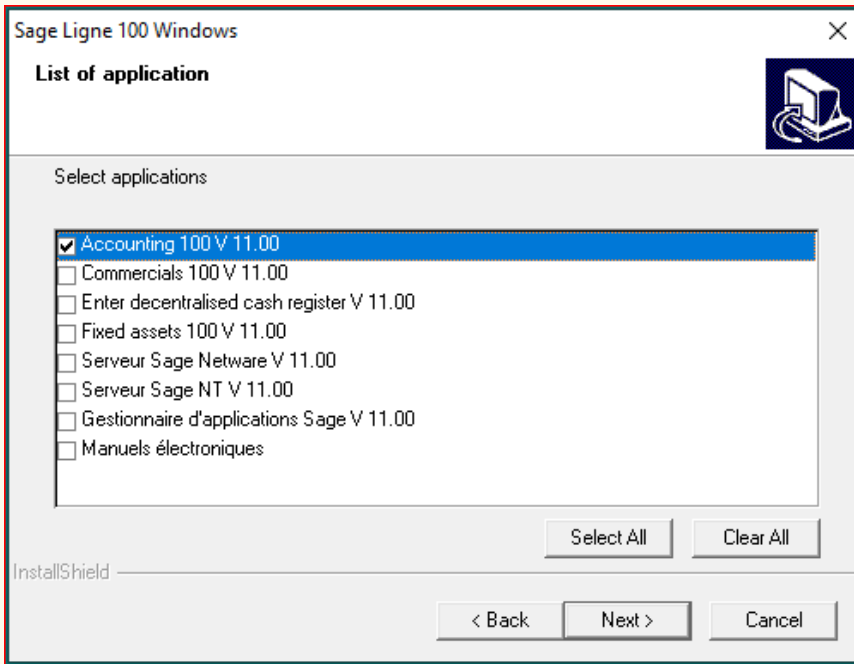3.  Tick on **Accounting 100V 11.00** and then click **Next**



*Figure 2.3. Selection of accounting from list of Sage line 100 application*

**Note:** You may tick on other options like commercials; enter decentralized cash register, fixed assets, Serveur Sage Netware, Gestionnaire applications Sage and manuels electroniques if needed. But here we limit only on Accounting.

4.  Click **Next** to select the destination folder where you want to locate Sage Line 100 software components and click Next again. By default, Sage Line 100 will be installed on local Disk C.
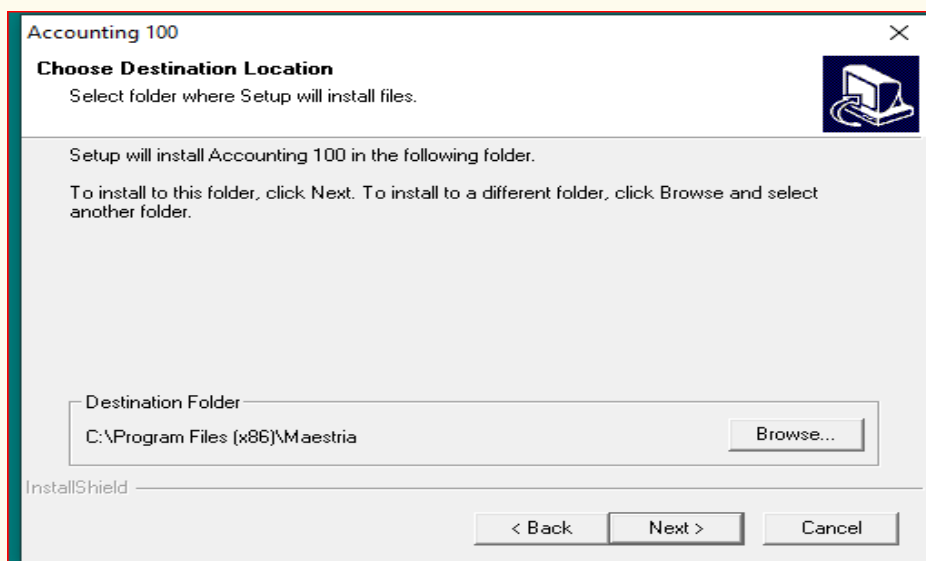


*Figure 2.4. Choice of sage line 100 destination location*

5. Enter **authenticity keys** to ensure that the installed software is an authentic one.
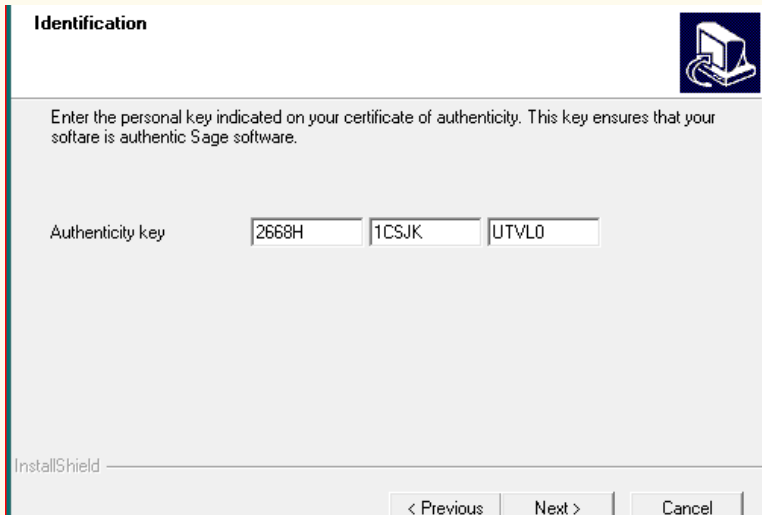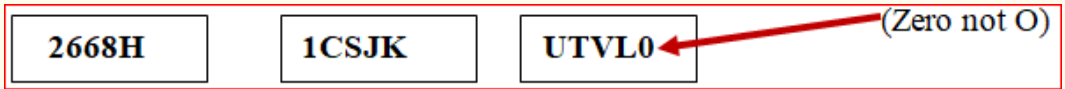
Those keys are:



| 2668H | 1CSJK | UTVL0 ← (Zero not O) |



*Figure 2.5. Entering authenticity keys*

**Note:** The above mentioned keys can be copied from Sage English folder, from excel file named "**CLES SAGE**"

6. Click **next** and then click **yes** to confirm if you accept the terms and conditions of utilization of Sage line 100 software. The following windows appear and you are requested to select the set up type to install. Select **Typical** because it is the one recommended for most users, since if selected, the program will be installed with the most common options.
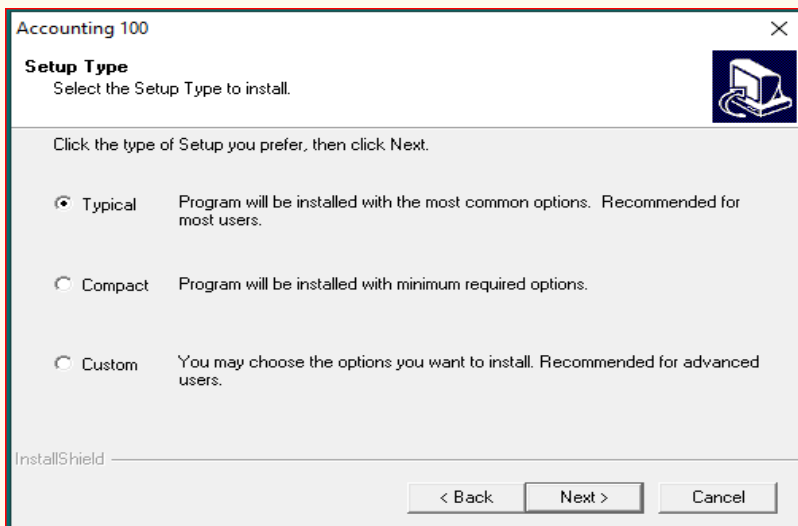


*Figure 2.6. Select set up type to install*

7. Click **Next** and confirm whether you will use telebanking software to transfer payment via modem to your bank by clicking **Yes** or **No** and then click **Next** and then you fill the information about your company.



*Figure 2.7. Entering company information*

In **custcode** (customer code), you fill the code of the company which is going to use Sage line 100(your company), considered as the customer of that sells Sage line 100 software. After, you fill the company name, address, post code (like P.O Box), Ctry (Country) where the company's operations are located), telephone number through which people may contact company's owner or manager, Sales limit in millions of Euros and company's staff number.

Similarly, you fill status of the company on the on the other side and show its legal type, i.e if it is sole proprietorship business, partnership, limited liability company(SARL) and other. You also fill the company name, address 2 if the company is having another location (branch), town address, Fax number and NAF (APE) number. Note that the **Tab** button (on keyboard of your computer) allows you to move from one field to the next.

**NAF**: Nomenclature d' Activité Française

**APE**: Activité Principale Exercée

After filling all of the mandatory information in the fields reserved, click on next.

8. Fill the identification of the manager of the company and the user's identification and click next



*Figure 2.8. Information about the users of accounting file*

9. Click **Next**, click **Yes** or **No** to confirm if you have an auditor or not, click next to explain whether the product was recommended to you by the bank or not, and lastly click next and the software start processing the installation.

10. Open the SAGE line 100 to enter access code before starting to use it by clicking on start button, then programs (or all programs), click on SAGE-Accounting 100-Accounting 100 again and the following window will appear.
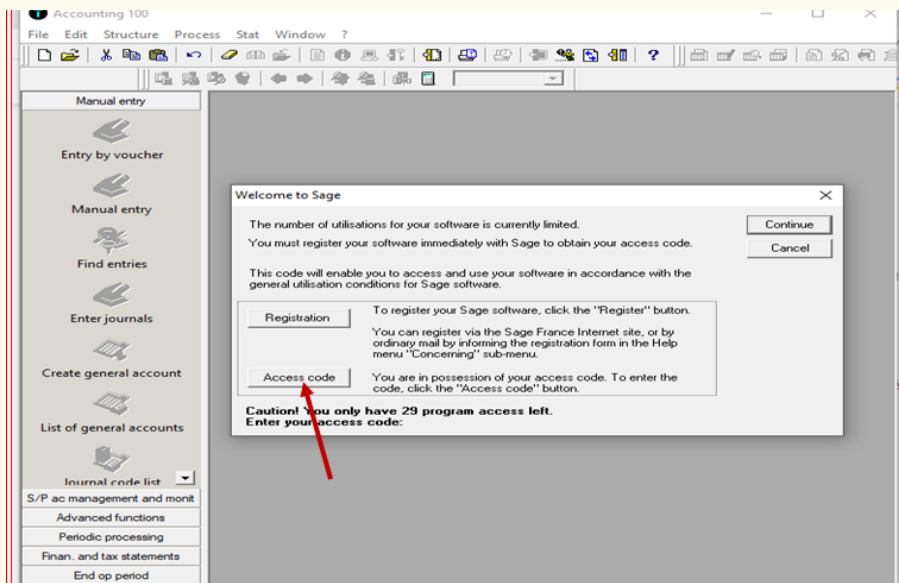


*Figure 2.9. Entering access code*

Click on **Access code** and enter the following code: **1E0CFABF2F2E2F74**

This code can also be viewed from **SAGE English folder** in **CLES Sage excel file**. Note that this code can change from an installation file to another.

After entering access code, the following window appear and you can start using your software
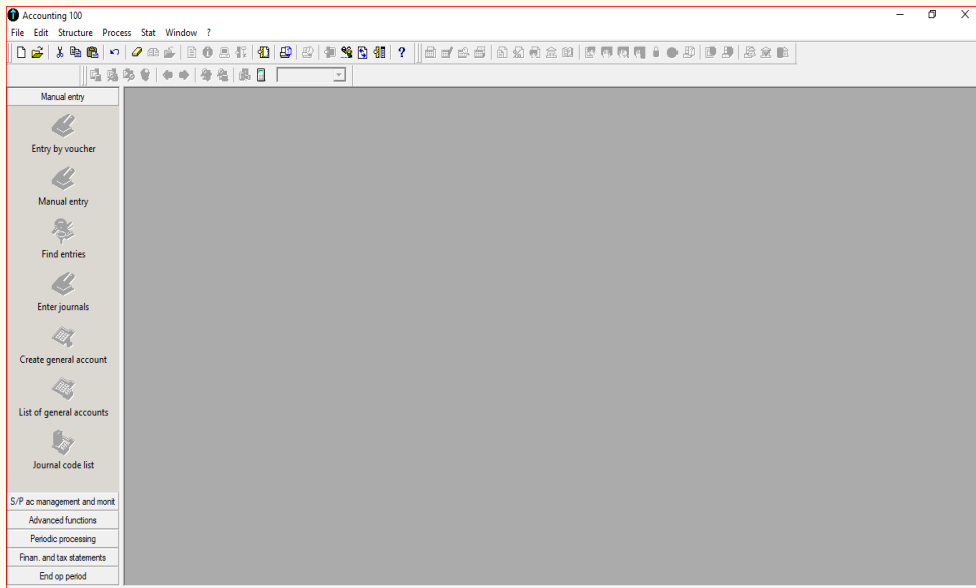


*Figure 2.10. Sage line 100 interface*

### 2.1.2 Menus of Sage line 100

Sage line 100 has seven menus namely, File, Edit, structure,process, stat, window and help.

- **File menu**

Via the file menu the user can create new company, open existing company (already created company), close the opened company, read database information (all information concerning the created company) and you can protect your accounting file through access authorization where you can allow some users to access your data or prevent some from using the file. You also exit the sage line 100 interface via file menu.

- **Edit menu**

Through edit menu, the user can copy or cut the information he/she wishes to transfer to another field and paste it to the destination. There you can also find the sage calculator scientifically designed to perform calculations required when using SAGE line100 accounting software.

- **Structure menu**

In structure menu you can create the chart of account; which is the list of all accounts held by the company followed in ascending order as per their account numbers. In structure menu, you can also cost create cost chart which is the list of cost elements and cost centers. You can also create a reporting plan, S/P (third parties) chart which is the list of customers, suppliers and employees of the organization.

It also comprises tax rates section which record different types of taxes to be recorded, journal codes section where we create the books of prime entry (journals) namely sales journal, purchase journal, cash journal, sales return journal, purchase returns journal and general journal. Additionally, the structure menu contains cost journal codes, banks, models, comments budget elements and merging where you can copy some information from one accounting file to another instead of taking time to record the information of new company from zero.

- **Process menu**

In the process menu, the user is enabled to make journal entries or entries by voucher. You can also make bank reconciliation and bank statement.

- **Stat menu (or statement menu)**

From the stat menu, you can find different reports and final statements of your business transactions including accounts ledger, trial balance, B-S/ income statement (balance sheet and income statement), S/P statistics, tax ledgers and others.

- **Window menu**

In window menu, we find the way of adding or removing different toolbars having different short cut tabs useful in sage line 100. You can also enable or disable the vertical bar and activate and deactivate wizard mode.

- **Help menu**

In the help menu, you can obtain electronic help concerning Sage line 100, update portal access right if you are the customer of Sage products.

XYZ is a consultancy company created with a mission of training new accountants to open window of professionalism, especially in areas of computerized accounting. Assume the company gives you part time job of training 20 young accountants on SAGE line 100 software and in 15 days. The training package includes installing the software in participants' own laptops.

1. Explain the steps how you will follow to install SAGE line 100 software in Participant's laptops

2. Install that software in one computer in your school computer lab.

3. Discuss about the 7 menus of sage line 100 and their functions

## 2.2 Uninstalling accounting software (Sage line 100)

**Learning Activity 2.2**

1. Once installed into a computer, can Sage line 100 accounting software be removed? If yes under which circumstances can it be removed?

2. How can Sage Line 100 be removed from a computer?

### 2.2.1 Steps to uninstall SAGE line 100 accounting software

The user of accounting software may no longer need it in personal computer and wants to remove (uninstall) it. The following are the steps to uninstall the accounting software SAGE line 100

1. Click on **Start** then on **Control Panel**

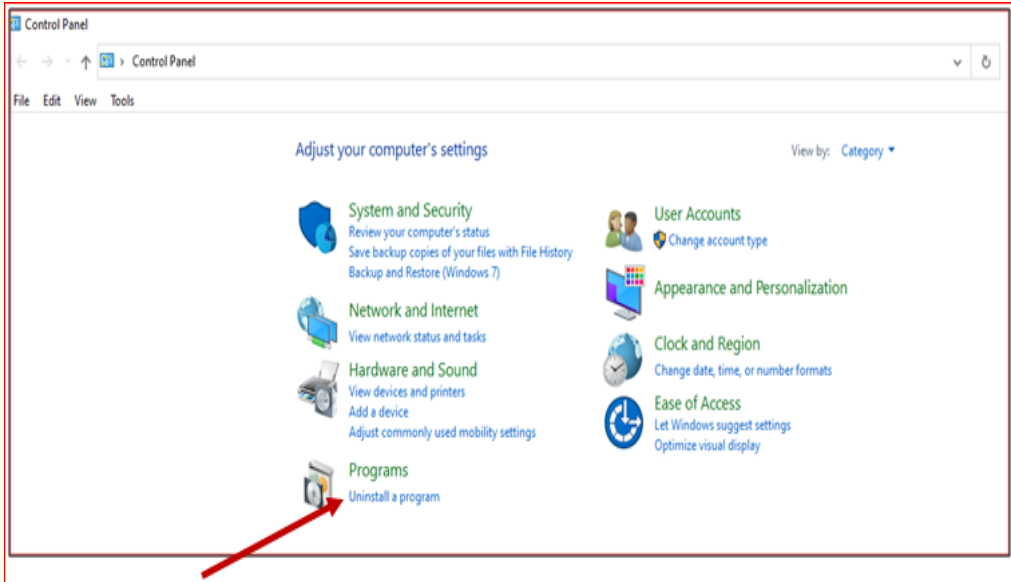The Control Panel features appear and then click on **Uninstall a program**

Figure 2.11. Opening control panel to uninstall accounting software

2. After clicking on uninstall a program, you find a list of programs installed into your computer then you click on Accounting 100, and click on **Uninstall/Change**



Figure 2.12. Selecting Sage line 100 to uninstall it from programs installed in computer

3. After clicking on uninstall a program, you get the message asking to confirm file deletion and click **Yes** to accept that you want to completely remove the selected application and all of its components from your computer.
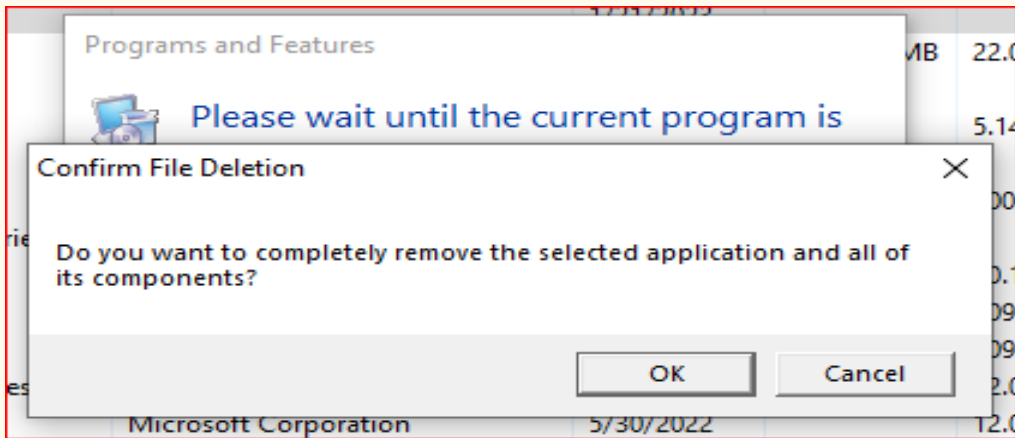


*Figure2.13. Confirm deletion of sage line 100*

4. Click **Ok**, then the program start running uninstallation process

### Application activity 2.2

Your school manager has a computer laptop where SAGE line 100 accounting software has been installed by a teacher from ICT department. Currently the school manager no longer needs that software and wants to remove it and install software which may not be compatible with sage line 100. Yet he doesn't know how to uninstall it and ask you a help of uninstalling it.

1. What are the steps you are going to follow to uninstall that software from the school manager's computer?

**PART I. WRITTEN**

1.  Contrast computerized accounting from manual accounting

2.  What is meant by accounting software?

3.  Explain the role of accounting software in business bookkeeping

4.  Identify the advantages and disadvantages of using accounting software

5.  Discuss on the types of accounting software

6.  There are some companies still using manual accounting in their business records but they are facing numerous problems. Discuss some of them. What advice can you give to overcome the stated problems?

7.  Outline the steps taken to install Sage line 100

8.  What is the process of uninstalling sage line 100 from computer?

**PART II. PRACTICE**

You are a hired as an accountant of UBUKIRE manufacturing company then located in Kigali city, in Kicukiro district, phone +250799999921. The company's e-mail is ubukire23@gmail.com and its website is www.ubukire.com. You are given a CD that has sage line 100 on it and you are requested to:

1.  Install Sage line 100 in your office computer

2.  You realize you need to remove to be reinstalled later, uninstall it

# Unit 3

# CREATION OF COMPANY PROFILE

**Key Unit competence:** Create a company profile using SAGE 100

## Introductory activity

You are hired as an accountant of XYZ Company, and the manager of the company asks you to start using Sage line 100 software in their accounting records as one of end of year shareholders meeting decisions. The private IT consultant has installed the software in all staff computers, including the one reserved for company's accountant. To be able to record the company's day to day transactions, you need to create company's profile in your accounting software.

1. Which process are you going to follow to create the profile of XYZ Company?

2. What is the importance of keeping company's basic information in your accounting software?

## 3.1. Creation of accounting file

### Learning Activity 3.1

The accountant of the church near your home place wants to start using Sage line 100 in making accounting records for the church, including weekly offerings and tenths from believers, different other contributions from church members and invited guests, church expenses including water and electricity bills, taxes and salaries. The software is already installed in his/her computer, but doesn't know how to create accounting file make configurations relating to the type of business and preference of the user.

1. 1Help him/her to know how to configure the software depending on his/her choice

2. What is the importance of configuring accounting software?

### 3.1.1. Renaming and saving accounting file

Before starting to use accounting file, you need to create accounting file, which is a database where all accounting information will be kept. The following are steps taken to create accounting file:

- Open SAGE line 100 interface by clicking on **Start** then click on **Programs-** then click on SAGE-accounting100, click again on Accounting 100. The Sage line interface will appear.
- Then click on File then on New, choose the field location of your file (You may save it on desktop, my documents, local disk C or elsewhere).
- In the file name, delete *mae. and type the file name of your choice, then click **Save.**
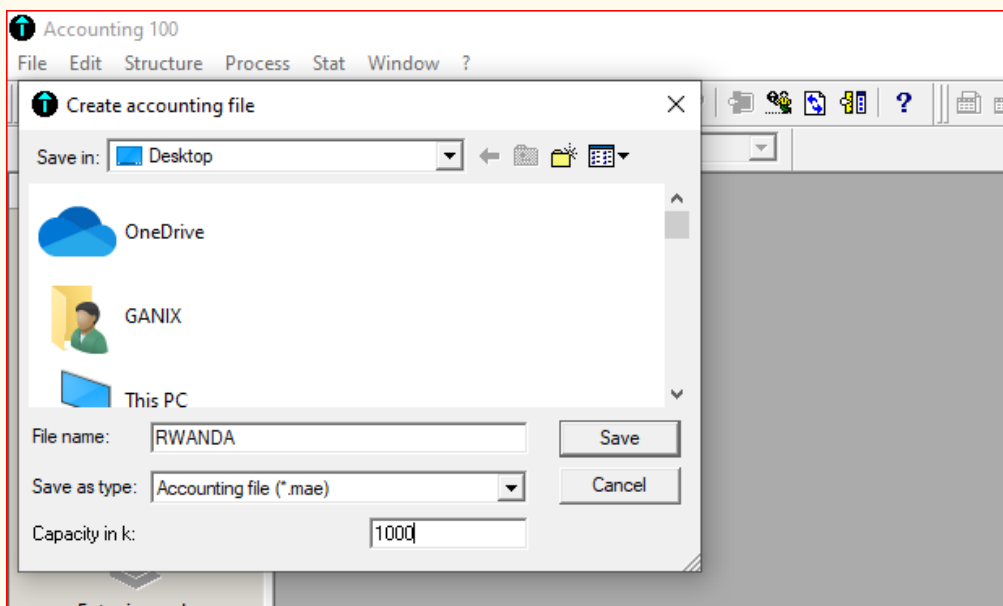


*Figure 3. 1. Creating the name of accounting file*

The file name is "Rwanda" and after clicking **Save**, the work will be saved on desktop.

-By clicking **Yes**, you get the window allowing you create operating period

### 3.1.2 Operating period

An accounting cycle's period can vary based on factors unique to each business, but most business owners choose to start a new accounting cycle annually, usually from 1st January to 31st December in a given year.

The configuration of operating period and account length is done simultaneously with the creation of the file name and company's profile. Below is the process followed.
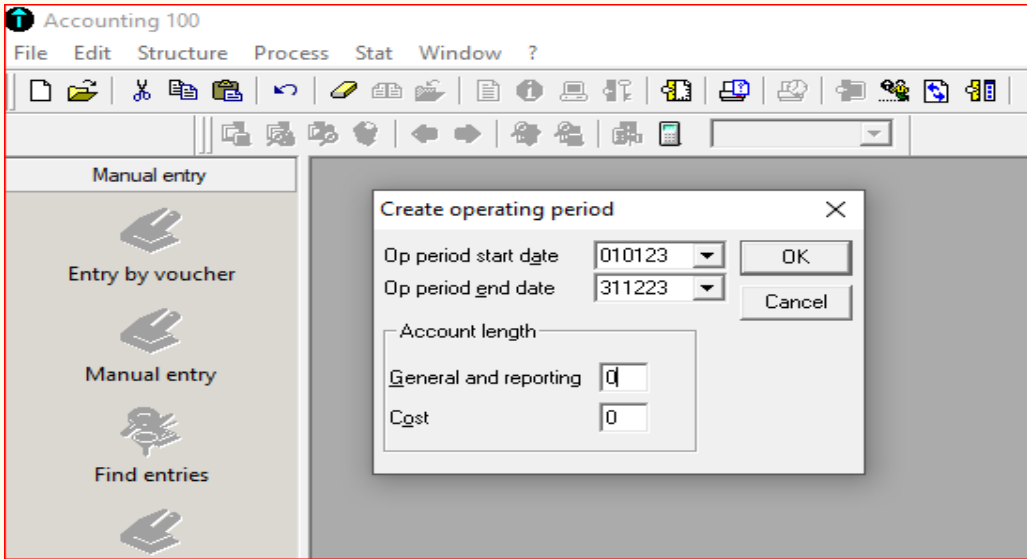
*Figure 3. 2: Setting operating period*

Operating period start date starts normally on 1st January while operating period end date is scheduled at 31st December of the year. By default, the current year, i.e the year set on calendar set in your computer is going to be the one used as operating period.

You can change the year and month of operating period depending on your preferred configuration. To change both start date and end date, you click on the right side black triangle icon ▾ and you find the calendar that allows you to change the month and the year.



*Figure 3. 3: Changing the year and month of operating period*

### 3.1.3. Account length

Account length is the number of digits used for account numbers when creating chart of account and cost chart of account. Normally, in Sage line 100,

the minimum number of digits for account numbers is three (3), whereas the maximum is thirteen digits (13). The user, depending on his/her choice can use own prefer number of digits, provided that it ranges from 3 up to 13 digits.

As mentioned in previous section, account length ranges between 3 and 13 digits.

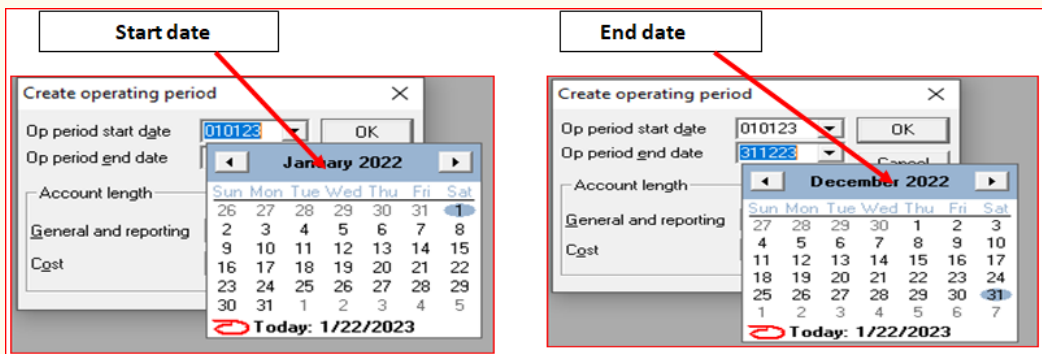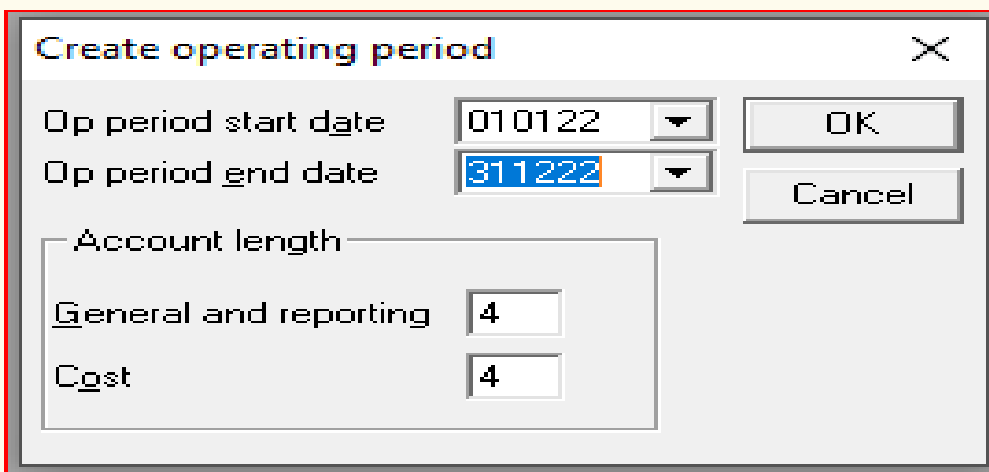For example, if your accounting year is 2022 and you prefer to use four (4) digits for account length, you will have the following:



*Figure 3. 4: Setting account length*

After setting operating period and account length of choice, you click **Ok** and enter the company profile

### 3.1.4. Company profile

The creation of company profile in SAGE line 100 is done just after creating accounting file.

After getting the company profile wizard, the next step is to fill the required company's information like company name, activity, address, complement, Postal code (like PO Box), town, region and country(ctry), comment, SIRET (système d'identification du répertoire des établissements) identifying each company in France (Not applicable in Rwanda), NAF (Nomenclature d'activitéFrançaise), telephone, E-mail and site (website.)

**Example:** EJOHEZA LTD Company is a manufacturing company located in Nyamata town Bugesera district, Eastern province. It is located near the main road from Kigali- Nemba. Po. Box 345 Nyamata, phone number 0788000000, Fax number: 56728 e-mail: ejoheza123@gmail.com, website: www.ejoheza. com. Enter the information above to create EJOHEZA Ltd Company's profile.

The company's profile will look like this:



*Figure 3. 5: Entering company profile*

**Application activity 3.1**

1. By using a computer with SAGE, show how to save or rename a file.

## 3.2. Configuration of accounting software (SAGE line 100)

**Learning Activity 3.2**

KAMANA, a sole trader in RUSIZI town is constrained by the loss he is used to get due to lack of adequate record keeping in his business. As a solution, he has purchased a computer and installed sage line 100 and got some basic information on the use of SAGE line 100 accounting software. However, he doesn't know how to make configurations in order to use the software depending on his preferences.

1. Help him to configure SAGE line 100

2. Why is it necessary to configure Accounting software?

### 3.2.1 Creation of wizard mode

The **Wizard mode** is found in **Window** menu, and to get to the **Wizard mode** you click on **Window** then tick on **Wizard mode** to make it active. If you remove the tick, you disable the **Wizard mode**. It will look like this:
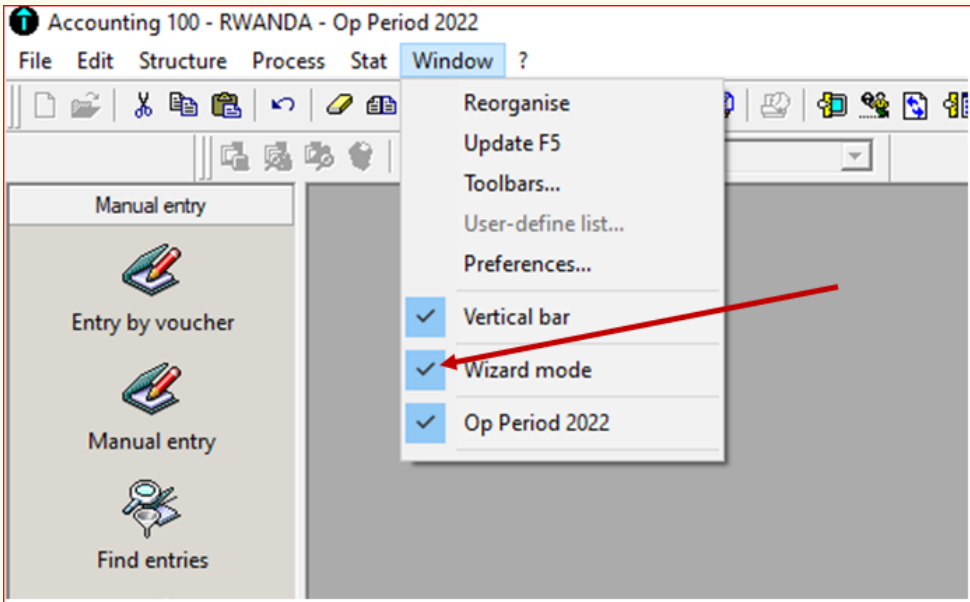


*Figure 3. 6. Creating wizard mode*

To disable the **Wizard mode**, the tick will be removed then the window will become as follow:
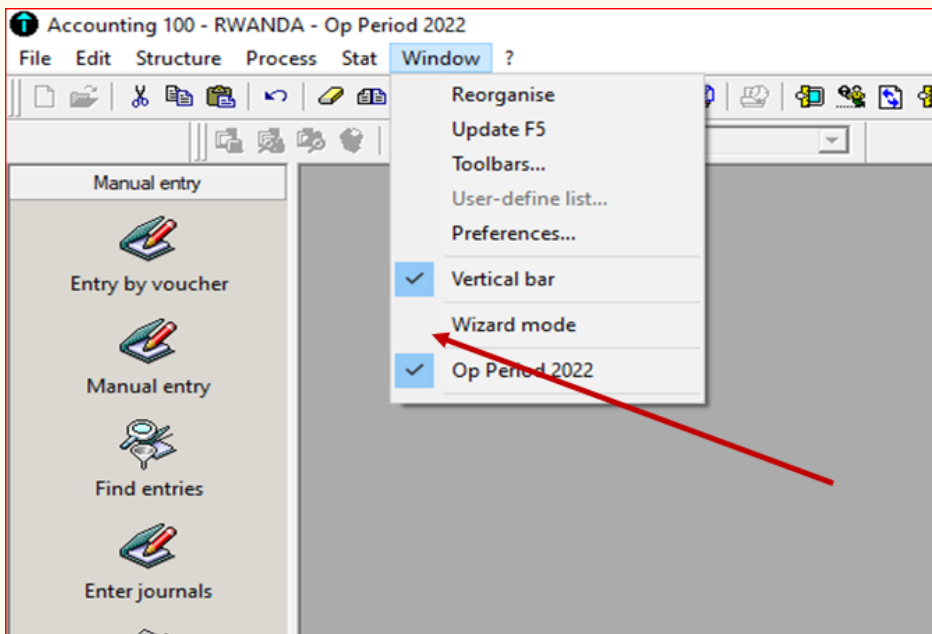


*Figure 3. 7: Disabling wizard mode*

## 3.2.2 System defaults and Package parameters, VAT and currency rates; exchange rates

### 1. System defaults and package parameters

Normally, before recording any information in accounting software it is necessary, to make some parameters configuration for the ease of using accounting software and depending on what is needed in the company. Defaults set in package parameters are found by clicking on file-concerning your company-parameters. The following window is displayed:
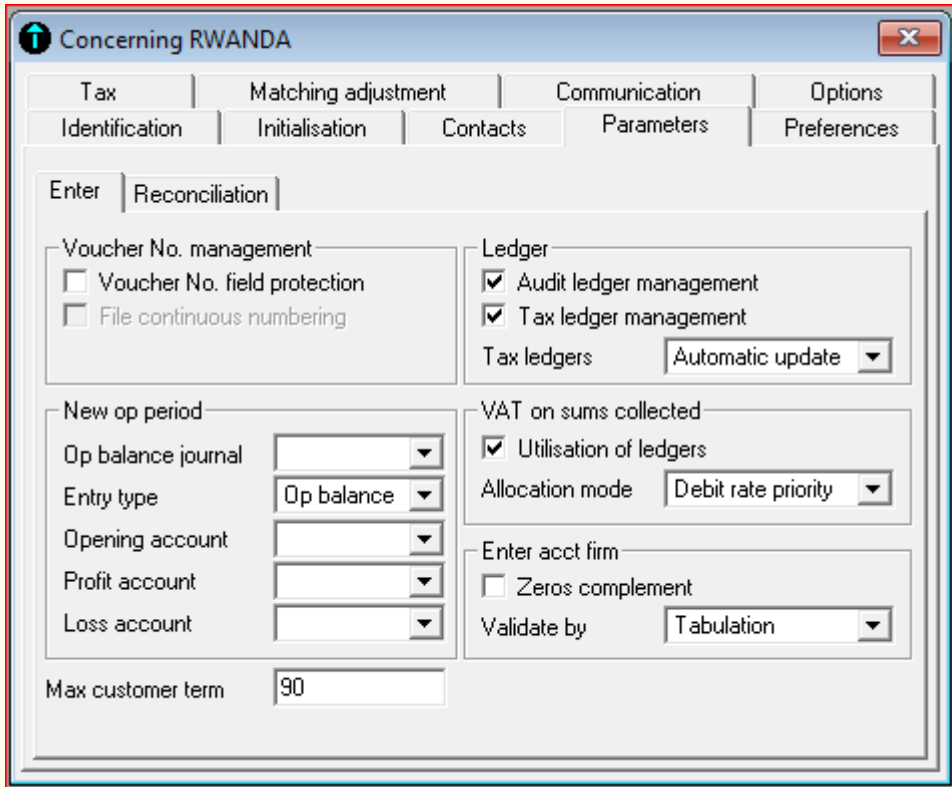
*Figure 3. 8: Setting parameters*

### a. Voucher number field protection

When a tick is put in front of voucher number field protection, you protect the voucher number field column heading in journals from being written in, i.e. the field is disabled. If voucher number field protection is left without a tick, you allow typing the number of the voucher in the heading of voucher number column while recording transactions in journal.

### b. New operating period

New operating period option allows to configure the journal in which opening balance is to be recorded, entry type for opening balance where by default

the software suggests opening balance as entry type, selection of the opening account and account where profit or loss will be recorded.

### c. Maximum customer term

Maximum customer term is meant by maximum payment duration of customers who purchase goods on credit. In other words, it is the maturity period. The software sets maximum customer term 90 days by default corresponding to 3 months maximum. Nevertheless, the user may set other period depending on his choice, like 30 days, or 60 days.

### d. Ledger

The ledger option is used to configure audit ledger management and tax ledger management. If a tick is put on audit ledger management the user allows the system to enable audit report from the automatic ledger generated from the books of account. Similarly, when a tick is put on tax ledger management, the system allows tax ledgers to be updated automatically, or after confirmation.

### e. VAT on sums collected

On this option, if a tick is put on utilization of ledgers, the system allows the option of allocated VAT collected on sums of money gained, but if there is no tick on utilization of ledgers the allocation mode is disabled, hence it becomes impossible to allocate VAT on sums collected.

### f. Enter account firm

If a tick is put on zeros complement, the system allows the zeros to be added to the account number of a given account while creating the chart of account to match with the already set account length. For example the user is creating capital account and the account length set is four (4) digits, if the user types only 2 digits (example: 10) in the Ac no field, other 2 zeros are going to be added automatically to have four digits(1000). Validated by Tabulation or by Enter keys depends on the user choice. If Tabulation or Enter key is selected, it means to go to another step or field the user taps on Tabulation or Enter key.

## 2. VAT and currency rates

### a. VAT

To make configurations on VAT

- Click on **File**
- Click on **Concerning your company**
- Click on **Tax**

The following window appear



*Figure 3. 9 : VAT setting*

In tax return option, the system allows to select CA3 document showing formula to use when calculating VAT collected, VAT deductible and net VAT payable over the period of one month or quarterly in France between 19th and 25th of each month. (CA3 formula is not applicable in Rwanda). The option also shows revenue field where the user fill the revenue gained over the period, number of folder where the CA3 document is kept, percentage of deduction as well as the deadline.

In tax entry update option, the user simply select accounts where tax will be recorded, these accounts should have been created in chart of account. The user also selects the type of journal where the tax transactions will be recorded and kept. Lastly, tax option contains the field where tax office (tax collection agency office) address is to be written.

### b. Currency rate

Sage line 100 allows the user to create reporting currency. This is normally the currency of the country where the business is operating, by which most purchases and sales transactions are performed.

To create the reporting currency, click on **Initialization** and the following window appear:



*Figure 3. 10: Reporting currency configuration*

In the **Account Currency** field, fill the name of the currency you are using in day to day transactions, let's say, Rwandan francs in Rwanda. In the unit field fill the unit of the reporting currency and sub-unit of the reporting currency in the sub-unit field. In the amount format, if last two zeros are removed, the amount recorded in journal will have standard format (eg: ten thousand will be 10,000), but if the last two zeros are not removed, there will be .00 at the end of each amount figure in the journal entry (for eg. Ten thousand will be 10,000.00). The same configuration generates similar results on quantity format. In equivalent currency, select **Account Currency**, then the filled reporting currency will be reproduced in the field.
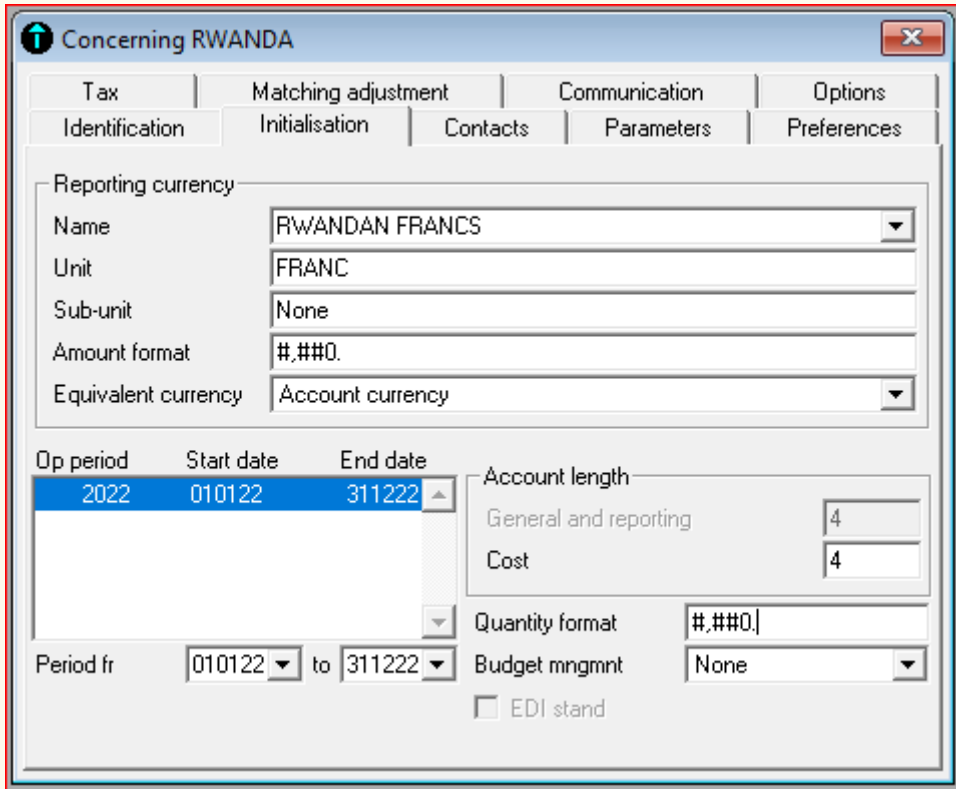
*Figure 3. 11: Setting account currency*

### 3. Exchange rates

The exchange rates are configured by creating the foreign currencies and the rates of their exchanges with the reporting currency. To create exchange rates:

- Click on **File**
- Click on **Concerning your Company**
- Click on **Option**
- Click on **Currency**
- Press **Enter** on keyboard to leave space for other currencies to be created

Fill the currency information including currency name, unit, sub-unit, format, logo and equivalent currency. In the rate field, select "**floating**".

For example, if the current exchange rates are:

$1=1042 FRW

1Kenyan Shilling=8.9 FRW

The following results will be obtained:
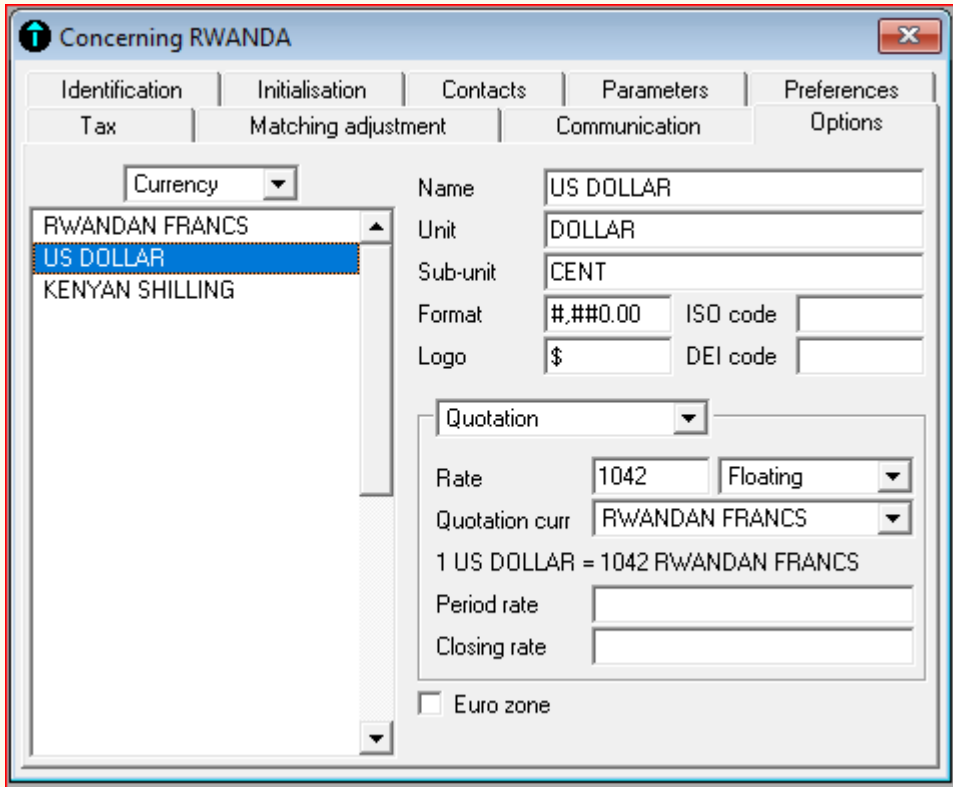
*Figure 3. 12. Currency exchange rates*

## Application activity 3.2

1. In parameters option, what happens if you tick on voucher no field protection?

2. What is the purpose of setting maximum customer term?

3. In sage line 100 already created accounting file, make the required configurations basing on the information below:

   – Reporting currency: Rwandan francs
   – Maximum customer terms: 60 days
   – Tick on wizard mode
   – Set currency rates by using $1=1038 FRW and 1 Ugandan shilling=0.28 FRW
   – Set VAT percentage deduction at 18% and tax office address as Kigali, PO Box 2211 Kigali

## 3.3 Use of wizard mode to create the capital and income accounts, expenses accounts and asset accounts

When entering data in Sage line 100, there is an option of using Standard Mode or using Wizard Mode. This starts by creating file name, company profile, Chart of account and SP chart.

1. How do you get to the Wizard Mode in Sage line 100?

2. Which method do you think is best between standard mode and wizard mode?

### 3.3.1 Use of wizard mode

First of all, the **Wizard mode** must be ticked on, then go to **File** click on **New** to create new company through the Wizard mode:
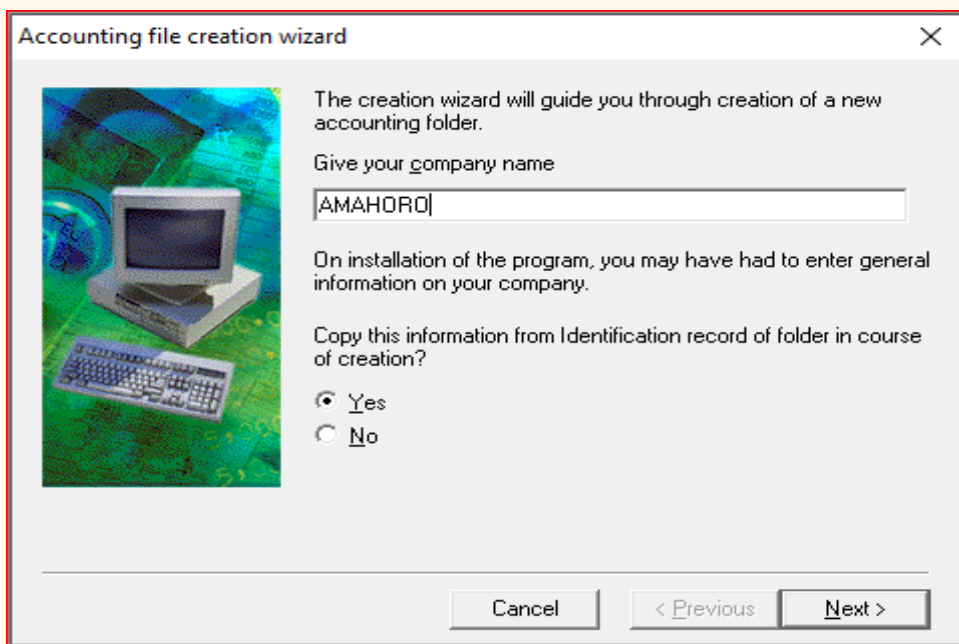


*Figure 3.13. Creation of accounting folder in wizard mode*

- Click **Next** to enter the company data:

*Figure 3. 14: Entering company data in wizard mode*

- Click **Next** to define operating period and account length. Using four digits for account length and 2021 as operating period, we get the following:



*Figure 3. 15: setting operating period through wizard mode*

- Click **Next** to select account currency, then click **Next** again to copy accounting data and click on **"Browse"** to select where your accounting file will be located.
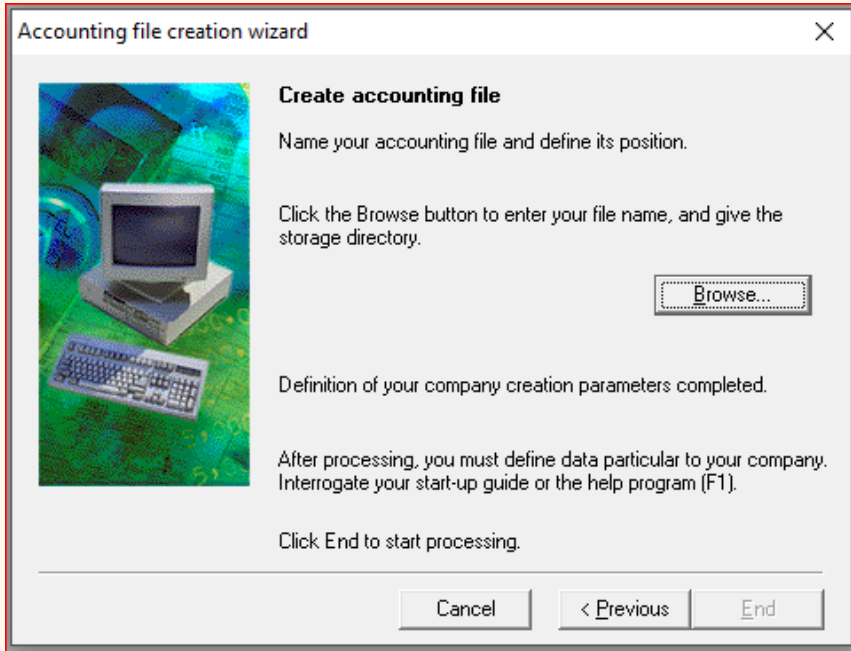


*Figure 3. 16: Selection of storage directory*

- Type **File** name and click **End**
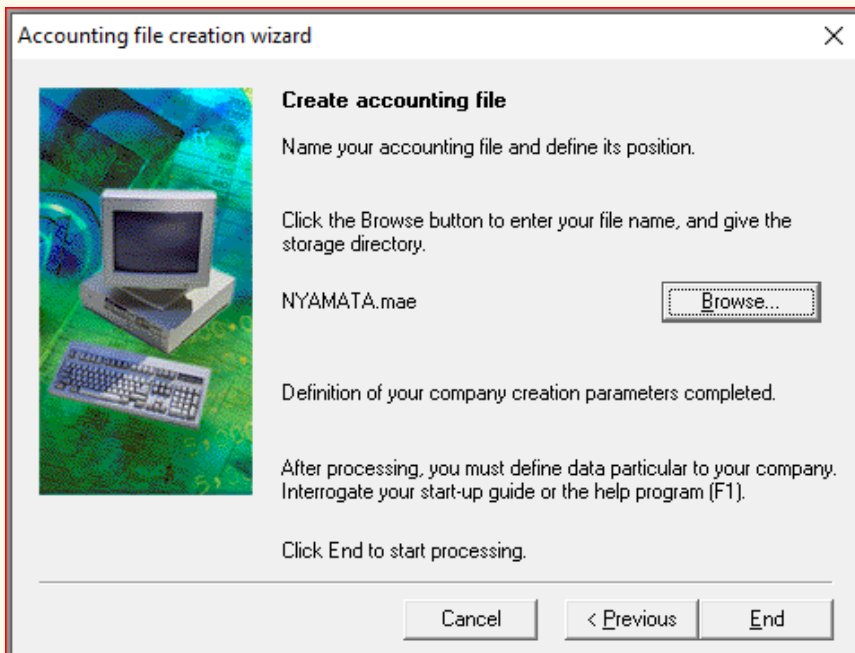


*Figure 3. 17: Entering file name*

To create Chart of Account in **Wizard mode**, the following steps will be followed:

- Click on **Structure** menu

- Right click

- **Add new** element

The chart of account appears in French with the accounts and account numbers being set in the system of French chart of account (Plan comptable), since sage line 100 version of accounting software is set in French system. At this stage it is possible to add accounts depending on the accounts available in your company. After the procedures of creating journal codes, recording transactions and producing the reports are the same as in standard mode.

**Application activity 3.3**

In Wizard mode, create the accounting file and company profile, using the information below:

- File name: UBUMWE

- Accounting period: Start date 1st July 2020, End date 30th June 2021

- Account length: 4 digits

- Company name: TWITEZIMBERE

- Activity: AGRO-PROCESSING

## 3.4. Use of maintenance tool

**Learning Activity 3.4**

Your class is in computer lab at school, doing some computerized accounting practical exercises given by the teacher of accounting software subject. However, you are interrupted by power outage and all computers are switched off. After some while, the power is back and all students switch on the computers to proceed doing their exercises. However, when they reopen their accounting file created before power outage, they are not being opened and they receive this notification: "Your file is already opened, use maintenance tool"

1. What are you going to do in order to sort out this issue?

2. Suppose you fail to solve the problem, what will be the effect of this failure?

The maintenance tool is used when the program has stopped abruptly and the folders created are no longer opened. When the user opens the folder he receives the notification stating that the folder is already open, close the folder or use the **Maintenance tool**. This happens mostly when the computer is switched off abruptly especially when the power is off. This may also happen when the accounting file fails to respond. If it fails to respond you can close it by using the Task Manager, by using the combination keys **Control+Alt+Delete.**

Open the **Task Manager** and click on accounting 100 then click on **End Task.**

When reopening the file, the user gets the following warning message shown in the window below:
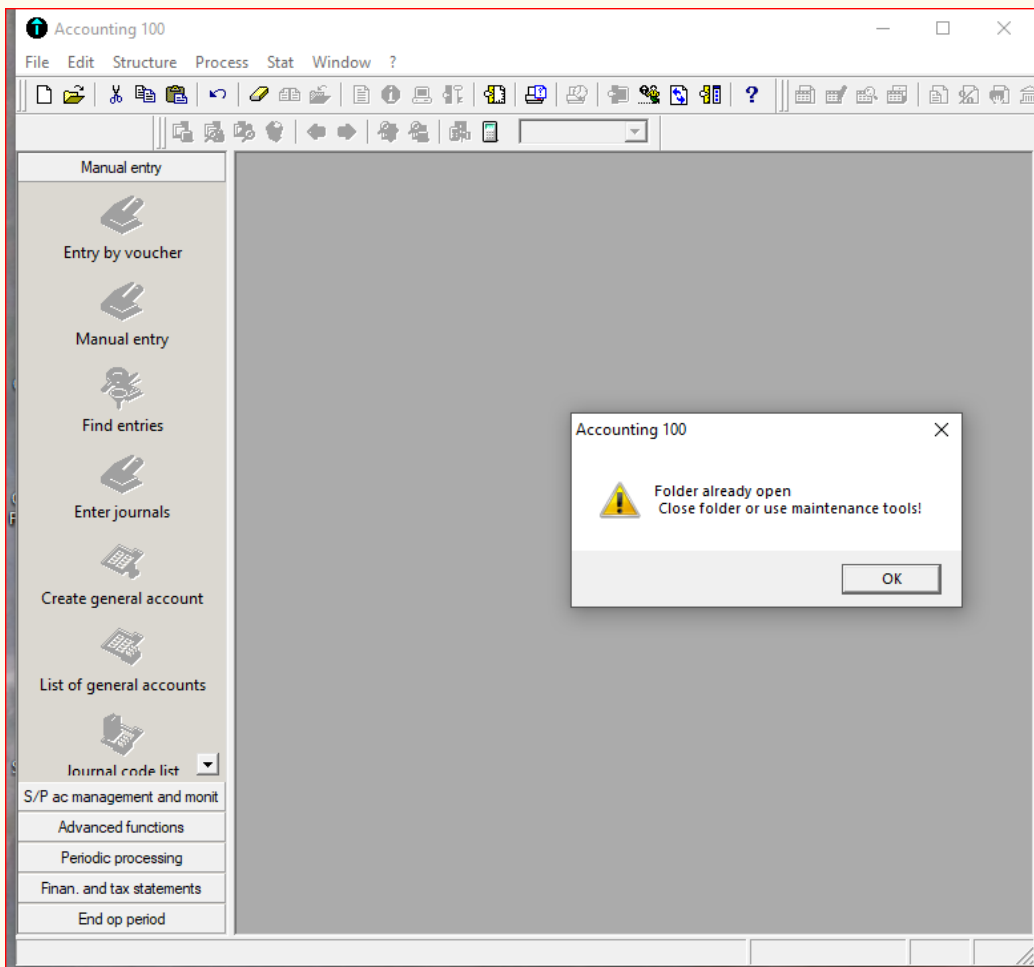


*Figure 3. 18: Notification requesting to use Maintenance Tool*

The process of using maintenance tool is the following:

- Click on **Start** button
- Click on **Programs**

- Click on **Sage**
- Click on **Maintenanc**
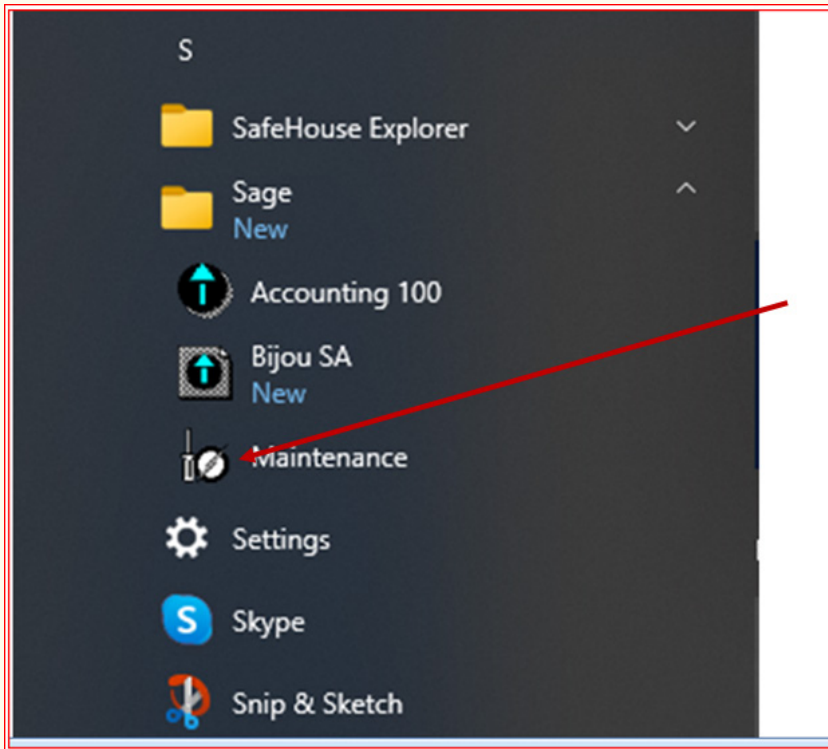


*Figure 3. 19: Opening Maintenance Tool in SAGE line 100*

Then the **Maintenance** window is opened
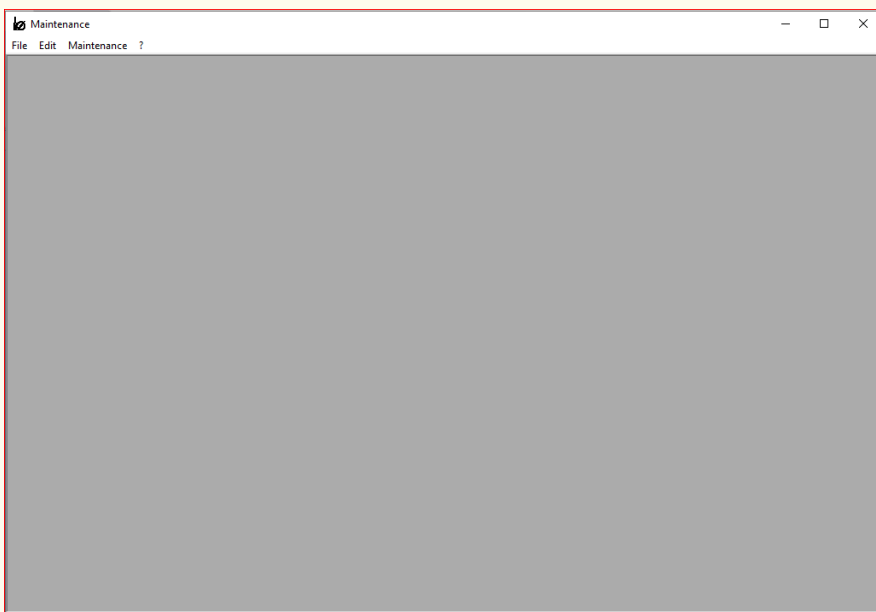


*Figure 3. 20. Maintenance tool interface*

To get to the corrupted file that needs to be maintained, click on **File** menu of the **Maintenance** tool-and click on **Open**, search for accounting file to be maintained and click **Open**. The file to be maintained here is RWANDA. Click on it then click **Open**.
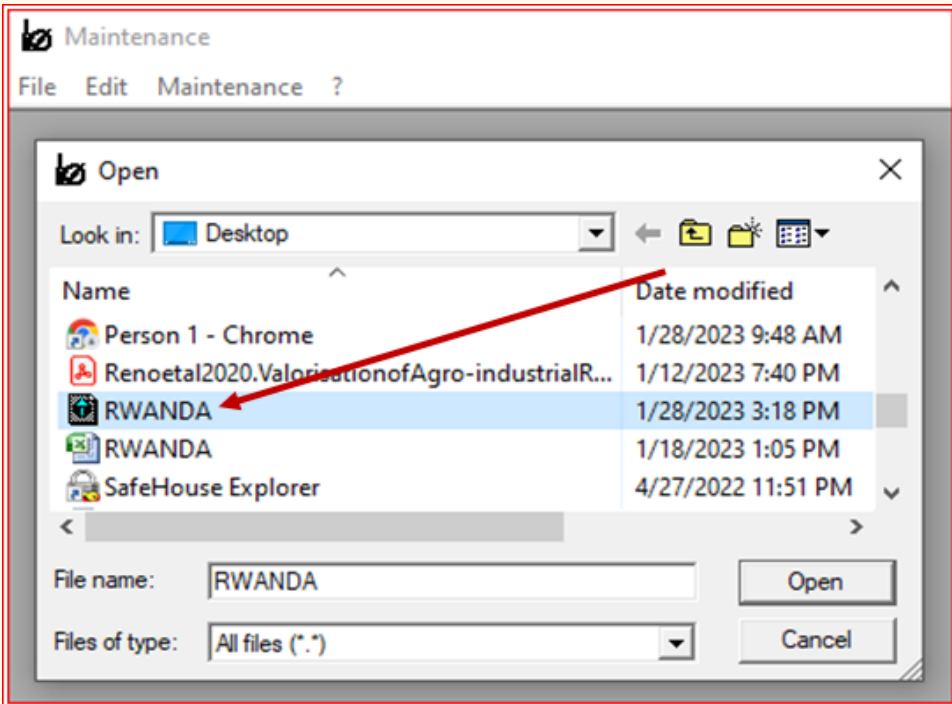


*Figure 3. 21. Opening of file to be repaired under maintenance tool*

After opening the file in **Maintenance Tool**, the windows of maintenance wizard is displayed, and then click **End**
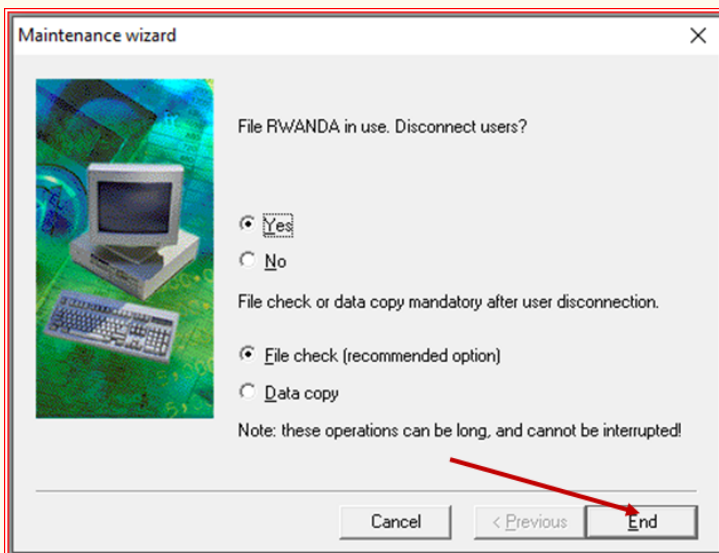


*Figure 3. 22: Repairing the accounting file under maintenance tool*

Finally, at that stage the file is repaired and can work normally.

**Application activity 3.4**

1. Under which circumstances do we use Maintenance Tool in Sage line 100?

2. Assume that your accounting file is not responding or close abruptly. Then when you close it by using Task Manager, it is not being opened it requires you to use Maintenance Tool, what are the steps are you going to follow to be able to access your information again by using the Maintenance tool?

## 3.5 Add/Amend records

**Learning Activity 3.5**

1. After entering records in account software, you may need to make some changes of some amendments, under which circumstances would this happen?

2. What is the importance of updating records in an accounting software?

Once the user has already entered some data in accounting software, he/she may need to amend or update some information. These amendments are only possible if no journal entries have been made for that account to be amended.

### 3.5.1 Customer record

If the user wants to add some information on customer record, the steps followed are the same as the steps followed when making initial record. For example, if a new customer is to be added to SP chart, click on **Structure** then on **SP chart**, Right click then click on **Add New Element**. Then follow the steps of creating a customer in SP chart.

If some information is to be changed to existing customer, only account number can't be changed, but the name, address and other information can be changed.

### 3.5.2 Supplier record

The procedure of making changes in adding or deleting some information on supplier is the same as for the customer. The user may need to add or remove

some information on the supplier name created depending on the changes that need to be added in the system like the address of the supplier, product/raw materials to be purchased from that particular supplier etc.

To make these needed amendments,

- Click on **Structure** menu then click on **SP chart**,

- Do a right click then click on **Add New Element**. This is followed when the user wants to add a new supplier to his SP chart.

When only little information needs to be modified for a particular supplier, double click on that particular supplier, then some modifications can be made except the account number. For example, you can change the name and address of the supplier.

### 3.5.3 Other third parties accounts

Apart from customers and suppliers, the business may have other third parties like employees, sundry debtors, and sundry creditors. The same procedures are followed to make changes for customers and for suppliers are followed for other third parties update.

**Application activity 3.5**

1. Assume that you are accountant of a given company and you use Sage line 100 in your records keeping. You have made an error in recording the debtor SALAMA's information, where, instead of recording her proper account type of customer, you saved her as supplier, how can you amend/ update her information

## 3.6. Check data records using IT tools

**Learning Activity 3.6**

1. When using accounting software, you may make some errors. Give three examples of the errors can be discovered by the software itself?

2. Once an error has been made and the system notify you with a warning message, about how can you solve the problem?

The recorded data may be checked using the software since there can be some errors when entering the data in the system. For example, if the account related

to expenses is given the name of a fixed assets, the system does not recognize the creation of that account. More exemplary, in journal entries, if for example the cash transaction is recorded in sales journal the system notifies the user that the account to be used is not of type credit sales. The user must always read the warning notification given by the software before proceeding to next steps. For example, if you typed a letter in **Account** field, Sage software tells you that the field contains an invalid character. If the problem is a list entry that doesn't exist, the "list name Not Found" dialog box opens (where "list name" is a list such as Terms) and tells you the value isn't in the list. In the dialog box, click Set Up to add the entry to the list. Fix any other errors, and then click Save Changes again.

Sometimes the user may receive a notification warning about the important and compulsory step skipped or mandatory field not filled, then the software notifies and warns about it. For example in the creation of Chart of Account if you don't fill in the account field the following notification is displayed:
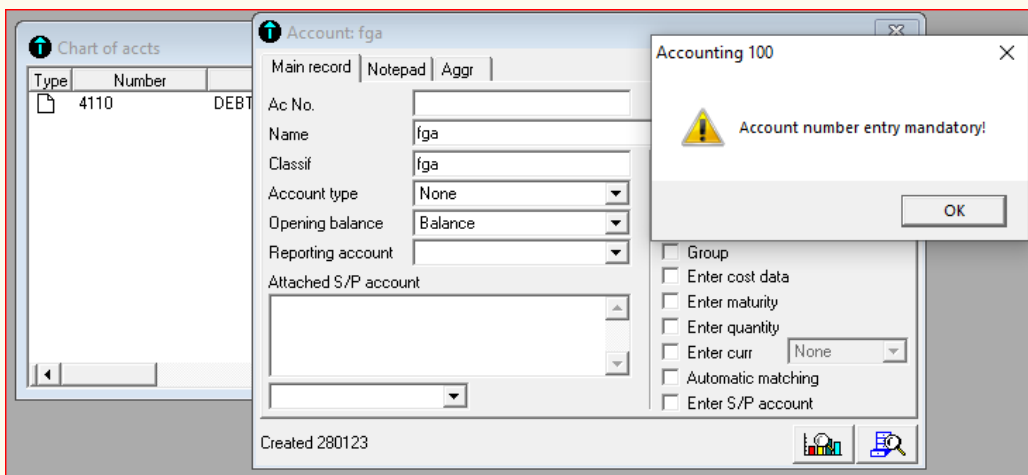


*Figure 3. 23: Example of warning message given by accounting software*

In case the problem persists the user may press **escape** button on keyboard (Esc), and go back to initial or previous step.
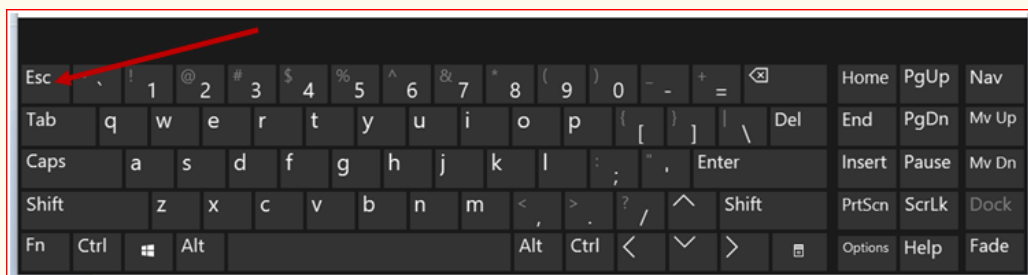


Figure 3. 24: Location of escape button on keyboar

1. Why is it necessary to check data records in accounting software?

2. You have already created company name but you find that you have recorded wrong accounting period. What are you going to do to record the appropriate accounting period?

**End unit assessment**

1. Before recording any data in accounting software, we need to create file name and company profile. Why is it necessary to create the file name and company profile?

2. Create company profile and fill the information below:
   − File name: UMURIMO
   − Company name: UVW
   − Activity: Service provision
   − Account currency:  Rwandan franc
   − Tick on voucher number field protection

3. Create the currency rates for USA dollar, for $1=1076 FRW

# Unit 4

## CREATION OF CHART OF ACCOUNT

**Key Unit competence:** Create charts of accounts and S/P charts with the code in SAGE 100

### Introductory activity

STRONG FAMILY is a small sole trade business of purchasing and selling of Electronic devices. It is located in KINYINYA Sector, Gasabo District in Kigali city (Tel +250788594143; P.O Box 2023Kigali). STRONG FAMILY Shop is well known for its excellent services performed in society and this attracts many customers. Actually it is facing serious problems related to the use of manual accounting. The decision is taken to hire you knowing that you are skilled in computerized accounting and expecting that you will help the Shop in the process of recording financial transaction using Sage line 100.

1. What do you understand by chart of account? What is meant by SP Chart?

2. Identify the types of accounts affected by the transactions below

3. Basing on the transactions below extracted from STRONG FAMILY in January, 2020, create chart of Account and SP chart.

On 1st January, 2020 Starting business with RWF 20,000,000(from the business owner)

2ndJanuary, 2020 Receiving a loan from bank of RWF 20,000,000

8thJanuary,2020Bought land for RWF 3,500,000 and paying rent for RWF 400,000 (both by cheque)

10thJanuary,2020Bought goods on credit from Emma for RWF 2,600,000

11thJanuary,2020 Selling goods on credit to Minani for RWF 1,500,000 (cost of goods sold RWF 900,000)

12thJanuary,2020 Receiving cash from Minani (paying a half of his debt)

## 4.1. Description of chart of account in sage line 100

**Learning Activity 4.1**

The following are transactions extracted from INYABUTATU Ltd Company in 2021

1st January started a business with 9,000,000 Frw at bank

2nd January withdrew 3000,000 Frw from bank account

3rd January Bought goods of 700,000 Frw by cash

10th January sold goods worth 350,000 to BERWA for cash

17th January received commission of 130, 000 Frw and was deposited at bank

21st January bought goods for 400,000 Frw, receiving 5% discounts.

1. What is meant by chart of account

2. Identify the accounts affected by the above transactions and their types

### 4.1.1 Meaning of chart of account

A Chart of Accounts (COA) is a financial, organizational tool that provides an index of every account in an accounting system. This provides an insight into all the financial transactions of the company. Here, an account is a unique record for each type of asset, liability, equity, revenue and expense. A COA includes many subcategories for each account.

In practice, the Chart of Account serves as the foundation for a company's financial record-keeping system. It provides a logical structure that facilitates the addition of new accounts and the deletion of old accounts in computerized accounting system. Similarly, an important purpose of a chart of account is to segregate expenditures, revenue, assets and liabilities so viewers can quickly get a sense of a company's financial health. A well-designed chart of account not only meets the information needs of management; it also helps a business to comply with financial reporting standards.

A company has flexibility in creating a chart of account that suits its needs. Within the categories of operating revenues and operating expenses, for instance, accounts might be further organized by business function or by company divisions. They need to be mindful of the Generally Accepted Accounting

Principles (GAAP) and the Financial Accounting Standards Board, however companies should also ensure that the chart of account format remains the same over a period of time. Changes to a chart of account in the short term can make it challenging to analyze the difference in a company's financial health over the long term.

## 4.1.2. Grouping of account categories and their account numbers (codes)

While traditional rules revolved around three accounts namely real, personal, and nominal, the modern version classifies the accounts into six types, making the transactions split into these categories, affecting the debit and credit sides. These accounts include asset, liability, revenue, expense, capital, and drawings account.

In SAGE line 100, the groups of accounts and their codes are as follow:

| Account name | Account number range(13 digits maximum) |
|---|---|
| Capital | 10-1099999999999 and 13-1899999999999 |
| Income-BS | 11-1299999999999 |
| Fixed Assets | 20-2799999999999 |
| Depreciation/Provision | 28-2999999999999 39-3999999999999 49-4999999999999 59-5999999999999 |
| Stock | 3-3899999999999 |
| Suppliers(Creditors) | 401-4019999999999 403-4039999999999 403-4049999999999 |
| Customers (Debtors) | 411-4119999999999 413-4139999999999 |
| Employees | 421-4219999999999 |
| Bank | 51-5199999999999 |
| Cash | 53-5399999999999 |
| Expenses | 6-6999999999999 |
| Incomes | 7-7999999999999 |
| Income management | 89-8999999999999 |

**Note**: Some users of SAGE LINE 100 use 56-56999…for bank and 57-57999 for cash referring chart of account adapted from French "plan comptable" used in Rwanda. It is possible to modify the account numbers range depending on the user's preference by following these steps:

- Click on **File** then on concerning your company-and click on **Options**
- In **Options tab**, click on **Account type**
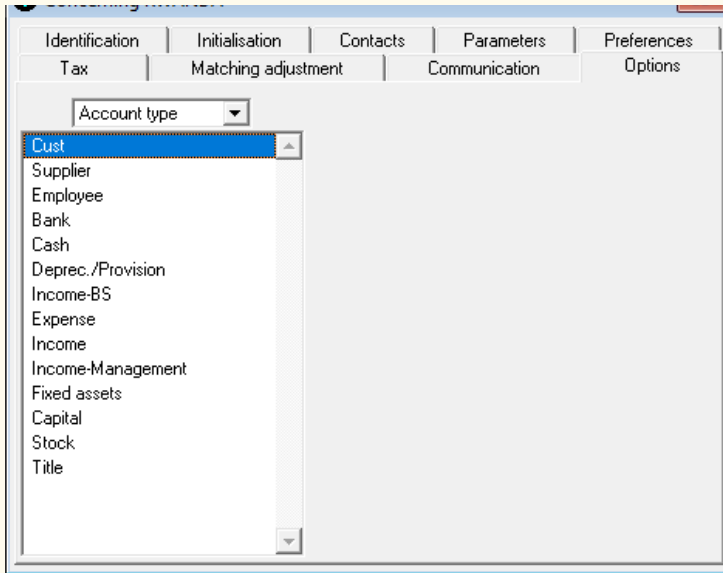


*Figure 4. 1: List of account types*

- After double clicking each of the account available and changing the range of account numbers.

For example, for customers you will get the following:
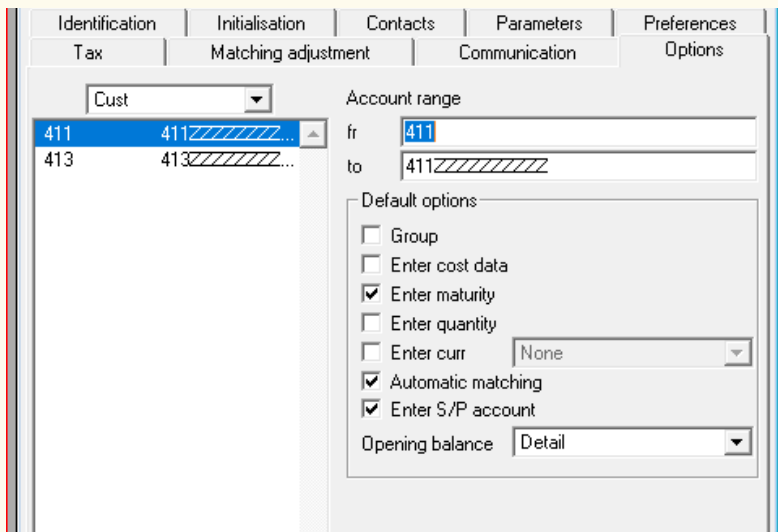


*Figure 4. 2:Customer account number range*

To find another account to be modified, do a right click on black triangle-shaped tab ᵗˢᵗ on **Customer** then click on **Account Type**.
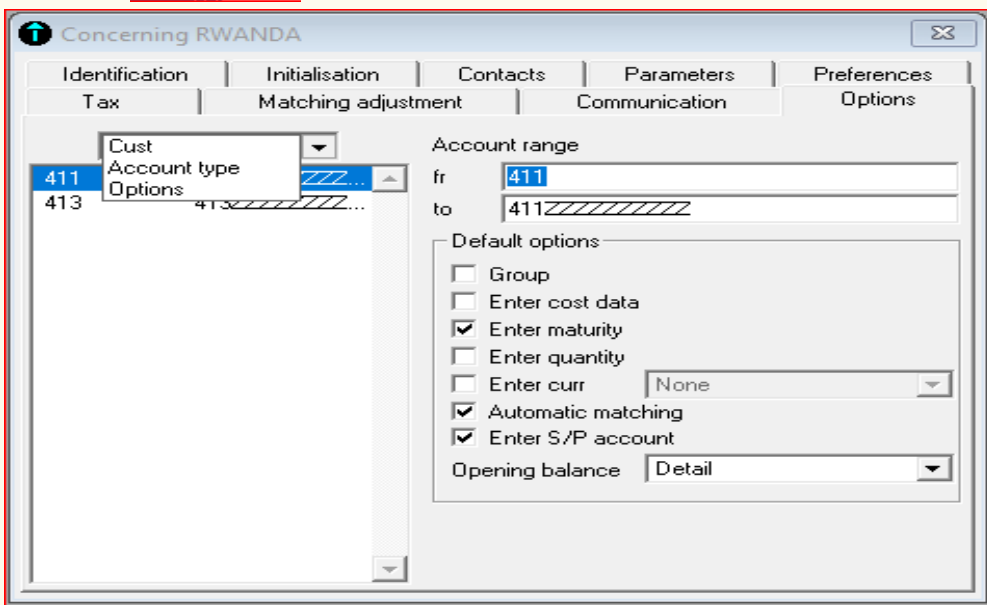


*Figure 4. 3: Back to Account Type*

Find the list of other accounts then you select the type of account to be modified.

## 4.1.3. Steps to create chart of account in Sage line 100

In Sage line 100, the following are the steps to create Chart of Account:

- Click on **Structure** menu

- Click on **Chart of Account**

- Do a right click and click on **Add New Element**. You get the window below:
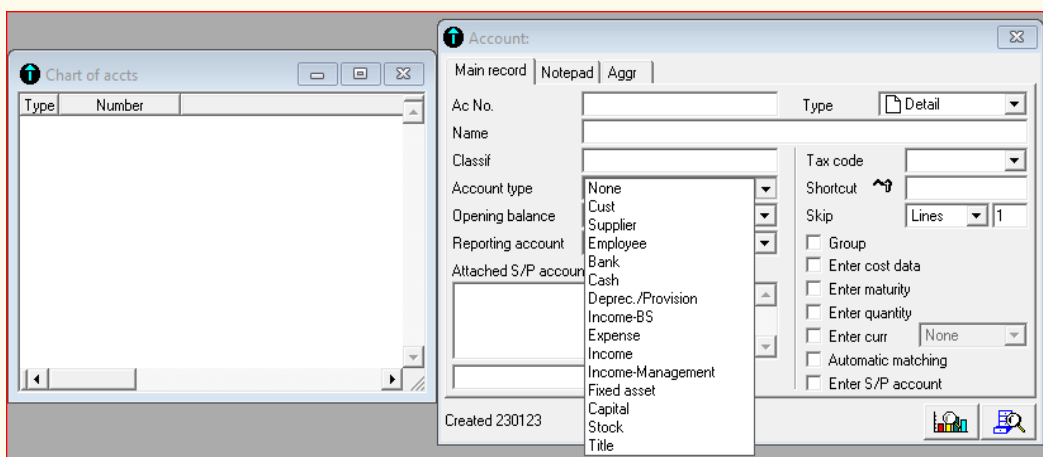


*Figure 4.4.a: Chart of account window using a vertical bar.*
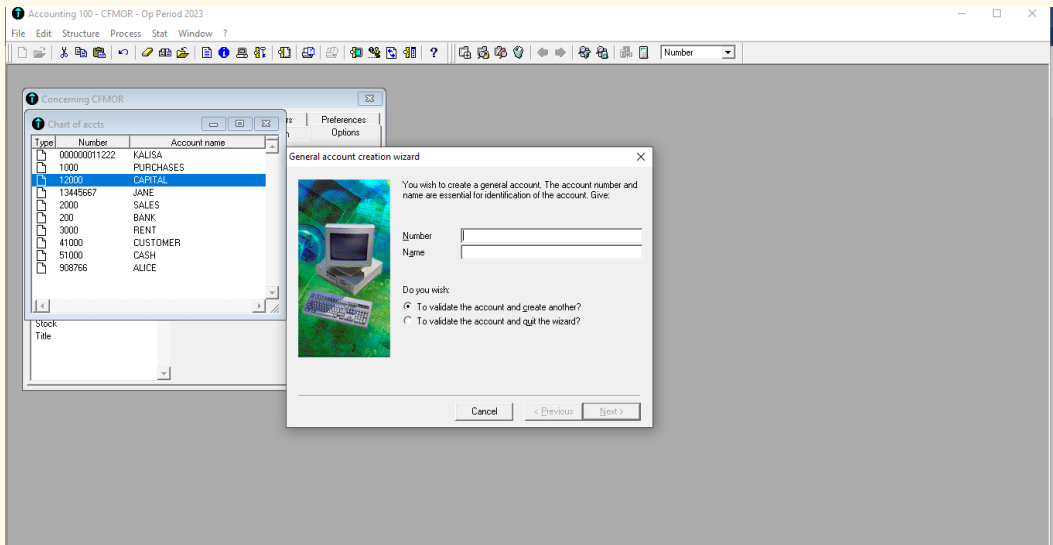
Figure 4.4.b: Chart of account window using a Wizzard bar.

**Application activity 4.1**

1. Explain the meaning of chart of account

2. State the grouping categories of accounts when creating chart of account in Sage line 100

3. Write down the steps followed in creating chart of account in SAGE line 100 software

## 4.2 The capital, income accounts and their codes

**Learning Activity 4.2**

The following are transactions extracted from TUZAMURANE Ltd Company in 2022.

1st January started a business with 15,000,000FRW at Bank and 3000,000 FRW cash in hand

2nd January, withdrew 5000,000 FRW and bought land valued at 4000,000 FRW by cash

3rd January Bought goods worth 300,000FRW on credit

5th January received rent for 200,000 FRW by cash

7th January Interest worth 25,000 FRW received and deposited on saving account.

10th Jan withdrew 100,000 FRW for personal car maintenance.

15th January sold goods of 600,000 FRW by cash. Cost of sales 450,000 FRW

1. Identify the capital and income accounts affected by the above transactions

2. Create chart of account for the identified incomes and capital accounts.

As mentioned earlier, the capital account number ranges from 10 to 1099999999999 depending on the number of digits used for account numbers, while incomes account number ranges from 7 to 7999999999999 depending on the number of digits set in the creation of accounting file.

For example, if we use 4 digits' account number, our sample chart of account for capital and incomes will look like this:

| Account number | Account name | Account type |
|---|---|---|
| 1000 | Capital | Capital |
| 7001 | Income 1 | Income |
| 7002 | Income 2 | Income |
| 7003 | Income 3 | Income |
| 7004 | Income 4 | Income |
| And so on | | |

For example, if we have the transactions such as:

Started a business with 4000,000 Frw at bank

Sold goods worth 600, 000 for cash

Received commission of 50,000 Frw and was deposited on bank account

Received a discount of 25, 000 Frw

Rent received for 100,000 Frw

The chart of account will be made of the following accounts and account numbers

| Account number | Account name | Account type |
|---|---|---|
| 1000 | Capital | Capital |
| 7001 | Sales | Income |
| 7002 | Commission received | Income |
| 7003 | Discount received | Income |
| 7004 | Rent received | Income |
| And so on | | |

To create the chart of account for the above transactions related to capital and income

You click on **Structure** then on **Chart of account**

Do a right click and click on **Add New Element?**

In **Ac no** field, type 1000 for capital and in **Capital field** type the name of capital. Click in the **classif** field then the capital name will be reproduced as follow:
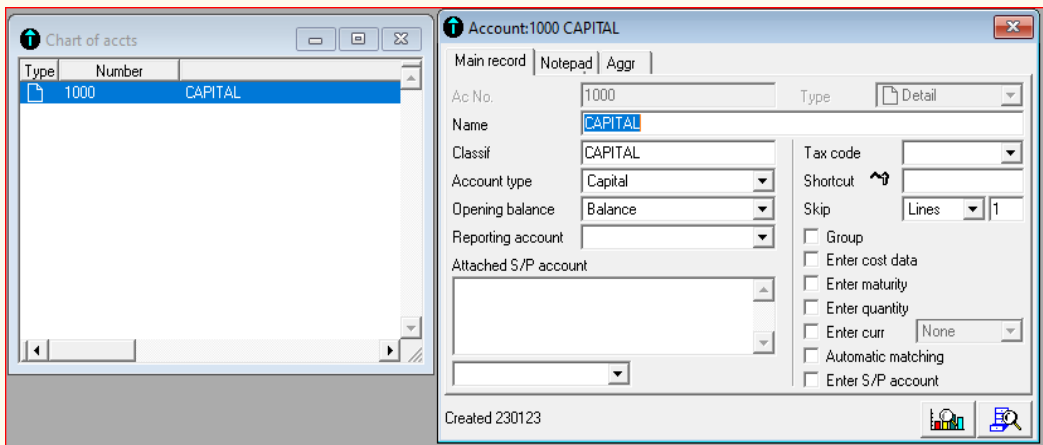


*Figure 4. 5: Creation of capital account*

Click on "**Add**" icon on navigation toolbar
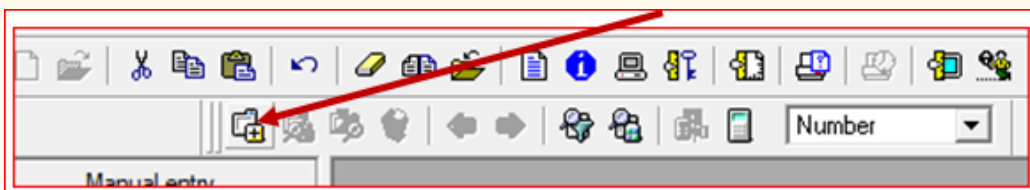


*Figure 4. 6: Location of add icon on navigation toolbar*

Or right click and click on **Add New Element** to add other accounts of your company's chart of account. The following window will appear:
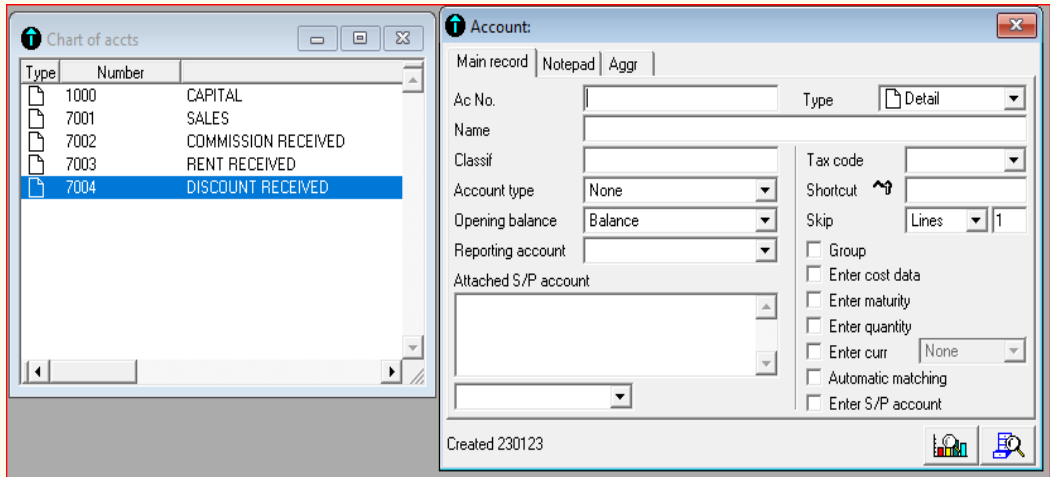
*Figure 4. 7: Sample chart of capital and income accounts*

You continue in the same process to create other accounts in chart of account

**Application activity 4.2**

In January, 2019, Jane commenced a hardware store business in Rwamagana town with 4000,000 Frw at bank and 2,500,000 Frw cash in hand.

On 2nd January, bought 100 sacks of cement for 10,500 Frw each.

On 10th January, sold 40 sacks of cement for 12,000 Frw each.

On 15th January received interest for 50,000Frw and interest was deposited on bank account.

20th January, received a discount of 28,000 Frw

1. Identify the types of accounts affected by the above transactions

2. Create chart of account for capital and income account identified in the above transactions

## 4.3 Creation of assets account and their codes in chart of account

**Learning Activity 4.3**

The following are transactions extracted from URUMURI Ltd Company in 2019

1st January started a business with 15,000,000 Frw at bank and 3000,000 Frw cash in hand

2nd January, withdrew 7000,000 Frw from bank account

5th January, bought land worth 2,500,000 Frw by cash

7th January, bought building valued at 4000,000 Frw by cash

11th January Bought goods of 700,000 Frw by cash

15th January sold goods worth 350,000 Frw to NKINGI on credit

20th January, bought goods valued at 1,200,000 Frw from JIMMY by cheque. Cost of goods sold 850,000 Frw.

2nd February, Purchased office equipment for 650,000 Frw by cheque

5th February, paid rent with 400,000 Frw by cash

10th February, NKINGI settled his full debt by cash

1. Identify the assets accounts found in the above transactions and allocate the account numbers (codes) corresponding to each account

2. Create chart of assets account identified from the above transactions.

### 4.3.1 Creating fixed assets in chart of account

Fixed assets are company-owned, long-term tangible assets, such as forms of property or equipment. These assets make up its day-to-day operations to generate income. Being fixed means they can't be consumed or converted into cash within a year. As such, they are subject to depreciation and are considered illiquid.

Fixed assets can include buildings, computer equipment, software, furniture, land, machinery, and vehicles. Other fixed assets (or non-current assets) include long-term investments and intangibles. Intangible assets are those that can lack physical existence but can still be used over the long term. These types of assets include goodwill, copyrights, trademarks, and intellectual property. Long-term investments can include bonds that won't be sold or mature within a year.

The creation of chart of account for fixed assets in SAGE line 100 follows the same process as capital and incomes, the only difference lies on the account numbers, where fixed assets accounts range from 20 to 2799999999999.When it goes to 28, it becomes the code of depreciation of fixed assets.

Using four (4) digits for account numbers, the chart of account will look like this:

| Account numbers | Account name | Account type |
|---|---|---|
| 2001 | Fixed asset 1 | Fixed asset |
| 2002 | Fixed asset 2 | Fixed asset |
| 2003 | Fixed asset 3 | Fixed asset |
| 2004 | Fixed asset 4 | Fixed asset |
| And so on | | |

If for example we have assets like land, building, machinery, motor vehicle and office equipment, the fixed assets chart of account will be as follow:

| Account numbers | Account name | Account type |
|---|---|---|
| 2001 | Land | Fixed asset |
| 2002 | Building | Fixed asset |
| 2003 | Motor vehicle | Fixed asset |
| 2004 | Office equipment | Fixed asset |

To create the fixed assets in chart of accounts,

- Click on structure menu
- Click on chart of account
- Right click then add new element

The following window appears:
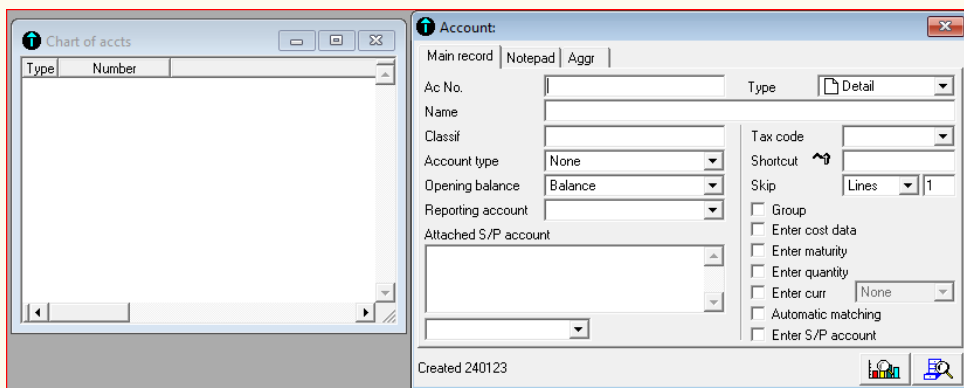


*Figure 4. 8: Chart of account window*

In the Ac no field, enter account number (eg 2001 for land account), in the name field, type account name and put your cursor in classif field to get the name of account repeated. Normally on the account type, the software itself will recognize that account number used is of fixed assets type. Using our sample assets chart of account, the chart of account in Sage line 100 will look like this:
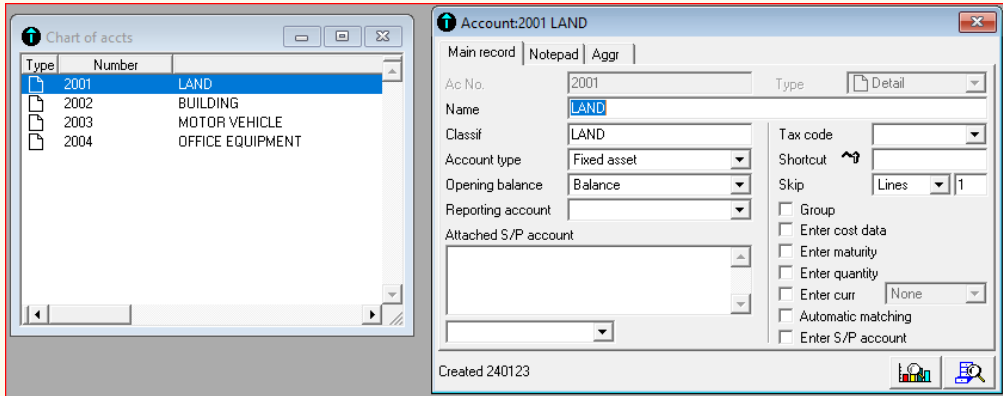


*Figure 4. 9: Sample chart of account for fixed assets*

For deleting already created fixed asset, right click on that particular asset, then click on "**delete selected element**"
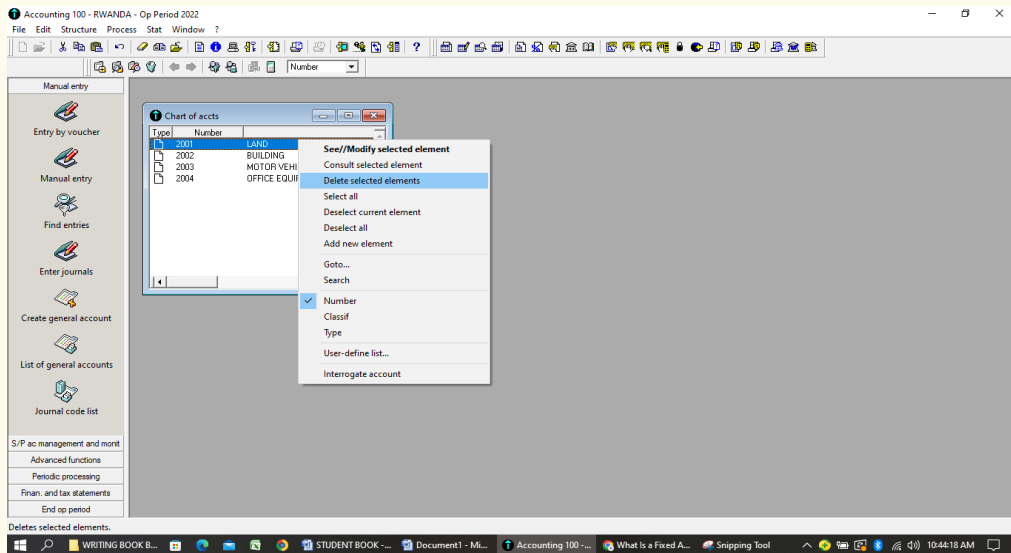


You can also delete the selected fixed asset or any other created element of chart of account by selecting it and clicking on **delete** icon on navigation toolbar.



*Figure 4. 10: Location of delete icon on navigation toolbar*

## 4.3.2 Creating current assets in chart of account

Current assets are either: (a) items owned by the business with the intention of turning them into cash within one year; or (b) cash, including money in the bank, owned by the business. These assets are 'current' because they are continually flowing through the business. For example, a trader, Kamegeri, runs a business selling motor cars and purchases a showroom, which he stocks with cars for sale. (a) If he sells a car in a cash sale, the goods are immediately converted into cash. (b) If he sells a car in a credit sale, the car will be given to the customer who becomes a receivable of the business. Eventually, the receivable will pay what he owes in cash. The transactions described above could be shown as a cash cycle.
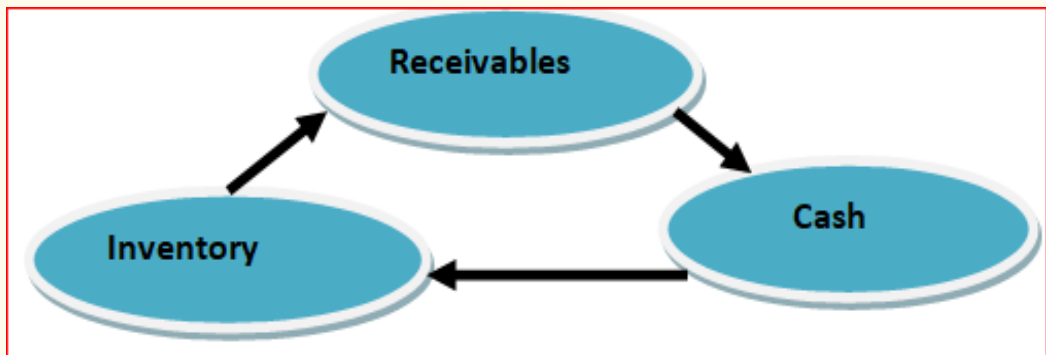


*Figure 4. 11: Cash cycle*

Current assets are listed in descending order of the length of time it might be before the asset will be converted into cash. Broadly speaking, inventory will convert into receivables, and receivables will convert into cash. So inventory, receivables and cash will be listed in that order. Prepayments, because they are similar to receivables, should be listed after receivables and before cash.

In SAGE line 100, if we use four(digits)current assets would have the following account numbers in chart of account:

| Account number | Account name | Account type |
|---|---|---|
| 3001 | Stock1 | Stock |
| 3002 | Stock 2 | Stock |
| 3003 | Stock 3 | Stock |
| 4110 | Debtors (customers, Account receivables) | Cust |
| 4130 | Sundry debtors | Cust |
| 5300 | Cash | Cash |
| 5100 | Bank | Bank |

For example, if we have the following current assets in our business,

- Stock of raw materials
- Stock of furniture
- Stock of office supply
- Customers (account receivables)
- Sundry debtors
- Cash
- Bank

The chart of account for the above current assets is:

| Account number | Account name | Account type |
|---|---|---|
| 3001 | Stock of raw materials | Stock |
| 3002 | Stock of furniture | Stock |
| 3003 | Stock of office supply | Stock |
| 4110 | Debtors (Customers, account receivables) | Cust |
| 4130 | Sundry debtors | Cust |
| 5100 | Bank | Bank |
| 5300 | Cash | Cash |

To create the above chart of account in SAGE line 100,

- Click on structure menu
- Right click
- Add new element then the following window is displayed:
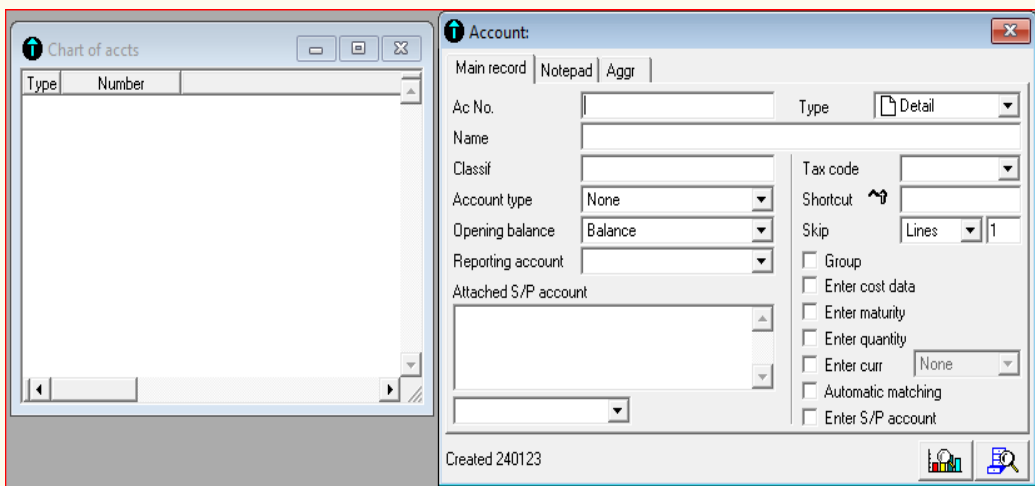


*Figure 4. 12: Chart of account window*

To enter the account number and account names of the aforementioned current assets, you type the account number in **Ac no**. field, the account name in **name** field, the account type is displayed itself since the software recognizes the account number used for the particular account type. After creating the chart of account for current assets you will have the following results:
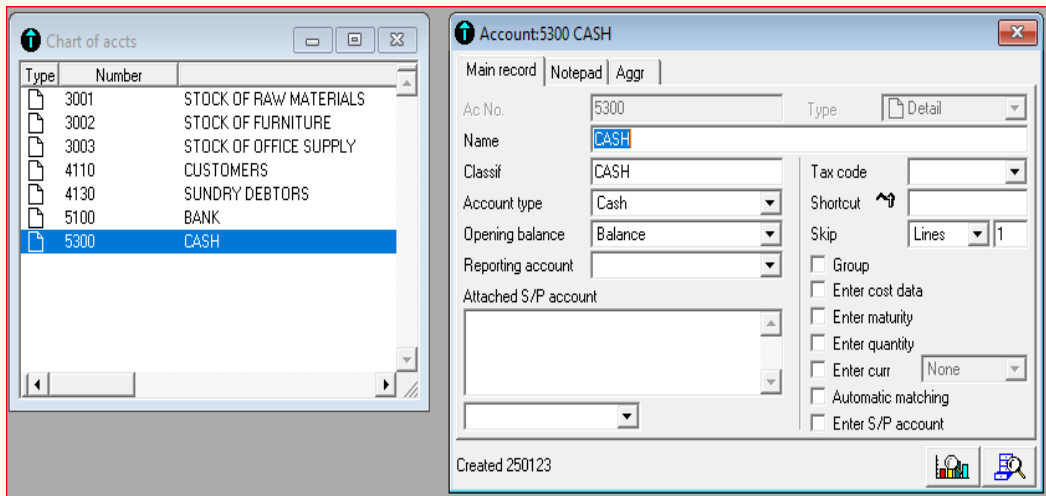


Figure 4. 13: Creation of cash account

### Application activity 4.3

The following is the list of the assets owned by UBUMWE agro processing industry ltd in 2021.

- Land                        6000000 Frw
- Vehicle                     12,000,000 Frw
- Building                    4,500,000 Frw
- Fixtures                    3,400,000 Frw
- Machinery                   6,500,000 Frw
- Cash                        2,500,000 Frw
- Bank                        5,000,000 Frw
- Stock of raw materials      2,300,000 Frw
- Debtors                     3,000,000 Frw
- Stock Office supplies       7.200,000 Frw

Required: Create chart of account for the above assets owned by UBUMWE agro-processing industry Ltd.

## 4.4 Creation of third party accounts in SAGE line 100

Corin KARURANGA owns and runs the Aerobic Health Foods Shop in Muhanga town. He commenced trading on 1 January 202.

Customers are allowed to purchase up to 200,000 Frw of goods on credit but must repay a certain proportion of their outstanding debt every month. These customers include Eden Restaurant, Fast food Restaurant and INEZA Motel. Again, the business has contract with different suppliers like Modern farms cooperative, Turwanyinzara cooperative, and IGIRE Muhinzi cooperative.

More importantly, the business is employing workers including 2 watchmen, cashier, accountant, customer care officer, service providers and sales men.

1. Why is it unavoidable for business to keep customers, suppliers and employees' records in books of accounts?

2. Identify the customers (debtors), suppliers (creditors) and employees of Corin KARURANGA and create S/P chart for them.

### 4.4.1 Creation of S/P chart for debtors

Debtors represent the amount of money owed to the business and can be sub-divided into trade debtors and others. The former category relates to customers who have bought goods on credit terms and represents the amount of money still outstanding from them at the year end. Other debtors could include dividends receivable from investments in the shares of other companies.

Before creating individual debtors accounts in S/P chart, you need first to create their general account in chart of account as debtors(customers)as follow:

Click on structure-chart of Account-Right Click-Add new element.
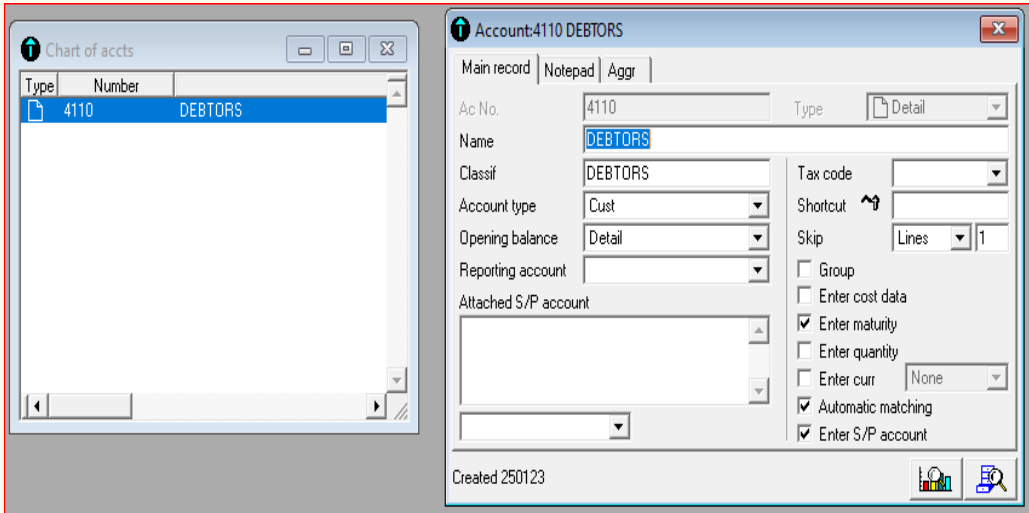
Figure 4. 14: Creation of Customers (debtors)' general account

After getting the above window, you can create individual account of each debtor (customers) in S/chart of account. Sample S/P chart for individual debtors is summarized in the table below:

| Account number | Account name | Account type |
|---|---|---|
| 4111 | Debtor1 | Cust |
| 4112 | Debtor 2 | Cust |
| 4113 | Debtor 3 | Cust |
| 4114 | Debtor 4 | Cust |

The following steps will be followed:

Click on structure

- S/P chart

- Right click

- Add new element

Then the following window will be displayed:
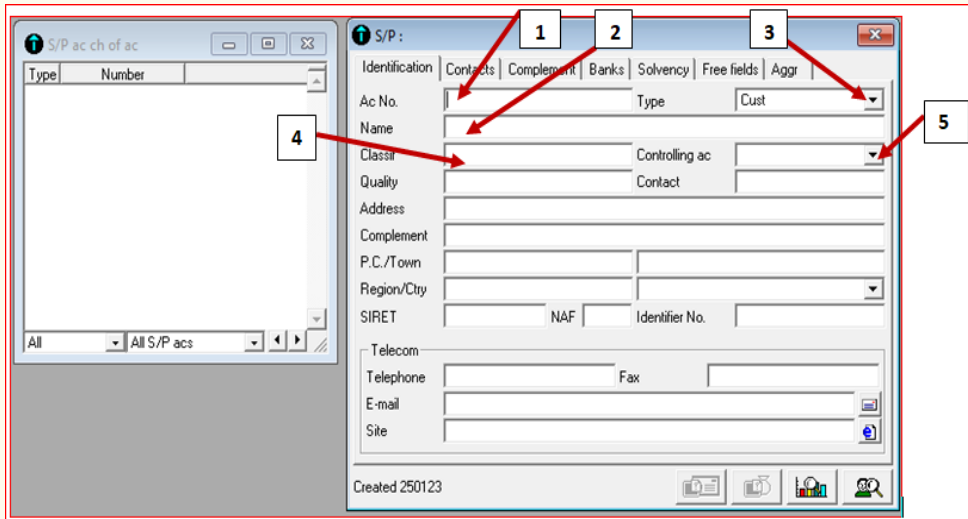
*Figure 4. 15: SP chart window*

1. Write the account number of the debtor
2. Type the name of the debtor
3. Select the type of account (In customer, supplier, employee, and other), select cust(customer)
4. Click in classif field for the debtor name to be reproduced
5. Click on controlling account, the chart of account already created appear and you select debtor(customers)

Additionally, you can fill the full address of the debtor as mentioned in the table.

For example if you have the four debtors in your company, Kalisa, Mukamana, Kanyana, and Uwizeye.
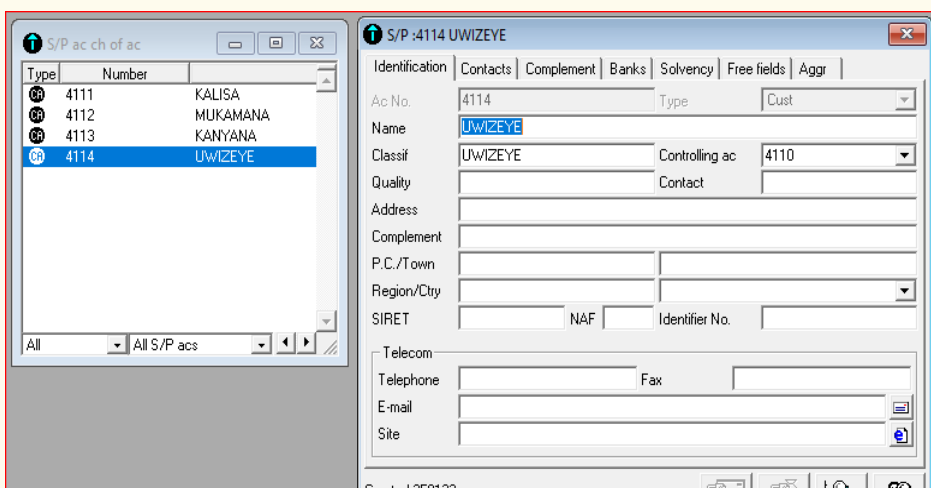


*Figure 4. 16: Creation of individual accounts of customers (debtors)in SP chart*

## 4.4.2 Creation of SP chart for the creditors (Suppliers)

A creditor is an individual or entity that is owed money. Typically, the creditors of a business are its suppliers, which have provided it with goods and services, and in exchange expect to be paid by an agreed-upon date. Or, the business owes money to a lender, which also expects to be repaid at a later date. The amounts owed should be reported on the firm's balance sheet as either accounts payable or loans payable. Accounts payable are usually classified as current liabilities, while loans may be classified as either current or long-term liabilities, depending on their scheduled repayment dates.

Examples of creditors are suppliers and lenders. There are several varieties of creditor, which include the following:

- **Secured creditor.** This creditor is legally entitled to take certain borrower property and sell it in the event of a payment default.

- **Unsecured creditor.** This creditor is not legally entitled to take any borrower property in the event of a default.

- **Senior creditor.** This creditor will be paid before junior creditors in the event of a borrower's bankruptcy.

- **Junior creditor.** This creditor will only be paid after senior creditors have been paid in full, if there is a borrower bankruptcy

Before creating individual creditors accounts in S/P chart, you need first to create their general account in chart of account as creditors (customers) as follow:

Click on structure-chart of account-Right click-Add new element.

The following window appears:
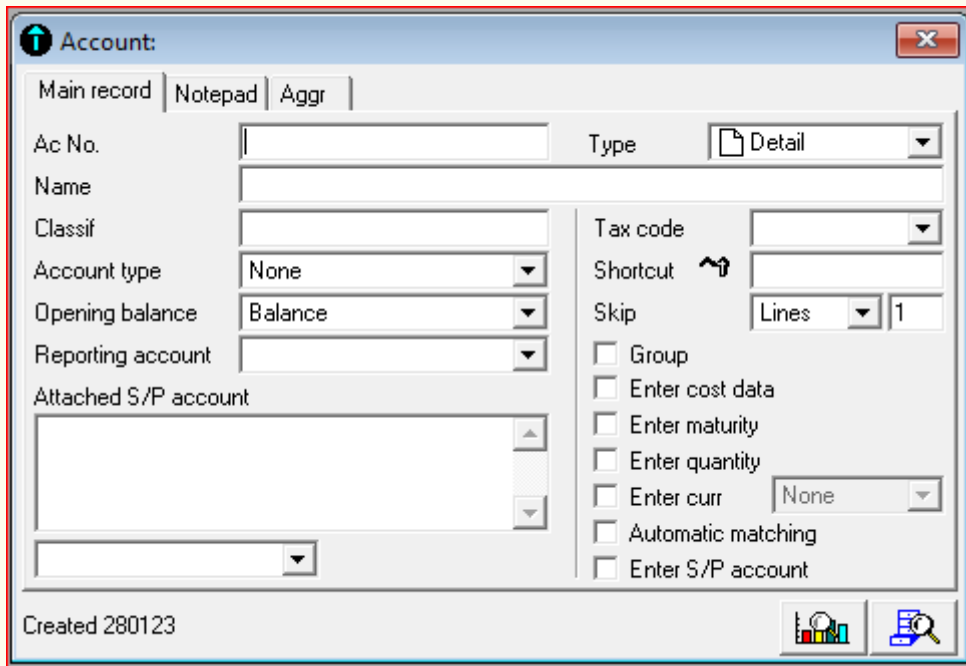
*Figure 4. 17.  Chart of account window*

In the account number field, fill 4010(If four digits were used to set account length). In the name field, fill Creditors or suppliers. Then click on classif to make the account name be reproduced. Account type will automatically show as supplier since the software itself recognizes the type of account when the account number is written in its field. After, the following window will be displayed:
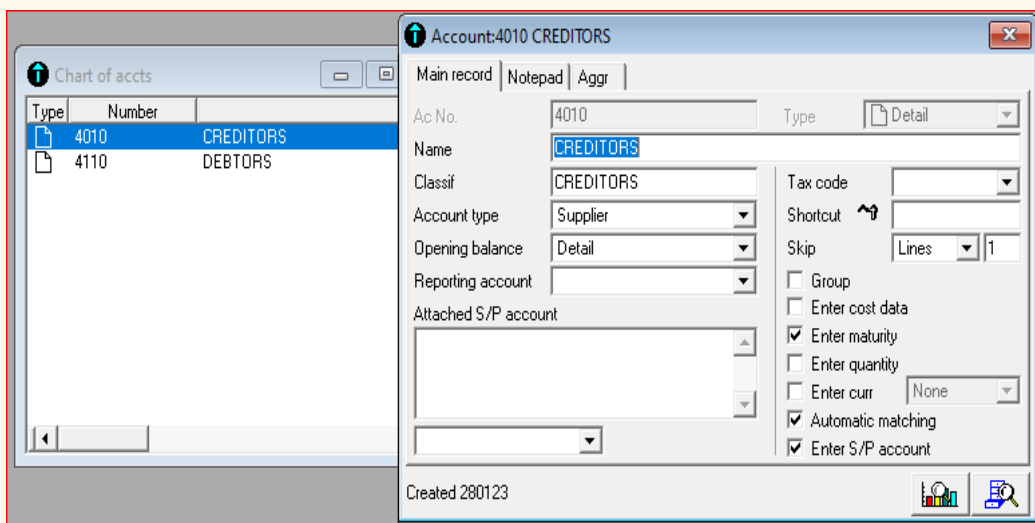


*Figure 4. 18: Creation of general account for suppliers (creditors)*

Once the general account of creditors has been created, the next step is to create individual account of creditors in S/P chart.

The sample S/P chart for individual suppliers' accounts is structured as summarized in the following table:

| Account number | Account name | Account type |
|---|---|---|
| 4011 | Creditor1 | Supplier |
| 4012 | Creditor 2 | Supplier |
| 4013 | Creditor 3 | Supplier |
| 4014 | Creditor 4 | Supplier |
| And so on | | |

If for example the company has five (5) suppliers, let's say BERWA, Ebenezer, Ganix, KANYARWANDA and NGENZI. Their chart of account will be as follow:

| Account number | Account name | Account type |
|---|---|---|
| 4011 | BERWA | Supplier |
| 4012 | Ebenezer | Supplier |
| 4013 | Ganix | Supplier |
| 4014 | KANYARWANDA | Supplier |
| 4015 | NGENZI | Supplier |

To find S/P chart,

- Click on structure

- Click on S/P chart

- Right click

- Click on Add new element

The following window is shown:



*Figure 4. 19: Display of SP chart account types*

- In Ac No field, fill the account number of the creditor

- In the name field, fill the name of creditor

- Click on Cust tab and select supplier

- Click on controlling account, then the chart of account appear and select suppliers or creditors (depending on the name you have attributed to creditors in chart of account)

- Lastly, fill full address of the customer, including postal code (PC), town, Region /Ctry and telecom.
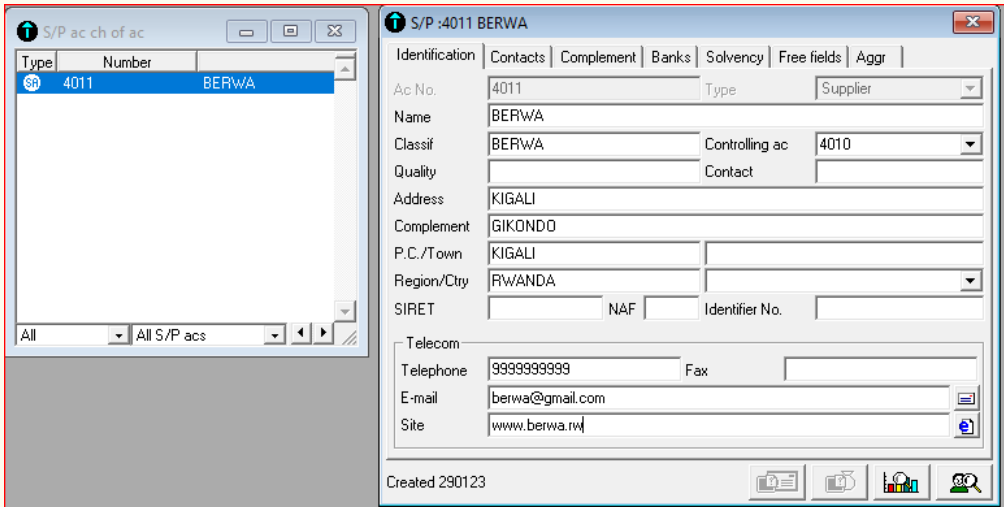
*Figure 4. 20: Creation of individual supplier(creditor)' account*

After filling the information above for one creditor, do the same for all creditors of the company. Considering the sample creditors stated above, S/P chart will be like this:
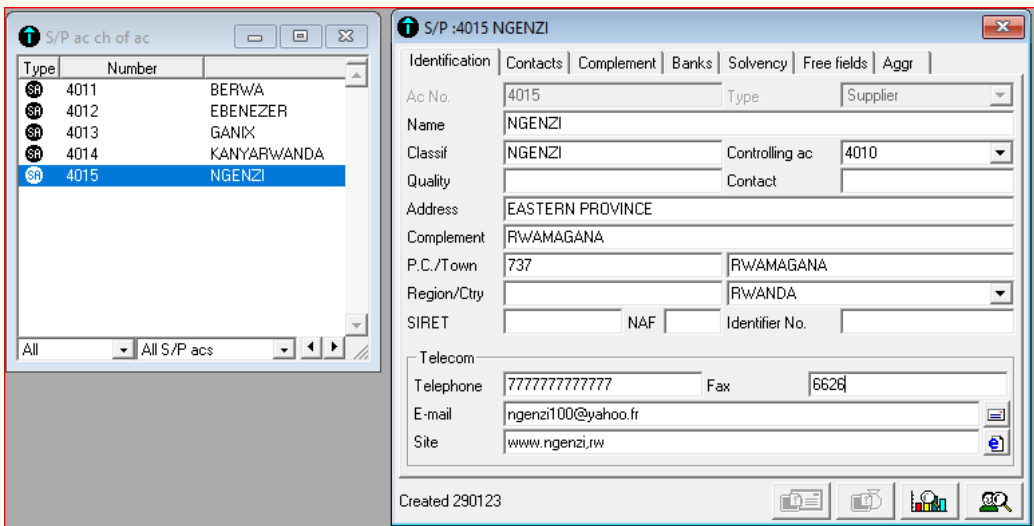


*Figure 4. 21: Sample SP chart for suppliers(Creditors)*

### 4.4.3 Creation of SP chart for employees

An employee is a person who works for another in return for financial or other compensation. Under that definition, independent contractors would appear to be employees. Black's Law Dictionary defines employee as a person in the service of another under any contract of hire, express or implied, oral or written, where the employer has the power or right to control and direct the employee in the material details of how the work is to be performed.

A payroll journal entry is a record of how much you pay your employees and your overall payroll expenses. That way, you can look back and see details about employee compensation, such as when you paid it, how much it was, and where the money went. Compensation describes the cash rewards paid to employees in exchange for the services they provide. It may include base salary, wages, incentives and/or commission. Total compensation includes cash rewards as well as any other company benefits.

The employees account length ranges from 421 to 42199999999 in the chart of account.

In Sage line 100, employees are created in the same way as debtors and suppliers. You just click on **Structure-SP chart**-Right click-**Add New Element**. After getting to S/P chart, the next step is the creation of all employees working in the business.

If for example a business is employing five employees, let's say Mukamana, Kamari, Rwabugiri, Bagabo, Nkurikiyinka, the table summarizing SP chart for the employees names account numbers and types using four (4) digits for account length are as follow:

| Account number | Account name | Account type |
|---|---|---|
| 4211 | Mukamana | Employee |
| 4212 | Kamari | Employee |
| 4213 | Rwabugiri | Employee |
| 4214 | Bagabo | Employee |
| 4215 | Nkurikiyinka | Employee |

To create the above employees in the S/P chart, click on structure-SP-chart-Right click-add new element, then you record the required information concerning employees.

- In the Ac no field, fill the account number of employee

- In the name field, fill the name of employee

- Click in classif field to get the name of employee reproduced

- Click on controlling account tab to get the previously created chart of account, then click on employees to connect each employee individual account to their general account as collected in chart of account.

- Fill other information regarding address and personal information of employee

Below is the filled S/P chart for the above employees.
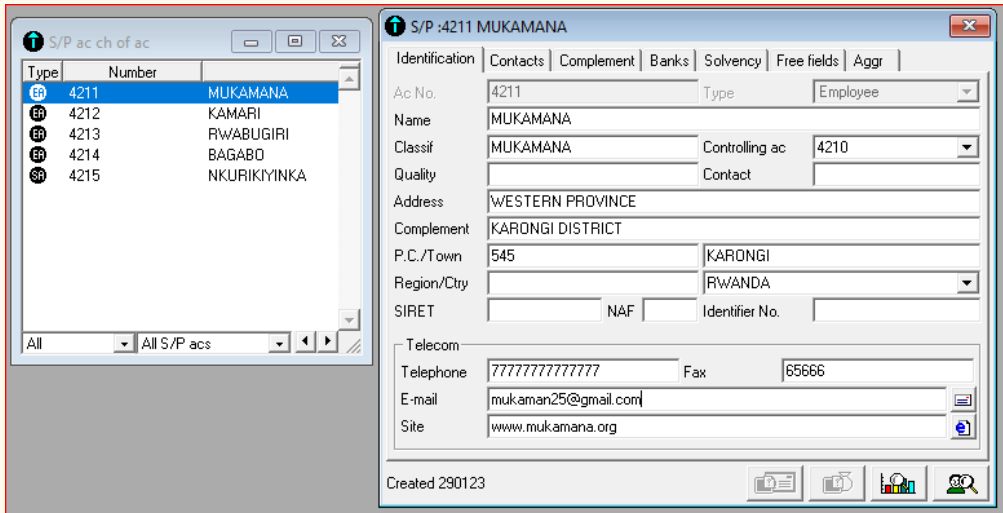
*Figure 4. 22: Sample SP chart for employees*

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**Application activity 4.4**

The company MM has the following suppliers and customers; prepare their chart of account.

| Account number | Account name | Account type |
|---|---|---|
| 4111 | KIBERINKA | Customer |
| 4011 | BUGINGO | Supplier |
| 4012 | URUJENI | Supplier |
| 4112 | MUNYANA | Customer |
| 4013 | MANZI | Supplier |

THOUSAND HILLS Ltd company is a manufacturing company that process sugar cane into finished sugar. The following are transactions extracted from THOUSAND HILLS Ltd company in 2020.

1st January, Started a business with 10,000,000 FRW at bank and 4000,000 FRW cash in hand,

3rd January, withdrew 5000,000 FRW and bought building for 7000,000 FRW by cash

5th January, Credit purchases from JUMA for 6000,000 FRW.

10th January, Bought office stationeries for 1,500,000 FRW by cheque

20th January, Credit sales to NDANGA for 7,000,000 FRW.  Cost of goods sold 4,800,000 FRW

31st January, Paid rent on office building for 150,000 FRW by cash

5th February, withdrew 800,000 FRW for buying personal computer.

11th Feb, Paid insurance valued at 300,000 FRW and Fuel for 50,000 FRW by cheque

25th Feb, Rent received for 100,000 FRW by cash

27th Feb, Earned sales commissions for 35,000 FRW

1. Identify the accounts affected by the above transactions

2. Create chart of account and S/P chart for the identified accounts

# Unit 5 CREATION OF JOURNAL CODES

**Key Unit competence:** Apply the entry of journal codes in SAGE 100

## Introductory activity

You are an intern in AGACIRO ltd Company in the department of accounting and your direct supervisor is the accountant of that company. The company has recently started to use accounting software in business record keeping, but the company's accountant has not yet got enough skills to run Sage line 100software especially in creation of books of prime entry in digital form and use them to record day to day business transactions by using sage line 100 software. As a student who is studying computerised accounting:

1. What are the books of prime entry are you going to tell him/her to create?

2. What are the steps he/she is going to follow in creating those books?

# 5.1 Use of data entry form and wizard to create the purchase journal.

The following are credit purchases made by TURWUBAKE ltd Company in July 2015.

3rd July, bought goods of 450,000 FRW from SHAMI on credit

5th July, purchased office supplies worth 430000 FRW on credit from Jeff stationery store

8th July, Bookshelves are purchased for 250,000 FRW on credit

11th July, Inventory was purchased for 700,000 FRW by cash

15th July, Credit purchases for 180, 000 FRW from Claude

24th July, bought goods from the vendor RUGAMBA for 300,000 FRW on credit

Required:

1. Identify the types of accounts affected by the transactions above
2. Create purchase journal code in Sage line 100 accounting software

## 5.1.1 Purchase journal asa book of prime entry

The commonly used books of prime entry are sales daybook (or sales journal), Purchases daybook (purchases journal), sales returns daybook/ Returns inwards daybook(or sales returns/returns inwards journal), purchases returns daybook/returns outwards daybook (purchases returns journal/ returns outwards journal), Cashbook or cash journal and general journal.

- Sales journal records credit sales made by the business

- Purchase journal records credit purchases made by the business

- Sales returns journal records returns inwards i.e goods returned by the customer to the business

- Purchases returns journal records returns outwards i.e. goods returned by the business to the suppliers.

- Cash book records receipts and payments of cash and cheques and

- General journal which records transactions which may not be recorded elsewhere in the previously mentioned types of journals.

## 5.1.2 Creation of Purchase journal codes in sage line 100

For established businesses that have been operating for some time, it can be common for their suppliers to allow them to purchase items on credit. That is, they order and receive the goods now, and pay for them later. When are they paid for? It could be the end of the week, the end of the month, or a certain number of days (like 30) after the goods were delivered to the business. The contract between the business and the supplier will determine the payment terms.

To create purchase journal codes in Sage line 100, click on structure, journal codes. The following window appears:
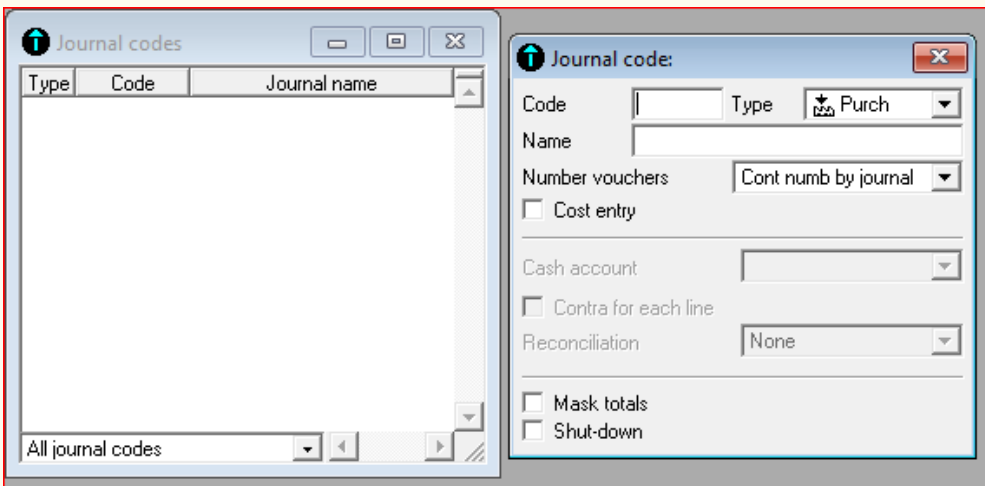


*Figure 5. 1 Journal codes window*

In the code field, type the code of purchase journal (It may be a numeric, alphanumeric or label (letter)

In the type field, select "**Purch**" meaning purchase

In name field write purchase journal

In Number vouchers, there is "cont numb by journal" by default, which means continuous number by journal. If this option is selected, we allow the voucher number to change according to the transaction in purchase journal entry. If voucher number is "**1**" for the first transaction, it becomes "**2**" when you record the second transaction in the same journal and so on.

Other options are cont numb for file and monthly. "Cont numb for file" means continuous number for file which means that, if selected, the voucher number will change depending on accounting file created whereas when we select monthly option, the voucher number will change as the month of transaction changes.

The filled purchase journal code will be as follow:
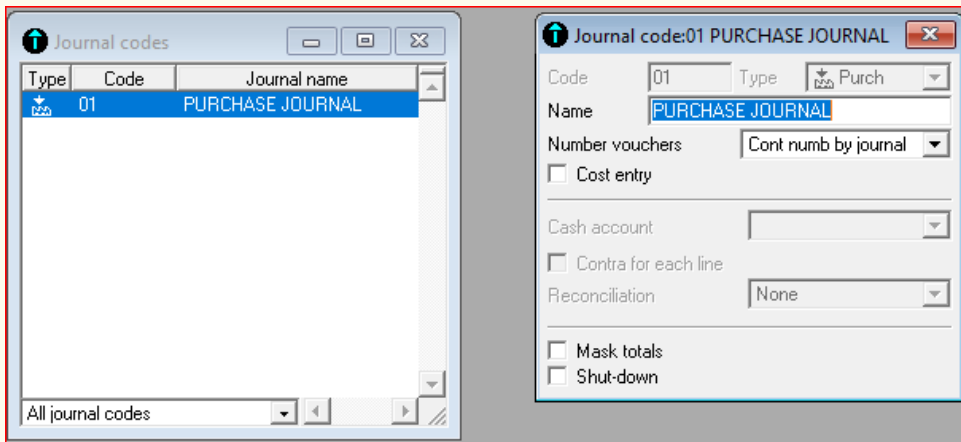


*Figure 5. 2: Creation of purchase journal codes*

After doing the above exercise, click "**add**" icon on navigation bar or Right click-add new element in order to have space for creating other journal codes.

**Application activity 5.1**

1. State the types of journals existing in accounting

2. Explain the type of information which is included in each of the books of prime entry

3. Create purchase journal code in Sage line 100

## 5.2 Create Sales Journal

**Learning Activity 5.2**

1. What is meant by sales journal
2. Identify the transactions that may be recorded in sales journal from the following:
   – Sale of land for 2000,000 FRW by cheque
   – Sold inventory for 600,000 FRW on credit
   – Purchased new piece of office equipment for 300,000FRW by cash
   – Sold goods worth 150,000 to Kanyana on credit
   – Sale of personal car for 5000,000 FRW
   – Paid insurance for 200,000 FRW by cheque
   – A credit sale of 600,000 FRW to Emmy

### 5.2.1. Meaning of Sales journal

A sales Journal is a type of journal used to record credit sale transactions of the company and is used for maintenance and tracking the account receivable and inventory account. It is the Principal book of Credit Sale Transactions, and the information recorded in it depends on the nature and requirement of each business.

A sales journal is a specialized accounting journal and it is also a prime entry book used in an accounting system to keep track of the sales of items that customers have purchased on account by charging a receivable on the debit side of an accounts receivable account and crediting revenue on the credit side.

For example, a company completes a sale on credit for $1,000,000 with an associated 5% sales tax. The goods sold have a cost of 740,000 FRW. The sales journal entry is:

Debit Accounts receivable for 1,000,000 FRW

DebitCost of goods sold for 600,000 FRW

CreditRevenue for 1,000,000 FRW

CreditInventory for 650, 000 FRW

CreditSales tax liability for 60,000 FRW

### 5.2.2. Creating sales journal code in Sage line 100

The creation of sales journal code follows the same procedure as it was done for purchase journal in previous section. Below are the steps taken to create it:

- Once accounting file is opened, click on structure menu
- Click on journal codes
- Right click-add new element or click on "**Add**" icon on navigation bar

Since the purchase journal has been already created, the following window will appear:
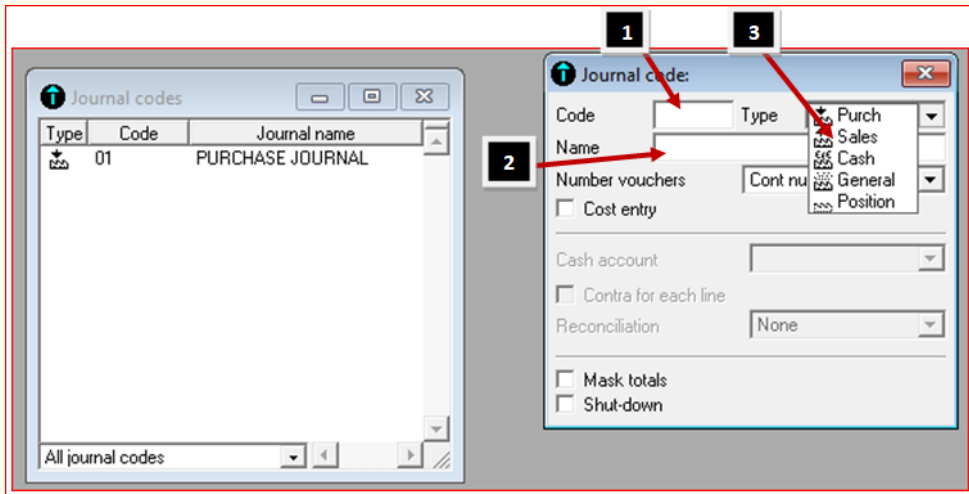
*Figure 5. 3: Journal codes fields explained*

In code field as shown by label (1), add the code of sales journal which can be numeric or alphanumeric or label. In the name field labeled (2), fill sales journal and select sales as shown in label (3). After, we will have the following results:
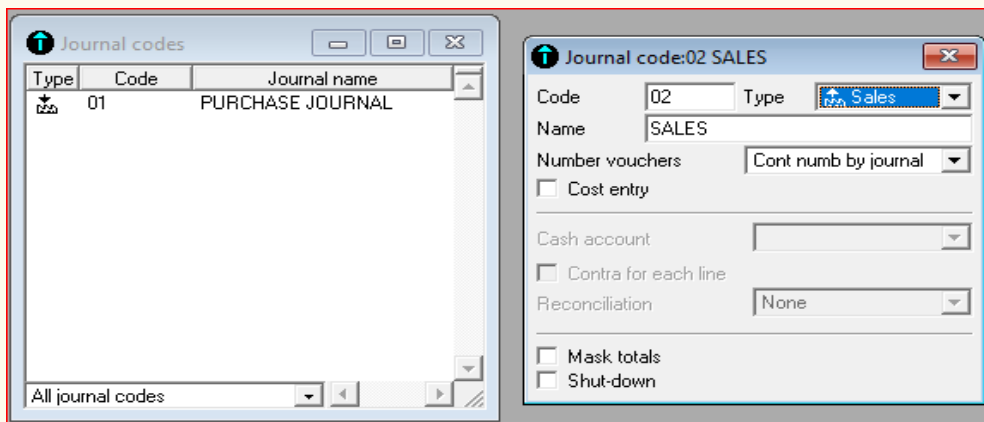


*Figure 5. 4: Creation of sales journal code*

After finishing creating sales journal, clicks on add icon or right click and add new element to find space for creating another journal code or otherwise, close it.

**Application activity 5.3**

1. What is meant by sales journal
2. Identify the steps taken to create sales journal code
3. In already created accounting file, create sales journal code as required

## 5.3. Create returns inwards and returns outwards journal

**Learning Activity 5.3**

1. Distinguish between returns inwards and returns outwards
2. In which journals are sales returns and purchase returns are recorded?
3. How can you create returns inwards and returns outwards journal in Sage line 100 software?

### 5.3.1 Description of returns inwards and returns outwards

Return inwards are goods returned to a business by its customer(s). They are goods which were once sold to external third parties, however, because of being unsatisfactory, they were returned by the customer. They are also called "Sales Returns". Inward returns reduce the total accounts receivable for the business. It is a sales return and on the other, it is a purchase return. The transaction in both cases is reversed and the related sale or purchase is nullified. This reversal reduces the total sales of a company and the deduction is shown in the trading account. A subsidiary book called Sales returns book is prepared to record all such entries.

| Return Inwards A/C | Debit | Debit the decrease in revenue |
|---|---|---|
| To Customer's A/C | Credit | Credit the decrease in assets |

Purchase returns are also called returns outward and an appropriate purchase returns/returns outward book is maintained. At times it may be necessary to return few goods back to a supplier when an order is received, this may be due to poor quality, inaccurate quantity, untimely delivery or other reasons.

All returns are primarily recorded in the purchase returns book unless the returns are not that frequent, in which case they are recorded in the general journal. After the purchase returns book is properly updated and all transactions are entered into it, the total of the items is transferred to the ledger in an account called the "Purchase returns account".

1. At the end of the day, each entry is posted to the debit side of the appropriate individual's account in the creditor's ledger as this helps the account to stay up to date.

2. At the end of the month, the total of the "Amount" column is posted to the general ledger with the help of the below-mentioned journal entry.

**Journal entry for purchase returns**

| Creditor A/C | Debit |
|---|---|
| To Purchase Returns | Credit |

### 5.3.2 Creation of Returns inwards and Returns Outwards journals

To create returns inwards and returns outwards journal, the same process is followed as the other journals like sales and purchase journals. The only difference lies in the change of account type. Both journals are classified as type general. As we have done previously for the journals created, first click on structure menu-journal codes-right click, add new elements.

The following window will be displayed:
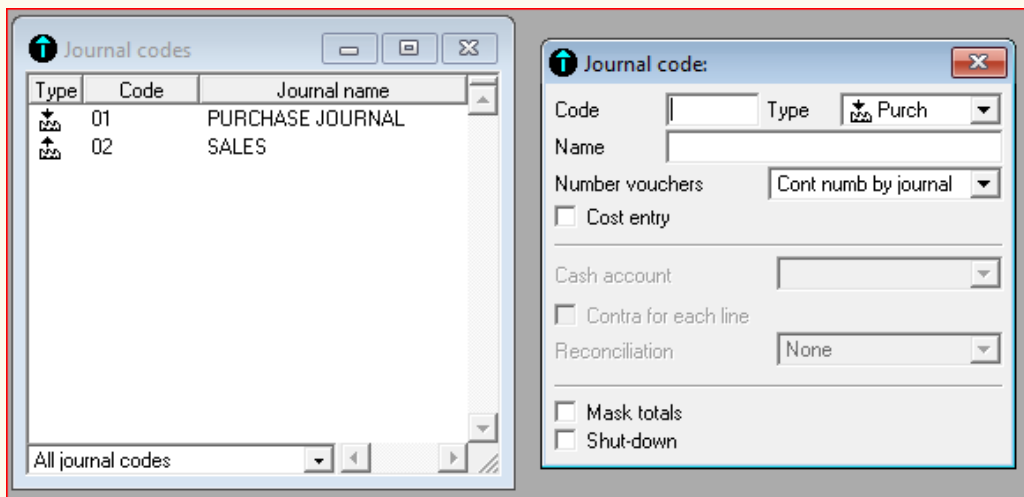


*Figure 4. 5: Display of sales and purchase journal codes*

In the code field type 03 and in the name field type returns inwards, in journal type, select type general then click "add" or close and right click-add new element create the returns outwards journal. The following will be the results:
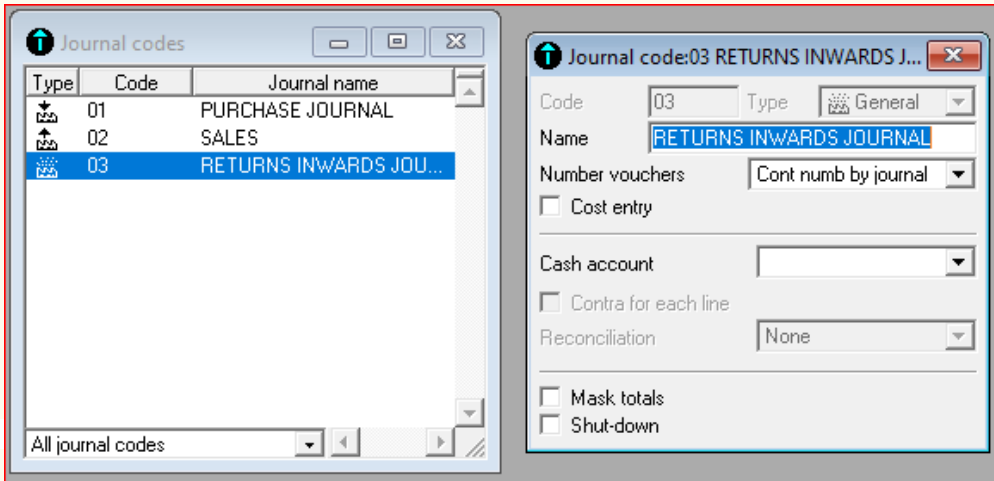
*Figure 5. 6:Creation of returns outwards journal codes*

For returns outwards, the journal code will be follow:
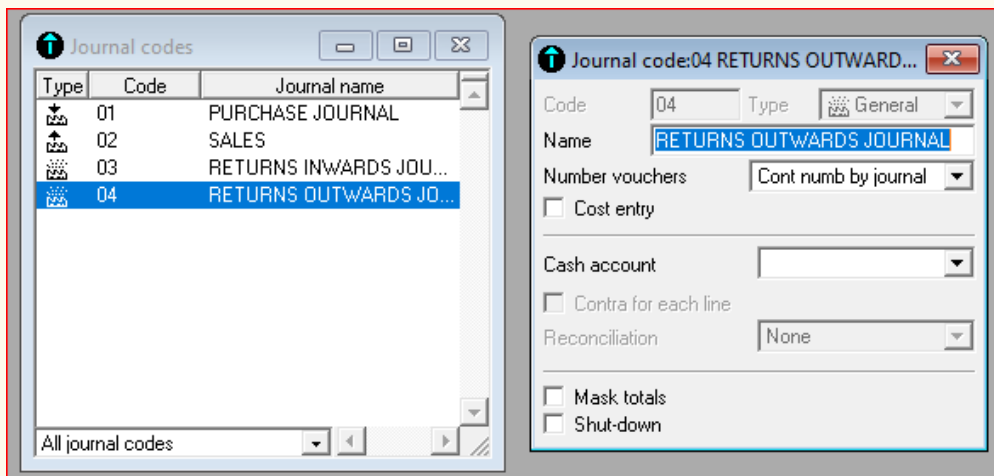


Display of sales, purchase, sales returns and purchase returns journal codes created

### Application activity 5.3

1. Distinguish between returns inwards journal and returns outwards journal
2. In journal code, which type of journal are returns inwards and returns outwards journal
3. Write down the steps followed to create returns inwards and returns outwards journal in Sage line 100
4. In Sage line accounting file, create returns inwards and returns outwards journal codes

## 5.4. Creation of cash Journal

**Learning Activity 5.4**

1. Define the term cash journal
2. What types of transactions are recorded in cash journal?
3. From the following transactions, indicate which ones may be recorded in cash journal
   - Borrowed 5000,000 FRW from local bank
   - Collected 600,000 FRW in cash sale
   - Paid salaries of 400,000 FRW by cheque
   - Sold old motor vehicle for 5000,000 by cash
   - Paid utilities for 120,000 FRW by cash
   - Purchased office supplies worth 500,000Frw on credit
4. How can you create cash journal in sage line accounting software?

### 5.4.1 Description of cash journal

A cash journal is a simple hard copy or electronic document that is used to make immediate accounting entries of both receipts and expenditures. Transactions that are entered into this journal are usually recorded daily or at least in chronological order. Part of the document's charm is that financial transactions entered as line items can be reviewed quickly when necessary, and it provides a quick reference when entering the transactions into other sections of the accounting books.

Businesses can use a cash journal for keeping up with a broad range of receipts and payments, or it may be used to track one area of activity. Many businesses choose to maintain a simple journal as a means of keeping a record of income and disbursements associated with a petty cash fund. This can allow authorized employees to handle a transaction out of petty cash and make a quick entry with the basic information. At a later time, the transaction can be fully documented in the balance sheet ledger or other appropriate record.

Larger organizations usually divide the cash book into two parts: the cash disbursement journal, which records all cash payments, and the cash receipts journal, which records all cash received into the business. Cash receipts are money received from consumers for the sale of goods or services. In accounting, a cash disbursement is a payment made by one party to another. Also called cash payments or disbursements, they can be made by check, e-check, Automated

Clearing House (ACH), digital payment, and all formats of payments recorded with an immediate deduction.

Cash disbursements are used to purchase inventory, pay for office supplies, make business loan payments, pay dividends, cover accounts payables and salaries, and make any other kind of payout that's not handled with a credit account or credit card.

### 5.4.2 Creation of cash journal code

To create cash journal code, the user goes through the same process as for other journals. There is a quiet difference especially in the fields to be filled in the cash journal window.

After clicking structure-journal codes-Right click-Add new element. We find the following window:
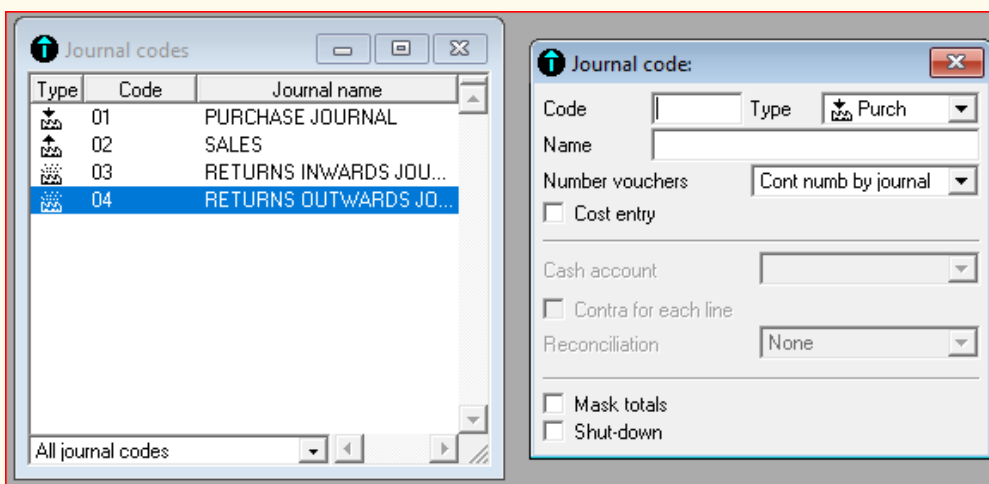


*Figure 5. 7: Space to create cash journal*

Obviously, the previously created journals are displayed, but there is a space to create cash journal. Follow these steps

- In the code field, fill the code of "05" (or another code different from the ones created for other journals before).

- In the name field, type cash journal and in the journal type select cash.

After performing the steps above, the following results are displayed:
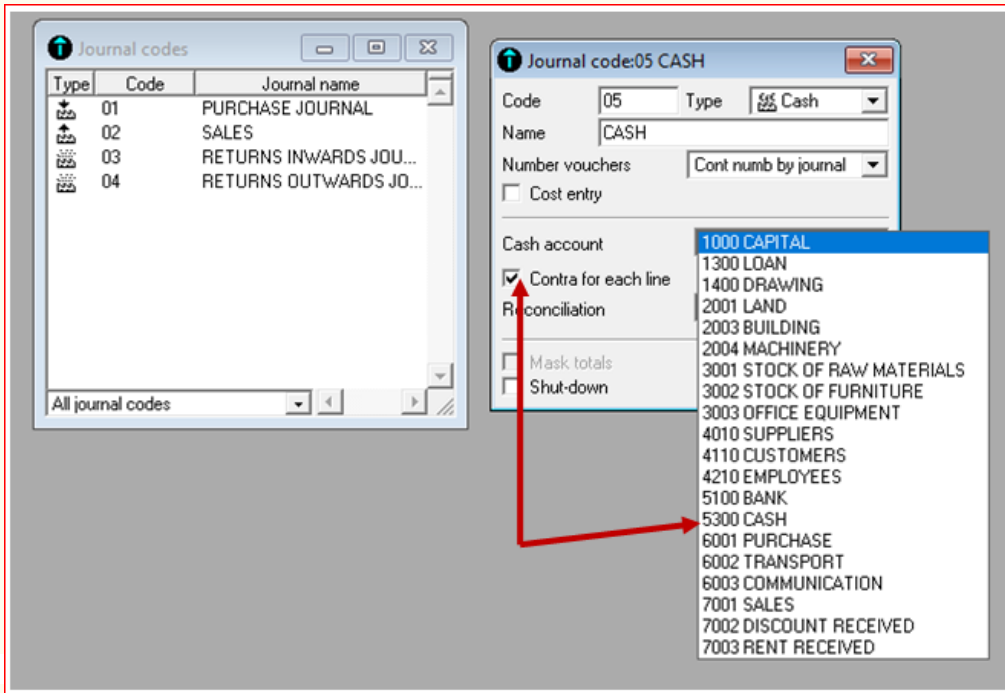
*Figure 5. 8:Process of creating cash journal*

- Once the cash type is selected, "contra for each line" and "cash account" fields which were inactive before become active and tick on "contra for each line", click on cash account then the created chart of account appears and select cash.

- For reconciliation select cash

Finally, cash journal creation is completed and we can add another journal or close if there is no other journal to be created.
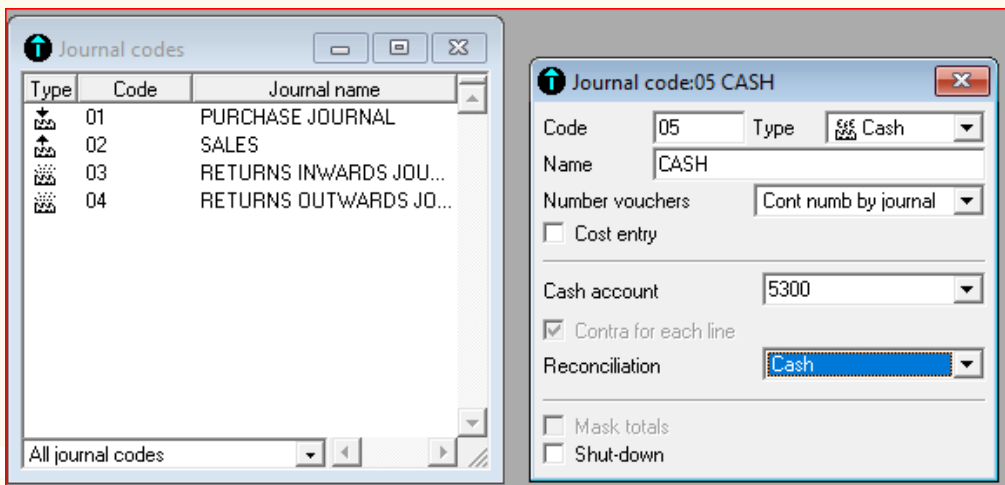


*Figure 5. 9: Creation of cash journal codes*

**Application activity 5.4**

1. What is meant by cash journal?
2. Give the two types of transactions to be recorded in cash journal

## 5.5. Creation of general journal

**Learning Activity 5.5**

1. What is meant by general journal in accounting?
2. Give two examples of the transactions that may not be recorded in subsidiary journals but in general journal only
3. How can you create general journal code in sage line 100?

### 5.5.1 Description of general journal

A general journal is a journal recording all of the transactions of a business. As soon as a business transaction takes place, it is recorded in the general journal. Transactions are recorded in either the general journal or a special journal, but not in both.

In general journal, the entity (company) also records other non-financial transactions that occur in the business into this book also. That non-financial transaction included depreciation, adjustments as well as an accrual. Those financial transactions including sales transactions purchase transactions, cash receipts, cash payments, and many other important financial transactions.

### 5.5.2 Create general journal code

The creation of general journal code involves the steps, similar to the steps followed in creating other types of journals as seen in previous sections, especially returns inwards and returns outwards journals, since all of them are of type general. The small difference lies in journal name and code. Therefore, you follow the steps below:

- Click on structure menu
- Click on journal code
- Right click
- Add new element

Then following window is displayed:
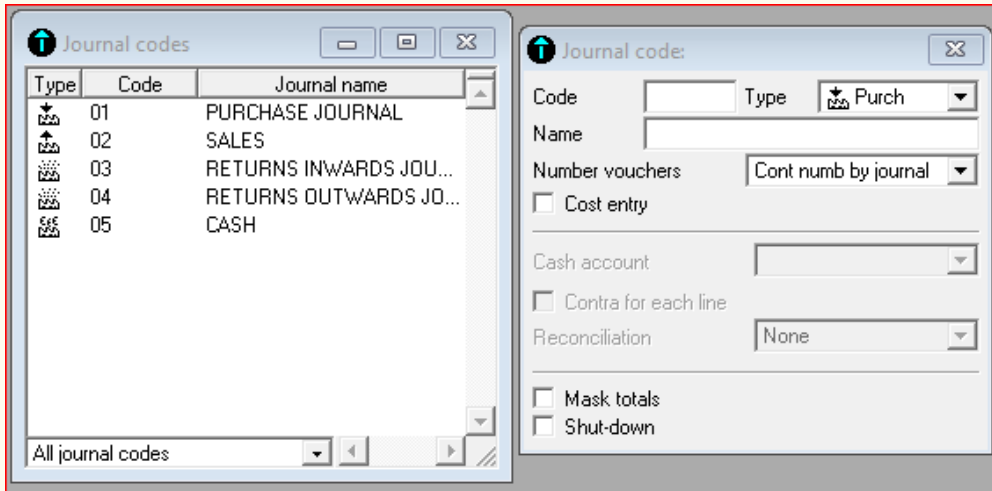


*Figure 5. 10: Display of created subsidiary journals*

As it is seen, the previously created journals are displayed in the above window, since they are still kept in the database.

At this stage, the user fills the required information in the fields. In code field, fill (06) or any other code separate from the one used for the journals created before. In name field, fill general journal, and select general in journal type. After doing this, the following results will be obtained:
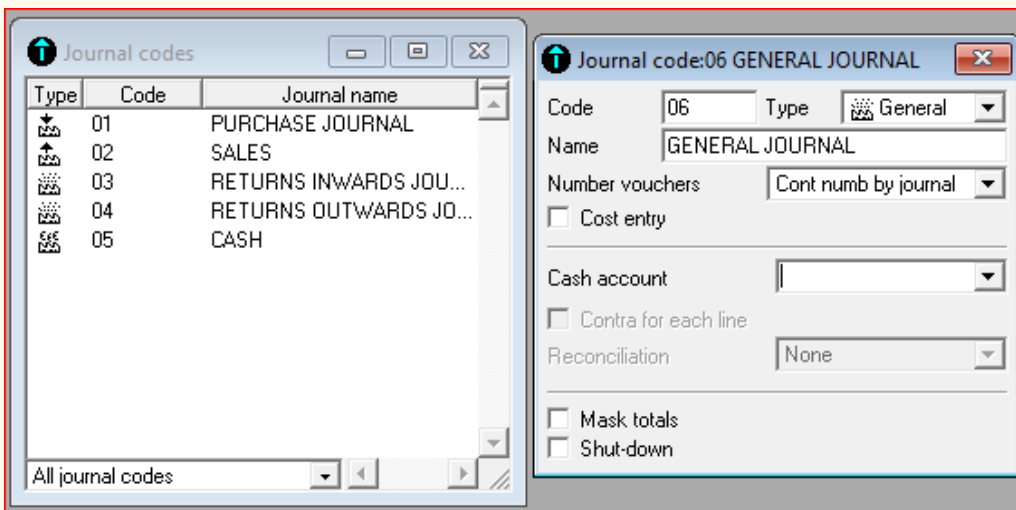


*Figure 5. 11: Creation of general journal*

After creating all types of journals, the next step is to record transactions in the created books, this will be viewed in next sections.

1. What is general journal?
2. Identify the steps taken to create general journal code in Sage Line 100

**End unit assessment**

1. State and explain the types of journals that exist in accounting

2. What is the difference between returns inwards and returns outwards?

3. Give three examples of credit purchase transactions

4. Give two examples of transactions that may be recorded in sales journal

5. Explain the meaning of cash disbursement

6. 6Outline the steps followed to create cash and sales journals in journal codes

**Practice**

In SAGE line 100, create:

1. File name under your proper names

2. Company profile

    – Company name: AMANI Ltd
    – Activity: Manufacturing
    – Address: Rulindo
    – Phone: 9999988899
    – Operating period. 2019, account length 4 digits
    – Reporting currency: Rwandan francs

3. Journal codes for sales journal, purchase journal, cash journal, returns inwards

ISHAMI Ltd is a small sole trade business of purchasing cereals for resale. It is located in Rwamagana, District in Eastern Province (Tel +250788594143; P.O Box 1103 Rwamagana).

Assume the company, decides to hire you knowing that you are skilled in computerized accounting and expecting that you will help the Shop in the process of recording financial information, producing financial statements on time. Given the past information below:

On 1st January, 2023 Starting business with 50,000,000 FRW(from the business owner)

2nd January, 2023 Receiving a loan from Bank of RWF 10,000,000 FRW

8th January 2023 Buying premises for RWF 3,000,000 FRW and paying rent for 200,000 FRW (both by cheque)

10th January, 2023 Purchasing goods on credit from John for RWF 4,000,000 FRW

11th January, 2023 Selling goods on credit to Mugabe for 5,000,000 FRW (cost of goods sold RWF 2,800,000 FRW)

12th January, 2023 Receiving cash from Mugabe (full payment of his debt)

25th January, withdrew 80,000 FRW for home expenses

5th February, bought goods of 380,000 FRW from Silas on credit

10th February, bought stationeries for 180, 000 FRW and paid a quarter by cheque, the remaining balance being on credit.

20th February, paid three quarters of the debt owed to Silas by cash

25th February, paid insurance for 120,000 FRW and communication of 50,000 FRW both by cash.

Basing on the transactions provided above, you are required to:

   i) Create your own chart of accounts and S/P Chart

   ii) Create the journal codes you need for recording

   iii) Indicate in which subsidiary journal should each transaction be recorded

# 6.1. Process credit Purchases

### Learning Activity 6.1

1. What types of transactions are recorded in purchase journal?

2. What do you understand by creditors?

3. You have bought goods on credit, which account is to be debited and which account is to be debited

4. We purchased a business delivery van from BAVUGIRIJE has bought goods on credit, what account to be debited and what account should be credited?

5. Record the following transactions in purchase journal

   – 4th January bought goods of 80,000FRW from Suzan on credit
   – 10th January, made credit purchase for 40,000FRW from HABIMANA
   – 15th January, Bought goods of 50,000 FRW from GAHUNGU on credit
   – 20th January, Credit purchase from AYINKA for 70,000Frw

## 6.1.1. Getting into credit purchase entry journal

The purchase journal records credit purchase transactions made by the business in the given period of time.

Any transaction entered into the purchases journal involves a credit to the accounts payable account and a debit to the expense or asset account to which a purchase relates. For example, the debit relating to a purchase of office supplies would be to the supplies expense account. The journal also includes the recordation date, the name of the supplier being paid, a source document reference, and the invoice number. Optional additions to this basic set of information are the payment due date and authorizing purchase order number.

The following steps are followed when making journal entries in purchases journal:

1. Click on **Process menu**

2. Double click on Entry j**ournal**

You can also click on **Enter journals** tab on vertical bar

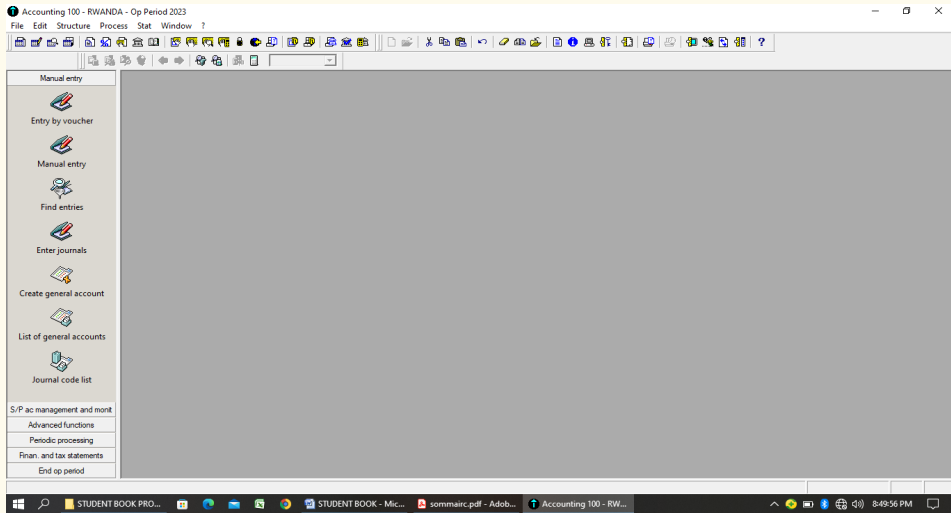*Figure 6. 1: Getting to journal entry*

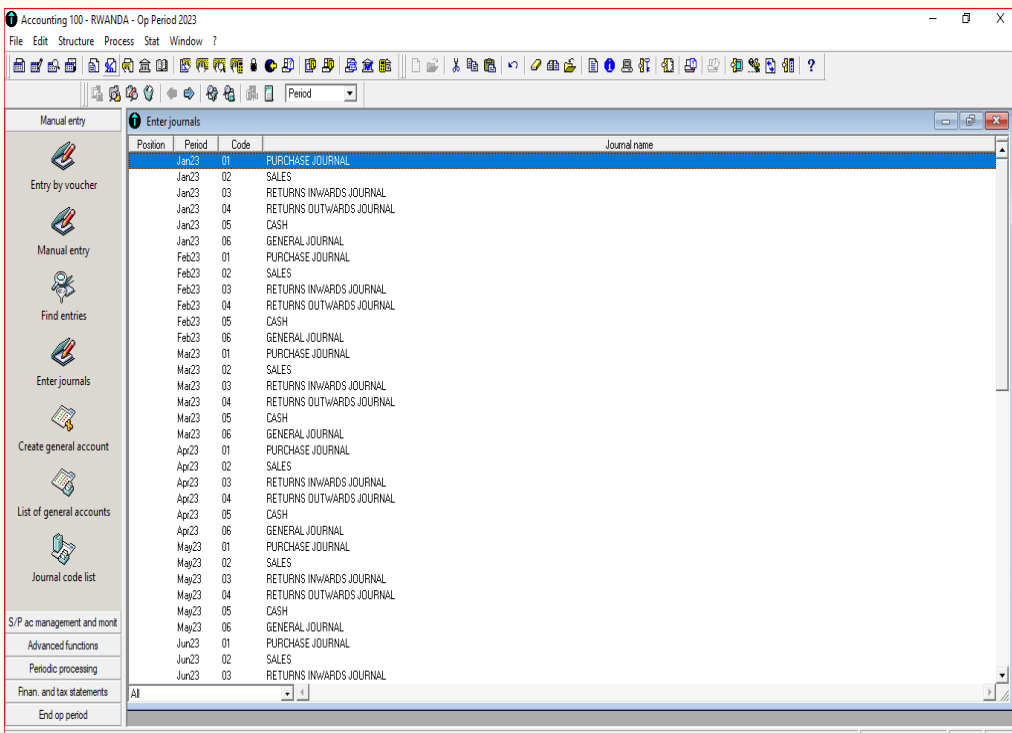The window that contains all the books created appears as follow:



*Figure 6. 2 List of journals created in journal code*

Each book will appear once per month in every twelve months of operating period. If we click on period tab and select code, the journals will be arranged by "**code**" in ascending order i.e from the smallest journal code to the largest one.

If the user wants to record a given transaction in its respective journal, double click on that journal depending on the date the transaction occurred and you get the journal format.

### 6.1.2 Journal entries in purchase journal

To start making entries in purchase journal, double click on purchase journal of particular month, depending on the date of credit purchases made by the business. If we select the purchase journal for the month of January, the purchase journal format table will be displayed as follow:
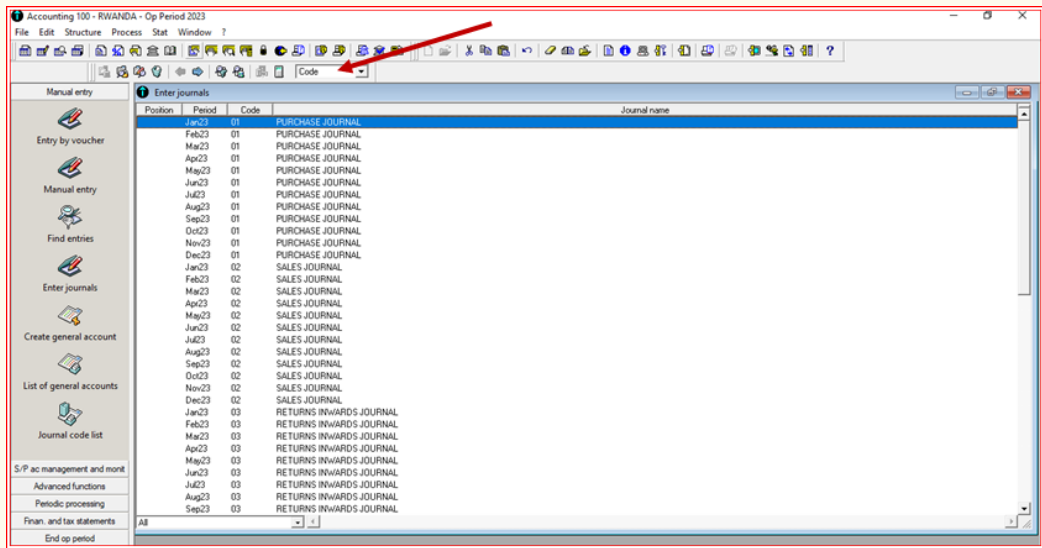


*Figure 6. 3: Journal entries window*

Since we have selected "**code**" instead of period, the purchase journal having (01) as code comes first and appears from January to December chronologically, followed by Sales journal having (02) as code, returns inwards having (03) as code, returns outwards having (04) as code and lastly, general journal having (06) as code.

To record the entries in purchase journal, double click on purchase journal of the month during which the transaction took place. For example, if the business transactions have occurred in January, double click (or press **Enter** button on keyboard) on purchase journal of January, then the following purchase journal table is displayed:

*Figure 6. 4: Purchase journal window display*

By default, the purchase journal and all of other journals have 10 columns:

- The first column is the day column which records the date on which the transaction took place (Note that the month is in the title of the document on top of screen: Purchase journal/Jan23)
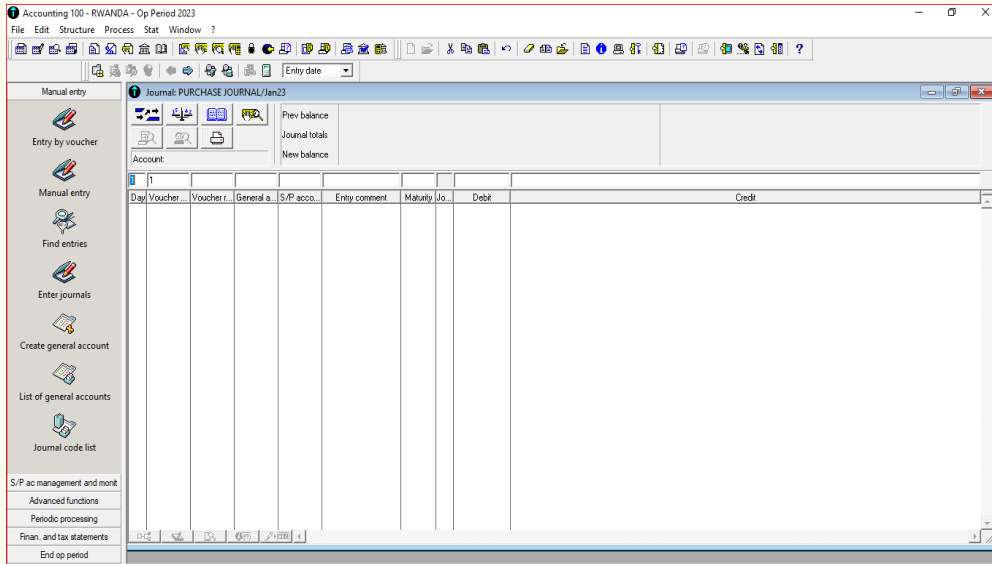
- The second column contains the voucher number where we record the number of source document used to refer to that transaction

- Column 3 comprises voucher reference which is *a unique, sequential number assigned to each invoice or any other source document*

- Column 4 heading is general account number where we find accounts created in chart of account

- Column 5 heading is S/P account number, where we find individual third parties accounts as created in S/P chart.

- In column 6 named comments, we write short narration about transactions recorded,

- In column 7, there is maturity date for customers if we have set maximum customer term in preferences

- Column 8 is named journal position and shows the status of journal transactions. If no transaction is not yet recorded in the journal, the position column is empty

- Column 9 is named debit and we record debited amount in this column

- The last column is named credit and in it we put amount credit to a given account

**To record a transaction, the user follows these steps:**

- First record the date of the transaction upper in day column (there is 1st of the month by default)

- In the voucher number column, record the invoice number, receipt number or any other source document number (if any)

- In reference number, record the invoice reference number, receipt reference number or any other source document reference number

- In the general account number, type the account root number or the first letter starting account number then press **tab** button
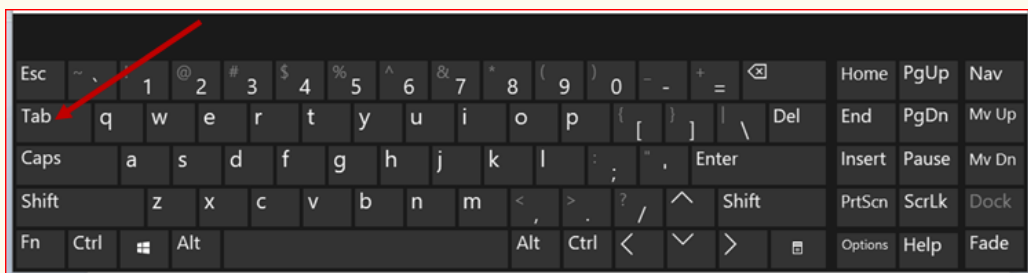


*Figure 6. 5: Tab button location on keyboard*

- Select the type of account for which you want to record a transaction as created in chart of account then click ok. The account number of the selected account is going to be displayed in the general account column. The user can also type the full account number in that field in case he remembers it.

- In S/P account number column, the user selects the third party name and his account is displayed in that field. Note that only suppliers(creditors) re found in purchase journal.

- In comment column, type short narration explaining the entry that was made.

- In debit column, enter the amount to be debited and press enter.

- When you press Enter, the date, voucher number, voucher reference are going to be reproduced and you are only required to find account to be credited and press **Enter** on keyboard.

It is also optional to click on balance tab, and search for the account to be credited, the balance amount will be automatically posted to the credit side then press Enter button.

Referring to the transactions found in activity 6.1, question 5, our purchase journal will be as follow:



*Figure 6. 6:Sample example of purchase journal entries*

### Application activity 6.1

The following are credit purchases transactions extracted from UBUZIMA trading company

2nd February, bought office supplies for 120,000 FRW from Louis on credit

6th February, Inventory worth 40,000FRW was purchased from Anna on credit

15th February, credit purchases for 260,000 FRW from KAGABA on credit

16th February, bought goods worth 76,000 FRW from Anna on credit

Required:

1. Create S/P chart for suppliers identified in the above transactions

2. In journal code, create purchase journal

3. Record the above transactions in the purchase journal

## 6.2. Process credit sales transactions

**Learning Activity 6.2**

1. What do you understand bay sales journal?

2. Which main information recorded in sales journal

3. From the following transactions, select the ones that should be recorded in sales journal

   a. Sold goods valued at 320,000 FRW to Manzi on credit

   b. Issued share capital for cash

   c. Purchased equipment on credit

   d. Deposited money at bank

   e. Collected cash for repairs completed

   f. Paid an invoice from the utilities company for electricity for 60,000 FRW by cheque

### 6.2.1 Meaning of credit sales

The term "credit sales" refers to a transfer of ownership of goods and services to a customer in which the amount owed will be paid at a later date. In other words, credit sales are those purchases made by the customers who do not render payment in full at the time of purchase.

### 6.2.2 Sales journal entries

Recording transactions in sales journal is the same as the steps of recording transactions in purchase journal. The only difference is that sales journal deals with the credit sales transactions made with debtors or customers. Before start recording, the user must have created customers general account in chart of account and the customers (debtors) individual accounts in S/P chart.

In the day column, the user records the date as it has been done in purchase journal, in the voucher number and voucher reference too. In the general account column, select the sales account to be credited, and in S/P chart select the individual account of the debtor to be debited, by typing the root number of the account or the first letter of the account number to be debited and type **TAB** button, then click on the debtor's account and click **ok**.

In the comment column, write short narration on the transaction done. In the debit column, write the amount of money to be debited and press **ENTER** button on keyboard.

Before starting recording transactions in sales journal, sales journal code must be created and the debtors' individual accounts must have been created in S/P chart.

**Example**: Record the following credit sales in sales journal of March

2nd March, sold goods worth 90,000 FRW to MAHORO on credit

5th March, credit sales of goods valued at 300,000 FRW to JIMMY

12th March, the customer TOM purchased goods of 380,000 FRW and paid a half by cash

20th Sold goods to FATUMA for 250,000 FRW on credit.
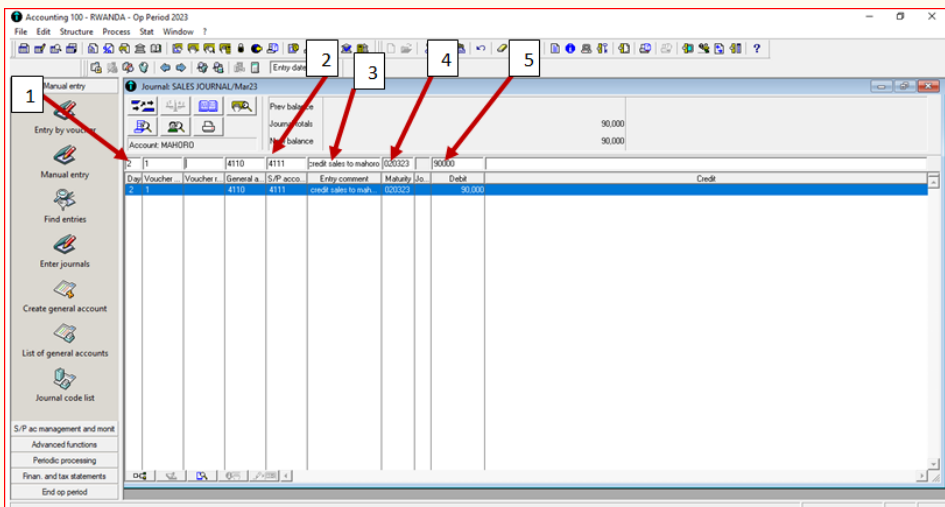


*Figure 6. 7: Sales journal window display*

The above figure shows the first debit entry recorded to the debtor Mahoro and it was done following the steps below:

- In the day column (**1**), we have written 2nd of March (The month and year appears on document title on top of screen: Journal: SALES JOURNAL/ March23)

- In S/P account number (2), we have selected Mahoro by writing the first letter of her name M then press tab button, select Mahoro and click OK, and her account appeared in the head column. The general account number of customers(debtors)created in chart of account appears in the general ac no column since we have connected the customers to that account by using controlling account tab in S/P chart.

- In entry comment column (3), we have written "credit sales to Mahoro" as short narration of the transaction made.

- The maturity date (4) appears since we have set maximum customer terms in Parameters configuration (see concerning your company-parameters)

- In debit column (**5**) we have debited 90,000FRW as given in the transactions we have I practical example, then lastly pressed ENTER button on key board.

It is also possible to press on balance icon before pressing enter
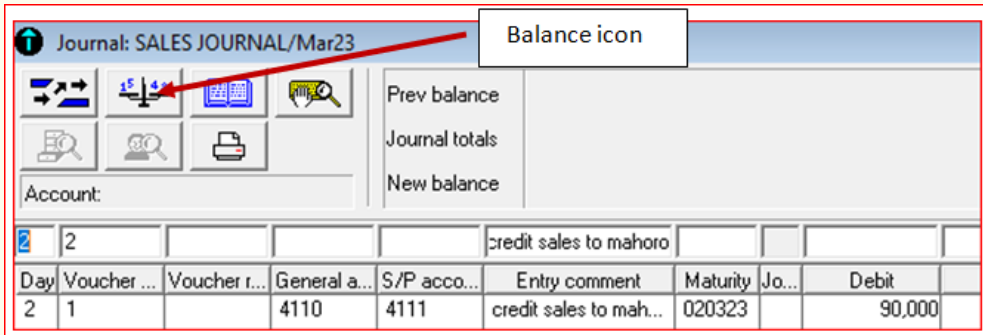


*Figure 5. 8: Location of balance icon*

To record first credit of sales account, follow the same procedure, but the date, voucher number and entry comment are duplicated. The user only search for sales account in general account number and type the same figures as what was debited to the debtor (90,000FRW in our case), then press enter.

The same process is going to be followed for other debtors in our transactions.

We will therefore have the following results:



*Figure 6. 9: Sample sales journal window display*

Record the following transactions in sales journal

1. Credit sales to SHAMI for 1,200,000 FRW, cost of goods sold 900,000FRW, invoice no 123

2. Sold finished products to MPORE for 600,000 on credit, invoice no 124
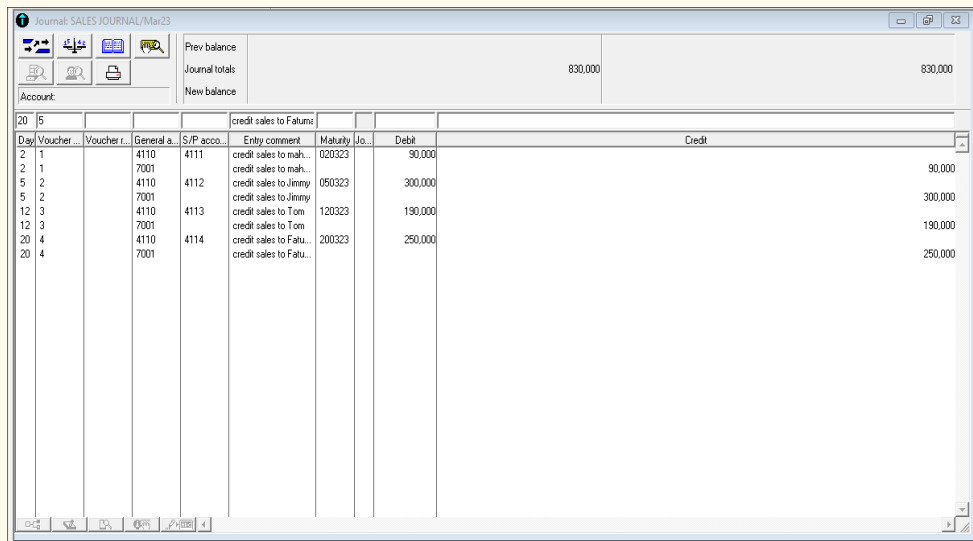
3. Sold 700,000 FRW to MUTESI and paid 380, 000 by cash, the remaining balance to be paid at later date. Invoice no 125

4. Credit sales of 200,000FRW to MULISA. Invoice no 126

## 6.3 Process cash payments and cash receipts

### Learning Activity 6.3

1. What is meant by cash journal?

2. Explain the difference between cash payment and cash receipts?

3. What are the types of cash book you know?

### 6.3.1 Meaning of cash journal, cash payments and cash receipts

#### a. Cash journal

A cash journal is a simple hard copy or electronic document that is used to make immediate accounting entries of both receipts and expenditures. Transactions that are entered into this journal are usually recorded daily or at least in chronological order.

Cash journal is also referred to as cashbook. The cash book is divided into three categories namely single column cashbook, double column cashbook and three or triple column cashbook.

A single column cash book records only those transactions that involve exchange of actual cash in hand while double column cash book records all transactions, that takes place either through exchange of actual cash or through the bank. The **triple column cash book** (also referred to as **three column cash book**) is the most exhaustive form of cash book which has three money columns on

both receipt (Dr) and payment (Cr) sides to record transactions involving cash, bank and discounts. A triple column cash book is usually maintained by large firms which make and receive payments in cash as well as by bank and which frequently receive and allow cash discounts.

### b. Cash payments

Cash payment refers to any transfer of funds through a transaction originated by cash, check, or similar paper instrument. This includes electronic payments to a financial institution or clearing house that subsequently issues cash, check, or similar paper instrument to the designated payee.

### c. Cash receipts

A cash receipt is an accounting entry that documents the collection of cash from a customer. Cash receipts typically increase (debits) the company's cash balance on its balance sheet. Simultaneously, they decrease (credits) either accounts receivable or another asset account.

Cash receipts appear on a financial summary as an increase to the cash account or another asset account. This depends upon the nature of the sale. If a business sells services and those payments were collected in cash, then those payments would be put toward accounts receivable.

If you sell goods that you have produced through your manufacturing division, then this would affect inventory. This is opposed to accounts receivable. You have sold goods that already existed. In this case, a business may record the collection of cash as an increase to cash or to another asset account.

## 6.3.2 Cash journal entries

Cash journal entries are done in the same process as the journals previously done. In this journal, cash payments and cash receipts transactions are recorded.

**Example**:

Near the end of her secondary studies, Mrs INGABIRE is faced with the decision of whether to create a saloon business, hardware start a summer dress making business. INGABIRE has had some experience designing and sewing and believes it might be the most lucrative of self-employment alternatives. She starts "Sewing workshop".

During May, the first month of business, the following occur:

1st May, INGABIRE deposits 5000,000 FRW of her own money into sewing workshop checking account.

3rdMay, The business purchases equipment for 1000,000 FRW by cheque.

5th May,Withdrew 2000,000 FRW

6th May,bought land of 1,500,000 FRW by cheque

10th May,bought sewing supplies and material for 300,000 FRW in cash.

16th May, paid rent of 100,000 FRW and utilities for 150,000 FRW by cash

17th May,Sells twenty dresses during the month. Each dress has a price of 50,000 FRW. Cash is received for twelve of the dresses, with customers owing for the remaining eight.

25th May, taxes amounting to 150,000 FRW paid in cash

**Required: Record the above transactions in cash journal**



**Journal: CASH JOURNAL/May23**

| | | | Prev balance | | | | |
|---|---|---|---|---|---|---|---|
| | | | Journal totals | | 10,800,000 | | 10,800,000 |
| Account: | | | New balance | | | | 5,600,000 |

| Day | Voucher ... | Voucher r... | General a... | S/P acco... | Entry comment | Maturity | Jo... | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 1 | | 5100 | | Owner deposit | | | 5,000,000 | |
| 1 | 1 | | 5300 | | Owner deposit | | | | 5,000,000 |
| 3 | 2 | | 2005 | | purchse of equipme... | | | 1,000,000 | |
| 3 | 2 | | 5300 | | purchse of equipme... | | | | 1,000,000 |
| 5 | 3 | | 5100 | | Withdraw | | | | 2,000,000 |
| 5 | 3 | | 5300 | | Withdraw | | | 2,000,000 | |
| 6 | 4 | | 2001 | | land bought | | | 1,500,000 | |
| 6 | 4 | | 5300 | | land bought | | | | 1,500,000 |
| 10 | 5 | | 3004 | | supplies | | | 300,000 | |
| 10 | 5 | | 5300 | | supplies | | | | 300,000 |
| 16 | 6 | | 6005 | | Rent | | | 100,000 | |
| 16 | 6 | | 6006 | | Utilities | | | 150,000 | |
| 16 | 6 | | 5300 | | Utilities | | | | 250,000 |
| 17 | 7 | | 7001 | | sales of dresses | | | | 600,000 |
| 17 | 7 | | 5300 | | sales of dresses | | | 600,000 | |
| 17 | 8 | | 6007 | | Tax paid | | | 150,000 | |
| 17 | 8 | | 5300 | | Tax paid | | | | 150,000 |

*Figure 6. 10:Sample cash journal entries*

**Application activity 6.3**

Record the following transactions in sales journal

1.  1st February, Cash received from the debtor for 2,500,000 FRW

2.  3rd February, Paid rent for 200,000 FRW, Sold goods by cheque

3.  7th February received interest on saving account for 38,000 FRW

4.  Banked 300,000 FRW

5.  Purchased building for 60,000FRW

## 6.4 Processing returns inwards and returns outwards journal

**Learning Activity 6.4**

Record the following sales returns and purchase returns in their respective journals

1.  The customer Peter returned goods of 25000 FRW to business

2.  Returned goods valued at 40000 FRW, to supplier John

3.  Goods bought for 30,000 FRW on credit were returned to supplier Kamali

4.  Purchased goods worth 500,000 FRW, but a half the goods were returned to supplier

5.  The customer KAMANA returned goods of 60,000 FRW

### 6.4.1 Meaning of returns inwards and returns outwards

Return outwards are goods returned by a businesses to the suppliers. They are goods that were once purchased from external parties, however, because of being unsatisfactory they were returned back to them, they are also called **Purchase returns.** Outward returns reduce the total **accounts payable** for a business.. The transaction in both cases is reversed and the related sale *or* purchase is nullified. Purchase returns reduce the total purchases/ accounts payable of a company and the deduction is shown in the trading account. A subsidiary book called **Purchase** returns book is prepared to record all such entries.

### 6.4.2 Returns inwards and returns outwards journal entries

As we have seen previously for other types of journal, the process of recoding transactions in returns inwards and returns outwards journal is the same. For returns inwards, the returns inwards account is debited, the debtor's account is credited. For the returns outwards, the creditor's account is debited to reduce the account payables and returns outwards account is credited.

Briefly, when customers return merchandise sold for cash, the sales returns and allowances account is debited and the accounts payable account is credited. This entry is made when a customer notifies the business that they will return the merchandise. Afterward, another journal entry may be required in which

the accounts payable account is debited and the cash account is credited. This journal entry is made when a cash refund is given to the customer for the goods they returned.

The journal entry for returns outwards is as follow:

| Supplier's | Debit | Debit the decrease in liability |
|---|---|---|
| To Return Outwards A/C | Credit | Credit the decrease in expense |

**Examples:**

1. **Returns inwards transaction**

On 1st January 2023, the Modern Trading Company sold merchandise for 2,400,000FRW. KIMENYI received the delivery on the same day and found the merchandise costing 400,000 FRW did not meet the order specification. These merchandises were returned to the Modern Trading Company on the same day.

Record the above transaction in Modern trading company returns inwards journal.



*Figure 6. 11: Sample Returns inwards journal*

As shown by the above journal table, the returns inwards account was debited for 400,000 FRW to reduce income, and the debtor KIMENYI was credited, to reduce accounts payable amount for 400,000 FRW.

2. **Returns outwards transaction**

On 2nd February 2023, John Enterprise sold merchandise for 1,500,000 FRW to Sam Enterprise on credit. On the same date, merchandise amounting to 300,000 FRW was returned to John Enterprise because they failed to meet the

required quality standards.

Record the above return outwards transaction in Sam Enterprise books of account.



*Figure 6. 12: Sample returns outwards journal*

As shown by the above journal table, John Enterprise account was debited for 300,000 FRW to accounts payable, and returns outwards was credited to reduce expenses for 300,000 FRW.

**Application activity 6.4**

1.  Contrast returns inwards and returns outwards

2.  Under which circumstances may goods be returned?

3.  Record the following transactions in returns outwards or returns outwards journal depending on the type of journal in which they are supposed to be recorded

    a. 1st March, sold goods to MUSONI for 4000,000 FRW but the same dated MUSONI returned the goods valued at 250,000 FRW because they were not of ordered quality

    b. Bought goods from MUTIMA for 1000,000 FRW but returned goods worth 150,000 FRW the following day because they were defected.

## 6.5 Recording transactions in general journal

### 6.5.1 Description of general journal

A general journal is a daybook or subsidiary journal in which transactions relating to adjustment entries, opening stock, depreciation, accounting errors etc. are recorded. The transactions recorded in a general journal are those that do not qualify for entry in any special journal used by the organisation, such as non-routine or adjusting entries (Wikipedia).

The general journal is the company's journal in which initial record keeping of all the transactions is done which are not recorded in any of the specialty journals maintained by the company like purchase journal, sales journal, Cash journal, etc. Whenever an event or transaction occurs, it is recorded in a journal. Journal can be of two types a specialty journal and a general journal.

A special journal records special events or transactions related to the particular journal. There are mainly four kinds of special journals namely sales journal, cash receipts journal, purchases journal, and cash disbursements journal. The company can have more specialty journals depending on its needs and type of transactions, but the above four journals contain the bulk of accounting activities.

All other transactions not entered in a special journal account for in a General Journal. It can have the following types of transactions: accounts receivables, accounts payable, equipment, credit sale of fixed assets, accumulated depreciation, expenses, Interest income and expenses, etc

Examples of transactions recorded in general journal only include:

- **Sale and purchase of fixed assets**

These are assets a firm purchases and retains to help carry on the business. It is not intended to sell fixed assets in the ordinary course of business and it is expected that the bulk of their value will be used up as the result of contributing to trading activities. Examples of fixed assets are premises, plant, machinery,

furniture and motor vehicles. A characteristic of fixed assets is that they usually remain in the business for long periods of time and will only be sold or scrapped when they are of no further use.

- **Entries for Sale or purchase of fixed asset on credit**

In business, the company may need to purchase the fixed asset on credit to use in day-to-day operations. Likewise, the company needs to make the journal entry for the purchase of the fixed asset on credit in order to account for the new capitalization of the cost of the fixed asset as well as to account for the liability that exists at the time of the purchase.

Usually, the assets may be sold in current value, or more/less than at a current value. When the assets are sold for then its written down value, the profits arising from it will be treated as profits for the company. These profits can be allocated as Revenue Profit and Capital profits for tax purposes. When the assets are sold less than their written down value, it will incur the loss of the company. Both loss and profit on the sale of fixed assets are to be shown on the Income Statement.

Additionally, as the cost of the fixed asset will be depreciation from the day that it is ready to use, the company will also need to make the depreciation journal entry for the purchased fixed asset at end of the accounting period. This depreciation of the fixed asset is necessary to spread the cost of the purchased asset over the accounting periods that such asset provides benefits to the business.

The company can make the journal entry for the purchase of fixed asset on credit by debiting the fixed asset account with the capitalization cost of the purchased fixed asset and crediting the accounts payable.

| Account | Debit | Credit |
|---|---|---|
| Fixed asset | 000 | |
| Accounts payable | | 000 |

This journal entry will increase the total non-current assets as a result of the capitalization of the new fixed asset on the balance sheet. At the same time, it will also increase the total liabilities on the balance sheet as a result of the purchase of fixed asset on the credit.

Later, when the company makes the cash payment for the credit purchase of the fixed asset that it has made previously, it can make the journal entry for the payment of the fixed asset purchase on credit by debiting the accounts payable and crediting the cash account

| Account | Debit | Credit |
|---|---|---|
| Accounts payable | 000 | |
| Cash | | 000 |

This journal entry will eliminate the accounts payable that the company has recorded for the credit purchase above.

Then, at the end of the accounting period, the company needs to record the depreciation of the fixed asset in order to allocate the cost of the purchased fixed asset to the period it provides benefits to the business. In this case, the company can make the journal entry for the depreciation of the purchased fixed asset with the debit of the depreciation expense account and credit of the accumulated depreciation account.

| Account | Debit | Credit |
|---|---|---|
| Depreciation expense | 000 | |
| Accumulated depreciation | | 000 |

Accumulated depreciation is the total depreciation for a fixed asset that is assigned as an expense since the asset was obtained and made available for use. Accumulated depreciation accounts are asset accounts with a credit balance (known as a contra asset account). It appears on the balance sheet as a reduction from the gross amount of fixed assets reported.

For example, on January 1, the company ABC purchases new office equipment that costs $50,000 on credit from one of its vendors. The company ABC receives the office equipment and it is ready to use on the same day of the purchase.

On February 1, the company ABC makes this $50,000 payment to its vendor to settle the credit purchase of the fixed asset that it made on January 1. This $50,000 office equipment is expected to have a useful life of 10 years. And the company ABC uses the straight-line depreciation method for all of its equipment type of fixed asset.

In this case, the company ABC can make the journal entry for the credit purchase of the $50,000 office equipment by debiting this $50,000 amount to the equipment account and crediting the same amount to the accounts payable as below:

| Account | Debit | Credit |
|---|---|---|
| Equipment | 50,000 | |
| Accounts payable | | 50,000 |

This journal entry for the credit purchase of the fixed asset, which is the $50,000 office equipment, will increase both total assets and total liabilities on the balance sheet by $50,000 as of January 1.

Later, on February 1, when the company ABC makes the cash payment of $50,000 to its vendor for the credit purchase of this $50,000 office equipment, it can make the journal entry to settle the payable as below:

| Account | Debit | Credit |
|---|---|---|
| Accounts payable | 50,000 | |
| Cash | | 50,000 |

This journal entry will clear the $50,000 accounts payable that the company ABC has recorded on January 1 as a result of the credit purchase of a fixed asset. At the same time, there will be a cash outflow of $50,000 on February 1 that will be shown on the cash flow statement as an investing activity. Then, at the end of the year, the company ABC can make the journal entry for depreciation of the equipment with the amount of $5,000 ($50,000 / 10 years) as a yearly depreciation as below:

| Account | Debit | Credit |
|---|---|---|
| Depreciation expense | 5,000 | |
| Accumulated depreciation/ equipment | | 5,000 |

This journal entry of the $5,000 depreciation of the fixed asset will increase the total expenses on the income statement by $5,000 while decreasing the total assets on the balance sheet by the same amount at the end of the year.

### 6.5.2 General journal entries

The procedure of recording general journal entries in Sage line 100 is the same as other types of journals.

Click on process-entry journals-double click on general journal of the month in which the transaction occurred then start recording transactions

**Example**: 2nd April bought equipment for 1800,000 FRW on credit,

The entry in general journal would be:

*Figure 6. 13:Journal entries for credit sale of a fixed asset*

Equipment account was debited to record the new capitalization of the cost of equipment assets accounts payable accounts payable was recorded to record an increase in accounts payable amount.

If the equipment is expected to have useful life of 20 years, after one year, the depreciation expense will be recorded. Using straight-line method, the depreciation of the equipment purchased is  180000/2=90,000 FRW

We will therefore debit depreciation expense for 90,000 FRW, and credit accumulated depreciation for equipment for the same amount (90,000 FRW). Before entering the above transactions in general journal, the affected accounts need to be created in chart of account. We will therefore have the following journal entries:



*Figure 6. 14:Journal entries for depreciation of a fixed asset*

1. Define the term general journal

2. What are the types of transactions recorded in general journal?

3. Give the journal entries for:

   a) When depreciation of equipment of 5000 FRW is to be recorded
   b) Credit sales of machinery for 2000,000 FRW

**End unit assessment**

1. What are the types of journals you know in accounting?

2. Clearly, explain the meaning of double entry system

3. The following information was extracted from the books of John enterprises on the month of January, 2023 in Frw

i) April 1st: Started business: cash at hand 4,800,000Frw, Cash at bank 6,500,000

ii) iBought goods on credit from: Alice 2,600,000Frw; Eric: 4,400,000Frw

iii) 1st sold goods on credit to: Rachelle 2,800,000Frw; Ineza 1,200,000Frw

iv) April 2: Ineza cleared his account by cheque

v) April 8: Withdrew cash for business use worth 1,400,000

vi) April 14: Received cash from Rachelle in full settlement of her account

vii) April 20: Paid cash for wages worth 1,300,000Frw

viii) April 28: Deposited cash into bank worth 1,000,000 Frw

ix) April 30: Paid Eric by cash

x) Required: Show the journal entries

# Unit 7 — THE TRIAL BALANCE

**Key Unit competence:** Present and interpret the trial balance.

### Introductory activity

The following are essential tasks of accountant as advertised by a company that want to hire an accountant:

- Research financial information for audit purposes and financial reporting.

- Analyze financial records and reports and make adjustments as needed.

- Assist bookkeepers, coordinators, principals, and administrators on day-to-day financial matters, reports and questions.

- Assist auditors in analysis work.

- Prepare and enter journal entries which include correcting entries, allocating expenditures, grant related entries, etc.

- Assist in year-end closing and audits.

- Assist on monthly interim financial statements, Superintendent's Annual School Report, and Comprehensive Financial Report.

- Perform the financial administration and reporting of assigned federal and state grants which includes establishing grant in financial system, preparing budget and any adjustments, monitoring spending and assisting in accurate and timely reimbursements.

You will need to prepare the trial balance as a prerequisite to prepare the financial reports.

1. What do you understand by trial balance?

2. Explain the main columns of a trial balance.

Trial balance also known as List of accounts balances is a simple report that shows the list of account balances classified as per the debits and credits after accounts have been balanced. It is an accounting or bookkeeping report that lists balances from a company's general ledger accounts.

The purpose of the trial balance is to show the accuracy of the double entry made and to facilitate the preparation of final accounts, that is the income statement (or trading, profit & loss account) and a balance sheet. The total of debits of the list of accounts balances should be the same as the total of credits; if not then there is an error in one or more of the accounts.

## 7.1 Analysis of debit and credit balances

**Learning Activity 7.1**

You are an accountant of a company that still uses manual accounting system, at the end of a financial period; you have to prepare financial reports. As usual, before preparing income and balance sheet, you will prepare the trial balance to check on the accuracy of your arithmetic.

1. Explain the debit and credit columns of a trial balance.

2. Which accounts do you have in mind that must always have debit balances?

3. Which accounts should appear credit column of the trial balance?

**A. Debit column:** Debit column of the trial balance is the column in which the amounts of the ledger accounts' debit balances are recorded.When we balance off accounts, the assets and expenses have debit balances, so they are shown on the debit side of the trial balance.

**B. The credit column:** The credit column of the trial balance is column in which we record all ledger accounts with credit balances.As we balance off accounts, Capital, liabilities and incomes normally have credit balances so shown on the credit side.

The capital account shows the net worth of a business at a specific point in time. It is also known as owner's equity for a sole proprietorship or shareholders' equity for a corporation. It always has a credit balance and so, on the credit column of the trial balance. Other accounts that always have credit balance include sales, sundry creditors, gains and reserves.

1. Explain the debit column of the trial balance

2. List down the four accounts appearing on the debit column.

3. List down the accounts with credit balances.

## 7.2 Errors in accounting

**Learning Activity 7.2**

MUTESI is an accountant of ABC Ltd and still use manual accounting. At the end of financial period, she prepares a trial balance and finds that two totals do not agree, which implies that some errors have been committed while recording the transactions in the books of accounts.

1. Helps her identify the errors not affecting the trial balance

2. Helps her identify the errors affecting the trial balance.

### 7.2.1 Errors not disclosed by a trial balance

In recording of accounting transactions, some errors made may not be detected by the trial balance. This means that for every debit entry, there is the corresponding credit entry. But this does not justify that an accountant has not committed mistakes. In this regard, an accountant must be aware of those errors that are not disclosed by a trial balance.

The following errors are not detected by the trial balance:

1. **Clerical Errors:**

- **Errors of Omission:** If a transaction is not recorded at all, the amount of the transaction will not be recorded in the relevant ledger account, and/or if the transaction is not transferred from journal to ledger, both columns of the trial balance will be valued by an equal sum lower amount of money.

**For example,** goods sold to Green but not recorded in the sales book. Because an equal amount of debit and credit has been omitted from the record, the trial balance will agree.

- **Errors of Commission:** If a transaction is recorded in the primary books of accounts by a lower or higher amount of money, that lower or higher amount will also be recorded in the ledger in question, and thus the trial balance will agree.

As an **example,** consider the $3000 in goods sold to Green. If it is recorded as $30000, both Sales A/C and Green A/C will be valued at $27000 more. In this case, too, the trial balance will agree.

- **Errors of Miss-posting:** Such errors occur as a result of employees' carelessness. Assume Green has given you $3000 in cash. The cash book is properly debited with $3000, but when posted to the ledger, the Yellow account is credited instead of the Green account.

The trial balance will agree because the total of credits has been the same, despite the fact that the amount has been credited to the incorrect account.

- **Compensating Errors:** Compensating errors occur when one mistake is compensated for by another.

Even if there are two errors, in this case, the total of both sides of the trial balance will agree. Because both sides will be reduced by the same amount, $1800.

### 2. Errors of Principle

Errors committed due to a lack of proper accounting knowledge and/or violations of recognized accounting principles are referred to as errors of principles. An example of such an error is when capital expenditure is recorded as revenue expenditure and vice versa. Another example is when a purchase of assets is recorded in the purchases book. It is an error of principle, because the purchases book is meant for recording credit purchases of goods meant for resale and not fixed assets. A trial balance will not disclose errors of principle.

## 7.2.2 Errors disclosed by a trial balance

When errors do not affect the trial balance, this means that the debit side is not equal to the credit side and means that the trial balance does not balance. There are various types of such errors that are revealed in the trial balance.

Note that these errors cannot happen in accounting software like Sage line 100, since the user receive the notification in recording transaction warning that the journal is not balanced and cannot close Sage line window. The user should therefore balance the journal to be allowed to close it.

Some of these are discussed below:

### 1. Wrong Totaling of Subsidiary Books:

If the total of any subsidiary book is wrongly cast, it would cause a disagreement in the Trial Balance. For instance, Sales book has been under cast by Frw 100.

From the Sales book, all the personal accounts have been debited correctly but mistake occurred only in Sales Account, to the extent of Frw 100 (Less). Thus, the Trial Balance disagrees to the extent of Frw 100; credit side falls short of the amount.

### 2. Posting of the Wrong Amount:

If a wrong amount is posted in one of the two accounts, the Trial Balance disagrees. For instance sales made to Rugero for Frw 570, wrongly debited to Tuza's Account with Frw 750, instead of Frw 570. Tuza's account has been over debited by Frw 180. Thus, the debit side of the Trial Balance will exceed by Frw 180. i.e., 750 – 570 = 180.

### 3. Posting an Amount on the Wrong side of the Account:

For instance, a credit sales made to a customer for Frw 500 has been credited to the customer account, instead of debit. As a result of this error, the credit side of the Trial Balance will exceed by Frw 1,000 (double the amount of the error) because there are two credits one in Sales Account and another in Personal Account and no debit for the transaction.

### 4. Posting Twice to a Ledger:

For instance, salary of Frw 500 paid has been debited to Salary Account twice by mistake. This will cause disagreement of Trial Balance in debit side by excess of Frw 500.

Apart from the above, the following are some of the common errors, by which Trial balance totals disagree:

5. **Omission of an account from the Trial Balance (Cash, Bank etc.):** **this e**rror happens if an account is completely omitted while preparing a trial balance.

6. **Wrong additions or balancing of ledger accounts:** these are errors committed by the accountant while adding up the transactions made in an account during the time of balancing off accounts.

7. **Balance of account written to the wrong side of the Trial Balance:** this happens if the accountant mistakenly writes the total of one side to the opposite side. For instance, the total debits written under total credits and vice versa.

8. **Errors made in preparing the list of Debtors and Creditors:** this error may occur when a debtor is wrongly considered as creditor, and vice versa.

9. **Errors made in carrying forward the total from one page to another page.** The balance from one page may be modified when it is brought forward.

10. **There may be some items to which double entry is incomplete:** this error originates from the violation of double entry principle and occurs if for a transaction, one account has been debited/credited without the corresponding account being credited/debited respectively.

11. **Wrong totals of the Trial Balance:** these are errors of addition an accountant may commit when s/he is adding up the trial balance figures.

**Application activity 7.2**

Cyusa A/C is supposed to be debited with $2000 but has only been debited with $200. On another occasion, Teta A/C was mistakenly credited with $200 rather than $2000.

1. What kind of error is it?

2. Will the error affect the trial balance?

3. Give an example of an error that will cause the trial balance not to agree.

## 7.3. Assets and expenses accounts of trial balance

**Learning Activity 7.3**

Using the knowledge from senior four, identify the accounts that must appear on the debit side of the trial balance.

### 7.3.1 Assets

When we prepare a trial balance assets appear in the debit column. This is because generally assets have a debit balance in time of balancing off accounts. Exception may be to bank account which may have a credit balance in case of

bank overdraft. Basically, an overdraft means that the bank allows customers to withdraw more money than s/he has on his/her account. This makes a bank account balance negative.

The typical asset accounts with debit balances are Cash, Marketable securities, Accounts receivable, Inventory, Prepaid expenses, Buildings and Equipment.

### 7.3.2 Expense accounts

Expenses accounts normally carry debit balances on the left side of the T-account. Debits increase the balance in an expense account. They are entered on the debit side of the trial balance. Examples of these accounts are Salaries, Rent, Supplies, Interest, Insurance, Licenses, Advertising, and so many others.

**Application activity 7.3**

1. Complete the table below by ticking in the appropriate column:

| Account name | Asset | expense |
|---|---|---|
| 1. Machinery | | |
| 2. Carriage outwards | | |
| 3. Fixture and fittings | | |
| 4. Rent | | |
| 5. Repairs | | |

2. Differentiate between assets and liabilities.

## 7.4. Liabilities accounts of trial balance

**Learning Activity 7.4**

ISHIMWE wants to start a business. Her savings is not enough to cover the startup and operating capital. Advise her on how she can get funds to start and run her business.

A liability is something a person or company owes, usually a sum of money. Liabilities are settled over time through the transfer of economic benefits

including money, goods, or services. In accounting, liability accounts have credit balance, and hence, they appear in the credit column of the trial balance.

Businesses sort their liabilities into two categories: current and long-term. Current liabilities are debts payable within one year, while long-term liabilities are debts payable over a longer period. Below are the types of liabilities:

### 7.4.1 Current (Near-Term) Liabilities

Ideally, analysts want to see that a company can pay current liabilities, which are due within a year, with cash. Some examples of short-term liabilities include payroll expenses and accounts payable, which include money owed to vendors, monthly utilities, and similar expenses. Other examples include:

1. **Wages Payable**: The total amount of accrued income employees have earned but not yet received.

2. **Interest Payable**: Companies, just like individuals, often use credit to purchase goods and services to finance over short time periods. This represents the interest on those short-term credit purchases to be paid.

3. **Dividends Payable**: For companies that have issued stock to investors and pay a dividend. This represents the amount owed to shareholders after the dividend was declared.

4. **Unearned Revenues**: This is a company's liability to deliver goods and/or services at a future date after being paid in advance.

### 7.4.2 Non-Current (Long-Term) Liabilities

Long-term liabilities, also called long-term debts, are debts a company owes third-party creditors that are payable beyond 12 months. Considering the name, it's quite obvious that any liability that is not near-term falls under non-current liabilities, expected to be paid in 12 months or more.

Examples of long-term liabilities include long-term loans, bonds payable, post-retirement healthcare liabilities, pension liabilities, deferred compensation, deferred revenues, etc.Both short-term and long-term liabilities always have credit balance; therefore, they appear on the credit column of the trial balance.

1. With examples, distinguish between current and non-current liabilities.

2. Explain how liabilities are treated in the trial balance.

## 7.5. Income/Revenues account of trial balance

**Learning Activity 7.5**

A newly recruited account needs advice on how to prepare a trial balance especially how to treat revenues of the business. As a fresh school leaver accountant, advise her on whether revenues are debits or credits in the trial balance and explain why.

### 7.5.1 Incomes/revenues

Revenues and gains are recorded in accounts such as Sales, Service Revenues, Interest Revenues (or Interest Income), and Gain on Sale of Assets. These accounts normally have credit balances that are increased with a credit entry. In a T-account, their balances will be on the right side. In the trial balance they are credits.

The exceptions to this rule are the accounts sales returns, Sales Allowances, and Sales Discounts these accounts have debit balances because they are reductions to sales. The following are some of the revenue accounts.

- **Sales account:** This revenue account that reports the sales of merchandise.
- **Service revenues**: these are revenues from a work accomplished by a company.
- **Interest income:** these are interests earned by a company during a given time period.
- **Gain on sale of assets:** this is income earned from the sale of an asset (other than stock/inventory) for more amount than the amount shown in the company's records. It is the difference between the proceeds from the sale and carrying amount shown on the company's book.

**Note the following:**

- The trial balance is of crucial importance in the business since it ensures mathematical accuracy, ensures accurate recording, assists in quickly determining the current financial situation, aids in the correction of

accounting errors and ensures proper use of the double-entry system.

- The assets and expenses have debit balances so shown on the debit side ( it includes accounts like assets, drawings accounts, expense accounts, cash balance, bank balance, losses, purchases, and sundry debtors, among others), While Capital, liabilities and incomes normally have credit balances so shown on the credit side (it includes capital accounts, income accounts, sales, sundry creditors, gains and reserves).

- In a trial balance statement, where the debit and credit side of it is equal, it is considered balanced. Additionally, it ensures that there are no errors in the ledger. However, this does not qualify that it is free of mistakes. For instance, improper entries and missing entries from ledgers are still considered accounting errors that are not detected by a trial balance; this means that an accountant may commit some errors which cannot affect the trial balance.

## 7.5.2 The process of generating a trial balance in sage line 100

Now that the previous steps should have been followed, that is, creating a company profile, creating charts of accounts, creating s/p charts creating the journal codes and record the transactions in the appropriate journals. The user can generate the trial balance of the business.

Taking an example of ABCD Company operating from 1/1/2023 to 31/12/12023 with the following transactions taking place on January 1st 2023:

Started business with cash 5,000,0000FRW and bank 10,000,000FRW

Drawings in kind.......................................................................400,000FRW

Land bought on credit for Kimenyi................................2,000,000 FRW

Purchase by bank......................................................................5,000,000 FRW

Purchase by cash.......................................................................4,000,000 FRW

Credit purchases from Kimenyi........................................1,000,000 FRW

Credit purchases from Agnes.............................................500,000 FRW

Credit sales to Kalisa ...............................................................7,000,000 FRW

Credit sales to Jane...................................................................13,000,0000 FRW

Goods returned to Jane..........................................................50,000,000 FRW

Agnes returned goods to ABCD company.......................25,000 FRW

Machinery bought by cash......................................................400,000 FRW

Rent received by cash.................................................................150,000FRW

Discount received by cheque...........................................80,000,000 FRW

Paid salaries...................................................................700,000 FRW

Paid rent by check...........................................................200,000 FRW

Cash deposited..............................................................4,000,000 FRW

The chart of accounts is as follows:



*Figure 7. 1: Chart of account display*

S/p charts created are the following:



*Figure 7. 2:SP chart*

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**The journal codes created are as follows:**



*Figure 7. 3: Journal codes*

Entries in every journal are shown below:

**a. Purchase journal:**



*Figure 7. 4: Journalizing credit purchases transactions*

## b. Sales journal:



*Figure 7. 5: Journalizing credit sales transactions*

## c. Cash journal:



*Figure 7. 6: Journalizing cash transactions (Payments and receipts by cash or cheque)*

## d. General journal:



*Figure 7. 7: Entries in general journal*

## e. Returns inwards journal:



*Figure 7. 8: Entries in returns inwards*

## f. Returns outwards journal:



*Figure 7. 9: Entries in returns outwards*

Follow the following steps to display a trial balance:

Click on stat (statement), then trial balance:
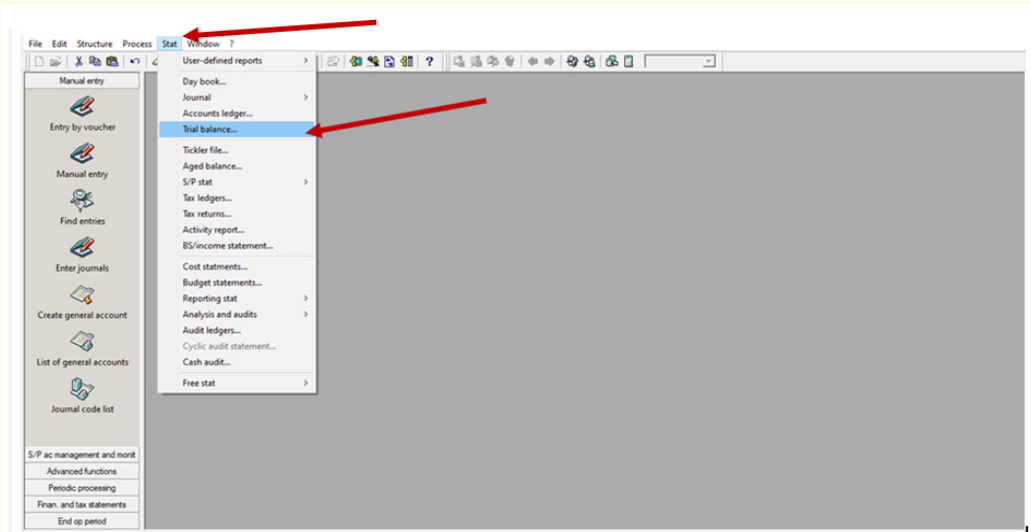


*Figure 7. 10: Selection of trial balance*

-Click on trial balance: The window that appears and the user click on trial balance to print it or view its print preview and click ok (here we select complete):
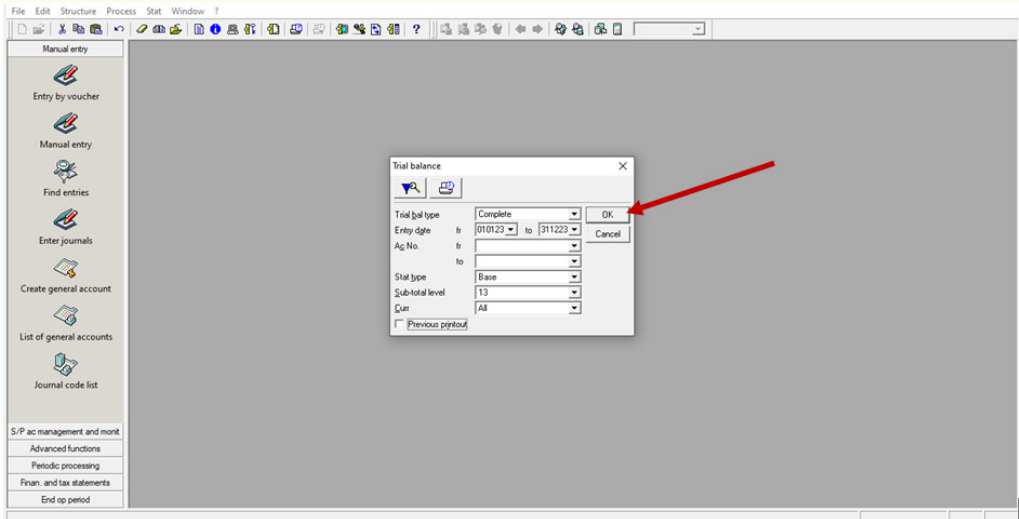
*Figure 7. 11: Confirm the selection of trial balance for entire accounting period*

-Activate print preview on the appearing print window and click ok:
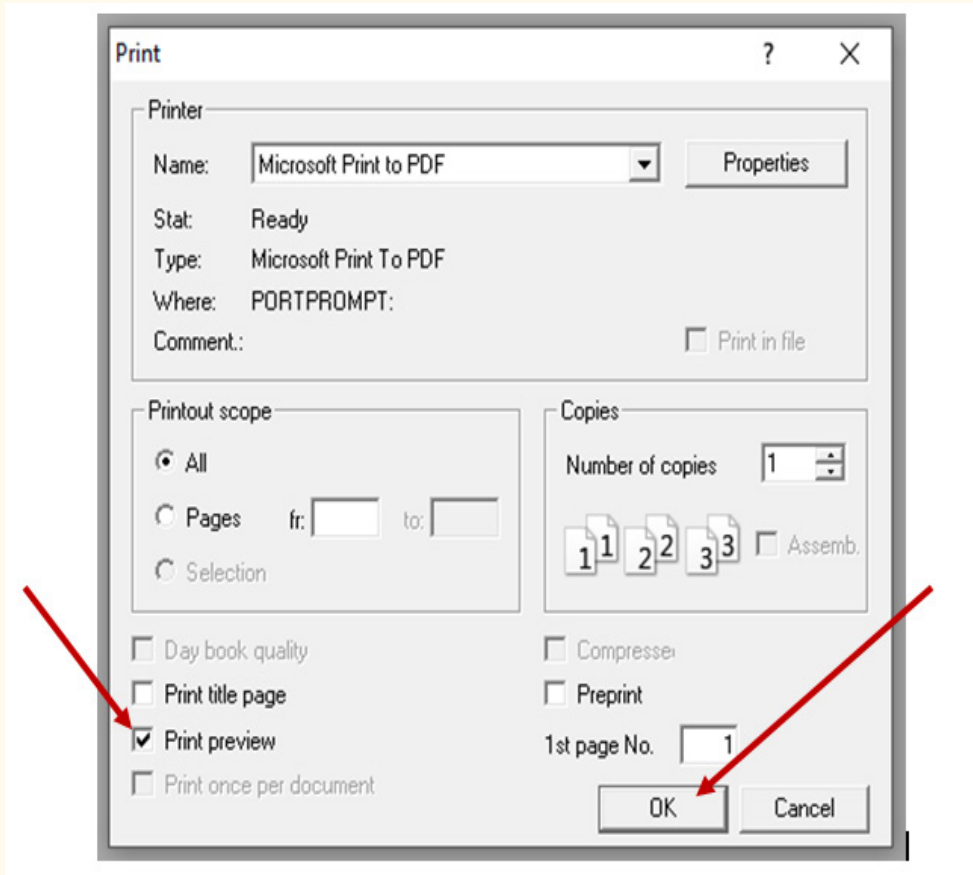


*Figure 12: Selection and confirmation of trial balance print preview*

-Finally, the trial balance appears as follows:



Figure 7. 13: Trial balance window display

**In Sage 100, the trial balance is composed of four main columns:**

1. Account number which shows the numbers as per charts of accounts

2. Account names as per charts of accounts

3. Transactions: this part shows the total amount of transactions made in each side of an account and the grand total of debits and credits.

4. Balances: this column shows the balance brought down for every account. It corresponds to the manual trial balance.

**Application activity 7.5**

1. What are revenue accounts?

2. How are revenues treated in the trial balance?

The following are information extracted from BIRASHOBOKA ltd Company in 2022. You are required to record these transactions into their respective journals and extract a trial balance.

1st January: Started a business with :

- Cash 500,000 FRW

- Building 800,000 FRW

- Cash at bank 1,500,000 FRW

2nd January bought land valued at 600,000 FRW by cheque.

10th January bought goods from Gloria for 350,000 FRW on credit.

15th January Gloria returned goods amounted 10,000FRW

25th January sold goods valued at 250,000 FRW to Emma on credit.

10th March paid for rent 50,000FRW, communication 200,000FRW and transport 40,000FRW all paid by cash.

**Additional information:**

Activity: Construction

Account length: 4 digits

File name: Your proper names

Save you work on desktop.

**Key Unit competence:** Process and present the income statement.

### Introductory activity

The following information was extracted from the books of accounts of Nelly relating to the financial year ended December 31st, 2022:

| Account name | Balance brought forward (.000FRW) |
|---|---|
| Purchase | 25,000 |
| Sales | 40,000 |
| Purchases returns | 5,000 |
| Wages | 3,000 |
| Insurance | 300 |
| Interest paid | 200 |

1. Which financial statement to be used in order to get the business financial performance?

2. Which formula used to get the financial performance of a business?

## 8.1. Formulas of income statement

### Learning Activity 8.1

1. What is meant by income statement?

2. State the formula to calculate gross profit in income statement

3. How is net profit calculated?

### 8.1.1. Meaning of income statement

Income statement is a financial statement prepared to provide information about financial performance of a business. It shows a company's revenues, expenses and profitability over a period of time.

It is also sometimes called a profit-and-loss (P&L) statement. It shows your revenue from selling products or services, expenses to generate the revenue and manage your business. In other words, it compares all the incomes and expenses of the period to get the profit or loss for the period.

### 8.1.2 Sections of the income statement

**a. The trading account**

The trading account is the part of income statement that summarizes the trading activities (sale and purchase of goods/stocks) of the business and tries to determine the gross profit for the relevant financial period. Gross profit equals net sales (sales minus sales returns) minus the cost of goods sold.

The gross profit is then taken up in the second part of income statement, the profit and loss account as part of the income.

**b. The profit and loss account**

The profit and loss account shows the net profit or net loss that the business has made from all the activities during a financial period. The net profit (or loss) is determined by deducting all the expenses from all the incomes of the same financial period.

Income statement contains at least two major sections: revenues and expenses.

- Revenues are inflows of assets from providing goods and services to customers. Newton's income statement contains one type of revenue: sales to customers. This includes sales made for cash and sales made on credit.
- Expenses are the costs incurred to generate revenues such as salaries, rent, insurance, transport, water and electricity and other items.

  The income statement has two parts: The first part (previously known as trading account) shows the gross profit. The second part (previously known as the profit and loss account) shows the net profit for the period.

### 8.1.3. Formats of income statement

There are two formats of preparing the income statement, the Horizontal or T-account format and the Vertical or narrative format.

## A. Horizontal format or conventional format Income statement

Name of the business

Income statement for the year ended ...../......./.......

| | | | |
|---|---|---|---|
| Opening stock | XXX | Sales | XXX |
| Purchases                    xx | | Sales returns | (xx) |
| Less : Purchase returns xx | XXX XX | NET SALES | XXX |
| Carriage inwards | | | |
| | XXX XX | | |
| COST OF GOODS AVAILABLE FOR SALE | | | |
| Less: closing stock | XXX | | |
| COST OF GOODS SOLD | XXX | | |
| | XXX | | XXX |
| GROSS PROFIT | XX | | XXX |
| | XX | Gross profit c/d | XX |
| Operating expenses | XXX | Other revenues | XXX |
| NET PROFIT | | | |

## B. Vertical format

Name of the business:..........................

 Income statement for the year ended: date/month/year

| | | |
|---|---|---|
| Sales | | XXX |
| Returns inwards(sales returns) | | (XX) |
| NET SALES | | XXX |
| COST OF GOODS SOLD | | |
| OPENING INVENTORY/STOCK | | XX |
| Purchase | XX | |
| Returns outwards/purchase returns | (xx)                XX | |
| Carriage inwards | XX | |

| | | |
|---|---|---|
| COST OF GOODS AVAILABLE FOR SALE | XXX | |
| Closing stock | (XX) | |
| COST OF GOODS SOLD | | XXX |
| GROSS PROFIT | | XXX |
| Add: other incomes | | |
|     Discount received | xx | |
|     Rent received | xx | |
|     Interest received | xx | XX |
| Less: expenses | | |
| Carriage Outwards | XX | |
| Discounts allowed | XX | |
| Postage & stationary | XX | |
| Salaries & wages | XX | |
| Rent paid | XX | |
| Insurance & rates | XX | |
| Bank charges | XX | |
| Other expenses | XX | XXX |
| NET PROFIT | | XXX |

Note: The use of **brackets** on the amounts means deduction of the amount. The other option would be to use the word '**Less**' before the item concerned.

### Application activity 8.1

1. Give the two main sections of income statement

2. What is the formula to calculate cost of goods sold?

3. How is net profit calculated in income statement?

## 8.2. Configuration of income statement

> **Learning Activity 8.2**
>
> Mr MBOGO is an accountant at Vision Company and uses computerized accounting software in his day to day business transactions records. He has entered all the transactions in a SAGE line accounting file in the year 2022. However, when he wants to present the income statement to see if the business has made profit or loss, the income statement is not displaying the results because it is not yet configured.
>
> 1. Basing on the steps followed, guide him how to make income statement configuration.
>
> 2. What is the importance of configuring income statement?

In sage line 100, once the journal entries were made, trial balance, accounts ledger, income statement and balance sheet are done automatically. However, for the income statement and balance sheet, the user needs to make some configurations in order to customize the company's transactions with the software.

The following are steps taken to open income statements

**Step 1.** Click on stat(statement)menu on menu bar

**Step 2.** Click on BS/Income statement
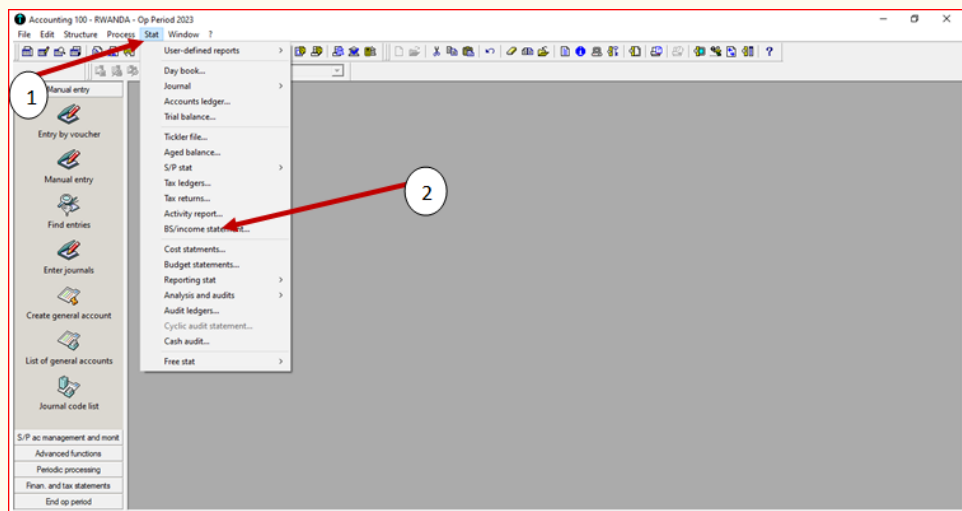


*Figure 8.1.Selection of income statement*

In (1), click on stat, and then click on BS/Income statement (2)

**Step 3**. Remove ticks on details of account, on print BS and on print int. balances. Only print income statement option must have a tick.
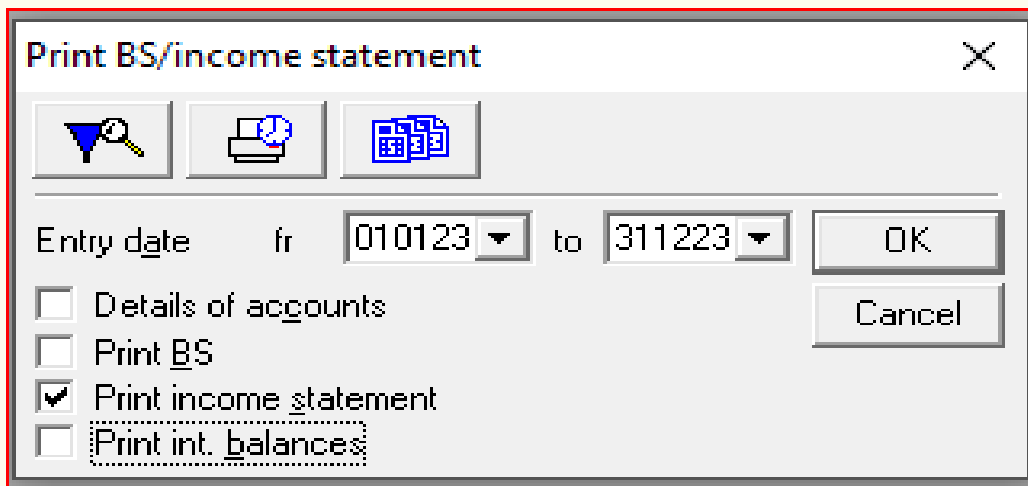


*Figure 8. 2 Leaving a tick on income statement to be printed*

**Step 4.** After this, click **OK** and you get the following:
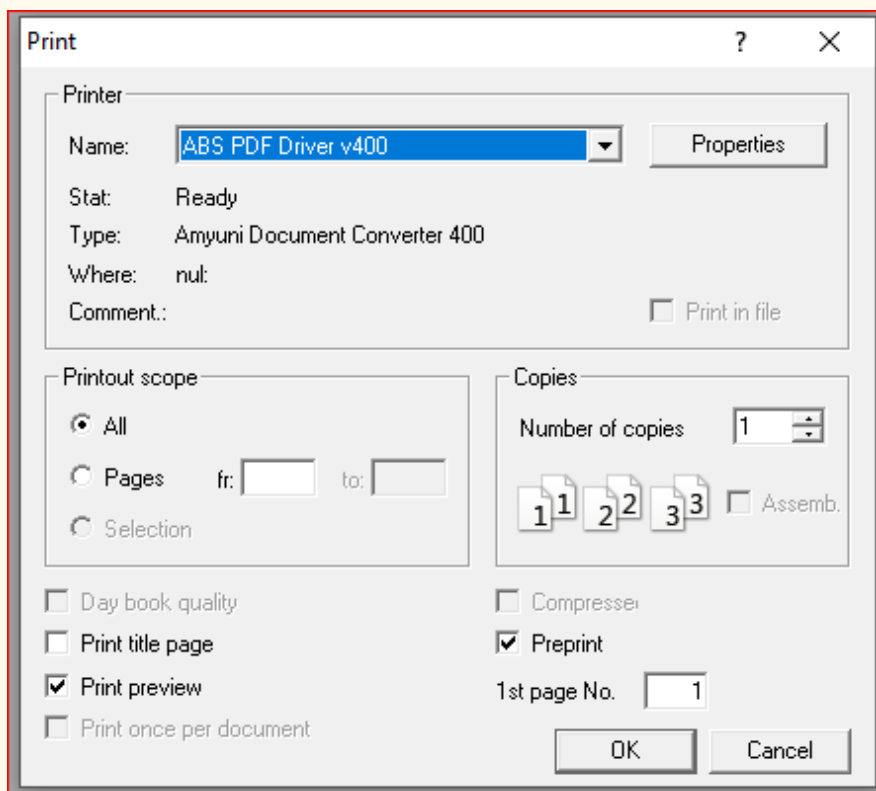


*Figure. 8.3. Selection of income statement print preview*

**Step 5:** Remove a tick on day book quality, print preview and print once per document, leave a tick on "**Print preview**" only. After, click Ok.



*Figure 8. 4: Income statement print preview before configuration*

Income statement appears to be in French because it originates from French company and the balances are not found, hence need to be configured.

In order to get to the configuration of income statement, instead of clicking Ok, click on BS/Income statement user defined icon
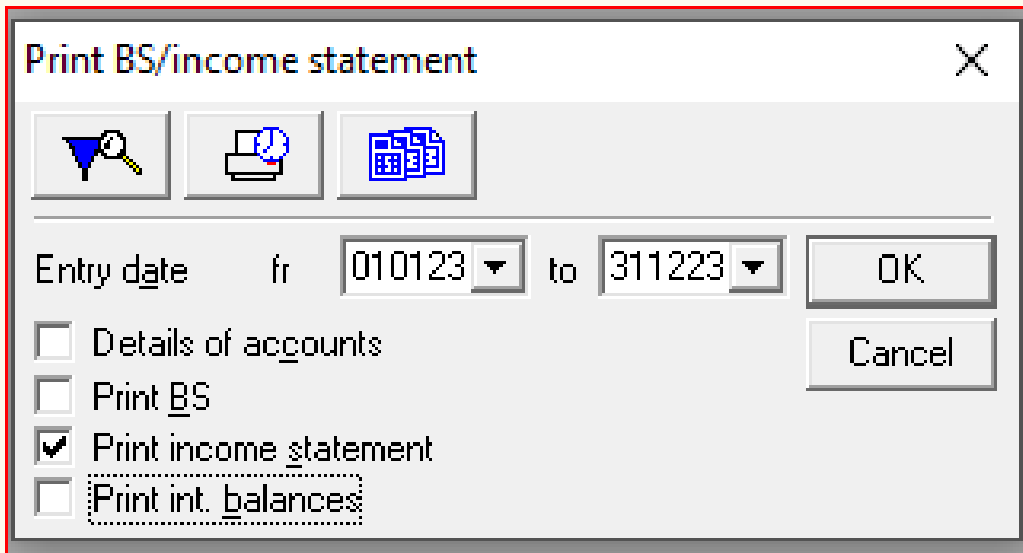
*Figure 8. 5: Path to Income statement configuration*

## 8.3. Creation of elements of income statement

### 8.3.1. Net sales

Net sales refer to the total amount of sales made by a business within a specific period after sales returns, discounts, and sales allowances are deducted. Net sales may be referred to as "net revenue" or simply "sales" when listed on an income statement. In income statement, net sales are obtained by deducting sales returns from total sales incurred by the business, i.e net sales=Sales-sales returns

In Sage line 100 income statement configuration, net sales are of header type and are configured as follow:
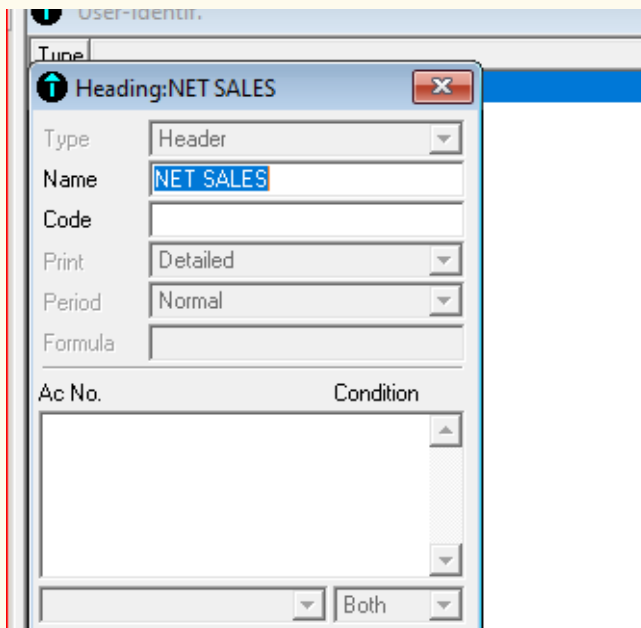


*Figure 8. 6: Net sales configuration*

As shown above, net sales will be the first header of income statement and will present the net amount obtained by deducting sales returns from sales.

Sales and sales returns will be of **balance limit** type and will be as follow
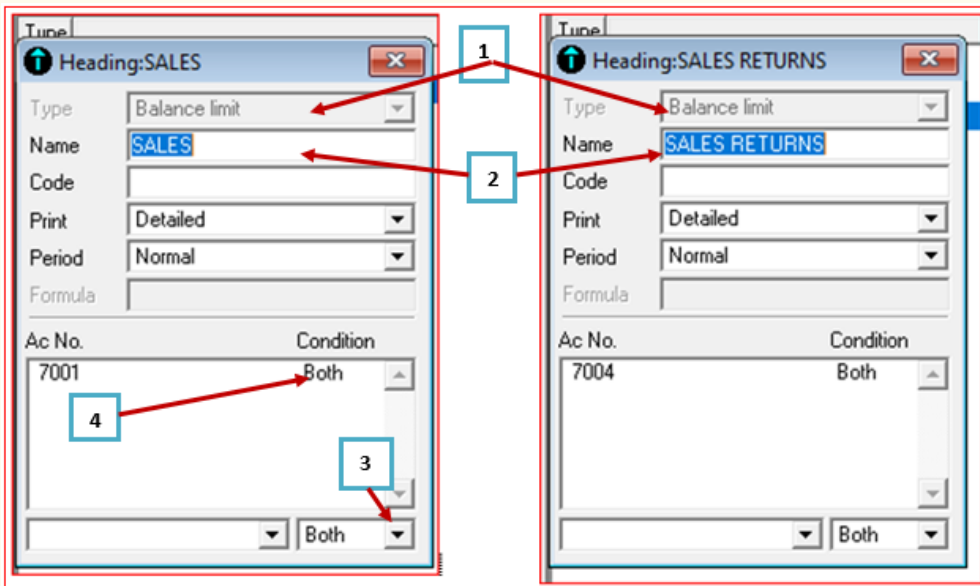


*Figure 8. 7: Sales and sales return configuration*

In (1), make the sales account and sales return accounts of header type for each.

In (2), in the name field, type sales for the sales account and sales returns or returns outwards
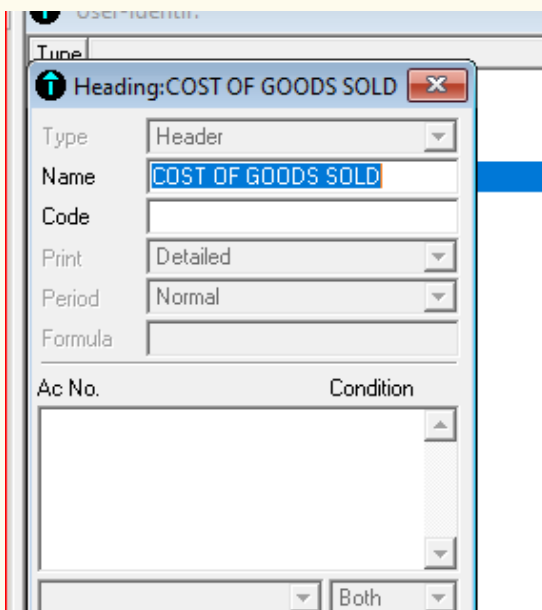
In (3), select both for each account of them when configuring and in (4)Press ENTER button on keyboard to save the configuration of an account. When saved, it moves up and leaves space for the configuration of another account.

### 8.3.2. Cost of goods sold

Cost of goods sold is the total of all costs used to create a product or service, which has been sold. These costs fall into the general sub-categories of direct labor, materials, and overhead. Direct labor and direct materials are variable costs, while overhead is comprised of fixed costs (such as utilities, rent, and supervisory salaries). In a service business, the cost of goods sold is considered to be the labor, payroll taxes, and benefits of those people who generate billable hours (though the term may be changed to "cost of services"). In a retail or wholesale business, the cost of goods sold is likely to be merchandise that was bought from a manufacturer. It does not include any general, selling, or administrative costs of running a business.

Normally, cost of goods sold is calculated by this formula: Beginning inventory (opening stock) + Purchases (minus purchase returns) - Ending inventory = Cost of goods sold

In sage line 100 income statement configuration, cost of goods sold is created as header and will be created as follow:



*Figure 8. 8: Cost of goods sold configuration*

The elements of cost of goods sold are created as header type. In sage line 100 it is difficult to determine opening stock, since no option of entering opening balance like it is in Sage line 50, QuickBooks and some other accounting software. Therefore, cost of goods sold will be equal to net purchases minus ending inventory (closing stock). If no closing stock is found, cost of goods sold will be equal to purchases minus purchases returns.

In sage line 100, the configuration of purchase and purchase returns will be looking as follow:
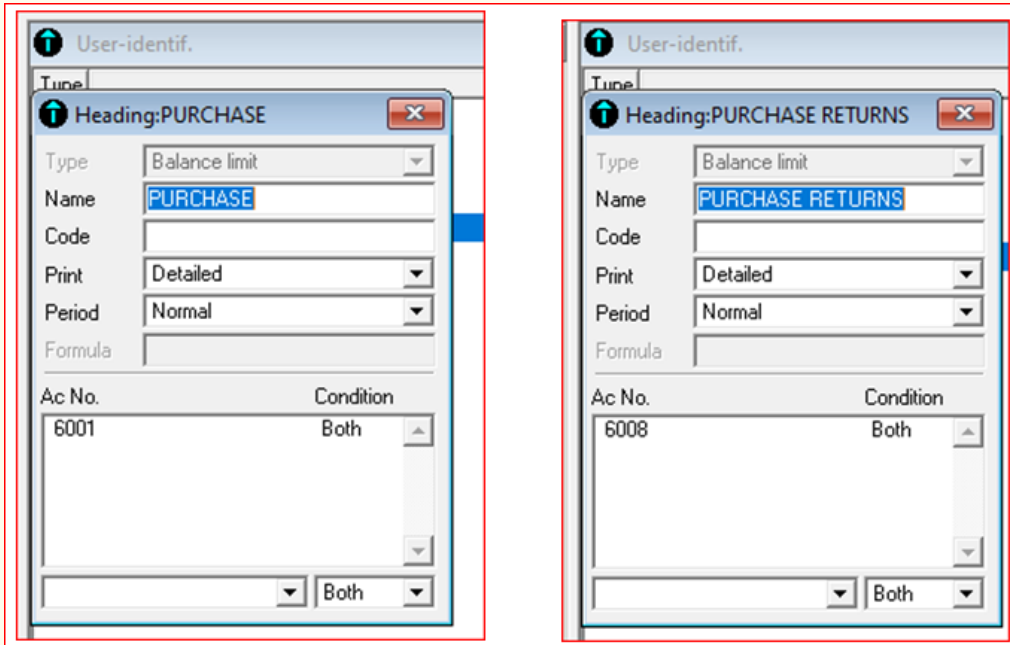


*Figure 8. 9: Purchases and purchases returns configuration*

### 8.3.3. Gross profit

The balance of profit, which is arrived at by matching sales proceeds with the actual cost of the goods sold, is called *gross profit.* The gross profit of a company is the total sales of the firm minus the total cost of the goods sold. The total sales are all the goods sold by the company. The total cost of the goods sold is the sum of all the variable costs involved in sales.

Gross profit is configured as subtotal in income statement configuration
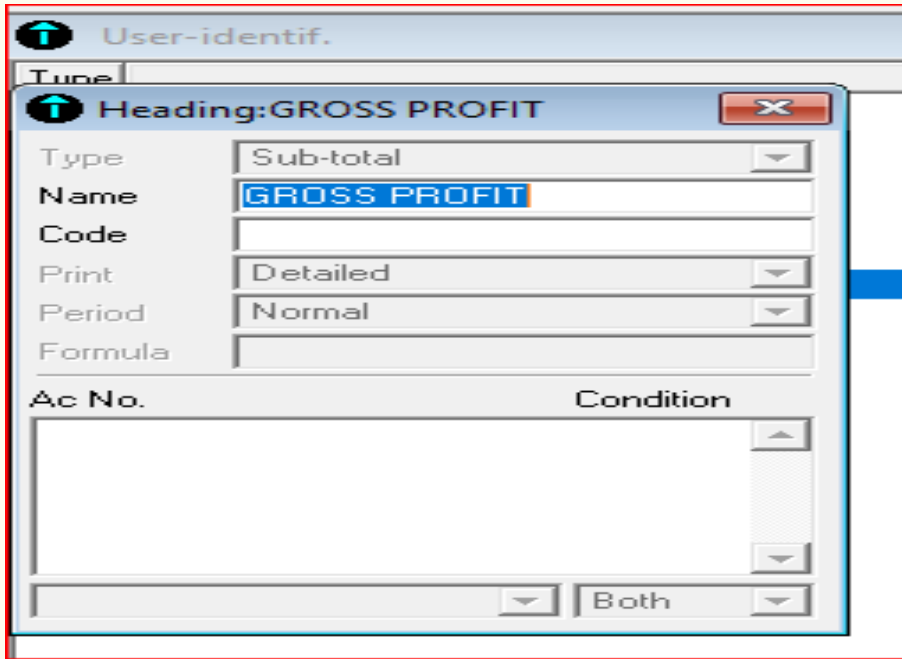
*Figure 8.10: Gross profit configuration*

### 8.3.4. Other incomes

The term income refers to earnings of the business over a given period. Examples of incomes a business may receive include rent received, commission received, interest receivable, discount received and others. For example, if we have rent income, it may be created as follow:
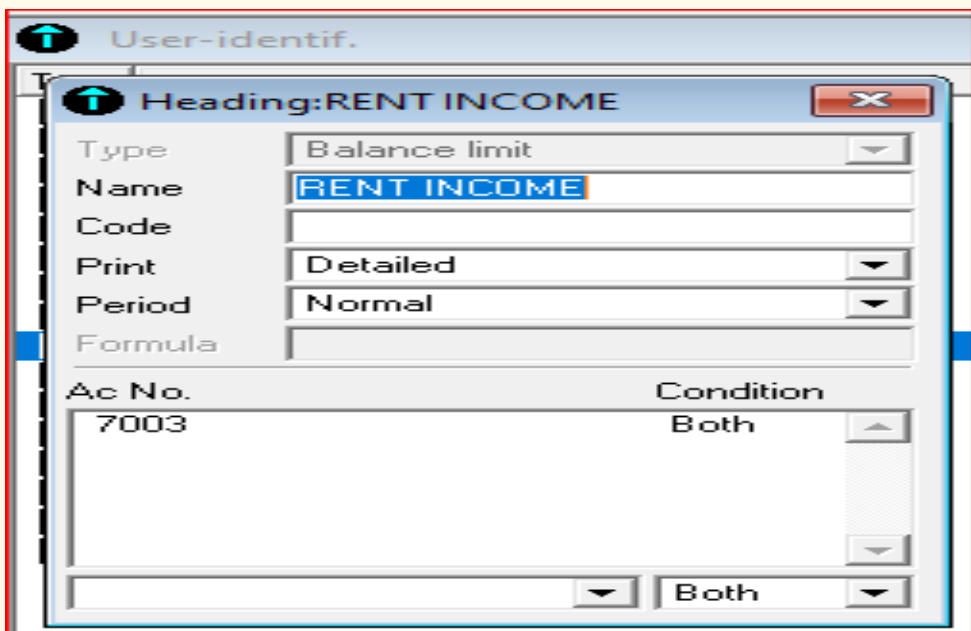


*Figure 8. 11: Income configuration*

The total of incomes earned by the business added to gross profit is called **gross income** and is given a **total** type.
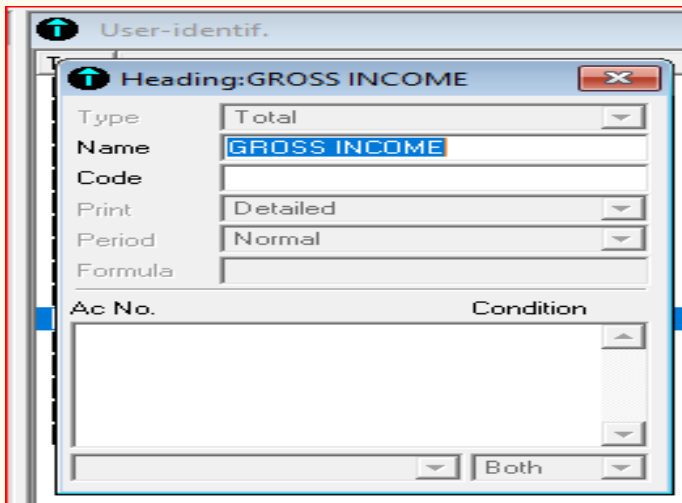


*Figure 8. 12: Gross income configuration*

### 8.3.5. Expenses

In accounting terms, expense is the operational cost that is paid to earn business revenues. It means the outflow of cash in return for goods or services. Expenses can also be written as the sum of all the operations that usually bring profit. Examples of the expenses include rent expenses, wages and salaries, transport, utilities, maintenance, office supplies, depreciation and insurance, telephone costs and stationery.

The expenses take the type of header while specific expenses take the balance limit type.
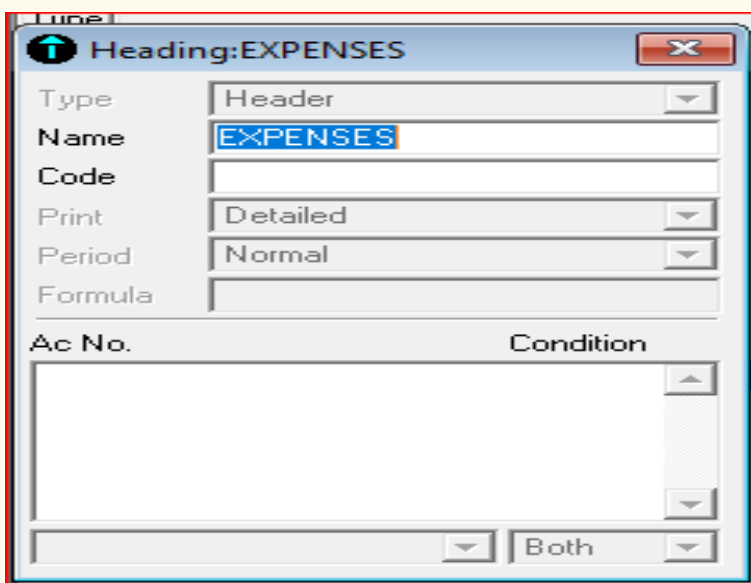


*Figure 8. 13: Expenses configuration*

A particular account of expense is of balance limit type. After setting balance limit type, select both and press Enter button on key board to save that particular expense account. For example, if we configure transport expense, the output is as follow:
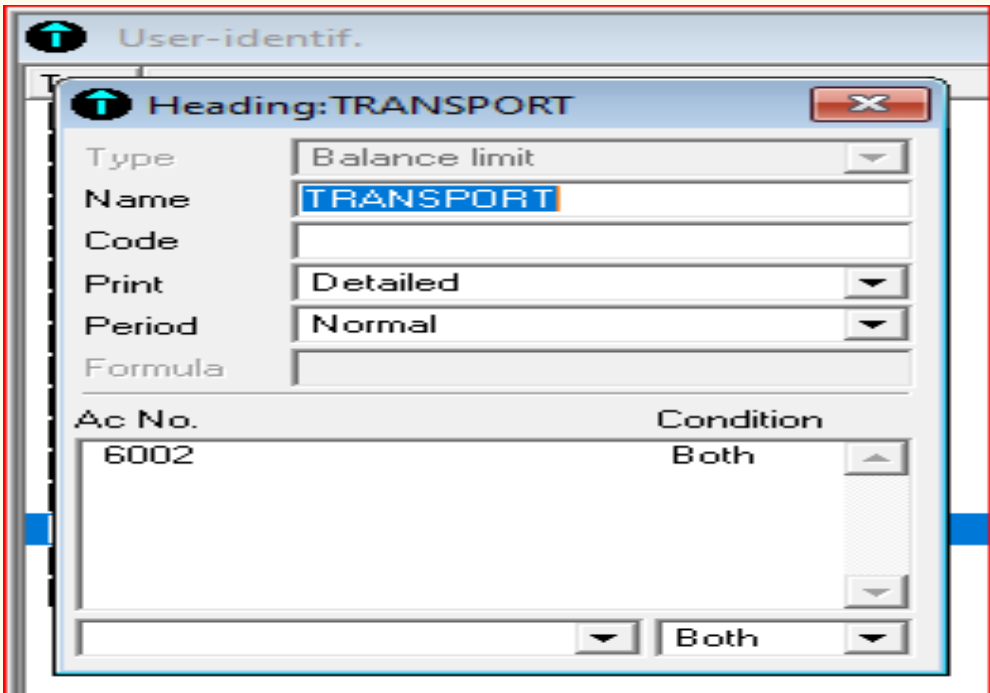


*Figure 8. 14: Particular expense type configuration*

### 8.3.5. Net profit

Net profit is the amount of money your business earns after deducting all operating, interest, and tax expenses over a given period of time. To arrive at this value, you need to know a company's gross profit. If the value of net profit is negative, then it is called net loss.

To configure the net profit in income statement configuration, the same procedure is to be followed as the configuration of other accounts configured before. The only difference is that the net profit is saved as total type. It will therefore be configured as follow:
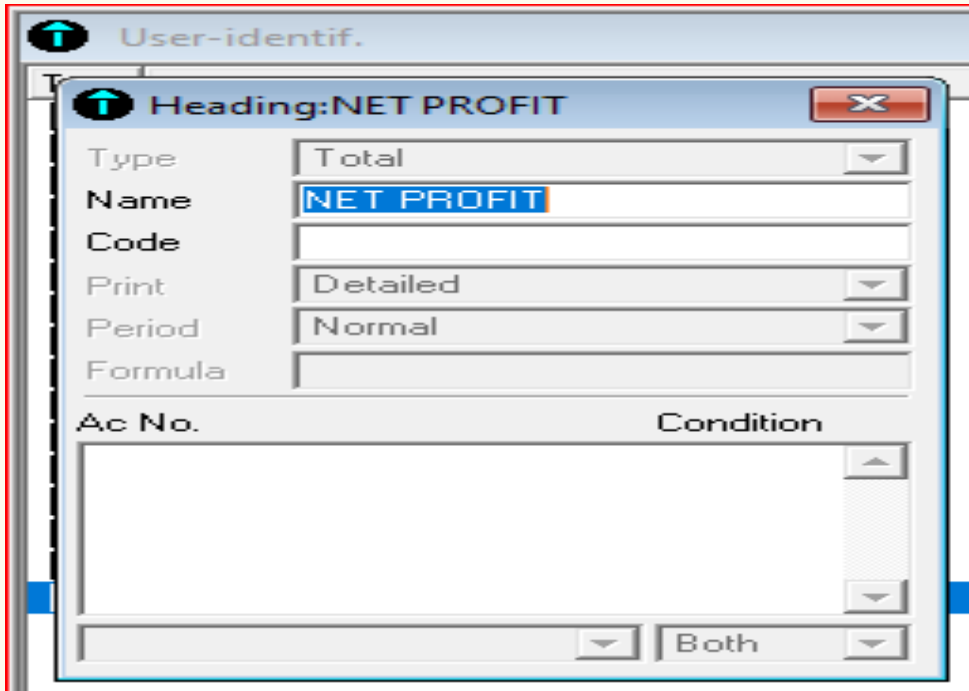
*Figure 8. 15: Net profit configuration*

1. What are the elements of income statement?

2. Write down the steps that may be follow to make configuration of gross profit in income statement

## 8.4. Presentation and interpretation of income statement

**Learning Activity 8.4**

From the following transactions, make journal entries and prepare the balance sheet and income statement and show their configurations.

1st January, started a business with 9,000,000FRW cash in hand

2nd, January bought machinery for 2000,000 FRW by cash

4th January, bought goods worth 80,000 FRW from Suzan on credit

6th January, received a loan of 3000,000 FRW

10th January, credit purchase from Habimana for 40,000FRW

13th January, bought building for 2,500,000 FRW by cheque

15th January, credit purchase from Gahungu, for 50,000 FRW

20th January, Credit sales to Mahoro for 90,000 FRW,

5th February, withdrew business cash of 200,000 FRW for personal use

10th February, credit purchase from Ayinka for 70000 FRW

11th February, returned goods of 30000 FRW to Ayinka

15th February, bought land for 1,500,000 FRW by cash

20th February, bought goods of 300,000 FRW on credit from John Enterprise

6th March, credit sales to Jimmy for 200,000 FRW,

7th March, Jimmy returned goods costing 40,000 FRW

12th March, sold goods to TOM for 190,000 FRW on credit

10th April, Paid transport of 50,000 by cash

12th April, Rent paid for 80,000 FRW by cheque

3rd May, Bought equipment for 1000,000 FRW cash

4th May, commission valuing at 60,000 FRW was received

10th May, Rent worth 120,000FRW was received by cheque

31st May, recorded depreciation of fixed assets for 90,000 FRW

Additional information:

File name: AFRICA

Operating period: 2023

Company name: TWITEZIMBERE Ltd Company

Activity: Manufacturing

After creating chart of account for the affected accounts, S/P chart and journal codes, and recording related transactions as required, the next step is to make configurations as required
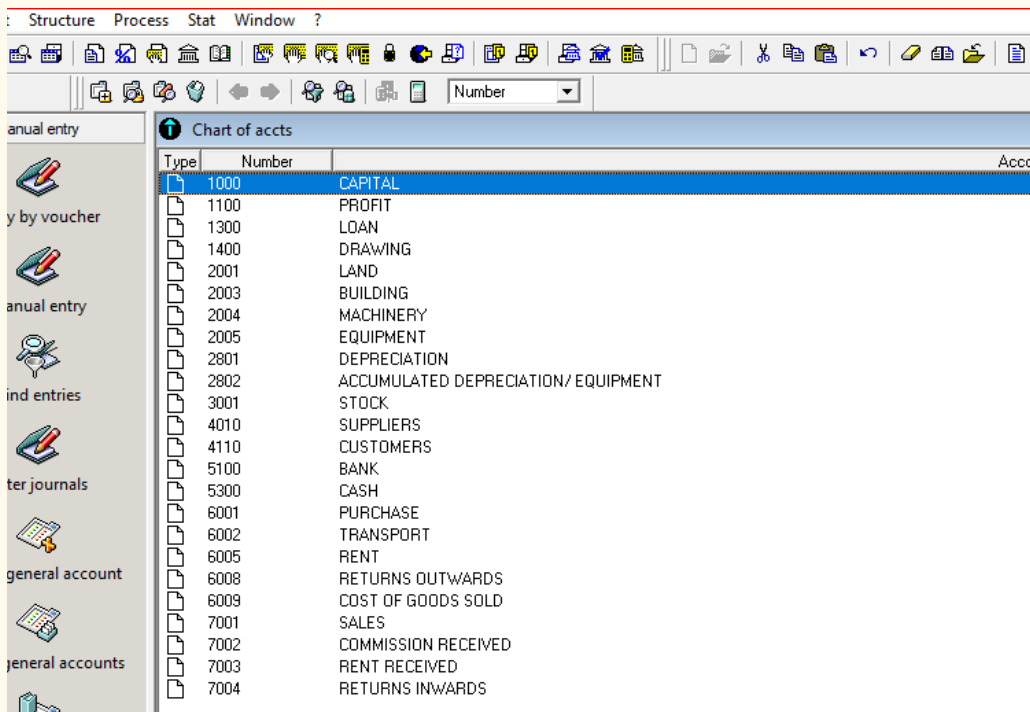
The chart of account will look like this:



*Figure 8. 16: Chart of account worked example*

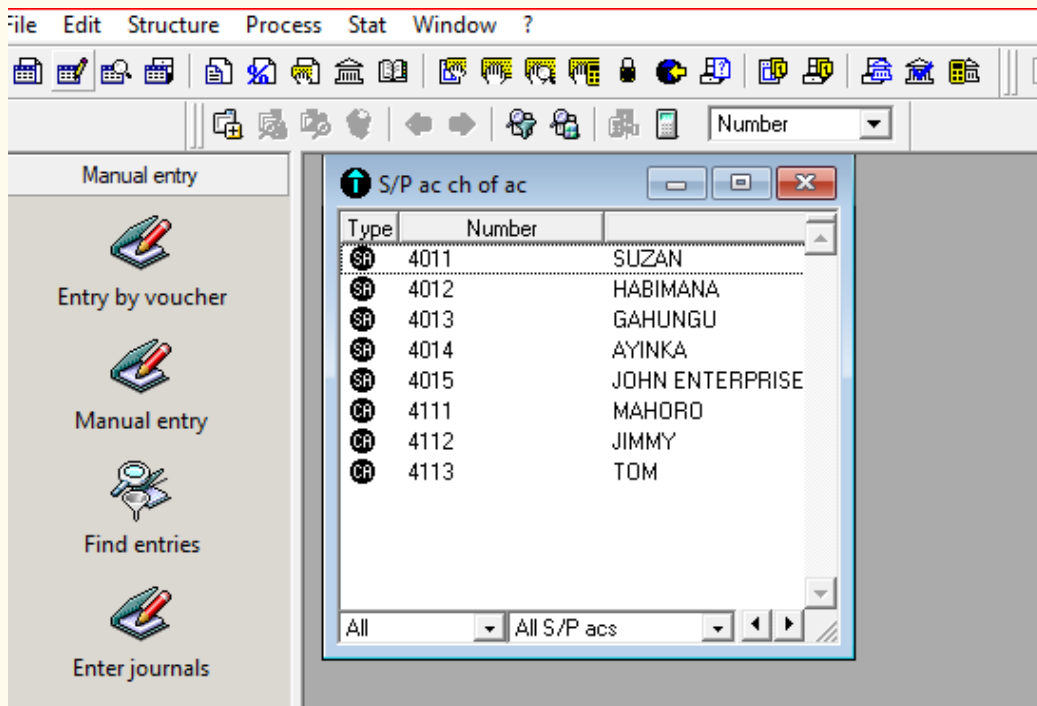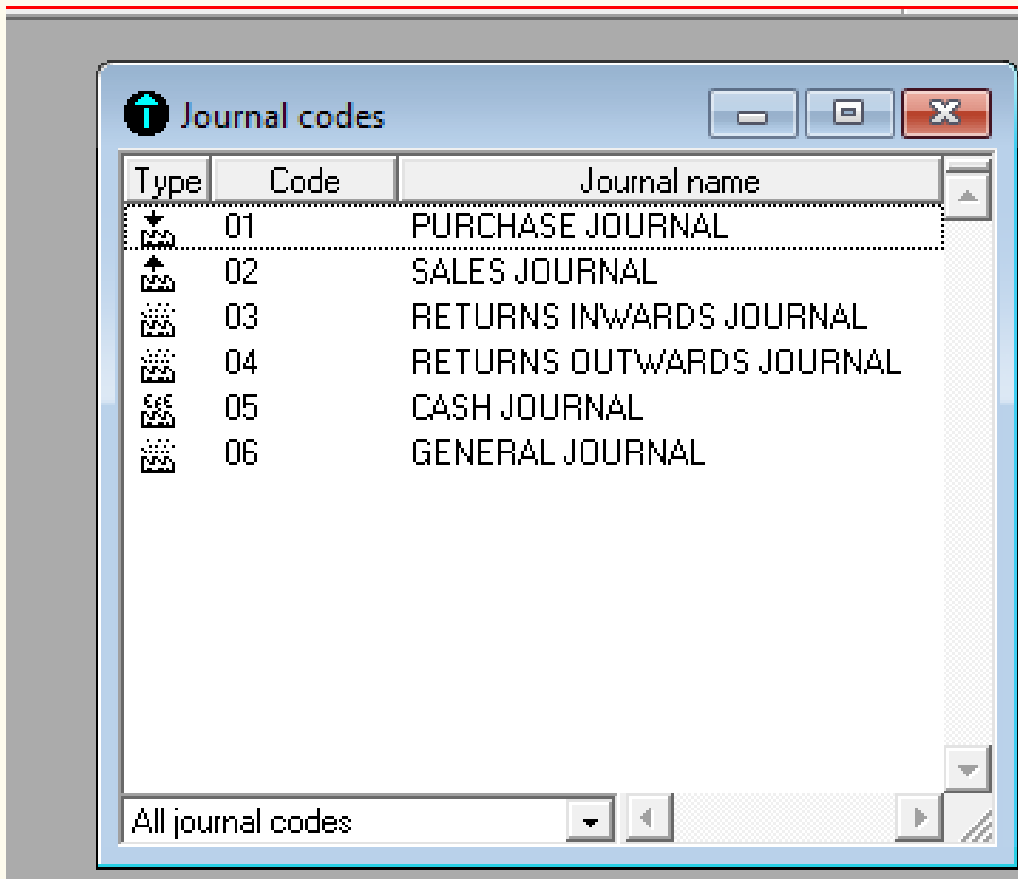S/P chart for the third parties will be as follow:



*Figure 8. 17: SP chart worked example*

After creating third party account, the next step is to create journal codes. The created journal codes are presented below:



*Figure 8. 18: Journal codes worked example*

After creating the required chart of account, the next step is recording transactions in different journals depending on the type and nature of the accounts affected by the transaction and the month in which the transaction has taken place. Moreover, the journal entries may be made in the general journal. After journal entries were made the trial balance is presented as follow:

**Financial statement trial balance**

Period from 01/01/23
to 12/31/23
Bookkeeping:

TWITEZIMBERE

Complete

Accounting 100 11.00      Printed      02/08/23      at 11:57:16AM      Page : 1

| Account number | Account name | Transactions Debit | Transactions Credit | Balances Debit | Balances Credit |
|---|---|---|---|---|---|
| 1000 | CAPITAL | | 9,000,000.00 | | 9,000,000.00 |
| 1300 | LOAN | | 3,000,000.00 | | 3,000,000.00 |
| 1400 | DRAWING | 200,000.00 | | 200,000.00 | |
| 2001 | LAND | 1,500,000.00 | | 1,500,000.00 | |
| 2003 | BUILDING | 2,500,000.00 | | 2,500,000.00 | |
| 2004 | MACHINERY | 2,000,000.00 | | 2,000,000.00 | |
| 2005 | EQUIPMENT | 1,000,000.00 | | 1,000,000.00 | |
| 2801 | DEPRECIATION | 90,000.00 | | 90,000.00 | |
| 2802 | ACCUMULATED DEPRECIATION/ E | | 90,000.00 | | 90,000.00 |
| 4010 | SUPPLIERS | 30,000.00 | 540,000.00 | | 510,000.00 |
| 4110 | CUSTOMERS | 640,000.00 | 40,000.00 | 600,000.00 | |
| 5100 | BANK | 3,120,000.00 | 2,580,000.00 | 540,000.00 | |
| 5300 | CASH | 9,060,000.00 | 4,750,000.00 | 4,310,000.00 | |
| 6001 | PURCHASE | 540,000.00 | | 540,000.00 | |
| 6002 | TRANSPORT | 50,000.00 | | 50,000.00 | |
| 6005 | RENT | 80,000.00 | | 80,000.00 | |
| 6008 | RETURNS OUTWARDS | | 30,000.00 | | 30,000.00 |
| 7001 | SALES | | 640,000.00 | | 640,000.00 |
| 7002 | COMMISSION RECEIVED | | 60,000.00 | | 60,000.00 |
| 7003 | RENT RECEIVED | | 120,000.00 | | 120,000.00 |
| 7004 | RETURNS INWARDS | 40,000.00 | | 40,000.00 | |
| | Balance sheet account totals | 20,220,000.00 | 20,000,000.00 | 220,000.00 | |
| | Account current totals | 630,000.00 | 850,000.00 | | 220,000.00 |
| | Trial balance totals | 20,850,000.00 | 20,850,000.00 | | |

*Figure 8. 19: Trial balance worked example presentation*

After the presentation of trial balance, the next step is the configuration of income statement, which is done by following the steps below:

**Step 1**: Click on Stat-B/S income statement

**Step 2.** Remove a tick from detail of account, Print BS, and on print interim balances. Only tick on Print income statement. Then click on **BS/IS** user defined.
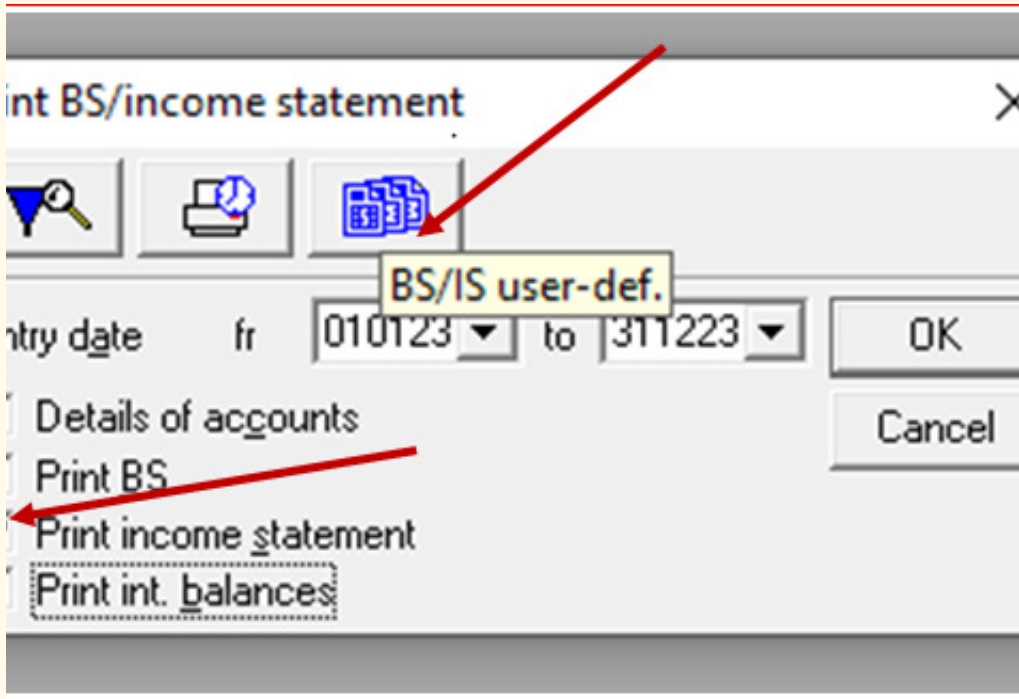
*Figure 8. 20: Path to income statement configuration*

**Step 3.** Right click and select all-Right click and delete selected elements or click on delete icon on navigation toolbar. At this step, it is now possible to start the real configuration.
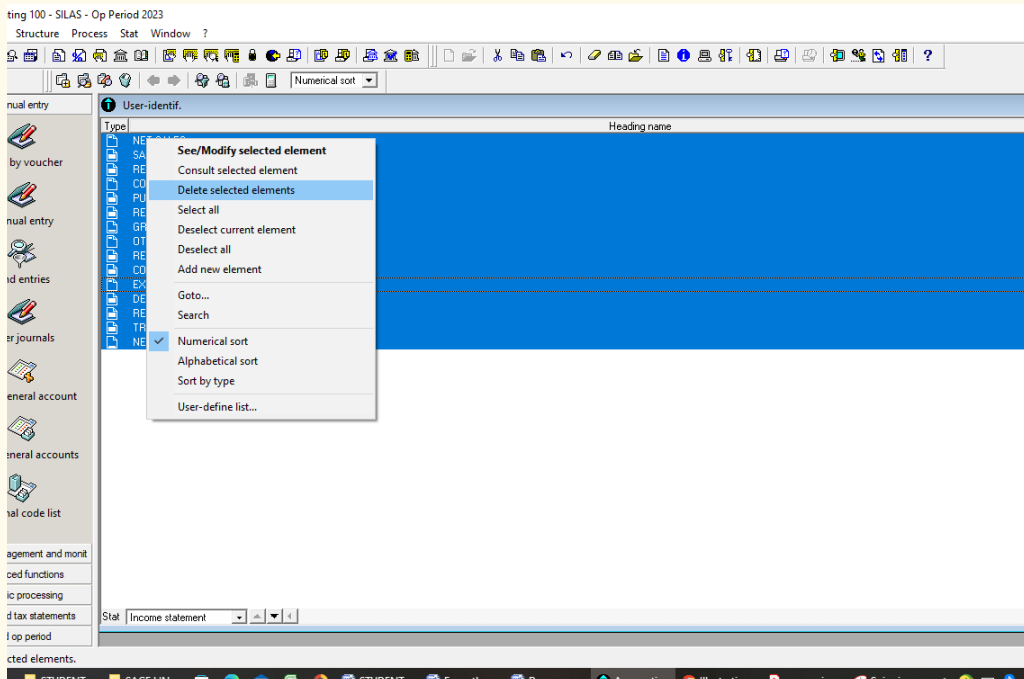


*Figure 8.21: Deleting unconfigured income statement elements*

**Step 4.** After all elements have been deleted, the user can start real configuration by Right click-Add new element, and the following window appears:
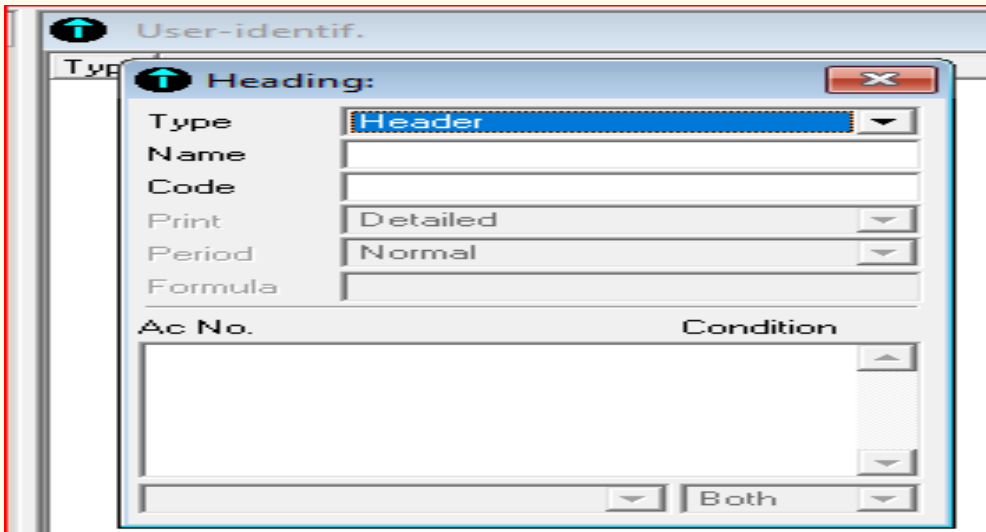


*Figure 8. 22: Income statement blank window for configuration*

In header field, click to add the accounts of income statement and their headings. For the **header**, type the title of each section or part of the income statement which is to be calculated like net sales, cost of goods sold, other incomes and expenses.

For **balance limit** and **transaction limit,** use the accounts created in chart of account that appear in income statement and for which entries have been done. Make gross profit as **sub-total** and the net profit as **total.** For example, sales account may be created as follow:
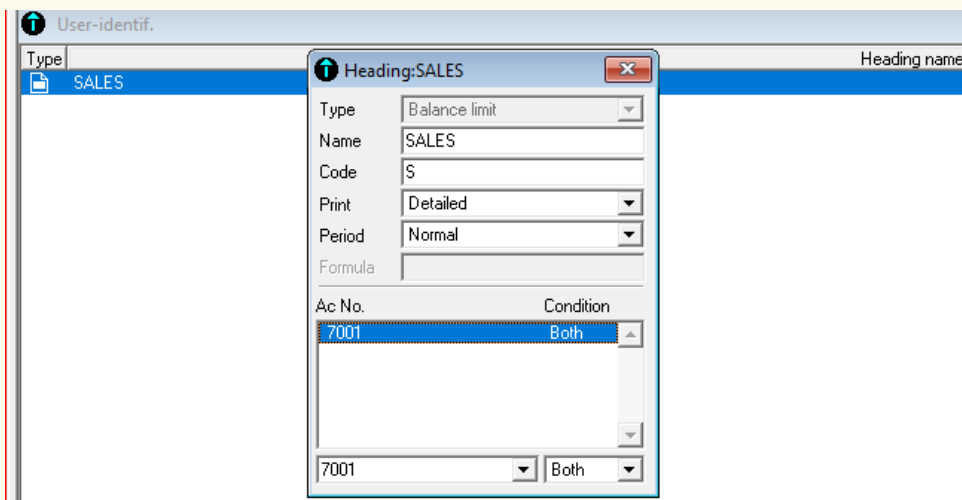


*Figure 8. 23: Sales account configuration*

- In the type field, we have selected **balance limit** for sales account,

- In the name field we have type the name of account we want to make configuration for. In our case it is sales account.

- In the code field, the use may use any code of the choice. It can be numeric or character. Leaving the field empty does not affect your work at all.

- In **both**, the user can either select both, debit or credit, depending on whether an account can have debit balance or credit balance.

- Click on the field in the left side of **both** field, to find out the chart of account created and select the account to be configured. Then the account number of the selected account is displayed and tap ENTER button on keyboard.

For example, net sales must be header type while gross profit will be subtotal type.
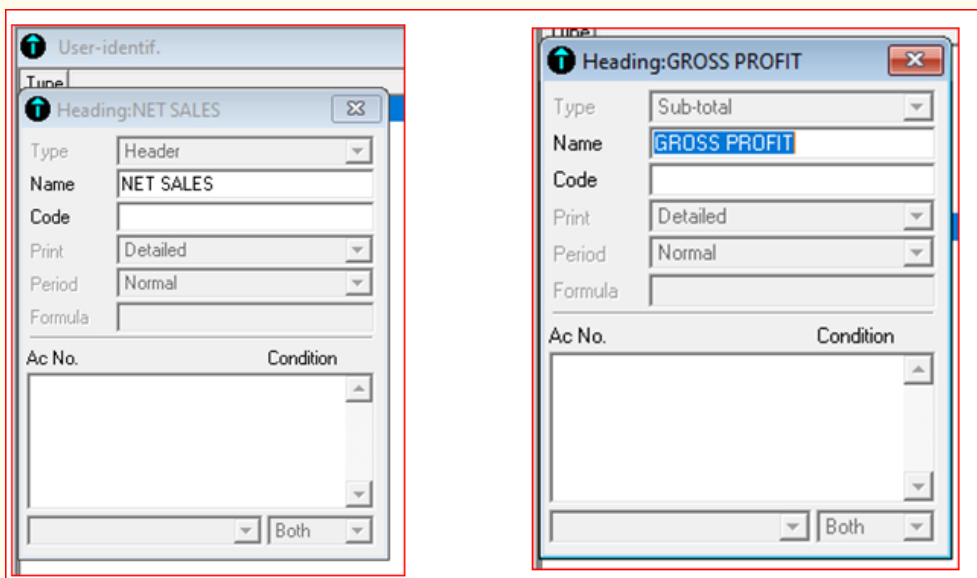


*Figure 8.24: Net sales and gross profit configuration*

Follow the same procedure for all accounts that appear in income statement. After they were all configured, the user arranges them following vertical format of income statement by using shift up and shift down buttons.
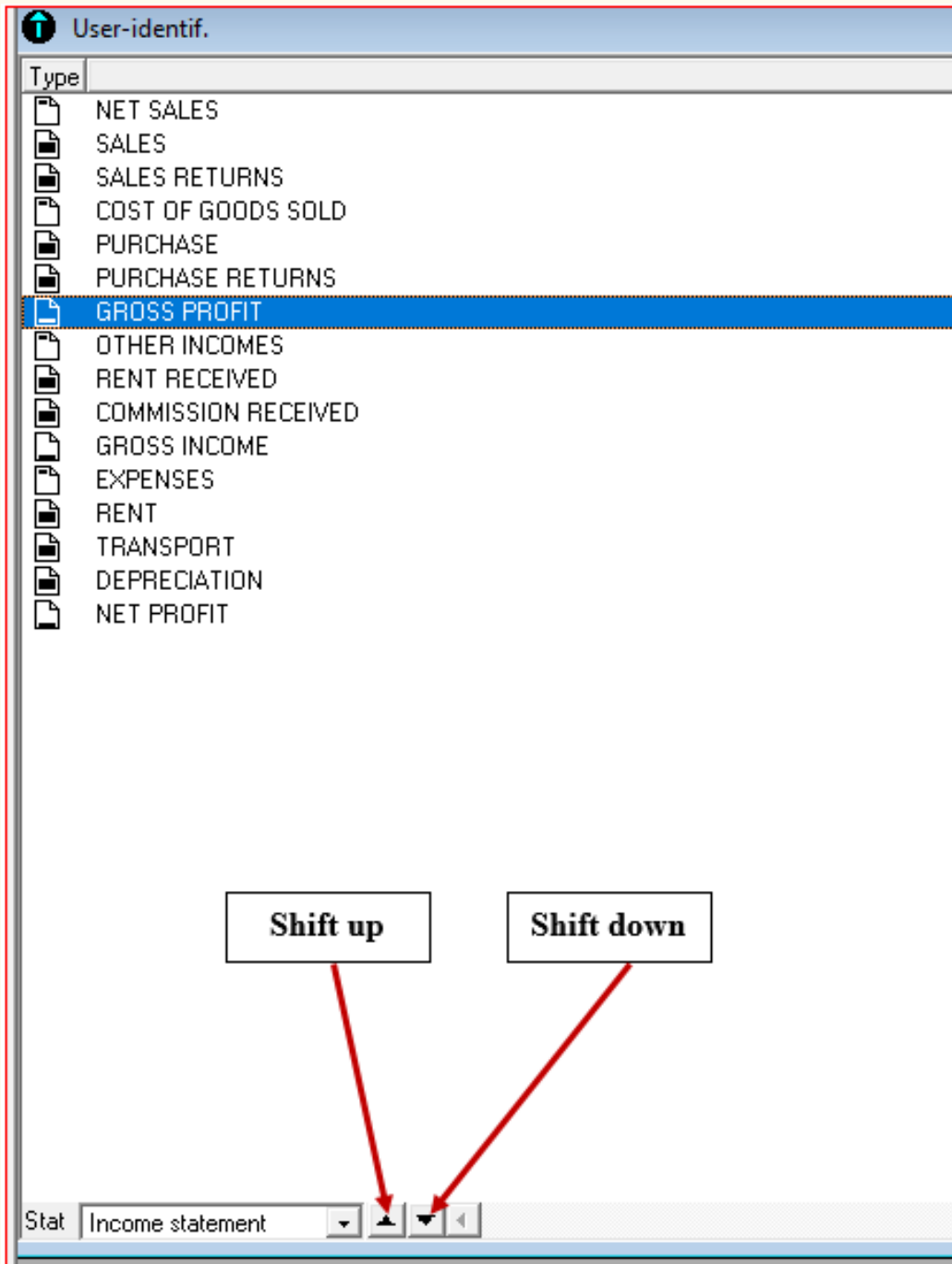
*Figure 8. 25: Use of shift up and shift down tabs to arrange accounts*

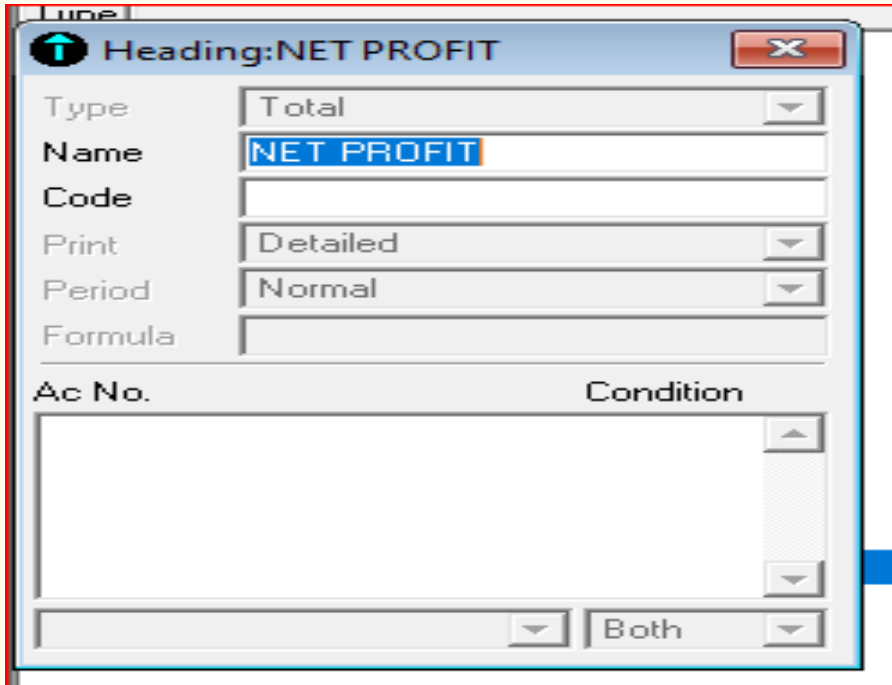Only net profit will be of type **total** and will be created as follow:

*Figure 8.26: Net profit configuration*

After creating and arranging the income statement accounts according to its vertical format, the income statement layout will be as follow:
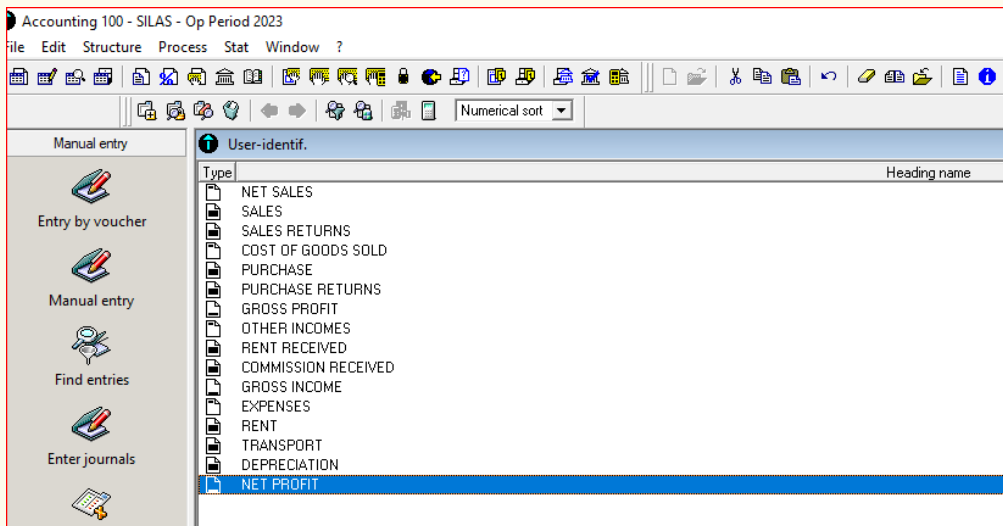


*Figure 8.27: configured income statement accounts organized in vertical format*

After configuring and arranging the accounts of income statement, the user can now view and present income statement results, by clicking on the stat menu-BS/income statement- Tick on income statement only and click **Ok.** The results below will therefore be presented:

*Figure 8.28: Presentation of income statement results*

According to the above results, it is clear that the company has made a net profit of **50,000** FRW that resulted from net sales of **600,000 FRW** minus cost of goods sold of **510,000** FRW which gave the gross profit of **90,000 FRW.** Other income totaled **180,000FRW** and when added to gross profit, we obtained a gross income of **270,000 FRW**. To obtain net profit, the total expenses of **220,000** FRW were deducted from the gross income and the net profit of **50000 FRW** was obtained. This will be transferred to balance sheet to increase the capital and owner's equity in general.

1. What is meant by income statement?

2. Differentiate between gross profit and net profit

3. What is the formula to calculate cost of goods sold?

4. The following list of accounts for ABC Company Ltd. is available at the end of 2022. You are required to prepare income statement

Advertising expenses 15,000 FRW

Beginning inventory   80000 FRW

Sales 2,500,000 FRW

Sales returns 150000 FRW

Discount for volume of sale 150,000 FRW

Insurance expense 14,500 FRW

Intangible assets depreciation expense 10,800 FRW

Purchases for goods for sale 1,500,000 FRW

Purchases returns of goods for sale 60,000 FRW

Rent revenue                80, 0000 FRW

Ending inventory     500,000 FRW

Commissions received 60000 FRW

Wages and salaries   300,000 FRW

# Unit 9 · PROCESS THE BALANCE SHEET

## Introductory activity

1. What is meant by balance sheet?

2. Outline the elements of balance sheet

3. From the following particulars, prepare a balance sheet of Mr. Mugabo as at 31st March, 2022:(FRW)

Capital .....................................5,500,000

Drawings.....................................100,000

Sundry debtors.............................1,000,000

Sundry creditors.............................800,000

Bank loan.....................................200,000

Net profit.....................................1, 600,000

Closing stock.................................500,000

Plant and machinery...........................1,500,000

Building ...........................................1, 200,000

Land .................................................3,000,000

Goodwill ...........................................500,000

Furniture and fixtures............................300,000

## 9.1 Configuration of balance sheet accounts

### 9.1.1. Description of balance sheet

The term balance sheet refers to *a financial statement that reports a company's assets, liabilities, and shareholder equity at a specific point in time.*

The Balance Sheet lists the assets, liabilities, and equity accounts of the company. The Balance Sheet is prepared "as on" a particular day, and the accounts reflect the balances that existed at the close of business on that day.

The Balance Sheet isprepared on the last day that the Income Statement covers, soif the Income Statement is for the period ending December 31,2002, the Balance Sheet would be as on December 31, 2003.You can state the date in a variety of formats. All of the followingare acceptable:

As on, December 31, 2022

December 31, 2022

On December 31, 2022

## 9.1.2. Elements of balance sheet

**1. Assets**

Business assets may be defined as resources owned by an entity that have the potential for providing it with future economic benefits in the sense that they help to generate future cash inflows or reduce future cash outflows.

Assets reported in the balance sheet are divided into two categories:

### a. Current assets

These are defined as short-term assets that are held for resale, conversion into cash or are cash itself. There are three main types of current assets: stock-in-trade, trade debtors and cash. A temporary investment of funds in the shares of, say, a quoted company or government securities should also be classified as a current asset. A characteristic of current assets is that the balances are constantly changing as the result of business operations.

- Stock-in-trade

represents the value of items purchased for resale that are still in stock at the year end. They are regarded as a current asset becausethere is a high chance of the items being converted into cash within the next 12 months.

- Debtors

Debtors represent the amount of money owed to the business and can be sub-divided into trade debtors and others. The former category relates to customers who have bought goods on credit terms and represents the amount of money still outstanding from them at the year end. Other debtors could include dividends receivable from investments in the shares of other companies.

- Cash

  Cash is the amount of funds readily usable by the business and can eitherbe in the form of cash or a balance in the business bank account.

### b. Fixed assets

These are assets a firm purchases and retains to help carry on the business. It is not

intended to sell fixed assets in the ordinary course of business and it is expected that the bulk of their value will be used up as the result of contributing to trading activities. Examples of fixed assets are premises, plant, machinery, furniture and motor vehicles. A characteristic of fixed assets is that they usually remain in the business for long periods of time and will only be sold or scrapped when they are of no further use.

## 3. Liabilities

Liability is a term in accounting that is used to describe any kind of financial obligation that a business has to pay at the end of an accounting period to a person or a business. Liabilities are settled by transferring economic benefits such as money, goods or services. Liabilities are recorded on the right hand side of the balance sheet, which includes different types of loan, creditors, lender and suppliers. Liabilities can be of short term and long term. Short term liabilities are due within an accounting period (12 months) and long term liabilities become due within duration of more than 12 months.

### a. Capital

This is the amount of money invested in the business by the owner(s). The amount can increase through further investment of funds by the owner(s) or by the business making a profit and can decrease when money is withdrawn from the business for personal use or where a business loss is suffered (drawings). Capital is regarded as a permanent source of finance since it is only repayable in full when the business ceases. Until such time the amount is regarded as a liability of the business as the amount is owed to the owner.

### b. Current liabilities

These liabilities are defined as amounts repayable within12 months of the balance sheet date. Typical examples include bank overdrafts and creditors. Any loans repayable within the following year are also listed under current liabilities.

Creditors can be divided into trade and other creditors. Trade creditors represent the amount owing to suppliers of stock items that have been purchased on credit terms. Other creditors could include amounts outstanding for miscellaneous services.

### c. Long-term liabilities

These represent the amounts payable after more than12 months. They include such items as bank loans and mortgages.

**Balance sheet formats**

The balance sheet has two formats, horizontal format and vertical format.

**1. Horizontal format**

| ASSETS | Amount | LIABILITIES | Amount |
|---|---|---|---|
| **Fixed assets** | | **Owner's equity** | |
| Land | XXX | Capital | XXX |
| Machinery | XXX | **Add** profit | XXX |
| Etc | XXX | **Less** Drawings | XXX |
| **Current assets** | | | |
| Inventory | XXX | **Long term liabilities** | XXX |
| Debtors | XXX | Loan | XXX |
| Bank | XXX | Bonds Payable | XXX |
| Cash | XXX | Notes payable | XXX |
| Other | XXX | Other | |
| | | **Current liabilities** | XXX |
| | | Creditors | XXX |
| | | Income taxes payable | XXX |
| | | Overdraft | XXX |
| | | Other | |
| **Total** | **XXXX** | | **XXXX** |

## 2. vertical format

| Balance sheet of XYZ company as on December 31st ,2022 | | |
|---|---|---|
| ASSETS | | |
| **Non-current assets** | | XXXX |
| Land and Buildings | XXX | |
| Furniture | XXX | |
| Machinery | XXX | |
| Other | XXX | |
| **Current assets** | | |
| Inventory | XXX | |
| Debtors /receivables | XXX | **XXXX** |
| Bank | XXX | |
| Cash | XXX | |
| Other | | |
| **TOTAL ASSETS** | | **XXXX** |
| **EQUITY AND LIABILITIES** | | |
| **Owner's Equity** | | **XXXX** |
| Capital | XXX | |
| Add: Profit | XXX | **XXXX** |
| Less drawings | XXX | |
| **Non-current liabilities(long-term liabilities)** | | **XXXX** |
| Loan | XXX | |
| Other | XXX | |
| **Current liabilities** | | **XXXX** |
| Creditors/Accounts payable | XXX | |
| Other | XXX | |
| **TOTAL EQUITY AND LIABILITIES** | | **XXXX** |

## 9.1.3. Configuration of balance sheet in Sage line 100

As stated in previous sections, the balance sheet is generated after the journal entries records were completed and well done. However, if not configured, the balance sheet is displayed in French and no balances corresponding to the entries made are shown. The configuration is therefore of paramount importance to have a well displayed and balanced balance sheet corresponding to entries made.

To get to the balance sheet we follow the steps below:

1. Click on "**Start**" menu

2. Click on BS/Income statement
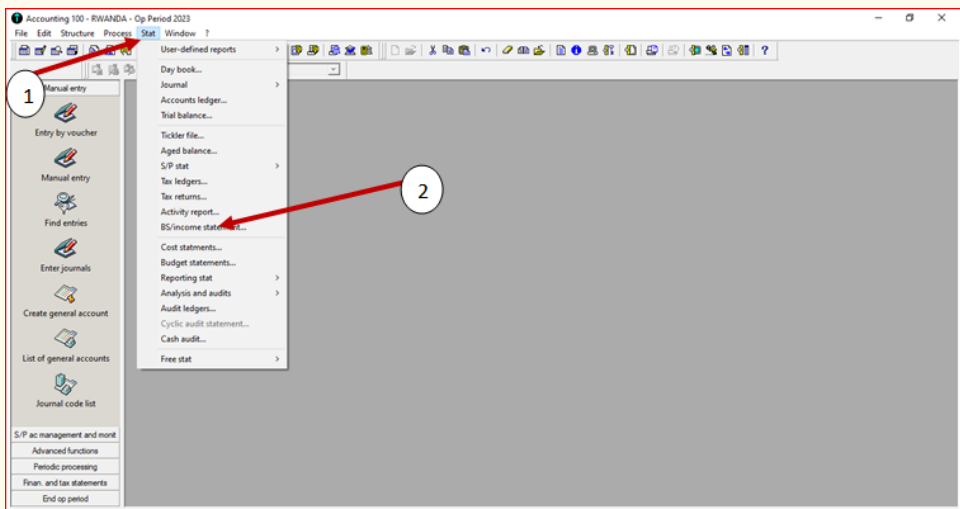


*Figure 9. 1: Getting started with balance sheet configuration*

In (1), click on stat, and then click on BS/Income statement (2)

Step 3. Remove ticks on details of account, print income statement and on print int. balances.  Only on print BS option must have a tick.
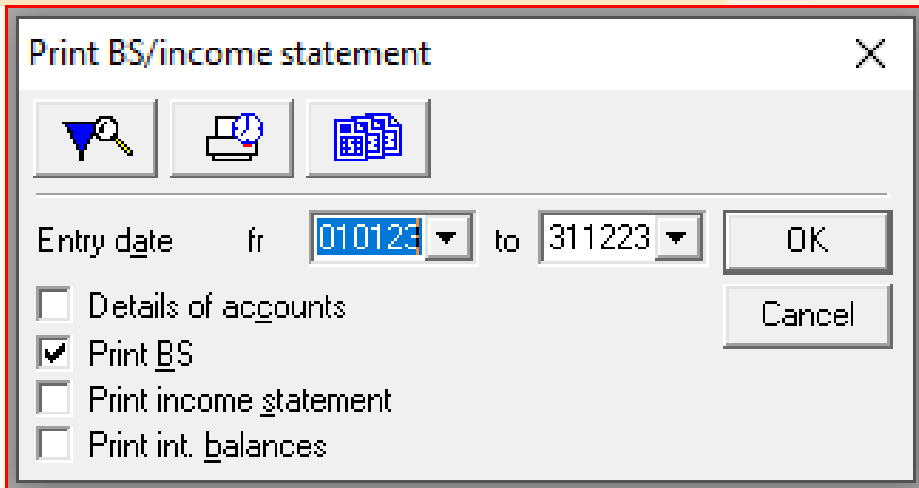
*Figure 9.2: Selecting balance sheet to be printed out*

**Step 4.** After this, click **OK** and the following window is displayed:
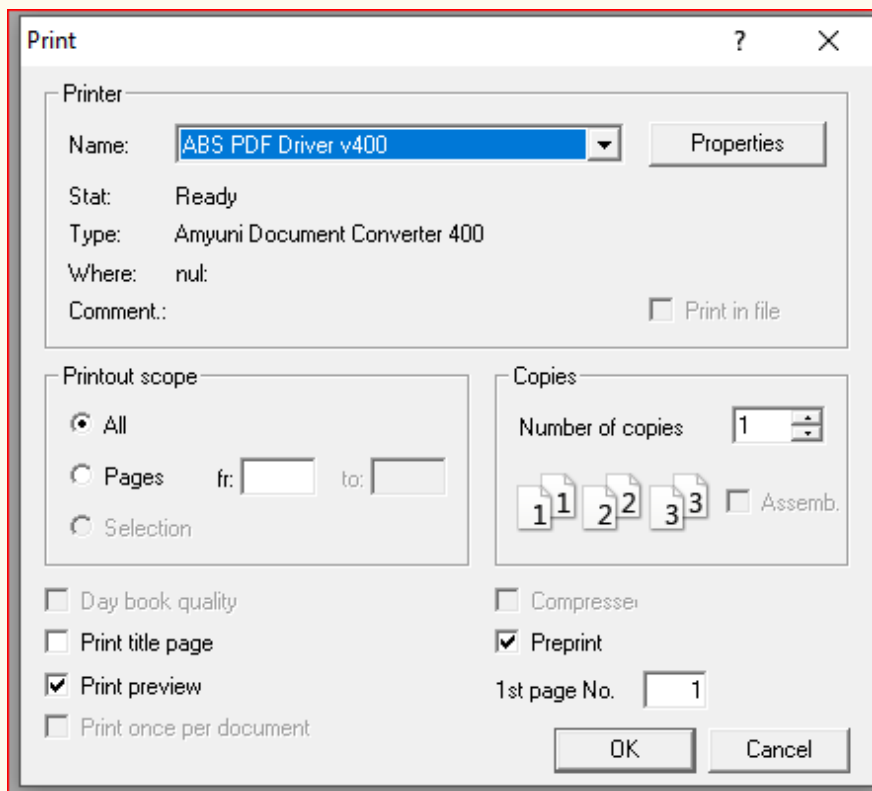


*Figure 9. 3: Selection of balance sheet print preview*

**Step 5:** Remove a tick on day book quality, print preview and print once per document, leave a tick on "**Print preview**" only. After, click Ok.

Then you get the balance sheet with accounts written in French "**plan comptable**" because it was not configured before to math it with the accounts we have in the company's transactions

To configure the balance sheet, skip the step 3, and instead of clicking Ok, click on "BS/Income statement user defined".
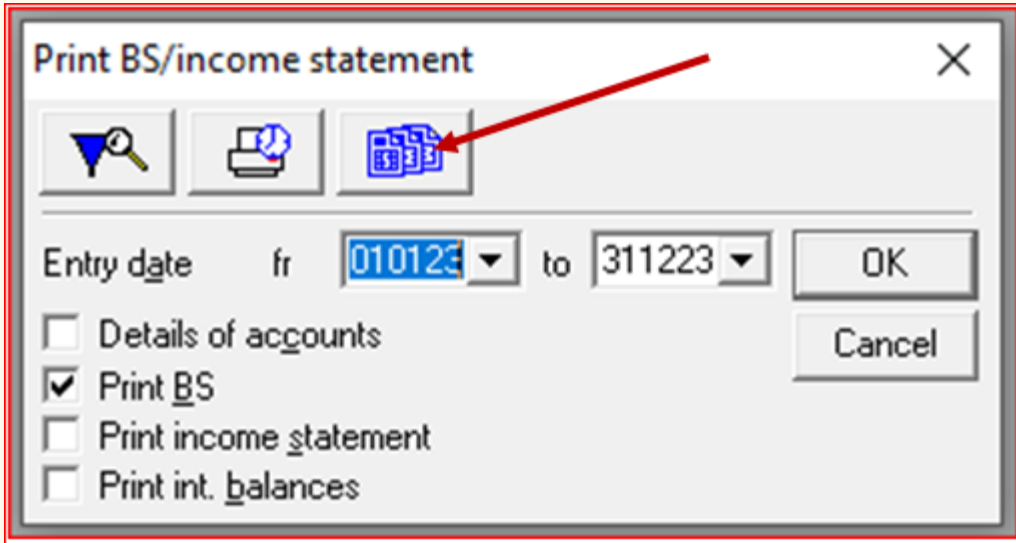


*Figure 9. 4: Selection of BS/ income statement user defined*

Then you get the balance sheet which is in French. Delete all those accounts by:

- Right click-select all

- Right click again then click on deleted selected elements
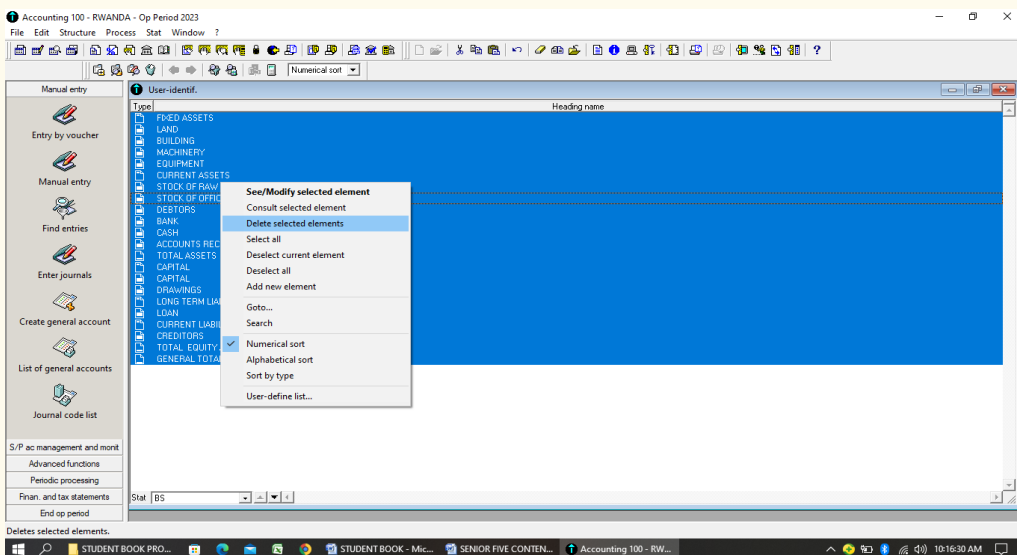


*Figure 9.5: Selection all balance sheet accounts*

Or instead of clicking delete selected element, click on "**delete**" icon on navigation toolbar
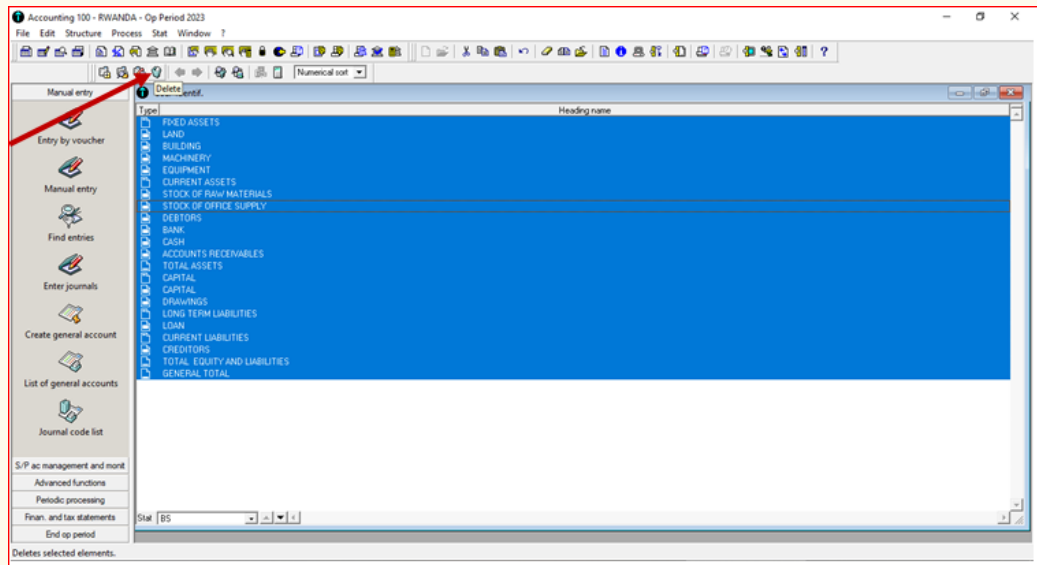


*Figure 9.6: Deletion of non-configured balance sheet accounts*

After deleting the selected elements, you get an empty window, then you can configure the balance sheets element depending on the accounts you created in chart of account that appear in balance sheet.
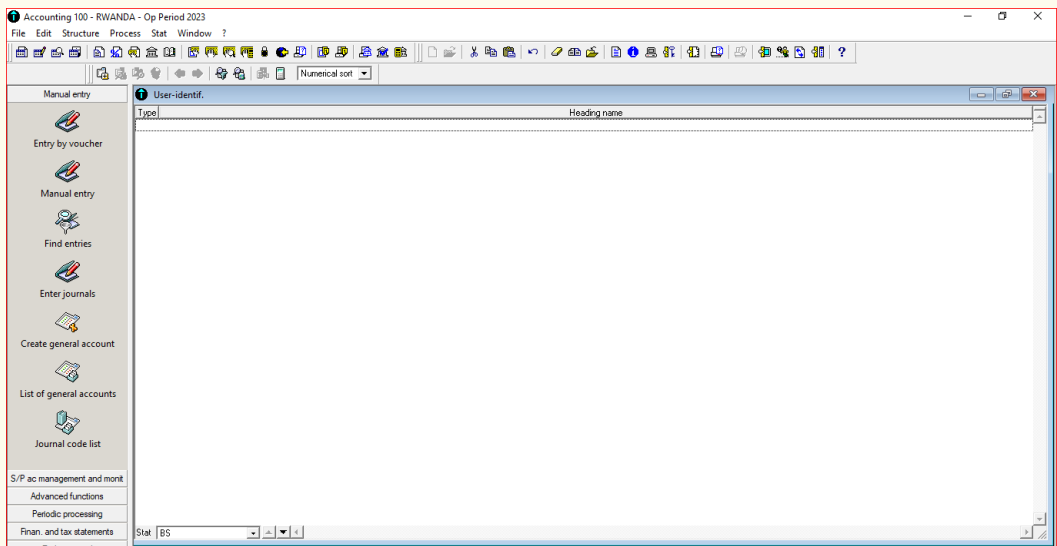


*Figure 9. 7: Blank window of balance sheet before its configuration*

1. Define the term balance sheet

2. What is the difference between assets and liabilities?

3. Write down the layout of horizontal format of balance sheet.

4. Write down the steps followed to get to the configuration of balance sheet in Sage line 100

## 9.2. Assets configuration

**Learning Activity 9.2**

1. Contrast the current assets from non-current assets

2. Distinguish between intangible assets and tangible assets with 2 examples on each

3. Why is it necessary to make configurations of assets of the company in sage line 100?

### 9.2.1. Fixed assets configuration

To make configurations on the elements of balance sheet, we shall use the figures found in

**learning activity 8.4** so as to have the net profit obtained in income statement and transmit it in balance sheet to find total owner's equity.

When configuring the fixed assets in balance sheet, first of all, the user must have created those assets in chart of account and there must be transactions that affected those assets in order to have the balances, the user follows the following steps:

1. After deleting the accounts set in balance sheet by default and have a blank window, Right click-add new element or click on "**add**" icon found on navigation toolbar. The following window appears
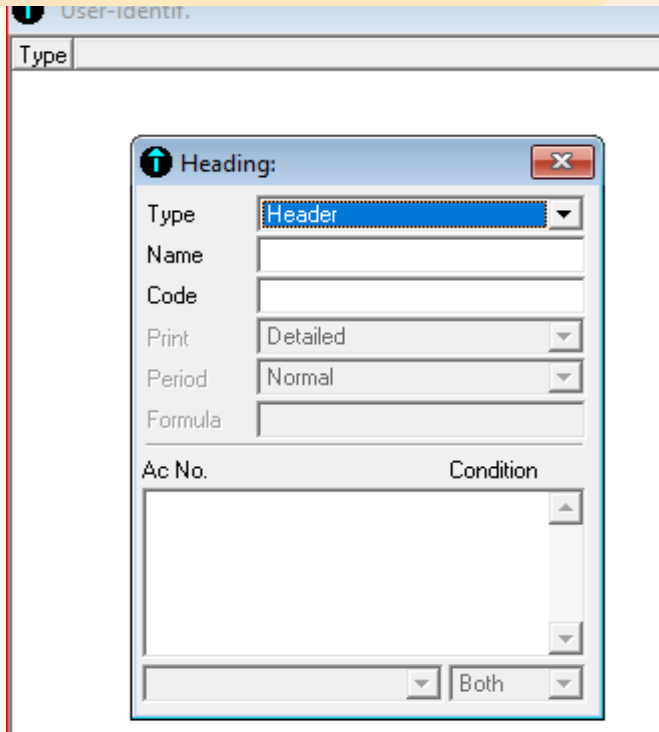
*Figure 9. 8: Balance sheet configuration window*

When we click in the **header** field, we find different options to select from including header, **transaction limit**, **balance limit**, **sub-total**, **total** and **formula**. In the header we put the type of asset to be configured, for example "**fixed assets**". In the transaction and balance limit, we put the account that appears in chart of account of the company whose balance sheet is configured; in subtotal we put the total assets or total liabilities and owner's equity.

In **code** column, put any code either numeric or character. The field is not a required option, i.e. it is possible to leave it empty.

In this step, the header type will be fixed assets and it is created as follow:
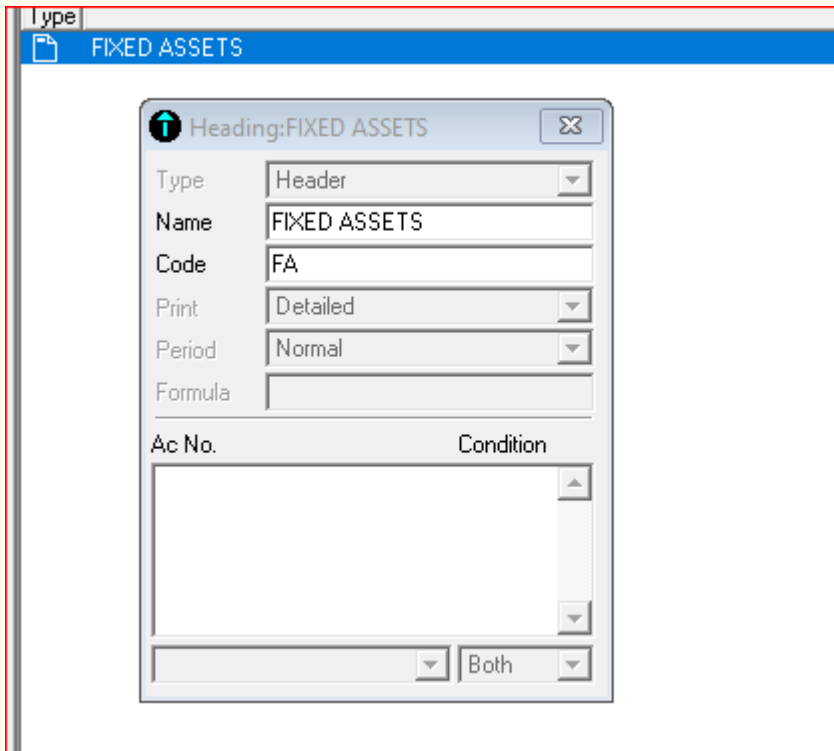
*Figure 9. 9: Fixed assets header configuration*

After creating fixed assets header, the next step is to create each fixed asset available in chart of account of the company being dealt with. They will be of balance limit type.

If balance limit is selected, the field of **both**, **debit** and **credit** becomes active, then the user is required to select "**Both**"
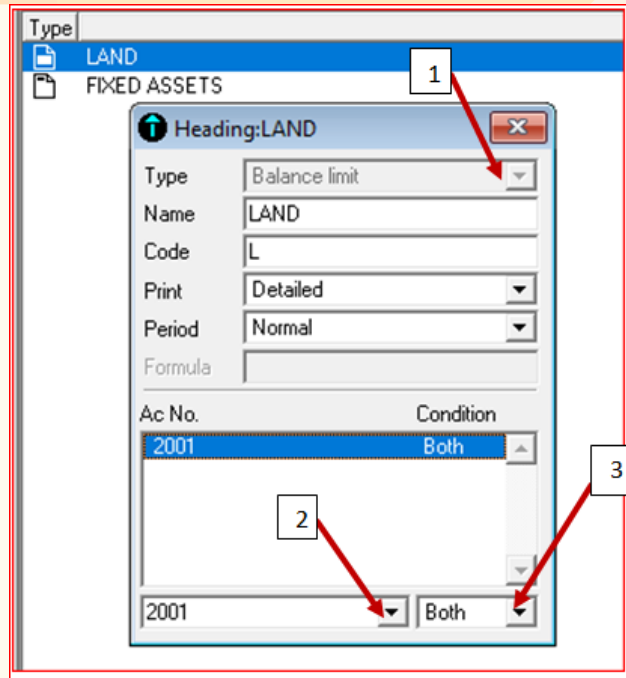
*Figure 9.10: Configuration of a particular fixed asset account*

1. Click where it was initially written header, and select balance limit

2. After typing account name (LAND in our case) and Code (not compulsory), select land account in chart of account then its account number is displayed.

3. Select both to mean that the account can both either be debited or credited

4. Press "Enter" button to confirm the account.

Then proceed in the same way for other fixed assets comprised in the chart of account. If we have land, building, equipment and machinery, the configuration results for fixed assets will be as follow:
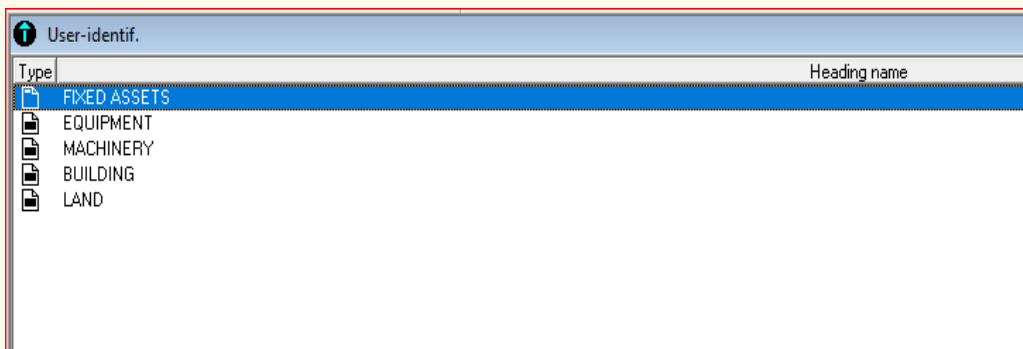


*Figure 9. 11: Sample list of configured fixed assets*

### 9.2.2. Current assets configuration

The configuration of current assets follows the same steps as the one of fixed assets, except only the difference in names and code. Current assets become the header type, whereas the specific current assets created in the chart of account are of balance limit type.

Current assets are created in the following steps.

1. Right click-add new element or click on add icon on navigation toolbar
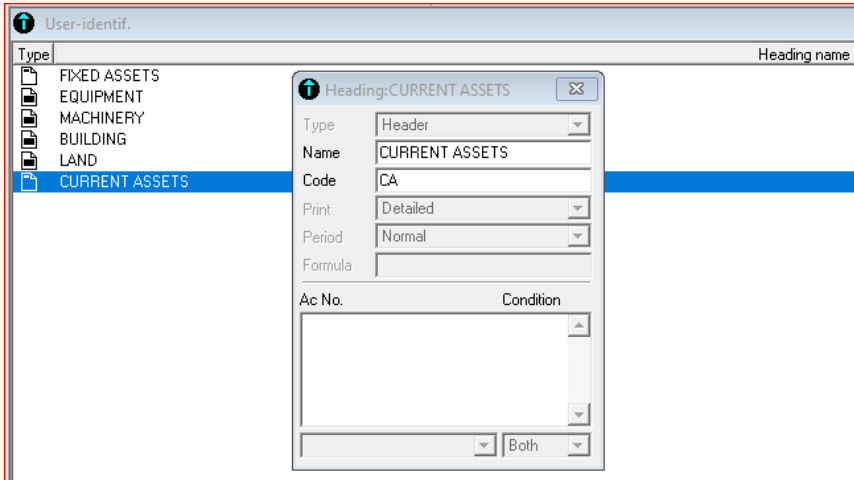
2. In the name field, type current assets and put the code of your choice



*Figure 9. 12: Creation of current assets header*

3. Click on add, to have free field to be able to create the current assets as found in the chart of account. And create the first current asset. If we have for example inventory (stock), debtors, bank and cash. Start by creating stock as follow:
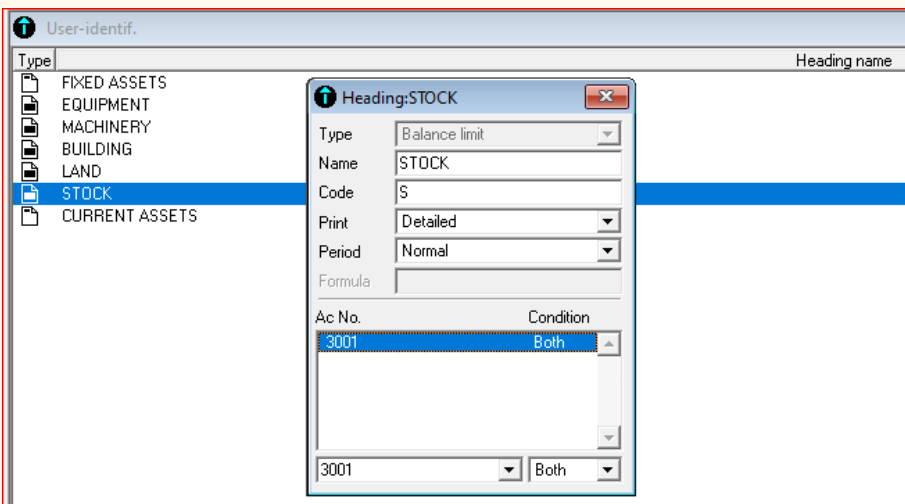


*Figure 9. 13: Configuration of stock as element of current assets*

Then proceed in the same way to create other current assets and the following output will be displayed:
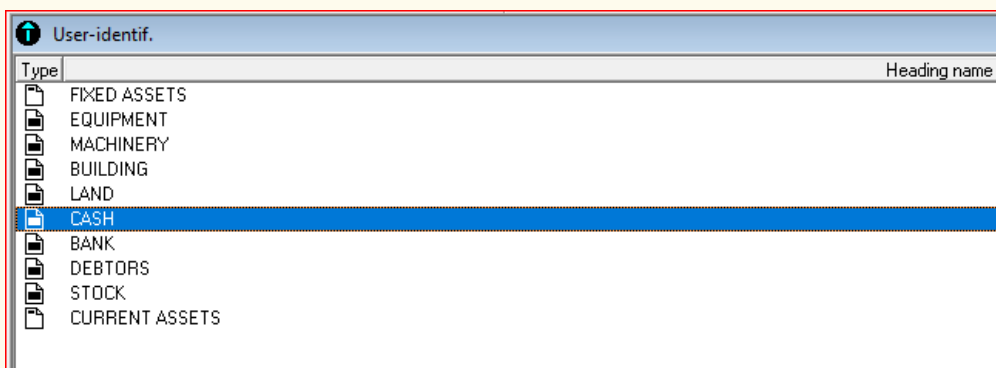


Figure 9.14: List of configured fixed and current assets

After creating the current assets, the user creates the total assets and makes it as sub-total type and appears in the balance sheet elements.
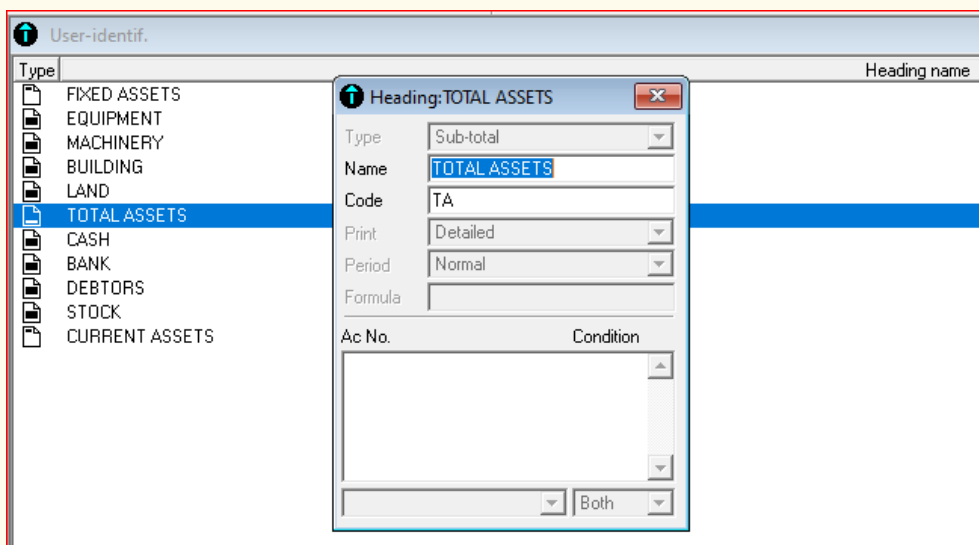


Figure 9. 15: Creation of total assets sub-total

**Note:** The accounts are arranged in descending order, from the last created to the first created. The user can therefore move the account upwards or downwards to arrange the account according to the vertical format by clicking on shift up or shift down buttons.
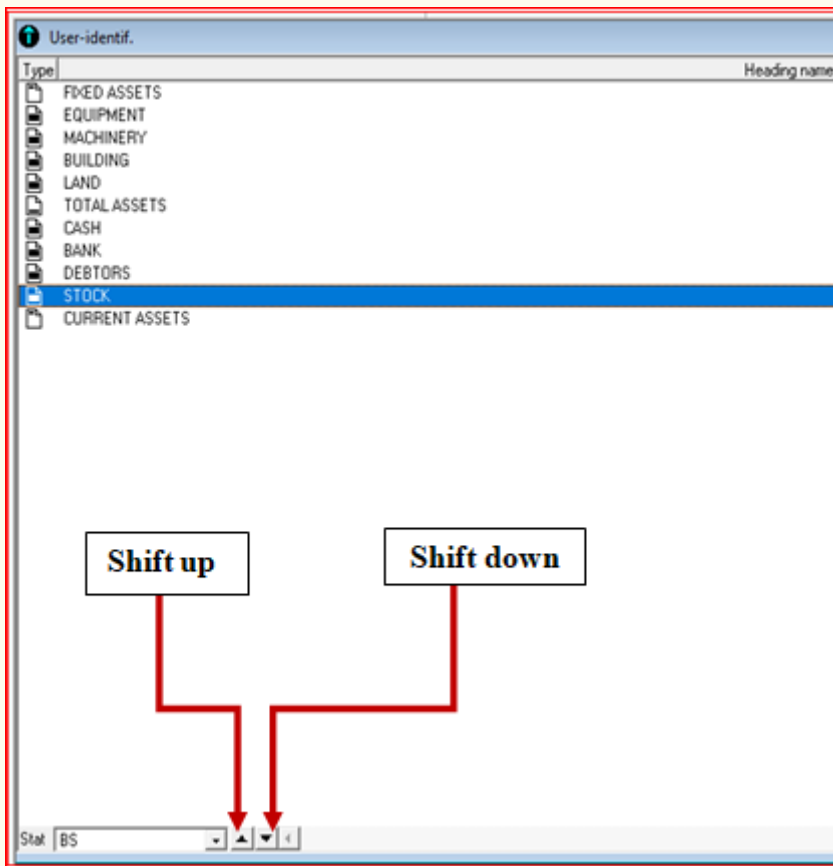
*Figure 9. 16:Arranging balance sheet assets accounts using shift up and down tabs*

**Application activity 9.2**

1. With two examples on each, distinguish between current assets and no-current assets

2. What are the steps followed to create fixed assets in balance sheet configuration?

## 9.3 Owner's equity configuration

**Learning Activity 9.3**

1. What is meant by owner's equity?

2. Explain the elements of owner's equity?

3. In which side of balance sheet do we find owner's equity?

### 9.3.1 Meaning and elements of owner's equity

Owner's equity represents the owner's investment in the business minus the owner's draws or withdrawals from the business plus the net income (or minus the net loss) since the business began.

Owner's equity is essentially the owner's rights to the assets of the business. It's what's left over for the owner after you've subtracted all the liabilities from the assets. If you look at your company's balance sheet, it follows a basic accounting equation: Assets – Liabilities = Owner's Equity.

Owner's equity is found by:**(Capital-Drawings) + (profit)or –loss**

### a. Capital

Capital means that amount or asset which is invested in business by businessman or owner of business. When a person starts any business or profession, he brings some money in cash and some other assets like building, furniture and machinery. These will be his capital.

### b. Drawings

A drawing in accounting terms includes any money that is taken from the business account for personal use. It normally reduces the capital of the business.

A journal entry to the drawing account consists of a debit to the drawing account and a credit to the cash account. A journal entry closing the drawing account of a sole proprietorship includes a debit to the owner's capital account and a credit to the drawing account.

### c. Profit

Profit describes the financial benefit realized when revenue generated from a business activity exceeds the expenses, costs, and taxes involved in sustaining the activity in question.Any profits earned funnel back to business owners, who choose to pocket the cash, distribute it to shareholders as dividends, or reinvest it back into the business.

### d. Loss

A loss is an excess of expenses over revenues, either for a single business transaction or in reference to the sum of all transactions for an accounting period. The presence of a loss for an accounting period is closely watched by investors and creditors, since it can signal a decline in the creditworthiness of a business. This is particularly the case when the loss is derived from just the operational activities of a business. Losses may also result from the

sale of an asset (other than inventory) for less than the amount shown on the company's books.

### 9.3.2 Configuration of owner's equity

The configuration of owner's equity is done in the same process as the configuration of other accounts of balance sheet. First the users creates the account of owner's equity and names it as header type, then create capital, drawings and profit or loss as balance limit.

To create owner's equity header, right click and click on add new element. Then leave the header in header field, and in the name field type owner's equity, and code field fill in the code of choice. By doing so, you will have the following output:
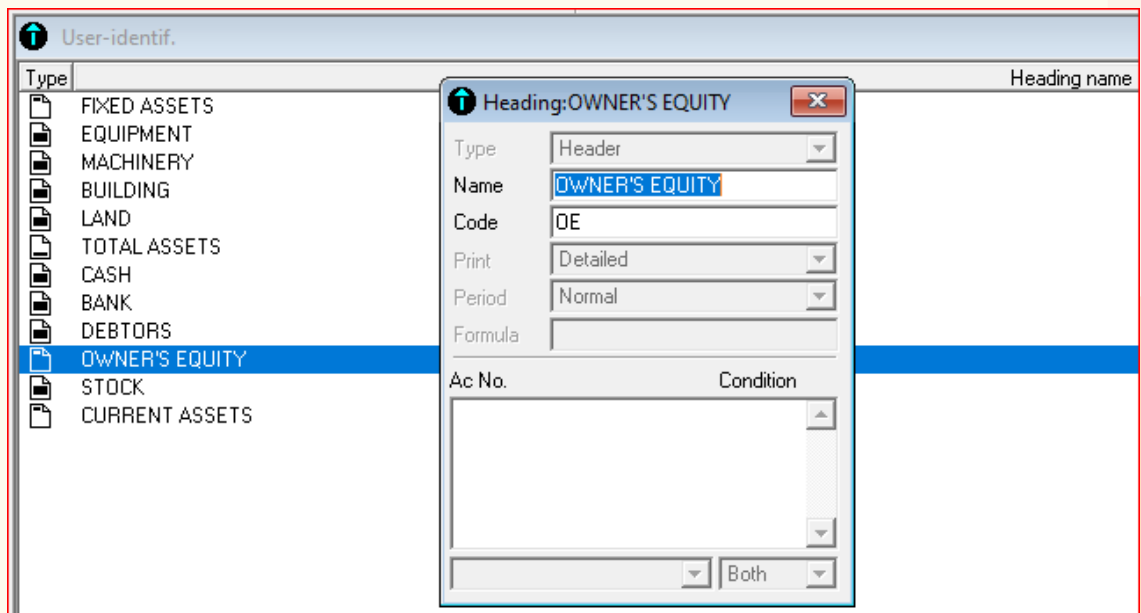


*Figure 9. 17: Owner's equity header configuration*

After writing the owner's equity header, the following step is to configure, capital, drawings and profit account. The configuration of capital will have the following output:
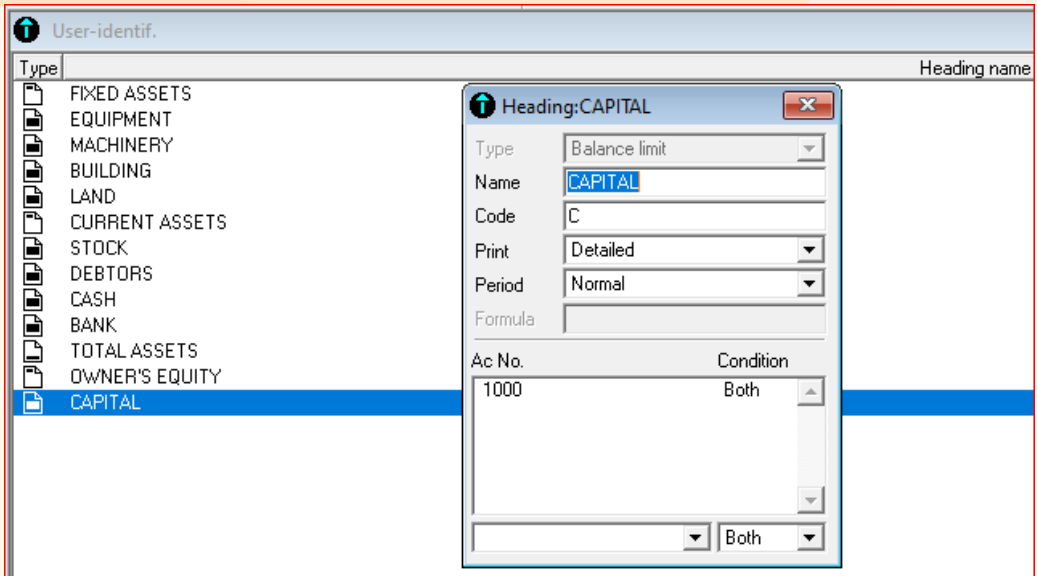
Figure 9. 18: Configuration of capital account

After configuring capital account, follow the same steps to configure profit and drawing, therefore the following output will be displayed:
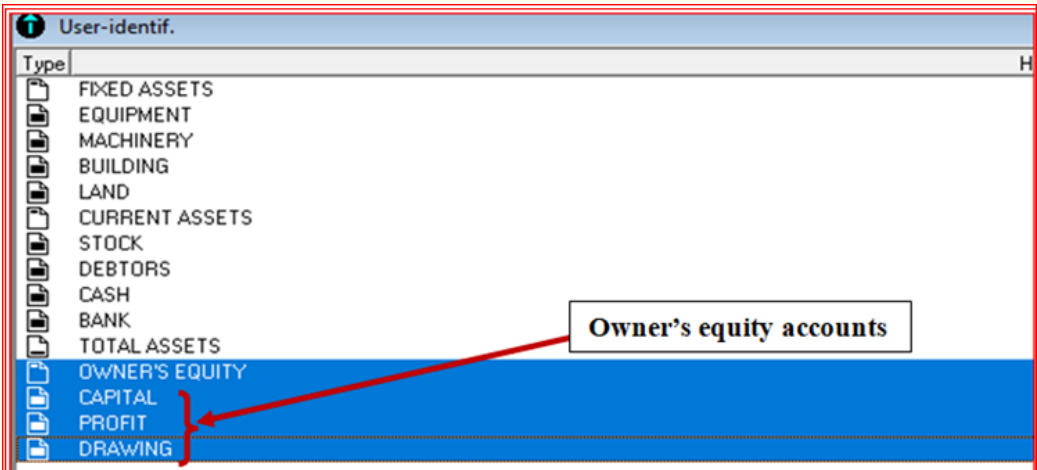


Figure 9. 19: Configured owner's equity accounts

1. What is meant by owner's equity?

2. Distinguish between profit and loss

3. What are the journal entries on drawing account?

4. In balance sheet, make journal entries for owner's equity (capital, profit (or loss) and drawings.

## 9.4. Long term and current liabilities configuration

**Learning Activity 9.4**

1. Differentiate long term liabilities from current ones

2. Give three examples of business current liabilities and three examples of long term (non-current liabilities)

### 9.4.1. Long term (Non-current) liabilities configuration

These represent the amounts payable after more than 12 months. They include such items as bank loans and mortgages. Noncurrent liabilities are grouped by type (loans payable, bonds payable, notes payable and so on).

To configure noncurrent liabilities in balance sheet, Right click-add new element or click on add icon on navigation toolbar.
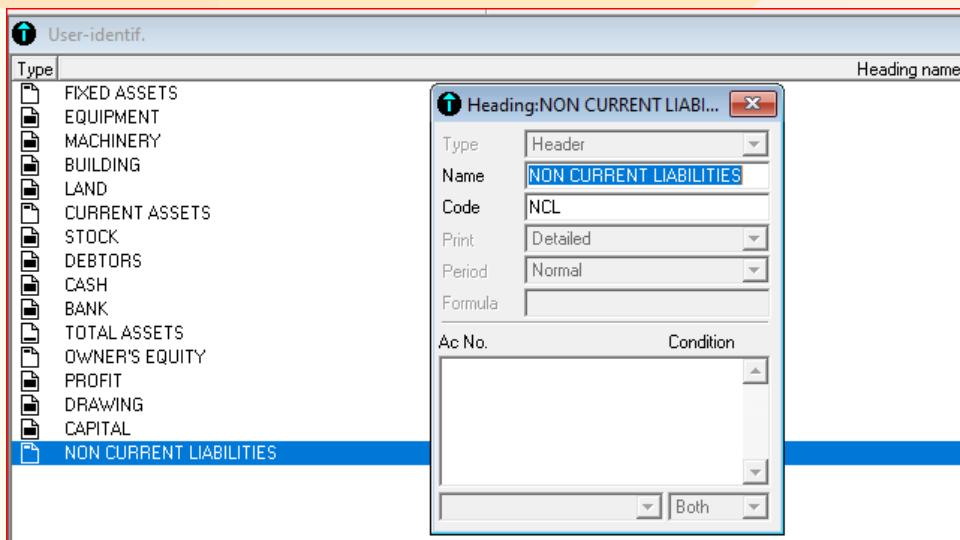
Start by noncurrent liabilities with header type

Figure 9.20: Non-current liabilities header creation

After setting configuration for noncurrent liabilities, right click then click on add new element. Then add the specific noncurrent liabilities accounts with balance limit as type. Thus, we will have the following:
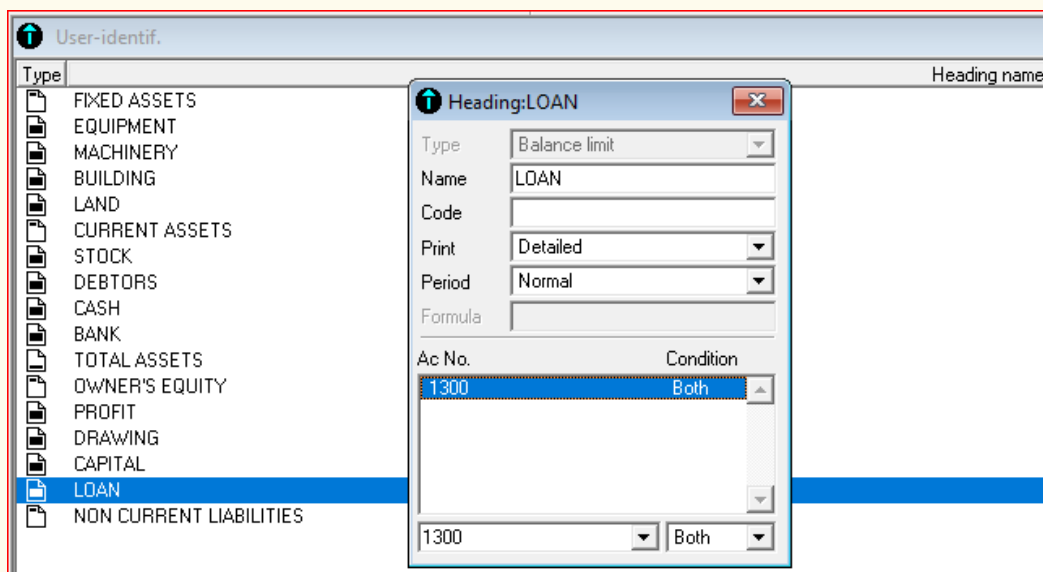


Figure 9.21: Creation of loan account as non-current liability account type

### 9.4.2. Current liabilities configuration

These liabilities are defined as amounts repayable within 12 months of the balance sheet date. Typical examples include bank overdrafts and creditors. Any loans repayable within the following year are also listed under current liabilities. Current liabilities are listed in the order in which they are expected

to be satisfied. The ones that will be paid first are listed first.

To make configurations of current liabilities, follow the same procedures as one followed in configuring noncurrent liabilities. Thus, start by creating current liabilities as header type, and then after, configure individual accounts for current liabilities with balance limit type.
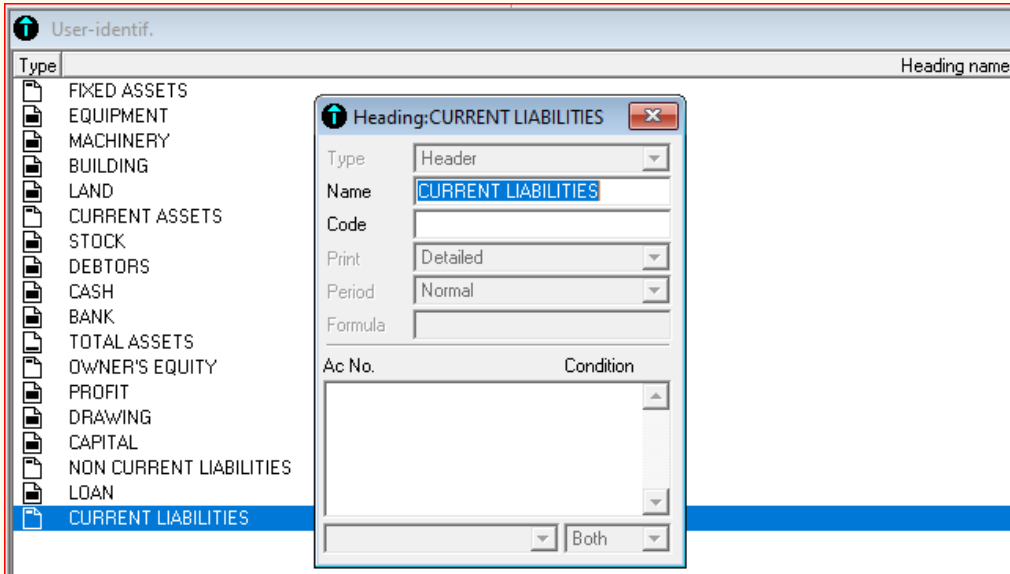


*Figure 9. 22: Current liabilities header creation*

After this, you can create the current liabilities accounts with balance limit type. If we have creditors (accounts payables) in the chart of account, the configuration will be as follow:
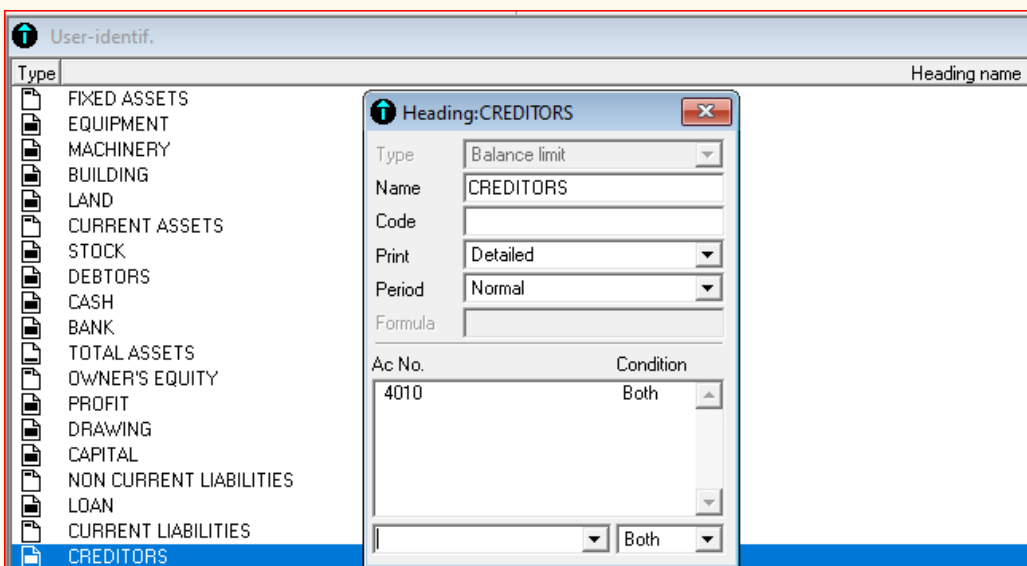


*Figure 9.23: Creation of creditor's account*

To find the results of configured balance sheet,

- Click on Stat menu-BS income statement
- Tick on print BS only and click ok
- Select print preview
- Click Ok

The following balance sheet will therefore be displayed:



Print preview : BS/income statement : 1

TWITEZIMBERE
TRADING

**BS assets**

End op period document

SIRET No.
NAF (APE)
Identifier No.
Period from    01/01/23
to              12/31/23
Bookkeeping:

Accounting 100 11.00          Printed          02/08/23          at 01:33:10PM          Page : 1

| Item details | Gross values | Deprec and provisions | Net values | |
|---|---|---|---|---|
| **FIXED ASSETS** | 7,000,000.00 | 90,000.00 | 6,910,000.00 | |
| LAND | 1,500,000.00 | | 1,500,000.00 | |
| BUILDING | 2,500,000.00 | | 2,500,000.00 | |
| MACHINERY | 2,000,000.00 | | 2,000,000.00 | |
| EQUIPMENT | 1,000,000.00 | | 1,000,000.00 | |
| ACCUMULATED DEPRECIATION | | 90,000.00 | -90,000.00 | |
| **CURRENT ASSETS** | 5,480,000.00 | | 5,480,000.00 | |
| STOCK | 30,000.00 | | 30,000.00 | |
| DEBTORS | 600,000.00 | | 600,000.00 | |
| BANK | 540,000.00 | | 540,000.00 | |
| CASH | 4,310,000.00 | | 4,310,000.00 | |
| **TOTAL ASSETS** | 12,480,000.00 | 90,000.00 | 12,390,000.00 | |
| **OWNER'S EQUITY** | -8,850,000.00 | | -8,850,000.00 | |
| CAPITAL | -9,000,000.00 | | -9,000,000.00 | |
| PROFIT | -50,000.00 | | -50,000.00 | |
| DRAWING | 200,000.00 | | 200,000.00 | |
| **LONG TERM LIABILITIES** | -3,000,000.00 | | -3,000,000.00 | |
| LOAN | -3,000,000.00 | | -3,000,000.00 | |
| **CURRENT LIABILITIES** | -540,000.00 | | -540,000.00 | |
| CREDITORS | -540,000.00 | | -540,000.00 | |
| **TOTAL LIABILITIES &OWNER'S EQUITY** | -12,390,000.00 | | -12,390,000.00 | |
| **BALANCE** | 90,000.00 | 90,000.00 | | |

*Figure 9. 24: Balance sheet presentation*

As shown in the balance sheet above, the total assets are equal to total liabilities with 12,390,000 FRW on both sides. Initially, there was a shortage of 50,000 FRW, because the net profit amount of 50,000 FRW realized by the business in income statement was not yet transferred to balance sheet. After transferring it, both assets and liability sides were equalized.

1. Give the steps followed to show balance sheet results in Sage line 100

2. What is the process of configuring assets in balance sheet configuration?

## 9.5 Equality of assets and liabilities

**Learning Activity 9.5**

1. State the accounting equation

2. Why should assets side of balance sheet always be equal to its liability side?

Assets, liabilities and equity are the three largest classifications in your accounting spreadsheet. Assets are everything your business owns. Liabilities and equity are what your business owes to third parties and owners. To balance your books, the golden rule in accounting is that assets equal liabilities plus equity.

The main accounting equation is: Assets = Liabilities + Equity. Together, they make up a company's balance sheet. The concept behind it is that everything the business has come from somewhere either a third party, such as a lender, or an owner, such as a stockholder. Every unit of franc that a business holds is attributed to a third party or an owner. This means that each thing a business has is classified as both an asset and a liability or an asset and equity. Here are two examples:

**An asset that is a liability:** If a business has 100,000 FRW, but you borrowed it from George. The $10 is both an asset (cash) and a liability (a loan that you need to pay back).

**An asset that is equity:** You invested 2000,000 FRW in your business buying equipment. The 2000,000 FRW is both an asset (equipment) and equity (owner's equity that you should get back eventually).

Say your business earns a 500,000 FRW profit that you put into a checking account. That profit is both an asset (cash) and equity (business profit held for

future use). If your business collapsed tomorrow, the equity would be split between the owners.

Taking an example of the balance sheet presented in the lesson **9.4**



*Figure 9.25: Equality of balance sheet assets and liabilities*

As presented in balance sheet above, total assets were 12,480,000 FRW minus 90,000 FRW depreciation, which made the total of 12,390,000 FRW. These assets are equal to liabilities obtained added to owner's equity with 1,239,000 FRW. In SAGE line 100, the total liabilities and total owner's equity have negative signs to mean that they have credit balance.

The profit of **50,000 FRW** found in the income statement in unit 7.4 is the one that was transferred to profit owner's equity to increase the capital in balance sheet balance sheet and drawings were deducted from the total to get the total of the owner's equity. Hence the balance sheet total assets have become equal to total liabilities plus owner's equity.

1. What is owner's equity?

2. What is the fundamental relationship between basic accounting equation elements?

3. What is the impact of an asset on the accounting equation?

## End unit assessment

1. What is meant by balance sheet?

2. State the two types liabilities

3. State the elements of accounting equation

4. Explain owner's equity?

5. You are given the following information extracted from XYZ company Ltd in 2022

| Accounts | Balance(in FRW) |
|---|---|
| Accounts payable for goods | 132,000 |
| Accounts payable for services | 40,000 |
| Accumulated depreciation for fixed assets | 300,000 |
| Advances to suppliers | 12,000 |
| Accounts receivables | 10,000 |
| cash | 84,000 |
| bank | 500,000 |
| Expenses paid in advance | 6000 |
| Interest payable | 30000 |
| Land | 1,500,000 |
| Capital | 350000 |
| Drawings | 40000 |
| Bank loan | 1,300,000 |

**Required:** a. Prepare balance sheet for the above information

b. Make configuration for the above balance sheet accounts

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