Basic Accounting

Principles and Procedures

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Preface

The objectives of financial accounting and reporting are centred on the use of accounting information in communication and decision-making. The usefulness of accounting information must be evaluated in relation to the purposes to be served. In the final analysis, each user and decision-maker judges what accounting information is useful, and that judgement is influenced by factors such as the decision to be made, the methods of decision-making to be used, the information already possessed or obtainable from other sources, and the ability of the decision-maker (alone or with professional help) to process the information. As choice between alternatives is therefore inevitable, some sound common basis from which rational judgement may proceed is essential.

Basic Accounting introduces the reader to the world of learning through the discipline of accounting. It covers fundamental accounting concepts, principles, procedures and techniques with the express intention of meeting the needs of students at university and other institutions of higher learning wishing to have a firm grasp of accounting and reporting. It is also intended to meet the needs of graduate students in the MBA and diploma programmes who do not have an accounting background and are, therefore, required to take a course in financial accounting and reporting. The book is especially intended to meet the needs of KASNEB CPA candidates. Towards this end, most of the illustrative exercises have been adapted from past KASNEB examinations.

The need for a locally based text book on the fundamental concepts, principles and procedures of accounting cannot be over-emphasized. The aim of this book is to introduce the discipline of accounting in the context of Kenyan laws, regulations and accounting standards. Accounting as an academic discipline is universal but the practice is governed and moulded by the laws and regulations of the land. Consequently, the techniques and standards of the practice differ from country to country.

In discussing the Kenyan regulatory framework, several acts of legislation are cited. It is these legal requirements that specify the objectives of financial accounting and the standards of reporting in Kenya.

That most reading materials available in the country on this subject are from overseas countries has mitigated against cultural identity, leading to adoption of foreign attitudes at the expense of national culture. As books are a cultural mirror of a nation and its people through publications, it is important to promote and preserve the Kenyan culture which must not only be documented for posterity but also lived by us and our children.

The first four chapters of the book cover the basic concepts, principles and the sequence of established accounting procedures forming the "accounting cycle". The discussion starts with exposure to the balance sheet items and format (equation) as the rationale underlying double-entry book-keeping. This is followed by a detailed discussion and illustration of the established "record-keeping" procedures and techniques for recording and processing the transactions that change the financial position of the accounting entity.

The subject matter contained in the first four chapters forms the foundation upon which the subsequent study of the discipline exemplified through recording and reporting on cash transactions, the activities of a merchandising enterprise and those of a manufacturing enterprise, is based. These are covered in chapters five, six and seven.

Chapters eight to thirteen cover the basic accounting practice and expose the reader to new areas of accounting and reporting, including the preparation of reporting schedules and statements from incomplete records.

Preparation of this book has taken a long time and used many classroom as well as tutorial expeirments. It is my sincere belief, based on the long experience in teaching accounting and other business disciplines, that this text has the appropriate subject matter to introduce the discipline of accounting exhaustively.

I am grateful to KASNEB for granting me permission to use their examination materials. Profound thanks also go to my past and current students over the years as their observations, questions and comments have called my attention to omissions and other shortcomings that have necessitated constant revisions and rewriting of this text.

Special thanks go to my dear wife, Ndanu, for typing and re-typing the text. I am deeply indebted to her and to our children for their understanding, patience and support during the many years of writing this book.

I would like to believe that this book belongs to us all. I would be delighted to hear from you, the reader, so that I can continue to review it in ways that would make it most useful to readers.

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