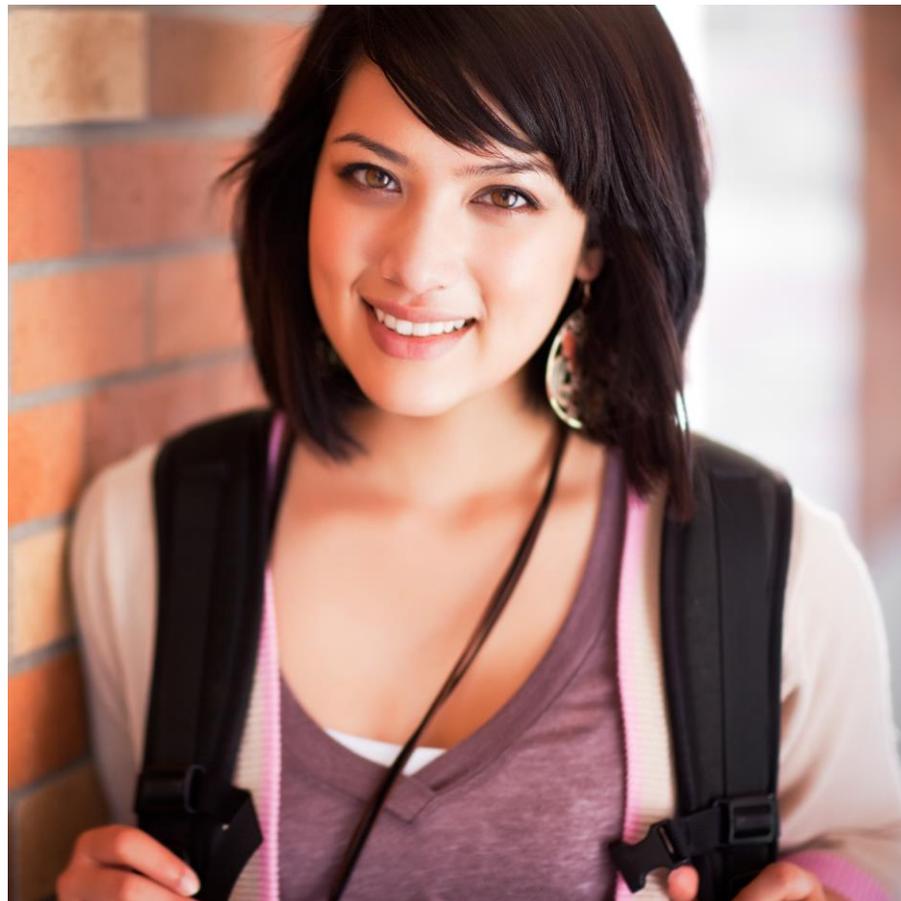


ACCOUNTING PRINCIPLES AND PROCEDURES

PART 1



21ST CENTURY KNOWLEDGE AGE ECONOMY



ACCOUNTING is a language of business and good accounting standards are at the heart of any successful business operation to sustain and progress in the highly innovative, complex, competitive, and compliant global business environment.

The implementation of Goods and Services Tax (GST), the Global Financial Meltdown (GFM) in 2008, and ever increasing compliance requirements has significantly increased the need for accurate and timely accounting information.

The business owners and managers quite often use accounting to know the liquidity position of an enterprise almost on daily basis and to review the efficiency of business operations from time to time. This information is very useful for business managers to take business decisions to improve business's profitability.

Accounting is a very wide profession and you can specialise in a number of areas such as financial management, business analysis, treasury, systems accounting, manufacturing accounting, superannuation accounting, financial accounting, management accounting, corporate accounting, government accounting, taxation and audit.

Businesses often use a mix of management and financial accounting in their day to day business operations. Management accounting is responsible for tracking internal business costs than allocating these costs to goods or services produced by the company.

Management accounting may also be responsible for forecasting future sales and creating budgets to manage expenditures. Financial accounting is the process of creating financial statements based on the company's financial information.

The three most important financial statements that almost every business has to prepare are statement of financial progress, statement of financial position, and statement of cash flow. These financial statements may be used by internal or external business stakeholders for making business or investment decisions.

A sound understanding of accounting principles and procedures are essential no matter what type of career you are looking in accounting. This handbook is prepared after extensive research with the academicians and business professionals to provide an excellent knowledge of accounting principles and procedures in a very simple and easy way to understand.

As accounting has gone through many changes since the early civilizations of Greeks and Romans and so the employment market. For the past 10 years, the accounting employment market and in general is shifting from online job placements to customised candidates for suitable job roles.

Our research has shown that in addition to professional competence the employers are also looking for candidates with excellent communication skills at all levels and the use of applied technology such as MYOB, Sage ERP, Microsoft dynamics, Handy Tax, and SAP

Prepared by:

INDER CHEEMA: M.Sc. (Physics), Post M.Sc. (Elec Eng), Gdip Fin Mng (UNE), Gdip Acc & Fin (UTS), SAP (UWS), CPA, AIP, AIM

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MODULE 1

ACCOUNTING

CONCEPTS & TERMS

THE MOST IMPORTANT



EQUATION

INCOME - ASSETS - LIABILITIES

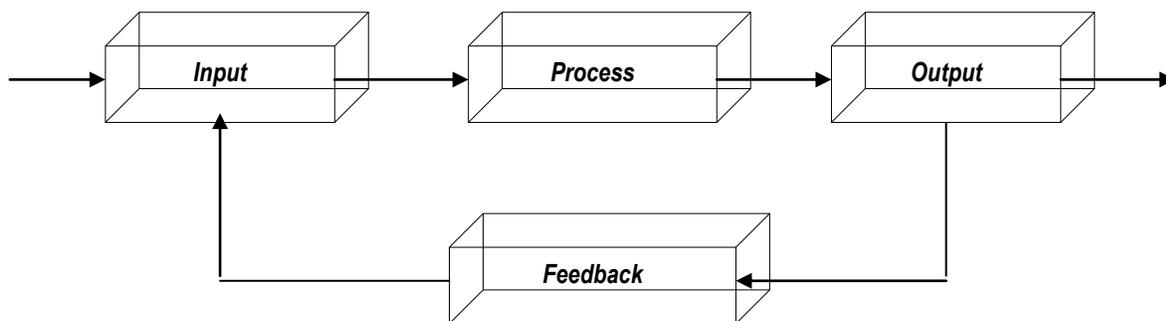
INTRODUCTION

[1] SYSTEM

A System may be defined as a series of inter-related tasks or functions that can be performed to achieve some specific objective. There are number of systems such as a natural system, man-made system, and an economic system.

A system can further be classified into sub-system. For example an economic system can further be classified into sub-systems such as human resource system, legal system, transport system, and education system etc.

Every system must have at least three basic elements to achieve some specific function or task such as input, process, and output.



[2] ECONOMIC SYSTEM

The activities relating to production and distribution of goods and services are called economic activities. The most important factors related to any economic system are product and service, money, market place, buyers, and market place.

(1) Product

Any product that is tangible or intangible can be exchanged at a negotiated price between the buyer and seller.

(2) Money

Money is a convenient measurement of wealth that represents a medium for exchange of goods and services.

(3) Market Place

Market place is a place where goods and services can be exchanged at a negotiated price between the buyer and seller.

(4) Customer

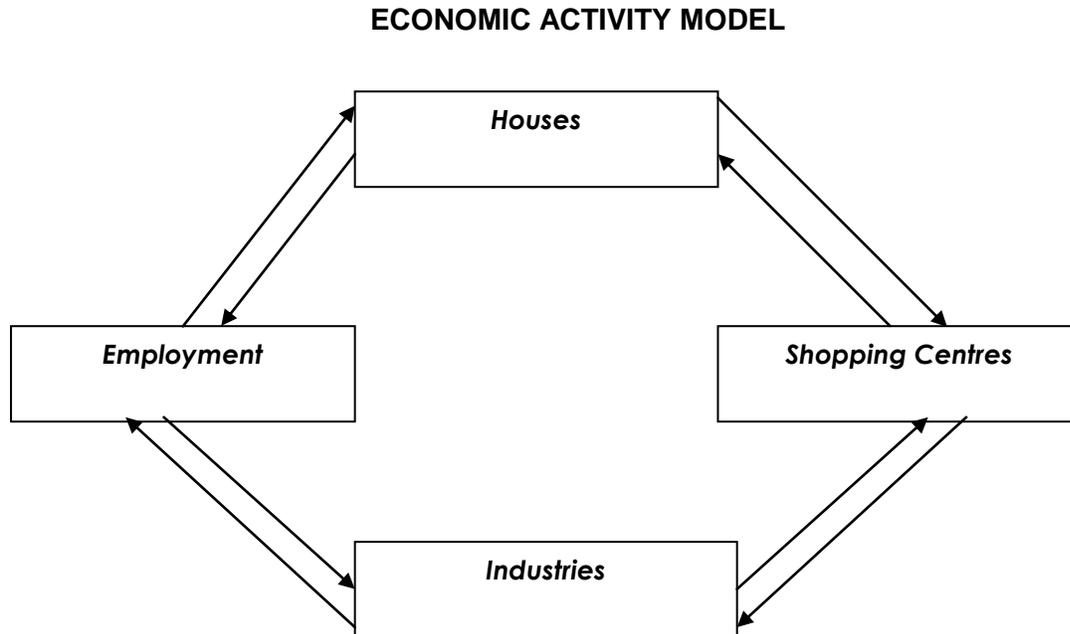
Alone money and the market place are not sufficient to run any economic system. In any market place there must be a buyer to purchase goods and services.

(5) Seller

Here must be a seller who is ready to sell goods and services either in the form of finished goods or alternatively raw material to be processed to manufacture goods.

(6) Legal Entity

A legal entity is an entity through which goods and services are being exchanged. The most commonly used entities are sole trader, partnership, private or Public Corporation.



E-business

Buying and selling goods and services over the electronic platform known as the Internet.

E-business is not a new concept rather it is an evolution of traditional business practices taking advantage of the new technologies of the Internet age to enhance efficiency and productivity.

The emergence of integration and networking in the late 1990 made many think tanks believe that the rules and regulations of the old economy and the way we operate business were no longer applicable. This led most of the business gurus to believe in E-business as the only mantra for the enlightenment new economy of the 21st century.

The e-business paradigm is bringing an enormous change in our social-economic life style. Those geographies and societies with high concentration of e-business participants are quickly overtaking others in production, productivity, and profitable economic growth.

E-business became available as soon as the Internet was freed from its academic and scientific limitations in 1992.

The first e-Store appeared in 1993 and by 1994 you could order pizza via the Internet.

Your Global Career

Amazon.com and eBay were both formed in 1995, and one of the most amazing booms in history occurred. By 1999 the worldwide e-business market was worth \$40bn

In the global Internet Economy of the 21st century we have left only two choices that are either to adopt the e-Business culture as quickly as possible and become a market leader or go on rattling with the Stone Age economy and led by others. To become the leader or led by others.

E-business is not a new concept rather it is an evolution of traditional business practices taking advantage of the new technologies of the Internet age to enhance business efficiency and productivity.

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The Global Landscape: Though the express highway to globalisation is fraught with many obstacles, but the results are quite encouraging. Across the globe almost every type of enterprise small, medium, large, and MNCs are aggressively pursuing for globalisation.

It looks like that that we all are moving towards a gigantic global village where many new types of entrepreneurs are emerging with different types of products and services and hardly people understand to whom they are talking whether Mr David from London or Bangalore or Miss Sarah from Hollywood or Bollywood.

Buying and selling goods and services over the electronic platform known as the Internet.

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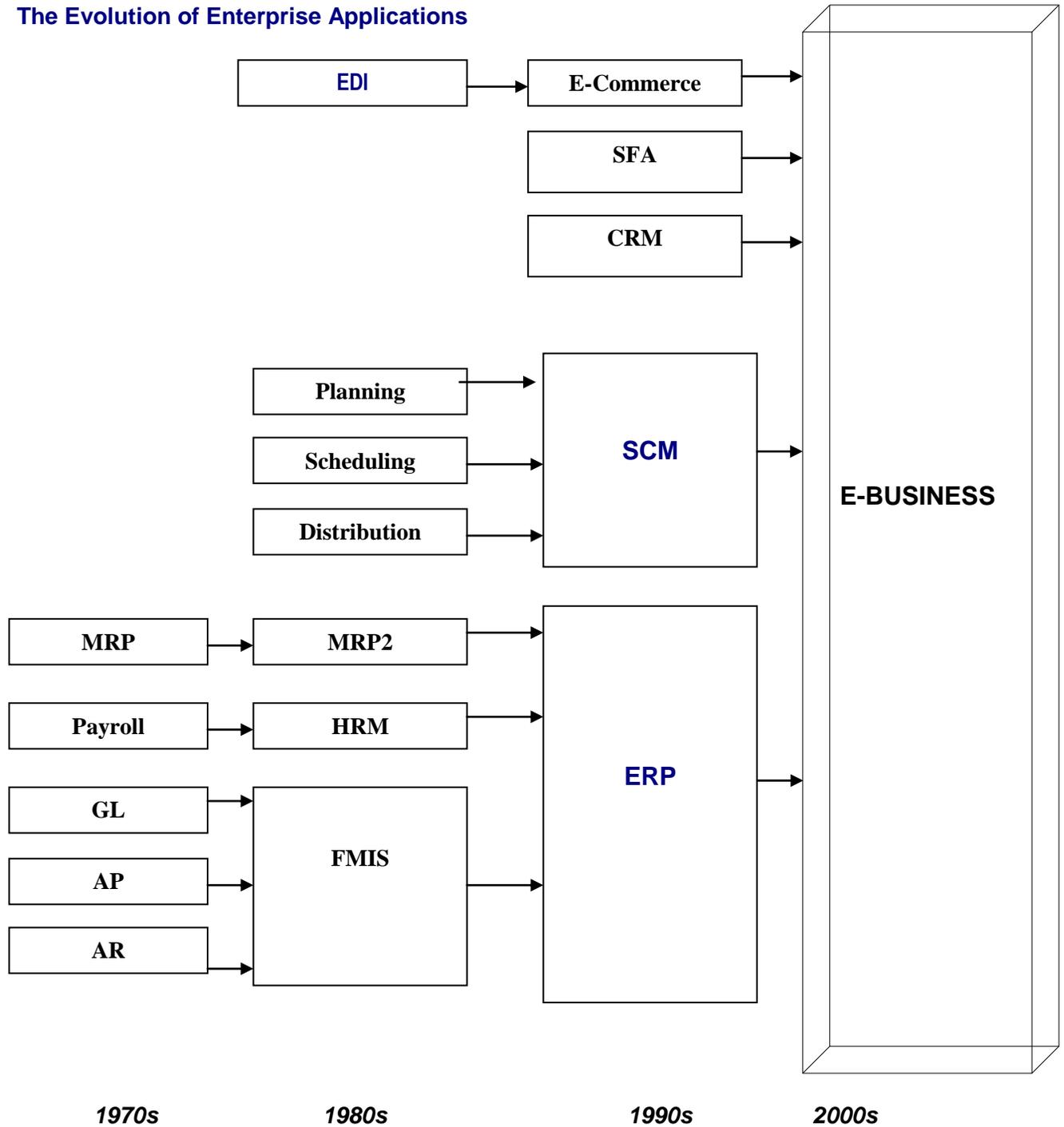
The Future Trend

In the new emerging business environment of the 21st century electronic business, the technology will drive the business and there will be a brave new world of business platform built on nano and quantum computing technologies. The main pillars of this platform would be Internet Computing Technologies such as grid computing, computing as a utility, and IP dial tone etc.

All the business process starting from procurement to warehouse management, from order to cash and after sale service will be integrated to enhance efficiency and reduce redundancy. Perhaps there will be more vocabulary and acronyms pouring from the cosmos that the human beings have ever heard before.

Organisations that will be able to implement E-Business as the core component will grow much faster whereas others will just be struggling as a tiny drop in the mighty ocean that sooner or later eventually be dissolved and carried away by the mighty waves of change.

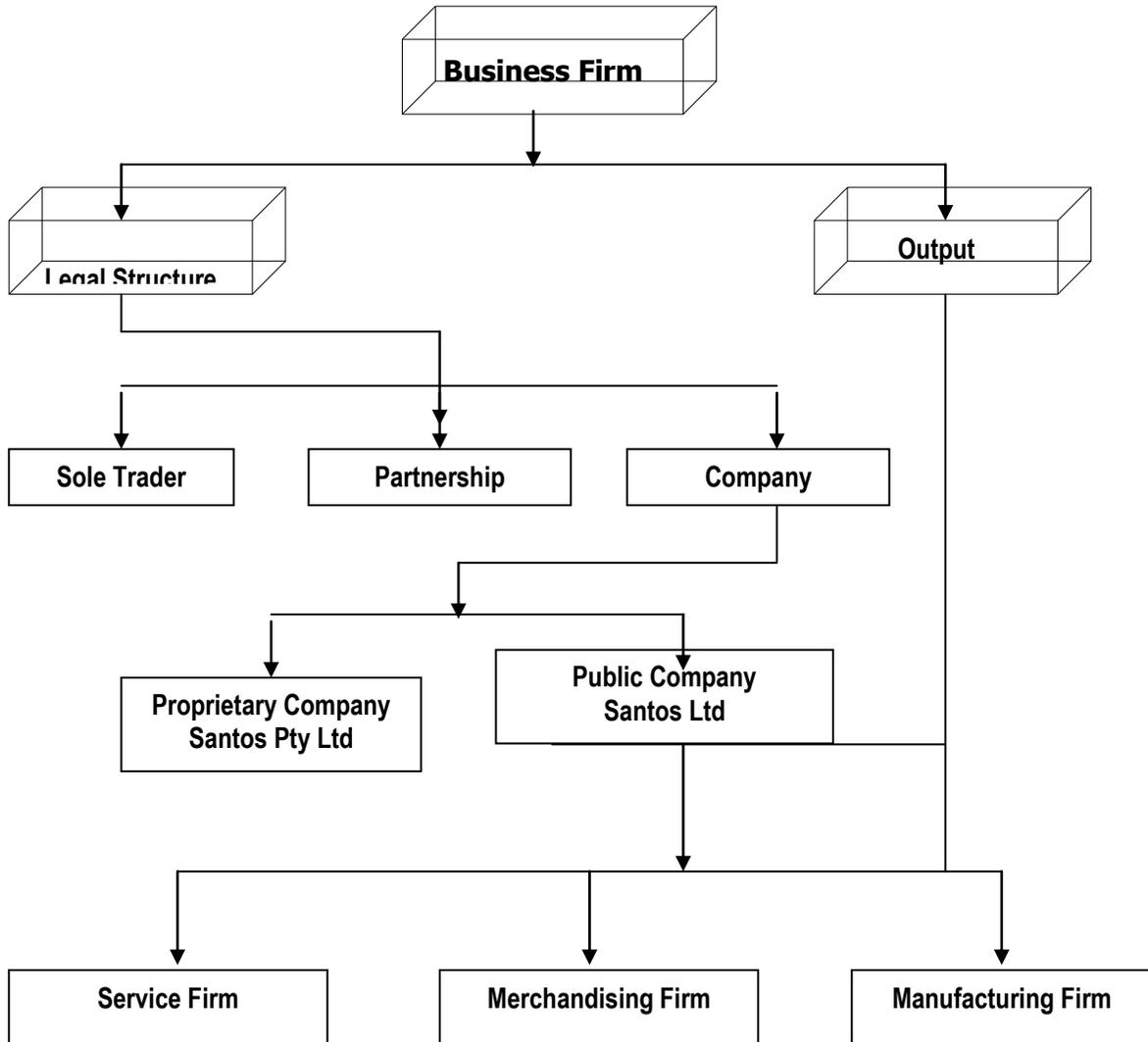
The Evolution of Enterprise Applications



Source: Australian e-Business Guide 2002

[3] BUSINESS FIRM

The goods and services are exchanged through an agent called a Firm. Firms can further be classified on the basis output and the legal structure.



These two factors are very important in defining the exact nature of the business activity for the purpose of fulfilling all the legal requirements to register and operate any business.

(3.1) Output

According to the goods and services a firm produces for the society, the business firm can be classifying into three main categories.

(3.1.1) Service Firms:

The firms that produce service are called as service firms such as accounting firm, law firm and medical practitioner etc.

(3.1.2) Manufacturing Firms

These firms purchase raw material and after processing it sell the goods in the market such as Ford Motor Company, National Panasonic etc.

(3.1.3) Merchandising Firms

These firms buy the goods in bulk, which are already in saleable form and sell them to make profit. Examples are David Jones, Grace Brothers and Woolsworth etc.

Many individual business organisations produce both the goods as well as services such as a beauty shop, which provides services as well as sells cosmetics and other products.

(3.2) Legal Structure

According to the legal structure, a firm can be classified as a sole trader, partnership or a company.

(3.2.1) Sole trader

Sole trader means only one-man business that is entitled to any profit as well as responsible for any loss. Most commonly sole traders are small enterprises like take away shop or hair dressing services.

(3.2.2) Partnership:

Partnership means two or more people combine to start a business. The profit and loss is distributed among partners as per partnership agreement. Examples are Medical practice, Accounting practice and Law practice.

(3.2.3) Company:

Company is a separate legal entity distinct from its shareholders. The ownership of a company is divided in shares and the people who own that are called as shareholders.

Broadly speaking there are two types of companies Proprietary Company and Public company. The Proprietary Company is a small company usually a family type of business and its shares cannot be purchased or sold in the stock market. Usually they are named as Pty Ltd (Santos Pty Ltd).

Public company is a bigger business whose shares can be traded on the stock exchange. Usually they are named as Limited or Ltd such as Santos Ltd.

There are advantages and disadvantages of different types of business ownership. More exactly it varies from business to business and should take some legal advice from a solicitor as well as from an accountant.

[4] HISTORY OF ACCOUNTING

Accounting is a very old and well-known profession since the early civilisations of the Egyptians, the Greeks and the Romans. Systems of accounting are believed to have existed as early as 4,500 BC, in the ancient civilisations of Babylon and Assyria, and some historians even have traced the origins of auditing almost as far back.

During 12th century the Italians started to trade with the East and developed double-entry bookkeeping system to record complex transactions to calculate profit and loss. The first such record of a complete system of double-entry bookkeeping was found in Genoa (Italy), originating about the year 1340.

Though accounting might have been born and bred in Italy, it was in England and Ireland that it grew as a mature and respectable profession. Around 15th century, this form of double-entry system was spread to other parts of the Europe and the first known book of accounting was published in England in 1543.

The development of the new form of companies increased tremendously the need for accounting information to be reported to the shareholders that did not have direct access to the knowledge of the day-to-day operations of their companies.

During this period, the people started to migrate from England and Ireland to the United States of America, which gave rise to the development of multinational companies and complex accounting information systems.

The 19th century was the period of industrial revolution in Europe and the United States of America. As a result of this revolution, the business organisations started to use the concepts of financial statements and cash flow analysis.

This industrial revolution and the evolution of the corporation style of business enterprise had a great influence in the development of accounting.

During the 20th century there had been tremendous advances in technology and the process of accounting, as distinct from the principles of double entry that revolutionised the accounting.

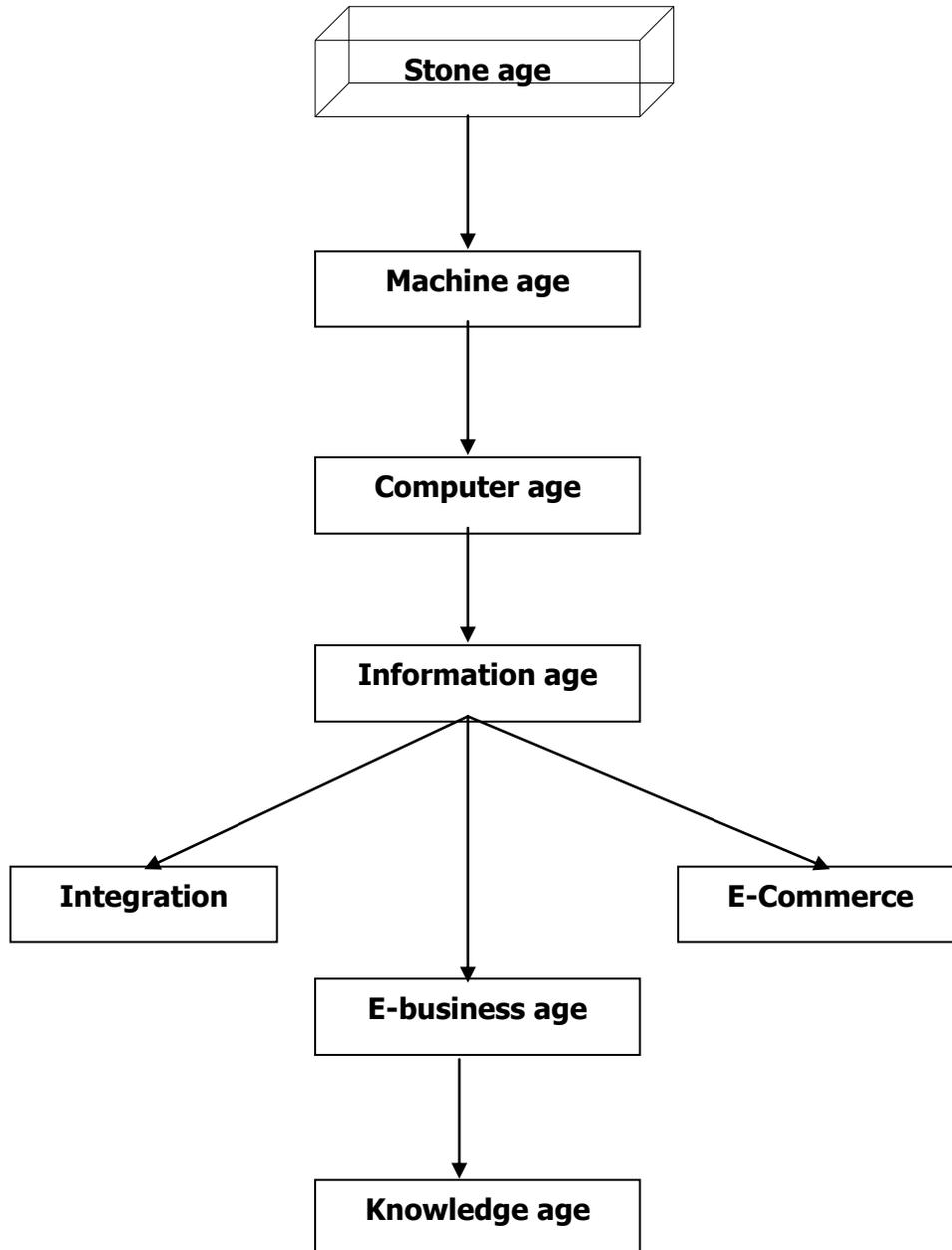
Due to advances in technology and the business ownership, many new forms of accounting profession have emerged such as financial accounting, management accounting, tax accounting, and systems accounting etc.

Today in the 21st century, it is quite evident that the trend is towards globalisation and the society is shifting from the information age to the knowledge base economy. During this shift, the integration and electronic-commerce are playing a very prominent role.

Your Global Career

Human Journey

Towards the Knowledge Age



[5] THE ACCOUNTING PROFESSION

Accounting is considered to be a language of business as it plays a very crucial role in our day to day business activities. Changing nature of the business environment and fast moving information technology has led to the development of many specialised fields in accounting:

- * Financial Accounting
- * Systems Accounting
- * Superannuation Accounting
- * Company Accounting
- * Government Accounting
- * Management Accounting
- * Taxation Accounting
- * Manufacturing Accounting
- * Budgeting
- * Financial Reporting

There are three accounting associations in Australia that work for the advancement of the recognition of the accounting profession to provide the highest standard of service to the society:

- **ASCPA** – The Australian Society of Certified Practising Accountants.
- **ICA** - The Institute of Chartered Accountants.
- **NIA** - The National Institute of Accountants.

Two more UK based internationally recognised professional accounting institutions that are becoming quite popular in Australia are:

- **ACCA (The Association of Chartered Certified Accountants, UK)**

The Association of Chartered Certified Accountants was founded in 1904 in London and is the world's largest and most respected professional accounting body, with over 300,000 members and students in 160 countries.

The ACCA syllabus has been recognised by the United Nations as providing a sound basis for a global accountancy qualification and ACCA members therefore enjoy wide professional mobility.

- **CIMA (The Chartered Institute of Management Accountants, UK)**

The Chartered Institute of Management Accountants) founded in 1919 in London offers an internationally respected management qualification.

The CIMA Professional Qualification is highly valued in business throughout the world because of its unique focus on developing essential practical skills in management accounting, business management, and financial management. Having employees with these attributes enables organizations to gain an advantage in a complex business environment.

[6] ACCOUNTING FRAMEWORK

The traditional accounting framework is basically build on certain accounting principles and procedures on general agreement to be followed in the recognition and measurement of the effect of accounting transactions on the financial statements.

These principles and procedures can be referred to as conventions and doctrines or in general known as Generally Accepted Accounting Principles (GAAP).

{6.1} Accounting Conventions

The 'convention' may be defined as some accepted custom or principle established by the general agreement. There are six accounting connections.

(6.1.1) the accounting entity convention

The accounting entity convention states that the business entity is separate and distinct from the owners of the business affairs.

(6.1.2) the monetary convention

The monetary convention assumes that all the accounting transactions must be recorded and measured in the monetary value in which the business entity operates. The monetary unit of the Australian economic system is the dollar.

(6.1.3) the historical cost convention

The historical cost convention requires that all the accounting transactions must be recorded and measured at the cost value at the date of the transaction occurred.

(6.1.4) the going concern convention

The going concern convention assumes that the business activity will continue to operate indefinitely and the assets of the business will be retained for the ongoing operation of the business entity.

(6.1.5) the accounting period convention

The accounting period convention assumes that the life of the business activity can be divided into equal periods for the preparation of financial reports.

(6.1.6) the recognition of law convention

The recognition of law convention assumes that all the accounting transactions must be recorded and measured as per legal requirements such as Taxation Act, Corporation Law, Partnerships Act, and Bankruptcy Act etc.

{6.2} Accounting doctrines

The 'doctrine' may be defined as the basis of logical reasoning, belief or principle. There are three accounting doctrines.

(6.2.1) Doctrine of consistency

The doctrine of consistency assumes that the same accounting principles and procedures should be consistently applied from one reporting period to the next reporting period.

The aim of this doctrine is to provide the users of the financial information with the reliable basis for comparison of financial performance from one reporting period to the next.

(6.2.2) Doctrine of materiality

The doctrine of materiality assumes that the accounting transactions of the material nature only should be recorded in the preparation of financial reports.

The aim of this doctrine is to report information only of the material nature so that the users of the financial information should not be confused.

(6.2.3) Doctrine of disclosure

The doctrine of disclosure assumes that the financial reports disclose fully true and fair information of the material nature of the business entity.

The aim of this doctrine is to provide the users of the financial information with true and fair affairs of the business so that the user can take a better decision.

[7] BOOKKEEPING

Bookkeeping is a system based on GAAP (Generally Accepted Accounting Principles) of analysing and recording accounting transactions that involve the exchange of monetary value.

According to Australian Taxation requirements, there are at least five essential facts, which must be recorded for any transaction. Sold stock on credit for \$5,000 on 5th January 2007 to Hollywood Jeans Store, Invoice Nr. 00125:

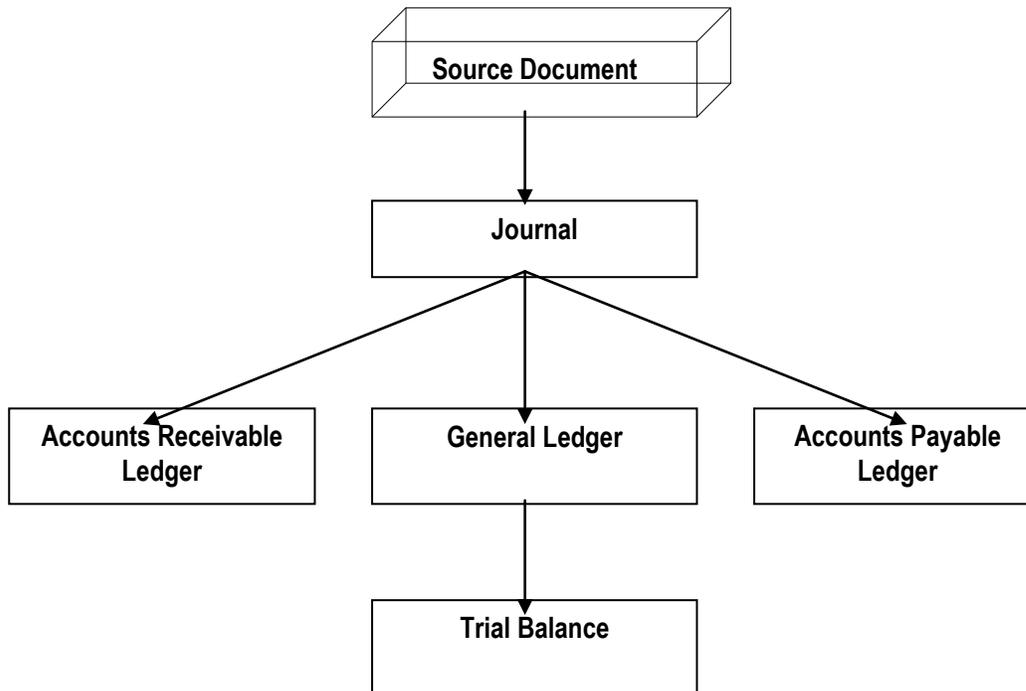
Element Nr	Element Name	Element Fact
1	Date of the transaction	5 th January 2007
2	Purpose of the transaction	Sold Stock on credit
3	Name of the entity	Hollywood Jeans Store
4	Source document	Invoice No. 00125
5	Transaction amount	\$5,000.00

[8] ACCOUNTING

Though there are many definitions of accounting, but the best definition that I came across is given by Professor Charles Horngren that, “Accounting is a quantitative information system used almost in every organisation to provide information to its decision makers”. These decision-makers may be investors, creditors, managers, and other interested parties.

The **QUALITY** and **TIMELINESS** of this information is extremely important.

BOOKKEEPING CYCLE



Transaction

Any exchange of goods and services between the two parties, either for cash or on credit.

Source Documents

The details of any transaction are recorded on some standard document called a source document.

The most commonly used source documents are Invoice, Purchase order, Cheque number, Receipt number, Petty cash voucher and Bank statement etc.

Source Documents	
Description	Source Document
Purchase stock on credit	Purchase Order Or Purchase Invoice
Stock returns previously purchased on credit	Credit Note (Issued by the Supplier)
Stock sold on credit	Sale Invoice
Stock returns previously sold on credit	Credit Note (Issued by the Supplier)
Payment of cash	Cheque Number
Receipt of cash	Receipt Number
Bank charges	Bank Statement
Petty cash transactions	Petty Cash Voucher

Journal

Book of original entry to record detailed transactions as they occur. It shows date, nature, amount, and names of parties involved.

Ledger

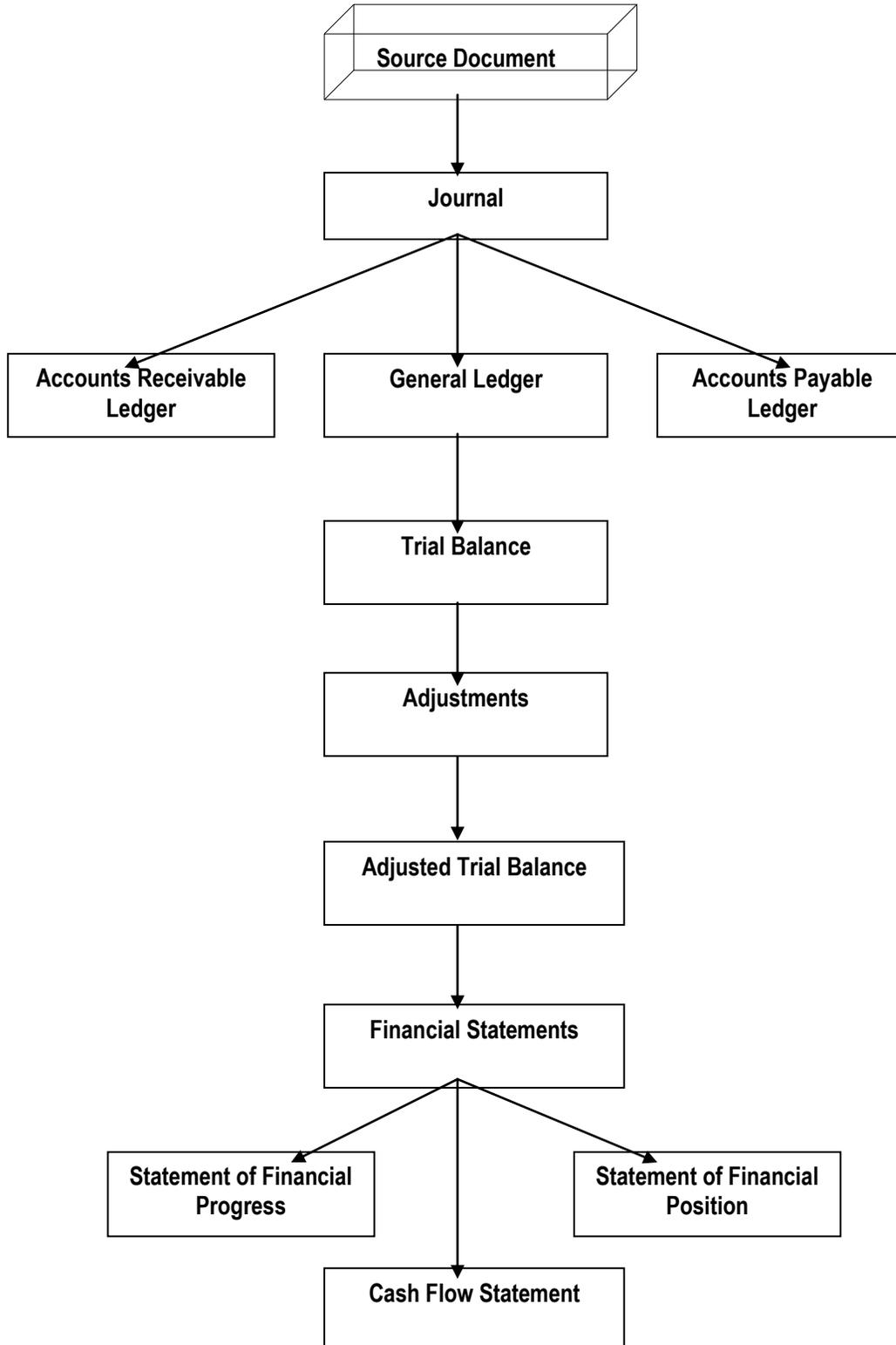
In double entry accounting system, the records of business account in the form of account numbers and account details.

Trial balance

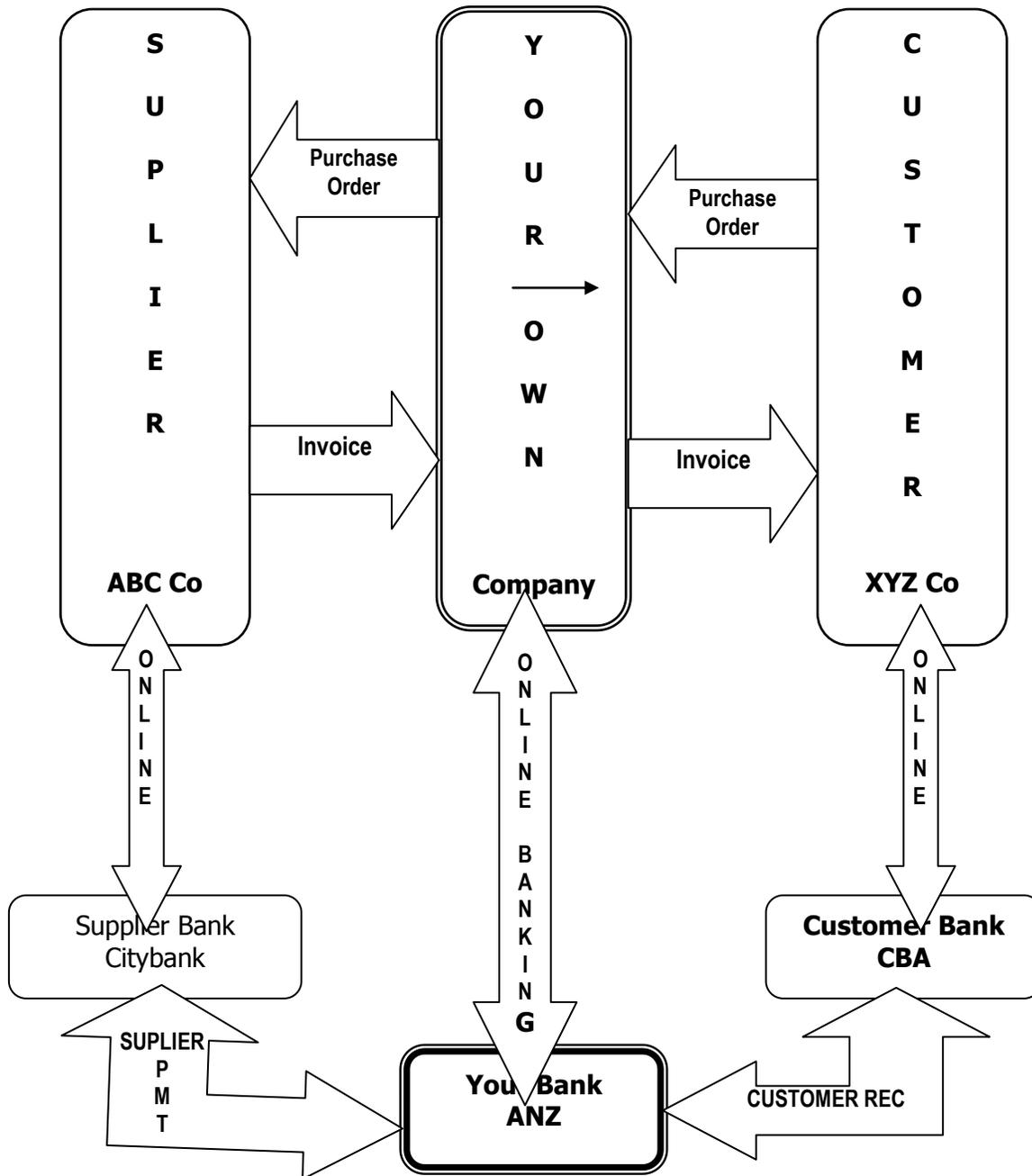
Help in determining the correctness of transactions recorded in a business' ledger. All debits are listed in one column and all credits are listed on the other side. The total of all the debits must be equal to all the credits.

Your Global Career

ACCOUNTING CYCLE



Accounting Environment Of The 21st Century Information Economy



[9] ACCOUNTING EQUATION

The Accounting equation is based on the concept that the business is a separate legal entity from the owner or owners/shareholders. The assets owned by the business entity are equal to the total funds borrowed by the business in the form of liabilities.

$$\text{Assets} = \text{Liabilities} \quad (1)$$

The liabilities can be of two forms. The funds provided by the owner called as Owners' equity and the funds borrowed from the outside sources called as Liability. Thus, the above equation can be written as:

$$\text{Assets} = \text{Liabilities} + \text{Owners' Equity} \quad (2)$$

$$A = L + OE$$

or

$$\text{Assets} - \text{Liabilities} = \text{Owners' Equity} \quad (3)$$

$$A - L = OE$$

The Owners' Equity (Proprietorship) depends upon two factors that is Investment by the owner, and Profit/loss made by the entity. Thus by combining the above two factors, the equation can be written as:

$$\text{Assets} - \text{Liabilities} = \text{Owners' Equity} + [\text{Sales} - \text{Expenses}]$$

or

$$A - L = OE + \text{Profit/Loss} \quad (4)$$

This is the standard equation, which is being used in the business world that emphasises on the residual equity rather than the total assets.

(9.1) Balance Sheet

The Balance sheet shows the financial position of an enterprise on a certain date. The balance sheet equation is:

$$\text{Assets} = \text{Liabilities} + \text{Owners' equity}$$

Or

$$\text{Assets} - \text{Liabilities} = \text{Owners' equity}$$

$$A - L = OE \quad (5)$$

Assets

Assets are the economic resources owned or effectively controlled by the entity. Examples are cash at bank, inventory, plant and equipment etc.

Liability

Liabilities are the obligations, which the entity has to pay because of the previous transactions such as purchase of inventory on credit, payment of loans etc.

Owners' Equity

The owners' equity shows the net worth of the business after paying all the liabilities. For example if the total assets of the business are \$75,000 and the borrowed money from the ANZ Bank is \$65,000. Then the net worth of the business is only \$10,000.

$$\$75,000 - \$65,000 = \$10,000$$

(9.2) Profit/loss Statement

The Profit/loss statement shows the financial progress of an Enterprise within a certain time period. The Profit/loss statement equation is:

$$\text{Sales} - \text{Expenses} = \text{Profit/Loss} \quad (6)$$

(9.3) Cash Flow Statement

The Cash flow statement shows the net amount of cash the entity has at any time. The Cash flow statement equation is:

$$\text{Closing balance} = \text{Opening balance} + \text{Net cash}$$

$$\text{Net cash} = (\text{Cash In} - \text{Cash out}) \quad (7)$$

[10] ADJUSTMENTS

End-of-period adjustments

End-of-period adjustments are very important to prepare financial statements on accrual basis. These adjustments can be classified into two categories - accruals and deferrals.

Accruals are the adjustments for unrecorded revenues and expenses:

- * Accrued income and accrued expenses;
- * Recording of depreciation expense;
- * Recording of bad & doubtful debts;
- * Recording of employee entitlements.

Deferrals defer revenues and expenses until a future reporting period:

- * Income received in advance;
- * Prepaid expenses;
- * Cost of goods sold.

[11] Accrual accounting vs Cash accounting

There are two methods of determining profit or loss on the basis of - the accrual basis and the cash basis.

Accrual accounting

The Accrual basis records transactions as they occur irrespective of the cash receipts and payments. The revenue and expenses does not depend on whether cash has been received or paid.

Cash accounting

The cash basis records transactions when the actual cash has been received or paid irrespective of transactions they occur.

Accrual accounting is the method required by the accounting standards and is the basis for preparing financial statements.

The **matching principle** requires the matching of revenues of the reporting period against the expenses of the same reporting period, which gives a better determination of the profit or loss incurred.

Example

From the following transactions, calculate operating profit or loss for Gordon Store P/L on the basis of accrual and cash for the month ended 30 June 20X2.

05th June 2007 Cash sales	\$10,500
20th June Credit sales and paid on 4th July 20X1	5,000
28th June paid wages	4,500
29th Received Telephone bill and paid on 10th July 20X1	1,250
30th Received Electricity bill and paid on 12th July 20X1	1,050

Gordon Store Pty Ltd Profit/loss Statement As at 30 June 20X2

Transaction	Accrual (\$)	Cash (\$)
Cash sales	10,500	10,500
Credit sales	5,000	
Total Sales	15,500	10,500
(Less) Operating Expenses:		
Salaries & wages	4,500	4,500
Telephone bill	1,250	
Electricity bill	1,050	
Total Expenses	6,800	4,500
Operating Profit/loss	8,700	6,000

[12] AUSTRALIAN ACCOUNTING STANDARDS

The nature of Accounting is constantly changing due to growing complexity of information technology and the business ownership. As a result of that, there is a great demand for consistent and reliable financial information.

In Australia the two major professional bodies, the Australian Society of Certified Practising Accountants (Cpas) and the Institute of Chartered Accountants have jointly established the Australian Accounting Research Foundation (AARF) to develop standards in providing consistence and reliable financial information.

The standards issued by the Australian Accounting Research Foundation (AARF) are called as Australian Accounting Standards (AAS) that apply to small business entities such as sole traders, partnerships, and proprietary companies (Santos Pty Ltd).

All accounting bodies will have to follow these standards during preparation of financial reports. AARF issued many standards such as:

- AAS 1 Profit & Loss
- AAS 2 Valuation of Inventories
- AAS 3 Accounting for Income Tax
- AAS 4 Depreciation of Non-Current Assets
- AAS30 Accounting for Employee Entitlements

Other standards issued by AARF and approved by the AASB (Australian Accounting Standards Board) for large corporations are:

- | | |
|-----------|-------------------------------------|
| AASB 1001 | Accounting Policies |
| AASB 1002 | Events Occurring After Balance Date |
| AASB 1003 | Foreign Currency Translation |
| AASB 1004 | Disclosure of Operating Revenue |
| AASB 1005 | Financial Reporting by Segments |

All corporations are required by law to comply with all the accounting standards that are relevant to their operation when preparing financial statements.

[13] INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRS

“With the unveiling of the European Commission’s Regulation requiring listed EU companies to adopt International Financial Reporting Standards (IFRS) by 2005, European accountancy and audit professionals face fresh challenges. Their role within companies as preparers of accounts, or as external independent auditors mandated to verify company accounts, will be pivotal in ensuring full compliance with the IFRS rules. Comparable and transparent accounts resulting from common accounting standards is one of the key underlining components of the Single Financial Market

“Rigorous training in the principles and application of International Financial Reporting Standards is now essential for the accountancy profession if Europe is to compete in the international capital markets. I welcome Accra’s initiative in developing a Diploma in International Financial Reporting.”

Statement by Karel Van Hulle
Head of Financial Reporting and Company Law Unit
European Commission

The European Union is to require all listed companies to prepare their accounts in accordance with International Financial Reporting Standards by 2005. This is likely to impact on around 7,000 organisations and some stock exchanges may require compliance by 2005. This is why more and more countries around the world are moving to international standards of financial reporting.

Many other countries outside the EU, including the EU accession countries, Russia, Australia, and Countries in Asia Pacific, Africa and the Caribbean are also moving towards applying IFRS. The implications of the new rules are complex and the timeframe restrictive. Full convergence will involve intensive preparation and staff training. All Australians reporting entities, (listed, unlisted, public and private) will soon be required to prepare financial statements in accordance with IFRS.

A survey of Australia’s top Chief Financial Officers (CFOS) has found that organisations are struggling to come to grips with International Financial Reporting Standards - (IFRS). The Financial Reporting Council (FRC), the governing body presiding over accounting standards in Australia, last year took the decision to adopt IFRS by the 2005/6 final year. It followed the European Union’s Commitment to adopt IFRS for listed companies.

[14] ACCOUNTING DEFINITIONS

Account: A statement of indebtedness from one person to another: an Invoice.

A named segment of a ledger recording transactions relevant to the person or the matter named. An account maintained by a bank or a building society in which a depositor's money is kept.

Accountant: A trained person who is able to prepare and analyse financial statements in a very professional manner.

Accounting Period: The period for which the business makes up its' accounts, usually an annual period. In Australia this period starts from 1st July up to 30 June of the succeeding year.

Accounts Payable: The amounts that are due to be paid to our suppliers for the purchase of goods and services on credit.

Accounts Payable Ledger: Accounts payable ledger contains all details of accounts to which the business owes money for goods and services received on credit. This is also called as creditors' ledger.

Accounts Receivable: Individuals or businesses who owe us money from the sale of goods and services on credit.

Accounts Receivable Ledger: Contain all details of accounts to which we have sold goods and services on credit, for which we have to receive money. This is also called as Debtors' ledger.

Appreciation: The increase in the market value of an asset, such as land and buildings.

Asset: Assets are the economic resources owned or effectively controlled by the enterprise. Examples are cash at bank, land and buildings, patents and copyrights etc.

Bad debt: An amount of money owing which has been written off as a loss because it is unlikely to be received.

Bank cheque: A cheque which a bank draws on itself and whereas a creditor will not accept a personal or business cheque. Example NSW State of Revenue Office usually accepts a bank cheque rather than a business or personal cheque.

A bank will not issue a bank cheque to a customer unless the customer already has sufficient available funds in its account.

Bankrupt: Someone who has been declared by a bankruptcy court to be insolvent, that is, unable to pay his or her debts in full. A person goes bankrupt whereas a company goes into liquidation.

Barter: An old system of trade, where there is an exchange of goods and services without any exchange of money. Bartering was used before the monetary system was in existence.

Base rate: The interest rate set as the minimum rates which will be charged on loans. It usually applies to the wholesale money market.

Basic wage: The minimum wage that could be paid to any worker employed under an award agreement.

Bounced cheque: A cheque, which has been dishonoured that means the person writing the cheque has not enough funds to pay for it.

Budget: An estimate of likely income and expenditure over a coming period of time.

Business: Any organisation such as a corporation, sole trader or a partnership, set up to earn a profit for its owner/owners through selling of goods and services to its customers.

Capital: The accumulated wealth that an individual or a business possesses.

Cash: Money in its physical form such as notes and coins.

Cash discount: An allowance for prompt settlement of accounts in full. It must be shown in the books of accounts.

Cash flow: An amount of money coming in and going out in a business over a set period of time.

Chart of Accounts: Listing of all accounts in the general ledger.

Cheque: An instrument directing in writing to a bank by a customer requesting that the bank pay a certain amount to a specified person.

Cost: The price, which must be paid to obtain or hold goods or services.

Credit: Entry on the right hand side of a T - bar ledger.

Credit note: Adjustment note sent by the seller to the purchaser for goods returned to the seller.

Creditor: An individual or a business to whom money is owed.

Current Assets: The Assets, which are expected to be turned into cash within the normal accounting period usually one year.

Current Liabilities: The financial obligations which must be paid by a business within the normal operating cycle usually one year.

Debit: Entry on the left-hand side of a T - bar ledger.

Debt: The amount of money owed an individual or a business.

Deficit: When expenditure is greater than income or liabilities are bigger than assets in another word a shortfall.

Deposit: A sum of money placed into an account with a financial institution.

An amount of money a purchaser puts on goods or for a service as a holding fee or under a time-purchasing agreement.

Depreciation: The process of allocating the cost of an asset over its expected useful life.

Direct cost: The costs directly involved with producing goods or services. For example the direct cost of producing a wooden chair would be the timber used and the labour directly involved manufacturing a chair.

Discount: A reduced rate offered for customers that pay cash or settle their account within a certain time or buy in bulk.

Discounting the act of reducing the price of goods in order to increase sales and/or reduce stock.

Drawings: Goods or cash taken by the owner for personal use.

Exchange: The acceptance of one item for another.

Expenses: Costs incurred in the process of generating income.

Final accounts: The accounts that drawn up in the end of a financial period, usually every twelve month.

Folio number: Basically refer to page number in the journals.

General ledger: It contains details of all accounts except the debtors or creditors accounts.

Goods: Any item of production or services or anything that can be bought or sold.

Goodwill: Reputation of a business due to its good location or its relationship with the customers.

Indirect costs: Costs not directly traceable to an activity or a product or to a department.

Interest: The cost of borrowed money.

Invoice: A bill for goods or services provided.

Liabilities: Obligations to make payments or render services in the future as a result of past transactions.

Liquid assets: Assets, which can be converted into cash quickly.

Loss: The amount by which expenses are greater than the income.

Net profit: The amount left after tax, interest, and all other expenses have been paid. Net profit is growth in owner's wealth.

Operating loss: When business expenses are exceeding than business income.

Operating profit: When business income exceeds the business expenses.

Overheads: All costs necessary for the production of goods or services and are not directly traceable.

Partnership: A business where two or more people join together to do a business.

Personal accounts: Records all dealings with persons or businesses with which the business deals on a credit basis. These accounts carry the name of a person or a firm.

Petty cash: Cash on hand for the purchase of sundry inexpensive items, such as stamps, tea and coffee etc.

Price: The value of goods or services that people are prepared to pay to buy that goods or service.

Profit & loss account: A business' statement of its' annual profit and loss.

Property: Anything or asset that can be owned, such as houses, furniture, cars and money. It can also include patents and copyrights etc.

Proprietor: The owner of a business

Proprietorship accounts: Accounts that records al details of the owner's investments in the business, known as Capital or Drawings.

Real accounts: Record the "real ' value of things used in the business, accounts as cash, land and buildings, motor vehicles etc.

Rebate: The return of part of a payment for goods or services. It is different to a discount, which is deducted in advance of payment.

Receivable: A debt that is owing to a business or individual.

Sale : 1. The exchange of goods, property or services.
2. An event where goods are sold at a reduced price.

Sale: The gross revenue earned from selling goods and services.

Statement: A monthly account sent by the seller to the purchaser detailing all transactions that occurred during the month and showing balance due at the end of the month.

Taxable income: The amount of income or gain after deducting from all assessable income and allowable deductions.

Tax year: Twelve months period over which an individual or business calculates its income and its liability to pay income tax.

Turnover: Total sales generated from the provision of goods or services for a particular period.

Working capital: The excess of current assets over current liabilities. **Working Capital = Current Assets - Current Liabilities**

QUESTIONS

(1) Why accounting is very important for everybody in any well-developed industrialised nation, even though somebody is not interested to be an accountant?

(2) Define the purpose of accounting and the relationship between a balance sheet and profit/loss statement.

(3) Explain briefly the advantages and disadvantages of the limited liability Company.

(4) Define the source document that Jacob Medical Ltd. can use for its retail business:

(a) Requested stock on credit from Johnson & Johnson.

(b) Paid rent to L. J. Hooker for the month of May 2000.

(c) Sold stock to Petersen Medical Service on cash.

(d) Received loan from the Bank of America.

(e) Paid salary to the general manager in advance.

(5) Classify the following items into assets, liabilities, equity, income and expense.

Cash at bank	Motor vehicle
Loan from ANZ	Accounts receivable
Discount received	Plant & equipment
Petty cash	Stationary
Bank overdraft	Interest received from ANZ
Mortgage on building	Salaries & wages
Employer superannuation	GST
Loan from Citibank	Computer training course
Discount allowed	Electricity expense
Owners' investment	Accounts payable

(6) Why would the following decision-makers require the financial information for a business?

(a) Managers

(b) Owners and shareholders

(c) Suppliers

(d) Govt departments

(e) Employees

(f) financial institutions

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(7) In each of the following equations, you need to calculate the missing figures.

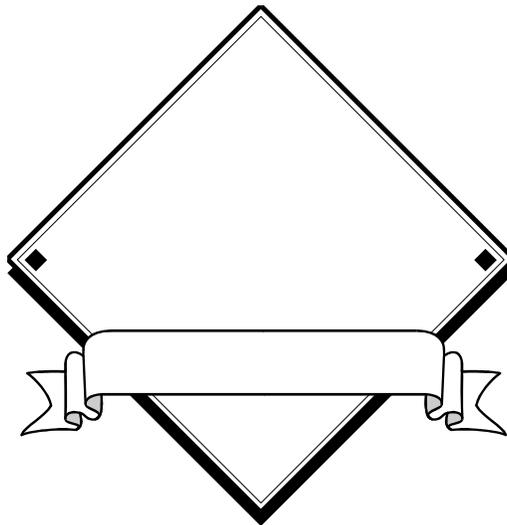
	Assets	Liabilities	Owners' equity
(a)	\$25,620	?	\$12,150
(b)	?	\$15,230	\$20,500
(c)	\$10,200	\$5,020	?
(d)	\$29,610	?	\$15,110
(e)	?	\$11,250	\$5,230
(f)	\$15,210	?	\$17,215
(g)	\$20,050	\$9,209	?

MODULE 2

JOURNALS

SOURCE DOCUMENTS

AND



JOURNALS

Learning Outcomes

After successful completion of this module, the students should be able to:

- Understand double entry system;
- Understand the effect of transactions;
- Understand principles of debits & credits;
- *Prepare all the seven journals;*

[1] DOUBLE ENTRY SYSTEM

For any transaction there must at least two accounts will be affected. In other words it works on the principle of give and take.

Purchased a Motor Vehicle of \$25,000 on cash from City Toyota. Here you gave \$25,000 to City Toyota and in return received Toyota car worth of \$25,000.

There are three steps in analysing any transaction:

1. Account names:
 - Motor vehicle
 - Cash at bank

2. Account classification:
 - Motor vehicle - Asset
 - Cash at bank - Asset

3. Balance increase/decrease
 - Motor vehicle - balance increase
 - Cash at bank - balance decrease

EFFECT ON BALANCE SHEET

Sarah Johnson registered her business as Sarah Travel Services on 4 January 2008 and transferred \$70,000 in her business account.

4 Jan 20XX

Balance sheet equation

Date Jan	Account Name	Assets	-	Liabilities	=	Owner's Equity	
						Capital	Profit/Loss
4	Cash at bank	70,000					
	Sarah, Capital					70,000	
Total		70,000	-	0	=	70,000	

6 Jan 20XX

Borrowed \$50,000 from Westpac as long-term loan

Date Jan	Account Name	Assets	-	Liabilities	=	Owner's Equity	
						Capital	Profit/Loss
4	Cash at bank	70,000					
	Sarah, Capital					70,000	
5	Cash at bank	50,000					
	Long-term loan			50,000			
Total		120,000	-	50,000	=	70,000	

7 Jan 20XX

Purchased Office Computer and a Later Printer on cash for \$10,000, 10% GST apply

Date Jan	Account Name	Assets	-	Liabilities	=	Owner's Equity	
						Capital	Profit/Loss
4	Cash at bank	70,000					
	Sarah, Capital					70,000	
5	Cash at bank	50,000					
	Long-term loan			50,000			
7	Off equipment	10,000					
	Cash at bank	-11,000					
	GST paid			-1,000			
Total		119,000		49,000	=	70,000	

RELATIONSHIP BETWEEN BALANCE SHEET & PROFIT/LOSS

**Transactions for the Month:
January 20XX**

10 January 2008
 Sales \$40,000
 GST Collected \$4,000

Date Jan	Account Name	Assets	-	Liabilities	=	Owner's Equity	
						Capital	Profit/Loss
4	Cash at bank	70,000					
	Sarah, Capital					70,000	
5	Cash at bank	50,000					
	Long-term loan			50,000			
7	Off equipment	10,000					
	Cash at bank	-11,000					
	GST paid			-1,000			
10	Sale						40,000
	Cash at bank	44,000					
	GST collected			4,000			
Total		163,000	-	53,000	=	110,000	

15 January 20XX
 Rent \$2,000
 GST Paid \$200

Date Jan	Account Name	Assets	-	Liabilities	=	Owner's Equity	
						Capital	Profit/Loss
4	Cash at bank	70,000					
	Sarah, Capital					70,000	
5	Cash at bank	50,000					
	Long-term loan			50,000			
7	Off equipment	10,000					
	Cash at bank	-10,100					
	GST paid			-1,000			
10	Sale						40,000
	Cash at bank	4,4000					
	GST collected			4,000			
15	Rent expense						-2,000
	Cash at bank	-2,200					
	GST paid			-200			
Total		160,800	-	52,800	=	108,000	

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25 January 20XX

Tickets & Rooms Purchased	\$15,000
GST Paid	\$1,500

Date Jan	Account Name	Assets	-	Liabilities	=	Owner's Equity	
						Capital	Profit/Loss
4	Cash at bank	70,000					
	Sarah, Capital					70,000	
5	Cash at bank	50,000					
	Long-term loan			50,000			
7	Off equipment	10,000					
	Cash at bank	-10,100					
	GST paid			-100			
10	Sale						40,000
	Cash at bank	4,4000					
	GST collected			4,000			
15	Rent expense						-2,000
	Cash at bank	-2,200					
	GST paid			-200			
25	Cost of Sale						-15,000
	Cash at bank	-16,500					
	GST paid			-1,500			
Total		144,300	-	51,300	=	93,000	

It clearly shows that no matter what will be the transactions, the balance sheet must be in balance.

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GENERALLY ACCEPTED ACCOUNTING PRINCIPLES [GAAP] DOUBLE ENTRY SYSTEM

	Transaction	Assets	-	Liabilities	=	Owners' Equity	Bal Cal	Bal P/L
1	Owners' investment	Cash at bank	+			Owners', Capital	+	
2	Purchase:							
	(2.1) on cash	Asset	+					
		Cash at bank	-					
				GST paid	-			
	(2.2) on credit	Asset	+	Accounts payable	+			
				GST paid	-			
3	Supplier payment	Cash at bank	-	Accounts payable	-			
4	Sale:							
	(4.1) on cash	Cash at bank	+			Sale		+
				GST collected	+			
	(4.2) on credit	Accounts receivable	+			Sale		+
				GST collected	+			
5	Customer Receipts	Cash at bank	+					
		Accounts receivable	-					
6	Owner takes money	Cash at bank	-			Withdraw	-	
7	Operating expense:							-
		Cash at bank	-			Operating expense		
				GST paid	-			
8	Borrowed money	Cash at bank	+	Loans payable	+			
9	Payment of borrowed money	Cash at bank	-	Loans payable	-	Interest expense		-

[2] PRINCIPLES OF DEBITS & CREDITS

Debits and Credits are simply the extension of double entry system. Instead of using the symbols of increase and decrease, we use debit and credits.

Description	Balance	Dr/Cr	Balance	Dr/Cr
Assets	Increase	Dr	Decrease	Cr
Liability	Increase	Cr	Decrease	Dr
Capital	Increase	Cr	Decrease	Dr
Expense	Increase	Dr	Decrease	Cr
Income	Increase	Cr	Decrease	Dr

IN GENERAL Increase side		
Asset	Dr	
Expense	Dr	
Liability		Cr
Capital		Cr
Income		Cr
<i>Debit - Dr & Credit - Cr</i>		

[3] JOURNALS

Broadly speaking there are seven journals. There is no hard and fast rule that how many journals a business should use, but depends upon a number of factors such as the nature of the business, volume of transactions and management philosophy.

(1) Purchases Journal

All goods and services purchased on credit should be written in this journal. However any item purchased on cash should be written in Cash payments journal. XYZ Company purchased stock on credit from ABC Co. for \$2,500.

Description	Debit (\$)	Credit (\$)
Stock	2,500	
Accounts payable		2,750
GST paid	250	

(2) Purchases Returns Journal

Stock returned back to the suppliers which previously was purchased on credit should be written in this journal. It is noticed that stock of \$250 was damaged and returned back to ABC Co.

Description	Debit (\$)	Credit (\$)
Accounts payable	275	
Stock returns		250
GST paid		25

(3) Cash Payments Journal

All cash payments no matter for what purpose should be written in this journal. All amount paid to ABC Co. for the Stock that was purchased on credit and received a discount of \$75.

Description	Debit	Credit
Accounts payable	2,475	
Cash at bank		2,400
Discount received		75

General payments

Other payments could be of general nature such as payment of electricity bill \$450 to Energy Australia for the Month of January 2003.

Description	Debit (\$)	Credit (\$)
Electricity expense	450	
GST paid	45	
Cash at bank		495

(4) Sales Journal

All goods and services sold on credit should be written in this journal. However any goods and services sold on cash should be written in Cash receipts journal. Stock sold on credit to Grace Brothers Ltd for \$4,000.

Description	Debit (\$)	Credit (\$)
Accounts receivable	4,400	
GST collected		400
Sale		4,000

(5) Sales Returns Journal

Sales returned back from customers to whom we sold previously on credit should be written in this journal. Grace Brothers noticed that the stock of \$200 was damaged and send it back.

Description	Debit (\$)	Credit (\$)
Sale return	200	
GST collected	20	
Accounts receivable		220

(6) Cash Receipts Journal

All cash received from any source should be written in this journal. Grace Brothers paid all our balance and we gave them discount of \$100.

Description	Debit (\$)	Credit (\$)
Cash at bank	4,080	
Discount allowed	100	
Accounts receivable		4,180

Other transactions could be of general nature such as borrowed money from a bank or interest income.

The business received an Interest income of \$1,500 ANZ bank for the month ended 30 June 2002.

Description	Debit (\$)	Credit (\$)
Cash at bank	1,500	
Interest income		1,500

(7) General Journal

Any transaction, which cannot be written in the above six journals, should be written in this journal.

Examples are opening balance and end-of-period adjustments etc. The depreciation expense for the Motor vehicle for the year ended 30 June 2004 is \$2,650.

Description	Debit (\$)	Credit (\$)
Depreciation expense	2,650	
MV–Accumulated Depreciation		2,650

[4] CHART OF ACCOUNTS

ACCOUNT CATEGORY	ACCOUNT NUMBER	
ASSETS	100 – 299	
Cash at bank		100
Petty cash		110
Misc. Bonds		120
Accounts receivable		130
Inventory		140
Motor vehicle at cost		150
Motor Vehicle – Acc Dep		160
Office equipment at cost		170
Office equipment – Acc Dep		180
Furniture & fixtures at cost		190
Furniture & fixtures – Acc Dep		200
Investments		210
Prepaid expenses		220
Goodwill at cost		230
Patents and copyrights		240

ACCOUNT CATEGORY	ACCOUNT NUMBER	
LIABILITIES	300 – 499	
Bank overdraft		300
Accruals		310
Accounts payable		320
Income tax payable		330
Payroll liabilities payable		340
GST paid		350
GST received		360
Short-term loan		370
Long-term loan		380
Mortgage payments		390

ACCOUNT CATEGORY	ACCOUNT NUMBER	
Owners' Equity	500 – 599	
Owners' capital		500
Drawings		510
Retained earnings		520

ACCOUNT CATEGORY	ACCOUNT NUMBER	
REVENUE	600 – 699	
Sale		600
Sale return		610
Interest income		620
Discount received		630

ACCOUNT CATEGORY	ACCOUNT NUMBER	
EXPENSE	700 – 999	
Accounting & audit fees		700
Advertising expense		710
Bad & doubtful debt		720
Bank charges		730
Cost of goods sold		740
Discount allowed		750
Cleaning expense		760
Rates and charges		770
Depreciation expense		780
Electricity expense		790
Employer group tax		800
Income tax expense		810
Insurance expense		820
Interest expense		830
Misc. Expense		840
Motor vehicle expense		850
Office supplies		860
Postage and courier		870
Printing and stationary		880
Rent expense		890
Repair and maintenance		900
Salaries and wages		910
SGC Superannuation		920
Payroll tax expense		930
Telephone and internet		940
Travelling expense		950
Workers compensation		960
		970

[5] BUSINESS PROJECT 1

GRACE EMPORIUM [SOLE TRADER]

Grace Kelly has registered her business with the NSW Department of Commerce as Grace Emporium to buy ready-made garments from the well fashion designers to sell to the retailers and individuals.

From the following transactions for the month ended 30 January 20XX you are required to prepare the following reports:

1. Double entry system
2. General journal
3. Petty cash register
4. Bank reconciliations statement
5. Payroll register
6. General ledger
7. General ledger trial balance
8. Accounts payable ledger
9. Accounts receivable ledger
10. Business activity statement
11. Adjustment journal
12. Ten column worksheet
13. Profit/loss statement
14. Balance sheet
15. Cash flow statement
16. Financial ratios analysis

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GRACE EMPORIUM – [SOLE TRADER] Transactions For the month of January 20XX

Transaction No. 1	Grace invested \$85,000 in her new business registered as Grace Emporium.	
Date	1 st January 20XX	
Name of the Entity	Grace Kelly	
Purpose of the Transaction	Grace, Investment	
Source Document	Receipt No. 001	
Amount	Business Account	85,000
	GST	Nil
	Total	85,000

Transaction No. 2	Grace invested another \$1,000 in her business for small amount of payments.	
Date	2 nd January 20XX	
Name of the Entity	Grace Kelly	
Purpose of the Transaction	Grace, Investment	
Source Document	Receipt No. 002	
Amount	Actual	1,000
	GST	Nil
	Total	1,000

Transaction No. 3	Signed a five years lease with 21 st Century Real Estate Agent.	
Date	2 nd January 20XX	
Name of the Entity	21 st Century Real Estate	
Purpose of the Transaction	Rental Bond payment	
Source Document	Cheque No. 215700	
Amount	Actual	10,500
	GST	Nil
	Total	10,500

Transaction No. 4	Purchased a Delivery Vehicle from Ryde Toyota Pty Ltd.	
Date	3 rd January 20XX	
Name of the Entity	Ryde Toyota P/L	
Purpose of the Transaction	Purchased Delivery Vehicle	
Source Document	Cheque No. 215701	
Amount	Actual	24,500
	GST Paid	2,450
	Total	26,950

Transaction No. 5	Borrowed money from his father-in-law, Michael Kroger for five years	
Date	5 th January 20XX	
Name of the Entity	Miachel Kroger	
Purpose of the Transaction	Long-term Loan	
Source Document	Receipt No. 003	
Amount	Actual	20,000
	GST	Nil
	Total	20,000

Transaction No. 6	Purchased Stock from Piere Fashion House for cash.	
Date	7 th January 20XX	
Name of the Entity	Piere Fashion House	
Purpose of the Transaction	Stock purchased	
Source Document	Cheque No. 215702	
Amount	Actual	25,000
	GST Paid	2,500
	Total	27,500

Transaction No. 7	Purchased Pentium 4 Desktop and Laser Printer for office use from Chicago Systems P/L.	
Date	8 th January 20XX	
Name of the Entity	Chicago Systems P/L	
Purpose of the Transaction	Purchased Office Equipment	
Source Document	Invoice No. C1157	
Amount	Actual	5,100
	GST Paid	510
	Total	5,610

Transaction No. 8	Purchased Stock on credit from Tokyo Towels for \$7,500.	
Date	9 th January 20XX	
Name of the Entity	Tokyo Towels P/L	
Purpose of the Transaction	Purchased Stock	
Source Document	Invoice No. 5297	
Amount	Actual	7,500
	GST Paid	750
	Total	8,250

Transaction No. 9	Paid to Pink Panther P/L for Printing Business Letterhead and Cards	
Date	10 th January 20XX	
Name of the Entity	Pink Panther P/L	
Purpose of the Transaction	Printing & Stationary	
Source Document	Cheque No. 215703	
Amount	Actual	650
	GST Paid	65
	Total	715

Transaction No. 10	Sold Stock to Kay Jeans House Ltd. for cash.	
Date	12 th January 20XX	
Name of the Entity	Kay Jeans House Ltd	
Purpose of the Transaction	Sold Stock on cash	
Source Document	Receipt No. 004	
Amount	Actual	12,500
	GST Collected	1,250
	Total	13,750

Transaction No. 11	Paid to NRMA for Delivery Vehicle for one-year membership.	
Date	14 th January 20XX	
Name of the Entity	NRMA	
Purpose of the Transaction	Motor Vehicle Membership	
Source Document	Cheque No. 215704	
Amount	Actual	490
	GST Paid	49
	Total	539

Transaction No. 12	Paid to GIO Ltd for one-year Motor Vehicle Insurance.	
Date	14 th January 20XX	
Name of the Entity	GIO Limited	
Purpose of the Transaction	Motor Vehicle Insurance	
Source Document	Cheque No. 215705	
Amount	Actual	975.00
	GST Paid	97.50
	Total	1,072.50

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Transaction No. 13	Paid Salaries and Wages for the first fortnight of January 2003.	
Date	15 th January 20XX	
Name of the Entity	Grace Employees	
Purpose of the Transaction	Salaries and Wages	
Source Document	Cheque No. 215706	
Amount	Actual	2,917.93
	Group Tax	640.08
	Total	3,558.01

Transaction No. 14	Sold Stock to Sovrano Seasons Pty Ltd on credit	
Date	16 th January 20XX	
Name of the Entity	Sovrano Seasons Pty Ltd	
Purpose of the Transaction	Sold Stock on Credit	
Source Document	Sales Invoice: G1001	
Amount	Actual	9,500
	GST Collected	950
	Total	10,450

Transaction No. 15	Paid to Allianz Limited for the first half year Business Insurance	
Date	17 th January 20XX	
Name of the Entity	Allianz Limited	
Purpose of the Transaction	Business Insurance	
Source Document	Cheque No. 215707	
Amount	Actual	675.90
	GST Paid	67.59
	Total	743.49

Transaction No. 16	Returned Damaged Stock to Tokyo Towel, Reference/Invoice No. 5297	
Date	19 th January 20XX	
Name of the Entity	Tokyo Towel Pty Ltd	
Purpose of the Transaction	Returned Damaged Stock	
Source Document	Credit Note: 127	
Amount	Actual	450
	GST paid	45
	Total	495

Transaction No. 17	Paid to Australia Post for Postage and Stamps.	
Date	20 th January 20XX	
Name of the Entity	Australia Post	
Purpose of the Transaction	Postage and Stamps	
Source Document	Cheque No. 215708	
Amount	Actual	250
	GST Paid	25
	Total	275

Transaction No. 18	Purchased Panasonic Fax Machine for office use from Harvey Norman Pty Ltd.	
Date	22 nd January 20XX	
Name of the Entity	Harvey Norman Pty Ltd	
Purpose of the Transaction	Purchased Fax Machine	
Source Document	Cheque No. 215709	
Amount	Actual	1,650
	GST Paid	165
	Total	1,815

Transaction No. 19	Paid Rent Expense to 21 st Century Real Estate Agent for the month of January.	
Date	25 th January 20XX	
Name of the Entity	21 st Century Real Estate	
Purpose of the Transaction	Rent Expense for January	
Source Document	Cheque No. 215710	
Amount	Actual	3,500
	GST Paid	350
	Total	3,850

Transaction No. 20	Sovrano Seasons returned over supplied stock to Grace Emporium, Ref. G1001	
Date	28 th January 20XX	
Name of the Entity	Sovrano Seasons Pty Ltd	
Purpose of the Transaction	Returned Oversupplied Stock	
Source Document	Credit Note No. A0119	
Amount	Actual	250
	GST collected	25
	Total	275

Transaction No. 21	Reimbursed for Petty Cash Fund for small payments.	
Date	30 th January 20XX	
Name of the Entity	Grace Emporium	
Purpose of the Transaction	Reimbursed Petty Cash	
Source Document	Cheque No. 215711	
Amount	Actual	506.60
	GST	0
	Total	506.60

[6] BUSINESS PROJECT 2

ADAM & EVE FROZEN FOODS [PARTNERSHIP]

Adam and Eve Jones have registered their business with the NSW Department of Commerce as Adam & Eve Frozen Foods to buy frozen foods from the local as well as from the overseas manufacturers to sell to the retailers.

From the following transactions for the month ended 30 March 20XX you are required to prepare the following reports:

1. Double entry system
2. General journal
3. Petty cash register
4. Bank reconciliations statement
5. Payroll register
6. General ledger
7. General ledger trial balance
8. Accounts payable ledger
9. Accounts receivable ledger
10. Business activity statement
11. Adjustment journal
12. Ten column worksheet
13. Profit/loss statement
14. Balance sheet
15. Cash flow statement
16. Financial ratios analysis

ADAM & EVE FROZEN FOODS [PARTNERSHIP]

Transactions for the month of March 20XX

Transaction No. 1	Adam & Eve invested \$50,000 in their new business registered as Adam & Eve Foods	
Date	1 st March 20XX	
Name of the Entity	Adam Jones & Eve Jones	
Purpose of the Transaction	Adam Jones and Eve Jones Investment	
Source Document	Receipt No. R001	
Amount	Adam, Capital	30,000
	Eve, Capital	20,000
	Total	50,000

Transaction No. 2	Adam Jones invested another \$1,500 in his business for small amount of payments.	
Date	2 nd March 20XX	
Name of the Entity	Adam Jones	
Purpose of the Transaction	Adam, Investment	
Source Document	Receipt No. 002	
Amount	Actual	1,500
	GST	0
	Total	1,500

Transaction No. 3	Adam borrowed \$20,000 from Commonwealth Bank of Australia.	
Date	2 nd March 20XX	
Name of the Entity	Commonwealth Bank	
Purpose of the Transaction	Short-term loan	
Source Document	Reference No. CBA43901	
Amount	Actual	20,000
	GST	0
	Total	20,000

Transaction No. 4	Paid \$10,000 to L. J. Hooker as a Rental bond.	
Date	3 rd March 20XX	
Name of the Entity	L. J. Hooker	
Purpose of the Transaction	Rental bond	
Source Document	Cheque No. 415600	
Amount	Actual	10,000
	GST	0
	Total	10,000

Transaction No. 5	Purchased Office furniture from Gaylord Furniture Limited.	
Date	5 th March 20XX	
Name of the Entity	Gaylord Furniture Limited	
Purpose of the Transaction	Purchased Office Furniture	
Source Document	Cheque No. 415601	
Amount	Actual	14,500
	GST paid	1,450
	Total	15,950

Transaction No. 6	Purchased Stock from Jackson Foods on cash for \$5,495.65.	
Date	7 th March 20XX	
Name of the Entity	Jackson Foods P/L	
Purpose of the Transaction	Stock purchased	
Source Document	Cheque No. 415602	
Amount	Actual	5,495.65
	GST	549.57
	Total	6,045.22

Transaction No. 7	Purchased one Laptop and Laser Printer from Delta Information Systems.	
Date	9 th March 20XX	
Name of the Entity	Delta Information Systems	
Purpose of the Transaction	Purchased Laptop & Printer	
Source Document	Cheque No. 415603	
Amount	Actual	6,750.75
	GST	675.08
	Total	7,425.83

Transaction No. 8	Paid \$245.90 for Australia Post for Postage and Courier.	
Date	9 th March 20XX	
Name of the Entity	Australia Post	
Purpose of the Transaction	Postage and Courier	
Source Document	Cheque No. 415604	
Amount	Actual	245.90
	GST	24.59
	Total	270.49

Transaction No. 9	Paid to Kwik-Kopy for Printing Letterhead and business cards.	
Date	12 th March 20XX	
Name of the Entity	Kwik-Kopy P/L	
Purpose of the Transaction	Printing & Stationary	
Source Document	Cheque No. 415605	
Amount	Actual	765.50
	GST	76.55
	Total	842.05

Transaction No. 10	Paid Salaries and Wages for the first fortnight for July 2002.	
Date	14 th March 20XX	
Name of the Entity	Adam Employees	
Purpose of the Transaction	Salaries and wages	
Source Document	Cheque No. 415606	
Amount	Actual	4,560.00
	Group Tax	456.00
	Total	5,016.00

Transaction No. 11	Sold Frozen Foods to Coles Supermarket on credit for 19,560.65	
Date	15 th March 20XX	
Name of the Entity	Coles Supermarket	
Purpose of the Transaction	Sold Stock on Credit	
Source Document	Invoice No. A2001	
Amount	Actual	19,560.65
	GST	1,956.07
	Total	21,516.72

Transaction No. 12	Purchased Stock on Credit from Peter Foods Limited for \$15,230.60.	
Date	17 th March 20XX	
Name of the Entity	Peter Foods Limited	
Purpose of the Transaction	Purchased Stock on Credit	
Source Document	Invoice No. 9810	
Amount	Actual	15,230.60
	GST	1,523.06
	Total	16,753.66

Transaction No. 13	Received an Invoice from Newton Electric for Repairing Deep Freezer.	
Date	18 th March 20XX	
Name of the Entity	Newton Electronic & Co.	
Purpose of the Transaction	Repair Deep Freezer	
Source Document	Invoice No. NE5641	
Amount	Actual	651.90
	GST	65.19
	Total	717.09

Transaction No. 14	Sold Stock to David Jones on Cash for \$29,235.90	
Date	20 th March 20XX	
Name of the Entity	David Jones Limited	
Purpose of the Transaction	Sold Stock on Cash	
Source Document	Receipt No. 503	
Amount	Actual	29,235.90
	GST	2,923.59
	Total	32,159.49

Transaction No. 15	Paid Rent to L. J. Hooker for the month of July 2002.	
Date	22 nd March 20XX	
Name of the Entity	L. J. Hooker Ltd	
Purpose of the Transaction	Rent for July 2002	
Source Document	Cheque No. 415607	
Amount	Actual	3,260.00
	GST	326.00
	Total	3,586.00

Transaction No. 16	Purchased a Delivery Vehicle of \$35,000 partly for Cash and partly on Credit.	
Date	25 th March 20XX	
Name of the Entity	Mazda Motors Limited	
Purpose of the Transaction	Purchased Delivery Vehicle	
Source Document	Cheque No. 415608 (\$16,000) AGC Ref: AG3219 – (\$22,500)	
Amount	Actual	35,000.00
	GST	3,500.00
	Total	38,500.00

Transaction No. 17	Received an Invoice from Jai & Associates for Acc & Tax Service.	
Date	26 th March 20XX	
Name of the Entity	Jai & Associates	
Purpose of the Transaction	Accounting & Audit Fees	
Source Document	Invoice No. J0125	
Amount	Actual	2,495.50
	GST	249.55
	Total	2,745.05

Transaction No. 18	Paid Salaries and Wages for the Second fortnight of March 2005.	
Date	28 th March 20XX	
Name of the Entity	Adam Employees	
Purpose of the Transaction	Salaries and Wages	
Source Document	Cheque No. 415609	
Amount	Actual	4,560.00
	Group Tax	456.00
	Total	5,016.00

Transaction No. 19	Paid Employer Group Tax for the month of July to the Aus Tax Dep't.	
Date	29 th March 20XX	
Name of the Entity	Australian Taxation Dep't.	
Purpose of the Transaction	Group Tax for March 2005	
Source Document	Cheque No. 415610	
Amount	Actual	912.00
	GST	0.00
	Total	912.00

Transaction No. 20	Paid \$867.50 to AGC Ltd for the first instalment of Delivery Vehicle loan.	
Date	29 th March 20XX	
Name of the Entity	AGC Limited	
Purpose of the Transaction	First Loan Instalment	
Source Document	Cheque No. 415611	
Amount	Actual	867.50
	GST	0.00
	Total	867.50

Transaction No. 21	Sold Stock to Woolworths Limited for \$12,521.65 on cash.	
Date	30 th March 20XX	
Name of the Entity	Woolworths Limited	
Purpose of the Transaction	Sold Stock on cash	
Source Document	Receipt No. 505	
Amount	Actual	12,521.65
	GST	1,252.17
	Total	13,773.82

Transaction No. 22	Reimbursed \$508.60 for Petty Cash Fund for the month of March 2005.	
Date	30 th March 20XX	
Name of the Entity	Adam, Petty Cash Fund	
Purpose of the Transaction	Reimbursed Petty cash	
Source Document	Cheque No. 415612	
Amount	Actual	559.46
	GST	0.00
	Total	559.46

[7] BUSINESS PROJECT 3

GOLDEN TOYS PTY LTD

[PROPRIETARY COMPANY]

Golden Toys P/L is a registered company in Sydney as per the Australian securities & Investments Commission for the purpose of buying children toys and sell them to retailers and hospitals.

From the following transactions for the month of July, you are required to prepare the following information for the month ended 30 July 20XX

1. General journal
2. Purchase journal
3. Purchase returns journal
4. Cash payments journal
5. Sales journal
6. Sale returns journal
7. Cash receipts journal
8. Petty cash register
9. Bank reconciliations statement
10. Payroll register
11. General ledger
12. General ledger trial balance
13. Accounts payable ledger
14. Accounts receivable ledger
15. Business activity statement
16. Adjustment journal
17. Ten column worksheet
18. Profit/loss statement
19. Balance sheet
20. Cash flow statement
21. Financial ratios analysis

[1] OPENING BALANCE

Date 1 st July 20XX	Account Name	Amount (\$)
1st July	Cash at bank	8,925.85
	Payroll cheque account	8,500.00
	Petty cash	1,500.00
	Rental bond	3,000.40
	Accounts receivable:	4,520.35
	Grace brothers	\$2,520.50
	G. Snow & Sons	\$1,999.85
	Inventory	20,537.00
	Office equipment	10,411.45
	OE – Acc Dep	2,122.75
	Motor vehicle	30,120.50
	MV – Acc Dep	3,120.65
	Accounts payable:	6,015.80
	Japanese Dolls	\$3,021.30
	European Toys	\$2,994.50
	ANZ Short-term loan	5,122.60
	Westpac Long-term loan	25,290.75
	Shareholders' capital	36,751.40
	Retained earnings	9,091.60

[2] INVENTORY PURCHASED ON CREDIT

Date July 20XX	Supplier Details	Pur Order	Sup Invoice	Actual (\$)	GST (\$)	Total (\$)
1	Action Import P/L	03	200	872.73	87.27	960.00
2	Japanese Dolls P/L	04	391	289.77	28.98	318.75
6	Toy Makers P/L	05	125	1,198.18	119.82	1,318.00
7	Kinder Toys House	06	235	834.09	83.41	917.50
8	Action Import P/L	07	612	439.77	43.98	483.75
9	European Toys Ltd	08	312	2,545.09	254.51	2,799.60
10	Toys Russ Limited	09	912	830.00	83.00	913.00
14	Toy Makers P/L	10	232	906.82	90.68	997.50
16	Action Import P/L	11	615	439.77	43.98	483.75
22	Kinder Toys House	12	242	868.18	86.82	955.00
23	Action Import P/L	13	650	469.32	46.93	516.25
27	European Toys Ltd.	14	371	2,563.64	256.36	2,820.00
28	Japanese Dolls P/L	15	470	310.23	31.02	341.65
30	Toy Russ Limited	16	161	1,216.36	121.64	1,338.00
30	Toys Russ Limited	17	1057	6,225.00	622.50	6,847.50

[2] GENEAR OPERATING EXPENSES

Date July 20XX	Supplier Details	Pur Order	Sup Invoice	Actual (\$)	GST (\$)	Total (\$)
4	L. J. Hooker	18	1905	2,272.73	227.27	2,500.00
6	Harris Technology	19	HT3401	455.41	45.54	500.95
7	Allianze assurance Ltd	20	A453211	590.91	59.09	650.00
8	Kwik-kopy Printing	21	K9081	227.27	22.73	250.00
10	Dong Cleaning	22	3091	472.73	47.27	520.00
12	Sydney Morning Herald	23	SH56401	454.55	45.45	500.00
15	Jai & Associates P/L	24	JAI0912	1,136.36	113.64	1,250.00

[3] INVENTORY RETURNS

Date July 20XX	Supplier Details	Purchase Order	Credit Note Nr.	Actual (\$)	GST (\$)	Total (\$)
24	Action Import P/L	25	3	34.91	3.49	38.40
28	Japanese Dolls P/L	26	15	124.09	12.41	136.50
30	Toys Russ Limited	27	16	243.27	24.33	267.60

[4] CASH PAYMENTS

{5.1} TRADE CREDITORS

Date July 20XX	Chq Nr.	Supplier Details	Pur Order	Discount received	Trade Creditors	General Creditors (\$)
2	1	Japanese Dolls	01	0.00	3,021.30	
4	2	L.J.Hooker/Rent	21			2,500.00
5	3	European Toys P/L	02	0.00	2,994.50	
6	4	Harris Tech/ Rep	22			500.95
6	5	Action Import P/L	03	20.62	899.78	
7	6	European Toys P/L	08	63.63	2,735.97	
7	7	FAI/Business Ins	23			650.00
8	8	Kwik-kopy/Print	24			250.00
9	9	Japanese Dolls	04	7.24	311.5	
10	10	Dong Cleaning	25			520.000
12	11	SMH/Advertising	26			500.99
13	12	Toy Makers P/L	05	29.95	1,288.05	
14	13	Kinder Toys P/L	06	20.85	896.65	
15	14	Jai & Co/ Acc Ser	27			1,250.00
15	15	Action Import P/L	07	10.99	472.76	
16	16	Action Import P/L	11	10.99	472.76	
17	17	Toy Makers P/L	10	22.67	974.83	
19	18	Toy Russ Ltd	09	20.75	892.25	
30	19	TRA/Petty cash	N/A			655.16
30	B/S	WBC/DIT charges	B/S	0.00		61.20
30	B/S	WBC/DT charges	B/S	0.00		59.30
30	B/S	WBC/Guarantee fee	B/S	0.00		29.50

{5.2} GENERAL CREDITORS

Date July 20XX	Chq Nr	Supplier	Sup Ref	Amount Paid	GST Paid	Total (\$)
4	2	L.J.Hooker/Rent	18	2,272.73	227.27	2,500.00
6	4	Harris Tech/Crep	19	455.41	45.54	500.95
7	7	FAI/Bus Ins	20	590.91	59.09	650.00
8	8	Kwik-kopy/Printing	21	227.27	22.73	250.00
10	10	Dong Cloning	22	472.73	47.27	520.00
12	11	SMH/Advertising	23	454.55	45.45	500.00
15	14	Jai & Associates	24	1,136.36	113.64	1,250.00
30	B/S	WBC/DIT	B/S	61.20	0.00	61.28
30	B/S	Bank Charges	B/S	59.30	0.00	59.30
30	B/S	Bank charges	B/S	29.50	0.00	29.50

[5] INVENTORY SOLD ON CREDIT

Date July 20XX	Inv Nr.	Customer Details	Cum P.O	Actual (\$)	GST (\$)	Total (\$)
2	3	Grace Brothers Ltd	250	2,272.73	227.27	2,500.00
3	4	Gordon Brothers P/L	701	1,922.73	192.27	2,115.00
4	5	G. Snow & Sons P/L	G405	6,925.00	692.50	7,617.50
6	6	The Child Hospital	615	5,768.17	576.82	6,345.00
8	7	Janet Top Toys P/L	210	715.91	71.59	787.50
9	8	Barby Retail Store	B612	7,875.00	787.50	8,662.50
10	9	Barby Retail Store	B614	572.73	57.27	630.00
12	10	Janet Top Toys P/L	272	2,077.50	207.75	2,285.25
14	11	The Child Hospital	C950	286.36	28.64	315.00
16	12	Mary Muffet Toys	504	7,875.00	787.50	8,862.50
20	13	Gordon Brothers	795	1,730.45	173.05	1,903.50
21	14	Grace Brothers Ltd	315	3,693.18	369.32	4,062.50
22	15	G. Snow & Sons P/L	G511	4,155.00	415.50	4,570.50
24	16	Janet Top Toys	302	1,068.18	106.82	1,175.00
26	17	Janet Top Toys	335	2,625.00	262.50	2,887.50
28	18	Mary Muffet Toys	528	715.91	71.59	787.50
30	19	Grace Brothers Ltd	375	10,850.00	1,085.00	11,935.00

[3] SALE RETURNS

Date July 20XX	Credit Nr	Customer Details	Cust P.O	Actual (\$)	GST (\$)	Total (\$)
14	20	Cancelled	N/A	N/A	N/A	N/A
15	21	Gordon Brothers P/L	4	149.55	14.95	164.50
27	22	G. Snow & Sons	15	1,108.00	110.80	1,218.00
30	23	Janet Top Toys P/L	17	1,050.00	105.00	1,155.00

[5] CASH RECEIPTS JOURNAL

Date July 20XX	Rec Nr	Customer Details	Cust Ref	Discount Allowed	Trade Debtors	General Receipts (\$)
2	CR01	ANZ Long-term Loan	ANZL1			20,000.00
4	CR02	Grace Brothers Ltd	01	0.00	2,520.50	
6	CR03	Gordon Brothers P/L	04	28.84	1,921.66	
7	CR04	G. Snow & Sons	02	0.00	1,999.85	
8	CR05	Grace Brothers Ltd	03	34.09	2,465.91	
9	CR06	G. Snow & Sons	05	103.88	7,513.62	
12	CR07	Barby Retail Store	08	118.13	8,544.37	
14	CR08	Janet Top Toys P/L	07	10.74	776.76	
16	CR09	The Chil Hospital	06	86.52	6,258.48	
18	CR10	Barby Retail Store	09	8.59	621.41	
20	CR11	Janet Topy Toys P/L	10	31.16	2,254.09	
22	CR12	Grace Brothers Ltd	14	55.40	4,007.10	
25	CR13	G. Snow & Sons	15	62.33	3,289.37	
27	CR14	Janet Top Toys P/L	16	16.02	1,158.98	
28	CR15	Mary Muffet Toys	12	118.13	8,544.37	
29	CR16	Cancelled	00	0.00	0.00	
30	CR17	Janet Top Toys P/L	17	39.38	1,693.12	
30	CR18	CBA/Interest Income	B/S	0.00		217.50
TOTAL						

QUESTIONS

(1) What is the main purpose of using a source document and list commonly used source documents in any business?

(2) What is the main purpose of a cash payments journal and its relationship with the purchase journal?

(3) What is the importance of double entry accounting system?

(4) List different types of journals and how many journals should a business use.

(5) BUSINESS CYCLE PROJECT 1

Analyse all the transactions of Grace Emporium in the form of a double entry system into assets, liabilities, equity, income and expense, and calculate:

(a) The profit/loss;

(b) Net worth of the business.

(6) BUSINESS CYCLE PROJECT 2

Analyse all the transactions of Adam Frozen Foods in the form of a double entry system into assets, liabilities, equity, income and expense, and calculate:

(a) Profit/loss;

(b) Net worth of the business.

(7) BUSINESS CYCLE PROJECT 1

Prepare general journal of Grace Emporium from the transactions that you have analysed in question number 5 for the month ended 30 January 2006.

(8) BUSINESS CYCLE PROJECT 2

Prepare general journal of Adam Frozen Foods from the transactions that you have analysed in question number 6 for the month ended 30 March 2006.

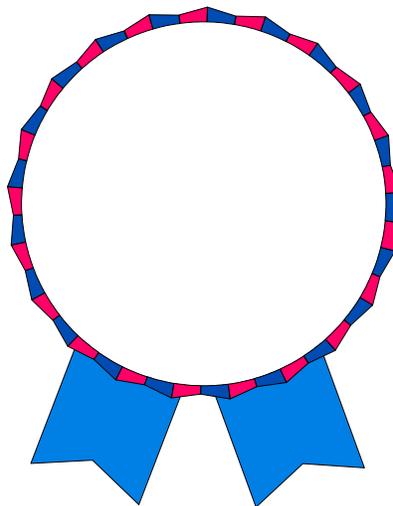
(9) BUSINESS CYCLE PROJECT 3

Prepare all the relevant journals of Golden Toys P/L for the month ended 30 July 2006.

MODULE 3

THE ESSENCE OF CASH MANAGEMENT

IMPREST



PETTY CASH SYSTEM

Your Global Career

Learning Outcomes

After successful completion of this module, the students should be able to:

- understand imprest petty cash system;
- record vouchers & prepare petty cash book;
- post transactions to the general ledger;
- prepare a general ledger trial balance;

PETTY CASH SYSTEM

{1.1} PETTY CASH

Cash includes coins, notes, cheques, and funds deposited with financial institutions. Petty cash is a small amount of cash on hand to pay for items for which it is inconvenient to issue a cheque to pay such as postage, sugar, milk and taxi fare etc.

The method of accounting for petty cash is known as the 'Imprest system'. The term 'imprest' means in advance.

{1.2} ESTABLISHING THE PETTY CASH FUND

First of all find out how much cash do we need on monthly basis for items and write a cheque to petty cash fund, say \$1,000. The general transaction for this would be:

Details	Debit (\$)	Credit (\$)
Petty cash	1,000	
Cash at bank		1,000

{1.3} PETTY CASH BOOK

The petty cash book records cash received from the bank as well as records all the payments made for such items, say paid \$50.00 for the postage and stamps. The general ledger transaction would be:

Details	Debit (\$)	Credit (\$)
Postage & stamps	50.00	
GST paid	5.00	
Petty cash		55.00

{1.4} REIMBURSING THE PETTY CASH

The petty cash fund is reimbursed at regular intervals of time or when the cash in balance in the fund has been reduced to a small amount. The total of payments from the fund is the sum of the vouchers held by the petty cashier. This fund is usually reimbursed by drawing a cheque equal to the total of payments from the fund.

{1.5} INTERNAL CONTROL OF PETTY CASH

It is extremely important that there must be a tight control over petty cash fund. The following controls must be kept.

- (1) All cash must be kept at a safe place.
- (2) All payments must be recorded in the petty cash book.
- (3) All payments must be supported by a petty cash voucher.
- (4) Petty cash voucher must be signed by the user.
- (5) At any time the total of all the vouchers and cash in this fund must be equal the amount originally placed in the fund.

QUESTIONS

- (1) Describe briefly the imprest petty cash system.
- (2) What is the difference between petty cashbook and petty cash voucher ?
- (3) Is it important to post petty cash transactions to the general ledger ?
- (4) What would happen if you do not write transactions from the petty cashbook into the journal ?

(5) BUSINESS CYCLE PROJECT 1

From the following information related to the business of Grace Emporium for the month ended January 20XX, you are required to:

- (1) record transactions in the petty cashbook;
- (2) transfer these transactions to the journal;
- (3) post transactions to the general ledger;
- (4) prepare general ledger trial balance.

Grace Emporium For the Month of January 20XX					
Date Jan	Details	Ref	Receipt/Ex penses	GST Paid (\$)	Total (\$)
2	Grace Kelly, Investment	Rec: 002	1,000.00		
5	Purchased Tea & Coffee	Voc: 110	30.00	3.00	33.00
9	Mark, Roman	Voc: 111	26.00	2.60	28.60
12	TNT Courier	Voc: 112	72.00	7.20	79.20
20	Purchased Scanner	Voc: 113	211.00	21.10	232.10
26	Mark Roman, Taxi fare	Voc: 114	53.00	5.30	58.30
30	Purchased Sugar & Milk	Voc: 115	68.00	6.80	74.80
30	Reimbursed Cheque: 215711		\$506.60		

(6) BUSINESS CYCLE PROJECT 2

From the following information related to the business of Adam Frozen Foods for the month ended March 20XX, you are required to:

- (1) record transactions in the petty cashbook;
- (2) transfer these transactions to the journal;
- (3) post transactions to the general ledger;
- (4) prepare general ledger trial balance.

Adam & Eve Frozen Foods					
For the Month of March 20XX					
Date	Details	Ref	Receipt/Ex penses	GST Paid (\$)	Total (\$)
2	Adam Smith, Investment	Rec: 002	1,500.00		
6	Travelling expense	Voc: 245	28.90	2.89	31.79
10	Purchased Tea & Coffee	Voc: 246	21.70	2.17	23.87
14	Postage & Stamps	Voc: 247	72.50	7.25	79.75
22	Purchased Coffee Machine	Voc: 248	124.70	12.47	137.17
27	Travelling Expense	Voc: 249	37.20	3.72	40.92
29	Purchased Sugar & Milk	Voc: 250	49.10	4.91	54.01
30	Purchased Printer Cartridge	Voc: 251	174.50	17.45	191.95
30	<i>Reimbursed Cheque: 415611</i>		<i>\$505.45</i>		

(7) BUSINESS CYCLE PROJECT 3

From the following information related to the business of Golden Toys P/L for the month ended July 20XX, you are required to:

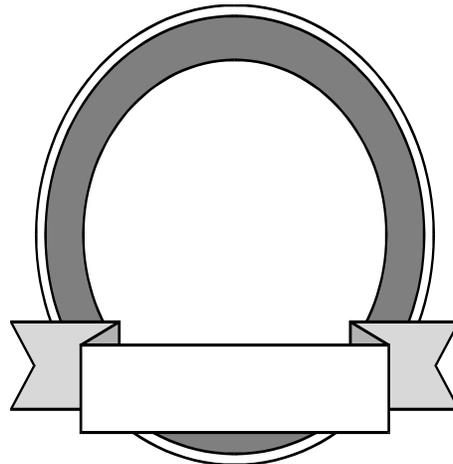
- (1) record transactions in the petty cashbook;
- (2) transfer these transactions to the journal;
- (3) post transactions to the general ledger;
- (4) prepare general ledger trial balance.

Golden Toys Pty Ltd For the Month of July 20XX					
Date Jan	Details	Ref	Receipt/Ex penses	GST Paid (\$)	Total (\$)
1	Opening Balance	GJ	1,500.00		
4	Purchased Petrol & Oil	Voc: 519	89.50	8.95	98.45
10	Purchased Tea & Coffee	Voc: 520	45.10	4.51	49.61
16	Postage & Stamps	Voc: 521	49.20	4.92	54.12
22	Computer Repair	Voc: 522	120.50	12.05	132.55
26	Travelling Expense	Voc: 523	142.30	14.23	156.53
28	Petrol & Light Repair	Voc: 524	119.30	11.93	131.23
30	Purchased Sugar & Tea	Voc: 525	29.70	2.97	32.67
30	<i>Reimbursed Cheque: 022</i>		\$655.16		

MODULE 4

**MOST ESSENTIAL
BUSINESS
REQUIREMENT**

CASH MANAGEMENT



**AND
BANK RECONCILIATIONS**

Learning Outcomes

After successful completion of this module, the students should be able to:

- compare cash records with the bank statement;
- prepare bank reconciliations statement;
- post to the general ledger;
- prepare a trial balance;

BANK RECONCILIATIONS

Quite often the business's cash records do not agree with the bank statement due to a number of reasons:

- * Federal and state taxes such as FID & DT charges;
- * Misc. bank charges such as bank fees etc;
- * Un-presented cheques;
- * Direct deposits;
- * Dishonoured cheques;
- * Deposits not yet credited;
- * Common data entry errors.

The purpose of bank reconciliations is to know that an agreement exists between the business's cash records and the bank statement.

The main records that we need for the purpose of bank reconciliations are:

- * Cash receipts journal;
- * Cash payments journal;
- * Bank statement;
- * Previous period bank reconciliations statement.

Broadly speaking there are two main parts to reconcile accounts and prepare bank reconciliation statement.

[A] Completion of the Business's Cash Records

1. Compare the Credit column of the bank statement with the bank column of the Cash receipts journal (and last month's bank reconciliations statement). Compare those figures that correspond.
2. Compare the Debit column of the bank statement with the bank column of the Cash payments journal (and last month's bank reconciliations statement). Compare those figures that correspond.
3. Insert those figures that are not existed in the bank statement into the appropriate Cash receipts journal and Cash payments journals and total the Bank columns.

These are the transactions the bank has recorded and the business has not. The source document in this situation can be used as B/S means bank statement. Examples are FID & DT charges, bank charges etc.

4. Post these transactions from cash receipts journal and Cash payments journal to the General ledger. The main Account we are interested in here is the Cash at bank.

[B] Prepare Bank Reconciliations Statement.

Start from the final balance of the Bank statement and insert those transactions that the business has recorded and the bank has not. Examples are deposits not yet credited and un-presented cheques etc.

Bank Reconciliations Statement

Credit balance as per bank statement	\$43,764.03
Add :	
Deposits not yet credited	217.50
	43,981.53
Less un-presented cheques :	
Chq Nr.	Amount
11	500.00
20	724.25
21	3,950.00
	5,174.25
Debit balance as per Cash at bank	38,807.28

However if there is a bank overdraft, the above procedure will be reversed as follows:

Bank Reconciliations Statement

Debit balance as per bank statement			\$43,764.03
(Less) :			
Deposits not yet credited			217.50
			43,546.53
Add un-presented cheques :			
	Chq Nr.	Amount	
	11	500.00	
	25	3,950.00	5,174.25
Credit balance as per Cash at bank			48,720.78

QUESTIONS

- (1)** Why the bank reconciliation is very important for any business on regular basis?
- (2)** How the daily banking system improves the internal control over cash ?
- (3)** Why the debits and credits are on the opposite side of the bank statement to that of cash receipts and cash payments journals?
- (4)** What are the main bank charges and explain briefly FID and account keeping fee ?
- (5)** What is the difference between a bank statement and bank reconciliations statement ?
- (6)** How would you classify the following transactions in terms of bank reconciliations:
 - (a)** the cheque of \$2,091 was wrongly entered in some other account.
 - (b)** One of the customer from Seattle sent money into the business bank account in Sydney.
 - (c)** Account keeping fee, debits tax, and the Federal institutions duty (FID) ?
 - (d)** The deposited cheque was returned by the bank as it did not have sufficient funds.
 - (e)** The bank teller entered the wrong amount during processing the cash payment.
 - (f)** Received a cheque on 30 December and deposited in the bank on 4 January due to holidays.
 - (g)** Is it necessary to write the transactions appearing in the bank statement in the journal and post to the ledger to prepare the final trial balance ?

(7) BUSINESS CYCLE PROJECT 1

From the general journal (module 2) and general ledger (module 3), prepared bank reconciliations statement of Grace Emporium for the month ended 30 January 20XX.

(8) BUSINESS CYCLE PROJECT 2

From the general journal (module 2) and general ledger (module 3), prepared bank reconciliations statement of Adam Frozen Foods for the month ended 30 March 20XX.

(9) BUSINESS CYCLE PROJECT 3

From the general journal, cash payments journal, cash receipts journal (module 2) and general ledger (module 3), prepared a bank reconciliations statement of Golden Toys P/L for the month ended 30 July 20XX.

Westpac Banking Corporation 265 George Street, Sydney NSW 2000 ABN 21 254 653 675				
BANK STATEMENT FROM: 01/01/20XX TO 30/01/20XX				
Acc Number	Name of the Account	GRACE EMPORIUM		
ABN	032-007 278910	231 George Street Sydney NSW 2000		
	24 453 564 257	Telephone	+61 2 9542 7651	
		Fax	+61 2 9542 1456	
Date	Description	Debit	Credit	Balance
January		(\$)	(\$)	(\$)
1	Opening balance			0.00
2	Deposit		85,000.00	85,000.00
4	215700	10,500.00		74,500.00
5	215701	26,950.00		47,550.00
6	NAB Transfer		20,000.00	67,550.00
7	215702	27,500.00		40,050.00
12	215703	715.00		39,335.00
12	Deposit		13,750.00	53,085.00
14	215704	539.00		52,546.00
15	215705	1,072.50		51,473.50
20	215708	275.00		51,198.50
26	215706	3,558.01		47,640.49
30	215707	743.49		46,897.00
30	Bank charges	25.10		46,871.90
30-Jan		71,878.10	118,750.00	
ANY ERROR		0.00		

ANZ Limited				
265 Pitt Street, Sydney 2000		ABN	22 854 253 671	
BANK STATEMENT FROM: 01/03/20XX TO 30/03/20XX				
Name of the Account		Adam & Eve Frozen Foods		
Acc Number	051-019 475920	280 Elizabeth Street Sydney NSW 2000		
ABN	20 236 614 225	Telephone	+ 61 2 9243 7625	
		Fax	+ 61 2 9253 7627	
Date	Description	Debit	Credit	Balance
March		(\$)	(\$)	(\$)
2	Opening balance			0.00
5	Deposit		50,000.00	50,000.00
6	CBA Transfer		20,000.00	70,000.00
6	415600	10,000.00		60,000.00
7	415600	10,000.00		50,000.00
8	415601	15,950.00		34,050.00
10	415602	6,045.22		28,004.78
12	415603	7,425.83		20,578.95
13	415604	270.49		20,308.46
14	415605	842.05		19,466.41
20	Deposit		32,159.49	51,625.90
20	415607	3,586.00		48,039.90
26	415608	16,000.00		32,039.90
28	415606	5,016.00		27,023.90
26	AMP Payment	451.44		26,572.46
30	Account Fee	15.75		26,556.71
30	Tax on deposits	16.50		26,540.21
30	Tax on withdraw	19.30		26,520.91
30-Mar	TOTAL	75,638.58	102,159.49	
ANY ERROR		0.00		

Commonwealth Bank 21 Bridge Street, Sydney NSW 2000 ABN 24 156 223 571				
BANK STATEMENT FROM: 01/07/20XX TO 30/07/20XX				
Name of the Account Account Number ABN		Golden Toys Pty Ltd 042-215 471960 22 246 624 255		
Date	Description	Debit	Credit	Balance
Jul-08		(\$)	(\$)	(\$)
2	Opening balance			8,925.85
2	ANZ Transfer		20,000.00	28,925.85
5	1	3,021.30		25,904.55
6	Deposit		2,520.50	28,425.05
6	2	2,500.00		25,925.05
7	Deposit		1,921.66	27,846.71
7	4	500.95		27,345.76
8	Deposit		1,999.85	29,345.61
8	3	2,994.50		26,351.11
9	Deposit		2,465.91	28,817.02
9	5	899.78		27,917.24
10	Deposit		7,513.62	35,430.86
10	6	2,735.97		32,694.89
11	8	250.00		32,444.89
12	Deposit		8,544.37	40,989.26
14	10	520.00		40,469.26
14	Deposit		776.76	41,246.02
15	9	311.50		40,934.52

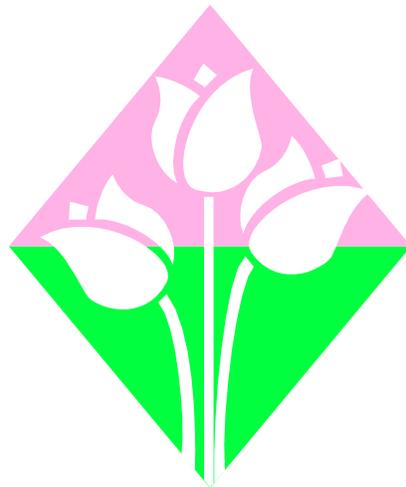
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19	Deposit		6,258.48	47,193.00
19	7	650.00		46,543.00
20	Deposit		2,875.50	49,418.50
22	12	1,288.05		48,130.45
24	Deposit		4,007.10	52,137.55
25	Deposit		3,289.37	55,426.92
29	14	1,250.00		54,176.92
29	Deposit		1,158.98	55,335.90
29	17	974.83		54,361.07
30	Deposit		8,544.37	62,905.44
30	15	472.76		62,432.68
30	DIT charges	61.20		62,371.48
30	DT charges	59.30		62,312.18
30	Bank guarantee fees	29.50		62,282.68
30-Jul				
TOTAL		18,519.64	71,876.47	

MODULE 5

**GENERAL
LEDGER
TRIAL BALANCE**

AND



SUBSIDIARY LEDGERS

Learning Outcomes

After successful completion of this module, the students should be able to:

- post to the general ledger;
- prepare a trial balance;
- prepare accounts payable ledger;
- prepare accounts receivable ledger.

LEDGERS

(1) General Ledger

The general ledger is used to prepare a trial balance and financial statements. In the general ledger, each and every account is identified by its account number and account name:

Account Number	Account Name
100	Cash at bank

The ledger can be prepared in two different forms, the T-bar ledger and three-column ledger. Since all the computer programs are based on three-column ledger, for that purpose we will be using three-column ledger.

(1.1) T-bar Ledger

100		Cash at bank	
Date Jan 20XX	Debit (\$)	Date Jan 20XX	Credit (\$)
1	85,000		

500		Grace, Capital	
Date Jan 20XX	Debit (\$)	Date Jan 20XX	Credit (\$)
		1	85,000

(1.2) General Ledger Trial Balance

Account NR	Details	Dr	Cr
100	Cash at bank	85,000	
500	Grace, capital		85,000
Total		85,000	85,000

(2.1) Three Column Ledger

100		Cash at bank			
Date	Details	Folio	Dr (\$)	Cr (\$)	Balance (\$)
Jan 20XX					
1	Grace, Investment	GJ1	85,000		85,000

500		Grace, Investment			
Date	Details	Folio	Dr (\$)	Cr (\$)	Balance (\$)
Jan 20XX					
1	Cash at bank	GJ1		85,000	(85,000)

(2.2) General Ledger Trial Balance

Account NR	Details	Dr	Cr
100	Cash at bank	85,000	
500	Grace, Investment		85,000
Total		85,000	85,000

This clearly shows that no matter what type of ledger you prepare, the final balance will be the same. However due to changes in technology, all the computer accounting programs are designed on three columns that is why we will be using the three column ledger

(3) Accounts Receivable Ledger

(3.1) Objective

The objective of Cash receipts journal is to know how much cash our customers owed us. To prepare this journal, we need the following journal:

Type of Journal	Purpose
<i>General Journal</i>	Opening balance of customers
<i>Sale journal</i>	Stock sold on credit
<i>Sale returns ledger</i>	Stock returns from the customers
<i>Cash receipts journal</i>	Cash received from the customers and discount given to the customers.

(3.2) Schedule of Accounts Receivable Ledger

Customer Name	Amount (\$)
Customer 1	
Customer 2	
Customer 3	
Total	

This total must exactly be the same amount as that of Accounts receivable account in the general ledger trial balance. This is one of the most important internal control systems.

(3) Accounts Payable Ledger

(3.1) Objective

The objective of Cash payments ledger is to know how that much cash we will have to pay to our suppliers. To prepare this ledger, we need the following journals:

Type of Journal	Purpose
<i>General Journal</i>	Opening balance of suppliers
<i>Purchase journal</i>	Stock purchased on credit
<i>Purchase returns ledger</i>	Stock returns to the suppliers
<i>Cash payments journal</i>	Cash paid to the suppliers and discount received from the suppliers.

(3.2) Schedule of Accounts Payable Ledger

Supplier Name	Amount (\$)
Supplier 1	
Supplier 2	
Supplier 3	
Total	

This total must exactly be the same amount as that of Accounts payable account in the general ledger trial balance. This is one of the most important internal control systems.

QUESTIONS

- (1) What is the main objective of using a general ledger and its advantages?
- (2) What is the difference between a general ledger and an accounts receivable ledger?
- (3) Analyse the following transaction in terms of debits and credits:
 - (a) Sold inventory on credit of \$2,150 to David Jones, invoice number SMT0921.
 - (b) Paid electricity bill of \$1,209 to Energy Australia for the month ended January 2009, cheque number 300981.
 - (c) Purchased stock of \$5,000 on cash from Miranda Gifts, cheque number 300982.
 - (d) Anderson consulting sent an invoice number A0927 of \$7,250 for the supply of integrated accounting software.
 - (e) Paid salaries and wages of \$4,500 to the employees for the month ended 30 January 2009, cheque number 300983.
 - (f) Paid \$210 to Australia Post for the postage and stamp, cheque number 300984.
 - (g) Sold stock on credit of \$6,250 to Barlow & co., invoice number SMT0922.
 - (h) Paid \$1,250 to the Australian Taxation Dep't as a group tax for the month ended January 2009, cheque number 300985.
 - (i) Barlow & co. returned back the oversupplied stock that was sold him on credit, credit note number SMT0421.
 - (j) Send an invoice number SMT091 of \$2,450 to Ferguson & co. for selling stock on credit.
- (4) What type of information is necessary to check and verify when processing data to prepare accounts receivable?
- (5) What you will do if any customer has not paid the invoice in time?
- (6) What is the best way to keep safe and reliable financial information about our customers and suppliers to avoid any problem?
- (7) What type of information is necessary to check and verify when processing data to prepare accounts payable ledger?

PROBLEM SOLVING PRACTICE

QUESTION NO: 1

Lolly Co had the following transactions during the year ended 31 December 20XX.

	\$
Credit sales	97,300
Returns outwards	4,900
Cash received	71,800
Discounts received	2,100
Credit notes issued	5,400

The balances brought forward at 1 January 20XX for receivables and the allowances for receivables were \$105,000 and \$8,000 respectively.

Assuming Lolly Co requires a closing allowance of 5% of receivables, the bad and doubtful debts expense for the year will be (Show Calculations):

- A \$1,745 debit
- B \$1,745 credit**
- C \$1,990 debit
- D \$1,990 credit

Lolly Company
Accounts Receivable Ledger as at 30 January 20XX

Date	Description	Account Nr.	Debit (\$)	Credit (\$)	Balance (\$)
1 Jan	Opening balance	N/A			105,000
30 Jan	Credit sale	N/A		97,300	202,300
30 Jan	Cash received	N/A		71,800	130,500
30 Jan	Credit notes	N/A	5,400		125,100
30 Jan	Closing balance	N/A			125,100

QUESTION NO: 2

On 30 May 20XX the balance on Daniel P/L receivables ledger control account was \$21,480. During the month of May, the following transactions had occurred:

	\$
Cash sales	4,160
Credit sales	19,950
Payables ledger contra	1,025
Sales returns	105
Discounts allowed	910
Discounts received	720
Cheques received from credit customers	20,370
Refunds paid to credit customers	490

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What was the balance on the control account on 1 May 20XX?

- A \$19,290
- B \$21,190
- C \$23,450
- D \$24,430

QUESTION NO: 3

The balance on Daniel P/L payables ledger control account on 1 February 20XX was \$3,590. During the month the following transactions occurred:

	\$
Returns inwards	460
Returns outward	310
Cash paid to suppliers	5,390
Purchases on credit	6,260

The cash paid included an amount of \$1,150 in full settlement of an invoice for \$1,170.

What should appear as the balance on the Daniel's payables ledger control account on 28 February 20XX (Show Calculations)?

- A \$3,980
- B \$4,130
- C \$4,150
- D \$4,750

QUESTION NO: 4

The following figures were extracted from the records of Duncan Retail Store Pty Ltd as at 30 June 20XX:

	\$
Receivables ledger control account	20,770
Total per listing of receivables ledger balances	20,320

Which of the following errors could have led to this discrepancy?

- A A credit note for \$450 was omitted from the sales day book
- B The receivables ledger column in the cash receipts book which totaled \$4,830 was posted to the receivables ledger control account as \$4,380
- C An invoice for \$270 was entered in the sales day book as \$720
- D A credit balance of \$225 in the receivables ledger was listed as a debit

QUESTION NO: 5

Dogma Sugar and Oil Ltd had the following balances on the trial balance as at 31 December 20XX:

	\$
Receivables	90,350
Specific allowance at 1 January 20XX	750
General allowance at 1 January 20XX	2,500

The accountant then discovered the following:

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The specific allowance related to J James who has since paid his debt in full. A debt relating to F Smith of \$500 is considered irrecoverable and should be written off. There is some uncertainty concerning two customers who owe \$225 and \$625 respectively and it is decided that an allowance should be made against these balances. A general allowance of 2% of all remaining receivables is to be maintained.

What is the total allowance for receivables at 31 December 20XX?

- A \$1,765
- B \$2,615
- C \$2,632
- D \$2,647

QUESTION NO: 6

Which one of the following occurrences might explain the existence of a credit balance on an individual trade receivable's account?

- A. The bookkeeper failed to make a posting from the returns inwards books to the receivables ledger
- B. The bookkeeper failed to post an invoice from the sales day book to the receivables ledger
- C. The customer took advantage of a settlement discount and paid less than the full amount invoiced
- D. The bookkeeper posted a total from the returns inwards book to the receivables control account twice by mistake

QUESTION NO: 7

Magpie Ltd has reviewed its receivables ledger for the year ended 31 May 20XX and has provided you with the following information:

- (i) Receivables at the year-end are \$108,520
- (ii) A specific allowance is to be made against two customer balances totaling \$3,200
- (iii) A general allowance of 5% should be made against all remaining balance
- (iv) The allowance for receivables at 31 May 20XX was \$7,300.

The following adjustment should be made to bad debts expense in the income statement:

- A \$1,166 credit
- B \$1,166 debit
- C \$1,874 credit
- D \$1,874 debit

QUESTION NO: 8

The bookkeeper at Tinto Ltd is having difficulty reconciling the payables ledger with the payables ledger control account (PLCA) at 31 May 20XX. The following problems have been identified:

- 1 The PLCA column in the cashbook has been under cast by \$439.
- 2 A purchase invoice for \$325 (excluding sales tax) has been omitted from the payables ledger.
- 3 A credit note for \$700 (excluding sales tax) has been entered twice in the payables ledger.

Sales tax is calculated at a rate of 15%.

Dealing with the above issues should result in the following adjustment being made to the payables ledger balance:

- A a decrease of \$439
- B an increase of \$765
- C an increase of \$1,025
- D an increase of \$1,179**

QUESTION NO: 9

The payables ledger balances of Lyric Co at 31 March 20XX totaled \$18,170, which did not agree to the balance on the payables ledger control account.

The discrepancy was eliminated after adjustments were made for the following errors identified by the reconciliation:

- (i) the discounts received column in the cash payments book had been under cast by \$1,000.
- (ii) a debit balance of \$2,270 had been included as a credit on the payables ledger listing.

What was the original balance on the payables ledger control account prior to the reconciliation?

- A \$12,630
- B \$13,630
- C \$14,630
- D \$23,710

BUSINESS CYCLE PROJECT 1

Post all the general journal transaction (module 2) of Grace Emporium to the general ledger and prepare a trial balance for the month ended 30 January 20XX.

BUSINESS CYCLE PROJECT 2

Post all the general journal transaction (module 2) of Adam Frozen Foods to the general ledger and extract a trial balance for the month ended 30 March 20XX.

BUSINESS CYCLE PROJECT 3

(3.1) Post all the journals of Golden Toys P/L to the general ledger (module 2) and prepare a trial balance for the month ended 30 July 20XX.

(3.2) Prepare an accounts receivable ledger of Golden Toys P/L from the journals (module 2) as well as schedule of accounts for the month ended 30 July 20XX.

(3.3) Prepare an accounts payable ledger of Golden Toys P/L from the journals (module 2) as well as prepare a schedule of accounts for the month ended 30 July 20XX.

TEXTS & REFERENCES

- Walter T., Harrison Jr., and Charles Horngren, Financial Accounting, 10th Edition, Amazon, January 2016.
- ACCA, the Association of Chartered Certified Accountants, F3 Financial Accounting, BPP Learning Media, London, Suitable for exams for June 2016.
- FNSACC301A: A step by step approach to Process Financial Transactions and Extract Interim Reports, Software Publications 2012, Sydney, Australia.
- FNSACC302A: Administer Subsidiary Accounts and Ledgers, Software Publications 2012, Sydney, Australia.

Nationally Recognised Training Package

Accounting Principles and Procedures Part 1 Learning Resources covers the following two competencies of the Australian Nationally Recognised Training Packages FNS30315 Certificate 111 in Accounts Administration and FNS40615 Certificate 1V in Accounting:

- (1) FNSACC301 Process financial transactions and extract interim reports
- (2) FNSACC302 Administer subsidiary accounts and ledgers

Disclaimer

Accounting Principles and Procedures Part 1 is simply a very high quality resource material prepared specifically for students to learn project based accounting information system. Some extra efforts have also been taken to simplify principles of debits and credits which is the biggest problem for students to understand. It is not intended to be a substitute for independent professional advice.

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