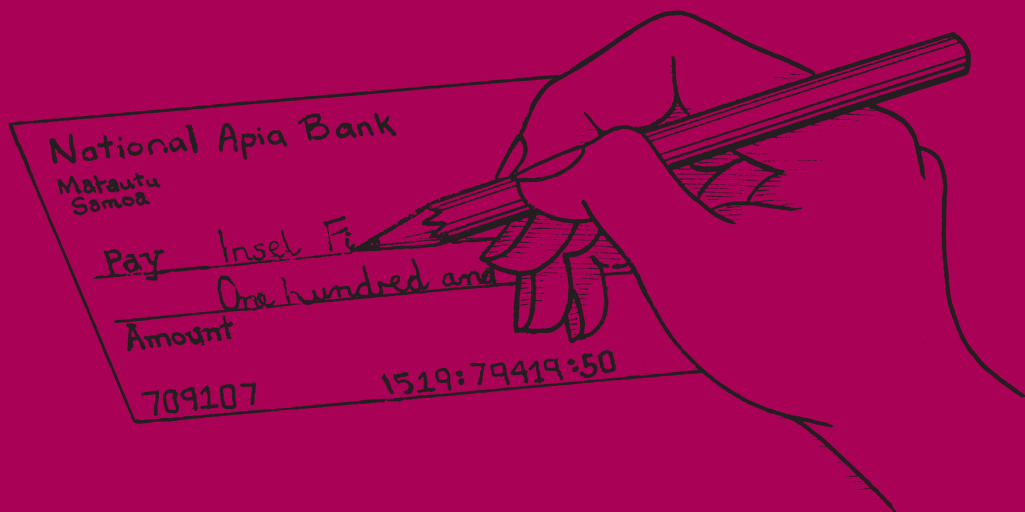


Book 2

Year 9



Business Studies

Business Studies

Year 9 Book Two



GOVERNMENT OF SĀMOA
MINISTRY OF EDUCATION, SPORTS AND CULTURE

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INTRODUCTION

Accounting

Accounting is an information system. The accountant helps people to learn about their businesses and to make business decisions. In the first part of this book you will learn:

- How accounting is used in everyday life.
- What an accountant does.
- What accounting information is used for.

In the second half you will follow the accounting process and start to think and act like an accountant. You will follow Kolisi, who starts his own business called Sagone Car Repairs. You will follow what Kolisi and his accountant, Perelini, do to record what happens in the business. You will:

- Learn to use the Accounting Equation.
- Set up the books to start a business.
- Record the activities of a small business.
- Process the accounting information of a small business.

At the end you should have a good knowledge of the accounting process.

Unit 1: ACCOUNTING IN EVERYDAY LIFE

Aim

From your study of ‘Accounting in Everyday Life’ you will understand how accounting concepts and principles can be used in making decisions. Concepts are ideas in accounting. When we talk about principles we are talking about how an accountant works.

Unit objectives

You will investigate and develop your skill and understanding of how accounting affects your everyday life, when you:

- Define the term accounting and its purpose.
- Describe the relationships between accounting and economics.
- Identify various situations where a system of accounting would be useful in terms of managing and recording use of resources.

Introduction

Every day, most people have to make decisions about money and what to do with it. They decide to spend it, save it, give it away or borrow more from the bank. Business organisations must also make the same decisions.

Before we can make wise decisions about our money we need financial information — information about money. An accountant is a person who helps others to understand financial information.

What is Accounting?

Accounting is about financial information. This information is used by people and businesses to make decisions about what to do in the future.

This information is usually presented as a set of accounts. In this course you will begin to learn about preparing accounts.

Activity 1**Decisions**

Decide what information you need to help make the following decisions. Put this information in two lists: financial and non-financial. Copy the following table into your exercise book and complete it.

Decision	Financial	Non-financial
Which movie shall I go to?		
What will I eat for breakfast?		
How can I buy a new pair of sports shoes?		
Shall I lend Amosa \$10?		
What will I wear to the dance?		
What will I do tomorrow?		
Which book should I buy?		
What colour will I paint the house?		
How much sugar will I buy?		
Should I buy a new car or a second-hand car?		

Activity 2**Financial Decisions**

What financial information would you need before you could make the following decisions? Discuss in small groups and record the information needed on a sheet of paper and share with the rest of the class.

1. Iulia asks if you would lend her \$30 so she could buy a new CD.
2. Your brother has just started work and he asks you how he can save for a car.
3. Your father is trying to decide whether to buy a truck or build a house.
4. Perelini has just finished secondary school. She is trying to decide if she should go to university or get a job.

5. Mata is trying to cut down her food bill.
6. Viliamu is trying to work out how much he should borrow from the Development Bank to buy a truck.
7. Ioane has come back from Australia and is trying to decide whether to produce vegetables in his plantation or buy a fishing boat.

The Difference Between Accounting And Economics

Accounting and **Economics** are subjects that deal with money. Their relationship can be seen in this statement:

Accounting information helps in economic decision making.

Economics is the study of how goods and services are produced, distributed and used. Economics studies questions such as the ones below. At each of these steps, decisions must be made.

- | | |
|----------------------|--|
| Production: | <ul style="list-style-type: none"> What will we produce? How much will it cost? How many will we make? What will we need? How will we make it? |
| Distribution: | <ul style="list-style-type: none"> Where are the customers? Who are the customers? How will we get it to the customers? How much will the customer pay? |
| Use: | <ul style="list-style-type: none"> How will customers use it? What do the customers want? Do customers have an alternative? Can we make it better/cheaper? |

The answers to these questions help us to reach decisions about the best use of our resources.

Accounting is the recording of financial transactions. This means that any time money passes in or out of a business, a record is kept. The accountant collects the records, sorts them and writes reports called financial statements that give important information about how the business is doing.

Accountants record the transactions of individual companies and produce financial documents.

The information in these documents can be used by economists to get an idea of what is happening to the economy of the whole country.

Activity 3**Accounting And Economics**

Decide whether an accountant or an economist would mainly do the following tasks. Write each question out, and answer in your exercise book.

1. Produce the end-of-year accounts for Wesley Bookshop.
2. Report on the future of growing bananas as a crop to sell overseas.
3. Decide if VAGST should be increased.
4. Help Sam the builder to fill out his tax forms.
5. Work out if Sāmoa should build a new airport or a new wharf.
6. Advise Sinapi, who runs a dress shop, if she can afford to hire a new shop assistant.
7. Advise the Prime Minister about the expected level of agricultural exports over the next five years.
8. Help a restaurant set up a new system of paying its bills.

Using An Accounting System

Most people and all businesses and organisations need an accounting system to give them accurate financial information. This is because:

- Individuals need to know how much money they have available to spend.
- Families need to know how much money is coming in each month and what their expenses are going to be.
- Business owners need to know if their business is making a profit.
- Investors (who put money into a business) need to know if the business is good and how much money they can get back from their investment (return on investment).
- Workers need to know if the company they are working for is doing well so they are sure they have a secure job.
- Banks need to know if the money that they lend out will be repaid.
- Clubs need to know if the subscriptions that their members pay each year is enough to cover costs.
- The Tax Department needs to know how much workers and businesses earn so the right amount of tax is paid.
- The Government needs to know how much tax money it will receive each year. Then it will know how much it can spend on things such as education, health and roads.

Activity 4 Using Financial Information

1. Each of the following people/organisations use financial information. Write down a decision that each would make using financial information. The first one is given as an example.

User	Decision
Department of Education	How much to spend on teachers' salaries.
Investor	
Worker	
Farmer	
Bank manager	
Rugby club	
Family	
Government	
Tax department	
Shop owner	

2. Aukuso has been saving his money to buy a car. He still needs more money so he arranges an interview at the bank. List all the financial and non-financial information that the Loans Officer will need so that she or he can reach a decision.

Activity 5**Review Questions**

1. Explain the meaning of the following words in a single sentence.
 - a. Accounting.
 - b. Financial.
 - c. Decision.
 - d. Transaction.

2. Look at the following statements and decide whether each is true or false. If false, make the sentence true. Write the answers out in your exercise book.
 - a. Accounting and economics are not related.
 - b. Each person should use some sort of accounting system.
 - c. Buying something is a financial decision only.

3. Which of the following is the main purpose of accounting?
 - a. To provide work for accountants.
 - b. To calculate the tax a company must pay.
 - c. To help businesses to calculate their profits.
 - d. To help people and businesses make good financial decisions.

4. Which of the following groups use accounting information?
 - a. The Tax Department.
 - b. Business owners.
 - c. Investors.
 - d. All of the above.

5. Do you know anyone who uses an accountant? If so, explain how.

Unit 2: THE ROLE OF THE ACCOUNTANT

Aim

From your study of 'The Role of the Accountant' you will understand how accounting principles can be used in making decisions.

Unit objectives

You will investigate and develop skills and understanding of the role of the accountant in society when you:

- Identify the role of accountants in the business sector.
- Investigate the areas of specialisation in accounting.

Introduction

Accountants usually receive their training at a University or a Polytechnic. They study for three or four years and then gain experience working for another accountant.

A Chartered Accountant (CA) is a person who has studied, gained experience and passed professional examinations set by the Institute of Chartered Accountants. This person can then start their own business as an accountant.

The role of the accountant

The role of the accountant is to prepare and present financial information to individuals and businesses. This information helps the user to make good business decisions.

The accountant must make sure that the financial information can be understood by the user.

The financial reports must follow 'generally accepted accounting practice'. This means that they follow a set of rules set by the Institute of Chartered Accountants.

However the user must also have an understanding of these rules so they can read the information.

To produce the financial information the accountant works through four steps:

Step 1

Identify the information needed

Who wants the information? What do they want it for? Examples:

- The business owner wants to know if the business is making a profit.
- The Tax Department needs to know how much tax is owed.
- The Police might want to see if a business is involved in fraud.

Step 2

Sort the information

Where does this information belong? Examples:

- Sales figures are set out for each month.
- Expenses such as electricity, wages, rent and petrol are worked out for the whole year.

Step 3

Report the information

How is the information presented? Example:

- The accountant produces the Financial Statements for a company using the rules set out by the Institute of Chartered Accountants.

Step 4

Interpret the information

What does the information mean? Examples:

- The accountant tells a business owner he cannot afford to buy a new pick-up truck.
- The accountant shows the user how much tax they need to pay.

Activity 1**The Role Of The Accountant**

Read this report and answer the questions which follow.

Pesamino lived in New Zealand for ten years. During that time he saved some money while working in the food industry. He also gained experience in running a business.

When Pesamino returned to Sāmoa he decided to start his own business. He rented a space in Apia, near the Fugalei Food Market and started by selling 'fish and chips'.

In the beginning, Pesamino did all the work himself. He bought fish and frozen chips, he cooked, sold the food and handled all the money.

He was so busy he did not think about some important decisions.

- What fish should I buy?
- How much should I pay?
- How much should I sell it for?
- What will I do with the money?

Pesamino did not even keep a record of any of his transactions.

In a few months he realised that he was running short of money. At the same time, someone broke in and stole the cash he kept in a tin under the counter. Pesamino needed help.

He talked about his problems with a friend. His friend told him: 'You need an accountant to help you manage your business activities, keep records of your transactions and handle money matters.' Pesamino took the advice of his friend and found an accountant to help him.

The accountant identified that Pesamino needed up-to-date information on what his expenses were and how much money he was receiving in sales each day. He made sure that Pesamino kept a record of all transactions — both sales and expenses.

At the end of each week the accountant added up all the totals, and had a short meeting with Pesamino where they made decisions about what should be done the next week.

Soon Pesamino's business was very successful.

1. Use the list of words to complete the first five sentences based on the case study. Copy and complete each sentence in your exercise book.

information identify record
bank interpret financial

2. The accountant's first step is to _____ what financial information would be most useful to Pesamino.
3. The accountant wanted Pesamino to keep an accurate _____ of all his transactions.
4. At the weekly meeting, the accountant helped Pesamino to _____ the information.
5. The _____ given by the accountant helped Pesamino make decisions about his business.
6. The accountant probably advised Pesamino to _____ his money each day.

Answer the following questions in your exercise book:

7. Describe how Pesamino could keep a record of each transaction?
8. Why was Pesamino's business not successful at the start?

Areas Of Specialisation In Accounting

Not all accountants do the same kind of work. There are four main areas that they can specialise in. Set out below is a description of each area with a sample job advertisement.

Management accounting

Accountants in this area work on the everyday running of the business. A management accountant makes sure that the resources of the business are used efficiently.

Management Accounting — Tourist Focus

Polynesian Paradise is one of the fastest growing Beach Resorts in Sāmoa. We aim to provide the perfect holiday experience for our overseas guests. To do this we need good financial management.

The position of Management Accountant is based in our head office in Apia. Responsibilities include preparation of budgets and analysis of financial information for each part of the business.

The Management Accountant will lead a small administration unit providing different services such as word processing, receptionist duties and customer enquiries. An important part of this position is to set up and look after the systems to manage cash and other resources owned and controlled by Polynesian Paradise.

We are looking for someone with the following qualities:

- Chartered accountant with experience as a management accountant.
- Ability to lead a team and meet deadlines.
- Effective communication skills.
- Ability to use Excel computer program.
- Committed to providing excellent customer service.
- Has the desire to succeed and improve business practice.

For further information and a copy of the job description contact Amelia Levi, phone 23456. Applications for this position are to be made in writing enclosing a résumé and contact details, addressed to: Human Resources Officer, Polynesian Paradise Ltd, Private Bag, Apia
Applications close 30 June 2008.

Financial accounting

Accountants in this area report and analyse the results of business operations. Rather than focus on the day-to-day activity they produce the end-of-year final accounts and financial statements.

Financial Accountant

Sāmoa Broadcasting Corporation is continuing to experience strong growth in the area of local programme development. This growth has led to a need to expand its Financial Department.

The position of Financial Accountant will report to the Financial Manager. It requires someone who is a qualified CA with a minimum of five years experience. This person will also need to have good interpersonal skills and report writing skills. The position includes the following responsibilities:

- Preparation of timely and accurate financial reports.
- Provision of accounting services to other departments.
- Balance Sheet reconciliation.
- Setting up and looking after spreadsheet computer systems.
- VAGST returns.
- Cashflow planning.

Please apply in writing enclosing a current CV to:

Malia Thomsen, Personnel Officer, SBC, P.O. Box 765, Apia.

Taxation accounting

These accountants specialise in the area of taxation. They need to have up-to-date knowledge on the tax laws in Sāmoa. If their company is operating internationally, they need to have a knowledge of other country's laws and regulations. These accountants help companies organise their business affairs to pay the lowest amount of tax possible under the existing tax laws.

Looking For a New Direction in Tax?

Vacancy Number: 8491

New start up role in tax advice/consulting

A unique opportunity to bring your knowledge of Sāmoan tax legislation to this respected, medium-sized firm and develop a successful specialist area in tax accounting.

At present the focus for this firm is in business advisory and audit, and in order to provide a fuller accounting service to their key clients they feel the time is right to make this appointment.

This is an ideal next step if you are considering the future with your present firm. The future will be defined by your success, but a realistic goal will be senior management, with the possibility of partnership in the long-term.

CA membership, a strong focus on delivering meaningful information, an ability to make decisions even when they are not straightforward, as well as a genuine desire to put your energy and effort into this exciting initiative will make you a strong candidate for this role.

Contact E-mail: executive@lesamoa.net

Auditing

Auditors are accountants who specialise in checking the accounting records and systems of businesses. All companies which issue shares to the public must have their accounts audited.

Internal Audit Manager

Following recent changes in the telecommunications industry, Sāmoa Telecommunications requires an Internal Audit Manager. The main responsibilities of this position include:

- Planning, developing and carrying out all parts required to set up an internal audit system in the organisation.
- Managing the internal audit operations.
- Analyse and provide recommendations to assist the organisation to achieve its objectives.
- Ensure that the organisation's assets are safeguarded and an effective internal audit system is in place.

This very important position is to help the organisation manage its new position in the industry. The position requires someone with leadership skills, motivation, ability to plan, promote and carry out a wide range of policies and systems, and the ability to problem solve and manage projects.

For further information contact Karan Mareko, Personnel Manager, Sāmoa Telecommunications, Private Box, Apia.

Applications close on 7 November.

Accounts clerk or assistant

This is a person who may not have formal accounting qualifications but helps accountants in their work.

Accounting Assistant

Adecco — Apia

We are looking for a person with office management skills and some knowledge of accounting.

To be successful in this role you will have previous office experience. Your computer skills must be exceptional, as is your communication ability.

In this role you will be assisting the accountants, doing payroll for 50–60 staff, general ledgers, reconciliations and making sure the office runs smoothly.

We are looking for a mature person with a good sense of humour, attention to detail and adaptability to change.

Contact Luisa at Adecco on Ph 631–479.

Activity 2 Areas Of Specialisation

This activity deals with the role of the accountant and areas of specialisation within accounting.

1. Match the titles from the list below to the job descriptions in the table. An example has been done for you.

Tax accountant.

Management accountant.

Accounts clerk.

Financial accountant.

Auditor.

Job description	Title
Prepares information for the Inland Revenue Department	Tax accountant
A person not qualified as an accountant who records daily transactions	
Provides information for decision making in a business	
Checks the accuracy of financial records	
Reports the results to people outside the business	

2. The following advertisements were placed in the newspaper. Study these advertisements and then explain the difference between the role of an accountant and the role of an accounts clerk. Write your answer in your exercise book.

Accountant

Required for busy position.
Contact Cynthia Gillies
Ph: 376-5948

Accounts Assistant

Required for 15 hours
per week.
Suit someone returning to
the workforce.
Contact Cynthia Gillies
Ph: 376-5948

3. Answer the following questions on the specialist areas of accounting in your exercise book. All the questions are about a company called Woodbenders Furniture Ltd.
- a. The owner is planning to make a new range of living room chairs. He needs to work out what price he can sell them for. What information will the owner ask the accountant to provide?
 - b. The workshop needs a lot of repairs as the building is very old. The owner has to decide whether he repairs the building or tears it down and builds a new workshop. What type of accountant can provide the information that will help the owner make a better financial decision?
 - c. The business has used the same amount of materials as last year in its production line but its sales are much lower. The owner suspects that some of the materials have been stolen from the premises or that there is a lot more wastage. What system will the owner need to put in place to check on this, and what type of accountant can assist him with this?

Activity 3**Review Questions**

1. Answer the following questions in your exercise book.
 - a. What is a business transaction?
 - b. What activities are involved in the work of an accountant?
 - c. Why does the owner of a business need accounting information?
 - d. What are some of the business organisations in Sāmoa? Name five sole traders and companies.
 - e. Name one of the business activities that the Government of Sāmoa is involved in.
 - f. Name the different areas of accounting specialisation.
 - g. What is the responsibility of an auditor?
 - h. Why is the government interested in accounting information?

2. Decide if these statements are true or false. If false, make the sentence true and write the answers in your exercise book.
 - a. Every business needs the services of an accountant.
 - b. Accounting states the affairs of a business in terms of money.
 - c. It is wrong to say accounting is the language of business.
 - d. Every business must keep a record of all the transactions done by the owner of that business.
 - e. Business transactions must be recorded and summarised.
 - f. It is important to prepare a report of all business operations at least once a year.
 - g. Owners of a business should only listen to the advice of their accountant sometimes.
 - h. Company accounting deals with recording, analysing, and interpreting the financial affairs of a business.
 - i. Management and financial accounting are important areas of specialisation for accountants.
 - j. Budgeting is not essential for business.
 - k. Auditing is necessary to avoid unwanted mistakes with financial documents. Auditing is usually performed by an auditor who does not work directly for the business on a regular basis.

Unit 3: THE PURPOSE OF ACCOUNTING

Aim

From your study of 'The Purpose of Accounting', you will understand how accounting concepts and principles can be used in reporting financial information.

Unit objectives

You will investigate and develop skills and understanding of the purpose of accounting when you:

- Explain the accounting entity concept.
- Identify different organisations/entities which use accounting to record financial information.

Introduction

Business is carried out by small, one-person operations such as a self-employed builder and large operations with many staff like Polynesian Airlines. The accounting process is basically the same for these very different businesses.

The accountant entity concept

Each business has a name, which is usually different from the name of the owner. However sometimes part of the owner's name may be in a business name.

This difference shows that the owner and the business have separate identities for accounting purposes.

The accounting entity concept

The economic affairs of the business are separate from the affairs of the owner.

This is a very important concept in accounting. If we need to see how well a business is doing we must keep the financial activities of the business separate from the financial activity of the owner.

Activity 1

The Accounting Entity

Seve works in the supermarket during the day packing groceries. On weekends he runs his own small business teaching tourists to scuba-dive. He operates this business from a fale over the road from his house.

1. Which of the following items belong to Seve and which belong to his business? Write out two lists in your exercise book, one for those things that belong to Seve and one for those things that belong to his business, and place each item in the correct list.

scuba tanks	radio
flippers	masks
bicycle	boat/dingy
rugby ball	television
electric shaver	personal savings account
company cheque book	money paid for scuba lessons
CD collection	

2. Explain how the accounting entity concept applies to Seve.

Organisations That Use Accounting

There are four types of organisation which use accounting to record financial information. They are:

- Sole trader.
- Partnership.
- Company.
- Incorporated society.

There are advantages and disadvantages with each type of organisation.

Sole Trader

A sole trader is one person who owns and runs a business by himself or herself. This person has a skill or service which they sell to others. Examples of a sole trader are:

- A builder working alone.
- An accountant.
- A doctor in private practice.

These people may employ others to help them, such as a worker, accounting assistant or nurse, but only one person owns the business.

Advantages

- The owner can work any hours they like.
- The owner can make all decisions quickly.
- The owner receives all the profits of the business.

Disadvantages

- The owner is responsible for all the debts of the business.
- The owner may have to keep working if he or she is sick.
- The owner finds it difficult to take holidays.
- The owner could lose personal assets if the business fails.
- The owner must use their own money to start and grow the business.

To overcome the disadvantages of being a sole trader, some people start or buy a business with other people. This means that the business is owned by more than one person. A partnership and a company are types of organisations with more than one owner.

Partnership

When two or more people own and run a business together, it is called a partnership. For example, a builder, electrician and painter may form a partnership to produce new houses. The partners in the business make an Agreement which sets out the rules for running the business and how the profits will be shared. If one of the partners dies, becomes injured and cannot work or retires, the partnership ends.

Advantages

- The partners can share their skills and experiences.
- The partners share the risks and responsibilities.
- The partners can arrange holidays and cover for each other if one is sick.
- The partners share the costs of setting up and growing the business.

Disadvantages

- The partners are personally responsible for all the debts of the partnership.
- The partners must honour contracts made by any of the other partners. This means the partners must trust each other to make wise decisions and keep each other informed.
- The partners are responsible for all of the business debts if any of the other partners goes bankrupt.
- The partners must share any profits made.
- The partners must put in their own money or borrow it in their own name if they wish to expand the business.

A partnership comes to an end when a partner dies or retires. If people wish to keep the business going they must buy the share of that partner, or find a new partner to buy it. The next form of business organisation, the company, does not end if the owners die or retire.

Company

The second type of business that has more than one owner is the limited liability company. A company is a separate **legal entity**. This means that under the law, the company is treated like another person — different from the owners. Like a person, the company is capable of owning assets and having liabilities.

Companies have **limited liability**. This means that if a company cannot pay its debts, the owners (shareholders) only have to pay the amount they owe on their shares. The owners do not have to sell personal assets to pay debts as is the case with sole traders and partnerships.

Most large companies are run by a Board of Directors who work for the shareholders.

Advantages

- The shareholders (owners) are not personally liable for the debts of the company.
- The shareholders (owners) can sell their shares to others and the company continues in business.
- The shareholders (owners) can combine their money to build a much larger business.

Disadvantages

- The shareholders (owners) are limited in their decision making and rely on directors and managers to look after their interests.
- The shareholder (owners) can lose control of the company if one person or group owns most of the shares.

When the company makes a profit it is divided up among the shareholders. This payment is called a dividend.

Incorporated Society

This type of organisation is seen in a club where people join together because of a common interest: *e.g. Rugby, chess, pets, acting*. The club does not trade, but finance is involved as clubs raise money and spend it on their activities.

A club can become incorporated if there are more than 15 members and most of them agree to incorporate. After incorporation, the club must:

- Keep a register (roll) of members.
- Have a constitution (set of rules).
- Have the accounts audited (checked by an outside person — usually a chartered accountant).

Advantages

- Club members are not personally liable for any debts run up by the club.

Disadvantages

- Club members must follow the constitution and pay to have the accounts audited each year.

Like a company, the incorporated society is a separate legal entity from the owners and can therefore buy assets such as equipment and buildings.

	Sole trader	Partnership	Company	Incorporated society
How many owners?	1	2–25	Unlimited.	More than 15.
What is the owner called?	Proprietor or owner.	Partner.	Shareholder.	Member.
Who runs the day-to-day business?	Owner.	Partners.	Owners or directors.	An elected committee.
Is the organisation a separate legal entity?	No.	No.	Yes.	Yes.
Do the accounts have to be audited?	No.	No.	Only if shares are sold to the public.	Yes.
How do the owners receive profits?	Drawings (money taken from business account).	Drawings (money taken from business account).	Dividends (profits based on number of shares owned).	None.

Activity 2 The Sole Trader

Fill in the gaps in the following paragraph with words that you think are correct. Choose the words from the following list.

decisions two time
 one money mistakes
 liability accounting

A sole trader business is run by _____ person. The responsibility for losses from the business is carried by the sole trader — this is known as unlimited _____. One advantage of being a sole trader is that you make all the _____ about the business yourself. A disadvantage is that there may not be enough _____ to expand the business or buy additional assets.

Activity 3**Partnerships**

1. Think about each of the following situations and decide whether or not it describes a partnership. Give a reason for each answer.
 - a. Sina and Matagi share the cost of buying a Lotto ticket and agree to share the prize money if they win.
 - b. Lautele is in business as a dress designer. She employs her niece Malia to help cut out patterns.
 - c. Ioane and Iulia each put in \$100 to buy buckets, mops and detergent so that they can earn some extra money by cleaning the local hotel.
 - d. Selu is a radio and television technician. His friend Lui fixes other household appliances like fridges and washing machines. They agree to join their businesses to provide a total household repair service.

Activity 4**Investing In Business**

Leo won \$20 000 on Lotto and wants to invest it wisely. His brother Ene has a bakery and needs more money to buy a new oven. He asks Leo to think about investing his money and becoming a silent partner in the bakery.

1. What is a silent partner?
2. What risks would Leo take by investing his money in the bakery?
3. What would Leo expect to get by investing his money in the bakery?
4. Leo thinks of putting his money in the bank. Give one advantage and one disadvantage of this choice.

Activity 5**Definitions**

Write sentences using each of the following terms. Write them out in your exercise book.

1. Dividend.
2. Shareholder.
3. Legal entity.
4. Limited liability.
5. Constitution.
6. Asset.

Activity 6**Review Questions**

State whether each of the following statements is true or false. Write each statement out in your exercise book, and correct those that are false.

1. There is no difference between a partnership with four partners and a company that has four shareholders.
2. If a company cannot pay its debts, the shareholders must put in money to pay them.
3. The shareholders in a company receive dividends which are their share of the profits.
4. The members of an incorporated society can take money out of the club's bank account any time they like.
5. The Board of Directors runs the day-to-day business of a company for the shareholders.

Unit 4: THE ACCOUNTING EQUATION

Aim

From your study of 'The Accounting Equation' you will understand how accounting concepts and principles can be used in reporting financial information.

Unit objectives

You will investigate and develop skills and understanding of the Accounting Equation when you:

- Use the accounting equation to record basic cash transactions which only affect assets and proprietorship.
- Interpret the transactions that have occurred from the changes in the accounting equation.
- Classify items into categories and show in a Statement of Financial Position.

Introduction

In this section we shall start with the accounts of a small business, such as a car mechanic. Remember that the business is separate from the person who is its owner, and it is the transactions of the business that we are going to record.

The business gets the money to start from its owner. Another word for business owner is proprietor.

Using The Accounting Equation

Kolisi is starting a new business. He is opening a car repair business and has done these things:

- He opened a bank account in the name of Sagone Car Repairs.
- Kolisi had a hydraulic jack (to lift cars off the ground) installed in his workshop. The jack cost \$2000, but Kolisi has not paid for it yet.
- He put \$5000 of his own money into the Sagone Car Repair account.
- He bought a cash register so that he could make a record every time he sold something. The cash register cost \$550 and he paid it from the Sagone Car Repair account.

The business so far. . .

We have enough information to learn some important words.

Asset: An asset is a thing owned by the business. Assets are under the control of the business and we expect the business to use them to make money. In our example, the cash register is an asset.

Liability: A liability is an amount of money owed by the business. This means that the business must either pay money or provide goods or services in the future. In our example, the \$2000 owed for the hydraulic jack is a liability. This account must be paid so it is called an Account Payable.

Proprietorship (owner's equity): Proprietorship (owner's equity) tells us how much the business is worth. If we sold the assets and paid the liabilities, the amount left over would be what the owner can keep. The owner's contribution to the business is referred to as 'capital'.

These words are used to make an equation, just as in maths:

$$\begin{array}{rcccc} \text{Assets} & = & \text{Liabilities} & + & \text{Proprietorship} \\ \text{A} & = & \text{L} & + & \text{P} \end{array}$$

In the equation we enter the total amounts. Set out the accounting equation for Sagone Car Repairs and work out the proprietorship. Remember that Kolisi put \$5000 of his own money in the business account but he spent \$550 to buy the cash register. The business also owes \$2000 for the hydraulic jack.

Assets		Liabilities	
Cash at bank	\$4450	Accounts payable	\$2000
Cash register	\$550		
Hydraulic jack	\$2000		
Total assets	\$7000	Total liabilities	\$2000

We can now calculate the proprietorship of Sagone Village Shop

$$\begin{array}{rcccc} \text{A} & = & \text{L} & + & \text{P} \\ \$7000 & = & \$2000 & + & \$5000 \end{array}$$

At this early stage of the business, the proprietorship is \$5000.

Activity 1**Assets, Liabilities And Proprietorship**

Work out whether the following are Assets (A), Liabilities (L) or Proprietorship (P). The first one is done for you.

1. The money in the bank account of Talita's Village Shop is an **asset**.
2. Extra money put into the Talita's Village Shop account by the owner is _____.
3. A loan from the bank so that the business can buy a fridge is _____.
4. The profit that is taken out of the business by the owner is _____.
5. The account that Talita's Village Shop must pay to buy the tinned fish is _____.
6. The cash in the cash register at the end of the day is _____.
7. The VAGST that the business must pay to the Inland Revenue Department is _____.

Activity 2**The Accounting Equation**

Fill in the missing figures to complete the accounting equation:

Assets	=	Liabilities	+	Proprietorship
\$		\$		\$
100 000	=	30 000	+	?
?	=	200 500	+	350 700
96 000	=	?	+	63 400
?	=	47 300	+	78 900
115 000	=	56 750	+	?
249 430	=	?	+	185 000
130 000	=	29 000	+	?
545 320	=	?	+	199 879
?	=	18 600	+	11 400
359 450	=	?	+	250 500
?	=	220 000	+	456 340
573 210	=	189 630	+	?

Interpreting Changes To The Accounting Equation

Every time Kolisi pays for something for the business, or is paid for work he does, a transaction takes place. And every time this happens, there is a change to the accounting equation.

Follow through the following example and see how the accounting equation changes.

Transaction 1: Kolisi starts Sagone Car Repairs with \$5000.				
Assets	=	Liabilities	+	Proprietorship
Bank	=			Capital
\$5000				\$5000
Transaction 2: Kolisi buys a Cash Register for \$550.				
Assets	=	Liabilities	+	Proprietorship
Bank + Equipment	=			Capital
\$4450 \$550				\$5000
Transaction 3: Kolisi gets the Hydraulic Jack that costs \$2000 but has not paid for it yet.				
Assets	=	Liabilities	+	Proprietorship
Bank + Equipment	=	Accounts Payable	+	Capital
\$4450 \$2550		\$2000		\$5000
Transaction 4: Kolisi buys \$1500 worth of car parts to use for fixing cars.				
Assets	=	Liabilities	+	Proprietorship
Bank + Equipment + Car parts	=	Accounts Payable	+	Capital
\$2950 \$2550 \$1500		\$2000		\$5000
Transaction 5: Kolisi takes \$1000 out of the business for his own use.				
Assets	=	Liabilities	+	Proprietorship
Bank + Equipment + Car parts	=	Accounts Payable	+	Capital
\$1950 \$2550 \$1500		\$2000		\$4000

Activity 3 Changes To The Accounting Equation

Malia has started a furniture business. Malia’s Discount Furniture Ltd has the following assets and liabilities.

Cash:	\$10 000
Stock:	\$12 000 (furniture for sale)
Equipment:	\$8000
Shop fittings:	\$3000
Bank loan:	\$4000
Owed to supplier:	\$1500

1. Enter Malia’s Assets and Liabilities into the accounting equation:

$$\begin{array}{ccccccc}
 \mathbf{A} & & = & \mathbf{L} & + & \mathbf{P} & \\
 ? & & = & ? & + & ? &
 \end{array}$$

2. Calculate Malia’s capital in the business.
3. Copy and complete the table below. Make sure you balance the equation after each transaction using the following information.
 - a. Malia buys a delivery truck for \$7000.
 - b. Malia puts another \$5000 of her own money into the business account.
 - c. Malia takes a bed out of the shop to give to her mother. The bed is worth \$1500. (Hint: decrease the proprietorship.)
 - d. Malia buys some second-hand furniture for \$3000 so she can fix it up to re-sell in her shop.
 - e. Malia sells some old equipment for \$2000 cash.

Malia’s Discount Furniture									
	A					=	L + P		
Details	Cash	Stock	Equipment	Shop fittings	Motor vehicles	=	Accounts payable	Loan	Capital
Balance	10 000	12 000	8000	3000		=			
Balance (a)						=			
Balance (b)						=			
Balance (c)						=			
Balance (d)						=			
Balance (e)						=			

The Statement Of Financial Position

The Accounting Equation is used to make the first **financial statement** we shall meet. This used to be called the **Balance Sheet** but is now known as the **Statement of Financial Position**.

The Statement of Financial Position

- Has a heading. This includes the name of the business and the date at which it was prepared.
- Sets out the assets, liabilities and proprietorship in exactly the same way as they are in the accounting equation.

The assets and liabilities are classified into categories or groups before they go on the Statement of Financial Position. The main groups are:

Assets

Cash at bank	The amount of money in the bank account of the business.
Accounts receivable	The amount of money that is owed to the business.
Stock	Things that the business buys so that it can sell to customers.
Equipment	Things the business uses: <i>e.g. Computer, fridge, tools, cash register.</i>
Furniture	Desks, tables and chairs used in the business.
Vehicles	Car and trucks owned and used by the business.
Fittings	Things that are built onto the building for the business: <i>e.g. Cupboards, shelves, lights.</i>
Buildings	Places to work in that are owned by the business.

Liabilities

Bank overdraft	The amount of money the business owes the bank if it takes out more money than it has in its account.
Accounts payable	Money that the business owes others for supplying goods and services.
Loans	Money the business has borrowed from the bank or other persons and which must be paid back.

Proprietorship

Opening capital The money the owner puts into the business at the start.

Owner's equity What the business is worth.

In the last activity Malia's Discount Furniture completed six transactions. After the last one the balance sheet would look like this:

Malia's Discount Furniture				
Statement of Financial Position as at 20 March 2002				
Assets	\$	Liabilities	\$	\$
Cash at Bank	7 000	Bank Loan	4 000	
Stock	13 500	Accounts Payable	<u>1 500</u>	5 500
Equipment	6 000			
Shop Fittings	3 000	Proprietorship		
Vehicles	<u>7 000</u>	Capital		<u>31 000</u>
	36 500			36 500

Notice that both sides of the Statement of Financial Position balance. All Balance Sheets or Statements of Financial Position follow this pattern.

Activity 4**Statement Of Financial Position**

Tatiana Traders is a shop which sells home appliances. You have been asked to help Lauulu, the owner, to prepare the business statement of financial position as at 31 March 2007. You have collected the following information:

Furniture	\$2000
Appliances	\$10 300
Accounts receivable	\$600
Bank overdraft	\$2500
Accounts payable	\$300
Shop fittings	\$850

1. Calculate the proprietorship at Tatiana Traders.
2. Prepare the Statement of Financial Position as at 31 March 2007.

Activity 5 Accounting Advice

Viliani works by himself as a builder. He has asked you to help him prepare his Statement of Financial Position. Viliani tells you he is finding it difficult to pay his bills on time. He gives you this information, which includes some of his personal affairs:

Assets		Liabilities	
Business truck	\$12 000	Wife's bank loan	\$2000
Building tools	\$8500	Bank loan for boat	\$4000
Boat	\$6500	House telephone bill	\$120
Business computer	\$4000	Business overdraft	\$400
Stereo	\$1500	Personal credit card	\$200
Fridge	\$1000		
Accounts receivable	\$4200		
Television	\$1500		

1. Prepare the Statement of Financial Position for Viliani Building Services as at 31 March 2007.
2. Give Viliani one piece of advice as to how he could improve the cash position of his business and avoid being late paying his bills.

Unit 5: RECORDING CASH TRANSACTIONS FOR A SOLE TRADER

Aim

From your study of 'Recording Cash Transactions for a Sole Trader' you will understand the functions of first books of entry in the accounting process.

Unit objectives

You will understand the process of recording entries for business and cash transactions:

- Describe the term 'transaction'.
- Identify source documents and describe their function.
- Describe the function of journals and their role in the accounting process, then record relevant information in the cash journals.
- Interpret transactions recorded in the different cash journals.
- Record entries in the general journal to describe the commencement of business for a sole trader.

Introduction

Every business must keep a record of the money it receives from customers and the money it pays out to other people or businesses. In this unit we look at how a sole trader keeps these records, and how an accountant processes the information.

Activity 1

Transactions

In accounting, the word transaction means something that happens and causes a change in the operations or finances of a business.

In this unit we will look at only two types of transaction and how they are recorded for a sole trader.

1. A cash sale to a customer (the sole trader sells something).
2. A cash purchase from a supplier (the sole trader buys something).

For a sole trader, a transaction takes place when money or goods go in and out of the business.

Given below is a list of activities that Kolisi does with his business, Sagone Car Repairs Ltd Copy the list below, and put a tick (✓) beside those activities that are transactions for the business, and a cross (✗) for those that are not.

1. Kolisi sells a can of oil to Apa for \$7.50.
2. Kolisi pays the electricity bill for the workshop.
3. Kolisi buys car parts to use in repairing a car.
4. Kolisi takes \$50 out of the cash register and gives it to his daughter to help pay for her trip to Australia.
5. Kolisi pays \$70 to get the lights in the workshop repaired.
6. Kolisi buys a new television set so he can watch the World Cup.
7. Kolisi fixes the brakes on Malia's car. She promises to pay him next week.
8. Kolisi buys a ladder to use in the workshop.
9. Kolisi puts \$120 in his own bank account to save for a new fridge for his family.

Source Documents

A **source document** is the record and evidence of a transaction. It is usually a piece of paper which has information about the transaction, such as:

- The name of business.
- The date.
- Details of a transaction.
- Amount of money involved.
- VAGST number of the business.

For Kolisi and Sagone Car Repairs the source documents could be:

- Cash sale made to a customer — a **cash sale docket**: the customer gets the top copy and Kolisi keeps the bottom copy.

Apia Paper Plus			
Beach Road			
Tax Invoice	VAGST	68 745 268	
Receipt Book		9.95	
	Total Sale	9.95	
Cash	Amount Tendered	10.00	
	Change	0.05	
529 9460	12/01/08	16:23	102VC
<i>We appreciate you shopping with us.</i>			

- Cash sale made to a customer — **cash register recording roll**: the customer may get a top copy which is ripped off, but a copy remains on the roll of paper in the machine.

Pete's Petrol			
VAGST 10 149 754			
*** Tax Invoice ***			
02 Unleaded 44.99 L	0.889 \$/L	\$40.00	
Cheque Fee		\$0.25	
Sale Total		\$40.25	
Cash		\$0.25	
Cheque		\$40.00	
Tax Amount		\$3.64	
02 February 2008	08:43 A.M.	0989/02 07	

- ❑ Cash purchase from a supplier — **an invoice issued by the supplier** to Sagone Car Repairs.

Invoice 961				
Frod Motor Company				
PO Box 76				
Apia				
Telephone 9856				
Tax Invoice				
VAGST 13 978 825				
Sagone Car Repairs			Date:	20 June 2005
			Purchase Order:	953
Item Code	Description	Quantity	Unit Price	Item Total
152	Oil Filter	12	5.60	\$67.20
231	Brake Pad	10	3.20	\$32.00
			Total Goods	\$99.20
			VAGST	\$9.92
			Total Due	\$109.12
<i>Please pay on this invoice.</i>				

- ❑ Cash purchase from a supplier — **the cheque butt**: the small part or stub that is left after Kolisi writes out a cheque and uses it to pay someone else.

<u>2 July 20 05</u>		
<u>To Frod Motor Company</u>		
<u>For Car Parts</u>		
Bal B/Fwd		
Deposits		
This Cheque	109	12
Bal C/Fwd		
231141		

Kolisi keeps all these documents as a record of every transaction he makes. At the end of each month or year the accountant can use these documents to produce the financial statements for Sagone Car Repairs.

Activity 2 Interpreting Documents

Kolisi has the following documents in a box. Study them and then answer the questions that follow on the next page.

Document A

Sagone Car Repairs Receipt No. 3154
13/9/08

Received from Tama Tuiono

Sixty three dollars and thirty five
\$63.35

With thanks *Kolisi*

Document B

11769

Tayato Motor Co. Ltd Tax Invoice
 13/9/08

VAGST No. 71 413

Invoice to **Sagone Car Repairs**

25 Brake Pads @ \$4.00	\$100.00
VAGST	\$12.50
Total	\$112.50

Document C

Sagone Car Repairs Tax invoice 34554
 13/9/08

VAGST No. 69 123

Invoice to Tainui Hotel Ltd

Repair clutch on pickup truck	\$600.00
VAGST	\$75.00
Total	\$675.00

Document D

Trouble Free TV Ltd

Tax invoice 195
 13/9/08

To: Kolisi Sagone

For: Servicing Television \$50.00
 Parts \$40.00

VAGST 11.25

Total \$101.25

VAGST No. 62 182

Study the documents that Kolisi has collected and answer the following questions. Copy out each question and write your answers in your exercise book.

1. Which document shows that Sagone Car Repairs is owed money for work done?
2. Which document shows that Sagone Car Repairs made a purchase from a supplier?
3. Which document shows that a customer paid their account?
4. Which document does not belong with the records of Sagone Car Repairs?
5. Give a reason for your answer to question four.
6. Kolisi buys 20 oil filters and receives this invoice. Copy the cheque below, and fill it out so that Kolisi can pay this account.

Rapco Motor Parts	Tax invoice 1496						
18/9/08							
VAGST No. 70 248							
Invoice to:	Sagone Car Repairs						
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;">20 Oil filters @ \$20</td> <td style="width: 30%; text-align: right;">\$400.00</td> </tr> <tr> <td>VAGST @ 12.5%</td> <td style="text-align: right;">\$50.00</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">\$450.00</td> </tr> </table>		20 Oil filters @ \$20	\$400.00	VAGST @ 12.5%	\$50.00	Total	\$450.00
20 Oil filters @ \$20	\$400.00						
VAGST @ 12.5%	\$50.00						
Total	\$450.00						

Date _____	Bank of Sāmoa	Date _____						
To _____	Apia							
_____	Sāmoa							
For _____	Pay _____							
_____	The sum of _____	\$ 						
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%;">Amount</td> <td style="width: 85%;"></td> </tr> <tr> <td>VAGST</td> <td></td> </tr> <tr> <td>Total</td> <td></td> </tr> </table>	Amount		VAGST		Total		_____	
Amount								
VAGST								
Total								
	Sagone Car Repairs	_____						

Journals

A **journal** is a book or file that is used by an accountant to record the transactions of a business. The information that is entered in a journal comes from the source documents. This is why it is important for a **sole trader**, like Kolisi, to keep these documents in a safe place before he passes them on to his accountant.

- Cash sales are recorded in the cash receipts journal.
- Cash purchases are recorded in the cash payments journal.
- The journals are written up in **order of time**. This means the transactions are recorded in the order in which they took place. (The word journal comes to English from the Latin word ‘diurnalis’ which means daily.) The journal has a complete record of what happened each day in the business.
- The information in the journals is later summarised and posted to a ledger account. The **financial statements** of the business are then produced from a ledger account.

The Cash Receipts Journal (CRJ)

A receipt is usually issued for each amount of money that comes into a business. The information on the receipt is used to make an entry into the cash receipts journal.

Kolisi started his business — Sagone Car Repairs — on June 1. He invested his pick-up truck, valued at \$4000, and cash of \$5000 in the business. The following is a summary of all the cash received during the month of June.

1	Opened business bank account.	\$5000	Receipt no 001
3	Received payment for car repairs.	\$150	Receipt no 002
5	Received a loan from the bank.	\$2000	Bank statement
9	Received payment for car repairs.	\$200	Receipt no 003
14	Received payment for car repairs.	\$350	Receipt no 004
	Sold the pick-up truck because the business needs a tow truck.	\$4000	Receipt no 005
19	Received interest from bank account.	\$10	Bank statement
20	Received payment for car repairs.	\$120	Receipt no 006
26	Received payment for car repairs.	\$80	Receipt no 007
	Received payment for car repairs.	\$220	Receipt no 008
	Received payment for car repairs.	\$140	Receipt no 009
27	Received payment for car repairs.	\$70	Receipt no 010

Kolisi took his source documents — the receipts and bank statements — to Perelini, who was an accountant specialising in small businesses. Perelini used this information to prepare the first page of the cash receipts journal for Sagone Car Repairs.

Sagone Car Repairs Cash Receipts Journal						
Date	Particulars	Rec no	Receipts	Bank	Sales	Sundry
June 1	Capital — Kolisi	001	5000	5000		5000
3	Cash Sale	002	150	150	150	
5	Bank Loan	B/S	2000	2000		2000
9	Cash Sale	003	200	200	200	
14	Cash Sale	004	350	350		
	Sold Vehicle	005	4000	4350		4000
20	Cash Sale	006	120	120	120	
26	Cash Sale	007	80			
	Cash Sale	008	220			
	Cash Sale	009	140	440	440	
27	Cash Sale	010	70	70	70	
19	Interest	B/S	10	10		10

Filling in the cash receipts journal

Perelini followed a number of steps to fill in the Cash Receipts Journal from the information in the source documents.

1. Date

This column shows the date of the transaction. Notice that on 26 June there were three transactions. The date is entered beside the first transaction.

2. Particulars

This column has a brief description of each transaction. Most of Sagone Car Repairs money comes from cash paid by customers for the work Kolisi does. These transactions are cash sales. But the business also received money from Kolisi at the start, and from the bank as a loan, and as interest.

3. Rec no

This column shows the receipt number for each transaction. Notice that for the interest received, Perelini entered B/S which means she got this information from the bank statement. The bank also told Perelini that on 5 June her loan had been approved, and the money put into the business account.

4. Receipts

In this column, Perelini entered the amount that Kolisi received. Notice that Perelini draws a line in this column to separate each day.

5. Bank

In this column, Perelini entered the amount that Kolisi banked. Kolisi does his banking each day. Notice that the three transactions on 26 June are added up and only the total is entered in the Bank column. This shows the amount of money that was deposited in the bank on that day.

6. Sales

This column shows the amount for sales. This has its own column because the business receives money from cash sales many times each month.

7. Sundry

In this column, Perelini entered money that the business received from activities that were not the main work of the company. The sundry column shows transactions that do not occur very often.

Notice that the interest transaction is shown at the bottom of the journal because the bank statement which showed this information was received at the end of the month.

Activity 3 Cash Receipts Journal

Keneti and Lene run the Tasti Bakery in Apia. Their accountant has drawn up the following Cash Receipts Journal for the month of July.

1. Check the journal and find the errors that it contains. Write up the correct journal in your exercise book.
2. Write a sentence to describe the transactions which took place on July 1, 6, 14, 15 and 23.

Tasti Bakery Cash Receipts Journal							
Date	Particulars	Rec no	Ref	Receipts	Bank	Sales	Sundry
July 1	Capital — Keneti	101		2000			
	Capital — Lene	102		2000	4000		4000
3	Cash sales	104		99		99	
	Cash sales	105		120		120	
	Cash sales	106		220	439	220	
6	Cash sales	107		330	330		330
10	Cash sales	55		55		55	
	Cash sales	109		132	177	132	
14	Loan — ANZ	B/S		2200	2200		2000
19	Cash sales	110		165	165	165	
22	Cash sales	111		66		66	
	Cash sales	112		154	220	145	
23	Sold mixer	113		143	143	143	
25	Cash sales	114		77		77	
	Cash sales	15		121	198	198	
15	Interest	B/S		22	20		20

Activity 4**Completing A Cash Receipts Journal**

Lusia is a lawyer who works for herself. Therefore she is a sole trader. The following list of cash receipts is from her business. Draw up the cash receipts journal for October.

1	Received cash for fees.	\$1100	Receipt no 421
5	Received interest in cash.	\$27	Bank statement
7	Received cash for fees.	\$500	Receipt no 422
11	Sold office furniture.	\$297	Receipt no 423
12	Lusia puts more money into the business.	\$5000	Receipt no 424
16	Received interest.	\$66	Receipt no 425
	Received cash for fees.	\$286	Receipt no 426
20	Received loan from bank.	\$5000	Bank statement
23	Cash for fees.	\$2750	Receipt no 427
24	Cash for fees.	\$2233	Receipt no 428
25	Sold office computer.	\$1100	Receipt no 429
30	Cash for fees.	\$550	Receipt no 430

The Cash Payments Journal (CPJ)

All businesses have expenses that must be paid. If the sole trader paid for these with cash out of the cash register there is no record of the transaction.

For this reason, businesses pay their accounts by cheque (the source document is the cheque butt) or by an automatic payment from the bank account (the source document is the bank statement). Either way, there is a record of the transaction.

The **Cash Payment Journal** shows all cash payments, and puts them into groups.

Kolisi runs Sagone Car Repairs. During the month of June he made the following payments.

2	Paid electricity bill.	\$70	Cheque 296
4	Paid for new tools.	\$560	Cheque 297
8	Paid wages to Ema for office work.	\$99	Cheque 298
10	Kolisi drew out money for his own use.	\$200	Cheque 299
16	Paid phone bill and bought a cell phone on one cheque.	\$320	Cheque 300
19	Paid for car parts.	\$500	Cheque 301
20	Bought a new tow truck.	\$8000	Cheque 302
24	Kolisi drew out money for his own use.	\$100	Cheque 303
26	Paid for car parts.	\$300	Cheque 304
	Paid wages to Ema for office work.	\$99	Cheque 305

The bank statement showed that an automatic payment of \$60 for Insurance was made on 23 June and bank fees of \$3 were charged on 30 June.

Perelini, the accountant, used this information to prepare the cash payments journal for Sagone Car Repairs.

Sagone Car Repairs Cash Payments Journal								
Date	Particulars	Chq no	Details	Bank	Drawings	Purchases	Wages	Sundry
July 2	Electricity	296		70				70
4	Tools	297		560				560
8	Wages	298		99			99	
10	Drawings	299		200	200			
16	Telephone		300	120				120
	Cell Phone		200	320				200
19	Purchases	301		500		500		
20	Truck	302		8000				8000
24	Drawings	303		100	100			
26	Purchases	304		300		300		
	Wages	305		99			99	
23	Insurance	B/S		60				60
30	Bank Fees	B/S		3				3

Filling in the cash payments journal

Perelini followed a number of steps to fill in the cash payments journal from the information on the source documents.

1. Date

This column shows the date of the transaction. Notice that on 16 and 26 July there were two transactions. The date is entered beside the first transaction.

2. Particulars

This column has a brief description of each payment.

3. Cheque Number

This shows the number of the cheque that was used for each payment. Notice that for insurance and bank fees, Perelini entered B/S which means she got this information from the bank statement.

4. Details

This column is used only when two payments of different types are made by writing out one cheque.

5. Bank

In this column, Perelini entered the amount that came out of the bank account when the payment transaction was made.

6. Drawings and wages

Perelini decided to have separate column for each of these transactions because they occur frequently and affect the profitability of the business.

7. Sundry

In this column, Perelini entered payments that are made only once a month or less often.

Note:

- a) Notice that the insurance and bank fee transactions are shown at the bottom of the journal, because the bank statement which showed this information was received at the end of the month.
- b) On 19 July and 26 July, the business bought car parts to be sold to customers or used in the repair of cars. This is recorded as 'purchases'.
- c) The new cellphone is included in the 'Office Equipment' account.

Activity 5 Cash Payments Journal

Fofoga has a business selling dress material. During the month of April she makes the following cash payments.

1	Cash drawings.	\$200	Cheque No 837
2	Paid wages.	\$120	Cheque No 838
3	Bought new computer.	\$4400	Cheque No 839
5	Subscription for fashion magazine.	\$154	Cheque No 840
	Paid for material. (Purchases)	\$429	Cheque No 841
9	Paid wages.	\$120	Cheque No 842
10	Paid advertising.	\$77	Cheque No 843
14	Cash drawings.	\$200	Cheque No 844
15	Paid telephone account.	\$33	Cheque No 845
16	Paid wages.	\$120	Cheque No 846
17	Paid insurance.	\$220	Cheque No 847
18	Paid for material. (Purchases)	\$880	Cheque No 848
19	Cash drawings.	\$160	Cheque No 849
23	Paid wages. (Purchases)	\$120	Cheque No 850
24	Paid for material.	\$297	Cheque No 851
30	Paid wages.	\$120	Cheque No 852

The bank statement at the end of the month showed that \$6 bank fees had been charged on 30 April.

Record these transactions in the Cash Payments Journal. The headings have been set up for you.

Fofoga's Material Shop Cash Payment Journal								
Date	Particulars	Chq No	Details	Bank	Material	Drawings	Wages	Sundry

Activity 6**Recording Transactions**

Lauulu works for himself as a taxi driver. During May he makes the following cash payments. Record these transactions in a cash payments journal.

3	Paid bank loan.	\$400	Cheque no 312
4	Paid for new tyres.	\$352	Cheque no 313
7	Paid wages.	\$80	Cheque no 314
8	Paid petrol.	\$88	Cheque no 315
9	Paid annual car insurance.	\$242	Cheque no 316
11	Paid telephone.	\$66	Cheque no 317
12	Paid petrol and a new light bulb.	\$77 \$11	Cheque no 318
14	Paid wages.	\$80	Cheque no 319
	Cash drawings.	\$150	Cheque no 320
17	Paid broken window repair.	\$55	Cheque no 321
19	Paid petrol.	\$77	Cheque no 322
21	Paid wages.	\$82	Cheque no 323
26	Paid petrol.	\$66	Cheque no 324
27	Cash drawings.	\$220	Cheque no 325
28	Paid wages.	\$64	Cheque no 326

The bank statement showed that bank fees of \$13 had been charged on 2 May.

Commencing In Business

So far we have looked at the cash receipts journal and the cash payments journal. There is another journal called the **General Journal**, which is used to record the opening of the business.

When Kolisi started Sagone Car Repairs he put \$5000 of his own money in the business bank account. He also put his pick-up truck worth \$4000 in the business. The accountant, Perelini, recorded this special transaction to open the business in the general journal.

Sagone Car Repairs			
General Journal			
			Page 1
Date	Particulars	Dr \$	Cr \$
June 1	Bank	5000	
	Truck	4000	
	Capital		9000
	(Opening entry)		

Perelini followed a number of steps to fill in the general journal to record the opening of the business.

1. Date

This column shows the date at which the business started.

2. Particulars

This payment has a brief description of what the entry is about. In this case the business has \$5000 in the bank and a truck worth \$4000.

4. Debit (Dr) and Credit (Cr)

Perelini has to decide if each entry should be a debit or credit entry. She used the **accounting equation** to help her decide. These are the rules that help record accounting transactions.

$$\mathbf{A} = \mathbf{L} + \mathbf{P}$$

If assets increase \longrightarrow debit

If assets decrease \longrightarrow credit

If liability or proprietorship increase \longrightarrow credit

If liability or proprietorship decrease \longrightarrow debit

- Money in bank has increased by \$5000 (assets) \longrightarrow **debit entry**
- Business has gained a truck (assets increased) \longrightarrow **debit entry**
- The owner has put \$5000 of his own money and his \$4000 truck into the business. The proprietorship (capital) has increased by \$9000 \longrightarrow **credit entry**

Notice that the total of the debit column equals the total of the credit column. And also that for every credit entry, there is a debit entry. You will meet credit and debit entries again in the next chapter when you learn about ledgers.

Preparing A General Journal

You have been asked by Alofaae, a dentist, to open a set of accounting records for her business. She gives you the following information as at 1 March 2008.

- Bought equipment for \$3000 to use in the business.
- Put a car valued at \$10 000 into the business.
- Has \$750 in the Bank.

Prepare a general journal entry to open the accounting records of the dentist — Alofaae.

Unit 6: PROCESSING ACCOUNTING INFORMATION FOR A SOLE TRADER

Aim

From your study of ‘Processing Accounting Information for a Sole Trader’ you will understand the functions of ledgers and drawing up of financial statements within the accounting process.

Unit objectives

Students will investigate and develop skills and understanding of (i) the procedure to post cash journals to general ledger accounts and (ii) the function of a trial balance when they:

- Describe the stages of the accounting process.
- Describe the function of the ledger.
- Post relevant information from the cash journal to the general ledger.
- Draw up a trial balance from details recorded in the general ledger.
- Explain the function of the trial balance.

Introduction

The books of first entry that we looked at in the last chapter give an easy way to group similar entries together. For example, the accountant grouped payments for wages in the same column of the cash payments journal. The accountant can use these journals to write up the ledger accounts. This process of taking information from the journals and writing it in the ledger accounts is known as **posting to the ledger**.

The Ledger

A **ledger** account is a book where information about similar transactions is kept. This information can also be kept on a computer.

The ledger has two functions:

- To classify information into individual accounts.
- To summarise information by finding one total figure for each account.

Each business has a different set of accounts because they carry out different transactions. But there are usually five main groups.

Account	What is entered
1. Assets Current Assets Non-current assets	Economic resources owned by the business: <i>e.g. Buildings, equipment, stock, accounts receivable, cash.</i>
2. Liabilities Current liabilities Non-current liabilities	Debts owed by the business: <i>e.g. Accounts payable, loans, bank overdraft.</i>
3. Proprietorship (Owner's equity)	This account can be in two parts: Capital — records what the owner puts into the business. Drawings — records what the owner takes out of the business.
4. Revenue	The money earned by doing business: <i>e.g. Sales, commissions, interest, fees.</i>
5. Expenses	The cost of products and services that are used in doing business: <i>e.g. Wages, salaries, advertising, electricity.</i>

Entering Transactions Into The Ledger

All bookkeeping uses the double-entry system. This system is based on debit and credit entries. The word debit is often abbreviated to **Dr** and the word credit is abbreviated to **Cr**.

When you recorded transactions in the accounting equation each transaction had to balance. The same applies to the ledgers. For every debit there must be a corresponding credit or credits and for every credit there must be a corresponding debit or debits.

For every transaction, the total debit amounts must equal the total credit amounts.

Assets, expenses and drawings have **debit balances**.

Liabilities, proprietorship and revenue have **credit balances**.

The rules for entering transactions in the General Ledger are:

Assets + Expenses + Drawings		=	Liabilities + Proprietorship + Revenue	
Increase in value	→ debit		Increase in value	→ credit
Decrease in value	→ credit		Decrease in value	→ debit

If an asset or expense increases in value, it is debited. If an asset or expense decreases in value it is credited. The opposite applies to liabilities, proprietorship and revenue — if they increase in value they are credited, if they decrease in value they are debited.

Activity 1 Filling Out A Ledger

Copy out the following paragraphs and fill in the gaps.

A ledger account records increases, _____ and balances. The left hand side of the ledger account is known as the _____ side and the right hand side of the ledger account is known as the _____ side. In accounting the word 'debit' can be abbreviated to _____, and the word credit can be abbreviated to _____. For every transaction the total debit amounts must _____ the total credit amounts.

If an asset, expense or drawings account increases in value it is _____. If a liability, proprietorship (capital) or revenue account _____ in value it is credited. Asset and expense accounts have debit _____. Liability and revenue accounts have _____ balances. Capital has a _____ balance and drawings has a _____ balance.

Activity 2 Debit And Credit

You are required to determine whether the following ledger accounts would normally have a debit or a credit balance. Copy out the following list into your exercise book, and write (Dr) or (Cr) in the space provided for you.

1. Advertising ()
2. Sales ()
3. Bank overdraft ()
4. Capital ()
5. Purchases ()
6. Interest received ()
7. Drawings ()
8. Equipment ()
9. Loan from A.N.Z. ()
10. Wages ()
11. Insurances ()
12. Tax ()

Posting The Cash Receipts Journal To The Ledger

In the last Unit we prepared a cash receipts journal for Sagone Car Repairs. The next step for Perelini, the accountant, is to post this journal to the ledger.

Think of the ledger as a book where information about similar things is grouped together in an account. For example, the ledger may have an account called 'sales' and another one called 'electricity'.

The Ledger is a 'T' shape — with the name of the account on top. For example:

Sales							
Date	Particulars	Ref.	\$	Date	Particulars	Ref.	\$

Debit entries
Credit entries

Perelini has to decide which accounts have debit entries and which have credit entries.

To help her decide, Perelini uses the **accounting equation**.

Assets + Expenses + Drawings =	Liabilities + Proprietorship + Revenue
Bank Dr	VAGST Cr Capital Cr Sales Cr
Vehicle Cr	Loan Cr Interest Cr
Increase in value → debit	Increase in value → credit
Decrease in value → credit	Decrease in value → debit

Sagone Car Repairs						Page 1
Cash Receipts Journal						
Date	Particulars	Rec no	Receipts	Bank	Sales	Sundry
June 1	Capital — Kolisi	001	5000	5000		5000
3	Cash Sale	002	150	150	150	
5	Bank Loan	B/S	2000	2000		2000
9	Cash Sale	003	200	200	200	
14	Cash Sale	004	350		350	
	Sold Vehicle	005	4000	4350		4000
20	Cash Sale	006	120	120	120	
26	Cash Sale	007	80			
	Cash Sale	008	220			
	Cash Sale	009	140	440	440	
27	Cash Sale	010	70	70	70	
19	Interest	B/S	10	10		10
				12 340	1330	11 010

Perelini drew up the **posting summary**:

Posting Summary			
Debit Entries	\$	Credit Entries	\$
Bank	12 340	Cash Sales	1330
		Capital	5000
		Loan	2000
		Vehicle	4000
		Interest	10
	<u>\$12 340</u>		<u>\$12 340</u>

Now Perelini was ready to post the cash receipts journal to the ledger. She used the following steps for all the columns in the cash receipts journal except sundry:

1. Enter the amount in the ledger account.
2. Write 'CRJ1' in the 'Ref' column of the ledger account. This means that the entry in the ledger was posted from the Cash Receipts Journal, page 1.
3. Put a tick beside each item that is posted as part of a total figure:
e.g. Sales.

Each item in the sundry column must be posted separately. (Remember that these were 'one-off' transactions.)

After Perelini has posted the cash receipts journal to the ledger it looked like this. (As a check, Perelini ticked each amount she posted to the ledger.)

When Perelini had finished posting the Cash Receipts Journal, it looked like this:

Sagone Car Repairs							Page 1
Cash Receipts Journal							
Date	Particulars	Ref	Rec no	Receipts	Bank	Sales	Sundry
June 1	Capital: Kolisi		001	5000	5000		5000 ✓
3	Cash Sale		002	150	150	150	
5	Bank Loan		B/S	2000	2000		2000 ✓
9	Cash Sale		003	200	200	200	
14	Cash Sale		004	350		350	
	Sold Vehicle		005	4000	4350		4000 ✓
20	Cash Sale		006	120	120	120	
26	Cash Sale		007	80			
	Cash Sale		008	220			
	Cash Sale		009	140	440	440	
27	Cash Sale		010	70	70	70	
19	Interest		B/S	10	10		10 ✓
					12 340 ✓	1330 ✓	11 010

Sagone Car Repairs General Ledger							
Bank							
Jun 30	Sundry receipts	CRJ	12 340				
Vehicle							
Jun 1	Capital	GJ1	4000	Jun 30	Bank	CRJ1	4000
Loan							
				Jun 30	Bank	CRJ1	2000
Capital							
Jun 30	Balance	c/f	9000	Jun 1	Vehicle	GJ1	4000
				30	Bank	CRJ1	5000
			<u>9000</u>				<u>9000</u>
				Jul 1	Balance	b/d	9000
Sales							
				Jun 30	Bank	CRJ1	1330
Interest							
				Jun 30	Bank	CRJ1	10

- The debit entries are on the left and the credit entries on the right.
- There is only one posting for each type of transaction for each month: *e.g. There is only one posting for cash sales — the total figure for the month.*
- All postings are dated at the end of the month.
- The ‘particulars’ column of the bank account shows ‘sundry receipts’. This is the total money banked in June but it does not say where this money came from.
- The vehicle has four entries:

One and two: A ‘Dr’ entry in the vehicle account and a ‘Cr’ entry in the capital Account. Note that both these entries have ‘GJ1’. This refers to the general journal (see Unit 5) and these entries were made when the business started and Kolisi put the truck into the business.

Three and four: A ‘Dr’ entry as part of the ‘sundry receipts’ in the bank account and a ‘Cr’ entry in the vehicle account. This refers to Kolisi selling the truck. Remember that \$4000 went into the bank — but the vehicle account was credited because an asset (vehicle) had decreased in value.

Posting The Cash Payments Journal To The Ledger

In the last Unit we prepared a cash payments journal for Sagone Car Repairs. Perelini, the accountant, also posted this to the ledgers. Again, she used the accounting equation to decide which accounts to debit and which to credit.

The posting summary for the cash payments of Sagone Car Repairs, that Perelini drew up, is shown below. The cash journal is shown on the next page.

Posting Summary			
Debit Entries	\$	Credit Entries	\$
Electricity	70	Bank	10 311
Tools	560		
Wages	198		
Drawings	300		
Telephone	120		
Office equipment	200		
Purchases	800		
Truck	8000		
Insurance	60		
Bank Fees	3		
	<u>\$10 311</u>		<u>\$10 311</u>

Sagone Car Repairs Cash Payments Journal								Page 1
Date	Particulars	Chq no	Details	Bank	Drawings	Purchases	Wages	Sundry
July 2	Electricity	296		70				70
4	Tools	297		560				560
8	Wages	298		99			99	
10	Cash drawing	299		200	200			
16	Telephone	300	120					120
	Cell phone		200	320				200
19	Purchases	301		500		500		
20	Truck	302		8000				8000
24	Cash drawing	304		100	100			
26	Purchases	705		300		300		
	Wages	305		99			99	
23	Insurance	B/S		60				60
30	Bank fees	B/S		3				3
				10 311	300	800	198	9013

Now Perelini was ready to post the Cash Payments Journal to the Ledger. She used the following steps:

Posting the Cash Payments Journal

For all columns in the Cash Payments Journal except sundry:

1. Enter the amount in the ledger account.
2. Write 'CPJ1' in the ref column of the ledger account. This means that the entry in the ledger was posted from the cash payments journal, page one.
3. Put a tick beside each item that is posted as part of a total figure:
e.g. Wages.

Each item in the sundry column must be posted separately.
(Remember that these were one-off transactions.)

After Perelini had posted the Cash Payments Journal to the Ledger it looked like this.

Sagone Car Repairs								Page 1
Cash Payments Journal								
Date	Particulars	Chq no	Details	Bank	Drawings	Purchases	Wages	Sundry
July 2	Electricity	296		70				70 ✓
4	Tools	297		560				560 ✓
8	Wages	298		99			99	
10	Cash drawing	299		200	200			
16	Telephone	300	120					120 ✓
	Cell phone		200	320				200 ✓
19	Purchases	301		500		500		
20	Truck	302		8000				8000 ✓
24	Cash drawing	304		100	100			
26	Purchases	705		300		300		
	Wages	305		99			99	
23	Insurance	B/S		60				60 ✓
30	Bank fees	B/S		3				3 ✓
				10 311 ✓	300 ✓	800 ✓	198 ✓	9013

When Perelini had finished posting the Cash Payments Journal, the ledger accounts looked like this. (Remember they also include the postings from the Cash Receipts Journal.)

Sagone Car Repairs General Ledger							
Bank							
Jun 30	Sundry receipts	CRJ1	12 340		Jun 30	Sundry payments	CPJ1 10 311
						Balance	c/f 2029
			<u>\$12 390</u>				<u>\$12 340</u>
Jul 1	Balance	b/d	2029				
Vehicle							
Jun 1	Capital	GJ1	4000		Jun 30	Bank	CRJ1 4000
30	Bank	CPJ1	8000			Balance	c/f 8000
			<u>\$12 000</u>				<u>\$12 000</u>
Jul 1	Balance		8000				
Tools							
Jun 30	Bank	CPJ1	560				
Office Equipment							
Jun 30	Bank	CPJ1	200				
Loan							
					Jun 30	Bank	CRJ1 2000
Capital							
Jun 30	Balance	c/f	9000		Jun 1	Vehicle	GJ1 4000
					30	Bank	CRJ1 5000
							9000
					Jul 1	Balance	b/d 9000
Drawings							
Jun 30	Bank	CPJ1	300				
Sales							
					Jun 30	Bank	CRJ1 1330

Interest						
			Jun 30	Bank	CRJ1	10
Purchases						
Jun 30	Bank	CPJ1	800			
Bank fees						
Jun 30	Bank	CPJ1	3			
Electricity						
Jun 30	Bank	CPJ1	70			
Insurance						
Jun 30	Bank	CPJ1	60			
Telephone						
Jun 30	Bank	CPJ1	120			
Wages						
Jun 30	Bank	CPJ1	198			

The cash journals have now been posted to the ledger.

The Trial Balance

If we make a double entry for each transaction, all the debit entries should equal all the credit entries. So if we balance our accounts in the ledger, the debit balances should equal the credit balances.

The **trial balance** is a list drawn up to check this. It is normally done by an accountant at the end of each month.

Perelini, the accountant for Sagone Car Repairs, drew up the trial balance for June by listing the debit entries on the left and the credit entries on the right.

Sagone Car Repairs			
Trial Balance as at 30 June 20__			
	\$		\$
Cash at Bank	2029	Loan	2000
Vehicle	8000	Capital	9000
Tools	560	Sales	1330
Office Equipment	200	Interest	10
Drawings	300		
Purchases	800		
Bank Fees	3		
Electricity	70		
Insurance	60		
Telephone	120		
Wages	198		
	<u>\$12 340</u>		<u>\$12 340</u>

If the totals of the trial balance are the same, Perelini knows that she has made a debit entry and a credit entry for each transaction and that she has 'done the maths right'.

But this is not proof that the accounts are correct. For example, the two entries for 'Tools' could have been made at \$650 instead of \$560. The totals would still balance.

However, the trial balance is useful when the totals do not agree as it tells Perelini she has made a mistake somewhere which she must fix up.

Activity 3 The Accounting Process (Part 1)

Alena started business on 1 July as an agricultural consultant. Her job is to advise farmers on better ways of growing crops. Her accountant has started drawing up the cash receipts and cash payments journals for July.

Alena — Agricultural Consultant Cash Receipts Journal							
Date	Particulars	Rec no	Receipts	Bank	Fees	Interest	Sundry
Jul 1	Capital	001	5000	5000			
3	Cash Fees	002	240	240			
8	Cash Fees	003	120	120			
17	Cash Fees	004	540	540			
20	Cash Fees	005	136	136			
	Loan	B/S	1000	1000			
25	Cash Fees	006	80	80			
5	Interest	B/S	20	20			
11	Interest	B/S	18	18			
27	Interest	B/S	17	17			
				\$7171			

The accountant has also set up these ledger accounts:

Bank.	Office furniture.
Office equipment.	Loan.
Capital.	Drawings.
Fees.	Interest.
Electricity.	Postage.
Rent.	Stationery.
Telephone.	Wages.

UNIT 6

Alena — Agricultural Consultant Cash Receipts Journal								
Date	Particulars	Chq no	Bank	Stationery	Wages	Drawings	Postage	Sundry
July 1	Paper	300	60					
3	Electricity	301	70					
5	Wages	302	90					
7	Drawings	303	150					
9	Telephone	403	85					
12	Desk	305	365					
	Wages	306	90					
14	Computer	307	5250					
16	Rent	308	425					
19	Wages	309	90					
21	Drawings	310	160					
23	Pens/paper	311	27					
25	Stamps	312	45					
26	Wages	313	90					
30	Drawings	314	150					
			\$7147					

1. Copy out and complete the cash receipts and cash payments journals.
2. Prepare posting summaries for each journal.
3. Post the journals to the ledger accounts listed opposite.
4. Prepare a trial balance as at 31 July.

Activity 4 The Accounting Process (Part 2)

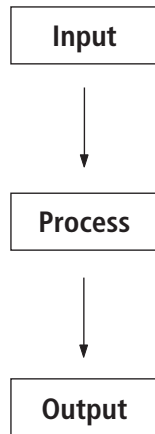
Ioane opens a business selling electronic goods. On March 1 he puts \$10 000 of his own money and his \$5500 truck into the business. In the rest of the month he carries out the following transactions.

March 2	Cash Sales	\$640	
3	Paid for advertising.	\$120	Cheque 101
4	Cash Sales	\$320	
5	Withdrew money (for personal use)	\$500	Cheque 102
	Paid wages	\$216	Cheque 103
6	Cash Sales	\$332	
7	Bought goods for resale (purchases)	\$950	Cheque 104
	Paid electricity account	\$86	Cheque 105
9	Cash Sales	\$340	
11	Loan from Bank of Sāmoa	\$5400	
12	Paid wages	\$216	Cheque 106
14	Cash Sales	\$127	
17	Bought goods for resale	\$1430	Cheque 107
18	Paid rent for March	\$844	Cheque 108
19	Paid wages	\$216	Cheque 109
20	Cash Sales	\$680	
22	Withdrew money for personal use	\$210	Cheque 110
24	Paid telephone account	\$45	Cheque 111
25	Cash Sales	\$937	
26	Bought shop fittings	\$450	Cheque 112
	Paid wages	\$216	Cheque 113
28	Paid for repairs on the truck and for petrol	\$92 \$56	Cheque 114
29	Cash Sales	\$820	
30	Paid advertising	\$110	Cheque 115

1. Write up an entry in the general journal to record the opening of the business.
2. Prepare the cash receipts and cash payments journal for March.
3. Prepare a ledger posting summary for each journal.
4. Post the journals to the ledger.
5. Prepare a trial balance as at 31 March.

Looking Back — The Accounting Process

Financial information is produced by the accounting process. We have followed the accounting process for Sagone Car Repairs.



Input The daily transaction records of the business transactions are recorded in the cash journals. This information comes from the source documents.

Process The accountant produces a posting summary of the cash receipts and cash payments journal. He/she then posts the totals of the cash journals to the ledger accounts.

Output The accountant produces a trial balance report which checks that the debit totals equals the credit totals in the ledger accounts.

The best way to learn about the processing part of accounting, sometimes called book-keeping, is to follow through a manual system where all the records are written by hand. This book has followed the manual system for Sagone Car Repairs. Once you understand this, it is easier to follow the computerised systems that accountants now use.

Activity 5

Review Questions

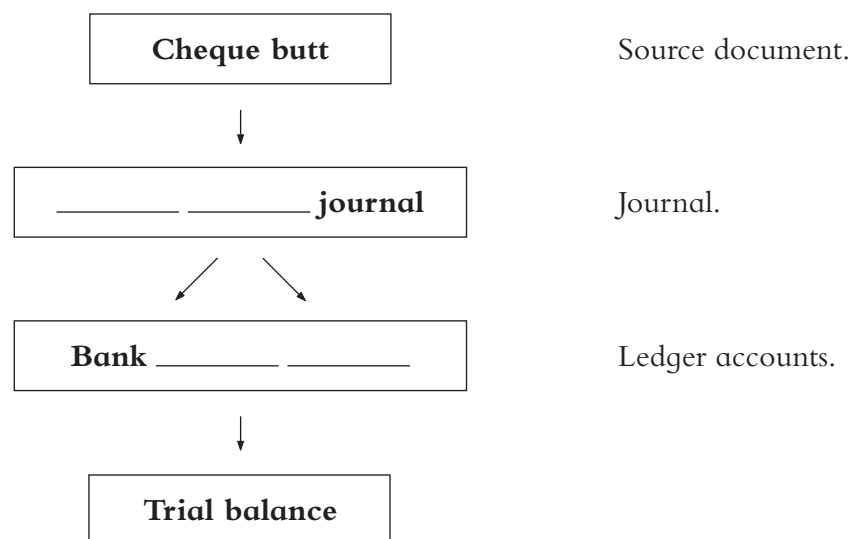
Copy and complete the following sentences.

1. Bookkeeping is the part of accounting that p_____ information.
2. Accountants communicate financial information so that users can make d_____.
3. In a manual system, the records are h_____. This work is done by people called b_____.
4. The first information recorded in the accounting process comes from s_____ d_____.
5. Money coming into the business is recorded by the accountant in the c_____ r_____ j_____.
6. Money going out of the business is recorded by the accountant in the c_____ p_____ j_____.
7. Asset accounts in the ledger have _____ balances.
8. Liability accounts in the ledger have _____ balances.
9. Proprietorship accounts in the ledger have _____ balances.
10. The Trial Balance shows that the total of the _____ balances equals the total of the _____ balances.

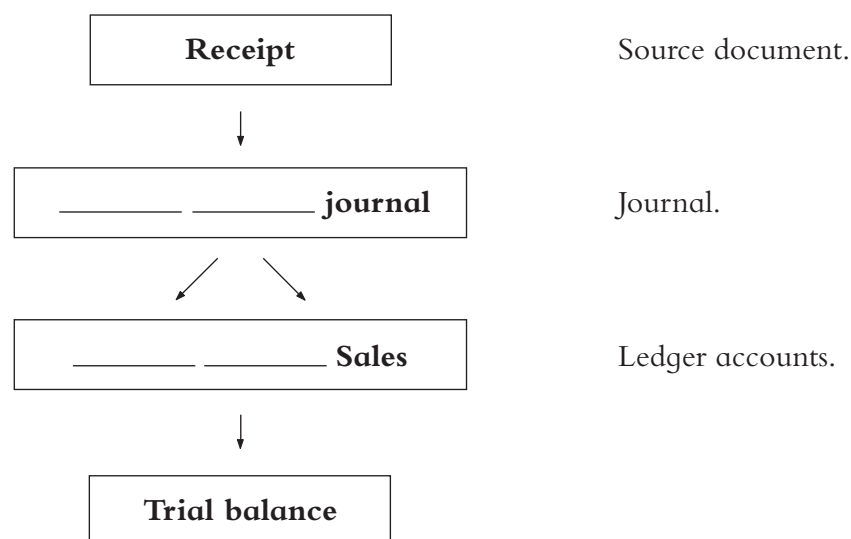
The Accounting System — Flow Diagrams

Copy and complete these flow diagrams to represent how information flows through the accounting system from source documents to the final statements for the following transactions.

1. A cheque is written to pay for purchases.



2. A receipt is issued for a Cash Sale.



YEAR 9 GLOSSARY

Word/phrase	Meaning
A Chartered Accountant	A Chartered Accountant is a person who can start a business as an accountant. He or she has had experience and passed a set of examinations.
Accounting entity concept	When starting a business, an important idea is the accounting entity concept. This means that the business is separate from you personally. You should not mix them together.
Accounting	People do accounting because they want to find out information about money in their business. To do accounting you need to keep a record of all financial transactions.
Accounts clerk	An accounts clerk helps accountants in their work.
An accountant	An accountant is a person who gives financial information to people in business.
Accounting equation	The accounting equation is $A = L + P$. 'A' refers to assets, 'L' refers to liabilities and 'P' refers to proprietorship.
Assets	You can have personal assets and business assets. An example of a personal asset may be savings. A business asset could be a building or a shop.
Auditing	Auditors are accountants who check the records of other accountants.
Board of Directors	Large companies need a Board of Directors to run the company. The Board of Directors reports to the shareholders.
Cash payments journal	When a business pays out cash or a cheque for things they need (<i>e.g. Equipment, rent</i>) each transaction is recorded in the cash payments journal.
Cash receipts journal	When a business receives cash from a customer for a sale or service, the transaction is recorded in the cash receipts journal.
Cheque butt	The cheque butts in a cheque book is an example of a source document.
Constitution	A constitution is a set of rules that an incorporated society must have.
Credit	Liabilities, owner's equity and revenue have credit balance.
Debit	Assets, expenses and drawings have debit balances.
Dividends	Dividends are the profits that a limited liability company makes. Dividends are paid to shareholders.
Economics	Economists study what products are made, who will use the products and how they will use them.
Expenses	Expenses can include money you spend on buying equipment and repairing equipment.
Financial accounting	Financial accountants produce the end-of-year final accounts.

YEAR 9 GLOSSARY

Word/phrase	Meaning
Financial statements	By looking at financial statements, you can see if a business is being successful.
Financial	Financial information is information about money. We use this information to make financial decisions.
Incorporated society	Many sports organisations become incorporated societies when they begin to collect money from their members.
Investor	An investor needs financial information about a company before he or she can decide to put money into the business by buying shares.
Invoice	An invoice has information about what goods or services you bought. It tells you how much you need to pay and when you need to pay it.
Journal	A journal is a book used by an accountant to record the transactions of a business. Cash receipts journal and cash payments journal are examples of different kinds of journals.
Lease	Businesses often lease building rather than buy them.
Ledger	Goods journals are filled in every day. However a ledger may be filled out monthly. The ledger groups information together such as money paid for rent, money paid for wages.
Liabilities	Liabilities are what you owe. You need to take your liabilities away from your assets to get your net worth. People can have liabilities and businesses can have liabilities.
Limited liability company	A limited liability company is run by more than one owner (or shareholder).
Management accounting	Management accountants work on the everyday running of the business. In this way they are different from financial accountants.
Partnership	When two or more people run a business, it is called a partnership.
Proprietorship	When we speak of an individual we speak of net worth; when we speak of a business we speak of proprietorship.
Shareholders	A limited liability company is owned by shareholders. They receive the profits that the company earns.
Shares	One of the equal parts into which a company's capital is divided, entitling the shareholder to a proportion of the profit.
Sole trader	A sole trader business is a business that is run by one person.
Source documents	A cash register recording roll and a cash sale docket are both examples of source documents because they tell you about transactions.
Statement of financial position	The accounting equation gives you a balance of what is over after you think about your liabilities. This equation is part of your statement of financial position.

YEAR 9 GLOSSARY

Word/phrase	Meaning
Sundry	There are usually only a small number of sundry entries in a cash receipts journal or a cash payments journal.
Taxation accounting	A taxation accountant must have a very good knowledge of the taxation laws in a country so that they can advise their clients well.
Transactions	Transactions such as buying new equipment for a business will change the financial position of the business.
Trial balance	A trial balance, done by an accountant at the end of the month, is a good way to check if the credit balances and the debit balance are the same.

