



MINISTRY OF EDUCATION, HERITAGE & ARTS



COMMERCIAL STUDIES:

# A **smart** Approach

Year 10



CURRICULUM DEVELOPMENT UNIT  
2015

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**1<sup>st</sup> Edition(edited),  
Published by Ministry of Education  
Marela House  
Private Mail Bag  
Suva  
Fiji**

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# Contents

Preface

Acknowledgements

## **Strand One: Personal Finance**

<b>Sub Strand 1.1</b>	<b>Personal Finance Management .....</b>	<b>2</b>
<b>Sub Strand 1.2</b>	<b>Managing Credit .....</b>	<b>10</b>
<b>Sub Strand 1.3</b>	<b>Managing Risk and Financial Planning .....</b>	<b>18</b>
<b>Sub Strand 1.4</b>	<b>Investment in Financial institution .....</b>	<b>25</b>
<b>Sub Strand 1.5</b>	<b>Financial Planning for the Future: Investment in Action .....</b>	<b>33</b>

## **Strand Two: Business Information System 1**

<b>Sub Strand 2.1</b>	<b>Business and the Accounting Systems .....</b>	<b>39</b>
	Characteristic of the Accounting Data .....	39
	Authorities that Regulates Accountants in Fiji .....	42
	Accounting Concepts .....	43
	Career Opportunities in Commercial Studies in Fiji .....	46
<b>Sub Strand 2.2</b>	<b>Financial Accounting .....</b>	<b>47</b>
	Forms of Business Ownership .....	49
<b>Sub Strand 2.3</b>	<b>Accounting Process .....</b>	<b>54</b>
	Extended Accounting Equation .....	57
	Value Added Tax.....	62
	Source Documents .....	66
	Journals .....	86
	Ledger Posting .....	104
	Trial Balance .....	112
<b>Sub Strand 2.4</b>	<b>Measuring Periodic Income .....</b>	<b>115</b>
	Trading Account .....	115

	Profit and Loss Account .....	118
	Balance Sheet .....	121
<b>Sub Strand 2.5</b>	<b>Analysis and Interpreting Periodic Accounting Statements .....</b>	<b>124</b>
<b>Sub Strand 2.6</b>	<b>Systems for Implementing the Accounting Process .....</b>	<b>137</b>

## **Strand Three: Economics I**

<b>Sub Strand 3.1</b>	<b>Introduction to Economics .....</b>	<b>144</b>
	Economic Systems .....	149
<b>Sub Strand 3.2</b>	<b>Microeconomics .....</b>	<b>153</b>
	Economic Resources .....	153
	Producer and Production .....	154
	Demand and Supply .....	155
	Institutions .....	160
<b>Sub Strand 3.3</b>	<b>MacroEconomics .....</b>	<b>167</b>
	Government .....	167
<b>Sub Strand</b>	<b>International Economics .....</b>	<b>174</b>
	Terms of Trade .....	176
	Balance of Payment Account .....	178
<b>Sub Strand 3.4</b>	<b>Economic Development .....</b>	<b>183</b>
	Economic Growth .....	183
	Poverty .....	185
	Crime .....	188
	Climate Change .....	191

Index

Reference

# Preface

## *To The Teacher*

This text has been written as **a guide** to facilitate learning and teaching as per Year 10 syllabus and thus becoming a working document.

The book mostly contains local examples however; the concept is subject to changes due to changes in the economy that can occur in the near future.

In addition wide range of visual items such as cartoons, photographs, have been incorporated for better understanding and critical thinking of the related concepts.

The notes and activities could become good foundation for upcoming Commerce students later as it provides standard knowledge that would inculcate lifelong financial skills of managing, planning, and enterprising for financial growth and well-being.

Facilitators are encouraged to supplement each lesson with their own creative notes and activities for further enhancement of pupils' learning. It is important that students must understand concepts and be able to apply them so that achievement indicators are achieved and learning could be taken to the next level.

With the paradigm shift in learning and globalization it is essential that our students are competent enough to use these skills in their daily living.

# Acknowledgement

The Commerce section of the Curriculum Development Unit takes this opportunity to acknowledge and express gratitude towards the invaluable contribution and support rendered by the head of section, colleges and support staff towards the completion of this 1<sup>st</sup> edition of the Year 10 commercial studies textbook- A Smart approach for Students.

First and foremost a big vinaka vakalevu to the writer, Mrs Radhni Devi Singh (Saraswati College), who worked tirelessly to complete this book; Ms Seraseini Betei (SEO Commerce) and Mrs Silina Tupua (Vice Principal –St Joseph’s Secondary School) for editing the book.

## **STRAND ONE: PERSONAL FINANCE II**



### **STRAND OUTCOME:**



**Explore and express ways of managing personal finance to maximize their investments in order to meet long term goals for financial well-being.**

# INTRODUCTION

Bula! Welcome to our first strand of commercial studies for Year 10. This strand will introduce to us the events, expenditures, its costs and benefits. This will later lead to developing skills in prioritizing our needs and wants and adopting good financial management skills. Because with income, aspirations could be financed, as income contributes greatly to one's well-being.

Thus in this strand we will look at ways of enterprising skills to maximize our income and investing it at the right places for better returns.

## SUB STRAND 1.1      PERSONAL FINANCE MANAGEMENT

### ACHIEVEMENT INDICATOR

Students will be achieving these outcomes upon completion of the lesson;

- ▯ **Analyze critically the challenges faced in managing their personal savings.**
- ▯ **Describe how these challenges can be overcome.**
- ▯ **Classify the expenditures incurred to different events which affect individuals living in Fiji.**
- ▯ **Identify and prioritize needs and aspirations within the boundaries of a finite income.**
- ▯ **Identify ways to finance needs.**
- ▯ **Examine and deliberate ways of maximizing income for an individual and a family.**
- ▯ **Investigate and describe a range of principles of good financial management.**

### Challenges a Family Faces

<u>Economic Factors</u>	<u>Social Factors</u>
1. Unemployment	1. Religious contribution e.g. Soli, Mandali levy etc.
2. Sole bread winner	2. Community contribution e.g. aid, donation
3. Hire Purchase commitment	3. Family events e.g. deaths, wedding, party etc.
4. Inflation	4. Social commitment e.g. grog, drinks, cigars etc.
5. Rise in cost of living	

## Challenges a Student Faces

<u>Economic Factors</u>	<u>Social Factors</u>
One major income source- pocket allowance	1. Internet/Social Network
	2. Game shop, Billiard House
	3. Peer Contribution – canteen, village youth
	4. Movies
	5. Luxury items
	6. Recharge
	7. Electronic Gadgets etc.

### Activity 1.1

- List some of the challenges faced by your family in managing personal savings.
- State at least 5 [five] challenges faced by you as a student in managing personal savings.

## Solutions to Overcome These Challenges

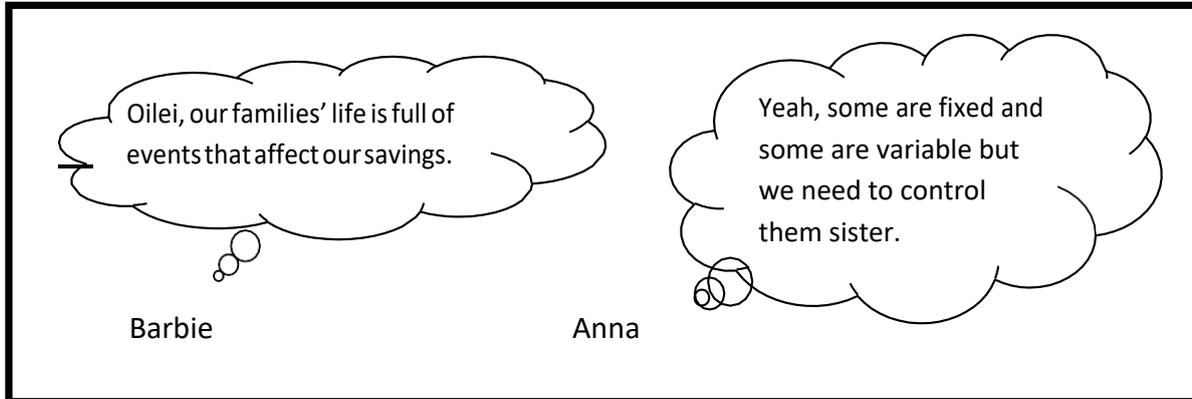
- Preparing a budget and implementing it firmly.
- Time management
- Enterprising skills: -Doing backyard farming and selling as well
  - Baby Sitting
  - Selling firewood, Grog, Sweets, Ice-Blocks etc

## Expenditure for Different Events For a Family

1. Payment of Bills	2. Insurance
3. Purchase of Groceries	4. Traveling
5. Hire Purchase Installments	6. Celebrations like birthdays, weddings
7. Town rates	8. Entertainment
9. Ground Rent/ Lease	10. Death
11. Clothes	12. Social Gathering
13. Medical	14. Soli / Religious contributions

## Activity 1.2

- a. Identify at least five expenditures incurred by you as a student.
- b. Study the discussion and answer the question that follows.



The word **event** refers to expenditure in the discussion. State at least **five** common expenditure of a family living in Fiji.

### Prioritize Needs

- ✓ Making wise decisions
- ✓ Improvising on available needs and wants
- ✓ Avoid being materialistic and an impulsive buyer



## Activity 1.3

- a. **Every child has a dream. They aspire to be someone someday. However, with limited income it becomes difficult to live that dream”.**

With reference to the above statement state **five** ways whereby you can increase your income through various enterprising opportunities.

- b. **Every individual needs to have values to save.**  
State **five** principles of good financial management.

# Principles of Good Financial Management



Source: Jeff Morris

## a. Organise Your Finance

Organising finance is the initial stage before any wealth accumulation. Once your mode of payments or spending is organised then creating it won't take much time as your short term and long term goals will be well ironed out.

## b. Spend Less Than You Earn

It will always be good to prepare and follow the budget strictly so that there is clear tracking of your income and expenses. The budget will always work like warning siren if you start overspending. Budget will also aid you in achieving your long term goals.

## c. Put Your Money to Work

Always look for opportunities for growth and take advantage of the time value of money from an early age. In building strong values of savings and investment from an early age.

#### **d. Limit Debt to Income-Producing Assets**

Always think of spending at such places whereby the expenditure turns out to more income generating rather than incurring expenses or losses. For example debt on education or real estate will normally retain their value overtime.

#### **e. Continuously Educate Yourself**

Keeping yourself updated on financial activities is a secret recipe for progress and growth. Knowledge is a valuable weapon in any business thus understanding the purpose of investment and then executing the plan with perfection is essential. **So “you will strike when the iron is hot”**

#### **f. Understand Risk**

Uncertainty or risk is involved in any investment. The key factor is to understand the risk in order to be a number one player in the fields of investment. The greater understanding one has on risk the percentage of losing tends to be lowered. Thus financial management is a need.

#### **g. Diversification Is Not Just for Investments**

As a sound manager of your finance you should always look for creative ways to maximize your income. Enterprize your skill or talent into money making opportunity. You never know how this skill and extra income could change your financial profile.

#### **h. Maximize Your Employment Benefits**

As an employee try to take advantage of any employment benefit that may be given to you whereby you can save to the maximum.

#### **i. Pay Attention to Taxes**

Any investment or enterprize activity will not be spared from tax. Therefore, either investment where you have tax free returns or learn about legal requirements so that penalties do not tend to be harsh ones.

#### **J. Plan for the Unexpected**

Always be prepared for the unexpected. Know the risks and the protection against these risks for example buying of insurance covers. Unexpected events should not deter you from achieving your long term goal.

## Ways to Finance Needs

- ❖ Savings from an early age
- ❖ Casual jobs
- ❖ Skill enterprising – farming, handicraft, making sweets etc
- ❖ Firewood sales
- ❖ Prepare a plan and strictly follow it

## Ways of Maximizing Income for a Family or for an Individual

- ❖ Sale of farm produce
- ❖ Grass cutting
- ❖ Baby Sitting
- ❖ Peer Tutoring
- ❖ Investing (eg fixed deposit, buying of shares etc)
- ❖ Flower arrangement
- ❖ Decoration Planner
- ❖ Car Wash
- ❖ Baking
- ❖ Catering

### Activity 1.4

Study the discussion and answer the question that follows

One day, Meri and her son John went shopping. Meri was busy following the shopping list. In one of the window displays, a unique, elegant and impressive jeans and purse were displayed. John wanted the jean and persuaded his mother to buy it.

For a second, Meri was also under the displays spell, had the impression that she needs a purse. Then suddenly realizing the income they have. Meri said "My son John, sometimes we need to make a choice and learn to sacrifice in order to reach our goal".

She further added, "Impulsive buying will only increase our expenses and will always have an impact on our savings."

Meri explained to John that if they have money then we will have a very comfortable life and a life full of luxury. To this John added, "I will be a rational consumer and will make a wise decisions"

- a. Identify **three** ways of maximizing income for an individual.
- b. Identify **two** ways a family can maximize its income.
- c. State **two** principles of good financial management that Meri could use to achieve her long term goals.

### Activity 1.5

Write a paragraph in between 75-100 words.

*“Managing personal finance is a challenge in itself”.*

With reference to the above statement

- Identify **one** challenge faced in managing a student’s personal finance
- Describe **one** way on how the above challenge could be overcome
- Explain **one** way to maximize income in order to increase income in the future.

### Contributions of Money to Well-Being

- ❖ Better Education → Better jobs → Better Salary
- ❖ Able to satisfy the luxury goods and service
- ❖ Planning for investment and rewards
- ❖ Forego public transportation and have your own vehicle
- ❖ Improves a person’s standard of living
- ❖ Able to afford your own home if renting or been staying with extended families
- ❖ Having comfortable life style example having a house maid



## Benefits and Costs of Non-Financial Nature

### Benefits

- ❖ Family Reunion
- ❖ More entertainment
- ❖ Able to compete with friends and relatives
- ❖ Advance Planning and Buying saves from hassle and inflation

### Costs

- ❖ Savings is used on the non- financial event
- ❖ Jist dies out
- ❖ It becomes a waste of time and effort
- ❖ At times allocated money is not forwarded to the next year's occasion
- ❖ Failure to organise current year with previous year's style
- ❖ Get to remain cautious – “Don't count your chicks before they are hatched”

### Activity 1.6

Suppose you are planning for a function [for instance Birthday or wedding or graduation party] and there is a death in a family. **Evaluate some of the benefits and costs of a non- financial nature which influence decision making for such events.**

## Sub Strand 1.2

## MANAGING CREDIT

### ACHIEVEMENT INDICATOR

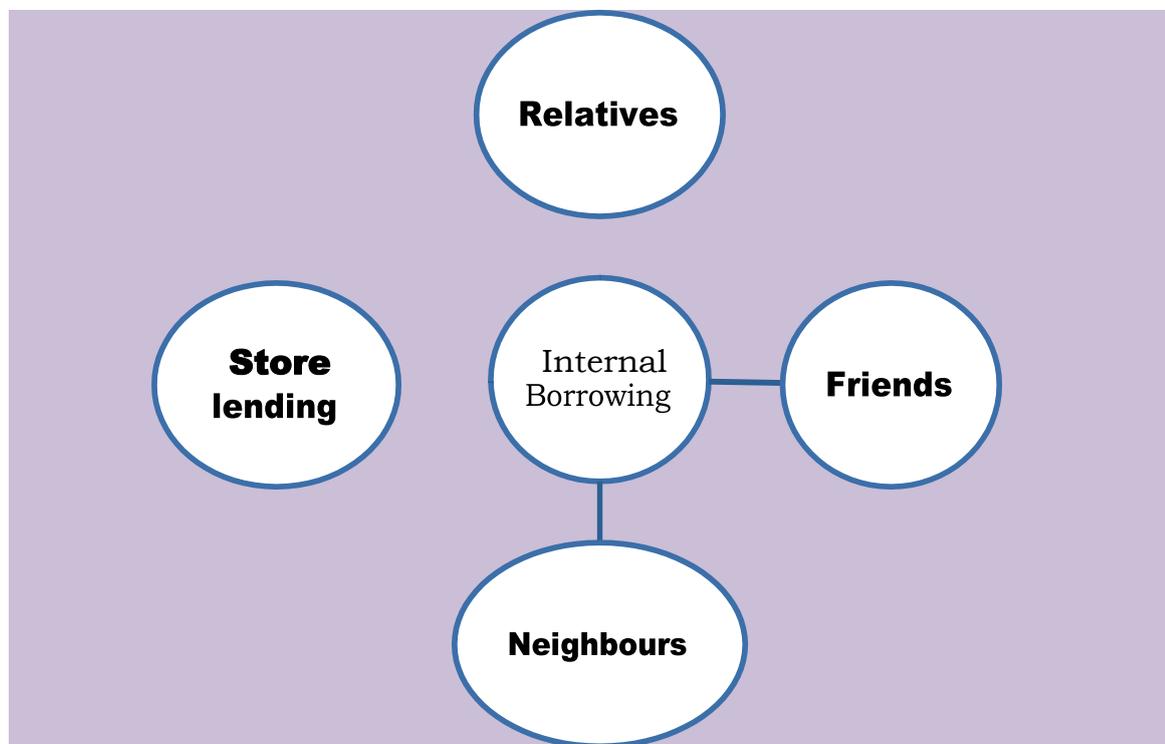
Students will be achieving these outcomes upon completion of the lesson;

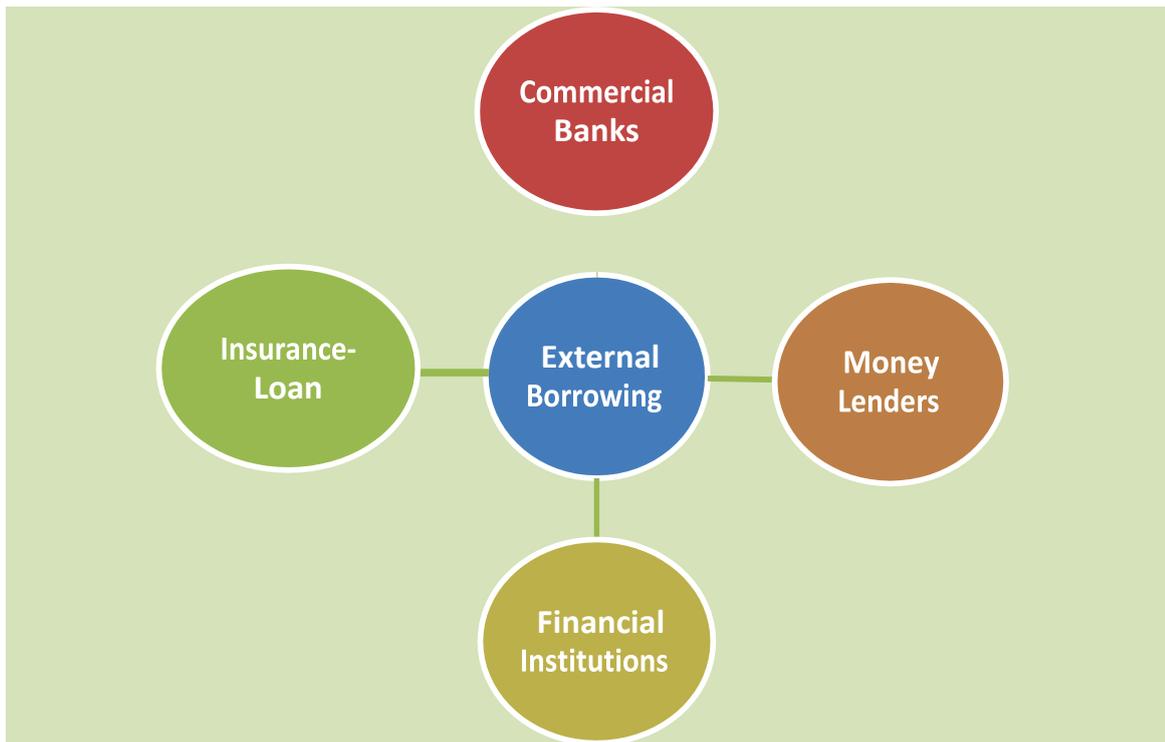
- ▯ **Identify the different sources of borrowing**
- ▯ **Identify the need for borrowing and describe its impact**
- ▯ **Describe the impact of increasing debts on current future spending options**
- ▯ **Describe the impact on costs, traditional obligations and credit time frames on different forms of credit arrangements**
- ▯ **Study and describe what is meant by credit worthiness and the implications of a credit history**

### Different Sources of Borrowing

**Borrowing:** is an act of obtaining / taking money from someone and intending to pay back in a given time frame / certain date.

### Sources of Borrowing





## Need for Borrowing

- ❖ Able to meet the immediate obligations
- ❖ Meeting payments on time
- ❖ Does not involve charging of interest if borrowed from internal sources
- ❖ Receiving money on a short notice

## Impact of Borrowing

- ❖ Internal Borrowing ---if not returned on time it can tarnish your reputation within the family, community
- ❖ External Borrowing -----Involves heavy **interest**  
----- Personal assets can be taken to cover for the debt
- ❖ Guilty conscience on failure of returning which can result in social crime or suicide
- ❖ Can be put to misuse
- ❖ Victim of cycle of borrowing as one leads to the other for debt settlement.

## Activity 1.2.1

Write a paragraph in between 75-100 words on the given question below.

### ***Borrowing is an illness with no cure***

Discuss the above statement with reference to the following:

- Definition of borrowing
- Describe **one** positive impact of borrowing
- Describe **one** negative impact of borrowing on future spending and savings

## Different Forms of Buying

The following table summarizes the main points for each of the two types of buying.

Type	Cash Buying	Credit Buying
<b>Definition</b>	This is the type of buying in which the consumer pays for the goods and services before consuming it.	This is the type of buying in which the consumer can take the good home and pay for it at a later date.
<b>Advantages</b>	<ol style="list-style-type: none"><li>1. immediate possession and ownership</li><li>2. no debt incurred</li><li>3. goods are usually cheaper</li><li>4. no extra charges have to be paid by the consumer</li><li>5. the buyer may get discounts</li></ol>	<ol style="list-style-type: none"><li>1. immediate possession .</li><li>2. no need to carry large sums of money all the time</li><li>3. the buyer can use the goods before it is fully paid</li><li>4. convenient for people who don't have cash all the time</li></ol>
<b>Disadvantages</b>	<ol style="list-style-type: none"><li>1. cash may not be available all the time</li><li>2. It may not be convenient to carry cash around all the time</li></ol>	<ol style="list-style-type: none"><li>1. consumers end up paying more than what the item actually costs due to extra charges(eg interest)</li><li>2. it may lead to impulse buying</li><li>3. Ownership only fully paying for the items purchased</li></ol>

## Forms of Credit Buying

**Hire – Purchase:** under this type of buying the buyer gets to take the good home upon zero or some deposit and make regularly installments fortnightly or monthly. However, there is lot of hidden costs associated with hire purchase buying. Example white goods, property purchase on mortgage, cars etc.

**Lay-By:** is the buying where the buyer selects the good and requests the seller to put the good aside upon some down payment and agrees to pay and have the debt cleared as per the time period given. Example clothes, jewelries, kitchenware etc.

**Hire Buying:** is where the buyer pays bond and takes the good home and takes full responsibility for any damage done to the good. Example Rental Cars, DVD Rentals, Equipment Hire etc.

### Activity 1.2.2

Study the advertisement given below to answer the questions that follow.

## CRAZY MID YEAR SALE



CASH PRICE

**\$2799**

Weekly [104]

**\$53.55**

Just on \$1 Deposit

- i. Name the type of buying shown in the advertisement.
- ii. What would be the total amount paid for a period of 104 weeks if the Sofa was bought on credit?
- iii. How much extra would be paid?
- iv. What is the extra cost called?
- v. Give **one** advantage and **one** disadvantage of this type of buying.

### Activity 1.2.3

a. Complete the table given below.

	Cash Buying	Purchase Buying	Hire Buying	Lay- By Buying
Ownership with				
Possession with				
Hidden cost				
Interest payable				

b. Use the resource list to fill in the blanks given below.

Loan                  Contract                  Interest                  Borrowing                  Credit  
 Credit Worthiness                  Debt                  Future Cost

*Source: FinED Fiji Form 4 Manual*

1. I didn't have the cash with me so I had to use \_\_\_\_\_ to buy the car.
2. There is going to be a \_\_\_\_\_ that I have to pay, because I used my credit card yesterday.
3. I couldn't pay all my course fees at tertiary, so I had to get a student \_\_\_\_\_
4. The cost of using someone else's money is called \_\_\_\_\_
5. I have borrowed so much money lately I am in a huge amount of \_\_\_\_\_
6. I have signed my name to a document and entered into a \_\_\_\_\_ with a loan company.

7. My \_\_\_\_\_ is great, because I have always paid my bills on time.
8. She never has any money. She is always \_\_\_\_\_ from me to buy her lunch.

c. Identify different forms of credit buying from the pictures given below.

a.



b.



c.



d.



### Activity 1.2.4

Write a paragraph in between 75-100 words on the given question below.

***We engage in transactions nearly every day but we fail to realize the form of buying and its limitations.***

Discuss the above statement with reference to the following:

- Define credit buying
- Discuss **one** advantage of credit buying
- Describe **one** impact of debt commitment on future savings

## Need to Plan and Manage Credit

- ❖ Paying on time as it falls due or is accrued—delayed payment leads to extra interest being charged thus increasing the debt further
- ❖ Earlier payments could make you claim rebate or discounts

## Impact of Increasing Debts

- ❖ As hire purchase commitment increases the savings starts to decrease
- ❖ At times meeting future needs become a problem due to shortage of money
- ❖ Forego certain wants and needs to meet payments
- ❖ Increasing debt also can affect one's health and create family problems

## Impacts on Credit Costs

- ❖ Due to traditional obligations payments could be deferred leading to interest charges and extra payments required
- ❖ With taking up more financial commitments, the level of disposable income will decrease leaving fewer opportunities for savings and investments, thus, a decrease in Real Income.
- ❖ Credit buying has extra commitment on the family as such family may have to forego on certain needs and wants [entertainment/ recreational activities] to meet the payments

## Credit Worthiness

- ❖ Credit worthiness refers to one's ability to pay back debt on time
- ❖ Continuous defaults tends to black list a customer from engaging into further credit transactions or buying

## Good Debt and Bad Debt

**Good Debt:** are the ones that are within one's financial capacity and the sum is manageable to be paid off.

**Bad Debt:** are the ones that are beyond a person's earning, saving capacity

- Consumers end up with defaults and accumulated interests making the debt bigger in sum and manageable

### Activity 1.2.5

Use the cartoon below and your own knowledge to answer the questions below.



Source: Year 11 Economics, 2014

- Interpret the cartoon above in relation to engaging in bad debts?
- Explain why the consumer is demanded to *act immediately*
- Describe the impact of increasing debt on current and future spending options
- Explain why it is important for the seller to assess credit worthiness of the consumer before the making any credit sales.
- Explain the concept of *cycle of borrowing*.
- Differentiate between good debt and bad debt.

## Activity 1.2.6

In pairs, discuss and note what you understand by the terms we have discussed in this lesson. You can use a dictionary to help you.

1. Unmanageable Debt	2. Possession
3. Ownership	4. Debt
5. Credit Timeframes	6. Convenient
7. Cash	8. Credit
9. Credit Costs	10. Money Lenders
11. Good Debt	12. Hire
13. Hire purchase	14. Lay-by
15. Store Lending	16. Traditional Obligations

### Sub Strand 1.3                      MANAGING RISK AND FINANCIAL PLANNING: INSURANCE POLICY

#### ACHIEVEMENT INDICATOR

**Students will be achieving these outcomes upon completion of the lesson;**

- ❖ **Investigate the possible risks for loss of value in family property**
- ❖ **Identify the principles of insurance as a way of reducing risk**
- ❖ **Identify the insurance providers/agents in Fiji**
- ❖ **Examine and describe the popular type of insurance available in Fiji**
- ❖ **Describe the different ways of managing or protecting oneself against risk**

Let's begin by brainstorming a list of risks. As a Facilitator ask students on their views and attitude on *insurance*.

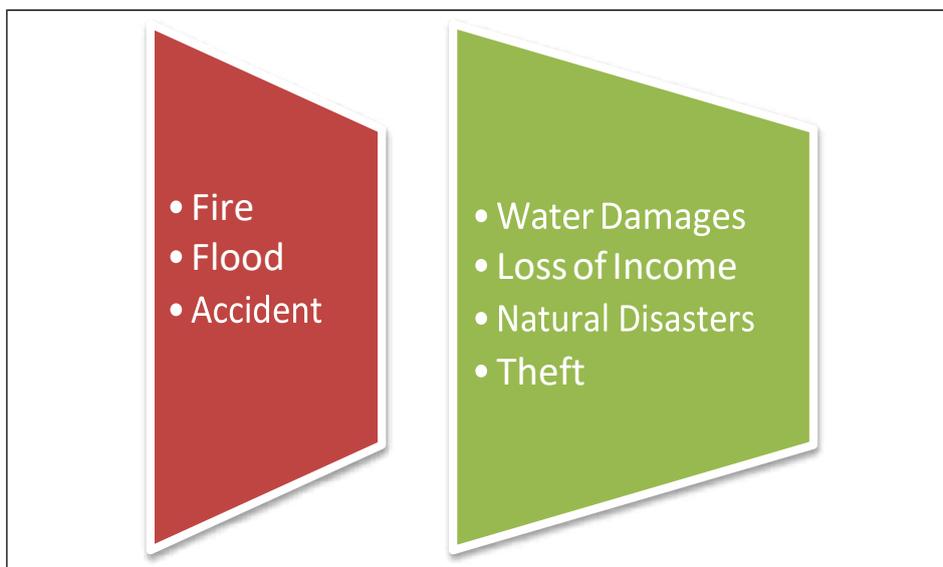
Risk	Impact on Family/ Individual	What can be done to minimize risk of event happening?
Fire damage		
Water damage		
Weather damage		
Loss by burglary or theft		

Oil leaking or overflow		
Collision or impact		
Destruction by animals or people		
Illness in Fiji or Overseas		
Accidental breakage or damages		
Missed plane connection		

Source: FinED Fiji Form 4 Manual

## Possible Risks for Loss of Value

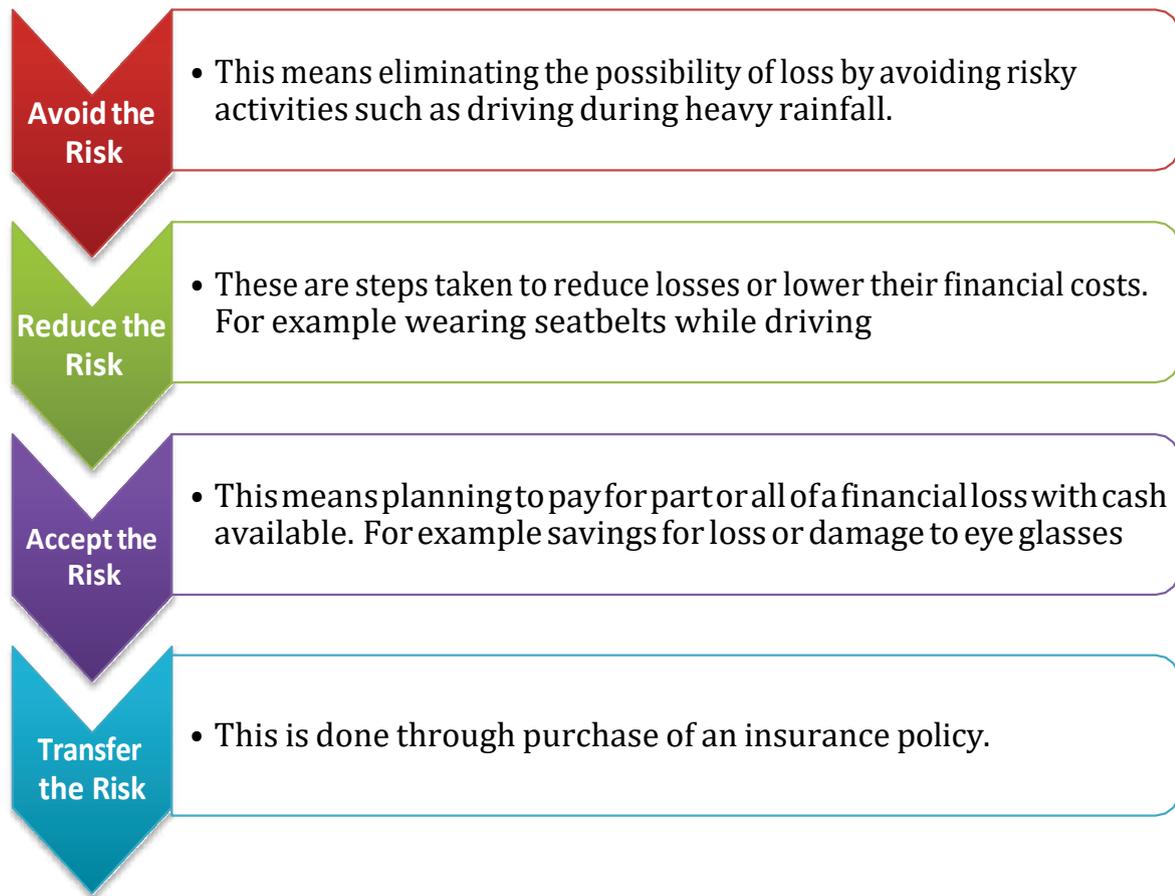
These are some of the possible risks for loss of value in your family's property.



## Definition of Insurance

- Insurance is a way of transferring the risk of loss from an individual or business to an insurer. The insurer agrees to pay the policy holder a sum of money should a specific event occur in return for premium.
- It is a legal contract in which an insurer promises to pay a specified amount to an insured party or policy holder in the event of a misfortune or if something happens which causes the insurer to suffer a financial loss. [ *Applied Economics* ]

## Managing or Protecting Against Risk



Source: FinED Fiji Form 4 Manual

### Activity 1.3.1

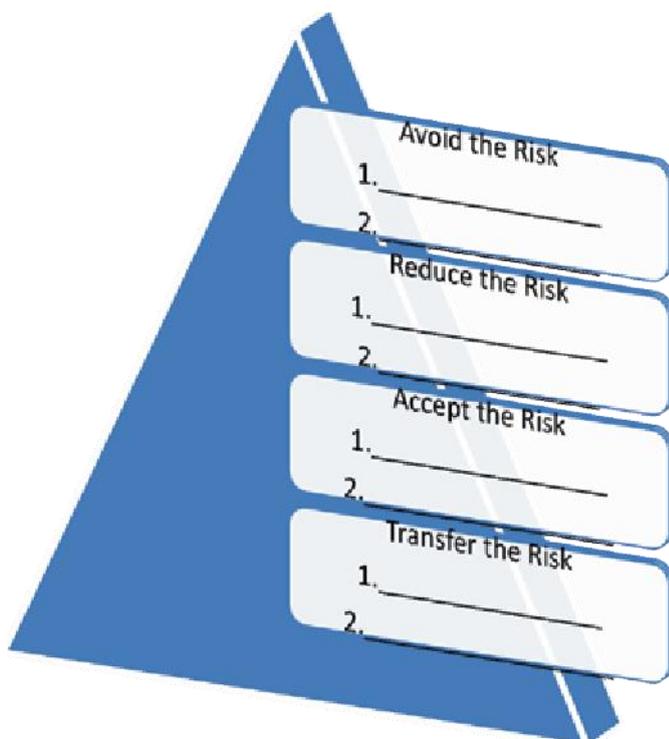
- i. State an example of a method to protect against a risk given below.

	Risk	Method
a.	Theft	
b.	Car engine packing up	
c.	Poor driving	
d.	People driving on the wrong side of the road causing accidents	
e.	Poor Health	
f.	Loss of job/ income	
g.	Serious illness	

Source: FinED Fiji Form 4 Manual

- ii. Identify the risks that you would be prepared to avoid, reduce, accept and transfer as a student.

### Managing Against Risk



### Activity 1.3.2

#### Insurance Game

Refer to the *FinED Fiji Form 4 Manual for Teachers* pages 114-116. The facilitator has to follow the instructions that are in six parts and coordinate the game however assess the risk of undertaking this game.

It is important that students engage in this game for better understanding of the principles of insurance and the concept of insurance as a whole.

### Principles of Insurance

There are four principles of insurance:

#### 1. Principle of Indemnity

The principle of indemnity states that in the event of a loss, an insured firm or an individual cannot collect from the insurer an amount greater than the actual dollar amount of the loss.

## 2. Principle of Uberrimae Fidei

This is a “*Latin phrase*” which means “utmost **good faith**”. This principle requires that:

- a. The insured must disclose all the relevant facts to the insurer.
- b. The insurers must honour all the promises made in the policy

## 3. Principle of Insurable Interest

A person who suffers financial losses from his own property is allowed to insure against risk. The person can insure his own house however he cannot insure another person’s house or property if he has no insurable interest.

## 4. The Principle of Proximate Clause

Under proximate clause a person can claim for damages against the event as proximately stated in the terms of the insurance policy. For example your property is insured against fire thus an insurance company will pay for the damages if it is valid and directly related to the event. On the other hand, you insure yourself against death by accident while driving you die due to heart attack. Thus the claim becomes invalid as this has been excluded from the policy

## **Insurance Types Available and Popular in Fiji**

### **Activity 1.3.3**

Research on the number of insurance companies available in Fiji. In your research find the following:

- a. Identify some insurance providers and the products they offer and which products are the most popular ones.
- b. Investigate the **generic financial products available to young people** in the short and medium term
- c. Compare the **risk and return from savings and investment products over time**.
- d. Give examples of **terms and conditions** of different policies and rights to be exercised.

## Risks involved on Different Life Stages

### Activity 1.3.4

Given below is different risk management needs at various life- stages and different risk management needs in relation to income and wealth. The profiles are as follows:

Person/ Life Cycle Stage	Vika	Josefa	Varanise	Senimeli	Filimone	Josaia
<b>Age</b>	Early 20s, Single	Mid 20s, Single	Mid 30s Married with two children	Mid 30s, Married with three school aged children	Mid 40s, Divorced, paying child support for one child	Mid 50s, Married with 4 children [3 financially independent & 1 at tertiary level]
<b>Occupation</b>	Just completing the final year of chief's apprenticeship	Singer in a Band	Teacher	Clerical / Accounting duties [Casual Worker for last 6 years]	Tradesperson	Self –Employed IT Consultant
<b>Ambition</b>	To travel overseas for a year & work developing skills & career opportunities	Enjoy life and for the band to make it big	To return to part time study to increase career opportunities	To return to full time work-force and pay off a large home loan with her spouse	Currently renting, wants to buy own house	To retire at 60 and travel
<b>Income level / or situation</b>		Irregular income	Middle Income		Contributing to superannuation fund.	Owns own home

*Source: FinED Fiji Form 4 Manual*

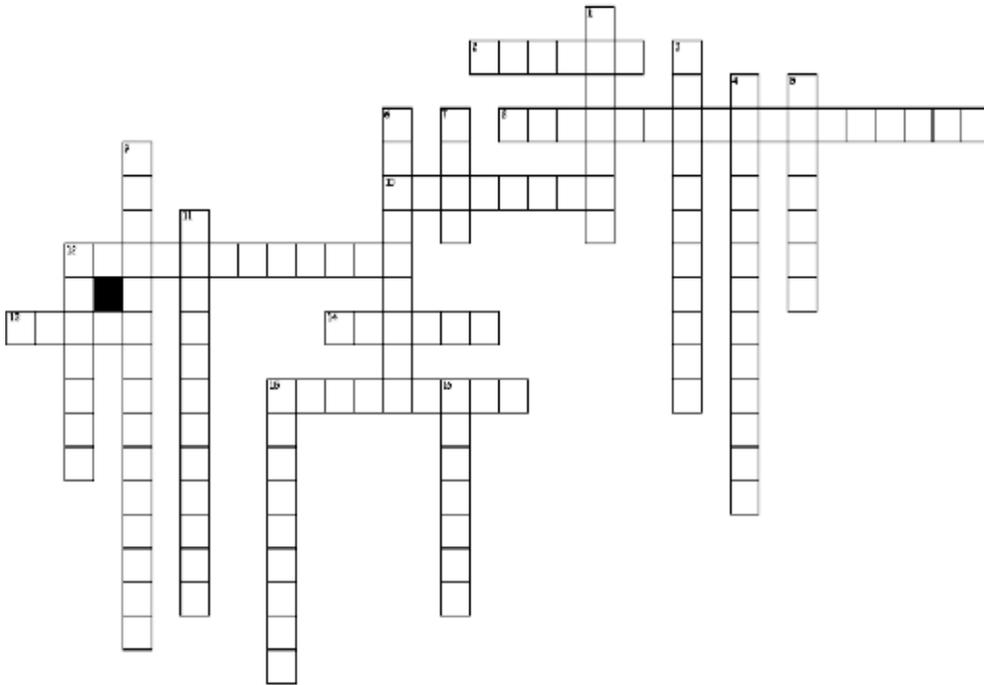
- Identify what insurance options are advisable to each person above.
- Justify your choices and refer to their life-cycle stage or and their assumed level of income and wealth
- Identify the types of insurance required.

## Activity 1.3.5

Complete the cross word puzzle.

### Insurance Crossword

Name: \_\_\_\_\_



#### Across

2. The contract for insurance
8. You must benefit from an items existence and suffer by its loss
10. Calculates the amount of compensation due if you have a claim
12. The application form to be filled out before you get insurance
13. Works for one insurance company only
14. Works for him/herself and shops around many companies to get the best deal
15. You cannot make a profit out of insurance

#### Down

1. The person who calculates the amount of the premium
3. This rule states that after compensation has been paid, any property still remaining becomes the property of the insurance company
4. Sent out by your insurance company at the end of the period of insurance
5. The insurance company
6. You need to fill out this if you have an accident or loss
7. The amount of the premium is based on this
9. You must tell the truth when filling out a proposal form
11. If your house is insured with two companies and you make a claim, you will only receive a portion from each
12. The fee for insurance
15. Protection against possible loss
16. The person who pays for insurance

Source: Insurance Crosswords Games @Google

### Activity 1.3.6

Write a paragraph in between 75-100 words on the given question below.

***“In today’s changing circumstances insurance is a must for protection against unforeseen circumstances”***

Discuss the above statement with the following guidelines:

- Define insurance
- Describe **one** principle of insurance
- Explain **one** benefits of insurance

### Activity 1.3.7

In pairs, discuss and note what you understand by the terms we have discussed in this lesson. You can use a dictionary to help you.

1. Insurance	2. Risk
3. Indemnity	4. Uberrimae Fidei
5. Insurable Interest	6. Proximate Clause
7. Insurer	8. Insured
9. Underwriter	10. Premium
11. Insurance Broker	12. Pure Risk



## **Sub Strand 1.4      INVESTMENT IN FINANCIAL INSTITUTIONS**

### **ACHIEVEMENT INDICATOR**

**Students will be achieving these outcomes upon completion of the lesson;**

- **Define and differentiate savings and investments**
- **Identify the basis requirements of investing and savings in any Financial Institution in Fiji**
- **Study and describe different ways of investing income in commercial banks, FNPF and Unit Trust**
- **Examine and deliberate the changing compound interest rates impact on investment in commercial banks**
- **Identify the role and purpose of FNPF as a superannuation fund**
- **Calculate the FNPF contributions as voluntary or compulsory member**
- **Study and describe the benefits of pension scheme**

## IN COMMERCIAL BANKS INVESTING

Commercial Banks are one of the fast growing financial institutions in any economy. Thus when banks grow you also benefit from its growth because you are rewarded as well.

### Activity 1.4.1

i. Research and complete the table given below.

Name of the Bank/ Requirements	ANZ	BSP	WESTPAC	BRED BANK	BANK OF BARODA	HFC Bank
Role / Function						
Type of Investment						
Minimum Age						
Annual Returns						
Other Benefits						

ii. Explain the changing compound interest rates, inflation and tax and its impact on investment in commercial banks.

iii. Identify different ways of **investing income in commercial banks to create wealth, including superannuation** [putting in form of term deposit]



## **FIJI NATIONAL PROVIDENT FUND (FNPFF)**

Fiji National Provident Fund was established in 1966 to provide financial security for workers when they retire at age of 55. The FNPFF also provides for permanent incapacity and survivor's death benefit in the event of life. A compulsory saving scheme for the employees whereby they contribute a set portion that is total of 18% [8% from members wage/ salary and 10% from employer] in the fund.

The primary objective of the Fund is to provide a lifetime pension to its members when they retire at the age of 55.

### **Eligibilities offered at FNPFF**

Over the years the Fund has evolved into comprehensive scheme that provides a number of pre-retirement benefits to its members including:

- ❖ Housing
- ❖ Education assistance
- ❖ Building a house
- ❖ Buying a property
- ❖ Funeral assistance
- ❖ Medical

### **Investment Types at FNPFF**

- ❖ Bonds
- ❖ Property
- ❖ Share Schemes
- ❖ Term Deposits

### **Who Can Join FNPFF?**

- ❖ Anyone who is working and is between the age group of 16 to 55 years of age
- ❖ Any voluntary member such as school student, fisherman, market vendor etc could join the superannuation scheme. However Government of the day has made it compulsory for every worker to have the FNPFF contribution deducted whether she is a housemaid or a gardener, carpenter etc.

## **What Are The Benefits That I Will Receive As A FNPF Member?**

The benefits that you will receive as a FNPF member and having FNPF savings are:

- ❖ Regular savings paid monthly to your account through your contribution and employers contribution of 10% each of your wages/salary
- ❖ Annual Interest on the savings (based on the previous year's balance)
- ❖ Death Benefit [to your nominee(s) upon your untimely death.
- ❖ Retiring under Medical Grounds [inability to work because of a medical/physical condition]
- ❖ Pre-retirement benefits (Housing/medical/education/funeral/unemployment assistance)
- ❖ Retirement income at age 55 when you will choose a retirement option

## **What are the Requirements of a Voluntary Member?**

You need to take the following documents to any FNPF branch to have yourself registered so that you could also enjoy the benefits like the compulsory member:

- ❖ Personal details as stated in member's Birth Certificate
- ❖ Left thumb impression;
- ❖ Employer's number;
- ❖ Signature of member;
- ❖ To be witnessed by the employer representative & authorized FNPF officer only;
- ❖ Member's address; and
- ❖ Photocopy of member's Identification Card/Passport.

## **When and How Can the Members Withdraw?**

Members can withdraw in the form of lump sum withdrawal or going under the pension scheme. They can only withdraw if they are:

- ❖ Retired
- ❖ Incapacity—illness or injury
- ❖ Migrating
- ❖ Dead

## What is Life Pension?

**Life Pension** is a regular monthly payment made to you usually after retirement. The pensioner is the person who wishes to convert his/her life savings for a life pension.

The Fund provides **two types of life pension**:

1. **Single Pension** where the pension is taken solely by you for yourself. Payment stops on your death.
2. **Joint Pension** is taken out by you for yourself and your spouse. Payment to your spouse will only begin in the event of your death, provided that he/she is still living.

The payments are guaranteed for 5 years [60 payments]. Should you [or both you and your spouse under the joint pension] pass away before the end of the first 5 years of receiving your pension, then the remaining payments for that period [5 years] will continue to the person nominated by you [the nominee].

## Benefits of Life Pension

- ❖ The pension is free of tax under current tax rule
- ❖ Payments will continue for as long as you live giving you the security of knowing you will always have an income
- ❖ No direct administrative fees applied to your payments and
- ❖ Guaranteed for 5 years.

### Activity 1.4.2

Copy and complete the table.

Requirements	FNPF
Role / Function	
Type of Investment	
Minimum Membership Age	
Annual Returns	
Other Benefits	

### Activity 1.4.3

i. Based on your career choice and working age group fill and compute the following.

Working Age: \_\_\_\_\_

Job: \_\_\_\_\_

Estimated income / Salary: \_\_\_\_\_

Amount of FNPF contributed for a year: \_\_\_\_\_

ii. Suppose you registered with the FNPF at the age of 16. How much would you accumulate in the FNPF if you were contributing \$10 per month before reaching your working age as stated in [i] above.

### Activity 1.4.4

i. Read the case study and answer the questions that follow.

Assume you are a 16 year old student and have registered with the FNPF as a voluntary member. You have savings of \$30 per month for the first five years of obtaining education. In the sixth year you became the compulsory member of the FNPF with a salary of \$28 000.

- a. Calculate your savings for the last five years as a voluntary member.
- b. How much would you contribute towards the FNPF as a compulsory member per year?
- c. Calculate the amount accumulated in your savings at FNPF before your retirement.
- d. State your retirement plan considering pension as one of the options.

ii. Copy and complete the table

	Withdrawals	Pensions
<b>Definition</b>		
<b>Advantages</b>	1.	1.
	2.	2.
<b>Disadvantages</b>	1.	1.
	2.	2.

iii. Study the picture given below and answer the questions that follow.



Source: Fiji Times Online/ Google

- Identify the voluntary workers from the picture given above.
- List some of the benefits that the members enjoy from FNPF
- How FNPF does contribute to Fiji's economy?

### Activity 1.4.5

Write a paragraph in between 75-100 words on the given question below.

***“FNPF as a caring institution assists its members in their dire needs”.***

Discuss the above statement with the following guidelines:

- Define the term **eligibilities** with relation to the FNPF
- Describe **one** eligibility that the members qualify for and that they could withdraw from their savings.
- Explain **one** the drawback in relation to the above eligibility

### Activity 1.4.6

Refer to the *Fin Ed Fiji Teachers Manual for Year 10* pages 127-158. Attempt the case studies to broaden your understanding on compound interest and wealth accumulation at superannuation fund.

## Public Listed Companies in Fiji

### ACHIEVEMENT INDICATOR

Students will be achieving these outcomes upon completion of the lesson;

- Identify some public listed companies operating in Fiji
- Explore the functions and type of investment

The following are some of the public listed companies on the stock market. These companies sell their shares to the general public. Thus people can buy shares and become one of the shareholders.

- Fiji TV
- Flour Mills of Fiji
- Amalgamated Telecom Holding
- RB Patel
- Paradise Beverages (Fiji) Ltd
- Fijian Holdings/Unit Trust etc

### Activity 1.4.5

For the public listed companies state the minimum age, minimum investment requirements, annual returns on investment and other benefits.

## Making an Investment Decision

Students!! You have been learning about stock market or public listed companies, FNPF and Banks. You have been researching as well. So it's now time you make an informed decision on investment as where to invest now!!

Let's start by drafting a table that will help and guide us in decision making. *[Hint: for the advantages and disadvantages you can rate them from 1-5 and then tally your costs and benefits to see whether investing in that particular institution will benefit you in future or not.]*

	Commercial Bank of My choice	Fiji National Provident Funds	Public Listed Company of My Choice	Insurance of My Choice
Type of Investment				
Minimum Age				

Minimum Deposit				
Annual Return				
Advantages	1.	1.	1.	1.
	2.	2.	2.	2.
	3.	3.	3.	3.
	4.	4.	4.	4.
Disadvantages	1.	1.	1.	1.
	2.	2.	2.	2.
	3.	3.	3.	3.
	4.	4.	4.	4.
Now how will you Rate you investing Institutions in order from I - 4?				
Reason our why you listed these institutions in these order.				

## **Sub Strand 1.5**

## **Financial Planning for the Future:**

### **Investment in Action**

#### **ACHIEVEMENT INDICATOR**

**Students will be achieving these outcomes upon completion of the lesson;**

- ▮ **Identify the factors that influence an individual's decision**
- ▮ **Examine and deliberate the factors that influence short term and long term investment decisions**
- ▮ **Investigate and describe the long term savings goals that influence savings/investment**

Let's play a game!!

The facilitator will display **two images** on board and each one of you will receive a flash card that shows life events. Upon receiving the flash card analyze whether the card you are holding is reflecting **Financial Related Event** or **Non-Financial Related Event**. Then paste your flash card at the right place.

Part a. Image



Part b. Flash Cards Life Events

Get a Driver's Licence	Wedding	Living Away from Home	Job Training
Take a Holiday	Get a TIN number	Buy Second Home	Open A Bank Account
Continuing Education	Travel Overseas	Funeral Costs	My First Child
Buy a Car	Join a Superannuation Scheme	Leave Home	Get First Bicycle
Christening Expenses	Go Shopping on my own	Get a Credit Card	Get an ATM Card
Do e-Banking	Have a Part-Time Job	Buy Furniture for the First Time away From Home	Get Pocket Expense
Research Investments	Serious Illness	Get First Mobile Phone	Support relatives in Village
Buy MP3 Player	Buy First Home	Buy First Computer	Retirement
Work Overseas	Join a Sports Team	Go to a Tertiary Institution	First Full- Time Job
Church Obligations	Death of a Partner	My Life Expectancy	First Savings Account

*Source: FinEd Manual*

So students did you enjoy the game? Now draw a **life-cycle line** in your exercise book and tag the life event as per the age range. Remember this is your individual decision.

0      10      20      30      40      50      60      70      80      90      100

YEARS



The idea behind the game and the exercise is to identify life stage related financial events and how lifestyles and how it influence choices of financial products. Let's do an activity to assess the games outcome.

### Activity 1.6.1

Identify the financial decisions or planning decisions that you would need to make if you are going to manage the life cycle event well.

## Life –Stage and Life- Cycle Choice of Financial Products

Recap your financial related events from the game played and the life- cycle line drawn.

### Activity 1.6.2

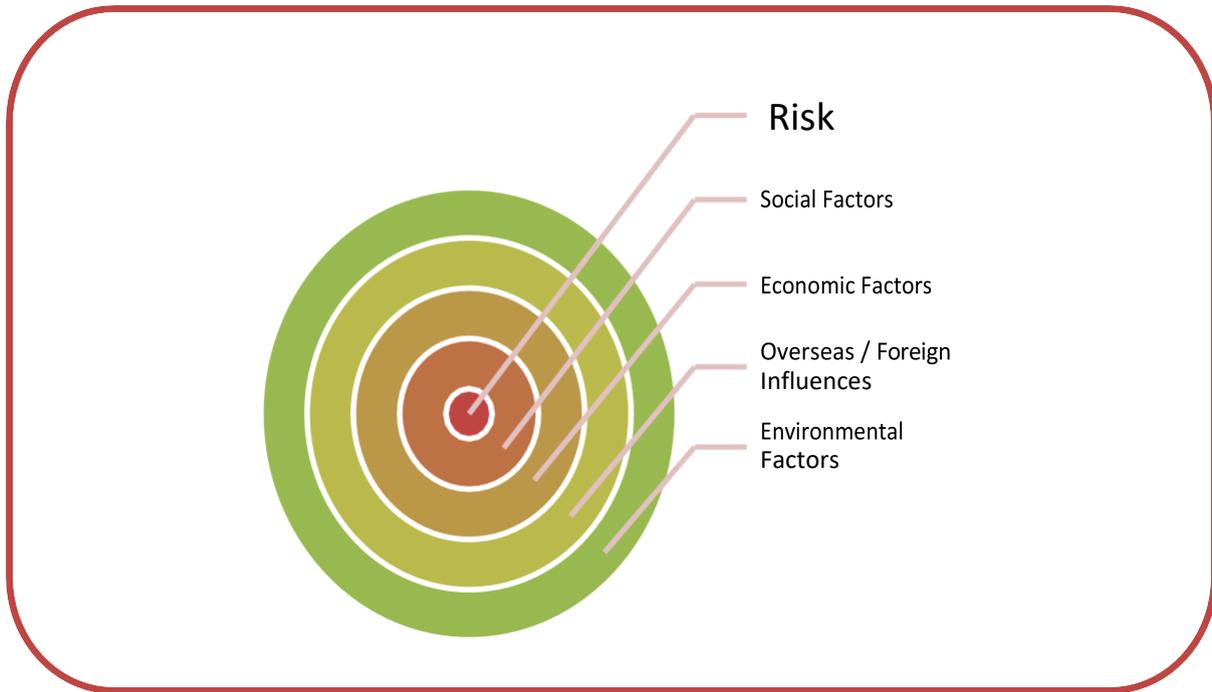
Identify and describe which financial related events require a decision about a financial product. For example if you were to get a credit card which kind would you buy? In class analyze all the possibilities to the financial products. Seek help from your parents or siblings, ask for their opinion and suggestion as which one would they recommend for a particular life stage. Given below are some financial products.

Potential Financial Products Include:

- ◆ On Call Savings Account
- ◆ Credit Card
- ◆ Term Deposit
- ◆ Insurance Products such as:
  - ✓ Life Insurance
  - ✓ Car Insurance
  - ✓ House and Content Insurance
  - ✓ Income Protection Insurance
  - ✓ Travel Insurance
  - ✓ Health Insurance
- ◆ Superannuation Products
- ◆ Internet Banking

## Factors That Influence Short Term And Long Term Investment Decisions

There are number of factors that influence investment decisions.



## Long Term Savings Goals and Tradeoffs with Short Term Goals

### Activity 1.6.3

Refer to your life events card and try to classify the events either as **short term** or **long term** goal.

Short Term Goals	Long Trem Goals

- i. Now identify where you have the trade-offs between the short term and long term goals. [ Trade-offs example are cultural obligations, education or housing, housing or retirement etc]
- ii. Discuss measures or strategies to overcome these trade-offs

# Design, Implement and Monitor the Simple Investment Plan

All this while you have been savings looking for investment opportunities. Now it's time you design, implement and monitor your investment plan. The evidence of the plan and its implementation would be reflected well in your Invest Smart Task.

## Activity 1.6.4

Complete the following investment table.

Investment per Day	1 Week	1 Month	3Months	6 Months	1 Year	2 Year	3Year
0.30c							
0.50c							
\$1.00							

## Strand 2 :

### Business Information System (II)

**Strand outcome:** Recognize the different types of businesses, investigate how they operate and identify the procedures to follow to start own business for self-employment.



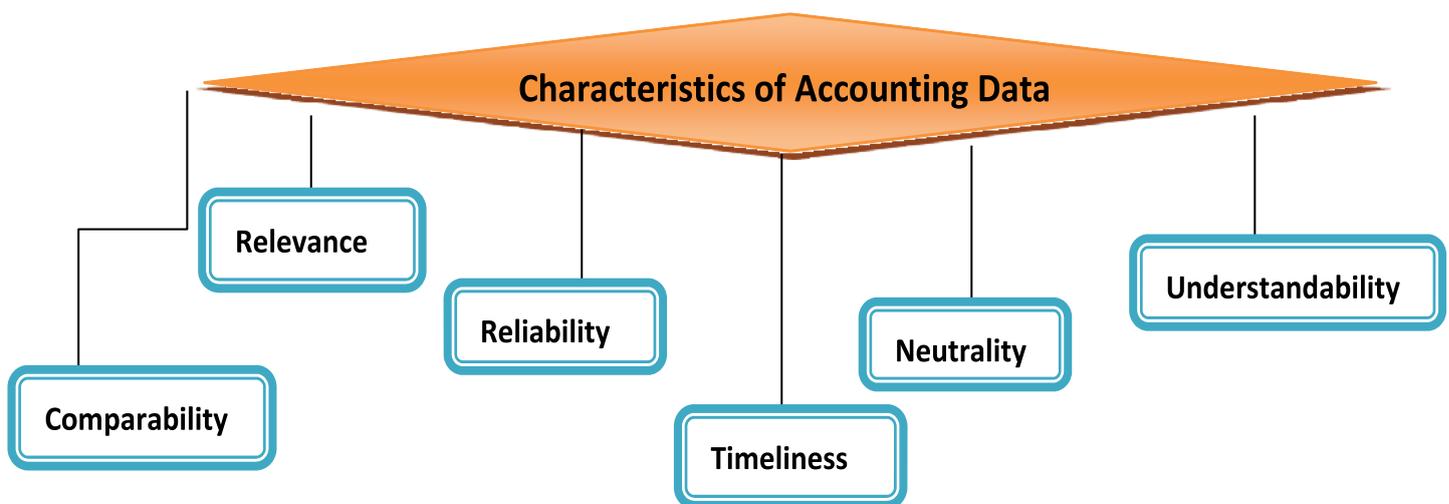
**ACHIEVEMENT INDICATOR**

Students will be achieving these outcomes upon completion of the lesson;

- ❖ Identify the characteristics of accounting data.
- ❖ Explore the authorities that regulate accounting in Fiji.
- ❖ Investigate and describe the accounting concepts used in the accounting process.
- ❖ Explore the career opportunities with the salaries / wages and other fringe benefits.

### Characteristics of Accounting

The usefulness of financial reports to users depends upon the quality of the information provided. The main aim is to aid decision making. If accounting is to serve this function, it is a must that it meets the characteristic or qualities of the data. These characteristic includes:



- ❖ **Relevance:** Accounting Data is relevant if it will have some influence on the decision being made.
- ❖ **Reliability:** Accounting Information is reliable when it is free from error or bias and can be depended upon to represent faithfully what it signifies to represent.
- ❖ **Timeliness:** Accounting Data should be available to users when needed for better decision making. Delay in reporting information means the information may lose its relevance. Information may not be reliable if it is reported before all aspects of the transaction are known. Any data received after the due dates is of little use.
- ❖ **Neutrality:** in the financial statements needs to be free from biasness then only it is said to be neutral.

- ❖ **Comparability:** Accounting information should be compared with similar information about the same business or similar businesses.
- ❖ **Understandability:** Accounting information must be understandable by the users of the accounts.
- ❖ **Verifiability:** when two independent individual accountants using the same data come to the same conclusion the accounting data is said to be verifiable.

### Activity 1.1.1

1. Match the characteristics of accounting data in Column A with Column B. [2 marks]

	Column A	Column B
i.	Quantifiability	A. Accountants must know something about the decisions to be made. In order to supply the most appropriate information the accountant must know something about the decisions for which the information is required
ii.	Timeliness	B. When two or more different accountants measure the result of a business transaction, both should obtain approximately the same results
iii.	Relevance	C. If financial reports are prepared for unskilled users, the accountant should ensure that the reports are as simple as possible.
iv.	Verifiability	D. The more rapidly accounting information is communicated to users, the more likely it is to be of use in decision making
		E. As a general, accounting involves only data which can be measured in monetary terms.

2. Match the desirable characteristics of accounting information to the resources given below

**Characteristics:** *Consistency, Neutrality, Timeliness, Verifiability, Relevance, Understandability*

**Resource 1:** Bantu, the owner of Toy Store received his annual financial report on 21 Dec 2008. The report was for 1 Jan 2009

**Resource 2:** The auditors remind the accountant to use one accounting method only and not to change from one method to another

**Resource 3:** Patrick, the account for New World (Suva) ensures that all accounting data are supported with source

**Resource 4:** The accountant for Narere Soccer Club prepares a financial report for unskilled users

**Resource 5:** Last year the canteen manager did not have an accountant to help him and he decides to prepare his own financial report.

## Authorities that Regulate Accountants in Fiji

There is a need for authorities to be present in any economy to ensure honest and transparent practice of accountancy. Thus Fiji has the following bodies that regulate accounting in Fiji:



1. **Fiji Institute of Accountants:** Fiji Institute of Accountants (FIA) is a statutory body established under the Fiji Institute of Accountants Act, (Cap 259) for the regulation of accounting profession in Fiji.
2. **Fiji Tax Agent Board** The primary role of the Tax Agents Registration Board is to administer the tax agent registration requirements as contained in Part IV of the Tax Administration Decree. Tax agents play an important role in the administration of the taxation system. The regulation of tax agents is aimed at protecting the public and ensuring that persons who charge a fee for providing taxation related services have appropriate knowledge of the Fiji income tax law, relevant accounting principles, and are otherwise fit and proper persons to be registered as tax agents. The Board is also responsible for determining the suitability of applicants to be registered as tax agents, dealing with complaints about tax agents and ensuring that proper standards are maintained across the tax agent profession.
3. **Fiji Institute of Auditors:** The International Professional Practices Framework (IPPF) is the conceptual framework that organizes authoritative guidance promulgated by the Institute Of Internal Auditors [IIA]. The IIA - a trustworthy, global, guidance setting body, provides internal audit professionals

Worldwide with authoritative guidance organized in the “IPPF” as a mandatory and strongly recommended guidance.

#### 4. Commerce Commission

The Fiji Commerce Commission (FCC) is a statutory organization responsible for fair trade, competition (economics) and consumer protection regulation in the Fiji Islands. It was initially established in 1998 under the *Commerce Act 1998* [Fiji]. The Commission is an independent statutory body that seeks to protect consumers and businesses from restrictive and unfair trade practices. [Source: Wikipedia, the free encyclopedia]

## Accounting Concepts

Before we embark on our journey to understand why accounts are drawn it is necessary to lay the foundation of this subject with some very crucial concepts which form the basis of accounting. The business reports are prepared on the basis of these accounting concepts.

There are numerous accounting concepts.

1. Consistency Concept
2. Accounting Period Concept
3. Going Concern Concept
4. Historical Cost Concept
5. Revenue Recognition
6. Cash Basis of Accounting
7. Accrual Accounting
8. Matching concept



### 1. **Consistency Concept**

This concept ensures consistency in the accounting procedures used by the business entity from one accounting period to the next. It allows fair comparison of financial information between two accounting periods.

### 2. **Accounting Period Concept**

This concept states that the life of the business is divided into arbitrary time periods for the purpose of ascertaining profits. For example, quarterly, mid-year, annually etc.

### 3. **Going Concern Concepts (Continuity)**

This concept assumes that a business will continue to operate indefinitely in the near future unless it is on the verge of liquidation.

#### 4. **Historical Cost Concept**

It states that all assets of the business are recorded at their original cost. It does not take into account inflation.

#### 5. **Cash Basis of Accounting**

The cash method reports income when it is actually received (not when an invoice to a client is generated) and expenses when they are paid (not when you receive the bill).

#### 6. **Accrual Basis Accounting**

The accrual method reports income when it is earned (but not necessarily received) and expenses when they are incurred (but not necessarily paid).

#### 7. **Matching Concept**

It requires that all expenses incurred during the period should be matched with the revenue earned during that period so that a correct profit is determined.

### Activity 1.3.1

- i. Historical cost is used to value fixed assets in the business.

In relation to the above statement, discuss what historical cost concept is.

## Activity 1.3.2

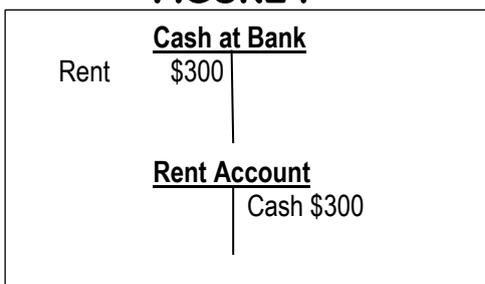
Match the transactions in column A with the concept in column B.

Column A	Column B
1. Revenue and expenses of a given period to be matched with one another	a. Historical Cost
2. Apply the same accounting methods in each period	b. Cash Basis Accounting
3. All assets are recorded at its original cost	c. Matching Concept
4. Income is recorded when its earned.	d. Consistency Concept
5. Income is recorded when cash is received and expenses are recorded when is paid out	e. Accrual Basis

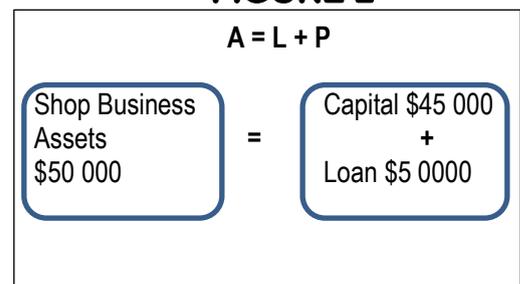
## Activity 1.3.3

Figures 1-4 given below represent accounting concepts. For each of the Figures identify the accounting concepts shown.

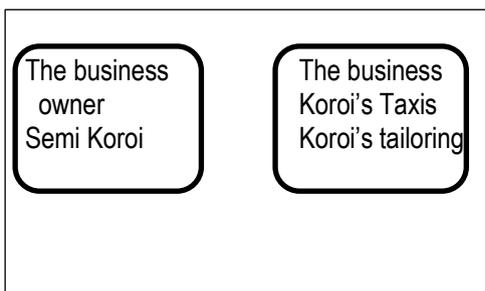
**FIGURE 1**



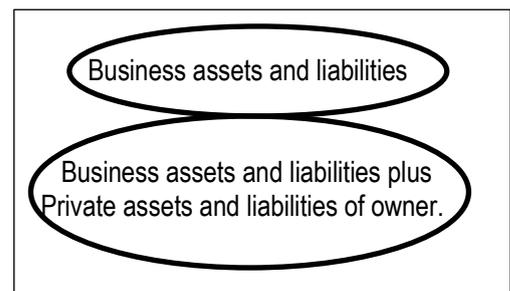
**FIGURE 2**



**FIGURE 3**



**FIGURE 4**



## Activity 1.3.4

Define the following accounting concepts

- a. Historical Cost
- b. Matching Concept
- c. Cash Basis Accounting
- d. Accrual accounting

### Career Opportunities in Commerce

#### Subject combinations

Accounting and Economics with English and Mathematics and any of the following electives:  
Computer Studies/ Geography/History/TVET [not physics]

#### Tertiary Qualifications

Certificate/Diploma/Degree/Post Graduate – cert/dip/Masters/PhD/Doctorate  
In: Accounting/Finance/Economics/Commerce/Business and much more....

#### Tertiary Institutions

USP  
FNU  
UNIFIJI

#### Career opportunities in commerce

Group 1	Group 2	Group 3
<b>Degree/ Diploma/ higher qualification</b>	<b>Diploma/Certificate + experience</b>	<b>Certificate/Form 6/7 + experience</b>
Admin officer	Admin officer	Clerical Assistant
Agricultural Economist	Sales Clerk	Book-keeper
Auditor	Import/Export Clerk	Cashier
Business/Commercial Lawyer		
Chartered Accountant	Town Clerk	Sales rep
Company Secretary	Private Secretary	Receptionist
Economist	Farm Manager	
Environmental Economist		
Forensic Accountant		
Investment Advisor	Law Clerk	
Lecturer	Insurance Clerk	

Management Consultant	Stock Brokers Clerk	
Personnel Officer	Employment Officer	
Planning Officer	Finance Clerk	
Public Relations Consultant	Insurance Assessor	
Research officer	Marketing Clerk	
Sociologist	Assistant Accountant	
Statistician	Loans Officer	
Stock Broker	Real Estate Agent	
Teacher	Purchasing Officer	
Town and Region Planner	Bank officer	
Valuers	Teacher	

### Career Environments

1. Business Environment
2. Government Environment
3. Non-Profitable Organization
4. Academic Environment
5. Self Enterprising

#### Activity 1.4.1

### Setting long term goal

## Sub Strand 2.2 Financial Accounting

### ACHIEVEMENT INDICATOR

Students will be achieving these outcomes upon completion of the lesson;

- ▮ Identify the different forms of business ownership
- ▮ Study and deliberate the features/advantages/disadvantages of each type of business

### Definition

We normally come across this word “business” very often in our everyday language. Anyone would be able to relate a shop, a factory or farm to a business. However, we do not really understand what it means.

**According to International Corporate Reporting:** a business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose

of providing a return directly to investors or other owners, members or participants. It is not just a group of assets; rather, it is an entity able to produce output.

## History of Businesses

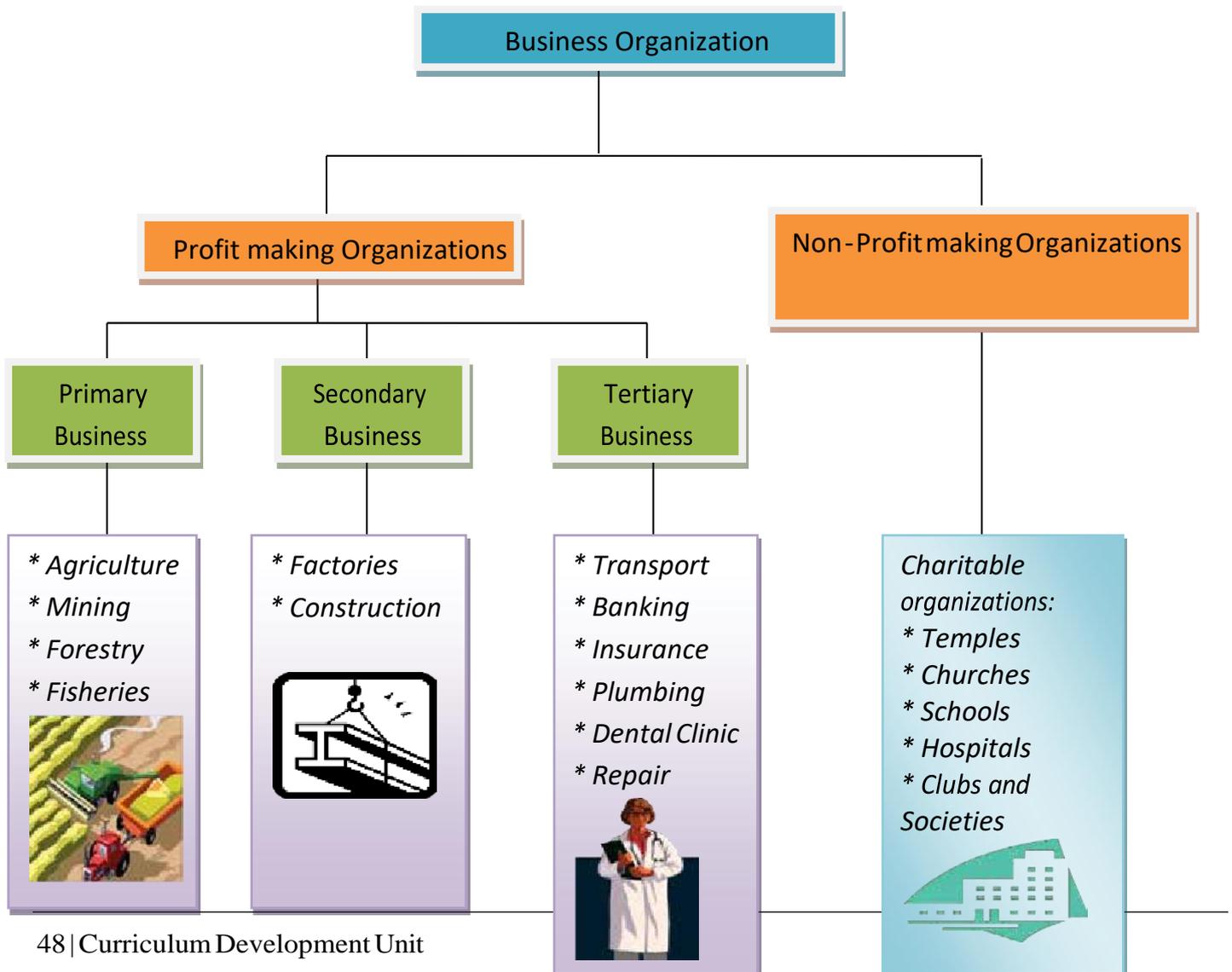
Most societies in the olden days were traditional or they had subsistence economic system. Production was for own use only. Due to geographical locations, climate, skills and other factors, trading developed.

Barter system started when people started trading surplus goods but due to the problem of finding a trading partner to an agreeable value, rare objects became medium of exchange. These objects were feathers of rare birds, shells, beads, Whale tooth and so on.

People slowly started specialising in producing items that they were good at and could be exchanged. This gave start for market economy. Small trading posts were set up by traders which gave rise to the need for a convenient medium of exchange.

In Europe, gold coins were used and then Goldsmith's notes came to be accepted. Later notes and coins became legal tender.

## Types of Business Organisations



# Characteristics of Business Organisations

## 1. Sole Proprietor

Definition:	Business run and managed by one person.
Aim/Objectives:	To make profit.
Number of owner(s):	1
Source of Capital:	Personal Contribution, Own savings, borrowing from family/Bank.
Advantages:	Easy to form, owner takes all profits and makes all decisions.
Disadvantages:	Unlimited liability, limited capital, not a legal entity, owner bears all losses.
What governs entity:	Business License and the owner him/herself.
How profit/loss shared:	Owner takes all profits and bears all losses.
Examples:	Village stores/Canteens

## 2. Partnership

Definition:	Business run and managed by at least 2 people.
Aim/Objectives:	To make profit.
Number of owner(s):	Minimum of 2 and a maximum of 25 people.
Source of Capital:	Contribution from partners.
Advantages:	More capital than sole trader, more skills and shared workload.
Disadvantages:	Unlimited Liability, less capital than companies, more disputes/ conflict of interest.
What governs entity:	Partnership deed/Partnership agreement.
How profit/loss shared:	According to partnership deed/agreement.
Examples:	

## 3. Private Company

Definition:	Business owned and run by family members.
Aim/Objectives:	To make profit.
Number of owner(s):	2 – 25 shareholders.
Source of Capital:	Contribution from members of the same family.
Advantages:	Limited Liability, more capital than partnership, not required to publish audited annual reports.
Disadvantages:	Less capital than public companies, shares can only be issued to family members.
What governs entity:	Memorandum and Articles of Association.
How profit/loss shared:	According to company policy on distribution of dividends.
Examples:	

## 4. Public Company

Definition:	Business owned by shareholders and controlled by board of directors.
Aim/Objectives:	To make profit.
Number of owner(s):	Minimum of 7 members and maximum of unlimited members.
Source of Capital:	Money received from shares issued to the public.
Advantages:	Limited Liability, more capital than private companies, and more expertise.
Disadvantages:	Expensive to form and loss of control.
What governs entity:	Memorandum and Articles of Association.
How profit/loss shared:	According to company policy on distribution of dividends
Examples:	RB Patel

## 5. Statutory Body/Public Enterprises

Definition:	Organization set up by the government.
Aim/Objectives:	Provide goods/services to the general public that are expensive for private firms to produce.
Number of owner(s):	Set by the government.
Source of Capital:	Majority contribution by the government.
Advantages:	Provides goods which are expensive for private firms to produce, and is controlled by the government.
Disadvantages:	Expensive to form, and since only the government provides the goods there is no competition.
What governs entity:	Act of Parliament.
How profit/loss shared:	Profits given to the government.
Examples:	FEA

## 6. Co-operatives

Definition:	Group of people who join together with similar interests.
Aim/Objectives:	To provide service to its members.
Number of owner(s):	Minimum of 10 members.
Source of Capital:	Contribution from members/donation.
Advantages:	Members share profit and learn more skills.
Disadvantages:	Conflict of interest among members.
What governs entity:	Committee.
How profit/loss shared:	Given to members in form of bonuses.
Examples:	Lovia Cooperative Limited

## 7. Clubs and Societies

Definition:	Associations formed by group of people with common interest.
Aim/Objectives:	To provide service to the community.
Number of owner(s):	Group of people.
Source of Capital:	Subscription/ Fundraising activities.
Advantages:	Provides goods and services to the people without making profits.
Disadvantages:	Conflicts arise among members.
What governs entity:	Office bearers.
How profit/loss shared:	Distributed to members.
Examples:	Rotary Club, Lions Club, Scouts, St. John Ambulance, Red Cross

### Activity 2.1

Study the figures 1-4 and answer the questions that follow.

#### Figure 1

Chand's Store

#### Figure 2

Suva Medical Centre  
General Medical Practitioners

#### Figure 3

Magical Masti Band Group

***"Feel the Magic"***

#### Figure 4

R. B. Patel & Co. Ltd

- Name the type of ownership for figures 1-4.
- State **one** advantage of running the business in Figure 1?
- List **one** disadvantage of running the business in Figure 2?
- How many owners can form the business in Figure 2?
- State the main source of revenue for Figure 3.
- Who are the owners of Figure 4?
- List and explain the form of **liability** figure 4 has.
- Explain what is the significance of unlimited **Liability** in Figures 1 and 2?

### Activity 2.2

Complete the table given below.

	Sole Proprietorship	Partnership	Public Company
The liability of the owner			
Number of owner (s)			
One legal document			
Source of capital to start the business			

### Activity 2.3

Will received four business cards from various places he had visited in May school holidays. Study the cards and help him in identifying the different forms of business ownerships.

#### Card 1

**Chandra' Comfort**

**24/7 Prompt and efficient services**

**A. Chandra**

25 Greg Street  
Suva



Phone: 3311478  
Mobile: 9994531

#### Card 2

**Raiwaqa Youth Club**

Serving The Youths Of Raiwaqa



Semi P. Waqa  
President  
Mobile : 8799661

Phone: 3332211

#### Card 3

**Nita and Henry Associates**



**Henry Pandey**  
**Managing Director**

We provide Financial and Taxation Services  
Nita Pare Mobile: 9991001  
Henry Pandey Mobile: 9990020

#### Card 4

**Electrician**

**Domestic – Commercial – Industrial**

Installation and Maintenance safe power

For efficient and safe services contact:



**Micheal Smith and Sons Ltd**

Micheal Smith  
Lot 7, Vitogo Lane  
Lautoka

Managing Director  
Phone: 8799882

a. Write the card number which best represents the type of business in the table given below.

Type of Organization	Card Number
Partnership	
Company	
Clubs and Societies	
Sole Proprietorship	

b. Write the card number which best represents the possible source of funds contribution towards the entity.

Sources of Funds	Card Number
Owner	
Sponsors / Membership Fees	
Shareholders	
Partners	

**Activity 2.4**

Using your local paper and yellow pages identify in your locality:

- |                      |                    |
|----------------------|--------------------|
| i. a sole proprietor | iii. a partnership |
| ii. a club/ society  | iv. a company      |

**Activity 2.5**

Paul has keen interest in starting a business and becoming his own boss. However, he is in a dilemma between partnership business and sole proprietor business. Make a suitable decision for Paul by explaining who will receive profits under these two businesses and the advantage and disadvantage of each.

**Activity 2.6 Paragraph Writing**

**“Sole Proprietor business is an excellent way of enterprising skills to earn a living and overcome poverty and unemployment.”**

Discuss the above statement in reference with:

- Definition of sole proprietorship
- Advantages and Disadvantages of it
- Sources of Finance to start the business

**Activity 2.7**

Match the type of business organisation on the left with the characteristics on the right.

Business Organisation	Characteristics
A. Non-Profit making organisation	1. Authorized capital 20 000 shares @\$1 each
B. Tertiary	2. Two to twenty five members combining their resources to start up a business
C. Sole-Proprietorship	3. Can be formed with a minimum of ten member
D. Partnership	4. Owned and managed by one person
E. Co-operative	5. Clubs
F. Company	6. Organization that distribute finished goods

## Activity 2.8

Classify the following characteristics of business organisations under the correct heading of sole proprietorship, partnership, company, clubs and societies

### Characteristics of business organizations:

- a. Independence of ownership
- b. Death of one of its members will mean the business has to be dissolved.
- c. In event of bankruptcy the owner's liability is limited to what he owes to the business.
- d. Can raise larger amounts of capital by issuing shares.
- e. Unlimited liability of the owner.
- f. Must have at least seven members.
- g. The business is managed and controlled by a Board of Directors.
- h. Profits and losses are shared according to the agreement amongst its members.

## Sub Strand 2.3 The Accounting Process

### ACHIEVEMENT INDICATOR

Students will be achieving these outcomes upon completion of the lesson;

- ❖ Investigate and explain the different types of source document
- ❖ Differentiate between VAT inclusive price, zero-rate VAT and VAT exclusive price
- ❖ Identify and prepare the different journal using transactions
- ❖ Study and describe the purpose of each of the seven journals
- ❖ Post the entries from the journal to the ledger (T form), balance the ledger account and prepare the Trial Balance.

# Chart of Accounts

Like any other discipline, accounting has a list of items that we have to familiarise ourselves with. This will help us in preparing accounts and also enable us to analyse and understand the nature of accounts much better.

A **chart of accounts** is a complete list of ledger account titles and account numbers used in the accounting system.

## Elements of Accounting



Businesses differ in nature of their operations thus a standard set of Chart of Accounts cannot be applied to all business. Each business makes its chart accounts it to suit its accounting system.

Chart of account for a small trading business can be illustrated as follows:

<b>Assets [A] 100 – 199</b>	<b>Liabilities [L] 400 – 499</b>
Current Assets	Current Liabilities
100 Cash in Hand	400 Bank Overdraft
101 Cash at bank	401 Accounts payable/Creditors
102 Accounts Receivable/Debtors	402 Expenses Due
103 Petty Cash Advance/Imprest	403 Income in advance
104 Stock/Inventory	404 Short-term Loan
105 Income Due	Long term Liabilities
106 Expenses Prepaid	410 Long term/Secured Loan
Fixed Assets	411 Mortgage
150 Land	<b>Proprietorship [P] 500-599</b>
151 Buildings	500 Capital
152 Furniture	501 Drawings [negative capital]
153 Plants and Machinery	
154 Equipment	
155 Motor Vehicles	
156 Fixtures	
157 Fittings	
<b>Expenses [E] 200-299</b>	225 Office Expense
200 Purchases	226 Printing
201 Purchases Returns [negative exp]	227 Water Bills
202 Wages	228 Accounting Fees
203 Insurance	229 Sales Expenses
204 Rates	230 Sundry Expenses
205 Cartage Inwards	231 License Fees
206 Customs Duty	232 Petty Cash Expenses
207 Freight Inwards	233 Advertising
208 Freight Outwards	234 Salaries
209 Carriage Inwards	235 Depreciation
210 Carriage Outwards	236 Bad debts
211 Delivery Expenses	237 Doubtful Debts
212 Repairs	238 Rent
213 Maintenance	239 Electricity
214 General Expenses	240 Painting
215 Stationery	241 Cleaning
216 Commission Expense	242 Discount Allowed
217 Postage	243 Travelling Expense
218 Cartage Outwards	244 Gross Loss
219 Telephone	245 Bank Charges
220 Photocopying	246 Miscellaneous Expenses
221 Wrappers	247 Bank Fees
	248 Fuel

222	Landing Charges	249	Other Expenses
223	Duty	250	Depreciation
224	Interest	251	Accumulated Depreciation [negative asset]
<b>Revenues [R] 300 – 399</b>			
300	Sales	304	Interest Received
301	Sales Returns [negative revenue]	305	Rent Received
302	Commission Received	306	Bad Debts Recovered
303	Discount Received	307	Other Revenues

*Source: Commercial Studies for Form 3*

## The Extended Accounting Equation

The EXTENDED ACCOUNTING EQUATION is an extension of the BASIC ACCOUNTING EQUATION. The difference is shown by including two more columns to the initial equation namely, the revenue and expenses columns. This helps us to actually find out how much profit or loss has been made by the business in a particular period. The ultimate purpose of running a business is to earn profits whilst fulfilling its customers and social responsibilities.

$$\begin{aligned} \text{Thus, Profit} &= \text{Revenue} - \text{Expenses} \\ &= \text{R} - \text{E} \end{aligned}$$

Since all profits and losses have to be borne by the proprietor, the profit is added to capital [and losses subtracted].

This leads us to derive the following equations:

$$\begin{aligned} A &= L + P \\ A &= L + P + \text{Profit} \\ A &= L + P + (\text{R} - \text{E}) \end{aligned}$$

Removing the brackets;

$$A = L + P + R - E$$

To make calculations and our accounting easier, we eliminate the minus by taking expenses to the LHS of the equation by adding E on both sides, as per the laws of mathematics we get;

$$A + E = L + P + R - E \quad | \quad + \quad E \quad |$$

Thus, the final EXTENDED ACCOUNTING EQUATION is;

$$A + E = L + P + R$$

**The following points must be noted when we are using the EXTENDED ACCOUNTING EQUATION:**

1. All REVENUES or INCOME received will increase REVENUE column
2. All EXPENSES paid will increase EXPENSES column
3. Any ADDITIONAL CAPITAL contributed by the proprietor/owner will increase CAPITAL and the respective asset that has contributed
4. Any DRAWINGS will decrease CAPITAL and either CASH or STOCK depending on whether CASH or GOODS were taken by the owner.
5. If STOCK/INVENTORY is given, all PURCHASE/SALE of GOODS will increase/decrease STOCK respectively unless otherwise stated. If no stock/inventory is given, all purchases will be treated as expenses and will increase EXPENSE column
6. The nature of the business has a significant effect on how each transaction affects the equation and you shall learn this through practice.
7. The treatment of CASH AT BANK and BANKOVERDRAFT will be as previously stated for a BASIC ACCOUNTING EQUATION.

### USING THE PREVIOUS ILLUSTRATIVE EXAMPLE

Gokul Bhai started his grocery business with the following assets and liabilities on 1<sup>st</sup> March:

Cash at Bank \$4,500	Accounts Receivable \$450
Equipment \$12,000	Building \$35,000
Loan \$9,000	Accounts Payable \$200

The following transactions took place during the month:

- 02/03 Bought equipment for cash \$2,500
- 15/03 Sold goods for cash \$450
- 19/03 Peter, a debtor, paid his account \$50
- 25/03 Paid Water Bill \$38
- 26/03 Received commission \$350

Required:

- a. Calculate the Capital for Gokuls Grocery Store on 1<sup>st</sup> March
- b. Prepare the analysis chart
- c. Show the effects of each transaction on the EXTENDED Accounting equation
- d. Calculate the Net Profit/Loss made by Gokuls Grocery Store during the month of March

Solution:

a. **Capital = Assets – Liabilities**

Assets =	Cash at Bank	\$ 4,500
	Accounts Receivable	\$ 450
	Equipment	\$12,000
	Building	<u>\$35,000</u>
		<u>\$51,950</u>

Liabilities =	Loan	\$9,000
	Accounts Payable	<u>\$ 200</u>
		<u>\$9,200</u>

Capital =	Assets	-	Liabilities
=	\$51,950	-	\$9,200
=	<u>\$42,750</u>		

### b. Analysis Chart

Date	Transactions	Accounts Affected	Account Type [A,E,L,P,R]	Inc / Dec	Amount \$
02/03	Bought equipment for cash \$2,500	Equipment	A	+	2 500
		Cash at Bank	A	-	2 500
15/03	Sold goods for cash \$450	Cash	A	+	450
		Sales	R	+	450
19/03	Peter, a debtor, paid his account \$50	Debtor	A	-	50
		Cash	A	+	50
25/03	Paid Water Bill \$38	Water Bill	E	+	38
		Cash	A	-	38
26/03	Received commission \$350	Cash	A	+	350
		Commission	R	+	350

### c. Accounting Equation:

Date	Cash at Bank	+	Equip ment	+	Accounts Receivable	+	Building	+	Expense	=	Loan	+	Accounts Payable	+	Capital	+	Revenue
01/03	\$4,500	+	\$12,000	+	\$450	+	\$35,000	+	0	=	\$9,000	+	\$200	+	42,750	+	0
02/03	-\$2500		+\$2500							=							
15/03	+\$450									=							+\$450
19/03	+\$50				-\$50					=							
25/03	-\$38								+\$38	=							
26/03	+\$350									=							+\$350
Total	\$2,812	+	\$14,500	+	\$400	+	\$35,000	+	\$38	=	\$9,000	+	\$200	+	\$42,750	+	\$800

### d. Net Profit/Loss

Net Profit/Loss	=	Revenue	-	Expenses
	=	\$800	-	\$38
Net Profit	=	<u>\$762.00</u>		

### Activity 3.1.1

Mrs. Jane Fong owns a stationary shop in Nausori. Her transactions for the month of February 2015 were shown in the chart given below.

Date	Bank \$	+	Debtors \$	+	Van \$	+	Expense \$	=	Accounts Payable \$	+	Capital \$	+	Revenue \$
Feb 1	\$800	+	\$300	+	\$5 700	+	0	=	\$800	+	\$6 000	+	0
2	-150						+150	=					
7			+70										+70
18			-40				+40						
20					+2 500				+2 500				
22	+400												+400
25			+1 000		-1 000								
27	-200										-200		
28	850		1 330		7 200		190		3 300		5 800		470

#### Required:

1. Write the possible transactions that took place from February 2<sup>nd</sup> to 27<sup>th</sup>.
2. Calculate the net profit or loss of Mrs. Jane Fong's stationary shop
3. Prepare the trial balance of Mrs. Jane Fong's stationary shop as at 28<sup>th</sup> February 2015.

### Activity 3.1.2

Jone operates a poultry farm in Navua. His transactions for the month of June 2014 were shown in the chart given below.

Date	Bank \$	+	Debtors \$	+	Equipment \$	+	Expense \$	=	Accounts Payable \$	+	Capital \$	+	Revenue \$
Jun 1	4 000		1 300		5 000		0		1 900		8 400		0
4	+600												+600
5	-250				+250								
10							+800		+800				
15	+500										+500		
16	-950								-1 000				+50
20	-200										-200		
24	+250		-250										
29			+100										+100
30	3 950		1 150		5 250		800		1 700		8 700		750

**Required:**

1. Write the possible transactions that took place from June 4<sup>th</sup> to 29<sup>th</sup>
2. Calculate the net profit or loss of Jone's poultry farm.
3. What is the additional capital for Jone's poultry farm?

### Activity 3.1.3

Given below are the assets and liabilities of G. Raju's Video Shop for the month of June.

**Required:**

- a. Calculate the Capital for G. Raju's Video Shop on 1<sup>st</sup> June
- b. Prepare the analysis chart
- c. Show the effects of each transaction on the EXTENDED Accounting equation
- d. Calculate the Net Profit/Loss made by G. Raju's Video Shop during the month of June

G Raju who owns a Video Shop in Rakiraki had the following assets and liabilities as at 1st June 2015.

	\$
Cash at Bank	2 800
Debtors	600
Plant & Equipment	4 300
Creditors	400
Loan	2 000
Capital	?

During June 2014 the following transactions occurred:

- June**
- 2 Received \$300 from debtors on account
  - 6 Paid wages to salesgirl \$150
  - 9 Sold equipment worth \$1 200 for cash \$1 000
  - 19 Cash takings \$800
  - 22 Repaid loan \$500
  - 26 Owner took \$50 for his personal use.

## Value added Tax

**What is Value Added Tax(VAT)?**

*[The following information is supplied by FRCA]*

Value Added Tax (VAT) is a tax on spending that is levied on the supply of goods and services in Fiji at the rate of **15%**, with effect from 1 January, 2011.

## WHY WAS VAT INTRODUCED?

1. The Government's main aim in introducing Vat is to generate more revenue
2. With Vat, it is possible because of its broad base

## Characteristics of VAT:

### 1. Tax on Spending

- This is a tax on spending, borne and paid by the final consumer of goods and services.
- Goods and services can be supplied by Registered Persons, Government Departments and Non – Profit Organizations.

### 2. Indirect Tax

- It is said to be an indirect tax in the sense that it is not deducted directly from wages and salaries. An example of a direct tax is PAYE. It is deducted directly from the wages or salaries before we receive our pay. Unlike VAT, you pay VAT when you spend and that is why it is said to be paid indirectly.

### 3. Broad Based Tax

- Vat is said to be a broad based tax because it covers a wide range of goods and services in its tax net.
- Likewise it covers a lot of people regardless whether you're employed or unemployed. Once you spend, you pay.

## Who Must Register For VAT?

Any person carrying on a “Taxable Activity” activity (other than a produce supplier) where annual gross turnover has exceeded the registration threshold of \$100,000.

### Compulsory Registration

- Any person who carries on a taxable activity (other than a produce supplier) where annual gross turnover has exceeded the threshold of \$100,000.

### Voluntary Registration.

- Produce Suppliers
- Persons carrying on taxable activity where annual gross turnover < \$100,000.

## Produce Suppliers

- Those who supply produce in a raw and unprocessed state and;
- Produce constitutes at least 90% of the total value of supplies and the balance of the goods and services supplied by that person is produce but not in a raw and unprocessed state.

## How to register?

If required to register, complete all the sections in one of the following relevant forms:

### For Sole Traders

- ✓ Application of Registration of Sole Trader Businesses form (IRS001) and any of the following ID.
  - Driver's license
  - FNPF/FRCA Joint ID Card.
  - Passport.
  - or any other valid ID

### Registered Persons are:

- ✓ legally entitled or required to charge VAT on the supplies they make
- ✓ Able to claim the VAT charged on purchases acquired to operate their taxable activity.

## When to Collect VAT

The rules governing value, place and time of supply are:

- **value of supply made:** this determines the VAT which should be collected & remitted to the Revenue Collection Division
- **place of supply:** this determines whether a supply is subject to VAT at a standard rate (15%), zero rate, or whether the supply is not subject to VAT
- **time of supply:** this determines when the liability to VAT occurs

Where most transactions will be at arm's length (**i.e. buyer and seller are not connected, and time of sale will be quite clear**). In these instances, the value of supply will be the price paid; the place of supply will be where the item sold is situated; while the tax liability will arise at the earlier of invoicing, payment, or delivery.

If a person is registered on a payments basis VAT will be remitted once payment is made or received, regardless of the tax liability.

## TYPES OF SUPPLIES

### **WHAT SUPPLIES ARE SUBJECT TO VAT?**

Supplies subject to VAT are listed under Section 3 of the Vat Decree [Taxable Supplies]. Section 3 implies the use of word “supply” in a very wide sense. In relation to goods, a supply is made by way of sale, exchange, lease, hire, hire purchase, lay by etc. In relation to services, you provide, render, grant or confer.

### 1. “Deemed Supplies” – treated as supplies for Vat purposes

- Goods and services appropriated to other use [non - taxable]. Adjustment for input tax already claimed where the good or services are not used in the taxable activity.
- Sale in satisfaction of a debt [where the sized goods or services were part of the taxable activity]
- Assets retained on cessation of business or upon deregistration.
- Grants received from state
- Supplies by public authorities
- Supplies by local authorities.
- Insurance indemnities received.
- Monies retained upon cancellation of lay-bysales.
- Provision of employee benefit if not zero-rated or exempt.
- Disposal of taxable activity as a going concern. [Goods mean all kinds of personal and real property; but do not include choses in action or money.]

### 2. Exempt Supplies – VAT Decree (Schedule 1)

Exempt supplies include the following:

- ❖ Supply of financial services;
- ❖ supply of accommodation in a residential dwelling;
- ❖ supply of education by an educational institution;
- ❖ supply of any goods and services incidental to the provision of education by an educational institution;
- ❖ supply and provision of the right to partake in any gambling;
- ❖ supply by any non-profit body of donated goods and services.

*VAT is not chargeable on the supply of exempt goods and services. The supplier will not be able to claim any input tax credit involving purchase or production of exempt supply.*

### 3. Zero Rated Supplies – Second Schedule (VAT Decree Second Schedule)

Zero rate supplies include the following:

- ❖ Exported goods
- ❖ Supplies of ship stores
- ❖ Supply of taxable activity as a going concern to another registered person
- ❖ Services in connection with goods outside Fiji.
- ❖ The supply of kerosene and the following basic food items-
  - Tinned fish;

- Flour and sharps;
- Powdered milk;
- Edible oil;
- Rice;
- Tea,

*VAT is charged at 0% on the supply of goods and services. The supplier can claim any input tax credit involving purchase or production of zero rated supply.*

### **VAT Rates**

<b>YEAR</b>	<b>RATES</b>	<b>TAX FRACTION</b>
2011 to date	15%	3/23
2003-2010	12.5 %	1/9
1992-2002	10 %	1/11

For more information: [info@frca.org.fj](mailto:info@frca.org.fj)

## **Revenue Collection – Taxation**

The revenue collection arm of the Taxation Division is the major operational section that is responsible for collecting revenue for the government.

It is responsible for processing original returns lodged by taxpayers and facilitating all related release of refunds and receipting of tax payments by taxpayers.

The main functions of the Centre are:

- To attend to all general enquiries
- To register new taxpayers and issue Tax Identification Numbers/ FNPF & FRCA Joint ID card
- To accept correspondence and returns for lodgment.

## **Source Documents**

**Accounting** is a process of recording, classifying, summarizing, and interpreting financial information and accounting cycle or **accounting process**, is a series of procedures in the collection, processing, and communication of financial information.



Figure 3.3.1 Accounting Process

Financial information is presented in reports called *financial statements*. But before they can be prepared, accountants need to gather information about business transactions, record and collate them to come up with the values to be presented in these reports.

As soon as a transaction takes place, it is documented in the source documents. Recording in the source documents is the first phase of accounting process. **Source Documents** are the evidence that a transaction has taken place in a business. Using these documents, the journals or the **Books of First Entry** are prepared. In the past, source documents were printed on paper. Today many of the paper documents are being converted to an electronic format.

Source documents should be retained for future reference. For instance, auditors will review a portion of a company's transactions and will need to examine the pertinent source documents.

## Internal Control Measures for Source Documents

- ❖ Documents to be pre- numbered to avoid any frauds and thefts.
- ❖ Multiple copies are to be made for reference and preparation of financial reports.
- ❖ Documents are to be filed carefully in numerical or alphabetical order so they can be easily located if required.

## Source Documents Process

For the understanding at Year 10, any source document issued or received, the customer will always get the original copy while the duplicates will go to the relevant departments for reference or filing and a duplicate copy will also go to the finance department for preparation of books of first entry.

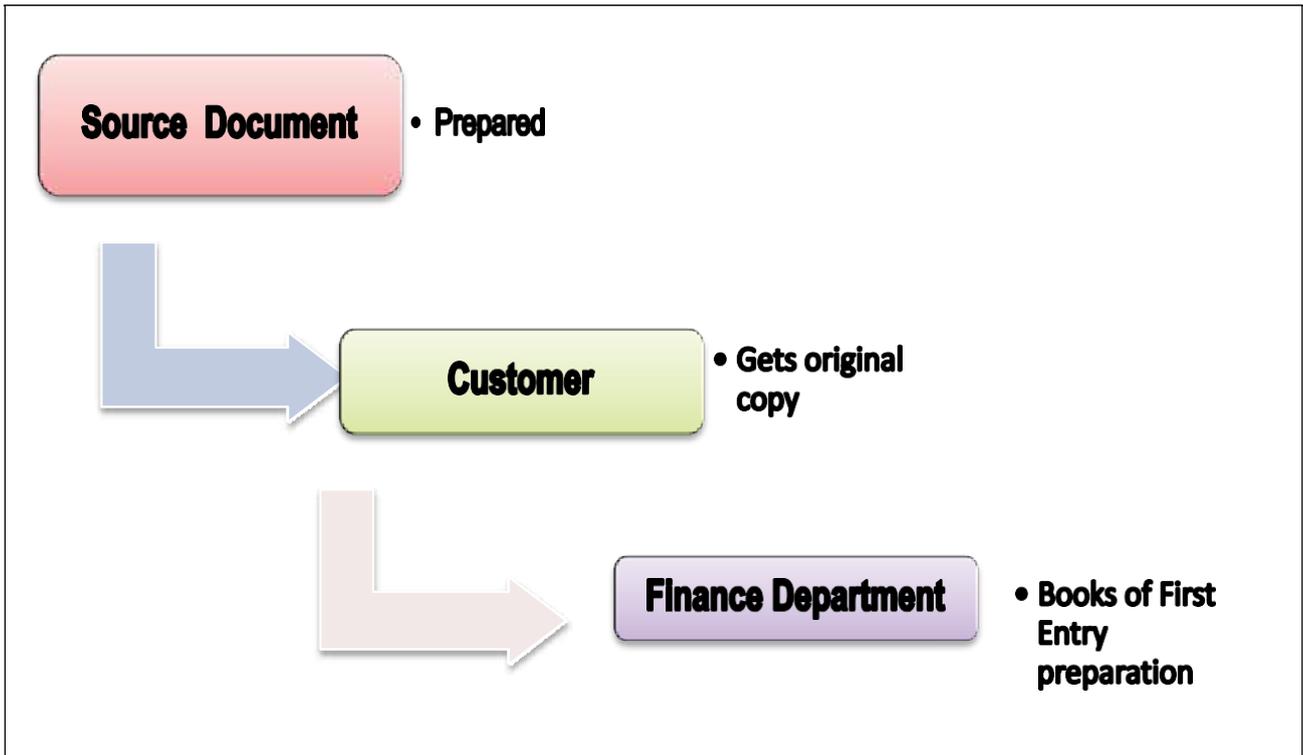
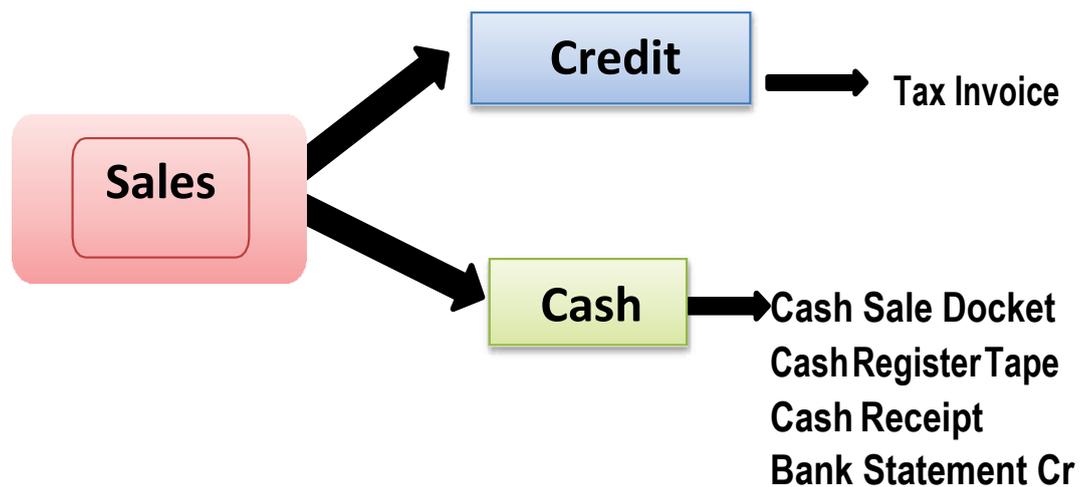


Figure 3.3.2 Source Document Process

## 1. Source Documents for Recording Sales

Sales are of two types and it is important that adequate documentation is done to avoid any misappropriations as well.



**Sales involve the following documents:**

- ◆ Tax Invoice
- ◆ Cash Sales Invoice

- ◆ Dispatch Slip
- ◆ Delivery Docket
- ◆ Statement of Account

## **Credit Sales**

Credit Sales: refers to all goods and services that are sold on credit. The customers have taken the good or have consumed the service and will make payments later on.

i. **Tax Invoice** is issued to the customer.

The following information plays significant role in any documentation.

- Date on which the transaction has taken place
- It's a must that all tax invoice to be serially and numerically numbered in advance
- Customers signature is very important on the document in the form of proof for credit buying
- Customer's correct name and address has to be noted for correct delivery.
- Payment terms are usually stated on the invoice. These may specify that the buyer has a maximum number of days in which to pay, and is sometimes offered a discount if paid before the due date. The buyer could have already paid for the products or services listed on the invoice



### Activity 3.3.1

With reference to the document given below answer the following questions.

VAT & NHIL INVOICE			
<b>From</b>	: <b>ABC Company</b> Post Office Box 1622 Accra E-Mail : sales@abc.com	<b>Supplier's TIN</b>	: <b>4037128491</b>
		<b>Customer's TIN</b>	: <b>4036587454</b>
		<b>Date of Invoice</b>	: <b>12/01/2011</b>
<b>To</b>	: <b>Apparels Enterprise</b> P.O. Box 2034 Accra Ghana		
QTY	DESCRIPTION	UNIT PRICE (Excluding VAT & NHIL)	Amount
90 Nos	Kente Print Fabric	160.00	14,400.00
790 Nos	Kente Dashiki	70.00	55,300.00
	<i>Packing Charges</i>		7,500.00
(I) Total Amount (excluding VAT & NHIL)			77,200.00
(II) VAT (12.5%)			9,650.00
(III) NHIL (2.5%)			1,930.00
(IV) TOTAL VAT + NHIL (II + III)			11,580.00
<b>TOTAL AMOUNT PAYABLE (Including VAT &amp; NHIL) (I + IV)</b>			<b>88,780.00</b>
Terms of Payment : <u>To be paid within 30 days of invoice date.</u>			_____ Supplier's Signature

- i. State the name of the business that has issued these documents?
- ii. Why is it important to have the customer's correct name and address on the invoice?
- iii. State the purpose of the document above.
- iv. Discuss as why it is important that documents are numbered consecutively.
- v. What does the abbreviation TIN and E.O & E stand for as it appears on the tax invoice?
- vi. Formulate a transaction using the above document.

ii. **Delivery Docket:**

- ◆ Is prepared by the seller and records the description of the goods that will be delivered to the buyer.
- ◆ The delivery docket will also show particulars of the goods delivered, the parties to the transaction, the date, and quantity of products to be delivered.
- ◆ Is signed by the customer as an evidence of goods being received.

<b>The Confectionery Place</b>		<b>DELIVERY DOCKET</b>
<b>107 Sweet Street</b>		
<b>SHOPPERS PARADISE 0000</b>		
ABN XXX XXX		
TO: Shop 16, Retailer Shopping Centre SHOPPERS PARADISE 0000		DATE: 5 November 0000
PURCHASE ORDER NO: 745		DELIVERY No: 75
Item no	Details	Qty
3400	Cartons Marvel Mints (12 pack carton)	5
6952	Boxes Jumping Jelly Snakes	2
1060	Cartons Rainbow Gum (mixed flavours)	10
Received by:		

Figure 3.3.4 Delivery Docket Sample

- iii. **Packing Slip or Dispatch Slip:** includes an itemized detail of the package contents and does not include customer pricing. It is usually inside an attached shipping pouch or inside the package itself.

IT TEST COMPANY Lot 1, Wailekutu, Lami, Suva Fiji Islands		DISPATCH SLIP		ORIGINAL	
Vehicle No :	kfasdf	Dispatch No :	1003	Date :	20/02/2013 2:57:36PM
Driver Name :	444	Dispatch Type :		Entered By :	SELEIMA TUISESE
Pallet Quantity :	0				
INVOICE NO	DATE	CUSTOMER	PICKING SLIP	TOTAL	Checked
1004	20-Feb-2013	test 24.01 - COD	1004	0.00	<input type="checkbox"/>
No of Invoices :					1
Received By			Checked By		
Signature			Signature		
Page 1 of 1					

Figure 3.3.5 Dispatch Slip Sample

iv. **Statement of Account**

- ◆ A statement is issued by a seller to a buyer on the monthly basis in the form of a reminder.
- ◆ The statement will show details of all the invoices and credit notes issued by the seller, together with details of payments received from the buyer.
- ◆ The purpose of the statement is to show the buyer details of the outstanding invoices they have with the seller, allowing the buyer to reconcile their accounts.

Statement of Account at 31/07/2011				
Please find listed below your account statement for the period shown above. Any payments received after the statement date will be included on your next account.				
Date	Details	Invoiced	Paid	Owing
15/03/2011	Ref: 10000145	350.00	200.00	150.00
12/06/2011	Ref: 10000147	1,100.00		1,100.00
17/07/2011	Ref: 10000148	50.00		50.00
<b>Balance Owing:</b>		<b>1,300.00</b>		
If there is a problem with this account please telephone us so that we can discuss the situation. Otherwise please give this matter your immediate attention and mail a cheque without further delay.				

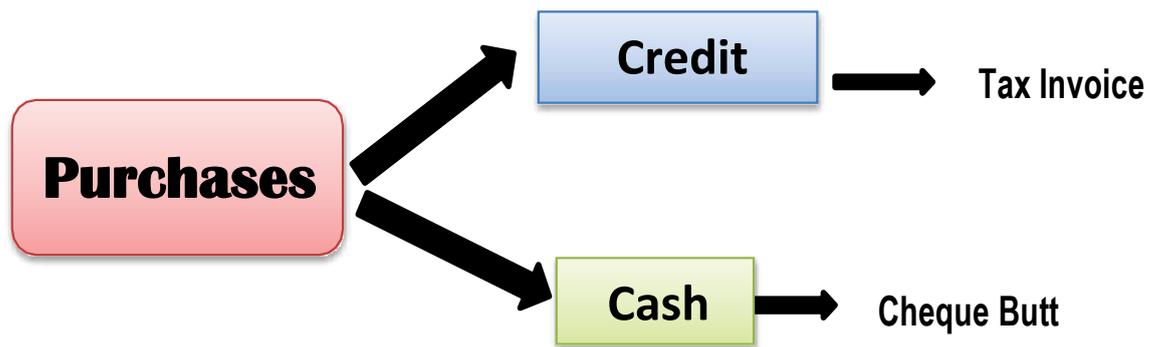
Current	30 days	60 days	90 days
50.00	1,100.00	0.00	150.00

Figure 3.3.6 Statement of Account Sample

**Cash Sales** involves all those goods and services where there is immediate transfer of cash. Therefore cash sales are recorded in **cash register tape** or **cash sales invoice**.

## 2. Source Documents for Recording Purchases

Like sales, purchases are of two types as well and it is important that adequate documentation is done to avoid any misappropriations as well.



**Purchases involve the following documents:**

- ◆ Tax Invoice
- ◆ Requisition Form
- ◆ Purchases Order

## Credit Purchases

Credit Purchases: refers to all goods and services that are bought on credit. The business or the buyer has taken the good or have consumed the service and agrees to make payments later on.

i. **Tax Invoice** is received by the business.

The following information plays significant role in the tax invoice received.

- Date on which the transaction has taken place
- Customers signature is very important on the document in the form of proof for credit buying
- In the hands of the seller, the invoice is referred to as a sales invoice (as the seller has sold goods). In the buyers hands the invoice is referred to as a purchase invoice (as they have purchased goods).
- It is important to verify the items ordered as per the order form with the tax invoice received.

## **Requisition Form**

- ◆ A requisition is used in business as an internal document used to notify stores or the purchasing department of items that are needed or need to be ordered.
- ◆ It sets out the quantity and the time frame. It may also contain the authorization to proceed with the purchase if the required items are not available in stock.

**STOCK REQUISITION 1001 To Purchasing Dept.**

GOODS NEEDED FOR \_\_\_\_\_ DATE NEEDED BY \_\_\_\_\_ DATE \_\_\_\_\_

SOURCE OF SUPPLY \_\_\_\_\_

DELIVER TO DEPT. \_\_\_\_\_ CHARGE TO \_\_\_\_\_ ACCT. NO. \_\_\_\_\_

**PLEASE ORDER THE FOLLOWING:**

QUANTITY	SIZE	DESCRIPTION	AMT. ON HAND	NEED FOR ORDERS

KEEP CANARY COPY FOR REFERENCE. SEND OTHER(S) TO PURCHASING. USE SEPARATE SET FOR EACH TYPE OF GOODS.

REQUESTED BY \_\_\_\_\_ APPROVED BY \_\_\_\_\_

ORDERED FROM \_\_\_\_\_ P.O. DATE \_\_\_\_\_ P.O. NO. \_\_\_\_\_

Figure 3.3.7 Requisition Form Sample

## Purchase order

- ◆ Purchase orders are issued by a buyer to a seller setting out details of the goods or services the buyer is ordering from the seller.
- ◆ The purchase order will typically show particulars of the goods being ordered including, date, quantities, and agreed prices.

 Shop 15, Retailer Shopping Centre SHOPPERS PARADISE 0000				
<b>PURCHASE ORDER</b>			<b>ORDER No. 745</b>	
<b>TO SUPPLIER:</b>		The Confectionery Place 107 Sweet Street SHOPPERS PARADISE 0000		
DESCRIPTION	CODES	QUANTITY	UNIT PRICE \$	TOTAL \$
Cartons Marvel Mints (12 pack carton)	3400	6	13.20	79.20
Boxes Giant Jumping Jelly Snakes	6954	2	27.50	55.00
Cartons Rainbow Gum (mixed flavours)	1060	10	16.50	160.50
<b>Ordered by:</b> Evie Watt  <b>Authorised by Manager:</b> Bert Watt				

Figure 3.3.8 Purchase Order Sample

**Cash Purchase** involves all those goods and services where there is immediate transfer of cash. Therefore cash purchases are evidenced by the issue of Cheque Butt receiving of cash sale invoice from the seller.

[Note: [I] as a business when I sell goods my name appears at top of the source document that will indicate I have issued the documents. However, when it comes to buying and making payments my name appears below in place of the customer.

## 2. Source Documents for Recording Return of Goods

The business that trades also encounters situations of goods either being returned to them or they return to the supplier. All return of goods is recorded on the **credit note**.

### Credit Note

- ◆ If a seller sells goods to a buyer on account, and the buyer returns some of the goods to the seller, then the seller will issue a credit note.
- ◆ The credit note will typically show particulars of the goods returned, including the parties to the transaction, the date, quantity, and amount of credit.
- ◆ The original credit note is sent to the buyer, and a duplicate copy is used in preparation of Books of First Entry.

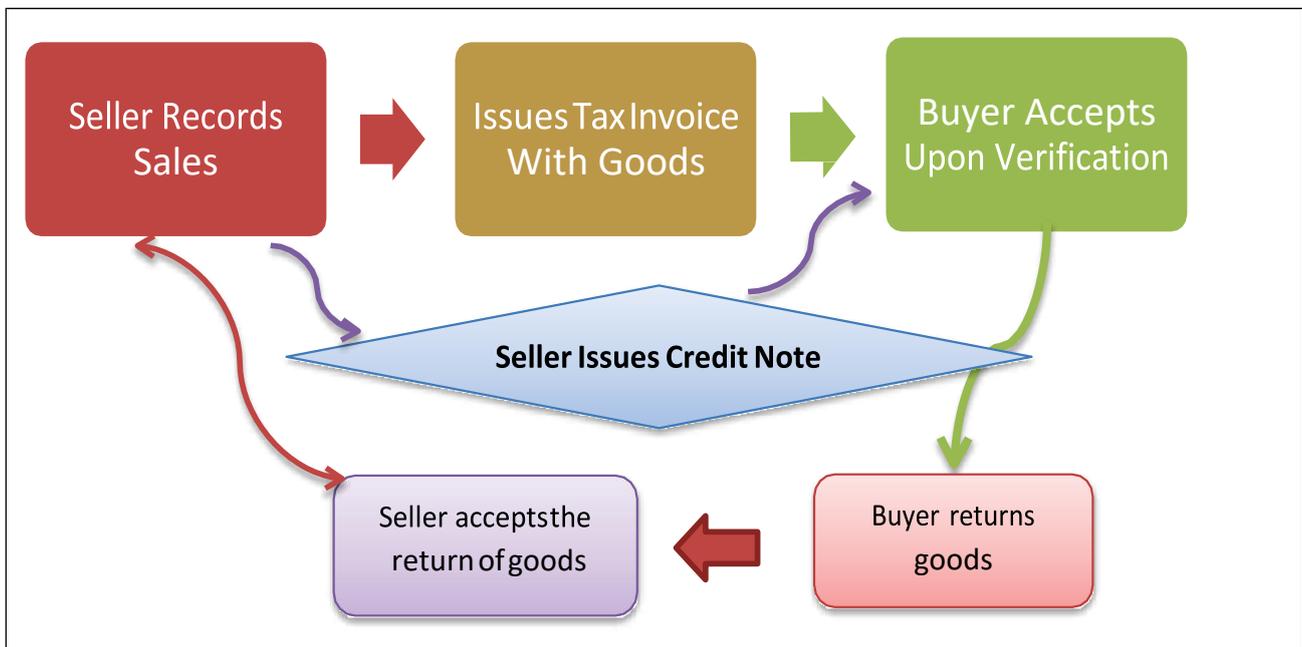


Figure 3.3.9 Process of Sales and Returns

**a. Sales Returns or Return Inwards**

When debtors return goods, **credit note is issued** as evidence. Thus using this document sales returns journal is prepared.

**b. Purchases Returns or Return Outwards**

When the business returns goods, **credit note is received** as evidence. Thus using this document purchases returns journal is prepared.

**Debit Note**

- ◆ Debit notes are prepared by the buyer to show that goods have been returned to the seller, and to reflect the fact that, in the books of the buyer the sellers account have been debited that is the amount the buyer owes the seller has been reduced.
- ◆ The original debit note is sent to the seller, and a copy of the debit note is used to prepare the journals.

Debit Memo						
Date: ----						
Bill To:			Send To:			
Address:			Address:			
City:	State:	Zip:	City:	State:	Zip:	
Phone:			Phone:			
Coustmer ID:			Terms:			
Reason for Debit:						
Approved By:			Date:			
P.O./Order#:		Date:		Internal Billing:		
Invoice	Item	Quantity	Description	Price	Total	
					\$	-
					\$	-
					\$	-
					\$	-
					\$	-
					\$	-
					\$	-
<b>Total Amount of Debit:</b>					\$	-

Figure 3.3.10

Debit Note Sample

## 4. Source Documents for Recording Cash Receipts

i. **Cash Sales Invoice**: are prepared in two or more carbon copies with original copy being issued to the customer.

### ii. **Cash Register Tape**:

- ◆ A **cash register**, also referred to as a **till**, is a mechanical or electronic device for registering and calculating transactions.
- ◆ It is usually attached to a **drawer** for storing **cash** and other valuables. The cash register is also usually attached to a printer which prints out **receipts** for record keeping purposes.

### iii. **Receipt**

- ◆ The cash receipt is a document that proves the receipt of cash that a business takes in during any one accounting period.
- ◆ Receipts are cash sales, as well as money received on a customer's account.
- ◆ Receipts also include any cash received in the business from any source, including loan or credit line proceeds or funding from investors.

iv. **EFTPOS** refer to **Electronic Funds Transfer at Point of Sale** — is an **electronic payment system** involving electronic funds transfers based on the use of **payment cards**, such as **debit** or **credit cards**, at **payment terminals** located at points of sale.

- ◆ EFTPOS is the method for paying for goods or services without needing to carry cash



## v. Bank Statement Cr

A **bank statement** or **account statement** is a summary of financial transactions which have occurred over a given period on a bank account held by a person or business with a financial institution.

 <b>FIRST BANK OF WIKI</b> 1425 JAMES ST, PO BOX 4000 VICTORIA BC V8X 3X4 1-800-555-5555		CHEQUING ACCOUNT STATEMENT Page : 1 of 1			
JOHN JONES 1643 DUNDAS ST W APT 27 TORONTO ON M6K 1V2		<b>Statement period</b> 2003-10-09 to 2003-11-08		<b>Account No.</b> 00005- 123-456-7	
Date	Description	Ref.	Withdrawals	Deposits	Balance
2003-10-08	Previous balance				0.55
2003-10-14	Payroll Deposit - HOTEL			694.81	695.36
2003-10-14	Web Bill Payment - MASTERCARD	9685	200.00		495.36
2003-10-16	ATM Withdrawal - INTERAC	3990	21.25		474.11
2003-10-16	Fees - Interac		1.50		472.61
2003-10-20	Interac Purchase - ELECTRONICS	1975	2.99		469.62
2003-10-21	Web Bill Payment - AMEX	3314	300.00		169.62
2003-10-22	ATM Withdrawal - FIRST BANK	0064	100.00		69.62
2003-10-23	Interac Purchase - SUPERMARKET	1559	29.08		40.54
2003-10-24	Interac Refund - ELECTRONICS	1975		2.99	43.53
2003-10-27	Telephone Bill Payment - VISA	2475	6.77		36.76
2003-10-28	Payroll Deposit - HOTEL			694.81	731.57
2003-10-30	Web Funds Transfer - From SAVINGS	2620		50.00	781.57
2003-11-03	Pre-Auth. Payment - INSURANCE		33.55		748.02
2003-11-03	Cheque No. - 409		100.00		648.02
2003-11-06	Mortgage Payment		710.49		-62.47
2003-11-07	Fees - Overdraft		5.00		-67.47
2003-11-08	Fees - Monthly		5.00		-72.47
*** Totals ***			1,515.63	1,442.61	

## 5. Source Documents for Recording Cash Payments

### a. Cheque and Cheque Butt

**Cheque** is a written order to a bank authorizing the bank to pay an amount of money to the person named on the cheque.

- ◆ The person writing the cheque has a transaction banking account (often called a current, cheque, chequing account where their money is held).
- ◆ The drawer writes the various details including the monetary amount, date, and a payee on the cheque, and signs it, ordering their bank to pay that person or company on their behalf the amount of money stated.
- ◆ Cheque butt is used in preparation of journals.

## Parts of a Cheque

The four main items on a cheque are

- **Drawer**, the person or entity who makes the cheque
- **Payee**, the recipient of the money
- **Drawee**, the bank or other financial institution where the cheque can be presented for payment
- **Amount**, the currency amount

## Interpreting a cheque



Figure 3.3.14

Interpreting a Cheque

Source: Wikipedia

1. **Drawee**, the financial institution where the Cheque can be presented for payment
2. **Payee**
3. Date of issue
4. Amount of currency
5. **Drawer**, the person or entity making the Cheque
6. Signature of drawer
7. Machine readable routing and account information

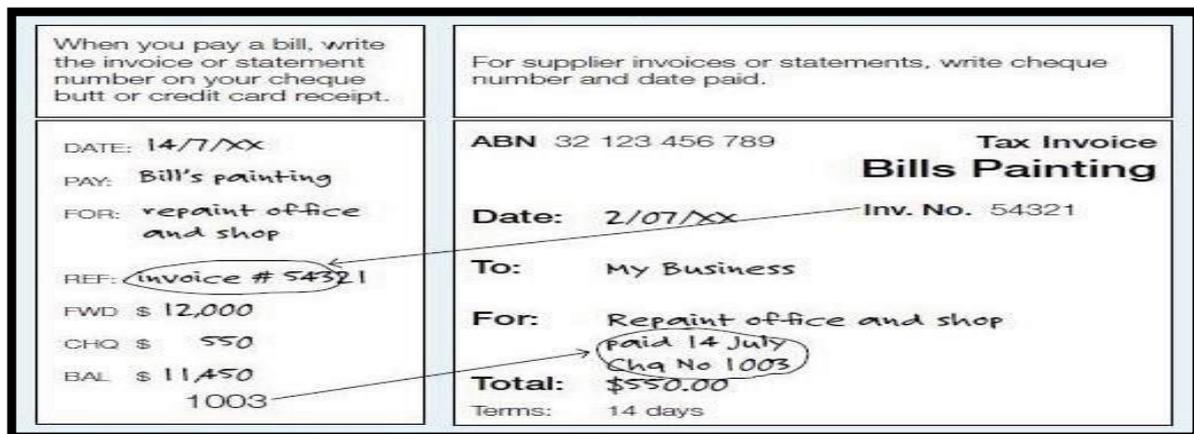


Figure 3.3.15

Cheque Butt and Leaf

Source: Google

b. **Payment Voucher:** is a document which can be used as proof that a monetary transaction has occurred between two parties.

- ◆ In business, a payment voucher can be used in the form of cash in a transaction, or acting as a receipt, or indicating that an invoice has been approved for payment.
- ◆ Upon reaching the payment date, the voucher is forwarded to an authorized person for approval. After making payment, a copy of the cheque is attached and the voucher is stamped "Paid." It is then filed in the paid voucher file in order to prevent a duplicate payment.

<h1>Payment Voucher</h1>		
PV No: _____		
Amount:	Date:	
<b>Method of Payment</b>		
Cash:	Check#:	
To:		
The Sum of:		
Being:		Payee:
Approved By:	Paid By:	Signature

*Payment Voucher Template*

Figure 3.3.16

Payment Vouchersample

Source: Google

## 5. Source Documents for Recording General Transactions

**Internal Memorandum** is used to convey the relevant or important message from a department to another.

ABC LTD  
 121 Elizabeth Drive,  
 Suva  
 P.O.Box 23 Suva.  
 Ph: 6793367234 Fax 3311678  
 Email: labcltd@gmail.com.fj

**INTERNAL MEMEORANDUM**

Date: \_\_\_\_\_

To: \_\_\_\_\_ Department \_\_\_\_\_

From: \_\_\_\_\_ Department \_\_\_\_\_

Subject: \_\_\_\_\_

Details \_\_\_\_\_

Prepared by \_\_\_\_\_ Approved by: \_\_\_\_\_ Received by \_\_\_\_\_

Figure 3.3.17 Internal Memorandum

<b>Transaction summary</b>	<b>Source Document</b>
Purchase of inventory on credit	Purchase Invoice
Sale of inventory on credit	Sales invoice
The return of inventory to a supplier. These were originally bought on credit	(Purchases) Credit Note
The return of inventory to you from a customer. These were originally bought on credit	(Sales) Credit Note
The payment for petrol by cash	Receipt
Money paid into the business bank account	Bank Paying in Slip
Cheque sent to pay a supplier	Cheque Counterfoil
Direct Debit or Standing Order payment for a utility bill	Bank Statement
Credit Transfer received from a credit customer	Bank Statement

### Activity 3.3.1

Allan Singh runs a grocery business in Savusavu. The following transactions were recorded in his business during the first week of April 2005.

- a. Sold goods to Shyam Lal \$45 on credit.
- b. Bought goods for cash \$60.
- c. Key Lum, a debtor paid his account \$30.
- d. Bought a delivery van on credit from Star Auto Ltd \$1 000.
- e. Returned goods worth \$10 to Koroi\$ Co.

#### Required:

State the source document used in each of the above transaction. Note specify whether the transaction is issued or received.

### Activity 3.3.2

Krishna owns a small grocery store in Navua. Documents he uses to write his seven journals are listed in the Resource List given below.

#### RESOURCE LIST

Cheque Butt  
Tax Invoice Issued  
Receipts Issued  
Tax Invoice Received  
Credit Note Issued  
Credit Note Received

On 30th April 1998, the following transactions took place in his business :

Transactions :

- a. Sold goods on credit to Jone \$75
- b. Proprietor drew a cheque of \$120 for his own shopping.
- c. Bought goods from Taito & Sons for resale \$670.
- d. Jone returned damaged goods worth \$5.
- e. Jone paid his account less 10% discount.
- f. Bought a Typewriter for the office from Western Office Ltd for \$125.
- g. Returned goods bought from Taito & Sons worth \$20.

Required :

- (i) Select a source document from the Resource List that will be used to record each of the transactions given above.
- (ii) State the journal in which each of the transactions would be recorded.

(7 marks)

Study the following source document given below and answer the questions that follow :

<b><u>TAX INVOICE</u></b>					
<b>Jackson's Store General Merchants</b>					
P.O. Box A358, Nasinu			2/10/2000		
<b>Mr. Sher Bahadur Vatuwaqa</b>			Account No. SH128 Tax Invoice No. 786		
Quantity	Description of Goods	Unit Price		Totals	
1 bag	Sugar	23	00	23	00
1 bag	Chicken Feed	12	00	12	00
4 pkts	Soap Powder	2	50	10	00
5 tins	Biscuits	5	00	25	00
5 mtrs	Cloth - Curtain Material	4	00	20	00
	Sub - Total (A)		\$	90	00
	Add Vat 15% (B)		\$		
	Total Amount Payable (C)		\$		

E.&.O.E.

**Required :**

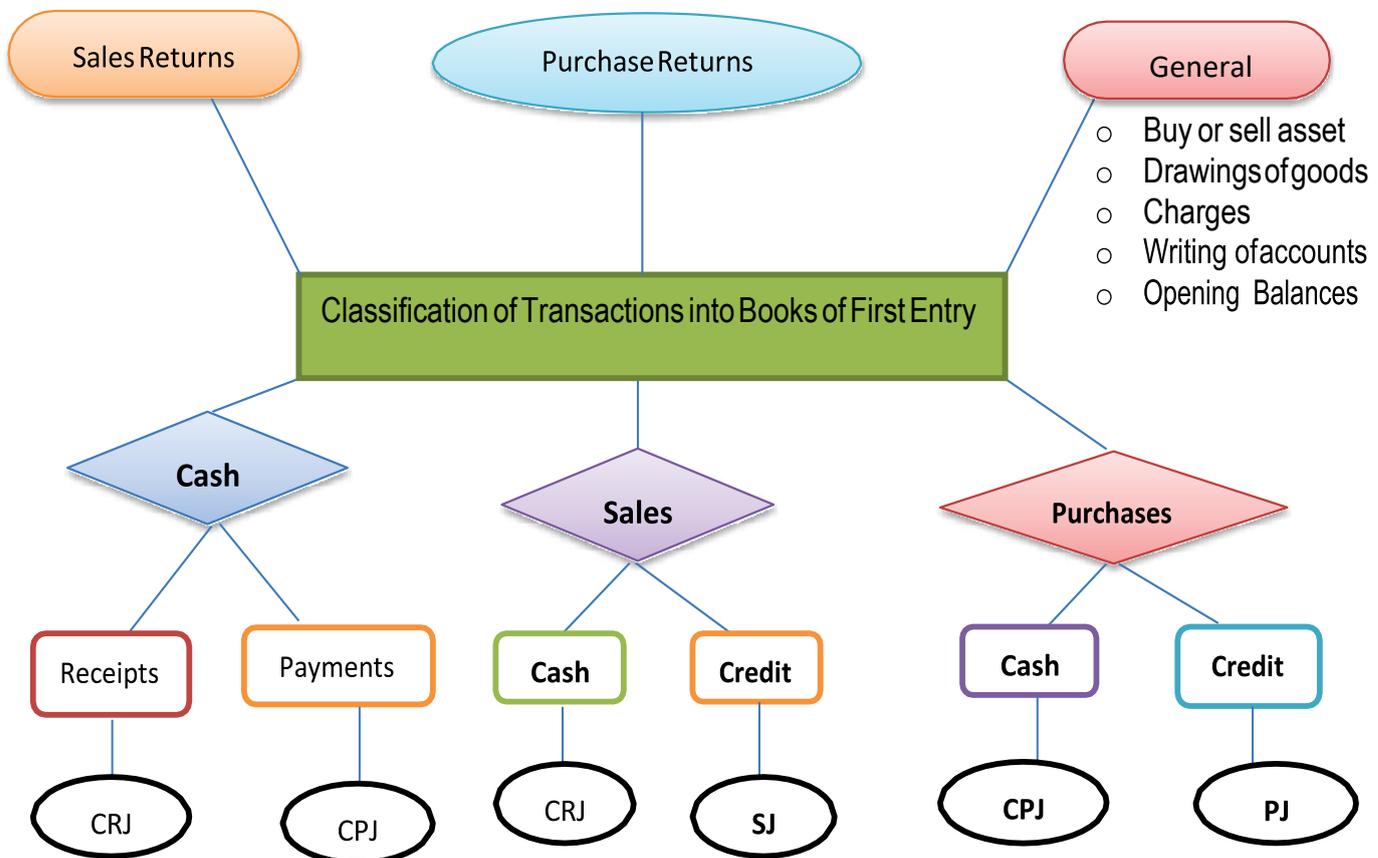
- a. Name the buyer and the seller.
- b. Why is it important to have tax invoices numbered in a numerical sequence ?
- c. In which journal would the seller record this transaction ?
- d. In which journal would the buyer record this transaction ?
- e. Calculate the 15% Value - Added - Tax.
- f. Calculate the Total Amount Payable. (4 marks)

# Journals

**Journal:** is a record of financial transactions **in order by date**. A journal is often defined as the *book of original entry*.

- ◆ The journal entry can consist of several recordings, each of which is either a **debit** or a **credit**. The total of the debits must equal the total of the credits or the journal entry is said to be "unbalanced".
- ◆ With today's computerized bookkeeping and accounting, it is likely to find only a general journal in which adjusting entries and unique financial transactions are entered. The recording and posting of most transactions will occur automatically when sales and vendor invoice information is entered, cheques are written, etc. In other words, accounting software has eliminated the need to first record routine transactions into a journal.

## Brief Overview of the Journal



**Journal could be further categorized as:**

- 1. Cash Journals
  - CRJ
  - CPJ
  
- 2. Goods Journals
  - PJ
  - PRJ
  - SJ
  - SRJ
  
- 3. General Journal

## Cash Journals

**Format of Cash Journal**

Date	Particulars	Reference	Discount	Detail	Bank
1	2	3	4	5	6

- 1. Date – the month and the day the transaction took place
- 2. Particulars---- the business or the person to whom the cheque or receipt was issued or received.
- 3. Reference - Either the cheque number or receipt is recorded as reference
- 4. Discount ----any discount that is allowed to debtors or discount received from creditors
- 5. Details---- shows the breakdown of payments or receipts.
- 6. Bank ----records the total receipts to be deposited or the value of cheque written.

### 1. **Cash Receipts Journal**

- ❖ The cash receipts journal records all cash that the business receives that is money that comes in.
- ❖ The cash receipts journal uses the following source documents:
  - Cash Sales Invoices
  - Cash Register Tape
  - Bank Statement Cr
  - Receipts issued

## Illustrative Example

- March 1      Cash Sales \$225.00  
                  Received cash from M. Raza in full settlement \$ 98.00
- 4              Received Commission \$23.00
- 6              Received from Lal & Sons \$187.00 and Discount Allowed \$3.00  
                  Cash Sales \$149.00
- 8              Sold goods for cash \$120.00  
                  Issued Cash Sales Invoice for \$95.00
- 14             Received Interest \$12.00
- 22             Mrs. Khan paid her account \$120.00 less 2% discount.  
                  Cash Sales \$150.00
- 28             Proprietor introduced additional capital in the business \$4 500

**Required:**      Prepare the Cash Receipts Journal using the above information.

**Solution:**

### Cash Receipts Journal

Date	Particulars	Receipt No.	Discount [\$]	Detail [\$]	Bank [\$]
Mar 1	Sales			225.00	
	M.Raza			<u>98.00</u>	
					323.00
4	Commission				23.00
6	Lal & Sons		3.00	187.00	
	Sales			<u>149.00</u>	
					336.00
8	Sales			120.00	
	Sales			<u>95.00</u>	
					215.00
14	Interest				12.00
22	Mrs. Khan		<u>2.40</u>		117.60
28	Capital				<u>4 500</u>
31	Cash at Bank Account Dr, Discount Allowed Account Dr		<u>\$5.40</u>		<u>\$5 526.60</u>

### Activity 3.4.1

The following information was provided by Meli's Food Mart for the month of September, 2014.

3/9/2014	Cash Sales \$700 Received Commission \$50
4/9/2014	Cash Purchases \$200 Received \$200 from Mate less \$10 discount
6/9/2014	Bought goods from Jone \$800
20/9/2014	Bought a van on credit \$900

Use the information given above to prepare the Cash Receipts Journal for Meli's Food Mart.

### Activity 3.4.2

During the first week of June, Jimaima's Store had the following transactions :

June 2	Cash sales \$455, James paid his account \$54 (Discount allowed \$6) Tax invoice issued to James \$45 Charged James interest on overdue account \$12
June 3	Paid by a cheque : Advertisement \$35 and Jill's Store on account \$326 Cash received : Sales \$218 and Commission \$55
June 4	Received Interest \$108 Credit sales : Issued Tax Invoice No. 151 to James \$152
June 5	Received from a debtor D. King \$28 Credit note issued to James \$5 Tax invoice received from Wang Store \$166
June 6	Henry paid on account \$78 (Discount Allowed \$2), Paid by a cheque : Wages \$438, Drawings \$100 and Rent \$180 Charged freight to James \$20

Required: Prepare the Cash Receipts Journal

### Activity 3.4.3

Use the information given below and prepare the Cash Receipts Journal

Study the following transactions that took place at Mary's Store for the month of April.

April 2 Issued receipt # 0071 from S. Sharma for the settlement of account \$108.50 and discount allowed \$3.50

Issued receipt # 0072 for total cash takings for the day \$72.00

8 Receipt#0073 issued to G. Sami for \$58.50 and allowed \$1.50

Issued cash sales invoice # 0074 \$40.00

10 R. Ram was issued a receipt # 0075 for \$16.00

Bank statement shows interest being credited of \$50.00

21 Days taking receipted # 0076 for the day \$100.00

25 Proprietor received receipt # 0077 for additional contribution in the business \$500

### Activity 3.4.4

Study the journal given below and answer the following questions.

**Cash Receipts Journal**

Date	Particulars		Discount [\$]	Details [ \$ ]	Bank [ \$ ]
Aug 2	Z. Ali Sales		2	45 400	445
8	R.Razak Fixtures and Fittings		2	37 100	
18	Sales				137
22	Z. Ali Sales		2	48 350	799
					398

- i. Identify the source documents for August 2, 8, 18 and 22.
- ii. Formulate the transactions for August 2, 8, 18 and 22.
- iii. Calculate the total amount that was deposited at the end of the month.
- iv. What was the total amount of discount allowed for the month of August.

## 2. Cash Payments Journal

- ❖ Cash Payments Journal records all cash that is paid out by the business that is money that goes out.
- ❖ The cash payments journal uses the following source documents:
  - Cheque Butt
  - Payment Vouchers
  - Receipts received

### Illustrative Example

March 1	Cash Purchases cheque # 00801 \$332.00
	Paid business insurance cheque # 00802 \$ 225.00
3	Issued cheque # 00803 \$66 to Hakeem on account. Discount received \$4.
7	Issued cheque # \$ 00804; telephone \$95, interest \$33, general expenses \$75
11	Paid wages to the security \$90.00 cheque # 00805
	Proprietor wrote cheque #00806 for own use \$100.00
20	Bought computer for cash cheque # 00807 \$2220.00
25	Paid Suzanne Enterprise cheque # 00808 \$220.00 less 3% discount.
	Bought goods for cash cheque # 00809 \$175.00
31	Paid rent cheque # 00810 \$250

**Required:** Prepare the Cash Payments Journal using the above information.

**Solution:**

### Cash Payments Journal

Date	Particulars	Cheque No.	Discount [\$]	Detail [\$]	Bank [\$]
Mar 1	Purchases	00801			332.00
	Insurance	00802			225.00
3	Hakeem	00803	4.00		66.00
7	Telephone	00804		95.00	
	Interest			33.00	
	General Expenses			<u>75.00</u>	203.00
11	Wages	00805			90.00
	Drawings	00806			100.00
20	Computer	00807			2220.00
25	Suzanne Enterprise	00808	6.60		213.40
	Purchases	00809			175.00
31	Rent	00810			250.00
31	<b>Cash at Bank Account Cr, Discount Received Account Cr</b>		<b><u>\$10.60</u></b>		<b><u>\$3874.00</u></b>

### Activity 3.4.5

Use the information given below and prepare the Cash Payments Journal

Study the following transactions that took place at Fong Lee Store for the month of July

July 2 Issued cheque # 500121 \$155 to Bunty Patel less 2% discount

Issued cheque # 500122 for cash purchases \$100.00

8 Issued cheque # 500123 to XY Furniture Ltd for purchase of new furniture \$5850

Proprietor wrote a cheque # 500124 \$140.00 for himself

10 Paid salaries cheque # 500125 for \$160.00

Repaid loan cheque # 500126 \$500.00

21 Paid XY Furniture Ltd cheque # 500177 \$2000.00 and discount received \$14

25 Paid cheque # 500178 for: salaries \$100, telephone \$101, interest \$85 and purchases \$220.

### Activity 3.4.6

Use the source documents of P. Pal Traders given below and prepare the Cash Payments Journal

Date: 14/01/14  
 Pay: ABC.Co. Ltd  
 For: Insurance  
 This Cheque: \$295  
 00300

Date: 19/01/14  
 Pay: One TV Ltd  
 For: Advertising  
 This Cheque: \$350  
 00301

Date: 21/01/14  
 Pay: Self  
 For: Cash  
 This Cheque: \$150  
 00302

Date: 26/01/14  
 Pay: Mrs. Reddy  
 For: Monthly Rent  
 This Cheque: \$450  
 00304

Receipt No. 883926  
 Biller: Fiji Power Ltd  
 Location: Zee. Ping Store  
 Date: 20/01/14  
 Account: 6153321001  
 Reference Name:  
 P. Pal Traders Ltd  
 Payment Mode: Cheque #00307  
 Amount Paid: \$ 95.50

Furniture Supplies Ltd  
 P.O.Box 123  
 Suva  
 Date: 18/01/14  
 Received from: P. Pal Traders Ltd  
 The sum of: two hundred dollars  
 For Payment of: account settlement

\$200.00	\$10.00	\$210.00
Cash/Cheque	Discount	Total

Cashier: *Laila*

### Activity 3.4.7

Use the transactions and prepare the Cash Payments Journal

- August 1      Cash Purchases \$200.00  
                  Paid for goods \$ 155.00
- 3      Paid Ana \$178 and Discount received \$2.
- 7      Bought goods for cash \$275
- 11     Paid wages \$60.00  
                  Cash Drawings \$50.00
- 20     Bought Filing Cabinet for cash \$385.00
- 25     Paid Suzy \$250.00 less 1% discount.

## Goods Journals

### Format of Goods Journal

Date	Particulars	Invoice/ Credit Note No.	Dr	Cr
1	2	3		

1. Date – the month and the day the transaction took place
  
2. Particulars---- either the debtor’s or creditor’s name is written
  - If the debtors name is written in the particulars column then the amount goes in the Dr column as ledger rule applies. [**Debtor—A ---+ --- Dr**]
  
  - If the creditors name is written in the particulars column then the amount goes in the Cr column as ledger rule applies. [**Creditor —L---+----- Cr**]
  
3. Invoice / Credit Note ---Either the Invoice or credit note number is recorded as reference
  - When there is either sales or purchases the invoice number is recorded
  - When the return of goods takes place then the credit note is recorded
  
4. Total sales amounted has to be credited as **Sales----R----+ -- Cr** while total purchases has to be debited as **Purchases -----E----+----- Dr**

### 3. Sales Journal

- ❖ Sales Journal records all credit sales
- ❖ Sales Journal uses the tax invoice issued to record credit sales.

#### Illustrative Example

March	4	Sold goods to M.Singh tax invoice # 051	\$200.00
	6	Sold goods MotiLal invoice # 052	\$150.00
	10	Issued tax invoice #053 to Manasa	\$109.00
	14	Issued tax invoice # 054 to A. Chand	\$350.00
	22	Sold goods to R.Narayan tax invoice #055	\$90.00

Required: Prepare the Sales Journal

#### Solution

#### Sales Journal

Date	Debtors	Invoice No.	Dr [\$]	Cr [\$]
Mar 4	M. Singh	051	200.00	
6	MotiLal	052	150.00	
10	Manasa	053	109.00	
14	A.Chand	054	350.00	
22	R. Narayan	055	90.00	
	<b>Sales Account Cr</b>			<b><u>\$899.00</u></b>

#### Activity 3.4.8

Record the following transactions in the Sales Journal.

Sept	4	Sold goods to Lalita tax invoice # 009	\$92.00
	6	Sold goods Mohini invoice # 010	\$87.00
	10	Issued tax invoice #011 to Lolia	\$175.00
	14	Issued tax invoice # 012 to Arti Singh	\$289.00
	22	Sold goods to George tax invoice #013	\$70.00
	25	Issued tax invoice #014 to Tina Dion	\$189.00
	28	Credit sales to Manu Patel tax invoice #015	\$586.00

### Activity 3.4.9

Study the source documents of Minnie's Dairy Store for the month of May and prepare the Sales Journal.

<b>Tax Invoice 450</b>			
<b>Minnie General Store</b>			
44 Toorak Drive, Suva			
Ph. 3366458			
Date: <u>09/05/14</u>			
To: <u>Lose Lagi</u>			
Add: <u>59 Kuka Place</u>			
Ph. <u>3332254</u>			
Qty	Description	UC[\$]	TC[\$]
3kg	Rice	1.75	5.25
4l	Oil	2.85	11.40
2doz	Eggs	6.75	13.50
<b>Total</b>		<b>\$30.15</b>	
Signature: <u>Lose Lagi</u>			

<b>Tax Invoice 450</b>			
<b>Minnie General Store</b>			
44 Toorak Drive, Suva			
Ph. 3366458			
Date: <u>15/05/14</u>			
To: <u>Banno Rani</u>			
Add: <u>49 Jerry Drive</u>			
Ph: <u>3398441</u>			
Qty	Description	UC[\$]	TC[\$]
15m	Bula Fabric	1.30	19.50
12	Ex. Bks	1.25	15.00
5m	Brown sht	0.95	4.75
<b>Total</b>		<b>\$39.25</b>	
Signature: <u>Banno Rani</u>			

<b>Tax Invoice 450</b>			
<b>Minnie General Store</b>			
44 Toorak Drive, Suva			
Ph. 3366458			
Date: <u>09/05/14</u>			
To: <u>Timoci Tamana</u>			
Add: <u>36 Pio St</u>			
Ph: <u>3311226</u>			
Qty	Description	UC[\$]	TC[\$]
10kg	Kava	26.50	265
<b>Total</b>		<b>\$265.00</b>	
Signature: <u>Timoci Tamana</u>			

#### 4. Sales Returns Journal

- ❖ Sales Journal records all goods returned to us, the business, by our debtors.
- ❖ Sales Returns Journal uses the credit note issued to record return of goods that were sold on credit.

**Note:** when there is sales return then **Debtor -----A----- Dec-----Cr** and **Sales Returns –E----+---Dr**

#### Illustrative Example

March	6	M. Singh returned goods credit note # 021	\$20.00
	14	Manasa was issued credit note # 022	\$9.00
	31	Issued credit note #023 to A. Chand	\$15.00

**Required:** Prepare Sales Returns Journal

#### Solution

#### Sales Returns Journal

Date	Debtors	Credit Note No.	Dr [\$]	Cr [\$]
Mar 6	M. Singh	021		20.00
14	Manasa	022		9.00
31	A. Chand	023		15.00
	<b>Sales Returns Account Dr</b>		<b>\$44.00</b>	

### Activity 3.4.10

A Wong owns a shoe shop. During the first week of August 2014 the business recorded the following transactions:

August 3	Cash Received	:	from J Taniya \$72.00 and discount allowed was \$4
	Invoice Issued	:	to M Sharma \$38.00
4	Cash Received	:	Sales \$164 Shoe Repairs \$10
	Cheques Paid	:	Insurance \$94 N Josateki, wholesales \$283
5	Cash Received	:	Sales \$240 Interest \$8
	Invoice Issued	:	to J Taniya \$102
6	Cash Received	:	Sales \$288 from M Penny \$48 less \$3 discount
	Invoice Received	:	from Mayfair Shoes \$121
	Credit Note Issued:	:	to J Taniya \$10
7	Cash Received	:	Sales \$212 Commission \$6
	Invoice Issued	:	to P Goundar \$57
	Credit Note Issued:	:	A Wilson \$5
	Cheque Paid	:	Wages \$385 Drawings \$30 Rent \$112

**Required:** Prepare Sales Journal and Sales Returns Journal

## 5. Purchases Journal

- ❖ Purchases Journal records all credit purchases
- ❖ Purchases Journal uses the tax invoice received to record credit purchases

### Illustrative Example

March	4	Bought goods from Ram Singh tax invoice # 084	\$500.00
	8	Bought goods from Mun Sami invoice # 028	\$250.00
	12	Received tax invoice # 053 from Babu Bhai	\$175.00
	23	Received tax invoice # 099 from Chandrika	\$195.00
	28	Bought goods from Seru tax invoice # 109	\$ 85.00

Required: Prepare the Purchases Journal

### Solution

#### Purchases Journal

Date	Debtors	Invoice No.	Dr [\$]	Cr [\$]
Mar 4	Ram Singh	084		500.00
8	Mun Sami	028		250.00
12	BabuBhai	053		175.00
23	Chandrika	099		195.00
28	Seru	109		<u>85.00</u>
	<b>Purchases Account Dr</b>		<b><u>\$1205.00</u></b>	

#### Activity 3.4.11

Record the following transactions in the Purchases Journal.

Nov	4	Bought goods from Harry tax invoice # 010	\$102.00
	6	Bought goods from Moape Ratu invoice # 102	\$ 88.00
	10	Received tax invoice # 084 from Tevita	\$275.00
	14	Received tax invoice # 095 from Ali	\$198.00
	22	Bought goods from George tax invoice # 025	\$ 90.00
	25	Received tax invoice # 055 from Aseri & Sons	\$198.00

## 6. Purchases eturns Journal

- ❖ Purchases Journal records all goods returned by us, to the creditors
- ❖ Purchases Returns Journal uses the credit note from the creditors

### Illustrative Example

March 12	Returned goods credit note # 032 to Tevita	\$15.00
15	Received credit note # 025 from Ali	\$ 5.00

**Required:** Prepare Purchases Returns Journal

### Solution

#### Purchases Returns Journal

Date	Debtors	Credit Note No.	Dr [\$]	Cr [\$]
Mar 12	Tevita	032	15.00	
15	Ali	025	5.00	
	<b>Purchases Returns Account Cr</b>			<b>\$20.00</b>

### Activity 3.4.12

Laxmi Naidu owns Naidu's Bookshop in Labasa. The following transactions were obtained from her books during September 2014 :

*Cash Transactions:*

- Sept 5      Cash Sales \$165  
Drew a cheque to pay for rent \$100, and water rates \$60  
Paid M Melrose \$143 as full settlement of an account for \$150
- Sept 16      Cash Purchases \$75  
Sold books to Saira Khan for cash \$120
- Sept 22      Laxmi Naidu wrote a cheque of \$50 for her own use  
Received \$133 from Saula Moce and allowed \$7 discount

*Credit Transactions:*

- Sept 2      Bought books from Nixon Publishers for \$150  
Credit Purchases of exercise books from H Patel & Co \$300
- Sept 7      Credit Sales to: Namena High School \$400, Dogo Primary School \$55
- Sept 10      Received tax invoice from Viti Books for exercise books purchased \$100
- Sept 18      Namara High School returned books worth \$20
- Sept 20      Received credit note from Nixon Publishers \$10
- Sept 24      Issued credit note to Dogo Primary School \$5

**Required:**

From the above transactions prepare the following journals :

- (i)      Columnar Cash Payments Journal  
(ii)      Purchases Journal

**(7 marks)**

### Activity 3.4.13

Mohan operates a computer business in Nasolo, Lautoka. He provided you with the following transactions for the month of October, 2010.

- |     |    |  |
|-----|----|--|
| Oct | 2  | Received tax invoice from Umesh \$4 000 for purchase of computer parts |
|     | 4  | Bought new computers from Alfreds' Computer Services \$10 000          |
|     | 6  | Sold a computer to Makarita for \$1 500                                |
|     | 8  | Issued a tax invoice to Salote \$1 000 for computer parts              |
|     | 12 | Purchased computers from Rosa's Computer Supplies \$2 000              |
|     | 13 | Salote returned computer parts \$50                                    |
|     | 20 | Sold computer parts to Rove \$2 000                                    |
|     | 25 | Returned faulty parts to Umesh \$100                                   |
|     | 27 | Received a credit note from Alfred's Computer Services \$2 000         |
|     | 28 | Issued a credit note to Rove \$ 200                                    |

Use the information given above to prepare Mohan's :

- |       |                           |                   |
|-------|---------------------------|-------------------|
| (i)   | Purchases Journal         | <b>(2 marks)</b>  |
| (ii)  | Sales Journal             | <b>(2 marks)</b>  |
| (iii) | Purchases Returns Journal | <b>(1½ marks)</b> |
| (iv)  | Sales Returns Journal     | <b>(1½ marks)</b> |

### Activity 3.4.14

Study the following source documents and prepare the appropriate journals of the Consumers Store in the space provided in the **Answer Book**.

15/04/2003 <b>Cheque Butt</b>	
<b>To</b> :	Daily Times
<b>For</b> :	Advertising \$130
	Insurance \$ 25
	Wages \$300
<b>Balanced b/f</b>	\$1 210
<b>Deposit</b>	-
	\$1 210
<b>This cheque</b>	455
	_____
<b>Bal c/f</b>	<b><u>\$ 755</u></b>

<b>TAX INVOICE</b> NO : 298	TO : Consumers Stores Namaka, Nadi	Date : 24/04/2003 A/C No : 5911 RM
<b>Bought of : Roxy Motors Ltd</b> 10 Luke Street Nadi		
<b>Quantity</b>	<b>Description</b>	<b>Amount</b>
1 only	1 Toyota Van	\$5 500.00
	VAT 15%	825.00
	<b>TOTAL</b>	<b>\$4 675.00</b>

<b>RECEIPT</b> NO : 131	<b>CONSUMERS STORE</b> NAMAKA, NADI	Date: 02/04/2003
<b>Received from</b> :	Grace Shoppers	
<b>Particulars</b> :	Payment of January account.	
<b>Amount</b> :	Two Hundred and forty five dollars.	\$245.00
<b>Discount</b> :	\$5.00	
<b>Signature</b> :	S. Singh	

<b>TAX INVOICE</b> <b>NO : 631</b>	<b>TO:</b> Surendra Kumar Votualevu Road Nadi	<b>Date:</b> 08/04/2003 A/C No: SK 1456
<b>Bought of : CONSUMERS STORE NAMAKA, NADI</b>		
<b>Quantity</b> 3 x 50kg	<b>Description</b> FMF Normal Flour 15% VAT	<b>Amount</b> \$150.00 \$ 22.50
	<b>TOTAL</b>	<b>\$ 127.50</b>

<b>CREDIT NOTE</b> <b>NO : 281</b>	<b>TO :</b> Surendra Kumar Votualevu Road Nadi	<b>Date :</b> 20/04/2003 A/C No: SK 1456
<b>CONSUMERS STORES NAMAKA, NADI</b>		
<b>Quantity</b> 1 x 50kg	<b>Description</b> FMF Normal Flour	<b>Amount</b> \$50.00

<b>12/04/2003</b>	<b>TAX INCOME</b> <b>NO. 632</b>	<b>TO :</b> Nickil Singh Nasinu	<b>Date :</b> 09/04/2003 A/C No: SK 1040
04 14.35	<b>Bought of : CONSUMERS STORE NAMAKA, NADI</b>		
04 8.00	<b>Quantity</b>	<b>Description</b>	<b>Amount</b>
04 2.80	1 x 50kg	Sugar	\$90.00
02 6.80		15% VAT	\$13.50
02 3.30		<b>TOTAL</b>	<b>\$76.50</b>
<b>35.25 ST</b>			
<b>AT</b> 40.00			
<b>CG</b> 4.75			

## 7. General Journal

- ❖ General Journal records all other transactions that are not recorded in any of the six journals such as
  - Opening balances of assets and liabilities
  - Writing off debtors account as bad debt
  - Purchases of **fixed assets** on credit
  - Sale of **fixed assets** on credit
  - Charges made by us to our debtors
  - Charges made to us by our creditors
  - Gain/ Loss made on sale of fixed assets
  - Goods taken by the proprietor

Note: General Journal provides a written explanation called narration.

### Illustrative Example

#### Opening the Books of Account

Akilio, a retailer, started his business with the following assets and liabilities as at January 1, 2013.

Cash at Bank \$ 5000, Debtors: Raju \$400 and Mere \$200, Stock \$250. Loan \$1500, Creditor: Hari&Sons Ltd \$550.

#### General Journal

Date	Particulars	Dr [\$]	Cr [\$]
Jan 1	<b><u>Assets</u></b>		
	Cash at Bank	5 000	
	Debtors: -Raju	400	
	-Mere	200	
	Stock	250	
	<b><u>Liabilities</u></b>		
	Creditors – Hari & Sons		550
	<b><u>Capital</u></b>		5 300
		<b>\$ 5 850</b>	<b>\$5 850</b>
	<i>[ Assets, Liabilities and Capital at the start of the business]</i>		

## Other Transaction Illustration

Jan 5 Wrote off Raju's account as bad debt \$40.

7 Hari & Sons Charged interest \$12

10 Charged interest to Mere's account \$20

12 Bought a delivery van from AAA. Vehicle Dealers Ltd on account \$88 000

15 Sold furniture [book value \$200] on account to Aseri for \$225

22 Proprietor took goods for own use \$75

24 Sold computer to Philip for \$2500. The cost price of computer was \$3000.

### General Journal

Date	Particulars	Dr [\$]	Cr [\$]
Jan 5	Bad Debts	40	
	Raju		40
	[ to record writing of Raju's account as bad debt]		
7	Interest	12	
	Hari & Sons Ltd		12
	[ to record interest charged to us]		
10	Mere	20	
	Interest		20
	[to record interest charged by us]		
12	Van	88 000	
	AAA. Vehicle Dealers Ltd		88 000
	[ to record purchases of a van]		
15	Aseri	225	
	Furniture		200
	Gain on Sale		25
	[to record sale of furniture and gain made]		
22	Drawings	75	
	Purchases		75
	[to record goods taken by the owner]		
24	Philip (debtor)	2 500	
	Loss on Sale	500	
	Computer		3 000
	[ to record sale of computer and loss made]		

# Ledger Posting

- ❖ The third step in the accounting cycle is to post the journal entries into the ledger.
- ❖ **Posting** refers to transferring the entries in the journal into the accounts in the ledger. Posting to the ledger is actually the *classifying phase* of accounting.
- ❖ **Ledger**: is a record of all accounts of a business. A ledger is prepared using Double entry concept whereby for every transaction two accounts are affected: one a debit entry and the other corresponding credit entry. Therefore it is equally important to know the posting rules.

Sample of a ledger in a “T” Form.

Date	Particulars	Folio	\$	Date	Particulars	Folio	\$
◀	Debit Side	→		◀	Credit Side	→	

[Right hand side]

[Left hand side]

## Rules for ledger Posting



As we go along, each journals rule for posting will be highlighted.

## Illustrative Example

Given below is the Books of First Entry for Santa Singh for the month of March.

### General Journal

Date	Particulars	Dr [\$]	Cr [\$]
Mar 1	<b>Assets</b>		
	Cash at Bank	760	
	Debtors: -A.Petro	28	
	-K.Klive	83	
	Banta Singh	72	
	Furniture	860	
	Stock	14 000	
	<b>Liabilities</b>		
	Creditors – A.D. Ltd		148
	Jay & Sons Ltd		894
	Loan – City Bank		4 000
	Capital		<u>10 761</u>
		<b>\$15 803</b>	<b>\$15 803</b>
	<i>[Assets, Liabilities and Capital at the start of the business]</i>		

Ledger Accounts

Dr Entries are posted to Dr side  
with entry **Balance**

Cr Entries are posted to Cr  
side with entry **Balance**

### General Journal (Continued)

Date	Particulars	Dr [\$]	Cr [\$]
Mar 6	Furniture	135	
	Home & Furniture Ltd		135
	[ to record purchase of table on account]		
15	Bad Debts	28	
	A.Petro		28
	[ to record writing off Petro's account]		
22	Drawings	60	
	Purchases		60
	[to record goods taken by the owner]		
27	Freight	36	
	A.D. Ltd		36
	[ to record freight charged to us]		

- ◆ Dr entry to be posted with corresponding Cr entry
- ◆ Cr entry to be posted with corresponding entry Dr entry

### Cash Receipts Journal

Date	Particulars	Discount [\$]	Detail [\$]	Bank [\$]
Mar 3	Sales		89	
	Commission		<u>21</u>	
				110
8	Banta Singh	2	70	
	Furniture		<u>50</u>	
				120
17	Sales		888	
	Commission		24	
	K. Klive	3	<u>80</u>	
				992
22	Sales			649
31	Cash at Bank Account Dr , Discount Allowed Account Dr	<u>\$5</u>		<u>\$1 871</u>

Individual entries are posted on the Cr side with the entry **Cash**

Posted to Dr side of the Cash at Bank Account with entry **Total Receipts**

Discount Allowed total Debited With the entry **Debtors**

### Cash Payments Journal

Date	Particulars	Discount [\$]	Detail [\$]	Bank [\$]
Mar 6	Purchases			40
	Wages			102
17	Jay & Sons Ltd	14		880
20	Advertising			50
	Wages			140
21	Drawings			200
23	Purchases			100
27	Interest			93
	Loan			57
28	Bank Charges			2
30	Drawings			200
31	Cash at Bank Account Cr, Discount Received Account Cr	<u>\$14</u>		<u>\$1 864</u>

Individual entries are posted on the Dr side with the entry **Cash**

Discount Allowed total Credited with the entry **Debtors**

Posted to Cr side of the Cash at Bank Account with entry **Total Payments**

### Sales Journal

Date	Debtors	Dr [\$]	Cr [\$]
Mar 2	K. Klive	46	
6	Banta Singh	37	
20	Tevita Cava	40	
	<b>Sales Account Cr</b>		<b>\$123</b>

Posted on Dr side with entry Sales

Sales is credited with entry Debtors

### Sales Returns Journal

Date	Debtors	Dr [\$]	Cr [\$]
Mar 3	K. Klive		7
23	Tevita Cava		5
	<b>Sales Returns Account Dr</b>	<b>\$12</b>	

Debtor credited with entry Sales Returns

Sales Returns debited with entry Debtors

### Purchases Journal

Date	Creditors	Dr [\$]	Cr [\$]
Mar 11	A.D.Ltd		86
17	Jay & Sons Ltd		422
	<b>Purchases Account Dr</b>	<b>\$508</b>	

Creditor credited with entry Purchases

Purchases debited with entry Creditors

### Purchases Returns Journal

Date	Creditors	Dr [\$]	Cr [\$]
Mar 20	Jay & Sons Ltd	16	
	<b>Purchases Returns Account Cr</b>		<b>\$16</b>

Debited with entry Purchases Returns

Purchases Returns credited with entry Creditor

**Required:** 1. Post to the appropriate ledger accounts

2. Extract a Trial Balance

## **Solution**

### **Ledger Posting**

#### **Cash at Bank [A]**

Date	Particulars	\$	Date	Particulars	\$
Mar 1	Balance	760	Mar 28	Total Payments	1 864
22	Total Receipts	<u>1 871</u>	31	Balance c/ d	<u>767</u>
		<u>\$2 631</u>			<u>\$2 631</u>
Apr 1	Balance b/f	767			

#### **Stock [A]**

Date	Particulars	\$	Date	Particulars	\$
Mar 1	Balance	14 000			

#### **Furniture [A]**

Date	Particulars	\$	Date	Particulars	\$
Mar 1	Balance	860	Mar 8	Cash	50
8	Home & Furniture Ltd	<u>135</u>	31	Balance c/ d	<u>945</u>
		<u>\$995</u>			<u>\$995</u>
Apr 1	Balance b/f	945			

#### **A. Petro [A]**

Date	Particulars	\$	Date	Particulars	\$
Mar 1	Balance	<u>28</u>	Mar 15	Bad Debts	<u>28</u>

#### **K. Klive [A]**

Date	Particulars	\$	Date	Particulars	\$
Mar 1	Balance	83	Mar 3	Sales Ret	7
2	Sales	<u>46</u>	17	Cash + Discount	83
			31	Balance c/ d	<u>39</u>
		<u>\$129</u>			<u>\$129</u>
Apr 1	Balance b/f	39			

#### **Banta Singh [A]**

Date	Particulars	\$	Date	Particulars	\$
Mar 1	Balance	72	Mar 17	Cash +Discount	72
6	Sales	37	31	Balance c/d	<u>37</u>
		<u>\$109</u>			<u>\$109</u>
Apr 1	Balance b/f	37			

**A. D. Ltd [L]**

Date	Particulars	\$	Date	Particulars	\$
Mar 31	Balance c/f	270	Mar 1	Balance	148
			11	Purchases	86
			27	Freight	<u>36</u>
		<u>\$270</u>			<u>\$270</u>
			Apr 1	Balance b/f	270

**Jay & Sons Ltd [L]**

Date	Particulars	\$	Date	Particulars	\$
Mar 17	Cash + Discount	894	Mar 1	Balance	894
20	Purchases Returns	16	17	Purchases	422
	Balance c/f	<u>406</u>			
		<u>\$1 316</u>			<u>\$1 316</u>
			Apr 1	Balance b/f	406

**Loan –City Bank [L]**

Date	Particulars	\$	Date	Particulars	\$
Mar 27	Cash	57	Mar 1	Balance	4 000
31	Balance c/ d	<u>3 943</u>			
		<u>\$4 000</u>			<u>\$4 000</u>
			Apr 1	Balance b/f	3 943

**Capital [P]**

Date	Particulars	\$	Date	Particulars	\$
			Mar 1	Balance	10 761

**Home & Furniture Ltd [L]**

Date	Particulars	\$	Date	Particulars	\$
			Mar 6	Furniture	135

**Bad Debts [E]**

Date	Particulars	\$	Date	Particulars	\$
Mar 15	A. Petro	28			

**Drawings [P]**

Date	Particulars	\$	Date	Particulars	\$
Mar 22	Purchases	60	Mar 31	Balance c/ d	460
28	Cash	<u>400</u>			
		<u>\$460</u>			<u>\$460</u>
Apr 1	Balance b/f	460			

### **Purchases [E]**

Date	Particulars	\$	Date	Particulars	\$
Mar 17	Creditors	508	Mar 22	Drawings	60
28	Cash	140	31	Balance c/ d	588
		<u>\$648</u>			<u>\$648</u>
Apr 1	Balance b/f	588			

### **Freight [E]**

Date	Particulars	\$	Date	Particulars	\$
Mar 27	A. D. Ltd	36			

### **Purchases Returns [R]**

Date	Particulars	\$	Date	Particulars	\$
			Mar 20	Creditors	16

### **Sales [R]**

Date	Particulars	\$	Date	Particulars	\$
Mar 31	Balance c/ d	1 749	Mar 22	Debtors	123
			22	Cash	1 626
		<u>\$1 749</u>			<u>\$1 749</u>
Apr 1	Balance b/f	1 749			

### **Sales Returns [E]**

Date	Particulars	\$	Date	Particulars	\$
Mar 22	Debtors	12			

### **Commission [R]**

Date	Particulars	\$	Date	Particulars	\$
			Mar 22	Cash	45

### **Tevita Cava [A]**

Date	Particulars	\$	Date	Particulars	\$
Mar 22	Sales	40	Mar 23	Sales Return	5
			Mar 31	Balance c/ d	35
		<u>\$40</u>			<u>\$40</u>
Apr 1	Balance b/f	35			

### **Discount Received [R]**

Date	Particulars	\$	Date	Particulars	\$
			Mar 28	Creditors	14

**Discount Allowed [E]**

Date	Particulars	\$	Date	Particulars	\$
Mar 22	Debtors	5			

**Wages [E]**

Date	Particulars	\$	Date	Particulars	\$
Mar 20	Cash	242			

**Interest [E]**

Date	Particulars	\$	Date	Particulars	\$
Mar 27	Cash	93			

**Advertising [E]**

Date	Particulars	\$	Date	Particulars	\$
Mar 20	Cash	50			

**Bank Charges [E]**

Date	Particulars	\$	Date	Particulars	\$
Mar 28	Cash	2			

**Trial Balance of Santa Singh As At 31<sup>st</sup> March, 2014**

Ledger Accounts [A,E,D]	\$	Ledger Accounts [L,P,R]	\$
Cash at Bank	767	Loan - City Bank	3 943
Stock	14 000	A. D. Ltd	270
Furniture	945	Jay & Sons Ltd	406
K. Klive	39	Capital	10 761
Banta Singh	37	Home & Furniture Ltd	135
Bad Debts	28	Purchases Returns	16
Drawings	460	Sales	1 749
Purchases	588	Commission	45
Freight	36	Discount Received	14
Sales Returns	12		
Tevita Cava	35		
Discount Allowed	5		
Wages	242		
Advertising	50		
Interest	93		
Bank charges	2		
	<b>\$17 339</b>		<b>\$17 339</b>

# Trial Balance

**Trial Balance** is a report listing the ending debit and credit balances in all accounts at the end of a reporting period.

## Errors Where the Trial Balance Still Balances

- **Error of Omission:** A transaction has been completely omitted from the accounting records, e.g. a cash sale of \$100 was not recorded.
- **Error of Commission:** A transaction has been recorded in the wrong account, e.g. rates expense of \$500 has been debited to the rent account in error.
- **Error of Principle:** A transaction has conceptually been recorded incorrectly, e.g. a non-current asset purchase of \$1,000 has been debited to the repair expense account rather than an asset account.
- **Compensating Error:** Two different errors have been made which cancel each other out, e.g. a rent bill of \$1,200 has been debited to the rent account as \$1,400 and a casting error on the sales account has resulted in sales being overstated by \$200.
- **Error of Original Entry:** The correct double entry has been made but with the wrong amount, e.g. a cash sale of \$76 has been recorded as \$67.
- **Reversal of Entries:** The correct amount has been posted to the correct accounts but on the wrong side, e.g. a cash sale of \$200 has been debited to sales and credited to bank.

### Activity 3.4.14

Serevi's Enterprise Ltd had the following assets and liabilities as at 1<sup>st</sup> July, 2014

Cash at Bank \$40 000, Stock \$16 000, Furniture & Fittings \$15 000, Debtors: Ishaan \$150, M. Wati \$150 and Vishal \$30, Creditors: Anasa's Trading Co. \$8 000.

His transactions for the month of July were as follows:

July	4	Sold goods to Ishaan	\$533
		Cash Sales	\$934
		Received Commission	\$100
	6	Received tax invoice from Sunia	\$583
	7	Issued cash sales invoice to Rakhee	\$321
	8	Sold goods to M. Wati	\$266
		Days takings	\$173
		Received from Ishaan	\$85
	9	Cash Purchases from Sunia	\$106
		Paid rent	\$150

	Paid wages	\$154
10	Bought goods from Johnny	\$1 066
11	Cash drawings by the proprietor	\$130
	Cash sales	\$364
	Ishaan issued cheque to Serevi	\$133
13	M. Wati paid her account \$316 less 3% discount	
	Cash Sales	\$217
	Received commission	\$80
	Issued tax invoice to Uday Singh	\$160
15	Received tax invoice from Bhopal Bhai	\$213
	Received credit note from Sunia	\$41
16	Uday Singh returned goods	\$26
	Sold goods to M. Wati	\$320
	Issued cheque to Sunia	\$160
17	Paid wages	\$154
	Bought goods for cash	\$373
18	Received credit note from Johnny	\$85
	Issued tax invoice to B. Prasad	\$154
19	Paid Johnny on account	\$140
	Uday Singh paid his account \$134 less 3% discount	
	Cash sales	\$438
20	Paid Bhopal Bhai \$213 less 3% discount	
22	Bought furniture from Furniture & Furniture Ltd	\$1 800
23	B. Prasad paid his account	\$55
	Sold goods for cash	\$209
24	Owner took goods for own use	\$95
	Paid electricity bill	\$98
26	Cash sales	\$390
	M. Wati paid on account	\$100
28	Vishaal's account was written off as bad debt.	

- Required:**
1. Record the above transactions in the appropriate journal
  2. Post to the appropriate ledger accounts
  3. Extract the Trial Balance

### Activity 3.4.15

Fong Lee had the following assets and liabilities as at 1<sup>st</sup> August, 2014

Bank Overdraft \$280, Stock \$500, Van \$1 800, Building \$3 000, Debtors: Tracey \$15, Castelo \$75.60 and P. Pal \$80.20, Creditors: S. Peter \$70.20 and Y. Woodland \$100.

His transactions for the month of August were as follows:

Aug	1	Sold goods to Castelo \$25.80	
		P. Pal paid his account less 2 ½% discount	
		Received invoice from G. Traders	\$60.75
		Cash takings	\$30
	3	Paid wages	\$20
		Paid rates	\$15
		Issued tax invoice to P. Pal	\$75
	5	Sold old van to Rajan	\$1 500
		Bought a new van from Vehicle Dealers Ltd \$2 500 and made a down payment of \$500	
		Bought goods from Y. Woodland	\$50
	10	Wrote off Tracey's account	\$1 066
		Received a credit note from G. Traders	\$2.75
		Drew a cheque for personal use	\$30
	12	Cash takings	\$30
		Castelo paid his account less 2% discount	
		Rajan paid his account	\$500
	15	Received tax invoice from S. Peter	\$20.80
		Cash takings	\$30
		Paid wages	\$20
		Y. Woodland charged interest	\$2.50
		Received commission	\$15
		The cheque received from Castelo on 12 <sup>th</sup> was dishonoured.	
	20	Received a credit note from Y. Woodland	\$15
		Goods taken by the owner for own use	\$20
	22	Issued a credit note to Castelo	\$1.80
		Paid G. Traders in full settlement	\$57
	25	Bought goods from Akbar	\$55
		Sold goods to Birbal	\$35
	28	Issued a credit note to Birbal	\$3
		Birbal settled his account in full	\$30
		Cash sales	\$29.20

- Required:**
1. Record the above transactions in the appropriate journal
  2. Post to the appropriate ledger accounts
  3. Extract the Trial Balance

## Sub Strand 2.4 Measuring Periodic Income

### ACHIEVEMENT INDICATOR

Students will be achieving these outcomes upon completion of the lesson;

- ❖ Prepare Trading Account to determine Gross profit/Gross Loss.
- ❖ Prepare Profit and Loss Account to determine Net Profit/Net Loss
- ❖ Prepare and describe a classified balance Sheet to determine financial position and ascertain net worth

After the trial balance has been prepared, the last step of the accounting process is final accounts, namely the trading account followed by the profit and loss account. Finally a balance is presented to ascertain the financial position of an entity. The final accounts are prepared on the **assumption of Going Concern concept, Matching Concept and Accounting Period Concept**.

### Trading Account

Trading Account is prepared to obtain the Gross Profit or Loss at the end of the financial year.

**Gross Profit/ Loss:** is the difference between sales and the cost of goods sold [COGS]

$$\text{Gross Profit} = \text{Sales} - \text{COGS}$$

### Components of Trading Account

- **Opening Stock:** refers to the value of the stock at the beginning of the year in a business.
- **Closing Stock:** refers to the value of the unsold stock in the business at the end of the year.
- **Purchases:** refers to all goods that are bought either on credit or for cash during the year.
- **Purchase Returns:** refers to all those goods that are returned by the business during the financial year.

$$\text{Net Purchases} = \text{Purchases} - \text{Purchases Returns}$$

- **Cartage/Freight Inwards:** refers to cartage or freight paid to bring the goods into the business. It normally increases the buying expenses thus added to net purchases.

- **Customs Duty:** is the duty paid on imported goods. This also increases the purchase cost thus is also added to net purchases
- **Sales:** refers to the revenue realised as soon as the transaction has taken place either for cash or on credit.
- **Sales Return:** refers to all those goods that are returned to the business. Thus is subtracted from the sales.

$$\text{Net Sales} = \text{Sales} - \text{Sales Returns}$$

### Illustrative Example:

From the following information, prepare a Trading Account of Mrs. Kim Fong for the year ended 30<sup>th</sup> November, 2012.

	\$
Stock [1.12.2011]	8540
Purchases	30 870
Purchases Returns	230
Freight Inwards	520
Customs Duty	983
Sales	61 750
Sales Returns	630
Stock [30.11.2012]	6 380

[Source; Junior Accounting]

### Solution

#### **Trading Account of Mrs. Kim Fong for the year ended 30<sup>th</sup> November, 2012.**

	\$	\$		\$	\$
Stock [1.1.2011]		8 540	Sales	61 750	
Purchases	30 870		Less Sales Returns	630	
	230		Net Sales		61 120
Add Net Purchases		30 640			
Add <u>Buying Expenses</u>					
Freight Inwards	520				
Customs Duty	983	1 503			
C.G.A.F.S		40 683			
Less stock [30.11.12]		6 380			
Cost of Goods Sold		34 303			
Gross Profit Transferred to Profit and Loss Account		26 817			
		\$ 61 120			\$ 61 120

### Activity 4.1.1

Jong presented the following information regarding her business for the year ended 31<sup>st</sup> March, 2010

	\$
Stock [1.04.2009]	4 480
Wages	2 340
Purchases	3 450
Discount Expenses	34
Purchases Returns	325
Freight Inwards	36
Customs Duty	102
Sales	12 300
Sales Returns	203
Stock [31.03.2010]	2 300

**Required :** Prepare the Trading Account of Jong's Grocery Store for the year ended 31<sup>st</sup> March, 2010

### Activity 4.1.2

Paula operates a grocery store in Levuka. She provided the following information for her business for the year ended 31<sup>st</sup> July, 2014.

	\$
Opening Stock	20 000
Purchases	42 000
Returns Outwards	800
Returns Inwards	200
Freight Outwards	50
Customs Duty	700
Sales	65 000
Cartage Inwards	100
Stock [30.11.2012]	6 380

**Required:** Prepare the Trading Account of Paula's Grocery Store for the year ended 31<sup>st</sup> July, 2014.

### Activity 4.1.3

Use the information given below to answer the following question.

	\$
Opening Stock	2 000
Purchases	6 000
Customs Duty	110
Sales	4 120
Closing Stock	3 000

**Required:** Prepare the Trading Account of Neha's Grocery Store for the year ended 31<sup>st</sup> July, 2014.

## Profit and Loss Account

Profit and Loss (P & L) Account is prepared to determine the net profit or loss for the financial year. The P&L shows the financial performance of the business in a year. Profit or Loss is then transferred to Capital section of the balance sheet. Profit and Loss account only takes into consideration the revenues and expenses.

$$\text{Profit/ Loss} = \text{Revenue} - \text{Expenses}$$

### Illustrative Example:

From the following information, prepare a Profit and Loss Account of Mrs. R. Raibe for the year ended 31<sup>st</sup> December, 2014

	\$
Gross Profit	14 138
Commission Received	130
Discount Received	230
Rent for Premises	2 200
Wages and Salaries	5 200
Telephone Expenses	241
Office Expenses	312
Advertising	400

**Solution**

**Profit and Loss Account of Mrs. R.Raibe  
For the year ended 31<sup>st</sup> December, 2014**

<b>Expenses</b>	<b>\$</b>	<b>Revenue</b>	<b>\$</b>
Rent	2 200	Gross Profit	14 138
Wages and Salaries	5 200	Commission Received	130
Telephone expenses	241	Discount Received	230
Office expenses	312		
Advertising	400		
Total Expenses	8 353		
Net Profit transferred to Capital Account	6 145		
	<b>\$ 14 498</b>		<b>\$ 14 498</b>

**Activity 4.1.4**

Given below are the ledger account balances of Satala's Book Shop as at 31<sup>st</sup> March, 2014

<b>Ledger Accounts</b>	<b>\$</b>
Cartage inwards	580
Purchases	38 575
Salaries and wages	9 800
Electricity and Water	1 256
Telephone and Interest	899
Sales	69 992
Debtors	965
Opening Stock	9 850
Insurance premium	840
Discount Allowed	87
Cartage Outwards	699
Business License	225
Discount Received	54
Creditors	784
Rent received	600
Closing Stock	10 800
Gross Profit	31 787

**Required:** Prepare the Profit and Loss Account of Satala's Book Shop for the year ended 31<sup>st</sup> March, 2014 using the above information.

### Activity 4.1.5

Given below are the ledger account balances of Singh's General Store as at 31<sup>st</sup> December, 2014

Ledger Accounts	\$
Opening Stock	4 200
Cash at Bank	2 600
Purchases	3 800
Insurance	500
Customs Duty	350
Cartage Outwards	250
Sales Returns	80
Debtors	2 000
Equipment	4 000
Bad Debts	400
Discount Allowed	70
Drawings	900
Wages	2 400
Sales	8 000
Creditors	2 100
Commission received	920
Capital	10 390
Stock on hand 31 <sup>st</sup> December, 2014	5 800
Gross Profit	5 450

**Required:** Prepare the Profit and Loss Account of Singh's General Store for the year ended 31<sup>st</sup> December 2014 using the above information.

# Balance Sheet

A **balance sheet** is a statement of assets and equities showing what a business owns and what it owes.

The **purpose** of the balance sheet is to show the financial position of a business at a certain date or at the end of a financial year.

A balance sheet is prepared on the basis of the liquidity. Those assets that are easily liquidated or converted to cash easily within a short period is classified as **Current Asset** while the assets which are intended to be kept for income generation for longer period of time are classified as **Fixed Assets**.

Likewise, liabilities which are due for payment within a short period of time are called **Current Liabilities** while payments that require longer period of time are known as **Long Term Liabilities**.

The heading of the balance sheet is written as "As At 31<sup>st</sup> March, 2015" because balance sheet is true for that particular period.

## Illustrative Example:

From the following information, prepare a fully classified balance sheet of Osea Levai as at 31<sup>st</sup> December, 2013

	\$
Cash at Bank	12 500
Debtors	16 000
Stock	4 250
Creditors	34 000
Loan	50 000
Capital [1.1.2013]	155 000
Net Profit	18 000
Drawings	72 640
Furniture	16 610
Delivery Van	15 000
Land and Buildings	120 000

## Solution

### Balance Sheet of Osea Levai As At 31<sup>st</sup> December, 2013

Assets	\$	\$	Equities	\$	\$
<u>Current Assets</u>			<u>Current Liabilities</u>		
Cash at Bank	12 500		Creditors	.....	34 000
Debtors	<u>16 000</u>		<u>Long –Term Liabilities</u>		
Stock	<u>4 250</u>	32 750	Loan		50 000
<u>Fixed Assets</u>			<u>Proprietorship</u>		
Furniture	16 610		Capital	155 000	
Delivery Van	<u>15 000</u>		Add Net Profit	<u>18 000</u>	
Land and Buildings	<u>120 000</u>	151 610		173 000	
			Less Drawings	<u>72 640</u>	100 360
		<u>\$ 184 360</u>			<u>\$ 184 360</u>

### Activity 4.1.6

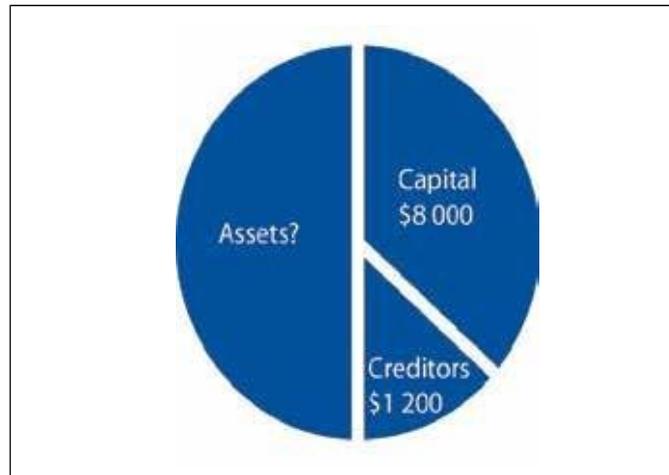
Examine the following ledger balances as at 30<sup>th</sup> April, 2014 of Marika's Trading Company.

	\$
Shares in Fiji TV	2 000
Bank Overdraft	1 500
Mortgage on Buildings	7 000
Debtors	485
Capital	36 210
Creditors	4 025
Stock on Hand	1 650
Land	15 000
Goodwill	3 000
Buildings	20 000
Cash at Bank	6 600

**Required:** Prepare a fully classified balance sheet of Marika's Trading Company as at 30<sup>th</sup> April, 2014

### Activity 4.1.6

The pie chart given below shows the particulars of a business for the year ending December 1999.



1. Calculate the value of assets.
2. Why does a firm prepare a balance sheet?
3. Banks and Governments are often interested in the balance sheet of a firm. State why?

### Activity 4.1.7

The following information represents the financial position of Ana King's Hair Salon as at 31<sup>st</sup> March, 2014.

	\$		\$
Cash at Bank	7 000	Creditors: Jane	180
Debtors: Sam	100	Kelly	150
Thomas	170	Mortgage	2 000
Equipment	2 000		
Furniture	1 500		

- i. Calculate the capital of Ana's King Hair Salon
- ii. List two fixed assets for Ana's King Hair Salon
- iii. Calculate the amount owed by outsiders to the business.
- iv. What is the difference between assets and liabilities

## Sub Strand 2.5 Analysis and Interpretation of Periodic Financial Statements

### ACHIEVEMENT INDICATOR

Students will be achieving these outcomes upon completion of the lesson;

- ❖ State the formula for the mark-up ratio, gross profit ratio, net profit ratio, debt ratio and equity ratio
- ❖ Identify the purpose of mark-up ratio, gross profit ratio, net profit ratio, debt ratio and equity ratio
- ❖ Calculate the mark-up ratio, gross profit ratio, net profit ratio, debt ratio and equity ratio
- ❖ Interpret the mark-up ratio, gross profit ratio, net profit ratio, debt ratio and equity ratio
- ❖ Identify ways to improve the mark-up ratio, gross profit ratio, net profit ratio, debt ratio and equity ratio

### Profitability

Profitability is the primary goal of all business ventures. Without profitability the business will not survive in the long run. So measuring current and past profitability and projecting future profitability is very important.

Profitability is measured with an “income statement”. **Income Statement:** a listing of income and expenses during a period of time (usually a year) for the entire business. Profitability is a key instrument used to compare business performance and aids in sound decision making. A business that is not profitable cannot survive. Conversely, a business that is highly profitable has the ability to reward its owners with a large return on their investment.

A variety of *Profitability Ratios* can be used to assess the financial health of a business. Profitability ratios that you are going to learn will be **mark-up ratio, gross profit ratio and net profit ratio.**

### Mark –Up Percentage

**Mark–Up Percentage:** shows the percentage of the cost price of our inventory which is added back to the cost price of the inventory to calculate the selling price.

**Example:** A business has a mark–up of 80%. This means that 80% of the cost price of the inventory is added back on the cost price to determine the selling price. Suppose the cost of the item was \$1, it will now be sold at \$1.80.

$$\text{Formula: Mark –Up \%} = \frac{\text{Gross Profit}}{\text{Cost of Goods Sold}} \times \frac{100}{1}$$

## Illustrative Example:

Given below is the information taken from Harry's business for two years.

	2013	2014
Cost of Goods Sold	\$370 000	\$300 000
Gross Profit	\$180 000	\$290 000

**Required:** Calculate and interpret the mark-up percentage

### **Solution:**

$$\begin{aligned} \text{i. } 2013 \text{ Mark-Up \%} &= \frac{\text{Gross Profit}}{\text{Cost of Goods Sold}} \times \frac{100}{1} \\ &= \frac{\$180\,000}{\$370\,000} \times \frac{100}{1} \\ &= 48.65\% \end{aligned}$$

**Interpretation:** For every \$1 per cost per item, the mark-up is 48.65%. Therefore the item costing \$1 will now be sold at \$1.48 or \$1.49.

$$\begin{aligned} \text{ii. } 2014 \text{ Mark-Up \%} &= \frac{\text{Gross Profit}}{\text{Cost of Goods Sold}} \times \frac{100}{1} \\ &= \frac{\$290\,000}{\$300\,000} \times \frac{100}{1} \\ &= 96.67\% \end{aligned}$$

**Interpretation:** For every \$1 per cost per item, the mark-up is 96.67%. Therefore the item costing \$1 will now be sold at \$1.96 or \$1.97. In the year 2014, the mark-up has increased which is a good indicator for better profitability, however, the business needs to ensure it can make a good profit, without making prices too high to scare off the customers.

## Ways to Improve Mark-Up Percentage

Business can increase the mark-up percentage by:

- Finding a cheaper supplier while keeping the selling price the same that is having a lower cost of purchase.
- Increasing the selling price to generate a greater margin on each product sold.

## Gross Profit Percentage

**Gross Profit Percentage:** indicates what is left from each sales dollar to pay for expenses and contribute to profit, after paying for cost of goods sold.

**Example:** A business has a gross profit percentage of 75% then for every dollar of sales, 25% or 25 cents is for inventory sold and 75 cents can be used to pay for expenses and contribute to profit. The higher the mark-up, the higher gross profit ratio as the same factors affect the mark-up and gross profit ratio. With the help of gross profit ratio or percentage, the managers will be able to analyze whether the margin is enough to cater for expenses, drawings or asset acquisition.

$$\text{Formula: Gross Profit \%} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times \frac{100}{1}$$

### Illustrative Example:

Given below is the information taken from Harry's business for two years.

	2010	2011
Net Sales	\$550 000	\$600 000
Gross Profit	\$190 000	\$240 000

**Required:** Calculate and interpret the gross profit percentage

### Solution:

$$1. \text{2010 Gross Profit \%} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

$$\begin{aligned}
 & \text{Net Sales} && 1 \\
 = & \frac{\$190\,000}{\$550\,000} && \times \frac{100}{1} \\
 = & 34.55\%
 \end{aligned}$$

**Interpretation:** For every \$1 of sales the business makes a gross profit of 34.55 or 35 cents.

$$\begin{aligned}
 2..2011 \text{ Gross Profit \%} &= \frac{\text{Gross Profit}}{\text{Net Sales}} \times \frac{100}{1} \\
 &= \frac{\$240\,000}{\$600\,000} \times \frac{100}{1} \\
 &= 40.0\%
 \end{aligned}$$

**Interpretation:** For every \$1 of sales the business makes a gross profit of 40 cents. There is improvement noted in the gross profit percentage in 2011. Thus it indicates that for 2011 the entity will have 5 cents extra to cater for expenses.

## **Ways to Improve Gross Profit Percentage**

Business can increase the gross profit percentage by:

- Finding ways to decrease the cost of goods sold and that will be through identifying a cheaper supplier, analyzing suppliers' location whereby the cartage, freight or delivery costs could be minimized.
- Increasing the mark-up percentage that will eventually increase the selling price leading to higher gross profit percentage on each item that will be sold.

# Net Profit Percentage

**Net Profit Percentage:** shows the percentage of sales that is left as profit in the business after all expenses have been accounted for.

**Example:** A business has a net profit percentage of 15% which means that for every \$1 of sales 15 cents remain in the business as profit after all expenses have been catered for. The higher the net profit, the better it is for the business as it will continue operating and expanding.

$$\text{Formula: Net Profit \%} = \frac{\text{Net Profit}}{\text{Net Sales}} \times \frac{100}{1}$$

## Illustrative Example:

Given below is the information taken from Harry's business for two years.

	2010	2011
Net Sales	\$550 000	\$600 000
Net Profit	\$100 000	\$180 000

**Required:** Calculate and interpret the net profit percentage

### Solution:

$$\begin{aligned} \text{2010 Net Profit \%} &= \frac{\text{Net Profit}}{\text{Net Sales}} \times \frac{100}{1} \\ &= \frac{\$100\,000}{\$550\,000} \times \frac{100}{1} \\ &= 18.18\% \end{aligned}$$

**Interpretation:** For every \$1 of sales 18 cents remain in the business as profit or 18% of sales remain in business as profit.

$$\begin{aligned}
 \text{2011 Net Profit \%} &= \frac{\text{Net Profit}}{\text{Net Sales}} \times \frac{100}{1} \\
 &= \frac{\$180\,000}{\$600\,000} \times \frac{100}{1} \\
 &= 30.0\%
 \end{aligned}$$

**Interpretation:** For every \$1 of sales 30 cents remain in the business as profit or 30% of sales remain in business as profit. In year 2011 the net profit has improved.

## Ways to Improve Net Profit Percentage

Business can increase the gross profit percentage by:

- Finding ways to decrease expenses or putting up cost cutting measures that will lead to healthy net profit. Analyzing suppliers' location whereby the cartage, freight or delivery costs could be minimized, adopting solar or renewable energy.
- Increasing the mark-up percentage that will eventually increase the selling price leading to higher gross profit percentage on each item that will be sold. Later the net profit percentage will be higher.

## Current Ratio or Working Capital Ratio

**Current Ratio:** measures the business ability to pay the short term debt as they fall due. In other words it measures liquidity and is always expressed as either as a percentage or ratio.

$$\text{Formula: Current Ratio} = \frac{\text{Total Current Assets}}{\text{Total Liabilities}}$$

### Illustrative Example:

Given below is the information taken from Mario's business for two years

	2010	2011
Total Current Assets	\$152 000	\$210 000
Total Current Liabilities	\$120 000	\$90 000

**Required:** Calculate and interpret the current ratio

**Solution:**

i. 2010 Current Ratio =  $\frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$

$$= \frac{152\,000}{120\,000}$$

$$= \$1.26: \$1.00 \text{ or } 126.67 \%$$

- ii. **Interpretation:** For every one dollar of payment the business has \$1.26 available to pay the debt as it falls due. This shows the current ratio is satisfactory and needs measures to improve it. However, it is advisable for the business to **follow rule of thumb that is 2:1** to be better off.

2011 Current Ratio =  $\frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$

$$= \frac{210\,000}{90\,000}$$

$$= \$2.33: \$1.00 \text{ or } 233.33 \%$$

- ii. **Interpretation:** For every one dollar of payment the business has \$2.33 available to pay the debt as it falls due. This shows the business is in a better position to pay its debts in a short term. Thus the current ratio has strengthened in 2011.

## How to Improve Working Capital or Current Ratio

To improve working capital the business may either increase current assets or decrease current liabilities. In reality it may not be as easy as it sounds, however, the following measures could ease off a severe liquidity problem:

- Reduce Drawings
- The owner could contribute or invest more funds into the business
- Improve the debtors' collection period- helps to increase liquidity.
- Have good internal control measures on stock so that cash is not tied with stock.

**Financial Stability** looks at how secured the business is from lenders and creditors in the long run. It consists of debt ratio and equity ratio.

## Debt Ratio

A financial ratio is the one that measures the extent of a company's or consumer's leverage. The **debt ratio** is defined as the **ratio of total debt to total assets, expressed in percentage, and can be interpreted as the proportion of a company's assets that are financed by debt**. Debt ratio measures the financial stability of the firm where it examines the proportion of total assets financed by creditors. It is expressed as a percentage or a ratio and is acceptable if it is between 35%-55%.

$$\text{Formula: Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

### Illustrative Example:

Given below is the information taken from Mario's business for two years

	2010	2011
Total Assets	\$356 731	\$345 000
Total Liabilities	\$162 450	\$221 200

**Required:** Calculate and interpret the debt ratio

Solution:

$$\text{2010 Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

$$= \frac{162450}{356731}$$

$$= \$0.45: \$1.00 \text{ or } 45.5 \%$$

ii. **Interpretation:** The debt ratio is satisfactory. It shows that for every dollar of claim the creditors have only 45% or \$0.45 contributions made to the business. That is owner has more claim over the business than the creditors. In this way the owner is in a better position to meet any loans due for repayment.

$$\text{2011 Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

$$= \frac{221200}{345000}$$

$$= \$0.64: \$1.00 \text{ or } 64.12 \%$$

ii. **Interpretation:** The debt ratio has weakened in 2011. It shows that the outsiders have more claims over the business than the owner. It is always advisable for the business to have a low debt ratio.

## Equity Ratio or Proprietorship Ratio

The **equity ratio** is a financial ratio indicating the relative proportion of equity used to finance business assets. The two components are often taken from the firm's balance sheet or statement of financial position. It is expressed as a percentage or a ratio and is acceptable if it is between 45%-65%.

$$\text{Formula: Equity Ratio} = \frac{\text{Proprietorship}}{\text{Total Assets}}$$

### Illustrative Example:

Given below is the information taken from Mario's business for two years

	2010	2011
Total Assets	\$356 731	\$345 000
Proprietorship	\$121 637	\$107 633

**Required:** Calculate and interpret the equity ratio

Solution:

$$\begin{aligned}\text{Equity Ratio} &= \frac{\text{Proprietorship}}{\text{Total Assets}} \\ &= \frac{121637}{356731}\end{aligned}$$

$$= \$0.34: \$1.00 \text{ or } 34.09 \%$$

ii. **Interpretation:** The equity ratio is unsatisfactory or alarming. It shows that for every dollar of assets contributed the creditors have contributed 66% while the owner's contributions made to the business is 34%. That is creditors have more control over the business assets than the owner.

$$\begin{aligned}\text{2011 Equity Ratio} &= \frac{\text{Proprietorship}}{\text{Total Assets}} \\ &= \frac{107633}{345000}\end{aligned}$$

$$= \$0.31: \$1.00 \text{ or } 31.20 \%$$

- ii. **Interpretation:** The equity ratio is unsatisfactory or alarming. It shows that for every dollar of assets contributed the creditors have contributed 69% while the owner's contributions made to the business is 31 %. That is creditors have more control over the business assets than the owner. In this case if the business is dissolved or liquidated than creditors have first claim on assets a head of the owner. Thus the owner should invest further cash capital into the business.

### Activity 5.0.1

The following information has been taken from the records of Asinate's Tours for the year ending 31 December 2007.

<b>Financial Highlights</b>	31/12/2007 \$
Closing Stock	22 600
Net Profit	220 000
Fixed Assets at Book Value	185 000
Total Operating Expenses	200 000
Accounts Receivable	21 000
Sales [credit]	600 000
Cost of Goods Sold	180 000
Bank Overdraft –secured \$10 000	9 000
Term Loan -10 years	35 000
Investments	7 500
Gross Profits	420 000
Accounts Payable	15 000

**REQUIRED:**

Calculate the following ratios and percentages to **two decimal place**. Show full working with the formula.

- a. Gross Profit percentage
- b. Net Profit Ratio
- c. Working Capital Percentage
- d. Debt ratio
- e. Equity Ratio
- f. Mark Up Percentage

**PART B****INTERPRETING FINANCIAL STATISTICS**

Given below are the financial statistics relating to Datts PTY Co. Ltd. Study the information given below and answer the questions which follow.

<b>Financial Highlights</b>	<b>2010</b>	<b>2011</b>
Working Capital ratio	1.10: 1.00	0.60: 1.00
Debt ratio	0.57	0.65
Gross Profit Percentage	45%	30%

- The debt ratio had increased in 2011. What conclusion can be drawn from this trend?
- Give **one** possible reason for the decrease in the gross profit ratio.
- Comment on the working capital ratio.

**Activity 5.0.2**

The following information is extracted from the financial statements of Tevita for the year ended 30 June 2008.

<b>Revenue Statement</b>	<b>\$</b>
Net Sales (40% cash)	60 000
Gross Profit	24 000
Net Profit	12 000
Inventory – (1/7/2007)	5 000
Inventory – (30/06/2008)	7 000
<b><u>Balance Sheet</u></b>	
Fixed Assets	28 000
Accounts Receivable	10 000
Cash at Bank	3 000
Accounts Payable	5 500
Expenses Due	500
Capital – (1/7/07)	30 000
Capital – (30/06/08)	42 000

### **Required**

Use the information given above to calculate the following ratios and percentages to two decimal places. Show all the formula.

- a. Gross Profit Rate
- b. Net Profit Percentage
- c. Current Ratio
- d. Debt Ratio.
- f. Equity Ratio
- g. Mark Up percentage

### **Part B**                      **Interpretation of Financial Statement**

R Henry owner of Valelevu Auto World is concerned with the results of his current year's financial position when compared to his last year's performance. He is particularly concerned with the following ratios.

		<b>30 June, 2007</b>	<b>30 June, 2008</b>
i.	Current Ratio	1.0:1	0.6:1
ii	Debt Ratio	0.8:1	0.45:1
iii	Gross Profit Ratio	0.83	0.65 days
iv	Mark Up %	120	100

### **Required**

Comment on the above ratio's and suggest ways R Henry should implement to improve his business performance.

### Activity 5.0.3

The directors of Global Marketing Limited, provided the following information:

<b>Financial Performance and Financial Position Highlights</b>	<b>31/12/2006</b>
	\$
Sales [credit sales 40%]	2 400 000
Cost of Goods Sold	1 800 000
Selling Expenses	240 000
Administrative Expenses	290 000
Financial Expenses	20 000
Current Assets	396 000
Current Liabilities	182 500
Fixed Assets at book Value	1 250 500
Investments	250 000
Deferred Liabilities	155 000

#### **REQUIRED:**

Calculate the following ratios and percentages to **two decimal place**. Show full working with the formula.

- a. Gross Profit Ratio
- b. Net Profit Ratio
- c. Working Capital in Dollars
- d. Equity Ratio
- e. Debt Ratio

[10 marks]

## Sub Strand 2.6

# Systems for Implementing Accounting Process

### ACHIEVEMENT INDICATOR

Students will be achieving these outcomes upon completion of the lesson;

- ❖ Define fixed asset register/stockcard
- ❖ Identify the internal control procedures for inventory and fixed asset

## FIXED ASSETS

Fixed asset inventory and reconciliation procedures can help an organization withstand today's increased level of fixed asset scrutiny. For many organizations, fixed assets represent the largest item on the balance sheet. To ensure proper valuation of these assets and accurate financial reporting, organizations need to confirm the proper handling of these transactions. Since fixed assets play an important role in income generation, there needs to be appropriate measures in place to avoid any mismanagement.

**Fixed Assets** are those such as land, machines, office equipment, buildings, patents, trademarks, copyrights, etc. held for the purpose of production of goods or rendering of services that will aid in income generation.

### Internal Control of Fixed Assets

The following measures should be considered to safeguard the fixed assets:

## Purchase of Assets

**Authorization:** to ensure that rightful approval has been granted for purchase or sale of an asset.

## Storage of Assets

**Location:** for safe storage

**Maintenance:** responsible and reliable personnel to ensure that assets are carefully maintained.

**Protection:** to ensure that assets are insured against all possible risks.

## Disposal of Assets

**Authorization:** to ensure correct means of disposal or selling of the asset.

**Adequate Documentation:** in terms of sales and cash received upon sales.

## Fixed Asset Register

For close monitoring of assets most significant and all minor details are entered in a **fixed assets register**.

A **fixed asset register (FAR)** is an accounting method used to keep track of the fixed assets of a firm. The register shows the value of assets, date of acquisition and other details necessary to compute for depreciation and tax purposes.

The screenshot shows a software window titled "Fixed Assets" with the following fields and values:

- Asset Name:** Truck 2
- Status:** Depreciable
- Asset Type:** Vehicles
- Manufacturer:** Fordham Motor Company
- Serial Number:** 377Z9398T9387
- Location:** Building 25, Toyville
- Used By:** Shipping/Receiving

**Depreciation Information:**

- In Service Date:** 1/11/96
- Original Cost:** \$19,785.42
- Useful Life (yrs):** 5
- Salvage Value:** \$5,000.00
- Depreciation Method:** Declining Balance
- Last Depreciation Date:** 12/31/97
- Last Depreciation Expense:** \$3,166.00
- Accumulated Depreciation:** \$7,123.00
- Disposal Date:**
- Sale Price:** \$0.00
- Book Value:** \$12,662.42

**General Ledger Accounts:**

- Depreciation Expense Acct:** 6480
- Accumulated Depreciation Acct:** 1650

**Time Depreciated:** 2 yrs 0 months

Buttons at the bottom: New, Delete, Find..., Print..., Depreciate Assets, Dispose, Done.

Record: 12 of 12

Figure 6.1 Sample of a Fixed Asset Register

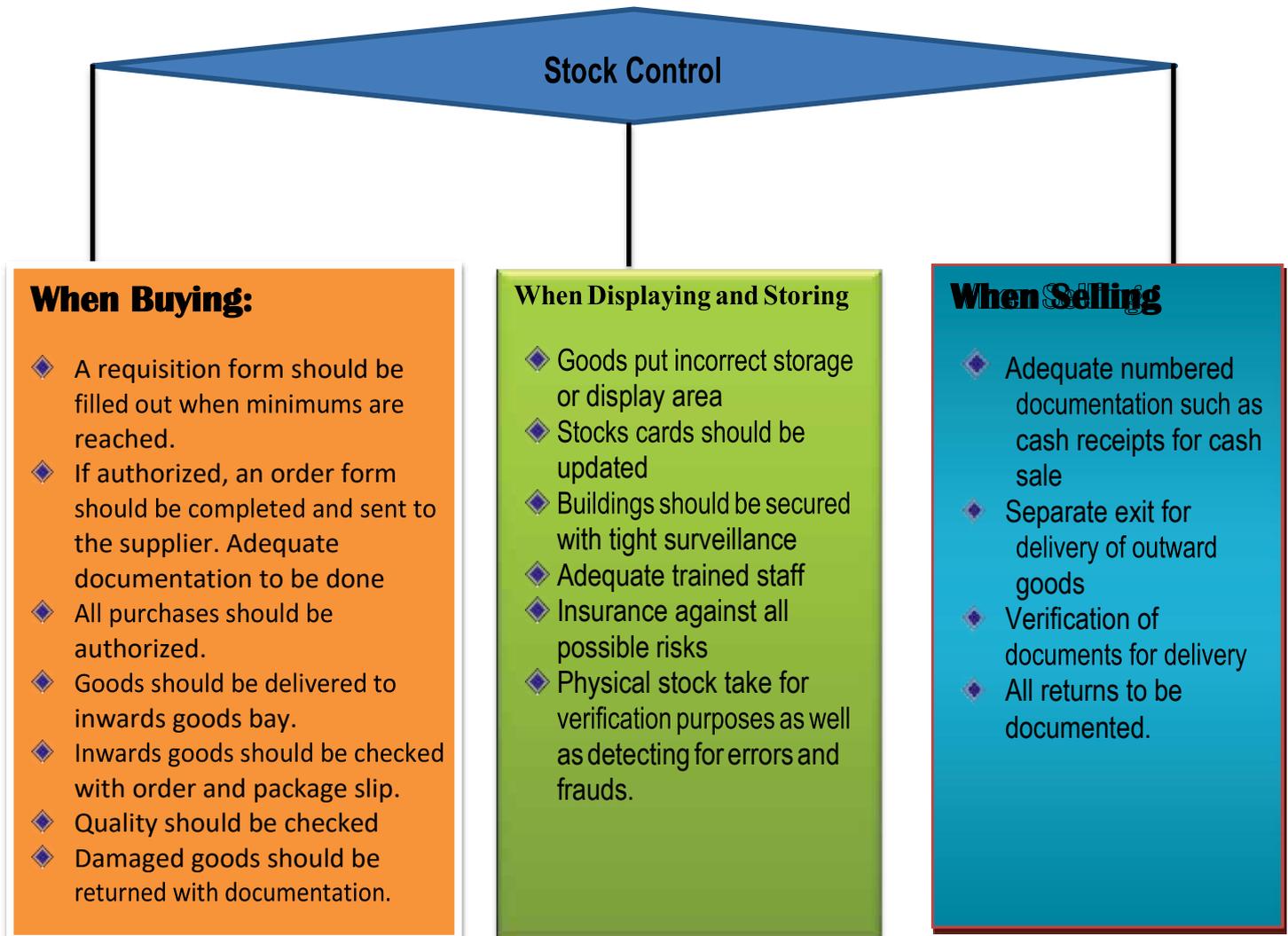
### Activity 6.0.1

1. Explain the purpose of keeping a **fixed asset register** in a business.
2. Define the term Fixed Assets.
3. Explain the internal control procedures over the fixed assets
4. Discuss why it is important to undertake appropriate measures to safeguard the fixed assets in a business.

## Internal Control of Inventory/Stock

An entity's investment in inventory is usually a large one, and it may be comprised of a large number of merchandise items that can be readily stolen and resold. If the inventory contains mostly raw materials, keeping track of it is essential for ensuring that the production processes using it will not run short of materials.

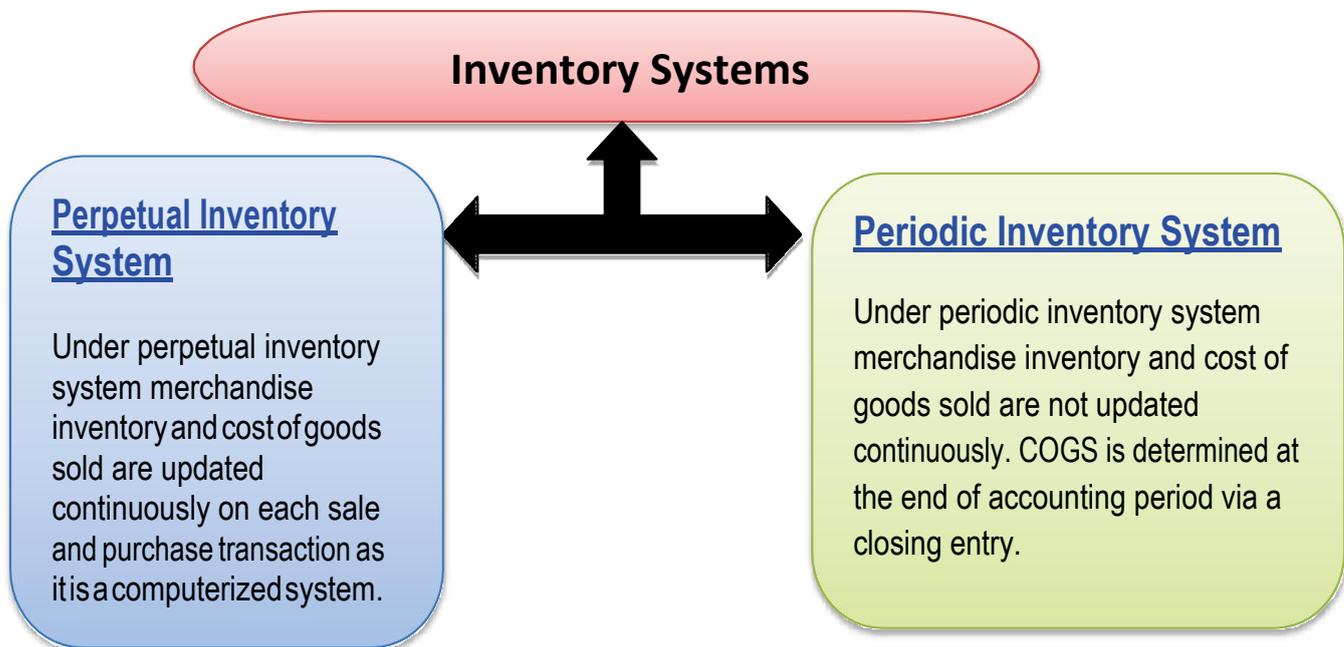
This means that you need to implement an array of controls, either to prevent theft or to ensure that the manufacturing operation does not run short of inputs. Given below are measures for inventory control.



[Source: Sixth Form Certificate Accounting]

# Inventory Systems

There are two different systems that a business can use to account for inventory.



## Activity

***“Inventory loss or burglary in a business could be minimized by using the perpetual inventory system.”***

- i. What is perpetual inventory system? Give an example. **(1 mark)**  
State **two** advantages of using the perpetual inventory systems? **(1 mark)**
- ii. Give an example of a retailing business in your locality where the perpetual inventory systems would be:
  - a. Suitable **(½ mark)**
  - b. Unsuitable **(½ mark)**
- iii. Give one reason why perpetual inventory systems is better than periodic inventory system
- iv. Explain the difference between **perpetual** and **periodic inventory valuation**.

### Activity 6.0.3

Read the case study and answer the questions that follow.

Omega Bookshop sells a wide variety of reading materials. The business manages its stock on the perpetual inventory system. Staffs in the shop have the freedom to enter and leave the stockroom. They take stock out of sample and sale. Physical stock take is done once a year only. The owner also took books and magazines home but never kept record of it.

Purchases made locally and imported were delivered to the warehouse by the truck driver himself. The driver also picked up and delivered goods to customers around Fiji. Customers' docket, tax invoices and delivery docket were received and filed. Customers picked up magazines and books freely and read for hours in the shop.

#### **Required**

- a. Describe **three** internal control weaknesses of handling and storing inventories
- b. Suggest **three** ways of improving the control of inventories.



## STRAND OUTCOME:

**Recognize, analyze and explain how people satisfy their needs and wants by managing and making optimum use of the available resources in enterprising ways with a commitment to ecological sustainability.**

## Sub Strand 3.1

## Introduction to Economics

### ACHIEVEMENT INDICATOR

Students will be achieving these outcomes upon completion of the lesson;

- ❖ **Identify the economic problems and describe the 3 basic questions: what, how and for whom to produce under different economic systems**
- ❖ **Examine and describe the features of the different types of economic systems.**
- ❖ **Explore and deliberate the advantages and disadvantages of each economic system.**

---

## The Basic Economic System

Economics system is a set of rules which are influenced by what people think, the political and cultural behavior and ideology adopt to achieve economic objectives to satisfy needs and wants.

An **economic system** is a method by which a society decides **what, how and for whom** goods and services are to be produced. Therefore to solve the economic problem economists have divided the economies into four systems:

1. Traditional Economy
2. Free Market Economic System
3. Command Economy
4. Mixed Economy

### Traditional (Subsistence) Economic System.

The traditional economic system is controlled by the cultural beliefs and customs and habits developed and handed down through generations.

#### Characteristic of Subsistence Economy

- ❖ Families and society decides on how to answer the economic questions of what to produce, how to produce and for whom to produce goods and services.
- ❖ Resources Ownership- productive resources are owned collectively by the society as a whole.
- ❖ Culture and tradition defines its allocation to various groups and clans and to individual for production or farming to satisfy the needs and wants of families.
- ❖ The system is geared towards basic survival as the society uses primitive methods of production which basically involves hunting and gathering and subsistence farming
- ❖ They are reliant on natural resources that are readily available and use wood and stone technology
- ❖ They are usually self-sufficient that is production is for own use only.
- ❖ A method of Exchange is **Barter system**

## **Advantages**

- ❖ Simple forms of social organization because their needs are relatively simple and there is a little need for capital innovations.
- ❖ Has no industrial pollution.
- ❖ It is based on a barter system therefore there is no need for money. Wealth is measured in terms of a number of pigs and plantations one has.

## **Disadvantages**

- ❖ They have little choice or variety of goods for consumption.
- ❖ The economic system is only applied in a local (small society) rather than national level.
- ❖ It has a low level of standard of living with no economic growth and development as a medium of exchange is absent.
- ❖ It has a low level of specialization and technology e.g. farming practice may continue to use primitive methods of farming.

### **Activity 1.0.1**

Write a paragraph between 75-100 words.

**“Traditional economy is like any other economic organisation. Would you prefer to live in this economy?”**

Discuss the statement given above in terms of the following:

- Define Traditional Economy;
- One advantage of this type of economic system;
- One disadvantage of this type of economic system.

## **Free Market Economic System**

Free Market Economic System is where all the major decisions are made by the private individuals or business firms. This system is also known as **Capitalist, Free Enterprise or Laissez – Faire**. It is called Laissez Faire because there is **no** government interference in the market forces and **invisible hands** determine price and production.

## Characteristics of a Capitalist Economy

- ❖ **Consumer Sovereignty** – consumers demand determines what goods and services are to be produced. Production is heavily dependent on market forces since there is consumer sovereignty (demand side) and profit motive (supply side).
- ❖ **Profit Motive** – business organization operates with the main aim of making a profit
- ❖ **Price mechanisms / Invisible Hands:** means that the prices of goods and services are determined by the forces of demand and supply.
- ❖ **Resources are privately owned.**
- ❖ **Firms are encouraged to use the most cost efficient and cost effective way of production.** Therefore they may use technology and modern methods of production to produce goods and services. Provision is made for the future with the production of capital goods.
- ❖ **Method of Exchange-** Money and different modes of payment are used (e.g. Card system) electronic banking.

## Advantages

- ❖ Freedom of choice by both the consumer and suppliers
- ❖ It encourages efficient use of resources which creates competition and motivations
- ❖ Producers are able to respond quickly to consumers demand
- ❖ Continue innovations and technologies progress
- ❖ High degree of specialization..

## Disadvantages

- ❖ There is no motivation to produce services such as police force, court orders, laws, highways and hospitals due to high cost.
- ❖ High social costs from production such as pollution are often ignored by the business firms
- ❖ There is often inequality in distribution of income
- ❖ Development of business can lead to monopolies and cartel, which is to control the market.
- ❖ Consumers can be exploited through unsafe, unhealthy and misleading trade practices.

### Activity 1.0.2

1. Which of the following distinguishes the free enterprise economy from planned economic system?

- A. the use of money by consumer
- B. the quality of goods and services
- C. the private ownership of productive resources
- D. the use of prices to ration goods and services

2. i. State **two** features of free market economy

ii. Briefly explain how the prices are set in the free market economic system

3. Discuss the importance and features of the following in the working capitalism?

- i. **Competition** – [ans: encourages efficient use of resources that is important so it continues technological progress and innovations and also encourages a high degree of specialization]
- ii. **Profit Motive** – [because organisation operates with the mean of making profit.]

### Activity 1.0.3

Write a paragraph between 75-100 words.

“As the result of recent political and economic development at global level, most economies are now shifting towards Capitalist economic system”.

Discuss the statement given above with reference to

- definition of resources
- ownership of resources in a Capitalist economics system
- allocation of resources in a Capitalist economic system

## Command Economic System

The economic system is controlled by the state or the government. It is also known as collective or planned economic system.

## **Characteristics of Planned Economic System**

- ❖ Government or state controls and owns most of the resources
- ❖ The government influences most of the production activities.
- ❖ Production is specialized. There is strong emphasis on producing capital goods.
- ❖ Producer and consumer are different people
- ❖ All economic decisions are directed towards the general welfare of the state as a whole.
- ❖ Method of Exchange- money and modern methods of payments

### **Advantages:**

- ❖ Productions are directed towards peoples need and not for profit seeking thus fair allocations of resources.
- ❖ It is claimed that it minimizes the wastage of resources
- ❖ State is in a better position of control economic stability (i.e. inflation level)/(low prices), employment level and wages fluctuations.
- ❖ State is in a better condition to control the income distribution.

### **Disadvantages**

- ❖ There is excessive bureaucratic which is characterized by repetition, unnecessary delays in making decision, lack of responsibilities and efficiency.
- ❖ There is no freedom of choice for consumers (no consumer sovereignty) state dictates production.
- ❖ There is lack of incentives to work hard – since there is no reward and they may have their production quota increased with no rewards if they produce more. There is no incentive to innovate (generate new ideas) methods of technology to bring about efficiency in production.
- ❖ Since there are no competitions the economic system will move towards inefficiency – resources are not properly utilized. (Completion for profit and for consumer will force producer to produce efficiently).

### Activity 1.0.4

1. Which of the following is a feature of a capitalist economy?

- A. barter trade
- B. market forces
- C. closed economies
- D. non- commercial activities

2. Planned economies can be distinguished from other economic systems by the absence of

- A. The price mechanism
- B. Differential wage rates
- C. Consumer choices in selecting goods and services
- D. Private controls over the general nature of production

3. Write a paragraph between 75-100 words.

**“The government, acting on behalf of society, accepts responsibility for all major economic decisions”.**

Discuss the statement given above in terms of the following:

- state **one** of the planned economic system;
- explain **one** advantage of this type of economic system;
- explain **one** disadvantage of this type of economic system.

## Mixed Economic System

In this economic system resources are owned and controlled by private individuals and the state. A mixed economy has some features characteristics of a free market economic system and a planned economic system.

While both planned economics and free market economics are 2 extreme, a mixed economy is in between these two-system. It is intended to have or combined the best features of both capitalism and socialism. Currently economics of Fiji, Australia, NZ, and Great Britain, USA are e.g. mixed economics.

### Characteristics Mixed Economic System

- ❖ Profit motive and free enterprise
- ❖ Private ownership of property
- ❖ Freedom of choice of goods and services
- ❖ Price mechanism

- ❖ Price regulation for essential goods
- ❖ State enterprises to promote social welfare.

### **Advantages**

- ❖ Provide ample scope for private initiative, self-interest and profit motive.
- ❖ It provides for freedom, economic liberty and consumer sovereignty
- ❖ It retains the right to private property
- ❖ It adopts in democratic mode of planning
- ❖ It permits healthy competition between private and public sectors e.g. Fiji Airways with Pacific Blue.
- ❖ It seeks to achieve equality of income and wealth in general through a system of taxation.
- ❖ It seeks to achieve economic growth and a better standard of living.

### **Disadvantages**

- ❖ Private sectors are not willing to produce goods and services if they are not profit making. They are reluctant to provide public and merit goods.
- ❖ There is national tendency for monopolies to occur and they may restrict output in order to increase prices this may be against public interest.
- ❖ The industry is often unstable .The close down of an individual factory affects the entire economy.
- ❖ Red tapeism, corruption, bureaucracy, extra funds in public sector running prestigious and position.
- ❖ They may be large-scale social cost such as pollution, accidents and noise these costs are imposed on taxpayers.
- ❖ Large disparities in income could lead to the production of luxury goods rather than goods required by the poor.

#### **Activity 1.0.5**

**“Mixed economy tries to overcome the defects of both capitalism and socialism”**

1. Comment on the above statement highlighting the benefits of mixed economic system..
2. Discuss the difference and similarities of a market and mixed economy

### Activity 1.0.6

1. Study the information given below and with your own knowledge answer the questions that follow.

Every society tries to answer the questions of WHAT, HOW and FOR WHOM. Economic systems generally fall into one of four categories: Traditional, Command, Market Economies and Mixed Economies.

Adapted from: Applied Economics

- a. Discuss how and why the problems of “What, How and for whom” exist?
- b. Explain briefly:
  - i. how the capitalist economies answer the questions of “How”
  - ii. how the Command economies answer the questions of “What”
  - iii. how the invisible hands answers the question “For Whom”.

2. Copy and complete the table.

	Traditional Economy	Capitalist Economy	Planned Economy	Mixed Economy
Ownership of Productive Resources				
Who decides on What to produce				
Who decides on How to produce				
Who decides For Whom to produce				

3. In the traditional economics system households rely on the own ability to satisfy their needs and wants. How much time do you think people in the system are able to spend on creating new products or a new technology and explain why?

[Answer: Very little time, they improvise techniques for survival e.g. fishing hooks (older than modern)]

4. Most countries in the world are mixed economies. Why do think that it is so common?
5. Why consumer sovereignty is limited in mixed economy?

### Activity 1.0.7

Write a paragraph between 75-100 words

Compare and Contrast planned economic system and free market enterprise with reference to:

- resource ownership and allocation
- decision making units
- distribution of goods and services

### Activity 1.0.8

Explain the terms relating to each economic system

<b><u>Traditional</u></b> Subsistence Tradition / Custom Barter Survival Low standard of living	<b><u>Free Market</u></b> Private individuals and businesses Capitalism Consumer sovereignty Price mechanism Laissez - faire (let them do) Unequal distribution of money & health  Competition Monopoly
<b><u>Planned</u></b> Government / State / Central Authority Socialism Production of capital goods Command	<b><u>Mixed</u></b> Private and public ownership Consumer sovereignty

## Sub Strand 3.2      Micro Economics

### ACHIEVEMENT INDICATOR

Students will be achieving these outcomes upon completion of the lesson;

- ❖ Identify and classify the resources in your locality.
- ❖ Investigate the ways of managing and sustaining these resources

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## Economic Resources

The most important feature of resources is their scarcity and diversity. **Factors of Production:** are input into production process that is used to produce goods and services. Factors of Production are also known as **economic resources**.

### The Basic Economic Resources are:

1. Land (Natural Resources)
2. Capital (Manmade resources)
3. Labor (Human resources)
4. Entrepreneurship (Management resources)

### Activity 1. 2.1

Classify the resources in your locality in to the four categories.

## Managing and Sustaining These Resources

### ➤ Land-land management through crop rotation

Land management is the process by which the resources of land are put to good effect. It covers all activities concerned with the management of land as a resource both from an environmental and from an economic perspective. It can include farming, mineral extraction, property and estate management, and the physical planning of towns and the countryside.

### ➤ Labour-through education and training

Education and training will develop labour skills and competencies that will improve overall productivity.

➤ **Capital-through innovation**

**Capital** comprises material goods or fixed assets which contribute to the production process rather than being the output itself – e.g. tools, machines and buildings and how effectively and sustainably these are used. This includes assessing their toxicity.

➤ **Entrepreneurship-through research and development**

## Productions and Producer

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### ACHIEVEMENT INDICATOR

Students will be achieving these outcomes upon completion of the lesson;

- ❖ **Identify some industries that exist in your locality and discuss their contributions towards the economy.**

Recall your lessons from Year 9, the different stages of production.

**Production:** is an act of producing goods and services.

### Stages of Production Process

Different types of production produce different kinds of goods and services. Thus we can group these productions in three common stages of production:

1. **Primary Production:** is extractive in nature that involves all activities directly involved with land and sea. For example, farming, fishing, forestry, mining,
2. **Secondary Production:** refers to the process of converting raw material into semi-finished or finished consumer goods. This is the second stage of production. It is one of the fastest growing productions in our economy. For example, factories, mills, construction businesses etc.
3. **Tertiary Production:** refers to services whereby people do things for others. For example, banking, transporting, repairing, teachers, doctors, sales assistants etc. It also involves the distribution and selling of goods produced by primary and secondary productions.

### Activity 1.3.0

Identify any two industries that exist in your locality and discuss their contributions towards the economy.

# Demand and Supply

## ACHIEVEMENT INDICATOR

Students will be achieving these outcomes upon completion of the lesson;

- ❖ Identify and determine the market equilibrium.
- ❖ Explore and describe the factors affecting the market demand and supply.
- ❖ Construct the market demand curve and market supply curves by horizontal summation.

**Equilibrium [Price and Quantity]:** is the price at which the market quantity demanded equals the quantity supplied.  $Q_s = Q_d$

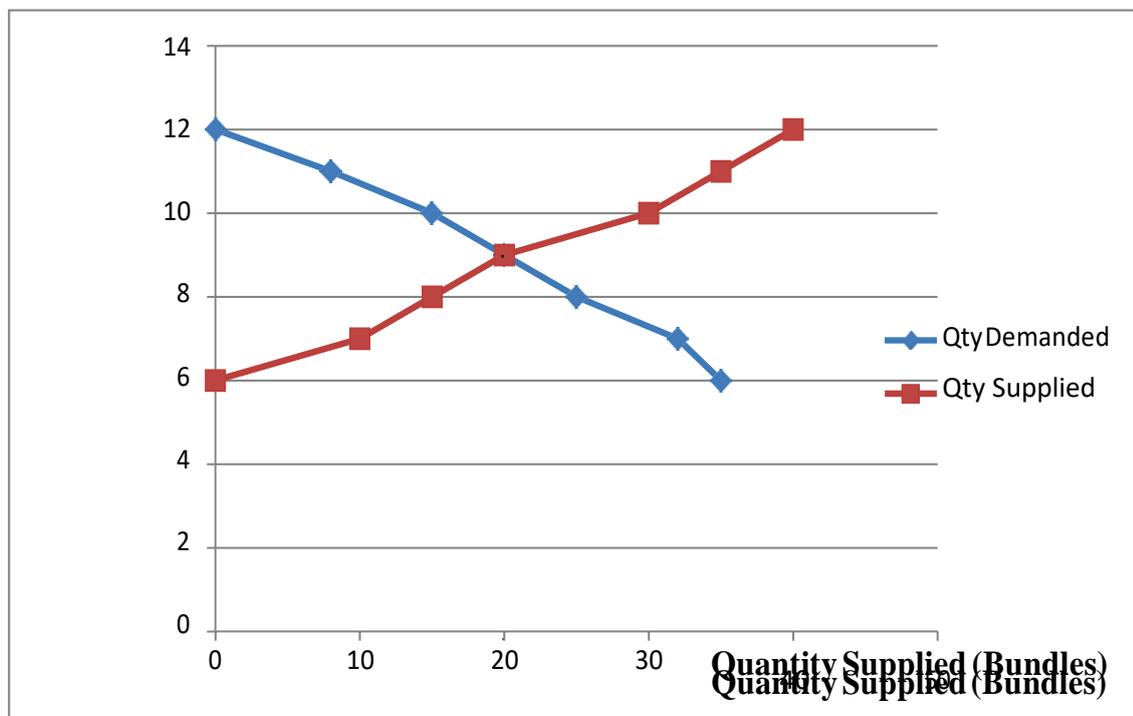
Illustrative Example : Supply and Demand Curve

**Demand and Supply Schedule of Dalo per week**

Price per bundle \$	Qty Demanded	Qty Supplied
12	0	40
11	8	35
10	15	30
9	20	20
8	25	15
7	32	10
6	35	0

## Market Equilibrium

**Demand and Supply for Dalo**



The graph and the table shows that:

- At the price of \$9 the quantity demanded and quantity supplied are equal thus in equilibrium where there is no surplus or shortage
- At any price above \$9 there will be an excess supply resulting in surplus
- At any price below \$8 there will be an excess demand resulting in shortage.

### **Shortage [Excess Demand] [ Shortage (S<D)]**

- A shortage is when quantity demanded is greater than quantity supplied at a given price.
- It is also known as excess demand.

### **Surplus [Excess Supply] [Surplus (S>D)]**

- A surplus occurs when quantity supplied is greater than quantity demanded at a given price.
- It is also known as excess supply.

#### **Activity 1. 4.0**

Use the following table given below to answer the questions that follow.

<b>Price (\$)</b>	<b>Quantity Demanded (kg)</b>	<b>Quantity Supplied (kg)</b>
10	30	110
9	40	90
8	50	75
7	60	60
6	70	45
5	80	20

- a. Draw and label carefully the demand and supply curves for souvenir badges
- b. State the equilibrium price and quantity.
- c. Shade the area on the graph where quantity supplied exceeds quantity demanded and label it (iii).

### Activity 1.4.1

Study the information given below and answer the questions that follow.

#### Supply and Demand Schedule for Textbooks for an Economy

Price (\$)	Quantity Demanded [units]	Quantity Supplied [units]
4	17	0
6	14	3
8	12	8
10	10	10
12	8	12
14	7	16
16	6	18
18	5	19

- i. State the equilibrium price and quantity.
- ii. Explain why the economy would not experience a shortage of textbooks at a price level of \$18.

## Market Demand

**Market Demand Schedule:** is a sum of all consumers demand for a particular good or service at various price levels. Using the market demand schedule a market demand curve could be drawn.

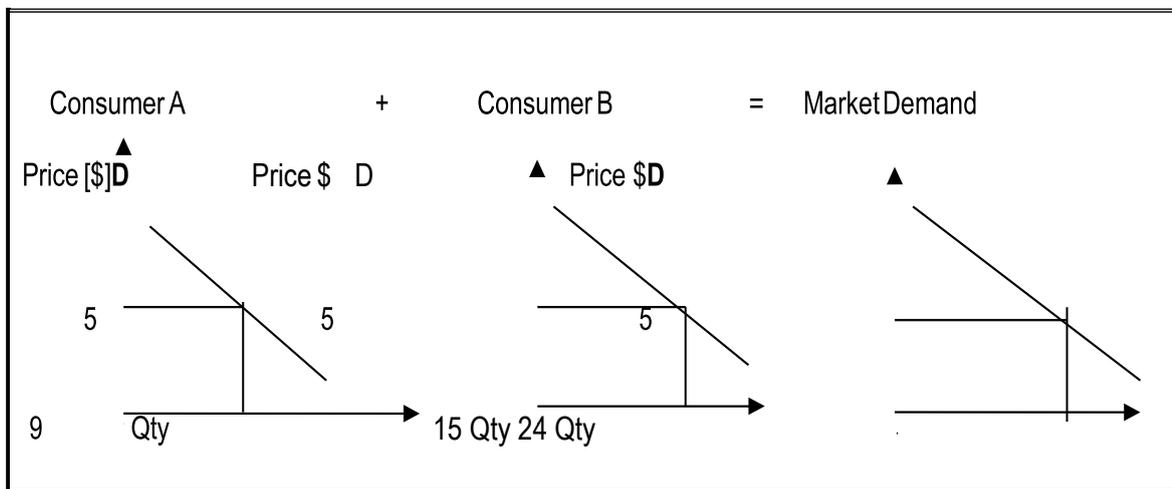
**Market Demand Curve:** is the graphical presentation of the market demand schedule or the horizontal summation of each individual demand curve.

Illustrative Example 1: Figure below shows quantity demanded for jeans by different consumers at different price levels

Price [\$]	Consumer A Quantity Demanded	Consumer B Quantity Demanded	Consumer C Quantity Demanded	Consumer D Quantity Demanded	Market Demand
30	0	0	0	0	0
25	2	4	8	5	19
20	8	6	10	7	31
15	15	19	20	17	71
10	20	24	27	22	93
5	29	34	30	35	128

Market Demand

Example 2: The Market Demand can be also be arrived at by horizontal summation of each individual demand curve as shown in Figure 8.6



Market Demand

### Activity 1.4.2

Compute the market demand for soft drink - Pepsi.

Price [\$]	Anna's Quantity Demanded	Veeru's Quantity Demanded	Sera's Quantity Demanded	Market Demand
8	3	5	0	
7	5	3	2	
6	8	4	4	
5	10	9	8	
4	14	12	14	
3	18	15	16	

## **Factors Affecting Changes in Market Demand**

1. Changes in income
2. Changes in taste and fashion
3. Changes in law
4. Changes in price of related goods
  - Substitute goods – goods that can be used in place of other goods eg butter, margarine
  - Complementary goods (joint goods) – goods that are jointly demanded and used together eg bread and butter, rice and curry ect
5. Expectation – prices are expected to rise in future
6. Changes in weather
7. Change in population

**Market Supply Schedule:** is a sum of all producers supply for a particular good or service at various price levels. Using the market supply schedule a market supply curve could be drawn.

**Market Supply Curve:** The market supply curve is obtained by summing the quantities supplied by all suppliers at each potential price. Thus, in the graph of the supply curve, individual firms' supply curves are added horizontally to obtain the market supply curve.

## **Factors Affecting Changes in Market Supply**

1. Cost of production – a rise in the cost of production (inputs) including wages, rent payment, and material prices will lead to decrease in supply
2. Changes in price of unrelated goods – producers will produce goods that will make much profit for example if farmers' belief copra is not profitable, they might switch from copra to dalo.
3. Joint supply – some goods are produced together. Demand for one good will lead to increase in supply for another e.g. molasses
4. Changes in technology - things like computer, communication technologies have reviewed the overhead cost.

# Institutions

## ACHIEVEMENT INDICATOR

Students will be achieving these outcomes upon completion of the lesson;



## Water Authority of Fiji

Water Authority of Fiji (WAF or Water Authority) is a new Commercial Statutory Authority (CSA). It was established by the Government of Fiji to provide efficient and effective water and wastewater services in an environmentally sound and sustainable manner. From January, 1, 2010, WAF officially took over responsibilities, functions and operations previously carried out by WSD.

The Government of Fiji started reforming the Water and Sewerage Department in 2009. The objective of this reform was to enhance the sustainable delivery of water and sewerage services to appropriate levels of service. The reform aimed at strengthening the then Water and Sewerage Department (WSD) before establishing the Water Authority of Fiji, which is dedicated to the delivery of water supply and sewerage services, autonomous and be able to mobilize the necessary resources to meet the demand, effectively and efficiently at required quality standards.

The first few years of operations are key to establishing the most effective culture and mix of people, processes, procedures, governance, equipment, policies and monitoring and reporting. 2014 will be WAF's fifth year of operations.

WAF is responsible for providing access to quality drinking water and waste water services to over 144,000 residential and non-residential metered customers residing largely in urban areas and also setting up water supply systems in rural schemes, reaching over 700,000 people nationwide.

Our area of operation covers 18,274 square kilometres of the 332 islands in the Fiji archipelago of which only 110 islands are inhabited and our current water and wastewater network constitutes more than 4,200 kilometers of pipes.

[Source: [www.waf.com.fj](http://www.waf.com.fj)]



## Fiji Electricity Authority

The FEA is a wholly Government of Fiji owned statutory body that was established under the Electricity Act of 1966. FEA is responsible for the Generation, Transmission and Retail of electricity on the larger islands, Viti Levu, Vanua Levu and Ovalau, which account for some 90% of the country's population.

The powers, functions and duties of the authority under the Electricity Act are for the basic purpose of providing and maintaining a power supply that is financially viable economically sound and consistent with the required standards of safety, security and quality of power supply

[Source: [www.fea.com.fj](http://www.fea.com.fj)]



## Post Fiji Limited

Post Fiji's history lies in the first Postal Act passed by the Legislative Assembly of the Fiji Government in December 1871, which officially established the setting up of a Postal Department in Fiji, a General Post Office, Post Offices in other parts of Fiji and the appointment of a Chief Postmaster and other Postmasters who may be required to operate these Post Offices.

The Cakobau Postal Act prepared and guided those who were to play a pioneering role in the operation and development of postal services in Fiji.

Until 1989, Fiji's postal operations were a division of a government department called the Department of Posts and Telecommunications. Subsequently, the department became corporatised in 1990 and from this first year of corporatisation to 30 June 1996, Fiji Posts and Telecommunications was restructured three times.

On 30 June 1996, the inevitable separation of Post and Telecommunications was formalized. Two new entities rose in its stead - Post Fiji Ltd and Telecom Fiji Ltd.

### **From 1996 Onwards**

Post Fiji Limited commenced as an entity from 1 July 1996. It is registered and incorporated under the Companies Act as a private company with the shareholding wholly owned by the Government of Fiji. A Board of Directors, nominated by Government, leads the company.

Post Fiji's core activities are message communication in letters, and distributing courier and parcel items. It also provides stamps, financial transactions, telegram services and just recently, data processing and mail production services called Smartmail.

Post Fiji is responsible for the collection, processing and delivery of letters, parcels and urgent documents to some 56,000 letterboxes and some 15,000 residential addresses in Fiji.

The Post and Telecommunications Decree 1989 gives Post Fiji the sole authority to convey letters from one place to another and to perform all the incidental services of accepting, receiving, collecting and delivering letters. In all other products and services, Post Fiji operates in competitive markets.

[Source: [www.postfiji.com.fj](http://www.postfiji.com.fj)]



## National Fire Authority of Fiji

Established by virtue of the National Fire Service Act, 1994 the National Fire Authority assumed responsibilities to provide fire services for the entire nation of Fiji in February 1995. Prior to this, the fire service in the country was provided by various municipal councils and the Board of Fire Commissioners of Suva. The largest and best organized of these fire services was the Suva Fire Brigade, which was administered by the Board of Fire Commissioners of Suva. Other fire brigades taken over were in the towns of Sigatoka, Nadi, Lautoka, Ba, Tavua, Labasa, Savusavu and Levuka.

The National Fire Authority of Fiji (NFA) is reviewing its National Fire Services Act 1994 to cater for the broadened emergency services in the country. This includes road accident rescue, ambulance services, flood and swift water rescue, hazardous materials response and much more.

The NFA held consultations with its stakeholders today on formulating a draft legislation which will encompass NFA's expanded roles such as focus is to provide fire and emergency services beyond town and city boundaries.

In order to streamline communications and better administer the organisation, the Authority established three (3) fire divisions namely: Central/Eastern, Northern and Western Fire Divisions, and appointed Divisional Fire Officers to head these three divisions.

A major philosophical change has seen the expansion of NFA's role beyond Fire Response and Rescue to provide a broader Emergency Management Service. This evolutionary change has seen the function of the NFA develop from Fire Response and Rescue to an all-inclusive Emergency Management Service. The new **CORE FUNCTION OF NFA** is therefore the provision of an effective and efficient **EMERGENCY MANAGEMENT SERVICE**.

One of the ways adopted by NFA to control fire is to teach kids and school children with the help of the *Fire Bird Smokey*

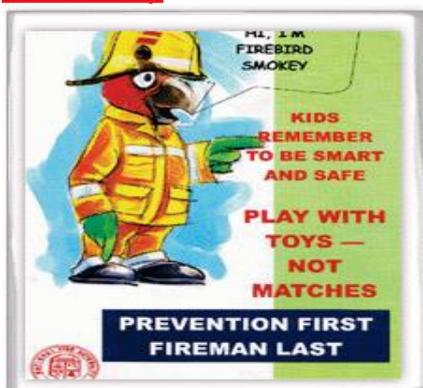


Figure 1.5.1[a] Smokey Bird



Figure 1.5.1[b] Smokey Bird with children

[Source: [www.nfa.com.fj](http://www.nfa.com.fj)]



# Ports Authority of Fiji

Ports Terminal Limited (PTL) is a 100% Fiji Government Commercial Company. It was registered as a company on 30th October 1997 and became a Government Commercial Company on 19th November 1997. The formation of PTL is a deregulatory process of commercializing government entities.

The functions of the Authority are as follows:-

- ◆ To provide and maintain adequate and efficient port services and facilities in ports or the approaches to ports;
- ◆ To regulate and control navigation within ports and the approaches to ports;
- ◆ To promote the use, improvement and development of ports;
- ◆ To co-ordinate all activities of or within ports;
- ◆ to acquire such land and execute such works and do such acts and things as may be necessary in respect of the functions of the Authority under the provisions of this Act or of any other written law;
- ◆ Subject to the provisions of this Act, to do all things necessary or convenient to be done in connection with or incidental to the performance of its functions under this Act or any other written law.

Ports Authority of Fiji (PAF) was reorganized into two companies:

1. Marine Ports Authority of Fiji (MPAF)
2. PTL.

As per charter MPAF became the government regulatory arm overseeing port functions in Fiji which involves Marine Services, Berthing and Wharfage.

PTL was designed to take over all commercial activities such as Stevedoring, Cargo Handling, Pilotage and all aspects of Warehousing.

The company operates the following services in both Suva and Lautoka

- 1) Pilotage and Pilot Boat.
- 2) Stevedoring and Cargo Handling.
- 3) Cargo Storage.
- 4) Local Wharves operations.
- 5) Mechanical



Figure 1.5.2 Port services

[Source: [www.pta.com.fj](http://www.pta.com.fj)]



Airports Fiji Limited proudly manages and operates this key port of Fiji. We aim to offer you world class services and facilities and best customer service, which with its warm Fijian hospitality, is like no other in the world.

Airports Fiji Limited (AFL) is a fully owned Government Commercial Company that was established on 12 April 1999. AFL has an obligation to deliver the 10% return on shareholders funds to Government. The company has a dual reporting system where it reports to the Minister for Public Enterprises for its commercial performance and to the Minister for Civil Aviation on policies relating to the aviation industry.

AFL owns and manages Nadi International Airport, Fiji's Gateway to the World. It also manages, on behalf of Government, the Nausori International Airport and the 13 other outer-island airports. Nadi International Airport handles 98% of international visitors to Fiji and 80% of which are tourists.

AFL provides air traffic management (ATM) services in the Nadi Flight Information Region (FIR) which includes the airspaces of Fiji, Tuvalu, New Caledonia, Kiribati and Vanuatu, covering an area of 6 million square kilometers.

AFL's core business includes:

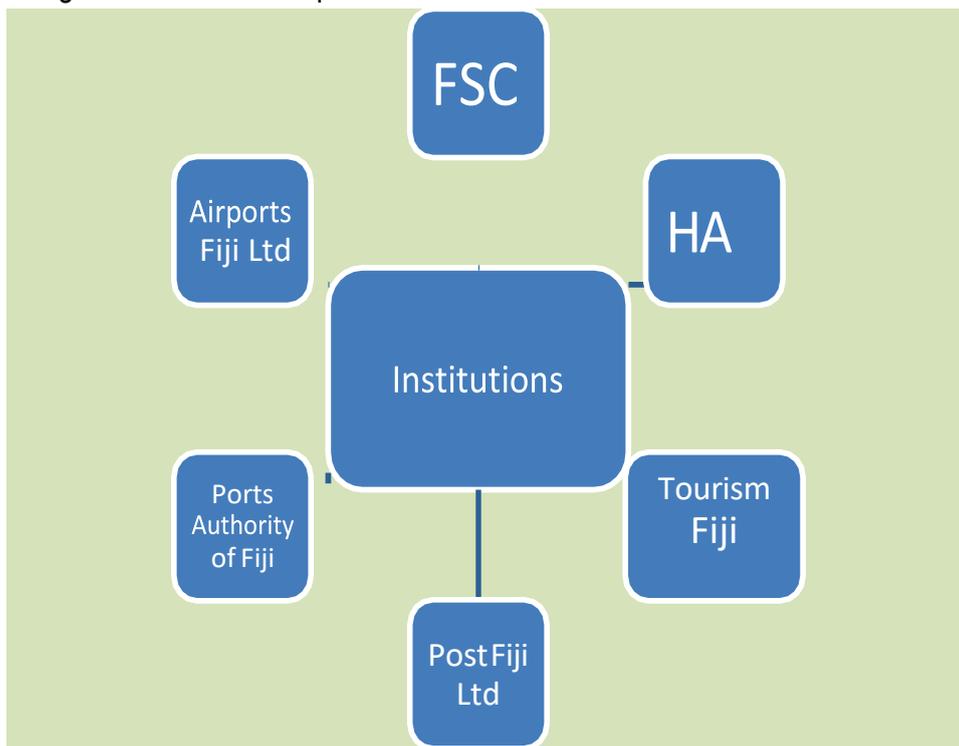
- (a) Provision of world class airport facilities and its safe and efficient operation.
- (b) Provision of air navigation services in the Nadi Flight Information Region.
- (c) Management of commercial activities through the development of AFL's assets.



[Source: [www.airports.fiji.com](http://www.airports.fiji.com)]

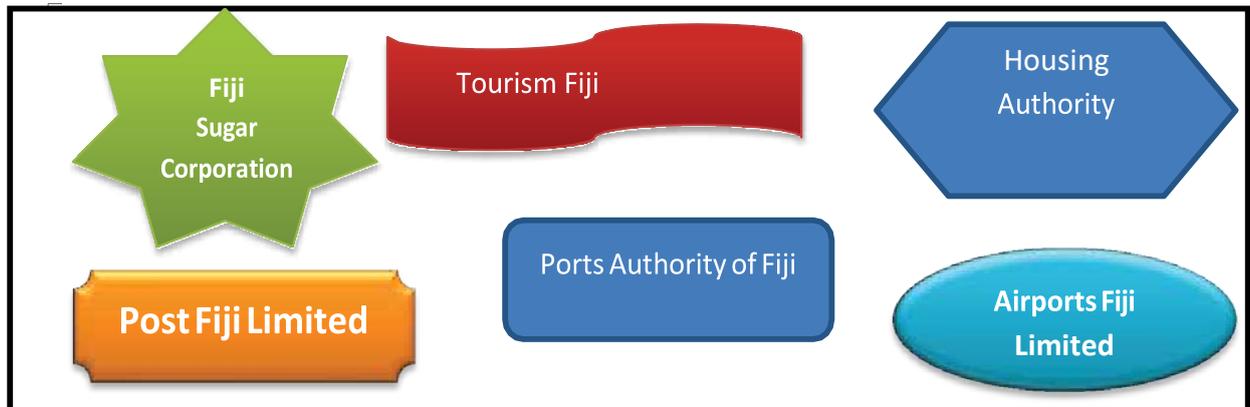
### Activity 1.5.1

1. Use the diagram to answer the questions that follow.



- i. Which institution is responsible for bio-security and quarantine inspection?
- ii. Name the institution that was set up by the government to assist the low and average income owners.
- iii. Describe **one** function and **one** contribution of the following institutions in Fiji:
  1. Airports Fiji Limited
  2. Ports Authority of Fiji

2. State **one function** and **one contribution** of each of the following institutions in Fiji.



### Activity 1.5.2

Write a paragraph in between 75-100 words on the given question below.

1. FSC plays an important role in the development of Fiji's economy
  - identify the role of the FSC
  - describe **one** problem faced by FSC
  - explain **one** possible solution to the problem identified above
2. Discuss Housing Authority as an economic institution by using following guidelines:
  - Identify **one** of its function
  - explain **one** of its contributions to Fiji's economy
  - describe one problem faced by the institution

## Sub Strand 3.3

## Macro Economics

### ACHIEVEMENT INDICATOR

Students will be achieving these outcomes upon completion of the lesson;

- ❖ Identify the sources of income and the expenditures incurred for the two types of governments.
- ❖ Describe and demonstrate civic pride by taking care and valuing the services rendered by government
- ❖ Identify some problems faced by both types of Government

### Central Government Revenue

In order to provide for collective and mixed goods, the government has to earn money. The major source of revenue for any government is tax. Other income can be in the form of surplus from trading and borrowing.

### Taxes

- ❖ Major form government revenue
- ❖ Through tax the government funds its expenses of providing public goods.

### Characteristics of Tax

- ❖ **Direct tax** – paid directly to the government taxing authority (FRCA). Dependent on the level of income and wealth.
- ❖ **Indirect tax (goods and services)** – tax is incorporated within the price of goods and services. The seller is used as a middle man e.g. VAT
- ❖ **Specific tax** – is a fixed tax per unit of a fixed commodity
- ❖ **Ad – valorem tax** – is paid on a value eg x cents per dollar of the price
- ❖ **Progressive tax** – the fraction of income paid in taxes increases as income increases
- ❖ **Regressive tax** – the fraction of income paid in tax decreases income increases
- ❖ **Proportional tax** – the fraction of income paid in tax is constant as the person's income increases.

## **Types of Taxes**

1. **Personal income tax** – is the tax on income on individual e.g. PAYE.
2. **Company income tax** – tax on the profit of the firm
3. **Excise duty and sales tax** –
  - a. **Sales tax** – is levied on goods and services when they are sold. An excise is a tax on production and sale of goods but on services.
  - b. **Customers duty** – taxes on import
  - c. **Resource rent tax** – taxes paid by firms for exporting the natural resources of a company e.g. Vatukola
  - d. **Wheel tax** – paid by motor vehicle owners
  - e. **Fringe benefit tax** – is levied on the value of non – cash benefits which business give their employees in place of wages and salaries.
  - f. **Tax avoidance** – any practice taken within bonds of law to minimize an individual or firms ability to pay tax.
  - g. **Tax evasion** – any practice outside the bounds of law that intended to reduce payment of tax.

## **Other Means of Finance for the Government**

When taxes collected is not enough, the government then has to find other means to collect funds. These means are:

### **1. Internal Loan / Borrowing**

- ❖ When government borrows domestically, stocks and bonds are sold to the financial institution as well as the general public to raise funds.
- ❖ The central bank (RBF) offers short term bonds

Some examples are:

- ❖ **Treasury Bills** – promising notes (promised to pay) are issued by the government as an instrument for short term borrowing that is three months. These notes are bonds that do not pay interest but are initially sold at a discount to their face value.
- ❖ **Government Stock** – medium term (2 – 5) years. Fixed interest paid to the holder.
- ❖ **Government Bonds** – is a long term interest which fixed interest rate is paid.

- ❖ Government Security – is sold by the government usually with face value, coupon rate and date of redemption. If the company can sell the shares, it can also buy back the shares. Purchasing and selling of financial assets such as bonds, stock to the public is known as **open market operations**. This is done through the reserve bank to either increase or decrease the money supply.

## 2. **External loans**

Borrowing from outside countries and from international agencies such as World Bank, Asian Development Bank which increases national debts.

## 3. **Aid**

International transfer of public funds as well as goods in some cases in the form aids or grants.

- ❖ Multilateral Aid – where there are many donors and recipients and agencies such as World Bank acts as a middle man to transfer aid
- ❖ Bilateral Aid – is where there is one donor and one recipient who is in direct contact.

## **Central Government Expenditure**

- ❖ Administration of a country
- ❖ Defense and provision of a wide range of services
- ❖ Supply goods and services for collective use (public goods)
- ❖ Repaying its previous debts

## **Structural Adjustment Program**

The main purpose was to transform Fiji into a more flexible and competitive economy and offer efficient services with maximum performance. Reforms will also contribute to economic growth and development. Furthermore, reforms will upgrade peoples' standard of living and access to all services available.

### **The Polices Of the Structural Adjustment Program Includes:**

- ❖ Trade liberalization – removal of import and export license, quota and a reduction in the level of tariffs (these changes would make it easier and cheaper for business to import and export.

- ❖ Tax reform – lowering corporate and personal tax rates and increasing the value added tax
- ❖ Public enterprise reform – cooperating and privatizing public business which are profitable to the government to run and will be more profitable for private business to operate.
- ❖ Civil service reform – change civil service to become more efficient and customer preferential oriented to reduce government expenditure on wages.
- ❖ Education reform- every child will have access to education whereby *Pillar 9* could be achieved and the society becomes a knowledge based one.
- ❖ Health Reforms- improvement of health services and increasing the nurses and doctors in the medical field in all rural and maritime zones.
- ❖ Social Welfare Reforms- will aim to minimize child abuse, reduce violence against women and eradicate poverty.
- ❖ Performance Budgeting Reform- involves the allocation of financial and staffing resources according to the goods and services [output] produced by ministries and departments.

### Activity 2.0.1

1. The main sources of revenue to the central government are
  - A. tax, grants and borrowing
  - B. tax, rates and borrowing
  - C. tax, net exports and borrowing
  - D. tax, net exports and rates
  
2. An increase in indirect taxation is likely to affect more heavily the
  - A. low income groups
  - B. high income groups
  - C. small business groups
  - D. medium income groups
  
3. Superland charges personal income tax as follows

Income Bracket	Tax rates [cents]
0 - 5 000	0
5 001 --- 10 000	0.12
10 001--- 15 000	0.20
15 000 and over	0.30

Superland's income tax system be classified as

- A. Avoidable tax
  - B. Regressive tax
  - C. Progressive tax
  - D. Proportional tax
4. What type of tax is P.A.Y.E?
- A. Direct tax
  - B. Indirect tax
  - C. Regressive tax
  - D. Value added tax
5. a. Apart from taxes, identify **two** other sources of income for the central governments
- b. Define tax evasion
  - c. What is the difference between Direct Tax and Indirect Tax

### Activity 2.0.2

Examine the information provided in the table given below to answer the questions that follow.

Income	\$ m	Expenditure	\$m
Direct Tax	10 400	Education	3 247
Other Indirect Tax	720	Health Services	1 927
Grants and Aids	230	Transport	499
Profit from Trading	190	Social Services	4 963
Other Receipts	1 400	Loan Payments	298
		Administration	2 318

- a. Prepare the government's budget in 2007.
- b. What is the main common source of revenue for Country Z?
- c. Give a reason why **Country Z** spends the most money on Social Services.
- d. Compared to the year 2007, the expenditure for 2008 was expected to fall by 5%.  
Calculate the value of total expenditure for the year 2008.
- e. State the importance of preparing a national budget for Country Z.

### Activity 2.0.3

Use the information given below to answer the questions that follow

#### Central Government's Major Consumption Expenditure [2008]

	\$m
General Public Services	76 356
Defense	77 241
Public Orders and Safety	102 860
Economic Affairs	139 699
Health	119 394
Education	229 356

Source: Fiji Bureau of Statistics

- What does the table given above show?
- Which item did the Government spend the most on?
- Calculate the total Government Consumption Expenditure for 2008.
- Which Government Ministry is responsible for preparing the Central Government's Budget?
- State at least two items on which the Ministry of Education spends its money.

## Local Government

**Local government** is a form of **public administration** which in a majority of contexts, exists as the lowest tier of administration within a given state or town.

## Local Government Services

- ❖ Environmental services such as road maintenance, drainage, provision of parks and fire brigade
- ❖ License to operate a business in towns and city area.
- ❖ Inspection and approval of plans for construction of building such as houses
- ❖ Upholding health regulation
- ❖ Facilitate for farmers to sell their produce (market place) and to bus and taxi operators.

## Local Government Revenue

- ❖ Rates – are an annual payment made by property owners for living in a Local Government area.

- ❖ Grants – central government gives grant to meet its obligation such as construction of town halls, shopping centers etc
- ❖ Miscellaneous – includes market stalls, car park fees, entertainment fees, license fees to operate the business, income from rented shops and town halls
- ❖ Aid – from overseas countries (assistance)

### **Two Major Types of Local Government:**

1. Local Authority – concerned with administering local district eg town council / provincials councils
2. Ad – Hoc Bodies – are associated with special areas of concern rather than the geographical region of the territorial local authority e.g. water boards, hospital boards, labour boards. They deal with item directly related to function.

### **Activity 2.0.4**

1. A direct tax levied by the local authority on property is known as
  - A. rent
  - B. rate
  - C. duty
  - D. grant
  
2. Which of the following is a type of local government?
  - A. City council
  - B. Tripartite Forum
  - C. Ministry of Health
  - D. Small Claims Tribunal
  
3. A source of income for the local government is from
  - A. hospital charges
  - B. value added tax
  - C. Pay As You Earn
  - D. garbage collection fees

4. The main source of revenue for a local government is
  - A. rent
  - B. rates
  - C. royalty
  - D. market fees
  
5. State some expenditure of the local government.

## Sub Strand 3.4                      International Economics

### ACHIEVEMENT INDICATOR

Students will be achieving these outcomes upon completion of the lesson;

- ❖ **Compute and interpret Terms of Trade**
- ❖ **Describe the components of Balance of Payment**
- ❖ **Prepare and Interpret Balance of Payment Account**

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**Terms of Trade (T.O.T):** Price ratio at which two countries are prepared to exchange goods, must therefore lie somewhere between the two countries domestic cost.

**Balance of trade:** A country's exports minus its imports; the largest component of a country's balance of payments.

### **Some Logical Assumptions**

1. No country will sell goods less than their domestic cost.
2. No country will pay more from import goods than their domestic cost.
3. Thus the trade price will be somewhere in between the price charged for same good in each country.

## FormULA for Calculating Terms of Trade

$$\text{Terms of Trade} = \frac{\text{Index of Export Price}}{\text{Index of Import Price}} \times \frac{100}{1}$$

For Example:

### Question

Base year 2006: 100. Calculate the T.O.T for:

- i. 2007
- i. 2008

Year	Export	Import
2007	105	90
2008	80	102

Solution:

$$\begin{aligned} \text{i} \quad \text{Terms of Trade} &= \frac{\text{Index of Export Price}}{\text{Index Of Import Price}} \times \frac{100}{1} \\ &= \frac{105}{90} \times \frac{100}{1} \\ &= \mathbf{116.67(\text{favourable})} \end{aligned}$$

$$\begin{aligned} \text{ii} \quad \text{Terms of Trade} &= \frac{\text{Index of Export Price}}{\text{Index of Import Price}} \times \frac{100}{1} \\ &= \frac{80 \times 100}{102 \times 1} \\ &= \mathbf{78.43 (\text{unfavourable})} \end{aligned}$$

## Interpreting Terms of trade

A rise in TOT index for a particular year indicates a favourable movement. This can be viewed as follows:

1. Given value of export can be buying a greater quantity of import than a previous year.
2. Some value of import can be now financed by a smaller value of export.
3. A favourable movement in T.O.T. maybe the result of:
  - Export price increasing more than import price
  - Export price increasing while import price remains constant
  - Export price remains constant while import price falls
  - Import price falls faster than export price.

### Activity 3.0.1

1. The table given below shows the index of export and import of goods and services for **Economy Y** for the year 2008-2009.

**Export and Import Price Index for Economy Y**

Year	Export Price Index	Import Price Index
2008	134	145
2009	204	165

Base year 2007: 100

Calculate the **terms of trade** for the years 2008 and 2009.

2. The table given below shows terms of trade for **Economy Y** for the year 2005-2007.

**Export and Import Price Index for Economy Z**

Year	Export Price Index	Import Price Index	Terms of Trade
2005	120	130	92.31
2006	110	148	74.32
2007	130	115	113.04

Base year 2004: 100

Use the table given below and your knowledge to answer the following questions:

- i. Explain the terms of trade for the years 2006 and 2007
- ii. State the formula for calculating terms of trade
- iii. Describe **one** way of improving a country's terms of trade.

### Activity 3.0.2

1. Use the data below to answer the question

Year	Export Price Index	Import Price Index
1	100	100
2	125	110

Base year: 100

The terms of trade for Year 2 is

- A. 88
- B. 113.6
- C. 125
- D. 137.5

2. A favorable movement in Fiji's terms of trade indicates that

- A. the ratio of import prices to export prices has increased
- B. the ratio of export prices to import prices has increased
- C. the prices of exports have increased
- D. the volume of exports have increased

3. Examine the information provided in the table given below to answer the questions that follow.

Year	Export Price Index	Import Price Index
1999	150	120
2000	120	160

Base year: 100

- a. Calculate the terms of trade for the years 1999 and 2000.
- b. In which year was the country's terms of trade unfavorable.
- c. What can be done if a country experiences unfavorable terms of trade?
- d. Differentiate between **terms of trade** and **balance of trade**.
- e. Define the term **balance of payments**.

## Balance of Payment

There are two main sections of balance of payments. These are:

1. Current account
2. Capital account

## Current Account

- ◆ Records the imports and exports of goods and services
- ◆ Regarded as the most important section of balance of payment because it measures nations earning and spending abroad.
- ◆ It is divided into two sections:
  1. **Visible trade (merchandise trade)** – represents the export and imports of goods that can be seen and touched. eg cars, furniture, food and machinery.

$$\text{Balance Of Trade} = \text{Visible Export} - \text{Visible Import}$$

2. Invisible trade – refers to the export and import of services like banking, insurance, tourism, transport and also includes:
  - ◆ Investment income such as profit, rent, interest, dividend
  - ◆ Government expenditure overseas
  - ◆ Transfer payment which includes gifts

### Invisible Export (Credit)

- ◆ Are those invisible items that brings foreign exchange
- ◆ For example tourist in Fiji, rent. Interest, dividend earn abroad, transfer income from overseas company are treated as credit items.

### Invisible Import (Debit)

- ◆ Are using of foreign exchange to purchase invisible items
- ◆ For example purchase of insurance policy from foreign company, profit interest, dividend, and rent paid abroad, government expenditure overseas, transfer payments made abroad are treated as debit items.

$\text{Current Account} = \text{Visible Trade} + \text{Invisible Trade}$ $= (\text{Visible Export} - \text{Visible Import}) + (\text{Invisible Export} - \text{Invisible Import})$
--

**Example:**

Visible import \$105m
Visible export \$225m
Invisible export \$210m
Invisible import \$150m

**Required:**

Calculate:

1. Balance of trade
2. Current account balance

**Solution:**

1. Balance Of Trade = Visible Export – Visible Import  
 $= \$225\text{m} - \$105\text{m}$   
 $= \underline{\underline{\$120\text{m}}}$

2. Current Account = Visible Trade + Invisible Trade  
 $= (\text{Visible Export} - \text{Visible Import}) + (\text{Invisible Export} - \text{Invisible Import})$   
 $= (\$225\text{m} - \$105\text{m}) + (\$210\text{m} - \$150\text{m})$   
 $= \underline{\underline{\$180\text{m}}}$

## Capital Account

- ◆ This records the movement of money into and out of the country.
- ◆ For all the purposes except for payment of goods and services
- ◆ The capital account records all the following international transaction between both private and public organisation
  1. International loan
  2. Direct investment such as purchasing of building, factory, land etc.
  3. Monetary investment and purchase of securities such as stocks and bonds.

### Activity 3.0.3

Use the information given below for the **Economy Z** to answer the questions that follow.

#### Economy Z

	\$m
Capital inflow	76
Import of services	13
Capital outflow	57
Export of goods	45
Export of services	80
Import of goods	50

- a. Calculate the following:
  - i. Balance of Trade
  - ii. Balance of Invisible
  - iii. Balance of Current Account
  - iv. Balance of Capital Account
  - v. Balance of Payments
- b. Why would there be a deficit Balance of Payments?

### Activity 3.0.4

Use the information given below for the **Economy Y** to answer the questions that follow.

#### Economy Y

	\$m
Profits earned abroad	100
Tourism receipts	150
Interest paid abroad	105
Direct investment in the economy	175
Dividends paid abroad	50

Calculate the following:

- i. Invisible exports
- ii. Invisible imports
- iii. Capital inflow

### Activity 3.0.5

1. If export of goods is \$5 200 and import of goods is \$6 100, there would be a deficit of \$900 in the
  - A. Terms of Trade.
  - B. Balance of Trade.
  - C. Balance of Payment.
  - D. Current Account Balance.
2. A surplus on the Balance of Trade means that
  - A. there is a surplus of goods.
  - B. imports exceed exports.
  - C. imports equal exports.
  - D. export exceed imports.
3. A country has exports of \$200m, invisible exports of \$100m, imports of \$120m and invisible imports of \$50m. The current account of this country would show
  - A. \$130m deficit.
  - B. \$130m surplus.
  - C. \$30m surplus.
  - D. \$30m deficit.
4. Invisible Trade refers to
  - A. export and import of services.
  - B. export and import of goods.
  - C. export of services only.
  - D. export of goods only.
5. A country produces the following figures

Exports	Invisible Exports	Imports	Invisible Imports	Capital Inflow
\$100m	\$60m	\$130m	\$25m	\$20m

What is the Balance on the Current Account for this country?

- A. \$5m Deficit
- B. \$25m Deficit
- C. \$5m Surplus
- D. \$25m Surplus

6. Which of the following is an invisible export in Fiji?
  - A. Tourism in Fiji
  - B. Selling sugar to Japan
  - C. Purchase of cars from Japan
  - D. A foreign bank operating in Fiji
  
7. A surplus on the Balance of Trade is a result of increase in
  - A. tourism earnings.
  - B. garment earnings.
  - C. profit earned overseas.
  - D. interest earned overseas.
  
8. When Fiji's imports are more than its exports, the Current Account would show a
  - A. deficit.
  - B. surplus.
  - C. balancing item.
  - D. favorable balance.

### Activity 3.0.6

1. Examine the information provided in the table given below to answer the questions that follow.

Year	Export [FOB]	Import [CIF]	Balance of Trade
2005	1 779	1 200	
2006	1 756	1 025	

1. Calculate the Balance of trade in 2005 and 2006.
2. Suggest **one** way in which the government could improve the trade balance
3. What do the abbreviations C.I.F and F.O.B mean as used in the table above?

2. Examine the information provided in the table given below to answer the questions that follow

	\$m
Capital inflow	960
Import of services	300
Capital outflow	750
Export of goods	550
Export of services	700
Import of goods	600

**Required:** Prepare the Balance of Payments Account using the data above.

## Sub Strand 3.5

## Developmental Economics

### ACHIEVEMENT INDICATOR

Students will be achieving these outcomes upon completion of the lesson;

- ❖ Describe issues relating to economic growth and development in the Fiji economy
  - ❖ Examine and describe the causes and the effect of the issues
  - ❖ Study and deliberate the problems and actions taken by the government to solve them
- 

## Economics Growth

**Economic growth**– is increases in a country's national income over time. Economic growth is expressed as the rate of increase in countries total output, the percentage increase in real gross domestic product over time

### Measuring Economic Growth

There are two ways of measuring economic growth

- ❖ GDP the total output for the year
- ❖ GDP per capita, the total output of a country for a given year divided by total population

### Factors That Affect Economic Growth

There are many factors that affect economic growth. Some of them are:

- ❖ The types of resources available
- ❖ Education of the labour force
- ❖ The domestic and international demand for products produced locally
- ❖ The level of spending by consumers, business firms and government
- ❖ stability in the government policies, crime rates and population growth

## Factors That Hinder Economic Growth

There are several things that hinder economic growth and they are:

- ❖ unskilled labour and old, outdated capital and technology
- ❖ rapid population growth
- ❖ reliance on only a few producers for production
- ❖ Natural disasters
- ❖ Non-economic factors such as religion, custom, culture and political instability when they contradict economic progress

Economic growth is bigger quantities (GDP and GDP per capita)

Economic development is bigger qualities (improvements in quality of life)

### Activity 4.0.1

1. Economic growth will be brought about by an increase in

- A. favorable industrial relations
- B. balance of trade deficit
- C. unemployment rate
- D. import prices

2. Complete the table by putting a [√] in the appropriate columns, **Encourage Economic Growth** and **Discourage Economic Growth**.

		Encourage Economic Growth	Discourage Economic Growth
i	Professional like teachers, doctors, nurses and engineers migrate		
ii	Government provide incentives to young people to till the land		
iii	Government ensures better education facilities for rural and urban schools		
iv	Our sugar price falls in the world market		
v	The country experiences a fall in investments		
vi	Flooding destroys agriculture in the north.		

3. Examine the information provided in the table given below to answer the questions that follow

Year	GDP [\$m]	CPI	Real GDP \$m
1	2 000	100	i. _____
2	2 300	105	ii. _____
3	2 500	110	iii. _____
4	2 800	115	iv. _____

- Calculate the value of Real GDP for years 1 to 4.
- Why is economic growth important?
- Give **two** factors which determine economic growth
- Describe GDP at constant prices
- State **one** difference between economic growth and economic development

## Poverty

Poverty is a situation in which a person does not have enough income to support themselves and their family.

Poverty can be measured in two ways.

- Absolute poverty (level of income) – it is poverty in which people with income below a certain level are considered to be living poverty
- Relative poverty (comparative) – is a measurement of poverty based on people's living conditions. Even with a steady source of income that is above the poverty line (an income above absolute poverty) some families are unable to provide themselves with adequate needs and wants.

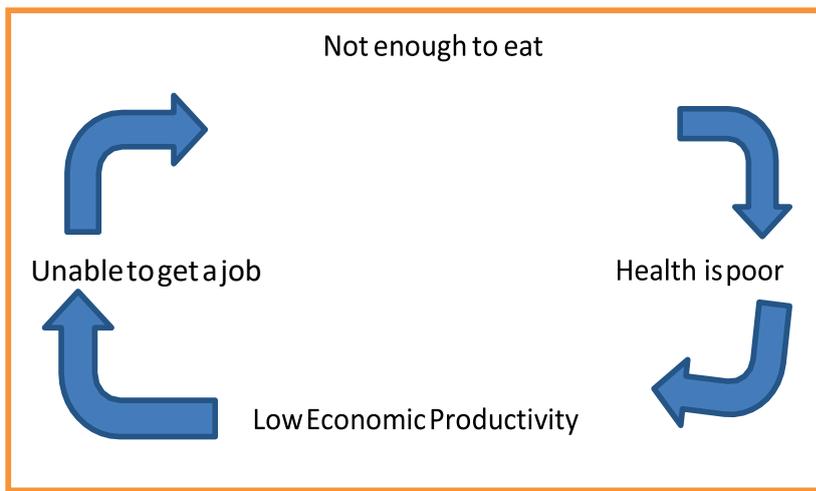
## Causes of Poverty

Poverty may occur due to the following factors:

- ❖ Insufficient income to support the family
- ❖ Social or physical disabilities e.g. the physically or mentally handicapped cannot work for a living
- ❖ Majority of population re engaged in subsistence agriculture only
- ❖ Unfair distribution wealth between rich and poor
- ❖ Uneven social and economic development

- ❖ Lack of resources to generate income
- ❖ High rate of population growth
- ❖ Rate of saving and investment is low
- ❖ High level of unemployment
- ❖ Desertion by the bread winner

### The Vicious Cycle of Poverty



### **Effects of Poverty**

Among the effects of poverty are:

- ❖ Increase in crime
- ❖ Increase in spread of diseases
- ❖ Unable to get a job
- ❖ Health is poor
- ❖ Lower economic growth and development
- ❖ Poor standard of living
- ❖ Emotional disturbance

# Methods of Reducing Poverty

There are several measures taken by government to reduce poverty:

- ❖ Increase the availability of jobs
- ❖ Increase government spending to create jobs
- ❖ Increase education standard/education assistance
- ❖ Impose price control to ensure that everyone is able to afford basic necessities
- ❖ Impose a minimum wage rate

## Activity 4.1.0

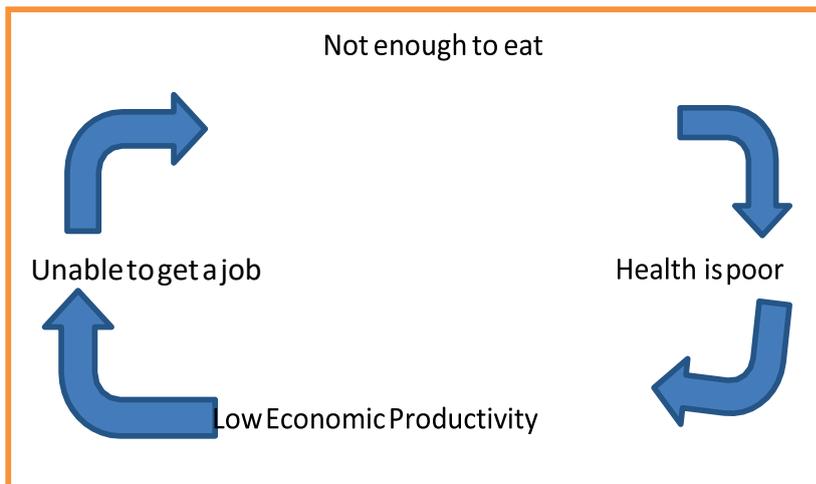
1.
  - a. Poverty is a problem common to most nations. List two factors that cause poverty
  - b. Define the term Absolute Poverty
  - c. State two effects of poverty

2.



- a. Identify and name the problem shown in the above diagram.
- b. Name the government department responsible to address such problem.
- c. What advice would you give to people who face such problem?
- d. State **one** possible cause of this problem
- e. What measures does government undertake in eradicating poverty?

3. Study the poverty cycle in the economy to answer the questions that follow.



- List **two** causes of poverty in underdeveloped economies.
- State how an increase in government expenditure could reduce poverty.
- List **two** methods of measuring poverty and discuss how it works.

### Activity 4.1.1

Write a paragraph in between 75-100 words on the given question below.

With reference to poverty, discuss under the following guidelines

- Identify **one** cause of poverty
- Describe **one** way by which poverty can be measured
- Explain **one** measure taken by the government to reduce poverty in Fiji

## Crime

**Crime is** an act which is prohibited by criminal law and the person is punished, usually by fine or imprisonment.

### Types of Crime

Includes murder, rape, robbery, burglary, theft, work violence

## Causes of Crime

- ❖ Breakdown of families – the breakdown of families includes families in which parent that are separated or divorced. Some children from these types of families are cared by single parents and extended family members. These children are sometimes able to leave home and wander the streets with friends whenever they want
- ❖ Pawn shops and other second hand retail stores – these shops have an easy and convenient place for the disposal of stolen items which can encourage such offenses such as house breakings, robberies and burglary.
- ❖ Rural – urban migration – when people move from the rural areas to urban areas, they usually do not have proper housing and employment opportunities and as a result some of these migrants turn to crime to survive.
- ❖ Unemployment – inability to work and earn a living can lead to an increase in crime as a means of surviving.
- ❖ Lack of education – poor education leads to difficulties in obtaining a job which may cause increases in crime to survive especially among youths.
- ❖ Alcohol abuse – abuse of alcohol leads to increases in crime because of violent, aggressive and spontaneous behaviour. It has been estimated that almost 80% of crimes in Fiji are alcohol abuse related.
- ❖ Yagona abuse – parents who abuse yagona are poor role models for their children and are not available to supervise their children.
- ❖ Violent movies – viewing violent and inappropriate behaviour on T.V and in movies can influence youths to do things that they don't normally do.

## Costs and Effects of Crime

Its costs and effects touch just about everyone to some degree. Some costs are short-term while others last a lifetime. Of course the ultimate cost is loss of life. The effects and costs include:

- ❖ Costs to victims can include medical costs, property losses, and loss of income
- ❖ Losses can come in the form of increased security expenses including stronger locks, extra lighting, parking in more expensive secure lots, security alarms for homes and cars, and maintaining guard dogs.
- ❖ Some costs of crime are less tangible (not easily or precisely identified). These kinds of costs can include pain and suffering, and a lower quality of life. There are also the traumatic impacts on friends and the disruption of family
- ❖ Communities also are affected through loss of tourism and retail sales
- ❖ Communities and governments spend public funds for police departments, prisons and jails, courts, and treatment programs, including the salaries of prosecutors, judges, public defenders, social workers, security guards, and probation officers

## Prevention of Crime

- ❖ There are many ways that crime can be prevented. Some of these ways are:
- ❖ Strengthen family structures by providing counseling and other assistance to family's needs
- ❖ Reform the education system to assist in teaching character traits such as discipline, honesty, responsibility, integrity, hard work and so forth.
- ❖ Reform the legal system to ensure that criminals are dealt with fairly and quickly.
- ❖ Rehabilitate prisoners so that they do not return to their criminal behaviors upon their release.
- ❖ Control alcohol abuse
- ❖ Control and reduce the rural – urban drift by improving employment opportunities and living conditions in the rural areas so that the attractiveness of urban life loses some of its appeal.
- ❖ Police training and increased expenditure on police force.

### Activity 4.2.1

Write a paragraph in between 75-100 words on the given question below.

With reference to crime, discuss under the following guidelines

- Identify two causes of crime
- State two ways by which crime can be measured
- State a measure taken by the government to reduce crime in Fiji

### Activity 4.2.2

Study the picture given below and answer the following questions.



- a. List **two** causes of crime in underdeveloped economies.
- b. State how an increase in government expenditure could reduce crime.
- c. State **one** possible cause of this problem
- d. What measures does government undertake in combating crime.

# Climate Change

**Climate Change** is a change in abnormal distribution of weather patterns when that change lasts for an extended period of time (i.e., decades to millions of years). Climate change may refer to a change in average weather conditions, or in the time variation of weather around longer-term average conditions (i.e., more or fewer extreme weather events). [Source: Wikipedia]

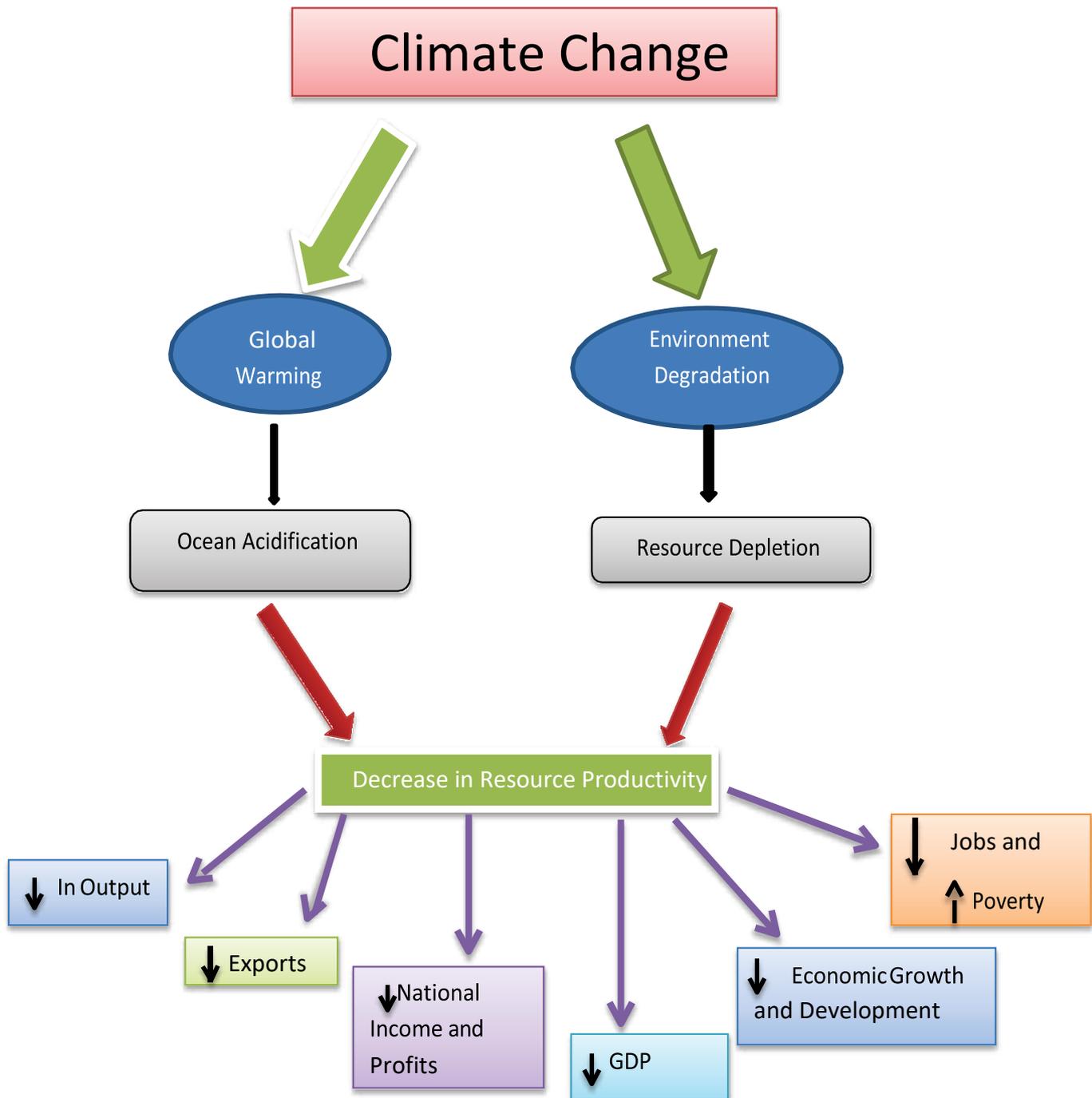


Figure 4.3.1: Climate Change causes and effects

# Causes of Climate Change

## 1. Industrial Revolution

Globalization is shifting production techniques thus creating greater demands for technology and transportation. To meet these demands more factories are born that increase the use of carbon based fossil fuel such as coal, oil etc. and these carbon leads to global warming.

## 2. Increasing Concentrations Of Greenhouse Gases

Continuous rise in greenhouse gases leads to global warming. This further causes changes in climate leading to intense cyclones, droughts and sea level rise.

3. Increasing Input of Methane Gas into The Atmosphere due to rise in agricultural activity. Increased dairy productions increases carbon dioxide and methane gases in the atmosphere that also contributes to global warming. It also due to the improper dumping of rubbish in the rubbish dump or land field.

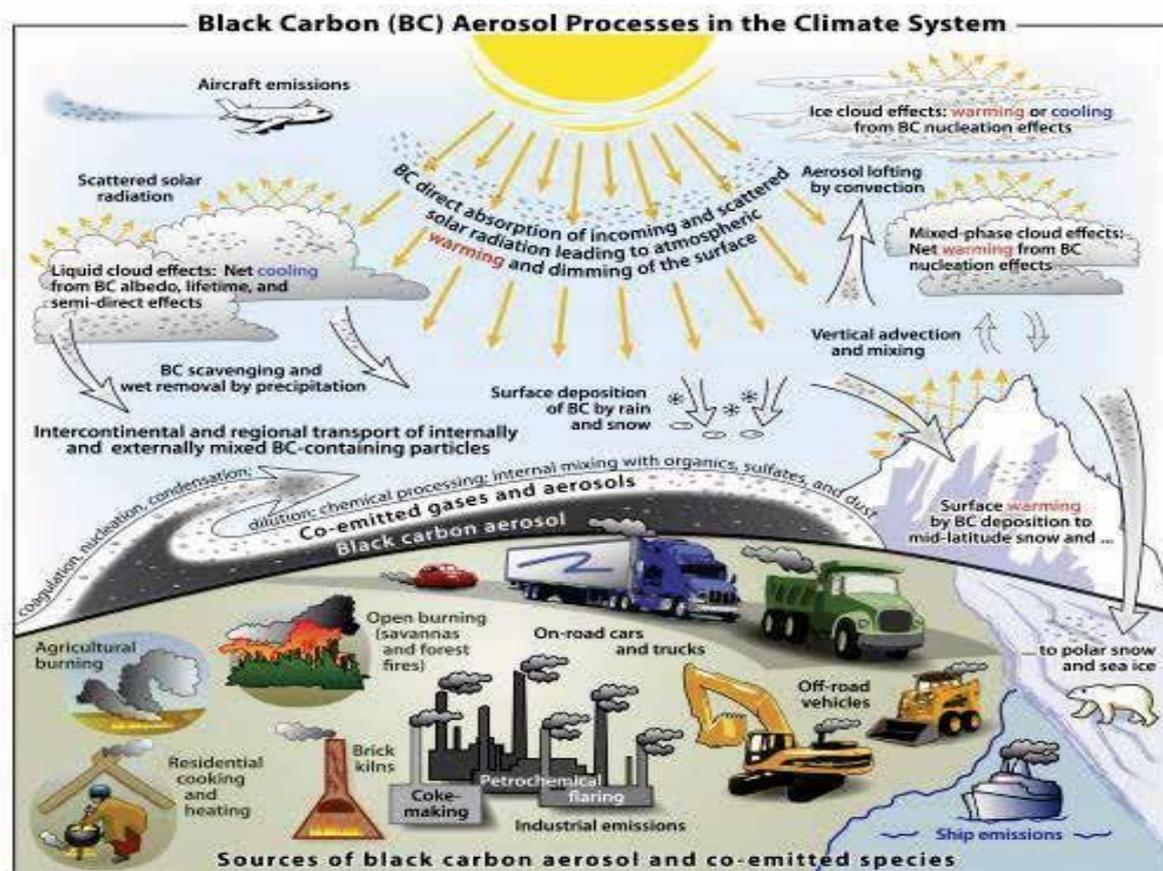


Figure 4.3.2: Causes of Climate Change

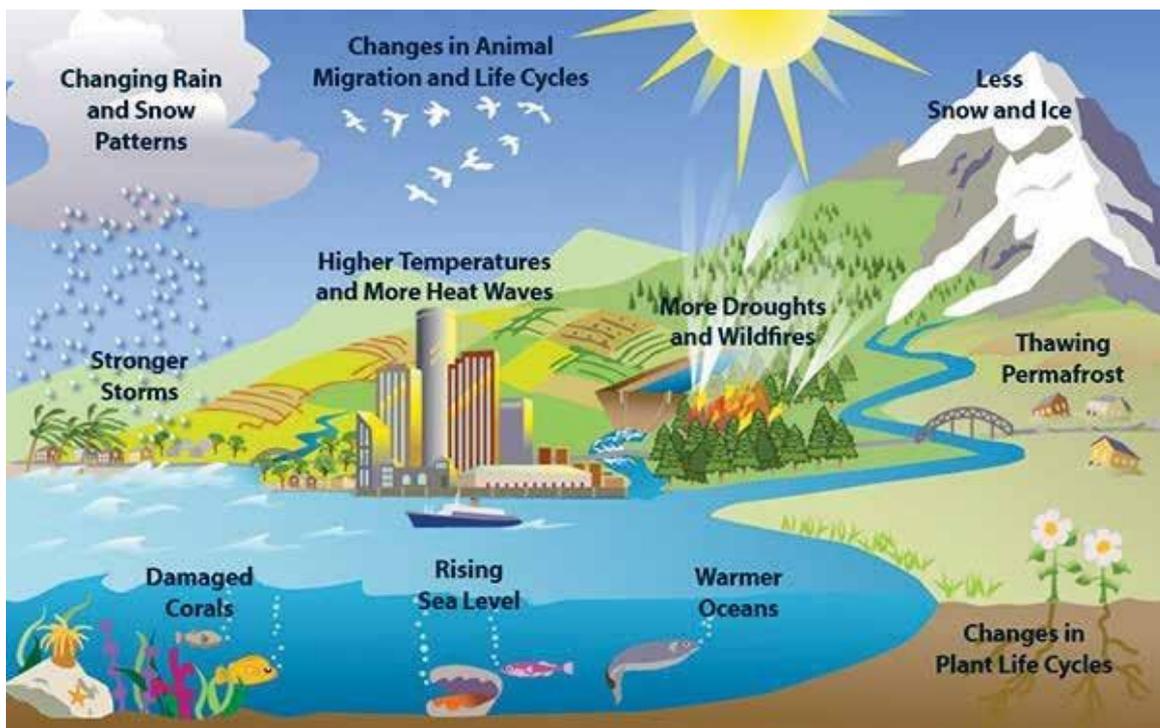
[Source: Google.com]

## Effects of Climate Change

1. **Affects food production** due to changes in global climate temperatures. The food source such as land and sea are affected leading to decline in production.
2. **Sea-Level Rise**: causing increase to salt water intrusion in land that affects agricultural production. Therefore depriving people from their source of livelihood further affecting individuals as well as nation's income. Thus less income means less economic growth and development. Sea level rise also leads to sinking of smaller island nations and increases the mortality rate of marine life due to increased bleaching, habitual loss and extinction of animals.
3. **Decrease in Economic Activities** causing a fall in income, growth and development.
4. **Increase in Diseases** such as cancer, NCDs and other viruses.

Figure 4.3.3

Effect of Climate Change



[Source: google.com]

## Government Actions towards Climate Change

1. Integrate climate change in school curriculum, tertiary courses and vocational, non- formal education and training programs.
2. Increase awareness and understanding of climate change related issues across all sectors at all levels in Fiji
3. Adaption of strategies to address the climate change related issues.



Courtesy of: Ted Fong Fiji Times Online

Read through this reference material to know what further the government is doing to tackle climate change issues.

**Table 8: Sector specific climate change impacts, and key areas for mitigation and adaptation**

Sector	Potential climate change impacts	Key mitigation opportunities	Key properties contributing to climate change resilience
<b>Agriculture</b>	<ul style="list-style-type: none"> <li>• Extreme events such as high rainfall, floods and droughts can affect livestock production and management;</li> <li>• Land arability could be reduced due to salt water intrusion, coastal and river-bank erosion, exposure to salt water spray, and heat stress on soils;</li> <li>• Floods, droughts and cyclones may physically damage crops, farm equipment and infrastructure;</li> <li>• Reduced food security in terms of food production, food quality, nutritional availability, affordability and access;</li> <li>• Impact on the national economy as Fiji is an agro-economy country;</li> <li>• Increase in pests and diseases.</li> </ul>	<p><i>Agriculture contributes 13.5% of global greenhouse gas emission. Soil represents 6%; livestock and manure 5.1% (PCC 2007b)</i></p> <p>Increased sequestration and reduced emissions can be achieved through:</p> <ul style="list-style-type: none"> <li>• the use of fuel-efficient farming equipment</li> <li>• farming practices that maintain or increase forest cover (agroforestry)</li> <li>• ensuring minimal soil tillage and soil cover to prevent the release of carbon in soil</li> <li>• reducing the use of fertilisers that can be converted and released as greenhouse gases</li> <li>• intensification of small scale commercial and subsistence agricultural activities to optimise production can minimise forest clearance</li> <li>• capturing methane gas from manure</li> </ul>	<ul style="list-style-type: none"> <li>• Diverse traditional crop species that are resilient to flood, drought and saltwater</li> <li>• Diverse traditional crop species that are resistant to disease spread</li> <li>• Traditional agroforestry and integrated farming practices</li> </ul>
<b>Human health/welfare</b>	<p>The direct and indirect impact of climate change on human health are summarised below:</p> <p>Direct impacts</p> <ul style="list-style-type: none"> <li>• increasing temperature</li> <li>• rainfall variability</li> <li>• storm activity</li> </ul> <p>Indirect impacts</p> <ul style="list-style-type: none"> <li>• increased spread of disease</li> <li>• compromised food and water sources</li> <li>• psychosocial impacts due to population displacement and income loss</li> </ul> <p>The direct and indirect impacts listed above can lead to:</p> <ul style="list-style-type: none"> <li>• increased incidence and severity of vector-borne, zoonotic and infectious diseases, e.g. dengue fever</li> <li>• increased food and water-borne diseases, e.g. diarrhoeal illnesses</li> <li>• increased injuries and longer-term consequences of extreme weather events</li> <li>• impacts on mental health, food and water security and malnutrition</li> <li>• increased cardiovascular respiratory and renal diseases</li> </ul>		<ul style="list-style-type: none"> <li>• Traditional knowledge of various medicines and cures, from locally available sources</li> <li>• Strong social safety nets within communities that increase resilience to extreme weather events</li> </ul>

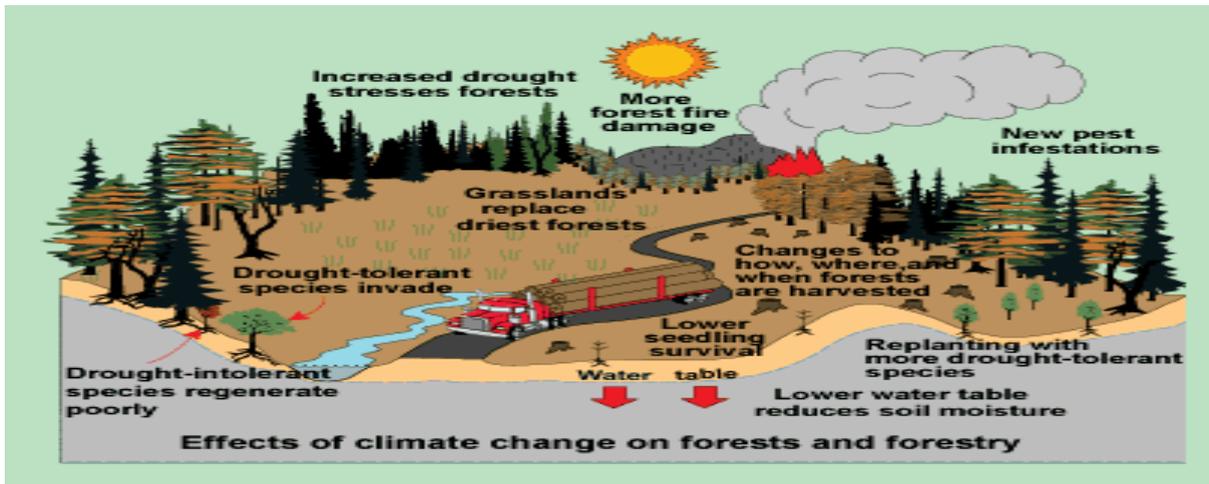
Sector	Potential climate change impacts	Key mitigation opportunities	Key properties contributing to climate change resilience
Marine and fisheries	<ul style="list-style-type: none"> <li>• Climate and related oceanic variations already have impacts on fish catches, both subsistence and commercial (SPREP nd);</li> <li>• The combination of the high rainfall experienced during cyclonic activity and storm events with steep bare slopes, causes rapid runoff with river floods and sediment discharges into the near-shore seagrass and coral reef habitats, which has adverse impacts on the fisheries sector (World Bank nd);</li> <li>• Prolonged periods of elevated sea surface temperatures coupled with other climate factors has led to increased frequency of coral bleaching;</li> <li>• Ocean acidification caused by increased CO<sub>2</sub> concentration may reduce the ability of many marine species to form calcareous skeletons, thus disrupting food webs and habitat structure;</li> <li>• Changes in climate are causing migratory shifts in tuna aggregations to other locations (FAO 2008). Skipjack and yellow-fin tuna are displaced eastwards during ENSO events and westward in La Niña (Kirby 2007 in FAO 2008). This may become more pronounced with projections for a more ENSO-like climate (FAO 2008);</li> <li>• Increase in sea level, sea surface temperature changes and alteration of the mixing layer thickness will ultimately affect plankton productivity;</li> <li>• More stormy weather and intense cyclones may render fishing trips unsafe and less productive.</li> </ul>		<ul style="list-style-type: none"> <li>• Mangrove areas and coral reefs and other coastal zones provide physical buffers to extreme weather events</li> <li>• Healthy reef ecosystems are more resilient to the impacts of climate change, such as ocean acidification and increasing sea water temperature</li> </ul>

Sector	Potential climate change impacts	Key mitigation opportunities	Key properties contributing to climate change resilience
Forestry	<ul style="list-style-type: none"> <li>Higher temperatures will make forests more vulnerable to fires;</li> <li>Higher temperatures and changes in rainfall patterns may lead to increased occurrence of invasive species and pests;</li> <li>Forest health could be reduced due to salt water intrusion, coastal and river-bank erosion and exposure to salt water sprays and heat stress on soils;</li> <li>Floods, droughts and cyclones may physically damage forest plantations, natural forest and associated infrastructure;</li> <li>Changing temperature and rainfall patterns may cause shifts in habitats and boundaries of certain tree species, pollinators and seed dispersers;</li> <li>Changing temperature and rainfall patterns can affect the flowering behaviour of certain tree species;</li> <li>Loss of arable land due to climate change would place added pressure on forest areas.</li> </ul>	<p><i>Land use and land use change contributes 17% of global emissions (IPCC 2007b). Fiji's total forest carbon stock in 2010 was estimated at 192,270,000t CO<sub>2</sub>e (Carbon partnership Ltd. 2011)</i></p> <p>Increased sequestration and reduced emissions can be achieved through:</p> <ul style="list-style-type: none"> <li>sustainable management of forests (a huge carbon reservoir)</li> <li>promoting reforestation, afforestation and enrichment planting, as only growing forests are continually sequestering carbon dioxide from the atmosphere</li> <li>sustainable management of mangrove areas and swamp land, which store huge amounts of carbon</li> </ul>	<ul style="list-style-type: none"> <li>Healthy forest ecosystems increase the resilience of forest communities through the provision of various ecosystem services and food security (IPCC 2007a)</li> <li>Healthy forest ecosystems increase the climate change resilience of many flora and fauna</li> <li>Forests maintain land stability and waterway conditions</li> </ul>
Communications	<ul style="list-style-type: none"> <li>Cyclones, storm surges and other extreme weather events could damage infrastructure, leading to disruption of communication.</li> </ul>		<ul style="list-style-type: none"> <li>Wide telecommunication and internet networks with good national coverage provide channels for education, emergency calls and warnings</li> <li>Mobile phone services facilitate instant and easily accessible funds, transferred from overseas, which can assist in responding to disaster and damage</li> </ul>
Transport	<ul style="list-style-type: none"> <li>Cyclones, storm surges or other extreme weather events could disrupt land, sea and air transportation;</li> <li>Failure of transport infrastructure could increase the impacts of extreme weather events by isolating victims from food, water and medical treatment.</li> </ul>	<p><i>Transport contributes 13.5% of global greenhouse gas emissions (IPCC 2007b)</i></p> <ul style="list-style-type: none"> <li>Utilisation of fuel-efficient equipment and vehicles to reduce greenhouse gas emissions</li> </ul>	

[Source: Republic of Fiji Climate Change Policy, 2012]

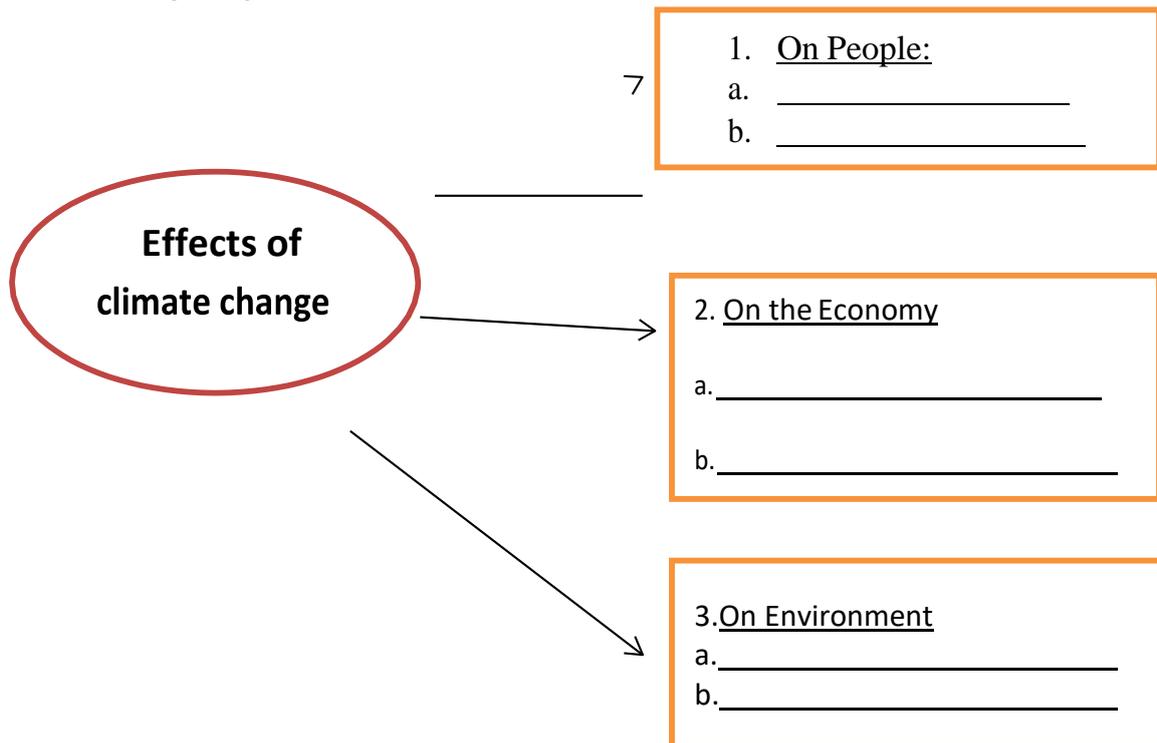
### Activity 4.3.1

Interpret the picture given below and write the cause and effects of climate change as shown in the picture.



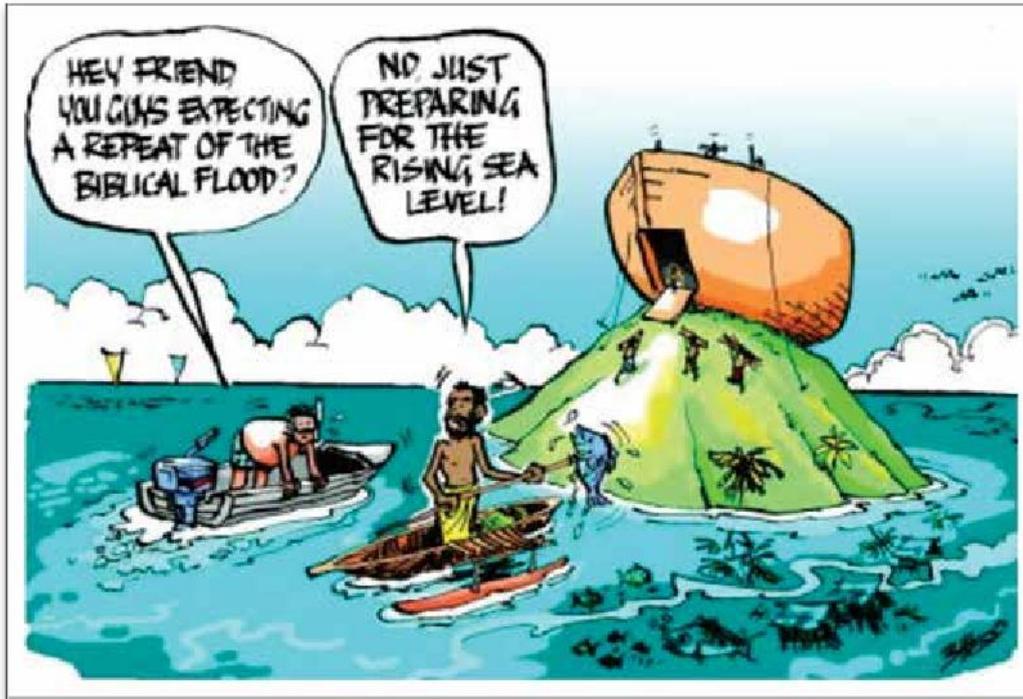
### Activity 4.3.2

Complete the diagram given below.



### Activity 4.3.3

Study the cartoon given below and answer the questions that follow.



- i. What is the cartoon illustrating?
- ii. Explain the concept of climate change.
- iii. State one factor that is causing the sea level rise as shown in the cartoon above.
- iv. Identify one effect of the rising sea level on the individuals, economy and the nation.
- v. What strategy has the government undertaken to address the issues relating to climate change?

# INDEX

## A

Accounting equation 60  
Accounting Period  
Concept 46  
Airports Fiji Ltd 166

## B

Bad debt 20  
Balance of Payments  
180

Balance Sheet 124

Bank Statement 83

Benefits and costs of  
financial and non-  
financial nature 13

## C

Borrowing 14  
Capital account 182  
Careers 49  
Cash buying 15  
Cash payments journal  
93  
Cash receipts journal  
90  
Cash sales invoice 82  
Central government  
169  
Chart of accounts 58  
Cheque 83  
Climate change 194  
Clubs and Societies 54  
Command economy 149  
Commerce Commission  
45  
Commercial banks 29  
Co-operatives 53

Credit buying 15  
Credit note 80  
Credit worthiness 20  
Crime 191  
Current account 180  
Current ratio 132

## D

Debit note 81  
Debt ratio 133

Delivery docket 74  
Dispatch slip 75

Double –Entry concept  
46

## E

Economic Factors 6  
Economic growth 186  
Economic resources  
154  
EFTPOS 82  
Eligibilities –FNPF 30  
Equilibrium 157  
Equity ratio 135  
Errors in Trial Balance  
115

## F

Family Expenses 7  
  
Fiji electricity  
authority 163  
Fiji Institute of  
Accountants 45  
Fiji Institute of  
Auditors 45  
Fiji National Provident  
Fund 30  
Fiji Tax Agent Board  
45

Financial related  
events 37  
Fixed assets 140  
Fixed assets register  
141  
Free market economy  
147

## G

General journal 104  
  
Going Concern concept  
46  
Good debt 20  
Gross profit ratio 129

## H

Historical Cost concept  
46

## I

Insurance 23  
Invest decision 35  
Investment Plan 39

## J

Journal 89

## L

Ledger 107  
Life pension 32  
Local government 175  
Long term investment  
decisions 39

## M

Manage credit 19  
Market demand 159  
Market supply 161  
Mark-up 127  
Matching concept 46  
Maximize income 11  
Mixed economy 151  
Monetary concept 46

Money well- being 12

## **N**

National fire authority  
164

Net profit ratio 131

Neutrality 42

## **P**

Partnership 52

Payment voucher 85

Periodic inventory  
system 143

Perpetual inventory  
system 143

Personal Finance  
Management 6

Ports authority of Fiji  
165

Possible risks 22

Post Fiji Ltd 163

Poverty 188

Principles of good  
financial management  
9

Principles of insurance  
25

Prioritize needs 8

Private company 52

Producer 156

Profit and Loss

Account 121

Profitability 126

Public company 53

Public enterprise 53

Public Listed

Companies 34

Purchases 77

Purchases journal 99

Purchases order 79

Purchases returns  
journal 101

## **R**

Receipt 82

Relevance 42

Reliability 42

Requisition form 78

## **S**

Sales 71

Sales journal 97

Sales returns journal  
98

Separate Entity  
concept 46

Shortage 158

Social Factors 6

Sole –Proprietorship 52

Source documents 70

Statement of account  
76

Stock 142

Surplus 158

## **T**

Tax invoice 73

Taxes 170

Terms of trade 177

Timeliness 42

Trading Account 118

Traditional economic  
system 146

Trial balance 114

## **V**

Value added tax 66

Verifiability 43

Voluntary member 31

## **W**

Water authority of Fiji  
162

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