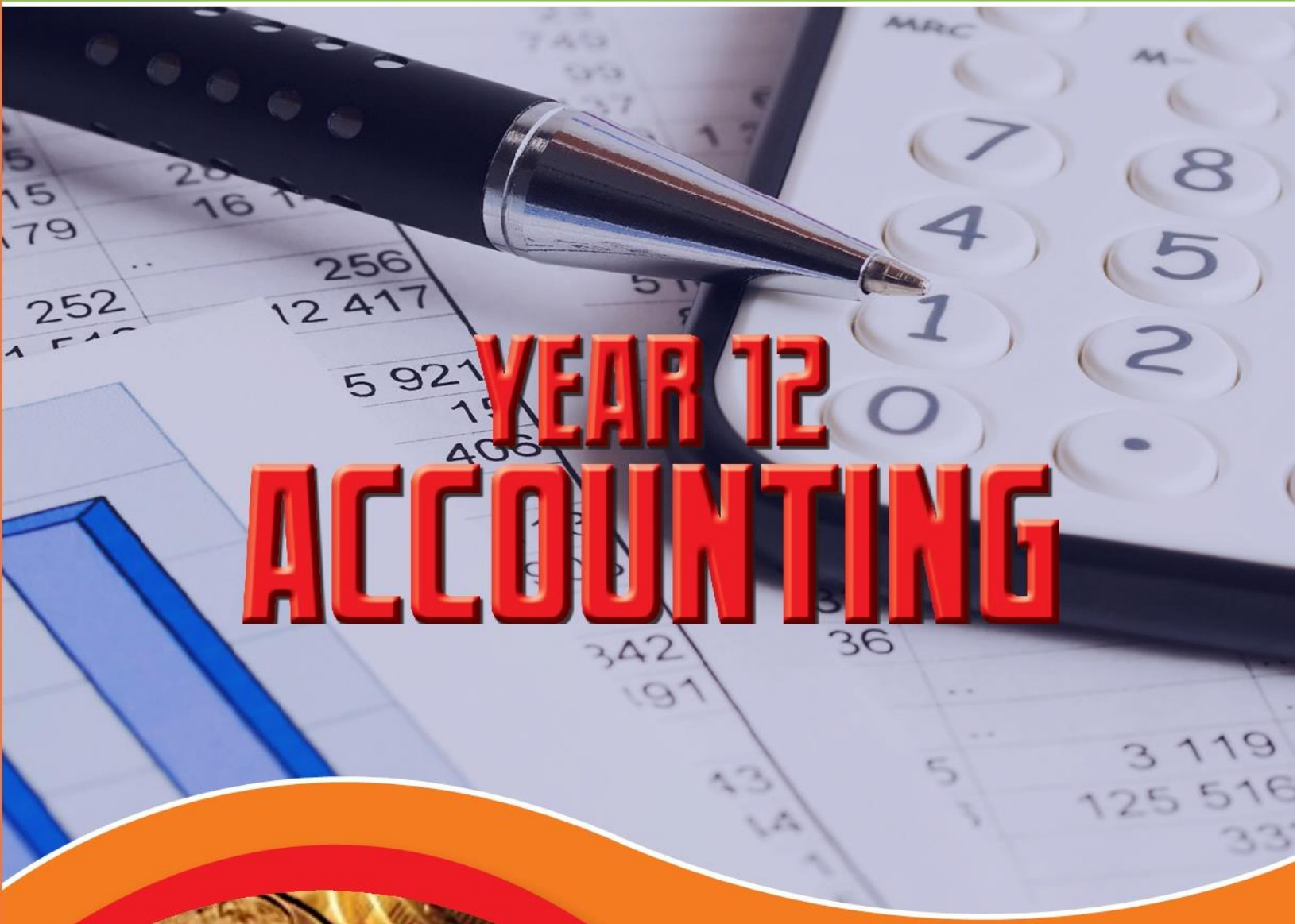
MINISTRY OF EDUCATION



YEAR 12 ACCOUNTING

CURRICULUM DEVELOPMENT UNIT

YEAR 12 ACCOUNTING

CURRICULUM DEVELOPMENT UNIT
MINISTRY OF EDUCATION
SUVA, FIJI 2015.

Produced by the Ministry of Education, Suva, Fiji

First Produced October, 2015

Copyright - Ministry of Education

This book has been prepared by the Curriculum Development Unit at the Ministry of Education,Suva,Fiji for use by Accounting students at Year 12. It may contain copyright materials copied under the provisions of the Fiji Copyright Act 1999. This material cannot be sold or copied for further distribution without the Ministry's permission.

Tel: (+679) 3313050

Website: www.education.gov.fj

PREFACE

In today's world accounting has become a vital aspect of everyday life. Accounting is a subject that evolves due to the changing needs of the society.

The *Year 12 Accounting Textbook* is essential for the students to follow as it has been developed around the accounting strands of the new Year 12 Accounting Syllabus. It is primarily intended to provide Year 12 Accounting students with knowledge on the information relating to accounting for sole trader business. Significant attention has also been given to the basic accounting standards and concepts, preparation of Financial Statements and analysing it to make useful financial decisions.

The textbook has six strands. Each strand opens with a strand outcome followed by a list of learning outcomes. The content is written in a way which provides current and updated information in relation to the accounting principles used in Year 12. The important concepts and procedures are diligently highlighted with illustrative examples and follow up activities. Teachers should, where possible, extend students' knowledge by referring to current examples.

It is highly recommended that students continue to update their knowledge on current practices of accounting. The text will assist the students to think logically, critically and to apply the accounting principles in a consistent and effective manner in order to become an independent learner.

ACKNOWLEDGEMENTS

The Year 12 Accounting textbook has been produced by the Curriculum Development Unit of the Ministry of Education.

The following people are acknowledged for their immense contribution in the development of this textbook.

Sunita Devi Deo	SEO Accounting (CDU)
Sheetal Mala Singh	Research Officer Accounting (CDU)
Shiraaz Ali	Research Officer Accounting (CDU)
Sunita Prasad	Nabua Secondary School
Mosese Vuibeqa	Cathedral Secondary School
Bishwar Maharaj	Suva Grammar School
Prenita Bhan	Yat Sen Secondary School
Jotika Devi Deo	DAV College
Tomasi Rasoki	MGM High School
Malni Prasad	Nasinu Secondary School
Sukul Deo	Dudley High School
Shainaz Valentine	Rishikul Sanatan College
Shiu Lingam	Bhawani Dayal College
Saleshni Kumar	Marist Brothers High School
Karuna Prasad	Jai Narayan College
Ranjeeta Singh	Nasinu Secondary School

Special gratitude is expressed to the USP lecturer, Mrs. Masilina Tuiloa for providing the necessary resources and advice and the FRCA officers for providing the notes on taxation.

TABLE OF CONTENTS

Preface		
Acknowledgements		
STRAND 1: NATURE OF ACCOUNTING		
1.1	Nature and Environment of Accounting	8
1.2	Conceptual Basis of Accounting.	12
STRAND 2 : PERSONAL FINANCE		
2.1	Personal Financial Record Keeping	22
2.2	Personal Income Tax	33
2.3	Statement of Affairs	37
STRAND 3 : FINANCIAL ACCOUNTING AND THE ACCOUNTING PROCESS		
3.1	VAT and Source Documents	41
3.2	Journals	59
3.3	Ledger and Trial Balance	72
STRAND 4 : ACCOUNTING REPORTS		
4.1	Worksheet and Final Accounts	84
4.2	Non Profit Organisations	112
STRAND 5 : ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS		
5.1	Financial Statement Analysis	135
STRAND 6: SYSTEMS FOR IMPLEMENTING THE ACCOUNTING PROCESS		
6.1	Accounting for Credit Transactions	162
6.2	Accounting for Payroll	175
6.3	Accounting for Incomplete Records	184
6.4	Accounting for Data Processing	203
Glossary		209

STRAND 1

NATURE OF ACCOUNTING

Strand Outcome

Evaluate on the nature, purpose and environment of accounting and describe the accounting concepts and elements that guide the preparation of financial statements.

Learning Outcomes

Upon completion of this strand, students should be able to:

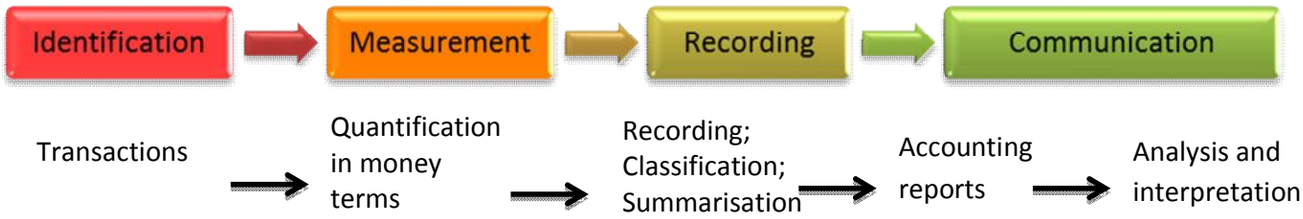
- *Explore the nature and environment of Accounting.*
- *Discuss the Accounting concepts and assumptions and the qualitative characteristics currently used in Financial Reporting.*
- *Describe the elements of financial statement.*

1.1 Nature and Environment of accounting

The role of accountants has changed over the years. Traditionally accountants were regarded as "number crunchers", however nowadays accountants in many businesses have become important members of the management team.

The basic function of accounting is to provide financial information to assist in making financial and economic decisions.

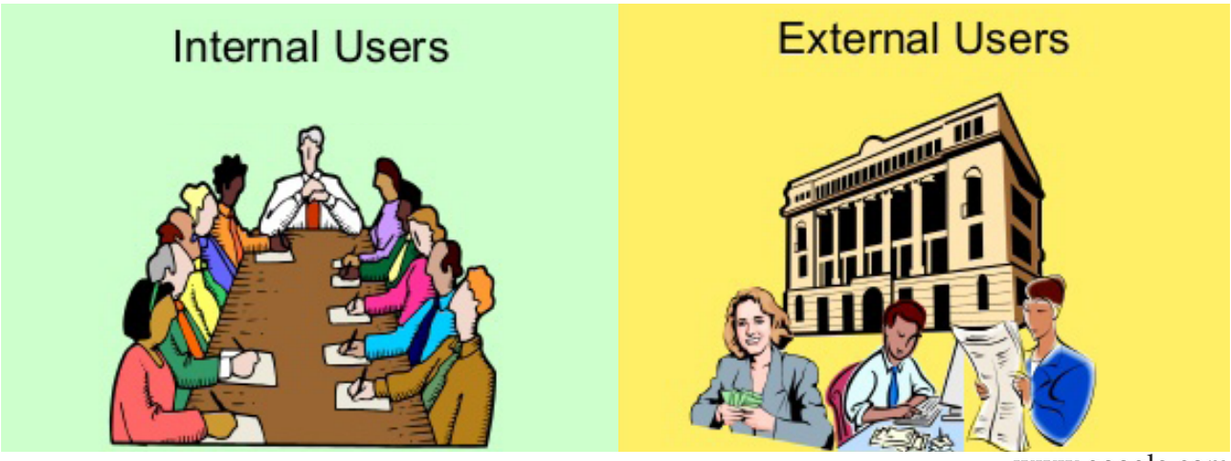
Accounting has been defined as the process of identifying, measuring, recording and communicating financial information to allow users to make informed financial decisions.



Users do not rely solely on financial information to make their decisions. Non-financial information is also important.

Financial Information – information where monetary value is attached. Example; Building worth $10 000.
Non-Financial information – information that does not have monetary value but plays an important role in the operation of the business. Example; location, competition, staff efficiency, environment and society, customer service, employee morale etc.

The users of the accounting information can be categorised into ***internal*** and ***external*** users.

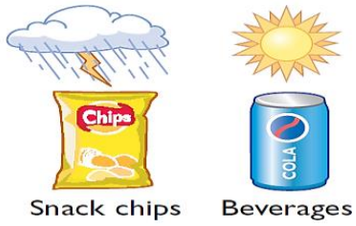


www.google.com

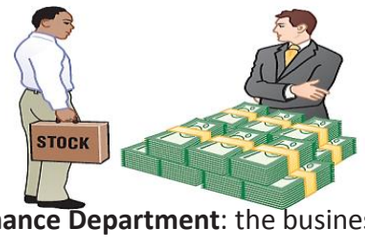
Internal Users

- The internal users such as managers mainly use the accounting information to make internal decisions on planning and controlling the operations of the entity.
- The internal users mainly use *special purpose financial statements* to make useful decisions.
- Some of the decisions made by the internal users are based on maximizing the income for the firm, efficient production process and the debt paying ability to creditors.

Human Resource (HR) Department: the business will use the information to decide on the employees pay raise.



Management: the business will use the information to find out which product is profitable.



Finance Department: the business will decide if there is enough cash to pay long term debts.

www.google.com

External users

- Some of the external users are creditors, shareholders, lenders, potential investors, customers, regulatory bodies and government agencies.
- The external users use *general purpose financial statements* to make useful decisions.
- Some of the decisions made by the external users are based on investments, credit worthiness of the business, financial position of the business and the sustainability of the products.

Investors: Is the business earning satisfactory income?

Government: Whether the business has paid its required tax or not?

Trade Union: Can the business afford to give its employees pay raises this year?

Supplier: Will the business be able to pay its debts as they become due?

www.google.com

Special purpose financial statements are prepared for users who have specialised needs and who possess the authority to obtain information to meet those needs. Some examples of special purpose financial reports are sales forecasts, performance reports and cost of production reports.

General purpose financial statements are designed to meet the information needs of a wide range of users. The general purpose financial report consists of Statement of Financial Performance (Income Statement), Statement of Financial Position (Balance Sheet), Statement of Cash Flows and Statement of Changes in Equity.

Management and Financial Accounting

Management Accounting is concerned with providing financial and non-financial information to management for planning, controlling and making decisions. Management accounting is also known as managerial accounting.
Financial Accounting is concerned with communicating relevant and useful information to external parties to help them in decision making. The accounting standards are generally used in financial accounting.

Differences Between Management Accounting and Financial Accounting		
	Management Accounting	**Financial Accounting**
Users of reports	Internal users.	External users.
Types of reports prepared	Special purpose financial statements for internal users.	General purpose financial reports for external users.
Frequency of reports	Reports are prepared on demand.	Reports are prepared at regular intervals.
Content and format of reports	Content and format of reports are established according to the management needs.	Content and format of reports are largely standardised according to the accounting standards.
Verification	Internal auditors.	External auditors.

Activity 1.1.1

Multiple Choice:

1. Which of the following best describes the objectives of Accounting?
   A. Concept that make up broad accounting guidelines.
   B. Communicating of resources to produce goods and services.
   C. Identifying, measuring and communicating financial information.
   D. Electronic methods of applying principles to the accounting process only.

2. Which of the following is regarded as non-financial information in a business organisation?
   A. Value of Delivery vehicles.
   B. Land and building.
   C. Quality of Staff.
   D. Cash at bank.

3. The external user who is interested to know the amount of tax paid by the business is known as:
   A. Trade unions.
   B. Lender.
   C. Government department.
   D. Customer.

4. Management Accounting is primarily concerned with providing information to
   A. Internal parties.
   B. External parties.
   C. Potential investors.
   D. Tax authorities.

Activity 1.1.2

Short Answers

1. Define Accounting.
2. Explain the difference between financial and non-financial information.
3. Identify three external users of accounting information and explain why they are needed.
4. List four non-financial information that is useful to the end users.
5. Differentiate between special purpose financial statements and general purpose financial statements.
6. Name the two major specialised divisions of accounting.
7. Fill in the following table by indicating the differences between Management and Financial accounting.

	Management Accounting	Financial Accounting
Types of reports prepared		
Verification		
Frequency of reports		

1.2 Conceptual Basis of Accounting

The accounting information is used by interested parties to make important economic and financial decisions which not only affect the business but the society as a whole. For this reason accounting standards are continually being reviewed and revised to keep up with the needs of the society. In order for the accounting standards to be consistent and logical, standard setters have developed a conceptual framework.

The Conceptual Framework for Financial Reporting

The *Conceptual Framework* is a set of guidelines that help in the preparation of financial statements. The Conceptual Framework assists in developing the accounting standards.

Accounting standards

Accounting standards are principles that guide and standardise accounting practices. It assists accountants in the preparation of financial reports. In Fiji, the Fiji Institute of Accountants (FIA) implements the accounting standards, which are prepared by the International Accounting Standards Board (IASB). The accounting standards adopted and followed in Fiji is known as International Financial Reporting Standards (**IFRS)**.

***Note**: The Conceptual Framework is not a Standard.*

Accounting Concepts

Accounting concepts are used to describe the rules and assumptions that guide accountants when they prepare financial statements.

Concept	Meaning	Applications
The Business or Accounting or Separate Entity Concept	States that the financial affairs of the owners are separate and distinct from the financial affairs of the business unit.	If owner withdraws goods or cash from the business then it must be recorded as drawings rather than expense.
The Legal Entity Concept	States that business entity is formed by a process of law. It can sue or be sued.	Basically applied to company businesses.
Monetary Concept	The monetary concept states that all transactions in a business must be recorded in money terms. **Drawback**: Due to inflation comparisons become difficult because the purchasing power of	Any business that operates in Fiji must report its transactions in Fijian currency (dollars and cents).

	dollar changes from year to year. ▪ All items cannot be measured in monetary terms. Eg. Location.	
The Historical Cost concept	The historical cost concept refers to business transactions that are recorded at its original cost. **Drawback**: Does not reflect the current market value of the asset. ▪ It has a negative impact on the decision making if the asset is of large value.	**Example**: In Samu's business, Land is recorded in the Statement of Financial Position at its original cost of $50000 every year.
The Going Concern/ Continuity of Activity Concept	The continuity or going concern concept assumes that the business is going to continue its operations indefinitely and is not likely to be liquidated in the foreseeable future.	While preparing the financial information for Samu's business, it is assumed that the business will be in existence for several years.
The Periodicity / Accounting Period Concept	The accounting period concept assumes that the life of the business is divided into arbitrary time period to measure profits.	If the accounting year runs from 1st May 2015 to 30th April 2016, the expenses and revenues related for the same accounting period is recorded to calculate profits or losses.
The Realisation Concept	The realisation concept states that the profit on any given transaction is included in the account of the period when the profit is recognised.	**Example**: when goods are sold on credit, profit is recognised at the point of sales even though cash is received later.
The Matching Concept	The matching concept requires that in an accounting period, costs are matched with related income.	**Example**: $400 of expenses in Samu's business is compared with revenue of $650 for the same period.
The Accrual Concept	The accrual concept assumes that revenue and costs are recognised and included in the income	Whether it is a cash or credit transaction, it must be recorded in

	statement as they are accrued, earned or incurred and not as they are paid or received.	the period to which it relates.
The Conservatism or Prudence Concept	Revenues and profits are not anticipated but they are recognised by inclusion in the Income Statement only when realised in the form of cash or other assets like accounts receivables. Provision is made for all known liabilities, expenses and losses, whether the amount is known with certainty or is a best estimate.	**Example**: adjustments made to doubtful debts and bad debts in order to affect the profits.

Current Qualitative Characteristics of Accounting Information

Qualitative characteristics are divided into two categories.

1. *Fundamental qualitative characteristics*

There are two qualitative characteristics under this category which includes:

a) **Relevance** means that the information can influence the economic decisions made by users. It helps users to form predictions about the outcomes of past, present and future events. Relevance is further divided into 3 sub-sections as given in the table.

Sub-sections of Relevance		
Characteristic	**Definition**	**Application**
Materiality	Information is material if its size or nature is important enough to influence the decisions being made.	Items such as stapler costing $20 should be recorded as a stationery expense for a large business rather than an asset, even though it would last for more than 12 months. Recording it as an asset will have no influence on decision making as its value is too small.
Predictive value	The past and present information is used to	Past years revenue trends can be used to predict the revenues for the current year.

	make predictions as to what is likely to happen in the near future.	For instance, estimating the sales target for a period using past periods sales figures.
Confirmatory value	The information provides feedback which aids in confirming previous decisions.	For instance, comparing the actual sales figures with the estimated sales figures.

b) **Faithful representation** means that the user is assured that the information presented is **complete, without bias and neutral**. Faithful representation is also closely related to *reliability*. Accountants usually require information reported to be reliable, which means that it should represent the facts as closely as possible. Faithful representations are further divided into 2 sub-sections as given in the table.

Sub-sections of Faithful Representations.		
Characteristics	**Definition**	**Application**
Complete	All necessary information about an item should be included.	An asset would only be considered *complete* in the Statement of Financial Position if all the description about the asset is disclosed such as description on the nature of the asset and its value.
Neutral	The information presented is without bias or manipulation.	Presenting the actual net loss without manipulating the expenses.

2. *Enhancing qualitative characteristics*

The qualitative characteristics enhance the usefulness of information that is relevant and faithfully represented. Under enhancing qualitative characteristics, there are 4 sub-sections, which include:

a) **Comparability** is the quality of information that enables users to identify similarities and differences between two sets of financial data. It does not relate to a single item as comparison requires at least two items. Comparability includes ***consistency characteristic*** which requires the use of same accounting principles and policies every year. For instance; using the same depreciation method in every accounting period. Without consistency there will not be any comparability.

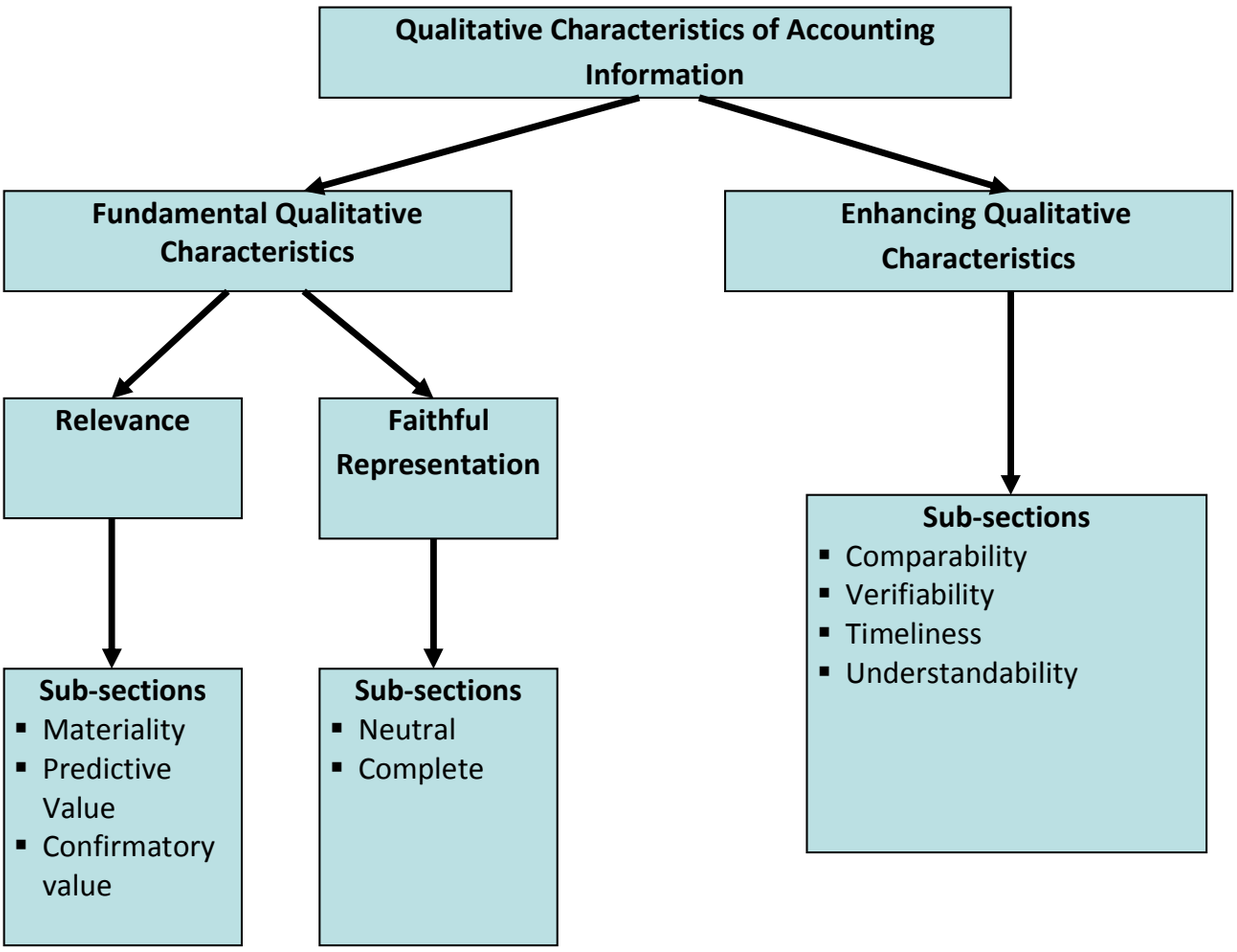
Application: comparing income reported in the income statement from one year to another to aid in making useful decisions.

b) **Verifiability** means when different independent people reach an agreement that an event, account or transaction is faithfully represented.
Application: when two auditors arrive at the same conclusion after checking the financial report.

c) **Timeliness** means having information available to decision makers on time.
Application: timely availability of the financial statements at the end of reporting period for users to help in making relevant decisions.

d) **Understandability -** Information is understandable when it is classified, characterised and presented clearly.
Application: using simple language to give explanations in the reports.

Summary :



Definitions of Various Elements of Financial Statements

Elements	Definitions
Assets	**Resources controlled by the business** in order to **generate future economic benefit**, which are the result of a **past transaction** or event. Examples include: vehicles, furniture, accounts receivable etc.
Liabilities	**Future sacrifices** of **future economic benefits** that the business is currently obliged to make, which are the result of a **past transaction** or other event. Example: loan, accounts payable etc.
Proprietorship	The residual value of assets less liabilities. Example Capital.
Expenses	**Decrease in economic benefits** in the form of **decrease in assets** or **increase in liabilities**, which result in a decrease in proprietorship. Example: wages, insurance etc.
Income or Revenue	**Increase in economic benefits** in the form of **increase in assets** or **decrease in liabilities**, which increases proprietorship. Example: sales, fees, commission received etc.

Activity 1.2.1

MULTIPLE CHOICE:

1. Which of the following accounting standards are followed by accountants in Fiji?
   A. Generally Accepted Accounting principle (GAAP)
   B. Financial Reporting standards.
   C. International Financial reporting standards.
   D. Fiji reporting standards.

2. Which of the following explains the business entity concept?
   A. Transactions are recorded from business point of view.
   B. Payments to owners are kept separate from costs of business.
   C. Assets are owned and liabilities are owed by the business and not by the owners.
   D. All of the above.

3. Accountants measure profits or losses by recording the effects of transactions in terms of dollars and cents. Which of the following concepts best describes this process?
   A. Matching concept.
   B. Money measurement concept.
   C. Double entry concept.
   D. Accruals concept.

4. Under which fundamental qualitative characteristics of accounting data, the information presented is complete, without bias or undue error and neutral.
   A. Relevance.
   B. Comparability.
   C. Faithful representation.
   D. Verifiability.

5. Which of the following is regarded as a resource controlled by an entity in order to generate future economic benefit, resulting from a past transaction?
   A. Liability.
   B. Asset.
   C. Expense.
   D. Revenue.

Activity 1.2.2

SHORT ANSWERS:

1. What is a conceptual framework?
2. Explain why it is important for a business owner to have his financial affairs separate from the business?
3. State how the application of the Historical Cost principle ensures reliability in the accounting reports.
4. In an attempt to satisfy the consistency characteristic, Tawake Motors always uses the same method for depreciation of equipment.

   Required:
   a. Define consistency characteristic of an accounting data.
   b. Referring to Tawake Motors situation, explain why the accounting records should be maintained using the consistency characteristic.
4. From the list provided, identify the assumption or characteristic of information which best represents the situations given.

Accounting Entity Assumption	Historical Cost
Accrual Basis Assumption	Accounting Period
Materiality	Faithful Representation
Comparability	

Situations

a) The reporting of accounting information should be free from personal biasness.	
b) In a single proprietorship, the owner's house and car are not recorded in the records of the business.	
c) The cost of stationery is too small to be shown separately in the balance sheet.	
d) Services provided by a business entity are recorded before the actual receiving of cash.	
e) The expenses incurred are deducted from the income recognised for the same period.	
f) Assets are not recorded at the current prices.	
g) Consistent accounting policies and methods are used in the preparation of financial statements from one year to another.	

Activity 1.2.3

1. Robert is the owner of New Fashions business in Dreketi. When Robert's family comes for shopping once per fortnight, he does not allow them to pay for their shopping.
   i. In order to follow the accounting entity concept, how should Robert record the costs of these shopping?
   ii. Explain how the above answer (i) is following the accounting entity concept.

2. Taito operates a jewelry store in her hometown. She imports jewelry from India and records it in Fijian dollars. Which accounting concept is being applied?

3. In the *Statement of Financial Position*, Vincent's Store has prepaid insurance of $100. Explain how prepaid insurance is an example of the accrual accounting concept, by explaining the impact on the financial statements.

4. Alice is an owner of an internet shop in Rakiraki known as Wonderland Internet shop. The *Statement of Financial Performance* is prepared every 12 months for Wonderland Internet shop.
   i. Which accounting concept is applied in Alice's business?
   ii. The repairs to the Computers for Wonderland Internet shop are reported as an expense in the Statement of Financial Performance. Justify why the repairs to the Computers is treated as an expense.

iii. Wonderland Internet shop recorded its furniture in the Statement of Financial Position at $1500, the price at which it was bought, despite being used for more than 5 years. Which accounting concept is applied? Explain.

Activity 1.2.4

1. Christy Singh is the owner of a grocery store called My Store. The information below is a summary from My Store's Statement of Financial Performance for the year ended 31 March 2015.

Statement of Financial Performance for My Store Summary for the year		
	2014	**2015**
	$	**$**
Revenue	250 000	300 000
Expenses (including Cost of Goods Sold)	220 000	275 000
Net Profit	30 000	25 000

a. State the enhancing qualitative characteristic that My Store is adhering to by reporting the information for both 2014 and 2015 in the above final account.
b. Explain why the users of My Store's Statement of Financial Performance would want to see both the 2014 and 2015 net profit figures.

2. Arieta is operating a DVD shop in Levuka town. The following information has been extracted from the books of Arieta's business.

Accounts receivables	mobile expenses
Buildings	drawings
Electricity	loan
Interest on loan	mortgage
Interest received	dividends received
DVD sales	purchases
Rent received	

i. Identify at least three incomes and three expenses from the list given above.
ii. Explain why DVD sales is regarded as an income for Arieta's DVD shop.
iii. Arieta's DVD shop recently purchased DVD cases to pack DVD while selling DVDs to customers. Explain why DVD cases is an expense for Arieta's DVD shop.

STRAND 2

PERSONAL FINANCE

Strand Outcome

Describe the importance and recognition of personal financial documents, personal taxation and statement of financial affairs.

Learning Outcomes

Upon completion of this strand, students should be able to:

- *Explore the system of personal financial record keeping.*
- *Discuss into the different types of Personal Income Tax apart from PAYE and SRT.*
- *Investigate how the Net Worth of an individual could be continually improved upon for maximum future benefit.*

2.1 PERSONAL FINANCIAL RECORD KEEPING

Many times during the year one will need to find certain documents like invoices, receipts, bank statements, credit card statements etc. for the following:

- To prepare a monthly budget.
- To check bank balance.
- To make sure the monthly account is paid.
- To prepare the Statement of assets and liabilities.
- To make an insurance claim.
- To ensure that correct tax is deducted.

In order to access the personal financial documents, one needs to have **a good filing system** to keep records available.

Advantages of Personal filing

1. Help organise the important information concerning household financial affairs.

2. To keep track of personal finances and hard to replace documents.

3. Helps in payment documentation such as medical bills, insurance payments etc.

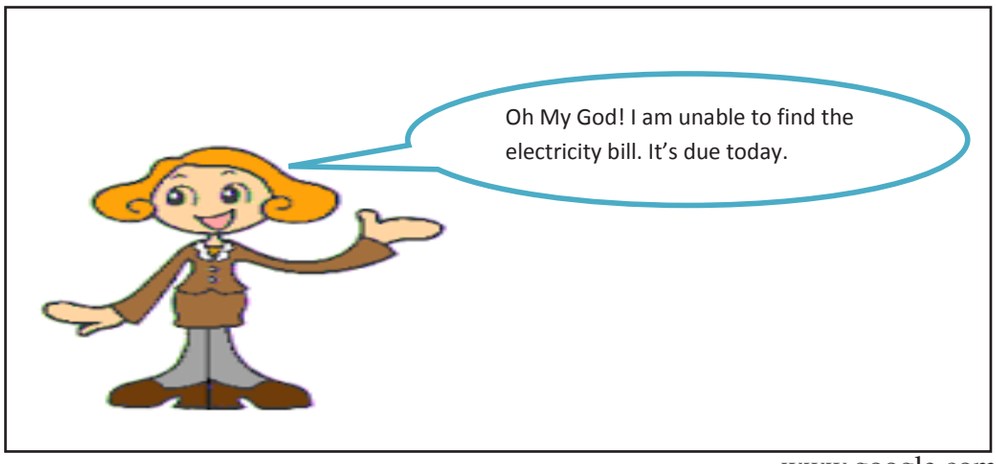
4. Helps save time and money.

SETTING UP A RECORD KEEPING SYSTEM INCLUDES THREE STEPS:

1. Gather all your financial documents.

2. Organise the records kept in the file.

3. Place appropriate records in a safe-deposit box or can be stored electronically.



www.google.com

Some of the Personal financial documents that an individual may come across are:

1. **Bills**

❖ **Electricity Bill –** is a document sent by Electricity Authority to the customers on the usage of electricity.

TOWER ELECRICITY COMPANY

Serewaia Roy
Private Mail Bag
Saweni

Account **001354291**

Cash Security Deposit Held **$20.00**
Account for **January 2016**
Area **C015**
Book **1289631**
Issue Date **06/01/2016**

Electricity usage and service calculation **05/12/2015 to 03/01/2016**

Tariff Description	Reading Type	Meter Number	Reading		Usage KWHS	Billed Days
			Present	Previous		
Domestic	Normal reading	13625:1	073078	073060	18	30

OVERDUES

Opening Balance	$5.38 DR
Receipt 236847 31/12/2015	$5.38 CR
Balance	$0.00 CR

CURRENT CHARGES

Current Usage	
18 KWHS @ $0.3310	$5.96
Domestic minimum charge	$0.66
Current Usage	$6.62
OTHER SERVICES	
Other services	$0.00
Total Current Charges Due (VEP)	6.62
VAT 9%	$0.60
Total Current Charges Due (VIP)	7.22

TOTAL DUE $7.22 DR

CURRENT PAYMENT DUE BEFORE 10/01/2016

Account number	001354291
Serewaia Roy, Saweni.	
Total Due	$7.22
Due Date	10/01/2016

- **Water Bill** -is a document sent by Water Authority to the customers for the usage of water.

PACIFIC WATER AUTHORITY

Mr. John Deo
Oak Street
P O Box 012
Ba.

Account 000000123456

Invoice Number 111026346
Physical Address Radeo Rd, Yalalevu **Ba**
Date of service Jan -16 to Apr - 16

PLEASE MAKE PAYMENTS IN FULL BY DUE DATE.

REMEMBER: NO NOTICE WILL BE GIVEN FOR DISCONNECTION OF ACCOUNTS NOT SETTLED BY THE DUE DATES.

Meter Number	Reading Type	Previous Reading	Present Reading	Units Consumed
NB10	Normal reading	10	120	110

OVERDUES

Opening Balance	$0.00
Balance	$0.00

CURRENT CHARGES

Water 50 @0.1530	$7.65
Water 50 @0.4390	$21.95
Water10 @0.8380	$8.38
Wastewater 110@0.20	$22.00
TOTAL DUE	**$59.98**

CURRENT PAYMENT DUE BEFORE 28/05/2016

For enquiries and information please call 00334000

Meter Number	Account Number	Overdue	Current Due	Total Due	Date Payment Due
NB10	000000123456	0	$59.98	$59.98	28/05/2016

2. **Personal Cheque**- are cheques drawn against funds deposited in your personal bank account.

Date:16th February 2016	
To: Keyrow Tours	
For: Trip to Italy	
Balance B/fwd	**$5 000.00**
Deposit	**$1 000.00**
	$6 000.00
This Cheque	**$3 999.00**
Balance	**$2 001.00**
No. 004333	

Happy Bank

Tara St, Savusavu.
16th February 2016

Pay _ Keyrow Tours *or Bearer*
The sum of Three Thousand Nine Hundred and Ninety Nine Dollars Only.

$3 999.00

Jane Smith

No. 004333 **988333239**

3. **Property Titles** - it refers to a formal document such as a deed that serves as evidence of ownership.

www.google.com

4. **Receipts** - is a document received by an individual when goods or services are bought for cash or when payment is made.

5. **Tax Invoice –** is a document received when the goods or services are bought on credit.

6. **Credit Note –** are received by customers when goods are returned to the business.

7. **Pay slips –** is a slip given to an employee stating the gross pay, deductions and net pay.

PAY SLIP

Name: Netani Singh
FNPF Deductions: 8%
TIN No. 07-2586-0-5

PAY DETAILS

Pay period start date	07/03/2016
Pay frequency	weekly
Pay amount (Hourly rate)	$8.00
Amount of hours worked per week	11
Pay Amount (Weekly)	$88.00

CALCULATIONS

Gross Income (Weekly)	$88.00
FNPF deductions	$ 7.04
Net Payment	**$80.96**

Paid into bank account 21 3886 754237 01

8. **Bank Statements (Personal)** is a record usually sent to the account holder once per month, summarising all transactions in an account.

BANK STATEMENT

Miss Nashika Mani
72 Nadi Road
Nasinu

Fiji Bank
Kadavu Road
Suva
Telephone: 0800 2561

31 January 2016
Statement number 52

Account number 06 8362 1539 00

Transactions this month

1 January	Balance forward			$103.38 Cr
8 January	Deposit		$130.00	$233.38 Cr
10 January	AP-Flat Account Company	$105.00		$128.38 Cr
25 January	Deposit		$125.89	$254.27 Cr

9. **Electronic Fund Transfer at Point of Sale (EFTPOS)** - is a method of paying for goods or services without the need to carry cash. On making the payment the customer uses the EFTPOS card.

EFTPOS Print out

FIJI BANK (FB)
Salome's Sewing Shop
Lautoka
Fiji
CUSTOMER RECEIPT
Date/Time: 10/05/15 09:10:13
TERMINAL ID: 08256005
MERCHANT ID: 61395689074123
BATCH: 000332 SWIPED
RECEIPT: 030168

DEBIT SALE

CARD NUM: XXXXXXXXX1250
CARD TYPE: HAPPY BANK DEBIT
APP CODE: 699142
RREF NUM: 552533258644
AMOUNT: FJD$100.00
APPROVED
PLEASE RETAIN RECEIPT FOR YOUR RECORDS

10. **Online Account Statements –** these are available online so that customers can view and print information anywhere anytime using the internet.

Electronic Financial Services Provided by Commercial Banks in Fiji

a. **Online Banking** refers to banking services where the customers can carry out various transactions over the internet rather than visiting a bank. Also known as "Internet Banking" or "Web Banking". **Features**: Online security, timely monitoring for accuracy, scheduling bill payments and bank reconciliations.

b. **Online Payment** refers to making payments electronically with the use of internet, computer networks and credit cards.

c. **Mobile Banking**: in mobile banking, customers are permitted by the banks to operate selected banking services which can be accessed over their mobile phones using **SMS** messaging. For instance, checking the bank balance from mobile phones or top up the balance of the mobile phones.

d. **ATM Services:** Automated Teller Machine is an electronic banking outlet, which enables customers to complete basic transactions without the aid of a teller. Some of the basic transactions offered by ATM are withdrawing cash, depositing cash, making payments and checking the bank balance.

Automatic Teller Machine (ATM) receipt

FIJI BANK (FB)

CONTACT US ON 139 653
ATM ID: ATM019

DATE	TIME	SEQ#
11/02/16	11:20	1195

CARD: XXXXXXXXX1345
FAST CASH SAV A/C

AMT:	FJD	FJD 90.00
BAL:	FJD	760.12+
AVL:	FJD	670.12+

PLEASE DO NOT LITTER

e. **Debit Card** - is a plastic payment card that provides the cardholder electronic access to their bank account(s). While using a debit card, the transaction balance gets deducted immediately from a bank account whenever a transaction takes place. E.g. bank card.

f. **Credit Card** – enables the holder to obtain credit up to the required limit from the issuer of the card for the purchase of goods and services. While using a credit card one can always make payments later for a particular transaction unlike debit cards.

VILIAME'S CREDIT CARD STATEMENT

Mr. Viliame Waqatabu
12 Labasa Road
Savusavu

Fiji Bank
Kadavu Road
Savusavu.

28 February 2016
Statement number 37

Account number 4455 6677 0321 0997
Current interest rate 20.5% p.a.

Previous balance	$374.54
Payments received – thank you	$250.00
Purchases this month	$ 90.57
Current balance	$215.11
Current minimum payment due	$ 10.00
Due date	22 May 2016

Purchases this month

23 Feb	Everyday Phones top-up	$ 20.00
24 Feb	Savusavu Supermarket	$ 68.44
28 Feb	Interest	$ 2.13
Total purchases		**$ 90.57**

Advantages of a Credit Card

- Ability to buy goods or services without having sufficient cash.
- **Convenient -** purchases can be made by using the card rather than filling out a cheque.
- **Safe –** do not have to carry cash or a cheque book.
- **Readily accepted –** can use it anywhere even when you are out of the country as it is widely accepted.

Disadvantages of a Credit Card

- The credit card can be costly at times when high interest rates are charged.
- Frequent usage of the credit card can increase the debt level as the monthly minimum payments will increase with the interest rates.
- It can lead to impulsive buying.

Schedule Bill Payments – timetabling of due dates for payment of bills so that it reminds one to make payments on time.

Transaction instruments – is an electronic device used to carry out financial transactions. For instance; mobile phones, EFTPOS machine, ATM etc.

Activity 2.1.1

1. What would be the most suitable method of keeping or storing electronic financial records?
   A. In a secure folder on the computer.
   B. In a secured box.
   C. In a filing cabinet.
   D. No need to keep them anyway.

2. Which of the following is **not** an important reason to keep personal financial records?
   A. For proof of ownership.
   B. To see how much profit you make in few years' time.
   C. For warranty purposes.
   D. To use when setting up or reviewing a budget.

3. What items of information would you check on a bank statement?
   A. That it is your bank statement and not someone else's.
   B. The closing balance is correct.
   C. There are no incorrect transactions recorded.
   D. All of the above.

4. What details of information you would check in a pay slip?
   A. Your deductions.

B. Your pay details such as the time frame, the pay date and time hours worked.
C. The amount of money deposited into your bank account.
D. All of the above.

Activity 2.1.2

Short Answer Questions

1. List two advantages of being able to access accounts online?
2. State the purpose of EFTPOS.
3. List the advantages and the disadvantages of credit card.
4. Study the resources given below and answer the questions that follow:

Resource A

SALOME'S SEWINGSHOP
12 Valley Street
Lautoka

Receipt No. 077	**Cashier: Samar**
Date: 05/02/2016	**Time: 5:12:20 p.m.**

5.2 fabric @ $8.74/m		$45.45
Cotton threads		$2.60
Pattern		$12.15
Pins		$5.25
Subtotal:		$65.45
VAT:		$ 5.89
Total VIP:		$71.34
Cash		$80.00
Change	$ 8.66	

Thank you for shopping with us.

Resource B

HI ENERGY ELECTRICITY

Nadi Gas Company
12 Pylon Street
Nadi
Phone 123 4567
VAT No.20-91210-03

Customer Account Number: 98765
Area: D2150
Book: 7891562
Issued Date: 06/03/15

Previous Charges		**Amount Due**
Total Amount due at Last Billing	$32.47	
Payments 06/02/15.	$32.47 CR	
Previous Balance	$0.00	$0.00
Current Charges		
Fixed Charge ($0.84 per day)	$26.04	
Usage Charge ($1.52per unit)	$36.48	
Total Current Charges	$65.52	$65.52
Payment Details		
Account Balance (if paid by 13/03/2015)		$56.27
Amount due after 13/03/2015		$65.52

Usage Information

Meter Number	Service Period		No. of days	Meter Reading		Usage
556655	From	To		From	To	
	01/02/2015	01/03/2015	28	48323	48347	24

Resource C

Tui'S CREDIT CARD STATEMENT

Mr. Tui
12 Labasa Road
Savusavu

Fiji Bank
Kadavu Road
Suva.

31 March 2016
Statement number 38

Account number 4455 6677 0321 0997
Current interest rate 20.5% p.a.

Previous balance	$215.11
Payments received – thank you	$215.11
Purchases this month	$147.01
Current balance	$147.01
Current minimum payment due	$ 10.00
Due date	10 April 2016

Purchases this month

18 March	Savusavu Supermarket	$ 49.31
21 March	Everyday Phones top-up	$ 30.00
30 March	Clothes on the Net	$ 33.85
30 March	Clothes on the Net	$ 33.85
Total purchases		**$145.01**

Resource D

BANK STATEMENT

Miss Jokapeci
72 Nadi Road
Nasinu

Fiji Bank
Kadavu Road
Suva
Telephone: 0800 3562561

28th February 2016
Statement number 53

Your statement for account number: 06 8362 1539 00

Transactions this month

1 February 2016	Balance forward			$154.44
5 February	Deposit		$211.64	$366.08
8 February	AP-Gas Account Company	$45.83		$320.25
16 February	ATM Withdrawal	$100.00		$220.25
24 February	EFTPOS-Fuel4Less	$53.47		$166.78

Required:

i. Study resource A and identify how much was paid for the groceries.
ii. Study resource B and write down how much the customer should pay if he pays the account before 13 March 2015.

iii. Study resource C and identify the minimum amount that needs to be paid off on this credit card and by when it should be paid?
iv. Study resource D and write down the opening and closing balances for this bank account.
v. State one purpose for each of the resources given.
vi. Identify one numerical error present in resource B and C?
vii. What action should the customer take to rectify the error in resource B.?

Activity 2.1.3

1. Study the following information provided by Vilisi in 2016. Fill in the calendar below in order to schedule the following bill payments.

JANUARY 2016						
Sunday	**Monday**	**Tuesday**	**Wednesday**	**Thursday**	**Friday**	**Saturday**
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

FEBRUARY 2016						
Sunday	**Monday**	**Tuesday**	**Wednesday**	**Thursday**	**Friday**	**Saturday**
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29					

MARCH 2016						
Sunday	**Monday**	**Tuesday**	**Wednesday**	**Thursday**	**Friday**	**Saturday**
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

- Electricity payment is due on the first Thursday of the month.
  - ✓ December's bill is $130
  - ✓ January's bill is $125

- ✓ February's bill is $95
- ✓ March's bill is $100

- Rent is due at the end of month on Fridays $280.
- Pay internet bill every first Tuesday of each month $50.
- Pay mechanic for repairs on the 7th of the following month (car was taken in on 23rd February and cost $250 to repair).
- Mobile phone bill costs $25 and is due on the 11th of each month.
- Income for each week is received on Thursdays $300.

Required:

a) List and add up total outgoings for each month as per your bill payment schedule.

Outgoings (expenses)	January	February	March
TOTAL			

b) How much money is left each month for other expenses?

Month	Income	Planned Outgoings	Left over for other expenses
January			
February			
March			

2. *Research and Group Work*

For this research activity, you are required to get into groups:

- Discuss the different personal and family source documents used at home.
- Collect samples of personal and family source documents.
- Present it to the class and explain the purpose of each.

2.2 PERSONAL INCOME TAX

FRINGE BENEFIT TAX

www.google.com

Taxable benefits include any non-cash benefits or benefits received in kind that is provided free by the employer to the employee (**e.g. housing, telephone, water, etc.**).

The value of non-cash fringe benefits received by an employee from his/her employer is subject to fringe benefits tax. It is a final tax on employers and shall not be recovered from the employee.

Who are regarded as employees for Fringe Benefit Tax purposes?

An employee is defined as "an individual engaged in employment".

Other office holders such as directors, managers and associates (including certain relatives) of the employees are treated as employees for the purpose of the Fringe Benefit Tax Decree 2012.

What is Fringe Benefit Tax?

Fringe Benefits Tax (FBT) is a tax levied at the rate of 20% on the fringe benefit taxable amount (non-cash benefits) of the employer for each quarter, with effect from 1 January, 2012. There are 9 categories of fringe benefits under the Decree which are listed below:

1. DEBT WAIVER FRINGE BENEFIT - Amount of the debt waived or written-off by the employer. Example - Employer gives loan of $100 to an employee and later decides that the loan amount be waived, the loan amount waived will be the value of the benefit.

2. HOUSEHOLD PERSONNEL FRINGE BENEFIT - The employer pays salaries/wages to the household personnel for an executive employee. Example – where employers provide house maid or watchman etc., the wages paid to the personnel will be the value of benefit.

3. HOUSING FRINGE BENEFIT- The employer provides residential accommodation for its employees. Example - housing quarters.

4. DISCOUNTED INTEREST LOAN FRINGE BENEFIT- Is when the employer provides a discounted interest on the loan at a rate lower than the market lending rate provided by the Reserve bank of Fiji. The difference between the interest that would have been paid if the loan was made at the market lending rate and the actual interest (if any) paid by the employee will be the value of benefit.

5. **Meal or refreshment fringe benefit**- This is the free meals and refreshments provided by the employer to the employee.

6. **Motor vehicle fringe benefit**- This applies when a motor vehicle is provided by an employer to an employee which is at the employee's discretion.

7. **Private expenditure fringe benefit**- This applies where the employer pays for private expenditures of an employee. Example - tuition fees of the employee's children, utilities bills, non-work related medical expenses, medical insurance premiums, life insurance premiums etc.

8. **Property fringe benefit**- Is when the employer supplies the property or services to customers in the ordinary course of business and the staffs also use it free of charge. Example - recreational facility such as access to a gymnasium.

9. **Residual fringe benefit**- Is any other fringe benefit which is not covered in the above types of benefits.

SERVICE TURNOVER TAX

Service Turnover Tax (STT) is a tax that is levied on the VAT exclusive cost of turnover of any person conducting a business involving the provision of a prescribed service, at the rate of 10%, with effect from 1 January, 2016. Turnover means any sums or amounts received or receivable by or on behalf of the owner of a service in respect of any sums or amounts included in a charge for a prescribed service. The service provider has to collect the STT shown on the bill issued to a customer.

Who should register for STT?

With effect from 1 January, 2012, the owner or the person (Accountable Person) who is responsible for the daily management of a prescribed service should register with the Fiji Revenue and Customs Authority within 30 days before the commencement of the business.

CAPITAL GAINS TAX (CGT)

Capital Gains Tax (CGT) is a tax that is levied on profits or gains realised on the disposal of capital assets, at the rate of 10%, with effect from 1 May, 2011.

www.google.com

A 'capital asset' refers to the assets listed below:

- Land and buildings
- Vessels of over 100 tonnes e.g. ship
- Yachts
- A share, security, equity, or other financial asset
- Intangible assets e.g. goodwill
- An interest in a partnership or trust
- Any kind of aircraft

Capital Gains Tax is imposed and collected on a self-assessment basis and the seller is liable for the tax. It is computed on the VAT Exclusive Price (VEP) of the capital asset.

A person will not be liable to pay the Capital Gains Tax.

Exemption of Capital Gains Tax

Some of the categories of capital gains that is exempt from the capital gains tax:

1. A capital gain made by a resident individual or a Fiji citizen that does not exceed FJ$16,000 Fiji dollars, with effect from 1st January 2016.
2. A capital gain made by a resident individual or a Fiji citizen on disposal of the Individual's first residential property or principal place of residence.
3. A capital gain made by a person on the disposal of shares listed on the South Pacific Stock Exchange.
4. A capital gain made on disposal of an asset that is used solely to derive income exempt from tax under the Income Tax Act. For instance, if a taxi driver has one taxi and sells it, the capital gain realised will not be taxed.
5. Any gain made by a person on the disposal of shares on any Unit Trust company in Fiji, as approved by the Commissioner.

Computation of Capital Gains Tax

Example

1. Losalaini a resident of Fiji, owns a house in Suva and she plans to sell it to Wing Chong on 2nd May 2014 for $100 000. Losalaini acquired the house on 1st January 2010 for $75 000. Calculate the gain or loss on disposal of asset? If there is a gain then calculate the Capital Gains Tax. (Assume this was **not** Losalaini's principal place of residence)

Solution

Capital Gain or Loss = Selling Price – Cost
= $100 000 - $75 000
= **$25 000 Capital Gain**

Capital Gains Tax = $25 000 x 10%
= **$2 500**

2. Mr. Shiek a resident of Fiji, owns a house in Sigatoka and he plans to sell it to Mr. Willy on 2nd May 2014 for $250 000. Mr. Shiek acquired the house on 1st January 2010 for $235 000. Calculate the gain or loss on disposal of asset? If there is a gain then calculate the Capital Gains Tax.(Assume this was Mr. Shiek's principal place of residence)

Solution

(i) Capital Gain or Loss = Selling Price – Cost
= $250 000 - $235 000
= **$15 000 Capital Gain**

(ii) Mr. Shiek is **exempt** from paying Capital Gains Tax because his capital gain is less than $16000. Also the house was his principal place of residence and gains on principal place of residence are exempt under Section 7(b) of CGT Decree.

ACTIVITY 2.2.1

SHORT ANSWERS

1. Define Fringe Benefits Tax.
2. What is a Service Turnover tax.
3. List three categories of fringe benefits received by employees.
4. Define Capital Gains Tax.

ACTIVITY 2.2.2

1. Alisha Patel a resident of Fiji, owns a house in Suva and she plans to sell it to Poonam on 2nd May 2014 for $120 000. Alisha acquired the house on 1 February 2009 for $75 000. Calculate the gain or loss on disposal of asset?
   If there is a gain then calculate the Capital Gains Tax. (Assume this was **not** Alisha's principal place of residence)

2. Mr. Manueli the resident of Fiji, owns a house in Lautoka and he plans to sell it to Mr. Maikeli on 2 May 2015 for $180 000. Mr. Manueli acquired the house on 1 March 2008 for $95 000. Calculate the gain or loss on disposal of asset? If there is a gain then calculate the Capital Gains Tax. (Assume this was **not** Mr. Manueli's principal place of residence)

3. Mrs. Berita a resident of Fiji, bought a yacht for $100 000 on 2 May 2014. The yacht is destroyed in a fire on 5 August 2014. Insurance proceeds received on 10 November 2014 is $110 000. Calculate the Capital Gains Tax?

2.3 Statement of Affairs

Statement of Affairs - is a list of assets and liabilities to calculate net worth of an individual.

Some individuals hold traditional assets which can also be represented as assets in the statement of affairs. For instance, in an iTaukei culture mats, tabua, canoe, cattles can be regarded as traditional assets. On the other hand some of the traditional assets valued in Indian culture are jewelries, musical instruments etc.

Example

Kushal does not have much knowledge of accounting and he provided you with the following information.

He has a Van worth $16500, savings in his bank account of $14600, Land and Building $150000, TV and Home theatre System worth $6000, bought a computer valued $3200, loan from CK Furniture's $1800, mortgage on building $100000.

Required:

Prepare a Statement of Affairs for Kushal.

Solution

	$	$
Assets		
Van	16500	
Savings in Bank Account	14600	
Land and Building	150000	
TV	6000	
Computer	3200	190300
Liabilities		
Loan	1800	
Mortgage on Building	100000	101800
Net Worth		88500

Activity 2.3.1

Multiple Choice

1. A statement of affairs is similar to
   A. a bank account.
   B. a statement of financial performance.
   C. a statement of financial position.
   D. an appropriation account.

Question 2 and 3 relates to the following information :

Meli is planning to buy a car. He needs to borrow $5000 from the bank. The bank manager asked him to prepare a Statement of affairs.

2. The statement of affairs is prepared to calculate Meli's
   A. net worth.
   B. total loss.
   C. net income.
   D. total income.

3. The main reason for preparing a Statement of affairs is to determine Meli's:
   A. asset's current value.
   B. ability to repay loan.
   C. security for borrowing.
   D. ability to save for future.

Activity 2.3.2

1. Hamish is thinking about buying a laptop which will cost $1600. He will need to borrow $1000. Litia has suggested him to prepare some information to show the loans officer at the bank. Hamish writes the following list of items that he owns on 1st September, 2016.

	$
Sports equipment	2200
Camera equipment	500
T.V set	390
Savings account balance	860
Cheque account balance	175

Additional Information:
i) Hamish owes $200 to Happy Camera dealers for his camera.
ii) Hamish still has a final $20 purchase installment to make on his T.V

Required:
Prepare a Statement of Affairs for Hamish to take to the bank in support of his loan application.

2. Saula Koro is considering to buy a Taxi business, which is on sale at the price of $30 000. He has arranged to see his bank manager for the possibility of getting a loan to purchase the business. He has been asked to bring to the meeting his most recent financial records. Saula is not sure what the bank requires and has asked for your help.

   The following information is available.

- He owns a house with the recent government valuation of $56 000, however he has a mortgage of $12 000 due on his house.
- His gross pay is $20 000 and he gets $1283 per month after deduction.
- Household contents are valued at $18000.
- His fixed and variable expenses are $449 per month.
- Motor car which he bought 3 months ago costing $8 000, but he still owes $1 400 on it.
- Saula has an insurance policy with the surrender value of $7000.
- Unpaid monthly accounts total to $4000.
- His bank account balances are:
  - Fixed deposit $5 500
  - Savings account $ 500

Required:

Use the above information to answer the questions that follows.

a) Compute the value of Saula Koro's;

i) Assets

ii) Liabilities

iii) Net Worth

FINANCIAL ACCOUNTING AND THE ACCOUNTING PROCESS

STRAND 3

Strand Outcome

Explore and describe the four major accounting processes involved in order to ascertain information for completing the accounting cycle, taking into account VAT.

Learning Outcomes

Upon completion of this strand, students should be able to:

- *Explore VAT and the different types of source documents used in the Accounting process.*
- *Examine the preparation of specialised journals from source documents.*
- *Demonstrate the posting of entries from journals to the general ledger.*

3.1 Value Added Tax (VAT)

The current VAT rate in Fiji is 9%.

Value Added Tax (VAT) is a tax on spending that is levied on the supply of goods and services in Fiji. It is a regressive form of tax imposed on all consumers in Fiji irrespective of their economic backgrounds. Fiji Revenue and Customs Authority is responsible for collecting the VAT.

Purpose of VAT

- It is a source of income for the government.

Implications of VAT

- Higher prices for goods and services.
- More burden on lower income earners.

Characteristics of VAT

- It is a tax on spending, borne and paid by consumers on final goods and services.
- VAT is paid indirectly by the consumers.
- VAT is paid by those people who spend on goods and services regardless of whether they are employed or unemployed.

Registered and Non- Registered Businesses

Registered Business

Are businesses who can charge VAT and they must be registered with the VAT unit in Fiji Revenue and Customs Authority (FRCA). Registered businesses are required to file VAT returns with the VAT Unit on a monthly, quarterly or annual basis.

Non – Registered Business

Are businesses who cannot charge VAT and they are not registered for VAT with FRCA.

Types of Transactions

Vat Inclusive Transaction

Are those transactions that contain VAT component. The VAT Inclusive Price (VIP) is the total price of goods or services with the integrated VAT component (9%).

Vat Exempt Transactions

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.

For instance, financial services such as bank fees/charges, accommodation for residential purposes, institutions set up (recognised) by the Ministry of Education such as schools, colleges and tertiary institutions do not charge VAT on tuition fees and other services.

Significance of Filing correct VAT returns

VAT returns should be filed on a timely basis so that the government is able receive its share of tax and refund the correct amount. It will also help the government to prepare timely reports.

Formulae to remember while calculating VAT Component.

1. VIP = VEP (cost of the item) + VAT
2. $VAT = VEP \times \frac{9}{100}$
3. $VAT = VIP \times \frac{9}{109}$
4. VEP = VIP – VAT

NOTE

- VEP means Vat Exclusive Price. It is the price of an item on which VAT is yet to be included.
- VIP means Vat Inclusive Price.
- VAT Fraction $= \frac{VAT}{VAT + 100} = \frac{9}{109}$

VAT figures are subject to change as per Fiji's budget.

Example 1

Eddie Bought a Table for $810 VIP.

Required:

a) Calculate the amount of VAT paid by Eddie.

$VAT = VIP \times \frac{9}{109}$

$= \$810 \times \frac{9}{109}$

$= \$66.88$

b) Calculate the VEP

VEP = VIP – VAT

= $810 - $66.88

= $743.12

Example 2

Maikeli bought a Freezer for $650 VEP.

Required:

a) Calculate the amount of VAT Maikeli has to pay.

$$VAT = VEP \times \frac{9}{100}$$
$$= 650 \times \frac{9}{100}$$
$$= \underline{\$58.50}$$

b) Calculate the VIP price.

VIP = VEP + VAT

= $650 + $58.50

= <u>$708.50</u>

Activity 3.1.1

MULTIPLE CHOICE

1. On which of the following transactions VAT is **not** charged?
   A. Cash transaction
   B. VAT inclusive transaction
   C. Exempt Supplies
   D. Credit transaction

2. Jone bought a typewriter for $600 VIP. What type of transaction is this?
   A. Revenue transaction
   B. VAT inclusive transaction
   C. VAT exclusive transaction
   D. Zero rated transaction

3. In Fiji, Value added tax is charged on most goods and services at 9 %. The VAT Inclusive Price of an item is $1150, then VAT Exclusive Price of the same item would have been
   A. $1046.50
   B. $960
   C. $1055.05
   D. $1215

4. Kaka Trading sells Table costing $750 at VAT exclusive price. Value Added tax is charged at 9%. What would be the VAT inclusive price?
   A. $937.50
   B. $817.50
   C. $656.25
   D. $112.50

5. Petero sold a car for $18 900 VIP. The rate of VAT is 9 %. Therefore the amount of VAT is:
   A. $2465.22
   B. $2100.00
   C. $1560.55
   D. $21262.50

Activity 3.1.2

1. **Identify whether the following transactions relate to; VIP (VAT Inclusive Transaction) and VEP (VAT Exempt Transaction).**

Transactions	VAT Inclusive Transaction	VAT Exempt Transaction
1. Bought flour worth $100 from Shop and Save Supermarket.		
2. Paid tuition fees to Fiji National University $1250.		
3. Exported goods worth $1 000.		
4. Bought furniture worth $850.		
5. Paid bank fee $20.		

Activity 3.1.3

SHORT ANSWERS

1. Define VAT?
2. Differentiate between registered and non-registered business.
3. Differentiate between VAT inclusive and VAT exempt transactions?
4. Which government department is responsible for collecting VAT in Fiji?

3.1 SOURCE DOCUMENTS

Source Documents

Are documents which provide evidence that a transaction or event has taken place. It is an original record of a transaction. Source documents are used by the internal auditors and external auditors as evidence to cross check the validity of the transactions.

Accounting Cycle

Accounting cycle refers to a series of steps involved in processing accounting information from source documents to preparing and presenting of financial statements to assist in financial decision making.

The diagram given below shows the accounting process of a business entity.

THE FOLLOWING ARE THE SOURCE DOCUMENTS USED BY FIRMS:

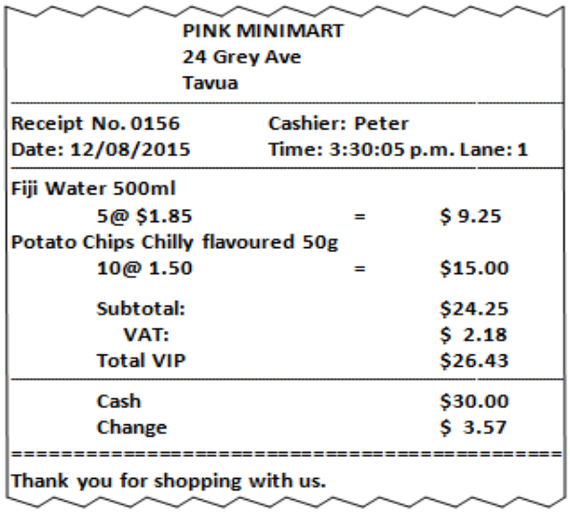
Cash Receipts

This document is used as evidence that the money has been received by the business. It gives the details of the money received, the purpose for the money received, date, name of the person, receipt number and signature.

RECEIPT	Munim's Trendy Fashions T.I.N. 50-68502—7 Ph: 9990000	P O Box 3789 Suva.	No. 523
Amount in Words:	Six hundred and fifty two dollars only.		
Cash/Cheque	**Discount**	**Total**	
Cash	---	**$652.00**	
Received from:	Razia Singhania		
Received for:	Sale of dresses. Order # 667825		
Signature:	*RaziaSinghania*	**Date:**	17/07/2016

Cash Register Tape

A cash register tape is used to record cash sales. It records the name of the items bought or sold, the total amount of money received, the change given to the customer and the name of the business. The original copy of this source document is given out to the customer. The carbon copy is kept by the business for future reference and making records in the business books.



PINK MINIMART
24 Grey Ave
Tavua

Receipt No. 0156 Cashier: Peter
Date: 12/08/2015 Time: 3:30:05 p.m. Lane: 1

Fiji Water 500ml
5@ $1.85 = $ 9.25
Potato Chips Chilly flavoured 50g
10@ 1.50 = $15.00

Subtotal: $24.25
VAT: $ 2.18
Total VIP $26.43

Cash $30.00
Change $ 3.57

==========

Thank you for shopping with us.

Cash Sales Docket

This document is used to record the transactions relating to cash sales. It records the name of the item, the total amount of money received, the change given to the customer, docket number and name of the business. The original copy of this document is given out to the customer. The carbon copy is kept by the business for future reference and making records in the business books. Cash sales docket is either manually written or printed from the printer.

CASH SALES DOCKET	Johanna's Pretty Store P O Box 3732, Sigatoka Fiji. Telephone: 6600000 Email: johana_s@connect.com.fj	Date: 17/07/2016 T.I.N. 50-09451-10 Docket No. 3118	
Order No. 398	**Sold By: Princess**	**Checked By: Taylor**	**Unit Price $** / **Amount $**
Quantity	**DESCRIPTION**		
1 x 20M	Printed Curtain Material (20M)	$10	$200
		VAT	**$18**
		TOTAL $	**$218**

Petty Cash Voucher

This document is used for making payments of small expenses. In the business, only the petty cashier is authorised to fill in the voucher signed by a person in authority. Petty cash voucher is a document which can be used as a proof that the monetary transactions has occurred between two parties.

PETTY CASH VOUCHER	**Johanna's Pretty Store** **P O Box 3732, Sigatoka Fiji.** **Telephone: 6600000** **T.I.N.50-09451-10**	Date: 19/07/2016 No. 98
PAY TO *Salote White*	AMOUNT (WRITTEN) *Twenty dollars*	AMOUNT (FIGURED) *20.00*
PURPOSE *For petty cash expenses*	ACCOUNT NAME *Miscellaneous expense*	AMOUNT *20.00*
APPROVED BY: *Litia Singh*	RECEIPT OF ABOVE AMOUNT IS ACKNOWLEDGED (SIGNATURE) *Salote White*	

EFTPOS

EFTPOS stands for Electronic Funds Transfer At Point Of Sales. It is an electronic payment system used to make payments for goods and services using bank cards (debit cards) and credit cards. The receipts from EFTPOS can be used for record keeping that the payment has been made.

Bank Statements

A bank statement is a record given by the bank about the money received and paid by the business. Money received by the business appears on the credit side of the bank statement and the amount paid by the business appears on the debit side.

BANK OF TAILEVU (BT)
P.O.Box 234 Tailevu PH: 666666
Statement for the Month of January 2016

Siteri's store
P.O.Box 431
Account Number: 14- 24567556

Date	Particulars	Debit	Credit	Balance
January 1	Balance			1000 Cr
12	Bank fees	10.00		990 Cr
14	Direct deposit		300	1290 Cr
16	EFTPOS Withdrawal	50.00		1240 Cr

Purchase Requisition

It is an internal request from a department within a business to the purchasing department to order goods.

Requisition		Date:	
Program Manager		Project/Department:	
Requested by:		Signature:	
Justification for Request:			
Approved By:		Signature:	

No.	Item Description	Stock Code	Quantity Requested	Quantity Issued	Date Issued	Remainder to be Issued
1						
2						
3						

Received		Signature:	
Issued		Signature:	

Purchase Order

A **purchase order** is a document issued by a buyer to a supplier requesting to supply the goods. It includes details on the types of products or services the buyer needs, quantities and agreed prices.

PURCHASE ORDER	Printing Company 10 Candle Street Sawani TIN: 50-33641-0-9		PO No. 635
To:	Computer Hardware Company		Date: 18/04/16
Address:	12 Freemont Ave, Suva		
Vendor no.:	101		
Quantity	**Description**	**Unit Price ($)**	**Total ($)**
8	TN 2315 toner	80.00	640.00
1	DR 2315 drum	165.00	165.00
		Subtotal	**805.00**
		VAT	**72.45**
		Total	**877.45**
Authorised by: Louis Morris.			
This Purchase Order (PO) is valid for 30 days from the date of issue.			

Delivery Docket

A document sent by the seller to the buyer indicating that the goods are delivered. This document is used to acknowledge that goods have been received.

DELIVERY DOCKET	Computer Hardware Company 12 Freemont Ave Suva TIN: 50-32951-0-9	No. 10035 Date: 22/04/16
Delivery to: Printing Company 10 Candle Street Sawani		
Customer PO #	635	
Order Date	18/04/16	
Delivery Date	22/04/16	

Code	Description	Quantity Ordered	Quantity Supplied	Total Backorder
T001	TN 2315 toner	8	5	3
D005	DR 2315 drum	1	1	-

Please retain this delivery docket as proof of purchase.

Comments:

Backordered goods estimated time of delivery 2 weeks from date of this docket.

NOTE: Purchase Requisition, Purchase Order and Delivery Docket are **not** used to make entries in the journals.

Tax Invoice

Is used when good and services are bought and sold on credit. Some businesses prepare triplicates and some duplicates but this depends on individual company policies. The original copy is given to the customer and the duplicate copies are retained by the business for future reference. It should always be pre-numbered.

TAX INVOICE	CH Gourmet Gifts 13 East Street Tavua TIN: 50-32684-0-9	No. 635
To:	Viliame	Date: 18/04/16
Address:	12 Good Road, Tavua	
Customer no.:	562	

Quantity	Description	Unit Price ($)	Total ($)
1	Coffee (Brand-X)	12.50	12.50
1	Ceramic Jug	12.00	12.00
		Subtotal	**24.50**
		VAT	**2.21**
		Total	**26.71**

Authorised by: J.Alexander

Please pay by 18/05/16.

Credit Note

Is issued to the buyer when goods sold on credit are returned to the seller. The original copy is issued to the buyer and the duplicate copy is retained with the seller for making entries in the books.

The customer returns goods due to the following reasons:

- Goods being faulty, expired or damaged.
- Goods were not supplied according to the order. For example, wrong size, colour, brand and quality.
- Goods do not meet the buyer's specifications.
- When the invoice issued to the buyer has been overstated.

CREDIT NOTE	CH Gourmet Gifts 13 East Street Tavua TIN: 50-32684-0-9		No. 68
Invoice No. 635		Date: 19/04/16	
To:	Viliame		
Address:	12 Good Road, Tavua		
Customer no.:	562		
Qty	**Description**	**Unit Price ($)**	**Total ($)**
1	Ceramic Jug	12.00	12.00
		Subtotal	**12.00**
		VAT	**1.08**
		Total	**13.08**
Reason for return: Broken handle			
Authorised by: J. K. Ruci			

The credit note should always state the original tax invoice number for reference.

Debit note

A **debit note** is a commercial document issued by the business to a seller as a means of formally requesting to return the goods.

www.google.com

Statement of Account

Is a document summarising debtor's monthly credit sales, payments and returns. This document reminds the debtors or accounts receivables about their amounts owing.

STATEMENT OF ACCOUNT

Finance Company
12 Valley Street
Suva
TIN: 50-35769-0-9

Account No. 100987-31

Raj Singhania
Bula Street
Nausori

Date: 31 July 2016

Date	Reference	Description	Debit	Credit	Balance
01 July 15		Opening Balance			918.86
12 July 15	DC18	Receipt		105.20	813.66
20 July 15	S110072	Tax invoice	67.01		880.67
31 July 15		Monthly Interest	17.09		897.76

CREDIT LIMIT	AVAILABLE CREDIT	CURRENT ACCOUNT BALANCE (30 DAYS)	ARREARS (LAST MONTH)	DUE DATE
1000	102.24	897.76	0.40	31/08/16

Please note that arrears amount is due immediately.

Internal Memorandum (Memo)

This document is used for internal communication within a business. Internal memo is issued in circumstances when a bad debt is written off or when the owner withdraws goods from the business.

MEMORANDUM

TO: Sales Staff
FROM: Karen Moore
DATE: February 15, 2016
SUBJECT: Bad Debt

Please be advised that John Sami's account has been written off as he went bankrupt. Please close off his account.

Thank you.

Store Manager
J Carrow

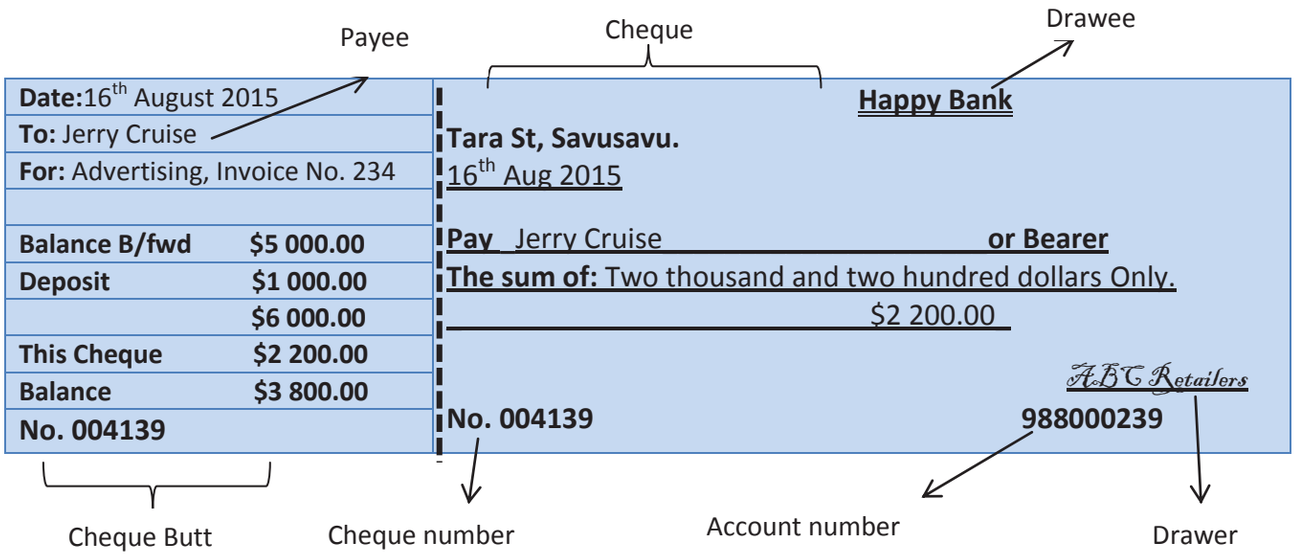
Cheque

Cheque is a written order directing a bank to pay money to the payee or bearer (person or business).

Three parties to a cheque:

- ***Drawer*** is the person or business who signs the cheque and makes the payments from his or her account.
- ***Drawee*** is the name of the bank where the cheque is payable.
- ***Payee*** is the person or the business receiving the payment of the cheque.

Cheque Butt is a counterfoil that gives details of the payment and the purpose of the payment. The cheque butt remains in the cheque book to make entries by the business. The cheque butt includes the amount paid, the purpose of the payment, name of the person and the cheque number.



Types of Cheques

Bearer cheque is a cheque where the word 'bearer' appears on the face of the cheque. Anyone can present the cheque to the bank for payment. It is a risky cheque because if it is lost, the finder of the cheque can collect payment from the bank.

Order cheque is a cheque where the word 'bearer' is cancelled and the word 'order' is written on the face of the cheque. An order cheque can only be deposited into another person's account with payee's endorsement.

Open cheque is an uncrossed cheque where the payment can be obtained at the counter of the bank.

Crossed cheque is a cheque where two parallel lines are drawn on the top left hand corner of the cheque. It cannot be cashed over the counter but needs to be deposited into the payee's account.

Post-Dated cheque is a cheque which contains a future date and it cannot be cashed earlier than the date written on the cheque.

Stale cheque is a cheque which a bank refuses to accept after six months from the date cheque is issued.

Not Negotiable cheque is when the phrase not negotiable is added to a crossed cheque to indicate that the holder of a cheque gets no better title than the person from whom it was received. This means that if the cheque is transferred to another person, the person who obtains the cheque has no greater rights to it than the person who gave it. This cheque cannot be cashed over the counter.

Dishonoured cheque is a cheque for which the bank refuses to make payments. A cheque may be dishonoured for a number of reasons:

- There are insufficient funds in the bank for the cheque to be cleared.
- It is a *stale cheque*.
- It is a *post-dated cheque*.
- The drawer may have died or bankrupt.
- The cheque is not signed and does not match with the specimen signature.
- The amount in dollars and words does not match.
- It is a mutilated cheque.

Activity 3.1.3

Multiple choice

1. The source document for making entries in the sales returns and purchase returns journal is
   A. debit note.
   B. credit note.
   C. tax invoice.
   D. Cheque.

2. The source document used to record transactions in cash journals would include:
   A. cheque.
   B. credit note.

C. receipt.
D. both A and C.

3. Credit notes are issued in order to
   A. record a sale.
   B. record the delivery of goods.
   C. record the return of damaged goods.
   D. record the total number of creditors.

4. Which of the following describes a stale cheque?
   A. Cheque that bears a future date.
   B. Cheque that is not signed.
   C. Cheque that is over six months old.
   D. Cheque that has two parallel lines.

5. John Enterprise buys goods on credit. Which source document will John Enterprise use to record this transaction?
   A. Tax invoice issued.
   B. Tax invoice received.
   C. Credit note issued.
   D. Credit note received.

Activity 3.1.4

1. Identify the source documents to be used for the following transactions?

Transactions	Source Documents
a. Cash sales $200.	
b. Sold goods to Mr. White on account $600.	
c. Mr. White returned goods $100.	
d. Purchased goods on credit $2 000.	
e. Returned goods to the creditor $500.	
f. Paid electricity bill $600.	
g. Goods stolen worth $1000.	
h. Owner withdrew $100 from the business.	

2. Explain the purpose of the following source documents:
   (a) Purchase order
   (b) Credit note
   (c) Internal memorandum
   (d) Receipts
   (e) Tax Invoice
   (f) Statement of account

3. Study the document of Fiji's Trendy Ware and answer the questions that follows:

Date: 19th September 2016	
To: Kristina Chaudhary	
For: Modelling, Invoice No. 692	
Balance B/fwd	$1 000.00
Deposit	-
	$1 000.00
This Cheque	$ 500.00
Balance	$ 500.00
No. 005298	

Required:

a. Name the source document shown?
b. What is the bank balance of Fiji's Trendy Ware after the transaction for invoice number 692?
c. What does the number 005298 in the source document represent?
d. Why do people use cheques to make payments rather than cash?
e. Who is the drawer in this source document?

4. Study the cash sales docket and answer the questions that follow:

Cash sales docket No. 3118

JONES BIG STORE **TIN 50-0941-10**
Lot 4
Rakiraki
Ph: 6672334 **Date: 14/09/2015**

Mr Mua
Address: 4 Mara Rd

Qty	*Items*	*Unit Cost*	*Total Cost*
3 each	Tin Mutton	$4.00	$12.00
10 pkt	Diaper	$9.00	$90.00
5 kg	Apple	$5.00	$25.00
TOTAL VIP			**$127.00**

a. What is the value of goods sold in the above document?
b. Who keeps the original copy of document?
c. Is it necessary to have customers' details in the document? Explain.
d. State the transaction that relates to the source document above?
e. Calculate the Value Added Tax (VAT) and Vat Exclusive Tax (VEP)?

5. Study the bank statement given below and answer the questions that follow:

Jale's store
P.O.Box 431
Account Number: 14- 24567556

BANK OF NAVUA (BN)
P.O.Box 234, Navua **PH: 3230000**

Statement for the Month of January 2016

Date	Particulars	Debit	Credit	Balance
January 1	Balance			1410 Cr
12	Bank fees	10.00		1400 Cr
14	Rent		300	1700 Cr
16	Commission	100.00		1600 Cr
17	Direct Deposit		400	2000 Cr

Required:

(a) What is the purpose of the above bank statement?
(b) State the account number of the customer.

(c) State the period for which the bank statement is prepared.
(d) List down the transactions that appear in the above source document?
(e) Why is the address of the business given in the source document above?
(f) What does the Debit and Credit column of the source document represent from Jale's point of view?

Activity 3.1.5

1. Dhobi Enterprises sells household electrical products in Sabeto. Given below is a tax invoice received from the supplier. Study the tax invoice and answer the questions that follow:

TAX INVOICE

Kamlesh Electronics **No. 368**
37 Banana St, Nadi
TIN: 08- 0583469- 15 Date: 25/01/2016
Name & Address of Customer: Dhobi Enterprises
11 Eldams St, Sabeto
Terms: 5% cash discount if payment is made within 30 days

Qty	Description	Rate $	Total Amount $
3	Refrigerators	1 500.00	4 500.00
10	Washing Machines	999.00	9 990.00
			14 490.00
	VAT		1304.10
			15794.10
	Handling and Delivery Charges		500.00
	Total		**16294.10**

a. Name the party which issued the tax invoice?
b. Is Kamlesh Electronics a debtor or creditor to Dhobi Enterprises?
c. What does the abbreviation TIN stands for?
d. Write down the transaction for the above tax invoice?
e. List down three details that you can find in the tax invoice above.
f. Identify the rate at which VAT is charged in the tax invoice above?
g. Why do businesses buy on credit?

2. Hometown Enterprises operates a grocery store in Seaqaqa. Study the credit note provided below to answer the questions that follow:

Hometown Enterprises
8 Hill Road, Seaqaqa

CREDIT NOTE
Phone: 18823 000
No. 3398

Credit: Ram Prasad
Cutomer Order No. 11695 Date: 02/01/2016

Qty	Description	Unit Price $	Amount $
5	Packets of Potato Chips	2.79	13.95
Tax Invoice No. 579 286	**Total VIP**		**13.95**

i. Who is the seller in the above document?
ii. Why is the tax invoice number shown in the credit note?
iii. List down two reasons why customers return goods.
iv. Which copy of the credit note is given to Ram Prasad?
v. Which journal is used to record the above transaction?
vi. Write the possible transaction reflected in the above source document?
vii. Assume Ram Prasad purchased goods for $50. What would be his account balance after the transaction?

Activity 3.1.6

1. Sam is a regular customer of Foods Limited and he has been sent the statement as shown below.

Statement of Account
Customer No: 1005-89
Date: 28th February 2016

Foods limited
PO Box 1301, Moala

DATE	REFERENCE	PARTICULARS	DEBIT	CREDIT	BALANCE
1/2/2016		Opening balance			**$ 75.00**
5/2/2016	03412	Receipt		$50.00	**$ 25.00**
12/2/2016	12207	Tax Invoice	$100.00		**$125.00**
19/2/2016	07314	C/N		$10.00	**$115.00**
27/2/2016	02209	Tax Invoice	$15.00		**$130.00**
CREDIT LIMIT	**AVAILABLE CREDIT**	**CURRENT ACCOUNT BALANCE (30 DAYS)**	**ARREARS (LAST MONTH)**		**DUE DATE**
500.00	370.00	130.00	0.00		28/03/2016
E. & O. E.					

Required:

(a) How much does Sam owe Food Limited for the month of February?
(b) What record should have been kept to verify the entry for February 12?
(c) Explain the meaning of the entry on February 19.
(d) Suggest one method Foods Limited may use to encourage Sam to pay his account on time or before time?
(e) Is Sam an asset or liability for this firm?
(f) State two reasons for issuing the document on 19/02/2016?
(g) What is meant by E. & O. E.?

2. Tevita Tuibeqa received his wages by cheque as shown below.

Date : 26 / 01 / 16 Bal b/f $1800.00 Deposit : $400.00 Bal This cheque $350.00 No. 001056	NOT NEGOTIABLE **Beautiful Bank of Fiji** **Tavua** 26 / 01 /16 Pay Tevita Tuibeqa or bearer The sum of *three hundred and fifteen dollars only* $350.00 No.001056 .....J K Brilliant..... J K Brilliant

Required:

Study the cheque given above and answer the questions that follow:

i. What is the significance of writing the word "not negotiable" in the parallel lines shown on the top left hand corner of the cheque shown above?
ii. Define the term drawee and name the drawee of the cheque?
iii. What was J K Brilliant's balance before this cheque was issued?
iv. Give a reason why the bank will not accept the above cheque?
v. From whose account will the money be drawn?
vi. What does the number 001056 represent?
vii. What other details should have been present in the above cheque?

www.google.com

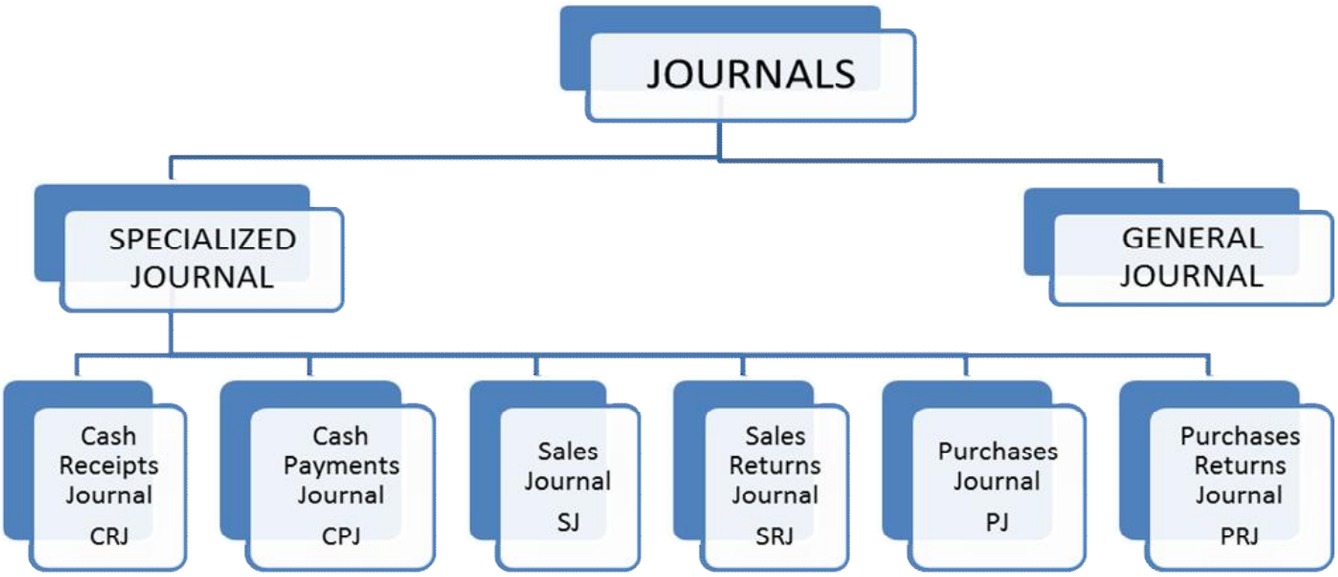
3.2 JOURNALS

In the accounting process source documents are used to make entries into the journals, then posted to ledger accounts from which trial balance is extracted and final accounts are prepared.

ACCOUNTING PROCESS

Journal: is a book of original (prime) entry which records transactions from source documents in a chronological order.

Journalising*:* is the process of recording transactions in the journal.



Functions of Journals

- It classifies or lists like items together e.g. all receipts and all purchases.
- Analyses the transactions into debits and credits to help in ledger posting.
- It provides a record of transactions as per the date it occurs (chronological order).
- It cuts down on unnecessary details in the ledger.

Advantages of using Journals

- Helps in classifying accounts.
- Transactions are recorded chronologically for easy reference.
- Provides history of transactions in a sequence with brief explanation.
- Is useful for checking irregularities, fraud and error.
- Establishes a double entry base for making entries in the ledger accounts.

Disadvantages of using Journals

- Does not give a complete picture of an account.
- It is not possible to ascertain how much is owed by customers, amount owed to suppliers, total expenses and revenues.

Specialised Journals

- It provides record of transactions of a particular type with common characteristics.

Advantages of Specialised Journals

- Saves time as similar transactions are recorded in the specialised journals.
- Classifies transactions into different groups. For instance: cash transactions (CRJ, CPJ) and credit transactions (SJ, SRJ, PJ, PRJ).
- Reduces the volume of posting work.

JOURNAL	PURPOSE	SOURCE DOCUMENTS
GENERAL JOURNAL	Records miscellaneous transactions that are not related to the specialised journals. For instance, commencement of business, goods taken by the owner, accounts receivables account written off, buying and selling of fixed assets on credit (varies according to the nature of the business), charges made by businesses to debtors, charges made by creditors, stock stolen or damaged, owner introducing additional capital in the form of fixed assets etc.	Invoices for fixed assets, internal memo from accounting department, police report and other documents.
CASH RECEIPTS JOURNAL	Records the cash and cheque received from any source.	Cash register tape, receipts issued, bank statements Cr and cash sales docket.
CASH PAYMENTS JOURNAL	Records all payments made by cash or cheque for any purpose.	Cheque butts, bank statements Dr, payment vouchers, receipts received.
SALES JOURNAL	Records goods sold on credit only.	Tax invoice issued.
PURCHASES JOURNAL	Records goods purchased on credit only.	Tax invoice received.
SALES RETURNS JOURNAL	Records the return of goods sold on credit and allowances given to accounts receivables.	Credit note issued.
PURCHASES RETURNS JOURNAL	Records the return of goods purchased on credit and allowances received from accounts payables.	Credit note received.

Example

The source documents provided below is related to Henry Jackson Mart for the month of February 2016. The business is involved in selling of general items.

TAX INVOICE	**HENRY JACKSON MART** **23 Miller Road** **Sigatoka**		No. 856 **TIN: 50-32564-0-8**
To:	Vani		Date: 12/02/16
Address:	12 Bubbly St, Sigatoka		
Customer no.:	694		
Qty	**Description**	**Unit Price ($)**	**Total ($)**
3	Tea Cups	1.50	4.50
2	Tea Pot	20.68	41.36
1	Mat	5.99	5.99
		Subtotal	**51.85**
		VAT	**4.67**
		Total	**56.52**
Authorised by: J. K. Ruci			
Please pay by 12/03/16.			

RECEIPT	**HENRY JACKSON MART** **23 Miller Road** **Sigatoka**		No. 523 **TIN: 50-32564-0-8**
Amount in Words:	One hundred and twenty dollars only.		
Cash/Cheque	**Discount**	**Total**	
Cash	---	**$120.00**	
Received from:	**Shiny Keeper**		
Received for:	Payment of account (Invoice no. 657)		
Signature:	*Henry Jackson*	**Date:**	14/02/2016

CREDIT NOTE	**HENRY JACKSON MART** **23 Miller Road** **Sigatoka**		No. 65 **TIN: 50-32564-0-8**
Invoice No. 856		Date: 16/02/16	
To:	Vani		
Address:	12 Bubbly St, Sigatoka		
Customer no.:	694		
Qty	**Description**	**Unit Price ($)**	**Total ($)**
3	Tea Cups	1.50	4.50
		Subtotal	**4.50**
		VAT	**0.41**
		Total	**4.91**
Reason for credit: Broken handle			
Authorised by: J. K. Ruci			

TAX INVOICE	HENRY JACKSON MART 23 Miller Road Sigatoka		No. 859 TIN: 50-32564-0-8
To:	Neevan		Date: 12/02/16
Address:	15 Lolly St, Sigatoka		
Customer no.:	720		
Qty	**Description**	**Unit Price ($)**	**Total ($)**
3	White ceramic plate	4.00	12.00
1	Tea set	15.50	15.50
2	Dinner Set	31.50	63.00
		Subtotal	**90.50**
		VAT	**8.15**
		Total	**98.65**
Authorised by: J. K. Ruci			
Please pay by 12/03/16.			

HENRY JACKSON MART
23 Miller Road
Sigatoka
TIN: 50-32564-0-8

Receipt No. 33695 **Cashier: Susmita**
Date: 20/02/16 **Time: 5:23:21 p.m.**

Twisties Snack Pizza 20g	
10 @ $0.35	= $ 3.50
Marigold Fruit Juice Apple 250ml	
5 @ $1.50	= $ 7.50
Anchor Choc Milk 250 ml	
10 @ $2.50	= $25.00
Subtotal:	$36.00
VAT:	$ 3.24
Total VIP:	$39.24
Cash	$50.00
Change	$10.76

Thank you for shopping with us.

TIN: 50-32564-0-8	**Date:**19th Feb
To: Jelly Ltd	
For: Payment of account	
Balance B/fwd	$2500.00
Deposit	-
	$2500.00
This Cheque	$1500.00
Balance	$1000.00
No. 003627	

TIN: 50-32564-0-8	**Date:**20th Feb
To: Goldy Ltd	
For: Purchase of tea set and other ceramic	
Balance B/fwd	$1000.00
Deposit	-
	$1000.00
This Cheque	$ 800.00
Balance	$ 200.00
No. 003629	

RECEIPT	FASHION MATS 12 Miller Road Sigatoka		No. 662 TIN: 50-33684-0-4
Amount in Words:	Two hundred and forty dollars only.		
Cash/Cheque	**Discount**	**Total**	
Cash	**$10.00**	**$240.00**	
Received from:	**HENRY JACKSON MART**		
Received for:	Payment of account (Invoice no. 836)		
Signature:	*Fashion Mats*	**Date:**	21/02/2016

TAX INVOICE	FASHION MATS 12 Miller Road Sigatoka		No. 776 TIN: 50-33684-0-4
To:	HENRY JACKSON MART		Date: 22/02/16
Address:	23 Miller Road, Sigatoka		
Customer no.:	546		
Qty	**Description**	**Unit Price ($)**	**Total ($)**
30	Brown Round Mats	9.50	285.00
24	Blue Welcome Mats	20.68	496.32
15	Bathroom Bubble Mats	6.58	98.70
		Subtotal	**880.02**
		VAT	**79.20**
		Total	**959.22**
Authorised by: R. R. Singh			
Please pay by 22/03/16.			

CREDIT NOTE	FASHION MATS 12 Miller Road Sigatoka		No. 136 TIN: 50-33684-0-4
Invoice No. 776		Date: 24/02/16	
To:	HENRY JACKSON MART		
Address:	23 Miller Road, Sigatoka		
Customer no.:	546		
Qty	**Description**	**Unit Price ($)**	**Total ($)**
2	Blue Welcome Mats	20.68	41.36
1	Bathroom Bubble Mats	6.58	6.58
		Subtotal	**47.94**
		VAT	**4.31**
		Total	**52.25**
Reason for credit: Torn mats and faded prints			
Authorised by R. R. Singh			

TAX INVOICE	GOLDY LTD 18 Miller Road Sigatoka		No. 712 TIN: 50-34924-0-5
To:	HENRY JACKSON MART		Date: 22/02/16
Address:	23 Miller Road, Sigatoka		
Customer no.:	587		
Qty	**Description**	**Unit Price ($)**	**Total ($)**
10	Tea Set	12.50	125.00
12	Dinner Set	28.95	347.40
30	White ceramic plate	3.50	105.00
		Subtotal	**577.40**
		VAT	**51.97**
		Total	**629.37**
Authorised by: L. J. Sky			
Please pay by 22/03/16.			

Solutions

Journals for the above documents are provided below.

Columnar Cash Payments Journal

Date	Particulars	Cheque no.	Discount Received $	Details	Bank $	Purchases $	Accounts Payable $	Other Payments $
Feb 19	Jelly Ltd	003627			1500.00		1500.00	
20	Purchases	003629			800.00	800.00		
21	Fashion Mats	662- Rec	10		240.00		250.00	
	Discount Received Cr Bank Cr		**10**		**2540.00**	**800.00**	**1750.00**	

Columnar Cash Receipts Journal

Date	Particulars	Receipt no.	Discount Allowed $	Details	Bank $	Sales $	Accounts Receivables $	Other Receipts $
Feb 14	Shiny Keeper	523			120.00		120.00	
20	Sales	33695			39.24	39.24		
	Discount Allowed Dr Bank Dr				**159.24**	**39.24**	**120.00**	

Sales Journal

Date	Particulars	Invoice no.	Debit $	Credit $
Feb 12	Vani	856	56.52	
12	Neevan	859	98.65	
	Total Sales Account **CR**			**155.17**

Sales Returns Journal

Date	Particulars	Cr Note No.	Debit $	Credit $
Feb 16	Vani	65		4.91
	Total Sales Returns Account **DR**		**4.91**	

Purchases Journal

Date	Particulars	Invoice no.	Debit $	Credit $
Feb 22	Fashion Mats	776		959.22
22	Goldy Ltd	712		629.37
	Total Purchases Account **DR**		**1588.59**	

Purchase Returns Journal

Date	Particulars	Cr Note No.	Debit $	Credit $
Feb 24	Fashion Mats	136	52.25	
	Total Purchase Returns Account **CR**			**52.25**

Example

Nelly operates Nelly's Superstore in Levuka. On June 1, 2015 Nelly's book showed the following assets: Cash at Bank $3000, Stock $1500, Accounts Receivables: Shreya $500, Sam Valentine $700 and Office Furniture $6000. His liabilities were Accounts Payable: Mufiza Bano $4500 and Ritz Ltd $900.

Her transactions for the month were:

Date	Transactions
June 4	Sold goods to B. Brown $100 less 10% trade discount.
6	Purchased goods from B.S. Ltd for $300 cash.
7	Bought goods from Mohan Singh for $150 on credit.
8	Received tax invoice from Repairs Ltd for repairing furniture $115.
9	Issued cash register tape for $400. Received $260 from Sam Valentine and allowed a discount of $10.
10	Purchased goods from Mufiza Bano $168.
11	Cheque received from Sam Valentine on June 9 was returned by the bank dishonoured.
12	Received commission $25.
13	Received credit note from Mufiza Bano for $16.
14	Made a refund of $19 on cash sale return.
19	Received cheque from B. Brown for amount owing at 4 June, less 10% discount.
21	Returned faulty goods to Mohan Singh $18.

27	Drew one cheque for cash drawings $25 and paid wages $50.
28	Paid Ritz Ltd $99 less $9 discount. Sold goods on credit to J. Smith $90.
29	Received notice that Sam Valentine had been declared bankrupt and wrote off his account $700.
30	Forwarded credit note to J. Smith $20 for goods sold on 28th June. Received a cash refund of $20 for cash purchase return.

Solution:

General Journal

Date	Particulars	Debit $	Credit $
June 1	Cash at bank	3000	
	Stock	1500	
	Accounts Receivables: Shreya	500	
	Sam Valentine	700	
	Office Furniture	6000	
	Accounts Payables: Mufiza Bano		4500
	Ritz Ltd		900
	Capital – Nelly		6300
	(To record assets and liabilities.)		
8	Repairs to furniture	115	
	Repairs Ltd		115
	(To record repairs on furniture.)		
11	Sam Valentine	10	
	Discount Allowed		10
	(To record discount disallowed on dishonoured cheque)		
29	Bad Debts	700	
	Sam Valentine		700
	(To record bad debts written off)		

Columnar Cash Receipts Journal

Date	Particulars	Discount Allowed $	Detail $	Bank $	Sales $	Accounts Receivables $	Others Receipts $
June 9	Sales		400		400		
	Sam Valentine	10	260	660		270	
12	Commission			*25*			25
19	B. Brown	9		*81*		90	
30	Purchase Returns			20			20
	Discount allowed Dr	**19**		**786**	**400**	**360**	**45**
	Bank Dr						

Columnar Cash Payments Journal

Date	Particulars	Disc Received $	Detail $	Bank $	Purchases $	Accounts Payables $	Wages $	Others Payments $
June 6	Purchases			300	300			
11	S.Valentine-Dis Chq			260				260
14	Sales returns			19				19
27	Drawings Wages		25 50	 75			 50	25
28	Ritz Ltd	9		90		99		
	Disc received Cr ***Bank Cr***	**9**		**744**	**300**	**99**	**50**	**304**

Sales Journal

Date	Particulars	Debit $	Credit $
Jun 4 28	B. Brown (100 – 10) J Smith	90 90	
30	***Sales account Cr***		**180**

Sales Returns Journal

Date	Particulars	Debit $	Credit $
Jun 30	J. Smith		20
	Sales returns account Dr	***20***	

Purchases Journal

Date	Particulars	Debit $	Credit $
June 7 10	Mohan Singh Mufiza Bano		150 168
30	**Purchases Account Dr**	***318***	

Purchase Returns Journal

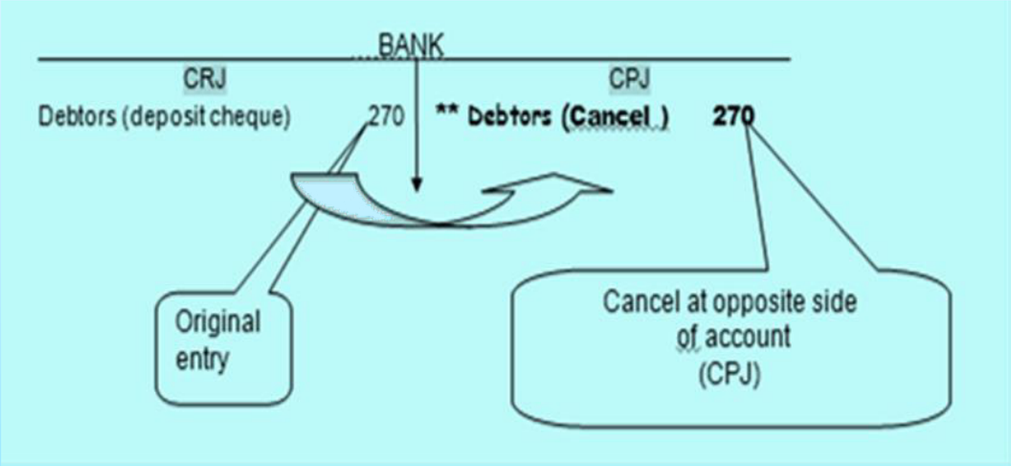
Date	Particulars	Debit $	Credit $
Jun 13 21	Mufiza Bano Mohan Singh	16 18	
30	***Purchase returns account Cr***		***34***

Note 1: Discounts

1. **Trade discount** - is the discount given to customers for bulk buying which is not recorded in the books of the business.
2. **Cash discounts**- discounts given for prompt payment. Two types of cash discounts are:
   - **Discount allowed** is an allowance given to accounts receivables (debtors) for making payment before the due date.
   - **Discount received** is an allowance given by accounts payables (creditors) for prompt payment of accounts.

NOTE 2: Dishonoured Cheque of a Customer

When cheque is received from a customer an initial entry is made into the CRJ. However, when the cheque becomes dishonoured the double entry rule is followed to cancel off the effect. That is, the cheque will now be recorded in the CPJ.



NOTE 3: The sales and purchases of fixed assets on credit will only be recorded in the general journal and not the goods journal (SJ, PJ, PRJ, and SRJ). This may differ according to the nature of the business. For instance, a furniture retail company will record the purchase of furniture in the purchases journal as it is its normal operating activity.

Activity 3.2.1

Multiple Choice

1. A journal provides
   A. the balances for each account.
   B. a chronological record of transactions.
   C. a list of all accounts used in the business.
   D. information about a transaction in several different places.

2. Which of the following journal would record interest charged on overdue accounts?
   A. Sales Journal
   B. General Journal
   C. Purchases Journal
   D. Cash Receipts Journal

3. A purchases journal is used to record all
   A. purchases.
   B. cash purchases.
   C. purchases of goods on credit.
   D. purchases returns and allowances.

Activity 3.2.2

1. Samu Lee asks you to write up his credit journals from the following information and total them at the end of the week.

2016	
Nov 20	Issued tax invoice to M. Bean $85.
	Received tax invoice from Kailash $165.
	Charged interest $50 to Sita's overdue account.
21	Issued tax invoice to Grower $50.
	Received tax invoice from Maria $595.
	Received credit note from Kailash $10.
	Received cheque from M. Bean $120.
22	Issued tax invoice to Merlin $50.
	Issued tax invoice to Supriya $75.
	Issued credit note to Grower $45.
23	Issued credit note to Merlin $20.
24	Purchased goods from Miriama $556.

2. Joeli's Computer Shop was established on 1st January 2016 in Ba, when Joeli invested $20000 cash. The following is a summary of the transactions for the month of January, 2016.

Jan 1	Joeli contributed $20000 cash to the business.
3	Issued EFTPOS receipt for the sale of computers $1200.
5	Received $100 from Edward and allowed a discount of $10.
10	Sold a laptop to Simran for cash $1000 less 2% trade discount.
13	Bought new stock of computers from Bondwell $10000.
17	Received $700 from Shana (Accounts Receivable).
20	Sold a computer for $800 cash.
	Received rent $135.
24	Issued a cheque for FEA Bill $150.
27	Received commission $100.
31	Vani paid $300 less 5% cash discount.

Required:
From the information provided, select the relevant transactions and prepare a Columnar Cash Receipts Journal.

3. Kelera operates a taxi business in Lautoka. The following is a summary of transactions for the month of March, 2016.

March 1	Received $200 for taxi service.
4	Paid wages $150 and fuel $180 with the same cheque.
7	Received a cheque for taxi hire $550.
10	Paid Viliame Motor $900 and received a discount of $90.
11	Cleared Kundan Carz account $500 less 2% discount.
14	Paid wages to drivers $300.
	Bought a car for $25000 from A. Ltd and made a down payment of $5000.
23	Paid for mobile expenses $180 and fuel $400, with the same cheque.
31	Drew cheque for son's birthday expenses $200.

Required:
Select the relevant information given above and prepare a Columnar Cash Payments Journal.

Activity 3.2.3

1. Matai's Shopping Mart specialises in selling a variety of general products in Bua , Labasa. The following transactions relates to the month of May 2016.

May 1	Day's takings $400.
	Bought goods from Titu's Suppliers for $1 500.

3 Issued tax invoice to Shaylene $635.
4 Received credit note from Titu's Suppliers for $120.
Sold goods to Karina $320.
6 Purchased a new van from Bumpy Van's Suppliers for $20 000.
7 Shaylene returned faulty goods worth $85.
9 Received tax invoice from Sparkling Products for $6 900.
10 Wrote off the balance of Tim's account as bad debt, $50.
13 Issued tax invoice to Green Patel for $2 362.
14 Charged Shaylene interest on overdue account, $20.
15 Sold goods to Sheetal worth $820.
19 Paid Titu's Suppliers $1000 less 5% cash discount.
22 Sold furniture to White on credit which had a cost of $300 for $280.
25 Karina returned damaged goods $76.
28 Bought goods from Sparkling Products for $4 250.
The supplier (Sharukh) charged interest on overdue accounts $13.
Issued cash register tape to Jonetani for $311.
30 Received cheque from Sheetal for payment of account $300.

Required:
Study the transactions and prepare the General Journal, Sales Journal, Sales Returns Journal, Purchases Journal and Purchase Returns Journal of Matai's Shopping Mart for the month of May.

Activity 3.2.4

1. Correct the following errors in the general journal of Steve Kumar's business.
   a. A purchase of new machine for $1000 had been entered in the repairs account.
   b. Sales of $850 for Paul had been debited to Pauline.
   c. A private purchase of $900 had been included in the purchases.
2. Give an example of a transaction that results in:
   a) An increase in one asset and an increase in a liability.
   b) An increase in one asset and an increase in proprietorship.
   c) A decrease in one asset and a decrease in liability.
   d) A decrease in one asset and a decrease in proprietorship.
   e) An increase in one asset, a decrease in another asset and an increase in one liability.
   f) A decrease in proprietorship and an increase in a liability.

3.3 LEDGER ACCOUNTS

Ledger

Are individual accounts where all changes affecting each account are shown with its balance.

"T" Account

The "T" Account got its name from its shape, as it looks like the letter "T". It is also known as two – column ledger account.

Illustration of Two Column Ledger (T Form Ledger)

Date	Particulars	Amount	Date	Particulars	Amount

Three – Column Ledger Account

This ledger account has three columns namely Debit, Credit and Balance. It is also known as *running balance account* since balance is calculated after each transaction.

Illustration of Three Column Ledger

Date	Particulars	Debit $	Credit $	Balance $

3 Column ledgers are most commonly used for businesses which uses accounting software.

Example

The following information has been extracted from the books of Malakai.

General Journal

Date	Particulars	Debit $	Credit $
July 1	Cash at bank	5000	
	Vehicles	3500	
	Building	20 000	
	Accounts Receivables: Krishna	670	
	Brown	300	
	Accounts Payable: Sara		800
	Mortgage		12 500
	Capital – Malakai		16 170
	(To record assets and liabilities.)		
7	Brown	14	
	Discount allowed		14
	(To record discount disallowed on dishonoured cheque)		

21	Equipment David Company (To record Purchase of equipment on credit)	1000	 1000
21	Tuimeli Vehicle (To record sale of old vehicle)	500	 500

Cash Receipts Journal

Date	Particulars	Discount Allowed $	Detail $	Bank $	Sales $	Accounts Receivables $	Other Receipts $
July 3	Sales		265		265		
	Brown	14	126	391		140	
4	Purchase Returns			10			10
14	Krishna	15		150		165	
18	Sales			85	85		
31	**Discount Allowed Dr** **Bank Dr**	**29**		**636**	**350**	**305**	**10**

Individual or total entries will be **credited.**

Cash Payments Journal

Date	Particulars	Discount Received $	Detail $	Bank $	Purchases $	Accounts Payables $	Other Payments $
July 3	Purchases			50	50		
7	Brown- Dis. Cheque			126			126
10	Purchases		95		95		
	Freight		15	110			15
17	Sara	10		200		210	
30	Bula Enterprises	5	95			100	
	Sales Return		25	120			25
31	**Discount Received Cr** **Bank Cr**	**15**		**606**	**145**	**310**	**166**

Individual or total entries will be **debited.**

Sales Journal

Date	Particulars	Debit $	Credit $
July 2	Krishna	200	
8	Abigail	500	
31	Sales Account CR		700

Purchases Journal

Date	Particulars	Debit $	Credit $
July11	Bula Enterprises		200
12	Sara		171
31	Purchases Account Dr	371	

Sales Returns Journal

Date	Particulars	Debit$	Credit $
July 22	Krishna		35
31	Sales Returns Account Dr	35	

Purchase Returns Journal

Date	Particulars	Debit $	Credit $
July 14	Sara	18	
31	Purchase Returns Account Cr		18

Solutions

LEDGER ACCOUNTS

Cash at Bank Account

Date	Particulars	Debit ($)	Credit ($)	Balance ($)
July 1	Balance			5000 Dr
31	Total receipts	636		5636 Dr
	Total payments		606	5030 Dr

Vehicles

Date	Particulars	Debit ($)	Credit ($)	Balance ($)
July 1	Balance			3500 Dr
21	Tuimeli		500	3000 Dr

Building

Date	Particulars	*Debit ($)*	*Credit ($)*	*Balance ($)*
July 1	Balance			20000 Dr

Krishna

Date	Particulars	Debit ($)	Credit ($)	Balance ($)
July 1	Balance			670 Dr
2	Sales	200		870 Dr

14	Cash		150	720 Dr
	Discount Allowed		15	705 Dr
22	Sales returns		35	670 Dr

Brown

Date	Particulars	*Debit ($)*	*Credit ($)*	*Balance ($)*
July 1	Balance			300 Dr
3	Cash		126	174 Dr
	Discount allowed		14	160 Dr
7	Dish cheque	126		286 Dr
	Discount allowed	14		300 Dr

Sara

Date	Particulars	*Debit ($)*	*Credit ($)*	*Balance ($)*
July 1	Balance			800 Cr
12	Purchases		171	971 Cr
14	Purchase returns	18		953 Cr
17	Cash	200		753 Cr
	Discount Received	10		743 Cr

Mortgage

Date	Particulars	*Debit ($)*	*Credit ($)*	*Balance ($)*
July 1	Balance			12500 Cr

Capital

Date	*Particulars*	*Debit ($)*	*Credit ($)*	*Balance ($)*
July 1	Balance			16170 Cr

Discount Allowed

Date	Particulars	*Debit ($)*	*Credit ($)*	*Balance ($)*
July 3	Brown	14		14 Dr
7	Brown		14	-
14	Krishna	15		15 Dr

Equipment

Date	Particulars	*Debit ($)*	*Credit ($)*	*Balance ($)*
July 21	David Company	1000		1000 Dr

David Company

Date	Particulars	Debit ($)	Credit ($)	Balance ($)
July 21	Equipment		1000	1000 Cr

Tuimeli

Date	Particulars	Debit ($)	Credit ($)	Balance ($)
July 21	Vehicle	500		500 Dr

Abigail

Date	Particulars	Debit ($)	Credit ($)	Balance ($)
July 8	Sales	500		500Dr

Sales

Date	Particulars	Debit ($)	Credit ($)	Balance ($)
July 31	Cash		350	350 Cr
	Accounts receivables		700	1050 Cr

Purchase Returns

Date	Particulars	Debit ($)	Credit ($)	Balance ($)
July 4	Cash		10	10 Cr
31	Accounts payables		18	28 Cr

Purchases

Date	Particulars	Debit ($)	Credit ($)	Balance ($)
July 31	Cash	145		145 Dr
	Accounts payables	371		516 Dr

Freight

Date	Particulars	Debit ($)	Credit ($)	Balance ($)
July 10	Cash	15		15 Dr

Bula Enterprises

Date	Particulars	Debit ($)	Credit ($)	Balance ($)
July 11	Purchases		200	200 Cr
30	Cash	95		105 Cr
	Discount Received	5		100 Cr

Sales Returns

Date	Particulars	Debit ($)	Credit ($)	Balance ($)
July 30	Cash	25		25 Dr
	Accounts receivables	35		60 Dr

Discount Received

Date	Particulars	Debit ($)	Credit ($)	Balance ($)
July 17	Sara		10	10 Cr
30	Bula Enterprises		5	15 Cr

TRIAL BALANCE

Trial balance consists of a list of the ledger account balances in the order in which they appear in the general ledger. The Assets, Expenses and Drawings account are recorded on the debit side while the Liabilities, Revenues and Capital is recorded on the credit side.

The illustration on the trial balance is provided below, which is a continuation from the ledger example.

Trial Balance of Malakai as at 31st July 2015			
	$		$
Cash at bank	5030	Sara	743
Vehicles	3000	Mortgage	12500
Building	20000	Capital	16170
Krishna	670	David company	1000
Brown	300	Sales	1050
Discount allowed	15	Purchase returns	28
Equipment	1000	Bula Enterprises	100
Tuimeli	500	Discount received	15
Abigail	500		
Purchases	516		
Freight	15		
Sales returns	60		
	$31606		**$31606**

Activity 3.3.1

Multiple Choice

1. After journalising the transactions the next step is to transfer it to the
   A. trial balance.
   B. income statement.
   C. book of original entry.
   D. Ledger.

2. A trial balance is a listing of
   A. transactions in a journal.
   B. the chart of accounts.
   C. general ledger accounts and balances.
   D. the totals from the journal pages.

3. The purchase account is understated by $500. The effect of this error on the trial balance would be that the
   A. Debit side is $500 less than the credit side.
   B. Credit side is $500 more than the debit side.
   C. Credit side is $1000 more than the debit side.
   D. Debit side is $1000 more than the credit side.

4. Rehana Sports World sold a motor vehicle on credit to George for $10000.
   Which of the following entries will be made in the books of Rehana Sports World?
   A. Debit: George Credit: Motor Vehicle
   B. Debit: George Credit: Sales
   C. Debit: Motor Vehicles Credit: George
   D. Debit: Sales Credit: George

5. Tanu's Enterprise paid wages to its staffs $380. The entries in the books of Tanu's Enterprise would be:
   A. Debit: Wages Credit: Accounts Payable
   B. Debit: Bank Credit: Wages
   C. Debit: Wages Credit: Cash
   D. Debit: Wages Credit: Staff Creditors

Activity 3.3.2

1. From the given transactions, prepare the general journal and post to the ledger.
   2016
   Feb 1 Clara's account was written off as bad debts $50.
   3 Charged Jane (debtor) interest on overdue account $10.

8 Purchased furniture from Furniture Makers Ltd $2000.
10 Sold vehicle to Julie for $15000 (Cost Price $16000).

2. Study the given transactions of Jacqueline Tonga and prepare the relevant journals and ledgers for the month of December 2015.

December 1 Issued tax invoice to Maria for $200.
5 Issued tax invoice to Jason $350.
Received tax invoice from Reyna for $500.
7 Received a credit note from Reyna worth $30.
10 Issued a credit note to Jason for goods sold on 5 December for $100.
12 Issued tax invoice to Rima worth $405.
15 Received tax invoice from Sima's Enterprise $300.
16 Received credit note from Sima's Enterprise worth $50.

Activity 3.3.3

1. From the following information of Super Trading, prepare the appropriate journals, post to the ledger and prepare a trial balance.
The balances at 1 July 2015 were as follows:

Cash at bank	$ 10000	Accounts receivables: N Ash	$ 5900
Inventories	$ 4000	I Becker	$ 230
Furniture	$ 8000	Accounts payables: V Cramer	$ 750
		W Quentin	$ 500

Invoices Issued

Date	Particulars	Amount $
July 2	N Ash	1450
10	I Becker	795
28	N Ash	900
31	P Clarke	3500

Invoices Received

Date	Particulars	Amount $
July 4	V Cramer	1000
15	W Quentin	560
24	W Quentin	460
31	D Phillips	98

Credit Note Issued

Date	Particulars	Amount $
July 9	N Ash	50
29	N Ash	11

Credit Note Received

Date	Particulars	Amount $
July 18	W Quentin	100
25	V Cramer	315

Receipts Issued

Date	Particulars	Amount $	Discount $
July 3	N Ash	5840	60
4	Rent	1000	
10	Interest	250	
15	I Becker	200	30
17	N Ash	900	
27	Rent	1000	

Cheque Butts

Date	Particulars	Amount $	Discount $
July 1	Purchases	1000	
2	V Cramer	500	50
3	Wages	1400	
15	Electricity	360	
23	Sundry Exp	250	
24	Drawings	500	
31	Purchases	2500	

Cash sales

Date	Amount $
July 1	500
12	900

Other transactions

July 10 Purchased furniture from Furniture Traders $13000 on credit.
27 Owner withdrew goods at cost $500.
31 Sold some furniture to Gibson for $750 credit (cost price $710).

2. From the following documents, prepare the appropriate journals, post to the ledger and prepare a trial balance. The owner Titu, commenced business known as Titu's Enterprise on 1 June 2015 with the following assets and liabilities:

Cash at Bank	$ 8000	Inventories	$ 2000
Vehicles	$16000	Buildings	$10000
Land	$10000	Mortgage	$15000
Capital	$32000	Furniture	$ 1000

The transactions for the month were:

Cash Register Tapes Issued

TITU'S ENTERPRISE
TIN No. 07- 0683569- 15
Date: 3 June 2015

5.40
9.90
29.70
10.00
12.50
16.50
VIP Total $84.00

THANK YOU
CALL AGAIN

TITU'S ENTERPRISE
TIN No. 07- 0683569- 15
Date: 5 June 2015

3.40
6.90
25.95
6.70
15.95
9.10
VIP Total $68.00

THANK YOU
CALL AGAIN

TITU'S ENTERPRISE
TIN No. 07- 0683569- 15
Date: 6 June 2015

49.95
16.85
12.50
3.50
18.65
19.55
VIP Total $121.00

THANK YOU
CALL AGAIN

Invoices Issued

TITU'S ENTERPRISE
TIN No. 07- 0683569- 15
Date: 3 June 2015
TAX INVOICE No. 265
FOR: Sales to J Milo
$1500

TITU'S ENTERPRISE
TIN No. 07- 0683569- 15
Date: 8 June 2015
TAX INVOICE No. 266
FOR: Sales to M Cocoa
$2000

TITU'S ENTERPRISE
TIN No. 07- 0683569- 15
Date: 11 June 2015
TAX INVOICE No. 267
FOR: Sales to L Coffee
$950

TITU'S ENTERPRISE
TIN No. 07- 0683569- 15
Date: 13 June 2015
TAX INVOICE No. 268
FOR: Sales to Tina
$550

Credit Notes Issued

TITU'S ENTERPRISE
TIN No. 07- 0683569- 15
Date: 12 June 2015

CREDIT NOTE No. 152
INVOICE No. 267
TO: L Coffee
$20

TITU'S ENTERPRISE
TIN No. 07- 0683569- 15
Date: 14 June 2015

CREDIT NOTE No. 153
INVOICE No. 268
TO: Tina
$50

Cheque butts

Date: 10th June 2015	
To: John	
For: Purchases	
Balance B/fwd	$ 3 230.00
Deposit	-
	$ 3 230.00
This Cheque	$ 900.00
Balance	$ 2 330.00
No. 00213	

Date: 11th June 2015	
To: Cash	
For: Drawings	
Balance B/fwd	$2 330.00
Deposit	-
	$2 330.00
This Cheque	$ 330.00
Balance	$2 000.00
No. 00214	

Date: 12th June 2015	
To: Cash	
For: Wages & Salaries	
Balance B/fwd	$2 000.00
Deposit	$1 000.00
	$3 000.00
This Cheque	$1 000.00
Balance	$2 000.00
No. 00215	

Date: 13th June 2015	
To: Gabbar	
For: Settlement of Account	
Balance B/fwd	$2 000.00
Deposit	-
	$2 000.00
This Cheque	$ 395.00
Balance	$1 605.00
No. 00216	

Date: 15th June 2015	
To: Power Fiji	
For: Electricity	
Balance B/fwd	$1 955.00
Deposit	$ 500.00
	$2 455.00
This Cheque	$1 200.00
Balance	$1 255.00
No. 00217	

Date: 19th June 2015	
To: Hana's Advertisements	
For: Advertising	
Balance B/fwd	$1 355.00
Deposit	-
	$1 355.00
This Cheque	$ 360.00
Balance	$ 995.00
No. 00218	

Receipts Issued

RECEIPT NO. 362
TITU'S ENTERPRISE
TIN NO. 07-0683569-15
DATE: 12/06/15
RECEIVED FROM: Wilson
For: Sales
$1000

RECEIPT NO. 363
TITU'S ENTERPRISE
TIN NO. 07-0683569-15
DATE: 14/06/15
RECEIVED FROM: Tuiloa
For: Settlement of account.
$350

RECEIPT NO. 364
TITU'S ENTERPRISE
TIN NO. 07-0683569-15
DATE: 15/06/15
RECEIVED FROM: Grammar
For: Rent
$500

RECEIPT NO. 365
TITU'S ENTERPRISE
TIN NO. 07-0683569-15
DATE: 17/06/15
RECEIVED FROM: Harry Tours
For: Commission
$100

Invoices Received

NINA'S ENTERPRISE
TIN No. 06- 0962569- 15
Date: 4 June 2015
TAX INVOICE No. 695
FOR: Sales to Titu's Enterprise
$2300

BROWNIES ENTERPRISE
TIN No. 06- 0966569- 15
Date: 9 June 2015
TAX INVOICE No. 958
FOR: Sales to Titu's Enterprise
$680

NICHOLLS ENTERPRISE
TIN No. 06- 0968569- 15
Date: 12 June 2015
TAX INVOICE No. 562
FOR: Sales to Titu's Enterprise
$1500

MERELYN'S ENTERPRISE
TIN No. 06- 0964269- 15
Date: 13 June 2015
TAX INVOICE No. 236
FOR: Sales to Titu's Enterprise
$3650

Credit Note Received

NICHOLLS ENTERPRISE TIN
No. 06- 0968569- 15
Date: 13 June 2015
CREDIT NOTE No. 252
INVOICE No. 562
TO: Titu's Enterprise
$20

MERELYN'S ENTERPRISE
TIN No. 06- 0964269- 15
Date: 14 June 2015
CREDIT NOTE No. 351
INVOICE No. 236
TO: Titu's Enterprise
$50

Other Transactions

June 3 Sold furniture to Tuiloa on credit for $900.
4 Bought Equipment on credit from Gabbar $1500.
10 Bought office furniture from Furnitureland Co. $3500.
17 Owner withdrew goods for own use $100.

www.google.com

STRAND 4

ACCOUNTING REPORTS

Strand Outcome

Apply Accounting principles and processes in preparation of fully classified Statement of Financial Performance and Statement of Financial Position from given Trial Balance and worksheets, accounting for all the balance day adjustments and closing journal entries.

Learning Outcomes

Upon completion of this strand, students should be able to:

- *Prepare financial statements from Trial Balance and worksheets incorporating balance day adjustments.*
- *Explore Non – Profit Organisations and their Financial Reporting.*

4.1 WORKSHEET AND FINAL ACCOUNTS

Balance Day Adjustments

The last day of the financial year is known as balance day. On the balance day, final accounts such as Statement of Financial Performance and Statement of Financial Position are drawn from the Trial Balance. On the balance day there are certain transactions which require adjustments.

Reasons for Balance Day adjustments

Balance day adjustments are carried out to reflect the true and accurate net profit or loss. It also matches cost against revenue hence updating the accounts.

Accounting concepts relating to balance day adjustments are: Accrual Basis, Matching and Accounting Period Concept.

1. Prepayments

- Represents expenses which are paid during the year but relates to next accounting period. It is a current asset in the Statement of Financial Position.
- They are also termed as Unexpired Cost, Expenses paid in advance or Prepaid Expenses.

Rules for Posting

Date	Particulars	Debit $	Credit $
	Prepaid Expense Related Expense Account (To record expenses paid in advance on balance day)	xx	xx

2. Accrued Expenses

- Are expenses which has been incurred but not yet paid. It is a current liability.
- Also known as expenses due, unpaid expense, expenses accrued or expenses owed.

Rules for Posting

Date	Particulars	Debit $	Credit $
	Related Expense Account Expense Due (To record expenses due but unpaid on balance day)	xx	xx

3. Income Accrued

- It is the income that is earned during the accounting period but not received on balance day. It is a current asset.
- It is also known as income in arrears, income due, income receivable, etc.

Rules for Posting

Date	Particulars	Debit $	Credit $
	Income Due Related Income Account (To record income due but not received on balance day)	xx	 xx

4. Revenue received in advance

- This represents the income that is not earned but received in advance on the balance day. It is a current liability.
- It is also known as income in advance, unearned revenue or pre-received revenue.

Rules for Posting

Date	Particulars	Debit $	Credit $
	Related Income Account Income Received in Advance (To record income received in advance)	xx	 xx

5. Bad Debts

- A **bad debt** is the loss arising from the debtor that is not able to pay his or her debt.

Rules for Posting

Date	Particulars	Debit $	Credit $
	Bad Debts Accounts Receivable (To record the amount of bad debts written off)	xx	 xx

6. Doubtful Debts

- Doubtful debts are those debts which a business is unlikely to be able to collect from accounts receivables. That is; the estimated amount of current revenue that will be uncollected.

Rules for Posting

1. To Create or Increase Provision for Doubtful Debts

Date	Particulars	Debit $	Credit $
	Doubtful Debts Provision for Doubtful Debts (To record the increase or creating of doubtful debts.)	xx	 xx

2. To Decrease Provision for Doubtful debts

Date	Particulars	Debit $	Credit $
	Provision for Doubtful Debts Doubtful Debts (To record the decrease of doubtful debts)	xx	 xx

Formula for Calculating Doubtful Debt:
Doubtful Debt = (Accounts Receivables – Additional Bad Debts) x Rate/ 100)

7. *Depreciation*

- **General Journal Entry for Recording Depreciation**

Date	Particulars	Debit $	Credit $
	Depreciation on (name of the asset) Provision for depreciation (name of the asset) (To record the amount of depreciation charged on a fixed asset)	xx	 xx

Example

Karalaini owns a business called Smart Book Sellers. Below is the Trial Balance extract and additional information for the business.

Trial Balance (extract) of Smart Book Sellers as at 31st March 2015			
	$		$
Accounts Receivables	2480	Accumulated Depreciation on Fitting	1300
Cash at bank	6000	Allowance for doubtful debts	30
Interest on Loan	700	Accounts Payable	1200
Fittings	18000	Loan (8% p.a.)	15000
Rent	460	Commission	150
Advertising	342		

Additional Information:

- Interest on loan for the year owing.
- Advertising prepaid $36.
- Additional Bad debts to be written off amounted to $180.
- Allowance for Doubtful Debts is to be adjusted to 2% of Accounts Receivables.
- Depreciation on Fittings is at 20% p.a. using straight line method.
- Rent for the year is $800.
- Commission received in advance $120.

Solution:

	Particulars	Debit ($)	Credit ($)
1.	Interest on Loan	500	
	Interest on Loan Due		500
	(To record interest on loan due but not paid on balance day)		
2.	Prepaid Advertising	36	
	Advertising		36
	(To record advertising expense paid in advance on balance day)		
3.	Bad Debts	180	
	Accounts Receivables		180
	(To record bad debts written off on balance day)		
4.	Doubtful debts	16	
	Provision for doubtful debts		16
	(To record the increase of doubtful debts)		
5.	Depreciation on Fittings	3600	
	Provision for depreciation on Fittings		3600
	(To record the amount of depreciation charged on Fittings)		
6.	Rent	340	
	Rent Due		340
	(To record rent due but unpaid on balance day)		
7.	Commission	120	
	Commission Received in advance		120
	(To record commission received in advance on balance day)		

Activity 4.1.1

1. The following represents the trial balance extract of Anju's Store.

Anju's Store Trial Balance (extract) as at 31st January 2015			
	$		$
Accounts Receivables	2800	Provision for doubtful debts	600
Advertising	6000	Sales	40000
Bad Debts	300	Loan	5000
Interest on Loan	600	Accounts Payable	2000
Cost of Goods Sold	29000		
Inventory	25000		
Wages -Shop	8000		

The following items are yet to be recorded on balance day:

- Advertising $300 has been paid for the month of February 2015.
- Shop wages unpaid $ 700.
- Additional Bad debts written off $300.
- Provision for doubtful debts to be provided at a rate of 5% per annum.

Required:

(a) Prepare the general journal entries for the above adjustments. (Financial year ends on 31/01/15).
(b) Prepare the ledger accounts for the above adjustment entries in 3 column form.

2. The following represents the trial balance extract of Siteri's Enterprise.

Siteri's Enterprises Trial Balance (extract) as at 31st July 2015			
	$		$
Accounts Receivables	8500	Provision for doubtful debts	200
Equipment	15000	Commission Received	300
Bad Debts	250	Loan (10% p.a.)	15000
Interest on Loan	300	Accounts Payable	9560
Discount allowed	200		
Office Salaries	5050		

The balance day adjustments:

- Interest on Loan owing.
- Office Salaries Unexpired $50.
- Commission received in advance $60.
- Provide depreciation on equipment at 8% on cost.
- Wrote off additional Bad Debts $230.
- Provision for doubtful debts to be provided at a rate of 3% per annum.

Required:

1. Prepare the general journal entries for the above adjustments.
2. Prepare Statement of Financial Performance (extract) to show the effects of the adjustments above.
3. Prepare Statement of Financial Position (extract) to show the effects of the adjustments above.

Worksheet

The worksheet is a nature of a blueprint divided into various columns which assists the accountant to collect and organise the information relating to formulate financial statements.

Procedure for preparing the worksheet:

1. *Trial Balance Column*
   Ledger account balances to be entered in the correct columns of the Trial Balance. Debit must equal to credit side.
2. *Adjustments column*
   All given balance day adjustments to be entered on the Debit or Credit side of the adjustment column. New entries to be done below the Trial balance totals.
3. *Adjusted Trial Balance Column*
   Figures derived from the adjustment columns are added or subtracted from the trial balance to gage the amount that will be entered in the Statement of Financial Performance and Statement of Financial Position.
4. *Statement of Financial Performance*
   Transfer all income and expense items from the adjusted trial balance to these columns to find out the net profit or loss. The difference between the two columns represents Net Profit or Net Loss.
5. *Statement of Financial Position*
   From the adjusted trial balance transfer the Assets, Liabilities and capital to the Statement of Financial Position.

Example

The following Trial Balance relates to Pacific Fiji Ltd.

Pacific Fiji Ltd Trial Balance as at 31st May 2016			
	$		$
Rent	260	Capital	21647
Computers	9600	Commission	1900
Cell Phone expenses	450	Creditors	4200
Drawings	1600	Sales	30560
Account Receivables	5400	Bank Overdraft	2513
Office Equipment	30000		
Purchases	8540		
FEA Bills	840		
Inventories 1st April 2015	3600		
Staff Salary	530		
	60820		**60820**

Adjustments:

- Staff Salary Accrued $270.
- Unexpired Rent $60.
- Commission revenue earned but not yet received $84.
- Office equipment to be depreciated at 5% per annum.
- Inventories at 31st May 2016 $2300.

Required:

Using the information given prepare a worksheet.

Worksheet of Pacific Fiji Ltd for the year ended 31st May 2016

	Trial Balance		Adjustments		Amended Trial Balance		Statement of Financial Performance		Statement of Financial Position	
	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
Rent	260			60	200		200			
Computers	9600				9600				9600	
Cell Phone Expenses	450				450		450			
Drawings	1600				1600				1600	
Account Receivables	5400				5400				5400	
Office Equipment	30000				30000				30000	
Purchases	8540				8540		8540			
FEA Bills	840				840		840			
Inventories 01/04/15	3600				3600		3600			
Staff Salary	530		270		800		800			
Capital		21647				21647				21647
Commission		1900		84		1984		1984		
Creditors		4200				4200				4200
Sales		30560				30560		30560		
Bank Overdraft		2513				2513				2513
	60820	**60820**								
Staff Salary Accrued				270		270				270
Rent Paid in Advance			60		60				60	
Commission Revenue Accrued			84		84				84	
Depreciation on Equipment			1500		1500		1500			
Accumulated Depreciation on Equipment				1500		1500				1500
Inventories 31st May 2016								2300	2300	
Net profit							18914			18914
			1914	**1914**	**62674**	**62674**	**34844**	**34844**	**49044**	**49044**

Activity 4.1.2

Worksheet

1. The Trial Balance as at 31st March 2016 of Labasa Store is given below.

Ledger Accounts	Debit $	Credit $
Net purchases	42000	
Wages	14360	
Internet Expenses	3200	
Inventories (01/04/15)	10250	
Building at cost	85000	
Cash Register	20000	
Cash at bank	12560	
Accounts Receivables	7850	
Office expenses	550	
Insurance	1000	
Provision for doubtful debts		170
Sales		98100
Interest		280
Accumulated depreciation on Buildings		5000
Accounts Payables		3650
Commission received		980
Loan		6500
Capital – S. Ram		82090
	196770	**196770**

The following adjustments were to be made:

- $200 of Internet expenses prepaid
- Interest due but not received $150.
- Provision for Doubtful debt to be 6% of account receivables.
- Depreciation is to be provided using straight line method for the Cash Register 10.5% and the Building $2000.
- Inventory at 31st March 2016 $12000.
- Drawings by owner $800 is yet to be recorded.

Required:

Using the information given above prepare a worksheet.

www.google.com

2. Given below is the unadjusted trial balance of J.Cee's Mini Mart for the year ended 31st January 2016.

Trial Balance of J.Cee's as at 31st January 2016

Ledger accounts	Debit $	Credit $
Cost of Goods Sold	2960	
Cash at bank	3785	
Sales		8920
Prepaid Cellphone Expense	350	
Accounts Receivables	2400	
Stationery	180	
Bad debts	155	
Inventories on hand	450	
Delivery Van	12500	
Accumulated depreciation on Delivery Van		2000
Loan		2900
Account Payable		1680
Capital		7280
	22780	**22780**

The following adjustments are required at the balance date:

(a) Cellphone Expense $150.
(b) Additional bad debts written off $200.
(c) Interest accrued on loan $36.
(d) Stationery on hand $80.
(e) Depreciate Delivery vehicles at 10% per annum using straight line method.
(f) Create provision for doubtful debts equal to 5% of the debtors.
(g) Drawings by the owner $50 per month yet to be recorded.

Required:
Using the information given above prepare the Worksheet for the year ended 31st January 2016.

Preparation of Final Reports

Trading businesses operate with a view to make profit by selling goods to their customers. Example: supermarkets, clothes shop, car dealers etc.

The major difference between the Trading entity and service entity is that the revenue statement in a Trading business will show cost of goods sold to calculate gross profit. It will have opening and closing inventory.

There are **four major** Financial Statements prepared by a sole trader business, which are:

- Statement of Financial Performance.
- Cash Flow Statements.
- Statement of Financial Position.
- Statement of Changes in Equity.

In Year 12 the major **financial statements** to be learnt are Statement of Financial Performance and Statement of Financial Position.

Cash Flow Statements

- Reports the cash receipts and cash payments for an entity for an accounting period. It allows the business to calculate the closing bank account balance.
- It shows all cash movements that is; where the money came from and what it was spent on.

Statement of Financial Performance

Other names: Income Statement, Revenue Statement and Statement of Comprehensive Income.

Statement of Financial Performance

Purpose

The purpose of a Statement of Financial Performance is to report on the amount of net profit or loss derived by the business for a given period of time.

Components

- Income – divided into revenue and other income.
- Expenses are divided into Selling and Distributive, Administrative and Financial Expenses and other Expenses.

Limitations

- Allowance for doubtful debts and accumulated depreciation is based on estimates resulting in inaccurate Net profit values.
- It does not include non-financial information.
- Incorrect inventory valuation might result in inaccurate profits.

Classification of the Statement of Financial Performance for a Trading Entity

Revenue	Sales
Other Income	This includes any other income earned by the business apart from the normal trading activities. E.g. rent received, commission received, bad debt recovered, discount received etc.
Selling and Distribution Expenses	Costs that incurs in the delivery and distribution of goods to the consumers : E.g. advertising, salesmen's salaries, delivery vehicle expenses etc.
Administrative Expenses	Costs associated with the general running of the business. E.g. office expenses, depreciation of other fixed assets and electricity.
Financial expenses	Are expenses in connection with collecting debts, paying interest and allowing discounts. E.g. bad debts, discount allowed, interest on loan, doubtful debts.
Other Expenses	Any other expenses that do not fall in the three categories given above (Selling and distributive, administrative and financial expense). E.g. theft, loss on sale of fixed assets, donations etc.

FORMAT OF THE STATEMENT OF FINANCIAL PERFORMANCE FOR A TRADING BUSINESS.

Business name **Statement of Financial Performance for the year ended xx Month 20xx**			
	$	**$**	**$**
Sales		xx	
Less sales returns		xx	
Net Sales			xx
Less Cost Of Goods Sold			
Opening Stock		xx	
Add Purchases	xx		
Less Purchases Returns	xx	xx	
Add Buying Expenses		xx	
Goods made Available for Sale		xx	
Less Closing Stock		xx	
Cost of Goods Sold			xx
Gross Profit /Loss			**xx**
Add Other Income			
Bad debts recovered		xx	
Doubtful debts (decrease)		xx	

Dividend		xx	
Rent received		xx	
Gain on Sale of fixed assets		xx	xx
			xx
Less Expenses			
Selling and Distribution Expenses			
Salesman's wages	xx		
Advertising	xx		
Delivery vehicle expense	xx	xx	
Administrative Expenses			
Insurance	xx		
Salaries	xx		
Repairs and maintenance	xx	xx	
Financial Expenses			
Discount allowed	xx		
Interest on loan	xx		
Bad debts	xx		
Interest on Mortgage	xx		
Doubtful debts (creating and increasing)	xx	xx	xx
			xx
Less Other Expenses			
Donations		xx	
Loss on sale of fixed assets		xx	
Total expenses			xx
Net Profit or Net Loss			**xxx**

Note: Buying expenses includes: customs duty, cartage inwards, freight inwards, landing charges, and wharfage, cartage inwards.

Trading Business: Classification of Expenses	**Service Business: Classification of Expenses**
Selling and Distribution Expense	Is classified as service expenses however, it depends on the type of business Example; a legal firm will use **Legal expenses;** a plumbing business will use **Plumbing expense** etc.
Administrative Expense	Administrative Expense
Financial Expense	Financial Expense
Other Expenses	Other Expenses

Statement of Financial Performance of a Service Business.

Business name Statement of Financial Performance for the year ended xx Month 20xx			
	$	$	$
Fees Received		xx	
Add Other Income			
Dividend	xx		
Rent received	xx	xx	xx
Less Expenses			
Service expenses	xx	xx	
Administrative Expenses			
Wages	xx		
Rent	xx		
Insurance	xx		
Electricity	xx		
Printing	xx		
Depreciation on building	xx	xx	
Financial Expenses			
Discount allowed	xx		
Interest on loan	xx		
Bad debts	xx		
Interest on Mortgage	xx		
Doubtful debts (creating and increasing)	xx	xx	xx
			xx
Less Other Expenses			
Donations		xx	
Loss on sale of fixed assets		xx	xx
Net Profit or Net Loss			**xxxx**

www.google.com

Statement of Financial Position

Statement of Financial Position

Purpose

The purpose of a Statement of Financial Position is to report the entity's assets, liabilities and proprietorship at a point in time.

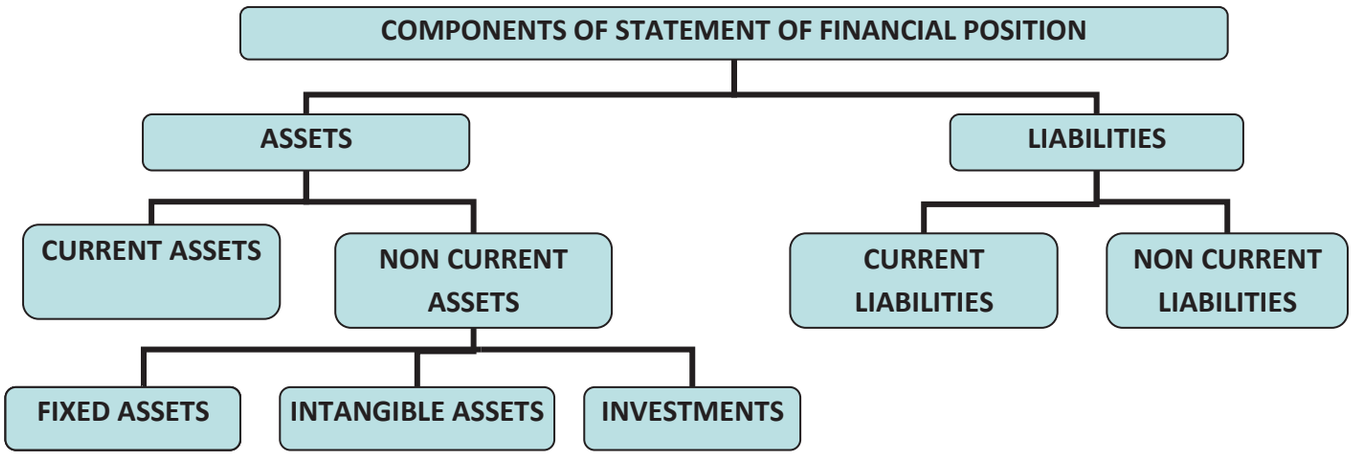
Components

- Assets are divided into current and non-current (Investments, Intangibles, Property Plant and Equipment)
- Current and Non-current liabilities
- Proprietorship or Equity.

Limitations

- Allowance for doubtful debts and accumulated depreciation is based on estimates resulting in inaccurate asset values.
- It does not include non-financial information.
- Values of the assets are based on historical cost which can be outdated and may not reflect the current market value of the assets.

The Components of the Statement of Financial Position



Current Assets
Are those which are converted into cash within a financial year Eg. Cash at bank, inventory, accounts receivable.

Non-Current Assets
These are assets other than current assets which cannot be quickly converted into cash.

Fixed Assets
Are those assets which are used in the business for more than one year to generate income. It is also known as Property, Plant and Equipment.

Intangible Assets
Are those assets which have no physical substance. That is; they cannot be seen or touched E.g. goodwill, patents rights, copy right.

Investments
Are money invested outside the business which generates income. E.g. term deposit, government bond, Shares in TT Co. Ltd.

Current Liabilities
Debts that must be paid within a year. E.g. accounts payable, bank overdraft (short term obligations of a business).

Non-Current Liabilities
Those debts that takes more than one accounting period to pay. E.g. mortgage, long term loan.

Mortgage
Is a secured loan on property. The mortgager has full right to seize the property in case of non-payment of loan.

Proprietorship
Is the owner's investment in the business plus the net profit ascertained by the business, less drawings.

www.google.com

Format of a Statement of Financial Position

Business Name **Statement of Financial Position as at xx Month 20xx**			
Current Assets :	**$**	**$**	**$**
Cash at bank/ on hand		xx	
Closing stock/Inventory		xx	
Expenses Prepaid		xx	
Income due		xx	
Accounts receivable	xx		
Less Provision for doubtful debts (actual amount)	xx	xx	xx
Add Non-Current Assets			
Add Investments			
Government bond		xx	
Shares in AA Ltd		xx	
Add Fixed Assets/ Property, Plant and Equipment			
Land and building		xx	
Equipment	xx		
Less provision for depreciation	xx	xx	
Add Intangible Asset			
Goodwill/Patent /Copyright		xx	xx
Total Assets			xx
Less Liabilities			
Current Liabilities			
Bank overdraft	xx		
Creditors/ Accounts payable	xx		
Income received in advance	xx		
Expense due	xx	xx	
Non-Current liabilities			
Mortgage	xx		
Loan	xx	xx	xx
Net Assets			**xxx**
Proprietorship			
Capital		xx	
Add Net profit /Less Net Loss		xx	
		xx	
Less Drawings		xx	
Closing Proprietorship			**xxx**

Example

Given below is a Trial Balance for Jane Enterprises as at 31st December 2015.

Trial Balance of Jane Enterprises as at 31st December 2015.			
	$		$
Accounts Receivables	3224	Accounts Payable	2240
Advertising	3500	Accumulated depreciation – Building	2300
Accountancy Fees	1200	Accumulated depreciation – Shop Equipment	1150
Cash at Bank	6956	Capital	40580
Bad Debts	800	Rent Received	6500
Buildings	60000	Mortgage	98500
Cost of Goods sold	65000	Sales	205000
Discount allowed	440	Allowance for doubtful debts	160
Drawings	6500	Gain on sale of shop equipment	350
Shop Equipment	10000		
General expenses	9600		
Insurance	560		
Interest on Mortgage	6000		
Inventory (01/01/15)	22000		
Land	121600		
Rates	1800		
Wages	32600		
Stationery	5000		
	356780		356780

Additional Information:

1. Advertising unexpired $250.
2. Invoice dated 29th March for sales in March totaling $736 was not recorded.
3. Additional bad debts written off total $460.
4. An allowance for doubtful debts is to be 2% of the closing accounts receivables balance.
5. Interest on mortgage owing to make up to 8% for the year.
6. Rent received in advance on balance day amounts to $500.
7. Depreciation on Building 3% p.a. using straight line method.
8. Depreciation on Shop Equipment is 10% p.a. using straight line method.
9. Inventory on hand $22000.

Required:

a) Prepare the Statement of Financial Performance for the year ended 31/12/2015.

b) Prepare the Statement of Financial Position as at 31/12/15.

Solution:

Statement of Financial Performance of Jane Enterprises for the year ended 31st December 2015.			
	$	$	$
Sales (205000 + 736)		205736	
Less Cost of Goods Sold:		65000	
Gross Profit			140736
Add Other Income			
Doubtful debts [(3224 + 736) - 460 x 0.02]= 160-70		90	
Rent received (6500 – 500)		6000	
Gain on sale of Shop Equipment		350	6440
			147176
Less Expenses:			
Selling & Distribution Expense			
Advertising (3500 – 250)	3250	3250	
Administrative Expense			
Accountancy fees	1200		
General expenses	9600		
Rates	1800		
Insurance	560		
Stationery	5000		
Wages	32600		
Depreciation on Building	1800		
Depreciation on Shop Equipment	1000	53560	
Financial Expense			
Bad debts (800 + 460)	1260		
Interest on Mortgage	7880		
Discount allowed	440	9580	
Total Expenses			66390
Net Profit			**80786**

www.google.com

Statement of Financial Position of Jane Enterprises as at 31st December 2015			
	$	$	$
Current Assets :			
Inventory		22000	
Cash at bank		6956	
Prepaid Advertisement		250	
Accounts receivable (3960 - 460)	3500		
Less provision for doubtful debts	70	3430	32636
Add Non-Current Assets			
Add Fixed Assets			
Land		121600	
Building	60000		
Less Accumulated Depreciation	4100	55900	
Shop Equipment	10000		
Less Accumulated depreciation	2150	7850	185350
Total assets			217986
Less Liabilities			
Current Liabilities			
Interest on Mortgage due	1880		
Accounts payable	2240		
Rent received in advance	500	4620	
Non-Current liabilities			
Mortgage		98500	
Total Liabilities			103120
Net Assets			**114866**
Proprietorship			
Capital		40580	
Add Net profit		80786	
		121366	
Less Drawings		6500	
			114866

Methods of Presenting Accounting Reports

The following methods are used by businesses to present the reports to the end users:

1. Written Reports
   - In this, bulk of information is presented by using the written words.

2. Reports with figures
   - Figures are used to convey information.
3. Graphs and Diagrams
   - Information is conveyed using graphs and diagrams.
4. Combination of written, figures, graphs and diagrams.

Activity 4.1.3

Multiple choice

1. Freight inwards would be classified as
   A. Selling and distribution expenses.
   B. Administrative expenses.
   C. Other expenses.
   D. Cost of Sales.

2. Rent received by a furniture dealer is classified as
   A. Other expenses.
   B. An asset.
   C. Other income.
   D. A liability.

3. The daily wage cost averages at $100. Three days wages owe on balance date. The entry required is
   A. Debit wages $300, credit income due $300.
   B. Debit expenses due $300, credit wages $300.
   C. Debit wages $300, credit income $300.
   D. Debit wages $300, credit wages due $300.

4. Which of the following items are used to prepare a Statement of Financial Performance?
   I. The name of the firm.
   II. The total assets bought.
   III. The date it is being prepared.
   IV. The style used for the preparation of the statement.

   A. I and III
   B. I and IV
   C. I, II and III
   D. I, III and IV

5. The accrual basis of accounting records revenue when they are:
   A. Collected.
   B. Earned.
   C. Contracted.
   D. Readily available for use.

Closing Journal Entries:

After the preparations of financial statements, business entities close **temporary** accounts by transferring its balance to the Statement of Financial Performance or Income Statement; otherwise the net profit and financial position of the business cannot be derived accurately for each financial year. Temporary accounts such as revenue, expenses, gains, losses and drawings are closed off at the end of the reporting period.

The only accounts which are not closed off are the items from Statement of Financial Position (Balance Sheet), which are assets, liabilities and owners' equity. The reason for not closing off these accounts is that they are permanent accounts and their balances are transferred to the next accounting period.

Closing Journal Entries

	Particulars	Debit $	Credit $
1.	Income Statement	x	
	Opening Inventory		x
	(For closing off opening inventory)		
2.	Purchases Returns/ Income Statement	x	
	Purchases		x
	(For closing off purchases returns)		
3.	Sales	x	
	Sales Returns		x
	(For closing off sales returns)		
4.	Income Statement	x	
	Purchases (net)		x
	(For closing off purchases account)		
5.	Income Statement	x	
	Customs Duty		x
	(For closing off customs duty)		
6.	Sales	x	
	Income Statement		x
	(For closing off sales)		
7.	Closing Inventory	x	
	Income Statement		x
	(For closing off Closing inventory)		
8.	Income Statement	x	
	Advertising		x
	Sales Returns		x
	Depreciation on Plant		x
	Cost of Goods sold		x
	Wages		x
	(For closing off expenses to Income Statement)		

9.	Rent Income	x	
	Discount Received	x	
	Commission Received	x	
	Income Statement		x
	(For closing off revenues to Income Statement)		
10.	Income Statement	x	
	Capital		x
	(For closing off net profit to capital account)		
11.	Capital	x	
	Drawing		x
	(For closing off drawings to capital account)		

Reversing Entries

Reversal entries take place on the first day of the new accounting period. This is to reverse the temporary book entry balance day adjustments that were prepared on the balance date to adhere to the accrual basis of accounting. There are four types of adjustments that need to be reversed.

- Accrued expenses
- Prepayments
- Accrued Income
- Revenue in Advance.

These items are reversed because the expenses and income accounts need to reflect the accurate amount for the next financial period. To prepare the reversal journal entry, the original journal entry is reversed.

Reversing Journal Entries

	Particulars	Debit $	Credit $
1.	Related Expense account	x	
	Prepaid expense		x
2.	Expenses Due	x	
	Related Expense account		x
3.	Related Income account	x	
	Income Accrued		x
4.	Income received in advance	x	
	Related Income account		x

Activity 4.1.4

ACCOUNTING PROCEDURE:

1. M. Janvi runs her business in Suva. Given below are the ledger balances of the business for the end of the reporting period 31st December 2015.

Note: This is not a Trial Balance:

	$
Accounts Receivables	23130
Cash on Hand	40
Discount allowed	1337
Discount Received	1177
Advertising	166
Freight Outwards	98
Donations	16
Electricity	252
Repairs to Plant and Equipment	251
Stationery	422
Plant and Equipment	18100
Insurance	979
Motor Vehicle	16000
Purchases	55891
Accounts payable	28769
Rent paid	270
Provision for doubtful debts	100
Salaries – Sales staff	4383
Salaries – Office	1480
Sales	69323
Interest Received	530
Investments	17696
Inventory on Hand (01/01/15)	17239
Provision for depreciation – Plant and equipment	2130
Provision for depreciation – Motor Vehicle	179
Bank overdraft	241
Capital - Janvi	53722
Mortgage	21579
Goodwill	20000

Adjustments:

- Electricity bills outstanding $75.

- Stationery on Hand $40.
- Prepayments:
  Insurance $47
  Rent 22
- Bad Debts to be written off $330.
- Provision for Doubtful debts to be increased to $400.
- Inventory on Hand (31/12/15) $15345.
- Depreciation to be provided at 5% p.a. on cost for Motor Vehicles and Plant and Equipment.

Required:

a. Prepare the general journal entries for adjustments.
b. Prepare the Statement of Financial Performance
c. Prepare the Statement of Financial Position.
d. Prepare relevant closing journal entries.

2. Matelita owns a gift shop known as **Gifts For All** in Vanua Levu. She has provided you with the following Trial Balance.

Gifts For All Trial Balance as at 31st March 2015			
	Debit $		**Credit $**
Accounts Receivables	5500	Capital	121104
Advertising	2757	Accounts Payable	3947
Cash at bank	4200	Accumulated Depreciation on Buildings	3600
Drawings	500	Discount Received	200
Bad Debts	300	Dividends	365
Buildings	75000	Mortgage	91450
Cost of Goods Sold	125500	Sales	183000
Interest on Mortgage	2863	Provision for doubtful debts	271
Inventory (31/03/15)	38835		
Land	100000		
Rates	1625		
Sales Returns	2384		
Shares in Dhruv's Ltd	9400		
Shop wages	35073		
	403937		**403937**

The following Adjustments are required at the balance date:

1. Advertising paid in advance $157.

2. Shop Wages accrued $540.
3. Dividend not yet received $260.
4. Interest on mortgage unpaid $166.
5. Depreciate Buildings at 12% per annum on straight line basis.
6. Additional bad debts of $200 to be written off.
7. Provision for doubtful debts to be provided at 3% of the accounts receivables.

Required:

Prepare fully classified Statement of Financial Performance and Statement of Financial Position for the period ending 31/03/15.

Activity 4.1.5

1. Daniel Chand operates a dry cleaning business in Nakasi. The following trial balance relates to his business.

Daniel's Dry Cleaning Trial Balance as at 31st May 2015			
	$		$
Advertising	8600	Accounts Payable	5680
Accountancy fees	6200	Accumulated Depreciation - vehicles	10200
Telephone and internet	1886	Accumulated Depreciation – Dry Cleaning Equipment	1200
Electricity – Dry Cleaning	3890	Capital	63060
Vehicles	24000	Dividend Received	240
Goodwill	10000	Bank Overdraft	1950
Supplies used	75000	Loan (10% due 2026)	56000
Shares in ATH Ltd	8000	Fees Received	196400
Drawings	22000	Provision for doubtful debts	90
Dry Cleaning equipment	54000		
Supplies on hand	23120		
Taxation advice expense	3200		
Stationery	680		
Insurance	560		
Interest on loan	2500		
Shop rent	28000		
Wages	42500		
Repairs to vehicle	15000		
Accounts Receivables	5684		
	334820		334820

Additional Information:

1. Wages accrued on balance date $560.
2. Shop rent paid in advance $2000.
3. Dividends owing $125.
4. Interest on loan owing on balance date.
5. Insurance: 80% dry cleaning expenses and 20% administrative expense.
6. Bad debts to be written off total $184. The allowance for doubtful debts is to be 2% of the closing Accounts Receivable.
7. Electricity bill due but not paid $138.
8. Depreciation on Vehicles is charged at 50cents /km. This year the van drove 6500km.
9. Depreciation on dry cleaning equipment at 15% per annum on cost.

Required:

a) Prepare the general journal entries for the balance day adjustments.
b) Prepare the Statement of Financial Performance for the period ending 31/05/15.
c) Prepare the Statement of Financial Position as at 31/05/15.
d) Prepare the general journal entries to record the closing entries for the following accounts: Fees Received, Dividends Received, Drawings, Doubtful Debts, Bad Debts, and Wages.

(Source: Level 2 Accounting Learning Workbook)

2. Given is the Trial balance of Alia's Electricals which operates in Labasa.

Alia's Electricals Trial Balance as at 31st May 2016			
	$		$
Advertising	3600	Accounts Payable	3600
Accounts Receivable	5684	Accumulated Depreciation - vehicles	10200
Cell phone expense	1200	Accumulated Depreciation – Electrical equipment	1200
Electricity	900	Capital	21440
Vehicles	66000	Dividend Received	240
Supplies used	75000	Commission Received	1750
Bad debts	320	Loan (12% due 2017)	22000
Shares in Fiji Airways Ltd	8000	Fees Received	268000
Drawings	42000	Provision for doubtful debts	320
Electrical equipment	24000		
Supplies on hand	25000		
Cash at bank	1806		

Stationery	680		
Insurance	560		
Interest on loan	2000		
Office Rent	24000		
Wages	32500		
Vehicle expense	15500		
	328750		**328750**

Additional Information:

i. One month's cellphone expense paid in advance $80.
ii. Interest on Loan owing.
iii. An invoice dated 1st May is outstanding for vehicle expense $276.
iv. Dividend owing on shares $120.
v. Depreciation on Vehicles is charged at 12% per annum on cost.
vi. Depreciation on electrical equipment at 10% per annum using straight line method.
vii. Additional Bad debts to be written off total $184.
viii. The allowance for doubtful debts is to be 3% of the closing Accounts Receivable balance.

Required:

Using the information given above:

a) Prepare the general journal entries for the balance day adjustments.
b) Prepare the Statement of Financial Performance for the period ending 31st May 2016.
c) Prepare the Statement of Financial Position as at 31st May 2016.

Activity 4.1.6

3. The following Trial balance has been extracted from Ting Yee's ledger.

Ting Yee Trial Balance as at 30th April 2016		
	Debit $	**Credit $**
Discount expense	3530	
Accounts Payable		8700
Insurance	880	
Accumulated Depreciation – Delivery vehicles		3000
Accumulated Depreciation – Building		2500
Customs duty	50	
Purchases	25240	

Cash at bank	800	
Capital		40000
Mortgage		20000
Sales salaries	13400	
Sales returns	1620	
Commission Income		3670
Purchases Returns		2490
Cartage outwards	950	
Sales		68680
Rent		5000
Government bonds	10000	
Provision for doubtful debts		80
Buildings	25000	
Office salaries	25060	
Accounts receivable	10000	
Cartage inwards	390	
Drawings	200	
Delivery vehicles	12000	
Inventory(01/04/2015)	15000	
Land	10000	
	154120	154120

Additional Information:

i. Inventories on hand at 30th April 2016, $20000.
ii. Provision for doubtful debts to be 1% of accounts receivables.
iii. Rent per month is $400.
iv. Customs duty unpaid $55.
v. Depreciation on Building at 5% per annum on cost.
vi. Depreciation on delivery vehicle at 30% per annum using straight line method.
vii. Goods taken by the proprietor $20 per month is not recorded in the books.

Required:

Using the information given above:

a) Prepare the general journal entries for the balance day adjustments.
b) Prepare the Statement of Financial Performance for the period ending 30th April 2016.
c) Prepare the Statement of Financial Position as at 30th April 2016.

4.2 NON PROFIT ORGANISATIONS

Other names: Clubs and Associations, Non Trading Concern

Nature of Clubs and Associations

Non-profit organisations are usually formed according to the passion of a group of people who share the same interests. Example: Red Cross, Mothers Club, Rotary Club, Church and other Religious Bodies.

Purpose of Non- Trading Concern

- Provide service to the public or its members for a defined purpose without being profit oriented.

Procedure of forming a Club

- Members get together with common interest to establish the organisation.
- Members than elect the office bearers of the organisation.
- The office bearers with the other members choose the name of the club and may register or may not register the club.
- There must be a set of constitutional rules governing the objects, membership, general meetings, appointment of officers, and control of funds.

Office Bearers of the Non – Trading Concern

1. President	▪ Is the person who is overall in-charge of the club and has final say in the decision making process.
2. Secretary	▪ Appointed person who records the minutes of all the meeting in the minute book.
3. Treasurer	▪ The person in-charge of looking after the financial affairs of the club. ▪ He or she prepares and presents the financial report of the club in the meetings.
4.Committee members	▪ Are people involved in the decision making process apart from the executive members.

Entrance Fees - are payable by new members upon joining the club. This item is capitalised, therefore must be taken to the Statement of Financial Position (Balance Sheet) under Accumulated Funds.

Records kept by the Club

1. Register of Members

- Is a book or computer entries which keep all information of its members. E.g. name of the member, address, subscriptions etc.

2. Minute book

- Contains signed minutes of every meeting and is the official record of the club.

3. Correspondence file

- All letters and correspondence are filed for future reference.

Sources of income for the Clubs

- Subscription (major source)
- Donations
- Fundraising
- Profit from trading activities
- Interest on fixed term deposit

CLUBS

INCORPORATED CLUBS

Are organisations that are registered under the Charitable Trusts Act [Cap 67].

UNINCORPORATED CLUBS

Are organisations that are not registered under the Charitable Trusts Act [Cap 67].

Features of Unincorporated Clubs

- Does not require accounts to be audited.
- It has unlimited liability and is not a separate legal entity.

Features of Incorporated Clubs

- It has limited liability and is a separate legal entity.
- The account has to be audited.
- Need to keep adequate accounting records at all times.

Reasons for auditing Financial Reports of Registered Clubs

- To get a true and fair picture of the day to day running of the club.
- To check the accuracy of the financial reports for decision making purposes.
- To meet the objective of *accountability and transparency* as the donors and other stakeholders would want to know how their resources have been utilised.

The Financial Reports of a Club

At the end of the financial year the treasurer of the club prepares the following financial statements:

1. Statement of Receipts and Payments.
2. Trading Activity Statement.
3. Income and Expenditure Statement.
4. Statement of Financial Position (Balance Sheet)

SUBSCRIPTIONS

- **Is a major form of revenue for the club. It is an annual fees (levy) paid by members to be part of the club or to become bona fide members of a club.**

Subscriptions in Arrears (Subscriptions Due)

- Means members did not pay or clear the dues on the balance day. These are treated as **current assets** in the Statement of Financial Position.

Subscriptions Received In Advance

- Means subscriptions received on the balance day which relates to future accounting periods. It represents a **current liability.**

Subscriptions Written off

- When subscriptions are not recoverable from members, they are written off as bad debts. Subscriptions written off is an **expense** to the club and therefore must be shown in the **subscriptions account** as well as in the Income and Expenditure Statement as expenditure**.**

Fixed Membership

- Some clubs have fixed membership. The number of members and their annual subscriptions is given in their annual reports. For instance, there are 60 members in a club and the annual subscription is $10 per member. The total subscriptions for the year is (60 x $10 = $600). This amount will represent the subscriptions for the current year and will appear in the Income and expenditure statement as income from subscriptions.

Format of Subscriptions Account

SUBSCRIPTIONS ACCOUNT			
	$		$
Subscription due (last year)	xx	Subscription in advance (last year)	xx
Subscription in advance (current year)	xx	Subscription due (current year)	xx
Cash refund (subscription)	xx	Cash	xx
Income and Expenditure	xx	Subscription written off	xx
	xxx		xxx

Example 1

Prepare a Subscriptions Account from the following information:

	$
Subscription in arrears at January 1st 2015	300
Subscription in advance at January 1st 2015	720
Subscription in arrears at December 31st 2015	480
Subscription in advance at December 31st 2015	1250
Cash received during the year	5500
Subscriptions refunded to members	275
Subscriptions written off	120

Solution

SUBSCRIPTIONS ACCOUNT			
Subscription due (last year)	300	Subscription in advance (last year)	720
Subscription in advance (current year)	1250	Subscription due (current year)	480
Cash refund (subscription)	275	Cash	5500
Income and Expenditure	4995	Subscription written off	120
	$ 6820		**$ 6820**

The income from subscriptions account is transferred to the *Income and Expenditure Statement.*

Activity 4.2.1

1. From the following information, prepare the subscriptions account for the Nadera Club for the year ended 31st December 2015.

Subscriptions in Arrears at 1st January 2015	$500.
Subscriptions in Advance at 1st January 2015	$200.
Subscriptions in Arrears at 31st December 2015	$220.
Subscriptions in Advance at 31st December 2015	$150.
Subscriptions written off at 31st December 2015	$180.
Subscriptions received during the year	$3000.

2. From the information given below, prepare a subscriptions account.

	30th June 2015	30th June 2016
Subscriptions due	$230	-
Subscriptions received in advance	$400	$200
Subscriptions written off	$250	-
Annual Subscriptions received during the year		$1200

Receipts and Payments Statement or Account

- Is the cash summary account of a club for an accounting period.
- It records both revenue and capital expenditure items.
- It records all cash received and payments made by the club.
- Does not include any balance day adjustments.

Format of Statement of Receipts and Payments

XXX Club Statement of Receipts and Payments for the year ended xx Month 20xx		
	$	**$**
Balance of cash on hand	xx	
Bank Balance (beginning)	xx	xxx
Add Receipts		
Subscriptions	xx	
Food stall sales	xx	
Donations	xx	
Entrance Fees	xx	xx
		xx
Less Payments		
Secretary's Honorarium	xx	
Rent	xx	
Waitress's Wages	xx	
Purchase of Computer	xx	
Food Stall expenses	xx	xx
Bank Balance (ending)		xxx

Example 2

Laucala Tennis Club had the following cash book totals for the year ended 31st December, 2015.

Receipts:	**$**	**Payments :**	**$**
Subscription	1000	Equipment	560
Refreshment sales	370	Social expenses	80
Socials	200	Refreshment purchases	200
Donation	45	Rent	150
		Secretary's honorarium	60

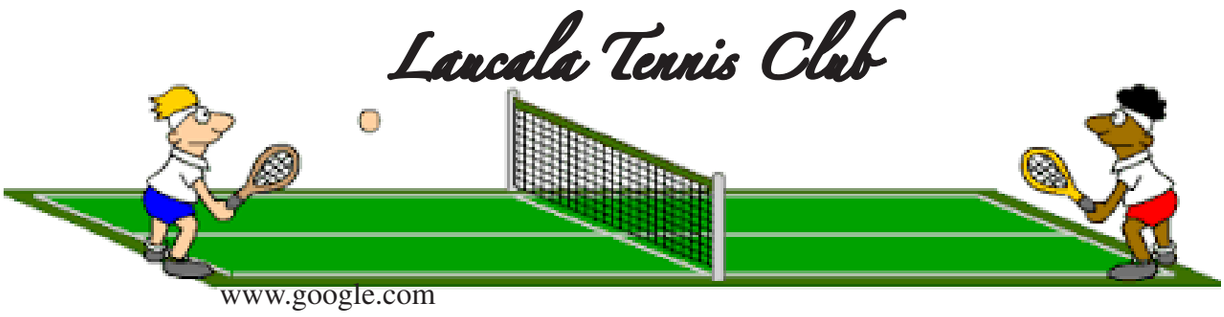
Additional information:

The balance of cash at bank at 1st January 2015 was $355 and cash on hand was $250.

Solution:

Laucala Tennis Club Statement of Receipts and Payments for the year ended 31st December, 2015		
	$	$
Cash at Bank Balance at 01/01/15	355	
Cash on hand	250	605
Add Receipts		
Subscription	1000	
Refreshment sales	370	
Socials	200	
Donation	45	1615
		2220
Less Payments :		
Equipment	560	
Social expenses	80	
Refreshment purchases	200	
Rent	150	
Secretary's honorarium	60	1050
Cask at bank balance at 31/12/15		1170

The balance of cash at bank account goes under current assets in the Statement of Financial Position.



Activity 4.2.2

The White Diamond Club had the following information as at 1st January 2015:

Cash at bank $2000
Subscriptions in arrears $50
Subscription in advance $80

Given below are the Receipts and Payments details for the year ended 31st December 2015.

Receipts:	**$**
Subscriptions	5500
Sale of Refreshments	790
Sale of raffle tickets	800
Receipts from Coin Meter	410
Sale of Furniture	280

Payments:	**$**
Lights and heat	460
Loan Repayment	1800
Repairs	700
Postage and Stationery	400
Rates	750
Raffles prizes	450
Purchase of Refreshments	680

Required:

Using the information given above, prepare the Statement of Receipts and Payments for the year ended 31st December 2015.

Clubs Activity Account

- Clubs may carry out *trading activities* such as canteen, walkathon etc.
- A separate account for each activity is kept.
- There should be no repeat on entries in any other accounts which appear in the activity account, except for ***closing stock of the activity which goes to current assets*** and ***depreciation which is added to the provision for depreciation of that asset in fixed assets.***
- If the activity of the club is very small then there is no need to prepare the activity account.

Format of an Activity Statement

	$	$
Sales		xx
Less Cost Of Goods Sold		
Opening stock	xx	
Add purchases	xx	
Goods available for sale	xx	
Less closing stock	xx	
Cost of goods sold		xx
Gross profit		xxx
Less other expenses (directly related to the activity)		
Depreciation on activity furniture/equipment	xx	
Waitress wages	xx	
Replacement of cutlery/glassware/ cookery	xx	xx
Proceeds or loss from activity account		**xxx**

Note:

The *profit* of the activity account goes under *income* and *loss* under *expenditure* of the Statement of Income and Expenditure.

Activity 4.2.3

The following information relates to Yellow Club in Ba.

Yellow Club
Statement of Financial Position as at 31st December, 2014

Assets	$	Liabilities	
Cash at Bank	800	Subscription in advance	550
Refreshment - Inventories	500	Accumulated Funds	4100
Furniture	300		
Debtor - Refreshment	150		
Investments	900		
Refreshment - Freezer	2000		
	4650		**4650**

Below is the summary of Receipts and Payments for the year ended 31st December 2015.

Receipts	$	Payments	$
Subscriptions	250	Purchases of Refreshments	90
Refreshment Takings	400	Secretary Expense	85
Sale of Furniture	100	Electricity	60
Annual Dance	200	Transfer to investment	200
		Replacement – Cutlery (refreshment)	45

Additional Information at 31/12/15:

1. Inventory on Hand for Refreshment $62.
2. Debtors for refreshment $200.
3. Depreciate Refreshment Freezer at a rate of 10% per annum on cost.
4. Subscriptions accrued $ 55.

Required:

Prepare the Refreshment Trading Statement for the year ended 31st December 2015.

Income and Expenditure Statement

- It records the income and expenditure of a club relating to the current accounting period.
- ***Excess of Income over Expenditure*** is known as **Surplus.**
- ***Excess of Expenditure over Income*** is known as **Deficit.**

Differences between Receipts and Payments and Income and Expenditure Statements

Receipts and Payments	Income and Expenditure
1. Records cash transaction irrespective of the year to which it belongs to. 2. Includes both capital and revenue expenditure or receipts. 3. Shows opening and closing cash at bank balance. 4. Does not include any balance day Adjustments. 5. It follows cash basis accounting.	1. Records cash and credit transaction relating to the current year only. 2. Includes only revenue expenditure. 3. Has no opening balance but the closing represents surplus or deficit. 4. Includes balance day adjustments. 5. It follows accrual basis accounting.

Differences between financial reports of Trading Business and Non Trading Concern

Trading Business	Non Trading Concern
Net profit	Surplus - Excess of income over expenditure
Net loss	Deficit – Excess of expenditure over income
Bad debts	Subscription written off
Capital	Accumulated fund
Bank account	Receipts and payments
Trading account	Trading activities – canteen account
Statement of Financial Performance	Income and Expenditure Statement
Statement of Financial Position.	Statement of Financial Position.

Short cut method for Balance Day Adjustments

Expenses Due/Accrued						
Expenses paid during the year 20X1	-	Last year's expenses due 20X0	+	This year's expenses due 20X1 (balance sheet item)	=	Income and Expenditure (Expenditure column)
Prepayments/Expenses Prepaid						
Expenses paid during the year 20X1	+	Last year's expenses prepaid 20X0	-	This year's expenses prepaid 20X1 (balance sheet item)	=	Income and Expenditure (Expenditure column)
Income Accrued/Due						
Income received during the year 20X1	-	Last year's income due 20X0	+	This year's income due 20X1 (balance sheet item)	=	Income and Expenditure (Income column)
Revenue Received in Advance						
Revenue received during the year 20X1	+	Last year's revenue received in advance 20X0	-	This year's revenue received in advance 20X1 (balance sheet item)	=	Income and Expenditure (Income column)
↑				↑		↑
Statement of Receipts and Payments				***Current years Statement of Financial Position***		***Income and Expenditure Statement***

Example 1

New Cultural Club
Statement of Financial Position as at 31st December, 2014

Assets	$	Liabilities	$
Cash at Bank	4000	Subscription in advance	600
Equipment	2000	Loan	3000
Less Acc. depreciation	300		
Building	15000		

Below is the summary of Receipts and Payments for the year ended 31 December 2015.

Receipts	$	Payments	$
Bank	2000	Repayment of loan	600
Sale of furniture (book value $200)	150	Electricity	120
Donations	700	New equipment	800
Subscription	950	Secretary's honorarium	500
		Stationery	120

Additional Information:

1. Electricity unpaid $55.
2. The society had 165 members and the annual subscription for each member was $10.
3. Stationery on hand at 31 December 2015 was worth $70.
4. The Equipment was depreciated by $120.
5. Subscriptions in arrears $100.

Required:

a) Prepare Income and Expenditure Statement for the year ended 31st December 2015.

Solution

New Cultural Club Income and Expenditure Statement for the Year Ended 31st December 2015		
	$	$
Income:		
Donations	700	
Subscription	1650	
		2350
Less Expenditure:		
Electricity (120 + 55)	175	
Depreciation on Equipment	120	
Secretary's honorarium	500	
Stationery	50	
Loss on sale of equipment	50	895
Surplus		**1455**

Note: The surplus is added to Accumulated fund in the Statement of Financial Position (Balance Sheet)

Statement of Financial Position (Balance Sheet)

- Is prepared at the end of each accounting period to record assets, liabilities and accumulated funds of the club or society.
- Instead of capital account it is replaced by Accumulated Funds.

Total Assets – Total Liabilities = Accumulated Fund

Format:

XX Club Statement of Financial Position as at XXX			
	$	$	$
Current Assets			
Cash at bank	xx		
Subscription in arrears	xx		
Prepaid insurance	xx		
Refreshment Inventories	xx	xx	
Add Non Current Assets			
Fixed Assets			
Clubhouse at cost		xx	
Furniture and Fittings	xx		
Less Provision for depreciation on furniture and fittings	xx	xx	
Total Assets			xx
Less Liabilities			
Current Liabilities			
Refreshment creditors	xx		
Subscription in advance	xx	xx	
Long Term Liabilities			
Mortgage		xx	xx
Net Assets			**xx**
Accumulated Fund			
Balance		xx	
Add income excess over expenditure		xx	
Add Entrance fees		xx	
			xx

Full Example

The following information has been extracted from the books of the Star World Club Inc:

Star World Club Inc. Statement of Financial Position as at 1st January 2015				
Assets		$	**Liabilities**	$
Cash at bank		526	Wages Accrued	30
Subscription in Arrears		40	Prepaid Subscriptions	60
Prepaid Insurance		10	**Accumulated Funds**	1090
Refreshments inventories		304		
Equipment(cost)	500			
Less Provision for Depreciation	200	300		
		1180		1180

Below is the summary of Receipts and Payments for the year ended 31st December 2015.

Receipts	$	Payments	$
Sale of Refreshments	2140	Insurance	120
Entrance Fees	400	Electricity	310
Donations	150	Postage and stationery	70
Subscription	2400	Telephone	240
Competition fees	300	Purchase – Refreshments	620
		Wages	1700
		Social expenses	1218
		Hire of machinery	180
		Delivery expenses - Refreshments	37

Additional Information:

- Wages owing $60.
- Insurance Prepaid $15.
- Subscriptions Accrued $15.
- Subscriptions paid in advance, $45.
- Inventories- Refreshment, $388.
- Depreciation of 15% p.a. to be provided on Equipment.

Required:

On the basis of the above information; prepare:

1. Subscriptions Account.
2. Refreshment Trading Statement for the year ended 31st December 2015.
3. Statement of Income and Expenditure for the year ended 31st December 2015.
4. Statement of Financial Position as at 31st December 2015.

SUBSCRIPTIONS ACCOUNT			
Subscription due (last year)	40	Subscription in advance (last year)	60
Subscription in advance (current year)	45	Subscription due (current year)	15
Income and Expenditure	2390	Cash	2400
	$2475		**$2475**

www.google.com

Refreshment Trading Statement of Star World Club Inc. for the year ended 31 December 2015.			
Sales			2140
Less Cost Of Goods Sold			
Opening stock	304		
Add purchases	620		
Goods available for sale		924	
Less closing stock		388	
Cost of goods sold			536
Gross profit			1604
Less Delivery expenses			37
Proceeds from refreshment transferred to Income and Expenditure Statement			**$1567**

Star World Club Inc. Income and Expenditure Statement for the Year Ended 31st December 2015		
Income:		
Donations	150	
Subscription	2390	
Competition fees	300	
Profit from sale of Refreshments	1567	4407
Less Expenditure:		
Electricity	310	
Insurance (120 + 10 -15)	115	
Postage and stationery	70	
Telephone	240	
Wages (1700 -30 +60)	1730	
Social expenses	1218	
Hire of machinery	180	
Depreciation on Equipment	75	3938
Surplus		**$469**

Star World Club Inc. Statement of Financial Position as at 31st December 2015			
	$	$	$
Assets			
Current Assets			
Cash at bank (526 + 5390 – 4495)	1421		
Subscription in arrears	15		
Prepaid insurance	15		
Refreshment Inventories	388	1839	
Fixed Assets			
Equipment	500		
Less Provision for depreciation on Equipment (200 + 75)	275	225	
			2064
Less Liabilities			
Current liabilities			
Subscription in advance		45	
Accrued wages		60	105
Net Assets			1959
Accumulated Funds			
Balance		1090	
Add income excess over expenditure		469	
Add Entrance fees		400	
			1959

Activity 4.2.4

Multiple Choice:

1. Subscriptions in arrears at the end of the accounting period is classified as
   A. current asset.
   B. current liability.
   C. income.
   D. expenditure.

2. Non-profit organisation prepares all of the following except:

   A. Receipts and Payments account.
   B. Income and Expenditure statement.
   C. Statement of Financial Performance.
   D. Statement of Financial Position.

3. Which of the following is to be recorded in an income and expenditure statement?
   A. Purchase of a fixed asset.
   B. Capital expenditure incurred on a fixed asset.
   C. Profit on the sale of a fixed asset.
   D. Sale of a fixed asset.

Activity 4.2.5

1. The following information has been taken from the accounting records of Levuka Golf Club for the year ended 31st December 2015.

Extract A

Receipts and Payments for the year ended 31st December 2015.	
Receipts	**$**
Subscriptions	5000
Sale of Refreshments	4000
Entrance Fees	250
Payments	**$**
Purchase of Refreshments	2000
Wages (Refreshments)	750
Furniture	100

Extract B

Statement of Financial Position as at 31st December.....	**2014**	**2015**
Refreshment Inventories	500	750
Subscription in Arrears	250	400
Subscriptions in Advance	150	200
Accounts Payable - Refreshments	100	150
Furniture	200	?
Cash at bank	263	?
Additional Information: Excess of Income over Expenditure for the period ending 31st December 2015 was $6550.		

Using the information given above:

i. Calculate the amounts for Furniture and Cash at Bank as at 31st December 2015.
ii. Prepare the Subscriptions Account for the Year ended 31st December 2015. (Use 3 Column Ledger)
iii. If the annual subscription is $10 per member, how many members does the club have?
iv. Prepare a fully classified Statement of Financial position for Levuka Golf Club as at 31st December 2015.

2. Unity Club was formed to assist its members in Taveuni. The financial records of Unity Youth Club for June 2016 is given below:

Unity Youth Club Statement of Financial Position as at 30th June, 2015			
	$		$
Petty cash imprest	30	Subscription received in advance	25
Cash at bank	744	Insurance accrued	130
Inventories – canteen	328	Mortgage	4100
Rent paid in advance	100	**Accumulated Funds**	15827
Subscription accrued	80		
Equipment at cost 4600 Less Acc. Depreciation 2100	2500		
Investments	13000		
Furniture	3300		
	$20082		**$20082**

The summary of receipts and payments for the year 2016 were as follows:

Receipts	$	**Payments**	$
Entrance fees	320	Rent	1214
Subscription	940	Equipment	1200
Sales – canteen	3228	Purchases – Canteen	1550
Sale of equipment	90	Wages – canteen	1580
		Insurance	310

On 30th June, 2016 the following information were available:

- Subscription accrued $95.
- Subscription received in advance $75.
- Rent prepaid $105.
- Equipment sold originally cost $300 and had a depreciated value of $120.
- Inventories – canteen $347.
- Depreciation on Equipment $200.
- Insurance accrued $140.

Required:

i. Prepare the Subscriptions Account.

II. Using the Summary of Receipts and Payments, calculate the cash at bank balance as at 30th June 2016.

III. Prepare Canteen Trading Statement of Unity Youth Club.

IV. Prepare the Statement of Income and Expenditure of Unity Youth Club for the year ended 30th June 2016.

V. Prepare the Statement of Financial Position of Unity Youth Club as at 30th June 2016.

3. The extract of Financial Position of Yasawa Social Club as at 1st January, 2015 is given below:

	$
Cash at bank	680
Subscription in advance	100
Furniture	2400
Debentures	140

Record of Receipts and Payments:

Receipts for the year:	**$**
Subscription	2680
Tournament fees	630
Sale of Furniture	200
Donations	240
Payments:	
Rent	750
Debentures repaid	100
Repairs	140
Stationery	60
Tournament prizes	270
New Equipment	420
Catering	820

Additional information as at 31/12/15:

1. Subscription in arrears $220
2. Rent owing $50
3. Depreciation on furniture and equipment $200
4. Furniture was sold, had a book value of $230

Required:

Prepare an Income and Expenditure statement of Yasawa Social Club for the year ended 31st December 2015.

4. The treasurer of Dragons Sports Club provided the following information relating to the year 2015:

Assets and Liabilities as at 1st January 2015:

	$		$
Cash at bank	1000	City rates due	70
Canteen – stock	2350	Accumulated Fund	3850
Accounts Receivables for canteen	480		
Subscription due	90		

Receipts and Payments for the 2015

	$		$
Subscription	2085	Canteen purchases	980
Canteen Sales	3690	Sports equipment 01/07/15	100
Sale of dance tickets	200	Caretaker's wages	140
Entrance Fees	580	Crockery replacement- Canteen	20
Canteen – Accounts Receivable	270	City rates	410
		Electricity	95
		Cell phone and internet	310

Additional Information 31/12/2015:

1. Subscription received in advance $80.
2. Subscription in arrears is $60.
3. Canteen Inventories at 31/12/15 is $700.
4. Depreciation on sports equipment is charged at 10% on cost.
5. City rates in arrears $95.
6. Accounts Receivables for canteen $3570.

Using the information given above prepare:

i. The Subscriptions Account.
ii. Canteen Trading Statement for the year ended 31st December 2015.
iii. The Statement of Income and Expenditure of Dragons Sports Club for the year ended 31st December 2015.
iv. The Statement of Financial Position of Dragons Sports Club as at 31st December 2015.

www.google.com

Activity 4.2.6

The treasurer of Savusavu Golf Club provides the following adjusted Trial Balance as at 31st August, 2015.

Trial Balance of Savusavu Golf Club as at 31st August, 2015		
Ledger Balances	**$**	**$**
Cash at bank	6 750	
Excess of Income over Expenditure		5710
Prepaid Advertising	720	
Bar Inventory	2850	
Accounts Payable - Bar		2220
Entrance Fees		800
Clubhouse at cost	50000	
Equipment at cost	6000	
Provision for depreciation - Equipment		1000
Accumulated Fund 01/09/14		51790
Mortgage on Clubhouse due 2020		5000
Subscriptions due	2000	
Subscriptions in Advance		1800

Required:

Use the information given above to prepare a **fully classified Statement of Financial Position** for Savusavu Golf Club as at 31st August, 2015.

ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

STRAND 5

Strand Outcome

Apply knowledge of financial reporting to analyse vertically, horizontally and conduct trend analysis before interpreting the ratios calculated in the books of a sole trader.

Learning Outcomes

Upon completion of this strand, students should be able to:

- *Analyse the financial reports of a Sole proprietor to assess its performance.*
- *Compare and interpret ratios of sole proprietor businesses.*

5.1 Financial Statement Analysis

It is the process of identifying the financial strengths and weaknesses of a business by properly establishing the relationships between the items of Statement of Financial Performance and Statement of Financial Position.

Ratios are tools that can be applied to all the users of accounting information to have a value added approach to financial statements and carry out "*Strengths- Weakness- Opportunities and Trend Analysis*" SWOT.

Need for preparing Comparative Statements

- It enables us to compare budgeted results with the actual results of the business.
- Able to see the progress of the business in comparison to the past results.
- Identify the areas of weakness.

Techniques of Financial Statement Analysis

The following types of analysis may be undertaken when analysing financial statements:

- **Vertical Analysis** - analysis of relationship between items or group of items within the financial statement for one accounting period.
- **Horizontal Analysis** - analysis of relationship between items or group of items within the financial statement for consecutive accounting period.
- **Trend Analysis** - analysis of relationship between items or group of items within the financial statement for a period of three or more years.
- **Ratio Analysis** - is an arithmetic term which describes a simple relationship between two numbers. Accountants use ratio analysis to make financial decisions.

Ratios can be analysed in percentages, time and dollar amounts under the following categories:

- Profitability Ratios or Earning Capacity
- Liquidity Ratios or Measures of Financial Stability
- Measures of Management Effectiveness

Overtrading

Occurs when business is selling large amount of stock with a lower mark-up, or on credit, resulting in an increase in profit but does not have adequate funds to meet the current obligations. It may increase debtors and profits but the business will be unable to pay for its expenses which may cause liquidity problems in the business.

Over Capitalisation

Means too much capital is invested in fixed assets that provide no income. Over-investment in fixed assets not only ties up cash but it also becomes unproductive and there is a risk of obsolescence.

Under Capitalisation

Owners' investment is insufficient for the size of the business. It could be due to payment of excessive interests on borrowed funds, use of out dated equipment and machines because of the inability to purchase a new one and increased cost of production.

Limitations of Ratio Analysis

1. Items that cannot be quantified in monetary terms are not included in the ratio analysis.
2. Single year's figures are meaningless unless compared to the previous year of the business trend.
3. Calculations are based on historical cost ignoring the changes in the price level.
4. Different businesses may have different accounting policies which make comparison rather difficult in the same industry. For example, one firm may charge depreciation on straight line basis and the other on diminishing value method.
5. Ratio analysis explains the relationships between past information while users are more concerned about current and future information.

Calculation and Interpretation of Ratios

Example

Anita operates a grocery business in Korovou as Anita's One Stop Shop. The financial information for Years 2015 and 2016 has been extracted from the books of Anita's One Stop Shop.

Anita's One Stop Shop Comparative Statement of Financial Performance for the year ended 31st January 2015 and 2016				
	2015 $		**2016 $**	
Sales (all credit)		420000		550000
Less Cost of Goods Sold:		250000		320000
Gross Profit		170000		230000
Selling and Distribution expense	30000		49000	
Administrative Expense	35000		46000	
Financial expense	20000		32000	
Total expenses		85000		127000
Net Profit for the year		**85000**		**103000**

Anita's One Stop Shop Comparative Statement of Financial Position as at 31st January 2015 and 2016				
	2015		**2016**	
Current Assets :	**$**	**$**	**$**	**$**
Petty Cash	150		150	
Accounts receivable	60500		110200	
Inventory	48000		98000	
		108650		208350
Non-Current assets				
Property , Plant and Equipment		120000		150000
Intangible assets				
Goodwill		32820		32820
Total assets		261470		391170
Less Liabilities				
Current Liabilities				
Bank overdraft (Limit: $5000)	22510		38000	
Accounts payable	29900		69260	
Expense due	2340	54750	4500	111760
Non-Current Liability				
Loan		37500		50810
Net Assets		**169220**		**228600**
Proprietorship				
Capital		110600		169220
Add Net profit		85000		103000
		195600		272220
Less Drawings		26380		43620
		169220		**228600**

Data at the beginning of Year 2015	**$**
Inventory	56500
Accounts receivable	70000
Total Assets	250500

Required:

(i) Calculate all relevant ratios and percentages to **two** decimal places.

(ii) Comment on the ratios and percentages.

Measures of Earning Capacity or Profitability Ratios

1. **GROSS PROFIT PERCENTAGE** – this analysis measure indicates the amount left from each sales dollar to pay for expenses and to contribute to profit after paying for the cost of goods sold.

It is best to compare the current year's gross profit percentage with those of previous years and relate it to business's mark up in order to determine the acceptable level.

Note: Figures used from the previous example.

Example

Formula		2015	2016
Gross Profit x 100 / Net Sales	Gross profit	170000	230000
	Net Sales	420000	550000
	Gross Profit Percentage	170000 x 100 / 420000 = **40.48%**	230000 x 100 / 550000 = **41.82%**

INTERPRETATION: This means that in 2016, for every $1 of Sales in Anita's business, there are 41.82 cents remaining to cover for expenses after cost of goods sold has been paid.

COMMENT: The gross profit percentage has slightly increased by 1.34 percent. It is favourable however; the business should further increase the gross profit percentage by using effective selling techniques and buying from cheaper suppliers.

2. **NET PROFIT RATIO** – this ratio indicates the proportion of each sales dollar that represents profit. The acceptable level of net profit varies from one business to the other.

Example

Formula		2015	2016
Net Profit : Net Sales	Net profit	85000	103000
	Net Sales	420000	550000
	Net Profit ratio	85000 : 420000 = **0.20 : 1**	103000 : 550000 = **0.19 : 1**

INTERPRETATION: This means that in 2016, for every $1 of Sales in Anita's business, there is 19 cents remaining as profit after cost of goods sold and expenses have been paid.

COMMENT: The net profit ratio has weakened from 2015 to 2016 by 1 cent. It is unfavorable. In order to improve the ratio the business needs to cut down on its expenses and improve its mark up.

3. **MARK UP PERCENTAGE** – This rate indicates how much has been added to the cost price of inventory to give the selling price.

Example

Formula		2015	2016
Gross Profit x 100 / **Cost of Goods Sold**	Gross Profit	170000	230000
	Cost of Goods Sold	250000	320000
	Mark Up percentage	170000 x100 / 250000 = **68.00%**	230000 x100 / 320000 = **71.88%**

INTERPRETATION: This means that in 2016, for every $1 of cost of goods sold in Anita's business, there is 71.88 cents of markup made.

COMMENT: The mark up rate has improved from 2015 to 2016 by 3.88 cents. It is favourable. Business needs to continue with the current trend to generate more profit or income for its future operations.

4. **EXPENSE PERCENTAGES** – indicates the amount of sales dollar used in paying for the expenses.

Example

		2015	2016
	Net Sales	420000	550000
	Selling & Distribution Expense	30000	49000
	Administrative Expense	35000	46000
	Financial Expense	20000	32000
	Total Expenses	85000	127000
Selling Dist. Exp x 100 / Net Sales	Selling and Distribution Expense Percentage	30000 x 100 / 420000 = **7.14 %**	49000 x 100 / 550000 = **8.91 %**
Admin Exp x100 / Net Sales	Administrative Expense percentage	35000 x 100 / 420000 = **8.33 %**	46000 x 100 / 550000 = **8.36 %**

		2015	2016
Financial Exp x 100 Net Sales	**Financial Expense percentage**	20000 x100 420000 = **4.76 %**	32000 x 100 550000 = **5.82 %**
Total Exp x 100 Net Sales	**Total Expenses percentage**	85000 x 100 420000 = **20.24 %**	127000 x100 550000 = **23.09 %**

❖ Selling and Distribution Expenses

Interpretation: This means that in 2016 for every dollar of sales 8.91 cents represents selling and distribution expenses.

Comment: The selling and distribution percentage has slightly increased by 1.77 cents which is unfavourable. The business needs to cut down on its selling and distribution expenses.

❖ Administrative Expenses

Interpretation: This means that in 2016 for every dollar of sales 8.36 cents represents the administrative expenses.

Comment: The administrative expense percentage has slightly increased by 0.03 cents which is unfavourable. Therefore the business needs to look for ways to reduce its administrative expenses.

❖ Financial Expenses

Interpretation: This means that in 2016 for every dollar of sales 5.82 cents represents the financial expenses.

Comment: The financial expense percentage has increased by 1.06 cents which is unfavourable. The business needs to look at ways of cutting down its financial expenses.

❖ Total Expenses

Interpretation: This means that for 2016 for every dollar of sales 23.09 cents represents the total expenses.

Comment: The total expenses percentage has increased by 2.85 cents which is unfavourable. Therefore business needs to cut down on its total expenses.

5. **Rate of Return on Total Assets percentage** – This rate measures a business's ability to use assets resourcefully and efficiently to generate profit. The owner of the business or outside party may fund the assets and the cost of borrowing from outside parties is interest expense. An increase in the rate is pleasing since assets are more effectively utilised to generate profit.

Example

Formula		2015	2016
Net Profit + Interest exp x 100	Net Profit	85000	103000
Average Total Assets	Average Total Assets	250500+261470 / 2	261470+391170 / 2
	Rate of Return on Total assets percentage	85000 + 0 / 255985 x 100 = **33.21%**	103000 + 0 / 326320 x 100 = **31.56%**

Interpretation: This means that in 2016, for every $1 of total assets in Anita's business, there is 31.56 cents return or profit on assets.

Comment: The rate of return on total assets has deteriorated from 2015 to 2016 by 1.65 cents. It is unfavorable. In order to improve the rate, the business needs to use its assets more effectively to generate higher returns.

6. **Rate of Return on Owner's Equity percentage** – This rate measures the return the owner gets from his or her investments. The rate of return on owners' equity needs to be compared with the previous year's industry averages so that an acceptable level can be determined.

Example

Formula		2015	2016
Net Profit x 100	Net Profit	85000	103000
Average Owner's Equity	Average Proprietorship	110600+169220 / 2	169220+228600 / 2
	Rate of Return on Owner's Equity percentage	85000 x 100 / 139910 = **60.75 %**	103000 x 100 / 198910 = **51.78%**

Interpretation: This means that in 2016, for every $1 of capital invested by the owner in Anita's business, there is a return of 51.78 cents.

Comment: The rate of return on total assets has deteriorated from 2015 to 2016 by 8.97 cents. It is unfavourable. Therefore the business needs to increase its profit through cheaper buying and using effective selling techniques.

Measures of Financial Stability Ratios

Short Term Financial Stability or Liquidity Ratios

Tip: The Rule of thumb for Current ratio is **2:1**

1. Current or Working Capital Ratio

This ratio indicates the ability of the business to meet its short term debts as they fall due.

Example

Formula		2015	2016
Current Assets / **Current liabilities**	Current Assets	108650	208350
	Current Liabilities	54750	111760
	Current ratio	108650 / 54750 = **1.98 :1**	208350 / 111760 = **1.86: 1**

Interpretation: This means that in 2016, for every $1 of current liabilities in Anita's business, the business has $1.86 of current assets to pay for short term debts.

Comment: The current ratio has deteriorated from 2015 to 2016 by 12 cents. It is unfavourable. In order to improve the rate, the business needs to improve on its cash flow. The business does not meet the rule of thumb. Therefore, it has to either increase its current assets or decrease its current liabilities.

Other names are: Acid Test and Quick Assets Ratio. Rule of thumb is **1:1**.

2. Liquid Capital Ratio

This ratio indicates the ability of the business to meet its most immediate debts using its most liquid (quick) assets. For instance, paying wages and bills.

Assumptions for Bank Overdraft (Limit)

- If no limit for bank overdraft is given it is assumed to be unsecured.
- If the secured or limit amount is given then subtract it from the current liability.
- If the actual and the limit or secured amount differs than subtract the amount which is **lower**.

Example

Formula		2015	2016
Current Assets – Closing Stock - Prep **Current liabilities – B/OD (Secured)**	(CA – closing stock –prepayment)	(108650-48000-0)	(208350-98000-0)
Quick Assets **Quick liabilities**	(Current Liabilities – Bank Overdraft Secured)	(54750-5000)	(111760-5000)
	Quick Assets Ratio	60650 49750 = **1.22 : 1**	110350 106760 = **1.03 : 1**

INTERPRETATION: This means that in 2016, for every $1 of quick liabilities in Anita's business $1.03 of quick asset is available to meet the debts.

COMMENT: The ratio has decreased by 19 cents however; it follows the rule of thumb. In order to improve the ratio, the business should reduce its quick liabilities and increase its quick assets.

NOTE: Closing stock is subtracted because it cannot be converted in cash in the short period. Prepayment is subtracted because it belongs to the next accounting period.

EFFECT OF NEGATIVE LIQUIDITY TRENDS
Inability to pay the suppliers.
More interest charged.
Unable to buy inventory on credit.

WAYS TO IMPROVE LIQUIDITY
Owner to introduce additional capital.
Sell the surplus assets and turn them into cash.
Reduce drawings.
Refinance short term debts to long term debts.

Long Term Financial Stability Ratios (Gearing or Leverage)

1. **PROPRIETORSHIP RATIO** – This ratio indicates the percentage of total assets that has been funded by the business owner. Measures the relationship between the funds provided by the owner and outsiders. A company with a large proportion of debt in its capital structure is said to be highly geared, whereas a company with a low proportion of debt is said to be low geared.

Example

Formula		2015	2016
Total Proprietorship / Total Assets	Total Proprietorship	169220	228600
	Total Assets	261470	391170
	Proprietorship ratio	169220 / 261470 = 0.65: 1	228600 / 391170 = 0.58: 1

INTERPRETATION: This means that in 2016, for every $1 of total assets in Anita's business, 58 cents is contributed by the owner.

COMMENT: The proprietorship ratio has deteriorated from 2015 to 2016 by 7 cents. It is therefore recommended that the owner contributes more to the business and reduce drawings in order to avoid the ratio from decreasing further.

2. **DEBT TO EQUITY PERCENTAGE** – This analysis measures the outsider's claim in relation to the owner's equity. Favourable if the ratio is below 50%.

Example

Formula		2015	2016
Total Liabilities / Total proprietorship	Total Liabilities	92250	162570
	Total proprietorship	169220	228600
	Debt to Equity Percentage	92250 / 169220 x 100 / 1 = **54.51 %**	162570 / 228600 x 100 / 1 = **71.12 %**

INTERPRETATION: This means that in 2016, for every $1 of total proprietorship in Anita's business, there is 71.12 cents funded by outsiders.

COMMENT: The debt to equity percentages has increased by 16.6 cents from 2015 to 2016 and the result is unfavourable. Therefore, the business should reduce borrowing and encourage more investment by the owner.

3. **Debt Ratio** – The debt ratio is the ratio of external liabilities to total assets or funds. It indicates the percentage of assets provided by external sources.

Example

Formula		2015	2016
Total Liabilities / Total Assets	Total Liabilities	92250	162570
	Total assets	261470	391170
	Debt Ratio	92250 / 261470 = **0.35:1**	162570 / 391170 = **0.42:1**

Interpretation: This means that in 2016, for every $1 of total assets in Anita's business, there is 42 cents of assets provided by outsiders.

Comment: The debt ratio has increased from 2015 to 2016 by 7 cents. It is unfavorable as the outsiders claim over the business has increased. Therefore, the business should borrow less from outsiders.

Management Effectiveness Ratios

1. **Inventory Turnover**

It can be expressed in times / days/ months. This analysis indicates the number of times the inventory was sold during the accounting period.

Example

Formula		2015	2016
Cost of Goods Sold / Average Inventory	Cost of Goods Sold	250000	320000
	Average Inventory	(56500+48000) / 2	(48000+98000) / 2
	Inventory Turnover	250000 / 52250 = **4.78 times**	320000 / 73000 = **4.38 times**

Interpretation: This means that in 2016, Anita's business sold its inventories 4.38 times during the year.

Comment: There is a decline in the number of times inventory has been sold from 2015 to 2016 which is unfavourable since it is a grocery business. The business needs to generate means to increase its sales through advertising and other strategies.

2. Age of Accounts Receivables (days)

It can be expressed in times or days or weeks or months. This analysis indicates the number of days it takes the accounts receivables to clear their accounts.

Example

Formula		2015	2016
Average Account Receivables x 365 / Net Credit Sales	Average Accounts Receivables	70000+60500 / 2	60500+110200 / 2
	Net Credit Sales	420000	550000
	Age of Accounts Receivables (days)	65250 x 365 / 420000 = **56.71 days**	85350 x 365 / 550000 = **56.64 days**

Interpretation: This means that in 2016, the debtors take almost 56.64 days to clear their accounts.

Comment: The age of accounts receivables have not changed much over the period of one year which is unfavourable. The normal credit rating is usually 30 days. Debtors are taking too long to clear their accounts. The credit control department must take some action to recover the debts and check on the credit worthiness before giving credit.

Formulae, Purpose and Reasons for Change in Ratios

Measures of Earning Capacity or Profitability Ratios

Ratios under this category are associated with business profitability.

				Reasons for change in ratios	
	Ratio	**Formula**	**Purpose/ Significance**	**Increase**	**Decrease**
1	Gross profit ratio OR Gross Profit % Gross Profit / Net Sales × 100 / 1	Gross profit: Net Sales OR	-Measures the gross profit per dollar of sales. - It indicates the margin of profit available to cover expenses.	- An increase in the selling price without the corresponding increase in costs. - Incorrect stock valuation e.g. closing stock may be overvalued. - Increase in demand for a particular good. - Decrease in COGS E.g. finds the cheaper supplier.	- A decrease in the selling price without the corresponding increase in costs. - Incorrect stock valuation e.g. closing stock may be undervalued. - An increase in costs without a corresponding increase in the selling price of the goods. - Due to low sales

					margin and expensive buying.
2	Net profit ratio OR Net Profit %	Net profit : Net Sales OR $\frac{\text{Net Profit}}{\text{Net Sales}} \times \frac{100}{1}$	- Measures net profit per dollar of sales. - Indicates net margin per dollar after all expenses.	- A lower figure for cost of goods sold. - A higher gross profit ratio. - Reduced expense rate. - Increase mark up by increasing selling price.	- A higher figure for cost of goods sold. - A lower gross profit ratio. - Higher expense rate.
3	Mark – up %	$\frac{\text{Gross profit}}{\text{Cost of goods sold}} \times \frac{100}{1}$	- Measures the gross profit based on the cost price.	- When the goods are on demand. - There is a new type of good in the market with a single distributor. - Buying from cheaper suppliers.	- When the goods are old or have become outdated. - There are many suppliers of the same goods and competition.
4	Expense to sales ratio OR Expenses to Sales %	$\frac{\text{Total Expenses}}{\text{Net sales}}$ $\frac{\text{Total Expense}}{\text{Net sales}} \times \frac{100}{1}$ **Individual Expenses** a) $\frac{\text{Selling\&DistributionExp}}{\text{Net sales}} \times \frac{100}{1}$ b) $\frac{\text{Administrative Expense}}{\text{Net sales}} \times \frac{100}{1}$ c) $\frac{\text{Financial Expense}}{\text{Net sales}} \times \frac{100}{1}$	- Measures the ratio of expenses in relation to the sales dollar.	- Due to additional expenses being incurred. - Expenses in relation to the sale of the item have Increased.	- Due to decrease in the expenses.
5	Return on total assets ratio OR Rate of return on total assets %	$\frac{\text{Net profit +interest expense}}{\text{Average total assets}}$ $\frac{\text{Net profit + int exp}}{\text{Average total assets}} \times \frac{100}{1}$	- Measures the net profit derived from every dollar of asset employed by the business.	- Means more efficient use of assets. - Could be as a result of disposing unused or unproductive assets. -Due to a higher profit (reduction in expenses). - Increase mark up.	- Means assets are not fully utilised. - Use of unproductive old assets. -Due to a decline in the profit.
6	Return on owners	$\frac{\text{Net profit}}{\text{Average capital}}$	- Measures return on investments or	- Due to increased profits.	- Result of overcapitalisation.

	equity ratio OR Return on owners' equity %	OR Net profit × 100 Average capital 1 Average capital = (opening capital + closing capital) ÷ 2	assets provided by the owner. - Measures how effectively invested funds are used.	- Decrease in expenses. - Increase in mark up.	- Decreased profits.
B	**MEASURES OF FINANCIAL STABILITY (LIQUIDITY RATIOS AND FINANCIAL STRUCTURE)** **Means the ability to meet financial requirements in both short term and long term so that the business could continue to operate as usual.**				
Liquidity ratios: it refers to the ability of the firm to meet its financial obligations as they become due. It relates to the financial strength of the business through working capital and quick asset ratios.					
1	Working capital or current or solvency ratio OR Working Capital % OR Working Capital in Dollars ($)	Current Assets Current Liabilities OR Current Assets ×100 Current Liabilities 1 Current Assets – Current Liabilities	- Measures the ability to meet current debts with the current assets. - It indicates the ability of the business to meet its debts as it falls due in the short term 3-6 months.	- Increase in accounts receivables and closing stock. - By understating liabilities. - Increase in current asset by owner investing more money in the business.	- Improved stock control and management. - The stocks may be sold quickly. - Debt collection is done at a faster rate. - Increase in current liability.
2	Quick Asset or Acid Test ratio OR Liquid Capital in Dollars ($)	Current Assets – closing stock - prepayment Current Liabilities – Bank overdraft secured or limit OR Quick Assets Quick Liabilities **[**Current Assets – Closing Stock – Prepayment**] – [**Current Liabilities – Bank Overdraft (secured)**]**	- Measures the ability to meet immediate debts using the most liquid assets.	- Reduce credit buying. - An increase in credit sales to the customers. - Increase owners' contribution in form of cash.	- Increased buying of goods on credit. - Slow collections from Debtors meaning slow payment to the creditors.

Financial Structure: it describes the business's sources of financing, including shareholders' equity and long- and short-term debts. It can be measured through certain ratios such as equity ratio, debt ratio and debt to equity ratio. These ratios can also be categorised as gearing ratios (or leverage).					
3	Proprietorship ratio or Owners Equity ratio or Equity ratio	Owners' Equity / Total Assets OR Owners' Equity / Total Assets ×100/1	- Measures the percentage of assets or funds provided by the owners. - The ratio should at least be 50%. A very high level shows overcapitalisation by the owners.	- Due to the profits being retained in the business by the owner. - The owner is deliberately increasing investment in the business to avoid tax payments.	- Accumulating losses as a result of unproductive assets. - The owner withdrawing assets from the business.
4	Debt ratio	Total External Liabilities / Total Assets OR Total External Liabilities / Total Assets ×100/1	-Measures the extent of assets or funds provided by the external parties. -The acceptable level is below 50%.	-May be due to buying of goods on credit. -The outsiders' funds in the business is Increasing.	-May be due to goods sold on credit (increase in debtors or assets). -The owner has brought in new productive assets in the business.
5	Debt to Equity ratio	Total External Liabilities / Owners' Equity OR Total External Liabilities / Owners' Equity ×100/1	- Measures the outsiders claim in relation to the owners' equity. - The acceptable level is below 50%. -Shows the long term financial stability of the business.	- Relying more on borrowed funds. - A reduction in owners investment in the business.	- Relying less on borrowed funds. - An increase in investment by the owner.

www.google.com

We need to check on our Policies in order to improve inventory and accounts receivable turnover.

C	**MEASURES OF THE EFFECTIVENESS OF CERTAIN MANAGEMENT POLICIES** **All ratios and percentages indicate the effectiveness of the management in controlling and managing their resources to its best advantage. However, some results are specifically related to certain policies of the management.**				
1	Rate of inventory turnover Stock turnover (days/weeks /months)	Cost of goods sold = number of Average Stock times **NB: the higher the rate the more favourable the ratio and vice versa.** Avg. Stock x days/weeks COGS /months **NB: the higher the time frequency the less favourable the ratio and vice versa.**	- Measures the number of times during the period that average inventory is sold.	- Improvement in stock control. - Good selling and promotional techniques. - Goods are sold in line with the consumers taste and fashion. - Reduce markup.	- Stocks are becoming Outdated/ obsolete. - Poor stock control. - Poor selling and advertising techniques.
2	Rate of Accounts Receivable turnover Accounts Receivables turnover (days/weeks /months)	Net credit sales = number of Average debtors times **NB: the higher the rate the more favourable the ratio and vice versa.** Avg. debtors x days/weeks Net Cr sales /months **NB: the higher the time frequency the less favourable the ratio and vice versa.**	- Measures the time taken by the debtors to pay their debts. - Indicates how quickly debtors pay their debts.	- Inefficiency in the collection of debts. -Financial constraints faced by the customers. - A change in credit policies to attract more customers.	- Greater discounts allowed with other attractive offers. - Staffs in charge of collecting debts are working more effectively. - A strict credit terms allowed to customers. - Check credit worthiness of customers before granting credit. - Charge interest to debtors. - Take legal action.

Effect of Transactions on Working Capital and Net Profit

Working capital is calculated as:

Current Assets – Current Liabilities

Effects

- Net increase in current assets will increase working capital.
- Net decrease in current assets will decrease working capital.
- Net increase in current liabilities will decrease working capital.
- Net decrease in current liabilities will increase working capital.

Note:

- ✓ Under periodic inventory system, purchases of goods are treated as an expense.
- ✓ Under perpetual inventory system buying of goods is treated as an asset.

Example

Maharaj runs a grocery shop in Bulileka. The following transactions relates to the month of June, 2015.

1. Bought goods on account $1 500.
2. Paid sales commission $320.
3. A debtor Valentine settled his account $700 less $90 discount.
4. Owner took goods for own use $200.
5. Sold stock for cash $210 to Jacky.
6. Bought furniture (cost price $3 800) and made a down payment of $500.
7. Received rent $600 from Mrs. Valentine.
8. Sold equipment cost price $1 200 to Lingam for $1 500 on account.

Required:

Show the effect of the above transactions on working capital and net profit indicating whether it will increase, decrease or have no effect.

Table 1: The effect is shown using perpetual method

Transaction	Effect on Working Capital	Effect on Net Profit
1	No effect	No effect
2	Decrease	Decrease
3	Decrease	Decrease
4	Decrease	No effect
5	No effect	No effect
6	Decrease	No effect
7	Increase	Increase
8	Increase	Increase

Table 2: The effect is shown using periodic or physical method

Transaction	Effect on Working Capital	Effect on Net Profit
1	Decrease	Decrease
2	Decrease	Decrease
3	Decrease	Decrease
4	No effect	Increase
5	Increase	Increase
6	Decrease	No effect
7	Increase	Increase
8	Increase	Increase

Activity 5.1.1

Multiple Choice

1. The main purpose of analysing ratios is to
   A. Calculate the correct net profit.
   B. Attract more investors.
   C. To make better decisions for the business.
   D. To decrease expenses.

2. Which of the following is a measure of how quickly a business can turn its assets into cash?
   A. Profitability ratio.
   B. Financial Stability ratio.
   C. Inventory turnover ratio.
   D. Management effectiveness.

3. Which of the following ratios will measure the effectiveness of the management policies of a firm?
   A. Debtors turnover ratio.
   B. Gross profit ratio.
   C. Quick asset ratio.
   D. Mark up percentage.

4. Which of the following is the best reason for excluding closing stock from the calculation of Liquid Capital?
   A. it is not subject to short term demands
   B. it can be liquidated at a very short notice
   C. it will take more time for the stock to be sold
   D. it is a current asset therefore it must be subtracted

5. Owner's contribution has a significant influence over the business assets. Which ratio measures the funds provided by the owner?
   A. Gross profit ratio
   B. liquid ratio
   C. Proprietorship ratio
   D. current ratio.

6. A firm could be considered to be undercapitalised if the proprietor's equity is
   A. 95%
   B. 60%
   C. 40%
   D. 86%

Activity 5.1.2

Short Answer Questions

a. Identify two ways to analyse financial statements.

b. Explain why the following users of accounting information need the financial reports:

   i. Trade Creditors.
   ii. Commercial Banks.
   iii. Potential investors.

c. List two purposes of analysing and interpreting final reports.

d. Suggest one reason why studying two years financial reports is more useful than studying one year's financial reports.

e. Differentiate between trend analysis and vertical analysis.

f. State two limitations of the analysis and interpretation of financial statements.

Activity 5.1.3

1. The following are the financial statements of Christin Clothing's for the year ended 31st March 2015 and 2016.

Christin's Clothing's Income Statements for the year ended 31st March 2015 and 2016.		
	2015 $	**2016 $**
Sales	235000	250000
Less Cost of Goods Sold	98000	112000
Gross profit	**137000**	**138000**
Selling and Distribution Expenses	32000	30000
Administrative Expenses	58000	59000
Financial Expenses	2000	3000
Net profits	**45000**	**46000**

Christin's Clothings Statement of Financial Position as at 31st March 2015 and 2016.		
	2015 $	**2016 $**
Assets		
Inventories	26000	34000
Accounts Receivables	21000	29000
Property Plant and Equipment	153000	182000
Total assets	**200000**	**245000**
Less liabilities		
Bank Overdraft (Limit $1000)	6000	7000
Accrued expenses	3000	4000
Noncurrent liabilities	20000	30000
Total Liabilities	**29000**	**41000**
Net assets	171000	204000
Owner's Equity	**171000**	**204000**

Additional information:

(i) Inventory (2014) - $20 000
(ii) Accounts receivables (2014) - $15 000
(iii) Total Assets (2014) - $15 500

Required:

Calculate the following ratios and percentages for the above business for the years 2015 and 2016.

a. Mark Up percentage
b. Gross profit ratio.
c. Administrative expense percentage.
d. Rate of return on total assets.
e. Working capital.
f. Quick asset ratio.
g. Inventory Turnover in times.

Activity 5.1.4

1. Minal Kumar has owned her dental practice for the past twelve years. Each year her business makes a good Net Profit. However, she often struggles to have enough money to pay her Accounts payable as they fall due. She has provided you with the following information:

2014	$
Accounts Receivable	10000

2015	$
Cash at Bank	3814
Accounts Receivable	13500
Petty Cash	100
Prepayments	160
Sales (Credit 50%)	175000

	$
Accounts Payable	10500
Loan	25000

2016	$
Cash at Bank	4200
Accounts Receivable	19540
Petty Cash	100
Prepayments	90
Sales (Credit 40%)	140000

	$
Accounts Payable	10560
Loan	20000

Business operated for 300 days in all years.

(a) Complete the table given below.

	2015	2016
Age of Accounts Receivables	40.29 days	_____ days
Liquid Ratio	_____: 1	2.26 : 1
Current Ratio	1.67 : 1	_____: 1

(b) Explain what the Current ratio of 1.67:1 in 2015 tells about her business.
(c) State how the increasing age of Accounts Receivable helps improve the liquid ratio.

(d) Explain using the increasing Age of Accounts Receivable, why Minal struggles to repay her Accounts payable as they fall due, despite the fact that the liquid capital ratio is 2.26: 1

(e) Recommend one way Minal can improve the Age of Accounts Receivable. Justify your recommendation by explaining how your strategy would improve the Age of Accounts Receivable.

(Source: NCEA LEVEL 2 Revision Guide)

Activity 5.1.5

1. The financial information given below relates to Rekha's Music Store.

2015

Inventory	Bank	Accounts Receivable	Accounts Payable
$70000	$10000	$12000	$35000

2016

Inventory	Bank	Accounts Receivable	Accounts Payable
$43000	$20000	$14000	$28000

i) Complete the table given below by calculating the current and liquid capital ratios.

	2015	2016
Current Ratio	_____:1	2.75 :1
Liquid Capital ratio	0.63 :1	_____: 1

ii) Explain the meaning of Rekha's Music Stores current ratio of 2.75: 1 for 2016.

iii) State the thumb rule for the current ratio for any given business.

iv) Identify how current and liquid capital ratios are classified in the broad categories of ratios.

Activity 5.1.6

1. Kathy has a supermarket and sells food and other groceries. Sandy has a smaller store which sells vegetables and fruits.

   The following information is available for the year ended 30th June 2015.

	Kathy's Store ($)	Sandy's Store ($)
Revenue (Sales)	120000	48000
Gross Profit	42000	26400
Net profit for the Year	14400	17600
Capital at 1 July 2014	96000	50000

Required:

i) For each business, calculate the following

a) The percentage of gross profit.
b) Net profit percentage.
c) Rate of Return on Owners Equity.

ii) State **one** reason for the difference in the Net profit percentage between the two businesses.

iii) Kathy believes that she will increase her profit by increasing her sales. Explain why this may not be the case.

Activity 5.1.7

Given below are results of Kapil's Business:

		2015	2016
i)	Quick asset ratio	2.20:1	1.67:1
ii)	Debt ratio	0.43:1	0.68:1
iii)	Age of debtors	33 days	46 days
iv)	Stock turnover	4 times	6 times
v)	Return on total assets	15.8%	20.9%
vi)	Net Profit percentage	35%	45%

Required:

1. Comment on the following ratios and percentages:

   (i) Quick Asset ratio
   (ii) Age of debtors
   (iii) Stock turnover
   (iv) Debt ratio
2. Give two reasons for the increase in net profit percentage.

Activity 5.1.8

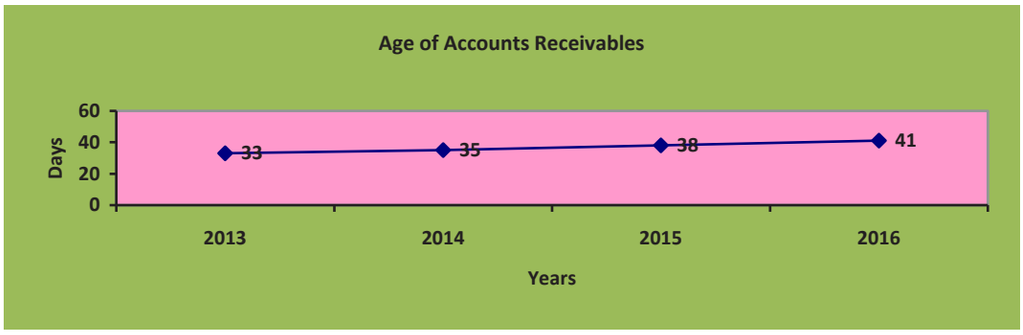
1. The results of SunStar business for the three years are given below:

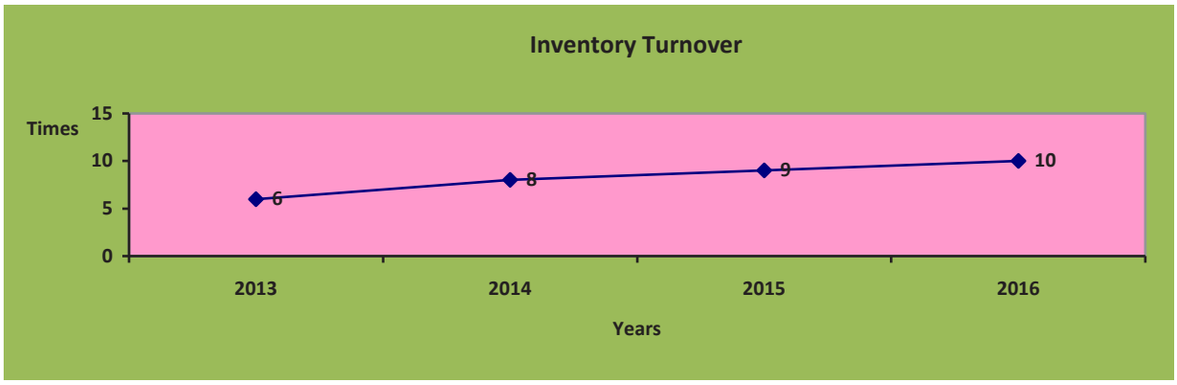
	2014	2015	2016
Rate of Inventory Turnover	12 Times	9 Times	6 Times
Gross profit to sales percentage	50%	45%	35%
Debt to Equity Ratio	0.46:1	0.58:1	0.70:1

I. State the purpose of Gross profit to sales percentage.
II. Give two reasons for the decline in the rate of stock turnover.
III. Comment on the trend in the Debt to Equity ratio

Activity 5.1.9

Starlet Store is a hardware store owned by James Taylor.
The accountant has prepared the following graphs to explain the trends in the age of Accounts Receivables and the inventory turnover analysis measures for the year ended 30th June 2015.





a. Explain the trend indicated by the graph for the :
   - Age of Accounts Receivables.
   - Inventory Turnover
b. Calculate the increase in the number of days for accounts receivables from 2015 to 2016.

Activity 5.2.0

Effects on Working Capital

1. Jason Kumar owns and operates a Grog Shop in Valelevu. The following transactions took place in his business for the month of December.

December 2	Grog pounding machine was purchased for $700 cash.
3	Bought yaqona from Khan for $1 000.
5	Received from debtors $550.
6	Purchased Motor Vehicle for business use $10 000 from Asco Motors.
7	Jason took yaqona from the business for own use $10.
10	Paid creditors $10 000 less 10% discount.
15	Sold furniture (cost $500) for $350 cash.

Required:
Show how the above transactions would affect the working capital and net profit of Jason Kumar's business. (Note: assume the business uses perpetual method of inventory valuation)

www.google.com

2. Etuate owns a Grocery Shop in Nausori town. The following transactions took place in his business for the month of June 2015.

June 1	Bought goods on credit from Eva Ltd $1 000.
2	Purchased plant and equipment from Jone Ltd $1 000.
10	Owner took goods from the business for own use $100.
16	Received from debtors $500 less 5% discount.
20	Sold old cash register machine (cost $250) for $300 cash.
30	Paid creditor $450 and received a discount of $50.

Required:
Show how the transactions affect the working capital and net profit of Mr. Etutate's business. (Assume the business uses physical method of recording inventory)

Activity 5.2.1

The following comparative figures relate to My Mobile business of Tevita for the month of February 2016.

The two popular brands sold by My Mobile business are Smarty Mobile and Bubble Mobile.

Comparative Statement of Financial Performance for the month of February 2016.

	Smarty Mobile	Bubble Mobile
	$	$
NET SALES	**60 000**	**70 000**
Less Cost of Goods Sold		
Opening stock	3 000	8 000
Add purchases	40 000	32 000
	43 000	40 000
Less closing stock	8 000	5 000
Cost of sales	35 000	35 000
GROSS PROFIT	**25 000**	**35 000**
Less Expenditure:		
Sales and distribution expenses	5 000	3 000
Administrative expenses	1 000	1 000
Financial expenses	1 000	1 000
NET PROFIT	**18 000**	**30 000**

Required:

a) For each of the products (Smarty Mobile and Bubble Mobile), calculate the ratios and percentages shown below using the appropriate formula.
   (i) Markup percentage
   (ii) Gross profit percentage
   (iii) Total expenses to sales ratio
   (iv) Rate of stock turnover in days, if the business operated for 25 days in the month.

b) Calculate the net profit percentage for the business as a whole.

c) How can Tevita improve the profitability of Smarty Mobile? Suggest two possible ways.

www.google.com

STRAND 6

SYSTEMS FOR IMPLEMENTING THE ACCOUNTING PROCESS

Strand Outcome

Explore and discuss the internal control procedures for the following subsystems: Accounts Receivables, Accounts Payables, Payroll, Incomplete records, and data processing.

Learning Outcomes

Upon completion of this strand, students should be able to:

- *Examine the basic internal control procedures over credit transactions.*
- *Examine the basic internal control procedures over payroll.*
- *Explore accounting for incomplete records.*
- *Evaluate data processing in the Accounting system.*

Importance of Internal Control

Every business must follow proper internal control procedures in order to:

- Avoid fraud and error.
- Safeguard business assets and other resources.
- Promote operational efficiency.
- Adhere to prescribed management policies.

Principles of internal control

- Separation or segregation of duties
- Authorisation
- Responsibility
- Physical control
- Serialisation of documents
- Reliable personnel
- Sound accounting practices
- Rotation of duties
- Verification

Internal check is checking of day to day transactions whereby the work of one employee is checked by the other member of the staff. In other words the work of each individual employee is independently checked. The main purpose of internal check is to detect fraud and error.

6.1 ACCOUNTING FOR CREDIT TRANSACTIONS

Today most businesses buy and sell on credit in order to expand their services to all sorts of customers and suppliers.

Reasons why firms offer credit facilities to Customers

- To maximise sales volume and profits.
- To enable the customer to buy the product in case they do not have sufficient cash.
- Allows the customers to enjoy the same goods and services as of the people with money.
- To avoid the goods from becoming obsolete.

Internal Control over Credit Sales

It is important for firms to have a good control over credit sales in order to avoid losses, fraud, error and misuse of inventory and theft.

- Sales orders received must be checked with the manager, or the credit control department about the credit worthiness of a customer before it is processed.
- Inquiries must be made with the stock officer for the supply of goods.
- A tax invoice must be written out for every sale before goods are delivered to the customer.
- Serially numbered tax invoice is prepared and the original copy must be given to the customer. One copy goes to the accounting department while another copy becomes the delivery slip.
- Correct order number for the customer must be recorded on the invoice.
- The tax invoice must be signed by the customer as a proof for purchasing goods.
- A separate staff must be assigned to check the prices and calculations.
- Sales Returns and allowances – a strict procedure for all returns inwards and allowances, must be in place. All credit notes to be checked by a responsible officer in order to prevent employees from issuing credit notes to cover cash frauds. Only authorised staff members should be allowed to accept return of goods.

Internal Control over Accounts Receivable

- All credit sales should be approved by an authorised person.
- The credit worthiness of the customer should be looked at before the credit sale is made. **Credit worthiness** is the ability of the customer to pay the amount owing by him or her to the business. The following needs to be considered:
  - Income and financial commitments.
  - Employment security.
  - Residence and contact.
  - Ability to pay and credit ratings.

  The credit control department in large businesses plays an important role. Number of days given to pay, discounts allowed and interest charged needs to be considered.
- The employee who handles accounts receivable records should not be receiving cash.
- A Statement of Account must be sent to each debtor in a form of a reminder to pay the sum owed.
- **Cycle Billing** – in large businesses cycle billing can be used whereby customers are grouped alphabetically and statements are sent in cycles during the month. For example, Debtors whose name begins with A – E, their statements will be sent on the first day of every month, F - J on the 10th of the month and so on. This assists in separation of duties amongst employees.
- All customers should be given a time period to pay the accounts and interest to be charged on overdue accounts.
- **Aging Schedule or Age Analysis** of debtors account should be prepared every month to follow with the overdue accounts. It reflects that an aged debtor is more likely to be declared as bad debt.

Internal Control Over Credit Purchases

- Three quotes must be taken before buying goods.
- All purchases should be made on an order form, properly signed and sanctioned by an authorised employee.
- Necessary checks must be made on goods received in terms of quality of goods, prices, terms of payments and discounts offered. Comparison must be done with the purchase order, delivery docket and the invoice received from the supplier.
- Authorisation of payment is made by an employee other than the person who ordered the goods.
- Credit notes to be checked properly when goods are returned to the suppliers and necessary deductions done before payments.

Internal Control Over Accounts Payable

- Employees who handle accounts payable records should not handle payment of cash.
- Procedures should be employed which ensures that payments are made on time to take advantage of any discount.
- Proper authorisation should be obtained before payment is made to suppliers.
- Use of control accounts and subsidiary ledgers allow greater control through separation and rotation of duties.

Sectionalising the Ledger:

- Means dividing the ledger into different groups, Example:
  - General ledger and Subsidiary ledger.

General Ledger

- It contains all the information of the debtors and creditors control accounts, and other impersonal accounts.

Subsidiary Ledger

It provides detailed information and records of each individual accounts receivable and accounts payable.

Advantages of Control Accounts

- A trial balance can be prepared from the general ledger without referring to subsidiary ledger.
- Errors can be detected through the use of control accounts.
- Enables further division of labour and responsibility. Incorporating rotation of duties through distribution of ledgers to different employees will assist in detecting errors and fraud.

Format of an Accounts Receivable Control Account

Accounts Receivable Control Account (T Form)

	$		$
Opening balance	X	Cash	X
Sales	X	Discount Allowed	X
Interest	X	Sales returns	X
Cash refund	X	Transfer–Creditors ledger (contra)	X
Dishonoured Cheques	X	Closing Balance	X
	xxx		xxx

Accounts Receivable Control Account (3 Column Form)

	Debit $	Credit $	Balance $
Opening Balance			XX Dr
Sales	X		XX Dr
Cash		X	XX Dr
Discount Allowed		X	XX Dr
Cash Refund	X		XX Dr
Dishonoured Cheques	X		XX Dr
Sales Returns		X	XX Dr
Interest	X		XX Dr
Bad Debts		X	XX Dr
Freight	X		XX Dr
Transfer – Creditors Ledger		X	**XX** Dr

Closing Balance

Format of an Accounts Payable Control Account

Accounts Payable Control Account

	$		$
Cash	X	Opening balance	X
Discount received	X	Purchases	X
Purchase returns	X	Interest	X
Transfer – debtors ledger (contra)	X	Cash refund	X
Closing balance	X		
	xxx		xxx

Accounts Payable Control Account – 3 Column Form

	Debit $	Credit $	Balance $
Opening Balance			XX Cr
Purchases		X	XX Cr
Cash	X		XX Cr
Discount Received	X		XX Cr
Interest		X	XX Cr
Cash Refund		X	XX Cr
Purchase Returns	X		XX Cr
Transfer – Debtors Ledger (Contra)	X		**XX** Cr

Closing Balance

Contra Account

Businesses may buy and sell to the same firm. Hence the debtor also represents the creditor for the firm. In such cases rather than paying each other, the transfer between debtors and creditors ledger is done to offset the amounts owed.

Schedule of Balances

- Consists of the list of closing balance of each individual debtor and creditor. This should equal to the closing balance of accounts receivable and accounts payable control account.

Note:

- Bad debts are an actual financial loss arising from a debtor not paying his or her account.
- Doubtful debts are those debts which a business is unlikely to be able to collect from accounts receivables.
- Bad Debts Recovered is a debt which was previously written off but recovered later.

Example 1

Accounts Receivable Opening Balances 1st October 2015

Smith	540
Tina	180
James	270
Total	**990**

Tax Invoice Issued		$
Oct 5	Smith	450
10	Tina	270
12	Seru	100
20	Villiame	630
24	James	90
	Total	**1540**

Credit Notes Issued		$
Oct 18	Tina	80
22	James	45
	Total	**125**

Cash Receipts Journal		$	$	$
Date	**Particulars**	**Disc**	**Bank**	**Debtor**
Oct 11	Smith	40	500	540
20	Tina		100	100
	Discount Allowed Dr	**40**	**600**	**640**

Memos Issued	
Oct 16	Charged James $20 for freight.
25	Write off Seru's account as bad debt.

Solution:

Accounts Receivable Subsidiary Ledger:

Smith

Date	Particulars	Debit $	Credit $	Balance $
Oct 1	Balance			540 Dr
5	Sales	450		990 Dr
11	Cash		500	490 Dr
	Discount Allowed		40	**450 Dr**

Tina

Date	Particulars	Debit $	Credit $	Balance $
Oct 1	Balance			180 Dr
10	Sales	270		450 Dr
18	Sales Returns		80	370 Dr
20	Cash		100	**270 Dr**

Seru

Date	Particulars	Debit $	Credit $	Balance $
Oct 12	Sales	100		100 Dr
25	Bad Debts		100	0

Villiame

Date	Particulars	Debit $	Credit $	Balance $
Oct 20	Sales	630		**630 Dr**

James

Date	Particulars	Debit $	Credit $	Balance $
Oct 1	Balance			270 Dr
16	Freight	20		290 Dr
22	Sales Returns		45	245 Dr
24	Sales	90		**335 Dr**

Schedule of Accounts Receivable	
Smith	$450
Tina	270
James	335
Villiame	630
Total	**$1685**

General ledger:

Accounts Receivables Control Account

Date	Particulars	Debit $	Credit $	Balance $
Oct 31	Opening Balance			990 Dr
	Sales	1540		2530 Dr
	Freight	20		2550 Dr
	Cash		600	1950 Dr
	Discount allowed		40	1910 Dr
	Sales Returns		125	1785 Dr
	Bad Debts		100	**1685 DR**

NB: $1685 balance is same as the total for Schedule of Accounts Receivable.

Example 2

Accounts Payable Opening Balances 1st May 2015

	$
Jane	600
Sima	520
Kelly	100
Total	**1220**

Tax Invoice Received		$
May1	Jane	200
5	Kelly	380
10	Joseph	600
15	Sima	350
	Total	**1530**

Credit Notes Received		$
May 20	Sima	90
25	Kelly	50
27	Joseph	68
	Total	**208**

Cash Payments Journal		$	$	$
Date	**Particulars**	**Disc**	**Bank**	**Creditors**
May 15	Jane	100	500	600
25	Kelly		100	100
27	Sima	20	500	520
	Discount Received Cr	**120**	**1100**	**1220**

Memos Received	
May 16	Sima charged interest $60.

Solution:

Accounts Payable Subsidiary Ledger:

Jane

Date	Particulars	Debit $	Credit $	Balance $
May 1	Balance			600 Cr
	Purchases		200	800 Cr
	Cash	500		300 Cr
	Discount Received	100		**200 Cr**

Sima

Date	Particulars	Debit $	Credit $	Balance $
May 1	Balance			520 Cr
15	Purchases		350	870 Cr
16	Interest		60	930 Cr
20	Purchases Returns	90		840 Cr
27	Cash	500		340 Cr
	Discount Received	20		**320 Cr**

Kelly

Date	Particulars	Debit $	Credit $	Balance $
May 1	Balance			100 Cr
5	Purchases		380	480 Cr
25	Purchases Returns	50		430 Cr
	Cash	100		**330 Cr**

Joseph

Date	Particulars	Debit $	Credit $	Balance $
May 10	Purchases		600	600 Cr
27	Purchases Returns	68		**532 Cr**

Schedule of Accounts Payable	
Jane	200
Sima	320
Kelly	330
Joseph	532
Total	**1382**

General ledger:

Accounts Payable Control Account

	Debit $	Credit $	Balance
Opening Balance			1220 Cr
Interest		60	1280 Cr
Purchases		1530	2810 Cr
Cash	1100		1710 Cr
Discount Received	120		1590 Cr
Purchases returns	208		**1382 Cr**

NB: $1382 balance is same as the total for Schedule of Accounts Payable.

Activity 6.1.1

1. The accounts receivable's dishonored cheque first appears in the
   A. Cash Payments Journal.
   B. Cash Receipts Journal
   C. Bank Statement.
   D. Statement of Account.

2. Interest charged to debtors will affect
   A. Creditors general ledger.
   B. Debtors Ledger.
   C. Creditors ledger.
   D. Sales account.

3. The total of sales returns and allowances journal is placed on the:
   A. debit side of Accounts Payable control account.
   B. credit side of Accounts Payable control account.
   C. debit side of Accounts Receivable control account.
   D. credit side of Accounts Receivable control account.

4. Questions 4 and 5 are based on the following information

Accounts Receivable Control Account					
Jun 1	Balance	$7000	Jun 20	Bad Debts	$ 200
16	Interest	$ 50	30	Sales returns	$ 250
30	Sales	$8000		Cash and discount	$6600

The closing balance of this account is:

A. $7000 debit
B. $7000 credit
C. $8000 credit
D. $8000 debit

5. The closing balance should equal to:

A. credit sales for the period
B. Schedule of Accounts Receivable.
C. total of debtor's column in cash receipts journal
D. creditor's ledger total

Activity 6.1.2

Short Answers:

1. Define the term Accounts Receivable.
2. State one reason for keeping an Accounts Receivable subsidiary ledger.
3. One of the most serious problems faced by firms is bad debts. List three ways in which the business can reduce bad debts.
4. Explain the significance of preparing the schedule of debtors.
5. Debtors usually return damaged or faulty goods to the business. Identify three checks to be made when debtors return goods to the business.
6. The credit worthiness of a customer is normally checked by the credit control department before any credit sales is approved. Explain why it is important.
7. Give a reason for the inventory department for not releasing stock until proper authorised dispatch docket is received.
8. **Case study**

Sakuisa is the purchasing manager of Jojos Ltd. Sometimes he buys goods for personal use and charges them to the firms account in order to take advantage of the trade discount. He is also responsible for writing and signing cheques to accounts payable when his boss is away on overseas trips.

i) Identify the weaknesses in the internal control procedure given above.
ii) Recommend the necessary changes to improve the system.

Activity 6.1.3

1. On 1st May the accounts receivable balances of Kumar's business were as follows:

Fazreen $120 , Joan $85, Melisa $32

The following information is provided in relation to three Journals:

Sales Journal

May 2	Batila	56
4	Melisa	34
10	Fazreen	16
15	Joan	13
		119

Returns Inwards Journal

May 10	Melisa	10
12	Fazreen	11
20	Joan	8
		29

Cash Receipts Journal
(Debtors Column)

May 11	Batila	40
16	Melisa	34
20	Fazreen	80
25	Joan	25
		179

Additional Information:
On May 16th Interest charged to Fazreen $8 and Batila's account written off as bad.

Required:
Using the information given above:

a) Prepare the accounts Receivable ledger accounts (3 Column) and the Accounts Receivable Control account.
b) Prepare the schedule of debtors.

2. Prasad's business does not prepare journals but keeps an accounts receivable subsidiary ledger. On 1st March 2016, the following debtor's balances were outstanding:

Pyal	$460
Salen	$184
Wati	$415
Timoci	$265

Transactions for March were as follows:

March	2	Issued tax invoice to Pyal $230.
	4	Received cash from Salen $123.
	6.	Sold $591 worth of goods on credit to Pyal and $212 to Salen.
	7.	Issued tax invoice to Wati $320 and Timoci $290.
	11.	Charged Pyal interest $45.
	12.	Received $300 from Wati and discount allowed $20.
	13.	Issued credit note to Pyal $13 and Timoci $40.
	14.	Issued tax invoice to Raju $500.
	15.	Wrote off Timoci's account as bad.
	16.	Wati paid her account $190.

Required:
Using the information given prepare the:

I. Accounts Receivable subsidiary ledger.
II. Schedule of Accounts receivable.

3. The following information relates to Edward's Business in Nadi.
Accounts payable balances at 1st January 2016.

Shriha: $350 Singh: $410 Divya: $280

Purchases Journal			
Date	**Particulars**	**Debit $**	**Credit $**
Jan 2	Shriha		100
5	Divya		120
10	Singh		250
15	Peter		85
25	Shriha		150
	Purchases Account Dr	**705**	

Purchases Returns Journal			
Date	**Particulars**	**Debit $**	**Credit $**
Jan 2	Shriha	36	
6	Divya	20	
10	Singh	14	
	Purchases Returns Account Cr		**70**

Cash Payments Journal				
Date	**Particulars**	**Discount**	**Bank $**	**Creditors $**
Jan 8	Divya	20	180	200
20	Singh		150	150
25	Peter		30	30
28	Shriha	10	290	300
		30	**650**	**680**

Required:
Using the information given above prepare :

i) Accounts Payable Subsidiary Ledger. (3 Column Ledger)
ii) Accounts Payable control account
iii) Schedule of Accounts Payable.

4. The following information relates to Serean's business.

Accounts Payables Balances at 1st October 2014:

	$
Anji	620
Mere	97
Ravinesh	318
Salote	760
Thomas	800

Invoices Received from:			
Date		**Invoice No.**	**Amount $**
Oct 10	Mere	105	80
15	Ravinesh	106	92
16	Salote	108	88

Credit notes Received from:			
Oct 25	Anji		$20
26	Ravinesh		30
30	Salote		65

Cheque Butt Details:				
Date	**Cheque No.**	**Creditors**	**Amount $**	**Discount**
Oct 10	10113	Anji	600	20
15	10115	Ravinesh	150	
16	10116	Salote	90	
22	10118	Thomas	55	
24	10119	Thomas	80	10

Additional Information:

- Interest charged by: Anji - $35 and Ravinesh $22.
- Transfer to Debtors legder – Thoma's $80.
- Cash Refunded by Anji $50.

Required:

1. Post the information to the General ledger and Accounts Payable ledger.
2. Prepare a schedule of Accounts Payable at 31st October 2014.

5. Tawake's Quarry maintains a full set of records on a manual basis. The following information relates for the month of September 2016.

Resource 1 **Ledger Balances at 1 September 2016**

	$
Account Receivable	7000 Dr
Cash Sales	6200 Cr
Accounts Payable	8200 Cr

Resource 2

Total of invoices issued $8200

Resource 3

Total of tax invoice received $6300

Resource 4

Total of credit note issued $250

Resource 5

Total of credit note received $300

Resource 6

***Note**: the following is an extract from the columnar cash receipts journal:*

Discount allowed	Bank	Debtors	Sales	Commission
$100	$12800	$6800	$5400	$700

Resource 7

Note: the following is an extract from the columnar cash payments journal:

Discount received	Bank	Creditors	Wages	Others
$150	$10800	$6650	$2700	$1600

Resource 8

Date	Particulars	Debit $	Credit $
Sept 7	Simon (creditors ledger) Simon (debtors ledger)	240	 240
16	Interest U. Silivani (creditor)	75	 75
20	Bad debts R. Ragede	100	 100
23	Repairs Ronald	65	 65
25	Albert Freight charged	33	 33

<u>Required</u>:

From the above information prepare the Accounts Receivable and Accounts Payable Control Account.

6.2 Accounting for Payroll

Payroll

Payroll accounting deals with record keeping and payment of wages and salaries to the employees of any business organisation. It is the business's financial list of the salaries, wages, bonuses, net pay and deductions of their employees.

Importance of Wages and Salaries

Since wages and salaries become the major component of a business's expenses, adequate control is required. It is regarded as an expense because it is paid by the business to the employees in generating revenue for the business. It also acts as an important tool for retaining the employees or workers. It acts as an incentive to the employees to be productive and faithful to the company.

Wages

Is based on hourly basis and calculated for a week normally.

Salaries

Is where the annual amount is fixed for an employee but is paid fortnightly or monthly.

Internal control procedure for wages and salaries

- Adequate supervision of the time clock or time book.
- All payroll registers should be serially numbered to prevent loss or addition of extra entries.
- Adequate separation or segregation of duties to prevent the establishment of the dishonest employees or increasing hourly rates or hours worked.
- Employees should sign receipt to prove that they have received their correct pay.
- Wages should be prepared under the control of a responsible officer, who should not be a cashier.
- Overtime should be recorded separately and authorised by the supervisor or foreman.
- Have a separate bank account for payroll transactions as it will help to identify the direct deposits made, cash remaining after disbursements and the reconciliations for massive transactions.
- Reconciliation should be done monthly.
- Access to the payroll system to be handled by authorised personnel which should be protected by password.

Duties of Wages Clerk, Time-Keeper and Payroll Officer

Wages clerk is the person overseeing the preparation of wages and payroll.

Time keeper is the person responsible for recording the time of arrival and departure of employees.

Payroll officer is a person responsible for preparing the payroll register; that is calculating and distributing payroll to employees.

Documents for payroll

- Payroll register is used to make entries in the general journal.
- Cheque butt.
- Bank statement.
- Payslips.

Time book is where employees write the time of arrival to work and departure from the work, in a book.

Time card is a card which electronically records the time of arrival to work and departure from the work when an employee puts his or her time sheet in the machine.

Biometric attendance machine is used to capture ones unique biological/physical feature such as finger print as a record for identity proof and records the employees' attendance. It is most accurate form of recording time.

www.google.com

Note: time book is subject to manipulation because it is done manually, better choice is time card or biometric attendance machine but it is costly.

Time sheet shows details of the number of hours spent on each job by an employee.

Payroll register records the details of each employee's pay for a period e.g. number of hours worked, overtime pay, gross pay, various deductions, and net pay.

Pay advice slip gives information to an employee about his or her pay e.g. number of hours worked, overtime pay, gross pay, various deductions and net pay.

Given below is an example of a pay advice slip for Kin Wah. Kin Wah is a wage earner.

MALA'S CONSTRUCTION ENTERPRISE			
PAY ADVICE SLIP			
Employee Name:	Kin Wah		
Employee Number:	E389		
Designation:	Supervisor		
Week Ending:	16/06/2015		
Earnings		**Deductions**	
Regular	$320.00	PAYE	$0.86
Overtime	$0.00	FNPF	$25.60
		Union Fees	$10.00
Gross Pay	$320.00	Total Deductions	$36.46
		Net Pay	$283.54
Date: 16/06/15		Name of Bank: TT Bank	
Bank Account Number: xxxxxxx		Deposit Bank xxxxxxx: $283.54	

Note: PAYE: 320 x 52 = $16 640
[(16640 – 16000) x 0.07] ÷ 52 = $0.86. (Refer to PAYE table)

Different methods of paying wages and salaries

- Paying by cash.
- By cheque.
- By electronic transfer.

www.google.com

Recording the Payroll

In any business organisation recording the payroll involves maintaining payroll department records, recognising payroll expenses, liabilities and recording the payment of the payroll.

Maintaining Payroll Department Records

Business organisations usually keep a separate record file of each employee in the organisation. These records are updated after each pay period. The **payroll register** assists the business organisations in updating each employee's record after each pay period.

RESIDENT INDIVIDUALS AND RESIDENT INDIVIDUAL TRUSTEES

Year of Assessment 2013 and subsequent years

Chargeable Income ($)	Tax Payable ($)	Social Responsibility Tax
0-16000	Nil	
16,001 – 22,000	7% of excess over $16,000	
22,001 – 50,000	420 + 18% of excess over $22,000	
50,001 – 270,000	5,460 + 20% of excess over $50,000	
270,001 – 300,000	49,460 + 20% of excess over $270,000	23% of excess over $270,000
300,001 – 350,000	55,460 + 20% of excess over $300,000	6,900 + 24% of excess over $300,000
350,001 – 400,000	65,460 + 20% of excess over $350,000	18,900 + 25% of excess over $350,000
400,001 – 450,000	75,460 + 20% of excess over $400,000	31,400 + 26% of the excess over $400,000

NON-RESIDENT INDIVIDUALS AND NON-RESIDENT INDIVIDUAL TRUSTEES

Year of Assessment 2013 and subsequent years

Chargeable Income ($)	Tax Payable ($)	Social Responsibility Tax
0-16000	20% of excess of $0	
16,001 – 22,000	3,200 + 20% of excess over $16,000	
22,001 – 50,000	4,400 + 20% of excess over $22,000	
50,001 – 270,000	10,000 + 20% of excess over $50,000	
270,001 – 300,000	54,000 + 20% of excess over $270,000	23% of excess over $270,000
300,001 – 350,000	60,000 + 20% of excess over $300,000	6,900 + 24% of excess over $300,000
350,001 – 400,000	70,000 + 20% of excess over $350,000	18,900 + 25% of excess over $350,000

Compulsory deduction

- F.N.P.F (10% from employer and 8% from employee).
- P.A.Y.E if the gross income is over $16,000.

Voluntary deduction

- Insurance premium, union fees, credit card payment, hire purchase payment, housing allowance, and any other deductions approved by employees.

Note:

Gross pay = (Normal Rate x Normal Hours) + (Time and Half Rate x Time and Half Hours) + (Double Time Rate x Double Time Hours)

Time and Half Rate = Normal Rate x 1.5
Double Time = Normal Rate x 2

Example

Tomasi Rasoki works as a machinist. His wages is paid on hourly basis and the rate per hour worked is $5. The normal working hours per day is 8. For any hour worked on Saturday he receives Time and half and double time on Sunday. He worked 6 hours on Saturday and 3 hours on Sunday.

Required:

(a) State the Normal rate?

= $5

(b) What is the Time and half rate?

Time and Half Rate = Normal rate x 1.5
$7.50 = $5 x 1.5

(c) Calculate Double time rate?

Double Time Rate = Normal Rate x 2
$10 = $5 x 2

(d) What is Tomasi's gross pay for the week?

Normal Rate	x	Normal Hours	=	Normal Pay
$5	x	40 hrs	=	$200
Time and Half Rate	x	Time and Half Hours	=	Time and Half Pay
$7.50	x	6 hrs	=	$ 45
Double Time Rate	x	Double Time Rate	=	Double Time Pay
$10	x	3 hrs	=	$ 30

Gross Pay = Normal Pay + Time and Half Pay + Double Time Pay
= $200 + $45 + $30
= <u>$275</u>

(e) Calculate the amount of FNPF contributed by Tomasi?

Gross pay x 8/100 = FNPF Amount $275 x 0.08 = $22

(f) Calculate the amount of FNPF contribution paid by Tomasi's employer?

Gross pay x 10/100 = FNPF Amount $275 x 0.10 = $27.50

(g) Calculate his Net Pay for the week assuming he had to pay hire purchase payment of $24 weekly and insurance premium of $16 weekly?

Net Pay = Gross Pay – Total deductions $213 = $275 – [$22+ $24+$16]

SAMPLE OF PAYROLL REGISTER

MALA'S CONSTRUCTIONS ENTERPRISE

PAYROLL REGISTER

Date of Payment : 16/06/2015

2015		Gross Earnings						Deductions					Payment
Pay period (Weekly) Ending	Employee No.	Total Hours	Regular		Over-time		Gross Pay $	PAYE $	FNPF $	Union Fees $	Insurance Premium $	Total Deductions $	Net Pay $
			Rate $	Pay $	Rate $	Pay $							
12 –June-2015	E205	40	5.00	200.00	-	0.00	200.00	-	16.00	-	20.00	36.00	164.00
	E302	44	5.00	200.00	7.50	30.00	230.00	-	18.40	10.00	30.00	58.40	171.60
	E108	41	5.00	200.00	7.50	7.50	207.50	-	16.60	10.00	-	26.60	180.90
	E389	40	8.00	320.00	-	0.00	320.00	0.86	25.60	10.00	-	36.46	283.54
	E250	38	8.00	304.00	-	0.00	304.00	-	24.32	10.00	25.00	59.32	244.68
TOTAL				**1224.00**		**37.50**	**1261.50**	**0.86**	**100.92**	**40.00**	**75.00**	**216.78**	**1044.72**

Note: the normal working hours of the employees in Mala's Construction Enterprise is 40 hours.

Positive and Negative Impacts of Computer based Payroll

Advantages of computer based payroll

- Saves time and cost.
- Less clerical work (less labour).
- Accuracy and efficient.
- Less storage space required (less paper work).
- Back up data in case of fire or theft.

Disadvantages of computer based payroll

- Cost of the software package in relation to wages and payroll.
- Special skills of the labour to operate the package.
- High chances of data lost by system failures (power failure, hard drive crash).
- Initial setup cost is quite high.

Activity 6.2.1

MULTIPLE CHOICE

1. FNPF is paid
   A. only by the employee.
   B. only by the employer.
   C. by both the employee and the union.
   D. by both the employee and the employer.

2. Which of the following is the compulsory tax deduction?
   A. Insurance Premium
   B. Union Fees
   C. Housing Repayment
   D. PAYE

3. Mosese earns $2.50 an hour. He is also entitled to receive time and a half for all hours in excess of 40 hours. He has worked 47 hours during the week. What is his gross earnings?
   A. $117.50
   B. $176.25
   C. $26.25
   D. $126.25

4. Who is responsible for calculating and distributing wages to employees?
   A. Wages Clerk
   B. Time Keeper
   C. Payroll Officer
   D. Auditor

5. Which of the following is **not** a good internal control procedure for wages and payroll?
   A. Cashier should be the one preparing the wages
   B. Adequate supervision of time book
   C. All payroll registers should be serially numbered
   D. Reconciliation to be carried out on a monthly basis

Activity 6.2.3

Short Answer Questions

1. List three methods of paying wages.
2. Explain the difference between gross pay and net pay.
3. Give an advantage and a disadvantage of computer based payroll.
4. Why should businesses use time card instead of a time book?
5. The accountant suggested to the management to change from paying in cash to paying employees by transferring the amount to their account. Do you agree with this suggestion? Give your reasons.
6. Employees should be made to take annual leaves so that other people do their jobs in their absence. Why is this important?
7. What is the safest method of issuing pay cheques or pay envelopes to employees?
8. The following system is used in a business regarding payment of the weekly wages to its 15 employees :

> 'The pay clerk prepares 15 correctly labelled, sealed pay envelopes and placed them next to the time book every Friday morning. When the employees come in the morning to sign the time book they pick their pay envelopes.'

(i) With reference to the above, identify a weakness of the system.
(ii) Suggest a change that you would recommend to improve the payroll system.

9. Case Study

Mr. Amish operates a sea food restaurant in Nadi and employs seven staffs. He involves himself in food preparation, supervision of serves and customer relations. Since Mr. Amish lacks accounting knowledge he hires Mr. Kinivere Tui to do all accounting records which includes preparing the payroll, keeping payroll records, signing payroll cheques and monthly reconciling of bank account. The payroll cheques are written on the general cash account rather than special payroll account. Mr. Tui knows all the staff very well so he does not keep record cards for each employee. Business seems to be healthy but the cash flow keeps getting tighter. Wages expense seems to be higher than what Mr. Amish forecasts. Even though Mr. Tui assures Mr. Amish that all is good regarding payroll, Mr. Amish suspects that something is wrong regarding the payroll accounting.

a) Study the case study and describe three internal control weaknesses of the payroll system.
b) Suggest three changes you would recommend to Mr. Amish in order to improve the control of payroll system without increasing the staff number.

Activity 6.2.4

Interpreting Pay slips

1. John is employed as a Mechanic and received the following pay slip.

MAHES CAR REPAIRS				
PAY ADVICE (EXTRACT)				
Name: John EDP: 007 Week Ending: 11/07/15 FNPF: ZX420 (5 days a week)				
Rate $5.00 / hour	**Ordinary** $200.00	**Time and Half** $15.00	**Double Time** $60.00	**Total** $275.00

Required:

(a) How many hours is John being paid for at the rate of time and half?
(b) What is the total number of hours John worked for?
(c) What is the purpose of the pay advice slip?
(d) Name one compulsory deduction and two voluntary deductions.
(e) At what percentage is FNPF deducted from John's pay?
(f) What is the difference between wages and salaries?

2. An incomplete payroll register is given below. Normal hours are 40 hours a week and overtime is calculated or paid at time and half. No other deductions are made.

Employees	**Number of hours**						**Total hours**			**Wages**		
	Mon	Tue	Wed	Thu	Fri	Sat	Ord	Over Time	Hourly Rate $	Normal $	Overtime $	**Total $**
Sam	7	7	8	8	8	4	40	2	8.30	332.00	24.90	**356.90**
Jimi	5	8	7	8	9	5	40	2	7.90	**(i)**	**(ii)**	**339.70**
Ajay	6	7	8	8	9	4	40	2	8.45	**(iii)**	25.35	**(iv)**
Joseva	8	9	7	9	8	6	40	7	9.30	372.00	**(v)**	**(vi)**

a) Use the information in the payroll register to calculate the missing wages of the employees marked (i) to (vi).
b) How many cents in a dollar is contributed by an employee towards the FNPF?
c) What is the difference between time card and time sheet?
d) List down two internal controls over paying of wages and salaries.

3. Taitusi Waqa works as an electrician for Fijian Electricals. The following information for the week is shown:

Resource 1

Basic working week hours: 40 hours (five days and 8 hours per day) Hourly rate : $4 Overtime : Time and half but double time after two consecutive overtime hours and on Sunday

Resource 2

Time Sheet Taitusi Waqa Week ending: 07/07/2016					
Days	**Hours AM**	**Hours PM**	**Ordinary Hours**	**Time and half Hours**	**Double Time Hours**
Monday	4	6			
Tuesday	4	7			
Wednesday	8	4			
Thursday	4	6			
Friday	4	7			
Saturday	-	4			
Sunday	2	2			
Total					

a. How many hours did Taitusi work altogether?
b. Calculate the Time and Half and Double time rate.
c. Calculate the gross wages for Taitusi.
d. How many days did Taitusi receive double time pay?
e. What is PAYE?
f. Calculate Taitusi's Net pay assuming the only deduction being FNPF?
g. Name two source documents associated with wages and payroll.

"Sales are up so everyone is getting a bigger pay cheque!"

6.3 Accounting for Incomplete Records

Definition of Incomplete Records

- Is the term used for any system of bookkeeping which does not use full double entry. Single entry system is generally used for incomplete records.

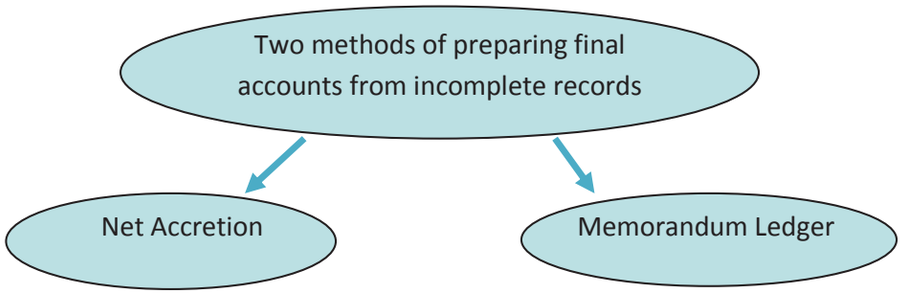
Reasons for Businesses Having Incomplete Records

- The proprietor or staffs have insufficient knowledge of basic Accounting.
- The records are destroyed by fire, flood, theft or any natural disaster.
- Owners not revealing the correct information to the taxation authorities.
- Intentionally hiding information to commit fraud.

Limitations of Incomplete records

- It is impossible to prepare trial balance because double entry is not followed
- Possibility of fraud and error is greater in comparison to double entry.
- Does not provide accurate information about the performance and financial position of the business.

Preparing final accounts from incomplete records



1. Net Accretion method or Net assets method

Formula : ***Net profit = P2 - P1 + drawings – Additional capital***

P2: (**A2 – L2)** is the capital at the end of the year.
P1: (**A1 – L1)** is the capital at the beginning of the year.

Drawings – is anything taken by the owner for personal use.

Additional capital – extra cash or assets contributed by the owner.

Calculation of Net Profit or Loss

Format of Calculating the Net Profit or Net Loss

	$	$
Total Assets year 2	xxx	
Less Total Liabilities year 2	xxx	
Closing Proprietorship		xxx
Total Assets year 1	xxx	
Less Total Liabilities year 1	xxx	
Less Opening Proprietorship		xxx
		xxx
Add Drawings		xxx
		xxx
Less Additional Capital		xxx
Net profit or Loss		xxx

Example

	Year 1	Year 2
	$	$
Cash	800	-
Accounts Receivables	550	2700
Prepaid Expenses	55	68
Furniture	1000	3600
Vehicle	7000	7500
Accounts Payable	385	590
Accrued Expenses	-	80
Mortgage	7600	7600

During the year the owner withdrew $8 per week in cash for his personal use. He invested $1800 cash into the business. Calculate the net profit or loss for the year.

Solution

Statement of Net Profit or Net Loss

	$	$
Total Assets Year 2	13868	
Less Total Liabilities Year 2	8270	
Closing Proprietorship		5598
Total Assets Year 1	9405	
Less Total Liabilities Year 1	7985	
Opening Proprietorship		1420
		4178
Add Drawings		416
		4594
Less Additional Capital		1800
Net profit		$2794

Formulas to Use while calculating Missing Information

- Sales – Cost of Goods Sold = Gross Profit
- Net profit + Expenses = Gross profit
- Opening Inventory + Purchases – Closing Inventory = COGS
- Sales – Gross Profit = COGS
- Opening Inventory + Purchases –COGS = Closing Inventory.
- COGS + Closing Inventory – Purchases = Opening Inventory.
- Cash Sales + Credit sales = Total sales.
- Cash Purchases + Credit purchases = Total Purchases.

Activity 6.3.1

1. Krishnil operates his shop in Rakiraki and uses single entry accounting. On 6th March, 2016, Krishnil had the following assets and liabilities:

	$
Goodwill	3200
Bank Overdraft	786
Equipment	4000
Accounts payable	3800
Accounts receivable	3966
Motor van	12000
Mortgage	1500

During the month of March the following changes had occurred.

Accounts receivable	- had decreased to $1600
Bank Overdraft	– had increased by $150
Equipment	– had increased to $6000
Accounts payable	– had decreased by $1400
Goodwill	– No change
Motor van	– No change
Mortgage	– No change

On 31st March 2016, Krishnil withdrew $700 for his personal use.

Required:

Prepare a Statement to estimate the amount of net profit or loss for the month of March.

2. The following information relates to Smith's business

	1st Jan 2015	31st Dec 2015
Bank	2600 Dr	4500 Dr
Inventory	1620	1400
Accounts Receivables	2000	-
Creditors	970	1060
Equipment	1600	1800
Motor Vehicles	-	6000
Mortgage	5500	5500

During the year 2015 Smith sold his private car for $1000 which he paid into his business account, and he had drawn out $20 monthly for private use. He has also taken inventories worth $550 for his own use

Required:
Prepare a Statement showing the amount of profit or loss for the year

3.

Statement of Financial Position of Andrew as at 31 December, 2014.			
Assets		**Liabilities**	
Cash at bank	$ 650	Accounts Payable	$2100
Accounts Receivable	350	**Proprietorship**	
Equipment	4000	Capital	2900
	$5000		$5000

Statement of Financial Position of Andrew as at 31 December, 2015.			
Assets		**Liabilities**	
Cash at bank	$ 1800	Accounts Payable	$2000
Stock	1000	**Proprietorship**	
Equipment	4000	Capital	4800
	$6800		$6800

Additional Information:

- Drawings for the year $500
- Expenses for the year $1000

Required:
From the above information calculate the Net profit and Gross profit for the year 2015.

4. Use the information given below to prepare the Capital account to find the amount of Drawings.

Capital account balance at 1/1/14	30250
Net profit for the year	14500
Additional capital	9600
Capital account balance 31/12/14	50875
Drawings	??

5. Rishal operates a Computer sales and service business. He had failed to keep records of his drawings for the year, 2014. Rishal provided you with the following information:

Capital account balance as at 1/1/14	$40250
Net profit for the year	18000
Additional cash investment	10000
Capital account balance at 31/ 12/ 14	65430
Drawings for the year	?

Required

Calculate the amount of drawings for the year

www.google.com

Memorandum Ledger Analysis or Gross Profit method

- Is where ledger accounts are prepared with some information to find the other missing information.

Calculation of Missing Information to complete the accounting records

Example 1: Calculation of Cash Sales

Litia's business had missing records due to some mishap. Information relating to cash transactions is given below:

Receipts	$	Payments	$
Accounts Receivable	22500	Rent	200
		Accounts Payable	35000
		Drawings	1000
		Expenses	4500

Additional Information:
Cash at bank 1/2/14: $3200 Bank 1/02/15: $2300

Cash at Bank					
Feb 1	Opening balance	3200	Feb 28	Accounts Payable	35000
	Account Receivables	22500		Drawings	1000
	CASH SALES	17300		Rent	200
				Expenses	4500
				Closing Balance	2300
		$43000			**$43000**

Remember: Dr Side must equal Cr side. If it doesn't then the difference is the missing information

The missing figure is **Cash Sales**
$17300

Example 2: Calculation of Credit Sales

Varesi does not keep proper records but provides the following information for the month of June, 2015.

	$
Days Takings	3400
Cash received from Accounts Receivable	4000
Discount allowed to Accounts receivable	150
Accounts receivables at 1st June 2015	2560
Accounts receivables at 30th June 2015	6780
Interest charged to accounts receivable	50
Bad debts written off	180
Dishonored cheques	390
Transfer to creditors ledger	200
Credit notes issued to Accounts receivables	145

Prepare the Accounts Receivable control account to ascertain the **credit sales** and **Total sales**

Solution:

Accounts Receivables Control Account					
June 1	Opening balance	2560	June 30	Cash	4000
	Interest	50		Discount Allowed	150
	Cash (dish Cheque)	390		Bad debts	180
	CREDIT SALES	**8455**		Sales Returns	145
				Transfer to Creditors	200
				Closing Balance	6780
		$11455			**$11455**

Credit Sales + Cash sales = Total sales

8455 + 3400 = $11855

Example 3: Calculation of Credit Purchases

Cash purchases	25000
Cash paid to Accounts Payable	30000
Discount received from Accounts Payable	450
Accounts Payable at 1st June 2015	35840
Accounts Payable at 30th June 2015	78930
Freight charged by accounts payable	800
Transfer to accounts receivables ledger	2580
Credit notes received from accounts payable	4870

Accounts Payable Control Account

	$		$
Cash	30000	Opening balance	35840
Discount received	450	Freight	800
Purchase returns	4870	**CREDIT PURCHASES**	**80190**
Transfer – Accounts Receivables ledger (contra)	2580		
Closing balance	78930		
	116830		**116830**

Credit Purchases + Cash Purchases = Total Purchases
80190 + 25000 = 105190

Stock destroyed by Fire, Flood and Theft

Format of the Statement of Stock Destroyed by Fire etc

	$
Opening stock	xx
Add Net purchases	xx
Cost of goods available for sale	xx
Less cost of goods on the date of fire	xx
	xx
Less salvage value	xx
Stock destroyed by fire	xx

Mark Up – is when profit is expressed as a percentage of cost price.

$$\frac{\text{Profit}}{\text{Cost Price}}$$

Margin - is when profit is expressed as a percentage of the selling price.

$$\frac{\text{Profit}}{\text{Selling Price}}$$

1. Mark up on cost means cost price will be 100%

e.g. Mark up of 30% on cost, cost price is 100%.

Cost price + Mark Up/ Profit = Selling price

100% + 30% = 130%

2. Mark Up on sales means sales is 100%

e.g. If Markup is 25% on Sales, selling price is 100%.

Cost price + Mark Up/ Profit = Selling price

75% + 25% = 100%

Example 1: Stock Destroyed By Fire

The following information was obtained from the books of Salmaan, who lost all his stock during a recent fire on 31st December, 2015.

	$
Inventory on hand at 1st April, 2015	9540
Purchases	80424
Purchases Returns	400
Sales	94212
Salvage Value	8000

The rate of gross profit on sales during the year was 25%

Required:
Calculate the value of inventory destroyed on 31st December, 2015.

Solution

Working:
Gross profit is on Sales, therefore sales is 100%.
C + m = S
75% + 25% = 100%

$$\text{Cost of goods sold} = \frac{\text{Cost price}}{\text{Selling price}} \times \text{Net Sales in (\$)}$$

$$\$\,70659 = \frac{75}{100} \times 94212$$

Statement of Stock Destroyed by Fire

	$
Opening stock	9540
Add net purchases (80424 – 400)	80024
Cost of goods available for sale	89564
Less cost of goods on the date of fire	70659
	18905
Less salvage value	8000
Stock destroyed by fire	10905

Example 2: Stock Destroyed By Flood

A flood occurred on the 5th March 2015 at the premises of Kris Kumar's Store and some amount of stock was destroyed. The following business records were available:

Stock on 1st February 2015	$ 25 200
Sales (Jan – Feb 2015)	90 000
Purchases	65 500
Salvage Value	5 000

The average gross profit on cost was 20%. Prepare a statement showing the amount of stock destroyed by flood.

Solutions:

Statement of Stock Destroyed By Flood	**$**
Opening Inventory	25 200
Add Net Purchases	65 500
Cost of goods available for sale	90 700
Less Cost of Goods Sold	75 000
Cost of Stock on the date of flood	15 700
Less Salvage Value	5 000
Stock Destroyed By Flood	10 700

Working:

Gross profit is on cost, therefore cost price is 100%.

C + m = S

100% + 20% = 120%

Cost of goods sold = $\frac{\text{Cost price}}{\text{Selling price}}$ x Net Sales in ($)

$ 75000 = $\frac{100}{120}$ x 90000

Activity 6.3.2

1. On 3rd June a fire occurred on the premises of a sole trader and part of his stock was destroyed

Stock at cost price on 1st April 2014	$37360
Purchases 1st April 2014 to 3rd June 2014	46736
Sale 1st April 2014 to 3rd June 2014	58760
Value of stock salvaged	11408

Percentage of gross profit on cost **25 %**

Required:

Prepare the statement of Inventory destroyed by fire.

2. In a burglary at Manoa's premises on the night of 23rd August 2015 part of the stock was stolen

Inventory at cost on 31st July 2015	$10260
Purchases from 1st August to 23rd August 2015	7020
Sales from 1st August to 23rd August 2015	11340
Inventory remaining after the burglary	1430

Manoa's average mark- up on sales is 30 percent.

Required:
Prepare the statement of Inventory being stolen to be presented to the insurance company.

3. Mickey operates a grocery business in Nadi. The Flood on the 31st of December damaged most of the inventories in his business. The following information relates to his business.

Stock at 1 January 2015	$28000
Purchases to date of flood	74000
Sales to date of flood	60000
The average gross profits on cost for the previous five years are 25%	
Purchases Return	$2000
Sales Return	$3500

Required:
Prepare the statement of Inventory being destroyed.

Converting Incomplete Records to Double Entry System

Full Example

Merebuli provides the following information and records for her business.

Assets and Liabilities :

	1/1/2015	31/12/2015
	$	$
Account Receivables	5321	8100
Account Payables	3500	4820
Advertising Prepaid	100	200
Inventory	4550	3250
Furniture	7200	6450

Cash at bank 1st January 2015 $280.

Total Banking for the year $75230.

Cheques drawn during the year $60950.

Cash at bank 31st December 2015 $14560.

Information relating to Receipt and Payments during the year.

	$
Cash paid to accounts Payable	28300
Wages	10500
Advertising	6000
Electricity	1550
Cash Purchases	2500
Cheques received from Accounts Receivable	43000
Sale of furniture (Book Value $750)	1000
Internet Expenses paid	500
Loan from Susan	7000

Additional Information:

- Discount allowed $235.
- Bad debts written off $320.
- Provide depreciation on furniture 10% per annum at cost.

Required:

1. Prepare memorandum accounts for cash, accounts receivables and accounts payables to determine the missing information.
2. Prepare the Statement of Financial Performance and Statement of Financial Position as at 31st December 2015.

Solutions:

Step 1

Cash at Bank					
Date	**Particulars**	**$**	**Date**	**Particulars**	**$**
Dec 1	Opening Balance	$280	Dec 31	Internet Expense	$500
	Accounts Receivable	43000		Cash Purchases	2500
	Furniture	1000		Electricity	1550
	Loan	7000		Advertising	6000
	Cash sales	**24230**		Wages	10500
				Account Payable	28300
				Drawings	**11600**
				Balance c/d	14560
	Balance b/f	**75510**			**75510**

Opening Balance	280	Total Payments	60950
Total receipts	75230	Closing Balance	14560
	$ 75510		$ 75510

Assume missing information on credit side is drawings and cash sales on the debit side.

Step 2

Account Receivables Control Account					
Date	**Particulars**	**$**	**Date**	**Particulars**	**$**
Dec 1	Opening balance	5321	Dec 31	Cash	43000
	Credit Sales	46334		Discount allowed	235
				Bad debts	320
				Balance c/d	8100
		51655			**51655**
	Balance b/f	8100			

Cash + Credit sales = Total Sales
24230 + 46334 = $70564.

Accounts Payable Control Account					
Date	**Particulars**	**$**	**Date**	**Particulars**	**$**
Dec 31	Cash	28300	Dec 1	Opening Balance	3500
	Balance c/d	4820		Credit Purchases	29620
		33120			**33120**
				Balance b/f	4820

Cash + Credit Purchases = Total Purchases
2500 + 29620 = $32120

Statement of Financial Performance of Merebuli for the year ended 31/12/15		
Sales		70564
Less Cost of Goods Sold:		
Inventory	4550	
Add Purchases	32120	
	36670	
Less Closing Inventory	3250	33420
Gross Profit		**37144**
Add Other Income		
Gain on Sale of Furniture		250
		37394
Less Expenses		
Wages	10500	
Advertising (6000 +100 -200)	5900	
Electricity	1550	
Internet Expense	500	
Discount Allowed	235	
Bad debts	320	
Depreciation on Furniture	645	19650
Net profit		**$17744**

Statement of Financial Position of Merebuli as at 31st December 2015			
	$	$	$
Current Assets			
Cash at bank	14560		
Inventory	3250		
Accounts Receivable	8100		
Advertising Prepaid	200	26110	
Add Fixed Assets			
Furniture	6450		
Less Accumulated Depreciation	645	5805	31915
Less Liabilities			
Current Liabilities			
Accounts Payable		4820	
Non-Current Liability			
Loan		7000	11820
Net Assets			**$20095**
Proprietorship			
Opening capital		13951	
Add Net profit		17744	
		31695	
Less Drawings		11600	
			$20095

Activity 6.3.3

Multiple Choice

1. Incomplete Record is a result of
   A. Double entry accounting.
   B. Following all accounting processes.
   C. Records missing due to mishaps
   D. Preparing full accounting reports.

2. If Sales were $115000, the mark up on cost 35%, purchases $75000 and closing stock $9000, then the opening stock must have been
   A. $9000
   B. $16185
   C. $17615
   D. $19185

3. To obtain the amount of credit sales during an accounting period, which of the following account is generally used in single entry and incomplete records?
   A. Account Payable account.
   B. Total revenue account.
   C. Account Receivable account.
   D. Stock account.

4. A firm has a margin of 40%. The opening stock was $15 000, closing stock $19000 and purchases amounted to $70000. What is the sale for the period?
   A. $ 92 400
   B. $ 66 000
   C. $ 110 000
   D. $ 26 400

5. If the cost price of an item is $8, profit is $2, and the selling price is $10, then the margin expressed as a percentage is
   A. 16.6%
   B. 20%
   C. 25%
   D. 80%

Activity 6.3.4

1. The following information is available from the incomplete records of Altaf's Store.

	$
Accounts Receivable as at 1st March 2016	19105
Accounts receivable as at 31st March 2016	29970
Accounts Payable at 1st March 2016	18806
Accounts Payable at 31st March 2016	50250
Cash paid to Creditors	4 280
Cash received from debtors	10095
Discount received from Creditors	250
Cash Sales	9090
Accounts Receivable's Cheque dishonoured	540
Interest charged to Debtors	80
Freight charged by Creditors	95
Bad debts written off	640
Cash purchases	20000
Credit note issued by suppliers	130
Transfer to Debtors ledger	1500
Refunds to Debtors	90
Discount allowed to debtors	105

Required:

Prepare Accounts Receivable and Accounts Payable Control accounts to find total sales and total purchases.

2. Ropate's business had some missing records. Given below is the information relating to his accounts receivable and accounts payable.

	$
Total of sales column – cash receipts journal	1200.50
Total of purchases column – cash payments journal	190.06
Total of creditors column – cash payments journal	1043.41
Total of discount column – cash receipts journal	88.70
Total of discount – cash payments journal	14.00
Total of debtors column – cash receipts journal	1780.00
Cash sales returns	16.43
Sales returns journal	123.54
Return outwards journal	55.00
Bad debts	160.00
Debtors cheque dishonoured	18.80
Duty charged by Accounts Payable	150.00
Accounts Receivable balance at 1st May 2014	1380.14
Accounts Receivable balance at 31st May 2014	3899.79
Accounts Payable balance 31st May 2014	6500.00
Accounts Payable balance at 1st May 2014	2750.50

From the information given above construct the Accounts Receivable control and Accounts Payable control to determine credit sales and credit purchases.

3. Seini, a retailer, has not kept proper books of accounts. The following information has been extracted from the records of Seini for the year ended 31st March 2016.

Receipts	$	Payments	$
Sales	15560	Purchases	2854
Accounts Receivable	25700	Wages	4530
Sale of Furniture	200	Accounts Payable	18975
		Dishonoured Cheque	185

Assets and Liabilities	01/04/15	31/03/16
Debtors	$4294	$6846
Creditors	3729	3218
Inventory	2040	2160
Cash at Bank	1569	942
Wages Prepaid	75	186

During the year:

- $315 of discount allowed to debtors
- $160 cash sales refund
- $120 interest was charged by suppliers
- Work done by debtor $150.
- $200 of Furniture bought for cash was recorded as cash purchase.

Required:

a). For the year ended 31/03/16 prepare:

i) Accounts Receivable control account to find credit sales. (T form)
ii) Accounts Receivable control account to find credit purchases.

b). Calculate

i) Total sales and net sales for the year
ii) Total purchases for the year.

4. Umair does not keep complete records. The following particulars have been obtained from his records.

Summary of Assets and Liabilities

	1st June 2014	31st May 2015
	$	$
Inventories	1950	2500
Accounts Receivable	6500	8500
Rent Prepaid	50	76
Accounts Payable	2800	3900
Computer	10000	10000

Cash Book Summary for the Year Ended 31st May, 2015

Receipts	$	Payments	$
Bank balance	1850	Drawings	250
Sales	6600	Accounts Payable	4750
Accounts Receivable	5500	Interest	155
Loan	2000	Rent	340

Additional Information:

1. Depreciate Computer at the rate of 20% per annum on cost.
2. Provide $150 for doubtful debts.
3. Sales returns amounted to $120

Required:

i. Calculate Capital at 1 June 2014.

ii. Prepare Ledger Accounts to determine total sales and total purchases. (Show your calculations)

iii. Prepare a Statement of Financial Performance for the year ended 31st May 2015

5. Vinaisi commenced business on **1 January 2015** with $25,000 capital. From the various sources, you found the following information for 31st December 2015.

	$
Accounts Payable	3400
Drawings	1800
Cash at Bank	7000
Inventory	10500
Accounts receivable	6000
Building	8000
Machinery	21000
Additional Capital	4500

The proprietor decided to **depreciate** machinery at 8% per annum on cost.

Required:
Using the information above, calculate the profit or loss of Vinaisi's business for the year ended 31 December 2015.

6. The following is the summary of the bank account of Rahil, a retail trader for the year 2015.

	$		**$**
Opening Balance	2546	Accounts Payable	810
Cash from Accounts Receivable	2500	Drawings	155
Rent	900	Dishonoured cheques	120
sales	780	Equipment	5600
		Wages	245
		Insurance	300

2

You are given the following additional information:

	1st Jan 2015	31st Dec 2015
Trade Accounts Receivable	1500	3600
Inventory	1400	1920
Insurance Prepaid	75	20
Equipment	2000	2000
Trade Accounts Payable	1380	1840
Wages due	40	56
Rent due	-	200

Required:

i. Show ledger account to ascertain credit sales and credit purchases.
ii. Calculate total sales and total purchases.
iii. Calculate Capital on 1st January 2015
iv. Prepare Statement of Financial performance for the year ended 31st December 2015.

7. Shivney operates a General Merchant in Savusavu Town. In January 2016 some goods were damaged in the flood. Shivney lost the stock records in the flood but was able to save stock worth $1 520. He wants to claim damages from the Insurance Company. He provided you with the following information for the month of January.

	$
Cash takings	1 800
Creditors opening balance	2 530
Credit Sales	5 000
Interest charged by creditors	330
Creditors closing balance	1 500
Purchases returns	250
Cash Paid to Creditors	3 300
Cash Purchases	1 900
Beginning Inventory	1 600
Discount Received	330

All goods were marked by 50% on sales to determine the selling price.

Required:

(a) Prepare a Creditor's Control Account to determine the amount of Credit Purchases.
(b) Prepare a Trading Account to calculate the estimated cost of stock destroyed by the flood.

6.4 Accounting for Data Processing

The world is changing faster than ever and the accounting profession demands for more accurate and quality information for the end users. Consequently, firms need to develop an excellent accounting information system to meet the needs of the users.

Data processing

- Is manipulation of raw business data (facts) to produce useful information for decision making. In a business firm accountants process the data into information. Information is produced depending on the demands of the end users.

Data Processing Cycle

There are four main steps involved in the converting of data into information:

i. **Input of data** – raw data is collected and fed into the system.
ii. **Processing of data** – manipulation of raw data in various ways to provide useful information.
iii. **Storage of information** – keeping data into safe locations so that it can be recovered and used.
iv. **Output of information** – the communication of information to interested parties in forms of reports and presentations.

Importance of Business Data Processing

- For decision making
- For day to day operations of the business.
- Planning and controlling of the business.
- Satisfying external user requirements.

Most businesses in Fiji whether small, medium or large use a computerised accounting system in order to improve the design of the accounting system and its processes. Some small businesses in Fiji use manual accounting system as well.

There are two methods of data processing.

1. *Manual Accounting System*

- Where the collection and processing of data is done by hand with the aid of some equipment. It usually involves paper based record keeping system. Suitable for very small business such as sweet sellers, canteen operators etc.

Steps of data processing system

- Input of data = ***source documents***
- Processing of data = ***journals and ledgers***
- Storage of data = ***in ledger accounts***
- Output of information = ***Financial Statements***

2. Computerised Accounting System (Electronic Data Processing)

- Where the processing of facts is done by the computers with minimum human effort.

What is a Computer?

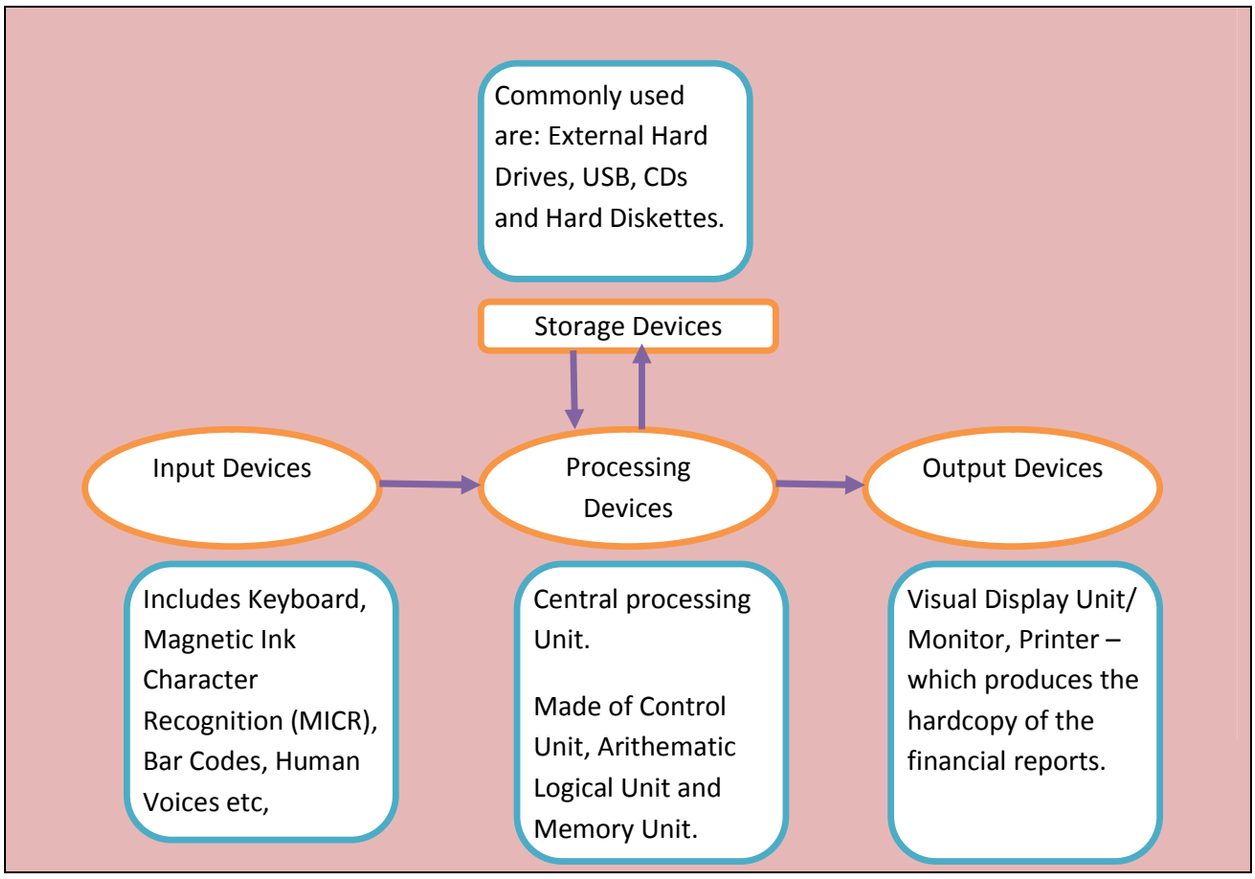
www.google.com

Is an electronic device which processes data in a central processing unit to produce information. Today most businesses use computers and laptops to process data since it works at a high speed and is more economical.

Hardware - Physical components of a computer Example: monitor, printer, keyboard etc.

Software - refers to the Programmes installed in the computer which enables the hardware to function.

Computer software and hardware are continually developing. Devices are now getting smaller but more powerful, while software is becoming more user- friendly and accessible.



(Source: Accounting 6 pp160)

Steps of data processing system

- input of data = ***optical readers, magnetic tape drivers and disk drives***
- processing of data = ***central processing unit***
- storage of data = ***memory (RAM or ROM),USB, External Hard Drive***
- output of information = ***printer***

Internal Control Over Electronic Data Processing

- Adequate training of staff must be conducted before introducing a new accounting software.
- Business must ensure that data processed has protection from errors and manipulations.
- Necessary security procedures must be in place so as to safeguard data from accidents or unauthorised exposures and hackers.
- Unauthorised staff should not have access to computer software and hardware.

Hackers are people who seek illegal access to computer systems to gain information.

Factors to be considered when buying computers

- Speed of processing required.
- Volume of data to be processed.
- Complexity of data to be processed.
- Accuracy and reliability of output.
- Cost of the equipment.
- Availability of space to keep the computer.
- Memory of the computer.

Advantages of Computerised Accounting system

- ***Speed*** – Computers require less time to perform a task.
- ***Accuracy*** – The possibility of error is eliminated because the primary accounting data is entered once for all the processes.
- ***Reliability*** – It is well adapted to performing repetitive operations. Computers are immune to tiredness or boredom.
- ***Up to Date Information*** – Data is automatically updated as when accounting data is entered and stored. Latest information relating to accounts get reflected when the reports are produced.
- ***Flexibility*** – Output can be obtained in almost whichever form is suitable.
- ***Efficiency*** – The computer based systems ensure better use of resources and time which leads to efficiency in generating reports and decisions.
- ***Quality and Timely Reports*** – Data is of quality since it is typed in the computer and it takes less time to produce the information.
- ***Storage and Retrieval*** – It allows the users to store data in a manner that does not require a large amount of physical space. The retrieval of information is also very fast.
- ***Real Time User Interface*** – Most automated accounting systems are interlinked through a network of computers. This facilitates availability of information to various users at the same time on real time basis.
- ***Economical*** – Results in better managerial control since it requires less human effort.

Disadvantages of Computerised Accounting System

- *Cost* - Considerable cost required in terms of purchase and installation of a computerised system.
- *Cost of Training* - Requires specialised staff personnel which leads to huge costs for training about the hardware and software of the system in place.
- *Power Failure* – Loss of power supply may lead to disruption in work and loss of data if not saved.
- *System Failure* – The danger of crashing due to hardware failures and the subsequent loss of work.
- *Computer Virus* –Software damage and failure may result in loss of data if backups are not done.
- *Uneconomical* – In case of very small business with few turnovers, it is uneconomical to use a computerised system.
- *Breaches of Security* – Computer related crimes **(Cyber Crime)** are difficult to detect as any alterations to data may go unnoticed. Hacking of passwords or user rights may change the accounting records.

Accounting Software

Accounting software is an invaluable resource for modern businesses. Accounting software is a type of computer software used by accounting professionals to manage accounts and perform accounting operations. It allows detailed tracking of financial transactions and immediate reporting and analysis. It is an integral part of the computerised accounting system. Some of the accounting software used in Fiji for small business or personal accounting software:

- ePeachtree (Best Software)
- MYOB Plus for Windows (MYOB Software)
- Peachtree Complete Accounting (Best Software)
- QuickBooks Online (Intuit)
- Small Business Manager (Microsoft)

The need for accounting software arises in two situations:

1. When computerised accounting system is implemented to replace the manual system.
2. When current computerised system needs replacement.

The accounting software packages usually offers three distinctive features.

a. **Ready to Use** – software which is suited to small firms where the frequency or volume of transactions is very low. Training needs are simple and the software is prone to data frauds easily.

b. **Customised** – accounting software that is modified to meet the special requirement of the user. This type of software is suitable for large and medium businesses and can be linked to other information systems. Secrecy of data and software can be better maintained than ready to use software.

c. **Tailored** – generally made for large businesses with multiple users and geographically scattered locations. It requires specialised training for users. The secrecy and validity checks are vigorous in such software and they offer high flexibility.

Factors to be considered before sourcing an Accounting Software

- Flexibility
- Cost of Installation and maintenance
- Size of Organisation
- Adaptation and training needs
- Expected level of secrecy (Software and data)
- Exporting /Importing data facility

Career Opportunities available in Computing

- Computer Teacher
- Systems Analyst
- Computer Engineer
- Information Technology Technician
- Computer Repairs Service
- Program Designer

Activity 6.4.1

1. What is Data Processing?
2. Identify the stages involved in the processing of information.
3. What is the difference between data and information.
4. Differentiate between manual accounting system and computerised accounting system.
5. List the advantages and disadvantages of computerised accounting system.
6. A list of terms used in a computerised processing system is given:

Scanner	Keyboard	Visual Display unit	CPU	Monitor
USB	Printer	External hard drive	Mouse	

Classify the items given in the list into three categories:

Input Devices	Storage Devices	Output Devices

7. What is the correct order of processing data in :
   - Manual accounting system
   - Computerised accounting system.
8. "Computerised Accounting System is the best form of accounting system" Do you agree. Explain.

Activity 6.4.2

1. Briefly define the term accounting software.
2. Distinguish between *ready to use* and *tailored* accounting software.
3. State two features of a customised accounting software.
4. What does the accounting software MYOB stands for?
5. Identify the factors that need to be considered before sourcing any accounting software.
6. Identify the roles of the following computer specialists.
   - Computer programmer.
   - Systems analysts.
   - Software Engineer.
   - IT Officer

Activity 6.4.3

Research work

1. Using the internet or other means, conduct a research on the types of data processing system used by firms in Fiji. Explain why firms consider using that type of data processing system. State the advantages and disadvantages of each.
2. Identify the types of accounting software used by businesses. Collect pictures of samples for accounting software and present to the class.

GLOSSARY:

Accounting is the process of identifying, measuring, recording and communicating financial information to allow users to make informed financial decisions. (p. 8).

Accounting Concepts- are used to describe the rules and assumptions that guide accountants when they prepare financial statements (p.12).

Accounting Cycle refers to a series of steps involved in processing accounting information from source documents to preparing and presenting of financial statements to assist in financial decision making (p.45).

Accounting Entity Concept- financial affairs of the owners are separate and distinct from the financial affairs of the business (p.12).

Accounting Period Concept- assumes that the life of the business is divided into arbitrary time period to measure profits (p.13).

Accounting Standards- are principles that guides and standardises **accounting** practices (p.12).

Accounting Software - is a type of computer software used by accounting professionals to manage accounts and perform accounting operations (p.206).

Accrual Concept- assumes that revenue and costs are recognised and included in the income statement as they are accrued or earned or incurred and not as they are paid or received (p.13).

Accrued Expenses- are expenses which has been incurred but not yet paid (p.84).

Assets- resources controlled by the entity in order to generate future economic benefit, which are the result of a past transaction or event (p.17).

ATM Services- Automated Teller Machine (ATM) is an electronic banking outlet, which enables customers to complete basic transactions without the aid of a teller (p.27).

Bad Debts- is the loss arising from the debtor that is not able to pay his or her debt (p.85).

Bad Debts Recovered is a debt which was previously written off but recovered later (p.165).

Bank Statements is a record usually sent to the account holder once per month, summarising all transactions in an account (p.26, p.47).

Bearer Cheque is a cheque where the word 'bearer' appears on the face of cheque (p.52).

Capital Gains Tax (CGT) is a tax that is levied on profits or gains realised on the disposal of capital assets, at the rate of 10% (p.34).

Cash Flow Statements- reports the cash receipts and cash payments for an entity for an accounting period (p.93).

Cash Register Tape is used to record cash sales (p.46).

Cash Sales Docket- is used to record the transactions relating to cash sales (p.46).

Cheque is a written order directing a bank to pay money to the payee or bearer (person or business) (p.52).

Cheque Butt is a counterfoil that gives details of the payment and the purpose of the payment (p.52).

Comparability is the quality of information that enables users to identify similarities and differences between two sets of financial data (p.15).

Computerised Accounting System (Electronic Data Processing)- where the processing of facts is done by the computers with minimum human effort (p.204).

Conceptual Framework- is a set of guidelines that help in the preparation of financial statements (p.12).

Confirmatory Value- The information provides feedback which aids in confirming previous decisions (p.15).

Conservatism Concept- accountants should anticipate no profit but account for all losses (p.14).

Credit Card – enables the holder to obtain credit up to the predetermined limit from the issuer of the card for the purchase of goods and services (p.27).

Credit Note- are received by customers when goods are returned to the business (p.25, p.50).

Credit Worthiness is the ability of the customer to pay the amount owing by him or her to the business (p163).

Crossed Cheque is a cheque where two parallel lines are drawn on the top left hand corner of the cheque (p.53).

Customised Accounting Software- is where the software is modified to meet the special requirement of the user (p.207).

Current Assets- are those which are converted into cash within a financial year (p.98).

Current Liabilities- debts that must be paid within one accounting period (p.98).

Cycle Billing – where customers are grouped alphabetically and statements are sent in cycles during the month (p.163).

Data Processing- is manipulation of raw business data (facts) to produce useful information for decision making (p.203).

Debit Card- is a plastic payment card that provides the cardholder electronic access to their bank account(s) (p.27).

Debit Note- is a commercial document issued by the business to a seller as a means of formally requesting to return the goods (p.50).

Delivery Docket- a document sent by the seller to the buyer indicating that the goods are delivered (p.49).

Dishonoured Cheques- is a cheque for which the bank refuses to make payments (p.53).

Doubtful Debts- are those debts which a business is unlikely to be able to collect from accounts receivables (p.85).

Drawee is the name of the bank where the cheque is payable (p.52).

Drawer is the person or business who signs the cheque and makes the payments from his or her account (p.52).

EFTPOS-(Electronic Fund Transfer at Point of Sale) is a method of paying for goods or services without the need to carry cash (p.26).

Expenses- decrease in economic benefits in the form of decreases in assets or increase in liabilities, which result in a decrease in proprietorship (p.17).

Faithful Representation- means that the user is assured that the information presented is complete, without bias and neutral (p.15).

Financial Accounting is concerned with communicating relevant and useful information to external parties to help them in decision making (p.10).

Financial Information – information where monetary value is attached (p.8).

Fixed Assets- are those assets which are used in the business for more than one year. It is also known as Property, Plant and Equipment (P.98).

Fringe Benefits Tax (FBT) - taxable benefits include any non-cash benefits or benefits received in kind that is provided free by the employer to the employee (p.33).

Gearing also known as leverage, measures the relationship between the funds provided by outsiders and the funds the owner provides (p.144).

General Purpose Financial Statements are designed to meet the information needs of a wide range of users (p.10).

Going Concern Concept- assumes that the business is going to continue its operations indefinitely and is not likely to be liquidated in the foreseeable future (p.13).

Historical Cost Concept- business transactions are recorded at their original cost (p.13).

Horizontal Analysis - analysis of relationship between items or group of items within the financial statement for consecutive accounting period (p.135).

Income Accrued- it is the income that is earned during the accounting period but not received on balance day (p.84).

Income and Expenditure Statement- it records the income and expenditure of a club relating to the current accounting period (p.122).

Incomplete Records is the term used for any system of bookkeeping which does not use full double entry (p.184).

Intangible Assets- are those assets which have no physical substance i.e. they cannot be seen or touched (p.98).

Internal Memorandum (Memo) - this document is used for internal communication within a business (p.51).

Investments- are money invested outside the business which generates income (p.98).

Journal- is a book of original (prime) entry which records transactions from source documents in a chronological order (p.59).

Journalising*:* is the process of recording transactions in the journal (p.59).

Ledger- are individual accounts where all changes affecting each account are shown with its balance (p.72).

Legal Entity- business entity is formed by a process of law (p.12).

Liabilities- future sacrifices of future economic benefits that the entity is currently obliged to make, which are the result of a past transaction or other event (p.17).

Manual Accounting System- where the collection and processing of data is done by hand with the aid of some equipment (p.203).

Management Accounting is concerned with providing financial and other information to management for planning, controlling and making decisions (p.10).

Matching Concept- requires that in an accounting period, costs are matched with unrelated income (p.13).

Materiality- Information is material if omitting it or misstating it could influence the decisions of users (p.14).

Monetary Concept- all transaction in a business must be recorded in money terms (p.12).

Mortgage- is a long term secured loan on property (p. 98).

Neutral- The information presented is without bias or manipulation (p.15).

Non-Current Assets- these are assets other than current assets which cannot be quickly converted into cash (p.98).

Non-Current Liabilities- those debts that takes more than one accounting period to pay (p.98).

Non- Financial information – information that does not have to do with monetary value but plays an important role in the operation of the business (p.8).

Non – Registered Business - are businesses who cannot charge VAT and they are not registered for VAT with FRCA (p.41).

Not Negotiable Cheque is when the phrase not negotiable is added to a crossed cheque to indicate that the holder of a cheque gets no better title than the person from whom it was received (p.53).

Online Account Statements – statements available online so that customers can view and print information anywhere anytime using the internet (p.26).

Online Banking refers to banking services where the customers can manage more aspects of their accounts over the internet rather than visiting a branch (p.26).

Online Payment refers to making payments electronically with the use of internet, computer networks and credit cards (p.26).

Open Cheque is an uncrossed cheque where the payment can be obtained at the counter of the bank (p.53).

Order Cheque is a cheque where the word 'bearer' is cancelled and the word 'order' is written on the face of the cheque (p.52).

Over Capitalisation means too much capital is invested in fixed assets that provide no income (p.137).

Payee is the person or the business receiving the payment of the cheque (p.52).

Payroll Register records the details of each employee's pay for a period (p.177).

Pay Slips- is a slip given to an employee stating the gross pay and deductions (p.25).

Petty Cash Voucher- is used for making payments of small expenses (p.47).

Post-Dated Cheque is a cheque which contains a future date which cannot be cashed earlier than the date written on the cheque (p.53).

Predictive Value- The past and present information is used to make predictions as to what is likely to happen in the near future (p.14).

Prepayments- represent expenses which are paid during the year but relates to next accounting period (p.84).

Proprietorship- The residual value of assets less liabilities (p.17).

Purchase Order- is a document issued by a buyer to a supplier requesting to supply the goods (p.48).

Purchase Requisition- is an internal request from a department within a business to the purchasing section to order goods (p.48).

Ratio Analysis - is an arithmetic term which describes a simple relationship between two numbers (p.135).

Ready to Use Software- is suited to small firms where the frequency or volume of transactions is very low (p.207).

Realisation Concept- states that the profit on any given transaction is included in the account of the period when the profit is recognised (p.13).

Receipts and Payments Statement - is the cash summary account of a club that has

taken place during the accounting period (p. 116).

Registered Business - are businesses who can charge VAT and they must be registered with the VAT unit in Fiji Revenue and Customs Authority (FRCA) (p.41).

Relevance means that the information can influence the economic decisions made by users (p.14).

Revenue- Increase in economic benefits in the form of increases in assets or decreases in liabilities, which increase proprietorship (p.17).

Revenue Received in Advance- this represents the income that is not earned but received in advance on the balance day (p.85).

Salaries- Is where the annual amount is fixed for an employee but is paid fortnightly or monthly (p.175).

Service Turnover Tax (STT) is a tax that is levied on the VAT exclusive cost of turnover of any person conducting a business involving the provision of a prescribed service, at the rate of 5% (p.34).

Schedule Bill payments – Timetabling of due dates for payment of bills so that it reminds one to make payments on time (p.28).

Schedule of Balances-Consists of the list of closing balance of each individual debtor and creditor (p.165).

Source Documents are documents which provide evidence that a transaction or event has taken place (p.45).

Special Purpose Financial Statements are prepared for users who have specialised needs and who possess the authority to obtain information to meet those needs (p.10).

Stale Cheque - is a cheque which a bank refuses to accept after six months from the date cheque is issued (p.53).

Statement of Account- is a document summarising debtor's monthly credit sales, payments and returns (p.51).

Statement of Affairs- Is a list of assets and liabilities to calculate net worth of an individual (p.37).

Statement of Financial Performance- reports the amount of net profit or loss derived by the business for a given period of time (p.93).

Statement of Financial Position- reports the entity's assets, liabilities and proprietorship at a point in time (p.97).

Subscriptions- it is an annual fees (levy) paid by members to be part of the club or to become bona fide members of a club (p.114).

Subscriptions in Arrears - means members did not pay or clear the dues on the balance day (p.114).

Subscriptions Received In Advance- means subscriptions received on the balance day which relates to future accounting periods (p.114).

Subscriptions Written Off- When subscriptions are not recoverable from members, they are written off as bad debts (p.114).

Tailored Software – generally made for large businesses with multiple users and geographically scattered locations (p.207).

Tax Invoice- is used when good and services are bought and sold on credit (P.25, p.49).

Time Book is where manually employees write the time of arrival to work and departure from the work, in a book (p.176).

Time Card is a card which electronically records the time of arrival to work and departure from the work when an employee puts his or her time sheet in the machine (p.176).

Timeliness means having information available to decision makers on time (p.16).

Time Sheet shows details of the number of hours spent on each job by an employee (p.176).

Trend Analysis - analysis of relationship between items or group of items within the financial statement for a period of three or more years (p.135).

Trial Balance- consists of a list of the ledger account balances in the order in which they appear in the general ledger (p.77).

Understandability- information is understandable when it is classified, characterised and presented clearly (p.16).

Value Added Tax (VAT) is a tax on spending that is levied on the supply of goods and services in Fiji (p.41).

Vat Exempt Transactions- VAT is not chargeable on the supply of exempt goods and services (p.41).

Vat Inclusive Transactions- are those transactions that contain VAT component (p.41).

Verifiability means when different independent people reach an agreement that an event, account or transaction is faithfully represented (p.16).

Vertical Analysis - analysis of relationship between items or group of items within the financial statement for one accounting period (135).

Wages- is based on hourly basis and calculated for a week normally (p.175).

References:

Curriculum Development Unit. (2007). *Standardised Notes on Analysis and Interpretation of Financial Statements.* Suva: Ministry of Education.

Dick, A. (2012). *Level 2 Accounting Learning Workbook.* Auckland: ESA Publications (NZ) Ltd.

Field, S. R. (1997). *Form 5 Accounting Revision.* Auckland: ESA Publications (NZ) Ltd.

Fiji FinED project. (2012). *FinED Fiji A Manual for Teachers Form 5/6.* Young Enterprise Trust and Pacific Financial Inclusion Programme.

Gray, K., & Duston, J. (2014). *ESA Study Guide Level 2 Accounting.* Auckland: ESA Publications (NZ) Ltd.

Hoggett, J., Edwards, L., Medlin, J., Chalmers, K., Hellmann, A., Beattie, C., et al. (2015). *Accounting 9th Edition.* Milton Qld: John Wiley & Sons Ltd.

Holmes, M., & Perry, K. (2015). *ESA Study Guide Level 3 Accounting.* Auckland: ESA Publications (NZ) Ltd.

McNally, Q., Kirkwood, L., Ryan, C., Falt, J., & Stanley, T. (1998). *Accounting Principles and Practice.* Auckland: Addison Wesley Longman New Zealand Limited.

Ministry of Education, Sports and Culture, Samoa. (2004). *Year 12 Accounting.* Auckland: Egan-Reid Ltd.

Patel, E. (1994). *Fiji School Leaving Certificate Accounting 1.* Suva: Star Printery.

Patel, E. (1996). *Fiji School Leaving Certificate Accounting 2.* Suva: Star Printery.

Prevett, R. (1987). *Contemporary Accounting Book One.* Auckland : Heinemann Publishers .

Shariff, A., & Shariff, A. (2009). *Accounting 5.* Suva: Sonia Shariff.

Shariff, A., & Shariff, A. (2010). *Accounting 6.* Suva: Sonia S Shariff.

Websites

Business Dictionary website: www.businessdictionary.com

Fiji Revenue and Customs Authority website: www.frca.org.fj

Fiji Institute of Accountants website: www.fia.org.fj

International Financial Reporting Standards (IFRS) Website: http://www.ifrs.org/Pages/default.aspx

www.google.com