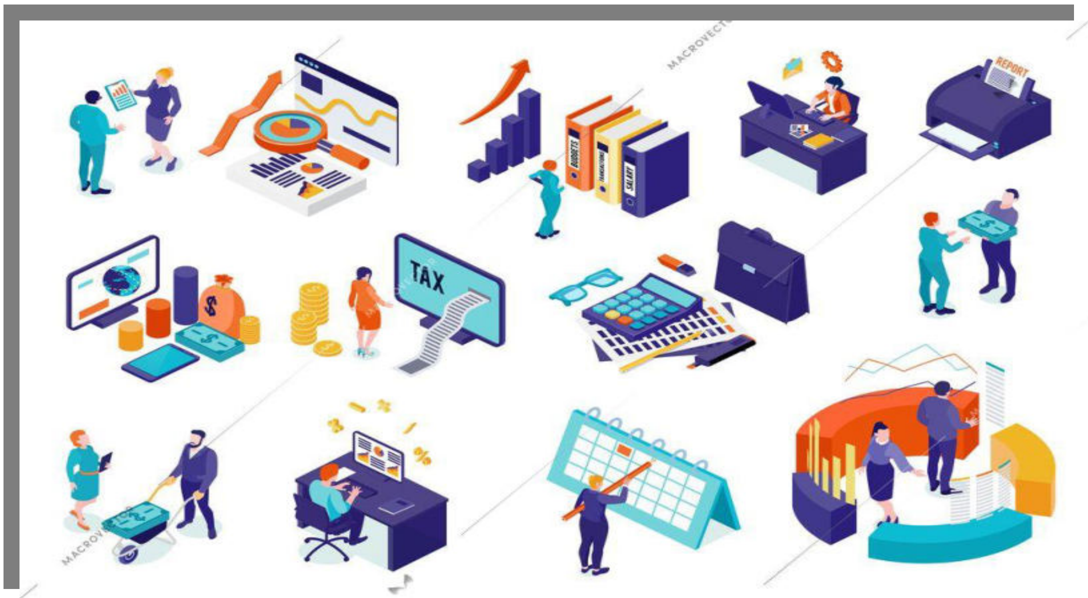
ACCOUNTING AND FINANCE

LEVEL – II

Based on March, 2021 Curriculum Version- II



Module Title: Process Financial Transactions and Extract Interim Reports

Module code: LSA ACF3 02 1123

Nominal duration: 160 Hour

Prepared by: Ministry of Labour and Skills

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Contents

Acronym

IRS	Internal Review Service
CRA	Canadian Revenue Agency
NSF	Not sufficient funds
VAT	Value Added Tax
GAAP	Accepted accounting principles
FASB	Primarily established by
AIS	Accounting Information System
BV	Book Value

Module Introduction

Accounting and finance filed; Process Financial Transactions and Extract Interim Reports helps to know the Check and verify supporting documentation, Prepare and process banking and petty cash documents, Prepare and process invoices for payment to creditors and for debtors ,Prepare journals and batch monetary items , Post journals to ledger, Enter data into system, Prepare deposit facility and lodge flows ,Extract a trial balance and interim Accounting and finance filed.

This module is designed to meet the industry requirement under the irrigation and drainage occupational standard, particularly for the unit of competency: Process Financial Transactions and Extract Interim Reports

This module covers the units:

- Checking and verifying supporting documentation
- Preparing and processing banking and petty cash documents
- Preparing and invoices for payment to creditors and for debtors
- Preparing journals and batch monetary items
- Posting journals to ledger
- Entering data into system
- Preparing deposit facility and lodge flows
- Extracting a trial balance and interim reports

Learning Objective of the Module

- Check and verify supporting documentation
- Prepare and process banking and petty cash documents
- Prepare and process invoices for payment to creditors and for debtors
- Prepare journals and batch monetary items
- Post journals to ledger
- Enter data into system
- Prepare deposit facility and lodge flows
- Extract a trial balance and interim reports

Module Instruction

For effective use this modules trainees are expected to follow the following module instruction:

1. Read the information written in each unit
2. Accomplish the Self-checks at the end of each unit
3. Perform Operation Sheets which were provided at the end of units
4. Read the identified reference book for Examples and exercise

Unit one: Checking and verifying supporting documentation
This learning guide is developed to provide you the necessary information regarding the following content coverage and topics: • Supporting documents in accounting transaction • Checking and recording source documents • Examining and verifying supporting documents This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to: • Support documents in accounting transaction • Identify, check and record Information from documents. Examine Supporting documentation

1.1. Supporting documents in accounting transaction

1.1.1. Source Document

Every time a business is involved in a financial transaction, a paper trail is generated. This paper trail is referred to in accounting as source documents. Whether checks are written to be paid out, sales are made to generate receipts, billing invoices are sent by suppliers, or work hours are recorded on an employee's timesheet – all the respective documents are source documents.

The most common documents are:

1. **Sales and Purchase Invoices**

   When an item is sold the seller will issue a document providing all the details of the sale. If the seller does not expect cash up front before sending the item, they will state on their invoice their payment terms i.e. the length of time the buyer has until it's time to pay.

One example is for payment to be received no later than 30th of the month following the date of invoice. The seller enters the document into their system as a sales invoice. The buyer will enter it into their system as a purchase invoice.

2. **Credit and Debit Notes**

If the buyer decides not to keep an item but return it to the seller, the seller will issue a special note to show the amount to be refunded. In the supplier's bookkeeping system this is called a credit note because it reduces the amount owed by the customer. In the customer's bookkeeping system it is called a debit note because it reduces how much they owe to the seller.

3. **Payment/Remittance Advices**

When a customer pays their bill they will send the supplier a remittance advice which details the amount and the invoice numbers being paid. It will be posted either with the check or by itself if payment is made by internet banking. Remittances can often be found already printed as a small cut out section at the bottom of, or down the right hand side of, the sales/purchase invoice.

4. **Checks (Cheques)**

A check (cheque) is a special bank note that represents the cash that is being paid by the customer. The check requires the signature of the person who is an authorized signatory of the bank account from which the check is issued. Each check has a special number on it which should be recorded into the bookkeeping system. The name of the payee should be written on the check. If it is left blank anyone can fill it in with their own name and deposit the check, thus stealing the money.

Checks should be crossed across the top with the words 'not negotiable', and the printed words 'or bearer' crossed off (not all checks have this) so that the check has to be deposited into the payee's bank account and not cashed, thus avoiding theft.

5. **Receipts**

   Once the customer has paid their bill, the supplier can issue a receipt. A receipt is proof that the payment has been made, which is a good idea when paying cash. Receipts are usually automatically provided when buying something from a shop.

6. **Deposit Slip**

   When a customer pays by cheque or cash, the seller will write a bank deposit slip which will be taken to the bank and presented together with the cheques and cash. The deposit slip will show the total amount being deposited plus a break-down of the cheque amounts and cash. The bank will make a record of the payment so that it shows up on the payor's bank statement as a payment received, and on the customer's bank statement as a payment made.

7. **Other**

   Accounting source documents may include loan or lease agreements with attached payment summaries that show the total amount due plus interest and administration fees.

Importance of Source Documents

The source document is essential to the bookkeeping and accounting process as it provides **evidence** that a financial transaction has occurred. During an accounting or tax audit, source documents back up the accounting journals and general ledger as acceptable transaction trail.

You would keep source documents for your business just like you keep receipts for tax-deductible items for your taxes. If your taxes are audited, the source documents provide the proof that you've made those purchases. The same holds for your business, but in business, you keep original documents for every financial transaction, not just charitable donations.

Document Storage

Any information generated through source documents should be properly recorded in company's journal, accounting software, or financial books. After the initial recording, all documents should be preserved and organized into a file and put into a system so they can be retrieved at any time. It is also important to make a record of general internal control procedures specifying who in the firm can access and authorize payments, orders, and other transactions.

Originality of Source Documents

In the majority of cases, photocopies of source documents are legally permissible. According to the US Internal Review Service (IRS) as long as these photocopies are complete, legible, and accurate representations of the original document, they are legally acceptable.

Similarly, the Canadian Revenue Agency (CRA) accepts scanned documents as long as the records are produced and retained in paper format or stored in an electronically accessible and readable format. Although organizing and filing these documents can be tedious, putting in the extra time to properly maintain a paper trail and create an easy way to access these documents can result in huge time savings in the future, and also ensures greater transparency.

1.2. Checking and recording source documents

You have to check whether all necessary information are included in the source document or not before recording the information to the accounting book. If you are unable to get the necessary information ask or report to concerned body.

Identifying and checking Information from source document

Information from document

- account numbers
- addresses
- amounts of money, figures
- card numbers
- cheque numbers
- dates& Names
- TIN number

Recording information from source document

In this computer age, some of this information now is incorporated into a computer database that we enter data directly into, and the database makes all the associations we need automatically, storing everything in one central, categorized area. Even though electronic processes have eliminated a lot of physical paper trails that get lost in misfiling, the concepts driving these computerized accounting systems are all rooted in the accounting structure.

In general, everything starts from a source document and then moves to a journal. In the accounting world, the journal is a book that contains original entries for financial transactions. Journals store financial transaction information ultimately derived from source documents. Later, these journal entries are summed up and then posted, or transferred, to a ledger. A journal records all entries chronologically, though in a computerized accounting system you would be able to sort by any parameter.

1.3 Examining and verifying of supporting documents

1.3.1 Completeness of supporting document

Completeness refers to the comprehensiveness or wholeness of the document. There should be no gaps or missing information from the document to be truly complete. Sometimes incomplete document is unusable, but often it’s still used even with missing information, which can lead to costly mistakes and false conclusions.
Incomplete document is often a result of unsuccessfully collected data. For example, say a name and email address was supposed to be gathered, but there is no associated email address when the information is imported into your systems. This can happen if your business is

gathering information from a survey or gating content in an attempt to get prospect contact information.

Consumer data isn't complete unless all the available data is successfully gathered and stored properly.

Parameters and relevant test of source document

Occurrence – this means that the transactions recorded or disclosed actually happened and relate to the entity. For example, that a recorded sale represents goods which were ordered by valid customers and were dispatched and invoiced in the period. An alternative way of putting this is that sales are genuine and are not overstated.

Completeness – this means that transactions that should have been recorded and disclosed have not been omitted.

Relevant test – select a sample of customer orders and check to dispatch notes and sales invoices and the posting to the sales account in the general ledger.

Note the difference in the direction of the above test. In order to test completeness, the procedure should start from the underlying documents and check to the entries in the relevant ledger to ensure none have been missed. To test for occurrence the procedures will go the other way and start with the entry in the ledger and check back to the supporting documentation to ensure the transaction actually happened.

Accuracy – this means that there have been no errors while preparing documents or in posting transactions to ledgers. The reference to disclosures being appropriately ***measured and described*** means that the figures and explanations are not misstated.

Self-check 1.

I Instruction: - Give appropriate answer for the following questions

1. What is source document in accounting work(2points)

____

____

2. Write at least four common source documents.(4 points)

____

____

3. List at least three information we can get from source documents?(3points)

____

____

4. What is the importance of source documents?(2points

____

____

5. When an item is sold the seller will issue a source document know as___________ that providing all the details of the sale? (2points)

II. Say true for correct statement and false for incorrect statements (one point each)

1. Accuracy means that no errors made while preparing documents or in posting transactions to ledgers.
2. Completeness means that all the information that should have been recorded and not been omitted from the document.
3. Various regulations mandate that source documents be retained only for a years.
4. According to the US Internal Review Service (IRS) source document photocopies are legally acceptable if it is complete, legible, and accurate representations of the original document.
5. Receipts are source document that usually provided when buying something from a shop or suppliers.

UNIT TWO PREPARING AND PROCESSING BANKING AND PETTY CASH DOCUMENTS

This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:

- Entering and balancing deposits and withdrawals
- cheques and card vouchers for ***validity***
- Reconciling banking documentation
- Checking Petty cash claims and vouchers

This guide will also assist you to attain the learning outcome stated in the cover page. Specifically, upon completion of this Learning Guide, you will be able to –

- Enter and balance deposits and withdrawals
- Check Cheques and card vouchers for ***validity***
- Reconcile Banking documentation
- Check Petty cash claims and vouchers

2.2 Entering and balancing deposits and withdrawals

Deposit or withdrawal

To/From a bank account to keep your balances up-to-date with the activity that happens outside of the accounting software. An example would be entering a bank fee as a withdrawal from your checking account. It is solely for the purpose of keeping your accounting bank account balances updated.

To enter a Deposit or Withdrawal

1. Choose either Deposit (money coming into your bank account) or Withdrawal (money going out of your bank account).
2. Enter the Post Date.
3. Select the Bank Account for this transaction.
4. If you have set up departments, select an optional Department**.**
5. Enter the Description (example: November Bank Fee).
6. Select the Account that this deposit is coming from (or withdrawal is going to).
7. Enter the dollar amount.
8. To add another account, click "Add Row" and repeat the above two steps.
9. As you add accounts and amounts, the Total Deposit/Withdrawal amount will automatically update.
10. If you have Accounting Premium, you can attach electronic files and receipts to this entry by clicking "Attach Files."
11. Click Save when you are finished. This transaction is now recorded and will appear on your General Ledger report. From here, you can edit, void, or delete this deposit/withdrawal.

2.2. Cheques and card vouchers for validity

2.2.1 Cheque

A cheque is a document you can issue to your bank, directing it to pay the specified sum mentioned in digits as well as words to the person whose name is borne on the cheque.

Cheques are also called negotiable instruments. In banking terms, a negotiable instrument is a document that promises its bearer a payment of the specified amount either on furnishing the document to the banker or by a given date.

The issuing party is called the drawer of the cheque, and the one it is issued to or put simply; whose name is mentioned on the cheque is the drawee.

Types of cheques

1. Bearer Cheque

A bearer cheque is the one in which the payment is made to the person bearing or carrying the cheque. These cheques are transferable by delivery, that is, if you are carrying the cheque to the bank, you can be issued the payment to. The banks need no other authorization from the issuer to be allowed to make the payment.

2. Order Cheque

In these cheques, the words 'or bearer' is cancelled. Such cheques can only be issued to the person whose name is mentioned on the cheque, and the bank will do its background check to authenticate the cheque bearer's identity before releasing the payment.

3. Open cheque

An open cheque is basically an uncrossed cheque. This cheque can be encashed at any bank, and the payment can be made to the person bearing the cheque. This cheque is transferable from the original payee (the original recipient of the payment) to another payee too. The issuer needs to put his signature on both the front and back of the cheque.

4. Post-Dated Cheque

These types of cheques bear a later date of being encashed. Even if the bearer presents this cheque to the bank immediately after getting it, the bank will only process the payment on the date mentioned in the cheque. This cheque stands valid past the mentioned date, but not before.

5. Stale Cheque

A cheque past its validity, three months after the date of being issued, is called a stale cheque

6. Traveler's Cheque

Foreigners on vacations carry traveler's cheques instead of carrying hard cash, which can be cumbersome. These cheques are issued to them by one bank and can be encashed in the form of currency at a bank located in another location or country. Traveler's cheques do not expire and can be used for future trips.

7. Self Cheque

You can identify self cheques by the word 'self' written in the drawee column. Self cheques can only be drawn at the issuer's bank.

8. Banker's Cheque

A bank is the issuer of these types of cheques. The bank issues these cheques on behalf of an account holder to make a remittance to another person in the same city. Here the specified amount is debited from the account of the customer, and then, the cheque is issued by the bank. This is the reason banker's cheques are called non-negotiable instruments as there is no room for banks to dishonor these cheques. They are valid for three months. They can be revalidated provided specific conditions are met.

Checking validity of Cheque

It is important for you to know the elements of a cheque to ensure that the cheque is properly written and valid since a duly completed and signed cheque acts as an authority to the drawee bank to withdraw from account for payment. Some elements of cheque you have to check may include:-

1. Name of your bank which is also called the "drawee bank" or paying bank
2. "Account Payee Only" crossing is a directive to the collecting bank to pay into the account of the payee
3. Payee is the person to whom the cheque is to be made. Ensure that the name of the person is correctly spelt and written close to the words "pay to". Draw a line on the space after the payee's name to avoid alteration
4. Date of the cheque. To be able to receive payment, the date must be the current date
5. The person who holds and presents the cheque at the bank. It is advisable to cross out "or bearer" to avoid any stolen cheque from being paid out
6. The payment amount written in words. The same value will be written in the box beside it. Do not leave any gap by drawing a line after them. Make sure that the amount in words and in figures tally, otherwise, the bank will return the cheque
7. Your signature as the "drawer" of the cheque
8. Serial number of the cheque. Each cheque has a different number for identification purposes

9. The drawee bank's state and branch code
10. Your current account number
11. The drawee bank's internal code for current account product

2.2.2 Voucher

A voucher is a document used by a company's accounts payable department to gather and file all of the supporting documents needed to approve the payment of a liability. Governments may also issue vouchers redeemable for various programs such as for school choice, housing, or social welfare initiatives.

A voucher may also refer to a document, such as a coupon or ticket that is redeemable for some good or service. This is prominent in the hospitality industry. For instance, airlines, hotels, and restaurants may issue vouchers that can be exchanged from rooms, flights, or fares.

Basic features of the voucher

A voucher system is made up of records, methods and procedures used in providing and recording liabilities and making and recording cash payments.

A voucher system uses:

1. Vouchers

2. A voucher register
3. A file for unpaid vouchers
4. A check register and
5. A file for paid vouchers

1. Vouchers: - The term voucher is widely used in accounting. In a general sense; it means any document that serves as proof of authority to pay cash. The term has a narrower meaning when applied to the vouchers system: a voucher is s special form on which is recorded relevant data about a liability and the details of its payment. Vouchers may be paid immediately after they are prepared or at a later date; depending up on the circumstances and the credit terms.

2. Voucher register:-After approval by the designated officials each voucher is recorded in a journal known as voucher register. It is similar to and replaces the purchases journal.

3. Unpaid voucher file:- after a voucher has been recorded in the voucher register; it is filed in an unpaid voucher file, where it remains until it is paid.

4. Check register:-the payment of the voucher is recorded in a check register. The check register is a modified form of the cash payments journal.

5. Paid voucher file:- after payment vouchers are usually filed in numerical order in a paid voucher file. They are then readily available for examination by employees or independent auditors needing information about certain expenditures.

Checking validity of Voucher

To insure validity of voucher you have to check completeness and accuracy of the voucher. So you have to check the following information on the voucher:

- Supplier identification number
- The amount payable
- The date on which payment will be made
- The accounts payable to record the liability
- Any valid early payment discount terms
- The approval signature or stamp

2.3 Reconciling banking documentation

2.3.1 Bank Reconciliation

The bank statement and the cheek book are both records of a depositor's checking account transactions. The balance of checking account reported on the bank statement is rarely equal to the balance in the depositor's accounting records. This is usually due to:

1. Time lags – a delay by either party in recording transactions and
2. Errors- by either party in recording transaction.

The process of bringing the difference between the balance of a checking account according to the depositor's records and the balance reported on the bank statement in to agreement is called **Bank reconciliation**

Importance of Bank Reconciliation

- To see your business as it really is
- To track cash flow
- To detect fraud
- To detect bank errors
- To stay on top of accounts receivable

Factors causing the bank statement balance to differ from the depositor's book balance are:

1. **Outstanding cheeks**: check written by the depositor, deducted/appear in the checkbook but not in the statement.
2. **Deposit in transit** (also called outstanding deposits): these are deposits made and recorded by the depositor but not recorded on the bank statement. E.g. Night deposits, deposits by mail etc
3. **Service charges and other bank fees:** banks charge a fee for providing checking accounts. This fee, called a service charge. Other charges that a bank may make include fees for imprinting checks, fees for collecting money for the depositor and fees for the use of ATMs.
4. **Errors** –it is not uncommon for depositors to make (1) arithmetic errors when making entries in a cheek book and (2) errors due to transpositions and slides by depositors. The bank will also make errors.

5. **Bank collections** – some banks collect notes or securities for the depositor and enter the amounts directly in the depositor's account. Such collections appear on the bank statement but not in the checkbook.
6. **NSF (Not sufficient funds) checks** – when a check is deposited, it is counted as cash. If the balance in the customer's account is not large enough to cover the check, the check is called NSF. The bank initially credits the depositor's account for the amount of deposited check. When the bank learns the check is uncollectible, it debits (reduces) the depositor's account for the amount of that check.

The bank statement is reconciled by the following steps

a) Deposit in transit – added to the bank statement balance
b) Outstanding checks – subtracted from the bank statement balance
c) Any interest earned and any collection made by the bank for the depositor- added to the check book balance.
d) Any charge appearing on the bank statement – subtracted from the checkbook balance
e) NSF – subtracted from the checkbook balance.

Format for bank reconciliation

Bank balance according to bank statements		xxx
Add: additions by depositor not on bank statement	xx	
Bank errors	xx	xx
		xxx
Deduct: Deductions by depositor not on bank statements	xx	
Bank errors	xx	xx
Adjusted balance		**xxx**
Bank Balance according to depositors records		xxx
Add: additions by bank not recorded by depositor	xx	
Depositor errors	xx	xx
		Xxx
Deduct: deductions by bank not recorded by depositor	xx	
Depositor errors	xx	xx
Adjusted balance		**xxx**

Illustration of bank reconciliation

The bank statement for Hope Company, recorded, indicates a balance of Br3359.78 as on July 31. The balance in cash in bank in Hope Company's ledger as of the same date is Br2, 234.99. The following are reconciling items:

1. Deposit of July 31 not recorded on bank statement Br816.20
2. Check out standing: No 812,Br1061.00;No 878,Br435.39;883,Br48.60
3. Note plus interest of Br8 collected by bank (credit memorandum), Not recorded on cash receipts journal Br408.00
4. Bank service charges (debit memorandum)not recorded on Cash repayments journal Br3.00
5. Check No 879 for Br732.26 to Taylor Company on account, Recorded in cash payments journal as Br723.26

The bank reconciliation based on the bank statements and the reconciling items is as follows

Hope Company

Bank reconciliation

July 31, 2010

Balance per bank statement--Br3,359.78

Add: deposit of July 31, not recorded by bank-----------------------816.20

4,175.98

Deduct out standing checks:

No 812------------------------1,061.00

No 878--------------------------435.39

No 883---------------------------48.60 1,544.99

Adjusted Bank balance-- Br2,630.99

Balance per depositors records------------------------------------Br2,234.99

Add: Note and interest collected by bank------------------------- 408.00

2,642.99

Deduct: Bank service charges-----------------------3.00

Error in recording check no 879---------9.00 12.00

Adjusted cash book balance--------------------------------------Br2,630.99

The entries for Hope Company, based on the bank reconciliation above are as follows:

July 31 Cash in bank----------------------------408.00

Notes receivable---------------------------400.00

Interest income-------------------------------8.00

31 Miscellaneous Expense---------------3.00

Account payable-----------------------9.00

Cash in bank---------------------------12.00

2.4. Checking Petty cash claims and vouchers

2.4.1. Petty Cash

A common way of handling small payments is to use **a petty cash fund**.

A petty cash fund is an amount of money (cash fund) kept in the office for making relatively small expenditures.

The amount of petty cash fund depends on the needs of the individual business.

The operation of a petty cash fund, often called an imp rest system, involves:

a) Establishing the petty cash fund

b) Making payments from the petty cash fund and

c) Replenishing the petty cash fund

In establishing a petty cash fund;

- The amount of cash needed for disbursements of relatively small amounts during a certain period is estimated.
- Custodian assigned
- The check drawn

If the voucher system is used; a voucher is then prepared for this amount and it is recorded in the voucher register as a debit to petty cash and a credit to accounts payable. The check drawn to pay the voucher is recorded in the check register as a debit to accounts payable and a credit to cash in bank.

- When a petty cash payment is made the petty cash custodian prepares a petty cash voucher.
- The petty cash voucher shows the details of the payment and serves as proof that a payment was made from the fund.
- No accounting entry is made to record a payment at the time it is made from the petty cash.

To replenish the petty cash fund means to put back in to the fund the amount that has been paid out of the fund. Petty cash fund is replenished:

a) When the money in the petty cash fund reaches a minimum level, and
b) At the end of the month regardless of the cash in the fund.

If the petty cash fund is not reimbursed at the end of accounting period:

- petty cash asset is overstated and
- Expenses are understated.
- The journal entry to record replenishing the petty cash fund involves a debit to each item listed in the petty cash payments record and a credit to cash.

Example: - Assume that a voucher system is used and that a petty cash fund of Br 100 is established on August 1. At the end of August, the petty cash receipts indicate expenditures for the following items:

Office supplies……………..28
Postage (office supplies)…….22
Store supplies………………..35
Miscellaneous expense………..3.70

The entry in the general journal form is:

August 1. Petty cash……………………..100
Voucher payable……………………100

August 1. Voucher payable………………100
Cash in bank………………………100

August 31. Office supplies expense……………50
Store supplies expense-…………….35
Miscellaneous Expense………………3.70
Voucher payable………………………..88.70

August 31. Voucher payable……………………88.70
Cash in bank……………………………88.70

Cash Short and Over

Occasionally, errors will occur, and the petty cash fund will be out of balance. In other words, the sum of the cash and receipts differs from the correct Petty Cash balance. This might be the result of simple mistakes, such as math errors in making change, or perhaps someone failed to provide a receipt for an appropriate expenditure. Whatever the cause, the available cash must be brought back to the appropriate level. The journal entry to record full replenishment may require an additional debit (for shortages) or credit (for overages) to Cash Short (Over). In the following entry, $635 is placed back into the fund, even though receipts amount to only $615. The difference is debited to Cash Short (Over):

Supplies Expense--------------------------------- 390

Fuel Expense-------------------------------------- 155

Miscellaneous Expense-------------------------- 70

Cash Short (Over) -------------------------------- 20

Cash---635

(To record replenishment of petty cash)

The Cash Short (Over) account is an income statement type account. It is also applicable to situations other than petty cash. For example, a retailer will compare daily cash sales to the actual cash found in the cash register drawers. If a surplus or shortage is discovered, the difference will be recorded in Cash Short (Over); a debit balance indicates a shortage (expense), while a credit represents an overage (revenue). As a means of enforcing accountability, some companies may pressure employees to reimburse cash shortages.

Self-Check -2

I. Choose the best answer from the given alternatives

1. __________is a document used by a company's accounts payable department to gather and file all of the supporting documents needed to approve the payment of a liability.

   A. Bank account C. The amount payable

   B. Cheque D. Voucher

2. Which of the following step come first in recording deposit and withdrawal?

   A. Entering the post date

   B. Selecting the bank account

C. Choosing either deposit or withdrawal

D. No answer

3. The final step in recording deposit and withdrawal is________

A. Adding raw

B. Attaching files

C. Saving the file in the software

D. All of the above

4. A document you can issue to your bank, directing it to pay the specified sum mentioned in digits as well as words to the person whose name is mentioned on it is known as_____________

A. Bank account

B. Cheque

C. Credit payment

D. All the above

5. _____________lists the activity in the bank account during the recent month as well as the balance in the bank account.

A. Income statement

B. Bank statement

C. Cheque account

D. All of the above

6. __________ is the process of confirming the amounts on the bank statement are consistent or compatible with the amounts in the company's Cash account in its general ledger and vice versa.

A. Bank statement

B. Company cash ledger

C. Income statement

D. Bank reconciliation

7. Which of the following statement is true about bank reconciliation?

A. Bank reconciliation is an account

B. Bank reconciliation is a periodical statement

C. Bank reconciliation is not a part of double entry bookkeeping

D. All except “A”

8. Which of the following is not importance of bank reconciliation?

A. To stop fraud

B. To detect bank error

C. To stay on top of accounts receivable

D. All of the above

9. Cash and checks that have been received and recorded by the company but have not yet been recorded on the bank statement.

A. Checque outstanding
B. Deposit in transit
C. Not sufficient fund (NSF)
D. Bank service fees

10. When a customer deposits a check into an account but the account of the issuer of the check has an insufficient amount to pay the check
    A. Checque outstanding
    B. Deposit in transit
    C. Not sufficient fund (NSF)
    D. Bank service fees
11. The entry to replenish a petty cash fund includes a credit to
    A. Petty Cash
    B. Cash
    C. Freight-In
    D. Postage Expense.
12. A $300 petty cash fund has cash of $39 and receipts of $255. The journal entry to replenish the account would include
    A. Debit to Cash for $255.
    B. Credit to Petty Cash for $255.
    C. Debit to Petty Cash for $261.
    D. Credit to Cash for $261.
13. A $150 petty cash fund has cash of $21 and receipts of $126. The journal entry to replenish the account would be
    A. Cash 126 Petty Cash 126
    B. Miscellaneous Expenses 126 Cash Over and Short 3 Cash 129
    C. Miscellaneous Expenses 126 Cash Over and Short 3 Petty Cash 129
    D. Miscellaneous Expenses 129 Cash Over and Short 3 Cash 126
14. The reconciliation of the cash register tape with the cash in the register is an example of
    A. Other controls.
    B. Independent internal verification.
    C. Establishment of responsibility.
    D. Segregation of duties.
15. Which of the following is not an internal control procedure for cash?
    A. Payments should be made with cash.
    B. There should be limited access to cash.
    C. The amount of cash on hand should be kept to a minimum.
    Cash should be deposited daily

II. Give appropriate answer for the following questions

1. The activity that happened outside of the accounting software can be recorded as ________or_________ to keep the bank account up-to-date
2. List at least four types of cheque.
   ____
   ____

3. Write at least five elements of cheque that used to check validity of the cheque.

____

____

4. Mention the information you have to check to ensure validity of Voucher?

____

____

Operation Sheet-1

Bank Reconciliation Process

Bank reconciliation process has 4 major stapes

Step 1. Adjusting the Balance per Bank

The items necessary for this step are listed in the following schedule:

- Balance per Bank Statement on Aug. 31, 2010
- Adjustments:
- Add: Deposits in transit
- Deduct: Outstanding checks
- Add or Deduct: Bank errors
- Adjusted/Corrected Balance per Bank
- Deposits in transit are amounts already received and recorded by the company, but are not yet recorded by the bank. For example, a retail store deposits its cash receipts of August 31 into the bank's night depository at 10:00 p.m. on August 31. The bank will process this deposit on the morning of September 1. As of August 31 (the bank statement date) this is a deposit in transit. Because deposits in transit are already included in the company's Cash account, there is no need to adjust the company's records. However, deposits in transit are not yet on the bank statement. Therefore, they need to be listed on the bank reconciliation as an increase to the balance per bank in order to report the true amount of cash.

  A deposit in transit is on the company's books, but it isn't on the bank statement. Put it where it isn't: as an adjustment to the balance on the bank statement.

- Outstanding checks are checks that have been written and recorded in the company's Cash account, but have not yet cleared the bank account. Checks written during the last few days of the month plus a few older checks are likely to be among the outstanding checks. Because all checks that have been written are immediately recorded in the company's Cash account, there is no need to adjust the company's records for the outstanding checks. However, the outstanding checks have not yet reached the bank and the bank statement. Therefore, outstanding checks are listed on the bank reconciliation as a decrease in the balance per bank. An outstanding check is on the company's books, but it isn't on the bank statement. Put it where it isn't: as an adjustment to the balance on the bank statement.
- Bank errors are mistakes made by the bank. Bank errors could include the bank recording an incorrect amount, entering an amount that does not belong on a company's bank statement, or omitting an amount from a company's bank statement. The company should notify the bank of its errors. Depending on the error, the correction could increase or decrease the balance shown on the bank statement. (Since the company did not make the error, the company's records are not changed.)
- **Step 2. Adjusting the Balance per Books**

  The second step of the bank reconciliation is to adjust the balance in the company's Cash account so that it is the true, adjusted, or corrected balance. Examples of the items involved are shown in the following schedule:
- Balance per Books on Aug. 31, 2010
- Adjustments:
- Deduct: Bank service charges
- Deduct: NSF checks & fees
- Deduct: Check printing charges
- Add: Interest earned
- Add: Notes Receivable collected by bank
- Add or Deduct: Errors in company's Cash account
- Adjusted/Corrected Balance per Books
- Bank service charges are fees deducted from the bank statement for the bank's processing of the checking account activity (accepting deposits, posting checks, mailing the bank statement, etc.) Other types of bank service charges include the fee

charged when a company overdraws its checking account and the bank fee for processing a stop payment order on a company's check. The bank might deduct these charges or fees on the bank statement without notifying the company. When that occurs the company usually learns of the amounts only after receiving its bank statement. Because the bank service charges have already been deducted on the bank statement, there is no adjustment to the balance per bank. However, the service charges will have to be entered as an adjustment to the company's books. The company's Cash account will need to be decreased by the amount of the service charges.

- A bank service charge is already listed on the bank statement, but it isn't on the company's books. Put it where it isn't: as an adjustment to the Cash account on the company's books.
- An NSF check is a check that was not honored by the bank of the person or company writing the check because that account did not have a sufficient balance. As a result, the check is returned without being honored or paid. (NSF is the acronym for not sufficient funds. Often the bank describes the returned check as a return item. Others refer to the NSF check as a "rubber check" because the check "bounced" back from the bank on which it was written.) When the NSF check comes back to the bank in which it was deposited, the bank will decrease the checking account of the company that had deposited the check. The amount charged will be the amount of the check plus a bank fee. Because the NSF check and the related bank fee have already been deducted on the bank statement, there is no need to adjust the balance per the bank. However, if the company has not yet decreased its Cash account balance for the returned check and the bank fee, the company must decrease the balance per books in order to reconcile.
- Check printing charges occur when a company arranges for its bank to handle the reordering of its checks. The cost of the printed checks will automatically be deducted from the company's checking account. Because the check printing charges have already been deducted on the bank statement, there is no adjustment to the balance per bank. However, the check printing charges need to be an adjustment on the company's books. They will be a deduction to the company's Cash account. A check printing

charge is on the bank statement, but it isn't on the company's books. Put it where it isn't: as an adjustment to the Cash account on the company's books.

- Interest earned will appear on the bank statement when a bank gives a company interest on its account balances. The amount is added to the checking account balance and is automatically on the bank statement. Hence there is no need to adjust the balance per the bank statement. However, the amount of interest earned will increase the balance in the company's Cash account on its books. Interest received from the bank is on the bank statement, but it isn't on the company's books. Put it where it isn't: as an adjustment to the Cash account on the company's books.
- Notes Receivable are assets of a company. When notes come due, the company might ask its bank to collect the notes receivable. For this service the bank will charge a fee. The bank will increase the company's checking account for the amount it collected (principal and interest) and will decrease the account by the collection fee it charges. Since these amounts are already on the bank statement, the company must be certain that the amounts appear on the company's books in its Cash account. The amounts collected by the bank and the bank's fees are on the bank statement, but they are not on the company's books. Put them where they aren't: as adjustments to the Cash account on the company's books.
- Errors in the company's Cash account result from the company entering an incorrect amount, entering a transaction that does not belong in the account, or omitting a transaction that should be in the account. Since the company made these errors, the correction of the error will be either an increase or a decrease to the balance in the Cash account on the company's books.
- **Step 3. Comparing the Adjusted Balances**
  After adjusting the balance per bank (Step 1) and after adjusting the balance per books (Step 2), the two adjusted amounts should be equal. If they are not equal, you must repeat the process until the balances are identical. The balances should be the true, correct amount of cash as of the date of the bank reconciliation.
- **Step 4. Preparing Journal Entries**
  Journal entries must be prepared for the adjustments to the balance per books (Step 2). Adjustments to increase the cash balance will require a journal entry that debits Cash

and credits another account. Adjustments to decrease the cash balance will require a credit to Cash and a debit to another account.

Lap-Test-2

Practical Demonstration

Name: ______________________________ Date: ________________

Time started: ________________________ Time finished: __________

Instructions: Follow all necessary steps and format to prepare Bank reconciliation statement and Record all entries.

XYZ Company is closing its books and must prepare bank reconciliation for the following items:

- Bank statement contains an ending balance of $300,000 on February 28, 2018, whereas the company's ledger shows an ending balance of $260,900
- Bank statement contains a $100 service charge for operating the account
- Bank statement contains interest income of $20
- XYZ issued checks of $50,000 that have not yet been cleared by the bank
- XYZ deposited $20,000 but this did not appear on the bank statement
- A check for the amount of $470 issued to the office supplier was misreported in the cash payments journal as $370.
- A note receivable of $9,800 was collected by the bank.
- A check of $520 deposited by the company has been charged back as NSF.

Task 1: prepare bank reconciliation statement

Task2: Record all necessary journal entries

Lap-Test

Journal entry for putting money into the petty cash fund

- When your petty cash cashier puts money into the petty cash fund, they must create a journal entry in your books.
- The entry must show an increase in your Petty Cash account and a decrease in your Cash account. To show this, debit your Petty Cash account and credit your Cash account.
- When the petty cash fund gets too low, you must refill it to its set amount. Then, create another journal entry debiting the Petty Cash account and crediting the Cash account.
- Your petty cash book format should be similar to the following entry:

Date	Account	Notes	Debit	Credit
XX/XX/XXXX	Petty Cash	Adding to petty cash account	X	
	Cash			X

Journal entry for removing money from the petty cash fund

- To create journal entries that show petty fund purchases, you must debit the corresponding accounts (e.g., Office Supplies account if you purchase supplies) and credit your Petty Cash account.
- You might debit multiple accounts, depending on how often you update your books for petty cash accounting.
- Your petty cash accounting format should be similar to this:

Date	Account	Notes	Debit	Credit
XX/XX/XXXX	Account ABC	Petty cash used for business expenses during period	X	
	Account XYZ		X	
	Petty Cash			X

Lap-Test-2

Name: ______________________________ Date: ________________

Time started: ________________________ Time finished: ________________

Instructions follow all necessary steps and format to Record all entries.

On Dece1, 2021 ABC Company designates $75 to petty cash fund.

On Dece10, 2021 distribute petty cash for the following expenses:

- $10.50 for postage
- $45.50 for pizza for a team meeting
- $14.00 for office supplies

Task 1: Record entry during establishment of petty cash

Task2: Record entry that show the used petty cash.

Task3: Record entry during replenishment of the petty cash.

UNIT THREE. PREPARING AND INVOICES FOR PAYMENT TO CREDITORS AND FOR DEBTORS
This learning guide is developed to provide you the necessary information regarding the following content coverage and topics – • Preparing Invoices • Checking Invoices against source documents • Filing all invoices and related documents This guide will also assist you to attain the learning outcome stated in the cover page. Specifically, upon completion of this Learning Guide, you will be able to – • Prepare Invoice • Check Invoices against source documents File all invoices and related documents

3.1. Preparing Invoices

An invoice is a bill that businesses send to customers or clients, asking for payment for goods or services. Invoices usually include a description of the items you're charging for along with payment terms, amongst other information.

Invoices are an important part of bookkeeping, as businesses need to keep information about sales and income for tax and accounting.

Prepare an invoice: step-by-step

Wondering what to include on an invoice? Gov.uk says that there's certain information that your invoices must include – follow the steps below to get your invoices up and running in no time.

1. Make your invoice look professional

The first step is to put your invoice together. You can do this yourself using a word processor or Excel. You should use professional fonts and styling that match your brand, and then add your logo and colors if possible.

2. Clearly mark your invoice

Make sure your customers know it's an invoice they're receiving. Just adding the word **invoice** at the top of your document might make it more likely you'll be paid on time, as it makes your request for payment stand out from other documents your client might get.

Your invoice needs to have a **unique identification number**. This is for your records, as you should have a reference for all the invoices you've raised to make sure you don't create duplicates. You can use a sequence of numbers that gradually increases.

3. Add company name and information

This means both your company's information and the details of the company you're invoicing: your company's name, address, and contact details your customer's company name and address, including a contact's name so it reaches the right person your registered office address and company registration number if you're a limited company,

4. Write a description of the goods or services you're charging for

These descriptions don't need to be long, but they should be detailed enough for your customers to know what it is they're paying for. After all, if they have no idea what they're being charged for, they're more likely to query the invoice – leading to a delay in payment.

5. Don't forget the dates

You need to add some dates to your invoice. These are:

- the date you provided your goods or service (the supply date)
- the date you create the invoice
- You could add the supply date to the description of your goods or service, and
- Add the invoice date at the top along with your name, address, and contact details.

6. Add up the money owed

As well as including the costs of individual goods or services, you need to put the total amount owed as well. Plus, if you've agreed a discount with your customer, note this down on the invoice and subtract it from the total cost. If applicable, include the VAT amount too.

7. Mention payment terms

You should have agreed payment terms with the customer beforehand, but it's a good idea to note the terms of payment on the invoice as well. So if you expect to be paid within a certain number of days, remind the customer by including it on the invoice.

More importantly, note down how exactly your customer should make the payment. It's likely you'll want the customer to make the payment directly to a bank account.

Issuing VAT invoices

VAT registered company should use VAT invoices. These invoices need more information on them than normal invoices.

In general, though, they need the same information as normal invoices, plus:

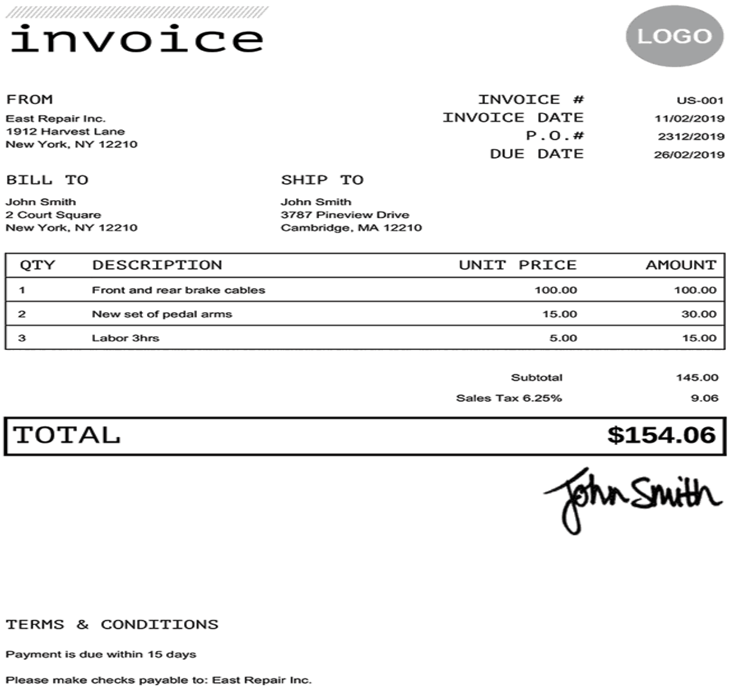
- your VAT registration number
- the tax point (time of supply) if it's different than the invoice date

- the VAT rate and total VAT charged, if all the items are charged at the same rate
- if different items have different VAT rates, then show this for each one

Payment terms

When a decision has been made to grant a customer credit, then the customer will be advised (usually in writing) the following:

1. Credit period – how long the credit will be available to the customer
2. Credit terms – how long has the customer got to pay
3. Credit limit – how much can they have on credit (often 2 months estimated sales)
4. Discounts – trade or early settlement
5. Late payments – usually there will be a section on late payment, penalties and interest, but many businesses may not enforce them.



invoice

LOGO

FROM
East Repair Inc.
1912 Harvest Lane
New York, NY 12210

INVOICE #	US-001
INVOICE DATE	11/02/2019
P.O.#	2312/2019
DUE DATE	26/02/2019

BILL TO
John Smith
2 Court Square
New York, NY 12210

SHIP TO
John Smith
3787 Pineview Drive
Cambridge, MA 12210

QTY	DESCRIPTION	UNIT PRICE	AMOUNT
1	Front and rear brake cables	100.00	100.00
2	New set of pedal arms	15.00	30.00
3	Labor 3hrs	5.00	15.00

Subtotal	145.00
Sales Tax 6.25%	9.06
TOTAL	$154.06

John Smith

TERMS & CONDITIONS
Payment is due within 15 days
Please make checks payable to: East Repair Inc.

Sample Invoice

3.2. Checking Invoices against source documents

Information you must check on an invoice

Information required	Explanation
The details of the business issuing the invoice	Name of business, address, telephone number, email etc.

VAT registration number	If the business is VAT registered, their unique VAT registration number must be shown.
Customer's name and address	
Invoice number	This must be unique and must follow on from the last invoice (in sequential order).
Account and your ref	The account is the business's reference for their customer. You ref relates to a purchase order (a reference could also be included for a delivery note).
A clear description of each type of goods or services required	The unit price, quantity, rate of VAT and rate of discount should be shown clearly for each item. Also show the amount payable (excl. VAT) for each iem and the currency.
Net price, VAT and total price including VAT	The net total of all goods or services supplied. The VAT added (e.g 15%) and the total amount payable by the customer.
Terms	These are the items under which the invoice has been issued.

Other terms you could see on an invoice are:

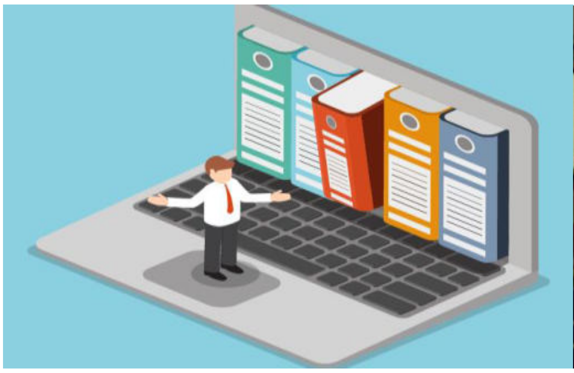
Term	**Explanation**
Cash terms	No credit.
30 days from date of invoice	Payment due 30 days after the invoice date.
Net 30 days	Payment due 30 days after the delivery date.
Retention of title (ROT)	Ownership of goods sold does not pass to the buyer under payment has been made.

3.3. Filing all invoices and related documents

Financial records must be kept by all companies, regardless of their size. Each company will continually generate records such as:

- Bank deposit slips
- Cheque stubs
- Payroll records
- Invoices
- Sales slips

Contracts
And many other documents
Bank statements
Delivery slips
Receipts




Each company will have established a system for maintaining these records, so they are easily accessible, and can be utilized in their accounting system. One of the keys to company success is maintaining a reliable, accurate and timely accounting system. An up-to-date and well-designed accounting and filing system will allow the company to ensure that its financial information is accurate and current

Each company will have its own way of filing documents, but there are some general rules which most organizations follow. Commonly, similar documents are filed together in chronological order which means that documents are filed in date order with the most recent at the front or on top, and new chronological files are started at the beginning of each financial year.

Documents can be filed or stored in binders, file drawers or a compact us. It is essential that you keep a copy of all documents in the files, even if a photocopy has been taken off the original.

A business will establish filing systems to accommodate the type of records they need to keep. A business might establish a centralized filing system or a non-centralized system. You will need to know about the types of technology and equipment used in your organization and how it is used to organize information.

Self- Check -3

I Give appropriate answer for the following questions

1. Define what an invoice is

____

____

2. _________are an important part of bookkeeping, as businesses need to keep information about sales and income for tax and accounting.
3. Show the steps to prepare invoice.

   ____

   ____

   ____

   ____

4. VAT registered company should use VAT invoices. These invoices need more information on them than normal invoices. What is this additional information?

   ____

   ____

5. List at least four payment terms.

   ____

   ____

6. Write at least five information, you have to check to insure accuracy and to correct error

____

____

UNIT FOUR PREPARING JOURNALS AND BATCH MONETARY ITEMS
This learning guide is developed to provide you the necessary information regarding the following content coverage and topics • Preparing Journals accurately and completely • Matching batch items precisely to initial receipt records • Authorizing Journals This guide will also assist you to attain the learning outcome stated in the cover page. Specifically, upon completion of this Learning Guide, you will be able to • Prepare Journals accurately and completely • Match batch items precisely to initial receipt records • Authorize Journals

4.1.Preparing Journals accurately and completely

Nature of Accounting

Accounting defined: Accounting is the process of recording, summarizing, analyzing, and interpreting financial activities to permit individuals and organization to make informed judgments and decisions.

- **Recording**: making written records of events
- **Summarizing:** The process of combining these written records
- **Analyzing**: examining these reports by breaking them down in order to determine financial success or failure.
- **Interpreting**: involves the use of financial data to make sound decision.

By law all businesses must keep accounting records. Decisions are based on accounting information for profit and non-profit companies alike.

There are different **forms** of business organizations:

1. **Proprietorship**
   - Generally owned by one person.
   - Often small service-type businesses
   - Owner receives any profits, suffers any losses, and is personally liable for all debts.
2. **Partnership**
   - Owned by two or more persons.
   - Often retail and service-type businesses
   - Generally unlimited personal liability
   - Partnership agreement
3. **Corporation**
   - Ownership divided into shares of stock
   - Separate legal entity organized under state corporation law
   - Limited liability

Profit making **organizations** are known as businesses. There are three main types of businesses; those selling services (such as dry cleaners, motor workshops, beauty salons, airlines etc.); those selling goods (such as food sellers, automobile dealers etc.); those manufacturing goods (such as automobile manufacturers, fans industries, sugar mills etc.).

1. Service business: render/provide services to customers like doctors, lawyers, barber shop, etc.
2. Merchandising business—purchases goods for resale
3. Manufacturing business—produces a product to sell

4.1.1. The Elements of Accounting

1. **Assets**: Assets are items with money value that are owned by a business. An item has a dollar (birr) value to be recorded in accounting records. Example: cash, accounts receivable, supplies, inventories, equipment, land, buildings etc
2. **Liabilities:** Debts owed by the business-obligation of a business. A liability that results from purchasing goods and services on credit is called accounts payable. Other liabilities include notes payable, interest payable, wages payable etc
3. **Owner's Equity**: The difference between what is owned and what is owed is owner's equity. It is the excess of assets over liabilities. Also called capital, proprietorship, net worth, and net asset.
4. **Revenues:** Revenues are increases in capital due to inflow of resources from business operations such as, provision of services or sales of goods.
5. **Expenses:** Expenses are decrease in capital due to outflow of resources for the purpose of business operations.
6. **Drawings:** An owner may withdraw cash or other assets during the accounting period for personal use. These withdrawals could be recorded as a direct decrease of owner's equity and recorded in drawings account. Drawings decrease total owner's equity.

Investments by owner: Investments by owner are the assets put into the business by the owner. These investments in the business increase owner's equity.

4.1.2. Basic Accounting Equation

The relationship among the accounting elements can be expressed in a single mathematical form known as the accounting equation or the basic accounting equation (balance sheet equation)

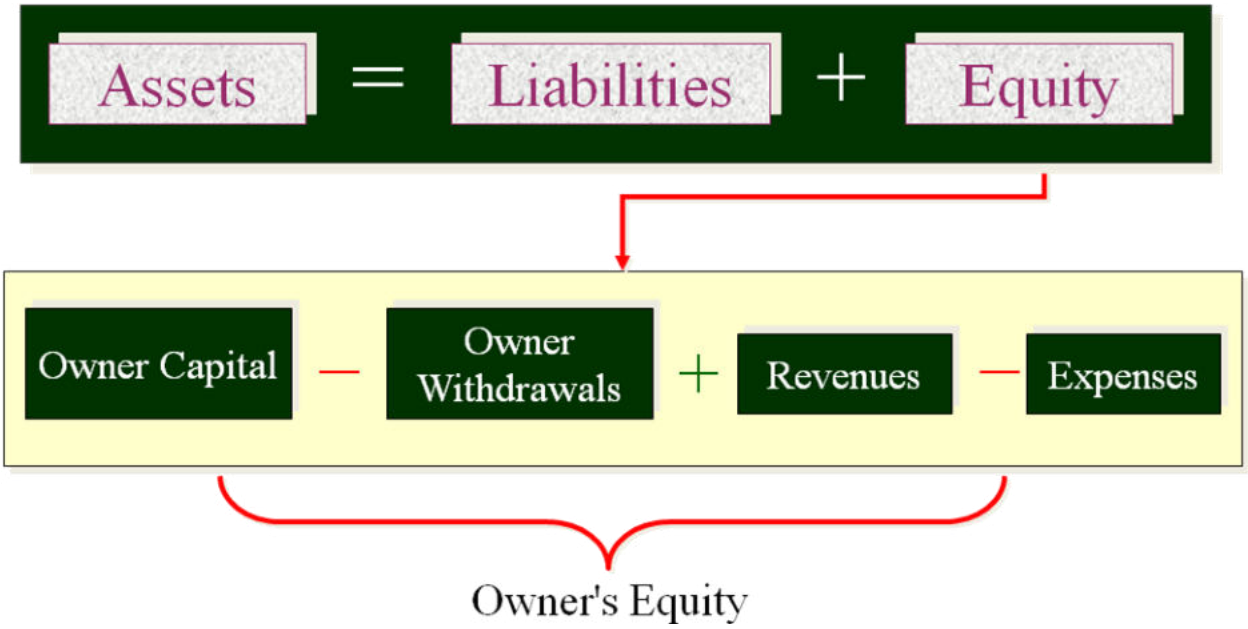
This relationship can be shown in equation form as follows:

Assets = Equities

Equities may be further subdivided in to two categories: claims of creditors and claims of owners. Claims of creditors are called **liabilities**. Claims of owners are called **owner's equity**. For example, ABC Company has liabilities of Birr11 million and owners' equity of Birr4 million. The equation above can, then, be expanded as follows:

This equation is referred to as the **basic accounting equation**. *Assets must equal the sum of liabilities and owner's equity*. Because creditors' claims are paid before ownership claims if a business is liquidated, liabilities are shown before owner's equity in the basic accounting equation. If a company goes bankrupt, liabilities are paid off first to creditors, while owner's equity is the last to be distributed. Therefore, owners' equity is also called *residual equity*.

Expanded Accounting Equation



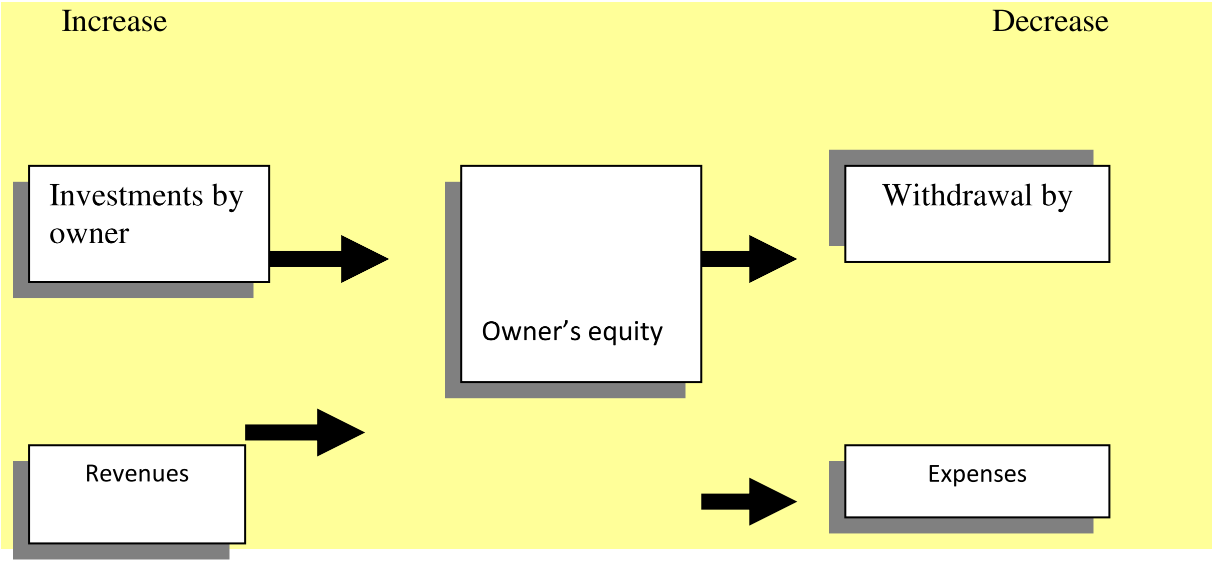
In summary, the principal sources (increases) of owner's equity are:

- investments by owners and
- Revenues from business operations.

In contrast reductions in owner's equity are a result of:

- Withdrawals of assets by owners and
- Expenses.

Net income: results where revenues exceed expenses; conversely, a ***net loss*** occurs when expense exceed revenues. These relationships are illustrated as follows.



Generally Accepted Accounting Principles

- Financial accounting practice is governed by concepts and rules known as generally accepted accounting principles (GAAP).
- Primarily established by FASB & SEC

Objectivity Principle: Accounting information is supported by independent, unbiased evidence.

Cost Principle: Accounting information is based on actual cost.

Going-Concern Principle: Reflects assumption that the business will continue operating instead of being closed or sold.

The matching principle

- The practice of expense recognition is referred to as the matching principle.
- The matching principle dictates that efforts (expenses) be matched with accomplishments (revenues).

Monetary Unit Principle: Express transactions and events in monetary, or money, units.

Revenue Recognition Principle

1. Recognize revenue when it is earned.
2. Proceeds need not be in cash.

3. Measure revenue by cash received plus cash value of items received.

Business Entity Principle

- A business is accounted for separately from other business entities, including its owner.
- Each business has an identity separate from its owners.

Time period assumption

- The time period (or periodicity) assumption assumes that the economic life of a business can be divided into artificial time
- Periods of less than one year are called interim periods.
- The accounting time period of one year in length is usually known as a fiscal year.

Business Transactions and Accounting Equation

Any activity that changes the value of assets, liabilities, owner's equity, revenue or expenses is called **transaction.** Business transaction is an exchange of economic consideration between two parties/event of occurrence or condition that must be recorded.

E.g. hiring an employee does not change the value of any assets, liabilities and owner's equity, so it is not a transaction. Transaction can be created internally or external.

Internal transaction: internally created

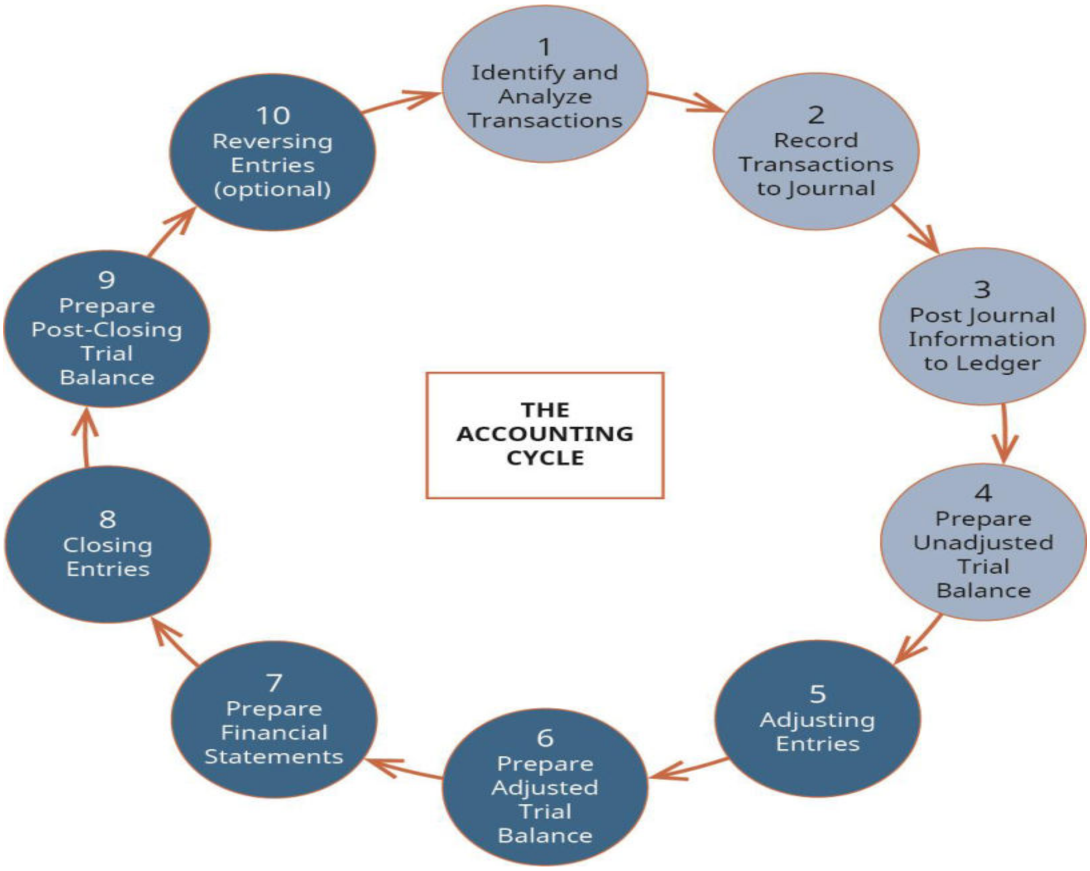
E.g. Salary payment, Depreciation, Supplies, Allowance for uncollectible

External transaction: transaction related to outsiders

Example: purchase of asset on account, cash payment to a creditor, receipt of cash for service rendered, payment of rent and collection of accounts receivable.

Accounting Cycle - sequence of procedures used to record, classify and summarize accounting information in financial reports, on a regular basis.

Account: Account is an individual record or form used to record or to summarize information related to each asset, each liability, and each aspect of owner's equity, each expense and revenue. Account is used to record the changes caused by business transactions.



As you can see, the cycle begins with identifying and analyzing transactions.The entire cycle is meant to keep financial data organized and easily accessible to both internal and external users of information. In this learning outcome, we focus on the first two steps in the accounting cycle: identify and analyze transactions and record transactions to a journal.

1.4. Transaction analysis

Assume that Yomiyou decides to open a computer programming service.

1. On September 1, he invests Br15,000 cash in the business, which he names Softbyte.

Trans. #	Assets			=	Liabilities	+	Owner's Equity	
	Cash	Supplies	Equipment		Accounts Payable		M. Doucet, Capital	
(1)	15,000			=			15,000	Investment

There is an increase in the asset Cash, Br15,000, and an equal increase in the owner's equity, Yomiyou, Capital, Br15,000.

The accounts involved are:

(1) Cash (asset)

(2) Owner Capital (equity)

2. Softbyte purchases computer equipment for Br7,000 cash.

Trans. #	Assets			= Liabilities +	Owner's Equity	
				Accounts	M. Doucet,	
	Cash	Supplies	Equipment	Payable	Capital	
	15,000				15,000	Investment
(2)	(7,000)		7,000			
Balance	8,000 +		7,000 =		15,000	

Cash is decreased Br7,000, and the asset Equipment is increased Br7,000.

3. Softbyte purchases computer paper and supplies expected to last several months from Hope Supply Company for Br1,600 on account.

Trans. #	Assets			= Liabilities +	Owner's Equity
				Accounts	M. Doucet,
	Cash	Supplies	Equipment	Payable	Capital
Balance	8,000		7,000		15,000
(3)		1,600		1,600	
Balance	8,000 +	1,600 +	7,000 =	1,600 +	15,000

The asset Supplies is increased Br1,600, and the liability Accounts Payable is increased by the same amount.

4. Softbyte receives Br1,200 cash from customers for programming services it has provided.

Trans. #	Assets			= Liabilities +	Owner's Equity	
				Accounts	M. Doucet,	
	Cash	Supplies	Equipment	Payable	Capital	
Balance	8,000	1,600	7,000	1,600	15,000	
(4)	1,200				1,200	Service Revenue
Balance	9,200 +	1,600 +	7,000 =	1,600 +	16,200	

Cash is increased Br1,200, and Yomiuou, Capital is increased Br1,200.

5. Softbyte receives a bill for Br250 for advertising its business but pays the bill on a later date.

Trans. #	Assets			= Liabilities +	Owner's Equity	
				Accounts	M. Doucet,	
	Cash	Supplies	Equipment	Payable	Capital	
Balance	9,200 +	1,600 +	7,000 =	1,600 +	16,200	
(5)				250	(250)	Advertising Expense
Balance	9,200	1,600	7,000	1,850	15,950	

6. Softbyte provides programming services of Br3,500 for customers and receives cash of Br1,500, with the balance payable on account.

Trans. #	Assets				=	Liabilities	+	Owner's Equity	
	Cash	Account Receivable	Supplies	Equipment		Accounts Payable		M. Doucet, Capital	
Balance	9,200 +	0 +	1,600 +	7,000	=	1,850		15,950	
(6)	1,500	2,000						3,500	Service Revenue
Balance	10,700	2,000	1,600	7,000		1,850		19,450	

Cash is increased Br1,500; Accounts Receivable is increased Br2,000; and Yomiyou, Capital is increased Br3,500.

7. Expenses paid in cash for September are store rent, Br600, salaries of employees, Br900, and utilities, Br200.

Trans. #	Assets				=	Liabilities	+	Owner's Equity	
	Cash	Account Receivable	Supplies	Equipment		Accounts Payable		M. Doucet, Capital	
Balance	10,700	2,000	1,600	7,000		1,850		19,450	
(7)	(600)							(600)	Rent Exp.
	(900)							(900)	Salaries Exp.
	(200)							(200)	Utilities Exp.
Balance	9,000 +	2,000 +	1,600 +	7,000	=	1,850	+	17,750	

Cash is decreased Br1,700 and Yomiyou, Capital is decreased the same amount.

8. Softbyte pays its advertising bill of Br250 in cash.

Trans. #	Assets				=	Liabilities	+	Owner's Equity
	Cash	Account Receivable	Supplies	Equipment		Accounts Payable		M. Doucet, Capital
Balance	9,000	2,000	1,600	7,000		1,850		17,750
(8)	(250)					(250)		
Balance	8,750 +	2,000 +	1,600 +	7,000	=	1,600	+	17,750

Cash is decreased Br250 and Accounts Payable is decreased the same amount.

9. The sum of Br600 in cash is received from customers who have previously been billed for services in Transaction 6.

Trans. #	Assets				=	Liabilities	+	Owner's Equity
	Cash	Account Receivable	Supplies	Equipment		Accounts Payable		M. Doucet, Capital
Balance	8,750	2,000	1,600	7,000		1,600		17,750
(9)	600	(600)						
Balance	9,350 +	1,400 +	1,600 +	7,000	=	1,600	+	17,750

Cash is increased Br600 and Accounts Receivable is decreased by the same amount.

10. Yomiyou withdraws Br1, 300 in cash from the business for his personal use.

Trans. #	Assets				=	Liabilities	+	Owner's Equity	
	Cash	Account Receivable	Supplies	Equipment		Accounts Payable		M. Doucet, Capital	
Balance	9,350	1,400	1,600	7,000		1,600		17,750	
(10)	(1,300)							(1,300)	Doucet, Drawings
Balance	8,050 +	1,400 +	1,600 +	7,000	=	1,600	+	16,450	

Cash is decreased Br1,300 and Yomiyou, Capital is decreased by the same amount.

4.2. Matching batch items precisely to initial receipt records

4.2.1. Batch Payments, Batch Deposits

A **Batch Deposit** groups multiple payments in a single batch. This allows you to deposit several payments into your bank account with a single transaction. This is particularly useful to deposit cash and checks.

This feature allows you to list several customer payments and print a **deposit slip**. This ticket contains the details of the transactions and a reference to the batch deposit. You can then select this reference during a bank reconciliation to match the single bank statement line with all the transactions listed in the batch deposit.

Payment Method Types

To record new payments as part of a Batch Deposit, you have to configure first the Journal on which you record them.

To do so, go to Accounting ‣ Configuration ‣ Journals, open the Journal you want to edit, click on ***Edit***, and open the ***Advanced Settings*** tab. In the ***Payment Method Types*** section, enable **Batch Deposit**, and click on ***Save***.

Record payments to deposit in batch

Register the payments on the bank account on which you plan to deposit them by opening the ***Customer Invoice*** for which you received a payment, and clicking on ***Register Payment***. There, select the appropriate Journal linked to your bank account and select ***Batch Deposit*** as Payment Method.

Add payments to a Batch Deposit

To add the payments to a Batch Deposit, go to Accounting ‣ Customers ‣ Batch Payments, and click on ***Create***. Next, select the Bank and Payment Method, and then click on ***Add a line***.

4.3. Authorizing Journals

4.2.1 Authorization and review of journals

There should be a clear policy in place and all members of the finance team should be aware of their responsibilities. Only employees who need to post journals should be authorized on the accounts system to do so, and depending on the size of the team, employees should only be able to post journals to the sections of the accounts for which they are responsible.

Furthermore, there should be a journal approval process which could consist of the journal being prepared by one member of the team which, together with the supporting documentation for the journal, is passed to a reviewer to be authorized before the journal is posted by another member of the team.

Most accounting packages facilitate the set up of automated journals for standard monthly entries such as depreciation charges and the reversal of certain accruals and prepayments. This may help to cut down the possibility of human error and therefore may reduce the risk of misstatement in the accounts.

As part of the month-end process, there should be a review of journals posted in the month, in particular reviewing journals posted to unusual account codes or for unusual amounts. Particular attention should be paid to round sum amounts. Sample testing of entries is also encouraged.

The preparation of monthly management accounts is invaluable as a control tool and comparing actual to budget figures could help to uncover hidden journals. However this should be supplemented with a strong control system around journals too, including the setting up of automated journals.

Self-check-4

I. Multiple Choice

1. Which process of the accounting cycle often requires the most analytical thought?
   A. making a journal entry
   B. posting transactions to accounts
   C. summarizing the trial balance
   D. preparing the financial statements
2. The step-by-step process to record business activities and events to keep financial records up to date is ________.
   A. day-to-day cycle
   B. accounting cycle
   C. general ledger
   D. journal
3. One operating cycle of a business, which could be a month, quarter, or year, is commonly referred to as which of the following?
   A. period
   B. round
   C. tally
   D. mark
4. ________ takes all transactions from the journal during a period and moves the information to a general ledger (ledger).
   A. Hitching
   B. Posting
   C. Vetting
   D. Laxing
5. Which of these events will *not* be recognized?
   A. A service is performed, but the payment is not collected on the same day.
   B. Supplies are purchased. They are not paid for; the company will be billed.
   C. A copy machine is ordered. It will be delivered in two weeks.
   D. Electricity has been used but has not been paid for.
6. What is the impact on the accounting equation when a current month's utility expense is paid?
   A. Asset side and expense increase
   B. Asset side and expense sides decrease
   C. only the Asset side changes

D. Asset side decrease and expense side increase

7. What is the impact on the accounting equation when a payment of account payable is made?
   A. both sides increase
   B. both sides decrease
   C. only the Asset side changes
   D. neither side changes
8. What is the impact on the accounting equation when an accounts receivable is collected?
   A. both sides increase
   B. both sides decrease
   C. only the Asset side changes
   D. the total of neither side changes
9. What is the impact on the accounting equation when a sale occurs?
   A. both sides increase
   B. both sides decrease
   C. only the Asset side changes
   D. neither side changes
10. What is the impact on the accounting equation when stock is issued, in exchange for assets?
   A. both sides increase
   B. both sides decrease
   C. only the Asset side changes
   D. neither side changes

II. Give appropriate answer for the given questions

1. ___________is the “book of original entry
2. From the following list, identify which items are considered original sources
   A. prepaid insurance
   B. bank statement
   C. sales ticket
   D. general journal
   E. trial balance
   F. balance sheet
   G. telephone bill
   H. invoice from supplier
   I. company sales account
   J. income statement
3. From the following list, identify which items are considered original sources:
4. accounts receivable
5. receipt from post office for post office box
6. purchase order
7. general ledger
8. adjusted trial balance
9. statement of retained earnings

10. electric bill
11. packing slip
12. company expense account
13. statement of cash flow

Operation Sheet -1 Journalizing

Rules of Debit and Credit

Depending on the nature of account affected debit or credit may be either decrease or increase.

- Debit can signify either increase or decrease
- Credit can signify either increase or decrease

Debit and Credit rules of accounts:

Account	*Increase side*	*Decrease side*	*Normal Balance*
Any Asset	Debit	Credit	Debit
Any Liability	Credit	Debit	Credit
Owner's equity (Capital)	Credit	Debit	Credit
Any Revenue	Credit	Debit	Credit
Any Expense	Debit	Credit	Debit
Owner's drawing	Debit	Credit	Debit

Balance of an account: account balance is the difference between the increase and decrease recorded in an account. The normal balance of all accounts are positive rather than negative because the sum of the increases recorded in an account is usually equal to or greater than the sum of the decreases recorded in the account.

Double entry Accounting- The Equality of Debits and Credits

The double entry system of accounting takes its name from the fact that every business transaction is recorded by two types of entries:

1. Debit entries to one or more accounts and
2. Credit entries to one or more accounts. In recording any transaction, the total dollar (birr) amount of the debit entries must equal the total dollar (birr) amount of the credit entries.

Journal: Transactions are initially recorded in chronological order in a *journal* before being transferred to the accounts. Thus, the journal is referred to as the *book of original entry*.

For each transaction the journal shows the debit and credit effects on specific accounts. Companies

The journal makes several significant contributions to the recording process:

1. It discloses in one place the complete effect of a transaction.
2. It provides a chronological record of transactions.
3. It helps to prevent or locate errors because the debit and credit amounts for each entry can be readily compared.
4. It discloses in one place the complete effect of a transaction.
5. It provides a chronological record of transactions.
6. It helps to prevent or locate errors because the debit and credit amounts for each entry can be readily compared.

Journalizing: Entering transaction data in the journal is known as *journalizing*.

Forms of Two Column Journal

Date		Description	P/R	Debit	Credit

Special Journals:

- A journal in which only one kind of business transaction is recorded is a special journal used to record only one type of entries.
- Special journals differ from the general journal or the combination journal in that they are meant only for specified types of transactions—only one type.

Sales journal: Sales journal is a special journal used to record only sales of merchandized on account.

Purchase journal: used to record purchase on account

Cash receipt journal: use to record cash receipt (cash collection)

Cash payment journal: used to record payment of cash.

Combination Journal: is a multi-column journal that combines all journals into one book of original entry.

Companies may use various kinds of journals, but every company has the most basic form of journal, *a* general journal. Typically, a general journal has; spaces for dates, account titles and explanations, references, and two money (amount) columns.

Entering transaction data in the journal is known as **journalizing.** The process of recording a transaction in a two column journal involves:

1. Record the date(year, month, and date)
2. Record the debit part(title of account and amount)
3. Record the credit part(title of account and amount)
4. Write an explanation in the description column.

Before recoding each transaction, you should decide:

1. Which accounts are affected by the transaction
2. Whether there is an increase or decrease in the accounts
3. How to increase or decrease (debit or credit) the accounts involved.

After analyzing the business transactions, the following steps in journalizing are followed:

Lap-Test -4

Name: ______________________________ Date: ________________

Time started: ______________________ Time finished: ________________

Instructions: follow all necessary steps and format to analyze the following business transactions and record journal entry.

Printing Plus, Lynn Sanders' printing service company. The following is business transaction of the company in January, 2019.

1. On January 3, 2019, issues $20,000 shares of common stock for cash.
2. On January 5, 2019, purchases equipment on account for $3,500, payment due within the month.
3. On January 9, 2019, receives $4,000 cash in advance from a customer for services not yet rendered.
4. On January 10, 2019, provides $5,500 in services to a customer who asks to be billed for the services.
5. On January 12, 2019, pays a $300 utility bill with cash.
6. On January 14, 2019, distributed $100 cash in dividends to stockholders.
7. On January 17, 2019, receives $2,800 cash from a customer for services rendered.
8. On January 18, 2019, paid in full, with cash, for the equipment purchase on January 5.
9. On January 20, 2019, paid $3,600 cash in salaries expense to employees.
10. On January 23, 2019, received cash payment in full from the customer on the January 10 transaction.
11. On January 27, 2019, provides $1,200 in services to a customer who asks to be billed for the services.
12. On January 30, 2019, purchases supplies on account for $500, payment due within three months.

Required

Task1. Analyze and record journal entries for the above transactions

UNIT FIVE. POST JOURNALS TO LEDGER

This learning guide is developed to provide you the necessary information regarding the following content coverage and topics –

- Types of ledger
- Posting journals to ledger accurately

This guide will also assist you to attain the learning outcome stated in the cover page. Specifically, upon completion of this Learning Guide, you will be able to –

- Identify types of ledger

Post journals to ledger accurately

5.1. Types of ledger

Ledger: is a main book of account in which various accounts of personal, real and nominal nature, are opened and maintained. In journal, as all the business transactions are recorded chronologically, it is very difficult to obtain all the transactions pertaining to one head of account together at one place. But, the preparation of different ledger accounts helps to get a consolidated picture of the transactions pertaining to one ledger account at a time. Thus, a ledger account may be defined as a summary statement of all the transactions relating to a person, asset, expense, or income or gain or loss which have taken place during a specified period and shows their net effect ultimately.

General ledger the ledger keeps in one place all the information about changes in specific account balances. Companies may use various kinds of ledgers but every company has a general ledger.

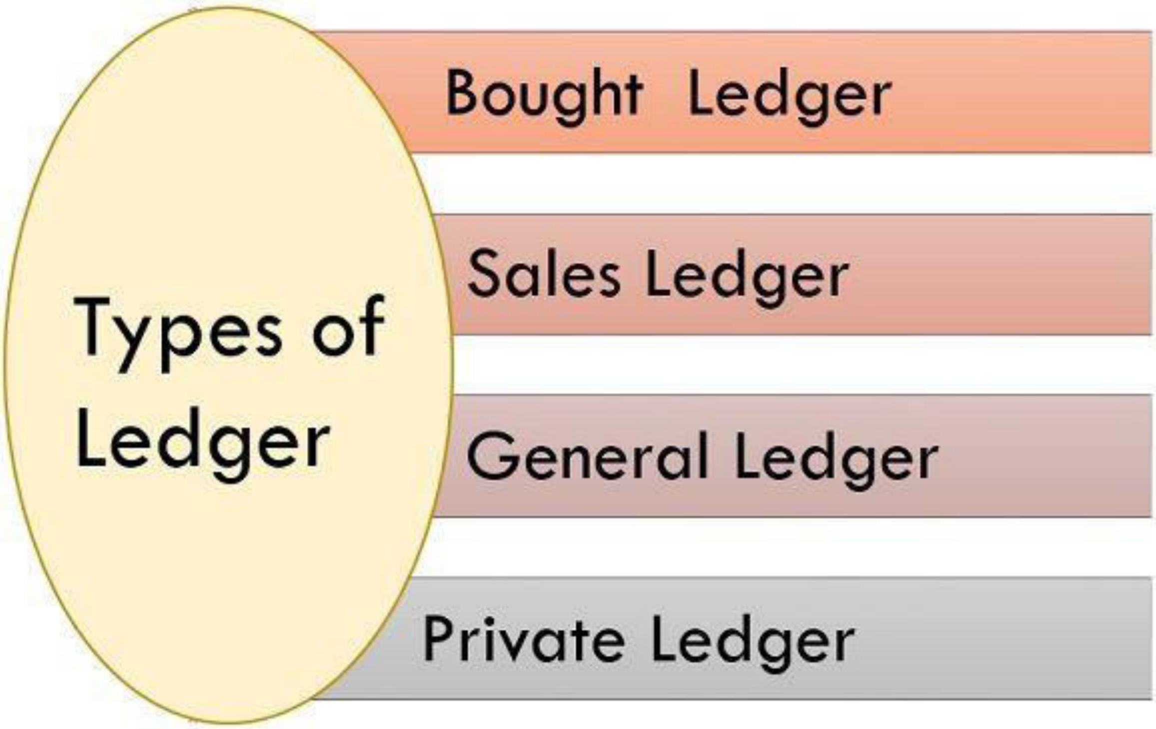
A general ledger contains all the assets, liabilities, owner's equity, revenue and expenses accounts.

Subsidiary ledger a list of individual accounts with a common characteristic. A subsidiary ledger contains detailed information on specific accounts in the general ledger. Information system soften include several subsidiary ledgers. Two of the most important are:

- **Accounts receivable ledger—stores transaction data of individual customers.**
- **Accounts payable ledger—stores transaction data of individual suppliers.**

Accounts Receivable Ledger When we recorded credit sales in prior illustrations we debited (increased) Accounts Receivable. When a company has more than one credit customer, the accounts receivable records must show how much each customer purchased, paid, and has yet to pay. This information is collected by keeping a separate account receivable for each credit customer. A separate account for each customer could be kept in the general ledger with the other financial statement accounts, but this is uncommon. Instead, the general ledger usually has a single Accounts Receivable account, and a subsidiary ledger is set up to keep a separate account for each customer. This subsidiary ledger is called the accounts receivable ledger (also called accounts receivable subsidiary ledger or customers ledger), and it can exist in electronic or paper form.

Accounts Payable Ledger There is other controlling accounts and subsidiary ledgers. We know, for example, that many companies buy on credit from several suppliers. This means that companies must keep a separate account for each supplier by keeping an Accounts Payable controlling account in the general ledger and a separate account for each supplier (creditor) in an accounts payable ledger (also called accounts payable subsidiary ledger or creditors ledger).



1. **Bought Ledger/Creditors Ledger:** This ledger is prepared for recording the credit purchase transactions, i.e., the transactions of the parties from whom the goods have been acquired in credit. It can also be termed as purchase ledger.
2. **Sales Ledger/Debtors Ledger:** In this ledger, date wise transaction of the debtors, i.e. to whom goods have been depleted in credit is recorded. It helps in determining the due amount of the debtors at the end of the year.
3. **General Ledger:** In General ledger, all the other account's entries are recorded other than sales and purchase account. It can also be termed as summaries ledger of all the nominal and real accounts such as a/c receivable, inventory account, cash account, investment

account, machinery account, etc.Various subsidiary ledgers are prepared for providing details to the general ledger, and at last, all are sum-up in one ledger called the general ledger. Thus, this account is also termed as “**master account**” or “**main account**“.

4. **Private Ledger:** This type of ledger is prepared to maintain the personal records of the proprietor, and are not intended for general observation such as capital account, current account, drawing account, personal loan account, etc.

Standard form of account has three major parts:

1. The account title and number
2. The left side, which is called the debit side
3. The right side, which is called the credit side.

There are two forms of accounts: two amount columns ***account*** **and four amount column account.**

Two amount column account:

Account Title: ____________________ Account No.: ____

Date	Item	Post Ref.	Debit	Date	Item	Post Ref.	Credit

Four-amount column account:

Account Title: ________ Account No.: ____

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit

The following advantages of the four-column account as compared with the two-column are:

The four-column account:

1) provides an easy means of analyzing and examining the accounts,
2) presents transactions in their chronological order of occurrence as the journal does, facilitating easy location,
3) uses only one date column, saving space and time required for analysis, and
4) Makes balance of an account always available after each transaction is transferred to the account.

Accounts are often grouped together in a book form; such a grouping of accounts is called a ledger. Thus, accounts are frequently referred to as *ledger accounts*

Advantages of Subsidiary Ledgers

Subsidiary ledgers have at least four advantages:

1) They show transactions affecting one customer or one creditor in a single account thus providing up-to-date information on specific account balances.
2) They free the general ledger of excessive details. As a result, a trial balance of the general ledger does not contain vast numbers of individual account balances.
3) They help locate errors in individual accounts by reducing the number of accounts in one ledger and by using control accounts.
4) They make possible a division of labor in posting. One employee can post to the general ledger while someone else posts to the subsidiary ledgers.

Chart of Accounts

Chart of account a list of accounts in the ledger. It is an outline of the order of accounts in the ledger. It is a directory of accounts available in the ledger.

Sample Chart of accounts

Assets

11	Cash
12	Accounts receivable
13	Supplies
16	Office equipment
17	Office furniture

Liabilities

21	Accounts payable
22	Salaries payable

Owner's equity

31	Capitals
32	Drawing

Revenue

41	Service revenue

Expenses

51	Rent expense
52	Supplies expense
53	Repairs

5.2. Posting journals to ledger accurately

Post journal entries to the general ledger

Posting: When transactions take place, they are first entered in the journal and subsequently posted to the concerned accounts in the ledger. Posting refers to the process of entering in the ledger the information given in the journal.

Advantages of Posting:

- Posting summarizes entries in the journal into accounts in the ledger,
- It can also be viewed as sorting journal entries into accounts.
- Posting is an activity that summarizes the records in the journal so as to make them convenient for analysis and reporting.
- It brings all data of one kind together.

When posting a debit and a credit entry, you just follow five steps:

Step 1 Write the amount in the debit column or in the credit column of the account in the ledger.

Step 2 Take the account balance of the debit column or credit column of the balance to the balance column of the account.

Step 3 Write the date of the journal entry in the Date column of the ledger (account).

Step 4 Write the Journal page number in the posting reference column of the account.

Step 5 Come back to the journal and write in the P/R column of the journal, the account number of the ledger (account)

After you record transactions in your journal, it's time to transfer them to your general ledger. To keep your books accurate, post every transaction from your journal to your general ledger. Use your ledger to classify and organize transactions. When posting journal entries to the ledger you have to move each journal entry into an individual account.

Transfer the debit and credit amounts from your journal to your ledger account. Your journal entries act like a set of instructions. When you post journal entries to your general ledger, do not change any information. For example, if you debit an account in a journal entry, debit the same account in your ledger.

Keep in mind that your general ledger lists all the transactions in a single account. This allows you to know the balance of each account. But to find the balance, you need to do some math. After posting entries to the ledger, calculate the following balances:

- Asset and expense accounts: Subtract total credits from total debit
- Liabilities, equity, and revenue accounts: Subtract total debits from total credit

Self-Check-5

Write appropriate answer

1. What is a ledger?

2. What is meant by posting?

3. What is meant by balancing?
4. What methods are used to prepare ledger accounts?
5. What is meant by balance?
6. What is difference between debit balance and credit balance?
7. What is meant by zero balance?
8. What abbreviations are used for debit and credit?
9. A ledger account has two sides: a left side and a right side. In bookkeeping and accounting, what are these two sides called?
10. What is meant by the term "posting reference" in relation to a ledger account?

Operation Sheet-2

Follow the steps below to post journal entries to the general ledger:

1. Create journal entries
2. Make sure debits and credits are equal in your journal entries
3. Move each journal entry to its individual account in the ledger (e.g., Checking account)
4. Use the same debits and credits and do not change any information
5. Calculate account balances in your general ledger

Assume the following is printing plus general journal

JOURNAL			
Date	**Account**	**Debit**	**Credit**
Jan. 3, 2019	Cash Common Stock *Recognize issuance of common stock*	20,000	 20,000
Jan. 5, 2019	Equipment Account Payable *Recognize purchase of equipment on account*	3,500	 3,500
Jan. 9, 2019	Cash Unearned revenue *Received advanced payment for services yet to be rendered*	4,000	 4,000
Jan. 10, 2019	Accounts receivable Service Revenue *Revenue earned, billed customer*	5,500	 5,500
Jan. 12, 2019	Utility Expense Cash *Paid utility bill*	300	 300
Jan. 14, 2019	Dividends Cash *Paid out dividends*	100	 100
Jan. 17, 2019	Cash Service Revenue *Collected cash for services rendered*	2,800	 2,800
Jan. 18, 2019	Accounts Payable Cash *Paid liability for equipment in full*	3,500	 3,500
Jan. 20, 2019	Salaries Expense Cash *Paid employee salaries*	3,600	 3,600
Jan. 23, 2019	Cash Accounts Receivable *Received customer payment from Jan. 10*	5,500	 5,500
Jan. 27, 2019	Accounts Receivable Service Revenue *Billed customer for services rendered*	1,200	 1,200
Jan. 30, 2019	Supplies Accounts Payable *Paid for supplies on account*	500	 500

General ledger of printing plus

Assets = Liabilities + Equity

Assets

Cash

Date	Debit	Credit	Date
Jan. 3	20,000	300	Jan. 12
Jan. 9	4,000	100	Jan. 14
Jan. 17	2,800	3,500	Jan. 18
Jan. 23	5,500	3,600	Jan. 20
	Bal. 24,800		

Accounts Receivable

Date	Debit	Credit	Date
Jan. 10	5,500	5,500	Jan. 23
Jan. 27	1,200		
	Bal. 1,200		

Supplies

Date	Debit	Credit	Date
Jan. 30	500		
	Bal. 500		

Equipment

Date	Debit	Credit	Date
Jan. 5	3,500		
	Bal. 3,500		

Liabilities

Accounts Payable

Date	Debit	Credit	Date
Jan. 18	3,500	3,500	Jan. 5
		500	Jan. 30
		Bal. 500	

Unearned Revenue

Date	Debit	Credit	Date
		4,000	Jan. 9
		Bal. 4,000	

Equity

Common Stock

Date	Debit	Credit	Date
		20,000	Jan. 3
		Bal. 20,000	

Dividends

Date	Debit	Credit	Date
Jan. 14	100		
	Bal. 100		

Service Revenue

Date	Debit	Credit	Date
		5,500	Jan. 10
		2,800	Jan. 17
		1,200	Jan. 27
		Bal. 9,500	

Salaries Expense

Date	Debit	Credit	Date
Jan. 20	3,600		
	Bal. 3,600		

Utility Expense

Date	Debit	Credit	Date
Jan. 12	300		
	Bal. 300		

Lap-Test 5

Name: ______________________________ Date: ________________

Time started: _____________________Time finished: ________________

Instructions: follow all necessary steps and format to post the following General Journal to General ledger.

Post transactions to appropriate T-account & make Trial Balance for ABC Ltd as on June 30th, 2008:

1. Owner investment in Cash Rs. 10,000
2. Borrowing Rs. 1,000 from a local bank on a Note due in three months
3. Purchase Equipment of Rs. 500, paid Rs. 100 Cash and promising the rest on a Note Payable
4. Paid Rs. 150 for Stationery
5. Lent Rs. 200 to an employee who signed a Note promising to repay within 60 days
6. Service Revenue received during the period is Rs. 5,800
7. Paid Insurance for three year at start of this accounting period Rs. 1,800
8. Service Revenue of worth Rs. 1,200 earned but not received
9. Insurances expired recorded as Insurance Expense of Rs. 600
10. Personal withdrawal of owner of Rs. 700

UNIT SIX- ENTER DATA INTO SYSTEM

This learning guide is developed to provide you the necessary information regarding the following content coverage and topics –

- Entering data into system accurately and with transactions correctly
- Updating systems to maintain financial systems

This guide will also assist you to attain the learning outcome stated in the cover page. Specifically, upon completion of this Learning Guide, you will be able to –

- Entering data into system accurately and with transactions correctly
- Update systems to maintain financial systems

6.1. Entering data into system accurately and with transactions correctly

Manual and Computerized Accounting Information Systems:-Interestingly, the term accounting information system predates computers. Technically, an Accounting Information System (AIS) is a system or set of processes for collecting data about accounting transactions; recording, organizing, and summarizing the data; and culminating with the preparation of financial statements and other reports for internal and external users.

These systems or processes can exist as a series of paper ledgers, computer databases, or some combination of the two. Data is the term for parts of accounting transactions that constitute the input to AIS. You have examined many forms of data in this course, for example, the cash received upon the sale of an item is one data point, the reduction of the inventory account related to that specific sold item is another data point, and both the revenue and the cost of goods sold would be additional data points associated with that single transaction of a sale. These data points are summarized and aggregated (in other words “processed”) into more meaningful and useful numbers that appear in the financial statements, and all this data is typically referred to as financial information.

A company that may have used manual AIS years ago likely uses computerized AIS today. It is important to remember that a computerized accounting system does not change ***what*** we do with accounting transactions; it only changes ***how*** we do it, and how we can present the information to different users.

While a company typically selects an AIS to suit its specific needs, all systems should have components capable of:

- inputting/entering data (e.g., entering a sale to a customer);
- storing data;
- processing data and computing additional amounts related to transactions (e.g., computing sales tax on the sale, as well as shipping costs and insurance fees; computing an employee’s pay by multiplying hours worked by hourly pay rate;

processing inventory changes from both inventory purchases and inventory sales and data from any other transaction that occurs in the business);

- aggregating/summarizing data (e.g., computing total sales for the year);
- presenting data (e.g., producing a balance sheet and other financial statements and reports for the year); and
- Storing data (such as the customer's name, address, shipping address, and credit limit).

AISs, whether computerized or manual, generally involve three stages: input, processing, and output. We enter raw data into our system at the input stage and try to correct any errors prior to going on to the next stage of processing the data. We ultimately produce "output," which is in the form of useful information.

Inputting/Entering Data

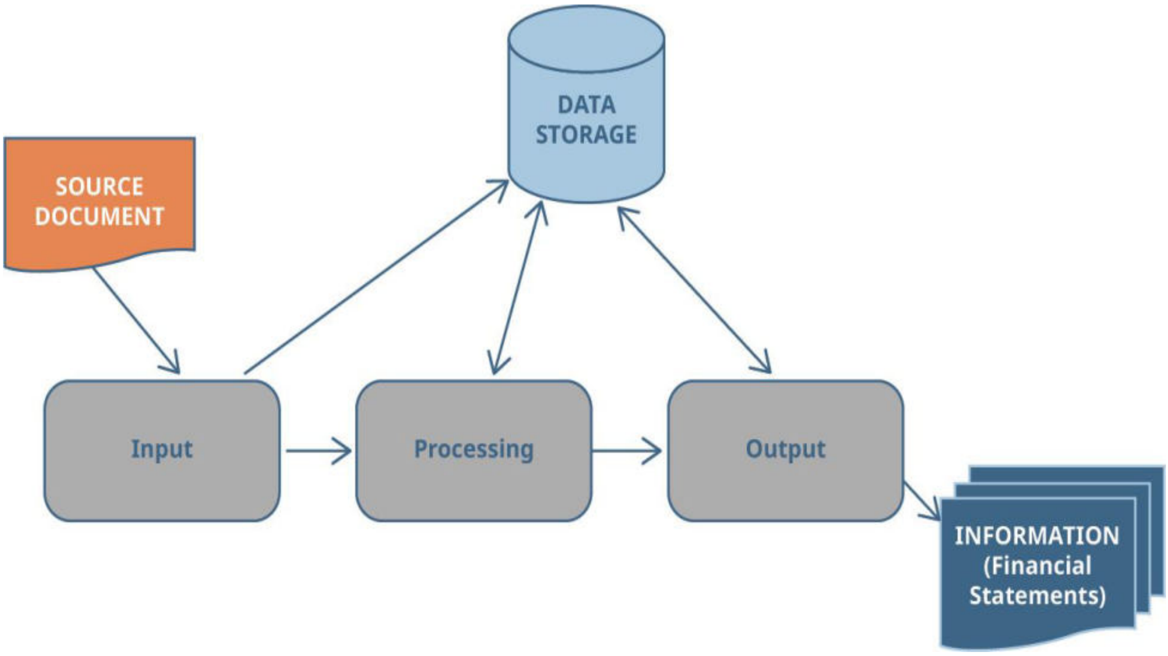
A source document is the original document that provides evidence that a transaction occurred. If you hire a company to paint your house, it will most likely provide a document showing how much you owe. That is the company's sales document and your invoice. When you pay, your check or digital transaction record is also a source document for the company that provided the service, in this case, the home painter.

Assume you go into the university bookstore to purchase a school sweatshirt, and it is sold out. You then fill out a document ordering a size medium sweatshirt in blue. The form you fill out is a purchase order to you, and it is a sales order to the university bookstore. It is also a source document that provides evidence that you have ordered the sweatshirt. Assume the bookstore does not ask you to pay in advance because it is not sure it will be able to obtain the sweatshirt for you. At that point, no sale has been made, and you owe no money to the bookstore. A few days later, the bookstore manages to acquire the sweatshirt you ordered and sends you an email notifying you of this. When you return to the bookstore, you are presented with the sweatshirt and an invoice (also known as a bill) that you must pay in order to take your sweatshirt home. This invoice/bill is also a source document. It provides evidence of the sale and your obligation to pay that amount.

Both manual and computerized accounting systems utilized source documents. E-commerce systems have some additional source documents related to online transactions. Source documents help to establish an audit trail, which is a trail of evidence documenting the history of a specific transaction starting from its inception/source document and showing all the steps it went through until its final disposition.

The trail of source documents and other records (the audit trail) makes it easier to investigate errors or questions by customers, vendors, employees, and others. For example, when a customer places an order by phone, by mail, or online, the sales order becomes the source document. If the customer does not receive the product ordered, the company can locate the original order, see if a picking ticket was generated (a picking ticket tells warehouse employees what inventory items the customer ordered, that now need to be picked off the shelf), locate the shipping documents, which provide evidence that the product was given to the shipper, and check for customer signature confirming receipt of goods. The trail of documents and entries in journals and ledgers and their electronic equivalent generated by this transaction provides evidence of all the steps that took place along the way. This makes it easy for anyone to verify or investigate, and perhaps find the weak links, where the process may have broken down. It allows the company to identify the reason why the customer never received the goods ordered. Maybe the order was never shipped because the company was out of stock of this specific product, maybe it was shipped and left at the customer's doorstep with no signature requested, or maybe the order was shipped to the wrong customer or to an incorrect address. An audit trail will help company personnel investigate any of these common issues. It should also help them identify weaknesses in their processes and precipitate improvements.

Businesses need a way to input data from the source document such as a sales invoice or purchase order. This was previously done with pen and paper and is currently done by keying it in on a computer keyboard; scanning, with a scanner such as one that reads MICR (magnetic ink character recognition) symbols (found on bank checks) or POS system scanners at cash registers that scan product bar codes/UPC symbols; or receiving it by e-transmission (or electronic funds transfer [EFT]). Input often involves the use of hardware such as scanners, keypads, keyboards, touch screens, or fingerprint readers called biometric devices. Once data has been input, it must be processed in order to be useful.



The Steps in an Accounting Information System

- **Source Document**: This would include a check to be deposited; totals from each cash register, including total cash; an invoice for produce; an application for employment by a potential new employee; time card information; a W-4 form (employment information); and so on.
- **Input:** This includes entering the data from the source document on the computer keyboard, electronically scanning the bar code of each product purchased at the grocery store (at checkout counter and to receive goods from vendor off the truck), maybe fingerprinting at the time clock, or keying in a price on the register.
- **Processing:** A cash register processes (accumulates and totals) different categories of items (coupons, checks, and charges) by the user; inventory can be tracked by RFID (radio-frequency identification); and software programs can process information gathered by individual cash registers as well as employee information.
- **Output**: Data that has been processed can be viewed on a computer screen, printed as a hard copy (paper output), or sent as electronic output from the cash register to the computer (can be done wirelessly or with a cable).
- **Storage**: Data can be stored in the company database on its computer hard drive or as cloud storage. Hopefully the store is also paying for safe backup storage offsite (in case of fire at

the store or hackers attempting to obtain information), generally accessed through the internet and stored in "the cloud." Otherwise, storage can be on paper printouts, the computer hard drive, disks, or external drives. The data that is stored may be retrieved and used at the input, processing, and output stages.

6.2. Updating systems to maintain financial systems

Everyone in an organization needs to have information to do their tasks and to do this it must be current and up-to-date. No matter what position or level people hold within an organization, they all have access to information which somebody will need at some stage.

Updating related systems allows people within organizations to access and share knowledge, that they can use which is specific to their needs. There are a variety of data storage systems available and the type of data storage will be dependent on a number of factors including the type of data, information and knowledge, explicit or tacit, codification or personalization process, process flow or pools of knowledge.

Examples of storage and financial systems include:

- Intranet
- Database warehouses
- Community of Practice (CoP)
- Data entry and input

INPUT DEVICES:-There are literally hundreds of devises to enter, and input data, from general purpose input devices to special purpose devices used to capture specific types of data.

- Computer input devices
- Voice recognition devices
- Digital computer cameras
- Terminals
- Scanning devices
- Optical data readers
- Magnetic Ink Character Recognition (MICR) devices
- Point Of Sale (POS) devices
- Barcode scanners

In a manual system, you will have to provide the totals for each journal yourself. Journals arethe daily records of a business and can include:

- Cash payments journal
- Cash receipts journal
- Purchases journal purchases returns journal

- Sales journal
- Sales returns journal

At the end of each reporting period, the journals should be totaled so reports can be made.

Self-Check -6

I. Choose the best answer from the given alternatives

1. Computer systems cannot yet ________

   A. Receive data and instructions from input devices such as a scanner.

   B. Decide how to record a business transaction.

   C. Communicate with other computers electronically.

   D. Recognize that you made a mistake entering $100 when you meant to enter $101

2. Any device used to provide the results of processing data is a(n) ________ device.

   A. sources

   B. input

   C. output

   D. storage

3. All of the following can provide source data ***except*** ________.

   A. a scanning device at the grocery store

   B. a utility bill received in the mail

   C. a bar code reader

   D. software to process the source data

4. Which of the following is ***false*** about accounting information systems?

A. They provide reports that people analyze.

B. They prevent errors and stop employees from stealing inventory.

C. They are designed to gather data about the company's transactions.

D. They consist of processes that involve input of data from source documents, processing, output, and storage.

II. **Write appropriate answers for the following questions**

1. Why does a student need to understand how to use a manual, paper-based accounting information system since everyone uses computerized systems?

____
____
____
____

2. Why are scanners better than keyboards?

____
____
____
____

3. Which area of accounting needs a computerized accounting information system the most payrolls, tax, or preparing financial statements?

____
____
____
____
____

UNIT SEVEN. PREPARE DEPOSIT FACILITY AND LODGE FLOWS

This learning guide is developed to provide you the necessary information regarding the following content coverage and topics –

- Selecting a deposit facility to the banking method
- Balancing batch with deposit facility without errors
- Security and safety to the method of banking
- Obtaining and filing Proof of lodgments that it is easily accessible and traceable

This guide will also assist you to attain the learning outcome stated in the cover page. Specifically, upon completion of this Learning Guide, you will be able to –

- select a deposit facility appropriate to the banking method to be used
- balance Batch with deposit facility without error
- Security and safety to the method of banking
- Obtain Proof of lodgment and file so that it is easily accessible and traceable

7.1 Selecting a deposit facility to the banking method

7.1.1. Deposit Facility Overview

The Term Deposit Facility is a program through which the Federal Reserve Banks offer interest-bearing term deposits to eligible institutions. The Term Deposit Facility was established to facilitate the conduct of monetary policy by providing a tool that may be used to manage the aggregate quantity of reserve balances held by depository institutions.

An increase in term deposits outstanding drains reserve balances because funds to pay for them are removed from the accounts of participating institutions for the life of the term deposit. Term deposits cannot be used to satisfy reserve balance requirements or clear payments.

Term deposits will automatically be pledged as collateral to Federal Reserve Banks and so can be used to secure discount window advances and for payment system risk purposes. Eligibility and Setup To participate, eligible institutions must complete the steps outlined on the Term Deposit Facility Setup page, which include completing the necessary forms and designating a settlement account for term deposit transactions.

An eligible institution is one that is permitted by statute to receive interest on balances held at a Federal Reserve Bank as specified in the Federal Reserve Act and Regulation.

Announcement

The Federal Reserve will announce offerings of term deposits in advance of the operation date. The announcement will specify the details of the operation and will be available on the Board of Governors' website. Term deposits may be awarded through different formats, including a competitive single-price auction format with a non-competitive bidding option, a fixed-rate format at the interest rate specified in advance, or a floating-rate format. The interest rate paid on term deposits awarded through a floating-rate format will be the operation effective interest rate, which is determined by the average of the daily effective rates over the term of the instrument. The daily effective rate is the sum of the value of the reference rate for that day and the spread rate for the operation.

7.1.2. Types of Deposits

On the basis of purpose they serve, bank deposit accounts may be classified as follows:

- Savings Bank Account
- Current Deposit Account

- Fixed Deposit Account
- Recurring Deposit Account

1. **Savings Bank Account**

As the name suggests this type of account is suitable for people who have a definite income and are looking to save money. For example: - The people who get salaries or the people who work as laborers. This type of account can be opened with a minimum initial deposit that varies from bank to bank. Money can be deposited at any time in this account.

Withdrawals can be made either by signing a withdrawal form or by issuing a cheque or by using an ATM card. Normally banks put some restriction on the number of withdrawal from this account. Interest is allowed on the balance of deposit in the account. The rate of interest on savings bank account varies from bank to bank and also changes from time to time. A minimum balance has to be maintained in the account as prescribed by the bank.

2. **Current Deposit Account**

Big businessmen, companies, and institutions such as schools, colleges, and hospitals have to make payment through their bank accounts. Since there are restrictions on the number of withdrawals from a savings bank account, that type of account is not suitable for them. They need to have an account from which withdrawal can be made any number of times.

Banks open a current account for them. Like a savings bank account, this account also requires a certain minimum amount of deposit while opening the account. On this deposit, the bank does not pay any interest on the balances. Rather the account holder pays a certain amount each year as an operational charge.

These accounts also have what we call the overdraft facility. For the convenience of the accountholders banks also allow withdrawal of amounts in excess of the balance of the deposit. This facility is known as an overdraft facility. It is allowed to some specific customers and up to a certain limit subject to previous agreement with the bank concerned.

3. **Fixed Deposit Account**

Some bank customers may like to put away money for a longer time. Such deposits offer a higher interest rate. If money is deposited in a savings bank account, banks allow a lower rate of interest. Therefore, money is deposited in a fixed deposit account to earn interest at a higher rate.

This type of deposit account allows the deposit to be made of an amount for a specified period. This period of deposit may range from 15 days to three years or more during which no withdrawal is allowed. However, on request, the depositors can encash the amount before its maturity. In that case, banks give lower interest than what was agreed upon.

4. **Recurring Deposit Account**

While opening the account a person has to agree to deposit a fixed amount once in a month for a certain period. The total deposit along with the interest therein is payable on maturity. However, the depositor can also be allowed to close the account before its maturity and get back the money along with the interest till that period.

The account can be opened by a person individually or jointly with another, or by the guardian in the name of a minor. The rate of interest allowed on the deposits is higher than that on a savings bank deposit but lower than the rate allowed on a fixed deposit for the same period.

The Recurring Deposit Accounts may be of the following types:

1. Home Safe Account or Money Box Scheme: For regular savings, the bank provides a safe or box (Gullak) to the depositor. The safe or box cannot be opened by the depositor, who can put money in it regularly, which is collected by the bank's representative at intervals and the amount is credited to the depositor's account. The deposits carry a nominal rate of interest.
2. Cumulative-cum-Sickness deposit Account: A certain fixed sum is deposited at regular intervals in this account. The accumulated deposits over time along with interest can be used for payment of medical expenses, hospital charges, etc.
3. Home Construction deposit Scheme/Saving Account: In this account, we can deposit the money regularly either for the purchase or construction of a flat or house in future. The rate of interest offered on the deposit, in this case, is relatively higher than in other recurring deposit accounts.

7.2. Balancing batch with deposit facility without error

Batch Deposit is applicable to properties with payment integration. Processing requires that the reservations have the following:

- a credit card payment method configured for EFT (electronic funds transfer)
- a deposit amount owed
- a status of Reserved or Due In.

You can process multiple reservation deposits at the same time. The process submits each credit card in the batch and charges the card after receiving approval.

1. From the OPERA Cloud menu, select **Financials**, select **Cashiering**, and then click **Batch Deposits**.
2. Search by property for reservations with deposits due. Use additional search fields to narrow your search.
3. Sort your search results and select one or more reservations showing deposits due for processing.
4. Click **Process Selected** to initiate processing of credit card charges.
    a. A receipt is automatically generated in the background and stored in Receipt History (Financial > Cashiering > Receipt History).
    b. The User Activity Log on reservations will update with an entry for the deposit processed.
5. After the batch authorization is completed, you are prompted to generate the Batch Deposit Posting report.

7.3. Security and safety to the method of banking

Banking of all negotiable instruments on day received

- A negotiable instrument is a signed document that promises a sum of payment to a specified person or the assignee.
- Negotiable instruments are transferable in nature, allowing the holder to take the funds as cash or use them in a manner appropriate for the transaction or according to their preference.
- Common examples of negotiable instruments include checks, money orders, and promissory notes

posting all batches on day of receipt

When you make a bank deposit, it might include several checks in addition to cash. You will usually see the word batch printed somewhere on the receipt for the deposit. The receipt lists only the total deposit amount and not the amount of each item deposited. The deposit transaction is typically processed at night after the bank closes. When a deposit includes multiple items like checks, they are grouped together and processed as a batch transaction.

Cash management processes.

Cash management comprises the operational and banking processes associated with the collection, aggregation, holding and disbursement of cash. In business, it is a key aspect of an organization's financial stability. Cash management is important for both companies and individuals, as it is a key component of financial stability. Financial instruments involved in cash management contain money market funds, Treasury bills, and certificates of deposit.

Companies and individuals offer a wide range of services available across the financial marketplace to help with all types of cash management. Banks are typically a primary financial service provider. There are also many different cash management solutions for both companies and individuals seeking to get the best return on cash assets or the most efficient use of cash.

The elements of effective cash management include:

- accurate and timely cash flow analysis and forecasting
- maximising returns from cash balances
- minimising financing and borrowing costs
- efficient banking arrangements
- efficient accounts processing arrangements
- efficient debtor management and collection of receivables and
- Effective control of payments and disbursement

7.4. Obtaining and filing Proof of lodgments

7.4.1. Lodgment in accounting

Outstanding lodgments are, effectively, the opposite of un presented cheques. While un presented cheques represent money that will be drawn from the company account in due course, outstanding lodgments represent money that has been paid into an account but have not yet been recorded on the bank statement.

Lodgment in bank reconciliation

Outstanding/unpresented cheques:-cheques sent to suppliers but not yet cleared by the bank. Outstanding/uncleared lodgements:-cheques received by the business but not yet cleared by the bank.

The objective of bank reconciliation is to reconcile the difference between:

- the cash book balance, i.e. the business' record of their bank account, and
- the bank statement balance, i.e. the bank's record of the bank account.

The cash book is the double entry record of cash and bank balances contained within the nominal ledger accounting system. It is, in effect, the cash control account.

Note that debits and credits are reversed in bank statements because the bank will be recording the transaction from its point of view, in accordance with the business entity concept.

Reasons to prepare a bank reconciliation statement

The cash book records all transactions with the bank. The bank statement records all the bank's transactions with the business.

The contents of the cash book should be exactly the same as the record provided by the bank in the form of a bank statement, and therefore the business' records should correspond with the bank statement. This is in fact so, but with three important provisos:

- The ledger account maintained by the bank is the opposite way round to the cash book. This is because the bank records balances from their perspective. Therefore if a client has a positive bank balance the bank would display this as a credit balance because they have a liability to pay it back to the client. If the client is overdrawn this would be shown as a debit because the banks are owed a repayment from the client.
- Timing differences must inevitably occur. A cheque payment is recorded in the cash book when the cheque is despatched. The bank only records such a cheque when it is paid by the bank, which may be several days later.
- Items such as interest may appear on the bank statement but are not recorded in the cash book as the business is unaware that they have arisen.

The existence of the bank statement provides an important check on the most vulnerable of a company's assets – cash. However, the differences referred to above make it essential to reconcile the balance on the ledger account with that of the bank statement.

Differences between the bank statement and the cash book

When attempting to reconcile the cash book with the bank statement, there are three differences between the cash book and bank statement:

- unrecorded items
- timing differences
- errors

Unrecorded items

These are items which arise in the bank statements before they are recorded in the cash book. Such 'unrecorded items' may include:

- interest
- bank charges
- dishonoured cheques.

They are not recorded in the cash book simply because the business does not know that these items have arisen until they see the bank statement

Timing differences:

These items have been recorded in the cash book, but due to the bank clearing process have not yet been recorded in the bank statement:

- Outstanding/unpresented cheques (cheques sent to suppliers but not yet cleared by the bank).
- Outstanding/uncleared lodgements (cheques received by the business but not yet cleared by the bank).

Self-Check -7

Give appropriate answer for the following questions

1. What is outstanding cheque?

   ____

   ____

2. What is the objective of bank reconciliation?

   ____

   ____

3. Write three differences between the cash book and bank statement.

____

____

4. What are unrecorded items

____

____

5. Define what is negotiable instrument is

.____

____

6. What is cash management?

____

____

7. Write at least two examples of negotiable instruments.

____

____

8. Write at least four elements of effective cash management

.____

____

I. **Choose the best answer from the given alternatives**

1. Which of the following statements is not correct?
   A. Deposits made in savings bank account serve to meet present as well as future needs.
   B. A fixed amount is required to be deposited in a Fixed Deposit Account every month.
   C. The rate of interest on deposits made in a Recurring Deposit Account is relatively higher than on savings bank deposits.
   D. Home Construction Saving Deposit Account is a type of recurring deposit account.
2. Deposit type which most appropriate to people who get salaries or the people who work as laborers.
   A. Current Deposit Account

B. Savings Bank Account
C. Fixed Deposit Account
D. Recurring Deposit Account

3. __________ is a program through which the Federal Reserve Banks offer interest-bearing term deposits to eligible institutions.
   A. Current Deposit Account
   B. Savings Bank Account
   C. Deposit facility
   D. Recurring Deposit Account
4. Which of the following is not type of Recurring Deposit Accounts ?
   A. Home Safe Account or Money Box Scheme
   B. Cumulative-cum-Sickness deposit Account
   C. Home Construction deposit Scheme
   D. Current Deposit Account

Unit Eight. Extract a trial balance and interim reports

This learning guide is developed to provide you the necessary information regarding the following content coverage and topics –

- Processing special transactions
- Completing and posting cash and credit journals to general ledger
- Extracting a trial balance
- Founding and correcting any errors

This guide will also assist you to attain the learning outcome stated in the cover page. Specifically, upon completion of this Learning Guide, you will be able to –

- process special transactions
- complete and post Cash and credit journals to general ledger
- extract and check a trial balance and prepare other required ***reports***
- found and correct Any ***errors***

8.1. **Processing** special **transactions**

8.1.1. **Special Transactions**

Below we are going to discuss how to create journal entries for the following special transactions:

- Returns
- Discounts
- Allowances
- Transportation Costs

How these transactions are handling is unique for the purchaser and the seller. We address each side of the transaction below.

Record the Return of Sold Inventory

A sales return is when a seller sells an item of inventory and then the item is brought back. The effects of the return are the opposite of the original purchase. We're going to claim this one as sales returns and allowances. This is kind of a side account that lets us know that this is what we sold and this is what was brought back. This is why we use a different account that simply reducing sales revenue. So, we debit the account Sales Returns. We debit inventory, as inventory increases.

Then you credit Cash and Accounts Receivable (whichever one you used). Finally, you credit the cost of goods sold.

Recognize Sales Discounts

Companies routinely give discounts to purchasers who pay within a specified period. For example, 2/10/ net 30, means a 2 % discount if the purchaser pays within 10 days of receipt of the invoice. So, we need a method of accounting for this 2% discount.

From the original sale, we are going to receive cash when it is paid, so we debit the Accounts Receivable. We are selling inventory, so we credit inventory. We have an expense for the goods, so we credit the COGs. Then we debit sales revenue.

To account for the allowance, we debit the Sales Discount account, which is increased by the discount amount? Finally, I'm going to take it out of my accounts receivables as a credit for the total amount.

Note: I'm not putting it into sales revenue. It'll affect revenue, but I'm putting it into discounts specifically because again I want to show what I did sell in total in revenue. This is what I had to take off because of a discount.

On August 1, a customer purchases 56 tablet computers on credit. The payment terms are 2/10, n/30, and the invoice is dated August 1. The following entries occur.

JOURNAL			
Date	**Account**	**Debit**	**Credit**
Aug. 1	Accounts Receivable	16,800	
	Sales		16,800
	To recognize sale of 56 tablet computers, 2/10, n/30		
Aug. 1	Cost of Goods Sold	3,360	
	Merchandise Inventory: Tablet Computers		3,360
	To recognize cost of sale, 56 tablet computers		

In the first entry, both Accounts Receivable (debit) and Sales (credit) increase by $16,800 ($300 × 56). These credit terms are a little different than the earlier example. These credit terms include a discount opportunity (2/10), meaning the customer has 10 days from the invoice date to pay on their account to receive a 2% discount on their purchase. In the second entry, COGS increases (debit) and Merchandise Inventory–Tablet Computers decreases (credit) in the amount of $3,360 (56 × $60). On August 10, the customer pays their account in full. The following entry occurs.

JOURNAL			
Date	**Account**	**Debit**	**Credit**
Aug. 10	Cash Sales Discounts Accounts Receivable *To recognize payment, less sales discount*	16,464 336	 16,800

Since the customer paid on August 10, they made the 10-day window and received a discount of 2%. Cash increases (debit) for the amount paid to CBS, less the discount. Sales Discounts increases (debit) for the amount of the discount ($16,800 × 2%), and Accounts Receivable decreases (credit) for the original amount owed, before discount. Sales Discounts will reduce Sales at the end of the period to produce net sales.

Let's take the same example sale with the same credit terms, but now assume the customer paid their account on August 25. The following entry occurs.

JOURNAL			
Date	**Account**	**Debit**	**Credit**
Aug. 25	Cash Accounts Receivable *To recognize payment for tablets, no discount*	16,800	 16,800

Cash increases (debit) and Accounts Receivable decreases (credit) by $16,800. The customer paid on their account outside of the discount window but within the total allotted timeframe for payment. The customer does not receive a discount in this case but does pay in full and on time.

Record the journal entries for the following sales transactions by a retailer.

Jan. 5	Sold $2,450 of merchandise on credit (cost of $1,000), with terms 2/10, n/30, and invoice dated January 5.
Jan. 9	The customer returned $500 worth of slightly damaged merchandise to the retailer and received a full refund. The retailer returned the merchandise to its inventory at a cost of $130.
Jan. 14	Account paid in full.

Solution

JOURNAL			
Date	**Account**	**Debit**	**Credit**
Jan. 5	Accounts Receivable	2,450	
	Sales		2,450
	To recognize sale on credit, 2/10, n/30		
Jan. 5	Cost of Goods Sold	1,000	
	Merchandise Inventory		1,000
	To recognize cost of sale		
Jan. 9	Sales Returns and Allowances	500	
	Accounts Receivable		500
	To recognize customer return		
Jan. 9	Merchandise Inventory	130	
	Cost of Goods Sold		130
	To recognize merchandise return to inventory		
Jan. 14	Cash	1,911	
	Sales Discounts	39	
	Accounts Receivable		1,950
	To recognize payment, less discount and return		

Allowance for Cost of Defective Product

An allowance reduction is the cost of defective or unaccepted merchandise that a seller issues.

If we give an allowance, we're not actually getting the inventory back. We're taking it off of our revenue. To do this, first, we debit sales returns and allowances for that amount. Then we credit our cash or accounts receivable (however they paid).

Note: I'm not touching COGs. And, I'm not touching inventory.

Transportation Costs

With FOB shipping, if you are the responsible party, you can add the cost of transportation into the inventory cost and expense it when the goods are sold.

As the seller, with FOB Destination, the process is a bit different. We've already sold the inventory when we ship it. So, I can't add the cost of shipping to inventory costs. This is an additional expense that I bear. I'm going to have to expense this in its own account, and I'm just going to call it something like delivery expense or transportation expense. So if it's FOB shipping, we're going to put it into inventory if you are the responsible party. If you're not the responsible party, you do nothing, If it's FOB destination, and you're the responsible party, we put it into delivery expense.

8.2. Completing and posting cash and credit journals to general ledger

8.2.1. Cash Receipts Journal

A cash receipts journal is a special journal used to record cash received by a business from any source. The major sources of cash receipt in a business include:

- Investment of capital by the proprietor or owner
- Cash sales
- Sale of an asset for cash
- Collection from customers
- Collection of interest, dividends, or rent
- Loan from an individual, bank, or any other financial institution

Journal Entry for Credit Sales and Cash Sales

Sales are a part of everyday business; they can either be made in cash or credit. In a dynamic environment, credit sales are promoted to keep up with the cutting edge competition. Accounting and journal entry for credit sales include 2 accounts, **debtor** and **sales**. In case of a journal entry for cash sales, a **cash** account and **sales** account are used.

The person who owes the money is called a "debtor" and the amount owed is a **current asset** for the company. Companies are careful while extending credit as it may lead to **bad debts** for the business.

Accounting and Journal Entry for Credit Sales

In the case of credit sales, the respective "debtor's account" is debited, whereas "sales account" is credited with the equal amount.

- **Journal Entry for Credit Sales**

• Debtor's Account	• Debit
• To Sales Account	• Credit

To understand cash receipt journal let consider the following example of xyz company transaction for the year 2016 and record the following transactions in a cash receipt journal:

1. **Dec. 01:** Received $500 from A & Co. in full settlement of his account of $525
2. **Dec. 04:** Received $4,600 from Sam & Co. and allowed discount of $50
3. **Dec. 08:** Received $150 as interest on investment
4. **Dec. 15:** Cash sales for the first half of the month $1,800
5. **Dec. 23:** Received payment of $700 from A & Co. for goods sold on account, and discount allowed of $30
6. **Dec. 25:** Received $1,600 cash from Beauty Supply **Corporation** and allowed a cash discount of $100
7. **Dec. 31:** Cash sales for the second half of the month $2,200

Solution

General Journal

1. Cash -------------500
   Discount----------25
   A/R----------------------525
2. Cash---------------4600
   Discount ----------50
   A/R-----------------4650
3. Cash----------------150
   Interest revenue----------150
4. Cash --------------------1800
   Sales revenue-------------1800
5. Cash---------------700

Discount ----------30

A/R-----------------730

6. Cash---------------1600

   Discount ----------100

   A/R-----------------1700

7. Cash -------------------2200

   Sales revenue---------------2200

Cash ledger

Cash account

500	
4600	
150	
700	
1600	
2200	
Bal	
9750	

8.3. Extracting a trial balance

8.3.1. Trial Balance

A trial balance is a bookkeeping worksheet in which the balance of all ledgers are compiled into debit and credit account column totals that are equal. A company prepares a trial balance periodically, usually at the end of every reporting period. The general purpose of producing a trial balance is to ensure the entries in a company's bookkeeping system are mathematically correct.

Trial Balance Works

Preparing a trial balance for a company serves to detect any mathematical errors that have occurred in the double-entry accounting system. If the total debits equal the total credits, the trial balance is considered to be balanced, and there should be no mathematical errors in the ledgers. However, this does not mean there are no errors in a company's accounting system. For example, transactions classified improperly or those simply missing from the system could still be material accounting errors that would not be detected by the trial balance procedure.

Special Considerations

After all, the ledger accounts and their balances are listed on a trial balance worksheet in their standard format, add up all debit balances and credit balances separately to prove the equality between total debits and total credits. Such uniformity guarantees there are no unequal debits and credits that have been incorrectly entered during the double-entry recording process. However, a trial balance cannot detect bookkeeping errors that are not simple mathematical mistakes. If equal debits and credits are entered into the wrong accounts, a transaction is not recorded or offsetting errors are made with a debit and credit at the same time, a trial balance would still show a perfect balance between total debits and credits.

That is, the trial balance is prepared to determine whether the Ledger accounts are correct or whether there is an error. In the Trial Balance, the balance of the debit column and the balance of the credit column is always equal.

Necessity and the Importance of Trial Balance

The main purpose of the Trial balance is to verify the mathematical accuracy of the accounts It has many other objectives.

The importance or the necessity of the trial balance is as follows:

1. It is very easy to verify the arithmetic accuracy of the accounts with the help of trial balance.
2. Trial balance uncovers errors in the journaling and posting process.
3. Trial Balance serves as an assistant in the preparation of financial statements.
4. It is very easy to rectify if there are any inaccuracies in the accounts with the help of the trial balance.
5. Trial balance provides the basic idea about the financial position of the company.
6. As a result of the preparation of the trial balance, all accounts are available in one place, which does not require repeated checks on the account, saving both time and labor.
7. It helps to make various comparisons among the accounts stored in the trial balance.
8. Trial Balance plays an important role in the management analysis. Managers can easily take decisions based on the accounts information stored in the trial balance.

8.3.2. Adjusting Entries

Accrual- Versus Cash-Basis Accounting

Accrual-Basis: Under this method, revenues and expenses are recognized as earned or incurred

Cash-Basis Accounting:

- The cash basis is much simpler, but its financial statement results can be very misleading in the short run.
- Revenue is recorded when cash is received (no matter when it is "earned"), and expenses are recognized when paid (no matter when "incurred").
- The cash basis is not compliant with GAAP.

Modified cash Basis Approaches:

- The cash and accrual techniques may be merged together to form a modified cash basis system. The **modified cash basis** results in revenue and expense recognition as cash is received and disbursed, with the exception of large cash outflows for long-lived assets (which are recorded as assets and depreciated over time).

- The revenue recognition and matching principles are used under the accrual basis of accounting.
- Generally, accepted accounting principles require accrual basis accounting rather than cash basis accounting.

Matching principle:

- The matching principle dictates that efforts (expenses) be matched with accomplishments (revenues) in the accounting period.
- The need for proper matching of revenues and expenses arises because of the existence of accounting periods and of payments and receipts that apply for different accounting periods.

Meaning Adjusting Entries

- Adjusting entries are entries made at the end of the period to bring the balances of accounts that do not show their true balance to the true balance to be reported on the financial reports
- Adjusting entries are required every time financial statements are prepared. Adjusting entries can be classified:

The Need of Adjusting Entries

- To report all revenues earned during the accounting period.
- To report all expenses incurred to produce the revenues earned in the same accounting period.
- To accurately report the assets on the balance sheet date. Some assets may have been used up during the accounting period.
- To accurately report the liabilities on the balance sheet date. (Expenses may have been incurred, but not yet paid.)

8.3.3. Types of Adjusting Entries

The number of adjustments needed at the end of each accounting period depends entirely upon the nature of the company's business activities. However, most adjusting entries fall in to one of the four general categories:

1. Converting assets to expenses

2. Converting liabilities to revenue
3. Accruing unpaid expenses, and
4. Accruing uncollected revenue

Deferrals:

- ✓ Deferrals are previously recorded assets, liabilities, revenues, or expenses that need to be adjusted at the end of the period to reflect revenues earned or expenses incurred in the current accounting period.
- ✓ Some of the deferred items for which adjusting entry would be made include: prepaid insurance, prepaid rent, office supplies, depreciation, and unearned revenue.

Deferral adjustments are of two types:

1. Prepaid expense (Assets/expense) adjustments
    - Transfer amounts from asset accounts to expense accounts
2. Unearned revenue (deferred Revenue) Liability/revenue adjustments
    - Transferring amounts from liability to revenue accounts.

Converting assets to Expenses /Prepaid Expense Adjustments:

Prepaid expenses are expenses paid in cash and recorded as assets before they are used or consumed. Prepaid expenses expire with the passage of time or through use and consumption.

- An asset-expense account relationship exists with prepaid expenses.
- Prior to adjustment, assets are overstated and expenses are understated.
- The adjusting entry results in a debit to an expense account and a credit to an asset account.

Example 1: Assume that on November 15, the dental office paid Br 1, 800 for six months of insurance coverage (from November 15 to May 15 of next year). This results in Br300 coverage each full month. By December 31 (the end of the fiscal period), the dentist will have received one and one-half months of coverage (Br 450). Therefore, the following entry would be necessary:

Therefore on November 15, the following entry is made:

Date	Accounts	Debit	Credit
2008 Nov. 15	Prepaid insurance expense	1800.00	
	Cash		1800.00

November 15, the amount paid represents future benefits (insurance coverage) to the dental office. The adjusting entry is to debit Insurance Expense and credit Prepaid Insurance. On December 31, the following adjusting entry is prepared:

Date	Accounts	Debit	Credit
2008 Dec. 31	Insurance Expense	450.00	
	Prepaid Insurance		450.00

Example 2: Assume that Gonzalez Company purchased Br 1,000 of supplies and debits Office Supplies during the year 2008. The beginning balance of the Office Supplies account was Br 200. At Dec. 31 2008, Br 300 of supplies was on hand. The adjusting entry would, therefore, be:

Date	Accounts	Debit	Credit
2008 Dec. 31	Supplies expense	900.00	
	Supplies		900.00

Converting liabilities to Revenue (Unearned Revenue) Adjustments:

These are cash received before providing products or services. The cash received is debited against the liability account when it is received. Revenues are recorded when the work is done. So, we owe the work - it's a liability. At the end of the period, we reduce the liability to reflect the portion of the work that has been done (this increases a revenue account).

- Unearned revenues are revenues received and recorded as liabilities before they are earned.
- Unearned revenues are subsequently earned by rendering service to a customer.
- A liability-revenue account relationship exists with unearned revenues.

- Prior to adjustment, liabilities are overstated and revenues are understated.
- The adjusting entry results in a debit to a liability account and a credit to a revenue account.

Example: Assume that on December 1, the dental office accepted a Br 2,400 payment from local businesses to provide dental care to their employees over the next three months. The initial entry on December 1 would be as follows:

Date	Accounts	Debit	Credit
2008 Dec. 1	Cash	2400.00	
	Unearned Dental Fees		2400.00

The amount of cash received on December 1 represents what the dental office owes to clients in the future. This is a liability since either the cash received must be returned or the services must be delivered.

From December 1 to December 31, one month of dental service has been provided; Br 800 x 1 month = Br 800 dental fee revenue. The remainder of Br 1,600 (Br 2,400 – Br 800) represents future dental service owed to businesses (a liability). December 31 adjusting entry would be:

Date	Accounts	Debit	Credit
2008 Dec. 31	Unearned Dental Fees	800.00	
	Dental Fees Earned		800.00

ACCRUAL ADJUSTMENTS

- ✓ *Accruals* are revenues that have been earned and expenses that have been incurred by the end of the current accounting period, but that will be collected or paid in a future accounting period.
- ✓ Accruals occur when no cash has been received or paid, but the company has undertaken activities that result in earning revenues or incurring expenses.
- ✓ Unlike deferrals, no original entry has been *recorded.*

Examples:-

a. Interest earned but not yet collected on a loan: Accrued Interest Receivable

(Asset) (or simply Interest Receivable) – *accrued revenue.*

b. Wages earned by employees but not yet paid: Accrued Wages and Salaries Payable (Liability) (or simply Wages and Salaries Payable) – an *accrued expense.*

Accrual adjustments are of two types:

- accrued revenue and
- accrued expenses

Accruing uncollected Revenue (Accrued Revenue):

- ✓ Accrued revenues are revenues earned, but not yet received in cash.
- ✓ Accrued revenues may accumulate with the passing of time as in the case of interest and rent, or through services performed, but not billed or collected.
  - Accrued revenue requires an asset/revenue adjustment
  - An asset-revenue account relationship exists with accrued revenues.
  - Prior to adjustment, both assets and revenues are understated.
  - The adjusting entry results in a debit to an asset account and a credit to a revenue account

To illustrate, consider a 12% note payable (Br. 1500) due on March 30, 2009 was received by your business. The note was received on October 1, 2008. The interest revenue earned on this note until Dec. 31, 2008 is calculated using the following formula:

Interest = principal * rate * time

Therefore, the interest in this specific case would be,

Interest = 1,500 * 12% per year. * 3/12 year

= Br. 45.

The adjusting entry to record the interest expense incurred in October is:

Date	Accounts	Debit	Credit

2008 Dec. 31	Interest Receivable	45	
	Interest Income		45

Accruing unpaid Expenses (Accrued Expense):

- ✓ Accrued expenses are expenses incurred, but not yet paid or recorded.
- ✓ Accrued expenses result from the same causes as accrued revenues and include interest, rent, taxes, and salaries.

- A liability-expense account relationship exists with accrued expenses.
- Prior to adjustment, both liabilities and expenses are understated.
- The adjusting entry results in a debit to an expense account and a credit to a liability account.

Example: Accrued salaries: Some types of expenses, such as employee salaries and commissions, are paid for after the services have been performed. Assume that at Wisdom Service Company, salaries were last paid on October 26 (Friday); the next payment of salaries will not occur until November 9 (Friday). Three working days remain in October (October 29-31).

At October 31, the salaries for these days represent an accrued expense and related liability to Wisdom Company. The employees receive total salaries of Br.2,000 for a five-day workweek, or Br.400 per day. Thus, accrued salaries at October 31 are Br.1,200 (Br. 400 x 3), and the adjusting entry is:

Oct. 31	Salaries expense Salaries payable (To record accrued salaries)	1,200	 1,200

Depreciation:

- A portion of their cost is simply allocated to each accounting period.
- This process is called **depreciation**.
- Depreciation is an example of a deferred expense. In this case the cost is deferred over a number of years, rather than a number of months. Principles of accounting II will cover depreciation methods in great detail. However, one simple approach is called the straight-line method.
- Under this method, an equal amount of asset cost is assigned to each year of service life. In other words, the cost of the asset is divided by the years of useful life, resulting in annual depreciation expense.

Example: In January 1, 2000 the company buys a delivery truck for 12,000. They expect the truck to last 5 years. They decide to use the straight line method, with a salvage value (SV) of Br2,000. The depreciable value is Br10,000 (Br12,000 cost - Br 2,000 SV). The annual depreciation expense is Br2,000 (Br10,000/ 5 years).

At the end of 5 years, the company has expensed Br10,000 of the total cost. The Br2,000 salvage value remains on the books.

General Journal

Date	Account	Debit	Credit
Jan. 1, 2000	Delivery Trucks	Br12,000	
	Cash		Br12,000
	To record purchase of delivery truck		
Dec-31	Depreciation Expense	Br2,000	
	Accumulated Depreciation		Br2,000
	To record depreciation expense for the year		

Book Value & Salvage Value

Book value is the difference between the cost of an asset, and the related accumulated depreciation for that asset

Book Value = Cost - Accumulated Depreciation

Book Value = (Br12, 000 - Br10, 000) = Br2, 000

The company will stop depreciating the truck after the end of the fifth year. The truck cost Br12,000, but only Br10,000 in depreciation expense was taken. The remaining book value is equivalent to the salvage value established when the vehicle was purchased. Book value will be used to calculate any gain or loss when the truck is sold or traded

Summery of Adjustment and Their Effects on the Financial Statements

Types of Adjustment	**Before Adjustment**		**Adjusting Entries**
	Balance Sheet	**Income Statement**	
Prepaid Expense (Deferred Expense)	• Asset overstated • Owner's Equity overstated	• Expense Understated • Net Income Overstated	Debit Expense ---- Dr Credit Asset --------Cr
Unearned Revenue (Deferred Revenue)	• Liability overstated • Owner's Equity Understated	• Revenue Understated • Net Income Understated	Debit Liability ---- Dr Credit Revenue -------Cr
Accrued Expense	• Liability Understated • Owner's Equity overstated	• Expense Understated • Net Income Overstated	Debit Expense ---- Dr Credit Liability -----Cr
Accrued Revenue	• Asset Understated • Owner's Equity Understated	• Revenue Understated • Net Income Understated	Debit Asset ---- Dr Credit Revenue ------Cr
Fixed Assets	• Asset overstated • Owner's Equity overstated	• Expense Understated • Net Income Overstated	Debit Expense ---- Dr Credit Contra Asset ----Cr

Alternative Treatment of Deferrals

As an example, recall the illustration of accounting for prepaid insurance -- Prepaid Insurance was debited and Cash was credited at the time of purchase. This is referred to as a "**balance sheet approach**" because the expenditure was initially recorded into a prepaid account on the balance sheet. However, an alternative approach is the "**income statement approach."** With this approach, the Expense account is debited at the time of purchase. The appropriate end-of-period adjusting entry "establishes" the Prepaid Expense account with a debit for the amount relating to future periods. The offsetting credit reduces the expense account to an amount equal to the amount consumed during the period.

The balance sheet and income statement methods result in identical financial statements. Notice that the income statement approach does have an advantage if the entire prepaid item or unearned revenue is fully consumed or earned by the end of an accounting period. No adjusting entry is needed because the expense or revenue was fully recorded at the date of the original transaction.

Example: Assume that supplies worth Br 386 are purchased on Nov. 1, the entry would be recorded as follows:

Date	Accounts	Debit	Credit
2008 Dec. 31	Supplies Expense	386	
	Cash		386

If supplies on hand at the end of the year were worth Br 133, the adjusting entry would be as follows:

Date	Accounts	Debit	Credit
2008 Dec. 31	Supplies	133	
	Supplies Expense		133

In both alternatives, the supplies expense would be Br 253 and the asset portion would be Br 133.

Example: assume you have advance collection of rent income for Br 450. If the option of recording deferrals initially as income statement items is used, the entry would be as follows:

Date	Accounts	Debit	Credit

2008 Nov. 1	Cash	450	
	Rent Income		450

If Br 150 has been earned at Dec. 31, 2003, the adjusting entry transfers this amount from the revenue account to a liability account as follows:

Date	Accounts	Debit	Credit
2008 Dec. 31	Rent Income	450	
	Unearned Rent		450

Meaning and Importance of Reversing Entries

- A reversing entry is simply an entry that reverses the debits and the credits of the previous adjusting entry.
- Reversing entries are *optional.*
- They are used in order to make the accounting process more consistent or to make later recording of related transaction simpler.
- If the company has the accounting policy of preparing reversing entries, the adjusting entries for all accruals and for the deferrals that are first recorded as expense and revenue (income statement) accounts are reversed.

8.3.4. Preparing a Work Sheet

The work sheet is an informal working paper that the accountant uses in preparing financial statements and completing the work of accounting cycle. The work sheet has been described as the accountant's scratch pad, and it is used to:

1. Organize data
2. Lessen the possibility of overlooking an adjustment
3. Provide an arithmetical check on the accuracy of work, and

4. Arrange data in logical form for the preparation of financial statements. A work sheet is *not a permanent* accounting record; it is neither a journal nor a part of the general ledger. The use of work sheet is *optional*.

Steps in preparing a Work Sheet

Step 1: Prepare a trial balance on the work sheet.

Step 2: Enter the adjustments in the adjustment columns.

Step 3: Enter adjusted balances in the adjusted trial balance columns.

Step4: Extend adjusted trial balance amounts to appropriate financial statements columns.

Step 5: Total the statement columns, compute the net income (or net loss), and complete the work sheet.

Illustration: The following information pertains to Hope Laundry at July 31,2008, the end of the current fiscal year, and the data needed to determine year end adjustments: practical demonstration

Cash	Br7,790	
Laundry supplies	4,750	
Prepaid insurance	2,825	
Laundry equipment	85,600	
Accumulated depreciation		Br55,700
Accounts payable		4,950
Hope, capital		30,900
Hope, Drawing	18,000	
Laundry Revenue		76,900
Wages expense	24,500	
Rent expense	15,575	
Utilities expense	8,500	
Miscellaneous expense	910	

Adjustment Data:

a) Inventory of laundry supplies at July 31…………Br1,840
b) Insurance premium expired during the year……… 1,500
c) Depreciation on equipment during the year………. 5,720
d) Wages accrued but paid at July 31………………... 850

Instructions:

1) Record the trial balance on a ten column work sheet.
2) Prepare financial statement from the work sheet:
   a) income statement,
   b) Owner's equity and
   c) Balance sheet
3) Journalize the adjusting entries
4) Journalize the closing entries

1. Ten column worksheet

Hope Laundry Work Sheet For the year Ended July 31, 2008										
	Trial Balance		Adjustments		Adjusted trial Balance		Income Statement		Balance Sheet	
Account Titles	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
Cash	Br7,790				7,790				7,790	
Laundry supplies	4,750			2,910(a)	1,840				1,840	
Prepaid insurance	2,825			1,500(b)	1,325				1,325	
Equipment	85,600				85,600				85,600	
Accu. Depreciation		55,700		5,720(c)		61,420				61,420

Accounts payable		4,950				4,950				4,950
Hope, capital		30,900				30,900				30,900
Hope, Drawing	18,000				18,000				18,000	
Laundry Revenue		76,900				76,900		76,900		
Wages expense	24,500		850(d)		25,350		25,350			
Rent expense	15,575				15,575		15,575			
Utilities expense	8,500				8,500		8,500			
Miscella. expense	910				910		910			
Totals	<u>168,450</u>	<u>168,450</u>								
Supplies expense			2,910(a)		2,910		2,910			
Insurance expense			1,500(b)		1,500		1,500			
Deprec. expense			5,720(c)		5,720		5,720			
Wages payable				850(d)		850				850
Totals			<u>10,980</u>	<u>10,980</u>	<u>175,020</u>	<u>175,020</u>	60,465	76,900	114,555	98,120
Net income(net loss)							<u>16,435</u>			<u>16,435</u>
							<u>76,900</u>	<u>76,900</u>	<u>114,555</u>	<u>114,555</u>

Totals										

The preparations of financial statements from the work sheet of Hope Laundry are presented below.

Hope Laundry

Income Statement

For the year Ended July 31, 2008

Revenues		
Laundry Revenue		76,900
Expenses:		
Wages Expense	Br.25, 350	
Rent expense	15,575	
Supplies expense	2,910	
Insurance Expense	1,500	
Utilities Expense	8,500	
Depreciation Expense	5,720	
Miscellaneous expense	910	
Total Expense		60,465

Net Income	16,435

Hope Laundry

Owner's Equity Statement

For the year Ended July 31,2008

Hope, Capital, June 1	Br. 30,900
Add: Investment	-0-
Net Income	16,435
Less: Drawing	(18,000)
Hope, capital, October 31	29,335

Hope Laundry

Balance Sheet

July 31,2008

Assets

Cash		Br.7,790
Laundry Supplies		1,840
Prepaid Insurance		1,325
Laundry Equipment	85,600	
Less: Accumulated Depreciation	61,420	24,180
Total Assets		Br. 35,135

Liabilities and Owner's Equity

Liabilities

Account Payable 4,950

Wages Payable 850

Total Liabilities 5,800

GENERAL JOURNAL				
J1				
Date	Account Titles and Explanation	Ref.	Debit	Credit
	Adjusting Entries			

Owner's Equity

Hope, Capital	29,335
Total Liabilities and Owner's Equity	Br. 35,135

The adjusting entries on July 31 for Hope Laundry are shown below:

2008				
July 31	Laundry Supplies Expense		2,910	
	Laundry Supplies			2,910
	(To record supplies used)			
31	Insurance Expense		1,500	
	Prepaid Insurance			1,500
	(To record insurance expired)			
31	Depreciation Expense		5,720	
	Accumulated Depreciation- equip.			5,720
	(To record yearly depreciation)			
31	Wages Expense		850	
	Wages Payable			850
	(To record accrued salaries)			

(2) Preparing Adjusting Entries from a Work Sheet

- The adjusting entries are prepared from the adjustment columns of the work sheet.
- The reference letters in the adjustment columns and the explanation of the adjustments that appear at the bottom of the work sheet help identify entries.
- The journalizing and posting of adjusting entries *follows* the preparation of financial statements when a work sheet is used.

Nature of the Closing Process

At the end of the accounting period, the temporary account balances are transferred to the permanent of owner's equity account, owner's capital.

- The process of transferring the balances of the temporary accounts to the owner's account is called the Closing process.
- Entries necessary to accomplish the closing process are called Closing entries.
- All temporary accounts are closed and include all income statement accounts and owner's drawing.
- Permanent or real accounts relate to one or more future accounting periods. They consist of all balance sheet accounts including owner's capital.
- Permanent accounts are not closed. Instead, their balances are carried forward into the next accounting period.
- Temporary (nominal) accounts are closed and include: Revenue account, all expense accounts and, owner's drawing. Permanent (real) accounts are not closed and include: all asset accounts, all liability accounts and owner's capital account.

The closing process has two objectives:

1) To reduce the balances of temporary owner's equity accounts to zero and thus make the accounts ready for entries in the next accounting period
2) To update the balance of the owner's capital account.

8.3.4. Preparing Closing Entries

- Journalizing and posting closing entries is a required step in the accounting cycle. This step is performed after financial statements have been prepared.

Income Summary Account

- The account to which the balances of nominal accounts are transferred at the end of the fiscal period is named Income summary account or Income and Expenses summary account**.**
- Income summary account is a temporary account used to summarize the balances of the temporary revenue and expense accounts.
- It is also called a clearing account.
- There is no “normal” balance for this account.
- Income summary account never appears on financial statements. This account is placed in the capital division of the ledger.

Steps in the closing Process:

1) Close the balance of each revenue account in to income summary
2) Close the balance of each expense account in to income summary
3) Close the balance of income summary account to the owner’s capital account
4) Close the balance of the owner’s drawing account directly to the owner’s capital account

The following steps close a ledger:

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Date		Account title	P/R	Debit		Credit	
2008		*Closing Entries*					
July	31	Laundry		76,900	00		
		Income summary				76,900	00
	31	Income summary		60,465	00		
		Wages Expense				25,350	00
		Rent expense				15,575	00
		Utilities expense				8,500	00
		Supplies expense				2,910	00
		Insurance expense				1,500	00
		Depreciation expense				5,720	00
		Miscellaneous expense				910	00
							00
	31	Hope , Capital		18,000	00		
		Hope, Drawing				18,000	00
	31	Income Summery		16,465	00		
		Hope, Capital				16,465	00

8.3.5. Post Closing Trial Balance

Checking the accuracy of posting is once again needed after the closing entries are posted to their respective accounts in the ledger. A Trial Balance used for testing the equality of Debit and Credit in the ledger after the closing entries have been posted is called a *post closing Trial Balance.*

After the closing entries have been posted and the accounts have been balanced and ruled, Debit must still equal Credit.

Example:

HOPE LAUNDRY

Post Closing Trial Balance

July 31, 2008

Account title	Account No	Debit		Credit	
Cash	11	7,790	00		
Laundry Supplies	13	1,840	00		
Prepaid insurance	14	1,325	00		
Laundry Equipment	15	85,600	00		
Accumulated Depreciation				61,420	
Accounts Payable	21			4,950	00
Wages Payable	22			850	00
Hope, capital	31			29,335	00
Totals		96,555	00	96,555	00

- Remember that only Permanent accounts are seen with their balances on the post closing trial balance. No nominal account is seen in this trial balance, as it is prepared after closing all the nominal ones.

SUMMARY OF THE ACCOUNTING CYCLE

During the accounting period
- Step 1. Analyze transactions from source documents
- Step 2. Record transactions in a journal
- Step 3. Post from the journal to the ledger
- Step 4. Prepare a trial balance of the ledger

At the end of accounting period
- Step 5. Determine needed adjustments
- Step 6. Prepare a work sheet
- Step 7. Prepare financial statements from the completed work sheet
- Step 8. Journalize and post adjusting entries
- Step 9. Journalize and post closing entries
- Step 10. Prepare a post closing trial balance

Interim Reports

Interim Financial Statements

Quarterly and semiannual financial statements are called interim financial statements and are normally prepared in a condensed form. It means that the disclosures required in them are far less than those required in annual financial statements. Quarterly financial statements are normally unaudited but semiannual reports need to be at least reviewed by an auditor who is a qualified professional accountant authorized to attest the authenticity of financial statements.

Financial Statements/Reports/

A set of financial statements is a structured representation of the financial performance and financial position of a business and how its financial position changed over time. It is the ultimate output of an accounting information system and has following components:

1. Income Statement
2. Statement of Changes in Equity
3. Balance Sheet

Financial statements are better understood in context of all other components of the financial statements. For example, a balance sheet will communicate more information if we have the related income statement and the statement of cash flows too.

Following the time-period principle, financial statements are prepared after a specified period; say a quarter, year, etc.

A. Income statement

Income statement communicates the company's *financial performance* **over the period.** It shows the profitability of the business, i.e., the profit or loss level of the business. All the data required to prepare the income statement is brought from the worksheet/adjusted trial balance/.

Company Name

Income Statement

For the Month ended January, 2010

Fees earned	$16,840	
Rent revenue	120	
Total revenues		$16,960
Expenses:		
Wages expense	$4,525	
Supplies expense	2,040	
Rent expense	1,600	
Utilities expense	985	
Insurance expense	200	
Depreciation expense	50	
Miscellaneous expense	455	
Total expenses		9,855
Net income		$ 7,105

B. Statement of Changes in Equity

In case of Kern Inst., it is called statement of owner's equity. This statement shows the beginning balance of capital and the changes that affected it. Thus, statement of changes in equity tells us about how the financial position changed over the period. The balance of the owner's equity account (Company A's capital) in the worksheet/adjusted trial balance/may not be the beginning one. Therefore, the ledger has to be reviewed to see if there was an additional investment during the period or not. In our illustration there is no additional investment

Company Name

Statement of Changes in Equity

For the month ended January 31, 2010

Chris Clark, capital, November 1, 2009	$	0
Investment on November 1, 2009	$25,000	
Net income for November and December	7 ,105	
	$32,105	
Less withdrawals	4,000	
Increase in owner's equity		**28,105**
Chris Clark, capital, December 31, 2009		$ 28105

Note: Equity is capital. Capital is composed of investments made to the business. That is it contains initial paid in capital and Retained Earrings. Changes in initial equity/capital occur when an additional paid in capital is made whether in the form of retained earnings or from other sources, and/or dividend is paid out or when the owner withdraws in cash or kind.

Net capital at the end of accounting period is paid in (capital plus the additional investment during the period + retained earnings) minus dividend/withdrawal.

A. Balance sheet

Balance sheet communicates the company's financial position **at a point of time**. The data to prepare this statement will be taken from the worksheet/adjusted trial balance/, financial statements and statements of changes in equity. Note that assets and liabilities are classified as current and non-current.

Company Name

Balance sheet

January 31, 2010

Asset			Liabilies		
Current assets:			**Current liabilities:**		
Cash	$ 2,065		Accounts payable	$900	
Accounts receivable	2,720		Wages payable	250	
Supplies	760		Unearned rent	240	
Prepaid insurance	2,200		Total liabilities		$ 1,390
Total current assets		$ 7,745			

Property, plant, and equipment:

Land	$20,000

Office equipment	$1,800			**Owner's Equity**	
Lessaccumdepreciation	50	1,750			
Total property, plant,				Chris Clark, capital	28,105
and equipment			21,750	Total liabilities and	
Total assets		$	**29,495**	owner's equity $	**29,495**

8.4 Founding and Correcting errors

Mainly errors can be categorized into two such as Errors Traced by the Trial Balance and Errors not Traced by the Trial Balance

Errors Traced by the Trial Balance

The main purpose of the trial balance is to check the mathematical accuracy of the calculation. The sum of the debit and credit balances of the account is always equal according to the Double-entry accounting method, If the sum of the two sides is not equal, the errors must be identified and the Trial Balance is prepared to identify and correct those errors.

Some of the errors traced by the trial balance are as follows:

1. Posting Errors

- Errors in Journalizing
- Errors in balancing of Ledger Account
- Errors in Partial Omission

2. Listing Errors

3. Costing and Balancing Errors

Errors not Traced by the Trial Balance

The following are some of the errors that are not detected in the trial balance:

1. Critical Errors

- Errors of Omission
- Errors of Commission
- Errors of Miss posting
- Compensating Errors

Errors of Omission:

We know that when a transaction takes place, it is first recorded in the primary accounting book called the journal. So if the transaction is not recorded in the Journal it will not belong to Ledger and the trial balance will not be reported. As a result, the sum of the two sides of the trial balance will be equal, but this omission of the transaction can never be ascertained.

For example, if Neil was given a salary of $3000, it would never come to the trial balance if it was not accounted for, and it is an error of omission.

Errors of Commission:

If any transaction is recorded in the Journal by a lower or higher amount of money, the lower or higher amount will also be recorded in the Ledger and the trial balance will also be agreed upon.

For Example, Goods purchased from Wood International of $ 5000. If it is recorded in Purchase journal as $500 then both Purchase A/c and Wood International A/c will be lower valued by $4,500 and the trial balance will agree. These are the errors of commission.

Errors of Miss Posting:

Such errors are done because of the employee's carelessness.

Suppose $ 3,000 has been paid in cash to "Kelley International", Cashbook is correctly credited with $ 3,000 but while posting to the ledger Wood trader's account is debited instead of "Kelley International". Trial Balance will match because the total of debits has been the same, though the amount has been credited to the wrong account.

Compensating Errors:

Compensating Errors is a type of error, that is when one wrong transaction is corrected by another wrong transaction, it is called a Compensating Errors. Such as, Bony International A/c is supposed to be credited with $6,000 but it has been credited with $ 600. In another transaction, OWY international was debited with $ 600 by mistake instead of $ 6,000. So both the accounts will be less by $ 5,400. In Spite of these errors, the Trial balance will match.

2. Errors of Principles

Errors that arise in the absence of proper knowledge of accounting principles are known as Principle Errors. This mistake occurred as a result of when capital expenditure is recorded as revenue expenditure and revenue expenditure is recorded as capital expenditure.

For example,

Paid Machine installation charge for $300 here wrongly debited "Repair and Maintenance Account" instead of "Machinery Account"

Furniture Purchase $ 5,000 here wrongly debited "Purchase Account" instead of "Machinery Account"

In spite of the above errors in the trial balance, the debit and credit column balance of the trial balance will be matched

Methods of Correcting an Incorrect Trial Balance

The steps that need to be taken to correct the incorrect Trial balance is discussed below:

1. Check the sum of the Trial balance.
2. Check that the posting from the journals to the Ledger account has been done correctly.
3. Check that all balances of the ledger have been properly transferred to the Trial Balance.
4. Check that Ledger's debit and credit balances have been properly entered on the appropriate debit and credit side of the trial balance.
5. The sum of the cash book should be checked.
6. The sum of the list of debtors and creditors should be considered.
7. The discrepancy between the two sides of the Trial Balance must be divided by 2 in order to see if there are any numbers that match the amount that is available by dividing by 2.
8. Test whether the balances of assets, liabilities, and equity of the holder in the previous year have been correctly transferred to the Ledger account in the current year.

Upon proper examination, if any mistake is not identified, the amount by which the trial balance is incorrect should be entered for the time being in the Suspense Account.

Self- Check -8

I. Choose the best answer from the given alternatives

1. Which of the following accounts are used when recording the sales entry of a sale on credit?
   A. merchandise inventory, cash
   B. accounts receivable, merchandise inventory
   C. accounts receivable, sales
   D. sales, cost of goods sold
2. A customer pays on credit for $1,250 worth of merchandise, terms 4/15, n/30. If the customer pays within the discount window, how much will they remit in cash to the retailer?
   A. $1,250
   B. $1,200
   C. $50
   D. $500
3. A customer returns $870 worth of merchandise and receives a full refund. What accounts recognize this sales return (disregarding the merchandise condition entry) if the return occurs before the customer remits payment to the retailer?
   A. accounts receivable, sales returns and allowances
   B. accounts receivable, cash
   C. sales returns and allowances, merchandise inventory
   D. accounts receivable, cost of goods sold
4. A customer obtains a purchase allowance from the retailer in the amount of $220 for damaged merchandise. Which of the following represents the journal entry for this transaction if the customer has not yet remitted payment?

   A. Sales return and allowances----------220
      Cash---------------------------------------220
   B. Sales return and allowances------------220
      A/R---220
   C. Cash---------------------------------------200
      Sales return and allowances------------20
      A/R---220
   D. No answer

5. Which of the following is an error that does NOT affect the trial balance?

a. Error of partial omission
b. Error of principle in accounting
c. Error of carrying forward
d. Transposed errors

6. Tim recorded a debit of $2,300 and a credit of $3,200. Which type of error did Tim make?

a) Error in partial omission
b) Error of carrying forward
c) Transposed error
d) Recording the right amount on the wrong side

7. Goods purchased from ABC for 10,000birr passed through the sales book. The error will result in

A. Increase in gross profit
B. Decrease in gross profit
C. No effect on gross profit
D. No answer

8. When the transaction is not at all recorded in the books of accounts it is

A. Error of commission
B. Error of principle
C. Error of omission
D. All of the above

9. Purchase of office furniture 1200birr has been debited to General expense account. It is :

A. A clerical error
B. An error of principle
C. An error of omission
D. No answer

Answer the following questions (II)

1. What is a Trial Balance?

____

____

2. What is the objective of the trial balance

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____

3. Which ledger balances are written on the debit side of the trial balance?

____

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4. Which ledger balances are written on the credit side of the trial balance?

____

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5. What is the difference between error of Omission and error of commission

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6. When and how is suspense account used to rectify errors?

____

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7. What is error of principle and how does it affect trial balance?

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Operation Sheet-1 Steps in Preparation of Trial Balance

Prepare journal entries for the following transactions from Barrels Warehouse and post the journal entries.

Jul. 1	Sold 2,000 barrels with a sales price of $30 per barrel to customer Luck's Vineyards. Luck's Vineyards paid with cash. The cost for this sale is $18 per barrel.
Jul. 3	Sold 1,200 barrels with a sales price of $32 per barrel to customer Paramount Apparel. Paramount paid using its in-house credit account. Terms of the sale are 3/10, n/30. The cost for this sale is $17 per barrel.
Jul. 5	Sold 1,400 barrels with a sales price of $31 per barrel to customer Melody Share house. Melody paid using her Money Plus credit card. The cost for this sale is $18 per barrel. Money Plus Credit Card Company charges Barrels Warehouse a 2% usage fee based on the total sale per transaction.
Jul. 8	Money Plus Credit Card Company made a cash payment in full to Barrels Warehouse for the transaction from July 5, less any usage fees.
Jul. 13	Paramount Apparel paid its account in full with a cash payment, less any discounts.

III. Let's understand how to prepare a trial balance keeping into consideration the following steps:

1. Calculate the Balances of Each of the Ledger Accounts

Business transactions are first recorded in the form of journal entries following the basic accounting principles. These journal entries then go into the ledger accounts involved in the various business transactions.

2. Record Debit or Credit Balances in Trial Balance

The remaining debit or credit balances in various accounts of ledger are then recorded in the Trial Balance. The balances of each of the accounts of ledger are recorded in the debit or the credit columns.

3. Calculate Total of the Debit Column

Ascertain the total of the debit column. This is done after recording all the debit balances of the various accounts of ledger put into debit column of Trial Balance.

4. Calculate Total of the Credit Column

Ascertain the total of the credit column. This is done after recording all the credit balances of the various accounts of ledger put into credit column of Trial Balance.

5. Check if Debit is Equal to Credit

Finally, you need to check if the total of the debit column matches the total of the credit column. As specified earlier, trial balance is prepared to check the accuracy of the debit and credit balances of various accounts of ledger. Both the debit and credit columns of the Trial Balance must tally since every debit has every credit. However, it is an indication that there were some errors made while recording transactions in ledger or trial in cases where they are not equal.

Practical Demonstration- Interim Financial Statements

Instructions: Follow all necessary steps and perform the following tasks depending on the given transactions.

Kaku and Kayo the two outstanding New Millennium College students and the first batch graduates of the accounting department had operated a super sank in kayo's parents' home on their extra time. As of January 2002, after graduation, they decided to open a new metal and wood work shop and moved to rented campus and to devote full time to the business, which is to be known as "2 K lovers shaping" service. Assume a fiscal /accounting year of January to December and entered the following transitions during January

January 1 the following assets were received (transferred) from the super sank to the shop

Cash ---Br. 7500

Accounts receivable ----------------------------900

Supplies ---1,250

Service equipment -----------------------------11,000

There were no liabilities received.

The beginning capital of 2 R lovers shop service is Br. 20,650 (7,500 + 900+ 1,250 + 11,000-0) which is computed using the accounting equation **A = L +C**

C = Asset – Liability

The transactions occurred during the month were summarized as follows:

January

1. Paid three-month's rent in advance Br. 2250 → Prepaid rent.
2. Paid the premiums on property and casualty insurance policies, Br. 1,740 → prepaid insurance.

4. Purchased additional service equipment on a accounts from Omedad Br. 2,500
6. Received cash from customers on account Br. 500
9. Paid cash for a news paper advertisement, Br. 110
11. Paid Omedad for the part of liability incurred on January 4, Br. 1, 250
12. Record service revenue on account? Br. 1000
13. Paid laborers for two weeks salary Br. 500
17. Recorded cash from cash customers for service revenue earned during the first half of January Br. 1, 100
17. Purchased supplies for cash Br. 950
20. Recorded service revenue on account for the period January 13- 20, Br. 700
24. Recorded cash from customers for service revenue earned for the period January 17-

24 Br. 1, 850

27. Received cash from customers on account, Br. 1,200

27. Paid labourers for two weeks salary Br. 500

30. Paid telephone bill for January Br. 75

30. Paid electricity bill for January Br. 140

30. Recorded cash from cash customers for services revenues earned for the period January 25- 30, Br. 950

30. Recorded sales on account for the remainder of January, Br. 800

30. Kaku and Kayo withdrew Br. 1,500 for their personal use

Instructions:

1. Open a ledger of four- column for accounts of "2R – lovers shopping service" using the following titles and account numbers;

Cash, 11; accounts receivable, 12; supplies 14; prepaid rent15; prepaid insurance, 16; service equipment, 18; accumulated depreciation, 19; accounts payable, 21; salaries payable, 22; 2R- lovers, capital, 31; 2R lovers Drawing, 32; income summary, 33, service revenue. 41; salary expense, 51; Rent expense, 52; supplies expense, 53; depreciation expense, 54' insurance expense, 55; miscellaneous expense, 59.

2. Record the transactions in a two-column journal
3. Post the journal to the ledger, extending the month-end balances to the appropriate balance columns after all posting is completed
4. Prepare a trial balance as of January 31, on a ten-column work sheet, listing all the accounts in the order given in the ledger. Complete the worksheet, using the following adjustment data:
   a. Insurance expired during January ---------------Br. 145
   b. Inventory of supplies on January31-------------1520
   c. Depreciation of service equipment for January 100
   d. Accrued salary on January 31 ------------------ 100
   e. Rent expired during September ------------------- 750
5. Prepares an income statement, a statement of owners' equity, balance sheet to the organization
6. Journalize and post the adjusting entries
7. Journalize and post the closing entries
8. Prepare a post closing trial balance

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Developers' profile

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