

BSBFIA301

Maintain financial records

Release 1

Learner guide

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Aspire Version 1.2

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Version control and modification history

Version	Release date	Modification
Release 1, version 1.1	September 2015	First release
Release 1, version 1.2	October 2019	Minor changes to make the terminology more consistent on page 65 and 74. Corrected health and safety legislation on page 8. Updated URLs to Rebrandly links.

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BSBFIA301 Maintain financial records Release 1

© 2017 Aspire Training & Consulting
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First published April 2017
Reprinted (with amendments) October 2019

Cover design: Rewind Creative
Printer: Doculink Australia Pty Ltd, 1d/28 Rogers Street, Port Melbourne VIC 3207

e-ISBN 978-1-76059-348-3 (PDF version)
ISBN 978-1-76059-347-6

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Before you begin

This learner guide is based on the unit of competency *BSBFIA301 Maintain financial records*, Release 1. Your trainer or training organisation must give you information about this unit of competency as part of your training program. You can access the unit of competency and assessment requirements at: www.training.gov.au.

How to work through this learner guide

This learner guide contains a number of features that will assist you in your learning. Your trainer will advise which parts of the learner guide you need to read, and which practice tasks and learning checkpoints you need to complete. The features of this learner guide are detailed in the following table.

Feature of the learner guide	How you can use each feature
Learning content	Read each topic in this learner guide. If you come across content that is confusing, make a note and discuss it with your trainer. Your trainer is in the best position to offer assistance. It is very important that you take on some of the responsibility for the learning you will undertake.
Examples and case studies	Examples of completed documents that may be used in a workplace are included in this learner guide. You can use these examples as models to help you complete practice tasks and learning checkpoints. Case studies highlight learning points and provide realistic examples of workplace situations.
Practice tasks	Practice tasks give you the opportunity to put your skills and knowledge into action. Your trainer will tell you which practice tasks to complete.
Video clips	Where QR codes appear, learners can use smartphones and other devices to access video clips relating to the content. For information about how to download a QR reader app or accessing video on your device, please visit our website: www.aspirelr.com.au/help
Summary	Key learning points are provided at the end of each topic.
Learning checkpoints	There is a learning checkpoint at the end of each topic. Your trainer will tell you which learning checkpoints to complete. These checkpoints give you an opportunity to check your progress and apply the skills and knowledge you have learnt.



Foundation skills

As you complete learning using this guide, you will be developing the foundation skills relevant for this unit. Foundation skills are the language, literacy and numeracy (LLN) skills and the employability skills required for participation in modern workplaces and contemporary life.

The following table outlines specific foundation skills noted for your learning in this learner guide.

Foundation skill area	Foundation skill description
Reading	<ul style="list-style-type: none"> Recognises and interprets numerical and textual information to determine and complete required activities
Writing	<ul style="list-style-type: none"> Integrates data from different sources and records numerical information in a format appropriate to context and purpose of material Prepares clear and detailed information and instructions using format, structure and tone suitable to audience
Oral communication	<ul style="list-style-type: none"> Explains financial issues and requirements clearly, using facts and examples, and uses listening and questioning techniques to obtain sequenced instructions
Numeracy	<ul style="list-style-type: none"> Uses a limited range of mathematical calculations to reconcile amounts using whole numbers and decimals and arrange/compare numerical information
Navigate the world of work	<ul style="list-style-type: none"> Recognises, understands and monitors adherence to legislative and organisational requirements in undertaking own work
Interact with others	<ul style="list-style-type: none"> Understands the importance of using appropriate practices and protocols when handling confidential information
Get the work done	<ul style="list-style-type: none"> Takes responsibility for own workload and monitors adherence to specified goals and timelines Uses digital technologies to access, record, store, organise and compile data as required

What do you already know?

Use the following table to identify what you may already know. This may assist you to work out what to focus on in your learning.

Topic	Key outcome	Rate your confidence in each section
Topic 1 Maintain daily financial records	1A Maintain daily financial records	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	1B Identify, rectify and refer errors	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	1C Enter transactions into journals	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
Topic 2 Maintain general ledger	2A Maintain the general ledger	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	2B Post transactions to the general ledger	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	2C Reconcile systems for accounts payable and receivable with the general ledger	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	2D Prepare a trial balance from the general ledger	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
Topic 3 Monitor cash control	3A Accurately account for cash flow	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	3B Make and receive payments	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	3C Collect and follow up outstanding accounts	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	3D Check and dispatch payment documentation	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident

Topic 1

Maintain daily financial records

Organisations require numerous financial records to be maintained on a daily basis. It is essential that this is done accurately and within organisational and cost-effective time frames. If errors are identified, they need to be rectified or referred to a work colleague if you are not able to resolve them.

An organisation without adequate financial records will become inefficient, make poor decisions and ultimately lose control and money. Inefficiency lowers the image of the organisation and is likely to result in a loss of business.

In this topic you will learn how to:

- 1A Maintain daily financial records
- 1B Identify, rectify and refer errors
- 1C Enter transactions into journals

1A

Maintain daily financial records

Maintaining accurate daily financial records is an important way to minimise errors that cause delays and cost your organisation time and money. Each organisation has its own requirements for ensuring all accounting requirements are met.

The information that financial records provide helps to:

- plan future business directions
- improve business performance
- make wise business decisions
- provide control over business operations
- increase understanding of business operations
- obtain finance to continue or expand operations
- detect mismanagement within the organisation
- detect theft or fraud within the organisation
- calculate profits correctly
- prepare tax returns and other documents required by law.

Daily tasks

The necessary daily tasks will vary according to the nature and size of the organisation. In a very large organisation some tasks will be done daily; in a small organisation they may be done less frequently.

Maintaining daily financial records in a large organisation typically involves the tasks outlined below.

Receipting

- Receipt all money, whether it is received in the form of cash or as an electronic funds transfer.
- Record receipts and prepare a cash receipts journal. This may also be known as a 'Cash and Cheques Received Listing', a 'Cash Received Report' or a 'Daily Takings Report.' This report is useful for reconciling the amount received with the amount deposited at the bank at the end of the day.

Banking

- Prepare the bank deposit form accurately and in accordance with banking guidelines. This form may be generated from a computerised accounting system. Alternatively each bank provides bank deposit forms.
- Reconcile the total to the total of the daily cash receipts.
- Check credit cards and cheques for validity prior to banking.

Recording and balancing petty cash transactions

- Prepare petty cash vouchers.
- Distribute petty cash.
- Total, balance and reimburse petty cash according to organisational time frames.

Reconciling invoices for payment to creditors

- Check calculations.
- Identify, report on and rectify discrepancies.
- Resolve creditor inquiries.

(Invoices may not be processed on a daily basis – this depends on organisational policy.)

Preparing invoices for distribution to debtors

- Calculate, prepare and distribute accurate invoices.
- Record these invoices on the cash payments journal.
- File copies of the relevant invoices.

Preparing credit notes

- Prepare credit notes when required.

A credit note is prepared by a supplier when a purchaser returns goods. This may be because the quantity delivered is incorrect, the goods have been damaged or the goods do not meet the client's requirements.

Organisational requirements

The manner in which daily financial records are maintained is determined by the requirements of the organisation. These will depend on the organisation's size, how it is structured and the nature of its business.

For example, the requirements for an organisation in the public sector, such as a school or hospital, are dictated by the government department overseeing it, such as the Department of Education or Health. The organisational requirements for a private enterprise are developed internally and are specific to that organisation.

There are many organisational requirements you need to know about. Your organisation may also have procedures or requirements for reconciling journals and totalling adjusted journals.

Organisational requirements include:

- designated time lines
- legal and organisational policies, guidelines and requirements
- work health and safety policies, procedures and requirements
- quality assurance and/or procedures manuals
- resolution procedures
- security procedures.

Designated time lines

Working within designated time lines is crucial in any organisation.

Time lines are necessary to ensure efficient and punctual completion of tasks so the end product or service is produced/delivered according to the client's requirements. Designated time lines need to be realistic and achievable, and all employees need to be clear about them.



For example, many suppliers' invoices must be paid by the end of the month. This is typically a busy time for the department responsible for making these payments. They may require all invoices to be paid at the end of the month are submitted by the 20th day of that month to ensure they have time to process the payment. If an invoice is not submitted by this date, they will not be able to pay the supplier on time and the organisation may incur an interest charge.

Steps to producing financial reports

An organisation's accounting process consists of the steps required to record all of the transactions that take place, and to organise and collate this information before finally producing financial reports that are analysed and used in decision-making.

The accounting process is described in the sequence below.

Transactions
Transactions are the financial or economic exchanges between the organisation and other parties. Each transaction leads to the creation of source documents.
Journals
Every transaction is recorded in a journal. Specialised journals can be used to record information on similar transactions (for example, cash receipts journal or purchases journal).
General ledger
The information entered into the journals is posted to the general ledger. The organisation has a separate general ledger account for each asset, liability, owner's equity, revenue and expense item. This account records increases and decreases in each item's balance. The general ledger is the complete set of all of these accounts.

Trial balance

In double-entry accounting, all transactions must have an equal dollar amount of debits and credits recorded in the general ledger accounts. The trial balance is a statement that lists all of the accounts in the general ledger and their debit or credit balances, to ensure that the overall general ledger is in balance – debits equal all credit balances.

Balance-day adjustments

The balances in the general ledger accounts must be adjusted at the end of the accounting period before final reports can be prepared. These are called balance-day adjustments.

Accounting reports

The accounting reports are the end product of the accounting process and are generated from the information collected during the accounting period and recorded in the journals and general ledger accounts. There are many reports that can be prepared including income statements and a statement of financial position.

Accrual and cash accounting

An organisation's financial performance (profits) can be measured on either a cash or accrual basis, as shown here.

Cash basis

Under the cash basis of accounting, an organisation's revenues are recorded in the accounting period when cash is received and expenses are recorded when cash is paid. Cash in this sense refers to the act of payment, not the tender (tender can include credit card, cheque or barter as well as cash).

Accrual basis

Under the accrual method of accounting, revenues are recorded when they are earned (that is, when the business sells goods or performs services) and expenses are recorded when they are incurred in earning that revenue (that is, when goods and services are consumed). Thus, the concept of receiving or paying cash is not relevant in determining profit.

The concept of accrual accounting

If costs have been incurred but invoices not yet received (for example, by the end of the month), the finance department may choose to 'accrue' these to the month. This means that the cost will be treated as though it has been invoiced and then reconciled once the invoice is actually received. The accrual is reversed once the payment is processed. This process is known as accrual accounting. You should check if this is your organisation's practice and you may have to provide information to assist in this process.



Most organisations use the accrual basis of accounting because this most accurately determines the organisation's performance when there are transactions that overlap from one accounting period to the next.

Legal and organisational policies, guidelines and requirements

Every organisation has policies, guidelines and requirements in place that guide employees in performing their work in a safe and efficient manner. Policies and guidelines deal with broad issues, roles and functions.

It is important you have access to the policies and guidelines relevant to the organisation in which you work. They often exist for legal reasons and provide rules about how the organisation conducts its business and the responsibilities it has to its employees. These policies and guidelines are necessary to ensure debtors, creditors and employees are treated fairly and legally. Different legal guidelines apply to different types of organisations. Real estate agents and nursing homes, for example, will have different legal guidelines that apply to them.

Internal policies are created within an organisation and apply only to that organisation. These are usually collected in the organisation's policy manual, which sets out the organisation's aims and mission statement.

A policy manual can cover areas such as:

- privacy and confidentiality
- discipline
- financial management
- work health and safety
- client complaints
- administrative and records management
- grievances
- appeals.

Understand legislation

When maintaining financial records, you must be aware of your job-role and personal responsibilities, including the limits of your position. Among your responsibilities is the requirement to follow any legislation or guidelines that governments have put in place. You don't have to know all the details of the legislation, but you do need to know the types of things you must comply with, as your organisation can be held liable for any difficulties that arise if you have not followed procedures correctly.

Your organisation should have embedded relevant legislation and other practices into its policies and procedures; so if you follow these, then you are meeting your obligations in the workplace. However, when you are maintaining financial records, always be mindful of the organisational and legal expectations placed on you. Here is a summary of the important legislation you need to know about.

Anti-discrimination legislation

Anti-discrimination legislation is contained in a series of Commonwealth and State Acts that require workers and employers to treat everyone the same regardless of age, gender or background, and so on. The Commonwealth Acts include the:

- *Age Discrimination Act 2004*
- *Australian Human Rights Commission Act 1986*
- *Disability Discrimination Act 1992*
- *Racial Discrimination Act 1975*
- *Sex Discrimination Act 1984*.

Codes of practice and ethical principles

Codes of practice and ethical principles can be workplace-based or applied by a professional association; for example, the Australian Retailers Association Scanning Code of Practice or a workplace requirement to treat others sensitively and politely.

Privacy laws

Privacy laws are contained in the *Privacy Act 1988* (Cth) and described in 11 privacy principles; for example, making sure you store confidential information appropriately.

Work health and safety laws

Workplace health and safety (WHS) laws, which are state-based, essentially impose the same requirements on all employers and workers; for example, following safety directions when using equipment, following manual-handling guidelines or notifying your supervisor if work demands are causing stress.

Financial legislation

How financial legislation is to be applied may vary depending on your workplace. The exact nature of your job role will determine what legislation you need to know about and the level of detail required.

Work health and safety policies, procedures and requirements

WHS legislation is designed to protect the health, safety and welfare of all people at work. You therefore need to be aware of and know how to access current WHS legislation and other WHS documentation relevant to your specific workplace, occupation and industry. This documentation includes regulations, codes of practice and your organisation's health and safety policies and procedures.

Keeping up to date with this information is essential. One of the most significant changes has been the national WHS reforms that resulted in the development of the *Work Health and Safety Act 2011* (Cth) and model regulations and codes of practice. These reforms are designed to improve national WHS by simplifying the system and making laws more consistent across Australia.

The following table provides the name of the WHS legislation and the regulator responsible for its implementation in each state and territory, as at the time of publication.

Region	Legislation
Commonwealth	<i>Work Health and Safety Act 2011</i> (Cth) WHS regulator: Comcare http://aspirelr.link/comcare
Australian Capital Territory	<i>Work Health and Safety Act 2011</i> (ACT) WHS regulator: WorkSafe ACT http://aspirelr.link/worksafe-act
New South Wales	<i>Work Health and Safety Act 2011</i> (NSW) WHS regulator: SafeWork NSW http://aspirelr.link/safework-nsw
Northern Territory	<i>Work Health and Safety Act 2011</i> (NT) WHS regulator: NT WorkSafe http://aspirelr.link/worksafe-nt
Queensland	<i>Work Health and Safety Act 2011</i> (Qld) WHS regulator: Workplace Health and Safety Queensland http://aspirelr.link/worksafe-qld
South Australia	<i>Work Health and Safety Act 2012</i> (SA) WHS regulator: SafeWork SA http://aspirelr.link/safework-sa
Tasmania	<i>Work Health and Safety Act 2012</i> (Tas.) WHS regulator: WorkSafe Tasmania http://aspirelr.link/worksafe-tas
Victoria	<i>Occupational Health and Safety Act 2004</i> (Vic.) WHS regulator: WorkSafe Victoria http://aspirelr.link/worksafe-vic
Western Australia	<i>Occupational Safety and Health Act 1984</i> (WA) WHS regulator: WorkSafe WA http://aspirelr.link/worksafe-wa

Financial reporting requirements

A number of statutory requirements must be met when preparing financial reports and statements. The *Corporations Act 2001* (Cth) sets these out. All businesses need to keep financial and accounting records, but not all are required by law to produce a financial report. Financial reports include financial records, half yearly and annual financial reports, directors' reports and auditing documentation.

Financial statements relate to accounting processes and include profit and loss statements (financial performance), balance sheets (statement of financial position) and cash flow statements.

Financial performance statements

Financial performance statements show income and expenses for a particular financial year. Opening and closing balances are shown, as are transfers in and out. The document closes with the amount of profit retained by the business at the end of that financial year.

Financial position statements

Financial position statements show the assets, liabilities and equity in the business. Assets and liabilities may be listed separately as current or non-current.

Cash flow statements

Cash flow statements detail the cash coming in and out of the business over the financial year. They detail how much cash is held by the organisation at any point in time.

Accounting and organisational requirements

Specific rules exist that address the accounting treatment and disclosure requirements of various topics/issues within organisations. These rules are known as accounting standards.

In Australia, these accounting standards are developed by the Australian Accounting Standards Board (AASB). The AASB was formed under Part 12 of the *Australian Securities and Investments Commission Act 1989* (Cth).

For businesses and companies that are legally required to produce financial reports, the AASB has a number of standards according to the nature of the business. The current accounting standards can be accessed from the AASB's website at: <http://aspirelr.link/aasb>.

The accounting standards are legally binding and apply to organisations registered as companies under corporations law that are classified as reporting entities.

The purpose of accounting standards is to:

- detail procedures on the accounting for transactions
- detail disclosure requirements in financial reports
- ensure uniformity and consistency in accounting.

Quality assurance and/or procedures manuals

Quality assurance is the task of ensuring that an organisation works to the standards demanded of it within its industry. For example, an organisation may need to show that it maintains minimum standards of service to remain accredited and, therefore, eligible to remain legally operating. It ensures minimum standards are adhered to.

Organisations have procedures manuals to give employees access to 'best practice' guidelines within their organisation. They enable all employees to work within designated guidelines and provide direction and structure to the tasks they perform. Procedures ensure that employees who are performing similar roles within an organisation are following a common set of rules. By having structured procedures in place, it is more likely that quality assurance standards will be achieved.



Most large organisations have quality assurance and/or procedures manuals for staff with responsibility for maintaining daily financial records. These may include policies and procedures for giving refunds or credits to customers; rules about when staff can use petty cash or corporate credit cards; and daily procedures for receipting and banking.

Resolution procedures

An organisation needs to have procedures in place to enable systematic and streamlined resolution of complaints or other issues that clients may raise. Time frames and remedies are needed to ensure minimum disruption to business operations and that the client receives a satisfactory outcome.

Examples of resolution procedures may be:

- making a written explanation of business processes available to the client
- offering goods at a discount
- offering a refund or credit note
- replacing goods.

Security procedures

Security procedures exist to protect both the physical and human resource assets of an organisation and the clients they deal with. The physical resources refer to the buildings, furniture and fittings, equipment, stock, cash and capital. The human resources refer to the employees and owners/managers of the organisation.

Employees need to be well-trained and informed about organisational security procedures.

When preparing financial documents, your organisation may have a policy requiring separation of duties. This means that a single employee should not perform a series of flow-on tasks such as receiving cash, issuing receipts and preparation of banking. By separating duties (sharing them between several employees), an organisation can reduce the likelihood of theft or fraud.

Another important way to protect an organisation's physical resources is to maintain a detailed and up-to-date asset register. This gives the organisation a record of all equipment owned, and in the event of theft or damage, an insurance claim can easily be prepared.

Security can take several forms, including:

- electronic, such as passwords on computers and electronic devices such as cameras
- physical, such as deadlocks on doors, computers being securely attached to tables, fire-proof safes
- personnel, such as security guards.

Practice task 1

Read the case study, then answer the questions that follow.

Case study

Bernadette works as a customer service adviser at a public library. Her duties include assisting clients with queries about where to find library resources, processing resources being borrowed or returned, filing, and relocating returned resources. She is also responsible for issuing penalty notices for overdue resources and for collecting and processing money paid for overdue, damaged or lost resources.

The library policy for borrowing states, 'A client may borrow a maximum of five books for a period of four weeks and a maximum of four audio visual resources for two weeks.' The library policy for lost or damaged books states, 'The cost of resources that are lost or returned in such poor condition that they must be immediately replaced, is to be incurred by the borrower. The price is the replacement cost of the resource.'

Alby is a client of the library who approaches Bernadette. He would like to borrow eight books and five DVDs. He is going away for a month and would like to take them with him. Bernadette looks on the computer and sees that Alby has not yet returned two books that he borrowed three months ago. He tells her that he cannot find them. He has also returned a DVD that is badly damaged and can no longer be played. It was not damaged when he borrowed it.

1. What should Bernadette advise Alby regarding the number of books and DVDs he can borrow?

2. What should Bernadette advise Alby about the lost books and the damaged DVD?

continued ...

... continued

3. How will Bernadette calculate the penalty for the lost books and damaged DVD?

4. What should Bernadette advise Alby regarding the period of time he can borrow the resources for?

1B

Identify, rectify and refer errors

There will be times when you are checking or processing financial transactions in your organisation and you identify an error or discrepancy that needs to be rectified (corrected).

When discrepancies occur on financial documents the consequences may vary depending on the type of document, the extent of the discrepancy and the period of time that elapsed before the discrepancy was detected. For example, a discrepancy on a tax invoice may mean that a client is overcharged or undercharged, and a discrepancy on a purchase order could result in an incorrect quantity of goods being supplied.

You may be able to correct errors yourself. If you are unable to do this because you don't know how, or you aren't authorised to do so, refer the discrepancy to an authorised work colleague.

Discrepancies may occur for a variety of reasons, including:

- miskeyed data; for example, making a mistake when entering information such as an item code, price or quantity
- arithmetical errors; for example, adding amounts together instead of subtracting
- counting errors; for example, incorrectly counting cash in a till
- accounting errors; for example, entering debit amounts as credits.

Documents and transactions

Organisations sell goods and/or services as well as purchase goods and/or services. Invoices and credit notes are generated as a result of both types of transactions.

These include:

- sales invoices (or tax invoices)
- sales credit notes
- purchase invoices
- purchase credit notes.



A supplier of goods and/or services will forward an invoice to the buyer (purchaser) on supply of the goods and/or services. This invoice is called a sales invoice by the supplier and a purchase invoice by the buyer. Similarly, a credit note issued by a supplier is referred to as a sales credit note by them and as a purchase credit note by the buyer.

Sales invoices

Sales invoices are issued by suppliers to clients for goods or services they have ordered.

The Australian Taxation Office (ATO) specifies the information that an invoice must contain in order to be a valid tax invoice. Details can be found at:
<http://aspirelr.link/ato-tax-invoices>.

The following table, which you can use as a checklist, summarises the specific details required.

Requirement	Invoiced amount	
	Less than \$1,000	More than \$1,000
Display the words 'tax invoice' prominently	Yes	Yes
Include the date of issue of the tax invoice	Yes	Yes
Include the name of the supplier	Yes	Yes
Include the Australian Business Number (ABN) of the supplier	Yes	Yes
Include the name of the purchaser	No	Yes
Include the address or the ABN of the purchaser	No	Yes
Describe the items sold	Yes	Yes
State the quantity of each item sold	If applicable	Yes
Include the GST-inclusive total price of the invoice	Yes	Yes
Either state the GST component or, where the GST is exactly one-eleventh of the total amount, include words similar to 'The Total Price includes GST'	Yes	Yes

Example: a sales invoice

Here is an example of a sales invoice issued by Riko's Ski Supplies to High Country Sports Centre, a business that ordered goods from them.

Riko's Ski Supplies				
Shop 2/18 Slope Cres. Mt Pleasance 2985				
Phone: 02 9357 3215 Fax: 02 9356 8951 ABN: 11 935 367 369				
TAX INVOICE				
Date: 3 October 2019 Tax invoice no: 0369				
Sold to: High Country Sports Centre 62 Mountain Hwy Tiberoo, 2687				
Your order no: 188				
Item code	Qty	Description	Unit price	Total
LM96	25	Anti-glare goggles	\$15.50	\$387.50
TR52	15 pair	Ski boots – large	\$96.00	\$1440.00
PU27	20	Waterproof vests – medium	\$78.00	\$1560.00
			Goods Total	\$3387.50
			+ Freight	\$32.00
			+ GST 10%	\$341.95
Total amount owing				\$3761.45
Terms: 10% discount for payment within seven days				

Sales credit notes

Sales credit notes (sometimes also known as adjustment notes) are raised by a supplier in response to goods being returned by a client because goods supplied were damaged or were not meeting the client's needs.

A sales credit note will show the:

- contact details of both the supplier and the client
- credit note number
- date of issue
- details of the item code/part number, quantity, description, unit price and total value of the goods being credited and the amount of GST
- client's original order number
- number of the original sales tax invoice on which the goods were charged.

Example: a credit note

Look again at the previous sales invoice example.

Based on this information, the following credit note would be raised by Riko's Ski Supplies if High Country Sports Centre returned 10 goggles and five vests they didn't need.

Riko's Ski Supplies				
Shop 2/18 Slope Cres. Mt Pleasance 2985				
Phone: 02 9357 3215 Fax: 02 9356 8951 ABN: 11 935 367 369				
CREDIT NOTE				
Date: 5 October 2019				
High Country Sports Centre 62 Mountain Hwy Tiberoo 2687				
Credit note no: 635				
Your order no: 188			Our invoice no: 0369	
Item code	Qty	Description	Unit price	Total
LM96	10	Anti-glare goggles	\$15.50	\$155.00
PU27	5	Waterproof vests - medium	\$78.00	\$390.00
Excess supplies returned as per your request			+ Freight	Nil
			+ GST 10%	\$54.50
Total including GST and freight				\$599.50

Purchase invoices

A purchase invoice is received by an organisation (the buyer) from a supplier of goods and/or services once a purchase transaction has taken place. The invoice indicates the cost of the goods and/or service and the time frame permitted for payment to take place following the purchase. A purchase invoice is documentary evidence of a purchase that has taken place.

Example: a purchase invoice

Here is an example of a purchase invoice – received by Aqua Aquarium after it has ordered goods from Tibbals Pet Supplies.

Tibbals Pet Supplies				
173 Grange Street		Phone: 03 9248 3657		
Ascot Hills, 3974		Fax: 03 9248 6941		
ABN: 32 865 123 567				
TAX INVOICE				
Date: 25 August 2019 Tax invoice no: 0096				
Aqua Aquarium Shop 9/18 Waterford Street Oceanview 3485				
Your order no: 634				
Item code	Qty	Description	Unit price	Total
PL31	40	1 kg Coloured pebbles	\$21.00	\$840.00
FIL98	16	Small filters – 20 cm	\$12.50	\$200.00
F0034	12	1 kg Fine flakes	\$34.00	\$408.00
			Goods total	\$1,448.00
			+ Freight	\$46.00
			+ GST 10%	\$149.40
Total amount owing				\$1,643.40
Terms: 5% discount for payment within seven days				

Purchase credit notes

A purchase credit note is a financial document received by the purchasing organisation as a consequence of a credit being issued by a supplier.

Purchase credit notes may be received when:

- goods have been returned to the supplier (for example, they are faulty or no longer needed)
- the supplier has charged the wrong amount
- the supplier hasn't supplied the correct goods.



Example: a purchase credit note

Here is an example of a purchase credit note (commonly called an adjustment note) received as a result of Aqua Aquarium returning coloured pebbles and small filters to Tibbals Pet Supplies.

Tibbals Pet Supplies				
173 Grange Street		Phone: 03 9248 3657		
Ascot Hills 3974		Fax: 03 9248 6941		
ABN: 32 865 123 567				
CREDIT NOTE				
Date: 29 August 2019 Credit note no: 368				
To: Aqua Aquarium Shop 9/18 Waterford Street Oceanview 3485				
Your Order No: 634			Our Invoice No: 0096	
Item code	Qty	Description	Unit price	Total
PL31	20	1 kg Coloured pebbles	\$21.00	\$420.00
FIL98	6	Small filters – 20cm	\$12.50	\$75.00
			+ Freight	Nil
			+ GST 10%	\$49.50
Total including GST and freight				\$544.50

Discrepancies and errors

Organisations should have detailed and strict procedures for creating, authorising and processing financial documents. These procedures are designed to prevent and detect errors and fraud, which are costly to an organisation.

When processing documents, you must check the information provided in the document is accurate and meets company and legislative requirements.

In particular, be aware that discrepancies and errors may appear in the following transactions and bank documentation.



Bank charges



Dishonoured cheques



Errors between source documents
and journals



Interest

Bank charges

Bank charges include fees charged for transactions such as cheques written, assisted withdrawals, direct payments, online payments and EFTPOS, as well as for the provision of account, loan or overdraft facilities. These charges need to be clearly stated by the bank and understood by the account holder.

Your bank will issue a periodic statement of all debit and credit transactions on your account, typically monthly. It is important to check these statements carefully to ensure the correct amounts have been charged.

The fees charged will depend on the policies of your organisation's bank, the type of account held and the associated charges that apply to that account. It is important to check regularly that the correct charges have been debited as it can be time-consuming and confusing to sort out discrepancies with a bank if much time has lapsed.

Common types of fees to check

- Account-keeping fees – do they apply and if so, how often are they charged?
- Merchant fees, for organisations that use EFTPOS or process credit cards – ensure the correct fee has been charged
- Overdraft facility charges – do these apply when your account is in credit?

Dishonoured cheques

A dishonoured cheque refers to a cheque written for an amount that is in excess of the balance in the client's bank account. If this occurs the bank may not 'honour' the cheque – meaning it is not processed. The cheque is returned to the payee (the person the cheque is made out to).

Most banks will charge a dishonour fee to the bank account of the payee as well as to the person who wrote the cheque. Therefore, this becomes an added cost to the organisation and the debt remains outstanding. Many organisations pass this cost back to the client.



Journals

Journals are a record of an organisation's financial transactions, stored in date order. The specific types of journals are shown below.

General journal
Records the movement of money between accounts within the organisation
Cash payments journal
Records cash payments made (including payments made by cheque and by credit card)
Cash receipts journal
Records the receipt of cash money (including cheques and credit card payments)
Purchases and returns journals
Records purchases where payment was not made on the spot; for example, purchases made on account
Sales and returns journals
Records transactions where payment was not made on the spot; for example, sales made to a client who has an account with the organisation

Source documents

The financial records themselves are contained in the source documents. Source documents are 'accountable documents', meaning they must be accurate and kept for a period of seven years for auditing purposes.

Source documents include:

- purchase orders
- delivery docketts
- invoices
- credit notes
- statements
- cheque stubs
- receipts.

Errors between source documents and journals

Errors can occur when transposing information between source documents and journals. Such errors will only be detected when the source documents are reconciled against the journals. Tracing these errors can be time-consuming – which emphasises the need for careful and methodical data entry and record keeping.

Interest

Interest is a cost that a financial institution (such as a bank) charges an individual or organisation for the privilege of borrowing money. It is typically calculated as a percentage rate and deducted from the bank account of the borrower. Interest paid may be a tax deduction for the borrower if it meets guidelines set by the ATO.

Interest is also paid to an individual or organisation by a financial institution that holds their money. For example, if an organisation has funds in excess of those required to pay upcoming expenses, it may invest these funds in an interest-bearing account or term deposit. This means that the financial institution will pay interest to the organisation at an agreed rate while it holds those funds.

If your organisation is paying interest, it is important that someone within your organisation is responsible for ensuring the interest is charged at the correct rate and debited at the agreed interval of time; for example, monthly or quarterly.

If your organisation is earning interest, it is also important to check that the correct interest is credited to the account at the predetermined time.

Check for discrepancies and errors

An organisation may provide a checklist for employees to follow when checking the accuracy of invoices and credit notes. Here is a sample checklist that may be used by authorised staff. (Source: *Horsfall, M 2000*)

Check the details

Check that the amount/unit, description (including colour etc.) details are correct.

Check the prices

Check the price list to confirm that the unit cost is correct; if any items are incorrect, insert the correct price.

Check calculations

Check that all calculations are correct, including trade discount and all totals; if any are incorrect, alter the invoice accordingly.

Report errors

If any errors or omissions have appeared, advise your supervisor or manager immediately.

Fix mistakes

The sale of goods and services is an organisation's main source of revenue, so it is important that sales documents are accurate and correctly authorised.

All documents should be double-checked when being issued or received. Should you discover an error or discrepancy in an invoice before it is sent out, make sure it is corrected before the invoice is forwarded to the debtor. If the invoice has already been forwarded, you must report the error to your supervisor or follow your organisation's procedures.

An organisation must have a system of checking for and correcting irregularities that may occur.

Mistakes in source documents are frequently due to:

- miskeyed data
- arithmetical errors
- counting errors
- accounting errors.

Check financial documents

You can use the following sample checklist for checking financial documents within your organisation.

Sample checklist for checking financial documents

Check the following:

- Document title; for example, tax invoice, adjustment note, receipt
- Date
- Document number
- Organisation name, address and phone number/s
- ABN
- Customer/supplier details where applicable; for example, name, order number

You should also check that:

- all extension calculations are accurate (invoices and adjustment notes)
- document totals are correctly calculated
- GST, if applicable, is correctly calculated
- terms and conditions, where applicable, are clearly stated
- the document is prepared in duplicate where necessary
- cheque butts are fully completed with all necessary information.

Involve other people

It may not be appropriate for you to handle all discrepancies and errors within your organisation. Sometimes you may need to refer these to your work colleagues to rectify. This may be the case if you don't know how to rectify the problem or if you don't have the authority to do so. Other discrepancies may need to be referred to someone outside your organisation to further investigate, such as a bank or a statutory body.

Persons and organisations you may need to refer discrepancies to include:

- a supervisor
- line managers
- the authorisation department
- banks
- statutory bodies.

Supervisors and line managers

If you identify a discrepancy that you are not authorised to resolve or that you are unable to resolve, you should consult your supervisor. Your supervisor may need to refer the discrepancy to his or her line manager, but that decision rests with your supervisor.

The organisational structure within a large organisation is usually based on line organisation. This means that line managers are responsible for key areas and use staff specialists to assist them in specific ways. For example, the accounts manager may use the skills of the personnel department in selecting a new employee. The personnel department, in turn, uses the skills of the accounts department to pay temporary staff and other invoices.

Depending on your organisational policies, you may need to involve your line manager in the situations shown below.

Significant discrepancy

You identify a significant discrepancy or error.

Sensitive matters

You are dealing with a particularly sensitive matter; for example, a serious complaint from, or a legal dispute with, a key customer or supplier where you do not have the authority to make decisions about the matter as it involves a large sum of money.

Referral required

A matter is to be referred to an external organisation or statutory body.

Authorisation department

Authorisation within an organisation refers to granting approval. The authorisation department within an organisation is responsible for assigning authority to employees to carry out certain functions, such as being responsible for maintaining the petty cash system, ordering cleaning supplies, issuing tax invoices to debtors, preparing bank deposits or preparing monthly statements.

Authorisation of employees is an important security feature within an organisation.

Separation of duties should prevent a single employee from performing a series of consecutive tasks. This reduces the likelihood of theft or fraud. Separation of duties can only occur when employees are clear about what they are and are not authorised to do, and these lines of authority are enforced.

Authorisation of employees may influence a number of factors as shown below.

Types of expenditure

The types of expenditure that an employee is entitled to make on the organisation's behalf

Financial decisions

Other financial decisions that an employee is entitled to make on the organisation's behalf

Spending entitlements

The amounts of money that an employee is entitled to spend on the organisation's behalf, either in a single purchase or in total

Banks

Generally banks will be involved in rectifying problems that relate directly to transactions processed by the bank. Examples of discrepancies that may need to be referred to the bank are shown here.

Deposit and receipt inconsistency

Discrepancy between the amount of money receipted into the organisation's records and the amount recorded in the bank deposit

Cheque details differ

Discrepancy between the amount of a cheque recorded in the organisation's financial records and the amount recorded on the bank statement

Direct debit or direct credit query

Query regarding a direct debit or direct credit processed by the bank

continued ...

... continued

Interest variation

The amount of interest charged to the account differs substantially from the previous month

Dishonoured cheque fees

Two cheques are dishonoured but the dishonour fee for one is more than the other

Statutory bodies

One aim of any organisation is to please clients and meet their needs. An organisation also has a duty to give clients information about alternative sources of help.

Sometimes an organisation can't help the client because they don't stock a given product or provide a certain service or they aren't able to resolve a dispute satisfactorily. They may also be unable to give the client the information they need.

The sort of advice or information provided to the client may be:

- details of alternative suppliers or service providers
- details about their regulatory body (a regulatory body is set up to ensure that the organisation carries out what it promises to do).

Refer matters to statutory bodies

The organisation may refer a matter to a relevant statutory body, which is a government-appointed body (usually appointed through an Act of Parliament).

An example of a statutory body that may be helpful to an organisation is the Environment Protection Authority (EPA) Victoria (or the authority in your state or territory). The EPA aims to minimise waste and prevent pollution and industrial noise through the enforcement of the *Environment Protection Act 1970* (Vic).

Industry Ombudsman offices are not technically statutory bodies. However, they do provide free and independent alternative dispute resolution schemes for small business and residential consumers in Australia with unresolved complaints about various services.

Examples of Industry Ombudsman offices are shown here.



Commonwealth Ombudsman: handles complaints about Australian government agencies



Telecommunications Industry Ombudsman: handles complaints from consumers about their telephone or internet services

Practice task 2

- Look at the delivery docket below and use the following checklist as a guide to identify any discrepancies in the corresponding sales invoice.
 - Check that the amount/unit, description (including colour etc.) details are correct.
 - Check the price list to confirm that the unit cost is correct; if any items are incorrect, insert the correct price.
 - Check that all calculations are correct, including trade discount and all totals; if any are incorrect, alter the invoice accordingly.
 - If any errors or omissions have appeared, advise your supervisor or manager immediately.

North West Electrical Supplies

910 Carrier Street Phone: 03 9657 6241
 Mulgrave 3954 Fax: 03 9657 9687
 ABN 96 545 621 325

DELIVERY DOCKET

Date: 30 November 2015 **Docket no:** F6298

Delivery to:

North City Extravision
 4/564 City Road
 Centrefield 3654

Your order no: 987

Item code	Quantity	Description
PDE1965	6	Alco 1300 dishwashers
URO6871	10	Carrier air-conditioners – split system 500R
PWU6421	12	Sonny 48-inch plasma televisions

Deliver to back of store – entrance off Miller Street

Signature of authorised personnel:

Signature:

Date:

continued ...

... continued

North West Electrical Supplies				
910 Carrier Street		Phone: 03 9657 6241		
Mulgrave 3954		Fax: 03 9657 9687		
ABN 96 545 621 325				
INVOICE				
Date: 5 December 2015		Tax invoice no: 005341		
Sold to:				
North City Extravision				
4/464 City Road				
Centrefield 3654		Your order no: 978		
Item code	Qty	Description	Unit price	Total
PDF1965	6	Alco 1500 dishwashers	\$895	\$5,370
URO6871	12	Carrier air-conditioners – split system 500R	\$2,145	\$25,740
PWU6421	12	Sonny 48-inch plasma televisions	\$2,305	\$27,660
			Goods total	\$58,770
			+ 10% GST	\$5,877
Total amount owing				\$64,647
Terms: 10% discount for payment within seven days				

Use the following blank invoice to record the correct information, highlighting the discrepancies.

North West Electrical Supplies				
910 Carrier Street		Phone: 03 9657 6241		
Mulgrave 3954		Fax: 03 9657 9687		
ABN 96 545 621 325				
INVOICE				
Date:		Tax invoice no:		
Sold to:				
Your order no:				
Item code	Qty	Description	Unit price	Total
			Goods total	
			+ 10% GST	
Total amount owing				
Terms: 10% discount for payment within seven days				

continued ...

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2. Assume you are the person responsible within your organisation for performing the monthly bank reconciliation. You are looking at the current bank statement and notice the following discrepancies:
- the amount of interest charged to the account was almost twice the amount of the previous month
 - there have been two cheques dishonoured within the last month and the dishonour fee for the second one was \$10 more than the first one.

Explain how you would go about investigating these discrepancies. What factors might influence the first discrepancy?

3. Read the case study, then answer the questions that follow.

Case study

Tran works in the accounts department of Big Company Inc. He is usually responsible for processing and paying suppliers' sales invoices. He does not have authorisation to approve any expenditure himself.

His supervisor has asked him to conduct an audit and review the accounts that were processed during the past month. This is part of a plan by the manager of the accounts department to review expenditure across the organisation.

In his review, Tran has identified a number of irregularities. What should he do to ensure that each of the following irregularities is resolved?

- a) A supplier has been accidentally underpaid by \$100 for an approved \$11,000 invoice

continued ...

... continued

b) A customer has overpaid an invoice by \$12,000

c) A major client is in breach of its credit terms

d) A supplier has not supplied their ABN on a tax invoice

e) A payment that was made by direct debit has not appeared in the organisation's bank account

f) A new staff member has approved a large payment that she did not have authority to approve

1C

Enter transactions into journals

Recording financial transactions as they take place is called bookkeeping.

The process of maintaining financial records begins with these transactions. The transactions are recorded in business or source documents, which are then classified and summarised into sales and purchases, general and cash journals. Journals contain the summarised content of all like transactions.

These journals are then 'posted' to the general ledger, the accounts payable ledger and the accounts receivable ledger. This process is referred to as the bookkeeping cycle.

Debtors and creditors

Financial transactions happen between debtors and creditors. For every instance where money is lent/borrowed, there is a creditor and a debtor.

A business or person who lends money or gives credit to another organisation or person is described as a creditor. Many businesses are creditors because they allow customers to purchase items on credit – they essentially lend the customer the money to make the purchase.

Debtors are those who owe someone or an organisation money. An organisation that purchases goods using a delayed payment arrangement is considered a debtor.

This means that an organisation or person can be a debtor and a creditor at the same time.

As an example, a bank provides a loan to a hardware store, making the bank the creditor and the hardware store the debtor. If the hardware store regularly sold materials to a builder who paid for them at the end of each month, the hardware store is a creditor and the builder is a debtor.



Credit transactions

Credit transactions are transactions that add to an organisation's financial worth. They will show as a credit in the organisation's bank account.

Credit transactions will be posted to the general journal, cash receipts journal, sales journal and purchases returns and allowances journal.

Credit transactions may be in the form of cash, cheque, credit card payment or electronic payment, such as direct credit and EFTPOS. All payments received from debtors are credit transactions.

Credit transactions include:

- cash and credit sales
- purchase returns and allowances
- interest received from a bank.

Debit transactions

Debit transactions are transactions that are a cost to an organisation. They appear as a debit to the organisation's bank account. Debit transactions are posted to the cash payments journal, purchases journal, general journal, and the sales returns and allowances journal. All payments made to creditors are debit transactions.

Debit transactions include:

- cash and credit purchases
- sales returns and allowances
- interest paid to a bank
- charges.

Journals

The manual bookkeeping process requires the information recorded on source documents to be entered into journals, which have been designed to record specific data from the documents and are used for different purposes. These journals are then 'posted' to the general ledger, the accounts payable ledger and the accounts receivable ledger.

The advantages of using journals include that:

- similar document data is brought together and simplified
- transactions are recorded in chronological (date) order
- data can be recorded concisely
- summarised information is readily accessible
- management can interpret the information more easily than by looking at many individual source documents
- division of duties occurs; for example, one person may look after debtors, another may look after creditors
- posting information to the ledgers is made easier.

Cash payments journal

The cash payments journal is used to record payments made by the organisation. The source documents for this journal are the receipts for payments for purchases, cheque butts and the bank statements.

The cash payments journal includes:

- day-to-day expenses, such as telephone, electricity, rent and wages
- purchases paid by cheque, EFTPOS and direct debits shown on the bank statement
- withdrawal of cash by owner (drawings)
- reimbursement of petty cash advance
- payments to creditors
- interest charges and bank fees
- dishonoured cheques
- discounts received from a creditor.

Example: cash payments journal

A cash payments journal may be presented in the following format.

Cash payments journal											
Date	Particulars	Chq. no.	Discount received			Reason for payment				Bank \$	
			ITC adj. \$	Disc. rec'd \$	Creditors \$	Creditors \$	Cash purchases \$	Sundries \$	ITC \$		
2018											
Dec 1	Telephone	501						150.00		15.00	165.00
Dec 4	Purchases	502				650.00				65.00	715.00
Dec 5	Rent	503						450.00		45.00	495.00
Dec 6	Wages	504						850.00			850.00
Dec 7	Drawings	505						600.00			600.00
	J Hynes	506	5.00	50.00	55.00		945.00				945.00
	P Rowe	507	2.00	20.00	22.00		528.00				528.00
Dec 8	Donations	508						50.00			50.00
	Cleaning	509						100.00		10.00	110.00
	Totals		7.00	70.00	77.00	650.00	1,473.00	2,200.00		135.00	4,458.00

Understand the cash payments journal

Information required to complete the cash payments journal is sourced in the following ways.

The columns in this format are used to record the following data:

Item	Explanation
Date	Date written on the cheque
Particulars	Details of who/what is being paid
Chq. no.	The number of the cheque (in chronological order)

You should make particular note of the following two sections of the journal:

- The 'Discount received' section, which is used to record any discounts received from a creditor when the creditor is paid. Discount received from a creditor is recorded in the following columns:

ITC adj.	The amount of input tax credit (GST amount) included in the total discount received
Disc. rec'd	To record the discount received (excluding the GST component)
Creditors	To record the total amount of discount received

- The 'Reason for payment' section, which records payments as:

Creditors (accounts payable)	The payment to a creditor (for goods purchased on invoice)
Cash purchases	Cash purchases of trading stock (note that stock purchased on credit is recorded in the purchases journal)
Sundries	Any items that do not fall into the other payment categories; for example, donations, drawings and asset purchases
ITC	The amount of input tax credits (GST paid) in the payment
Bank	Total of all amounts paid for each transaction type

Cash receipts journal

The details from receipts issued, cash register rolls (CRR), cheques received listings, EFTPOS summaries and direct credits shown on the bank statement are recorded in the cash receipts journal.

A cash receipts journal records all amounts received by an organisation and includes:

- capital contributions in cash by owner/s
- payments received from debtors
- cash sales of trading goods
- other sources of revenue, such as commission, rent received and interest revenue
- amounts received from the sale of assets such as motor vehicles or office equipment.

Receipts

When goods are sold, a receipt of some form is given to the client.

Receipts can be a:

- cash register docket
- computer-generated receipt
- handwritten receipt
- EFTPOS docket
- credit card docket.

Example: cash receipts journal

A cash receipts journal may be presented in the following format.

Cash receipts journal											
Date	Particulars	Rec. no.	Discount expensed			Reason for receipt				Bank \$	
			GST adj. \$	Disc. expense \$	Debtors \$	Debtors \$	Cash sales \$	Sundries \$	GST \$		
Dec 18											
1	Sales	CRR					5,000.00			500.00	5,500.00
4	I Young	420	1.00	10.00	11.00	549.00					
	Sales	CRR					4,500.00			450.00	5,499.00
5	Commission	421							500.00		
	Y Nguyen	422	2.00	20.00	22.00	1,078.00					
	Sales	CRR					3,500.00			350.00	5,478.00
6	Rent received	423							400.00	40.00	
	Sales	CRR					3,500.00			350.00	
	H Tan	424	3.00	30.00	33.00	957.00					
	A Phillips	425	1.00	10.00	11.00	264.00					5,511.00
	Totals		7.00	70.00	77.00	2,848.00	16,500.00	900.00	1,740.00	21,988.00	

Understand the cash receipts journal

Information required to complete the cash receipts journal is sourced in the ways shown below.

The first three columns of the journal record the following data.

Item	Explanation
Date	Date of the transaction
Particulars	Details of the transaction
Rec. no.	The number on the receipt issued to a client/organisation as evidence of payment

Note that this journal format includes two sections:

- The 'Discount expensed' section, which is used to record the amounts relating to discounts given by the business to debtors when they pay their account. The three columns are used as follows:

GST adj.	To record the amount of GST on the discount
Disc. expense	To record the amount of discount (exclusive of GST)
Debtors	To record the total amount of discount (inclusive of GST) granted to the debtor

- The 'Reason for receipt' section, which records:

Debtors	The amount received from clients (debtors) – these will be the clients who were sold stock previously on invoice
Cash sales	The cash sale of trading stock (note: credit sales of stock are recorded in the sales journal)
Sundries	Amounts for reasons other than debtor payments and cash sales such as commission, asset sales etc.
GST	The amount of GST collected and recorded on the tax invoice (receipt)
Bank	Total of all amounts received for the day; this should correspond with the total amount recorded on the daily Bank Deposit Slip

Purchases journal

The purchases journal is used to record credit purchases of trading stock, in date order.

The source documents for the purchases journal are the tax invoices (purchase invoices) received from suppliers (creditors) who have provided goods on credit.

Once an invoice has been received, it must be checked for accuracy and validated by an authorised person before being entered into the purchases journal.



Example: a purchases journal

Here is an example of a purchases journal.

Marmer Trading purchases journal						
Date	Creditor	Folio	Tax Inv. no.	Purchases \$	Input tax credits \$	Total \$
4.11.18	Better Imports		B1249	1,200	120	1,320
13.11.18	Excellent Manufacturing		5901	2,500	250	2,750
17.11.18	B Tomms		105	950	95	1,045
20.11.18	Better Products & Co		A1959	1,050	105	1,155
28.11.18	Excellent Manufacturing		5995	1,500	150	1,650
Monthly totals				7,200	720	7,920

Understand the purchases journal

The columns in the journal are used to record the following details from tax invoices.

Date	Date of invoice
Creditor	Name of person or organisation supplying the goods on credit
Folio	Ledger account number (this column is left blank for this unit)
Tax Inv. no.	Number of the invoice
Purchases	Buying price of the goods purchased from the creditor, excluding GST
Input tax credit	The amount of GST charged on the invoice
Total	Total amount payable on the invoice

You should cross-check all additions, making sure that total purchases plus total input tax credits equals the overall purchases journal total.

Check the accuracy of the purchases journal against your purchases invoices for the month. They should be the same.

Purchases returns and allowances journal

The source documents for the purchases returns and allowances journal are the credit notes received from suppliers (purchase credit notes).

The purchases returns and allowances journal is used to record:

- all credit-purchased returns to suppliers
- any allowances made for slightly damaged goods
- any allowances made as a result of overcharging by the supplier.

Example: a purchases returns and allowances journal

A purchases returns and allowances journal could be presented in the following format.

Purchases returns and allowances journal						
Date	Creditor	Folio	Adjust note no.	Purchases returns \$	Input tax credits \$	Total \$
24.11.18	Better Products & Co		B208	150.00	15.00	165.00

Understand the purchases returns and allowances journal

The columns in the journal record the following information from the supplier's credit note.

Date	Date of adjustment note
Creditor	Name of person or organisation supplying the goods on credit
Folio	Ledger account number (this column is left blank for this unit)
Adjustment note no.	Number of the adjustment note
Purchases returns	Value of credit given excluding GST
Input tax credits	The reduction in input tax credits arising from purchases returns and allowances
Total	Total value of the adjustment note

Sales journal

When a business sells goods on credit, it issues the client with a tax invoice (sales invoice). The details of tax invoices issued to clients are entered into a sales journal. A tax invoice:

- describes the goods
- shows the value of the goods
- stipulates the amount of GST charged
- states the total amount owed by the client.

Sales journals show all the goods and/or services that have been sold to customers. Here are some features of a sales journal that you need to remember.

- Recording invoices: Each tax invoice is recorded by entering both date and invoice number order.
- Cancelled invoices: Every invoice must be recorded, even those that have been cancelled. This is to ensure that no invoice is inadvertently omitted.
- Invoice totals: Invoice totals are recorded, not individual items listed on the invoice.

Example: a simple sales journal

A simple sales journal has the following format.

Simon's Hardware sales journal						
Date	Debtor	Folio	Tax inv. no.	Sales \$	GST payable \$	Total \$
2018						
Oct 28	Best Corporation		00365	700.00	70.00	770.00
Oct 28	Nicholls & Assoc		00366	945.00	94.50	1,039.50
Oct 28	Fredericks Bros.		00367	1,285.50	128.55	1,414.05
Oct 29	Townsend Industries		00368	846.80	84.68	931.48
Monthly totals				3,777.30	377.73	4,155.03

Understand the sales journal

The columns in the sales journal are used as shown here.

Note that many organisations sell more than one product and require the sales journal to record the sales of each product separately.

Date	Date of invoice
Debtor	Name of person or organisation buying the goods on credit
Folio	Ledger account number (this column is left blank for this unit)
Tax inv. no.	Number of the invoice
Sales	Selling price of the goods sold to the debtor, excluding GST
GST payable	Amount of goods and services tax being charged on goods
Total	Total amount payable on the invoice

Sales returns and allowances journal

The source documents for the sales returns and allowances journal are the adjustment notes that your organisation has issued (sales credit notes).

The sales returns and allowances journal is used to record:

- all credit sales returns from clients
- any allowances made for slightly damaged goods
- allowances for when a client has been overcharged.

Example: a sales returns and allowances journal

A sales returns and allowances journal could be presented in the following format.

Sales returns and allowances journal						
Date	Debtor	Folio	Adjust note no.	Sales returns \$	GST payable \$	Total \$
5.11.18	Best Corporation		105	200.00	20.00	220.00
11.11.18	Frederick Bros.		106	348.00	34.80	382.80

Understand the sales returns and allowances journal

The columns in the journal would record the information shown below.

Date	Date of adjustment note
Debtor	Name of person or organisation receiving the adjustment
Folio	Ledger account number (this column is left blank for this unit)
Adjust note no	Number of the adjustment note
Sales returns	Value of credit given excluding GST
GST payable	Amount of GST to be adjusted due to credit given
Total	Total value of the adjustment note

Example: a tip for determining the GST amount

If the total GST-inclusive cost of a stock item is \$165, divide this cost by 11 to determine the amount of GST paid.

$$\mathbf{\$165 \div 11 = \$15 \text{ (inclusive price } \div \mathbf{11 = GST amount)}$$

Then take this amount from the original price to find its actual cost.

$$\mathbf{\$165 - \$15 = \$150 \text{ (inclusive price - GST amount = actual cost)}$$

(Or multiply the GST amount by 10 to find the actual cost: $\$15 \times 10 = \150)

Guidelines for reconciling journals

Completed journals are totalled and reconciled against the source documents to ensure they have been accurately entered. This means that each figure is checked to ensure it has been entered correctly. The checking process is different for manual and electronic systems, as shown below.

Electronic systems

If you are using an electronic accounting system, journals are totalled automatically.

Manual systems

If you are using a manual system, each journal should be checked to ensure that each column adds up and that the total of the source documents plus the GST equals the total of the relevant journal.

Procedures for totalling adjusted journals

Totalling journals is a form of cross-checking to make sure all the details entered are correct. You can total each section of the journal to ensure that the sum of the sections is the same as the overall total for the journal.

For example, to total the sales returns and allowances journal, calculate the total sales returns plus the total GST payable. This should equal the overall journal total.

Most journals are totalled in a similar way.



General journal

The general journal contains separate, unrelated transactions. Unlike other journals, the general journal is not totalled at the end of the month.

The columns in this journal are used to record the following information.

- Date: to record the date of the transaction
- Particulars: shows accounts affected by the transaction (for every transaction, at least two accounts are affected); describes the reason for the transaction
- Folio: the ledger account code (left blank for this unit)
- Debit: shows amount to be debited to an account
- Credit: shows amount to be credited to an account

A general journal has the following format.

General journal				
Date	Particulars	Folio	Debit \$	Credit \$

Double-entry accounting and the general journal

When recording transactions in the general journal, you must apply the rules of double-entry accounting.

The general journal can be used to record the following transactions:

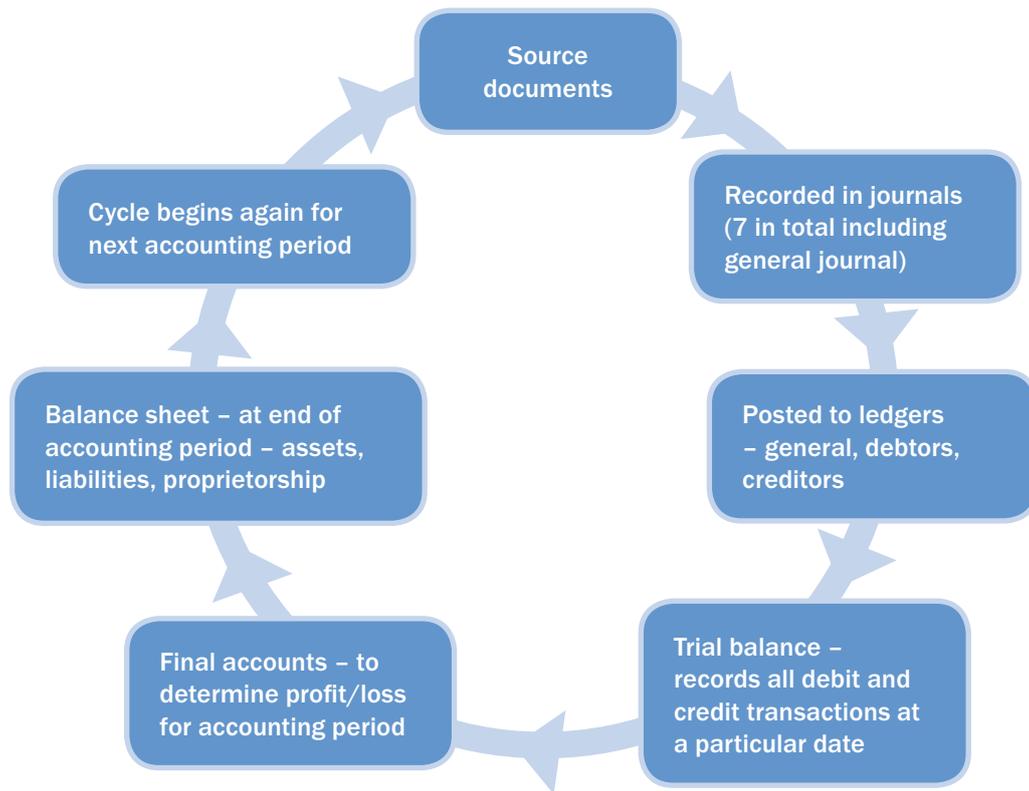
- Commencement of business
- Correcting posting errors
- Interest expense accrued on creditors' accounts
- Interest receivable accrued on debtors' accounts
- Contra entries
- Purchase of a fixed (non-current) asset on credit
- Sale of a fixed (non-current) asset on credit
- Withdrawal of stock/assets by owner
- Writing off a bad debt

The bookkeeping cycle

As with all financial transactions, it is critical that journal entries are accurate.

Journals form an early part of the whole bookkeeping cycle. The journals posted to the general, debtors (accounts receivable) and creditors (accounts payable) ledgers need to be accurate to ensure that the flow-on information is accurate, reliable and valid.

Here is an overview of the bookkeeping cycle.



Accuracy

As the information in the journals forms the basis of the ledgers, trial balance, profit and loss statement and balance sheets, it is essential that all journals are cross-checked against the source documents and proofread. You should report any errors to your supervisor and make sure they are corrected as soon as possible.

Here are the things to check for a cash payment and cash receipts journal.

Cash payments journal

The cash payments journal should be cross-checked against cheque butts and bank statements.

Cash receipts journal

The cash receipts journal should be cross-checked against the receipt book, cash register roll and bank statements.

Promptness

Just as the accuracy of journal entries is critical, it is essential they are made promptly to ensure that an organisation's financial reports are completed within designated time lines.

If source documents are not entered into journals promptly, there is also a risk they may be misplaced or overlooked.

If journals are not updated promptly, the reports that flow on from them (ledgers, profit and loss statements and balance sheets) will not accurately reflect the current financial situation of the organisation.



Practice task 3

Use the blank journals provided to enter the following transactions into the relevant journals.

Date	Transaction	Amount	Document no.
2015			
Aug 1	Cash drawings – Owner B Bryce	\$1,000.00	Cheque 401
Aug 1	Credit sales – L Lani – GST inclusive	\$770.00	Invoice 7563
Aug 2	Refund – R Gales (Client) – Overcharged – GST Inc	\$390.00	Adjust note 192
Aug 2	Cash Sales – Bella King – GST inclusive	\$585.00	Receipt 206
Aug 3	Credit purchase – KYF Nominees – trading goods – GST inclusive	\$874.00	Invoice 955
Aug 3	Cash purchase – Cleanways Cleaning Supplies – GST inclusive	\$990.00	Cheque 402
Aug 4	Paid wages – EFT to employee accounts	\$5,261.00	EFT no. 812
Aug 4	Credit sales – Raja Emporium – GST inclusive	\$1,012.00	Invoice 7564
Aug 5	Damaged goods returned to Fletchers Catering (Supplier) – GST inclusive	\$648.00	Credit note 19
Aug 5	Cash Sales – Computer sold to W Beattie – GST inclusive	\$1,200.00	Receipt 207

continued ...

... continued

Cash payments journal											
Date	Particulars	Chq. no.	Discount received			Reason for payment				Bank \$	
			ITC adj. \$	Disc. rec'd \$	Creditors \$	Creditors \$	Cash purchases \$	Sundries \$	ITC \$		
2015											

Cash receipts journal											
Date	Particulars	Rec. no.	Discount expensed			Reason for receipt				Bank \$	
			GST adj. \$	Disc. expense \$	Debtors \$	Debtors \$	Cash sales \$	Sundries \$	GST \$		
2015											

continued ...

... continued

Practice task 3

Purchases journal						
Date 2015	Creditor	Folio	Tax Inv. no.	Purchases \$	Input tax credits \$	Total \$

Purchases returns and allowances journal						
Date 2015	Creditor	Folio	Credit note no.	Purchases returns \$	Input tax credits \$	Total \$

Sales journal						
Date 2015	Debtor	Folio	Tax inv. no.	Sales \$	GST payable \$	Total \$

Sales returns and allowances journal						
Date 2015	Debtor	Folio	Adjust note no.	Sales returns \$	GST payable \$	Total \$

Summary

1. Daily financial records must be maintained according to organisational requirements.
2. It is essential that daily financial records are maintained accurately and in a timely manner to minimise errors.
3. All credit and debit transactions must be accurately entered into relevant journals promptly and according to organisational procedures.
4. If errors are identified, they need to be rectified promptly or referred to designated persons either within your organisation or external authorities such as banks.

Learning checkpoint 1

Maintain daily financial records

This learning checkpoint allows you to review your skills and knowledge in maintaining daily financial records.

Part A

Answer the following questions.

1. List the financial record maintenance tasks that are likely to need daily attention within a large organisation.

2. Why is it important that organisations follow policies and procedures when processing financial records? Explain what is contained in an organisation's policy manual.

3. Explain the reasons why errors and discrepancies occur in financial data processing.

4. When checking the accuracy of invoices and credit notes, what information should be closely examined?

Part B

Match the beginning of the sentence to the correct ending as shown in the table below. Record your answers by drawing a line between the two matching halves.

Beginning	Ending
When discrepancies occur on financial documents, consequences will arise	to enable employees to have access to 'best practice' guidelines within their organisation.
Organisations should have detailed and strict procedures	are raised by a supplier in response to goods being returned by a client or goods supplied being damaged or in excess of the client's needs.
Procedure manuals exist within an organisation	to ensure the correct amounts have been charged.
A purchase credit note is	make sure it is corrected before the invoice is forwarded to the debtor.
Sales invoices are	depending on the type of document, the extent of the discrepancy and the period of time which has elapsed before the discrepancy is detected.
Sales credit notes (sometimes also known as adjustment notes)	assigning authority to employees to carry out certain functions such as being responsible for maintaining the petty cash system, ordering cleaning supplies, issuing tax invoices to debtors, preparing bank deposits and preparation of monthly statements.
It is important when checking a bank statement (a statement of debit and credit transactions periodically issued by the bank, normally monthly)	a financial document received by the purchasing organisation as a consequence of a credit being issued by a supplier.
A dishonoured cheque refers to	for creating, authorising and processing financial documents.
Should you discover an error or discrepancy in an invoice before it is dispatched,	tax invoices issued by suppliers to clients for goods or services they have ordered on credit.
The authorisation department within an organisation is responsible for	which is a government-appointed body (usually appointed through an Act of Parliament).
The organisation may refer a matter to a relevant statutory body	a cheque written in excess of the balance left in the client's bank account.

Part C

1. Indicate whether the following statements are true or false by circling the correct response:

Statement	True or False
The sales returns and allowances journal is used to record all debit sales returns from suppliers and any allowances made for slightly damaged goods.	True/False
The details from receipts, cash register rolls (CRR), cheques received listings, EFTPOS summaries and direct credits shown on the bank statement are recorded in the cash receipts journal.	True/False
One advantage of using journals is that they allow division of duties (one person may look after debtors, another may look after creditors).	True/False
Bank interest and charges are recorded in the purchases journal.	True/False
If an organisation sells a motor vehicle, the proceeds of this are recorded in the sales journal.	True/False
To calculate the amount of GST included in a sale or purchase, divide the GST inclusive amount by 11.	True/False
Dishonoured cheques and petty cash reimbursement are both recorded in the cash payments journal.	True/False

Choose the correct answer from the options listed below questions 2 to 9.

2. The source documents that are entered into a sales journal are:
- Purchase orders
 - Tax invoices
 - Credit notes
 - Cash register sales
3. The type of transactions recorded in the cash payments journal are:
- Credit purchases
 - Sales of stock for cash
 - Cash drawings by the owner
 - Rent received
4. Which of the following transactions would not be entered into the cash payments journal:
- Discount received from a supplier
 - Interest charges paid to the bank
 - A motor vehicle purchased on credit
 - Fortnightly wages paid
5. On a sales journal which of the following statements is incorrect:
- Each tax invoice is recorded in date and invoice number order
 - Any cancelled invoices are not recorded
 - Invoice totals are recorded
 - All credit sales are recorded

6. Which of the following transactions will not be recorded in a cash receipts journal:
- Credit sales of trading goods
 - Cash proceeds from the sale of a computer
 - Interest credited to the bank account
 - Capital contribution by the owner
7. The following transactions take place in QRZ organisation.
- Feb 7 Cash sales \$500.00 (GST inclusive)
 - Feb 7 Credit purchases \$695.00 (GST inclusive)
 - Feb 8 Sold a photocopier for \$850.00 cash (GST inclusive)
 - Feb 8 Monthly rent paid \$3,850.00
 - Feb 8 Credit sales \$4,230.00 (GST inclusive)
 - Feb 9 Discount received from creditor \$165.00 (GST inclusive)
 - Feb 9 Monthly bank interest received on statement \$648.00
 - Feb 9 Goods returned to supplier, purchased on credit \$834.00 (GST inclusive)
 - Feb 9 Capital deposited by the owner \$5,000.00

In relation to the above transactions, which of the following statements is incorrect?

- The total value of cash sales is \$6,988.00
 - The total value of credit sales is \$4,230.00
 - The discount received is not posted to the general journal
 - The \$834.00 goods returned is posted to the sales returns and allowances journal
8. The sundries column of a cash payments journal would not contain the following expense:
- Rent paid
 - Wages paid
 - Amounts donated
 - Cash purchases made
9. From information contained in the purchases returns and allowances journal below, which of the following statements is incorrect?
- Stained Glass Products is the purchaser
 - The amount of GST paid on the purchase was \$88.18
 - The source document for entry to this journal was the adjustment note
 - The GST inclusive total was \$1,058.18

Purchases returns and allowances journal						
Date 2015	Creditor	Folio	Adjust note no.	Purchases returns \$	Input tax credits \$	Total \$
Aug 16	Stained Glass Products		A967	970.00	88.18	1,058.18

Topic 2

Maintain general ledger

In this topic we will be learning about the general ledger. We will learn about organisational requirements for maintaining and posting transactions, as well as reconciling systems for accounts payable and receivable with the general ledger. We will also learn about preparing a trial balance in accordance with organisational requirements.

Within your organisation, this is a crucial part of the overall bookkeeping process. The general ledger and trial balance form the basis of the financial statements that are subsequently generated: the profit and loss statement and balance sheet. These financial statements provide essential information about the organisation's financial performance and capital worth.

In this topic you will learn how to:

- 2A Maintain the general ledger
- 2B Post transactions to the general ledger
- 2C Reconcile systems for accounts payable and receivable with the general ledger
- 2D Prepare a trial balance from the general ledger

2A

Maintain the general ledger

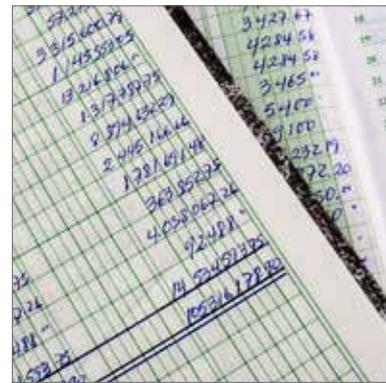
Maintaining the general ledger is an integral part of the overall accounting cycle. You will need to adhere to a number of organisational requirements so this task meets accounting and regulatory requirements.

The Australian Government Auditing and Assurance Standards Board (AUASB) provides guidelines that must be followed in the preparation and retention of source documents, and in the presentation of financial statements, for every organisation.

You can find out more about the functions of the AUASB on their website:
<http://aspirelr.link/auasb>

The general ledger explained

The word 'ledger' refers to the days when transactions were stored in a series of special books called ledgers. The word 'general' refers to the fact that information on all financial accounts is kept in this master file. In simple terms, the general ledger contains details of all accounts relating to the organisation except the debtors' and creditors' individual accounts. These are maintained in supplementary ledgers called subsidiary ledgers and represented in total within the general ledger in the sundry debtors' and sundry creditors' control accounts.



The general ledger may be maintained in a book using a manual system. In most organisations it is now created and maintained electronically using dedicated accounting software or spreadsheets. This enables multiple transactions to be posted and automatically totalled and balanced. Regardless of whether a manual or electronic system is used, the underlying principles and processes are the same.

Note: for the purpose of gaining a thorough understanding of how to maintain a general ledger, throughout this topic we will assume you are using a manual system.

The general ledger details

The general ledger organises information by account. The chart of accounts acts as the table of contents to the general ledger. Information recorded in the journals is posted to the accounts in the general ledger in accordance with the rules of double-entry accounting.

Organisational requirements will determine how often this is done, who is authorised to do this and what format the general ledger will take.

The most common format of account is the 'three column' format. It has three monetary columns. These are the debit, credit and balance columns as shown in the following account.

Account name					
Date	Particulars	Folio	Debit \$	Credit \$	Balance \$

General ledger source information

The information that should go in each column in the general ledger is explained below.

- Date – the date the journal was posted
- Particulars – the reason for making an entry in the account
- Folio – the journal from which the information was obtained (sometimes known as journal reference)
- Debit – the amount increased or decreased according to the rules of double-entry accounting
- Credit – the amount increased or decreased according to the rules of double-entry accounting
- Balance – the running balance of the account

Classify general ledger accounts

The accounts in the general ledger fall into five categories and the rules of double-entry accounting apply when increasing and decreasing amounts in these accounts.

To use the general ledger, you need to be able to correctly classify an account and then apply the correct double-entry rule to that account.

General ledger accounts are classified as:

- assets
- liabilities
- owner's equity
- revenue
- expenses.

Assets

Assets are what your organisation owns. They are used to generate revenue or a future benefit for the organisation, or are the result of operating the organisation.

Assets are generally divided into two types: fixed and current.

- **Fixed assets:** Fixed assets are items held by your organisation for long-term use such as plant and equipment, property and buildings.
- **Current assets:** Current assets are those items purchased that are used relatively quickly in the process of trading. They are items purchased, for which you expect to swap the debt for a cash payment fairly soon.

Example: assets

Here are some examples of fixed and current assets.



Fixed assets

- Motor vehicles
- Property/buildings
- Plant and equipment
- Investments
- Copyrights and patents



Current assets

- Cash at bank
- Petty cash
- Cash in registers
- Debtors or accounts receivable (clients who owe the business money)
- Stock on hand

Liabilities

Liabilities are what your organisation owes. They are debts the organisation will pay at a future date. Again, there are two main types:

- Long-term liabilities: Long-term liabilities are debts that extend over a long period of time, such as a bank loan.
- Current liabilities: Current liabilities are short-term debts expected to be paid fairly soon, such as amounts owed to suppliers.

Example: liabilities

Here are some examples of liabilities.



Long-term liabilities

- Loans
- Mortgages



Current liabilities

- Bank overdrafts
- Mortgage payments
- Creditors or accounts payable (suppliers who are owed money by the business)
- Government taxes such as GST or payroll tax
- Other debts such as leave accruals owing to employees

Owner's equity

Owner's equity relates to the amount that the owner/s has placed in the business. For a sole trader or partnership business each owner will have a capital account, which shows the amount invested. In addition, each owner will have a drawings account that records amounts of capital taken out of the organisation by them.

Revenue

An organisation must earn revenue to make a profit. Organisations that trade in goods will count sales income as their main source of revenue. A service-based organisation such as a medical centre, repair company or financial services office, will count fees received, fees income and service income as its main source of revenue.

Other forms of revenue include:

- interest received (on cash investments)
- dividends revenue (on investments in shares)
- commissions from clients.

Expenses

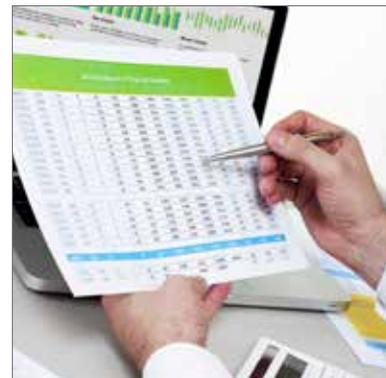
Expenses are the payments made by an organisation on a daily basis to keep it operating. These items form part of the calculation of profit (along with revenues).

Expenses include:

- wages and salaries
- advertising
- rent
- bad debts (debtors who cannot pay their accounts)
- raw materials used to produce stock
- goods bought in order to deliver a service
- stationery
- utilities such as gas, electricity and water
- telephones
- costs of operating vehicles and maintaining assets such as insurance, cleaning, registration and repairs.

The chart of accounts

The five classifications of accounts are usually presented by a business in a chart of accounts; that is, a chart showing the accounts in the general ledger. The accounts in the chart usually have an account number allocated to allow the account to be identified numerically. Like accounts are grouped together. The chart of accounts allows people to determine the accounts used by the business and where they may be located in the general ledger.



Example: a chart of accounts

Tip: print a copy of the chart of accounts for your organisation and place it in a location where you can easily see it. Gradually you will become more familiar with it and will begin to automatically remember some of the account numbers.

This is an example of a chart of accounts.

Account number	Account name	Account classification
Asset		
1-1110	General cheque account	Asset
1-1130	Cash drawer	Asset
1-1140	Petty cash	Asset
1-1150	Input tax credits	Asset
1-1300	Debtors control	Asset
1-1400	Inventory	Asset
1-2110	Furniture and fixtures – at cost	Asset
1-2120	Furniture and fixtures – accumulated depreciation	Asset
1-2210	Plant and equipment – at cost	Asset
1-2220	Plant and equipment – accumulated depreciation	Asset
1-2310	Motor vehicles – at cost	Asset
1-2320	Motor vehicles – accumulated depreciation	Asset
1-2410	Computer equipment – at cost	Asset
1-2420	Computer equipment – accumulated depreciation	Asset
Liabilities		
2-1140	Credit card	Liability
2-1200	Creditors control	Liability
2-1310	GST payable	Liability
2-1510	PAYG withholding payable	Liability
2-1530	Superannuation payable	Liability
2-1540	Union fees payable	Liability
2-2100	Loan from bank	Liability
Owner's equity		
3-8000	Capital	Owner's equity
3-9000	Drawings	Owner's equity
Revenue (income)		
4-1100	Sales	Revenue
4-1700	Delivery fee income	Revenue

continued ...

... continued

Account number	Account name	Account classification
4-1800	Discounts received	Revenue
4-1900	Interest income	Revenue
Expenses		
5-1100	Accounting fees	Expense
5-1110	Advertising	Expense
5-1130	Bank charges	Expense
5-1160	Freight paid	Expense
5-1200	Subscriptions and magazines	Expense
5-2100	Motor vehicle expenses	Expense
5-2110	Cleaning	Expense
5-2120	Electricity	Expense
5-2130	Insurance	Expense
5-2140	Discounts given	Expense
5-2160	Photocopying	Expense
5-2170	Postage	Expense
5-2180	Purchases	Expense
5-2190	Telephone	Expense
5-3100	Wages and salaries	Expense
5-3110	Stationery	Expense
5-3120	Superannuation	Expense

Note the account numbers in the chart of accounts. They are prefixed as follows:

Account classification	Account number prefix
Assets	1
Liabilities	2
Owner's equity	3
Revenue	4
Expenses	5

Double-entry accounting

The rules of double-entry accounting require amounts to be recorded in debit and credit columns according to their classifications; that is, assets, liabilities, owner's equity, revenues and expenses. An explanation for each of these terms follows.

Assets
An item is considered an asset if it provides the organisation with a long-term benefit or is considered an item of value owned by the organisation. This includes cash at the bank, cash on hand (for example, in the cash registers), stock on hand, buildings, equipment and amounts owing by debtors.
Liabilities
An item is considered a liability if it relates to amounts the organisation has not yet paid and includes bank loans, mortgages, taxes and amounts owing to creditors.
Owner's equity
This refers to the amount of money personally invested by the owner into the business.
Revenues
Revenues arise when an organisation makes a sale or provides a service to a customer.
Expenses
An organisation incurs expenses for items such as wages and salaries, advertising, stationery, motor vehicles, equipment, machinery and payments for electricity, water, heating and gas.

The rules of double-entry accounting

Double-entry accounting ensures that the accounting equation always remains in balance. The rules of double-entry accounting require amounts to be recorded in the debit and credit columns of an account according to their classifications; that is, assets, liabilities, owner's equity, revenues and expenses.

For example, if an organisation purchases a new printer
Cost is \$550.00 cash including GST, so the effect of this transaction is that: <ul style="list-style-type: none"> • the printer has increased the organisation's assets • the organisation has an input tax credit of \$50.00 (GST paid) to claim from the tax office (an asset has increased) • the organisation has \$550.00 less in its bank account (an asset has decreased).

Account classifications

The following listing shows the account classifications and the rules to record increases and decreases in these accounts.

Asset accounts
To increase an asset account, record the amount in the debit column. To decrease an asset account, record the amount in the credit column.
Liability accounts
To increase a liability account, record the amount in the credit column. To decrease a liability account, record the amount in the debit column.
Owner's equity accounts
To increase an owner's equity account, record the amount in the credit column. To decrease an owner's equity account, record the amount in the debit column.
Revenue accounts
To increase a revenue account, record the amount in the credit column. To decrease a revenue account, record the amount in the debit column.
Expense accounts
To increase an expense account, record the amount in the debit column. To decrease an expense account, record the amount in the credit column.

Account classification rules

Account classification rules are called the rules of double-entry accounting because when you debit an account with an amount, another account must be credited with the same amount. In this way, the accounts will always balance, and the trial balance prepared after the journals have been posted to the general ledger will balance. Therefore, the resulting financial reports will be accurate.

If the accounts are not maintained in this way, the trial balance will not reconcile, the reported profit may be incorrect, and the balance sheet will most certainly be wrong.

Account classification rules are summarised in the table below.

Account classification	Increases	Decreases
Assets	Dr	Cr
Liabilities	Cr	Dr
Owner's equity	Cr	Dr
Revenue	Cr	Dr
Expenses	Dr	Cr

Organisational requirements

Every organisation will have its own requirements and processes that must be followed. These apply to posting to the general ledger as well as to maintaining financial records in general.

Organisational requirements can address issues that include:

- designated time lines
- guidelines for reconciling journals
- policies, guidelines and requirements
- WHS
- procedures for totalling adjusted journals
- quality assurance and/or procedures manuals
- resolution procedures
- security procedures.

Practice task 4

1. You are required to classify the following transactions into one of the five general ledger categories listed – assets, liabilities, owner's equity, revenue or expenses. Record your answer in the column beside the transaction.

Transaction	General ledger classification
Bookshelves used in the office	
Leased photocopier	
Water rates paid	
Contribution of capital by owner	
GST owing to the ATO	
Sale of stock	
Bank overdraft	
Timber for building furniture to sell	
Cash drawings by owner	
Telephone account	

2. Use the rules of a double-entry accounting system to indicate whether you would record the following transactions as a debit or a credit against the general ledger account classification provided.

Transaction	General ledger classification	Debit/credit
Commission earned	Revenue	
Drawings from owner's account	Owner's equity	
Supplier paid for trading stock	Liability	
Stove purchased for cafe	Asset	
Credit received on telephone account	Expense	
Bank loan extended by \$5000	Liability	
Owner contributes \$7000 to business	Owner's equity	
10% discount paid to client	Revenue	
Petty cash balance	Asset	
Fortnightly wages paid	Expense	

2B

Post transactions to the general ledger

When posting transactions to the general ledger, care must be taken to ensure that:

- transactions are classified correctly
- for every debit amount that is posted, the same credit amount is posted
- each entry is given a journal reference
- general journal entries are posted to the general ledger in a timely fashion
- the general ledger is updated on a timely basis to ensure that all transactions are posted prior to the end of the accounting period – known as balance day.

Transactions

The journals of an organisation summarise its transactions from source documents such as invoices, receipts and adjustment notes. The different documents of an organisation are included in six specialist journals or the general journal.

The six specialist journals are shown below.

Sales journal

Records credit sales of stock and evidenced by a tax invoice issued to debtors.

Sales returns and allowances journal

Records returns of stock sold on credit and evidenced by an adjustment (credit) note.

Purchases journal

Records credit purchases of stock evidenced by suppliers' invoices.

Purchases returns and allowances journal

Records returns of stock purchased on credit, evidenced by a supplier's credit note.

Cash receipts journal

Records all cash received.

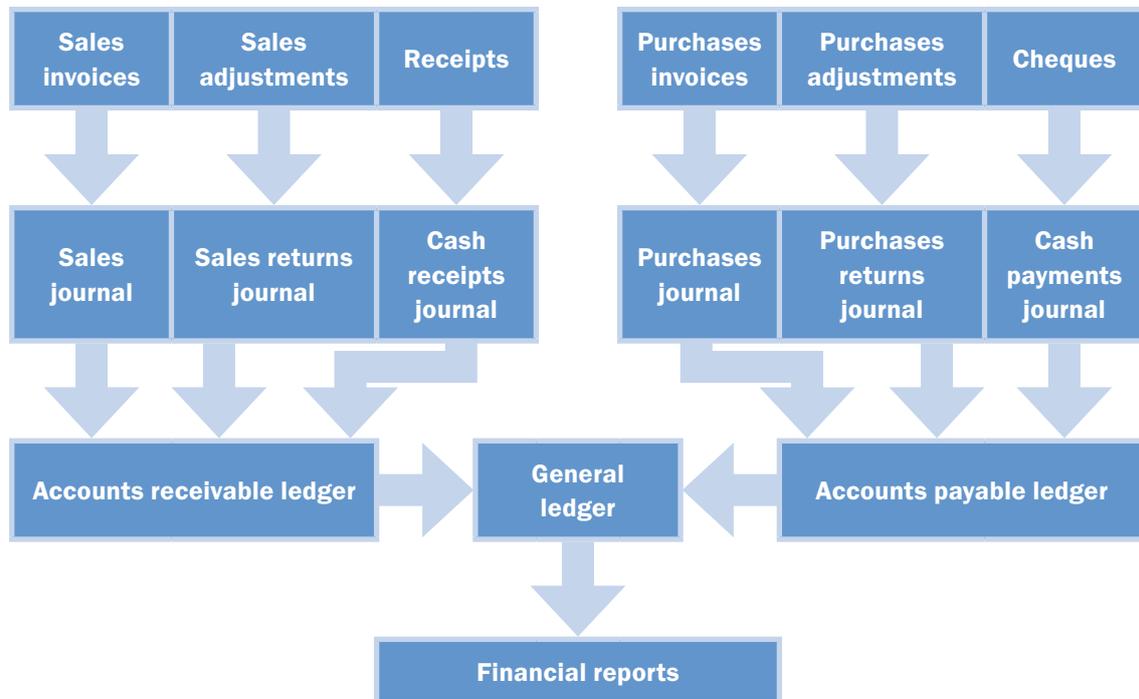
Cash payments journal

Records all cash payments made.

General ledger and trial balance

The information contained in all these journals is posted into accounts in the general ledger and a trial balance is prepared.

The following diagram illustrates the documents issued and received by a business, the journals in which they are recorded and the relationship of the journals to the general ledger.



Posting to the general ledger

When entering amounts into the general ledger, you need to ensure that all accounts affected by the transaction are either debited or credited. To assist in determining which accounts are affected and how they are affected, using an analysis chart can be helpful.



Example: analysis chart

The following analysis chart illustrates the entries required when posting from the six specialist journals to the general ledger.

Analysis chart				
Account	Classification	↑	↓	Dr/Cr
Sales journal				
Debtors control	Asset	↑		Dr
Sales	Revenue	↑		Cr
GST payable	Liability	↑		Cr
Sales returns and allowances journal				
Debtors control	Asset	↓		Cr
Sales returns and allowances	Revenue	↓		Dr
GST payable	Liability	↓		Dr
Purchases journal				
Creditors control	Liability	↑		Cr
Purchases	Expense	↑		Dr
Input tax credits	Asset	↑		Dr
Purchases returns and allowances journal				
Creditors control	Liability	↓		Dr
Purchases returns and allowances	Expense	↓		Cr
Input tax credits	Asset	↓		Cr
Cash receipts journal				
Cash amounts				
Bank	Asset	↑		Dr
Debtors	Asset	↓		Cr
Sales	Revenue	↑		Cr
Sundry items				
Commission	Revenue	↑		Cr
Interest	Revenue	↑		Cr
Capital	Owner's equity	↑		Cr
GST payable	Liability	↑		Cr
Discount amounts				
Discount expense	Expense	↑		Dr
GST payable	Asset	↓		Dr
Debtors	Asset	↓		Cr

continued ...

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Cash payments journal			
Cash amounts			
Bank	Asset	↓	Cr
Creditors	Liability	↓	Dr
Purchases	Expense	↑	Dr
Sundry items			
Wages	Expense	↑	Dr
Electricity	Expense	↑	Dr
Rent	Expense	↑	Dr
Equipment	Asset	↑	Dr
Telephone	Expense	↑	Dr
Drawings	Owner's equity	↓	Dr
Input tax credits	Asset	↑	Dr
Discount amounts			
Discount received	Revenue	↑	Cr
Input tax credits	Asset	↓	Cr
Creditors	Liability	↓	Dr

Post transactions to the general journal

So that we can demonstrate posting to the general ledger, we will look at posting from the general journal to the general ledger. Before we do this, however, we need to look at initial postings of transactions to the general journal.

You need to understand the rules of double-entry accounting in order to post transactions to the general journal.

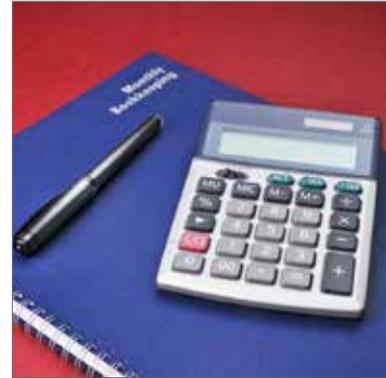
When recording transactions in the general journal you must apply the protocols shown here.

1. Accounts being debited must be entered before accounts being credited.
2. Accounts being credited must be slightly indented from the date column.
3. All entries must include a narration describing the transaction.
4. After writing up the transaction, rule off the journal across the particulars column only, so that the journal is ready for the next entry. However, the debit and credit columns should not be ruled through.
5. The debit and credit columns should not be totalled.

Post transactions – commence business

We will now work through the process of posting transactions, which are either a one-off such as commencing business entries or slightly complicated such as how to post non-cash transactions (for example, depreciation).

When a person commences business, a general journal entry must be used to open the books of the business. The general journal records all the assets and liabilities contributed by the owner when they start the business. This is the only time that cash will be recorded in the general journal. At all other times cash is recorded in the cash receipts or cash payments journals.



Example: business commencement journal entry

This is an example of how to go about a business commencement journal entry.

Rudi Kunzey commences business on 1 July 2019 and contributes the following assets and liabilities.

A source document detailing Rudi's contribution has been prepared:

- Cash: \$15,000 Dr
- Motor vehicle: \$18,500 Dr
- Furniture and fittings: \$4500 Dr
- Stock: \$12,000 Dr
- Creditor – Best Wholesalers: \$1200 Cr
- Loan – Community Bank: \$10,000 Cr

From the given information the total assets and total liabilities are shown in the following table.

Assets	\$	Liabilities	\$
Cash	15,000	Creditor – Best Wholesalers	1,200
Stock	12,000	Loan – Community Bank	10,000
Motor vehicle	18,500		
Furniture and fittings	4,500		
Total	50,000		11,200

The assets contributed total \$50,000 and the liabilities total \$11,200. The difference is \$38,800. This amount represents the capital of the owner, Rudi Kunzey. It is recorded in Rudi's capital account as a credit.

continued ...

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The assets, liabilities and owner's equities are recorded in the general journal as follows.

General journal				
Date	Particulars	Folio	Debit \$	Credit \$
1.7.19	Bank		15000.00	
	Stock		12000.00	
	Motor vehicle		18500.00	
	Furniture and fittings		4500.00	
	Creditor – Best Wholesalers			1200.00
	Loan – Community Bank			10000.00
	Capital – Rudi Kunzey			38800.00
	<i>Assets and liabilities introduced by owner to commence business</i>			

Note: The total value of debits equals the total value of credits. However, the monetary columns are not totalled.

Looking at the example again, noting the following points:

- This entry has been recorded in the general journal.
- The rules of double-entry accounting have been applied as follows:
 - assets (increase) = debit
 - liabilities (increase) = credit
 - owner's equity (increase) = credit.
- The debit entries in the particulars column always appear first.
- The credit entries in the particulars column are always slightly indented to indicate a credit.
- The narration describes the transaction and includes reference to the source document provided
- The journal has been ruled off across the particulars column only so that it is ready for the next entry.

Correction of posting errors

The general journal is used to correct errors that have been made during the accounting process. As a general rule, mistakes should not be crossed out, unless they are detected immediately.

To correct errors, you need to investigate the error and determine which account/s need adjusting and the amount of the adjustment.

The main errors that can be corrected in the general journal are:

- transactions entered in the wrong journal
- transactions entered in the wrong account in the general ledger
- transactions omitted from a journal.

Example: correction of posting errors

On 15 September 2019 an organisation recorded an amount of \$845.00 paid for advertising as accounting fees. This amount was GST inclusive. To correct the entry, the accounting fees account had to be reduced (credited) and the advertising account increased (debited). The amount owing and the GST did not require adjustment. The correcting entry was recorded in the general journal as follows:

General journal				
Date	Particulars	Folio	Debit \$	Credit \$
15.9.19	Advertising Accounting fees <i>Correction entry to reverse expense recorded against accounting fees</i>		845.00	845.00

Example: transaction is omitted from one of the specialist journals

If a transaction is omitted from one of the specialist journals and is not discovered until after the journal has been totalled and posted for the month, the transaction must be entered into the general journal.

For example, the purchase of materials for trading from Cape Warren Timber Merchants has been omitted from the purchases journal. The amount was \$748.00 inclusive of GST and it was paid on cheque no. 000965. The transaction required to enter this payment in the general journal is shown below.

General journal				
Date	Particulars	Folio	Debit \$	Credit \$
15.9.19	Purchases GST paid Creditors control – Cape Warren Timber Merchants <i>Purchase 000965 was omitted from the purchases journal.</i>		680.00 68.00	748.00

In the transaction in this example:

- Purchases (increase expense) = debit
- GST charged (input tax credits) = (increase in asset) = debit
- Creditors control (increase liability) = credit.

Interest expense

At times, creditors charge interest on overdue accounts. These interest charges are recorded in the general journal.

For example, on 30 November 2018 James Packaging Company charges an organisation \$45.00 interest on their monthly account, which is overdue by 60 days. This is recorded in the general journal of the organisation as shown below.

General journal				
Date	Particulars	Folio	Debit \$	Credit \$
30.11.19	Interest expense Creditors control – James Packaging Company <i>Interest charged by James Packaging Co. on overdue account</i>		45.00	45.00

In this example:

- interest paid (increase expense) = debit
- creditors control (increase liability) = credit.

Interest receivable

Interest receivable is the reverse of interest expense. Interest is received from a debtor who has not paid their account on time so has been charged interest.

Imagine debtor R Hunt owes your organisation \$1,000 on his October account and is 30 days overdue in making a payment. He is charged a late fee of interest at 6.5 per cent. This interest income is recorded in the general journal as shown here.

General journal				
Date	Particulars	Folio	Debit \$	Credit \$
30.11.19	Debtor – R Hunt Interest receivable <i>Interest charged to R Hunt on overdue account</i>		65.00	65.00

In this example:

- Debtor – R Hunt (increase asset) = debit
- Interest receivable (increase revenue) = credit

Non-cash transactions

Non-cash transactions are also entered into the general journal. These are transactions that do not entail any payment or receipt of money. They are commonly referred to as 'book entries'. These transactions are recorded so the balances of the relevant accounts are accurately reflected.

Examples of non-cash transactions are:

- transfers of funds between bank accounts
- depreciation of fixed assets
- writing off stock losses
- correction of errors.

Depreciation

Depreciation is a good example of a non-cash transaction. Depreciation is defined as a portion of the cost that reflects the use of a fixed asset during an accounting period. In this context, a fixed asset is an item that has a useful life of over one year.

The amount of depreciation is an expense to the organisation and by accounting for this expense the value of the asset is reduced by the amount of depreciation allocated each year.

For example, if a photocopier is purchased for \$12,000 and considered to have a useful life of four years, the annual cost to the organisation of depreciation is \$3000. This is a simplistic example of straight-line depreciation whereby the same amount is claimed each year.

Modes of depreciation include the three described here.

Straight-line depreciation

The purchase value of the asset is divided by its expected useful life to give a set annual value that is claimed each year.

Reducing balance method

The remaining value of the asset is depreciated by a set percentage each year.

Units of use

Depreciation is allocated in terms of economic units of production or usage rather than on the basis of time.

Example: depreciation

The entry in the general journal for the depreciation expense on the photocopier is shown below.

General journal				
Date	Particulars	Folio	Debit \$	Credit \$
31.10.18	Depreciation expense – photocopier Accumulated depreciation – photocopier <i>Balance day adjustment – depreciation on office equipment at 25% straight-line method</i>		3,000.00	3,000.00

Purchase of a fixed asset on credit

A fixed or non-current asset is one that will not be turned into cash within the next 12 months; for example, a vehicle or furniture. If a business purchases a fixed asset on credit, the transaction cannot be recorded in the purchases journal. This is because the purchases journal is only used for the purchase of trading stock on credit.

Therefore, this purchase must be recorded in the general journal in the way outlined here.

The transaction can be analysed as follows:

- The purchase price of the asset represents an increase in assets = debit.
- The GST charged (input tax credits) on the purchase price represents an increase in assets = debit.
- As the asset has been purchased on credit this represents an increase in liabilities (money owed to creditor) = credit.

Example: purchase of a fixed asset on credit

A restaurant purchases a new stove on credit from Catering Wholesalers for \$9,900 including GST on 21 August 2019 (tax invoice no. 924187). This is recorded in the general journal as shown below.

General journal				
Date	Particulars	Folio	Debit \$	Credit \$
21.8.19	Fixed asset – stove Input tax credits Sundry creditor – Catering Wholesalers <i>Purchased new stove on credit (tax invoice 924187)</i>		9,000.00 900.00	9,900.00

Look at the above example again and note that the creditor in this example is called a sundry creditor because it is not a frequently used creditor and is entered into the general journal. Only use the creditors' account for the purchase of trading stock.

Example: sale of a fixed asset on credit

If an organisation sells a fixed or non-current asset on credit, the transaction is recorded in the general journal rather than the sales journal. This is because it is not a sale of trading stock.

For example, a school sells second-hand computers surplus to its needs as it has just purchased new ones. They sell 10 computers for \$440.00 each (including GST) on credit to Smithton Community Centre on 22 September 2019, issuing tax invoice no. 0478. This transaction is recorded in the general journal as shown.

General journal				
Date	Particulars	Folio	Debit \$	Credit \$
22.9.19	Sundry debtor – Smithton Community Centre Fixed assets – Computers GST payable <i>Sale of second-hand computers on credit (tax invoice 0478)</i>		4,400.00	4,000.00 400.00

In this transaction:

- an asset (computers) decreases = credit
- a liability (GST payable) increases = credit
- an asset (debtor) increases = debit.

Note that the debtor is called a sundry debtor as the transaction relates to the sale of an asset other than trading stock. Debtors can only be referred to when trading stock is sold on credit.

Withdrawal of stock/assets by owner

Sometimes the owner withdraws stock or other assets (including cash) from the business for their own use. These transactions are recorded in the general journal as drawings.

Drawings of stock are recorded against the purchases account because the original purchase of the stock was recorded in the purchases account. Drawings of other assets such as cash or equipment are recorded against the actual asset withdrawn.

Example: drawings of equipment

Here is an example where drawings of equipment are recorded against the actual asset withdrawn.

Alastair owns a DVD shop. On 1 October he withdraws DVDs to the value of \$330.00 (including GST) for his own use. This is recorded as follows.

General journal				
Date	Particulars	Folio	Debit \$	Credit \$
1.10	Drawings		330.00	
	Purchases			300.00
	Input tax credits			30.00
	<i>Owner withdrew stock for own use</i>			

In this transaction:

- the owner's drawings increases = debit
- the purchases (stock) account decreases = credit
- an asset (GST payable/input tax credits) decreases = credit

Write off a bad debt

There are times when debtors don't pay an organisation. This occurs for a variety of reasons including bankruptcy. The organisation may decide to write off the amount owing by the debtor. At other times, an organisation may agree to accept a payment that is less than the full amount owing and then write off the remainder that is owing.

Writing off a debt is an expense to the business. It is only done when all avenues of debt collection have been exhausted and there is no chance of being paid by the debtor.

The entry required in the general journal to write off a bad debt is as follows:

- The asset 'debtors' is decreased = credit
- The expense 'bad debts' is increased = debit
- The liability 'GST payable' is decreased = debit

Example: write off a bad debt

An organisation receives a letter on 3 November from a solicitor, informing it that its client Bedford Industries has been declared bankrupt, with no possibility of recovering the money. Bedford Industries owes the organisation \$1,320.00 (including GST). The debt is written off in the following journal entry.

General journal				
Date	Particulars	Folio	Debit \$	Credit \$
3.11.18	Bad debts GST payable Debtors control – Bedford Industries <i>Bad debt write-off: Bedford Industries declared bankrupt (letter dated 1 November from solicitors)</i>		1,200.00 120.00	1,320.00

Posting the general journal to the general ledger

Posting the general journal to the general ledger is simply a matter of transferring the entries from the general journal into the general ledger accounts.

In the next example, trace each general journal entry and its posting to the relevant general ledger accounts.

The general journal of N Nolan for December 2018 includes the following entries.

N Nolan general journal				
Date	Particulars	Folio	Debit \$	Credit \$
1.12.18	Bank Stock Debtors control Motor vehicles Shop fittings Creditors control Loan – Bank of Springfield Capital – N Nolan <i>Assets and liabilities contributed by owner to commence business (memo dated 1.12.18)</i>		5,000.00 6,000.00 1,500.00 20,000.00 1,000.00	1,500.00 10,000.00 22,000.00

continued ...

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Date	Particulars	Folio	Debit \$	Credit \$
3.12.18	Computer Input Tax Credits Sundry creditor – Able Computer Systems <i>Purchase of computer system on credit (tax invoice 15039)</i>		3,000.00 300.00	3,300.00
10.12.18	Sundry debtor – M Banks Motor vehicles GST payable <i>Sold motor vehicle on credit to M Banks (tax invoice R7723)</i>		8,800.00	8,000.00 800.00
11.12.18	Late fee expense Input tax credits Creditors control <i>Interest charged on overdue account by EFG Co Ltd</i>		20.00 2.00	22.00
12.12.18	Debtors control Account-keeping fee GST payable <i>Account-keeping fee charged to P Morris on outstanding account</i>		11.00	10.00 1.00
15.12.18	Bad debts GST payable Debtors control <i>Debt write-off – B Robertson declared bankrupt (letter dated 14.12.18)</i>		300.00 30.00	330.00
18.12.18	Drawings Purchases Input tax credits <i>Owner withdrew stock for personal use (memo dated 18.12.18)</i>		165.00	150.00 15.00
19.12.18	Sundry debtor – T Crowe Shop fittings GST payable <i>Sale of fixed asset on credit (tax invoice R7781)</i>		220.00	200.00 20.00

continued ...

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Date	Particulars	Folio	Debit \$	Credit \$
22.12.18	Purchases Input tax credits Creditors control <i>Purchase of stock was omitted from purchases journal (tax invoice 03581) B&S Suppliers</i>		1,500.00 150.00	1,650.00
31.12.18	Creditors control Debtors control <i>Contra entry – Marie’s Handicrafts (memo dated 30.12.18)</i>		500.00	500.00

These entries would be posted to the general ledger as follows.

N Nolan general ledger					
Date	Particulars	Folio	Debit \$	Credit \$	Balance \$
Bank (asset)					
1.12.18	Capital	GJ	5,000.00		5,000.00 Dr
Stock (asset)					
1.12.18	Capital	GJ	6,000.00		6,000.00 Dr
Debtors control (asset)					
1.12.18	Capital	GJ	1,500.00		1,500.00 Dr
12.12.18	Account-keeping fee	GJ	11.00		1,511.00 Dr
15.12.18	Bad debts	GJ		330.00	1,181.00 Dr
31.12.18	Creditors control	GJ		500.00	681.00 Dr
Motor vehicles (asset)					
1.12.18	Capital	GJ	20,000.00		20,000.00 Dr
10.12.18	Sundry debtor – M Banks	GJ		8,000.00	12,000.00 Dr
Shop fittings (asset)					
1.12.18	Capital	GJ	1,000.00		1,000.00 Dr
19.12.18	Sundry debtor – T Crowe	GJ		200.00	800.00 Dr
Creditors control (liability)					
1.12.18	Capital – N Nolan	GJ		1,500.00	1,500.00 Cr
11.12.18	Late fee	GJ		22.00	1,522.00 Cr
22.12.18	Purchases	GJ		1,650.00	3,172.00 Cr
31.12.18	Debtors control	GJ	500.00		2,672.00 Cr

continued ...

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Date	Particulars	Folio	Debit \$	Credit \$	Balance \$
Loan – Bank of Springfield (liability)					
1.12.18	Capital	GJ		10,000.00	10,000.00 Cr
Capital – N Nolan (owner's equity)					
1.12.18	Sundry assets and liabilities	GJ		22,000.00	22,000.00 Cr
Computer (asset)					
3.12.18	Sundry creditor – Able Computer Systems	GJ	3,000.00		3,000.00 Dr
Sundry creditor – Able Computer Systems (liability)					
3.12.18	Computer and ITC	GJ		3,300.00	3,300.00 Cr
Sundry debtor – M Banks (asset)					
10.12.18	Motor vehicle	GJ	8,800.00		8,800.00 Dr
Late fee (expense)					
11.12.18	Creditors control	GJ	20.00		20.00 Dr
Account-keeping fee (revenue)					
12.12.18	Debtors control	GJ		10.00	10.00 Cr
Bad debts (expense)					
15.12.18	Debtors control	GJ	300.00		300.00 Dr
Drawings (owner's equity)					
18.12.18	Purchases	GJ	165.00		165.00 Dr
Sundry debtor – T Crowe (asset)					
19.12.18	Shop fittings	GJ	220.00		220.00 Dr
Purchases (expense)					
18.12.18	Drawings	GJ		150.00	150.00 Cr
22.12.18	Creditors control	GJ	1,500.00		1,350.00 Dr
GST payable (liability)					
10.12.18	Sundry debtor – M Banks	GJ		800.00	800.00 Cr
12.12.18	Debtors control	GJ		1.00	801.00 Cr
15.12.18	Debtors control	GJ	30.00		771.00 Cr
19.12.18	Sundry debtor – T Crowe	GJ		20.00	791.00 Cr

continued ...

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Date	Particulars	Folio	Debit \$	Credit \$	Balance \$
Input tax credits (asset)					
3.12.18	Sundry creditor – Able Computer Systems		300.00		300.00 Dr
11.12.18	Creditors		2.00		302.00 Dr
18.12.18	Drawings			15.00	287.00 Dr
22.12.18	Creditors control		150.00		437.00 Dr

Reporting requirements

In a manual system, summary totals from all of the journals are entered into the general ledger each month, which maintains a year-to-date balance for each account. In most organisations, the financial year (1 July to 30 June) is used for the annual accounting period. Some organisations, however, base their accounting period on a calendar year.

Regardless of the dates of the accounting period, all organisations have reporting requirements that depend on the nature and structure of the organisation. There is a vast range of organisational structures that each have their own reporting requirements. Make yourself familiar with the reporting requirements of your organisation.

Here are two examples of reporting requirements.

- Government departments – Most government departments are required to publish financial statements and make them available to the public in a particular format.
- Australian organisations preparing financial reports under the *Corporations Act 2001* (Cth) – All Australian organisations preparing financial reports under the *Corporations Act 2001* (Cth) must comply with the Australian equivalents to International Financial Reporting Standards (IFRS) for financial years beginning on or after 1 January 2005. This requirement was implemented by the Financial Reporting Council.

Practice task 5

1. You are required to post the following transactions to the general journal. Enter them in an appropriate place and in the appropriate columns.
- A new business is being established by a sole trader, commencing on 1 May 2015. The business is called Taryn's Hair Craze. She contributes \$5,000 cash, fixtures and fittings worth \$9,500 and \$4,000 worth of stock. She has a loan from the Rural Credit Union for \$10,000 and has borrowed \$2,000 from her parents, A and Z Townsend, to repay within the first six months.
 - On 15 September Taryn's Hair Craze purchases a new computer on credit costing \$1,980, GST inclusive, from Spade Computer Supplies. The tax invoice number is T965.
 - Taryn's Hair Craze receives a letter on 3 October advising that a client B Hurley has been declared bankrupt and there is no likelihood that his debts will be recovered. He owes Taryn's Hair Craze a total of \$198 (GST inclusive).
 - On 7 November Taryn withdraws \$220 worth of stock for her own personal use and to give to family and friends for gifts. She has paid GST on this stock.

General journal				
Date	Particulars	Folio	Debit \$	Credit \$
1.5.15				
15.9.15				
3.10.15				

continued ...

... continued

General journal				
Date	Particulars	Folio	Debit \$	Credit \$
7.11.15				

2. Now post these transactions to the general ledger.

Taryn's Hair Craze – general ledger					
Date	Particulars	Folio	Debit \$	Credit \$	Balance \$
Bank (asset)					
Fixtures and fittings (asset)					
Stock (asset)					
Loan – Rural Credit Union (liability)					
Loan – A and Z Townsend (liability)					

continued ...

... continued

Date	Particulars	Folio	Debit \$	Credit \$	Balance \$
Capital - Taryn Townsend (owner's equity)					
Computer (asset)					
Input tax credits (asset)					
Sundry creditor - Spade Computer Supplies (liability)					
Bad debts (expense)					
GST payable (liability)					
Debtors' control (asset)					
Drawings (owner's equity)					
Purchases (expense)					

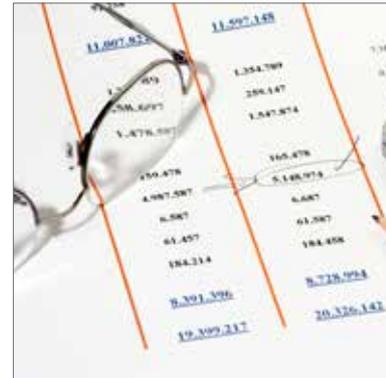
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Reconcile systems for accounts payable and receivable with the general ledger

As we have already learnt, within the general ledger only totals of the amounts owed by trade debtors and to trade creditors are recorded. These two accounts are called the debtors' control and the creditors' control accounts. This removes unnecessary detail from the general ledger to simplify the preparation of the trial balance and subsequent reports.

Subsidiary ledgers are maintained for trade debtors and creditors. Separate accounts are kept for each debtor and creditor within the subsidiary ledgers to ensure the client is not exceeding the maximum amount of credit allowed by the organisation and that your organisation meets its commitments to payment of suppliers. The totals of each of the individual accounts within the subsidiary ledgers must agree with the control account balances in the general ledger.

If an organisation does not maintain effective controls over its records, it may experience cash flow problems when accounts are not paid quickly, and some clients may become bad debtors.



Debtor account balances

When an organisation provides credit to clients and allows them to take stock on invoice, it needs to maintain an efficient recording system for the amounts owing by these clients.

Most organisations that sell goods on credit to clients keep an accounts receivable ledger (debtors' ledger). This ledger contains an account for each debtor in which every transaction made with them is recorded on a daily basis.

By keeping an account for each individual debtor, the organisation is able to determine which clients owe money, the amount of money they owe and how regularly they are paying their account.

The accounts receivable ledger is updated using the information contained in different journals, as shown below.

- Sales journal: credit sales to debtors
- Sales returns and allowances journal: returns from debtors
- Cash receipts journal: payments received from debtors including discount given
- General journal: to correct a transaction such as omission of a sale or interest received

Example: sales journal transaction entries

The following example illustrates how transactions from the sales journals are entered into the debtors' accounts in the accounts receivable ledger.

The following sales journal shows the amounts sold on credit to debtors of West End Car Supplies. The total of each transaction must be recorded in the debit column of each debtor's individual account.

Sales journal – West End Car Supplies						
Date	Debtor	Folio	Tax inv. no.	Sales \$	GST payable \$	Total \$
2.10.18	GV Autos		41580	1,200.00	120.00	1,320.00
3.10.18	Mickle Spares		41581	2,250.00	225.00	2,475.00
9.10.18	RJL Enterprises		41582	1,860.00	186.00	2,046.00
14.10.18	Parkers Panels		41583	920.00	92.00	1,012.00
24.10.18	Blacks Machinery		41584	2,180.00	218.00	2,398.00
Monthly totals				8,410.00	841.00	9,251.00

The debtor's accounts arising from this sales journal are shown as follows.

Individual debtors' accounts					
Date	Particulars	Jnl ref.	Debit \$	Credit \$	Balance \$
GV Autos					
2.10.18	Sales	SJ	1,320.00		1,320.00 Dr
Mickle Spares					
3.10.18	Sales	SJ	2,475.00		2,475.00 Dr
RJL Enterprises					
9.10.18	Sales	SJ	2,046.00		2,046.00 Dr
Parkers Panels					
14.10.18	Sales	SJ	1,012.00		1,012.00 Dr
Blacks Machinery					
24.10.18	Sales	SJ	2,398.00		2,398.00 Dr

Example: sales returns and allowances journal transaction entries

The following example illustrates how transactions from the sales returns journals are entered into the debtors' accounts in the accounts receivable ledger.

The sales returns and allowances journal records the value of goods returned by debtors or allowances given to debtors such as discounts.

The total amount recorded against each debtor must be entered into the credit column of the debtor's account and the balance reduced, as goods returned will decrease the amount owing.

The transactions in the following sales returns and allowances journal have been entered into the individual debtor accounts to update the accounts receivable ledger.

Sales returns and allowances journal						
Date	Debtor	Folio	Adj. note no.	Sales \$	GST payable \$	Total \$
6.10.19	Mickle Spares		201	475.00	47.50	522.50
20.10.19	Parkers Panels		202	122.00	12.20	134.20
Monthly totals				597.00	59.70	656.70

The daily transactions in the sales returns journal are entered into the debtors' accounts in the accounts receivable ledger as follows:

Note: the debtor RJL Enterprises has an account balance of \$1260.00 carried forward from the previous month.

Accounts receivable ledger					
Date	Particulars	Jnl ref.	Debit \$	Credit \$	Balance \$
GV Autos					
2.10.19	Sales	SJ	1,320.00		1,320.00 Dr
Mickle Spares					
3.10.19	Sales	SJ	2,475.00		2,475.00 Dr
6.10.19	Sales returns	SRJ		522.50	1,952.50 Dr
RJL Enterprises					
1.10.19	Balance				1,260.00 Dr
9.10.19	Sales	SJ	2,046.00		3,306.00 Dr
Parkers Panels					
14.10.19	Sales	SJ	1,012.00		1,012.00 Dr
20.10.19	Sales returns	SRJ		134.20	877.80 Dr
Blacks Machinery					
24.10.19	Sales	SJ	2,398.00		2,398.00 Dr

Example: cash receipts journal transaction entries

The following example illustrates how transactions from the cash receipts journal are entered into the debtors' accounts in the accounts receivable ledger.

When debtors pay their accounts and/or are granted a discount, the amounts are recorded in the cash receipts journal. These amounts must be posted to the credit column of each debtor's account and the account balance reduced, as payment has been received.

The following cash receipts journal shows five receipts issued to debtors.

Cash receipts journal											
Date	Particulars	Rec. no.	Discount expensed			Reason for receipt				Bank \$	
			GST adj. \$	Disc. expense \$	Debtors \$	Debtors \$	Cash sales \$	Sundries \$	GST \$		
30.10.19	GV Autos	5967	6.00	60.00	66.00	1,254.00					1,254.00
30.10.19	RJL Enterprises	5968				1,260.00					1,260.00
30.10.19	Andy Motors	5969					250.00			25.00	275.00
31.10.19	Parkers Panels	5970	3.44	30.96	34.40	843.40					843.40
31.10.19	Blacks Machinery	5971	11.94	107.46	119.40	2,268.60					2,268.60

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These amounts are posted to the individual debtors' accounts in the accounts receivable ledger as follows:

Accounts receivable ledger					
Date	Particulars	Jnl ref.	Debit \$	Credit \$	Balance \$
GV Autos					
2.10.19	Sales	SJ	1,320.00		1,320.00 Dr
30.10.19	Bank	CRJ		1,254.00	66.00 Dr
30.10.19	Discount expense	CRJ		66.00	Nil
Mickle Spares					
3.10.19	Sales	SJ	2,475.00		2,475.00 Dr
6.10.19	Sales Returns	SRJ		522.50	1,952.50 Dr
RJL Enterprises					
1.10.19	Balance				1,260.00 Dr
9.10.19	Sales	SR	2,046.00		3,306.00 Dr
30.10.19	Bank	CRJ		1,260.00	2,046.00 Dr
Parkers Panels					
14.10.19	Sales	SJ	1,012.00		1,012.00 Dr
20.10.19	Sales returns	SRJ		134.20	877.80 Dr
31.10.19	Bank	CRJ		843.40	34.40 Dr
31.10.19	Discount expense	CRJ		34.40	Nil
Blacks Machinery					
24.10.19	Sales	SJ	2,398.00		2,398.00 Dr
31.10.19	Bank	CRJ		2,268.60	129.40 Dr
31.10.19	Discount expense	CRJ		119.40	10.00 Dr

Summary of the accounts receivable ledger

Amounts recorded in the debit column are added to the balance column.

Amounts recorded in the credit column are subtracted from the balance column.

When entering information from the journals into the subsidiary ledger, enter the total amount; do not separate sales and GST payable. This is because the debtor is required to pay the total amount owing.

Discount expense and its associated GST adjustment is recorded in the credit column, as it effectively reduces the amount owing by the debtor to the business.

Payments made by debtors are recorded in the credit column of the accounts receivable ledger.

Debtors' schedule

After all debtor transactions have been posted to the accounts receivable ledger, check that the total of all the balances matches the balance of the debtors' control account maintained in the general ledger (reconciliation).

To do this, list and total the balances of each debtor's account. Commonly this debtors' schedule is prepared at the end of the month but the timing can vary, depending on the size of the organisation.

The debtors' schedule assists the accounts receivable department to manage debtors by giving a clear indication of the total monies owed to the organisation by debtors. The schedule also helps management determine cash flow and ensure that debtors don't exceed their credit limit.



Example: debtors' schedule

This debtors' schedule is taken from the account balances in the last example and shows the account balance of each debtor.

The debtors' control account balance in the general ledger should also be \$4008.50. If the two balances do not agree then accounts must be investigated and errors fixed.

Debtors' schedule as at 31 October 2019	
Debtor name	Amount (\$)
Mickle Spares	1,952.50
RJL Enterprises	2,046.00
Blacks Machinery	10.00
Balance as per debtors' control	4,008.50

Creditor account balances

The accounts payable ledger contains a separate account for each creditor from which your organisation has purchased goods or services on credit. The information used to update each creditor's account is taken from different journals.

- Purchases journal: shows the amounts owing from purchasing goods
- Purchase returns and allowances journal: shows the value of goods returned
- Cash payments journal: shows payments made to creditors and the discount received
- General journal: shows anything else affecting creditor balances, such as interest charged or correction of an error

Entering information into the accounts payable ledger

Keeping an accounts payable ledger enables the organisation to ensure that amounts owing to suppliers are paid on time, ensuring a good credit relationship. It also allows the organisation to manage payments to ensure that pressure is not placed on its cash flow position.

Creditors are classified as a liability. As a result the following double-entry accounting rules must be applied when posting transactions to the creditors' accounts in the accounts payable ledger.

Liability accounts

To increase a liability account, record an amount in the credit column.

To decrease a liability account, record an amount in the debit column.

Creditors' control account

After transactions affecting creditors have been posted to the accounts payable ledger, the total of all the balances should be checked to see that it can be reconciled with the balance in the creditor's control account maintained in the general ledger.

This is done by listing all the balances of each individual creditor's account. It is common to do this at the end of the month but times can vary depending on the size of the organisation.

Make sure you are familiar with the procedures followed at your organisation for preparing a creditors' schedule.

Remember that you must prepare reconciliation statements to show that the total of all accounts in the subsidiary ledgers equates with the relevant control account in the general ledger.



Bank statements

A bank statement is a financial document issued by a bank.

Bank statements usually indicate the interest rate that applies to debit (overdraft or loan) or credit (deposit moneys) balances. Bank statements are generally issued monthly for trading accounts. Most banks offer internet access – allowing a client to download a transaction record at any time of the month.

Bank statements list:

- all deposits made into the bank account (including direct deposits)
- all withdrawals from the account (including direct debits)
- bank charges
- interest charges or credits.

Abbreviations on bank statements

Bank statements generally contain abbreviations that describe the type of transaction. If you have questions about a particular term that appears on a bank statement, look at your bank's website or call its customer service centre.

Some of these are explained below.

P/P:	Regular periodic payments out of the account; for example, monthly payment of insurance premium
D/D:	Deposits made into an account by someone other than the account holder; for example, a debtor payment
Deposit:	Cash, cheques, vouchers making up a deposit
DSR:	Dishonoured cheque returned to drawer
EFTPOS:	Electronic funds transfer at point of sale
Account service fee:	Bank fees charged
ABWDL:	Automatic teller machine withdrawals

Total cash journals

Cash journals must be totalled before they can be used to prepare bank reconciliations. Totalling the cash journals means balancing the 'total' entries in the vertical columns with the 'total' entries in the horizontal columns.

Journals should always be cross-checked and checked against source documents, as explained below.

Cross-checking

Cross-checking means making sure the bank column equals the cumulative totals of all other columns, minus the total of the discount column.

To ensure accuracy:

- the cash payments journal should be checked against cheque butts, electronic payments such as direct debits, and bank statements
- the cash receipts journal should be checked against the receipt book, cash register roll, electronic receipts such as direct deposits and bank statements.

Checking against source documents

Cross-check additions and make sure the total sales plus total GST equals the overall journal total. Check the accuracy of the journal against your invoices for the month. They should be the same.

Bank reconciliation

To undertake a bank reconciliation, compare the organisation's cash payments and cash receipts journals against the deposits and withdrawals on the bank statement.

The purpose of preparing a bank reconciliation is to:

- ensure the accuracy of the recorded bank account transactions in the general ledger
- check the accuracy of the bank statement
- identify transactions recorded in the bank statement that have not been recorded in the cash journals (such as interest and bank fees)
- identify cash receipts that have not been deposited with the bank (such as on the last day of the month)
- identify cheques issued that have not been presented by the payee to the bank (known as unpresented cheques).

Variations between bank statement and journals

Differences between the cash journals maintained by the organisation and the bank statement prepared by the bank are common. The differences may be errors, but more often they are simply because the bank and the organisation record cash transactions at different times. For example, the organisation records the cheque at the time it is drawn whereas the bank records the cheque at the time it is presented.

Depending on the size of the organisation, the frequency of this reconciliation will vary from daily to once a month. As a minimum, you should prepare a bank reconciliation statement once a month, as soon as you have received the monthly bank statement.

All banks classify their client accounts as a liability, as the bank is holding the money on behalf of the client for safekeeping. The bank owes the money to the client; hence the client is a liability.

When recording amounts in the client's account, the bank will follow the rules of double-entry accounting for a liability, as shown again.

- To increase a liability account, record an amount in the credit column.
- To decrease a liability account, record an amount in the debit column.

Manual preparation of a bank reconciliation

Here is a tip for when you are required to prepare a bank reconciliation manually. Have your cash payments and receipts journal printed off and use a pencil to tick off the corresponding transactions on the bank statement that match those in your journals. This way you will clearly be able to see any errors or transactions that haven't been entered into your journals, such as bank fees or direct deposits.

Practice task 6

1. Post the information from the following journals to the accounts receivable ledger and prepare a debtors' schedule for Baileys Wine Merchants.

Baileys Wine Merchants sales journal						
Date	Debtor	Folio	Tax inv. no.	Sales \$	GST payable \$	Total \$
2.8.15	Valley Vineyard		0562	2,300.00	230.00	2,530.00
6.8.15	Oaktree Cafe		0563	1,850.00	185.00	2,035.00
14.8.15	Harvest Homestead		0564	3,480.00	348.00	3,828.00
22.8.15	Calabro Wines		0565	2,190.00	219.00	2,409.00
Monthly totals				9820.00	982.00	10802.00

Baileys Wine Merchants sales returns and allowances journal						
Date	Debtor	Folio	Adj. note no.	Sales returns \$	GST payable \$	Total \$
14.8.15	Oaktree Cafe		DR592	450.00	45.00	495.00
21.8.15	Harvest Homestead		DR593	1100.00	110.00	1210.00
Monthly totals				1550.00	155.00	1705.00

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Baileys Wine Merchants cash receipts journal											
Date 2015	Particulars	Rec. no.	Discount expensed			Reason for receipt				Bank \$	
			GST adj. \$	Disc. expense \$	Debtors \$	Debtors \$	Cash sales \$	Sundries \$	GST \$		
Aug											
12	Kane Shire	015						600.00		60.00	660.00
25	Valley Vineyard	016	15.00	150.00	165.00	2,365.00					2,365.00
25	Harvest Homestead	017	11.90	119.00	130.90	2,487.10					2,487.10
30	Calabro Wines	018				1,409.00					1,409.00
			26.90	269.00	295.90	6,261.10		600.00		60.00	6,921.10

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Baileys Wine Merchants accounts receivable ledger					
Date	Particulars	Jnl ref.	Debit \$	Credit \$	Balance \$
Valley Vineyard					
1.8.15	Balance				1,000.00 Dr
Oaktree Cafe					
1.8.15	Balance				Nil
Harvest Homestead					
1.8.15	Balance				3,500.00 Dr
Calabro Wines					
1.8.15	Balance				1,800.00 Dr
Baileys Wine Merchants debtors' schedule as at 31 August 2015					
Debtor					Amount (\$)
Balance as per debtors' control					

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2. From the journals of S Stanley that follow, you are required to post the transactions to the accounts payable ledger and prepare a creditors' schedule.

S Stanley purchases journal						
Date	Creditor	Folio	Tax inv. no.	Purchases \$	Input tax credit \$	Total \$
5.12.15	A Atkins		A399	1,800.00	180.00	1,980.00
8.12.15	T Rupert		C83	1,200.00	120.00	1,320.00
21.12.15	E Wise		Z911	1,350.00	135.00	1,485.00
22.12.15	J Johnson		R103	900.00	90.00	990.00
Monthly totals				5,250.00	525.00	5,775.00

S Stanley purchases, returns and allowances journal						
Date	Creditor	Folio	Adj. note	Purchases returns \$	Input tax credit \$	Total \$
10.12.15	T Rupert		CN441	250.00	25.00	275.00
23.12.15	E Wise		RC84	350.00	35.00	385.00
Monthly totals				600.00	60.00	660.00

S Stanley cash payments journal										
Date 2015	Particulars	Chq. no.	Discount received			Reason for payment				Bank \$
			ITC adj. \$	Disc. rec'd \$	Creditors \$	Creditors \$	Cash purchases \$	Sundries \$	ITC \$	
12/12	A Atkins	1231	2.00	20.00	22.00	778.00				778.00
28/12	J Johnson	1232	4.00	40.00	44.00	1,156.00				1,156.00
Monthly totals			6.00	60.00	66.00	1,934.00				1,934.00

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S Stanley accounts payable ledger					
Date	Particulars	Jnl ref.	Debit \$	Credit \$	Balance \$
A Atkins					
1.12.15	Balance				800.00 Cr
J Johnson					
1.12.15	Balance				1,200.00 Cr
T Rupert					
1.12.15	Balance				2,000.00 Cr
E Wise					
1.12.15	Balance				1,000.00 Cr
Creditors' schedule as at 31 December 2018					
Creditor					Amount (\$)
Balance as per creditors' control					

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3. Here are some sample financial records for Hills Hoisting.

Hills Hoisting cash payments journal										
Date 2015	Particulars	Chq. no.	Discount received			Reason for payment				Bank \$
			ITC adj. \$	Disc. rec'd \$	Creditors \$	Creditors \$	Cash purchases \$	Sundries \$	ITC \$	
1.12.15	R Maciter	0965	4.50	45.00	49.50	1,279.50				
3.12.15	V Zawadka	0966					369.00		36.90	
5.12.15	C Knott	0967	6.00	60.00	66.00	2,896.00				
12.12.15	O & L Owen	0968					1,450.00		145.00	
16.12.15	TL Duryea	0969	12.00	120.00	132.00	1,452.00				
19.12.15	W Geddes	0970					1,580.00		158.00	
20.12.15	CANCELLED	0971								
22.12.15	Stott Sons	0972	5.00	50.00	55.00	1,155.00				
23.12.15	Hull Bros.	0973	7.50	75.00	82.50	907.50				
29.12.15	L Curly	0974					2,469.00		246.90	
		Monthly totals								

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Community Credit Union				
Statement as at 31 December 2015				
Hills Hoisting				
From: 1 December 2015		Account no: 06 3688 1023 6566		
To: 31 December 2015		Page no: 16		
Date	Particulars	Debit \$	Credit \$	Balance \$
Dec. 2015	Opening Balance			8,520.00 Cr
1	Interest		54.50	8,574.50 Cr
5	0965	1,279.50		7,295.00 Cr
3	DEPOSIT		3,456.00	10,751.00 Cr
9	0966	405.90		10,345.10 Cr
9	DEPOSIT		2,840.50	13,185.60 Cr
12	Loan repayment	135.00		13,050.60 Cr
16	0967	2,896.00		10,154.60 Cr
17	DEPOSIT		1,201.00	11,355.60 Cr
22	0968	1,595.00		9,760.60 Cr
23	DEPOSIT		2,189.00	11,949.60 Cr
23	0969	1,452.00		10,497.60 Cr
24	0970	1,738.00		8,759.60 Cr
27	DEPOSIT		1,950.00	10,709.60 Cr
27	0972	1,155.00		9,554.60 Cr
30	DEPOSIT		3,222.00	12,776.60 Cr
31	0973	907.50		11,869.10 Cr
31	Account Service Fee	12.50		11,856.60 Cr
TOTALS		11,576.40	14,913.00	

a) Total the bank column on the cash payments journal for Hills Hoisting.

b) Add the monthly total columns and cross-check additions to make sure the total purchases plus total GST equals the overall journal total.

c) Match the payments in the journal against the bank statement, using ticks in the 'Chq no.' column of the cash payments journal.

d) Are there any unrepresented cheques at the end of December?

e) Which journal/s are the loan repayment and the bank fees recorded in?

f) Is Hills Hoisting a debtor or a creditor of Community Credit Union?

2D

Prepare a trial balance from the general ledger

It is usual to prepare a monthly trial balance after all the journals have been posted to the general ledger. A trial balance is used to check the accuracy of the posting. This ensures the rules of double-entry accounting have been followed accurately; that is, the total of the debit account balances equate with the total of the credit account balances.

Remember that the total of the debit column and the total of the credit column must be the same.

To prepare the trial balance:

- Every ledger account balance in the general ledger must be listed in the trial balance.
- Amounts are entered in the debit column when the ledger account has a debit balance.
- Amounts are entered in the credit column when the ledger account has a credit balance.
- A trial balance must be dated at the time the ledger was balanced (often the last day of the month).

Format of the trial balance

A trial balance needs to contain the following information:

- the owner's name
- the name of the report
- the period covered by the report.



Balance the trial balance

The trial balance may not always balance the first time it is prepared. In other words, the totals of the debits and the credits columns may not be the same. This shows that an error has occurred somewhere in your records or in your reporting.

If this happens, you will need to determine the reasons for the imbalance.

The following steps may be helpful to determine the reasons for the imbalance:

- Ensure that all accounts have been included.
- Ensure the balances of each account are classified correctly as debits or credits.
- Look for amounts that may have been recorded incorrectly.
- Check the additions and subtractions in the accounts.

Accuracy

Because there is a chance that mistakes will slip through, you need to be very careful when making entries in the general ledger. Double-check your postings and look over your work to see where you may have made mistakes. It can be very time-consuming trying to trace errors once they have been posted to the trial balance. However, if you are very careful about accuracy whenever you make an entry in any of your ledger accounts, the ledger will be more likely to balance the first time.

Errors to watch for

You may have made several errors in the process of recording transactions in journals, posting to ledger accounts, balancing and recording the balances – and yet the trial balance may still balance.

Here is a list of errors that may occur even when a trial balance balances.

Incorrect debit/credit amount?

You may have recorded a debit and credit for an equal amount, but it may have been the wrong amount. For example, instead of debiting the purchases account for \$200 and crediting the creditors' control account for \$200, you mistakenly recorded \$2000 in each account.

Missed a transaction?

You may have neglected to record a transaction altogether. For example, an invoice received for the purchase of office stationery was caught up in other papers on your desk and it was not recorded in the journal.

Compensated for an error?

You may have compensated for an error. For example, you may have recorded rent expense of \$10,000 on the credit side of the trial balance and then recorded commission revenue of \$10,000 on the debit side.

Correct trial balance errors

Errors are a common occurrence when using a manual system. When tracking down errors, don't start from the beginning checking journal postings to the ledger, balancing ledger accounts etc. This is far too time-consuming.

Don't be upset if at first your trial balance doesn't balance – this can occur quite often when using a manual system.

You may find the reason for the errors reasonably quickly by following the eight steps below.

Eight steps to finding the errors in your trial balance

1**Take some 'time out'**

Before you begin, take some 'time out'. Put this work aside for a while and come back to it with a clear mind.

2**Add the debit side and the credit side again**

Add the debit side and the credit side again. Using a calculator with a print tape helps you check your accuracy.

3

Calculate the difference in the totals

Calculate the difference in the totals; for example, if the debit column is \$44,000 and the credit column is \$46,000, then the difference is \$2,000. You may quickly see an amount of \$2,000, which you have not posted as a debit.

4

Check over the journals

Check over your journals for the amount that would make the trial balance work. If you find such an amount, check that it has been posted to an account. If it hasn't been posted, it is probably the reason for the imbalance.

5

If Step 4 doesn't help

If Step 4 doesn't solve the problem, divide the difference (\$2,000) by two and look for accounts in the trial balance with a balance of that amount (\$1,000). The amount may be on the wrong side of the trial balance. If you find such an amount, check the account in the general ledger to verify its balance.

6

Check that you have recorded all the account balances

If you still haven't found an error, then check that you have recorded all the account balances in the trial balance. Have you omitted an account balance? Also, check that you haven't recorded a balance more than once.

7

Check the additions

Check the additions in accounts where more than one entry has occurred. Maybe your addition is incorrect.

8

Redo the postings

Finally, if you still don't have a successful balance you will have to check your postings from the journals to the ledger; that is, redo the postings.

Organisational requirements

Organisational requirements will determine the time frame for generating the trial balance and who is authorised to do this. This is usually done at the end of the month or accounting period. If you are unsure of the procedures to follow, refer to your organisation's procedures and/or seek advice from your coach or supervisor.



Practice task 7

Examine the general ledger below for Hi Light Fittings for June 2015. Compare the amounts in the general ledger with the trial balance and highlight the inaccuracies in the trial balance. Total the trial balance (making any necessary corrections) and ensure that the debit and credit amounts are the same.

Hi Light Fittings general ledger					
Date	Particulars	Folio	Debit \$	Credit \$	Balance \$
Bank (asset)					
1.6.15	Capital		1,900.00		1,900.00 Dr
30.6.15	Cash receipts	CRJ	10,020.00		11,920.00 Dr
30.6.15	Cash payments	CPJ		9,087.50	2,832.50 Dr
Debtors control (asset)					
1.6.15	Capital		2,200.00		2,200.00 Dr
12.6.15	Late fees revenue	GJ	11.00		2,211.00 Dr
15.6.15	Bad debts	GJ		330.00	1,881.00 Dr
30.6.15	Discount expense	CRJ		44.00	1,837.00 Dr
30.6.15	Bank	CRJ		1,715.00	122.00 Dr
30.6.15	Sales	SJ	3,903.90		4,025.90 Dr
30.6.15	Sales returns	SRJ		266.20	3,759.70 Dr
Input tax credits (asset)					
1.6.15	Capital	GJ	140.00		140.00 Dr
3.6.15	Sundry creditor – Light Warehouse	GJ	300.00		440.00 Dr
11.6.15	Creditors control	GJ	2.00		442.00 Dr
18.6.15	Drawings	GJ		15.00	427.00 Dr
30.6.15	Creditors control	CPJ		4.50	422.50 Dr
30.6.15	Bank	CPJ	397.50		820.00 Dr
30.6.15	Creditors control	PJ	336.60		1,156.60 Dr
30.6.15	Creditors control	PRJ		13.00	1,143.60 Dr
Stock (asset)					
1.6.15	Capital	GJ	1,000.00		1,000.00 Dr

continued ...

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Date	Particulars	Folio	Debit \$	Credit \$	Balance \$
Creditors control (liability)					
1.6.15	Capital	GJ		1,600.00	1,600.00 Cr
11.6.15	Interest	GJ		22.00	1,622.00 Cr
30.6.15	Discount revenue	CPJ	49.50		1,572.50 Cr
30.6.15	Bank	CPJ	1,065.00		507.50 Cr
30.6.15	Purchases	PJ		3,702.60	4,210.10 Cr
30.6.15	Purchases returns and allowances	PRJ	143.00		4,067.10 Cr
GST payable (liability)					
1.6.15	Capital	GJ		200.00	200.00 Cr
12.6.15	Debtors control	GJ		1.00	201.00 Cr
15.6.15	Debtors control	GJ	30.00		171.00 Cr
30.6.15	Debtors control	CRJ	4.00		167.00 Cr
30.6.15	Bank	CRJ		755.00	922.00 Cr
30.6.15	Debtors control	SJ		354.90	1,276.90 Cr
30.6.15	Debtors control	SRJ	24.20		1,252.70 Cr
Capital Hi Light Fittings (owner's equity)					
1.6.15	Assets and liabilities	GJ		3,440.00	3,440.00 Cr
Computer (asset)					
3.6.15	Sundry creditor – Best systems	GJ	3,000.00		3,000.00 Dr
Sundry creditor – Light Warehouse (liability)					
3.6.15	Computer	GJ		3,300.00	3,300.00 Cr
Late fees (expense)					
11.6.15	Creditors control – LBC Co Ltd	GJ	20.00		20.00 Dr
Late fees (revenue)					
12.6.15	Debtors control – P Manning	GJ		10.00	10.00 Cr
Bad debts (expense)					
15.6.15	Debtors control – B Roberts	GJ	300.00		300.00 Dr

continued ...

... continued

Date	Particulars	Folio	Debit \$	Credit \$	Balance \$
Drawings (owner's equity)					
18.6.15	Purchases	GJ	165.00		165.00 Dr
Discount expense (expense)					
30.6.15	Debtors control	CRJ	40.00		40.00 Dr
Sales (revenue)					
30.6.15	Bank – cash sales	CRJ		6,250.00	6,250.00 Cr
	Debtors control	SJ		3,549.00	9,799.00 Cr
Commission revenue (revenue)					
7.6.15	Bank	CRJ		800.00	800.00 Cr
Rent revenue (revenue)					
15.6.15	Bank	CRJ		500.00	500.00 Cr
Discount received (revenue)					
30.6.15	Creditors control	CPJ		45.00	45.00 Cr
Purchases (expense)					
18.6.15	Drawings	GJ		150.00	150.00 Cr
30.6.15	Bank	CPJ	2,450.00		2,300.00 Dr
30.6.15	Creditors control	PJ	3,366.00		5,666.00 Dr
Wages (expense)					
5.6.15	Bank	CPJ	1,825.00		1,825.00 Dr
24.6.15	Bank	CPJ	1,825.00		3,650.00 Dr
Insurance (expense)					
1.6.15	Bank	CPJ	650.00		650.00 Dr
Telephone (expense)					
2.6.15	Bank	CPJ	350.00		350.00 Dr
Advertising (expense)					
16.6.15	Bank	CPJ	525.00		525.00 Dr
Sales returns and allowances (decreasing revenue)					
30.6.15	Debtors control	SRJ	242.00		242.00 Dr
Purchases returns and allowances (decreasing expense)					
30.6.15	Creditors control	PRJ		130.00	130.00 Cr

continued ...

... continued

Hi Light Fittings trial balance as at 30 June 2015		
Account	Debit \$	Credit \$
Bank	2,832.50	
Trade debtors control	3,759.70	
Input tax credits	1,143.60	
Stock	1,100.00	
Trade creditor's control		4,067.10
GST payable		1,252.70
Capital		3,540.00
Computer	3,300.00	
Sundry creditor – Light Warehouse		3,000.00
Late fees (expense)		20.00
Late fees (revenue)	10.00	
Bad debts	300.00	
Drawings	165.00	
Discount expense	40.00	
Sales		9,979.00
Commission revenue		800.00
Rent revenue		500.00
Discount received		45.00
Purchases	5,666.00	
Wages	3,650.00	
Insurance	650.00	
Telephone expense	350.00	
Advertising	525.00	
Sales returns and allowances	130.00	
Purchases returns and allowances		242.00
Total		

Summary

1. The different source documents of an organisation are included in six specialist journals or the general journal.
2. Information recorded in journals is posted to the accounts in the general ledger in accordance with the rules of double-entry accounting. This requires amounts to be recorded in the debit and credit columns of an account according to their classification.
3. The general ledger organises information by account. General ledger accounts are classified as assets, liabilities, owner's equity, revenues and expenses. The chart of accounts acts as the table of contents to the general ledger.
4. Subsidiary ledgers are maintained for trade debtors and creditors with separate accounts kept for each creditor/debtor. The totals of each of the individual accounts within the subsidiary ledgers must agree with the control account balances in the general ledger.
5. Transactions from the cash receipts and payments journals must be reconciled against the monthly bank statement to ensure accuracy of both the journals and the bank statement. Any errors must be rectified.
6. Trial balances are used to check the accuracy of postings to journals and to the general ledger.
7. All transactions posted into the general ledger and the subsequent trial balance must conform to organisational requirements.

Learning checkpoint 2 Maintain general ledger

This learning checkpoint allows you to review your skills and knowledge in maintaining a general ledger.

Part A

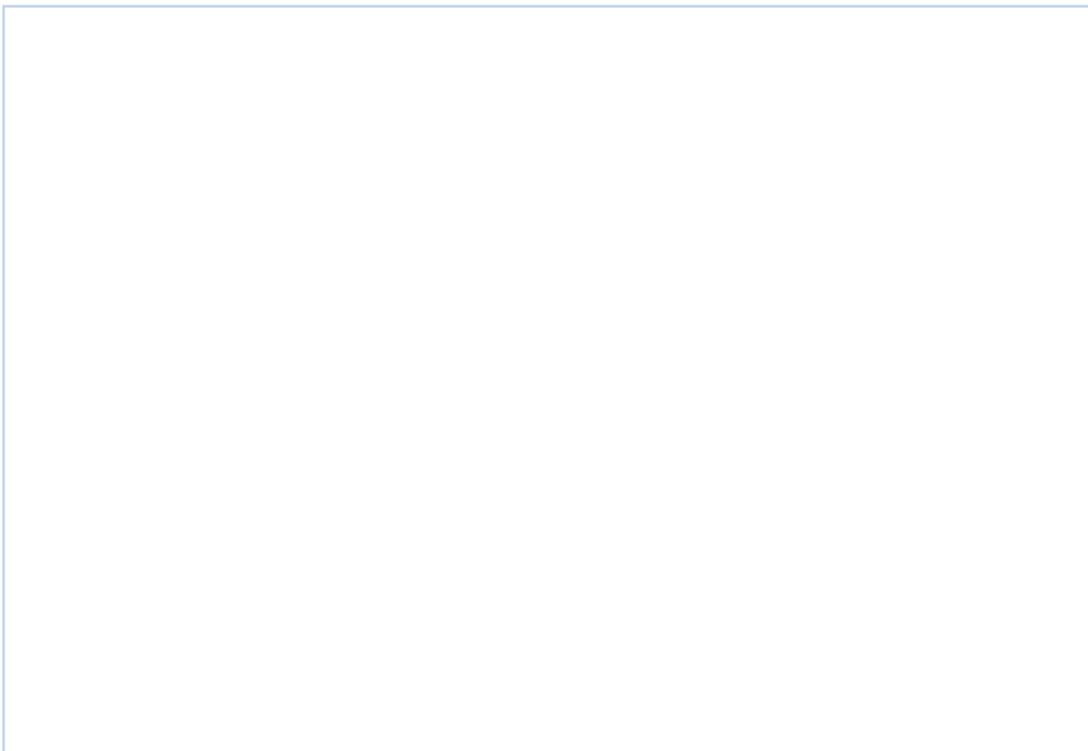
Explain what procedures exist in your workplace regarding the following general ledger maintenance practices. If you are not currently working, your trainer will be able to help you access similar documents.

1. Obtain a copy of the chart of accounts. Summarise the chart of accounts in terms of account classification and account number prefix.

2. Explain what accounting entries are required for writing off a bad debt.



3. How are accounts payable reconciled with the general ledger and how often?



Part B

Indicate whether each of the following statements is true or false by ticking the relevant column.

Statement	True	False
The general ledger contains details of all the organisation's accounts including the debtors' and creditors' individual accounts.		
Assets are what your organisation owns and are used to generate revenue or a future benefit for the organisation, or are the result of operating the organisation.		
The sales returns and allowances journal records sale of stock sold on credit and is evidenced by an adjustment (credit) note.		
A purchase of a fixed asset on credit is recorded in the purchases journal.		
Revenue can be sales, interest received, professional fees received, commission or discounts received.		
The rules of double-entry accounting require amounts to be recorded in the debit and credit columns of an account according to their classifications; that is, assets, liabilities, owner's equity, revenues and expenses.		
A drawings account records the amounts of capital injected into an organisation by each owner.		
Expenses are the payments made by an organisation to keep it operating. These items form part of the calculation of profit.		
The totals of each of the individual accounts within the subsidiary ledgers must agree with the control account balances in the general ledger.		
Most organisations that sell goods on credit to clients maintain control over their clients by keeping an accounts payable ledger or creditors' ledger.		
The chart of accounts acts as the table of contents to the debtors' ledger.		
Long-term liabilities are debts that extend over a long period of time such as a bank loan. Current liabilities are short-term debts expected to be paid fairly soon, such as to creditors.		
A bank statement is a financial document issued by a bank and lists all deposits made into the bank (including direct deposits), all withdrawals (including direct debits), bank charges and interest charges or credits.		
The general journal records all the revenue and expenses contributed by the owner when they start the business.		

Part C

Read the scenario, then answer the questions that follow.

Scenario

You work in an organisation that uses a computerised accounting system that automatically totals journals, posts them to the ledgers and generates a trial balance. Your department manager approaches you with concerns that new employees don't understand what a trial balance is, and how it would be prepared manually. He asks you to assist with preparing a basic overview to be used when new employees are recruited.

You are required to do the following:

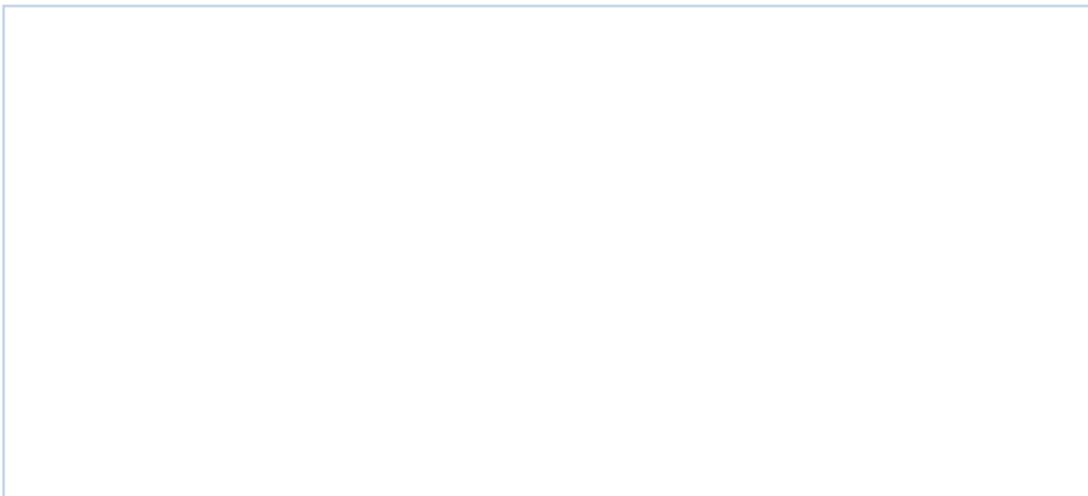
1. Provide a simple-to-understand description of what a trial balance is – explain the format.

2. Explain what is required in order to balance it.

3. Explain what possible errors can occur and how these can be fixed.



4. Explain what organisational procedures are in place in preparing the trial balance.



Topic 3

Monitor cash control

This topic will focus on the importance of regular monitoring of cash control within your organisation. Without cash flow, your organisation cannot survive. The flow of cash into the organisation needs to be sufficient to pay for outgoing expenses.

You need to understand the process of paying creditors and receiving payment from debtors as well as following up outstanding accounts. The timing of cash flowing into the organisation versus cash flowing out is critical in ensuring the ongoing financial viability of your organisation.

If your organisation does not maintain effective control over its clients' accounts, it may experience cash flow problems when accounts are not paid quickly.

In this topic you will learn how to:

- 3A Accurately account for cash flow
- 3B Make and receive payments
- 3C Collect and follow up outstanding accounts
- 3D Check and dispatch payment documentation

3A

Accurately account for cash flow

Cash flow is the flow of cash through an organisation. An organisation needs continuous access to cash in order to meet ongoing payment commitments to creditors, employees, banks and other financial institutions, the taxation office, etc. If access to cash resources is restricted and these commitments cannot be met, the future of the organisation is compromised.

Cash flows in from the sale of goods or services either at the time of sale or at a later date if credit has been extended to a debtor. If the organisation is in the public sector (such as a hospital, shire or school), the main source of cash will be government funding received. This could be paid monthly or even quarterly – which makes the monitoring of cash flow even more critical.

Getting the right balance between when the cash flows into the organisation and when it flows out is complex and must be managed and monitored carefully. If an organisation fails to do this, it may appear to be profitable on paper but may not have sufficient cash on hand to meet its future commitments on time.



Organisational requirements

The role you play within your organisation in relation to accounting for cash flow will be determined by your organisation's policies and procedures and the duties specified within your job description. If it is within your role to account for and monitor cash flow, then you need to understand what your organisation requires of you.

Cash flow budgets

A common way of accurately accounting for cash flow is by preparing a monthly cash flow budget and comparing the actual cash flow against budgeted amounts. A cash flow budget is a useful means to estimate and monitor the cash available to the organisation throughout the year. Revenue and expenses are greater in some months than others, but with careful consideration and planning these variations can be estimated and prepared for.

To estimate cash flow, you calculate the difference between the budgeted receipts and payments for each month. To monitor the actual cash flow, you make similar calculations at the end of the month using actual operating figures. The actual figures, when compared with those projected, will clearly show any problems in the organisation's cash flow and signal the need for caution and possible action.



Cash flow warning signs

The cash flow warning signs indicating that action may be required include:

- when revenue for the period is markedly lower than anticipated
- if payments for parts of the budget are higher than anticipated
- when the cashbook balance is low and large commitments still have to be met
- if an unexpected increase in the cost of goods purchased has occurred without a corresponding increase in revenue.

Changing the pattern of cash flows

In the case of a projected cash flow surplus, consideration should be given to investing excess cash in order to earn interest and/or partially repaying a long-term debt.

If it is likely that cash resources may be insufficient to meet commitments when they are due at some future point in time, then steps must be taken to change the pattern of cash flows.

When cash resources are insufficient to meet commitments, it may be necessary to:

- defer the purchase of fixed assets or consider leasing arrangements instead
- restrict the level of drawings by the owner/s or defer the payment of dividends to shareholders
- defer the payment of creditors' accounts for as long as possible (although this may be expensive if cash discounts are lost)
- reduce the period it takes to collect debtors' accounts (although this may lead to loss of future sales)
- inject additional capital into the organisation
- sell or lease back any unwanted fixed assets
- arrange overdraft facilities with the bank or extend existing ones
- consider other short-term finance such as term loans.

Format of a cash flow statement

A projected cash flow statement consists of the projected cash balance at the beginning of the period, the projected net cash flow (inflow or outflow) for the period and the projected cash balance at the end of the period. Non-cash items such as depreciation and bad debts are not included, as they are 'book entries' only and do not result in a cash outlay.

\$22,0033.88
\$1,020.03
\$3,554.00
<u>\$9,632.55</u>
Cash Flow

Example: a cash flow statement for a three-month period

Here is an example of a cash flow statement for a three-month period for Gaza's Greengrocer.

Note 1: GST transactions have been excluded to keep this cash flow statement straightforward.

Note 2: Negative amounts are often shown in brackets.

Gaza's Greengrocer cash flow statement: January to March 2019			
	January	February	March
	\$	\$	\$
Estimated cash receipts			
Cash sales	10,500	12,000	11,800
Cash collected from debtors	21,350	24,200	23,600
	31,850	36,200	35,400
Estimated cash payments			
Cash purchases	15,500	19,100	16,950
Payments to creditors	6,250	7,900	7,100
Advertising	280	370	310
Wages	4,600	6,250	5,860
Purchase of shelving	-	1,300	-
Rates	1,200	-	-
Electricity	-	-	842
Telephone	-	-	1,650
Drawings	1,600	3,000	1,600
	29,430	37,920	34,312
Balance of bank (beginning of month) Cr	8,400	10,820	9,100
Net cash flow	2,420	(1,720)	1,088
Balance of bank (end of month)	10,820	9,100	10,188

Source: Yates, L & Mroczkowski, N 1989, *TAFE Accounting: Introduction to accounting and accounting reports*, Thomson Nelson Australia.

Practice task 8

1. Complete the balances at the bottom of the cash flow statement for Biggles Eyeware.

Biggles Eyeware cash flow statement: July to September 2015			
	July \$	August \$	September \$
Estimated cash receipts			
Cash sales	8,980	10,580	9,460
Cash collected from debtors	16,300	16,580	19,250
	25,280	27,160	28,710
Estimated cash payments			
Cash purchases	6,320	5,140	6,400
Payments to creditors	11,145	9,490	12,900
Accounting fees	1,650	-	-
Wages	5,500	5,500	5,500
Purchase of display cabinet	-	-	2,300
Rent	1,850	1,850	1,850
Electricity	-	-	1,260
Telephone	2,410	-	-
Drawings	2,100	2,500	2,500
	30,975	24,480	32,710
Balance of bank (beginning of month) Cr	7,350		
Net cash flow			
Balance of bank (end of month)			

continued ...

... continued

2. What result will the projected cash flow have on the balance at the bank at the end of September? Is this a positive or a negative trend? Explain your answer.

3. Would the monthly cash flow result for Biggles Eyeware be improved by paying the telephone and electricity on a monthly basis instead of quarterly?

4. Suggest four ways in which Biggles Eyeware could improve its monthly cash flow.

3B

Make and receive payments

Making payments to creditors and receiving payment from debtors of your organisation are complex tasks that require strict adherence to organisational procedures. The timing and amounts of the inflow and outflow of money are crucial to your organisation maintaining a positive cash flow and, therefore, being viable.

Within your organisation, you may be responsible for ensuring that payments made or received are done so in accordance with organisational requirements.

Ensure that correct procedures are followed in:

- preparing
- checking
- authorising
- distributing and collecting source documents
- paying and collecting money.

Make payments

You won't be responsible for all of the tasks associated with making payments, but it is important for you to have an overall insight into what is required in your organisation.

Making payments requires knowledge of:

- how to invoice creditors
- what the terms of credit are
- what methods of payment are used in your organisation
- how the accounting system works
- who has authority to make and process payments.

Deposits

Organisations receive payment for goods and services in various forms, including:

- cash – notes and coins
- cheque
- electronic funds transfer payments via credit card, debit card, BPAY or bank transfer.

Most organisations will accept all these forms of payment from their clients. Some organisations have a policy not to accept personal cheques. Each organisation has its own procedures in place to balance and bank their deposits securely.



Types of payments – cash

Cash can be used to make and receive payment within an organisation or business as shown below.

Making payment by cash

Making payments by cash is usually restricted to very small amounts such as petty cash or cash-on-delivery to freight companies. This is because there are risks associated with an organisation holding a large quantity of cash on the premises. Electronic payments have enabled organisations to eliminate the dangers of holding and paying large sums of cash to creditors or employees. Before electronic payments were introduced, large organisations often employed security guards on payday when large cash payrolls were distributed to employees.

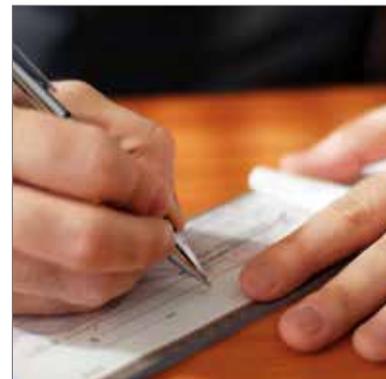
Receiving payment by cash

It is the organisation's responsibility to ensure that any cash payments received are receipted, recorded and kept secure until they are banked. Cash payments should not be used for other purposes; for example, covering the owner's personal expenses. Otherwise the amount banked will not balance with the total receipted.

When preparing cash for banking, sort it by its face value or denomination. For example, \$5 notes together, all 50c coins together etc. Notes should be sorted so they face the same way. Your bank can supply you with re-usable zip-lock bags to hold coins for banking.

Types of payments – cheque

Cheques were once a common form of payment, but the convenience and speed of electronic payment systems has seen them being used less and less. Make sure you understand and follow the correct procedures at your organisation for drawing cheques and having them signed. Only certain people within an organisation are authorised to sign cheques (called cheque signatories). These people, such as managers and accountants, check that the payment has been approved. Sometimes there are limits on how much a cheque can be made out for. Very large cheques may need to be approved by your organisation's chief executive officer or by a member of the board.



When sending out your cheque payment, you must also send a remittance advice, so the creditor knows exactly which invoices are being paid and who is paying them. Ensure that sufficient funds are in the account to cover the amount of the cheques issued.

Receive payment by cheque

A cheque is a document used by the customer in place of cash. Cheques enable organisations to operate without keeping large quantities of cash on hand. Unlike cash, cheques can be posted. Many organisations have specific processes for receiving payment by cheque, especially if a customer is taking goods away with them. These can include viewing and recording additional identification from the customer (for example, a driver's licence and home address). Another way of validating a cheque is to use a cheque authorisation service.

When receipting cheques from a client you must examine them to ensure:

- all details are included
- all information is correct
- the receiving bank will accept them as a deposit.

Types of payments – credit card

Your organisation may have a number of credit cards that are used to pay for different items. For example, one supplier may only accept credit card payments with MasterCard; while another may only accept Visa. You need to verify the creditor's preferred agency before trying to pay using a credit card.

It is useful to keep a record of the credit card preferences of all your organisation's creditors.

Different people within an organisation may be responsible for different payments or customers. Your organisation should have procedures for which card is to be used under which circumstances, and should provide those procedures to all cardholders within the organisation. Information kept about credit cards is highly confidential.

You must always follow your organisation's procedures when making credit card payments. It is vital that all the checking procedures are followed precisely. The main difference between cheque and credit card payments is the source documentation; that is, the records that correspond with each payment. All details of the payment need to be accurately documented for reconciliation purposes when the credit card statement is received.

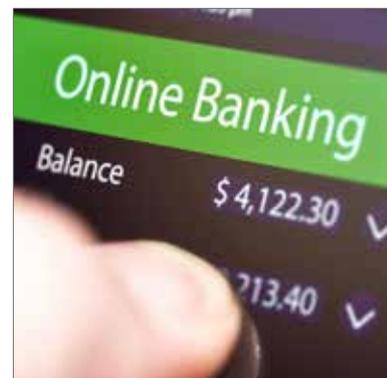
Credit cards are essential when making payments over the telephone or online.



Payment by telephone/internet

Telephone/internet banking involves payment from either a credit card account or a bank account. It is the process of transferring funds from an account via the telephone or the internet to the creditor. Telephone payments can be made directly to the creditor or can be done via BPAY, a centralised electronic bill payment service offered by most financial institutions.

As there is no source documentation for these payments, such as a cheque butt, it is vital that the organisation keeps its own records of them. An example of appropriate documentation would be to print the receipt produced for an internet transfer and attach it to the invoice received from the creditor.



This type of payment should only be made by an approved officer and must be clearly documented for reconciliation when the credit card or bank statement arrives. Appropriate forms and procedures are essential and should be developed by the organisation for such payments. Check with your organisation as to the procedures and documentation used if payments are made in this way.

Example: use a credit card to make a payment

Pablo often organises professional development for the staff at his work. Sometimes the training centres only accept bookings with payments made by credit card. At other times they send an invoice and the company procedure is to pay these invoices using a credit card.

The relevant managers give Pablo the details of some training that staff need to do, so he knows the training has been authorised. He just has to make the booking and pay. Pablo contacts the training organisation to find out how it accepts payment: on invoice, by telephone or online. Pablo has learnt that it is much easier for him to process the payment online, because he can do it in his own time and can simply print off the screen as a record of payment.

He needs to know which credit card is accepted by the organisation and which credit card is most appropriate to use. When paying online he can simply access the relevant website and fill in the details. Pablo checks the training organisation has appropriate security and confidentiality policies in place and enters the relevant information. After he has printed a record of the transaction he puts it in the relevant file (he keeps a file for each trainer). When he receives a notice of payment from the trainer, such as a confirmation of booking, he knows the payment has gone through.

Receive payment by credit card

Most credit card transactions are electronic, and it is very rare that organisations will use manual processing – unless the electronic systems are malfunctioning.

Manual processing involves credit card details being recorded using a triplicate sales voucher and a credit card imprinter. The date of the transaction, a description of the goods or service provided and the client signature are written by hand. The sales voucher contains three copies. The original or white copy goes to the bank, the yellow copy to the credit card owner and the green copy is retained by the organisation. To bank credit card sales manually, the merchant completes a merchant summary slip. This summarises all credit card transactions to be banked.

Electronic processing is done if an organisation has EFTPOS facilities. EFTPOS stands for electronic funds transfer at point of sale.

A client can use either a credit card or a debit card – the difference is explained here.

Using a credit card

If a credit card is used, the purchase cost is added to the client's credit card account.

Using a debit card

If a debit card is used, the payment is taken directly from the client's bank account. Either way, the money is deposited electronically into the organisation's bank account immediately.

Electronic banking

An electronic funds transfer (EFT) transaction is the process of directly withdrawing funds from your organisation's bank account and depositing them into the creditor's bank account, via electronic deposit computerised transfers. This is usually done by direct computer communication with the bank: rather than writing out a cheque physically, the same transaction is completed electronically. You need to know the details of the account from which you are taking money and the account number you are depositing it into.



Different banks have different procedures but the essential EFT method is the same. Most accounting software packages also incorporate EFT processes.

You should follow your organisation's policy for this type of payment. Remember that this method has no 'lead-time'. When sending out a cheque there is a time delay between mailing the cheque and it being banked by the payee. Telephone and internet banking may include a delay of 24 hours. With EFT, unless specified otherwise, it is instantly taken from your bank balance and transferred to your creditor. Again, these types of payments should be checked against the bank statement when reconciling, so keeping records is essential.

Types of payments – direct debit

Direct debits can be an efficient and convenient way for your organisation to make payments. They can be used to pay for a wide variety of services such as insurance, rates, telephone, gas and electricity.

By supplying a direct debit authority to the bank, your organisation allows it to directly debit the nominated account in payment for goods or services.

A direct debit can:

- be for a fixed or a variable amount
- operate at regular intervals or pre-determined dates.

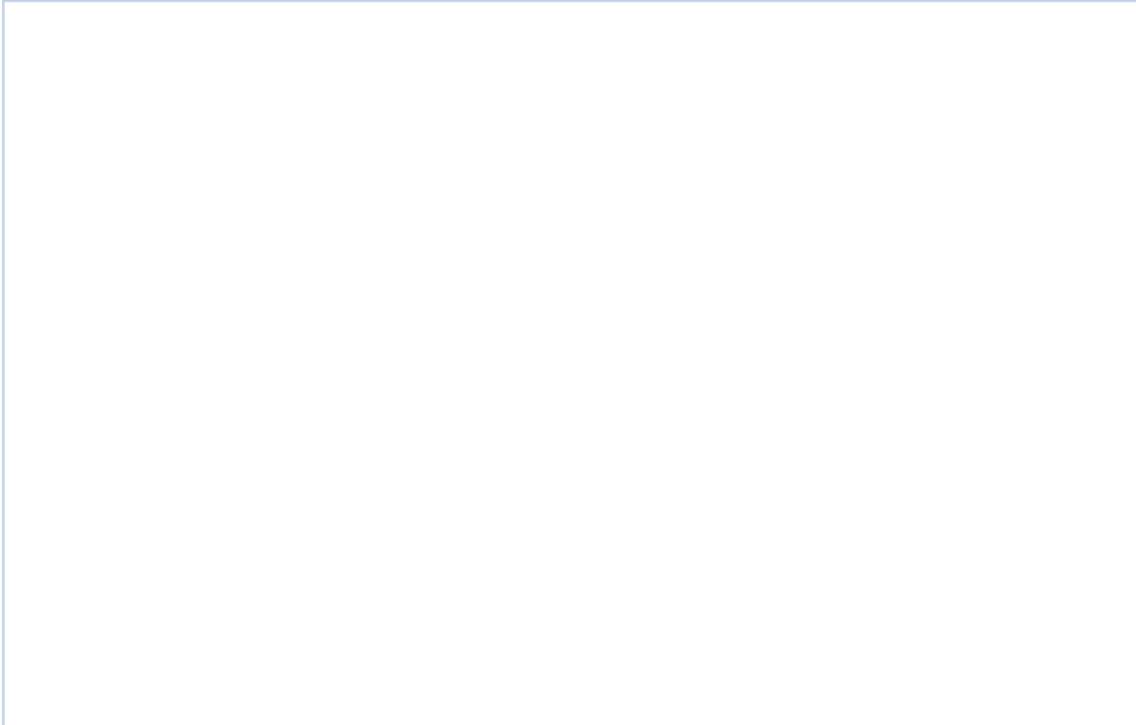
Receive payment by direct credit

Debtors of your organisation may elect to pay their commitments by direct credit. This means that they transfer money directly out of their bank account into your organisation's bank account electronically. This is a convenient way to receive payment, as it reduces the banking processes and the transactions happen immediately.

A common example of a direct credit is when a creditor is required to pay rent on a monthly basis to your organisation. Instead of the creditor having to remember to do this each month, they can set up a direct credit to transfer electronically on the due date each month.

Practice task 9

Describe what is meant by payment by EFT and what the advantages and disadvantages of this would be compared with payment of a bill using a cheque.



3C

Collect and follow up outstanding accounts

In order to manage cash flow successfully, organisations need to make sure they receive the money owing to them within a reasonable amount of time. There are various strategies an organisation can use to make sure its debtors pay their accounts promptly. For example:

- Clearly communicate terms of trade or terms of credit including the offering of discounts for prompt payments.
- Establish set payment arrangements.
- Establish credit limits for all debtors.

Issue invoices and statements

Your organisation should have a policy about when to issue invoices and statements so clients receive them by a certain date. This encourages clients to expect the statements and streamlines your organisation's operations.

Depending on the system used to prepare accounts receivable statements, you need to plan some time to prepare and dispatch them at the end of the month. You need to keep a record of all the clients who are issued with statements and their preferred contact details. You also need to leave time for checking the statements against the debtors' schedule and resolving any discrepancies you find.

Ensuring your organisation's statements are dispatched within designated time lines enhances your organisation's professional reputation, and makes planning your work easier.



Designated time lines

Designated time lines can be described in various ways including those shown here.

By month end

The transaction must be finalised before the end of the calendar month. Payment should be made by the debtor and receipted into the organisation's bank account by the month's end.

Monthly

The transaction occurs each month. For example, this may be a monthly direct debit for the lease of equipment or a monthly receipt of commission in the form of a direct credit. It occurs on the same date each month.

Within agreed period

When an organisation makes a mutual agreement with a creditor or a debtor regarding the terms of trade, this is known as payment within an agreed period. This could be anywhere from seven days to one, two or even three months. Anything outside of this agreed period will attract a penalty.

Within organisational deadline

An organisation may have internal deadlines that impact on creditor and debtor payments. For example, the committee of management of an organisation may meet monthly on the second Wednesday. Financial reports need to be updated to include the latest amounts outstanding by debtors at that time. Therefore, the organisation may require monthly payment by debtors to be received by the close of business on the first Friday.

Practice task 10

1. What are the benefits of having designated time lines for issuing statements within an organisation?

2. Describe ways you could encourage a debtor to pay your organisation within a given and acceptable time frame.

3D

Check and dispatch payment documentation

When preparing payments to creditors, before dispatch you should check carefully that you have received everything you are paying for.

Check that:

- you have the purchase order to match against the delivery docket, invoice and adjustment note, if applicable
- the goods have actually arrived at your organisation in good order and condition and in the correct quantity
- all calculations and extensions on the invoices are correct
- GST and freight have been calculated and added correctly.



Check documents

You need to be familiar with your organisation's specific procedures for checking the accuracy of all documents. If you find any discrepancies between the payment and the source documents, consult an appropriate work colleague within your organisation.

All adjustments should be made before payment of the invoice. Always notify the appropriate person of any errors you find.

If you detect an error as a result of an incorrect statement or incorrect payment details, you must ensure that all relevant accounting documents are corrected; for example, the creditor's account may need to be adjusted. Errors or discrepancies that are found can be addressed in various ways as shown here.

- **Items are returned:** Items are returned and a credit or adjustment note is issued by the supplier for the full amount. A new invoice is prepared when the correct goods are supplied.
- **Contact the supplier:** The supplier may be contacted by telephone or email and they may instruct you to adjust the invoice amount manually.
- **Adjust the invoice:** The existing invoice may be adjusted without the need to issue a new one.

If there are no problems with the payment documentation and the source documents, then the invoices can be processed for payment.

Dispatch payments

Dispatching payments to your creditors needs to meet designated organisational time lines just as when collecting payment from your debtors. Creditors need to be able to rely on being paid within a set time frame so that they can also meet their financial commitments.

Your organisation may have a policy on when payments are to be made to creditors, and penalties may apply if its targets are not met.

We have already discussed ways to make payments by cash, EFT, cheque, EFTPOS and credit card.

You can pay creditors by:

- cash
- cheque
- credit card
- telephone/internet banking
- electronic banking (EFT).

Practice task 11

1. Explain the fundamental tasks involved in checking documentation relevant to paying creditors within an organisation.

2. What methods of payment may be available to pay creditors?

3. Explain why it is more common for organisations to pay creditors electronically rather than by cash.

Summary

1. Getting the right balance between when cash flows into an organisation and when it flows out is complex and must be managed and monitored carefully.
2. A common way of accurately accounting for cash flow is preparing a monthly cash flow budget and comparing actual cash flow against budgeted amounts. A cash flow budget is a useful means to estimate and monitor the cash available to the organisation throughout the year.
3. Managing cash flow successfully requires strategies for ensuring debtors pay their accounts within designated time lines.
4. Designated time lines must also be met when an organisation is paying creditors. All documentation must be carefully checked before dispatching payment.
5. The tasks of paying creditors and receiving payment from debtors are complex and require strict adherence to organisational procedures. Payment will be in the form of cash, cheque, credit card, or direct debit or credit.

Learning checkpoint 3 Monitor cash control

This learning checkpoint allows you to review your skills and knowledge in monitoring cash control.

Part A

Look at the cash flow budget for Bertallis Pottery Centre, then answer the following questions.

Bertallis Pottery Centre cash flow budget from October to December 2015			
	October	November	December
	\$	\$	\$
Estimated cash receipts			
Cash sales	12,450	15,240	22,850
Cash collected from debtors	14,330	16,580	15,770
Sale of old kiln			2,500
	26,780	31,820	41,120
Estimated cash payments			
Cash purchases	8,410	6,840	5,380
Payments to creditors	8,550	10,400	12,900
Advertising	2,130	2,450	3,560
Wages	-	2,340	4,800
Purchase of new kiln	6,500	-	-
Rent	2,400	2,400	2,400
Electricity	783	854	1,165
Telephone	940	986	1,023
Drawings	-	10,000	-
	29,713	36,270	31,228
Balance of bank (beginning of month) Cr	6,450	3,517	(933)
Net cash flow	(2,933)	(4,450)	9,892
Balance of bank (end of month)	3,517	(933)	8,959

1. What seasonal trends have been forecast?

2. What impact does the purchase of the new kiln have on the forecast October cash flow?

3. What will happen to the bank balance if the drawings are made as forecast in November?

4. What advice would you give in order to change this outcome?

Part B

1. Prepare a written document based on current practices within an organisation. This document may be based on an organisation you currently work in, or an organisation where you have worked in the past. Your trainer can help you find information for this assessment activity if you do not have appropriate source information.

Write one or two paragraphs under each of the following headings, describing the procedures and organisational requirements that apply. Make each description clear and easy to follow so the material can be used as a training resource within your workplace.

- a) Types of payments made to creditors
- b) Types of payments made by debtors

- c) Organisational requirements for making and receiving payments
- d) How outstanding accounts are collected
- e) Designated time lines for payment by debtors
- f) Checking documentation prior to payment of creditors
- g) How payment is dispatched to creditors
- h) Designated time lines for payment of creditors





2. Once you have completed the resource, prepare a short PowerPoint presentation to accompany it.

