
Contents

Before you begin	vii
Topic 1: Maintain daily financial records	1
1A Maintain daily financial records	2
1B Identify, rectify and refer errors	13
1C Enter transactions into journals	29
Summary	45
Learning checkpoint 1: Maintain daily financial records	46
Topic 2: Maintain general ledger	51
2A Maintain the general ledger	52
2B Post transactions to the general ledger	63
2C Reconcile systems for accounts payable and receivable with the general ledger	83
2D Prepare a trial balance from the general ledger	99
Summary	106
Learning checkpoint 2: Maintain general ledger	107
Topic 3: Monitor cash control	113
3A Accurately account for cash flow	114
3B Make and receive payments	119
3C Collect and follow up outstanding accounts	125
3D Check and dispatch payment documentation	127
Summary	129
Learning checkpoint 3: Monitor cash control	130

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.

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 ...

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 2015 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.



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.

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 \$
2015						
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

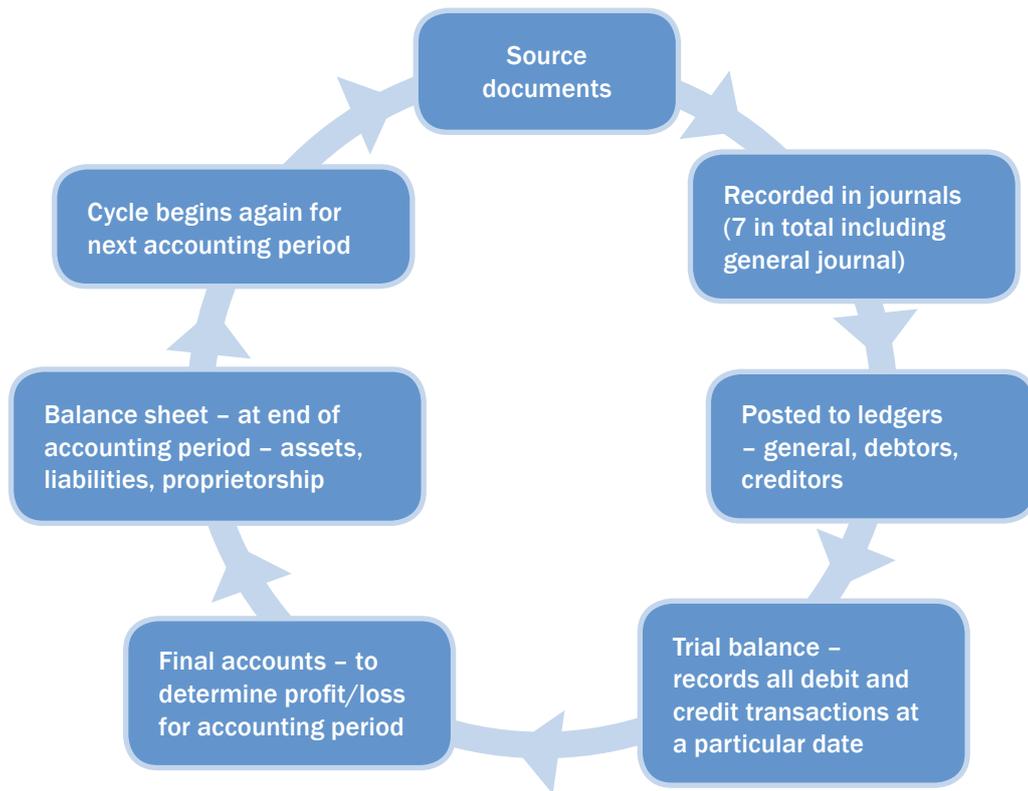
Sales returns and allowances journal

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.

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.

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.

2A

Maintain the general ledger

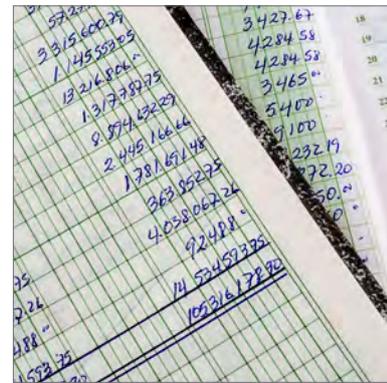
Maintaining the general ledger is an integral part of the overall accounting cycle. You will need to adhere to a number of organisational requirements so this task meets accounting and regulatory requirements.

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:
www.auasb.gov.au/Home.aspx

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.

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

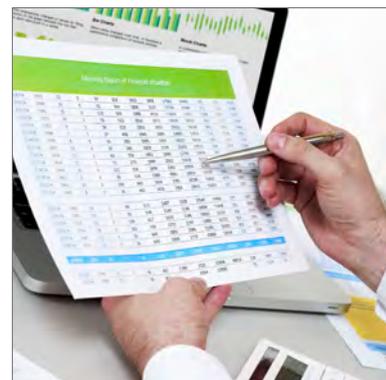
Expenses are the payments made by an organisation on a daily basis to keep it operating. These items form part of the calculation of profit (along with revenues).

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.



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

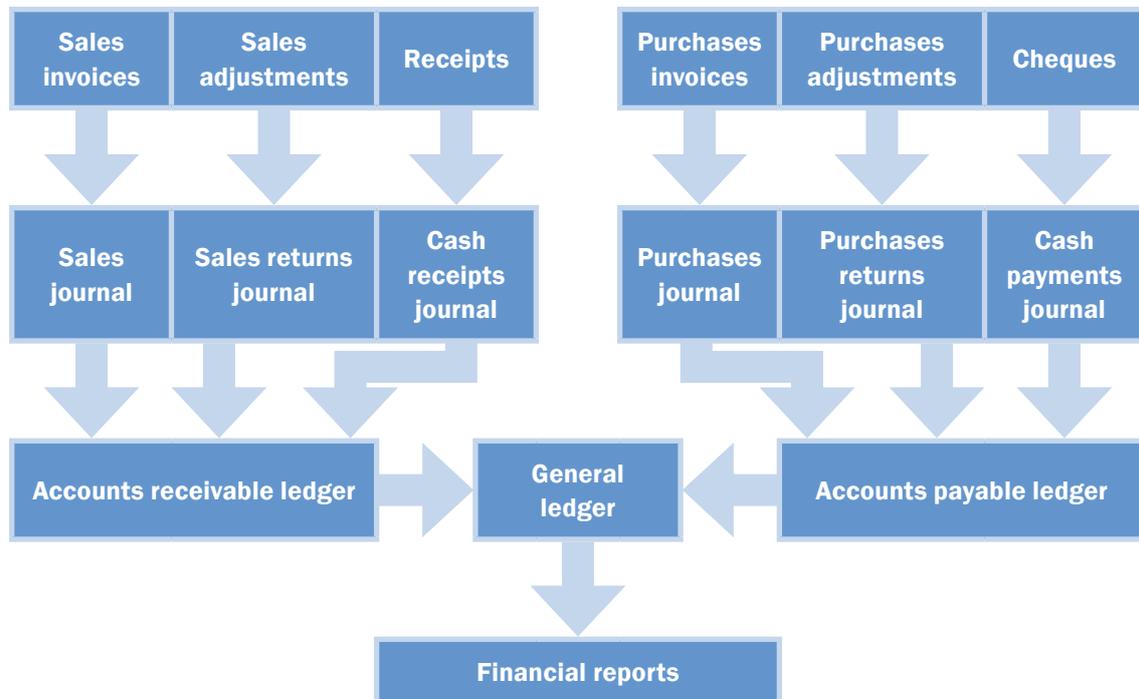
Account classification rules are called the rules of double-entry accounting because when you debit an account with an amount, another account must be credited with the same amount. In this way, the accounts will always balance, and the trial balance prepared after the journals have been posted to the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

General ledger and trial balance

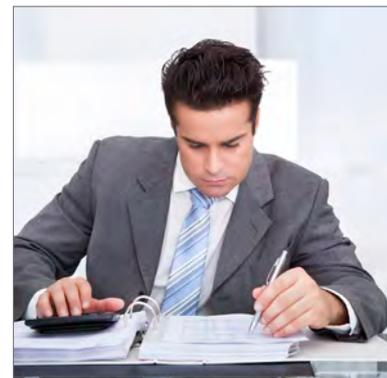
The information contained in all these journals is posted into accounts in the general ledger and a trial balance is prepared.

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.



... continued

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

General journal				
Date	Particulars	Folio	Debit \$	Credit \$
1.7.15	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: depreciation

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

General journal				
Date	Particulars	Folio	Debit \$	Credit \$
31.10.15	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 2015 (tax invoice no. 924187). This is recorded in the general journal as shown below.

General journal				
Date	Particulars	Folio	Debit \$	Credit \$
21.8.15	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.

Practice task 5

- 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 ...

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 2015	
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

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.

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

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 2014			
	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 ...

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.