Contents

... continued

Most business documents show the GST amount as a separate line item on the document. This enables the seller and the purchaser to quickly determine the amount of the transaction excluding the GST, and to identify the GST charged on the transaction.

Some businesses incorporate the GST in the value of the goods or service. When this occurs, divide the total value by 11 to determine the value of the GST in the transaction. To determine the value of the goods or service excluding GST, multiply the GST amount by 10.

Determining the amount of GST

If the total GST-inclusive cost of a stock item is $165.00, divide this cost by 11 to determine the amount of GST paid.

$165.00 ÷ 11 = $15.00

(Inclusive price ÷ 11 = GST amount)

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

$165.00 – $15.00 = $150.00

(Inclusive price – GST amount = actual cost)

Or, multiply the GST amount by 10 to find the actual cost.

$15.00 × 10 = $150.00

Invoices

Invoices (or tax invoices) are issued when an organisation sells goods 'on credit' to a customer; that is, the customer takes the goods without making payment. Usually, an organisation will deliver goods or services along with an invoice, which the customer pays at a later date.

When an invoice for credit is issued, it should show the invoice number and may include the words 'Sold to', followed by the customer's details. Alternatively, when an invoice for cash is issued, it may include the words 'receipt' and 'received from'. These characteristics will help you identify the difference between a tax invoice for a credit sale and a tax invoice for a cash sale.

Invoices must be dispatched as soon as possible after a credit sale has occurred. Prompt collection from debtors is essential for the efficient management of cashflow, so you must make sure you keep invoicing up to date.

Discount terms

Discounts are sometimes offered to debtors to encourage them to pay their accounts on time. Discount terms are the terms by which the discount is offered. For example, a debtor may receive a discount of 5% if they pay their account within 14 days. If they do not pay within this time, they are still required to pay within a certain time; for example, 30 days. This is shown on an invoice as '5% 14 days net 30', or 'Terms: 5/14 net 30'.

Statement of account

At regular intervals, usually monthly, a business should forward a statement of account to its credit customers. This statement provides the customer with a summary of the transactions made during the month, including the amount owing from the previous month, the sales and returns made during the month, the amounts paid, any discounts received and the balance of the account at the end of the month.

The statement of account that follows has been prepared by Possum Nurseries for the customer L. Mitchell for the month of September.

<table>
<tr><td colspan="3">STATEMENT OF ACCOUNT</td><td colspan="3" rowspan="2">Possum Nurseries
ABN 69 265 189 797
12 Rawson Road
Mudrain 1605
Phone: 9555 5432

Date: 30 September 2017</td></tr>
<tr><td>To:</td><td colspan="2">L. Mitchell
45 Saint Boulevard
Monksville 1606</td></tr>
<tr><th>Date</th><th>Particulars</th><th>Reference</th><th>Debit ($)</th><th>Credit ($)</th><th>Balance ($)</th></tr>
<tr><td>1/09/16</td><td>Balance brought forward</td><td></td><td></td><td></td><td>100.00</td></tr>
<tr><td>2/09/16</td><td>Payment received</td><td>Receipt 750</td><td></td><td>100.00</td><td>0.00</td></tr>
<tr><td>5/09/16</td><td>Sales</td><td>Invoice 2097</td><td>297.00</td><td></td><td>297.00</td></tr>
<tr><td>6/09/16</td><td>Sales returns</td><td>Adjustment note C14</td><td></td><td>15.40</td><td>281.60</td></tr>
<tr><td>14/09/16</td><td>Payment received</td><td>Receipt 789</td><td></td><td>267.52</td><td>14.08</td></tr>
<tr><td>14/09/16</td><td>Discount</td><td>Receipt 789</td><td></td><td>14.08</td><td>0.00</td></tr>
<tr><td>25/09/16</td><td>Sales</td><td>Invoice 3130</td><td>198.00</td><td></td><td>198.00</td></tr>
<tr><td colspan="2"></td><td>0–30 days
$198.00</td><td>30–60 days</td><td>60–90 days</td><td>90+ days</td></tr>
</table>

Practice task 1

1. Explain the term GST.

continued ...

1E Credit journals

Credit journals are used to record transactions where goods are bought or sold on credit. Credit journals summarise the information provided by tax invoices and adjustment notes.

Credit journals may be prepared and maintained in either a manual, paper-based system or in an electronic spreadsheet/accounting program. These journals include the:

- sales and/or services journal
- sales returns and allowances journal
- purchases journal
- purchases returns and allowances journal.

Sales journal

When a business sells goods on credit, it issues the customer with a tax invoice that describes the goods, shows the value of the goods, stipulates the amount of GST charged and states the total amount owed by the customer.

The details of tax invoices issued to customers are entered into a sales journal.

A simple sales journal has the following format:

Sales journal						
Date	**Debtor**	**Folio**	**Tax inv. no.**	**Sales ($)**	**GST payable ($)**	**Total ($)**

Sales journal headings

Here is some information about how to use the columns in the sales journal.

Date

Date of invoice

Debtor

Name of person or organisation buying the goods on credit

Purchases returns and allowances journal

The purchases returns and allowances journal is used to record all credit-purchased returns to suppliers, any allowances made for slightly damaged goods and any allowances made as a result of an overcharge by the supplier.

The source documents for the purchases returns and allowances journal are the adjustment notes received from suppliers.

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

Purchases returns and allowances journal						
Date	**Creditor**	**Folio**	**Adj. note no.**	**Purchases returns ($)**	**Input tax credit ($)**	**Total ($)**

Purchases returns and allowances journal headings

The columns in the journal would record the following information from the supplier's adjustment notes.

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)

Adj. note no.

Number of the adjustment note

Cash receipts journal format

A cash receipts journal could be prepared 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 ($)	GST ($)	

Cash receipts journal headings

The columns in the cash receipts journal are used to record the following data.

General

- Date: date of transaction
- Particulars: details of transaction
- Rec no: the number on the receipt issued to a customer as evidence of payment

Discount expensed

The three columns in this section are used to record the amounts relating to any discount 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 the discount (excluding GST)
- Debtors: to record the total amount of the discount (including GST) granted to the debtor

Reason for receipt

- Debtors: to record the amount received from customers (debtors). These will be the customers who were sold stock previously on invoice
- Cash sales: to record the cash sale of trading stock (note that credit sales of stock are recorded in the sales journal)
- Sundries: to record amounts for reasons other than debtor payments and cash sales, such as commission, asset sales
- GST: the amount of GST collected and recorded on the tax invoice (receipt)

Bank

- Bank: the total of all amounts received for the day; this should correspond with the total amount recorded on the daily bank deposit slip

1G Procedures for receiving payment

Customers may pay in cash, by cheque or credit card, or by making a deposit directly to the organisation's bank account.

You should never leave cash in the cash register overnight. It should be banked daily or, if that is not possible, locked in a safe or another secure facility at your workplace. Your organisation may use the night deposit facility at the bank. A daily cash register summary should be prepared from the cash register roll and the cash in the cash register reconciled with this summary.

Cash

If the customer is paying by cash:

- ensure you deduct any discount, if applicable, from the amount owing
- count the cash in the customer's presence so they can see and hear you
- leave the cash on the ledge of the cash register in view of the customer while you enter the transaction
- count the change before you put the cash received into the register (this lessens the chances of errors and disputes)
- count out the change to the customer
- check that you are only giving single notes and that none are stuck together; for example, don't give $40 change instead of $20.

Credit card

When accepting credit or debit card payments:

- check the customer's signature against the sample signature on the back of the card
- check the expiry date on the card to make sure the card is valid
- follow your organisation's policies and procedures when accepting credit card payments.

Part C

Describe the purpose of an invoice validation slip.

Part D

Record the following invoices into the sales journal below.

2/06/17	Sold goods to D. Muller	$610.00	plus GST	Tax invoice no. 92
6/06/17	Sold goods to D. Black	$980.00	plus GST	Tax invoice no. 93
14/06/17	Sold goods to P. King	$1,520.00	plus GST	Tax invoice no. 94
21/06/17	Sold goods to A. Dawes	$3,250.00	plus GST	Tax invoice no. 95
29/06/17	Sold goods to B. Carr	$1,890.00	plus GST	Tax invoice no. 96
30/06/17	Sold goods to S. Brent	$2,500.00	plus GST	Tax invoice no. 97

Sales journal						
Date	**Debtor**	**Folio**	**Tax inv. no.**	**Sales ($)**	**GST payable ($)**	**Total ($)**
			Totals			

Topic 2
Prepare bank reconciliations

Making sure your organisation's financial records match the balance recorded by the bank is an important part of the accounting process. This is known as 'bank reconciliation'. It involves matching the transactions in the cash journals with the amounts indicated on the statement the organisation receives from the bank.

In this topic you will learn about:

2A Bank reconciliation and banking terms

2B Totalling cash journals

2C Preparing a bank reconciliation

2D Correcting errors

2E Dishonoured cheques

2F Additional items

2G Preparing reconciliation reports

2C Preparing a bank reconciliation

When preparing a bank reconciliation, it is recommended that you follow a set procedure that enables you to complete the process efficiently. It is important that you pay attention to small details, as these can have a great impact on the outcome of the reconciliation.

Data and source documents required when preparing a bank reconciliation:

- The balance of the bank account in the general ledger at the start of the month
- Details of cheques that were not presented at the bank in the previous month
- Details of deposits not credited at the bank in the previous month
- The month's cash receipts and cash payments journals
- The monthly bank statement (provided by the bank)

Bank reconciliation procedure

Use the following procedure to reconcile the bank account. You should not proceed to the next step in the sequence until the previous step has been completed.

1. Reconcile deposits

a) Match the deposit amounts appearing in the bank statement (credit column) with the corresponding amounts in the cash receipts journal. This is called the matching process. To match corresponding items in both sets of records, place a tick (✓) against each of the matched transactions.

Always work from the bank statement to the journal, not vice versa, as the deposits in the bank will have been written up in the cash records. If the bank statement shows an amount as a deposit, then it must appear in the journal – the organisation should have entered it into the cash receipts journal before depositing the amount into the bank.

b) Identify any un-ticked items in the bank statement. These items are amounts deposited into the bank that may not have been recorded in the cash receipts journal. Record un-ticked items in the cash receipts journal, tick the items in both the statement and the journal and, finally, total the journal.

c) Identify the un-ticked items remaining in the cash receipts journal. These represent deposits that have not been presented at the bank. They are part of the reason for unequal entries in the bank statement and general ledger.

Receipts

An organisation should issue a receipt when it receives payment for any reason. Issuing a receipt provides documentary evidence that payment has been received and provides the details of why the payment has been made.

When a customer who has been sold goods on credit (on invoice) makes payment for the goods, a receipt should be issued to verify the amount paid and the details of the invoice being paid. Where the customer has paid within the discount period, the receipt should also record the discount amount.

A tax invoice issued when money is received can be distinguished from a tax invoice issued for a credit sale, as it will include the words 'Received from' instead of 'Sold to' and will include a receipt number instead of an invoice number.

Example: receipt issued for payment of account by a customer

Possum Nurseries receives payment from L. Mitchell on 14 September 2017 for $267.52, and issues receipt no. 1789. Due to prompt payment, L. Mitchell has been given a discount of $14.08, which includes a GST adjustment of $1.28.

Possum Nurseries ABN 69 265 189 797 12 Rawson Road Mudrain 1605 Phone: 9555 5432		
RECEIPT	No. 789	
Date:	8/09/2017	
Received from:	L. Mitchell	
For:	Payment of account – invoice number 2097	
Amount:	$267.52	Cash/Cheque
Discount:	$14.08 (inc. $1.28 GST adjustment)	
Authorising signature:	Erica Possum	

Bank reconciliation for an account in overdraft

When the closing balance of the bank statement shows a credit balance, it means that the organisation has funds available at the bank. In this case, the bank reconciliation statement is prepared using the following format.

Balance as per bank statement (credit)
ADD deposits not yet credited
LESS unpresented cheques in March
Balance as per cash at bank account

When the closing balance of the bank statement shows a debit balance, it means that the organisation's bank account is in overdraft and the organisation owes the bank money. If this is the case, the bank reconciliation statement must be prepared using the following format.

Balance as per bank statement (debit)
ADD unpresented cheques in March
LESS deposits not yet credited
Balance as per cash at bank account

If the organisation has an overdraft account, any cheques made by the organisation and presented to the bank will be honoured. The amount paid out will increase the amount owed by the organisation. When the organisation makes deposits to the account, the amount owing will decrease.

Example: reconcile an overdraft account

The bank reconciliation statement for the month ended 31 March 2016 for LMN Pty Ltd included the following amounts that have been reconciled to amounts in the April bank statement.

		$
Deposit not credited		800.00✓
Unpresented cheques	No 11	1,000.00✓
	No 12	300.00✓
	No 13	58.00✓

The bank balance in the general ledger at 1 April was $7,558.00 in credit.

The bank statement issued by the bank for April showing the reconciled deposits and payments was as follows.

continued ...

... continued

Maverick Trading Cash payments journal							
Date	**Particulars**	**Chq no**	**Creditors ($)**	**Purchases ($)**	**Sundries ($)**	**ITC ($)**	**Bank ($)**
2/12/17	Purchases	400		6,000.00		600.00	6,600.00
6/12/17	J Latham	401	4,200.00				4,200.00
9/12/17	Purchases	402		4,800.00		480.00	5,280.00
13/12/17	Wages	403			7,200.00		7,200.00
16/12/17	Purchases	404		18,500.00		1,850.00	20,350.00
20/12/17	Fran Ltd	405	36,000.00				36,000.00
22/12/17	Rates	406			1,800.00	180.00	1,980.00
25/12/17	Drawings	407			1,200.00		1,200.00
27/12/17	Vehicle	408			32,000.00	3,200.00	35,200.00
28/12/17	Purchases	409		9,800.00		980.00	10,780.00
30/12/17	Wages	410			6,950.00		6,950.00
		Totals					

continued ...

Summary

1. Making sure an organisation's financial records match the balance recorded by the organisation's general ledger and bank statement is known as bank reconciliation.
2. Journals must be crosschecked, proofread and checked against all source documents to make sure all entries and totals are accurate. This is called totalling the journal.
3. The reconciliation procedure is as follows:
   - Reconcile deposits:
     - Match the deposit amounts that appear in the bank statement (credit column) with the corresponding amount in the cash receipts journal.
     - Identify amounts deposited to the bank that may not have been recorded in the cash receipts journal and record them.
     - Identify deposits that have not yet been presented at the bank.
   - Reconcile payments:
     - Match the cheque amounts that appear in the bank statement (debit column) with the corresponding cheques in the cash payments journal.
     - Identify amounts withdrawn from the account that may not have been recorded in the cash payments journal and record them.
     - Identify cheques the organisation has issued but that have not been presented at the bank for payment.
   - Calculate the closing balance of the bank account in the general ledger:
     - Use the opening bank balance at the start of the month and the totals of the cash receipts and cash payments journal to calculate the closing balance of the bank account at the end of the month.
   - Prepare the bank reconciliation statement:
     - When errors in the cash journals are found during the bank reconciliation process, check the source document and adjust the cash journals to correct the error.
     - A cheque will be dishonoured by the bank if the customer who paid by cheque has insufficient funds to honour the payment. The bank will deduct the amount from the organisation's bank account by recording an amount in the debit column of the bank statement and marking the details as a dishonoured cheque.
     - When the closing balance of the bank statement shows a credit balance (the organisation has money in the bank), you need to add the deposits not yet credited and subtract any unpresented cheques.
     - When the closing balance of the bank statement shows a debit balance (the organisation's bank account is in overdraft and it owes the bank money), you need to subtract the deposits not yet credited and add the unpresented cheques.
     - Some entries in the bank statement may not appear in the organisation's bank ledger. These include bank charges, interest, direct payments and direct deposits.
     - Your organisation may require you to prepare a reconciliation report detailing the outcome of the reconciliation procedure.

Bank of Australasia Ltd **Bank statement as at 31 July 2017** **T. Smith**				
From: 1 July 2017 To: 31 July 2017 Type of account: cheque/overdraft		Account no: 271 820 457 Page no: 18		
Date	**Particulars**	**Debit ($)**	**Credit ($)**	**Balance ($)**
1/07/17	Balance			1,200.00 Cr
1/07/17	DEPOSIT		1,330.00	2,530.00 Cr
1/07/17	245	340.00		2,190.00 Cr
1/07/17	DEPOSIT		3,300.00	5,490.00 Cr
1/07/17	250	1,120.00		4,370.00 Cr
3/07/17	DEPOSIT		1,020.00	5,390.00 Cr
4/07/17	249	930.00		4,460.00 Cr
6/07/17	251	440.00		4,020.00 Cr
6/07/17	253	300.00		3,720.00 Cr
7/07/17	DEPOSIT		3,850.00	7,570.00 Cr
8/07/17	252	600.00		6,970.00 Cr
11/07/17	DEPOSIT		400.00	7,370.00 Cr
15/07/17	255	1,120.00		6,250.00 Cr
17/07/17	DEPOSIT		1,760.00	8,010.00 Cr
19/07/17	DEPOSIT		1,000.00	9,010.00 Cr
20/07/17	256	950.00		8,060.00 Cr
20/07/17	Bank charges and interest	55.00		8,005.00 Cr
24/07/17	DEPOSIT		6,930.00	14,935.00 Cr
24/07/17	257	380.00		14,555.00 Cr
29/07/17	258	1,180.00		13,375.00 Cr
30/07/17	Cheque book	35.00		13,340.00 Cr
31/07/17	Dishonoured cheque D. Burns	340.00		13,000.00 Cr

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

Double-entry accounting

The rules of double-entry accounting require amounts to be recorded in debit and credit columns according to their classifications (assets, liabilities, owner's equity, revenues and expenses). These are described here.

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 owes but has not yet paid, which includes bank loans, mortgages, taxes and amounts owing to creditors.

Owner's equity

This refers to the amount of money invested by the owner into the business plus any net income, but minus withdrawals made by the owner. It is calculated by subtracting the value of the business's liabilities from the value of its assets.

... continued

S. Stanley Sales returns and allowances journal						
Date	**Debtor**	**Folio**	**Adj. note no.**	**Sales returns ($)**	**GST payable ($)**	**Total ($)**
8/12/17	W. Harris		DR612	300.00	30.00	330.00
15/12/17	T. Hopwood		DR613	200.00	20.00	220.00
			Totals	500.00	50.00	550.00

S. Stanley Cash receipts journal										
Date	**Particulars**	**Rec. no.**	**Discount expensed**			**Reason for receipt**				**Bank ($)**
			GST adj. ($)	**Disc. exp. ($)**	**Debtors ($)**	**Debtors ($)**	**Cash sales ($)**	**Sundries ($)**	**GST ($)**	
5/12/17	T. Hopwood	001	10.00	100.00	110.00	3,390.00				3,390.00
6/12/17	W. Harris	002	6.00	60.00	66.00	1,934.00				1,934.00
29/12/17	L. Chile	003				500.00				500.00
Totals			16.00	160.00	176.00	5,824.00				5,824.00

continued ...

Practice task 10

From the journals of S. Stanley that follow, 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 ($)**
5/12/17	A. Atkins		A399	1,800.00	180.00	1,980.00
8/12/17	T. Rupert		C83	1,200.00	120.00	1,320.00
21/12/17	E. Wise		Z911	1,350.00	135.00	1,485.00
22/12/17	J. Johnson		R103	900.00	90.00	990.00
			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 ($)**
10/12/17	T. Rupert		CN441	250.00	25.00	275.00
23/12/17	E. Wise		RC84	350.00	35.00	385.00
			Totals	600.00	60.00	660.00

S. Stanley Cash payments journal											
Date	**Particulars**	**Chq no**	**Discount received**			**Reason for payment**				**Bank ($)**
			ITC adj. ($)	**Disc. rec'd ($)**	**Creditors ($)**	**Creditors ($)**	**Cash purchases ($)**	**Sundries ($)**	**ITC ($)**	
12/12/17	A. Atkins	1231	2.00	20.00	22.00	778.00				778.00
28/12/17	J. Johnson	1232	4.00	40.00	44.00	1,156.00				1,156.00
		Totals	6.00	60.00	66.00	1,934.00				1,934.00

continued ...

4C Correcting errors

If you find an error in a creditor's invoice, it is vital that you notify the creditor immediately. This is usually done in writing or via email. You can request an amended invoice from the supplier/creditor or a full credit of the invoice, where the creditor issues a new invoice.

All adjustments should be made before you pay 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.

Some discrepancies may be due to repayments, adjustments or omitting discount terms. They can also be due to renegotiation between the organisation and its customers. Staff members should keep records of all these types of adjustments so that the accounts officer can follow them up. If you don't have the necessary records, find the staff member responsible and consult with them.

Errors in an invoice may include:

- wrong product or service listed
- wrong quantity of a product or service listed
- wrong price of a product or service listed
- wrong date of a product or service delivery.

Summary

1. Accounts payable must be reconciled with the organisation's purchasing records before payment.
2. Goods and services should be checked before payment is made.
3. Payment must be authorised by the responsible staff member.
4. Payment methods should follow the preferences of the creditor wherever possible.
5. Records of purchases and payments should be checked for errors, and followed up where necessary.
6. Accuracy is essential to make sure transactions are checked and errors corrected quickly.
7. Before processing invoices and making payments, check that all source documentation is correct, the goods have been received and all calculations on invoices are correct.
8. Payment can be made to creditors by cheque, credit card, electronic banking or telephone banking.
9. Notify creditors immediately if an error is found in an invoice, and adjust all documentation appropriately.

5C Manual and computerised systems

Small organisations often prepare accounts receivable statements one-by-one according to an organisational template, such as this example.

Accounts receivable monthly customer statement **[Your organisation's name]** **[Your organisation's address]**					
[Customer name]					
[Customer address]					
Credit limit:					
Date	**Invoice no.**	**Product or service**	**Charges**	**Credits**	**Account balance**
				Ending balance	
				Balance due	

Larger organisations use accounting software such as MYOB, Quickbooks or Xero. These packages may automatically generate statements for the organisation's customers and can save a lot of time. However, they may require specialised training. You should discuss any training issues you have with your manager or supervisor.

The way your organisation prepares accounts receivable statements depends on its size, its customers and the nature of its business. You must make sure you comply with the system your organisation uses, whether it is manual or computerised.

Practice task 13

Outline the advantages and disadvantages of using accounting software for preparing accounts receivable statements.