

GRADE 10
BUSINESS STUDIES

UNIT 2

KEEPING ACCOUNTS IN A SMALL BUSINESS



COURSE BOOK 2

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FLEXIBLE, OPEN AND DISTANCE EDUCATION
PRIVATE MAIL BAG, WAIGANI, NCD
PAPUA NEW GUINEA

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GRADE 10

BUSINESS STUDIES

UNIT 2

KEEPING ACCOUNTS IN A SMALL BUSINESS

In this unit you will learn;

TOPIC 1: BOOKKEEPING IN A SMALL BUSINESS

TOPIC 2: TAKING STOCK

**TOPIC 3: CALCULATING PROFIT – CASH AND CREDIT
TRANSACTIONS**

TOPIC 4: THE USE OF A CHEQUE ACCOUNT

Acknowledgements

We acknowledge the contributions of all Primary Teachers who in one way or another helped to develop this course.

Our profound gratitude goes to the former Principal, Mr Demas Tongogo for leading FODE team towards this great achievement. Special thanks to the staff of MAL and Business Studies Department of FODE who played an active role in coordinating writing workshops, outsourcing lesson writing and editing processes.

We also acknowledge the professional guidance provided by Curriculum and Development Assessment Division throughout the processes of writing and, the services given by member of the Primary Section and Academic Committees.

The Course Book was developed with the support and funding of the GO- PNG FODE World Bank Project.

DIANA TEIT AKIS

PRINCIPAL

Written by: Doris Payok

Published in 2017 by the Flexible, Open and Distance Education

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Printed by the Flexible, Open and Distance Education

ISBN: 978-9980-89356-7

National Library Services of Papua New Guinea

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SECRETARY'S MESSAGE

Achieving a better future by individual students and their families, communities or the nation as a whole, depends on the kind of curriculum and the way it is delivered.

This course is part and parcel of the new reformed curriculum. The learning outcomes are student – centred and allow them to be demonstrated, assessed or measured.

It maintains the rationale, goals, aims and principles of the national curriculum and identifies the knowledge, skills, attitudes and values that students should achieve.

This is a provision by Flexible, Open and Distance Education as an alternative pathway of formal education.

The course promotes Papua New Guinea values and beliefs which are found in our Constitution, Government policies and reports. It is developed in line with the National Education Plan (2005 -2014) and addresses an increase in the number of school leavers which has been coupled with a lack of access to secondary and higher educational institutions.

Flexible, Open and Distance Education curriculum is guided by the Department of Education's Mission which is fivefold:

- To facilitate and promote the integral development of every individual
- To develop and encourage an education system which satisfies the requirements of Papua New Guinea and its people
- To establish, preserve and improve standards of education throughout Papua New Guinea
- To make the benefits of such education available as widely as possible to all of the people
- To make the education accessible to the poor and physically, mentally and socially handicapped as well as to those who are educationally disadvantaged.

The college is enhanced to provide alternative and comparable pathways for students and adults to complete their education through a one system, many pathways and same outcomes.

It is our vision that Papua New Guineans harness all appropriate and affordable technologies to pursue this program.

I commend all those teachers, curriculum writers and instructional designers who have contributed so much in developing this course.



DR. UKE KOMBRA PhD
Secretary for Education

UNIT 2: KEEPING ACCOUNTS IN A SMALL BUSINESS



Dear Student,

Welcome to Grade 10 Business Studies – Unit 2 ‘Keeping Accounts in a Small Business’. This Unit will teach you to keep accurate records of any business activity and also to apply book keeping skills in a range of small business situation. You will learn how to use the source documents to calculate profit and prepare financial reports like Balance Sheets and Bank Reconciliation Statement.

The Unit 2 Course Book has four (4) Topics. These Topics are;

Topic 1: Bookkeeping in a Small Business

This Topic will explain the importance of bookkeeping and how to calculate profit for a small business.

Topic 2: Taking Stock

This Topic teaches you about taking stock for a small business, how to record this stock using the methods of stock taking and to also calculate the value of stock.

Topic 3: Calculating Profit- Cash and Credit Transactions

This Topic will teach you how to calculate profit using source documents involving cash and credit transactions.





Topic 4: The use of cheque account

This Topic will explain to you how to use a cheque account. It will teach you how to prepare financial reports like the Profit and Loss Statement and Bank Reconciliation Statement by using cheque account and Cash Book.

STUDY GUIDE

- Step 1:** Start with Topic 1, study Lesson 1 and do the Lesson Activities as you go along. When you have completed Lesson 1, do Practice Exercise 1.
- Step 2:** When you have completed Lesson 1 Activities and Practice Exercise 1, turn to the end of Topic 1 in the Unit Book to correct your answers. The answers for your Practice Exercises are at the end of the Topic while the answers for your Lesson Activities are at the end of the Unit Book.
- Step 3:** If you make any mistake, go back to the Lesson and revise well and try to understand why you gave an incorrect answer.
- Step 4:** When you have completed steps 1-3, tick the box for Lesson 1 on the Contents' page (page 3) like this,
- Topic 1: Bookkeeping in a Small Business
- Lesson 1: Introduction to Keeping Accounts in my Small Business
- Step 5:** Go to Lesson 2 and repeat the same process until you complete all the Lessons in Topic 1
- Step 6:** After completing your Lessons and Practice Exercises in Topic 1, then complete each Topic Test in Assessment Book 2.
- Step 7:** After you have studied the whole Unit, do also the Unit Examination in the Assessment Book 2.
- Step 8:** Check through your Assessment Book 2 when you are satisfied then forward it to your provincial center for marking. The provincial center will advise you on how to apply for your external examinations.

Icons

			
Introduction	Target of the Lesson	Lesson Activity and Practice Exercise	Summary

Assessment

You will do four (4) Topic Tests and a Unit Examination.

Your assessment book will be marked by your distance teacher. The marks you score will count towards your final mark and grade.

If your score is less than 50% in any assignment, you must repeat that assignment. If you continue to score less than 50% in your assignment three consecutive times, then, your enrolment will be cancelled, and you need to re-enroll if you wish to continue this Course.

Study Schedule

Here is a Study Schedule. It will guide you on a weekly basis. The Study Schedule will help you to complete your Course Book and its Assessment.

WEEKS	TOPIC/ LESSON NUMBER	ASSESSMENT	COMMENTS
1-2	Topic 1: Lessons 1- 6	Topic 1 Test/15	
3-4	Topic 2: Lessons 7-9	Topic 2 Test/15	
5-6	Topic 3: Lessons 10-14	Topic 3 Test/15	
7-8	Topic 4: Lessons 15-17	Topic 4 Test/15 Unit Examination/40	
9-10	Submit your Assignment 2 to your Provincial Centre for marking.		

As you complete each Lesson, tick the box on the contents' page. This helps you show what you have done and what you still have to do in each Topic.

TOPIC 1

BOOKKEEPING IN A SMALL BUSINESS

In this topic you will learn about;

- **Keeping Accounts in Small a Business**
- **Documents used in Cash Transactions**
- **Recording Cash Transactions**
- **Using Business Income**
- **Documents used in Credit Transactions**
- **Recording credit Transactions**

TOPIC 1: BOOKKEEPING IN A SMALL BUSINESS



Welcome to Topic 1: 'Bookkeeping in a Small Business'. In this Topic, you will learn how to keep records of any small business activity and apply bookkeeping skills.

This Topic consists of six (6) Lessons.

Lesson 1: Introduction to Keeping Accounts in my Small Business

In this Lesson, you will define bookkeeping and discuss the methods used in bookkeeping. You will also state and explain the reasons for bookkeeping and accountability. You will define the terms debtor, creditor and proprietor.

Lesson 2: Documents in Cash Transactions

In this Lesson, you will define cash transactions and identify its uses. You will then identify and fill the documents used when cash is involved. You will also explain the importance of filing business documents.

Lesson 3: Recording Cash Transactions

In this Lesson, you will identify financial records used in cash transactions. You will also define cash book, describe its purpose and record correctly cash transaction into the cash book.

Lesson 4: Using Business Income

In this Lesson, you will discuss the reasons for using business income and identify and record other expenses and transfers to savings account into the cash book. You will also record the use of money taken out of the business income appropriately into the cash book.

Lesson 5: Documents in Credit Transactions

In this Lesson, you will define credit transaction and identify its uses. You will also identify the documents used in credit transactions.

Lesson 6: Recording Credit Transactions

In this Lesson, you will identify financial records in credit transactions and discuss their purpose. You will also record credit transactions correctly into appropriate journals.

Lesson 1: Introduction to Keeping Accounts in a Small Business



Introduction

Welcome to Lesson 1. It is the first Lesson for this Unit. In the last Unit, you learnt how to go about starting a small business. In this unit, you will learn about keeping accounts for your small business. This Lesson will teach you how small businesses keep records of money earned or spent.



Your Aims:

- Define bookkeeping and discuss the methods used
 - Explain the reasons for keeping financial accounts in a small business
 - Discuss the term accountability and the reasons for being accountable
 - Define the terms debtor, creditor and proprietor
-

What is Bookkeeping?

In order for your business to progress or operate smoothly, there has to be records in place to know where money is coming from and going to. You have already learnt about keeping records in one of your Grade 9 Lessons in the Unit, 'My Small Business Project (2)' so understanding bookkeeping should not be too much of a problem. Let us start by defining what bookkeeping is.

Bookkeeping refers to the process by which the financial transactions of a business are recorded.

Bookkeeping is a process because you will have to follow certain steps to record your financial transactions.



I have heard of the word transaction. But I do not know what it is. Can you explain the term to me?

Transaction refers to buying or selling of goods and services between buyers and sellers. When a transaction occurs, certain documents are issued as evidence of an activity. These documents are called source documents.

You should identify these source documents and know why and when they are issued. For example, when you buy something from the shop there will always be a receipt given to you. This is to show that there was a transaction that happened and it was between you the buyer and the seller. The receipt must be kept safe in case something goes wrong with the item you bought. You will learn more about source documents in your next lesson.

Bookkeeping Methods

There are two bookkeeping methods or systems. The bookkeeping method or system used depends on the size of the business. The two are: 1. *Single entry bookkeeping* and 2. *Double entry bookkeeping*.

For now, you will study single entry book keeping method. As you proceed on further in your studies in Grade 11 and 12, you will study double entry bookkeeping.

Let us continue on to find out what single entry bookkeeping is.



1. Single entry bookkeeping method or system

Single entry is simpler to use and is all that is necessary for a small business. Single entry refers to entering or writing a business transaction once into a record book. You will write this in the record book for a small business which is called the cashbook. This cash book has six columns of which receipts and payments are the main ones. Information to complete a cash book will come from source documents such as; invoice, receipt, credit note and statements showing. You will write the transaction into one of these two columns in the cash book that is, either receipts or payments column. This method of bookkeeping is used by small businesses that only want to record the essentials such as cash received or paid by the business.

See below a sample of how small businesses can use the single entry bookkeeping - Cash Book.

SAMPLE OF SINGLE ENTRY BOOKKEEPING RECORDING METHOD

Date April 2011	Description	Ref	Receipt (K)	Payment (K)	Balance (K)
1 st	Balance b/f				200.00
4 th	Folders and pens	PE1		15.00	185.00
15 th	Sale: Ms E Inkson	SI1	54.00		239.00
18 th	Sale: Mr R U Rody	SI2	30.00		269.00
19 th	Drawings	D1		10.00	259.00
21 st	Envelopes and stamps	PE2		20.00	239.00
24 th	Web hosts fees	PE3		40.00	199.00
27 th	Chairs and desks Ch 001	PE4		125.00	74.00
29 th	Sale: Mr J Mighty	SI3	30.00		104.00
30 th	Bank Fees	PE4		2.50	101.50
30 th	Sales: Ms T Real	SI4	54.00		155.50

Table 1.1: Sample of Single Entry Bookkeeping.
Source: Commerce for Grade 10/ Single Entry Bookkeeping-1989.

Let us go through the six columns of the cash book given above.

1. Date: It is used for recording the date of the transaction.
2. Description: Describes what the transaction was, whether it was buying something or receiving some money.
3. Reference: It is for recording the reference. Reference is the source document whether it is receipt or cash docket. For example,

payment for folders and pen on the 4th of April is represented by PE1. The initial PE refers to payments and number 1 refers to the first payment done for the month of April. Also, recorded in this column are the serial numbers of the and cheques are place

4. Receipt: It is used to record money received by the business
5. Payments: It is used to record money spent.
6. Balance It shows the amount that is left after the last transaction for that particular month.

The receipts column is for any money coming in, while payments column is for any money that is going out. These two columns are maintained and then totalled at the end of the month to see how much has been earned or a loss made. It also helps to find out where the money is spent. Single-entry system is beneficial for small businesses since they do not worry much about large transactions. You will study some samples of source documents as you proceed on.

2. Double entry bookkeeping method or system

When transactions increase it becomes necessary for businesses to use the double entry method. For example, big businesses such as Stop n Shop, RH hypermart, car dealers like Ela Motors and Boroko Motors and beverage producers like SP Brewery, Coca Cola Amatil and Pacific Industries will have many transactions each day. Double entry method or system refers to entering or writing down one transaction twice.

For example, the transaction involving buying folders and pen will be recorded into two different accounts or sections of the record book at the same time. Why are we entering the same transaction twice in the credit column and in the debit column? This is because every transaction affects two parties.

For now, you will not study double entry bookkeeping method. It will be covered in Grade 11 and 12.



Activity 1.1: Complete the activities given below.

1. What is bookkeeping?

2. Fill in the table by listing and explaining the two methods or systems of bookkeeping.

Methods of bookkeeping	Explanation
(a)	
(b)	

Reasons for Bookkeeping

It is very important to keep records for the business. There are seven reasons for bookkeeping.

1. Profit making

All businesses are operated with the aim of making a profit. If a businessman does not write down every item of revenue and expenses, he will not know if he is making a profit or not. Bookkeeping provides a businessman with information from which profit of the business can be calculated. Profit calculation is only possible if all the records of incomes and expenditures are kept. The person who does a bookkeeping job is called a bookkeeper.

The formula for calculating profit is; PROFIT = REVENUE - EXPENSES

All formal or registered business organisations are required to keep records of the financial affairs or money matters of the business. This is particularly important with large businesses like public companies where ownership and management are separate.

We need to understand the difference between ownership and management, this is how it works. Ownership is the legal right of processing something. If you start a business J & J Wholesale, you are the rightful owner. Management is the organisation and controlling of the affairs of a business or a sector of a business. However, you may have to hire someone else to manage or look after the overall operation of the business if you cannot do it yourself. It may be because you are involved with another new business or you do not have management skills. The requirement to keep proper records is so that the management can report to owners when required. This is called accountability. You will learn more about this as you proceed further.

2. Decision Making

Running a business involves making many decisions. Often these decisions will depend upon accurate or correct information recorded in the books by the bookkeeper. The decisions will range from simple ones such as when to order more stock and to more complex or difficult ones such as whether to build a new store or buy a new truck. There are many examples of decisions which will depend upon information relating to financial transactions. However, if there are no financial records from bookkeepings then the management will have nothing to guide them in their decision making. They are likely to make poor decisions which will lead to the business failing in the end.

3. Better financial analysis and management

Cash inflow management is one of the most important things to focus on or look at. Financial analysis refers to making a valued report of the finance of the business. Regardless of whether you are busy or not, once invoices are delayed and no follow ups on customer payments are made, cash inflow will be affected. This is where bookkeeping becomes handy. Bookkeeping can systemise sales, invoicing and follow up on non-payment for suppliers. Systemising refers to putting records in order since bookkeeping is done daily by recording all the finance or money coming into and going out of the business. It will give an accurate or correct report of how the finance or the money of the business is looked after.

4. Fulfilment of tax obligation

Bookkeeping keeps track on incomes and expenses in order to calculate profit and pay tax on profits. Tax returns are also made easier with an organised Balance Sheet, Cash Flow and Profit and Loss Statement. It is every business' duty to pay tax to the government. Therefore, with the bookkeeping record you can pay the right tax without worrying since you know where your money is coming from to pay for tax.

5. Bookkeeping makes reporting easier

The process of bookkeeping makes reporting to investors easier. From charts, graphs and lists of data presented to the investors are all required from the book of account or bookkeeping record. Investors are people who are interested to see how well a business is operating.

6. Bookkeeping makes business planning easier

What you need is the Balance Sheet and Profit or Loss Statement to check to see if the company is on the right track financially. Then you can start your business plan.

7. Proper record keeping is required by law

Bookkeeping keeps properly organised records from small to big invoices. It makes the retrieving process easier. Retrieving refers to finding and gathering information from the records. To achieve all these, you can hire a bookkeeper or an accountant to keep your financial records in an organised manner. Bookkeeping can make a difference between success and bankruptcy as well as help you save thousands of kina for your business by keeping track of inflows and outflows.

Reasons for Accountability

As mentioned earlier, accountability refers to the requirement or the responsibility of someone in the business to give an account of the business deals. In other words, someone must be able to account for every item of revenue and expenditure for a period while he or she is in charge. The likely person who is accountable or responsible for the business transactions is called an accountant. This means that the owners will know how a business has been managed from the records kept.

There are a number of people or groups who require accountability or information about the business. They are;

1. the owners of the business especially the partners or shareholders. Partners and shareholders are people who contribute money to start the business.
2. taxation department. For example, Internal Revenue Commission or IRC.
3. banks, finance companies and other creditors. For example, Bank South Pacific or Credit Corporation if a business wants to apply for a loan.



Activity 1.2: Complete the activities given below.

1. State the formula for calculating profit.
-

2. Explain accountability
-

3. State and explain the reason for accountability.

4. Who is interested in the accounting reports or bookkeeping report of the business?

Who are debtors, creditors and proprietors?

These are people who are and will be part of your business. The following are the people or groups of people you will come across or interact while doing business. They are debtors, creditors and proprietors. You must know these people or groups of people in order to do proper business with them. You must follow up on them whether you are a buyer, seller or a supplier of the business you are involved with.



Can you tell me who these groups of people are? Debtors, creditors and proprietors.

Sure, continue reading to find out who these people are.



Creditor refers to people or businesses that you owe money. For example, you sign an agreement with Kula Wholesale Ltd and take away goods worth K200 from them. You will pay in thirty (30) days time. Your business is the creditor. Debtor refers to people or businesses that owes you money. For example, if someone borrows K200 from you and have to be paid later then that person is a debtor to you. Proprietor refers to the owner of the business. So when you start a business, you are a proprietor.



Activity 1.3: Complete the activity given below.

Define

(a) Debtors. _____

(b) Creditors. _____

(c) Proprietor. _____

Summary:



You have come to the end of Lesson 1. In this Lesson, you learnt that;

- Bookkeeping refers to the process by which the financial transactions of a business are recorded.
- There are two methods or systems of bookkeeping. They are single entry and double entry bookkeeping.
- Single entry bookkeeping refers to entering or writing a business transaction once into a book of records.
- Double entry bookkeeping method or system refers to entering or writing down one entry or transaction activity twice into records. This only applies to big companies.
- There are seven reasons to do bookkeeping or keep financial records. They are;
 1. Profit making
 2. Decision making
 3. Better financial analysis and management
 4. Fulfilment of tax obligation for big businesses
 5. Bookkeeping makes reporting easier
 6. Book keeping makes business planning easier
 7. Proper record keeping is required by law
- Accountability refers to the requirement or the responsibility of someone in the business keeping proper records of the business transaction or dealings in order to provide a report.
- The reason for accountability is for quality assurance.
- The people or groups of people who will be involved in your business are; debtors, creditors and proprietors.

NOW DO PRACTICE EXERCISE 1 ON THE NEXT PAGE



Practice Exercise 1

1. Why do small business owners use the single entry bookkeeping method or system than the double entry method or system?

2. List the seven reasons for bookkeeping or keeping financial records.

- | | |
|------------|------------|
| i. _____ | v. _____ |
| ii. _____ | vi. _____ |
| iii. _____ | vii. _____ |
| iv. _____ | |

3. Why is profit and decision making given more preference or liking than the other reasons of bookkeeping or keeping financial records?

4. Why is accountability important?

CHECK YOUR WORK. ANSWERS AT THE END OF UNIT 2

Lesson 2: Documents in Cash Transactions



Introduction:

Welcome to Lesson 2. In the Last Lesson you learnt about the reasons why you should keep your financial records as a businessperson and the people who will be interested in these records. In this Lesson you will learn about the documents used in cash transaction. That is, the types of documents you will receive or give out when a cash transaction is involved in your business dealings.



Your Aims:

- Define cash transaction and identify them
 - Define source documents
 - Identify the documents used in the different stages of the cash transactions
 - Fill out documents used in cash transaction correctly
 - Explain the importance of keeping files of business documents safe and in order.
-

Cash Transactions and their uses

In this Lesson, you will look at how you as a retailer will record cash transactions only. A retailer is someone who buys goods in bulk or stock from wholesalers and resells it to people to make profit. Retailers are also called traders. Here, you will assume that you do not operate or own a cheque account but buy all your stock with notes and coins. You also are not buying goods on credit and not offering credit to anyone. What then is cash transaction?

Cash transaction refers to buying and selling of goods and services with notes and coins.



Now, big question is, why get involved in cash transactions?

You as a smaller retailer is using cash because being small you do not have enough money to easily open a business cheque account. Remember, you can only handle cash to purchase or buy items needed for your store.

Source Documents used in Cash Transactions

In all business dealings, documents are produced to show that a financial transaction has taken place. That is, a good or a service has been exchanged for money. What are source documents? Source documents refer to documents that are used to show that something has either been bought or sold for money. These source documents have different features and names.



There are three types of source documents involved in cash transactions. Let us continue on to find out more about them.

1. Order Form

Before any selling can take place a retailer needs to order goods for his or her store. We will see later how he or she decides when to order supplies and how much to order.

For now, you will concentrate on the actual process of ordering.

Many businessmen and women, who are operating small stores are buying and selling strictly for cash, do not in fact “order” goods. What they do is simply visit a wholesaler with cash in their hand and buy goods they need most. This is not a very efficient or best way to buy goods.

A better way for you as a retailer is to organise your order first before visiting the wholesalers in your area to collect a price list. Price list is a document that shows prices of items sold.

Below is an example of a price list.

PRICE LIST

	Item	Brand	Price per carton/Unit (K)
1	Biscuit	Snacks	24
2	Noodles	Maggie noodles	21
3	Noodles	Indomie noodles	25
4	330ml can drinks	Coke	35
5	330ml can drinks	Fanta (assorted flavours)	33
6	500ml bottled drink	Coke	54
7	500ml Fanta bottle drink	Fanta (assorted flavors)	52
8	500ml bottle drink	Sprite	52
9	Laundry Soap	Tartan 6 pack	4

Table 2.1: Price List of Goods.
Source: 'Retailing in PNG'- 1989.

After you have compared all the prices you then decide on the wholesale with the best prices. When you want to buy from the wholesaler, you will write out or fill up a proper Order Form, which you take with you when you go to buy the goods.

Order Form are pre-printed in duplicates and have carbon copies attached. When you write on the top page the second page gets duplicate writings for you to keep. You can always return the item or the goods to the wholesale and get a refund if the goods are damaged.

Order Form refers to a document used for ordering items or goods.



Figure 2.1: The picture above shows a carbon book that is used for ordering goods.

Source: Internet-2014.

Below is an example of an Order Form, used by a retailer named John Tau.

a

b

c

d

e

ORDER FORM

To: Bismillah Cash N Carry
Gerehu, NCD, PNG
(675) 3262858, (675) 3260166

No: 001
John Tau
P.O.BOX 15
Boroko

Date: 2/7/2005

Please supply the following goods:

10 carton Besta Tinned Mackerel (420 g)	
5 cartons Big Sister Chocolate Roll	
10 cartons Pall Mall Cigarette x 20 packets	
3 bales Ramu Sugar x1kg	
2 bales Trukai Rice white x1kg	

f

 Signed: *John Tau*

Figure 2.2: John Tau's Order Form.

Source: Commerce for Grade 10/ Single Entry Bookkeeping-1989.

- | | |
|--|--|
| <p>a. name of the supplier.</p> <p>b. details of each item required, including quantity, price of goods, brand name and size of the unit. The price is not usually recorded</p> <p>c. date of the order.</p> | <p>d. name of the customer.</p> <p>e. the order number.</p> <p>f. signature of the customer.</p> |
|--|--|

John decides to use a simple book of Order Forms, which he bought at an office stationary supplier. He could just as easily write his orders in the form of a letter, or, if his business expanded, he might have special order forms made up with his name

and address printed on them. It is important to realise that there is no single correct type of order form. But they do all show the same main points. Look above to see where these main points are found on the document.

2. Cash Sales Docket

Once you have given in the Order Form to the supplier, the supplier will then collect the items you have ordered. He will then write out a document for the goods you have purchased with the correct prices and the total you are supposed to pay. This document is called a Cash Sales Docket or Invoice.

Let us continue on with John's order which he had placed.

John will take his order form along with enough money to cover the cost of the goods. When he has made the purchase, the supplier will give him the Cash Sales Docket or invoice showing the costs of all the goods. Costs refer to the total amount to be paid for the goods.

Now, study the information below to see how suppliers fill out Cash Sales Docket.


Bismillah Cash N Carry Gerehu, NCD, PNG (675) 3262858, (675) 3260166			} Wholesaler's address		CASH SALE
			Docket Number → E 32754		
Mr John Tau ← Retailer's names			Date: 2/7/2000		
Qty.	Unit	Description	Price	Amount	
10	carton	Besta tinned Mackerel	35.00	350.00	
5	carton	Big sister Chocolate cake roll	15.50	77.50	
20	carton	Pall Mall Cigarettes	4.00	80.00	
3	bales	Ramu Sugar	40.20	120.60	
			Total	628.10	
 ← Signature of sales person					

Table 2.2: Cash Sale Docket or Invoice.

Source: Commerce for Grade 10/ Single Entry Bookkeeping-1989.

When John hands over the cash for these goods, the Cash Sales Docket will be stamped PAID. Some businesses will attach a cash register slip or a receipt to the docket to show that the amount has been paid. Note that he has paid K628.10. This is because he is yet to pay for the two (2) bales of rice. He has a credit account with Bismillah Cash and Carry.

Cash Sales Docket received by a business should be filed away and in order because they form the basis of recording of payments in the books of records. They are a proof that money has been used for a particular purpose.

3. Receipt

Receipt refers to a document showing the amount that has been paid for. Look on the right to see a sample receipt that may be attached to the delivery docket or given to you. A receipt may be produced as a cash register slip or hand written and issued

using a receipt book. A receipt book is printed in duplicates (2 copies) or triplicates (3 copies)

Original	RECEIPT	NO: 009
		DATE 2/7/2000
RECEIVED FROM <u>John Tau</u>		
THE SUM OF <u>Six hundred and twenty eight kina ten toea</u>		
BEING FOR: <u>Goods purchased at Bismillah Cash & Carry</u>		
K <u>628.10</u>	<u>99</u>	
	SIGNATURE	

Figure 2.3: The above document is a receipt slip from the receipt book.

Source: Commerce for Grade 10/ Single Entry Bookkeeping-1989.

Below is a receipt that is produced from a cash register. This receipt is known as cash register slip. It is given to customers who buy over the counter.

Bismillah Cash & Carry Gerehu, NCD, PNG (675) 3262858, (675) 3260166 Tax invoice GST Reg No. 9557					
INVOICE NO		1418633			
Date: Tuesday, 20 September, 2015					
16:49.00					
#	Item/Desc.	Qty	Price	Dis%	Total
1.	110039	10	350.00		350.00
(CTN) BESTA TINNED MACKEREL					
2.	1122331	5	15.50		77.50
(CTN) BIG SISTER CHOCOLATE ROLL					
3.	936461000	20	4.00		80.00
(CTN) PALL MALL CIGARETTE					
4.	4891028165	3	40.20		120.60
(BALE) RAMU SUGAR					
Total(Qty 5.00)					628.10
CASH/CHEQUE					
TENDERD...K		650.00			
CHANGE					K 21.90
GST %					K 65.00
Thank you. Please come again					
Please retain your receipt as proof of purchase					
Powered by: UNIFSOFT					
www.uslbd.com					
Customer				Terminal C3 Supermarket	

Figure 2.4: A Cash Register Slip.

Source: Payok- 2016.

**Activity 2.1: Complete the activity given below.**

From the information given below, fill out an Order Form by carrying out the required activities; The order was done on Tuesday 15th February 2015;

Alphonse Tee's canteen needs the following goods. He normally gets his supply from Choulai Trading, P.O.BOX 442 Boroko NCD. The order number is 004 and the docket number is 10435. His address is P.O.BOX 72, Port Moresby.

Items	Price (K)
5 cartons Can coke, 330ml, each carton costs	42.00
4 cartons Cooking oil, 500ml, each carton costs	12.50
2 cartons 500ml coke, each carton costs	52.00
5 cartons Cheese Twisties, each carton costs	23.50
5 cartons Maggie noodles, each carton costs	25.00

1. Write out an order form.

2. Imagine you are the supplier. Write out a cash sales docket.

Importance of Keeping records of Business Documents Safe and in Order

All financial transactions of the business whether big or small should be written or kept on its correct record document. You have already studied these documents. Documents such as Order Form, Cash Delivery Docket and Receipts. All these documents must be kept in a file after recording them in the books. When business documents are kept safe and in order, it will be easy to retrieve or locate them when required. When a business keeps a good record system it will be able to prepare business report on time for people or organisations that need these reports. These organisations include taxation department, the banks and potential investors. Investors refer to people who are interested in putting money into the business.

After recording the transactions from the source documents, file the documents away safely.

Lever Arch file is one of the types of filing systems that business can use to keep their documents safe and in order. Refer to your Lesson in Grade 9 on filing systems.

LEVER ARCH FILING



Figure 2.5: Lever Arch File.
Source: Internet-2015.



Activity 2.2: Complete the activities given below.

1. Why is it important to keep files of business documents safe and in order?

2. What is a Lever Arch File?

Summary:



You have come to the end of Lesson 2. In this Lesson, you learnt that;

- Cash transaction refers to buying and selling of goods and services with money in the form of notes and coins.
 - Source documents are printed information on paper that is used to show that something has either been bought or sold for money.
 - The three types of source documents used in cash transactions are; Order Forms, Cash Sales Docket or Invoice and Receipt.
 - It is important that business documents be filed safely and in order because it will help the business to prepare business report on time and present these reports to organisations that need it.
 - The organisations that require business reports are the business partners or the shareholders, taxation department, banks and potential investors.
-

NOW DO PRACTICE EXERCISE 2 ON THE NEXT PAGE

**Practice Exercise 2**

1. Define

(a) Cash transaction.

b) Source document.

(c) Retailer.

2. Fill in the table by listing the documents used in cash transactions and explain their uses.

Source documents used in Cash Transactions	Its use

3. Explain the importance of receipts.

4. Who are investors?

CHECK YOUR WORK. ANSWERS AT THE END OF UNIT 2

Lesson 3: Recording Cash Transactions



Introduction:

Welcome to Lesson 3. In the last Lesson, you learnt about the documents used in cash transaction. That is the types of documents issued when notes and coins are used. In this Lesson, you will learn to record business transactions in the daily cash sales book and the cash book.



Your Aims:

- Identify the financial records kept in cash transactions
 - Define cash book and describe its purpose
 - Record cash transactions correctly in a cash book
 - Define surplus, shortage, refunds in and state how they occur
-

Financial Records Kept in Cash Transactions

In order for you to give an accurate or correct report of the status of operation for your business then you need to keep proper records of all financial transactions of the business. Bear in mind that records are not the same as the source documents you have studied in Lesson 2. Here, the records are written information in the record books. These record books get the information from the source documents. The bookkeeper collects the information from the source documents and enters it into the record books.



Can you tell me what these cash record books are?

The following are the cash record books that you must record any cash transactions into.

1. Daily Cash Sales Record

If you cannot afford a cash register you can use an exercise book to record each sale. You have to sit down and add up the total at the end of the day. This performs the same function or work as the cash register slip in providing a record of daily sales. In some businesses, the owner may wish to write down the type of goods sold beside each amount. This would make it possible for the owner to know which items are selling fastest, without actually doing a stock check. With a trade store where each sale may involve many small items it is not practical to record the items sold.



Figure 3.1: A cash register producing a register slip.

Source: Internet-2014.

The business can use an exercise book or other ordinary books to record everyday cash sales.

Below is what a daily sales cash book looks like.

DAILY CASH SALES BOOK

Monday 3 rd July			Tuesday 4 th July		
0.45	1.40		0.80	1.20	
2.15	0.85		0.25	1.20	
0.25	1.30		1.20	0.30	
0.65	2.15		2.15	1.00	
1.35	0.45	Total	0.60	0.50	Total
1.85	0.35	20.40	0.20	0.50	16.50
2.70	0.40	17.25	0.40	0.50	5.55
4.25	0.90	37.65	1.30	0.35	22.05
0.80	3.85		2.80	5.55	
0.70	1.60		1.60		
0.20	2.80		1.40		
2.10	1.20		1.80		
1.15	17.25		0.30		
0.45			0.20		
0.60			0.50		
0.75			1.00		
20.40			16.50		

Table 3.1: Daily transactions recorded in the Daily Cash Sales Book.
Source: Commerce Teacher's Guide-1989.

Note: Small businesses normally have information hand written in their daily cash sales book.

2. The Cash Book

The Cash Book is the most important day to day record of how the business is progressing. All payments and all receipts should be recorded in the Cash Book. Printed cash books can be obtained from all major booksellers, or stationary suppliers. However, if it is not possible to obtain a proper Cash Book, an ordinary exercise book can be ruled up to serve the purpose. Let us proceed on to learn more about the Cash Book.

The Cash Book and its purpose

Cash Book contains basic information about cash payments and cash receipts of the business. Once available in hard copy form only, like the books you find in the stationery shop, they are now included in different types of money management softwares. This means that what appears as hard copy or in book form is now in the computer with all the sections for you to only type in and the computer system itself will calculate all the information instead of you doing it manually. Manually means you are using your hands to write and add figures. Therefore, it is necessary that you always have a Cash Book to make the accounting job become easier for your business. Accounting as you have seen earlier refers to responsible management of finance or money of your business.

The purpose of the Cash Book is to record all the cash receipts and cash payments to help prepare financial report of the business at the end of the year.

Below is an example of what a standard Cash Book looks like with columns ruled up.

CASH BOOK

DATE		DETAILS	RECEIPTS		PAYMENTS		BALANCE	
July	1	Opening Balance					1000	00

Table 3.2: A Cash Book.
Source: Commerce Teacher's Guide-1989.



Activity 3.1: Complete the activities given below.

1. Define

(a) Daily cash sales record.

(b) Cash book

2. Explain the difference between cash register slip and daily cash sales record book?

Recording of Cash Transactions into Cash Book

We will now learn how to correctly enter the cash transactions into the cash book. Bear in mind that we are dealing with buying and selling involving cash and cheque.

Let us use the example of John Tau's trade store business information you saw in Lesson 2. You will now record the transaction of the goods he bought from Bismillah Cash & Carry into the cash book.

Below is how this cash transaction will be entered into the cash book.

CASH BOOK

DATE		DETAILS	RECEIPTS		PAYMENTS		BALANCE	
July	1	Opening Balance					1000	00
	2	Goods Purchased- Bismillah Cash & Carry			628	10	371	90

Table 3.3: Cash Book record showing effects of purchase of goods.
Source: Commerce Teacher's Guide-1989.

Note: When goods are purchased or bought for cash, the amount paid is recorded in the payment column of the cash book.

Suppose that on the following 2 days he opens his store for business and sells goods worth K105.50 and K85.85 He will record each of these transactions into the Cash Book, which now looks like this;

CASH BOOK

DATE		DETAILS	RECEIPTS		PAYMENTS		BALANCE	
July	1	Opening Balance					1000	00
	2	Goods Purchased- Bismillah Cash & Carry			628	10	371	90
	3	Sales	105	50			477	40
	4	Sales	85	85			563	25

Table 3.4: Cash Book record showing effects of sales.
Source: Commerce Teacher's Guide-1989.

Note: *When goods are sold for cash, the daily total received is recorded in the receipts column of the cash book.*

The amount in the 'Balance' column should tell John how much cash his business has at any point of time. His daily takings or money is kept in the store in a cash box. Look at the diagram on your right to see a cash box.

Notice that all payments are subtracted from the previous balance and all receipts are added to the previous balance.

CASH BOX



Figure 3.2: A Cash Box.
Source: Internet-2014.



Activity 3.2: Complete the activities given below.

1. Draw a page of a cash book in the box below and record the following transactions.

August	1 st	Opening balance	K206.30
	3 rd	Goods purchased	K 85.80
	5 th	Sales	K 64.20
	6 th	Sales	K 38.45
	7 th	Sales	K 29.00

2. Organise the following transactions into the correct order and record them in a cash book in the box provided.

June: 6th Sales K37.50, 4th Purchases K79.25, 9th Sales K38.50, 2nd Purchases K66.00, 1st Opening Balance K195.00, 5th Sales K28.65, 7th Sales K59.80.

How do Refunds in, Refunds Out, Shortages and Surpluses occur?

Before you can find out how refunds in, refunds out, shortages and surpluses occur and are recorded, you need to know what each of these words and phrases mean.

Refunds refer to the amount of money returned to somebody. Refunds are of two types; they are refunds in and refunds out. Refunds in refers to money that is given back to the store. Refunds out refers to money that is paid out by the business to someone. Now, how can money be refunded in and refunded out of the business? Sometimes a businessperson may buy goods which are not in good condition. He can return these to the supplier and receive a refund for the value of the goods returned. Similarly, he may sell goods which are not in good conditions and have to refund some money to the customer who returns the goods.

Shortages refer to a short supply of or lacking (missing) some amount of money. How do shortages occur? It may have occurred because a customer will bring in more money and result in surplus. For example, instead of giving him or her eighty toea (80t), he or she was given K1. The owner finds there is shortage of twenty toea (20t) when the amount totalled in the Cash Book does not match or agree with the amount of money in the cash box.

Surpluses refer to the extra money made by the business. How does surplus occur? Surplus occurs when a customer has been short changed or some sales were not recorded. For example, instead of giving the customer fifty toea (50t) you gave him twenty toea (20t). You only find out when the amount in the Cash Book does not agree with the amount of money in the cash box.

Appropriate Recording of Refunds In, Refunds Out, Shortages and Surpluses

In order to better understand how to correctly enter the refunds in, refunds out, shortages and surpluses you will follow on with John Tau's trade store transactions.

Refunds

Suppose that one of John's customers returned a packet of rice which he paid for K4. The rice was full of ants. John will have to refund the customer his K4. If he is wise,

he will also check the other packets of rice bought at the same time. If he discovers that all the bags are the same, he decides to return them to Bismillah Cash & Carry. He will need to take his cash sales docket with him to prove that he bought the rice at Bismillah Cash & Carry. Since he paid cash in the first place he should get cash refund. If he returns all the rice he should get K120 cash refund which is the amount he paid for in the first place.

The K4 he refunds to the customer can be written in to the Daily Cash Sales Book on the day that he refunds it. This will not require any entry in the Cash Book.

DAILY CASH SALES BOOK

Friday July 7 th		
0.40	2.10	
1.20	3.00	
3.70	4.20	
1.20	0.60	
0.80	3.20	
0.35	0.30	Refunds
0.45	0.25	0.45 ← REFUND OUT
2.20	1.20	
1.30	0.60	
1.40	0.85	15.75
0.75	1.20	19.55
0.35	0.45	<u>35.30</u>
0.90	1.60	0.45
0.75	<u>19.55</u>	<u>34.85</u>
<u>15.75</u>		

Table 3.5: Daily Cash Sales Book showing refunds out.
Source: Commerce Teacher's Guide-1989.

DATE		DETAILS	RECEIPTS		PAYMENTS		BALANCE	
July	1	Opening Balance					1000	00
	2	Goods Purchased- Bismillah Cash & Carry			628	10	371	90
	3	Sales	105	50			477	40
	4	Sales	85	85			563	25
	7	Refund in-Bismillah Cash & Carry	120	00			683	25

Table 3.6: Cash Book record showing effects refund.
Source: Commerce Teacher's Guide-1989.

Note: Refunds out are recorded in the daily cash sales book, not in the cash book. Refunds in are recorded in the receipts column of the cash book because they are small refunds to customers.

Shortages

On 8th July a customer gives John K5 note for goods costing K2.30. John records the sale as K2.30 in the Daily Sales Book and gives the customer change from the cash

box. By mistake he gives K3.70 change instead of K2.70. This results in his cash box being K1.00 short at the end of the day. Of course he will probably not remember when the mistake occurred. He must, however, record the shortage so that the Cash Book and cash box agree at the end of the day. John's Daily Cash Sales Book shows sales of K65.50 on July 8th, which when added to the previous Cash Book balance of K683.25 gives a total of K748.75. However, he only has K747.75 in the cash box.

Before you consider effect on the Cash Book, let us look at surplus first.

Surpluses

Let us suppose that on the 9th of July Tau records a sale of K50. This will give him a new Cash Book Balance of K797.75. On counting his money he finds that he has K799.75. This means that he has a surplus of K2. He should record this in the receipts column of the Cash Book so that the balance agrees with the amount of cash in the cash box due to the surplus.

Below is the effect of a shortage and a surplus on the Cash Book.

DATE		DETAILS	RECEIPTS (K)		PAYMENTS (K)		BALANCE (K)	
July	1	Opening Balance					1000	00
	2	Goods Purchased- Bismillar Cash & Carry			628	10	371	90
	3	Sales	105	50			477	40
	4	Sales	85	85			563	25
	7	Refund - Bismillah Cash & Carry	120	00			683	25
	8	Sales	65	50			748	75
	8	Shortage			1	00	747	75
	9	Sales	50	00			797	75
	9	Surplus	2	00			799	75

Table 3.7: Cash Book record showing effects of shortage and surplus.

Source: Commerce for Grade 10/ Single Entry Bookkeeping-1989.

Summary:



You have come to the end of Lesson 3. In this Lesson, you learnt that;

- All goods sold for cash must be recorded in the Daily Cash Sales Record book and the Cash Book.
 - At the close of the business every day the owner must make sure the Cash Book balance agrees with the actual cash in the box.
 - The Cash Book must be balanced on a daily basis.
 - Cash book balance make up part of the accounting report of the business.
 - Refunds out are recorded in the Daily Cash Sales Book.
 - Refunds in is when the suppliers refunds cash back to the owner of the business when he or she purchases goods that are bad. The money paid back to the owner goes back into the business and it is recorded in the receipts column.
-

NOW DO PRACTICE EXERCISE 3 ON THE NEXT PAGE



Practice Exercise 3

1. Define

(a) Refunds in.

(b) Refunds out.

(c) Shortages.

(d) Surplus.

2. Enter the following information into a cash book.

(a) Draw a cash book page to show the following information for Kekeni Matamata.

September: 1st Opening balance K75. 85, 2nd Goods purchased K35.00, 3rd Sales K27.50, 3rd Refund from supplier K8.40, 4th Sales K32.00, 5th Purchase K25.00

(b) On the 6th of September after the close of business she recorded sales of K31.50. When she checks the cash in the cash box, she finds that she has K125.25. Show surplus in the Cash Book and the balance.

(c) On the 7th September after the close of the business she recorded sales of K40.00. When she checks the cash in the cash box, she finds that she has a shortage of K5.00. Show these and the balance.

CHECK YOUR WORK. ANSWERS AT THE END OF UNIT 2

Lesson 4: Using Business Income



Introduction:

Welcome to Lesson 4. In the previous Lesson, you learnt about how to record cash transactions. That is, buying and selling involving, notes and coins and cheques. In this Lesson, you will learn about how businesses use their income.



Your Aims:

- Discuss the reasons for using business income
 - Identify and record other expenses including transfer of money to savings account into the Cash Book
 - Record the use of money taken out of the business income appropriately into the cash book
-

Reasons for using business income

The income or money that you as the business person make must be used well and for the intended or the right purpose. There are four main ways that most business income is used for.

1. *Purchasing goods for sale*

In order for the business to continue operating and making money, this must be spent well to continue to make more money. That is, you have to use the income from your business to buy stock for the business to resell. Stock refers to the supply of goods available for sale. As studied in Lesson 3, you must list items you need to buy or purchase onto the order form. This will help you buy the right items and save cost meaning you will not waste money unnecessarily.

2. *Paying for other expenses*

All businesses have expenses to pay for. Therefore, as a business person you must make a record of the income you use to pay for your expenses. Expenses help the business to continue to operate. Common business expenses are electricity, water and phone bills, wages and freight.

3. *Depositing into Bank Account*

The other use of the income you have in the store should be to save it in the bank. Therefore, you need to open bank account, whether savings or cheque account. The reason for saving the money with the bank is to keep your money safe. Large sums of money kept in the store building is not safe. Also when you deposit your money in a bank account your money will earn interest.

4. *Drawings for owners use*

The other way your business income may be used is through drawings. What are drawings? Drawings refer to money taken out of the business for the owner's personal or use. For example, the owner may take out K100 to pay for medical bills, contribute to bride price or funeral expenses or pay for school fees. The income or money he takes out has no direct effect on the business. For instance, the K100 he

contributed for bride price is not adding stock to the business nor is it paying for power or water bills.



Activity 4.1: Complete the activities given below.

1. Define drawings.

2. List the four (4) ways in which a business uses its income.

(a) _____ (b) _____

(c) _____ (d) _____

Recording money taken out of the business income for different reasons

The other ways in which income is used by the business person must be appropriately recorded. As mentioned earlier all business transactions including income used for other reasons or purposes must be recorded. Here, you will learn how to record other uses of income into the cash book. The recording of items purchased for the store has already been explained in Lesson 3. Check Lesson 3 to confirm. Here, you will learn how to record the other three (3) reasons for using income into the cash book.

1. *Purchasing goods for sale.*

The cash book below shows how purchases are recorded into the cash book. We are still using the example belonging to John's trade store business.

CASH BOOK

DATE		DETAILS	RECEIPTS (K)		PAYMENTS (K)		BALANCE (K)	
July	1	Opening Balance					1000	00
	2	Goods Purchased- Bismillah Cash & Carry			628	10	371	90
	3	Sales	105	50			477	40

Table 4.1: Cash Book record showing effects of sales.

Source: Commerce for Grade 10/ Single Entry Bookkeeping-1989.

On the 2nd of July John made a cash purchase of goods worth K628.10 from the wholesale. This means K628.10 was used to pay for goods for the business. This amount of money is moving out of the business thus it will be recorded in the payments columns decreasing the balance of the cash book. The balance will now be K371.90 (K1000-K628.10).

2. *Recording paying for expenses*

Let us continue on with John Tau's trade store business. Refer to Table 3. 2 to see the first part of the cash book.

Below is how payment of expenses are recorded into the cash book.

CASH BOOK

DATE		DETAILS	RECEIPTS (K)		PAYMENTS (K)		BALANCE (K)	
July	1	Opening Balance					1000	00
	2	Goods Purchased- Bismillah Cash & Carry			657	00	371	90
	3	Sales	105	50			477	40
	4	Sales	85	85			563	25
	7	Refund- Bismillah cash & carry	120	00			683	25
	8	Sales	65	50			748	75
	8	Shortage			1	00	747	75
	9	Sales	50	00			797	75
	9	Surplus	2	00			799	75
	12	Sales	500	00			1299	75
	17	Purchases			600	00	699	75
	21	Sales	700	00			1399	75
	25	Water Bill			70	00	1329	75
	25	Power Bill			50	00	1279	75
	25	Workers' wages			100	00	1179	75

Table 4.2: Cash Book record showing effects of payment of expenses.
Source: Commerce Teacher's Guide /Book keeping-1989.

You aim here is to work out the use of income for other expenses concerning John's trade store business.

On the 25th of July John pays for his expenses which are water bill costing K70, power bill costing K50 and wage costing K100. These amounts are recorded into the payments column because they are money moving out of the business. This will decrease the balance of the cash book. The balance will now be K1179.75 (K1399.75-K70-K50-K100)

3. Deposit into bank account

The other reason John might take income or money out of the cash box is to deposit it into a bank account for safety reasons. You have said that John does not use a cheque account. He buys and sells for cash only. However, this does not mean that he cannot have a bank account of any type. If his business is very successful, and the amount of cash in the cash box is increasing daily, it would be wise for him to put some of it into a savings or cheque account. If he takes cash from the cash box to put into a savings or cheque account it is not really a payment but it does mean that the amount of cash in the cash box is decreasing. It should still be recorded in the

payments column, but the details should show it as a transfer. The supporting evidence would appear in John's bank statement.

What is a Bank Statement? A Bank Statement refers to a document showing the record of money of the business kept by the bank.

The Cash Book below shows how transfer of money to savings account is recorded.

CASH BOOK

DATE		DETAILS	RECEIPTS (K)		PAYMENTS (K)		BALANCE (K)	
July	1	Opening Balance					1000	00
	2	Goods Purchased- Bismillah Cash & Carry			657	00	371	90
	3	Sales	105	50			477	40
	4	Sales	85	85			563	25
	7	Refund - Bismillah Cash & Carry	120	00			683	25
	8	Sales	65	50			748	75
	8	Shortage			1	00	747	75
	9	Sales	50	00			797	75
	9	Surplus	2	00			799	75
	12	Sales	500	00			1299	75
	17	Purchases			600	00	699	75
	21	Sales	700	00			1399	75
	25	Water Bill			70	00	1329	75
	25	Power Bill			50	00	1279	75
	25	Workers' wages			100	00	1179	75
	27	Purchase			300	00	879	75
	28	Sales	250	00			1429	75
	29	Transfer to savings account			800	00	629	75

Table 4.3: Cash Book record showing effect of transfer of money to savings account.

Source: Commerce for Grade 10/ Single Entry Bookkeeping-1989.

On the 27th of July, John made purchases of K300 thus reducing the cash book balance to K899.75. On the following day 28th July he made sales K250 increasing the balance in the cash book to K1429.75. Since John does not want so much money left in the cash box, on the next day, 29th of July he takes K800 in cash to the bank and deposits this amount of money into his savings account. This shows money moving out of the business thus decreases the cash book balance to K629.75 (K1429.75 - K800). Transfer of money to savings account is not use of income it shows money moving out of the business therefore is recorded under the payments column.

When money is taken out of the cash box for wages, drawings or transfer to a savings account the amount should be recorded in the payments column of the Cash Book. Wages are an expense but drawings are a use of profit.

When John needs more money to buy stock he will be able to withdraw the money from the bank and put it back in his cash box. This transfer would then be recorded in the receipts column of cash book since the money will be coming into the business at that time.

4. Drawings

John may wish to take some money out of the cash box for his own personal expenses. It is very important that he records this in the cash book, because it represents a payment. If John is a good businessman he will take a regular amount for spending just as if he was receiving a wage for working.

The cash book below shows how drawings are recorded into the cash book. You are still using the example relating to John's trade store business.

CASH BOOK

DATE		DETAILS	RECEIPTS (K)		PAYMENTS (K)		BALANCE (K)	
July	1	Opening Balance					1000	00
	2	Goods Purchased- Bismillah Cash & Carry			657	00	371	90
	3	Sales	105	50			477	40
	4	Sales	85	85			563	25
	7	Refund Bismillah Cash & Carry	120	00			683	25
	8	Sales	65	50			748	75
	8	Shortage			1	00	747	75
	9	Sales	50	00			797	75
	9	Surplus	2	00			799	75
	12	Sales	500	00			1299	75
	17	Purchases			600	00	699	75
	21	Sales	700	00			1399	75
	25	Water Bill			70	00	1329	75
	25	Power Bill			50	00	1279	75
	25	Workers' wages			100	00	1179	75
	27	Purchase			300	00	879	75
	28	Sales	250	00			1429	75
	29	Transfer to savings account			800	00	629	75
	29	Withdrawal - Wages			100	00	229	00

Table 4.4: Cash Book record showing effects of withdrawal.
Source: Commerce Teacher's Guide/ Bookkeeping-1989.

On the 30th of July John took out K100 as payment for his wage. This shows money moving out of the business thus decreasing the balance of the cash book to K229.75 (K629.75 – K100).

There are other reasons that the owner makes drawings for. It may be that he wants to contribute to family matters like bride price, school fees and funeral expenses. It may also be that he wants to buy expensive items like refrigerator or washing machine for his family.



Activity 4.2: Complete the activity given below.

Differentiate between drawings and transfer to bank account. Explain your answer.

Summary:



You have come to the end of Lesson 4. In this Lesson you, learnt that;

- There are four reasons for using incomes of the business which must be recorded. They are;
 1. Purchasing goods for sale
 2. Payment for expenses
 3. Deposit into bank account
 4. Drawings for personal use
 - A bank statement is a document showing the record of money of the business kept by the bank.
 - When money is taken out of the cash box for wages, drawings or transfer to a savings account the amount should be recorded in the payments column of the Cash book.
 - Wages are an expense but drawings are a use of profit.
 - The recorded items will help the business to prepare its financial report.
-

NOW DO PRACTICE EXERCISE 4 ON THE NEXT PAGE



Practice Exercise 4

1. Refer to the following information given and draw a cash book to show these information.

June		
1 st	Opening balances	K308
2 nd	Purchases	K205
3 rd	Sales	K 46
4 th	Sales	K 65
5 th	Drawings	K 50
6 th	Sales	K100
8 th	Purchases	K200
9 th	Sales	K105
9 th	Shortage	K 5
10 th	Sales	K 90
10 th	Surplus	K 3
11 th	Transfer to Account	K200

CHECK YOUR WORK. ANSWERS AT THE END OF UNIT 2

Lesson 5: Documents in Credit Transactions



Introduction:

Welcome to Lesson 5. In the previous Lesson, you learnt about recording income used for other purposes in the cash book. In this Lesson, you will learn about the types of documents that are used in credit transactions. That is, buying and selling goods on credit or taking the goods away now and paying for it later.



Your Aims:

- Define credit transactions
 - Identify the documents and their uses in credit transactions
-

What is Credit Transactions

A credit transaction takes place when the buyer does not pay for the goods at the time they are received. You have already learnt this in your Grade 9 Lesson. A retailer may receive credit from a wholesaler or he may give credit to a customer.



What then is credit transaction?

Credit transaction refers to taking the goods away now and paying for it later. So the use of the credit transaction is to allow people to pay for the goods they take away now at a later date. This normally takes place when the supplier trusts the buyer. The buyer may not have the cash on hand to pay for the goods ordered right away.

Documents used in Credit Transactions

Here, we shall look at the types of documents involved in credit purchases and sales.



Can you tell me what these documents are?

Sure, there are about 5 of them. Continue reading to find out more.



1. Order Form

The order form has been discussed with you in Lesson 2 on cash transactions. It refers to a document used for ordering goods. It is important to note here that where goods are bought on credit the wholesaler will not supply the goods unless a proper order is received. Turn to figure 2.2 to see what an order form looks like. The order must be signed by an authorised person. In this study of a trade store it will be the owner. You should be able to see the reason why the order must be signed. If no signature was required, it would be possible for anybody to obtain goods on credit

using another person's order form. The owner of the form would find himself having to pay for goods he neither ordered nor received.

2. Invoice

Invoice refers to a document that is used to give full details of the amount of money owed for these goods supplied. It also gives a full description of the goods ordered. The invoice is similar in layout to the Cash Sales Docket which you studied in table 2.2. However, the invoice will show when he has to pay for the goods. Usually, he will have 30 days which is a normal credit term to pay for the goods. Let us continue on with John Tau's examples you have seen so far.

Below is an invoice of John's Tau's order made earlier.

INVOICE			INVOICE
Bismillah Cash N Carry Gerehu, NCD, PNG (675) 3262858, (675) 3260166		Invoice No ORDER NO: 10 Date DATE: 2/7/2015	
TO: <u>John Tau</u> <u>P.O BOX 15</u> <u>NCD</u>		Special comments or instructions for payments	
} Retailer's Address			
COMMENTS: <u>You are kindly reminded that you have 30 days to pay up your order.</u>			
QUANTITY	DESCRIPTION	UNIT PRICE	TOTAL
10 carton	Besta tinned Mackerel	K35.00	K350.00
5 cartons	Big Sister Chocolate Roll	K15.50	K 77.50
20 cartons x 20packets	Pall Mall Cigarette	K4.00	K 80.00
3 balesx1kg	Ramu Sugar	K40.20	K120.60
2 bales x 1kg	Trukai White Rice		K120.00
SUBTOTAL			K748.10
SALES TAX			_____
SHIPPING AND HANDLING			_____
TOTAL DUE			K748.10
<p style="text-align: center;"><i>Details of sales person</i></p> <p style="text-align: center;">↓</p>			
If you have any questions concerning this invoice, contact <u>Justin Jacob</u> .			
Thank you for doing business with us.			

Table 5.1: Sample of an Invoice.
Source: Internet-2014.

The invoice is given to the retailer when he collects the goods. It is important that the retailer checks the details against the order to make sure they agree. He should also check for goods against the invoice. There is usually a place for him to sign on the invoice. This shows that he has accepted the goods and will pay the required amount at a later date. The invoice may have the initials E and O.E printed at the bottom. This stands for Errors and Omissions Excepted, which means that the supplier will not charge for any errors when calculating the total cost of the invoice.

Requisitioner on the invoice refers to the retailer who has placed an order for the goods. In this case John Tau is the requisitioner. Term refers to the number of days it should take for the retailer to pay up for the goods he has taken. FOB stands for Freight on Board. This refers to cargoes that are brought in by ship. In this case, the Freight on Board is not needed.

3. Credit Note

A credit note is a document sent by a seller or supplier of goods to a buyer when the amount charged on the invoice is greater than it should be.

The credit note is also used when;

- i. goods are charged for and on an invoice, but are not received by the retailer.
- ii. goods are received but are found to be in poor conditions and are returned to the supplier.
- iii. goods received were not ordered and are returned to the supplier but did not get a refund.
- iv. the wholesaler has made a mistake in adding up the cost of the goods and has overcharged the retailer.

Below is a sample of a credit note.

CREDIT NOTE

Bismillah Cash & Carry Gerehu, NCD, PNG (675) 3262858, (675) 3260166	}	<i>Supplier's logo and address</i>	<div style="border: 1px solid black; padding: 5px; display: inline-block;"> Credit Note </div> NO: 01								
Date: Thursday, 7 th July 2015											
John Tau Trading Pty Ltd P O BOX 15 Boroko	}	<i>Retailer's Address</i>	: <u>Details of Original Invoice:</u> INVOICE NUMBER 10								
<u>Particulars of Refund:</u> Buyer returns bale sugar x1kg because all rice packets had ants in them.			<i>Reasons for refund</i>								
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 2px;">Original Amount</td> <td style="padding: 2px;">K120.60</td> </tr> <tr> <td style="padding: 2px;">Adjusted amount</td> <td style="padding: 2px;">K120.60</td> </tr> <tr> <td style="padding: 2px;">Total TAX Included In Refund:</td> <td style="padding: 2px;">K2</td> </tr> <tr> <td style="padding: 2px;">Total of Amount Refunding</td> <td style="padding: 2px; text-align: right;">K118</td> </tr> </table>				Original Amount	K120.60	Adjusted amount	K120.60	Total TAX Included In Refund:	K2	Total of Amount Refunding	K118
Original Amount	K120.60										
Adjusted amount	K120.60										
Total TAX Included In Refund:	K2										
Total of Amount Refunding	K118										
For and on behalf of BISMILLAH CASH & CARRY		<i>Justin Jacob</i> ← <i>Signature of sales person</i>									

Table 5.2: Sample of a Credit Note.
 Source: Internet-2014.

Note: If the wholesaler or supplier has charged too little by mistake for the retailer to pay, the retailer will receive a **debit note** from the wholesaler which is just like an invoice. However, debit notes are no longer used. It is like another invoice. A Debit Note refers to a document from the wholesaler or the supplier which informs the retailer to pay the correct amount for the goods he or she has ordered for.

4. Statement of Account

A monthly Statement of Account refers to a document issued by the supplier to the retailer showing the total amount of money owed to the supplier during the month. That means that the supplier sends the statement once every month.

Let us continue on with John Tau's trade store business. Suppose he paid only K628.10 from the total of K748.10 he ordered, he has an outstanding of K120.00. Let us assume he also made a purchase of K300 on 30th July and has not paid yet. This information appears on the statement.

The statement shows the amount due for each invoice for goods purchased on credit during the month. The invoice numbers are usually written on the statement with the amounts. If the retailer has not paid for any of the invoices on the statement he will be expected to pay the total amount within a few days. The retailer should check the statement to make sure that each invoice in fact relates to goods he has purchased. The retailer should be able to check the statement against the original invoices which he has filed away.

Sometimes, a statement has an amount owing from the previous month. If the retailer has already paid this amount, he must be careful not to pay it again. If the amount which he has paid does not show on the statement it is usually because he paid it after they sent the statement. The payment will show on the next statement.

Before you study the Statement of Account, let us look at the Credit Note sent to John Tau. The parts of the Credit Note are shown in the Credit Note given.

It is very important that the retailer keeps in file all his documents and records in order to prepare the accounting report. He can also retrieve his documents and records easily to prove if something is not correct.

It is important that you know the features and the characteristics of the documents used in the credit transactions.

Below shows a sample of a Statement of Account.

STATEMENT OF ACCOUNT AT THE END OF JULY

Bismillah Cash & Carry Gerehu, NCD, PNG Phone:3262858 Fax:3260166	}	<i>Supplier's logo and address</i>		STATEMENT Date: 31/July/2015
John Tau P.O.BOX 15 Boroko NCD	}	<i>Retailer's Address</i>		<i>Outstanding to be paid by John Tau</i> ↓
Date	Details	Debit	Credit	Balance
2 th July 2015	Balance			K120.00
30 th July 2015	Invoice No 11	K300.00		K420.00

Figure 5.1: Sample of a Statement.
 Source: Internet-2014.

Bear in mind that the Statement of Account is a document that is produced by the supplier at the end of each month. Debit in the Statement of Account refers to the amount that is yet to be paid by the retailer. Therefore, it increases the balance on the statement for the supplier. Credit in the Statement of Account refers to the amount that is already paid by the buyer therefore decreases the balance on the statement for the supplier.

5. Receipt

Whenever the retailer pays some money to a wholesaler he should receive a receipt for the money paid.

Below is a receipt of John Tau for his payment of goods. Parts of the receipt are shown for your study.

<i>Retailer's name</i>	<i>Date</i>	<i>Receipt number</i>						
RECEIPT	Date: <u>2th July 2015</u>	No. <u>075</u>						
Received From <u>John Tau</u>	Amount	K628.10						
Amount <u>Six hundred and twenty eight kina ten toea</u> Kina								
For Payment of <u>Trading goods</u>	<i>Amounts in words</i>							
Received By <u>Martin Alo</u>	<table border="1"> <tr> <td>Account amount</td> <td style="text-align: right;">K628.10</td> </tr> <tr> <td>This payment</td> <td style="text-align: right;">K628.10</td> </tr> <tr> <td>Balance Due</td> <td style="text-align: right;">K120.00</td> </tr> </table>		Account amount	K628.10	This payment	K628.10	Balance Due	K120.00
Account amount			K628.10					
This payment			K628.10					
Balance Due	K120.00							
<i>Cashier</i>								

Figure 5.2: Sample of Receipt.
Source: Internet-2014.

If he pays individual invoices, the wholesaler may stamp the invoice as paid. The retailer should file receipts with either the statement or the invoices. If the wholesaler accidentally charges for the same goods again, he will be able to show that he had paid for them, by producing the receipt. You have already learnt that receipts can be hand written or produced by the cash register.

A receipt refers to a document which shows that payment for goods and services has been made.



Activity 5.1: Complete the activities given below.

1. Define the following.

(a) Credit purchases

(b) Order form

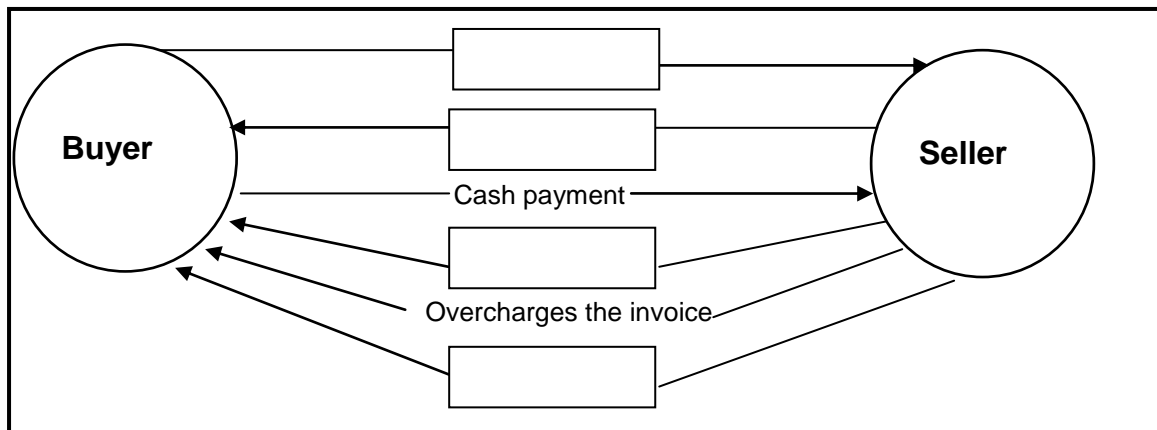
(c) Invoice

(d) Credit note

(e) Receipt

2. What is the purpose of a credit transaction?

3. Write down the correct names of the document that are exchanged between the buyer and the seller.



Summary:



You have come to the end of Lesson 5. In this Lesson, you learnt that;

- Goods can be bought and sold on credit.
- There are five documents that are produced, issued or received. They are;
 1. Order form
 2. Invoice
 3. Credit Note
 4. Monthly Statement of Account
 5. Receipt
- Order Form is to the document used for ordering.
- Invoice is to a document that is used to give full details of the goods and the amount of money owed for goods supplied.
- A credit note is a document sent by a seller to a buyer when the amount charged on the invoice is greater than it should be.
- A monthly Statement of Account is a document issued by the seller to the buyer for the total amount of money owed to the seller over a month.
- A receipt is a document that shows payment for goods and services has been included.

- Requisitioner is the person or the retailer who has placed an order for the goods.
 - Debit Note is a document from the wholesaler or the supplier which informs the retailer to pay the extra or outstanding amount for the goods he or she has ordered.
 - All documents must be kept in a file for safekeeping and also to retrieve easily when needed.
-

NOW DO PRACTICE EXERCISE 5 ON THE NEXT PAGE



Practice Exercise 5

1. Refer to the information given below to do the set task.

The following order was made;

2 cartons snax biscuits for K24 each

3 cartons of can coke for K35 each

5 x 6 pac laundry soap for K 4 each

Invoice number 75 was issued for the above mentioned order by a sales person named Jack Haro. Among these goods a carton of snax biscuit was damaged and sent back for refund. The refund number was 15.

(a) Write out an invoice from the information given. You have to make up an address for the retailer and the supplier and state the current date. Follow the samples that have been given for the invoice and the credit note. You can name yourself as the retailer.

CHECK YOUR WORK. ANSWERS AT THE END OF UNIT 2

Lesson 6: Recording Credit Transactions



Introduction:

Welcome to Lesson 6. Lesson 6 is the last Lesson for Topic 1. In the previous lesson, you learnt about the credit transactions and the documents used. In this Lesson, you will learn how to record credit transactions into the appropriate record books correctly.



Your Aims:

- Identify the financial records kept for credit transactions and discuss their purposes
 - Record credit transactions correctly into their appropriate journals
-

Types of Financial Records kept in Credit Transactions and their Purposes

There are five documents that you have covered in Lesson 5 for the financial records from credit transactions. These five documents are: order form, invoice, credit note, statement of account and receipt. These documents are called source documents.



Can you tell me the difference between source documents and financial records?

The difference between source documents and financial records is that source documents are source of information on paper showing the type of transaction that has taken place. For example, a receipt shows where business paid someone some money.

Financial records are books showing detailed records of money going into and out of the business. For example, the cash book records cash coming in and going out. The source documents provide the information for the financial records. There are two types of financial records involved in the credit transactions.

1. Credit Purchases Journal

What is a credit purchases journal? A credit purchases journal is a record book for recording goods purchased on credit. That is, goods taken away today to be paid later. It is necessary to keep this journal so that you as the retailer know what goods you have sold, to whom and how much the buyer will pay at the agreed date.



What then is a journal?

A journal refers to a book where all information about credit purchases or buying are first recorded. When a payment is made to one of these goods, then this information is recorded into the cash book.



In the cash book, the payments will be recorded with the details of the buyer, date, description of items and quantity. The retailer will, of course, have the invoice documents which shows the goods supplied by the wholesaler. This is based on his or her order details. The retailer normally files this on spike files or in folders. As covered in Lesson 5 invoice refers to a document that is used to give full details of the amount owing for goods supplied. The details on the invoice should be recorded into the journal so that the retailer does not forget that he owes a wholesale some money. Remember that until he or she pays for the goods there will be no entry in the cash book to show the payment for the goods by the business. This means that once the items on the invoice are paid for then payment is recorded into the cash book.

2. Credit Sales Journal

Selling goods on credit is not a good idea for small businesses. However, it is practiced in Papua New Guinea and we should recognise it and make sure that credit sales are properly recorded.

Basically, the same procedure is used for Credit Purchases. The retailer can keep a Credit Sales Journal in an exercise book and write down the name of anybody who buys goods on credit from him or her, along with the amount owed and description of the goods bought on credit. He or she should get the customer to sign this, or put his mark on it, so that there will not be any argument about the transaction later on. If the retailer keeps such a record, he or she is in fact doing the same as the wholesaler that writes out an invoice. Of course his or her invoices need not be so complicated or difficult such as those of a large wholesaler.

When a customer pays off a debt to the retailer it must be recorded in the receipts column of the cash book. It must be shown because it represents money going into the cash box. The customer's name should be shown in the details column.

Like the credit purchases journal, the details of paid accounts are for the information of the owner only. You will see this section as paid accounts, in the credit purchases journal. Large businesses would keep separate account for each debtor. But assuming that you are a businessperson you should avoid selling goods on credit as much as possible so you would only need to keep one journal for debtors.

Note: The credit purchases journal and credit sales journal keep record of unpaid goods and services. Once these items are paid for the retailer takes note of the information in this book concerning the items that have been paid for like the name of the wholesaler, date, credit items, the invoice number and the amount and transfers it into the cash book.

Correct Recording of the Credit Transactions in the appropriate Journals

Earlier on you learnt about what the two records in credit transactions were. Here, you will learn how to correctly record the credit transactions into the appropriate journals.

1. Credit Purchases Journal

You will continue with John Tau's trade store business. He has received invoice from Bismillah Cash & Carry, the amount yet to be pay.

Below is the record of John Tau's credit purchases from Bismillah Cash & Carry.

INVOICE

BISMILLAR CASH & CARRY POBOX1 Port Moresby Gerehu Ph: 3262858 Fax: 3263733			INVOICE NO: <u>10</u> DATE: <u>2/7/2015</u>
TO: <u>John Tau</u> <u>P O BOX 15</u> <u>NCD</u>			
COMMENTS: <u>You are kindly reminded that you have 30 days to pay up your order.</u>			
QUANTITY	DESCRIPTION	UNIT PRICE	TOTAL
10 carton	Besta tinned Mackerel	K35.00	K350.00
5 cartons	Big sister Chocolate Roll	K15.50	K77.50
20 cartons x 20packets	Pall Mall cigarette	K4.00	K80.00
3 balesx1kg	Ramu Sugar	K40.20	K120.60
2 bales x1kg	Trukai Rice (white)	K60.00	K120.00
SUBTOTAL			K748.10
SALES TAX			-----
SHIPPING AND HANDLING			-----
TOTAL DUE			K748.10
Make all checks payable to: <u>Bismillah Cash & Carry</u> Payment is due within 30 days. If you have any questions concerning this invoice, contact <u>Justin Jacob, POBOX 15 Boroko, Mobile Phone: 72804367</u>			
Thankyou for your business!			

Figure 6.1: Invoice for goods worth K748.10.
Source: Internet-2014..

The original amount for the invoice given to John by Bismillah Cash and Carry was for K748.10. He has managed to pay K628.10 on the same day. But he has also purchased another K300 worth of goods on credit. The receipt below shows the amount of money that has been paid.

RECEIPT	Date: <u>2th July 2015</u>	No. <u>075</u>
Received From <u>John Tau</u>	Amount	K628.10
Amount <u>Six hundred and twenty eight kina ten toea</u>		
For Payment of <u>Trading goods</u>		

Figure 6.2: Receipt for the amount of K628.10 paid.
Source: Internet-2014.

Here is how the credit purchase information will be written or recorded into the credit purchases journal.

The table below is the credit purchases journal and is made up of two sections. On the left is the credit purchases from the wholesalers and on the right is the payment section. Paid accounts section records those credit purchase that have been paid.

i. On July 2nd 2015, he received an invoice worth K748.30. He will record this in the left section of the purchases journal. On the same date he paid K628.10 of K748.10. He paid the remaining balance on the 29th of July.

ii. On the 30th of July he purchased goods on credit from Bismillah Cash & Carry for K300. This will be recorded in the left section of the journal like the first one.

For the month of July he made two credit purchases. Other goods may have been paid immediately with cash.

iii. The paid accounts section on the right side of the table is where all payments are recorded. Before July 31st he had paid up the first credit purchase totaling up to K748.10.

CREDIT PURCHASES JOURNAL					
<i>Left side</i>				<i>Right side</i>	
Date	Wholesaler	Invoice	Amount (K)	Date	Paid Accounts (K)
July 2 nd	Bismillah C & C	10	748.10	July 2 nd	628.10
30 th	Bismillah C & C	15	<u>300.00</u>	29 th	<u>120.10</u>
			1048.10		748.10
		Paid	<u>748.10</u>		
		OWING	300.00		

Table 6.1: Credit Purchases Journal showing amounts paid and amounts owned.
Source: Commerce Teacher's Guide /Book keeping-1989.

2. Credit Sales Journal

We will continue with John Tau's trade store business in order to illustrate sales Journal. He has sold several goods from his store on credit. Table 6.2 shows how the credit sales information will be recorded into the credit sales journals. The credit sales journal has two sections. The left side of the journal shows customers credit information from John's trade store. The right side shows debts of the customers b paid off. Let us assume that the following people bought on credit on these following dates. There may be many but the four will be used as examples of how credit sales information is recorded.

July 2nd	Allan Bill	K 5.00
3rd	Cindy Fred	K 2.50
3rd	Keziah Murau	K10.00
4th	Peter Mel	K 3.40

i. John Tau will record the names of his customers who bought on credit goods from his trade store onto the left side of the credit sales journal.

ii. He will write the amount his customers paid and the date they made their payments onto the right side of the credit sales journal.

CREDIT SALES JOURNAL*Left side**Right side*

<i>Left side</i>				<i>Right side</i>	
Date	Customer	Docket No.	Amount (K)	Paid	
				Date	Amount (K)
July 2 nd	Allan Bill	27	5.00	16 th	5.00
3 rd	Cindy Fred	28	2.50	17 th	2.50
3 rd	Keziah Murau	29	10.00	17 th	10.00
4 th	Peter Mel	30	3.40		
			20.90		
			Paid <u>17.50</u>		
			Owing 3.40		<u>17.50</u>

Table 6.2: Credit Sales Journal showing amounts paid amounts owned.

Source: Commerce Teacher's Guide /Book keeping-1989.

Transfer of credit purchases and credit sales records in the journal into the Cash Book will be studied more in detail in Lesson 11.

**Activity 6.1: Complete the activities given below.**

1. What is a journal?

2. Define

(a) Credit Purchases Journal.

(b) Credit Sales Journal.

3. What is the difference between source documents and journals?

Summary:



You have come to the end of Lesson 6. In this lesson you learnt that;

- Source documents are information on paper showing the type of transaction that has taken place; for example, a receipt.
 - A journal refers to a book where all information about credit purchases or sales are first recorded.
 - Credit sales journal is a record that shows goods that are sold on credit to customers and the amount that have been paid.
 - Credit purchases journal is a record that shows goods that have been bought from the supplier on credit and the amounts that have been paid.
-

NOW DO PRACTICE EXERCISE 6 ON THE NEXT PAGE



Practice Exercise 6

1. What is the importance of an invoice in relation to preparing journals?

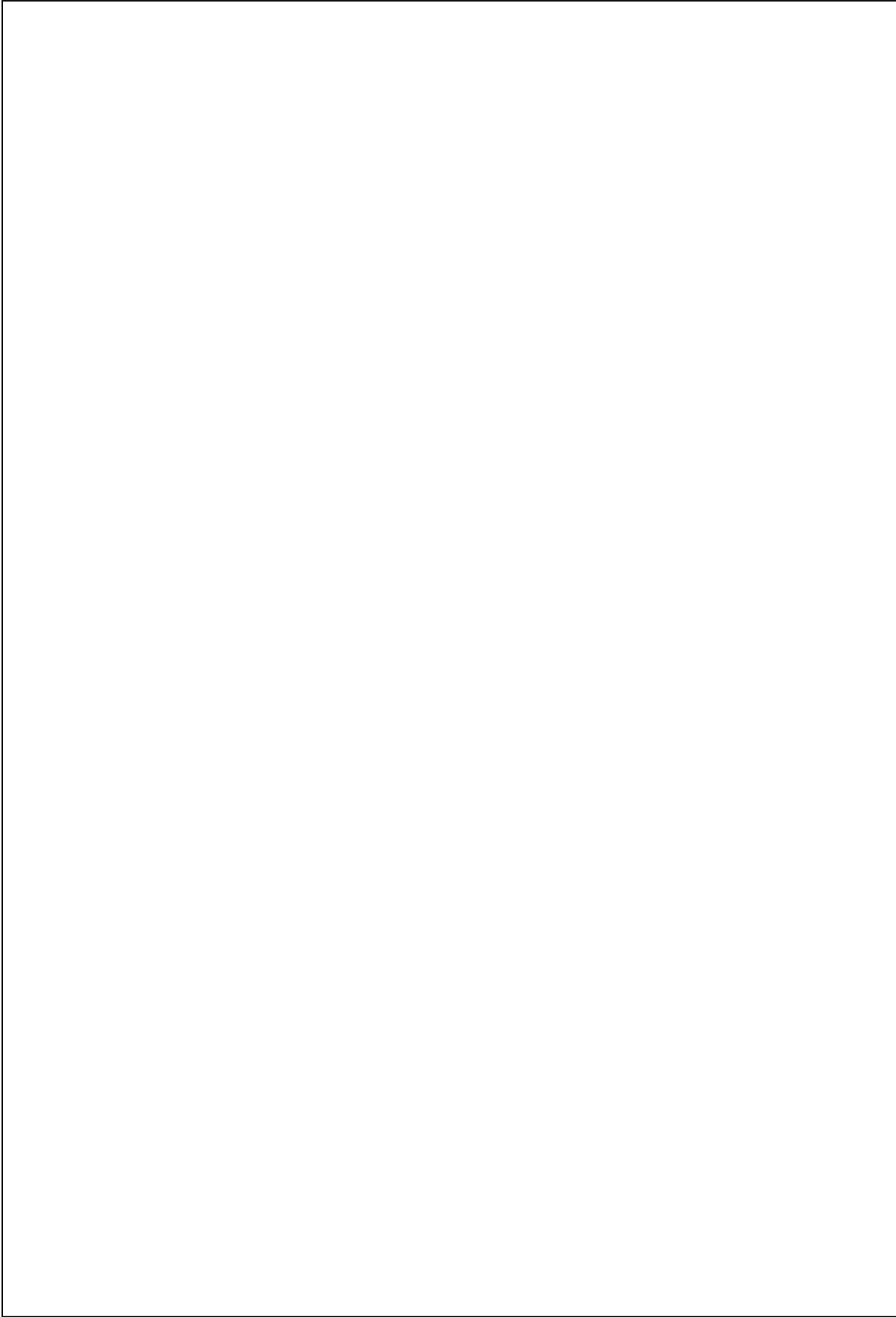
2. Gerry Pecker owns a trade store *Gerry Trading*. He gets his supplies from Patrick Wholesale. The following goods were taken on credit from his supplier and also by his customers.

From the information given below draw up a purchase journal and sales journal for the following business in the spaces provided and record the given transactions.

October	1 st	Bought goods with cash, Docket no. 4	K350.00
	2 nd	Sales goods for cash	K 54.50
	3 rd	Sold goods on credit to Marther Sope (Inv no.14)	K 2.00
	3 rd	Sold goods on credit to Sope Inoko (Inv no.15)	K 1.50
	15 th	Bought goods on credit from Patrick's Wholesale Docket no. 7	K400.00
	17 th	Sold goods on credit to Julie Kindik (Inv no.16)	K 3.50
	18 th	Sold goods on credit to Martina Brass (Inv no.17)	K 1.00
	19 th	Bought goods on credit from Patrick's Wholesale Docket no. 9	K300.00
	20 th	Marther Sope paid up amount owing (Inv no.14)	K 2.00
	21 st	Sope Inoko, Julie Kindik and Marthina Brass paid off their credits	
	21 st	Made payment for (Inv no. 7)	K400.00

(a) Purchases Journal

(b) Sales Journal



CHECK YOUR WORK. ANSWERS AT THE END OF UNIT 2

ANSWERS TO

TOPIC 1

PRACTICE EXERCISES

Answers to Practice Exercises 1- 6

Practice Exercise 1

1. Why do small business owners use the single-entry bookkeeping method or system than the double entry method or system?

Small business owners use the single entry bookkeeping method because it is simple and easy to use. It allows for small number of transactions to be entered.

2. List the seven reasons for bookkeeping or keeping financial records.

i. *Profit making*

iv. *Fulfilment of tax obligation*

ii. *Decision making*

v. *Reporting to investors is made easy*

iii. *Better financial analysis and management*

vi. *Proper record keeping is required by law.*

vii. *Planning of business is made easier*

3. Why is profit and decision making important than the other reasons of bookkeeping or keeping financial records?

Profit and decision making are important because profit is the main motive for all businesses operating so they need to keep records to work out if they have made more or less money. Decision making is important because when business knows from its records how much it has made it can either expand the business or cut down the costs to help it progress.

4. Why is accountability important?

Accountability is important because someone in the business has to be able to find out who is responsible for the business failing or progressing well.

Practice Exercise 2

1. Define

(a) Cash transaction

Cash transaction refers to the buying and selling with the use of money that is, notes and coins are used to purchase goods or sell goods for cash.

b) Source document

A Source document refers to a piece of paper that show transactions that happened between a buyer and a seller.

(c) Retailer

Retailer refers to a person who buys goods in bulk from a wholesaler and sells it in small quantities to the customers.

2. Fill in the table by listing the documents used during cash transactions and explain its use.

Source documents used in Cash Transaction	Its use
1. Order form	<i>It is used to order items that the buyer wants</i>
2. Receipt	<i>It is used to show that payment for goods have been made.</i>

3. Explain the importance of receipts.

Receipts are used to show that something has been paid for.

4. Who are investors?

Investors are people who are interested in putting money into businesses to start them or expand them.

Practice Exercise 3

1. Define

- (i) Refunds in: *Refunds in refers to money that is returned back to the business.*
 (ii) Refunds out: *Refunds out refers to the money that is given back to the customer.*
 (iii) Shortages: *Shortages refers to the lack off or something which is missing.*
 (iv) Surplus: *Surplus refers to extra of something, having more than enough.*

2. Enter the following information into the same cash book.

(a) Draw a page of a cash book to show the following information for Kekeni Matamata.

Sept: 1st Opening balance K75. 85, 2nd Goods purchased K35.00, 3rd Sales K27.50, 3rd Refund from supplier K8.40, 4th Sales K32.00, 5th Purchase K25.00

(b) On the 6th of September after the close of business she recorded sales of K31.50. When she checks the cash in the cash box, she finds that she has K125.25. Show surplus in the cash book and the balance.

(c) On the 7th September after the close of the business she recorded a sale of K40.00. When she checks the cash in the cash box, she finds that she has a shortage of K5.00. Show this and the balance in the cash book.

CASH BOOK

DATE		DETAILS	RECEIPTS		PAYMENTS		BALANCE	
Sept	1	Opening Balance					78	85
	2	Goods Purchased- Bismillar Cash & Carry			35	00	40	85
	3	Sales	27	50			68	35
	3	Refunds	8	40			76	75
	4	Sales	32	00			108	75
	5	Purchases			25	00	83	75
	6	Sales	31	50			115	25
	6	Surplus	10	00			125	25
	7	Sales	40	00			165	25
	7	Shortages	4	00	5	00	160	25

Practice Exercise 4

1. Using the following information given and write up a cash book showing these information.

June	1	Opening balances	K308.00
	2	Purchased items	K205.00
	3	Sales	K46.00
	4	Sales	K65.00
	5	Drawings	K50.00
	6	Sales	K100.00
	8	Purchases	K200.00
	9	Sales	K105.00
	9	Shortages	K5.00
	10	Sales	K90.00
	10	Surplus	K3.00
	11	Transfer to Account	K200.00

CASH BOOK

DATE		DETAILS	RECEIPTS		PAYMENTS		BALANCE	
June	1	Opening Balance					308	00
	2	Purchases			205	00	103	00
	3	Sales	46	00			149	00
	4	Sales	65	00			214	00
	5	Drawings			50	00	164	00
	6	Sales	100	00			264	00
	8	Purchases			200	00	64	00
	9	Sales	105	00			169	00
	9	Shortages			5	00	164	00
	10	Sales	90	00			254	00
	10	Surplus	3	00			257	00
	11	Transfer to savings account			200	00	57	00

Practice Exercise 5

1. Refer to the information given below to do the set task.

The following order was placed;

2 cartons snack biscuits for K24.00 each

3 cartons of can coke for K35.00 each

5 x 6 pac laundry soap for K4.00 each

Invoice number 75 was issued for the above mentioned order by a sales person named Jack Haro. Among these goods a carton of snax biscuit was damaged and sent back for refund. The refund was 15 recorded on credit no. 15

2. Write out an invoice and credit note from the information given. You have to make up an address for the retailer and the supplier and use the current date. Follow the samples that have been given for the invoice and the credit note. You can name yourself as the retailer.

INVOICE

QUANTITY	DESCRIPTION	UNIT PRICE	TOTAL
2 carton	Snax biscuit	K24.00	K48.00
3 cartons	Can coke	K35.00	K105.00
5 half a dozen	Laundry Soap	K4.00	K20.00
SUBTOTAL			K173.00
SALES TAX			-----
SHIPPING AND HANDLING			-----
TOTAL DUE			K173.00

INVOICE

NO: 75
DATE: Your current date

↑
The current year and month you are in now.

Your made up address

_____ } **Suppliers address**

TO: Your made up address

_____ } **Your name and address**

COMMENTS: You are kindly reminded that you have 30 days to pay up your order.

Make all checks payable to: Name of wholesaler
Payment is due within 30 days.
If you have any questions concerning this invoice, contact Sales person's name, address and phone number

K. Haro

Thankyou for doing business with you.

Practice Exercise 6

(a) What is the importance of an invoice in preparing the journals?

The importance of the invoice in preparing the journal is that, it helps the business person record the outstanding amount he owes the supplier into the journal. It provides information like the date, the amount, invoice number etc.

(b) From the information given below, draw up a purchases journal and sales journal for the following business and record the given transactions.

Gerry Pecker owns a trade store *Gerry Trading*. He gets his supplies from Patrick Wholesale. The following goods were taken on credit from his supplier and also by his customers.

October 1 st	Bought goods with cash, Docket no. 4	K350.00
2 nd	Sales goods for cash	K 54.50
3 rd	Sold goods on credit to Marther Sope (Inv.14)	K 2.00
3 rd	Sold goods to Sope Inoko (Inv.15)	K 1.50
15 th	Bought goods on credit from Patrick's Wholesale Docket no. 7	K400.00
17 th	Sold goods on credit to Julie Kindik (Inv.16)	K 3.50
18 th	Sold goods on credit to Martina Brass (Inv.17)	K 1.00
19 th	Bought goods on credit from Patrick's Wholesale Docket no. 9	K300.00
20 th	Marthar, Sope and Julie each paid amount owing	K 2.00
21 st	Paid credit of docket no. 7	K400.00

(i) Purchases Journal.

CREDIT PURCHASES JOURNAL

Date	Wholesaler	Invoice	Amount (K)	Date	Paid Accounts (K)
October 15 th	Patrick's Wholesale	7	400	July 21 st	400
19 th	Patrick's Wholesale	9	300		
			700		400
		Paid	300		
		Owing	400		

(ii) Sales Journal

CREDIT SALES JOURNAL

Date	Customer	Docket No.	Amount (K)	Paid	
				Date	Amount
October 3 rd	Martha Sope	14	2.00	20 th	2.00
3 rd	Sope Inoko	15	1.50	21 st	1.50
17 th	Julie Kindik	16	3.50	21 st	3.50
18 th	Martha Brass	17	1.00	21 st	1.00
			8.00		8.00
		Paid	8.00		
		Owing	Nil		

REVISE TOPIC 1 AND DO TOPIC 1 TEST IN YOUR ASSESSMENT BOOK 2

TOPIC 2

TAKING STOCKS

In this topic you will learn about;

- **Stock taking and Stock Take Record**
- **Stock Keeping Methods**
- **Stock Taking and Stock Values**

TOPIC 2: TALKING STOCKS



Welcome to Topic 2: 'Taking Stocks'. In this Topic, you will learn about stock taking and keeping records of stock and the methods of stock taking. You will also learn how to calculate the value of stocks.

This Topic consists of three (3) Lessons.

Lesson 7: Stock Taking and Stock Records

In this Lesson, you will define stock taking and identify the reasons for stock taking. You will also identify and discuss the stock-take record, explain the processes involved in stock take and discuss drawings of goods and how it is recorded.

Lesson 8: Stock Taking Methods

In this Lesson, you will identify the methods of taking stock in a trading business. You will also define the LIFO and FIFO methods of stock taking and explain the importance of controlling stock in a business.

Lesson 9: Stock Taking and Stock Values

In this Lesson, you will explain the processes of stock taking in a trading business, calculate stock value and distinguish between opening stock and closing stock values from given stock records. You will also define debtor, creditor and proprietor.

Lesson 7: Stock Taking and Stock take Records



Introduction:

Welcome to Lesson 7. Lesson 7 is the first lesson for Topic 2. In Topic one, you learnt about how goods are purchased and sold. You also learnt about the source documents used to enter these into purchases and sales journal. In this lesson, you will learn about taking stock and keeping records for these stocks. Stock refers to the supply of goods for sale.

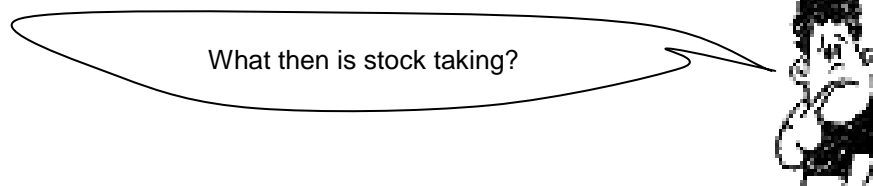


Your Aims:

- Define stock taking and identify the reasons for taking stock
 - Identify and discuss the stock-take record
 - Explain the processes involved in a stock take
 - Discuss drawings of goods and how it is recorded
-

Stock Taking and Reasons for Stock Taking

You have learnt about stock-taking in Grade 9. All businesses whether big or small must keep a record of their stock. Stock taking is sometimes called taking stock.



Stock taking or taking stock refers to the counting of goods in a business at a particular time.

The period of time between stocktake depends on the size of the business. Most large businesses take stock once a year. They usually close down the business for a day or two and try to count the stock. It may be done over a weekend. With improved technology, big businesses can have just a day to complete counting their goods. For example, a counting device or machine will be used to scan the items and record them. The stored information will then be transferred into the computer and printed out. This makes counting easier and quicker. Smaller businesses which have less stock might count monthly, fortnightly or even weekly.

What is the reason for stock taking? There are three reasons for stock taking.

1. To know when it is necessary to order more goods.
2. To help work out profit of the business.
3. To find out the amount of leakages or shrinkages or losses though theft that occurs.

Shrinkage refers to the stocks reducing without the owner knowing.

What is a Stock Take Record?

A stock take record is a book showing information on the number and value of stock kept by the business. It is important for businesses to keep a good stock record because the stock was bought by business or with the aim of re-selling to make a profit.



I have been told that stock records are kept in books but how does the stock take record look like?

Below is what a stock take record would look like.

SAMPLE OF STOCK RECORD

UNIT	6/7/2015			13/07/2015			20/7/2015		
	No.	Cost (K)	Value (K)	No.	Cost (K)	Value (K)	No.	Cost (K)	Value (K)
Bread	13	4.25	55.25	19	4.25	80.75	15	4.25	_____
Sugar	20	2.60	52.00	17	2.60	44.20	22	2.60	_____
Tulip	65	2.50	162.50	20	2.50	50.00	48	2.50	_____
Soap	6	1.00	6.00	11	1.00	11.00	4	1.00	_____
Toothpaste	15	3.10	46.50	6	3.10	18.60	12	3.10	_____
Tea	18	2.40	43.20	4	2.40	9.60	20	2.40	_____
Rice	28	4.50	126.00	20	4.50	90.00	2	4.50	_____
Milk	32	2.80	89.60	17	2.80	47.60	10	2.80	_____
Flour	17	5.50	93.50	12	5.50	66.00	9	5.50	_____
Biscuits	-	-	-	26	1.00	26.00	20	1.00	_____
Butter	4	3.00	12.00	9	3.00	27.00	5	3.00	_____
Salt	15	1.10	16.50	18	1.10	19.80	10	1.10	_____
Ox & Palm	45	10.00	450.00	38	10.00	380.00	27	10.00	_____
Coffee	-	-	-	23	5.20	119.60	11	5.20	_____
			1153.05			990.15			_____

VALUE OR TOTAL OF STOCK

Table 7.1: A Stock Record.

Source: Commerce Teacher's Guide /Book keeping-1989.

The following points should be noted from the stock record.

(i) Each item of stock is counted periodically. In this example, it is done weekly.

(ii) The cost of each item is calculated from the cash sales docket received when the goods were purchased. This means that the retailer works out their own selling price before selling the items. For example, if a carton of biscuit was bought for K48 and there were 48 biscuit packets in the box, the retailer will first of all divide the total cost by the number of biscuit packets in the carton. $48/48 = K1$ round. This means that the retailer should charge the biscuit more than K1 to make profit. He will then add the mark-up to the K1. The mark-up refers to the extra amount added to the item to make up the actual selling price before it is sold. So the retailer should add extra 10 toea or 20 toea to make profit at the same time sell the biscuit at an affordable price for

people to buy. So he or she can sell it at K1.10 or K1.20. The Independent Consumer and Competition Commission (ICCC) helps to limit the amount of the mark-up price. Otherwise, retailers will charge high mark-up leading to higher selling price.

(iii) The value of each item in stock is worked out by multiplying the number in stock by the cost per unit. Each time profit is to be calculated the value of all goods in stock must be worked out.

It is possible to make up a stock record which does not require the repetition of costs each week. Look below to see stock record you can keep that will help you not to write cost of items over and over each week.

STOCKTAKE RECORD

ITEM	COST			6/7/2015		13/7/2015		20/7/2015		27/7/2015	
				No	Value (K)	No.	Value (K)	No.	Value (K)	No.	Value (K)
Bread	4.25			13	55.25	19	80.75	15		10	
Sugar	2.60			20	52.00	17	44.20	22		19	
Tinned Fish	2.50			65	162.50	20	50.00	48		15	
Soap	1.00	90t		6	5.40	11	9.90	4	3.60	20	18.00

Table 7.2: A Stocktake Record.

Source: Commerce Teacher's Guide /Book keeping-1989.

If this method is used then it is important to leave space for any changes in the cost column. Soap, for example, decreased to 90t so the stock at 27/7/2005 must be costed at the new cost of 90 toea.



Activity 7.1: Complete the activities given below.

1. What is a stock take record?

2. Explain how the value of stock is calculated.

Processes Involved in Stock Take or Stock Taking

In order for you to make stock taking or counting of stock easier for your business, there are certain processes or steps to follow. You have learnt about these steps in your grade 9 lesson in Unit 4, *My Small Business Project (2)*. Let us go over this eight steps.

Step One: Tidy or organise the stock the day before.

- The stock must be tidy for stocktaking. Goods must be taken out of the corner so they won't be missed.
- Goods of the same kind must be kept together and arranged neatly so that they can be counted quickly. If possible the stock lists that are prepared should be in the same order as the groups of goods on the shelves.

Step Two: Organise the employees.

- Consider the employee. If there is only one person in the store then he or she will do the stock take alone.
- If there are two people they should work together.
- If there are three people, then two can do the work, the manager supervises and so on.

Step Three: Identify damaged and valueless stock.

- Damaged goods should be sorted out and reduce selling prices. The new selling price should be marked on the goods. If stock is valueless it should be put aside and not counted.

Step Five: Draw up stock list and stock book.

- Draw up the stocktake sheet like the example you have seen on page 74. Your stocktake should be done in a book since it is a record. It will help you work out profit for the business.

Step Six: On the day of counting.

- The store must be closed. Sale of goods during a stock take would make it confusing.
- The counting should be done in a more systematic or organised way. Follow the order of the goods from the left-hand side of the top shelf in the same way that you read a book.
- If two people are working as a team then one of them should count and the other person write down the figures.
- All column are entered on each stock lists except for the two total columns. These are done later.

Step Seven: Obtain the cost value

- When all items have been counted on the stock list, then the *value or total* of the stock has to be worked out. You can see this in the stocktake record in table 7.2 on page 75.

Step Eight: Obtain the total stock value at selling price

- From adding up the sub-totals on each page you should now be able to find out the total value of the stock at cost price.

When these processes are followed, stock taking of goods becomes easier for your business.

Drawings of Goods and how it is recorded

In small businesses it is common for the owner to draw goods for his or her own personal use from the business. What are drawings of goods? Drawings of goods refer to goods or money that are taken from the store by the owner for his or her own consumption or use.

There is nothing to stop the owner doing this and it is obviously a convenient or easy thing to do. However, since these drawings represent a decrease in cash, there must be some record of what has been taken. The easiest way for you as the owner to record this drawings is to keep a separate book in which you will write the goods you

have used. Nothing will appear in the cash book since you are not making cash transactions of buying or selling goods for cash. It is very important for you to keep a record of all the goods you take. The information about drawings of goods is needed when it comes time to working out the profit of the business.

Note that drawings of goods are different to drawing of cash although they have the same effect.



Activity 7.2: Complete the activities given below.

1. Explain drawings of goods.

2. Does drawings have an impact on the cashbook? Explain your answer.

Summary:



You have come to the end of Lesson 7. In this Lesson, you learnt that;

- Stock take or taking stock refers to the counting of stock in a business at a particular time.
 - Stock record refers to information showing number and value of goods or items in the business.
 - The eight steps involved in stock taking helps stock taking to be done easily as well as quickly.
 - Drawings of goods refer to goods that are taken from the store or business by the owner for his or her own consumption.
-

NOW DO PRACTICE EXERCISE 7 ON THE NEXT PAGE



Practice Exercise 7

1. Define stock taking.

2. List the three (3) reasons for stock taking.

(a) _____

(b) _____

(c) _____

3. Explain why it is important that process are followed when doing stock take.

4. Complete the stock take records by filling in the value for the weekly stock taking done by Haraga Trading Pty Ltd.

ITEM	COST (K)	12/12/2015	
		No.	Value (K)
Bread	5.80	10	_____
Sugar	3.00	30	_____
Tinned Fish	2.50	75	_____
Soap	1.20	12	_____

CHECK YOUR WORK. ANSWERS AT THE END OF UNIT 2

Lesson 8: Stock Keeping Methods



Introduction

Welcome to Lesson 8. In the last lesson, you learnt about stock taking and how stock in the store is recorded. In this lesson, you will learn about the methods used in taking stocks.



Your Aims:

- Identify the methods of keeping stock in a trading business
 - Define FIFO and LIFO methods of stock keeping in a trading business
 - Explain the importance of stock control in a business
-

Methods of Taking Stock in a Trading Business

You learnt that stock taking helps businesses work out its profits. If a business stocks or buys too many goods then it needs to keep an up to date but simple stock keeping method to find out the number of goods after sales. There are two simple methods or ways of keeping stock.



What are these two methods of taking stock?

1. *Perpetual inventory system*

What is perpetual inventory system? Before we can find out what this system is you should first know what the words perpetual and inventory mean. Perpetual refers to a continuous action whilst inventory refers to stocks of the trading business. When these two words are put together then perpetual inventory systems refers to a method of continuous stock control or controlling stock in which a record is kept for each item of stock moving in and out of the business. This enables the owner to know at any time how much stock is on hand. Here, stock cards may be kept for each of the different types of stock or a stock-book may be kept with a page or section for each stock item.

Now, turn to the next page to see a sample of the stock take card.

Below is an example of a stock card.

SAMPLE STOCK-CARD

Item: <u>Frozen Chicken</u>				
Cost Price: <u>K22.00</u>			Reorder Level: <u>260</u>	
Selling Price: <u>K36.00</u>				
Date	Particulars	Stock-in	Stock-out	Balance
1 Feb	Purchased	800	-	800
3	Sold		80	720
5	Sold		80	640
9	Sold		120	520
12	Sold		40	480
17	Sold		80	400

Table 8.1: A Stock Card.

Source: Commerce Teacher's Guide /Book keeping-1989.

Each time goods are sold or purchased they are recorded on the stock-card for the particular item. Information on stock-cards enables a business to find out;

- how often to reorder goods
- how much goods to reorder.

The figures on the card shown above, for example, indicate that about 160 frozen chickens packets are sold each week. Therefore, more chickens should be reordered when there are about 260 frozen chickens left. This will leave 160 on hand for the weeks sales and 100 extra in case the chickens come late or in case more chickens are sold than usual.

A business using a perpetual inventory system for stock record should also carry out a physical count of all stock occasionally. Quite often it is found that the physical stock take gives a lower figure than that shown on the individual stock-cards. This may be due to;

- stock-cards not being kept-up to date
- mistakes in the recording deliveries
- forgetting to record items sold
- stock losses due to theft by customers and staff.

A comparison of stock-card records with physical count totals is worthwhile. For example, it may help to show what particular goods have been stolen if the physical stocktake figure is lower. This will cause the business to exercise greater control over these particular stock items in the future.

The two main methods of stock recording or keeping or counting goods that are used under perpetual inventory system are;

i. Last In First Out (LIFO)

Last In First Out (*LIFO*) refers to the method or way in which stocks that are acquired or purchased last or recently are sold out first followed by the goods that were ordered first.

ii. First In First Out (FIFO)

First In First Out (FIFO) refers to the method or way in which stocks that are acquired or purchased first are sold first and those purchased recently are in later or last.

2. Periodic or physical inventory system

What is a periodic or physical inventory system? Before we can find out what a periodic or physical inventory system means you should know what the words periodic and physical mean. Periodic refers to something happening from time to time. Physical refers to the actual item or thing. So periodic inventory system also known as physical inventory system refers to the method of stock control or controlling stock where stock is checked, counted and valued at a particular time. For example, stocks are actually checked and the value calculated at the end of the day, week or month. It is not continuous stock recording like the perpetual inventory system which has a balance column.

During the actual counting of the stock there may be some items still in the carton whilst the others are on the shelf. The simplest thing to do is to use two numbers as follows;

Tinned Fish: 5 + 27

This means 5 cartons full of tinned fish and 27 tins of fish which are loose. The method is simply a way of making the counting easy and fast. When the owner is costing the stock he will have to change the 5 + 27 into one figure representing the total number of tins. If there are 48 tins in each carton this will become;

$$(5 \times 48) + 27 = 240 + 27 \\ = 267 \text{ tins}$$

Below is stock take card

PERIODIC OR PHYSICAL STOCKTAKE RECORD

Item	10/06/2005			17/06/2005		
	Qty	Cost (K)	Value (K)	Qty	Cost (K)	Value (K)
Trukai rice	15	4.20	63.00			
Tinned fish	10	3.80	38.00			
Soap	6	0.90	5.40			
Sugar	20	2.60	52.00			
Butter	5	2.50	12.50			
Snax biscuit	40	1.00	40.00			
			210.90			

Table 8.2: Periodic or physical Stocktake Record.
Source: Commerce Teacher's Guide /Book keeping-1989.

The above stocktake record shows the period of time for stock take is taken daily.

**Activity 8.1: Complete the activities given below.**

1. Define the following words.

- (a) Perpetual. _____
(b) Inventory. _____
(c) Physical. _____
(d) Periodic. _____

2. Explain

(a) Perpetual inventory system.

(b) Periodic or physical inventory system.

Importance of Stock Control in Business

What is stock control? Stock control refers to keeping a check on the stock of goods, materials and spare parts of the business. The importance of stock control is to make sure that the business;

- *does not run out of stock*
- *does not hold too much stock of a particular item. For example, too much lollies and less rice.*

Store control happens when a business uses one of the above systems to keep its stock record.

With a good stock control system, the number of items in store will be known at any particular time. If, however, stock control is ignored, the following will happen.

- *Firm may run out of stock*

Some goods may be running very low without the owners realising it. They may even run out of stock. If this happens, customers will start to shop elsewhere and may not return. Not only has a sale been missed, but future sales may also be lost.

- *Too much stock may be held*

If stock is not checked regularly, the owner may not be aware that large stock of certain items have been held for a long time. This means that money has been tied up in stock that is not being sold. This money could have been used for more profitable purposes. The stock may become too old and not sell at all.

With a proper stock control system, the owners are clearly aware of what their slow-moving items are. Slow moving items refer to goods that are selling slowly. They will tie up money in buying large stocks of these items that are low in demand.

A good stock control system tells you;

- how many goods are in stock at any particular time
- what goods are selling quickly
- what goods are selling slowly
- when to reorder goods (reorder time)
- how many goods to order (reorder quantity)

Basic rules for stock control

There are two basic rules for good stock control.

1. Stock should be checked regularly

The number of times that stock should be counted will depend on how much stock is kept and how fast it is selling. Obviously, if there is a high turnover or fast sales, there is a greater chance of running out of stock. In this case stock should be counted regularly. A date should be fixed for checking stock, for example every week or fortnight, or once every month. Particular attention should be paid to those goods that are selling quickly and goods that are selling slowly for the above reasons.

2. Stock should be stored so that they can be easily counted

Goods should not be mixed up. Similar stocks should be stored together and be easy to see. This is very important as the number of stock items increase. They should be set out in separate groups. For example, tins of food should be stored according to size; clothes should be stored according to type of garment, size, colour and so forth. Quicker and easier stocktakes are possible when goods are stored neatly and in groups.



Activity 8.2: Complete the activities given below.

1. What is stock control?

2. State the importance of stock control.

Summary:



You have come to the end of Lesson 8. In this Lesson, you learnt that;

- The two simple methods of keeping stock are;
 1. Perpetual inventory system
 2. Periodic or physical inventory system
- Perpetual inventory system refers to a method of recording stock control or continuously controlling stock in which a record is kept for each item of stock moving in and out of the business.
- Periodic or physical inventory system refers to the method of stock control or controlling stock where stock is checked, counted and valued at a particular time.
- The two methods of stock control under perpetual inventory method are;
 1. Last In First Out. This method or system is where goods that are acquired or purchased last or recently are sold out first followed by the goods that were ordered first.

2. First In First Out. This method or system is where goods that are acquired or purchased first are sold out early ahead of those purchased at recent time.

- Stock control is to keeping a check on the stock of goods, materials and spare parts of the business.
 - The importance of stock control in business is to make sure that the business does not;
 1. run out of stock
 2. hold too much stock of a particular item.
 - If stock control is not done then the owner will not know if the business is running out of stock. He or she will also not know if certain goods have been in the store for too long.
-

NOW DO PRACTICE EXERCISE 8 ON THE NEXT PAGE



Practice Exercise 8

1. State the difference between perpetual inventory system and periodic or physical inventory system.

2. Fill in the table with the correct information on the two methods of stock taking or counting stock.

Method of stock taking	Explanation

3. List the two basic rules for stock control.

(a) _____

(b) _____

4. What happens when a business does not have stock control?

5. The information given below refers to Jacob Silai's business.

On April 20th 2005, Jacob Silai did stock take for his business. He had the following items still in stock;

10	Em Nau biscuits	80t	6	small cooking oil	K2.00
5	1 Kg plain flour	K4.80	3	rice packets	K4.50
16	Maggie noodles	K1.00			

Draw up a stocktake card that is used in the periodic or physical inventory system of stock control. Write up the stock take card with the information given above.

CHECK YOUR WORK. ANSWERS AT THE END OF UNIT 2

Lesson 9: Stock Taking and Stock Values



Introduction

Welcome to Lesson 9. Lesson 9 is the last Lesson for Topic 2. In the previous lesson you learnt about the method of taking stock and saw the importance of stock control. In this Lesson, you will learn about calculating stock values and finding the difference between opening stock and closing stock of a trading business.



Your Aims:

- Explain the processes of stock taking in a trading business
 - Calculate stock values for a small business
 - Distinguish between opening stock and closing stock values from given stock record
 - Define debtor, creditor and proprietor
-

Processes involved in Taking Stock in a Trading Business

As you have already learnt in the previous Topics all businesses whether big or small must keep stock or regularly check their stock or goods. Before stock taking or counting of stock can take place, some things have to be done in order to make stock taking easier. This means there has to be certain processes or steps to follow before stock taking can take place.

You have studied this in Lesson 7 however, let us go through again to help you remember what to do if ever you own a business.



Step One: Tidy the stock the day before.

- The stock must be tidy for stocktaking. Goods must be taken out of the corner so they will not be missed.
- Goods of the same kind must be kept together and arranged neatly so that they can be counted quickly. If possible the stock lists that are prepared should be in the same order as the groups of goods on the shelves.

Step Two: Organise the employees.

- Consider the employees. If there is only one person in the store then he or she will do the stock take alone.
- If there are two people they should work together.
- If there are three people, then two can do the work, the manager supervises them and so forth.

Step Three: Identify damaged and valueless stock.

- Damaged goods should be sorted out and sold at reduced prices. The new selling price should be marked on the goods. If stock is valueless it should be put aside and not counted.

Step Four: Draw up stock list and stock book.

- Draw up the stock take sheet like the example you have seen in table 8.2 on page 81. Your stock take should be done in a book since it is a record. It will help calculate profit for the business.

Step Five: On the day of counting.

- The store must be closed. Sale of goods during a stock take would interrupt stocktake. Stocktake only takes a day so take stock behind closed doors.
- The counting should be done in a more systematic or organised way. Follow the order of the goods from the left-hand side of the top shelf in the same way that you read a book.
- If two people are working as a team then one of them should count and the other person write down the figures.
- All columns are entered on each predrawn stock list except where there are two total columns.

Step Six: Obtain the stock value

- When all items have been counted on the stock lists then the *value or total* of the stock has to be worked out. You can see this in the stocktake record in table 8.2 on page 81.
- The selling value is found easily by multiplying the number of unit by the selling price per unit. For instance, 15 bread multiply cost per unit of loaf of bread at K4.25 equals K63.75 / ($15 \times K4.25 = K63.75$)

Step Seven: Obtain the total stock value at cost price

- By adding up the sub-totals on each page you should now be able to find out the total value of the stock at cost price.

Refer to the stocktake record in table 8.2 on page 81 to understand better.

Therefore, it is better to follow processes so that stock taking can be done easily and quickly.



Activity 9.1: Complete the activities given below.

1. Why is it important to follow processes or steps when stock taking?

2. When do businesses do stock taking?

Calculating Stock Values in a Business

All stock in the business must be valued. This helps the business to calculate its profit. Stock value refers to the value of the stock at one particular time. It is calculated as quantity multiplied by cost price. For example, stock value of all rice or sugar.

Turn to table 9.1 on the next page to see how to calculate or work out stock values of the business.

Let us go through the stock record given below to calculate stock value of the business.

STOCK RECORD

Item	10/06/2005			17/06/2005		
	Qty	Cost (K)	Value (K)	Qty	Cost (K)	Value (K)
Trukai rice	15	4.20	63.00			
Tinned fish	10	3.80	38.00			
Soap	6	0.90	5.40			
Sugar	20	2.60	52.00			
Butter	5	2.50	12.50			
Snax biscuit	40	1.00	40.00			
			210.90			

TOTAL STOCK VALUE

STOCK VALUE

Table 9.1: Stocktake Record used to calculate stock value.
Source: Commerce Teacher's Guide /Book keeping-1989.

Steps to calculating the stock value and total stock value of goods

- i. Get the quantity or the number of the goods available of a particular item.
- ii. Multiply this by the cost price. Cost price refers to the price the shop owner paid for the goods. This will give you the value of the stock.

Follow the example given below.

Trukai rice: Quantity (Qty) × Cost = Value of goods 15 × K4.20 = K63.00
--

- iii. Each good value is then added together to get the total stock value of the goods. Total stock value refers to the total money value of the stock in the business. Follow the example given.

The Stock value of the Trukai rice + Tinned Fish + Soap+ Sugar+ Butter+ Snax biscuit = Total Stock Value K63.00 + K38.00 + K5.40 + K52.00 + K12.50 + K40.00 = K210.90
--



Activity 9.2: Complete the activity given below.

Define

1. Stock value. _____
2. Total stock value. _____

Distinguishing between Opening Stock and Closing Stock Values from given Stock Records

As mentioned already, stock records are needed to calculate the profit of the business therefore, proper and good care should be taken when doing stock take.



The word distinguish may sound difficult but it simply means to tell the difference between things.

Let us go through the stock record given below to find out where to get the opening stock value and closing stock value.

STOCK RECORD

Item	10/06/2005			17/06/2005		
	Qty	Cost (K)	Value (K)	Qty	Cost (K)	Value (K)
Trukai rice	15	4.20	63.00	2	4.20	8.40
Tinned fish	10	3.80	38.00	3	3.80	11.40
Soap	0.90	90t	5.40	1	5.40	5.40
Sugar	20	2.60	52.00	10	2.60	26.00
Butter	5	2.50	12.50	3	2.50	7.50
Snax biscuit	40	1.00	40.00	3	1.00	3.00
			210.90			61.70

OPENING STOCK VALUE OR
STOCK AT START VALUE

CLOSING STOCK VALUE
OR STOCK AT END VALUE

Table 9.2: Stocktake record showing opening and closing stock.
Source: Commerce Teacher's Guide /Book keeping-1989.

Opening stock value is the value from the last stock take.

Closing stock value is the value from the current stock take.

When you are able to identify the opening stock from the closing stock then calculating your profit becomes easier on the day you wish to calculate or work out your profit.

**Activity 9.3: Complete the activity given below.**

Explain the difference between opening stock and closing stock.

Summary:

You have come to the end of Lesson 9. In this Lesson, you learnt that;

- It is important to follow processes or steps before doing stock take.
- There are seven processes that can be followed to make stock taking easier and faster.
 - Step One: Tidy the stock the day before.
 - Step Two: Organise the employees.
 - Step Three: Identify damage and valueless stock.
 - Step Four: Check documents for shipments received close to stocktake day.
 - Step Five: On the day of counting start counting.
 - Step Six: Obtain the selling value
 - Step Seven: Obtain the total stock value at cost price
- To calculate or work out the stock value of goods or items. The quantity of the goods or items must be multiplied by the cost price.
- Cost price is sometimes referred to as the purchase price.
- To work out the total value of the goods or items add the value of all the items in stock.
- Opening stock is sometimes referred to as stock at start.
- Closing stock is sometimes referred to as stock at end.
- Total value of stock helps to calculate the profit of the business.

NOW DO PRACTICE EXERCISE 9 ON THE NEXT PAGE



Practice Exercise 9

1. Show the formula for calculating stock value of items or goods.

2. Explain the following

(i) Opening stock value

(ii) Closing stock value

3. What is cost price?

4. From the information given, draw up a stock take record and find stock value for each goods given and the value for stock at start and stock at end for this business.

3rd August 2005

15 matches	K0.30
25 toilet paper	K1.20
10 salt packets	K0.80
12 teabags	K2.50
24 twisties	K1.00
30 rice packets	K4.50

10th August 2005

25 matches	K0.30
35 toilet papers	K1.20
15 slat packets	K0.80
20 teabags	K2.50
30 twisties	K1.00
45 rice packets	K4.50

(Show your work below.)

CHECK YOUR WORK. ANSWERS AT THE END OF UNIT 2

ANSWERS TO

TOPIC 2

PRACTICE EXERCISES

Answers to Practice Exercises 7-9

Practice Exercise 7

1. Define stock taking

Stock taking refers to counting of the stock or items in the business at a particular time.

2. List the three reasons for stock taking.

(i) *To know when it is necessary to order more goods.*

(ii) *To help find out the profit of the business.*

(iii) *To find out the amount of leakages or shrinkages or losses through theft that has occurred in the goods.*

3. Explain why it is important that processes are followed when doing stock take.

It is important that processes are followed so that counting becomes easier and is done quickly.

4. Complete the stock take records by filling in the value for the weekly stock taking done by Haraga Trading Pty Ltd.

ITEM	COST	12/12 20/5	
		No.	Value (K)
Bread	5.80	10	<u>58.00</u>
Sugar	3.00	30	<u>90.00</u>
Tinned Fish	2.50	75	<u>187.50</u>
Soap	1.20	12	<u>14.40</u>
			<u>349.90</u>

Practice Exercise 8

1. State the difference between perpetual inventory system and periodic or physical inventory system.

The difference is that perpetual inventory system involves recording individual items on separate stock cards and maintaining a continuous balance. Periodic inventory method involves recoding all items on one stock record and calculating the values in a particular period of time which is once in a while.

2. Fill in the table with the correct information on the two methods of stock taking or counting stock.

Method of stock taking	Explanation
1. FIFO	<i>FIFO involves the first goods coming in first to be sold out the first followed by the rest.</i>
2. LIFO	<i>LIFO involves the goods that come in last to be sold first followed by all other goods till the first one that came in.</i>

3. List the two basic rules for stock control.

1. *Stock should be checked regularly*
2. *Stock should be stored so that they can be easily counted.*

4. What happens when business does not have stock control?

When business does not have stock control it will not know how many goods are moving in and out of the business.

5. Refer to the information given below, are for Jacob Silai.

On April 20 2005, Jacob Silai did stock take for his business. He had the following items still in stock; 10 Em nau biscuits for 80t, 5 plain flour g for K4.80, 16 Maggie noodles for K1.00, 6 small cooking oil for K2.00 and 3 rice packets for 4.50.

Draw up a stock-card that is used in the periodic or physical inventory system of stock control. Write up the stock take card with the information given above.

PERIODIC STOCK TAKE CARD

Item	20/04/2005		
	Qty	Cost (K)	Value (K)
<i>Em nau</i>	<i>10</i>	<i>80t</i>	<i>8.00</i>
<i>Plain Flour</i>	<i>5</i>	<i>4.80</i>	<i>24.00</i>
<i>Maggie Noodles</i>	<i>16</i>	<i>1.00</i>	<i>16.00</i>
<i>Small Cooking oil</i>	<i>6</i>	<i>2.00</i>	<i>12.00</i>
<i>Rice packets</i>	<i>3</i>	<i>4.50</i>	<i>13.50</i>
			<i>73.50</i>

Practice Exercise 9

1. Show the formula for calculating value of stock goods.

Stock value = Quantity × Cost price

2. Explain the following

(i) Opening stock value

Opening stock value is the value of all goods at the start of the business.

(ii) Closing stock value

Closing stock value is the value of all goods at the end when the business is trying to calculate its profit.

3. Explain Cost price

Cost price refers to the price which the customer paid when he bought the goods.

4. From the information given draw up a stock record and find stock value for each goods or items given and the value for stock at start and stock at end for this business.

3rd August 2005

15 matches	K 0.30
25 toilet paper	K1.20
10 Salt packets	K 0 .80
12 teabags	K2.50
24 twisties	K1.00
30 rice packets	K4.50

10th August 2005

25 matches	K0.30
35 toilet papers	K1.20
15 salt packets	K0.80
20 teabags	K2.50
30 twisties	K1.00
45 rice packets	K4.50

STOCKRECORD

Item	3/08/2005			10/08/2005		
	Qty	Cost (K)	Value (K)	Qty	Cost (K)	Value (K)
<i>Match</i>	15	0.30	4.50	25	0.30	7.50
<i>Toilet paper</i>	25	1.20	30.00	35	1.20	42.00
<i>Salt</i>	10	0.80	8.00	15	0.80	12.00
<i>Teabags</i>	12	2.50	30.00	20	2.50	50.00
<i>Twisties</i>	24	1.00	24.00	30	1.00	30.00
<i>Rice</i>	30	4.50	135.00	45	4.50	202.50
			231.50			344.00

**REVISE TOPIC 2 AND DO TOPIC 2 TEST
IN YOUR ASSESSMENT BOOK 2**

TOPIC 3

CALCULATING PROFIT- CASH AND CREDIT TRANSACTIONS

In this topic you will learn about;

- **Profit and Source Records**
- **Calculating Profit in Cash and Credit Transaction**
- **Profit and Loss Statement**
- **The Balance Sheet**
- **The Profit and Loss Statement**

TOPIC 3: CALCULATING PROFIT- CASH AND CREDIT TRANSACTION



Welcome to Topic 3: 'Calculating Profit- Cash and Credit Transaction'. In this Topic you will learn how to calculate profit using cash and credit source documents.

This Topic consists of five (5) lessons.

Lesson 10: Profit and Source Records

In this Lesson, you will define source records and identify their uses. You will also identify the records needed to calculate profit. Furthermore, you will define revenue, expenses, purchases and other operating expenses. You will lastly identify financial information needed to calculate profit.

Lesson 11: Calculating Cost of Goods and Profit in Cash and Credit transaction

In this Lesson, you will define Cost of Goods Sold and profit. You will also identify information needed to calculate Costs of Goods Sold and you will calculate cost of goods sold. You will go onto defining and calculating gross and net profit. You will lastly work out the effects of surpluses, shortages, refunds and drawings on profit.

Lesson 12: Calculating Profit using Source Records

In this Lesson, you will learn how to calculate profit using the cashbook, journals and the stock records.

Lesson 13: The Profit or Loss Statement

In this Lesson, you will identify the purpose for the Profit or Loss Statement, identify the parts of a Profit or Loss Statement and calculate profit in the Profit or Loss Statement.

Lesson 14: The Balance Sheet

In this Lesson, you will define balance sheet and state its purpose, explain the parts of a balance sheet and differentiate the assets and liabilities in a balance sheet. You will also complete a balance sheet.

Lesson 10: Profit and Source Records



Introduction

Welcome to Lesson 10. Lesson 10 is the first Lesson for Topic 3. In the last Topic, you learnt about stock taking and its importance to the business. In this topic, you will learn about calculating the profit of the business using records which you have learnt about in Topic 1. For that reason, this Lesson will teach you source records needed to work out profit or loss for businesses.



Your Aims:

- Define source records and identify their uses
 - Identify the records needed to calculate profit
 - Define revenue, expenses, purchases and operating expenses
 - Identify financial information needed to calculate profit
-

Source Records and their Uses

In Topic 1, you learnt about source documents that are produced during different transactions (or buying and selling) in the business. The information on these source documents are then recorded into the daily records and other financial records.



What then is a source document?

A **source document** refers to a document showing the transactions of the business which will be recorded and kept in books of the business. Transactions refer to buying and selling of goods and services.

Source records or the books of the business are very important because they are used to calculate profit or loss of the business. If these financial records are not maintained or kept up to date, then the business will find it difficult to work out their profit. Source documents contain the original information of all the transactions. In this case, the original information for transactions that have taken place in the business are the purchases, sales and so forth.

Before any profit can be calculated, the records or the financial records should all be in order so it makes calculation easier and quicker. You have learnt about these financial records in your previous lessons. Let us go through these financial records and review their uses.

i. Cash book

Cash book is the book of record that shows cash payments and cash receipts of the business. That includes cash sales, cash purchases, payment of expenses, shortages and surpluses of cash and drawings. These transactions involve the use of money and must be recorded in this book.

Turn to Lesson 3 table.3.1 page 24 of Topic 1 to see what the cash book looks like.

ii. Journals

A journal is the book where all information about credit purchases and credit are first recorded. When payments are made for these credit transactions, the information for these payments are then recorded into the cash book.

Turn to Lesson 6 table 6.1 and 6.2 on pages 58 and 59 of Topic 1 to see what a journal looks like.

iii. Stock record

Stock record is a book showing information on the number and value of stocks in the business at one particular time. The financial information recorded in this record book is the opening stock and closing stock with their values. The owner can calculate the value of the stock in the business by multiplying the quantity of goods by the cost price. Opening stock is the total value of all the stocks when the store started operating. Closing stock is the total value of all the stock still available in the business at the end of a period when the owner decides to calculate his or her profit.

Turn to Lesson 7 table 7.1 page 74 of Topic 2 to see what a stock record looks like.

Records needed to Calculate Profit

The important records needed to calculate the profit of the business are cash book, journals and stock records as studied above. As a business owner you should be able to know which transactions go into each of these three record books. At all times, ensure that for every transactions made it is recorded into appropriate books.

**Activity 10.1: Complete the activities given below.**

1. Define;

(a) Source document _____

(b) Transaction _____

2. What is the importance of source records?

3. List and explain the three financial records needed to calculate profit for business.

(a) _____

(b) _____

(c) _____

The Financial information needed to Calculate Profit from Source Records

As a business person, you should know the type of transaction and their effect on the businesses income and stock. Some of the common financial terms or words that you will deal with daily are revenue, expenses, sales, purchases, other expenses and stock value. What do these words mean?

i. Revenue

Revenue is any form of income made or received by the business.

ii. Sales

Sales is the total amount of money received from the sale of goods by the business.

iii. Purchases

Purchase is the total amount of money spent on goods.

iv. Operating expenses

Other expenses refer to the amount of money spent on daily expenses to keep the business running like buying stock that keeps the business operating. For instance, money spent on paying for the power, water and telephone bills, wages and fuel.

v. Total Stock value

Stock value is the total value of all stock added together at a particular time.

**Activity 10.2: Complete the activity given below.**

Explain the following words.

1. Revenue _____
 2. Sales _____
 3. Purchases _____
 4. Other expenses _____
 5. Total Stock value _____
-

Summary:



You have come to the end of Lesson 10. In this lesson you learnt that;

- A financial record refers to a record that contains details of business transactions which are recorded and kept.
- Financial records are very important because they are used to calculate the profit of the business.
- If financial records are not maintained then the business will find it difficult to calculate its profit.
- There are three important records that businesses must have in order to work out their profit.
 1. Cash Book: Records cash receipts and credit purchases
 2. Journal: Records credit sales and credit purchases
 3. Stock Record: Records value of stock at a particular time.
- Credit Purchases Journal is the book where all information about credit purchases is recorded.

- The information needed to calculate profit are;
 - Revenue
 - Sales
 - Purchases
 - Operating expenses
 - Total Stock value
-

NOW DO PRACTICE EXERCISE 10 ON THE NEXT PAGE



Practice Exercise 10

1. From the transactions that are given. Write down the records that they will be written into.

Transactions	Records
(a) Peter buys goods with cash from Alpha Wholesale	
(b) Lydia gets some goods from John's trade store and will pay next week	
(c) Alpha Wholesale supplies John's trade store goods which John promises to pay in a fortnight's time.	
(d) Oramao buys rice and tinned fish from John's trade store with his K10	
(e) Lydia pays for the goods that she got from John's trade store a week ago.	

2. Fill in the table by listing the three source records and their uses.

Records	Uses

CHECK YOUR WORK. ANSWERS AT THE END OF UNIT 2

Lesson 11: Calculating Cost of Goods Sold and Profit in cash and credit transactions



Introduction

Welcome to Lesson 11. In the previous Lesson, you learnt about the records businesses should have, their importance as well as their uses. In this Lesson, you will learn about how to calculate the Cost of Goods Sold (COGS) and the profit.



Your Aims:

- Define profit
 - Define Cost of Goods Sold (COGS)
 - Identify information needed to calculate Cost of Goods Sold (COGS)
 - Calculate Cost of Goods Sold (COGS) in trading business
 - Define and calculate gross and net profit for a trading business
 - Include surpluses, shortages, refunds and drawing as they affect profit
-

What is Profit?

You have learnt about this word, profit, at the start of this Unit. You learnt that all businesses, whether big or small, must find out if their business is progressing or not. To find out, they have to work out their profit. What then is profit? Profit refers to the extra money made by the business after all other expenses are paid. If the business has made a lot of profit then it is progressing well. If the business has made profit but it is small or there is no profit made then the business may likely fail. It has to come up with better plans to improve and progress.

It is not only the owner who wants to know if the business is making a profit. For example, if the owner wishes to borrow money from a bank, the bank manager will want to know how well the business is doing in order to assess whether the business will be able to repay the loan.

The standard formula used to calculate profit.

$$\text{PROFIT} = \text{REVENUE} - \text{EXPENSES}$$

For example, John Tau's business spent K1000 to purchase goods for his trade store. At the end of the month he found out that the total income made was K2200.

Let us work out his profit.

$$\begin{aligned}\text{Profit} &= \text{Revenue} - \text{Expenses} \\ &= \text{K2200} - \text{K1000} \\ &= \text{K1200}\end{aligned}$$

He has made a profit of K1200.00. This shows that the business is progressing well. We are assuming that John did not pay any other operating expenses.

What is Cost of Goods Sold (COGS)?

Cost of Goods Sold is the value of the stock that has been sold out. Cost of Goods Sold is a very important component when working out the profit of the business.

Information needed to Calculate Costs of Goods Sold

In order to work out how much the Cost of Goods Sold is, there are three things you need to know. They are;

1. Stock at start

How much stock the business had at the start. You will get this from the stock records. This will be called 'stock at start'.

2. Purchases

How much goods the business purchased during the period. You will get this from the payments column of the cashbook. This is called 'purchases'.

3. Stock at end

How much stock the business has left at the end of the time period. You will get this from the stock records. This will be called 'stock at end'.

Below is the formula used to calculate the cost of the goods sold by the business for a period.

$$\text{COST OF GOODS SOLD} = \text{STOCK AT START} + \text{PURCHASES} - \text{STOCK AT END}$$



Activity 11.1: Complete the activities given below.

1. Define

(a) Profit. _____

(b) Cost of Goods Sold. _____

2. State the formula for calculating;

(a) Profit _____

(b) Cost of goods sold. _____

How to calculate Cost of Goods Sold

The formula to calculate the cost of the goods sold is;

$$\text{COST OF GOODS SOLD} = \text{STOCK AT START} + \text{PURCHASES} - \text{STOCK AT END}$$

Let us go through an example using the formula given.

Example:

In this example, for the month of October, let us assume that the only revenue for John Tau's business is its sales and the only expense is the cost of the goods sold. The amounts are in the cash book and the stock records. These figures will be used to work out the Cost of Goods Sold (COGS) for his business.

CASH BOOK

DATE		DETAILS	RECEIPTS		PAYMENTS		BALANCE	
Oct	1	Opening Balance					500	00
	2	Goods Purchased- Bismillah Cash & Carry			390	10	109	90
	3	Sales	125	50			235	40
	4	Sales	110	85			346	25
	5	Sales	120	70			466	95
	7	Sales	150	00			616	95
			507	05	390	10		

Table 11.1: Cash Book record of sales.
Source: Commerce Teacher's Guide/ Bookkeeping-1989.

Note: Payments for expenses are also referred to as expenditure.

STOCKTAKE RECORD

ITEM	COST	2/7/2005		7/7/2005	
		No.	Value (K)	No.	Value (K)
Ox & Palm	5.00	13	65.00	19	95.00
Sugar	2.60	20	52.00	17	44.20
Tinned Fish	2.50	15	37.50	20	50.00
Soap	1.00	10	10.00	11	11.00
Rice	4.50	20	90.00	30	135.00
			254.50	335.20	

Table 11.2: Stocktake Record
Source: Commerce Teacher's Guide/ Bookkeeping-1989

Cost of goods sold = stock at start + purchases – stock at end = K254.50 + K390.10 – K335.20 = K308.70

How to Calculate Gross and Net Profit

Having learnt how to calculate Cost of Goods Sold (COGS), we will help you find the profit. COGS will help you to find the profit of the business suppose the business does not have other expenses and revenue apart from the regular sales and purchases.

In this lesson, you will only look at cash sales and cash purchases, not credit sales and purchases.



So what is gross profit and net profit?

Gross profit is the difference between the sales revenue of a business and the cost of goods sold. Net profit is the amount of income earned by an organisation after deducting all expenses. That is, gross profit minus (-) all operating expenses.

Operating expenses are administrative expenses or expenses that helps the business to operate such as wages for workers, phone, power and water bills and rent if the business is renting someone else's building to do business in.

Let us continue with the same example of John Tau's business.

i. Calculating gross profit

You have calculated his cost of goods to be K308.70. To calculate John Tau's gross profit you will have to add all the sales to get the total sales value from the column labelled receipt in the cash book. Receipts refer to money coming into the business.

The formula to calculating gross profit is;

$$\text{GROSS PROFIT} = \text{SALES} - \text{COST OF GOODS SOLD (COGS)}$$

So let us work out John Tau's gross profit.

$$\begin{aligned} \text{Gross Profit} &= \text{Sales} - \text{Cost of Goods Sold (COGS)} \\ &= \text{K}507.05 - \text{K}308.70 \\ &= \text{K}198.35 \end{aligned}$$

ii. Calculating net profit

Net profit is calculated after calculating the gross profit. So you say gross profit is calculated before net profit. To calculate John Tau's net profit you will have to include *all operating expenses*. The formula to calculate the net profit is;

$$\text{NET PROFIT} = \text{GROSS PROFIT} - \text{OPERATING EXPENSES}$$

So let us calculate John Tau's net profit. His gross profit is K 198.35.

Turn to table 11.3 on the next page to see how operating expenses are taken from the Cash Book to calculate profit.

Now, let us refer to the Cash Book to get operating expenses needed to calculate the net profit.

CASH BOOK

DATE		DETAILS	RECEIPTS		PAYMENTS		BALANCE	
July	1	Opening Balance					500	00
	2	Goods Purchased- Bismillah Cash & Carry			390	10	109	90
	3	Sales	125	50			235	40
	4	Sales	110	85			346	25
	5	Sales	120	70			466	95
	7	Sales	150	00			616	95
	7	Wages			20	00	596	95
	7	Power bill			15	00	581	95
			507	05	425	10		

Table 11.3: Using Cash Book record to work out profit.
Source: Commerce Teacher's Guide/ Bookkeeping-1989.

This is how his net profit will be worked out assuming that there are no refunds, surpluses, shortages and drawings.

The operating expenses that his business has paid for as you can see from the cash book are wages and power bill on the 7th October.

Net Profit = Gross Profit – Other Expenses = K198.35-K35.00 = K163.35
--

The above profit shows that John's business is progressing well. Remember these formulas when working out your profit.



Activity 11.2: Complete the activities given below.

1. Define

(a) Gross profit. _____

(b) Net profit. _____

2. State the formula for calculating gross and net profit.

(a) _____

(b) _____

Effect of Surpluses, Shortages, Refunds and Drawings on Profit

You have already studied the words surpluses, shortages, refunds and drawings in Topic 1 of this Unit. Here, you will learn how these financial information affects the profit of the business.

Table 11.4 shows how John Tau's Cash Book is affected by refund, surplus and shortage and drawings.

CASH BOOK

DATE		DETAILS	RECEIPTS (K)		PAYMENTS (K)		BALANCE (K)	
July	1	Opening Balance					500	00
	2	Goods Purchased- Bismillah Cash & Carry			390	10	109	90
	2	Refund in- Bismillah Cash & Carry	50	00			159	90
	3	Sales	125	50			396	25
	4	Sales	110	85			406	25
	4	Surplus	10	00			526	95
	5	Sales	120	70			511	95
	5	Shortages			15	00	661	95
	7	Sales	150	00			641	95
	7	Wages			20	00	641	95
	7	Power bill			15	00	626	95
	7	Drawings			50	00	576	95
			K567	05	K490	10		

Table 11.4: Cash Book showing effects of refund, surplus and shortage and drawings.
Source: Commerce Teacher's Guide/ Bookkeeping-1989.

Earlier, you stated that receipts and expenses were the same as sales and purchases. However, you must be careful when dealing with items such as surpluses, refunds and shortages.

Let us review each activity in turn and make reference to the cash book.

1. Surpluses

You will recall that surpluses represent a sum of money which is in the cash box, but has not been recorded in the daily sales book. We saw that the likely reason for this was that the owner may have forgotten to record the sale or he may have short-changed a customer. Short-changemeaning to giving change to a customer less than the correct amount. It does represent extra money and should be added to the sales figure when calculating profit. In this case, the surplus occurred on the 4th of July. It is recorded on the receipts column.

2. Refunds-in

In the Cash Book given on page 110, a refund occurred on the 2nd of October and it increased the balance. This is where the owner returns goods to the supplier and obtains a refund. It does represent a receipt of money and must be recorded in the cash book. But it is not income arising from the sale of goods. Therefore, when calculating the profit refunds inward should be subtracted from purchases.

Refunds out is the money paid out by the business to customers that it had charged for bad items. For example, Timi bought a small packet of sugar for K1.50 at John's store however, he found out that the packet of sugar had ants. He returned the sugar and John refunded his K1.50. A refund out is recorded on the Daily Cash Sales Records. It is not recorded on a Cash Book.

3. Shortages

You should recall that shortages are recorded when the amount in the cash box is less than the balance in the Cash Book after the sales have been recorded. This usually occurs because the owner gives too much change to a customer. It appears in the expenditure column (money out). Is it therefore a purchase? No. It represents an *expense* because some money is lost. It is the same as the owner paying some money to someone for working. In this case, a shortage occurred on the 5th of July. It is recorded in the payments column.

4. Drawings

A drawing occurred on the 7th of July. It is recorded in the payments column because it is money leaving the business.



Activity 11.3: Complete the activity given below.

Explain how the following affects profit.

1. Surpluses. _____
 2. Refunds in. _____
 3. Refunds out. _____
 4. Shortages. _____
-

Summary:



You have come to the end of Lesson 11. In this Lesson, you learnt that;

- Profit refers to the extra money made by the business after all Expenses have been deducted.
- The formula for calculating profit is: $\text{Profit} = \text{Revenue} - \text{Expenses}$
- The formula for calculating Cost of Goods Sold is $\text{COGS} = \text{Opening Stock} + \text{Purchases} - \text{Closing Stock}$
- Gross profit is the difference between the sales revenue of a business and the cost of goods sold.
- The formula for Gross Profit: $\text{Gross Profit} = \text{Sales} - \text{Cost of Goods Sold}$
- Net Profit is the amount of income earned by an organisation after paying all expenses.
- $\text{Net Profit} = \text{Gross Profit} - \text{Operating Expenses}$
- Surpluses and refunds in increases the profit whilst shortages and drawings decreases the profit.
- Refunds out is recorded in the Daily Cash Sales Record. It is not recorded in a Cash Book

NOW DO PRACTICE EXERCISE 11 ON THE NEXT PAGE



Practice Exercise 11

1. Find the Cost of Goods Sold.

	8/5/2005			15/5/2005		
	No.	Cost (K)	Value(K)	No.	Cost(K)	Value(K)
Bread	30	5.00		25	5.00	
Rice	46	4.50		16	4.50	
Tea	16	2.00		24	2.00	
Butter	8	2.25		27	2.25	
Purchases: K304.90						

COGS= _____

2. Fill in the gaps in the table below, using the equation.

Cost of Goods Sold = Opening Stock + Purchases – Closing Stock

Opening Stock(K)	Purchases (K)	Closing Stock(K)	Cost Of Goods Sold (K)
15.25	32.00	18.50	_____
28.00	NIL	21.00	_____
13.00	17.40	_____	12.00

3. Calculate profit from information given.

Sales	K5000
Purchases	K3000
Opening Stock	K2500
Closing stock	K1300
Operating expenses	K 500

CHECK YOUR WORK. ANSWERS AT THE END OF UNIT 2

Lesson 12: Calculating Profit using Source Records



Introduction

Welcome to Lesson 12. In the previous Lesson, you learnt about calculating profit and Cost of Goods Sold (COGS). In this Lesson, you will learn how to calculate profit from cashbook, journals and stock records.



Your Aims:

- Calculate profit using the cashbook, journals and the stock record

Calculating Profit using the Cash Book, Journals and the Stock Record

We will review the three records: cash book, journals and stock record in order to better understand how profit is calculated from these records. The information is from John Tau's business records on October 2015.

1. Cash Book

Cash book refers to the book of record that keeps basic information about cash payments and cash receipts of the business.

The cash book records all the cash transactions.

CASH BOOK

DATE		DETAILS	RECEIPTS	PAYMENTS	BALANCE
Oct	1	Opening Balance			500 00
	2	Cash Purchases-Bismillah Cash & Carry		390 10	109 90
	2	Refunds	50.00		159 90
	3	Sales	125.00		284 90
	4	Sales	200.00		484 90
	4	Surplus	10.00		494 90
	5	Sales	150.00		644 90
	5	Shortage		15 00	629 90
	6	Sales	150.00		779 90
	6	Badili Hardware (invo.06)		150 00	629 90
	7	Wages		100 00	529 90
	7	Power Bill		20 00	509 90
	7	Drawings		50 00	459 90
	9	Ernest Naita -dckt. 30	5.50		464 90
	10	Zenna Honi -dckt. 31	2.00		466 90
	10	Peter John -dckt. 32	10.00		476 90
			702.50	725 10	

Table 12.1: Cash Book record showing cash transactions.
Source: Commerce Teacher's Guide/ Bookkeeping-1989.

Dckt refer to docket
Invo refers to invoice

2. Journal

A journal keeps a record of all information about credit purchases or sales. The journal records all transactions that are bought on credit by the business from its suppliers. It also records all transactions that involve sales to its customers on credit.

Below are examples of credit purchases and credit sales journal.

CREDIT PURCHASES JOURNAL

Date	Wholesaler	Invoice No.	Amount (K)	Date	Paid Accounts (K)
Oct 6 th	Badilil Hardware	6	150		
			150		
			PAID <u>Nil</u>		
			OWING <u>150</u>		

Table 12.2: A Credit Purchases Journal.

Source: Commerce Teacher's Guide/ Bookkeeping-1989.

CREDIT SALES JOURNAL

Date	Customer	Docket No.	Amount (K)	Paid	
				Date	Amount (K)
Oct 2 nd	Ernest Naita	30	5.50	9 th	5.50
3 rd	Zenna Honi	31	2.00	10 th	2.00
3 rd	Peter John	32	10.00	10 th	10.00
4 th	Mauli Silai	33	3.40		
			20.90		17.50
			PAID	17.50	
			OWING	3.40	

Table 12.3: A Credit Sales Journal.

Source: Commerce Teacher's Guide/ Bookkeeping-1989.

Remember this: Credit sales recorded in the Credit Sales Journal will be entered into the Cash Book once the credits are paid up.

3. Stock record

A stock record is a book showing information on the number and value of stocks kept by the business at a certain period of time.

STOCK RECORD

ITEM	COST	1/10/2015		11/10/2015	
		No.	Value (K)	No.	Value (K)
Ox & Palm	5.00	13	65.00	19	95.00
Sugar	2.60	20	52.00	17	44.20
Tinned Fish	2.50	15	37.50	20	50.00
Soap	1.00	10	10.00	11	11.00
Rice	4.50	20	90.00	30	135.00
		254.50		335.20	

Table 12.4: Stock Record showing number and value of stock of the business.

Source: Commerce Teacher's Guide/ Bookkeeping-1989.

Note:

- Surpluses are added to sales
- Refunds are subtracted from the purchases
- Shortages are added to the other expenses and
- Drawings and transfer to savings accounts are use of profit so it should not be used to calculate profit though it is in the cash book. They are added (savings) and deducted (drawings) from profit.

From the three records given in the previous page the following information is extracted or taken out to find profit.

CASH BOOK:

Cash Sales	K625.00
Cash Purchases	K390.10
Surplus	K 10.00
Refund	K 50.00
Expenses (Others)	K115.00
-Wages	K100.00
-Power bill	K 20.00
-Shortages	K 15.00

JOURNALS:

Credit Purchases	K150.00
Credit Sale	K 20.90

STOCK RECORD:

Stock at start 1/10/2015	K254.50
Stock at end 31/10/2015	K335.20

Here is how the profit will be worked out using a Profit and Loss Statement.

Turn to the next page in table 12.5 which shows you the steps to calculate profit using the Profit or Loss Statement for a business. In the next Lesson, Lesson 13, you will see the actual format of the Profit and Loss Statement.

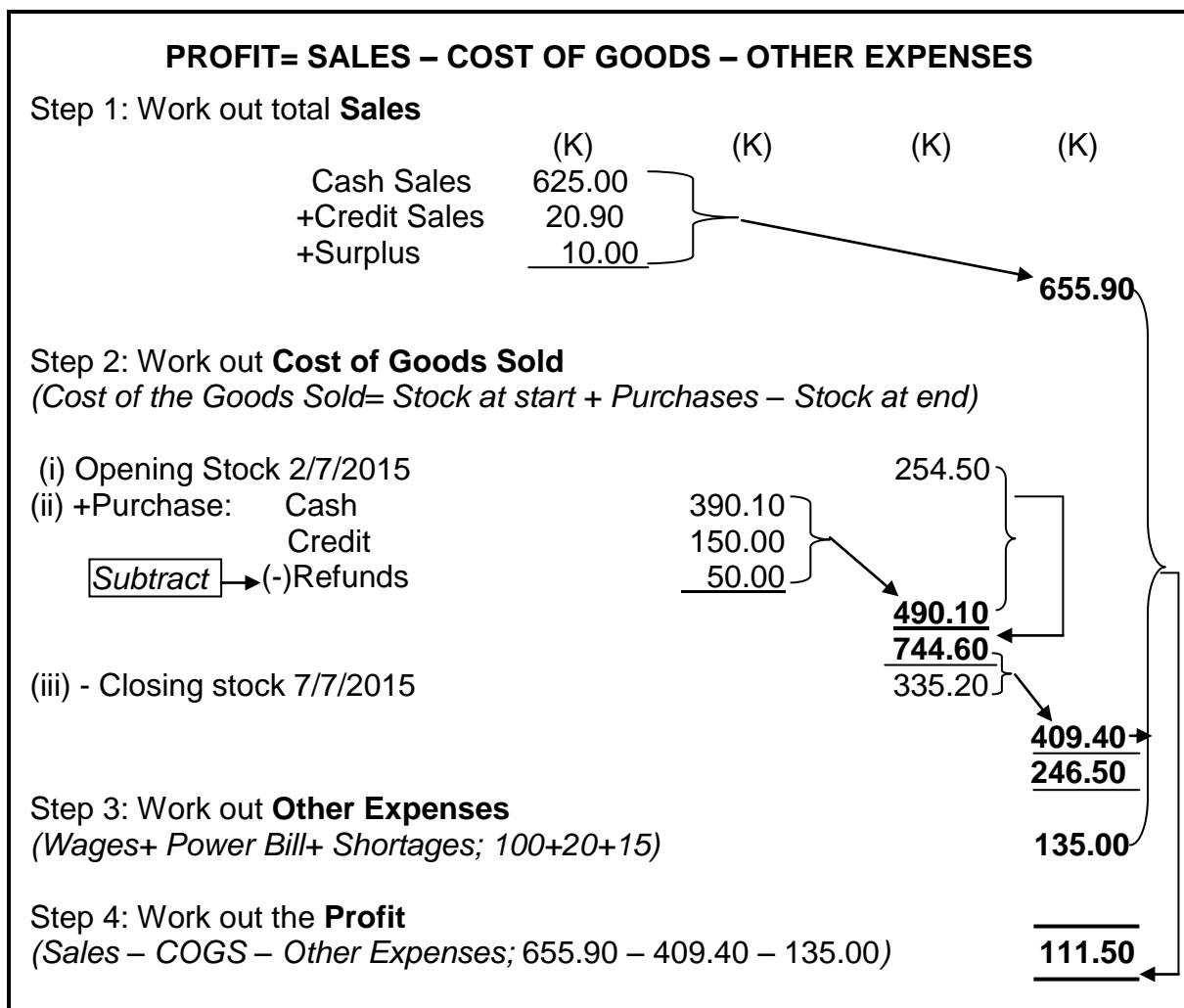


Figure 12.1: Steps to calculating profit in the Profit and Loss Statement.
 Source: Commerce Teacher’s Guide/ Bookkeeping-1989.

By following this procedure or steps you can easily work out the profit from the three records given.



Activity 12.1: Complete the activities given below.

Fill in the table by explaining the uses of the three source records that are used to calculate profit.

Source Record	Uses

Remember when credits are repaid this information is recorded into the cash book.

Summary:



You have come to the end of Lesson 12. In this Lesson, you learnt that;

- The three important records that businesses must keep in order are journals, cash books and stock records.
 - They help the business person to prepare his or her financial report.
 - From the Journals the following information is extracted, credit purchases and Credit Sales Journals record the goods that the business sells on credit and the business purchases on credit from its suppliers.
 - Stock at the start and stock at the end is extracted from the stock record book.
-

NOW DO PRACTICE EXERCISE 12 ON THE NEXT PAGE



Practice Exercise 12

Calculate the running balance of the cash book then calculate the gross profit.

CASH BOOK

DATE		DETAILS	RECEIPTS		PAYMENTS		BALANCE	
June	1	Sales	83	20				
	2	Sales	72	80				
	3	Sales	91	40				
	4	Cash Purchase			182	80		
	5	Sales	86	90				
	7	T.Timi	8	30				
	8	Sales	92	40				
	9	STC - 37841			137	40		
	10	Sales	80	80				
	11	Sales	82	60				
	12	P.Poka	4	70				
	12	Sales	94	00				
	13	STC - 37909			117	80		
	14	Sales	91	60				
	15	Cash Purchases			101	40		

STOCK RECORD

Stock at start K373.50

Stock at end K402.90

CREDIT PURCHASES JOURNAL

Date	Wholesaler	Invoice	Amount (K)	Date	Paid Accounts (K)
June 9 th	Steamships	37841	137.40	June 30 th	137.40
13 th	Steamships	37909	117.80		117.80
15 th	Burns Philip	6/43	185.30		185.30
20 th	Burns Philip	6/487	20.00		20.00

CREDIT SALES JOURNAL

Date	Customer	Docket No.	Amount (K)	Date	Paid Amount (K)
July 2 nd	S. Sevese	27	10.00	7 th	8.30
3 rd	T.Timi	28	8.30	7 th	10.00
3 rd	L.Miki	29	6.40	12 th	4.70
4 th	P.Poka	30	4.70	12 th	6.40
4 th	K.Kila	31	7.20	13 th	7.20



CHECK YOUR WORK. ANSWERS AT THE END OF UNIT 2

Lesson 13: The Profit and Loss Statement



Introduction:

Welcome to Lesson 13. In the previous Lesson, you learnt about calculating profit using cash book, journals and stock record. In this Lesson, you will learn how to prepare a Profit and Loss Statement which is one of the financial reports for businesses.



Your Aims:

- Identify the purpose of the Profit and Loss Statement
- Identify parts of a Profit and Loss Statement
- Calculate profit using the Profit and Loss Statement

Purpose for the Profit and the Loss Statement

Since you know how to calculate profit using the appropriate records the next thing to do will be to draw up a Profit and Loss Statement.



What then is a Profit and Loss Statement?

A Profit and Loss Statement is the statement showing a profit or a loss from business activities. If there is negative sign written before the figures given where the profit should be written, this means that the business has made a loss. Profit and Loss Statement is sometimes referred to as a Revenue Statement.

The purpose of the Profit and Loss Statement is generally for the business to find out if it had made profit or loss in an organised way.

Parts of a Profit and Loss Statement

When a businessman calculates the profit from his business, it should be laid out in a set format, so it reads as a *PROFIT AND LOSS STATEMENT*.

What is format? Format refers to a style or a way of doing things. When information concerning the business activities is put in order, it makes it easier for the owner to understand the status of his or her business.

The information needed to calculate the profit in the Profit and Loss Statement comes from the three important records of the business.

These three source records are;

i. Cash Books

ii. Journals

iii. Stock records



I know what a Profit and Loss Statement is. But what does it look like?

Below is what a Profit and Loss Statement looks like.

PROFIT AND LOSS STATEMENT

PROFIT AND LOSS STATEMENT for March 2015				Heading
	(K)	(K)	(K)	(K)
(1) SALES:				
	cash	1000		
	+ credit	<u>50</u>		
				1050
	add: Stock at 1/3/2005		800	
	Purchases	Cash 600		
		+Credit 300		
			<u>900</u>	
			1700	
	less: Stock at 31/3/2005		<u>-1000</u>	
(2) COST OF GOODS SOLD				700
GROSS PROFIT				<u>350</u>
(3) less: other Expenses				<u>100</u>
(4) PROFIT				<u>250</u>

All sales (points to SALES)
All Purchases (points to Purchases)
Stock at start/opening stock (points to Stock at 1/3/2005)
Stock at end/closing stock (points to Stock at 31/3/2005)
Cost of goods sold (points to COST OF GOODS SOLD)
Other expenses (points to other Expenses)
Profit (points to PROFIT)

Figure 13.1: Parts of a Profit and Loss Statement.
Source: Business in Melanesia-2008.

The formula for calculating profit is;

$$\text{NET PROFIT} = \text{SALES} - \text{COST OF GOODS SOLD} - \text{OTHER EXPENSES}.$$

In the Profit or Loss Statement, the Sales, Cost of Goods Sold and Other Expenses are spread out following a set format. These have been numbered;

1. Sales,
2. Cost of goods sold and
3. Other expenses as you can see in the format given above.
4. Net Profit

Remember this format when drawing a Profit and Loss Statement.

Calculate Profit in the Profit and Loss Statement

You will continue with John Tau's Trade store business. The information below is taken from his record books. You have seen these in Lesson 12 on page 113.

<u>CASH BOOK:</u> Sales + Shortage	K635.00
Purchases - Refund	K340.10
Expenses (Others)	K135.00

Note: *Surpluses are included with sales*

Shortages and Refunds and drawings are included with the purchases.

<u>STOCK RECORD:</u> Stock at start 1/3/2015	K254.50
Stock at end 31/3/2015	K320.90

<u>JOURNALS:</u> Credit Purchases	K150.00
Credit sales	K 20.90
Shortages	K 15.00

PROFIT AND LOSS STATEMENT

<u>PROFIT AND LOSS STATEMENT for October 2005</u>			
(1) SALES:	cash	K635.00	
	+ credit	K 20.90	
			K655.90
	add: Stock at 1/3/2005		K254.50
	Purchases Cash	K490.10	
	+Credit	K200.00	
			<u>+K490.10</u>
			K744.60
less:	Stock at 31/3/2005		<u>- K320.90</u>
	(2) COST OF GOODS SOLD		<u>K423.70</u>
			K232.20
	(3) less: other Expenses		K120.00
	- Shortages		<u>K 15.00</u>
	(4) PROFIT		<u>K97.20</u>

Figure 13.2: Calculating profit from the Profit and Loss Statement.

Source: Business in Melanesia-2008.



Activity 13.1: Complete the activities given below.

1. Define a Profit and Loss Statement.

2. State the purpose of a Profit and Loss Statement.

3. Write the formula used in a Profit and Loss Statement to calculate net profit.

Summary:



You have come to the end of Lesson 13. In this Lesson, you learnt that;

- A Profit and Loss Statement is a document that shows the profit of the business from its activities.
- The purpose of the Profit and Loss Statement is generally for the business to find out if it had made profit or loss in an organised way.
- Information from the three records, cash book, journals and stock take helps the business to prepare its profit.
- The Profit and Loss Statement follows the formula Profit = Sales – Cost of goods sold – other expenses.

NOW DO PRACTICE EXERCISE 13 ON THE NEXT PAGE



Practice Exercise 13

1. (a) Draw up a Profit and Loss Statement from the information taken from the source records. Use the box provided below.

CASH BOOK:

Sales	K350
Purchases	K100
Expenses (Others)	K100

STOCK RECORD:

Stock at start 1/3/2005	K300
Stock at end 31/3/2005	K350

JOURNALS:

Credit Purchases	K150
Credit sale	K 20

(b) Draw up a profit and loss statement from the information given. Write your answer in the box provided on the next page.

<u>CASH BOOK:</u> Sales	K235.40
Purchases	K126.50
Expenses (Others)	K 63.50

<u>STOCK RECORD:</u> Stock at start 1/3/2005	K143.75
Stock at end 31/3/2005	K243.40

<u>JOURNALS:</u> Credit Purchases	K74.90
Credit sale	K14.70

CHECK YOUR WORK. ANSWERS AT THE END OF UNIT 2

Lesson 14: The Balance Sheet



Introduction:

Welcome to Lesson 14, this is the last Lesson for Topic 3. In the previous lesson, you learnt about the Profit and Loss Statement. In this Lesson, you will learn how to draw up a Balance Sheet. A Balance Sheet is part of a financial report of the business.



Your Aims:

- Define a Balance Sheet and state its purpose
 - Explain the parts of a Balance Sheet
 - Differentiate between assets and liabilities in a Balance Sheet
 - Complete a Balance Sheet
-

Balance Sheet and its Purpose

The Balance Sheet and the Profit and Loss Statement are two important financial reports produced by a business. Normally, big businesses or companies produce these two business reports annually.

But what is a balance sheet?



A Balance Sheet refers to a statement of the total assets, liabilities and capital (owner's equity) of an organisation at a particular date.



Can you tell me what assets, liabilities and capital are?

Sure, continue reading to find out more.



i. Assets

Assets refer to things of value owned by the business. For example, money in the bank, stock of goods for sale, debtors, land, buildings, equipment and vehicles. Debtors refer to people who owe the business money. They are yet to pay money to the business.

ii. Liabilities

Liabilities refer to debts owed by the business to others.

(iii) Capital

Capital refers to the amount of money contributed by the businessperson to the business to start it.

The purpose of the balance sheet is to show how much a business is worth on a certain date. It also shows the share of the business which belongs to the owners, and how much money is owed to others liabilities.

The Parts of a Balance Sheet

The balance sheet is made up of assets and liabilities including capital. These three parts make up the *accounting equation*.

Accounting equation refers to the formula that makes up the Balance Sheet. The formula is given in the box.

ASSETS = CAPITAL + LIABILITIES Or CAPITAL= ASSETS - LIABILITIES
--

Assets equal capital plus liabilities means the value of assets must equal to the capital made up of owner's contribution (cash) and liabilities (money business owes).

Note: An increase or decrease in the total assets of the business must be accompanied by an equal increase or decrease in the liabilities and capitals. This will ensure that the balance sheet will be balanced.

Below is what a balance sheet looks like.

BALANCE SHEET

<u>Balance Sheet as of 31st December 2015</u>			
Assets	(K)	Liabilities	(K)
Bank	9500	Bank Loan	1500
Stock	+1500	Creditors	+ 500
			2000
		Capital	2000
		Balance 1 st March	7000
		Net Profit	+2000
			9000
	<u>11 000</u>		<u>11 000</u>

Assets include money in the bank, stock of goods for sale, debtors, land, buildings, machinery, equipment and vehicles.

Liabilities cover loan taken out by the owner and creditors

Capital includes the owners' equity or money they have put into start the business

Figure 14.1: Sample of a Balance Sheet.
Source: Business in Melanesia-2008.

From time to time you will come across the terms creditors and debtors. Debtors refer to people who owe money to the business. This means that people have yet to

pay money to the business. Creditors are people whom the business owes money. This means the business is yet to pay them money.



Activity 14.1: Complete the activities given below.

1. Define;

(a) Debtors _____

(b) Creditors _____

(c) Liabilities _____

(d) Assets _____

(e) Capital _____

2. Explain what a Balance Sheet is.

Difference between Assets and Liabilities

The difference between assets and liabilities are;

i. Assets are things owned by the business person that are of value. They are tangible and intangible. Tangible means something that can be seen, touched and felt. For example, land and buildings. Tangible assets value are normally recorded into the Balance Sheet. Intangible refers to something that cannot be seen. For businesses the most important intangible asset is the goodwill. Goodwill refers to the positive or good character of the business. It is an asset because people prefer to do business with organisations that put their clients or customers first.

ii. Liabilities are things like money that business owes others. This means that the business has yet to pay. For example, it may have taken out a loan from the bank and is still paying it.



Activity 14.2: Complete the activities given below.

1. Define and give examples;

(a) Tangible _____

(b) Intangible _____

2. What is a good will?

3. State the importance or purpose of a Balance Sheet.

Completing a Balance Sheet

You have studied the parts of a Balance Sheet already. Here, you will go through an example to understand better how to complete a Balance Sheet.

Example:

Mary starts her own second hand clothing business on 1st March 2015. She deposits K5000 in the bank. During the month of March, Mary uses money from the bank account to buy stock worth K3500. She decides to borrow money from the bank so that she can purchase more stock. She obtained a bank loan of K2000. Mary then buys K1500 worth of second hand clothes on credit. During March the business sells stock for K4500. At the end of the month, she has stock valued at K2000. Overhead expenses amount to K500. Net profit for the month is calculated as K1000.

BALANCE SHEET

Balance Sheet as at 31 st December 2015			
Assets	(K)	Liabilities	(K)
Bank	7500	Bank Loan	2000
(3500 + 4500 - 500)		Creditors	+1500
Stock	+2000		<u>3500</u>
			3500
		Capital	
		Balance 1 st March	5000
		Net Profit	+1000
			<u>6000</u>
			6000
			<u>9500</u>
			9500

Diagram annotations: Roman numeral *i* points to the 7500 in the Bank asset and the 5000 in the Capital liability. Roman numeral *ii* points to the 2000 in the Stock asset and the 2000 in the Bank Loan liability. Roman numeral *iii* points to the 4500 in the Stock asset calculation and the 1000 in the Net Profit liability. Roman numeral *iv* points to the 9500 total on the assets side and the 9500 total on the liabilities side. A bracket on the right side groups the 3500, 6000, and 9500 values with a plus sign.

Figure 14.2: Parts of a Balance Sheet.
Source: Business in Melanesia-2008.

Let us go through the explanations. Refer to the roman numeral given on the balance sheet to follow the explanations.

(i) Bank

- The amount of her own money (K5000) should be recorded under bank on the *assets* side. This amount will change as the business uses the money.
- This same amount (K5000) should be recorded under capital on the liabilities side. She is using this money to start her business.
- Other amounts of money like sales (K4500) should be added to her money in the bank. This is cash received from sales.
- The amount spent on expenses (K500) should be subtracted from the total of money in the bank.

(ii) Stock

- The amount borrowed from the bank (K2000) to buy stock should be recorded under stock on the *assets* side.
- The amount borrowed from the bank (K2000) should be recorded under Bank Loan on the liabilities side.

So under Assets

Bank + Stock = K7500 (K3500 + K4500 - 500) + K2000 = K9500

(iii) Creditors

- The amount of money owing for second-hand clothes (K1500) should be recorded on the liabilities side.

(iv) Net Profit

- If profit (K1000), is made this should be recorded under capital on the liabilities side.

So under Liabilities

Bank Loan + Creditors = K2000+K1500 = K3500

(add) Capital (Balance + Net Profit) = K5000 + K1000 = K6000

Therefore Liabilities = K6000 + K3500 + K3500=K9500

So the net value of the business at this point may be written as follows. You will use this accounting equation given below.

Capital = Assets – Liabilities K6000 = K9500 - K3500 K6000 = K6000

Be sure you follow this example and explanations to help you understand how to prepare a balance sheet.



Activity 14.3: Complete the activities given below.

1. Write down the accounting equation.

2. The difference between assets and liabilities.

Summary:



You have come to the end of Lesson 14. In this Lesson, you learnt that;

- A Balance Sheet is an important financial document.
- A Balance Sheet is a statement of total assets and total liabilities of an organisation at a particular date.
- Assets are things of value owned by the business.
- Liabilities are debts owed by the business to others.
- Capital is the amount of money contributed by the businessperson to start the business.
- The purpose of the balance sheet is to show how much a business is worth on a certain date.
- Accounting equation is the formula that makes up the Balance Sheet = The accounting equation is $\text{Asset} = \text{Capital} + \text{Liabilities}$ or $\text{Capital} = \text{Asset} - \text{Liabilities}$.
- An important point to note is that an increase or decrease in the total assets of the business must be accompanied or followed by an equal increase or decrease in the liabilities and the capital in order to ensure that a balance sheet will always balance.
- Assets can be tangible and intangible.
- Tangible is something that can be seen, felt and touched. For example, house, car and money
- Intangible is something that cannot be seen, felt nor touched. For example, goodwill of the business.
- Goodwill is the good character of the business.

NOW DO PRACTICE EXERCISE 14 ON THE NEXT PAGE



Practice Exercise 14

1. Refer to the information given below to do this exercise.

Jimi *Trading* started business on 1 June. The owners put K10 000 into the business account at BSP Bank, Mendi, Southern Highlands Province. They also obtained a bank loan of K2500 which was deposited in the bank account. Stock worth K4000 was purchased. At the end of June, Jimi Trading had earned a cash sales income of K6500 for the month. Stock remaining is worth K500. Overhead expenses (water bill, power and rent) paid for the month amounts to K800. Net profit from the revenue statement is calculated as being K2200.

(a) Draw up a Balance Sheet as at 31st June 2015.

CHECK YOUR WORK. ANSWERS AT THE END OF UNIT 2

ANSWERS TO

TOPIC 3

PRACTICE EXERCISES

Answers to Practice Exercises 10-14

Practice Exercise 10

1. From the transactions that are given write down the records that they will be written into.

Transactions	Records
1. Peter buys goods with cash from Alpha Wholesale	Cash Book
2. Lydia gets some goods from John's Trade store and will pay next week	Credit Sales Journal
3. Alpha Wholesale supplies John's Trade store goods which John promises to pay in a fortnight time.	Credit Purchases Journal
4. Oramao buys rice and tinned fish from John's trade store with his K10.00	Cash Book
5. Lydia pays for the good that she got from John's trade store a week ago.	Cash Book

2. Fill in the table by listing the three source records and their uses that business person should keep.

Records	Uses
Cash Book	It is used to record transactions that involve cash.
Journals	It is used to record the credit purchases and credit sales
Stock record	It is used to record all stocks at start and all stocks at end.

Practice Exercise 11

1. Find the Cost of Goods Sold.

	8/5/2005			15/5/2005		
	No.	Cost (K)	Value(K)	No.	Cost(K)	Value(K)
Bread	30	5.00	150.00	25	5.00	125.00
Rice	46	4.50	207.00	16	4.50	72.00
Tea	16	2.00	32.00	24	2.00	48.00
Butter	8	2.25	18.00	27	2.25	60.75
Purchases: K304.90			<u>407.00</u>			<u>305.75</u>

$$\text{COGS} = K407.00 + K304.90 - K305.75 = K406.15$$

2. Fill in the gaps in the table below, using the equation.

Cost of Goods Sold = Opening stock + Purchases – Closing stock

Opening Stock (K)	Purchases (K)	Closing Stock (K)	Cost Of Goods Sold (K)
15.25	32.00	18.50	<u>28.75</u>
28.00	NIL	21.00	<u>7.00</u>
13.00	17.40	18.40	12.00

3. Find the profit in each of the following examples.

Sales (K)	Cost of goods sold (K)	Profit (K)
43.00	32.80	<u>10.20</u>
65.20	49.20	<u>16.00</u>
18.70	12.40	<u>31.10</u>

Sales	K5000
Purchases	K3000
Opening Stock	K2500
Closing stock	K1300
Operating expenses	K 500

Profit = Sales - Cost of Goods Sold - Operating Expenses

Sales – (Opening Stock + Purchases - Closing Stock) - Operating Expenses

$$\text{Profit} = 5000 - (2500 + 3000 - 1300) - 500$$

$$= 5000 - 4200 - 500$$

$$= 800 - 500$$

$$= K300$$

Practice Exercise 12

1. Find the profit from the following information.

CASH BOOK

DATE		DETAILS	RECEIPTS		PAYMENTS		BALANCE	
June	1	Sales	83	20			83	20
	2	Sales	72	80			156	00
	3	Sales	91	40			247	40
	4	Cash Purchase			182	80	64	60
	5	Sales	86	90			151	50
	7	T.Timi	8	30			159	80
	8	Sales	92	40			252	20
	9	STC - 37841			137	40	114	80
	10	Sales	80	80			195	60
	11	Sales	82	60			278	20
	12	P.Poka	4	70			282	90
	12	Sales	94	00			376	90
	13	STC - 37909			117	80	259	10
	14	Sales	91	60			350	70
	15	Cash Purchases			101	40	249	30

STOCK RECORD

Stock at start K373.50

Stock at end K402.90

CREDIT PURCHASES JOURNAL

Date	Wholesaler	Invoice	Amount (K)	Date	Paid Accounts (K)
June 9 th	Steamships	37841	137.40	June 30 th	137.40
13 th	Steamships	37909	117.80	30 th	117.80
15 th	Burns Philip	6/43	185.30		
20 th	Burns Philip	6/487	72.50		

CREDIT SALES JOURNAL

Date	Customer	Docket No.	Amount (K)	Paid	
				Date	Amount
July 2 nd	S. Sevese	27	10.00	7 th	8.30
3 rd	T.Tini	28	8.30	12 th	4.70
3 rd	L.Miki	29	6.40		
4 th	P.Poka	30	4.70		
4 th	K.Kila	31	7.20		

Gross Profit = Sales - Cost of Goods Sold

Sales

Cash sales: $83.00+72.80+91.40+86.90+92.40+80.80+82.60+94.00+91.60 = K775.70$

+ Credit Sales: $10.00+8.30+6.40+4.70+7.20 = K36.60$

Total Sales: $K775.70+K36.60=K812.30$

Purchases

Cash Purchases: $182.80+101.40 = K284.20$

+Credit purchases: $137.40+117.80+185.30+72.50 = K513$

Total Purchase: $K284.20+K513.00=K797.20$

Stock record

Stock at start K373.50

Stock at end K402.90

Cost of goods Sold = Stock at start + Purchases - Stock at end
 $K373.50 + K797.20 - K402.90 = K767.80$

Profit: $K812.30 - K767.80 = K44.30$

Practice Exercise 13

1. (a) Draw up a profit and loss statement from the information taken from the source records. Use the box provided below.

CASH BOOK: Sales K350.00
Purchases K100.00
Expenses (Others) K 100.00

STOCK RECORD: Stock at start 1/3/2005 K300.00
Stock at end 31/3/2005 K350.00

JOURNALS: Credit Purchases K150.00 Credit sale K 20.00

PROFIT AND LOSS STATEMENT

<u>PROFIT AND LOSS STATEMENT for March 2005</u>			
(1) SALES:	cash	K350.00	
	+ credit	<u>K 20.00</u>	K370.00
	Stock at 1/3/2005	K300.00	
add:	Purchases Cash	K100.00	
	+Credit	K150.00	+ <u>K250.00</u>
			<u>K550.00</u>
less:	Stock at 31/3/2005	- <u>K350.00</u>	
	(2) COST OF GOODS SOLD		<u>K200.00</u>
			<u>K570.00</u>
	(3) less: other Expenses		<u>K100.00</u>
	(4) PROFIT		<u>K470.00</u>

(b) Create a profit and loss statement from the information given. Write your answer in the box provided on the next page.

CASH BOOK: Sales K550.00
Purchases K225.00
Expenses (Others) K 20.00

STOCK RECORD: Stock at start 1/3/2005 K190.00
Stock at end 31/3/2005 K210.00

JOURNALS: Credit Purchases K100.00 Credit sale K 1.00

PROFIT AND LOSS STATEMENT

PROFIT AND LOSS STATEMENT for September 2005

(1) SALES:	cash	K235.42	
	+ credit	<u>K 14.78</u>	K250.20
	Stock at 1/9/2005		K143.75
add:	Purchases Cash	K126.48	
	+Credit	K 74.91	+ <u>K201.39</u>
			<u>K345.14</u>
less:	Stock at 31/9/2005		- <u>K243.39</u>
	(2) COST OF GOODS SOLD		<u>K101.75</u>
			K351.95
	(3) less: other Expenses		<u>K 63.50</u>
	(4) PROFIT		<u>K288.45</u>

Practice Exercise 14

1. Refer to the information given below to do this exercise.

Jimi Trading started business on 1 June. The owners put K10 000 into the business account at BSP Bank, Mendi, Southern Highlands Province. They also obtained a bank loan of K2500 which was deposited in the bank account. Stock worth K4000 was purchased. At the end of June, *Jimi Trading* has earned a cash sales income of K6500 for the month. Stock remaining is worth K500. Overhead expenses paid for the month amounts to K800. Net profit from the revenue statement is calculated as being K2200.

Draw up a balance sheet as at 30 June.

BALANCE SHEET

<u>Balance Sheet as at 31st June 2005</u>			
Assets	(K)	Liabilities	(K)
Bank	14 200	Bank Loan	2 500
(10 000 + 2500 - 4000 + 6500 - 800)			
Stock	500		
		Capital	
		Balance 1 st June	10 000
		Net Profit	+2 200
			12 200
	<u>14 700</u>		<u>14 700</u>

(b) Write down the accounting equation to show the net value of the business to the owner.

$$\text{Capital} = \text{Assets} - \text{Liabilities}$$

$$K12\ 200 = K14\ 700 - 2500$$

**REVISE TOPIC 3 AND DO TOPIC 3 TEST
IN YOUR ASSESSMENT BOOK 2**

TOPIC 4

THE USE OF A CHEQUE ACCOUNT

In this topic you will learn about;

- **The Cheque Account**
- **Cash Book and Cheque Account**
- **The Bank Reconciliation Statement**

TOPIC 4: THE USE OF A CHEQUE ACCOUNT



Welcome to Topic 4: 'The Use of a Cheque Account'. In this Topic, you will learn how to use cheque accounts. You will also learn how to use the cheque account and the Cash Book to create a Bank Reconciliation Statement.

This Topic consists of three (3) Lessons.

Lesson 15: The Cheque Account

In this Lesson, you will define cheque account and state its need in the business. You will also discuss the advantages and disadvantages of cheque accounts, explain the cheque system of making payments and write out a cheque.

Lesson 16: The Cash Book and the Cheque Account

In this Lesson, you will distinguish between a cash book and a business cheque account, explain the use of deposit slips and cheque butts and fill them out correctly. You will also learn about recording bank transactions into the cash book using deposit books and cheque butts.

Lesson 17: The Bank Reconciliation Statement

In this Lesson, you will define Bank Reconciliation Statement and state its purpose, explain the parts of a Bank Reconciliation Statement. You will also learn how to complete a Bank Reconciliation Statement.

Lesson 15: The Cheque Account



Introduction

Welcome to Lesson 15 which is the first lesson for Topic 4. In the last lesson, you learnt about the Balance Sheet. In this Lesson, you will learn how to use Cheque Account and how it operates.



Your Aims:

- Define a Cheque Account and state its need for business
 - Discuss the advantages and disadvantages of cheque accounts
 - Explain the cheque payments system
 - Write out a cheque using given information
-

Cheque Account and the need for it

It is very important that businesses save their money. There are several types of accounts banks offer to their clients. Clients refer to customers in this case the banks customers. The commercial banks offer three main types of accounts to their customers:

1. Savings account

Savings accounts are for people who want to save money and for the banks to keep these money safe. For example, students, employees and self-employed people open savings account.

2. Cheque account

Cheque accounts are allowed especially for organisations like businesses, big companies and schools who deal with large sums of money. But ordinary people (not business people) can also keep their money in this type of account.

3. Term deposit account

Term deposit accounts are especially for those who have money they want to put away for later use. The word term refers to time period that money will remain in the bank. The owner cannot withdraw these money until the end of the term. The bank will pay interest on these term deposit.

Since we are dealing with businesses you will look at cheque accounts first which most businesses save their money in.



What then is a cheque account?

A cheque account is a record of transactions of money in a cheque account kept by a bank.

Deposit refers to putting money into a safe place. In this case, the safe place is the bank. For example, when you go to the bank with a hundred (K100) to deposit into an account you will have to fill out a form called deposit slip. You will fill this deposit slip and present it to the teller with the money. The money will now be kept safe for you. When you need it, you must fill a withdrawal slip for it. Withdrawal is taking money out from the account. This is done by filling out a withdrawal form.

Cheques are needed for these two main reasons;

1. *It provides a means of keeping money in a safe place.*

We know that keeping money in bank accounts is safe. So, businesses know that their hard earned cash or large sums of money are kept safe.

2. *It makes payments for goods and expenses easier.*

To carry around a lot of cash is risky. Therefore with the help of the cheque accounts, the business person has to simply sign a page or leaf of the cheque book with the required amount of money to make a payment. The person who will receive the cheque simply takes the cheque to the bank and the bank will withdraw money from the business person's account and deposit it into the person depositing the cheque's account. Cheque is not money. Cheque refers to a reprinted form on which instructions are given to the bank to pay a stated sum to a named recipient. Recipient refers to the person receiving the cheque.

Below is what a cheque looks like.

SAMPLE OF A CHEQUE

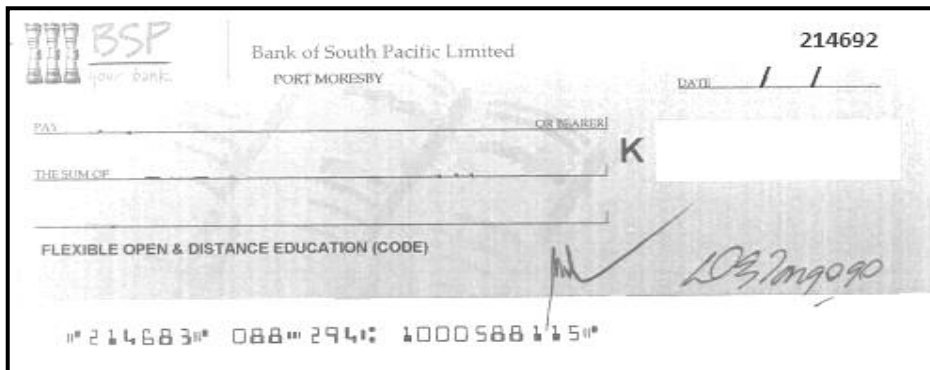


Figure 15.1: Sample of a Cheque.
Source: Flexible Open Distance Education Cheque Book-2012.



Activity 15.1: Complete the activities given below.

1. Define

(a) Clients. _____

(b) Withdrawal. _____

2. Name the three (3) types of accounts operated by the commercial banks.

(a) _____ (b) _____ (c) _____

3. Why is there need for cheque accounts?

Advantage and Disadvantage of a Cheque Account

Like all other accounts, cheque account has its advantages and disadvantages.

Advantage

1. Privileges of overdraft facility



The words privilege, overdraft and facility sounds difficult. What do they mean?

Privilege is an advantage that few people enjoy of something. Overdraft is taking more money out of an account than what is put in there. Facility is an opportunity to help in cases where there is short fall in the cash flow of a business. The interest on an overdraft is charged per day.

So a privilege of an overdraft facility means that those who have cheque accounts have the advantage where the bank will pay out more money than they have in their account. These people owe these extra money to the bank. The cheque account owner will repay the bank later on with interest. This will only happen after the cheque owner makes a prior arrangement with the bank.

2. Convenience

Convenient to carry less money around to make payments because it is risky.

Disadvantage

1. Does not earn interest

Unlike savings account the cheque account does not earn interest. Interest refers to the extra money the bank pays you for using your money. So those who have cheque accounts are not paid interest for their money saved in the bank.

Bear in mind that money people save in the bank are used by the bank again to make more money for itself. When banks makes extra money from people's money saved with them, they pay out interest to these accounts especially savings and term deposit accounts.

The Cheque System of making Payment

Payments for goods and services from a cheque account by issuing a cheque must be done properly. If the cheque is not filled out correctly or not handled with care then those who are supposed to receive the payment will not get their money on time as expected.

Let us look at the example given below on how a cheque is used to make a payment.

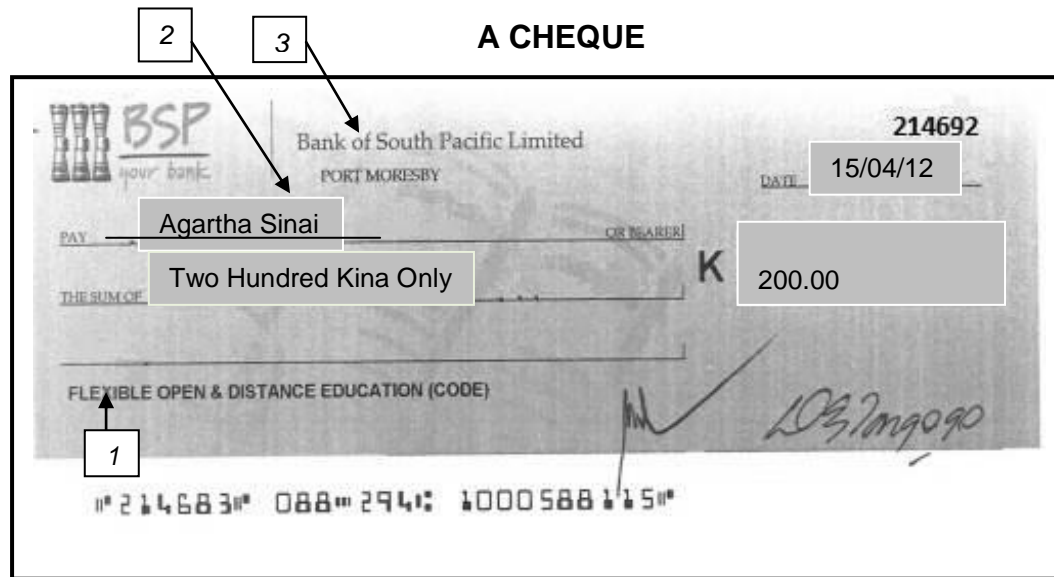


Figure 15.2: How to record payment on a cheque leaf.

Source: Flexible Open Distance Education Cheque Book-2012.

From the cheque given above, FODE (Flexible Open Distance Education) is paying K200 to Miss Agarthha Sinai for writing a Business Studies lesson on contract. There are three parties to a cheque.

1. The drawer

Drawer refers to the owner of the account who issues the cheque. In this case the drawer is (FODE), Flexible Open Distance Education.

2. Payee

Payee refers to the person receiving the cheque payment. In this case the payee is Miss Agatha Sinai.

3. The drawee

The drawee refers to the bank where the cheque account is kept. In this case the drawee is Bank South Pacific (BSP).

The account of FODE is with Bank South Pacific (BSP). The amount of K200 will be banked by Miss Agatha Sinai with a bank she has an account by using a deposit slip. The cheque is then sent by Miss Agatha Sinai's bank to Bank South Pacific (BSP). They will then deduct K200 from (FODE's) Flexible Open Distance Education's accounts and send it to Miss Agatha Sinai's and deposited into her account.

How to make a cheque safe

The cheque made out by FODE is not safe. Anyone may pick it up and take it to a bank and cash it, as it is made out to Miss Agatha Sinai or *bearer*. A bearer refers to any person holding the cheque. If "*or bearer*" is crossed out, the cheque becomes an *order cheque*. This means the cheque is only payable to the payee, Ms Agatha Sinai. Businesses often have their cheques printed as order cheques, for example, Pay *Mr Larry Murau or order*.

For a cheque to be paid to someone else, not the payee, it must be endorsed on the back. Endorse refers to confirm by signing on the back of the cheque. The payee must write the name of the person being given the cheque and then sign it. For

example, an order cheque is made out to Miss Agatha Sinai. Miss Agatha Sinai can give it to Mr A Anthony if she endorses the back of the cheque with the words pay A Anthony and signs it herself.

Study the cheque below to see how this payment can be transferred to another person.

A CHEQUE

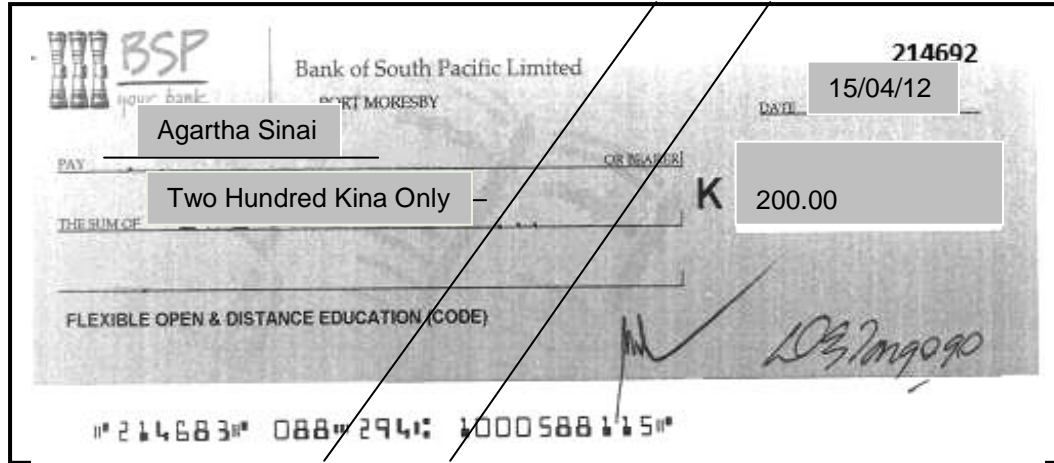


Figure 15.3: Parts of a Cheque.

Source: Flexible Open Distance Education Cheque Book-2012.

Figure 15.2: Parts of a Cheque

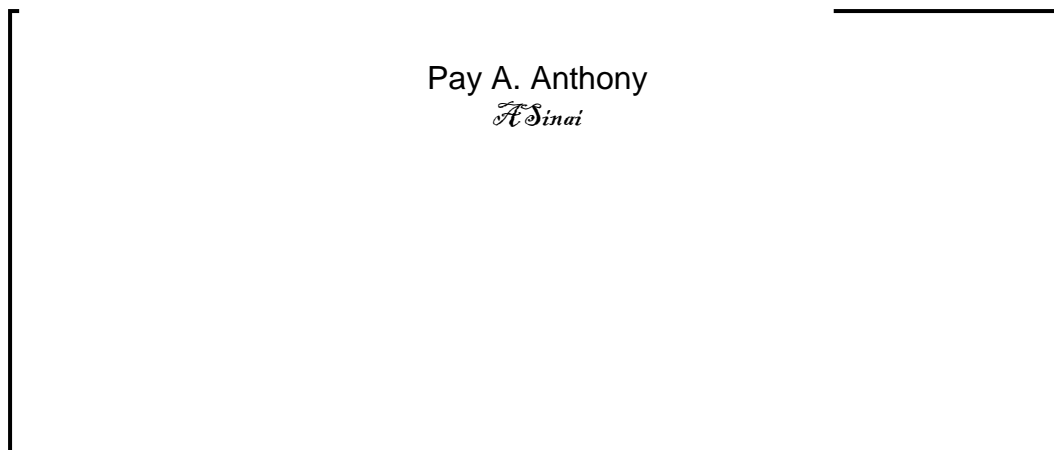


Figure 15.4: Back part of a cheque .

Source: Flexible Open Distance Education Cheque Book-2012.

CROSSING A CHEQUE

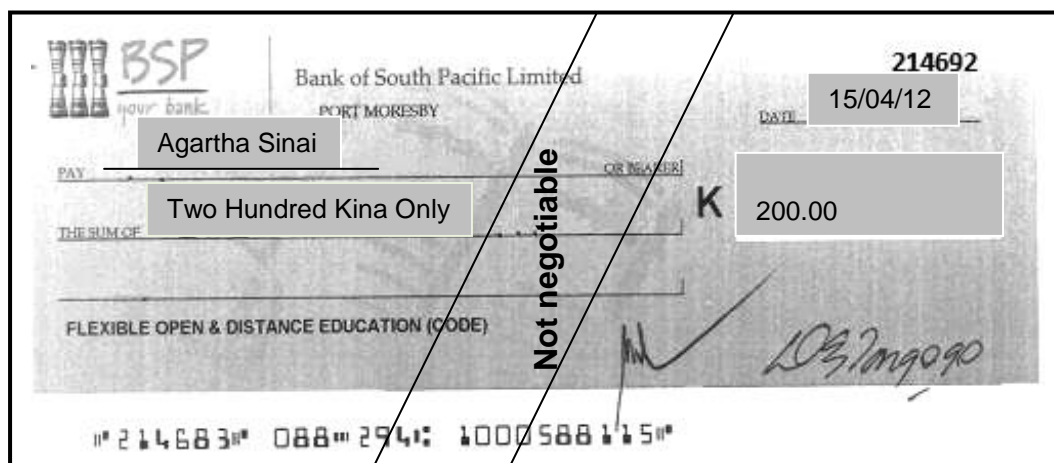
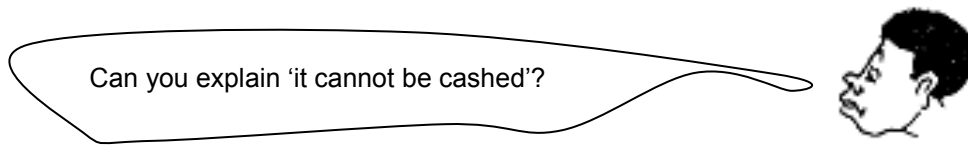


Figure 15.5: A 'Not negotiable' cheque.

Source: Flexible Open Distance Education Cheque Book-2012.

A cheque is crossed by placing two parallel lines across the cheque as above. This means the cheque must be paid into someone's bank account. It cannot be cashed.



It cannot be cashed means the cheque cannot be exchanged for kina and toea. The words *not negotiable* may also be written between the parallel lines of a crossed cheque. This makes the cheque even safer. If someone were to find or steal such a cheque, they would not exchange money for it. Sometimes the words *Account Payee Only* are also written between the parallel lines. Sometimes cheques are printed with parallel lines and words 'negotiable printed' on them. If someone wants to cash these cheques, they can do so if the drawer writes *pay cash* by crossing the lines and words negotiable and sign again. This *opens* the cheque and enables it to be cashed. Opens here means it allows a person to use the cheque to pay for goods and services.

How cheques are dishonoured

A cheque is dishonoured if the bank of the drawer refuses to pay out on the cheque or credit the payee's account. A cheque may be dishonoured for the following reasons:

- If there is not enough money in the drawer's account or if the drawer has an overdraft and payment of the cheque would take the account above the overdraft limit. *NSF- Not Sufficient Funds* may be written on a dishonoured cheque. Or the words *present again* if the bank expects money to be deposited shortly in the account.
- The cheque may be *post-dated*. This means that a cheque was to be presented in the future but is presented for payment before that date. On the other hand, the cheque may be *stale*, which means the cheque was issued over one year earlier. A stale cheque is an out of date cheque.
- Certain words may be missing such as *kina* or the drawer's signature. Sometimes two or more signatures may be required on the cheque and one or more of these may be missing.
- The signature of the drawer may be different from the specimen or sample signature held by the bank.
- The amount *in words* for which the cheque is made out may be different from the amount in figures.
- The cheque may have been *stopped* by the drawer. It is possible to request the bank not to honour a cheque that has been issued.
- The cheque may be badly damaged.

Note that when a cheque is dishonoured a fee is charged by the banks both to the payee's account and the drawer's account. Minor alterations such as the date need only have the drawer's initial. If a person wishes to obtain cash from a cross cheque he or she must ask the drawer to write in this case as *pay cash on that cheque*. The

drawer must also sign in full beside the alteration. Alterations in this case refer to changes made to the cheque.

Any payee may cross an open cheque and add the words *not negotiable*. He or she may strike out the words 'or bearer' and in so doing converts the cheque to an order cheque.

The following are things you should not do with cheques. Do not

- issue blank cheques to anyone for example, a cheque signed but not filled in.
- sign a cheque before filling in the sum of money
- leave a gap before or after the amount written in words, cancel any space with line
- leave a gap before or after the amount written in figures
- leave out the name of the payee.



Activity 15.2: Complete the activities given below.

1. Fill in the table by writing the advantages and disadvantages for having a cheque account.

Advantages	Disadvantage

2. Explain the following

- (a) Drawer _____
- (b) Drawee _____
- (c) Payee _____

Steps to Writing out a Cheque

You have learnt about the factors that cause a cheque to be dishonoured. Thus, you must take note of these points to avoid delays to cheque payments.

The cheque leaf given below shows the important parts of the cheque that must be properly and correctly filled.

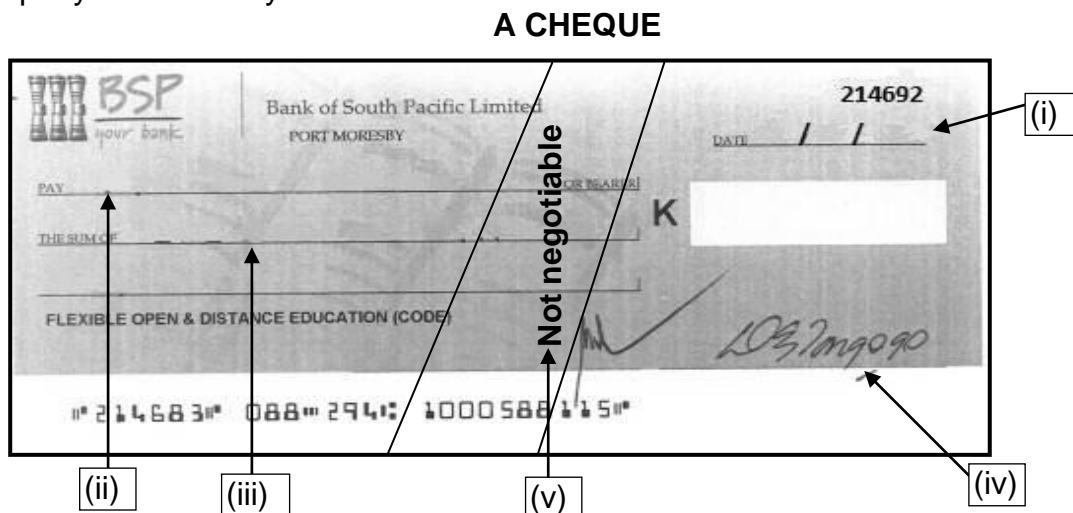


Figure 15.6: The important parts of a cheque that must be filled correctly.
Source: Flexible Open Distance Education Cheque Book-2012.

The steps to follow to fill out these important parts;

Steps to filling out a cheque leaf

- (i) Write down the date of the cheque when you are making the payment.
- (ii) Write out clearly the name of the payee and cross out the word bearer.
- (iii) Write down the correct amount of money to be paid to the payee in words and in figures.
- (iv) Write down your signature at the bottom right hand corner of the leaflet.
- (v) Draw two parallel lines and write the words not negotiable in between these parallel lines to make it safe.

Cheque leaflet refers to a page from the cheque book.

Summary:



You have come to the end of Lesson 15. In this Lesson, you learnt that;

- A cheque account refers to records of transactions of money kept by banks.
 - Businesses tend to have cheque account because they deal with large sums of money.
 - The three important parties to a cheque are the drawee, the payee and the drawer.
 - There are several things that cheque account owners must be careful of to avoid dishonoured cheques.
 - When cheques are dishonoured the bank charges certain fee on the payees account and the drawers account.
-

NOW DO PRACTICE EXERCISE 15 ON THE NEXT PAGE



Practice Exercise 15

1. Define the following words

(a) Deposit _____

(b) Withdrawal _____

(c) Cheque _____

2. Explain the privilege of overdraft facility

3. List ways in which cheques can be made safe.

4. Correctly label the parts of this cheque.

A CHEQUE

The image shows a sample cheque from the Bank of South Pacific Limited, Port Moresby. The cheque is titled 'A CHEQUE'. It includes the following fields and features:

- Bank Name:** Bank of South Pacific Limited, PORT MORESBY
- Account Number:** 214692
- DATE:** / /
- PAY:** _____
- OR BEARER:** _____
- THE SUM OF:** _____
- FLEXIBLE OPEN & DISTANCE EDUCATION (CODE):** _____
- Signature:** _____
- MICR Line:** @ 214683 @ 088 @ 294 @ 1000588 115 @

Arrows point from empty boxes to the following parts of the cheque:

- Top right corner (Account Number)
- Top right corner (Date)
- Bottom left corner (MICR Line)
- Bottom center (MICR Line)
- Bottom right corner (MICR Line)
- Bottom right corner (Signature)
- Bottom right corner (MICR Line)

CHECK YOUR WORK. ANSWERS AT THE END OF UNIT 2

Lesson 16: Cash Book and Cheque Account



Introduction

Welcome to Lesson 16. In the previous Lesson, you learnt about the cheque system and how it is used in business. In this Lesson, you will learn its relationship to the Cash Book.



Your Aims:

- Distinguish between a Cash Book (business record) and a business cheque account
- Explain the use of deposit books, cheque butts and correctly fill out each
- Record bank transactions into a bank account using deposit books and cheque butts

Difference between Cash Book and Cheque Account

The term *Cash Book* and *cheque account* may cause some confusion.



Yes, I am confused. What is the difference between a Cash Book and a Cheque Account?

Bank Account

Bank Account is the financial record actually kept by the business. The Cash Book, Stock Record and Journals form part of the financial records of a business.

The Cash Book is used to record all receipts and payments from a business cheque account by the business person.

Now, look below to see the general layout of a Cash Book.

CASH BOOK

DATE	DETAILS	REF.	RECEIPT(K)	PAYMENTS (K)	BALANCE (K)
Jan 1 st	Balance b/f				236.40
6 th	Bismillah Cash & Carry	201		95.30	141.10
7 th	Sales receipt	DS 1	175.00		316.10
11 th	Sales receipt	DS 2	124.60		440.70
15 th	Bismillah Cash & Carry	202		130.65	310.05
18 th	Sales receipt	DS 3	135.95		446.00
24 th	Sales receipt	DS 4	140.50		586.50
26 th	Bismillah Cash & Carry	203		184.20	402.30
31 st	Sales receipts	DS 5	110.15		512.45

Table 16.1: A Cash Book.
Source: Internet -2014.

Notice the following points about the Cash Book on the next page.

- (i) the example shows all transactions through the cheque account for one month period.
- (ii) all payments by cheque are identified by the last three digits of the relevant cheque number.
- (iii) all deposits are identified in the reference column by DS1 and DS2 means *Deposit Slip* and the deposit slip number s that go with it.
- (iv) a *running balance* is maintained enabling the user of the cheque account to know how much is in the account at any time.
- (v) deductions by the bank such as stamp duty on a new cheque book or bank fee are recorded at the end of the month in the Cash Book as payments. This information is issued by the bank each month. It is contained in the Bank Statement.

The user of a cheque account should always keep a cash book similar to the one shown in table 16.1 on page. The bank keeps the same details on a ledger card and will send the customer a statement at regular intervals.

Cheque Account

A Cheque Account like savings account is kept and operated by banks. The records of these accounts are kept by the bank. Charges are made for having the account and for the number of transactions through the account. Added to this is the stamp duty paid on each cheque when you buy a cheque book from the bank. Stamp duty refers to the tax paid on the stamp or the logo of the bank on the cheque.



Activity 16.1: Complete the activities given below.

1. State the difference between Bank Account and Cheque account.

2. What is stamp duty? _____

3. Why is it important for a business person to keep a bank account?

Use of Deposit Slips and Cheque Butts

Use of Deposit Slips

Whenever money is received into or put into a cheque account, it should be deposited using a deposit slip provided by the bank. Books of deposit slips are available to customers who make frequent deposits.

Where many cheques are being deposited, it may be better to use a large book which has carbon copies of each deposit slip. Whichever type is used the number of the deposit should be recorded on the copy or counterfoil to identify the deposit in the Bank Account.

Turn to the next page and study the deposit slip which Agathar will fill to deposit her cheque.

DEPOSIT SLIP

Bank South Pacific DEPOSIT SLIP

DATE: 15/04/12

ACCOUNT TYPE: Cheque Savings Loan

ACCOUNT NAME: Agartha Sinai

ACCOUNT NUMBER: 1001131844

Teller's Initial & Stamp: K 200 00

No. of Cheques: 1

ACCOUNT NUMBER: 1001131844

BANK USE ONLY:

K100	
K50	
K20	
K10	
K5	
K2	
Coin	

Notes: _____

Coin: _____

Cheque: 200 | 00

K 200 | 00

461-595 (11/09)

Figure 16.1: A Deposit Slip.
Source: Payok -2014.

The deposit slip above shows a deposit of K200 corresponding to the withdrawal shown on cheque no. 214692 in figure 15.2 in Lesson 15. It was a payment for the contract to write a lesson by Agartha Sinai. Agartha is depositing her money into her cheque account. The information on the deposit slip includes;

- The date
- A place for the account holders name
- A place for the tellers signature. However, receipts are now given in the form of receipts.
- Amount of the deposit

On the deposit slip itself there are spaces to be filled in with both these information, including;

- the depositors signature
- the cheque account number of the account holder
- information on how the deposit was made up of number of each notes and coins.
- Bank use and the total amount of the deposit

The back part of the deposit slip will also be filled up.

Study below to see how the back part of the deposit slip is filled with information of the cheque being deposited. The back of the deposit slip is only completed when cheques are deposited.

BACK OF DEPOSIT SLIP

PARTICULARS OF CHEQUES

Drawer	Cheque No.	Bank	Branch	Amount	Details
1 FODE	214692	BSP	Boroko		
2					
3					
4					
5					
6					
7					
8					

Proceeds of cheques not to be available until collected

K 200

K 200

Figure 16.2: Back of a Deposit Slip.
Source: Payok-2014.

Each time a deposit is made into the cheque account the back should be filled in with the correct details. This includes the details of cheques you are depositing. Using the deposit slip and the front of the cheque butt you should be able to see at any time if the records of your cheque butts and the bank's record at the bank agree.

Cheque butt

What is a cheque butt? A cheque butt is a small section on the left-hand side of each cheque in the cheque book.

Use of Cheque Butt

You have already studied cheques in Lesson 15. Here, you will study one part of the cheque which is the cheque butt. By using cheque butt a person who has a cheque account is able to keep a record of amounts going out of the account. Whenever money is paid by cheque, the user should record the cheque number in the Cash Book for the business record. He or she should always fill in the details on the cheque butt and never write out cheques leaving a blank cheque butt.

An accurate record must be kept of all the cheques you write and of all the money you pay out of your account. In this way you will know if you have enough money in the account to enable the bank to pay a cheque you may wish to write out. You should always keep this record on the cheque butt.

Each butt has the same number on it as each cheque. It is used to keep a complete record of every cheque written out. The information recorded on the butt includes the

- date
- payee (receiver of the cheque)
- purpose of the cheque, and
- amount

This cheque butt is for FODE. Study carefully how it is filled out.

CHEQUE BUTT	
15/04/12	<i>Date of the cheque</i>
AGATHAR SINAI	<i>Name of the person or payee the cheque is paid to.</i>
Contract Writing for Business	<i>Reason for writing out cheque</i>
Studies Department	<i>This is the amount shown as the last figure on the previous cheque butt.</i>
Balance Brought forward K700 000	<i>Sum of the figures above</i>
Deposits K200 000	<i>This is the amount of the cheque that has been written</i>
Total K900 000	<i>This is the amount to be shown on the next butt as the balance brought forward</i>
This cheque K200	
Balance cd forward K899 800	

Figure 16.3: Recording withdrawals on cheque butts when cheque is used.
Source: Payok-2014.

Note: This same information is written on the cheque.



Activity 16.2: Complete the activities given below.

1. Fill in the table by writing the use of the deposit slip and cheque butt.

Document	Use

2. State the difference between cheque butt and cheque account.

Recording Bank Transactions into a Cash Book from Deposit Slips and Cheque Butts

Recording bank transactions into Cash Book from a deposit slip

When a retailer receives cash from his customers, he puts it into the cash box and records the total sales for the day in the Cash Book. After several days of trading, he may find that the cash box has too much money in it for safe keeping. He will wish to transfer it to his cheque account. This will require the following steps;

1. Complete a deposit slip showing details of the amount to be deposited
2. Visit the bank and deposit the money
3. Record the deposit in the Cash Book in the receipts column

Recording bank transactions into a Cash Book from cheque butts

It may sometimes be necessary for the retailer to withdraw cash from the cheque account to put into the cash box. This may be necessary if the cash box is short of small change. Also, if the retailer has to pay some expense for which cash is necessary. He may withdraw cash from the cheque account and leave it in the cash box for a short time. Whatever the reasons for the transfer it should be recorded as follows;

1. Write out a cheque for cash and withdraw the money from the cheque account.
2. Record the amount in the payments column of the Bank Account, making sure that the cheque number is put in the reference (ref) column and *Cash* written in the details column.

Let us go through the example below to record cheque deposits and payments made by John Tau from his business cheque account into his Cash Book.

- On 1st December John Tau's opening balance brought forward from November 31st was K1500 in his Cash Book.
- On the 5th of December he purchased goods worth K1000 from cheque no. 301.
- On the 6th of December he deposited income of K150 into his cheque account. Likewise on the 10th of December he deposited a cheque of K200.

- On 14th of December he made a purchase of K250 at Bismillah Cash & Carry from cheque no. 2346. On 17th of December he made a deposit of K100 and also on the 23rd of December he made a cheque deposit of K 300.
- On 24th of December he made a cheque payment of K 400 to Bismillah Cash & Carry on cheque no.2347. On the 31st of December he made a cheque deposit of K150 into his business cheque account.

CASH BOOK

DATE	DETAILS	REF.	RECEIPT(K)	PAYMENTS (K)	BALANCE (K)
Dec 1 st	Balance b/f				1500
5 th	Bismillah Cash & Carry	301		1000	500
6 th	Sales receipt	DS 1	150		650
10 th	Sales receipt	DS 2	200		850
14 th	Bismillah Cash & Carry	302		250	600
17 th	Sales receipt	DS 3	100		700
23 th	Sales receipt	DS 4	300		1000
24 th	Bismillah Cash and Carry	303		400	600
31 st	Sales receipt	D55	150		750

Table 16.2: Recording cheque deposits and payments into the Cash Book
Source: Payok-2014

Remember that cheque deposits are written as DS or Deposit Slip number and recorded in the receipts column of the Cash Book whilst the cheque payments are written with their numbers and recorded in the payments column of the Cash Book.

Summary:



You have come to the end of Lesson 16. In this lesson you learnt that;

- The Cash Book is used to record all receipts and payments through a business cheque account by the business person.
- When depositing money in to the cheque account a deposit slip should be used and it must be filled in correctly.
- When withdrawing money out of the cheque account a deposit slip cheque must be used and it must be filled in correctly.
- To fill in the Cash Book the owner of the cheque must;
 1. Record all information of money deposit into the cheque account in the receipts column of the Cash Book.
 2. Record all information of money withdrawn out of the cheque account in the payments column of the Cash Book.
- The cheque butt is on the left-hand side of each cheque book. The cheque book is made up of the cheque butt and the cheque leaf.

NOW DO PRACTICE EXERCISE 16 ON THE NEXT PAGE



Practice Exercise 16

1. What effect will the following have on the Cash Book?

(a) Cheque used to purchase goods. _____

(b) Money deposited into the cheque account using deposit slip. _____

2. Draw up Cash Book and fill in the following information carefully.

On March the following financial transactions happened for this business person.

May 2015

1 st Balance b/f	K700
7 th Choulai Wholesale	K200
9 th Sales	K300
12 th Sales	K150
15 th Choulai Wholesale	K400
18 th Sales receipt	K100
22 nd Sales receipt	K200
27 th Choulai Wholesale	K250
29 th Sales receipt	K340

(3) State the importance of cheque butts.

CHECK YOUR WORK. ANSWERS AT THE END OF UNIT 2

Lesson 17: The Bank Reconciliation Statement



Introduction

Welcome to Lesson 17 which is the last lesson for this topic and is also the last lesson for Unit 2. In the previous Lesson, you learnt about the cash book and the cheque account. In this Lesson, you will learn about The Bank Reconciliation.



Your Aims:

- Define Bank Reconciliation and state its importance
 - Identify the features of a Bank Statement
 - Identify features of a Bank Reconciliation Statement
 - Complete a Bank Reconciliation Statement
-

Bank Reconciliation and its importance

A well-kept Cash Book and Bank Statement will enable the owner of the business to reconcile these two financial records using a Bank Reconciliation Statement correctly. In the meantime let us find out what a Bank Reconciliation Statement is.



But what does the word reconciliation mean?

The word *reconciliation* (pronounced as ri-con-si-li-a-shen) refers to making two things agree.

The Bank Reconciliation Statement refers to a statement showing the Cash Book balance agreeing with balance of the Bank Statement.

The importance of the Bank Reconciliation Statement is to ensure the total of the Cash Book and the Bank Statement agree. You will study a Bank Reconciliation Statement as you proceed on and you should note carefully the features of a Bank Reconciliation Statement as well.

Features of Bank Statement

As mentioned above, the bank will keep a record of the transactions of a cheque account. The customer will receive a copy of this record in the form of a statement. This may be sent to him or her monthly or the customer may ask for it whenever he or she visits the bank.



Now, a Bank Statement is not the same as Cash Book. So what is a Bank Statement?

Bank Statement refers to a statement of record of transactions of a cheque account kept by the bank. Different banks use slightly different codes or numbers to show some items on the statement but basically the format is the same on any Bank Statement.

Study the features below of a Bank Statement given below.

BANK STATEMENT

BANK SOUTH PACIFIC STATEMENT OF ACCOUNT				
SAMANTHA ROBERT FODE PRIVATE MAILBAG WAIGANI PNG				
DATE (12/2015)	PARTICULARS	DEBIT	CREDIT	BALANCE
1 st	b/f			1500
4 th	CBK	2.50		1497.50
7 th	DS1		150	1674.50
12 th	DS2		200	1847.50
12 th	301	1000		847.50
18 th	302	250		597.50
22 nd	DS3		100	697.50
24 th	DS5		300	997.50
30 th	FEE	3.00		994.50

a
b
c
d

Table 17.1: A Bank Statement.
Source: Internet -2014.

Take note of the following points about the Bank Statement by referring to the letters in the statement for their explanations which are given below.

(a) The particulars column shows a code where c/c represents deposits made by the holder of the account and the numbers 301 represents cheques drawn on the account. C/C represents cheques and cash.

(b) The debit column includes all payments from the account by cheque as well as deductions made by the bank. The balance of the statement decreases.

(c) The credit column shows deposits into the account. The balance of the statement increases.

(d) The statement shows a running balance after each transaction.

Credit in this case refers to the amount of money that will increase the amount of money in your account kept by the bank. Debit refers to the amount of money that will decrease the amount of money in your account kept by the bank.



Activity 17.1: Complete the activities given below.

1. Define reconciliation. _____
 2. What is Bank Reconciliation? _____

 3. What is a Bank Reconciliation Statement? _____

 4. What is a bank statement?

-

Features of a Bank Reconciliation Statement

If you look at the Cash Book and the Bank Statement shown previously, you will see that they are very similar. Many, but not all the details appear on both of them. The Bank Account represents the cheque account holder's record of transactions during December. The Bank Statement represents the record held by the bank of the same account.



Why is it that the Bank Statement and the Cash Book are not the same?

Firstly, you should notice that where items appear on both the Bank Account and Bank Statement, they do not necessarily bear the same date or appear in the same order. This is because the user of the cheque account will record the date upon which he wrote out a cheque or made a deposit, whereas the bank will show the date that the deposit was processed or the cheque was cleared. Thus, there is nearly always a time lag between the transactions and its appearance on the Bank Statement.

You will notice that cheque number 302, written on the 25th does not appear on the Bank Statement. Perhaps Bismillah Cash and Carry has not yet deposited it into their account or it has not yet been cleared by the bank. Also the deposits made on the last day of the month do not appear on the statement. This is because the clerks in the bank would not have had time to record it before the end of the month.

Two items appear on the Bank Statement but not in the Cash Book. These are CBK (K2.50) and FEE (K3). The first is the stamp duty debited by the bank for the new cheque book. The user of the account will not know until a statement is issued to him. The second item is the bank charges, which the user would not normally be aware of at the time they are debited. The above two extra items make a difference to the final balance for the month. The user of the cheque account must make the two balances agree through a Bank Reconciliation Statement.

The following steps below must be followed to reconcile the Cash Book and the Bank Statement Balances.

1. Record any debits such as CBK and FEE which he or she does not have in the payments column of the business Cash Book account.
2. Using a pencil, tick off each item which appears in both the Cash Book and the Bank Statement after he or she has added items from no. 1 above.
3. Write O/S beside any entries in the Cash Book which are not ticked. O/S means Outstanding.
4. Draw up a Bank Reconciliation Statement using the following format shown.

BANK RECONCILIATION STATEMENT

BALANCE as per BANK STATEMENT	_____
ADD deposits not credited	_____
LESS cheques not presented	_____
BALANCE as per The CASH BOOK	_____

Figure 17.1: A Bank Reconciliation Statement.
Source: Commerce for Melanesia-2008.



Activity 17.2: Complete the activity given below.

Explain these two items CBK and FEE?

Completing a Bank Reconciliation Statement

Here, you will reconcile the two financial records, that is the Cash Book and the Bank Statement. Follow the information given on how to reconcile the balances.

You will use the Cash Book in Lesson 16 table 16.1 and the Bank Statement given in table 17.1 in this Lesson to prepare the Bank Reconciliation Statement.

CASH BOOK

DATE	DETAILS	REF.	RECEIPT (K)	PAYMENTS (K)	BALANCE (K)
Dec 1 st	Balance b/f				1500
5 th	Bismillah Cash & Carry	301		1000√	500
6 th	Sales receipt	DS 1	150√		650
11 th	Sales receipt	DS 2	200√		850
14 th	Bismillah Cash & Carry	302		250√	600
17 th	Sales Receipts	DS3	100√		700
23 th	Sales Receipts	DS4	300√		1000
25 th	Bismillah Cash & Carry	303		400 o/s	600
31 st	Sales Receipts	DS5	150 o/s		750
31 st	CBK			2.50√	
31 st	Fee			3√	744

Table 17.2: A Cash Book used to prepare a Bank Reconciliation Statement.
Source: Commerce Teacher's Guide /Bookkeeping-1989.

BANK STATEMENT

BANK SOUTH PACIFIC STATEMENT OF ACCOUNT				
SAMANTHA ROBERT C- FODE PRIVATE MAILBAG WAIGANI PNG				
DATE (12/2015)	PARTICULARS	DEBIT	CREDIT	BALANCE
1 st	b/f			1500
4 th	CBK	2.50		1497.50
7 th	DS1		150	1674.50
12 th	DS2		200	1847.50
12 th	301	1000		847.50
18 th	302	250		597.50
22 nd	DS3		100	697.50
24 th	DS5		300	997.50
30 th	FEE	3		994.50

Table 17.3: A Bank Statement used to prepare a Bank Reconciliation Statement.
Source: Internet-2014.

BANK RECONCILIATION STATEMENT

BALANCE as per BANK STATEMENT	K994.50
ADD deposits not credited	<u>K150.00</u>
	K1144.50
LESS cheques not presented	<u>K 400.00</u>
BALANCE as per CASH BOOK	<u>K 744.50</u>

Figure 17.2: Bank Reconciliation Statement.
Source: Commerce for Melanesia- 2008.

The Cash Book in table 17.2 and the Bank Statement in table 17.3 have now been reconciled. In other words the end balances agree with each other. Supposing that after following the above steps, the trader still could not make the two agree, he would have to investigate further. It may have been that the bank had made a mistake and debited or credited something in error. This may happen but it is not usual. If he does, he should visit the bank and query the error. The bank will correct the mistake. It is more likely that he had made a mistake especially in additions and subtractions of the opening balance and the running balance.

The Cash Book in table 17.2 and the Bank Statement in table 17.3 you saw the opening balances were the same for the Cash Book and the Bank Statement. This is only possible when the account is new. Once it has been operated for a while it would be unlikely that the two would agree. Another possible reason, therefore, why the two accounts may not agree is that some receipts or expenditure from the previous month had still not been credited or debited by the bank. This is not likely with deposits but can happen with a cheque if the payee was very slow to present it.

In the bank reconciliation statement above cheque number 303 is outstanding. Suppose that the payee still does not present it in the next month, it will not appear on the next statement (but is in the Bank Account). The trader must take this into account when he reconciles the two records. Quite often when he cannot reconcile, it is because of some cheques which he paid a long time ago but which has never been presented by the payee.

The only way the trader will be able to reconcile his bank account easily is if he does it *regularly* at least once a month and if he keeps all the bank statements. If he loses a bank statement and does not obtain a copy, he will have no idea what deposits and payments are on it, so he cannot do the reconciliation.



Activity 17.3: Complete the activities given below.

1. State the importance of a Bank Reconciliation.

2. List the steps involved in reconciling the two balances.

- (a) _____
- (b) _____
- (c) _____
- (d) _____

Summary:



You have come to the end of Lesson 17. In this Lesson you learnt that;

- Reconciliation refers to making two things agree.
- Bank Reconciliation Statement refers to a statement showing the Cash Book balance agreeing to the Bank Statement balance.
- A Bank Statement refers to a statement of record of transactions of a cheque account kept by the bank.
- Credits increases the balances whilst debit decreases the balance.
- The business person can only be able to do a bank reconciliation for his or her business if all copies of statement of accounts are kept in order.
- The Cash Book should be kept up to date.
- In order for the reconciliation to be done the owner must have both the Bank Statement and the Cash Book to make both balances agree.
- If the balance does not agree then some information may have not been entered by the bank or in the Cash Book.

NOW DO PRACTICE EXERCISE 17 ON THE NEXT PAGE



Practice Exercise 17

1. Use the information in the Cash Book and the Bank Statement below, to prepare a bank reconciliation statement. Show your calculations in the box provided below.

(a)

Cash Book

Ref.	Receipt	Payment	Balance
b/f			260
501		60	200
502		140	60
DS 8	120		180
503		30	150
DS 9	150		300
504		80	220
505		100	120
DS 10	60		180
CBK		5	175
FEE		6	169

Bank Statement

Partic.	Debit	Credit	Balance
b/f			260
CBK	5		255
501	60		195
SLF		120	315
503	30		285
502	140		145
SLF		150	295
FEE	6		289

(b)

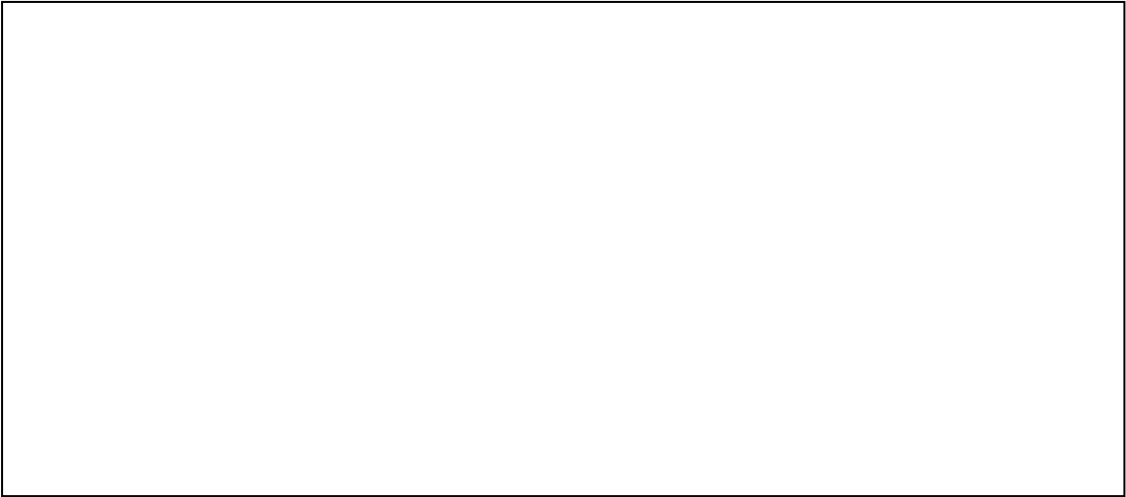
Cash Book Account

Ref.	Receipt	Payment	Balance
b/f			500
106		300	470
DS7	30		500
DS 8	50		550
107		70	480

Bank Statement

Partic.	Debit	Credit	Balance
b/f			500
106	300		470
C/C		30	500

Show your calculations on the next page in the box provided on the next page.



CHECK YOUR WORK. ANSWERS AT THE END OF UNIT 2

ANSWERS TO

TOPIC 4

PRACTICE EXERCISES

ANSWERS TO PRACTICE EXERCISES 15-17

Practice Exercise 15

1. Define the following words.

(i) Deposit: *Deposit refers to putting money into a safe place in the banks.*

(ii) Withdrawal: *Withdrawal refers to taking money out.*

(iii) Cheque: *Cheque refers to a preprint form on which instructions are given to an account holder like banks pay a stated sum to the recipient.*

(ii) Explain the privilege of overdraft facility

This means those with cheque accounts are allowed by the bank to take out more money than what is in their account for making payments. They will repay the bank with interest later they are the banks clients.

3. List ways in which cheques can be made safe.

(i) *Cross out the word bearer.*

(ii) *The word not negotiable and two parallel lines should be drawn on the cheque to show that it is not to be cashed but to be paid straight into the bank account of the person receiving the cheque.*

4. Correctly label the parts of this cheque.

A CHEQUE

The diagram shows a cheque with the following details and labels:

- Cheque number:** 214692
- Date:** 15/01/05
- Payee:** Lisa Dana
- Amount in words:** Five hundred kina only
- Amount in figures:** K500.00
- Drawee:** Bank of South Pacific Limited
- Drawer:** Indicated by an arrow pointing to the MICR line area at the bottom of the cheque.

Practice Exercise 16

1. What effect will the following have on the Cash Book?

(a) Cheque used to purchase goods: *Decrease the Cash Book balance*

(b) Money deposited into the cheque account using deposit slip? *Increase the Cash Book balance.*

2. Draw up a Cash Book and fill the following information carefully.

On March the following financial transactions happened for this business person.

May 2005

1 st Balance b/f	K700.00	18 th Sales receipt	K100.00
7 th Choulai Wholesale	K200.00	22 nd Sales receipt	K200.00
9 th Sales	K300.00	27 th Choulai Wholesale	K250.00
12 th Sales	K150.00	29 th Sales receipt	K340.00
15 th Choulai Wholesale	K400.00		

CASH BOOK

DATE	DETAILS	REF.	RECEIPT(K)	PAYMENTS (K)	BALANCE (K)
May 1 st	Balance b/f				700.00
7 th	Choulai Wholesale	301		200.00	500.00
9 th	Sales receipt	DS 1	300.00		800.00
12 th	Sales receipt	DS 2	150.00		950.00
14 th	Choulai Wholesale	302		400.00	550.00
17 th	Sales receipt	DS 3	100.00		650.00
23 th	Sales receipt	DS 4	200.00		850.00
25 th	Choulai Wholesale	303		250.00	600.00
31 st	Sales receipts	DS 5	340.00		940.00

(3) State the importance of the cheque butt

The importance of the cheque butt is to retain what has been written on the cheque leaf for record and later reconciliation purpose.

Practice Exercise 17

1. Use the information in the Bank Account and Bank Statement below, to prepare a bank reconciliation statement. Show your calculations in the box provided below.

(a)

Bank Account

Ref.	Receipt	Payment	Balance
b/f			260.00
501		60.00✓	200.00
502		140.00✓	60.00
DS 8	120.00✓		180.00
503		30.00✓	150.00
DS 9	150.00✓		300.00
504		80.00o/s	220.00
505		100.00o/s	120.00
DS 10	60.00o/s		180.00
CBK		5.00✓	175.00
FEE		6.00✓	169.00

Bank Statement

Partic.	Debit	Credit	Balance
b/f			260.00
CBK	5.00		255.00
501	60.00✓		195.00
SLF		120.00✓	315.00
503	30.00✓		285.00
502	140.00✓		145.00
SLF		150.00✓	295.00
FEE	6.00✓		289.00

BANK RECONCILIATION STATEMENT

<i>BALANCE as per BANK STATEMENT</i>	<i>K289.00</i>
<i>ADD deposits not credited</i>	<i><u>K 60.00</u></i>
	<i>K349.00</i>
<i>LESS cheques not presented</i>	<i><u>K180.00</u></i>
<i>BALANCE as per BANK ACCOUNT</i>	<i><u>K169.00</u></i>

(b)

Bank Account

Ref.	Receipt	Payment	Balance
b/f	✓	✓	500.00
106		300.00	470.00
DS7	30.00	✓	500.00
DS 8	50.00o/s		550.00
107		70.00o/s	480.00

Bank Statement

Partic.	Debit	Credit	Balance
b/f			500.00
106	300.00✓		470.00
C/C		30.00✓	500.00

BANK RECONCILIATION STATEMENT

<i>BALANCE as per BANK STATEMENT</i>	<i>K500.00</i>
<i>ADD deposits not credited</i>	<i><u>K 50.00</u></i>
	<i>K550.00</i>
<i>LESS cheques not presented</i>	<i><u>K 70.00</u></i>
<i>BALANCE as per BANK ACCOUNT</i>	<i><u>K480.00</u></i>

**REVISE TOPIC 4 AND DO TOPIC 4
TEST IN YOUR ASSESSMENT BOOK 2**

ANSWERS TO

UNIT 2

LESSON ACTIVITIES

Answers to Lesson Activities- Unit 2

Lesson 1

Activity 1.1

(a) What is bookkeeping?

Bookkeeping refers to the process by which the financial transaction of a business are recorded.

(b) Fill in the table by listing and explaining the two methods or systems of bookkeeping.

Methods of bookkeeping	Explanation
<i>Single entry</i>	<i>It involves recording a transaction only once either into the payments column or receipts column of the Cash Book.</i>
<i>Double entry</i>	<i>It involves recording transactions twice; into the debit column and credit column at the same time.</i>

Activity 1.2

(a) State the formula for calculating profit.

Profit = Revenue - Expenses

(b) Explain accountability.

Accountability is where someone in the business must be responsible for keeping the financial records of the business in a proper and systematic way and gives a report.

(c) State and explain the reason for accountability.

The reason for accountability is for quality assurance. That is the business can know if it is poorly managed and find out the reason behind this.

(d) Who is interested in the accounting report or bookkeeping reports of the business?

The owners of the business, banks, finance companies, creditors, taxation department and shareholders (owners).

Activity 1.3

(a) Define

(i) Debtor. *Debtors refer to those whom you (your business) owe money to.*

(ii) Creditors. *Creditors refers to those who owe you (your business) money.*

(iii) Proprietor. *Proprietor refers to the owner of the business.*

Lesson 2

Activity 2.1

Alphonse Tee's canteen needs the following goods to restock his canteen next Tuesday 15th February 2015. He normally gets his supply from Choulai Trading, P.O.BOX 442 Boroko NCD. The order number is 004 and the docket number is 10435. His postal address is P.O.BOX 72 Port Moresby.

Items	Price (K)
5 cartons Can coke, 330ml, each carton costs	42.00
4 cartons Cooking oil, 500ml, each carton costs	12.50
2 cartons 500ml coke, each carton costs	52.00
5 cartons Cheese Twisties, each carton costs	23.50
5 cartons Maggie noodles, each carton costs	25.00

1. From the above information fill out an order form.

ORDER FORM		No: <u>004</u>
To: <u>CHOULAI TRADING</u> <u>P.O.BOX 442</u> <u>Boroko, NCD</u> <hr style="width: 20%; margin-left: 0;"/>	<u>Alphonse Tee</u> <u>P.O.BOX 72</u> <u>Port Moresby</u>	
	Date: <u>15/2/2015</u>	
Please supply the following goods: <u>5 cartons can coke 330 ml</u> <u>4 cartons cooking oil 500ml</u> <u>2 cartons 500ml coke</u> <u>5 cartons Cheese twisties</u> <u>5 cartons Maggie noodles</u>		
Signed: <u>Alphonse T</u>		

2. Imagine you are the supplier. Write out a cash sales docket.

CHOULAI TRADING POBOX 442 Mr Alphonse Tee			<div style="border: 1px solid black; padding: 2px; display: inline-block;">CASH SALE</div> E 10435 Date: 15/2/2015	
Qty.	Unit	Description	Price (K)	Amount (K)
5	carton	Can coke (330ml)	42.00	210.00
4	carton	Cooking oil (500ml)	12.50	50.00
2	carton	500ml coke	52.00	104.00
5	carton	Cheese Twisties	23.50	117.50
5	carton	Maggie noodles	25.00	125.00
<i>LL</i>			<i>Total</i>	606.50

Activity 2.2

1. Why is it important to keep files of business documents safe and in order?

So that it is easy to retrieve or locate when it is required.

2. What is a lever arch file?

Lever Arch file is one of the types of filing system business can use to keep their documents safe and in order.

Lesson 3

Activity 3.1

1. Define

(a) Daily cash sales record: *Cash Sales Record refers to a record of all sales made daily.*

(b) Cash book: *Cash book refers to a book that records all cash transactions by cash and cheques.*

2. Explain the difference between cash register slip and daily cash sales record book? *A cash register slip is a receipt produced by a cash register. A daily cash sales record book records all sales made daily.*

Activity 3.2

1. Draw a page of a cash book in the box below and record the following transactions.

August 1st Opening balance K206.30
 3rd Goods purchased K 85.80
 5th Sales K 64.20
 6th Sales K 38.45
 7th Sales K 29.00

DATE		DETAILS	RECEIPTS		PAYMENTS		BALANCE	
August	1	Opening Balance					206	30
	3	Godds purchased			85	80	120	50
	5	Sales	64	20			184	70
	6	Sales	38	45			223	15
	7	Sales	29	00			252	15

2. Organise the following transactions into the correct order and record them in a cash book in the box provided on the next page.

June: 6th Sales K37.50, 4th Purchases K79.25, 9th Sales K38.50, 2nd Purchases K66.00, 1st Opening Balance K195.00, 5th Sales K28.65, 7th Sales K59.80.

DATE		DETAILS	RECEIPTS		PAYMENTS		BALANCE	
June	1	Opening Balance					195	00
	2	Purchase			66	00	129	00
	4	Purchase			79	25	49	75
	5	Sales	28	65			78	40
	6	Sales	37	50			115	90
	7	Sales	59	80			175	70
	9	Sales	38	50			214	20

Lesson 4

Activity 4.1

1. Define drawings.

Drawings refer to the money taken out of the cash box for owner's personal use.

2. List the four (4) ways in which business uses its income.

(a) *Purchasing goods for sales*

(b) *Pay for other expenses*

(c) *Deposit into bank account*

(d) *Drawings for owner's use*

Activity 4.2

Differentiate between drawings and transfer to bank account. Explain your answer.

Drawings is an expense taken out of profit/capital while transferring of money is moving money from the cash box and putting it into a bank account. Though both are recorded under payment they are not expenses they are money moving out of the business.

Lesson 5

Activity 5.1

1. Define the following.

(a) Credit purchases

Credit purchases refers to buying goods on credit.

(b) Order form

Order form refers to a document used to order goods.

(c) Invoice

Invoice refers to a document that is used to give details of the amount of money owed for goods supplied.

(d) Credit note

A credit note is a document sent by a seller or supplier of goods to a buyer when the amount charged on the invoice is greater than it should be.

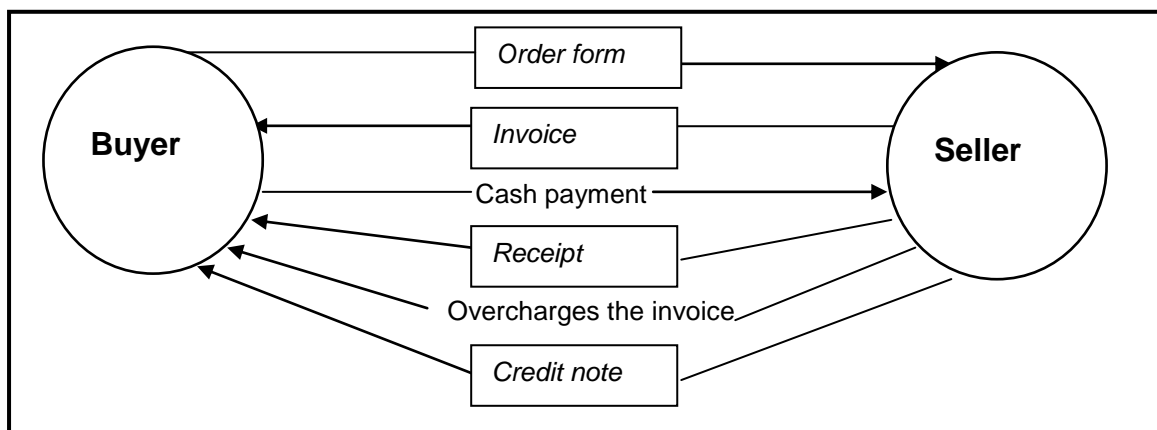
(e) Receipt

Receipt refers to a document showing payment of money for goods or services received.

2. What is the purpose of the credit transaction?

To allow the buyer to take the goods away now and pay for it later since they do not have money to pay right away.

3. Write down the correct names of the document that are exchanged between the retailer or buyer and the supplier or seller.



Lesson 6

Activity 6.1

1. What is a journal?

A journal refers to a book where all information about credit purchases or buying are first recorded when a transaction takes place.

(b) Define

(i) Credit Purchases Journal: *A Credit Purchases Journal is a record book where all credit purchases are recorded.*

(ii) Credit Sales Journal: *A Credit Sales Journal is a record book where all goods sold on credit are recorded.*

(c) What is the difference between source documents and journals?

Source documents are piece of paper showing transactions that happened between the buyer and seller. Journals are record books showing goods that are bought and sold on credit.

Lesson 7

Activity 7.1

1. What is a stock take record?

A stock take record refers to the book showing the record of counted stocks in a business at a particular time.

2. Explain how value of stock is worked out.

The value of stock is worked out by multiplying the quantity of a good by the Unit cost of that item.

Activity 7.2

(a) Explain drawings of goods.

Drawing of goods refers to the owner taking out goods from the store for own consumption or use.

(b) Does drawings of goods have an impact on the cashbook? Explain your answer.

Drawings of goods do not have an impact on goods since there is no cash involved.

Lesson 8

Activity 8.1

1. Define the following words.

- (a) Perpetual. *Perpetual refers to a continuous action.*
- (b) Inventory. *Inventory refers to stock or goods.*
- (c) Physical. *Physical refers to the actual item or thing.*
- (d) Periodic. *Periodic refers to something happening from time to time.*

2. Explain

- (a) Perpetual inventory system: *Perpetual Inventory system involves recording each items of stock on separate stock cards and the balance is continually maintained.*
- (b) Periodic or physical inventory system: *Periodic or physical Inventory system involves recording values of all items on one stock card and the total is worked out at one particular time.*

Activity 8.2

(a) What is stock control?

Stock control refers to keeping a check on the stock of goods, materials and spare parts of the business.

(b) State the importance of stock control

Its importance is to make sure that the business does not run out of stock and also it does not hold too much stock of a particular item tying up cash.

Lesson 9

Activity 9.1

(a) Why is it important to follow processes or steps when stock taking?

It is important because it will make it easier to have all the goods counted.

(b) When do businesses do stock taking?

Stock taking for big business may be done once or twice in a year whilst for a small business it may be done monthly or fortnightly.

Activity 9.2

Define

1. Stock value. *Stock value refers the value of the stock at one particular time. It is calculated as quantity multiplied by cost price.*

2. Total Stock Value. *Total stock value refers to the value of all stock values added together at a particular time. For example, see total in figure number 9.1 on page 85*

Activity 9.3

Explain the difference between opening stock and closing stock

Opening stock is the stock value of the business at the end of the previous stock take time. Closing stock is the stock value at the time the business is trying to calculate its profit.

Lesson 10

Activity 10.1

1. Define;

(a) *Source Documents: Source Documents refer to documents that contain information on the transactions of the business that will be recorded and kept in the business the source records or the book of the business.*

(b) *Transaction: Transactions refers to an event of the business that involves money.*

2. What is the importance of sources records?

Source records are important to help calculate profit.

3. List and explain the three financial records needed to calculate profit for business.

(a) *Cash Book is used to record all transactions that involve the use of money.*

(b) *Journals are used to record all sales and purchases made on credit.*

(c) *Stock record is used to record the stock values at the start of the business and end of business when the business owner decides to calculate his profit.*

Activity 10.2

Explain the following words.

1. *Revenue: Revenue refers to any form of income made or received by the business.*

2. *Sales: Sales refers to total amount of money received from sale of goods by the business.*

3. *Purchases: Purchases refers to total amount of money paid for goods.*

4. *Operating expenses: Operating expenses refer to the amount of money spent on daily expenses to keep the business running like buying stock that keeps the business operating.*

5. *Total Stock value: Stock value refers to the total value of all stock added together at a particular time.*

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Lesson 11

Activity 11.1

1. Define

(a) Profit: *Profit refers to the extra money made by the business after all other expenses are paid.*

(b) Cost Of Goods Sold: *Cost of Goods Sold refers to the value of the stock that has been sold out.*

2. State the formula for calculating:

(a) Profit: *Profit = Revenue - Expenses*

(b) Cost of Goods Sold: *Cost of Goods Sold = Stock at start + Purchases – Stock at end.*

Activity 11.2

1. Define

(a) Gross profit: *Gross profit refers to the difference between the sales revenue of the business and the cost of goods of the business.*

(b) Net profit: *Net profit refers to the difference between gross profit and all expenses.*

2. State the formula for calculating gross and net profit

(a) *Gross Profit = Sales – Cost of Goods Sold*

(b) *Net profit = Gross Profit – Operating Expenses*

Activity 11.3

Explain how the following affects profit.

1. Surpluses: *Surplus is extra money coming in therefore increases the profit.*

2. Refunds in: *Refunds in is money returned to the business thus increase the business's profit.*

3. Refunds out. Refunds out is money paid out by the business thus decreasing the profit.

4. Shortages: *Shortages is money lost or missing therefore it decreases the profit.*

Lesson 12

Activity 12.1

Fill in the table by explaining the uses of the three source records that are used to calculate profit.

Source Record	Uses
<i>Cash Book</i>	<i>It is used to record transactions that involve the use of cash.</i>
<i>Journals</i>	<i>It is used to record goods that are bought and sold on credit.</i>
<i>Stock records</i>	<i>It is used to record the stock value at start and stock value at end of trading period.</i>

Lesson 13

Activity 13.1

(a) Define a Profit and Loss Statement.

A Profit and Loss Statement refers to a statement showing a profit or a loss from the business activities.

(b) State the purpose of a Profit and Loss Statement.

-The purpose of a profit and loss statement is generally for a business to find out if it had made a profit or a loss.

- For tax purposes

-Financial purposes (loan)

(c) Write the formula used in a Profit and Loss Statement to calculate a net profit.

Net Profit = Sales - Cost Of Goods Sold - Other Expenses.

Lesson 14

Activity 14.1

1. Define;

(a) Debtor. *Debtor refers to someone who owes money to the business.*

(b) Creditor. *Creditor refers to someone you owe money to.*

(c) Liabilities. *Liabilities refer to money business owes others.*

(d) Assets. *Assets refer to things of value that is owned by the business.*

(e) Capital. *Capital refers to the money and assets contributed by the owner to start the business.*

2. Explain what a Balance Sheet is.

A Balance Sheet refers to a statement of the total assets, liabilities and capital (owner's equity) of an organisation at a particular date.

Activity 14.2

1. Define

(a) Tangible: *Tangible refers to something that can be seen, felt and touched for example, land, equipment and buildings.*

(b) Intangible: *Intangible refers to something which cannot be seen, felt or touched for example, goodwill.*

2. What is Goodwill?

Goodwill refers to the positive or good character of the business.

3. State the importance or purpose of a balance sheet.

The importance or the purpose of the balance sheet is to find out the value or how much a business is worth at a certain point in time.

Activity 14.3

(a) Write down the accounting equation.

Capital = Assets – Liabilities or Assets = Capital + Liabilities

(b) State the difference between assets and liabilities

Assets are things that are of value and increases the value of the business whilst liabilities are debts that the business owes to other people, yet to be paid.

Lesson 15

Activity 15.1

1. Define

(a) Clients: *Clients refer to customers.*(b) Cheque account: *Cheque account refers to records of transactions of money in cheque account kept by the bank.*

2. Name the three (3) types of account kept by banks.

(a) *Savings Account* (b) *Cheque Account* (c) *Term Deposits*

3. Why is there a need for cheque accounts?

*There is need for cheque accounts because it provides a means of keeping money in a safe place and makes payments for goods and other expenses easier.***Activity 15.2**

1. Fill in the table by writing the advantages and disadvantages for having a cheque account.

<i>Advantage</i>	<i>Disadvantage</i>
<ul style="list-style-type: none"> - <i>Keeps money safe</i> - <i>Makes payments easier</i> 	<ul style="list-style-type: none"> - <i>Does not earn interest</i>

2. Explain the following

(a) Drawer: *Drawer refers to the owner of the account with the bank.*(b) Drawee: *Drawee refers to the bank.*(c) Payee: *Payee refers to the person receiving the cheque.*

Lesson 16

Activity 16.1

1. State the difference between Cash Book and Cheque account.

A Cash Book is a financial record kept by the business. Cheque account is the record of the business transaction maintained by the bank.

2. What is stamp duty? *Stamp duty refers to the tax paid on the stamp or the logo of the bank on each cheque leaf.*

3. Why is it important for business person to keep a Cash Book?

It is important for business person to keep Cash Book because he or she can know how much money he or she has in the cheque account.

Activity 16.2

1. Fill in the table by writing the use of the deposit slip and cheque butt.

Document	Use
<i>Deposit slip Cheque butts</i>	<i>- It is used to deposit money into the bank - It is used for keeping records of the information on the cheque.</i>

2. State the difference between cheque butt and cheque account.

Cheque butt is the other part of the cheque where the cheque leaf is attached to.

Cheque account is the account kept by the bank for especially the business activity of the business person.

Lesson 17

Activity 17.1

1. Define reconciliation. *Reconciliation refers to making two things agree.*
2. What is Bank Reconciliation? *Bank balances agreeing with the cash book balances.*
3. What is a Bank Reconciliation Statement? *A Bank Reconciliation Statement refers to a statement showing balance in the Bank Statement agreeing with the Cash Book balance.*
4. What is bank statement? *A Bank Statement refers to a statement of record of a cheque account kept by the bank.*

Activity 17.2

Explain these two items CBK and FEE?

CBK stands for cheque book and this means the business is charged some money to pay for the cheque book issued. Fee is the amount charged by the bank for maintaining or looking after the business account. It is charged on monthly.

Activity 17.3

1. State the importance of Bank Reconciliation.
The importance of the bank reconciliation is to ensure the Cash Book and the Bank Statement agree.
 2. List the steps involved in reconciling the two balances.
 - (a) *Record any debits such as CBK and FEE which he or she have in the payments column of the business Cash Book.*
 - (b) *Using a pencil, tick off each item which appears on both the Cash Book and the bank statement after he or she has added items from no. 1 above.*
 - (c) *Write O/S beside any entries in the Cash Book which are not ticked. O/S refers to Outstanding items.*
 - (d) *Complete a reconciliation statement using the information from steps 1, 2 and 3 as shown on page 158.*
-

**END OF ANSWERS TO LESSON ACTIVITIES
STUDY FOR YOUR UNIT EXAMINATION**

UNIT 2

REFERENCE

REFERENCE

1. Burrowes David & Kinder Rex. '*Retailing in Papua New Guinea*'. Dellasta Pty Ltd, Victoria, Australia, 1989.
2. Mickleburgh Andrew. '*Economics for Developing Nations*'. Dellasta Pacific Pty Ltd, Victoria, Australia, 1992.
3. O'Neill Edgar & Wheeler Bob, '*Business Practice in Papua New Guinean*'. Dellasta Pty Ltd, Victoria, Australia 1994.
3. O'Neill Edgar. ed. '*Liklik Bisnis in Papua New Guinea*'. Person Education Australia, Melbourne, Australia, 1992.
4. Wama G Jeffery & Tau Yuwak, '*Business in Melanesia*'. Book 1, Kim Printing, Goroka, Eastern Highlands Province, Papua New Guinea, 2008.
6. Department of Education. *Commerce Teachers Guide Single Entry Bookkeeping Grade 10 Unit 4*, 1989.
7. URL:
 - (i) <http://www.easyasaccountingsoftware.com/pics/CredtNote.png>. December 17, 1013.

FODE PROVINCIAL CENTRES CONTACTS

PC NO.	FODE PROVINCIAL CENTRE	ADDRESS	PHONE/FAX	CUG PHONES	CONTACT PERSON		CUG PHONE
1	DARU	P. O. Box 68, Daru	6459033	72228146	The Coordinator	Senior Clerk	72229047
2	KEREMA	P. O. Box 86, Kerema	6481303	72228124	The Coordinator	Senior Clerk	72229049
3	CENTRAL	C/- FODE HQ	3419228	72228110	The Coordinator	Senior Clerk	72229050
4	ALOTAU	P. O. Box 822, Alotau	6411343 / 6419195	72228130	The Coordinator	Senior Clerk	72229051
5	POPONDETTA	P. O. Box 71, Popondetta	6297160 / 6297678	72228138	The Coordinator	Senior Clerk	72229052
6	MENDI	P. O. Box 237, Mendi	5491264 / 72895095	72228142	The Coordinator	Senior Clerk	72229053
7	GOROKA	P. O. Box 990, Goroka	5322085 / 5322321	72228116	The Coordinator	Senior Clerk	72229054
8	KUNDIAWA	P. O. Box 95, Kundiawa	5351612	72228144	The Coordinator	Senior Clerk	72229056
9	MT HAGEN	P. O. Box 418, Mt. Hagen	5421194 / 5423332	72228148	The Coordinator	Senior Clerk	72229057
10	VANIMO	P. O. Box 38, Vanimo	4571175 / 4571438	72228140	The Coordinator	Senior Clerk	72229060
11	WEWAK	P. O. Box 583, Wewak	4562231/ 4561114	72228122	The Coordinator	Senior Clerk	72229062
12	MADANG	P. O. Box 2071, Madang	4222418	72228126	The Coordinator	Senior Clerk	72229063
13	LAE	P. O. Box 4969, Lae	4725508 / 4721162	72228132	The Coordinator	Senior Clerk	72229064
14	KIMBE	P. O. Box 328, Kimbe	9835110	72228150	The Coordinator	Senior Clerk	72229065
15	RABAUL	P. O. Box 83, Kokopo	9400314	72228118	The Coordinator	Senior Clerk	72229067
16	KAVIENG	P. O. Box 284, Kavieng	9842183	72228136	The Coordinator	Senior Clerk	72229069
17	BUKA	P. O. Box 154, Buka	9739838	72228108	The Coordinator	Senior Clerk	72229073
18	MANUS	P. O. Box 41, Lorengau	9709251	72228128	The Coordinator	Senior Clerk	72229080
19	NCD	C/- FODE HQ	3230299 Ext 26	72228134	The Coordinator	Senior Clerk	72229081
20	WABAG	P. O. Box 259, Wabag	5471114	72228120	The Coordinator	Senior Clerk	72229082
21	HELA	P. O. Box 63, Tari	73197115	72228141	The Coordinator	Senior Clerk	72229083
22	JIWAKA	c/- FODE Hagen		72228143	The Coordinator	Senior Clerk	72229085

SUBJECT AND GRADE TO STUDY

GRADE LEVELS	SUBJECTS/COURSES
Grades 7 and 8	1. English
	2. Mathematics
	3. Personal Development
	4. Social Science
	5. Science
	6. Making a Living
Grades 9 and 10	1. English
	2. Mathematics
	3. Personal Development
	4. Science
	5. Social Science
	6. Business Studies
	7. Design and Technology- Computing
Grades 11 and 12	1. English – Applied English/Language & Literature
	2. Mathematics - Mathematics A / Mathematics B
	3. Science – Biology/Chemistry/Physics
	4. Social Science – History/Geography/Economics
	5. Personal Development
	6. Business Studies
	7. Information & Communication Technology

REMEMBER:

- For Grades 7 and 8, you are required to do all six (6) courses.
- For Grades 9 and 10, you must study English, Mathematics, Science, Personal Development, Social Science and Commerce. Design and Technology-Computing is optional.
- For Grades 11 and 12, you are required to complete seven (7) out of thirteen (13) courses to be certified.

Your Provincial Coordinator or Supervisor will give you more information regarding each subject.

GRADES 11 & 12 COURSE PROGRAMMES

No	Science	Humanities	Business
1	Applied English	Language & Literature	Language & Literature/Applied English
2	Mathematics A/B	Mathematics A/B	Mathematics A/B
3	Personal Development	Personal Development	Personal Development
4	Biology	Biology/Physics/Chemistry	Biology/Physics/Chemistry
5	Chemistry/ Physics	Geography	Economics/Geography/History
6	Geography/History/Economics	History / Economics	Business Studies
7	ICT	ICT	ICT

Notes: You must seek advice from your Provincial Coordinator regarding the recommended courses in each stream. Options should be discussed carefully before choosing the stream when enrolling into Grade 11. FODE will certify for the successful completion of seven subjects in Grade 12.

CERTIFICATE IN MATRICULATION STUDIES

No	Compulsory Courses	Optional Courses
1	English 1	Science Stream: Biology, Chemistry, Physics
2	English 2	Social Science Stream: Geography, Intro to Economics and Asia and the Modern World
3	Mathematics 1	
4	Mathematics 2	
5	History of Science & Technology	

REMEMBER:

You must successfully complete 8 courses: 5 compulsory and 3 optional.