MUF0021 Fundamentals of Accounting

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Business Enterprise and the Accounting Process

1.1 Business Enterprise

Key terms & concepts:

business enterprise, trading activities, service activities, manufacturing activities, stakeholders, transactions

Learning Outcomes:

- All of us will be able to identify different types of business activities
- Most of us will be able to describe the role of stakeholders
- Some of us will be able to identify transactions related to trading businesses

New businesses come and go. There are few guarantees of success for new business owners. New business owners risk the security of ongoing employment for the opportunity of being their own boss, and following through with their own ideas. The challenge for any business is to operate in a way that meets the needs of potential customers better than any other businesses. A successful ***business enterprise*** is one that can develop its activities in a way that matches its customers' needs and wants. These activities do not occur in a vacuum. Businesses interact with the environment that surrounds them every day. This may include dealing with changes in laws, trends in customer tastes, new developments in technology, and new attitudes to environmental impact and sustainable living. So the decision making process for business owners and managers is very complex.

The type of business enterprise that an owner may choose to establish will depend on the activities the owner thinks they will be most successful in completing. These activities can fall into many categories and sub-categories. For the purposes of our studies, we will consider the three main categories.

The business may be involved in ***manufacturing*** activities, which means it changes materials into new product. For example an ice cream factory will purchase raw ingredients such as milk, fruit, flavours and colours to combine and create the finished ice cream product. This is an example of a manufacturing business.

The supermarket which buys the ice cream to resell it to customers is an example of a ***trading*** business. Trading businesses would add a mark-up to the cost of acquiring the stock, or inventory, in order to calculate a profitable selling price when providing the stock to customers.

Lastly, a business may be classified as a ***service*** business, when it provides a skill or expertise to its customers rather than a physical product. For example, a transport company which collects the ice cream at the factory and delivers it to the supermarket would be providing a service.

Recap 1: Identify different types of business activities

Sort the following businesses according to their activities by adding them under the correct heading:

Hairdresser Internet café Bicycle shop Clothes shop	Frozen food factory Jewellery stall Organic Fruit & Vegetable Store	Car assembly plant Hand-made toy stall Online Bookshop Mail order Music CDs
Manufacturing	**trading**	**service**

Regardless of the type of activity, every business will be involved in many transactions each day. For example, a bakery hoping to make and sell bread will first have to complete the following:

- buy raw materials from suppliers
- rent a shop space, or premises, to be able to bake
- pay for the electricity, water and other utilities on the site
- pay wages for a baker and other staff members.

Each of these instances is an example of a ***transaction.*** Each time the bakery must interact with another entity, such as a supplier, or a landlord, or a utilities company, to obtain something and in exchange there is a financial payment or obligation.

In this way, it is easy to see that the any decision made by a business can have an impact on many other individuals or organisations. Any entity, whether they may be an individual or group, that is affected by a business's activities is known as a ***stakeholder.*** Each stakeholder group will have an interest in that particular business activity. Stakeholder groups include owners, managers and workers, suppliers, customers, the local community, pressure groups and government bodies.

Recap 2: Describe the role of stakeholders

Mango Mobiles is the latest and most popular mobile phone handset provider on the market. The business has been making its handsets in the quiet suburb of North Yarra, which is three hours away from the city of Melbourne, Australia. The sudden demand for the Mango Mobile means that the business must make a decision about whether to extend the existing factory in North Yarra, or to move its operations to be closer to transport links in the area of Nee Now Rup. Of course, the business cannot afford to run two sites. It must choose.
Consider each stakeholder shown below.
1. Describe what each stakeholder would want from the business.
2. Explain how the decision that the business makes may impact on the stakeholder.

employees	**customers**	**Community of North Yarra**
1. 2.		
suppliers	**competitors**	**Community of New Now Rup**

Recap 3: Identify transactions related to trading businesses

Match the following transactions according to their activities by writing (a) (b) or (c) to indicate the correct activity:
(a) Manufacturing
(b) Trading
(c) Service

1) Mrs Aphoy purchased handbags to sell in her vintage clothing shop_______
2) Vroom Cars purchased sheet metal to be used for building the underbody of each car they make______________
3) Mr Tinh Dinh paid the electricity bill for his business which includes three other solicitors. They provide legal advice related to family law.____________
4) Mrs Aphoy paid rent for her Vintage clothing shop____________
5) Vroom cars paid wages for the workers in the factory_________
6) Mr Tinh Dinh paid wages for the administration assistants in the office_______
7) Vroom cars ordered delivery of tyres for their cars from a new supplier________
8) Mrs Aphoy purchased a collection of dresses and shoes from an antiques auction for her shop______
9) Mrs Aphoy paid wages for her shop assistant___________

1.2 Trading Business & Accounting Process

Key terms & concepts:

trading transactions, accounting purpose, stages in accounting process (Collecting, recording, reporting)

Learning Outcomes:

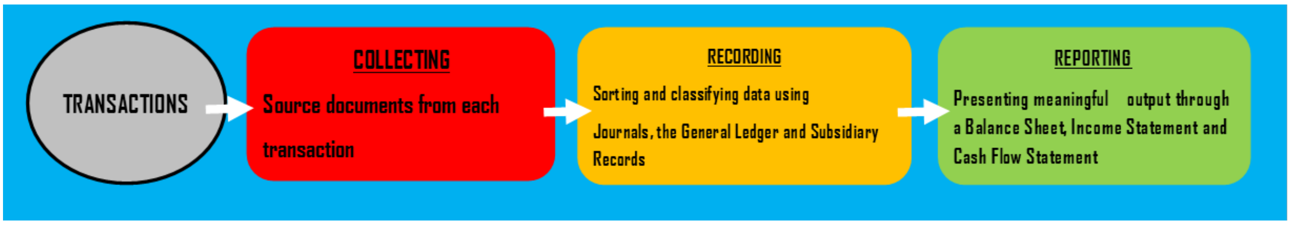
- All of us will be able to identify and describe transactions of a trading business
- Most of us will be able to describe the accounting process and purpose
- Some of us will be able to explain the need for Accounting

We know that businesses may be involved in service, trading or manufacturing activities. Some businesses may be involved in more than one activity. For example, a clothing manufacturer may also have its own line of clothing shops which will sell only that brand name. This type of business would be involved in both trading and manufacturing activities. Similarly, a telecommunications business may provide the mobile network service for users, and also sell the mobile phone handsets. It could be that such a business is providing a service, and is also trading in a product range.

In the Recap 3 Activity from the previous section, we could see that Mrs Aphoy is the owner of a trading business. She owns and operates a business that buys and sells vintage or recycled clothing, footwear and accessories, called Fashion Finds. Operating a shop like Fashion Finds is going to involve many day to day transactions. Take a few moments to make a list of some of the transactions that Fashion Finds will be involved in.

For many business owners like Mrs Aphoy, trying to keep track of all these transactions, run the business, and understand how the business is performing, can be a very overwhelming situation. She may also find that she struggles to organise the appropriate information to show her bank, or investors in the business, and other potential stakeholders. Therefore, businesses need a way to manage the impact of all their transactions. Accounting is the means which enables a business collect all the raw data from every transaction, and organise the data and record it in a systematic way, so that meaningful information can be generated when required.

Accounting can be described as the process of collecting and recording financial data, so that it can be summarised and reported as financial information. The key stages may be expressed as:



The purpose of this process is to ensure that the owners, and other stakeholders, are provided with the financial information that will support them in decision making. For the owners, the financial information is an important tool to help evaluate the ongoing performance of the business, to identify corrective action that may be needed, and to improve the likely performance in the future.

Recap: The Accounting Process

1. Identify a trading business you use regularly.

2. List and describe examples of 3 transactions for this business. Your examples should include a supplier, a customer, and one other stakeholder.

3. Explain why this business would need an Accounting process.

4. In your own words, describe the main stages of the accounting process

5. What is the difference between financial data and financial information?

1.3 Accounting Conceptual Framework

Key terms & concepts:

accounting process, conceptual framework, accounting principles, qualitative characteristics, entity principle, qualitative characteristic of relevance

Learning Outcomes:

- All of us will be able to describe the purpose of a conceptual framework
- Most of us will be able to define Accounting Principles and Qualitative Characteristics
- Some of us will be able to apply the Accounting Entity Principle to business scenarios

We have considered that a trading business will be involved in many different types of transactions. A trading business will also be interacting with several stakeholders. The combination of events, people and activities can lead to complicated transactions. Accountants must find a way to negotiate all these variables and to complete the Accounting process in a way that is accurate and consistent. For this reason, the Accounting profession has adopted a Conceptual Framework. This framework was put in place by the Australian Accounting Standards Board (AASB), which is reflects the work of the International Accounting Standards Board (IASB).

A conceptual framework provides an understanding of the key concepts that applies in a given situation so that all parties involved apply a similar approach. The Accounting Conceptual Framework provides all accountants with the following:

- Agreed definitions of the accounting elements
- Principles for the recording of accounting data
- Qualitative characteristics and guidelines for the preparation of the General Purpose Financial Statements.

So the conceptual framework provides the rules and guidelines for accountants to follow. The Accounting Principles and Qualitative Characteristics form the basis of the Accounting standards that are followed by the profession. We will present all the Accounting Principles and Qualitative Characteristics here, but they will be studied as we learn more about recording and reporting. You can come back to this chapter when you need to look at a particular Accounting Principle or Qualitative Characteristic.

There are seven accounting principles, which are listed and defined below:

- Entity
- Going Concern
- Reporting Period
- Consistency
- Conservatism
- Historical Cost
- Monetary Unit

The Entity principle states that the business is assumed to be separate from the owner and other businesses, and its records should be kept on that basis.

The Going Concern principle assumes that the life of the business is ongoing or continuous, and its records should be kept on that basis.

The Reporting Period principle recognises that the life of the business must be divided into periods of time to allow reports to be prepared.

The Historical Cost principle requires the recording of a transaction at its original cost or value, as this value is verifiable by reference to the source document.

The principle of Conservatism means that losses should be recorded when probable but gains should only be recorded when certain, so that liabilities and expenses are not understated and assets and revenues are not overstated.

The principle of Consistency requires that the accounting methods should be applied in a consistent manner to ensure that reports are comparable from one reporting period to another.

The Monetary Unit principle states all transactions must be recorded and reported in the currency of the country of location in which the reports are being prepared.

The four Qualitative Characteristics are listed here and defined in the table below:

- Relevance
- Reliability
- Understandability
- Comparability

Qualitative Characteristic	Definition	Critical question for reporting
Relevance	Reports should include all information that is useful for decision making.	Will the information in the report clarify the decision-making?
Reliability	Reports should contain information that is free from bias and so can be relied upon for its accuracy.	Is the information free from bias or error?
Understandability	Reports should be presented in a manner that makes it easy for the user to comprehend their meaning	Can a decision maker understand the information if they're not an accountant?
Comparability	Reports should be able to be compared over time, and between different companies, through the use of consistent accounting procedures.	Can the reports be compared over time?

1.4 Connect & Reflect

You have reached the end of this topic. Here are some key ideas to help you revise and reflect upon your learning. If you are a visual learner, you may choose to use these ideas to develop a mind map for yourself. Alternatively, auditory learners might work with a partner to share responses and develop ideas, and kinaesthetic learners might choose to go back through class work, highlight key points and create summary notes for this topic.

Key Ideas:

- Describe a business activity
- Explain the difference between a trading and a manufacturing business.
- Explain the difference between a service and a trading business.
- Why would the business need an Accounting process?
- Define stakeholders.
- Identify 1 stakeholder in trading business and explain why you consider them to be a stakeholder.
- Identify a trading business you use each week. Create 5 transactions for the first week of a new trading business
- What is the accounting process for dealing with these transactions? Identify & describe the 3 key stages
- What is the purpose of the Accounting Conceptual Framework?
- The Entity Principle is an example of a guideline accountants follow. Define the Entity Principle.
- Provide 1 example of a transaction when an Accountant would have to apply the Entity Principle.
- Explain why the Accountant would apply the Entity Principle to your example.
- Evaluate the need for a conceptual framework in Accounting

2
Accounting Equation and Transaction Analysis

2.1 Accounting Elements

Key terms & concepts:

asset, liability, owner's equity, revenue, expenses, accounting equation

Learning Outcomes:

- All of us will be able to define key terms
- Most of us will be able to provide examples of Assets, Liabilities and Owner's Equity accounts
- Some of us will be able to demonstrate the relationship between Revenue, Expenses and Owner's Equity

In our introduction to the Accounting Conceptual Framework, we noted that the framework also provided definitions of the accounting elements. What do we mean by elements?

In everyday use, the term elements is used to refer to the most essential part of something abstract. For example, the ancient Greeks are thought to have believed that everything was made up of four essential elements- earth, water, air and fire. This idea became a central belief of philosophy, science and medicine for almost two thousand years. In modern times, these four elements have been updated to solid, liquid, gas and plasma.

We can take a similar approach to accounting by viewing all transactions as being related to a fixed set of ***elements***. Accounting has five elements- ***Assets, Liabilities, Owner's Equity, Revenue*** and ***Expenses.***

Assets are those items which are controlled by the entity, as a result of past events, and from which future economic benefits will flow to the entity. Consider this definition using the example of a delivery van. The business controls the delivery van. It controls the Delivery Van as a result of a past event- it purchased the van, or signed an agreement such as a hire-purchase lease. In other words, a transaction has occurred which now means the business has control of the asset- Delivery Van. This asset will result in future economic flow to the business because it will be linked to the sales that the business makes. Having the delivery van will ensure sales are made to customers, which is the future economic benefit generated to the business. Cash in the Bank, Debtors, Equipment and Land & Buildings are also considered as Assets. Consider how you might apply the definition to each of these examples.

A ***liability*** is defined as a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow of economic benefits from the entity. Consider the example of a Loan taken by the business. This loan is now an obligation because the business is expected to repay the debt to the lender. The loan has been processed as a result of a past event, which is most likely when the business signed the agreement for the loan or agreed the terms of borrowing with the lender. Having taken the loan, the business will have to "settle" or repay the loan, and this will mean that funds will flow out of the business. Creditors, Mortgage and a Bank Overdraft are also examples of liabilities. How would the definition of a liability fit each of these examples?

Owner's Equity can be defined as the residual interest in the assets of the entity after deducting its liabilities. In other words, the Owner's Equity is what the owner is left with after the business used the assets necessary to meet all its obligations. Once all obligations have been met, whatever is left over is now the net worth of the business to the owner. The owner may increase their equity in the business by contributing more cash, stock or other non-current assets to the business. These contributions would be recorded as ***Capital*** from the owner to the business. Alternatively, the owner may make withdrawals from the business which are recorded as ***Drawings***, and reduce the owner's equity in the business.

Recap 1: Assets, Liabilities and Owner's Equity

This is a simple example from your personal experience to help get a better understanding of the first three elements.
Imagine that you have just bought a new selection of clothes and packed a suitcase to go on holiday. Your clothes cost you $500, and you have a mobile phone ($300), a laptop ($600) and spending money ($800). You have booked a fancy hotel room, which will need to be paid on check-in. You are so excited at the idea of being on holiday and staying at the fancy hotel that you do not read all the details of the booking carefully.
You arrive at the hotel to check in. The front desk informs you that the cost of the stay will be $1 600 for the week, with half payable immediately, and the balance mid-week.

1. Use the table below to list your assets, liabilities and calculate your net worth on the date of check in.
2. What will be the problem in the middle of the week?

assets	liabilities	net worth

The two other elements we will introduce here, and explain in more detail later is Revenue and Expenses.

Revenue is an inflow of economic benefits (or savings in outflows) in the form of increases in assets (or decreases in liabilities) that increase Owner's Equity, except for capital contributions by the owner. For example, the business makes a sale to a customer for cash. The cash received from the customer will be the inflow of economic benefit, which will increase the asset- Cash at Bank.

The relationship between revenue and Owner's Equity needs to be examined through the calculation of ***Net Profit***.

In order to earn revenue, the business will use or incur expenses. The difference between revenue and expenses is called ***Net Profit***. This Net Profit is a potential return to the owner for their investment in the business. So Net profit is also a part of Owner's Equity. The relationship between Revenue and Net profit means that if revenue is earned, it will increase the Net Profit. If Net profit increases, then there is an increase in Owner's Equity, which is the last part of the definition for Revenue.

Expenses, on the other hand, are an outflow, consumption or loss of economic benefits (or reductions in inflows) in the form of decreases in assets (or increases in liabilities) that decrease Owner's Equity, except for drawings by the owner. A simple example of paying the wages of workers will help us highlight the definition. The payment of the wages will result in cash leaving the bank account, so this is the outflow which decreases the asset. The increase in expense will lower the Net Profit, which we discussed above, and this in turn will decrease the Owner's Equity.

If the elements are viewed as the most essential "what" of the accounting process, their relationship to each other is the fundamental concept for "how" accounting is carried out. The relationship between the elements is called the Accounting Equation. In the next part of our studies, we unwrap this relationship.

Before we move onto the Accounting Equation, consider some of the examples we have presented in our discussion of the five elements. In the Accounting process, these examples would be considered account titles of the names of the various elements being affected by each transaction. The next activity is an opportunity to start to learn about some of these account titles and to familiarise yourself with accounting terminology.

Recap 2: Provide examples of A, L and OE accounts

The table below lists some of the common account titles you will start to use in the next few lessons. Spend some time working with your peers and your teacher to explain what each account title means, and then to identify whether it is an Asset, Liability or Owner Equity account.

Deciding whether an account is A, L or OE is the first classification in accounting.

Account Titles	Write a brief meaning of the Account Title	ASSET	LIABILITY	OE

Bank
(Cash at bank)

Overdraft

Land & Buildings

Premises

Capital

Creditors Control

Debtors Control

Drawings

Furniture and Fittings

Inventory

Stock control

Loan

Machinery

Mortgage

Motor Vehicles

Net profit

Office equipment

Office furniture

Plant and machinery

Stock of stationery

Stock of supplies

Sundry Creditors

2.2 Accounting Equation

Key terms & concepts:

accounting equation, twofold effect, transaction analysis

Learning Outcomes:

- All of us will be able to define and describe the Accounting Equation
- Most of us will be able to analyse the twofold effect of transactions
- Some of us will be able to demonstrate the twofold effect of Revenue and Expense transactions

The ***Accounting Equation*** is a formal representation of the key Accounting Elements- Assets, Liabilities and Owner's Equity. It is expressed as:

A = L + OE

All transactions impact the Accounting Equation. Because these three elements have now been connected as a mathematical equation, the impact of every transaction must also be shown in a way that ensures that the Accounting Equation is always balanced. This is what is referred to as the twofold effect of transactions.

For example, Hoang FeiFei has started a new business, Posh Papers, which trades in limited edition stationery items like collectable pens, personalised envelopes and hand-made paper. The transactions for the first week are as analysed below.

1. Owner deposits $3 500 in the business bank account.

When the owner contributes cash to the business, the two accounts affected will be Bank and Capital, and it can be explained as:

- Bank, which is an Asset, will increase by $ 3500
- Capital, which is Owner's Equity, will increase by $3 500
- No liabilities are affected, so Liability is no effect $0

It can also be shown in the accounting equation as:

Assets increased $3 500 = Liability no effect $0 + Owner's Equity increased $3 500

Try to explain the twofold effect of each transaction below (2)-(3), and check your ideas using the Accounting Equation provided:

2. Business purchases stationery items for credit to the value of $2 800

- Which accounts are affected?
- Classify each account (A/L/OE)
- Is the effect increasing/ decreasing/ no effect? What is the value ($)?

Assets increased $2 800 = Liability increased $2 800 + Owner's Equity no effect $0

3. Proceeds from a business loan received $5 000

- Which accounts are affected?
- Classify each account (A/L/OE)
- Is the effect increasing/ decreasing/ no effect? What is the value ($)?

Assets increased $5 000 = Liability increased $5 000 + Owner's Equity no effect $0

Now let us have a look at what would happen if a sale transaction occurred. Remember from our earlier work on the elements and the equation that Revenue and Expenses are not shown in the Equation. However, we have also learnt that Revenue and Expenses are linked to Owner's Equity through the Net Profit. There is a relationship. How can we show this in the Accounting Equation?

4. Cash sale of a limited edition pen costing $170 for $350

Firstly, we need to remember that a trading business buys stock and sells it at a mark-up. So $170 represents the Cost Price of the stock, and $340 is the selling price after the mark-up is added. For every sale the business makes, we can expect two numbers- one for Cost Price, and one for Sale Price.

What is the effect of the Cost Price? It represents the stock that we have now sold, so is no longer in the business. Stock Control will decrease $170 because the asset is no longer there. We sold the asset which cost us $170 so we recognise this as a Cost of Sales. Cost of Sales is an expense which has increased $170.

What is the effect of the Sales Price? It represents what we earned for the stock sold. So $350 is Sales Revenue, the revenue which has increased $350 from this sale. That $350 is a cash sale, which would go to our Bank, meaning Bank, the asset has increased $350.

The Accounting Equation is only an expression of the overall twofold effect of the transaction. In the case of transaction (4), the equation can be shown as:

Assets increased $180 = Liability no effect $0 + Owner's Equity increased $180

2.3 Transaction Analysis

Key terms & concepts:

accounting elements, accounting equation, twofold effect, transaction analysis

Learning Outcomes:

- All of us will be able to identify and classify the account titles
- Most of us will be able to analyse the two fold effect of transactions
- Some of us will be able to calculate the cumulative effect of transactions on the accounting equation

Review our treatment of the transactions for Posh Papers from the last section. The transactions for the first week of business were:

1. Owner deposits $3 500 in the business bank account.
2. Business purchases stationery items for credit to the value of $2 800
3. Proceeds from a business loan received $5 000
4. Cash sale of a limited edition pen costing $170 for $350

When considering the twofold effect of these transactions, we treated each transaction independently. However, independent analysis does not enable us to analyse the overall impact of the first week of business.

We could consider the transactions for the first week in a cumulative fashion. This means that we can consider the impact of one transaction on the outcome of the previous transaction and build a bigger picture. The cumulative effect would be:

ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
1. Assets increased $3 500	=	Liability no effect $0	+	Owner's Equity increased $3 500
2. Assets increased $2 800	=	Liability no effect $2 800	+	Owner's Equity no effect $0
$6 300	=	$2 800	+	$3 500
3. Assets increased $5 000	=	Liability no effect $5 000	+	Owner's Equity no effect $0
$11 300	=	$ 7 800	+	$3 500
4. Assets increased $180	=	Liability no effect $0	+	Owner's Equity increased $180
$11 480	=	$7 800	+	$ 3 680

Therefore, at the end of the first week of operating, the accounting equation for Posh Papers shows:

Assets = Liability + Owner's Equity

$11 480 = $7 800 + $3 680

What is the net worth of this business to its owner?

What are the limitations of trying to use this single line of data to review the first week of business activities?

Think about our earlier work on the definition and purpose of accounting.

3
Balance Sheet and Double Entry Rules

3.1 Balance Sheet Introduction

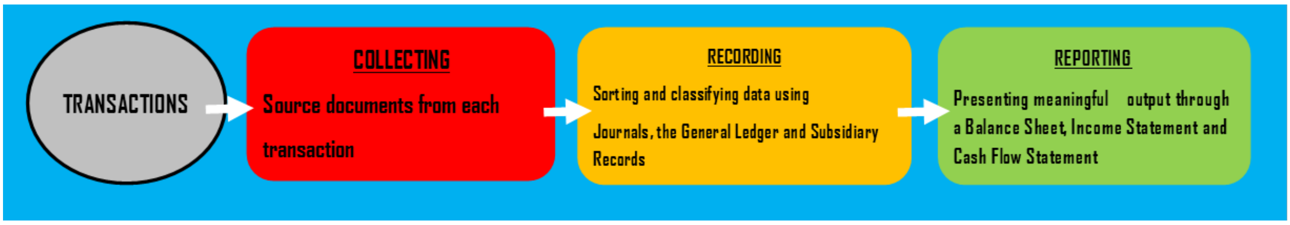
Key terms & concepts:

accounting equation, twofold effect, financial reports, balance sheet

Learning Outcomes:

- All of us will be able to define a Balance Sheet
- Most of us will be able to create a simple Balance Sheet
- Some of us will be able to discuss the limitations of a simple balance sheet for decision making

In our earlier studies, we summarised the key stages in the accounting process as:



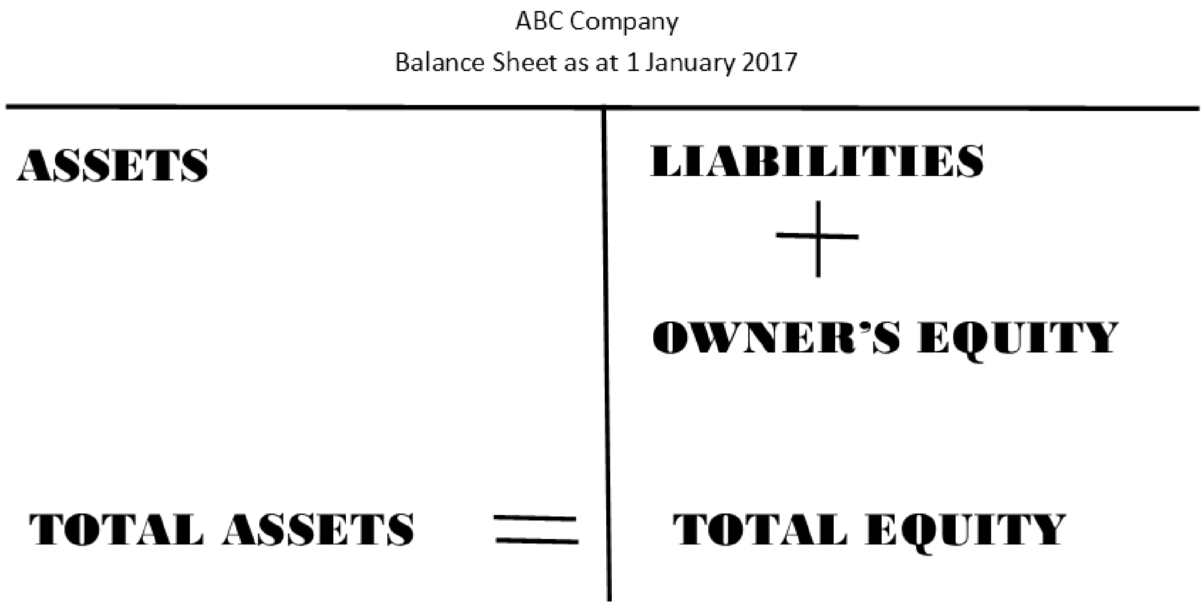
We also stated that the purpose of this process is to ensure that the owners, and other stakeholders, are provided with the financial information that will support them in decision making.

We have since looked at the basic elements of accounting, and analysed the relationship between these elements through the Accounting Equation. The same relationship between the elements can also be expressed through one of the General Purpose Financial Reports defined in the Accounting Conceptual Framework. This report is called the Balance Sheet.

The ***Balance Sheet*** is report which shows the financial position of a business at a point in time identifying the Assets, Liabilities and Owner's Equity of a business. It is often describe as taking a photo of the business on a particular date, because the positions of assets, liabilities or owner's equity might have been different the day before, and may also change the next day.

Here we see the Accounting Equation in direct relation to the Balance Sheet:

ASSETS = LIABILITIES + OWNER'S EQUITY



Using the information for the first week of trading for Posh Papers, we can create a Balance Sheet which would look like this:

Posh Papers
Balance Sheet as at 7 January 2017

ASSETS	**$**	**LIABILITIES**	**$**
Bank	8 850	Creditors Control	2 800
Stock Control	2 630	Loan	5 000
		OWNER'S EQUITY	
		Capital	3 500
		Add Net Profit	180
Total Assets	11 480	Total Equities	11 480

The Balance Sheet is a formal report generated as an output from the accounting process. Each report must clearly identify the business name and the title of the report, as can be seen in our example above. In this simple example, we have been able to calculate the Net Profit figure highlighted in blue. However, in reality, this figure of Net Profit would be detailed and shown in a different report called the Income Statement. Revenue and expenses are summarised in the Income Statement.

3.2 Classified Balance Sheet

Key terms & concepts:

Current asset, non-current asset, current liability, non-current liability, classified balance sheet, going concern principle

Learning Outcomes:

- All of us will be able to define current and non-current elements
- Most of us will be able to explain the difference between current and non-current elements
- Some of us will be able to create a fully classified Balance Sheet

Using the simple format for the Balance Sheet from the previous section, it is possible to summarise and report the financial position of the business at this point in time. However, we know that over time, and in more complex business situations, this approach will prove to be very limited. More importantly, reporting information in this way will not be useful for stakeholders who are trying to make important decisions about the business.

In practice, Accountants will classify the elements in the Balance Sheet.

Assets will be classified as Current or Non-current. A ***Current Asset*** is a resource controlled by the entity as a result of past events, and from which future economic benefits are expected to flow to the entity, within the next 12 months. ***Non-current Assets*** are resources controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity beyond the next 12 months.

Assets are classified as current if they are expected to provide an economic benefit in the next 12 months. For example, Bank, Stock Control and Debtors Control are all considered Current Assets.

Assets that provide an economic benefit for more than 12 months are classified as non-current. These often include Equipment, Machinery, Buildings and Motor Vehicles.

Liabilities will also be classified into Current and Non-current. A ***Current Liability*** is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow of economic benefits from the entity within the next 12 months. ***Non-current Liabilities*** are present obligations of the entity arising from past events, the settlement of which is expected to result in outflows of economic benefits from the entity beyond the next 12 months.

Liabilities are classified as current if it is expected they will be settled in the next 12 months. For example, Creditors Control and Loans which fall due within the 12 months would be classified as Current Labilities.

Liabilities that will be settled in longer than 12 months are classified as non-current. Examples of non-current liabilities include long term loans and Mortgages.

The classified Balance Sheet will be presented as follows:

Posh Papers
Balance Sheet as at 31 January 2017

ASSETS	**$**	**$**	**LIABILITIES**	**$**	**$**
Current Assets			**Current Liabilities**		
Bank	9 300		Creditors Control	3 150	
Stock Control	4 000	13 300	Loan	4 000	7 150
Non-Current Assets			**Non-current Liability**		
Fixtures & Fittings	3 800		Loan		3500
Equipment	1 000	4 800	**OWNER'S EQUITY**		
			Capital	6 850	
			Add Net Profit	600	7 450
Total Assets		18 100	**Total Equities**		18 100

The classification of assets and liabilities can be seen as an application of the ***Going Concern principle***. The principle assumes that the life of the business in indefinite and continuous. Accordingly, it allows for the business to identify assets which will lead to economic benefits within twelve months, and those assets which will take longer to realise the economic benefit.

Recap: Classified Balance Sheet

1. Revisit the account titles in Recap 2 (Chapter 2.1). Classify the Assets and Liabilities as Current or Non-current.
2. What is the difference between a current asset and a non-current asset?
3. What is the difference between a current liability and non-current liability?

3.3 Rules of Double Entry

Key terms & concepts:

transaction analysis, twofold effect, rules of double entry

Learning Outcomes:

- All of us will be able to explain the twofold effect of a transaction
- Most of us will be able to identify the rules of double entry accounting
- Some of us will be able to apply the rules of double entry accounting to transaction analyses

Our earlier work on the Accounting Equation reminds us that every transaction has two equal but opposing effects on the Balance Sheet. The Balance Sheet remains in balance after every transaction.

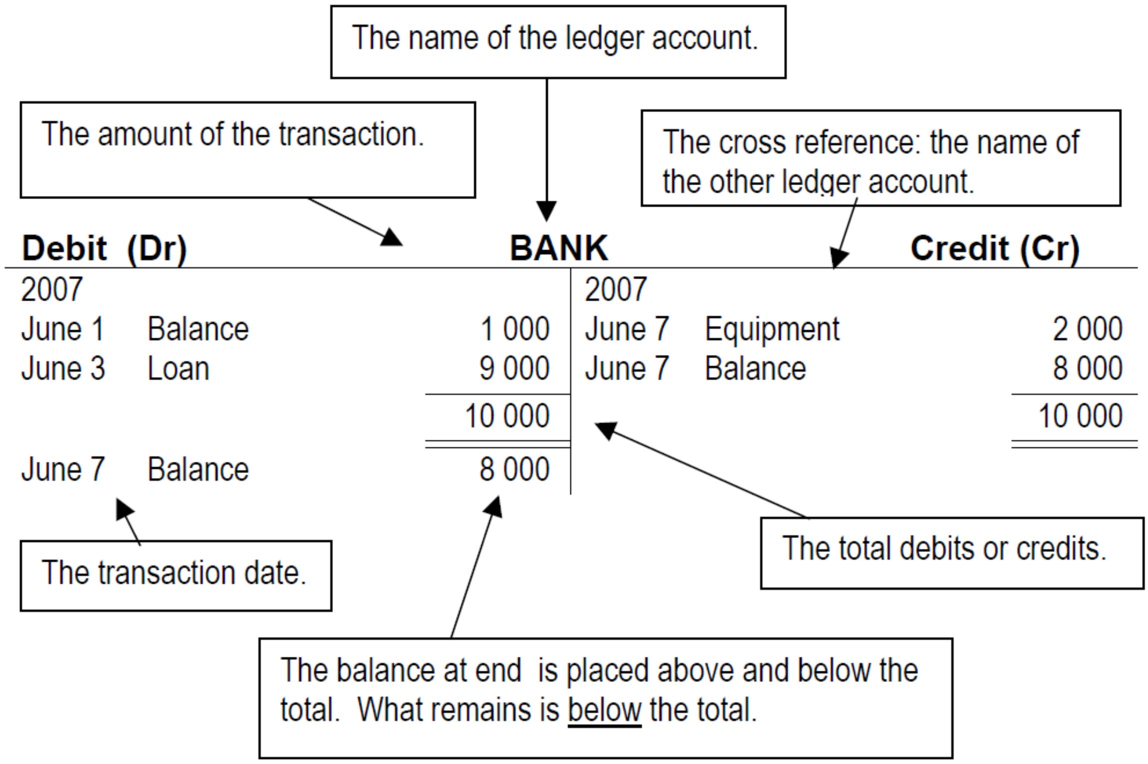
The Balance Sheet could be re-drawn after each transaction, but we know that this would be impractical.

We have studied that the process involves collecting, recording and reporting. The Balance Sheet is a report. The transactions need to be collected and recorded in a systematic way.

One such way is to record each transaction directly into a ledger system. The ledger is a way of recording transactions without constantly changing the Balance Sheet. Each item in the Balance Sheet has its own ledger account which summarises the changes in it.

An account is a record in an accounting system that summarises changes in an asset, liability, owner's equity, revenue or expense items.

The ledger is the collective record of transactions in a 'double entry system'. It is the collection of accounts. The left hand side of any ledger account is called Debit and the right hand side is called Credit. This is shown in the example of the Bank ledger account below:



(Source: Collyer, Foundation Year Accounting, 2009)

In order to record the transactions in each ledger, we must apply the rules of double entry which are summarised here:

ELEMENT	INCREASE	DECREASE
Assets Expenses	Debit	Credit
Liabilities Revenue	Credit	Debit

You have already been using this knowledge in your work on the Accounting Equation Your teacher can provide you with a template for transaction analysis that allows you to add in the rules of double entry.

4
Source Documents to Special Journals

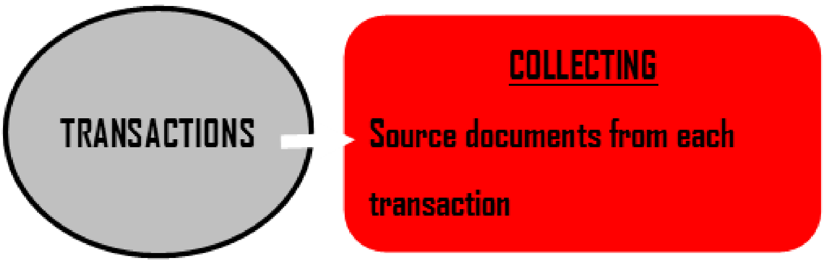
4.1 Source Documents

Key terms & concepts:

Source documents, nature and purpose of source documents, historical cost principle, reliability

Learning Outcomes:

- All of us will be able to identify source documents
- Most of us will be able to describe the transactions evidenced
- Some of us will be able to apply the Historical Cost Principle and explain Reliability



A source document is the original document containing the details to substantiate a transaction in an accounting system. The source document provides evidence that a transaction occurred, and is seen to be free of bias. This makes the source document a reliable input for the accounting process. Every transaction generates a source document, and these source documents are collected and sorted for recording.

It is extremely important to keep all Accounting Source Documents and to maintain a filing system where they can easily be found when required. Failure to maintain filing processes can be very costly in time wasted.

Accounting source documents are required for:

- Verifying transactions on a month-to-month basis
- End-of-year financial audit
- Satisfying the requirements of the Taxation Office

The source documents we will use in this course are:

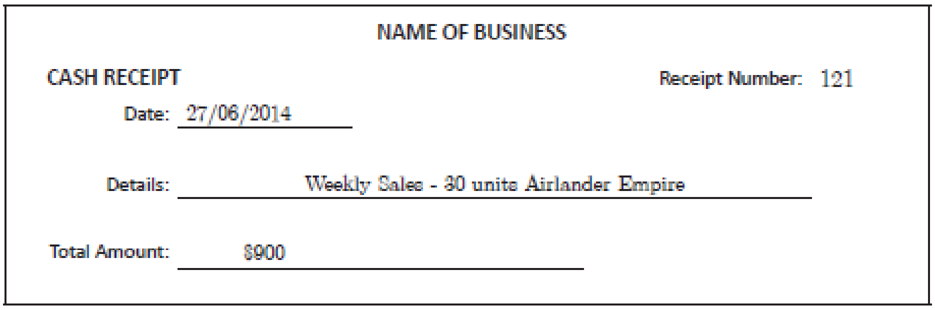
- Cash Receipt
- Cheque Butt
- Invoice
- Credit Note
- Bank Statement
- Statement of Account

- Memorandum

We will now look at each source document for its format, content and purpose.

Cash Receipt

A cash receipt is evidence of any transaction where the business receives cash. The most common format we associate with a cash receipt is shown in Fig 1 below:


NAME OF BUSINESS

CASH RECEIPT Receipt Number: 121

Date: 27/06/2014

Details: Weekly Sales - 30 units Airlander Empire

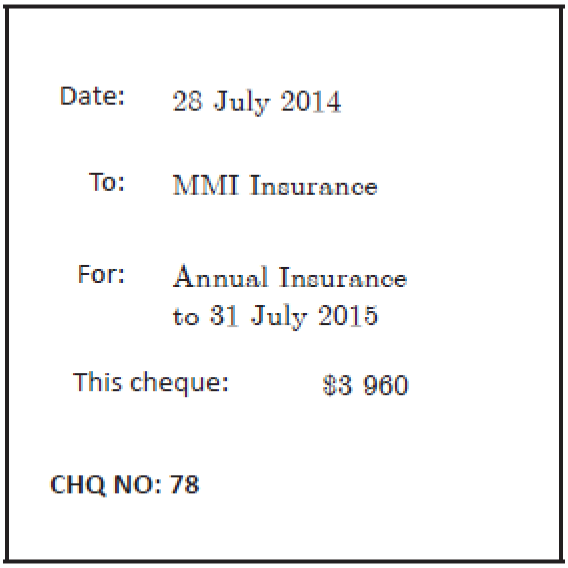
Total Amount: $900

Fig1: Cash Receipt

The original of the receipt will be given to the customer, so the business will retain a copy. Since the receipt is given by the business, every receipt will be re-numbered, and sequential. If the example in Fig 1 is Rec No 121, what will be the next receipt given to a customer? Why do you think the receipts are pre-numbered in this way?

Cheque Butt

A business pays all its obligations via cheque payments. Any cash which flows out of the business will be evidenced via the cheque butt which remains with the business. The example of a cheque butt is shown in Fig 2:


Date: 28 July 2014

To: MMI Insurance

For: Annual Insurance to 31 July 2015

This cheque: $3 960

CHQ NO: 78

Fig 2: Cheque Butt

The original cheque is sent by the business to settle its accounts due, so the cheque butt becomes the source document to record transactions where the business pays cash to a supplier, an employee, drawings or for expenses. Cheques are pre-numbered by the bank when they provide customers with cheque books for their bank accounts. So the business will also be able to record these cheque numbers in sequence in its own records. Why would the bank provide pre-numbered cheques? How can this help the business?

Invoice

An invoice is a source document for the provision of goods or services on credit terms. In this unit, we will be using a sales invoice and a purchase invoice. A sales invoice is given by the business when it provides goods to its customers now, but will receive payment later. The customer will be invoiced for the amount owing, and will "settle their account" in the future. An example of a sales invoice is shown below in Fig 3:

Name of Business
24 Perth Court
Gladview

Invoice: TP43 Date: 3/12/15

Charge to: *Customer Name*
82 Colton Close
Gowanhill, 3045

Item	Qty	Unit Price	Total
ABC of Numbers	40	$20	$800
ABC of Places	40	$25	$1,000
Words and Faces	20	$28	$560

Invoice Total **$2,360**

Terms: 2/14 n/30

Fig 3: Sales Invoice

Look at the format of the sales invoice and consider the following questions:

- Identify where we might expect to find the business details
- How can we identify the customer?
- Does the invoice have a reference number?
- Will the business give the customer the original or the copy?
- What does the statement "Terms: 2/14, n/30" refer to?

The purchase invoice is used to record transactions where the business buys stock from a supplier on credit. In this instance, the business purchases the stock now, but will pay for it later. The purchase invoice is shown in Fig 4:

Name of Supplier
Main Road
Millstream

Tax Invoice L36
Date: 30/09/2015

Charge to:	Business Name	
Item:	Bike Racks	
Quantity:	10 Units @ $600	$6 000
Balance Owing:		$6 000
Terms:	30 days	

Fig 4: Purchase Invoice

Given what we know about the sales invoice and consider the following questions for the purchase invoice:

- Who is the customer in a credit purchase?
- Will the business get the original or the copy of the purchase invoice?
- Does the invoice have a reference number?
- Will the reference numbers from purchases invoices be in sequential order when they are recorded by the business? Why/why not?

Credit Note

Credit notes are used to record transactions where the business returns stock to a supplier (purchase return) or a customer returns stock to the business (sales returns).

As we have learnt about invoices, credit notes issued by the business (sales return) will be pre-numbered and sequentially recorded in our accounting records. The customer will receive the original copy, and the business will file the copy of the credit notes in it system.

Alternatively, when the business returns any stock to a supplier as a purchase return, the business will receive the original credit note for its records. An example of a credit note is shown below in Fig 5:

Name of Business
Station Street
Camberfield

Date: 30/09/15
Credit Note: S82

Credit to: *Customer Name*
Main Road
Millstream

Item	Qty	Unit Cost	$
Roof Racks 432b	10	30.00	300.00

Total **$300.00**

Reason: Wrong Model

Fig 5: Credit Note

Bank Statement

As the term implies, a bank statement is a document prepared by the bank where the business has an account. The statement records all movements of cash in and out of the account. This allows a cross-check between the bank's records and the business records which is referred to as a reconciliation. The bank statement may also provide details of items such as Interest, which the bank is unlikely to communicate separately, and so the business may not be aware of until it check this source document.

ACCOUNT STATEMENT

EZY Bank
Dexter's Driving School
PO BOX 47
Berwick VIC 3806

Account Number: 666 832
Date of Issue: 30 April 2015

Date	Particulars	Debit	Credit	Balance
01/04	Balance carried forward			4 960 Cr
01/04	Account Fees	5		4 955 Cr
04/04	Cheque		330	5 285 Cr
07/04	Cash		440	5 725 Cr
08/04	318	88		5 637 Cr
09/04	319	528		5 109 Cr
10/04	Transfer: Dexter Morgan		2 000	7 109 Cr
13/04	Cheque		770	7 879 Cr
17/04	320	220		7 659 Cr
19/04	Cash		550	8 209 Cr
20/04	Cheque		528	8 737 Cr
21/04	321	99		8 638 Cr
24/04	Dishonoured Cheque	330		8 308 Cr
25/04	Loan Repayment	250		8 058 Cr
28/04	322	484		7 574 Cr
30/04	Interest		8	7 582 Cr

Opening Balance	-Total Debits	+Total Credits	=Closing Balance
4 960 Cr	2 004	4 626	7 582 Cr

Fig 6: Bank Statement

Look at the example of a bank statement in Fig 6 and identify the bank, the customer, the total cash inflows and the total cash flows.

Why might it be beneficial for the business to reconcile its internal records to the bank statement?

Statement of Account

A statement of account is a document that summarises all transactions between the business and a debtor (or between the business and a creditor) for a period and is used as a means of cross-checking transactions from different journals. An example of a Statement of Account if shown below in Fig 7:

Name of Business
138 Merry Drive
Lakeview

STATEMENT OF ACCOUNT

Date: 2015
30 April

Debtor: Name of Customer
24 Graham Road, Strathview

Acc. No: D28

Date	Details	Debit	Credit	Balance	
1/4/15	Balance			7 400	Dr
9/4/15	Sale - Invoice X56				
	100 Medium Bottles @ $50 each	5 000		12 400	Dr
	100 Large Bottles @ $80 each	8 000		20 400	Dr
	50 Xtra Large Bottles @ $150 each	7 500		27 900	Dr
11/4/15	Payment - Cheque 98		7 326	20 574	Dr
	Discount		74	20 500	Dr
16/4/15	Returned - CNWW23				
	10 Large Bottles @ $80 each		800	19 700	Dr
21/4/15	Payment - Cheque 121		12 000	7 700	Dr
28/4/14	Sale - Invoice X67				
	20 Medium Bottles @ $50 each	1 000		8 700	Dr
	20 Xtra Bottles @ $150 each	3 000		11 700	Dr
	Closing Balance			**11 700**	Dr

Fig 7: Statement of Account

Look at the data in Fig 6 and that provided in Fig 7 and consider the following questions:

- What are the common aspects you can identify?
- What are the differences?
- How can a statement from a creditor help the business?
- How can issuing a statement of account to a debtor help the business?

Memorandum

A memorandum, generally called a memo, is used to record infrequent, non-cash, internal transactions where no other documents exist. For example, if the owner has contributed furniture to the business and this needs to be recorded and recognised by the business, it will be recorded in a memo as shown in Fig 8 below:

MEMO 4 **Mac's World**

DATE: 28 July 2014

COMMENT: Office Desk and chair delivered to business

ACTION: Prepare journal entry to record the contribution of furniture from owner to the business

Gordon McDonald

Fig 8: Memorandum (memo)

Reflect upon all the source documents we have looked at so far. Can you identify one other example of a transaction which could not be evidenced by any other document and would require a memorandum?

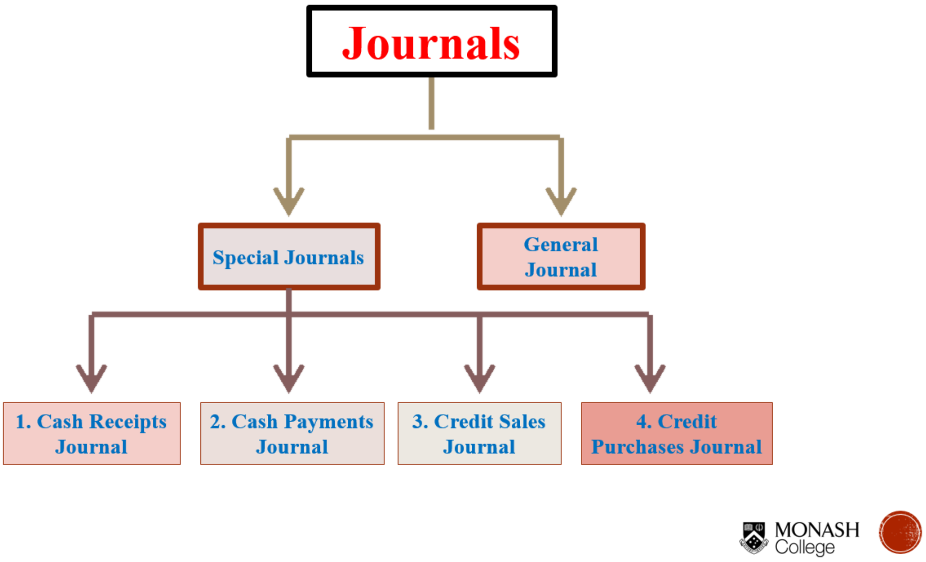
4.2 Special Journals

Key terms & concepts:

purpose of journals, cash receipts journal, cash payments journal, sales journal, purchases journal

Learning Outcomes:

- All of us will be able to describe the function and format of special journals
- Most of us will be able to record transactions in special journals
- Some of us will be able to explain the difference between the special journals



Journals are books of first entry in which the daily details or raw data of transactions from source documents are recorded. We may think of the journals as a diary of the everyday life of the business, in the same way that we may keep a journal of our writing when we study English.

Special Journals are journals that cater for the most common and most frequently occurring transactions. They group and summarise similar transactions, so that totals can be posted to the General Ledger, which reduces the number of entries in the general ledger and improves the efficiency of the recording system. In other words, it's a place where similar transactions can be recorded and organized, so accountants can keep track of different business activities.

The most common special journals are:

- Cash Receipts Journal (CRJ)
- Cash Payments Journal (CPJ)
- Sales Journal (SJ)
- Purchases Journal (PJ)

The Cash Receipts Journal records all transactions that result in an inflow of cash to the business. All inflows of cash will lead to an increase in the Bank ledger account. This can include transactions such as:

- Owner contributes cash to commence the business.
- The business took out a loan from the Bank.
- There was a cash sale.
- The business received a commission.
- The business' investment earned interest.

We will be using the following format of a Cash Receipts Journal:

Cash Receipts Journal

Date	Details	Rec. no.	Bank $	(*) Disc. Exp. $	Debtors Control $	(*) Cost of sales $	Sales $	*	Sundries $
Date of the transaction.	What was the cash been received for.	Document Reference	The amount of cash that was deposited into the Bank account at the end of the day.	The cash discount given to the debtor for prompt payment.	The total amount owed by the person or business that purchased stock on credit.	The cost of the goods sold (at cost price). This amount has not been received. This is a book entry only.	The amount of cash received from the goods sold (at selling price).	This column will only be used for transactions that have occurred more than once.	This column is only used for items that occur infrequently or are a one-off item for which cash has been received.
2014 Feb 1	Capital	25	$1,000						$1,000
3	Loan	Bank Statement (BS)	$12,000						$12,000
8	Sales	26	$892			446	892		
10	Debtor – I. Butler	27	$495	$5	$500				
28	Interest on investment	Bank Statement (BS)	$8						$8

(*) not cash items

The Cash Payments Journal records all transactions that result in an outflow of cash from the business. All outflows of cash will lead to a decrease in the Bank ledger account. This can include transactions such as:

- Owner withdrawing cash from the business.
- The business repaying a loan to the bank.
- There was a cash purchase of stock.
- The business paid a commission.
- The business paid interest owed on borrowings
- Amounts for electricity and other utilities are paid
- Workers are paid wages

We will be using the following format of a Cash Payment Journal:

Cash Payments Journal

Date	Details	Chq. no.	Bank $	(*) Disc. Rev. $	Creditors Control $	Stock Control $	*	*	Sundries $
Date of the transaction	What was the cash paid for.	Document reference	The amount of cash that has been withdrawn from the Bank account.	The discount received from the creditor for prompt payment.	The total amount owed to the supplier for stock purchased stock on credit.	The amount paid for the purchase of stock with cash.	These columns will only be used for transactions that have occurred more than once.		This column is only used for items that occur infrequently or are a one-off item for which cash has been paid for.
2014 Feb 4	Stock Control	101	356			356			
7	Motor vehicle expense	102	43						43
12	Electricity	103	425						425
15	Drawings – D. Abdul	104	500						500
17	Creditor – J. Sutton	105	588	12	600				
21	Loan – Bendigo Bank	106	1200						1200
25	Interest on loan	107	74						74
28	Wages	108	1400						1400

(*) not cash items

The Sales Journal records all transactions that involve the sale of stock to customers on credit terms. We know from our earlier work on transaction analysis, that every sale involves recording a transaction at cost price, and also at sale price. So a credit sale will result in the following:

- Increase in Sales Revenue
- Increase in Debtors Control
- Decrease in Stock Control
- Increase in Cost of Sales

We will be using the following format of a Sales Journal:

SALES JOURNAL

Sales Journal

Date	Debtor	Inv. No.	Cost of Sales $	Sales $
Date of the transaction.	The person or business to whom this business sold stock on credit.	The Sales Invoice number	The stock sold at cost price.	The stock sold at selling price.

The Purchases Journal records all transactions that involve the purchase of stock from suppliers on credit terms. So a credit purchase of stock will result in the following:

- Increase in Stock Control
- Increase in Creditors Control

We will be using the following format of a Purchases Journal:

PURCHASES JOURNAL

Purchases Journal

Date	Creditor	Inv. No.	Stock Control $
Date of the transaction	The person or business from whom this business purchased stock on credit.	The Purchase Invoice number	The stock purchased at cost price.

5
General Journal

5.1 General Journal

Key terms & concepts:

general journal, twofold effect, rules of double entry, function and format of the general journal

Learning Outcomes:

- All of us will be able to explain the function and format of the General Journal
- Most of us will be able to record transactions in the General Journal
- Some of us will be able to differentiate the Special Journals from the General Journal

In the previous section we explored the role of Special Journals. All of these are used to record specific transactions and keep organized records outside of the general journal. In other words, this system is a way to categorize transactions into different types and groups.

If the transaction cannot be recorded in a special journal, it is recorded in the general journal. For example, consider the following transactions:

- Owner withdraws stock
- Stock is donated or used for advertising
- Customer returns stock to the business (Sales returns)
- Business returns stock to its supplier (Purchase returns)
- Business purchases a non-current asset on credit
- Owner contributes a non-current asset

All of the above transactions are examples of transactions which cannot be grouped into any of the special journals. They would be recorded in the general journal.

We will be using the following format for the General Journal:

General journal					
Date	Particulars	General ledger		Subsidiary ledgers	
		Debit	Credit	Debit	Credit

Recap: Recording in the General Journal

1. What do you notice about the format of the General Journal?
2. Work with your class mates to analyse each of the transactions listed above for the General Journal.
3. Use your transaction analysis to create a General Journal entry for each transactions (you can imagine an appropriate value for each transaction).

6
Posting from Journals to General Ledger

Posting Journals to the General Ledger

Key terms & concepts:

general ledger, twofold effect, transaction analysis, double entry accounting

Learning Outcomes:

- All of us will be able to identify the twofold effect of totals in special journals
- Most of us will be able to post special journals and general journal to the general ledger
- Some of us will be able to balance the ledger accounts after posting

The journals are used to collect and organise like transactions, and to record the details of transactions as they occur on a daily basis. At the end of the reporting period, the totals of the journals must be posted to the General Ledger accounts. The General Ledger is the collective record of transactions in a 'double entry system'. It is the collection of accounts that the business uses to record its financial data.

Look back at our earlier work in Section 3.3 and revise the rules of double entry. Remember that the left hand side of any ledger account is called the Debit side and the right hand side is called the Credit side.

Now consider each special journal and the transactions which it groups together.

For example, in the Cash Receipts Journal, all transactions leading to an inflow of cash is recorded. The total of the Bank column represents the total amount that the Bank account increased. Applying the rules of double entry would mean that we would post the totals from the cash receipts journal as follows:

- DR- Bank
- DR- Discount Expense
- CR- Debtors Control; Sales (SP); All other sources of cash inflow
- DR- Cost of Sales (CP)
- CR Stock Control (CP)

The table below summarises the double entry required to post the total amounts from the special journals to the General Ledger. The General Journal is posted in the manner in which the journal entry is recorded.

JOURNAL	DEBIT	CREDIT
Cash Receipts Journal	Bank Discount Expense Cost of Sales (CP)	All sources of inflow Stock Control (CP)
Cash Payments Journal	All sources of outflow	Bank Discount Revenue
Sales Journal	Debtors Control (SP) Cost of Sales (CP)	Sales (SP) Stock Control (CP)
Purchases Journal	Stock Control	Creditors Control

7
Subsidiary Records- Debtors and Creditors

Subsidiary Records - Debtors & Creditors

Key terms & concepts:

control accounts, subsidiary records, debtors subsidiary ledger, creditors subsidiary ledger, schedules, reconciliation

Learning Outcomes:

- All of us will be able to identify and explain the purpose of Control accounts and subsidiary records
- Most of us will be able to record transactions in subsidiary ledgers
- Some of us will be able to analyse the relationship between subsidiary records and the general ledger

The General Ledger is the collection of accounts that the business uses to record the twofold effect of all its transactions. It includes control accounts for Stock, Debtors and Creditors. The control account simplifies the general ledger as it reflects only the total amounts that have been posted as a single entry.

However, the business needs to know the individual details of each debtor, creditor or stock item. This individual detail will be recorded and maintained in the subsidiary records. There are now two ledgers - the 'General Ledger' where control accounts are used and the subsidiary ledgers where individual accounts for debtors and individual accounts for creditors are listed.

The Debtors Subsidiary Ledger is a detailed record of all transactions involving each debtor, and the balance of what each debtor owes.

The Creditors Subsidiary Ledger is a detailed record of all transactions involving each creditor, and the balance of what each creditor that the business is owed.

In contrast to the General Ledger, in which only the totals are posted at the end of the period, the Debtors Subsidiary Ledger must show each individual credit sale, in the account of each individual debtor, on the date the transaction actually occurred. Similarly, the Creditors Subsidiary Ledger must show each individual credit purchase, in the account of each individual creditor, on the date the transaction actually occurred.

Since the source of the information recorded in both ledgers is in the same journals, it should be possible to 'reconcile' the subsidiary ledger with the control account in the general ledger. Reconciling the subsidiary records with the control account means that the total of the balances of each subsidiary account should equal the balance of the control account. This is done through the creation of a 'schedule'.

Reconciling the subsidiary records with the control account is also a control measure. Firstly, if the total of the individual balances doesn't equal the balance of the control account then there is a recording error that needs to be corrected. Secondly, if duties are separated and different people keep the general and subsidiary ledgers, one ledger is a more effective check on the other than if the same person kept both.

Control accounts may not be used if a business has few if any credit transactions, and hence few debtors and creditors. The cost of keeping the additional records has to be weighed against the benefits.

Look at the example of the Debtors Control Account and the Debtors Subsidiary Ledger below (Fig 1). Use the colour coding to identify what has happened with each debtor, and how the subsidiary records are linked to the control account in the General Ledger.

An example of the Debtors Schedule is also provided below (Fig 2).

Work with your teacher in the lesson to look at examples and practices exercises recording in the subsidiary records for Debtors and for Creditors.

GENERAL LEDGER

Debtors Control Account (A)

Date	Cross reference	Amt $	Date	Cross reference	Amt $
2010 Sep1	Balance	10642	2010 Sep 30	Cash at bank/ Discount expense	6842
30	Credit sales	6403		Sales returns	230
				Balance	9973
		17045			17045
2010 Oct 1	Balance	9973			

DEBTORS SUBSIDIARY LEDGER

Date	Cross reference	Amt $	Date	Cross reference	Amt $
2010 Sep 4	Credit sales	1200	2010 Sep 12	Cash at bank/ Discount expense	1200
		1200			1200

Gaga Tinkerbelle Account

Date	Cross reference	Amt $	Date	Cross reference	Amt $
2010 Sep 1	Balance	10642	2010 Sep 5	Cash at bank	5642
7	Credit sales	5203	9	Sales returns	230
			30	Balance	9973
		15845			15845
Oct 1	Balance	9973			

Fig 1: Debtors Control and Subsidiary Ledgers

Debtors Schedule as at 30 Sep 2010	
Debtor	Amount
David Smith	0
Gaga Tinkerbelle	9973
Balance as per Debtors Control account (This amount MUST equal to the end of reporting balance amount of the Debtors Control Account)	9973

Fig 2: Debtors Schedule

8
Subsidiary Records- Stock Cards

Subsidiary Records- Stock Cards

Key terms & concepts:

control accounts, subsidiary records, stock card, FIFO, schedule, reconciliation

Learning Outcomes:

- All of us will be able to identify and explain the purpose of Stock Control and stock cards
- Most of us will be able to record transactions in stock cards
- Some of us will be able to analyse the relationship between subsidiary records and the general ledger

The subsidiary record for stock items are the stock cards. Stock cards provide a system for recording and tracking all movements of stock into and out of the business, with a continuous balance. This is known as a perpetual inventory (stock) system.

The business will record and maintain one stock card for each item of stock that they carry. The key characteristics of a stock card are listed below:

- Physical movements of stock are recorded as well as values.
- There is a continuous balance of stock.
- There is a stock card is for each a particular line of stock.
- Document reference are recorded so the record can be verified.
- The balance of the stock card can be verified by doing a physical stock take.

It is important to understand that the balance of the stock card is what ought to be on hand. It is based on documents. The actual amount of stock can only be verified by doing a stock take (a physical count).

The balance of each stock card will also be used to create a Stock Schedule, which should reconcile to the Stock Control account.

Look at the example of a Stock Card below (Fig 1). Examine the source documents shown in the details column. Identify the transaction from each source document recorded.

Work with your teacher to complete practice exercises.

Stock Card: Item A

Date	Details	IN			OUT			BALANCE		
		Qty	Unit Cost $	Total Cost $	Qty	Unit Cost $	Total Cost $	Qty	Unit Cost $	Total Cost $
2016 Jul 1	Chq. No. 001	15	25	375				15	25	375
Jul 3	Inv. No. 178	12	30	360				15 12	25 30	375 360
Jul 5	Rec. No. 001				15 3	25 30	375 90	9	30	270
Jul 7	Chq. No. 004	10	35	350				9 10	30 35	270 350
Jul 9	Inv. No. 002				5	30	150	4 10	30 35	120 350
Jul 11	CN No. CN001	3	30	90				7 10	30 35	210 350
Jul 12	CN No. CN597				3	30	90	4 10	30 35	120 350

9 Trial Balance

10
Financial Reports