Stanford College Australia

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**RTO No. 40514 CRICORS No. 037252B**

Student Guide

BSBFIA401 Prepare financial reports

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# Overview

### Introduction

* The Student Guide should be used in conjunction with the recommended reading and any further course notes or activities given by the trainer/assessor.

### Duration

5 weeks Content delivery: 3 weeks

Assessment: 2 weeks

|  |  |  |
| --- | --- | --- |
| Week | Topics | Content |
| Week 1 | Introduction | * introduction * Australian Accounting Standards Board (AASB) * Accounting Professional & Ethical Standards Board (APES) * Australian Securities and Investments Commission (ASIC) * Privacy Act 1988 * the general journal * the general ledger * double entry bookkeeping * financial reporting * estimating assets * workplace health and safety considerations |
|  | Topic 1: Maintain asset register | * terminology * calculating depreciation * depreciation schedule * prepare and maintain an asset register |
| Week 2 | Topic 2: Record general journal entries for balance day adjustments | * current assets * non-current assets * bad debt -v- doubtful debt * pre-payment and accruals * write offs * adjusting the inventory account |
| Week 3 | Topic 3: Prepare final general ledger accounts | * general journal entries * balance day adjustments * posting to final general ledger accounts * organizational policies and procedures * financial policy and procedure |
|  | Topic 4: Prepare end of period financial reports | * preparation of reports * revenue accounts * reporting periods * balance sheet * correcting errors |
| Week 4&5 | Unit review and Assessment Tasks | |

### Recommended text

The following text is recommended for this unit:

Accounting Principles Book Two: Prepare Financial Reports, Anne Collins & Andrew Duncan, 13th Ed (2018)

### Content

The Student Guide includes:

* Topics for the unit
* Activities
* Links to websites containing relevant information
* (if the links are broken, copy and paste into a web browser).

Activities:

The trainer/assessor will provide a simulated work environment therefore, the activities provided in the Student Guide:

* Reflect real life work tasks.
* Are performed to industry safety requirements as relevant.
* Use authentic workplace documentation.
* Require you to work with others as part of a team.
* Require you to plan and prioritise competing work tasks.
* Involve the use of standard, workplace equipment such as computers and software.
* Take into consideration workplace constraints such as time and budgets.
* Activities will either be self-directed or carried out as part of group or team work.
* Read through the activity carefully and ask the trainer/assessor for guidance if required.
* Time will be allocated for completing the activity, along with class discussion and feedback.
* Some activities may require you to submit work to the trainer/assessor for feedback. Where this is the case, it will be indicated at the bottom of the activity.

Video clips:

* If presented in class, take part in any class discussions, providing feedback and contributing to debate and arguments.
* If directed to watch the video in self-study, or independently in class, then take notes so that contributions to any future class discussions can be made.

Roleplays:

The trainer/assessor will direct class roleplays.

When undertaking these activities ensure that you understand the purpose of the roleplay and take part as if you are in a professional situation to provide your fellow classmates with a true-to-life experience. Roleplays rely on your ability to act in a manner which imitates real life situations and can provide you with depth of understanding and practical skills.

### Homework/Self-study

At the end of each session the trainer/assessor will direct you to complete any activities, questions or reading from the day’s session as homework.

Further to this, time should be spent in self-study reading topic notes, independent research, completing project work or watching webinars/video clips that relate to an area being covered.

Any work that you submit should be:

* Professionally typed and presented, using headings, consistent style and layout.
* Your own work and not copy and pasted information from the internet.
* If you are using information researched, reference and source the material or link.
* Submit your work to the trainer/assessor within the timeframe allocated.

### Folder management and naming documents

As a guide, keep all work for this unit in a folder that has the unit code as its name, along with the name of the student. Any activities and assessment tasks should then be saved to this folder.

Save documents logically within the folder structure, include:

* Unit code
* Task number
* Task name
* Your last name (optional)
* The date or version number (optional)

### Back up

Always have a backup of work on a different device. If the college has a student network drive this would be the safest option, however, a backup to a USB or removable hard drive should also be undertaken. If using a USB to save files, then ensure a backup is kept on a laptop or home computer.

## Learning outcomes

By the end of this unit, students will be able to have the skills and knowledge required to record general journal adjustment entries and to prepare end of period financial reports.

Outcomes include:

* Maintaining asset register
* Recording general journal entries for balance day adjustments
* Preparing final general ledger accounts
* Preparing end of period financial reports

# Introduction

Content:

* introduction
* Australian Accounting Standards Board (AASB)
* Accounting Professional & Ethical Standards Board (APES)
* Australian Securities and Investments Commission (ASIC)
* Privacy Act 1988
* the general journal
* the general ledger
* double entry bookkeeping
* financial reporting
* estimating assets
* workplace health and safety considerations

### Introduction

You should develop the skills and knowledge to be able to record journal entries for balance day adjustments, post to ledger, close ledgers at period end, prepare end of period financial reports, and also identify and correct any errors occurring throughout the process.

The following are useful links to websites that could be used throughout this course as reference or support:

* Certified Practicing Accountants (CAP Australia) [www.cpa.com.au](http://www.cpa.com.au/)
* Institute of Chartered Accountants [www.icaa.org.au](http://www.icaa.org.au/)
* Association of Accounting Technicians (AAT) [www.aat.com.au](http://www.aat.com.au/)
* National Institutes of Accountants (NIA)  [www.nia.org.au](http://www.nia.org.au/)
* Australian Taxation Office [www.ato.gov.au](http://www.ato.gov.au/)
* The accounting standards from the Australian Accounting Standards Board [www.aasb.com.au/pronouncements/standards\_index.htm](http://www.aasb.com.au/pronouncements/standards_index.htm)

You will be assessed on your knowledge to record general journal adjustment entries and to prepare end of period financial reports. Ensure you are familiar with the following information.

### Australian Accounting Standards Board (AASB)

The Australian Accounting Standards Board (AASB) is an independent accounting standard-setter.

The AASB develops accounting standards that require transparent and comparable information in general purpose financial statements.

### Accounting Professional & Ethical Standards Board (APES)

The APES is an independent national body that sets the code of ethics and professional standards with which accounting professionals must comply (applies to members of CPA Australia, CA ANZ or IPA).

The Code of Ethics can be found at: <https://www.apesb.org.au/uploads/standards/apesb_standards/standard1.pdf>

### Australian Securities & Investments Commission (ASIC)

ASIC is an independent Commonwealth Government body and is Australia's integrated corporate, markets, financial services and consumer credit regulator.

ASIC has the power to approve codes in the financial services sector. They have released Regulatory Guide 183 Approval of financial services sector codes of conduct (RG 183), which sets out how they will approve a code of practice.

An approved code of practice should meet a number of criteria, including:

* a comprehensive body of rules developed in consultation with stakeholders
* enforceability against subscribers to the code
* adequate provisions for dispute resolution, remedies and sanctions
* effective and independent administration, including compliance monitoring

Codes of practice:

ASIC has not approved codes of practice developed by the financial services industry under RG 183, and ASIC do not oversee their administration. However, they are formal codes developed by the financial services industry and may be useful to consumers.

* Code of Banking Practice: developed by the Australian Bankers’ Association
* Customer Owned Banking Code of Practice: developed by the Customer Owned Banking Association
* FPA Code of Professional Practice: developed by the Financial Planning Association of Australia
* General Insurance Code of Practice: developed by the insurance industry
* Insurance Brokers Code of Practice: developed by the National Insurance Brokers Association of Australia

Laws that ASIC administers:

* Australian Securities and Investments Commission Act 2001
* Corporations Act 2001
* Business Names Registration Act 2011
* Business Names Registration (Transitional and Consequential Provisions) Act 2011
* Insurance Contracts Act 1984
* Superannuation (Resolution of Complaints) Act 1993
* Superannuation Industry (Supervision) Act 1993
* Retirement Savings Accounts Act 1997
* Life Insurance Act 1995
* National Consumer Credit Protection Act 2009
* Medical Indemnity (Prudential Supervision and Product Standards) Act 2003.

### Privacy Act 1988

The [Privacy Act 1988](http://www.comlaw.gov.au/Series/C2004A03712) (Privacy Act) is an Australian law which regulates the handling of personal information about individuals.

The Privacy Act includes thirteen Australian Privacy Principles (APPs). The APPs set out standards, rights and obligations for the handling, holding, use, accessing and correction of personal information (including sensitive information)

|  |
| --- |
| **Activity: Notifiable Data Breaches scheme** |
| This is a new amendment to the Privacy Act. Provide an overview of the purpose of the amendment.  What are the new Australian Privacy Principles (APPs)? |

### The General Journal

The general journal is used to record transactions that do not fit in specialist journals such as the cash receipts journal, the cash payments journal, the sales journal and the purchases journal.

The format of the general journal provides a guide for posting to the general ledger. It identifies the accounts to be debited and credited and then gives a brief explanation of the transaction.

Examples of transactions that may be recorded include

* Opening entries i.e. those entries that record the assets, liabilities and equity to start the accounting system of a business.
* Purchase of non-current assets on credit, for example, purchase of furniture on credit
* Business owner's contribution of capital in assets other than cash to the business (or drawings of an asset other than cash). For example, the owner contributing their own computer or office furniture to the business) or contributing capital in the form of cash.

### The General Ledger

The general ledger is used to sort and store balance sheet and income statement transactions.

Examples of transactions that may be recorded (both assets and liabilities) include:

* Accounts receivable
* Inventory
* Accounts payable

### Double entry bookkeeping

In the double-entry bookkeeping system, at least two accounting entries are required to record each financial transaction. These entries may occur in asset, liability, equity, expense, or revenue accounts.

Recording of a debit amount to one or more accounts and an equal credit amount to one or more accounts results in total debits being equal to total credits for all accounts in the general ledger. If the accounting entries are recorded without error, the aggregate balance of all accounts having Debit balances will be equal to the aggregate balance of all accounts having Credit balances.

Three golden rules of accounting apply to double entry accounting:

1. Debit The Receiver, Credit The Giver

This principle is used in the case of personal accounts. When a person gives something to the organization, it becomes an inflow and therefore the person must be credit in the books of accounts. The converse of this is also true, which is why the receiver needs to be debited.

1. Debit What Comes in, Credit What Goes Out

This principle is applied in case of real accounts. Real accounts involve machinery, land and building etc. They have a debit balance by default. Thus, when you debit what comes in, you are adding to the existing account balance. This is exactly what needs to be done. Similarly, when you credit what goes out, you are reducing the account balance when a tangible asset goes out of the organization.

1. Debit All Expenses and Losses, Credit All Incomes and Gains

This rule is applied when the account in question is a nominal account. The capital of the company is a liability. Therefore, it has a default credit balance. When you credit all incomes and gains, you increase the capital and by debiting expenses and losses, you decrease the capital. This is exactly what needs to be done for the system to stay in balance.

### Financial reporting

Posting methods used in computerised accounting systems:

* Real-time posting: the source transaction is posted to the specific journal and any related subsidiary ledger and is simultaneously posted to the general ledger.
* Batch posting: the journals and subsidiary ledgers are posted, but entries are not yet posted to the general ledger. Posting these journals to the general ledger is done separately. Typically, a group of transactions (often a full day’s worth) is entered. Later, after the journals are reviewed for accuracy, this entire day’s group, or “batch”, is posted to the general ledger.

When errors are found in data provided for financial reporting, the following can be undertaken:

* Take out the source documents or data with the errors, double confirm with the people who provided you the data or your supervisor about the errors and solutions if necessary before entering them to the system
* Go through the general journal or other working paper prepared/used for the preparation of financial report in the previous months from the system or paper folder to understand the steps and relevant accounts to be used for each similar transaction
* Conduct the website research for the queries/questions/issues you have for the preparation of the end-of-month financial reports
* Ask your supervisor, the person who provided you the data, or your colleague who prepared the same financial reports in the previous months.

Balance day adjustments required for accruals -v- balance day adjustments required for prepayments:

* Balance day adjustments are adjustments that need to be made on some accounts at the end of the financial year, so that they accurately reflect the position of the business. Balance day adjustments are general journal entries made as at balance day in order to compare (match) the revenues and expenses accurately so that the profit (or loss) can be determined.
* The balance day adjustments for accruals will be divided into two categories: accrued expenses and accrued income.
* Accrued expenses are costs incurred by a business in the current accounting period that have not yet been paid. For example, wages, rent.
* Accrued revenues are revenues that have been earned in the current financial period but not yet received. For example, commission revenue, interest revenue, rent revenue.
* The balance day adjustments for prepayments will be divided into two categories: prepaid expenses and unearned revenues.
* Prepaid expenses are the portion of an expenses that has been paid by a business in one accounting period but will be incurred (used up) in a future accounting period. For example, insurance, subscriptions.
* Unearned revenues are income that has been received by a business and recorded in the current accounting period but will not been earned until a future accounting period. For example: Rent revenue.

Adjustments for depreciation expense is required at the end of each reporting period:

* The fixed asset would lose its residual value due to the wear and tear, depletion, passage of time, obsolescence or accidents over a time period, the actual value of the asset cannot be determined if we take the purchase amount in the books every year.
* To charge to expense in a portion of an asset that relates to the revenue generated by that asset (i.e. the matching principle) in order to give the best view of how well a company has performed in a given accounting period,
* To measure the consumption of benefits allocable to the current period, ensuring that, over the useful life of the asset, each period will be allocated its fair share of the cost of the asset acquired.

Allocation approach and a valuation approach to depreciation (according to AASB1021 and AAS4):

* Depreciation can be used to describe a fall in the value of an asset. A fall in value-in-use is described as depreciation and a decline in value-in-exchange is also described as depreciation. Another cause of a reduction in the value includes technological obsolescence. The allocation approach of depreciation is where the depreciable amount of a non-current asset is allocated as an expense to the reporting periods in which the asset is used to generate revenues. AASB1021 and AAS4 adopt a cost allocation approach rather than a valuation approach to depreciation.
* Depreciation is a process of allocation. The depreciable amount of an asset shall be allocated on a systematic basis over its useful life. The depreciation method used shall reflect the pattern in which the asset’s future economic benefits are expected to be consumed by the entity.
* There are at least three variables that cause a change in value of an asset over the period:
* A reduction in value owing to the use of the asset over the period;
* An increase/decrease in the value owing to a change in the general price level;
* A change in the specific price level for this type of asset.
* When depreciation is calculated as an allocation of the cost of the asset, what is being measured in variable above. If an asset is measured at a revalued amount such as its fair value, and if depreciation is measured as the change in the fair value over the period, then the amount calculated will be a mixture of all the above variables. If the increase in price levels is so high that the fair value of an asset increases over the period, then no depreciation will be calculated.
* AASB1021 and AAS4 adopt a cost allocation approach rather than a valuation approach to depreciation.

### Estimating assets

It is important for estimates of the useful lives and expected residual values of depreciable non-current assets to be reviewed annually to allow for changes in the residual value and life over the years. When the management of a business first determines the total useful life of an asset, it requires them to make estimates relating to events about which it has no direct knowledge. It is difficult to do this without knowledge of how the asset will be used after it has been sold.

### Workplace Health and Safety considerations

Accountants can spend many hours working at a desk and computer screen. To ensure safe working conditions, the following considerations should be addressed to avoid risk of accident, injury or illness.

* Ergonomics issues such as design of workstation, adjustable chair, monitor risers, adjustable keyboards, ergonomic mice,
* Cables and electrical wires: to avoid trips and falls issues
* Taking regular rest breaks to avoid fatigue, headache, eyestrain, back pain etc.
* Using ladders to gain access to hard copy files or archive boxes that may be too high to reach
* Putting a glare screen over the monitor to avoid eyestrain and headaches
* The temperature of the room: too cold or too hot can lead to illness
* Safety of equipment being used: is it plugged in correctly, has it been malfunctioning, etc.

# Topic 1: Maintain asset register

Content:

* terminology
* calculating depreciation
* depreciation schedule
* prepare and maintain an asset register

### Terminology

* current assets;
* fixed assets;
* non-current assets;
* historical cost;
* market value;
* written down value/book-value, depreciation; and
* accumulated depreciation.

### Calculating Depreciation

* Straight line;
* Units of use; and
* Reducing balance.

### Depreciation schedule

Carrying Value/Amount and Closing Carrying Value/Amount of Non-Current Asset is the current terminology used as opposed to Opening/Closing Written down value.

### Prepare and maintain an asset register

An asset register is kept to record all the fixed assets in a business.

If registers are maintained properly then the information on assets is instantly available

Asset registers should be kept up to date otherwise the information is unreliable.

Assets include:

* Buildings
* Land
* Vehicles
* Equipment
* Machinery
* Hardware and software

An asset register can be created in a table or spreadsheet and should include:

* Name of asset
* Description of asset
* Value
* Depreciation
* Location
* Any other details

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| **Activity: Maintain an asset register** |
| Assume that you have been asked to create a hardware asset register that will need to be maintained over the year. The assets will comprise of:  Desktop computers  Printers  Keyboard, Monitor, mouse  Back-up drives  Any other devices present in the room. |
| The register must be created in a spreadsheet, be saved with an appropriate name and version number and be in accordance with legislative, organisational policy and procedures and accounting requirements. |
| The hardware asset register can be conducted in the classroom, at a workplace, the RTO office or any other real life example. |
| It should contain the following:   * Name of the asset * Description of asset * Value * Location * Any other relevant details pertaining to hardware, such as make, model, serial number.   An explanation of how depreciation will be calculated should be provided in a worksheet, along with a depreciation schedule for each asset. |
| Write a procedure that can be followed for maintaining the register and include this in the workbook.  The following method for calculating depreciation can be referred to, ensure that the method undertaken is relevant to computer hardware: <https://www.fool.com/knowledge-center/how-to-calculate-monthly-accumulated-depreciation.aspx> |

# Topic 2: Record general journal entries for balance day adjustments

Content:

* current assets
* non-current assets
* bad debt -v- doubtful debt
* pre-payment and accruals
* write offs
* adjusting the inventory account

### Current assets

Current assets are assets used in the short-term – on the balance sheet they contain all of the assets that are likely to be converted into cash within one year.

Current assets are separated from other resources as it is relied upon to fund ongoing operations and pay for expenses. Current assets include:

* + - Cash
    - Inventory
    - Accounts receivable

### Non-current assets

These are long-term investments or assets that have a useful life of more than one year. Noncurrent assets should last many years and are considered illiquid (easily liquidated into cash). This includes property, plant and equipment. Intangible assets are often classed as non-current assets, for example Intellectual property would have a useful life for more than a year.

Non-current assets and depreciation

Depreciation spreads the cost of a tangible asset over its useful life. Noncurrent assets are typically depreciated for accounting purposes.

How to record the disposal of assets

The overall concept for the accounting for asset disposals is to reverse both the recorded cost of the fixed asset and the corresponding amount of accumulated depreciation. Any remaining difference between the two is recognized as either a gain or a loss. The gain or loss is calculated as the net disposal proceeds, minus the asset’s carrying value.

Source and further information from: <https://www.accountingtools.com/>

Noncurrent assets can be depreciated using the straight-line depreciation method by subtracting the asset's salvage value from its cost basis and dividing it by the total number of years in its useful life. Thus, the depreciation expense under the straight-line basis is the same for every year of its useful life.

Source and further information from: <https://www.investopedia.com/ask/answers/050615/what-are-some-common-examples-noncurrent-assets.asp>

Normally depreciation of an asset is carried out yearly. However, a company may not be able, or want to wait for the end of the year, to get rid of an asset either through a sale or by breaking down.

A partial year's depreciation can be carried out in order to determine the actual depreciation expense.

### Bad debt -v- doubtful debt

A bad debt is an account receivable that has been clearly identified as not being collectible.

A doubtful debt is an account receivable that might become a bad debt at some point in the future.

Source and further information from: <https://www.accountingtools.com>

**Provision for bad/doubtful debts**

The provision for doubtful debts is the estimated amount of bad debt that will arise from accounts receivable that have been issued but not yet collected. It is identical to the allowance for doubtful accounts. The provision is used under accrual basis accounting, so that an expense is recognized for probable bad debts as soon as invoices are issued to customers, rather than waiting several months to find out exactly which invoices turned out to be uncollectible. Thus, the net impact of the provision for doubtful debts is to accelerate the recognition of bad debts into earlier reporting periods.

Source and further information from: <https://www.accountingtools.com/>

### Pre-payments and accruals

Journal entries for a variety of expenses for pre-payments and accruals can include:

* Telephone
* Electricity
* Rates
* Interest
* Insurance
* Wages and salaries
* Rent
* Taxes.

Revenues for pre-payments and accruals can include:

* Interest
* Rent
* Commission

### Write offs

A write off is a reduction in the recorded amount of an asset. A write off occurs upon the realization that an asset no longer can be converted into cash, can provide no further use to a business, or has no market value.

Source and further information from: <https://www.accountingtools.com/>

### Adjusting the inventory account

At the end of an accounting period, the inventory account is adjusted so that the balance sheet reports the cost of the goods actually owned.

Under the perpetual inventory system, an entity continually updates its inventory records to account for additions to and subtractions from inventory.

The periodic inventory system only updates the ending inventory balance in the general ledger when you conduct a physical inventory count. Since physical inventory counts are time-consuming, few companies do them more than once a quarter or year. In the meantime, the inventory account in the accounting system continues to show the cost of the inventory that was recorded as of the last physical inventory count.

Source and further information from: <https://www.accountingtools.com/>

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| **Activity: Geek Girls - Recording general journal entries** |
| 1. Geek Girls bought a van for transporting IT equipment on 1/7/2016 for $25,000 (including GST), and it was decided to depreciate it at 20%. |
| To work out the calculation complete the following:  Year 1: Cost of van x depreciation % = depreciation total  Year 2: (Cost of van - Depreciation total) x depreciation % = depreciation total |
| Using the diminishing balance method, and the table below, record the depreciation of the van’s value for 2017 and 2018. (This should be carried out in an Excel worksheet so that the calculations can be checked for accuracy).   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Year ending | Carrying amount at beginning | Depreciation | Accumulated Depreciation | Carrying amount at end | | 30/06/2017 | 25,000 |  |  |  | | 30/06/2018 |  |  |  |  | |
| 1. Enter a General Journal entry on 30-6-2016 for depreciation  |  |  |  |  | | --- | --- | --- | --- | | Date | Accounts | Dr $ | Cr $ | | 30/6/2016 | Depreciation |  |  | |  | Motor vehicle: Accumulated depreciation |  |  | |
| 1. The trial balance for Geek Girls as at 30-6-2017:  |  |  |  | | --- | --- | --- | | Trial Balance | | | | Details | Debit $ | Credit $ | | Cash at Bank | 10,700 |  | | Accounts receivable | 52,000 |  | | Inventory | 20,000 |  | | Equipment | 45,000 |  | | Accumulated depreciation on equipment |  | 10,000 | | Vehicles | 50,000 |  | | Accumulated depreciation motor vehicles |  | 6,250 | | Land | 27,500 |  | | Accounts payable |  | 25,000 | | Loan |  | 85,000 | | Capital |  | 181,430 | | Sales revenue |  | 120,000 | | Interest revenue |  | 2,000 | | Cost of goods sold | 86,250 |  | | Salaries expense | 30,000 |  | | Rates expense | 1,500 |  | | Stationery expense | 800 |  | | Advertising expense | 1,900 |  | | Interest expense | 300 |  | | Motor Vehicle expense | 780 |  | | Repairs Expense | 2,500 |  | | Insurance Expense | 450 |  | | Total | 329,680 | 329,680 |  1. Enter the above information into an Excel spreadsheet. 2. Create an allowance for doubtful debts equal to 5% of accounts receivable. Write your workings out to calculate the allowance for doubtful debts: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_   Physical stocktake determined inventory at end 30 June 2017 was $18,800. Write your workings for calculating the reduction of inventory: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |

# Topic 3: Prepare final general ledger accounts

Content:

* general journal entries
* balance day adjustments
* posting to final general ledger accounts
* organizational policies and procedures
* financial policy and procedure

### General journal entries

The general journal forms part of the accounting records system. When a transaction occurs it is recorded in a specialty journal or the general journal. The accounting areas represented by these journals are:

* Cash receipts
* Cash disbursements
* Sales
* Purchase

Any other transactions are recorded in the general journal.

Examples of transactions are:

* Depreciation
* Interest income and expense
* Stock sales
* Asset sales

The general journal provides a record of all non-specialised entries in chronological order, that would otherwise have been recorded in one of the specialty journals. The journal will show:

* + - The date of the entry
    - The name of the accounts affected
    - The account numbers
    - The debit amount
    - The credit amount.

### Balance day adjustments

At the end of each accounting period when financial reports are produced, it must ensure that all financial transactions or events that impact upon the organisation are accounted for, otherwise the financial position of an organisation may not be truly reflected.

A balance day adjustment is an adjustment needed at the end of a reporting period. These adjustments are made to certain accounts so that it can correctly show how well the business is doing (for profit or loss).

These are only needed when the accrual accounting system is used.

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| **Activity: Balance day adjustment scenario** |
| Read through the following scenario to understand how balance day adjustments work:  Big Fish is a furniture store. The following occurred:  $1500 was paid in the current accounting period for the repair and upholster of a set of chairs.  The actual expense for this was incurred in a previous accounting period. |
| If no adjustment is made to reflect that the cost was shown in the incorrect accounting period, an untrue picture of the organisation's financial situation would show:   * expenditure of this accounting period would be overstated. * expenditure of the last accounting period would be understated * liability would not be recorded at the end of the accounting period |
| Note that not all Balance Day adjustments relate to actual receipts and payments:   * the financial effect of the depreciation of fixed assets is shown by reducing the value of the asset and showing the cost as an expense; * employees accrue leave pay - at the end of an accounting period this cost to the organisation is recognised and a liability is set up for this purpose. The corresponding cost is shown as an expense. |

### Posting to final general ledger accounts

* Posting is when you record in the ledger accounts, the information contained in the journal.
* When posting journal entries are not changed.
* After transactions have been recorded in a journal they can then be posted into the general ledger.
* The ledger lists all the transactions in a single account, showing the balances of each account.
* After posting entries to the general ledge the balance of each account can be calculated.

### Organisational policies and procedures

An organisational policy will outline the principles and views of a business, it provides an overview of the rules and standards that should be followed. A policy will:

Align with the goals and plans of the business

Outline the principles that should be followed

Be clearly structured and easy to follow

Reflect the culture and values of the business

It should be flexible enough for change

A procedure will provide a clear set of instructions on how to adhere to the policy and guidelines on how to carry it out. Procedures should be:

* Step-by-step with clear and structured, easy to understand and in a format easy to follow.
* Include any associated documents, forms or links that it relates to.
* A complete guide to carrying out the activity to achieve the right results.

### Financial Policy and Procedure

The benefits to having a financial policy:

* It ensures that all staff are aware of their obligations in relation to financial transactions within the business
* Provides a way to help managers make consistent and reliable decisions
* Employees have a clear understanding as to what is expected.
* Provides consistency across the organisation
* Ensures procedures are clearly defined for all employees.

A financial policy will be varied but generally will contain the following:

* The purpose of the policy
* A list of procedures
* Authorisation policy
* Bank Account policy
* Petty cash policy
* Use of credit cards
* New supplier policy
* Purchasing policy
* Stock control policy
* New customer policy
* Customer Credit limit policy
* Debt Collection policy

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| **Activity: Financial Policy** |
| Review the financial policy for Geek Girls (your trainer/assessor can provide you with this document). |
| Read the following then refer to the policy to find out the correct procedure to follow.  Jim has been a client for 3 years, he purchased a computer from Geek Girls quite recently on credit and still after 60 days he has not paid. |
| Procedure: |

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| **Activity: Prepare final general ledger** |
| *Trainer/assessor: The student will need help in undertaking this activity, it could also be undertaken as a working example as a class activity.* |
| For this activity you will need to enter your responses into an Excel Spreadsheet and save each activity in a new sheet with an appropriate name. |
| Refer back to the trial balance for Geek Girls as at 30-6-17   |  |  |  | | --- | --- | --- | | Trial Balance | | | | Details | Debit $ | Credit $ | | Cash at Bank | 10,700 |  | | Accounts receivable | 52,000 |  | | Inventory | 20,000 |  | | Equipment | 45,000 |  | | Accumulated depreciation on equipment |  | 10,000 | | Vehicles | 50,000 |  | | Accumulated depreciation motor vehicles |  | 6,250 | | Land | 27,500 |  | | Accounts payable |  | 25,000 | | Loan |  | 85,000 | | Capital |  | 181,430 | | Sales revenue |  | 110,000 | | Interest revenue |  | 2,000 | | Cost of goods sold | 86,250 |  | | Salaries expense | 30,000 |  | | Rates expense | 1,500 |  | | Stationery expense | 800 |  | | Advertising expense | 1,900 |  | | Interest expense | 300 |  | | Motor Vehicle expense | 780 |  | | Repairs Expense | 2,500 |  | | Insurance Expense | 450 |  | | Total | 329,680 | 329,680 | |
| Record the following balance day adjustments in the general journal below:   1. Depreciation of equipment 7% using the straight-line method 2. Depreciation of vehicle 8.5% using the diminishing balance method 3. Water rates paid in advance $350 4. Wages owing $1,500   General Journal entries for balance day adjustments as at 30 June 2017   |  |  |  |  | | --- | --- | --- | --- | | Adjustment | Accounts | Dr $ | Cr $ | | A |  |  |  | | B |  |  |  | | C |  |  |  | | D |  |  |  | |  |  |  |  | |
| Enter into an Excel spreadsheet and save the sheet as Balance Day General Journal.  Check with your trainer/assessor that you have completed this part of the activity accurately, before moving onto the next task. |
| Using the information that you have recorded prepare, the following:   * 1. An adjusted trial balance as at 30-6-17   2. A profit and loss statement for year ending 30-6-17   3. A balance sheet as at 30-6-17 |
| Send this to your trainer/assessor for feedback. |

# Topic 4: Prepare end of period financial reports

Content:

* preparation of reports
* revenue accounts
* reporting periods
* balance sheet
* correcting errors

### Preparation of reports

The preparation of end of period financial reports should include:

* The preparation of revenue statement/s for the reporting period following balance day adjustments (financial year and any other, according to organisational procedures).
* Identification of:
  + cost of goods sold
  + gross profit
  + operating (net) profit.
* Preparation of balance sheet/s to reflect financial position (post balance day adjustments).

Identification and correction of errors in journal entries, along with posting and preparation of financial reports. These include:

* transposition errors
* incorrect account/posting
* incorrect amounts
* omission from journal or posting
* duplication of journal or posting.

### Revenue Accounts

This could include:

* commission received
* interest received
* rent received

A revenue statement will comprise of:

* cost of goods sold if applicable
* gross profit
* operating net profit
* unclassified adjusted expenses and revenue

### Reporting periods

These can be according to what the organisation determines such as:

* + Quarterly
  + Mid-year
  + End of financial year.

### Balance Sheet

A balance sheet is a financial statement and sometimes referred to as the statement of financial position.

It presents the financial position at the end of a specified reporting period. They can be narrative or T format. The major components are:

* + assets
  + liabilities
  + owner’s equity

Because the balance sheet shows the financial position of a company in a moment in time, it can allow a creditor to see what is owned as well as what is owed as at the date indicated. This can be of valuable information to:

* Management
* A banker who wants to determine whether or not a company qualifies for additional credit or loans
* Current or potential investors
* Suppliers/Competitors
* Government agencies

### Correcting errors

Errors in accounting can occur from:

* + an error to omit a transaction
  + an incorrect calculation
  + an accounting principle error

Preventing errors will come from:

* + internal controls and procedures
  + processes for detecting errors
  + validation rules
  + understaffing, stress/work fatigue

Error detection

Not all errors can be prevented from happening. Processes can be put in place such as:

* + reconciliation
  + bank reconciliations
  + regular reviews

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| **Activity: Checking for errors** |
| Transfer the information below into a spreadsheet.  Use formulae to calculate values and totals.  Check and identify any errors.  Check the Financial Policy and Procedure to identify the process for correcting errors. Anything that you are not sure, refer to your Trainer/assessor who will help you to resolve the issue. |

|  |  |  |
| --- | --- | --- |
| Trial Balance | | |
| Details | Debit $ | Credit $ |
| Cash at Bank | 10,700 |  |
| Accounts receivable | 52,000 |  |
| Inventory | 20,000 |  |
| Equipment | 45,000 |  |
| Accumulated depreciation on equipment |  | 10,000 |
| Vehicles | 50,000 |  |
| Accumulated depreciation motor vehicles |  | 6,250 |
| Land | 27,500 |  |
| Accounts payable |  | 25,000 |
| Loan |  | 85,000 |
| Capital |  | 181,430 |
| Sales revenue |  | 120,000 |
| Interest revenue |  | 2,000 |
| Cost of goods sold | 86,250 |  |
| Salaries expense | 30,000 |  |
| Rates expense | 1,500 |  |
| Stationery expense | 800 |  |
| Advertising expense | 1,900 |  |
| Interest expense | 300 |  |
| Motor Vehicle expense | 780 |  |
| Repairs Expense | 2,500 |  |
| Insurance Expense | 450 |  |
| Total |  |  |

# Review and Assessment

The content of this unit has now been covered. The next two weeks have been allocated for completing the assessment for this unit. The assessment has been provided in a separate document.

### Review and completion

Ensure any outstanding activities, reading, role-plays, meetings, presentations or further tasks that require observation or submission to the trainer/assessor has been completed.

### Assessment Tasks

The trainer/assessor will discuss each task in detail – please ensure the assessment procedures, submission instructions and deadlines are clear, and you understand any expectations.

### Support

The trainer/assessor will provide support when required. If any reasonable adjustment is required please speak with the trainer/assessor or college support services.