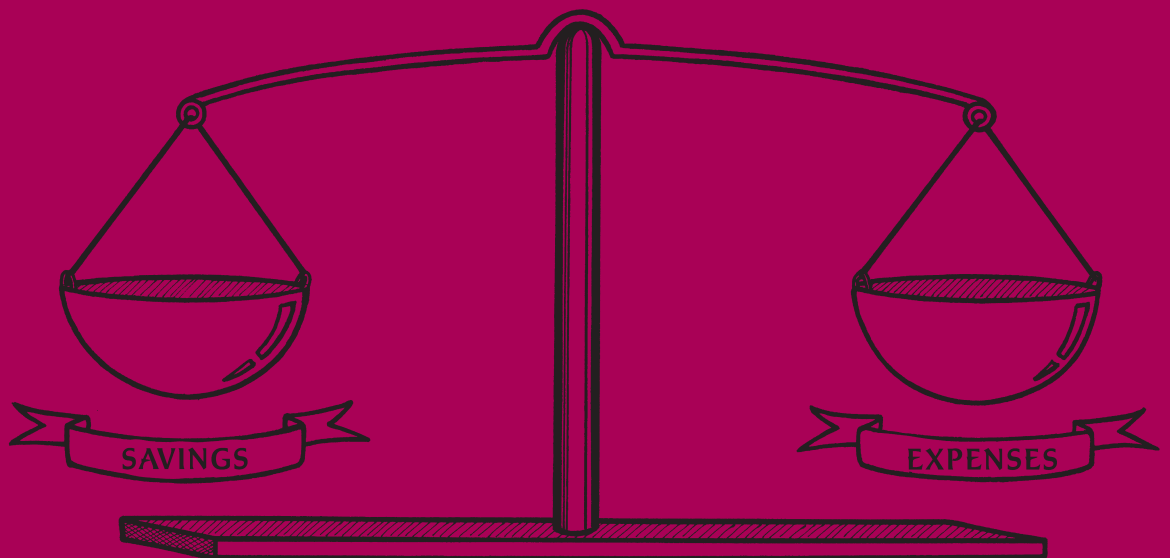


**Book 2**

**Year 10**



**Business  
Studies**

# Business Studies

Year 10 Book Two



GOVERNMENT OF SĀMOA  
MINISTRY OF EDUCATION, SPORTS AND CULTURE

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# Unit 1: MANAGING PERSONAL FINANCES

## Unit objectives

At the end of this unit you should be able to:

- Prepare a budget for an individual and a family.
- Describe the different parts of a budget.
- Identify the source documents that show the evidence of income and expenditure items of a budget.
- Utilise budgets to control and manage individual/family spending.
- Prepare a statement of affairs for an individual.

## Introduction

Talofa lava, today you will meet the Taito family. The next two units of work will be organised around the life of the Taito family. You will discover how they make decisions about how to use the financial resources available to them. You will be asked to use the information given about this family to make decisions on their behalf, and then assess how this affects their lifestyle. While the story of the Taito family is fictional, many of the situations that arise and the decisions that need to be made are very real and can apply to your own family. Follow the story and discover how Accounting affects your daily life, sometimes without you even noticing!

## The Taito's: From the village of Letogo

Meet **Taito Livi**. He is 49 years old. Taito works from home, though his work does not earn him a regular income. He grows taro, bananas, kاپisi saina (Bok Choy), and tomatoes. He also goes fishing twice a week. He sells some of the produce that the family does not use to other families in Letogo. Taito makes his contribution to the family by providing the staple foods required.

Meet **Sina**. She has been married to Taito for nearly 25 years. Letogo is her village and she teaches at the primary school in Vaivase. She teaches Year 4 students, and she is deputy principal of the school. Sina receives a regular income from her work. She is paid \$523 every fortnight. This is her net pay after taxes and SNPF deductions have been made.

Meet **Sisilia**, Sina’s mother who lives with her daughter and family. Sisilia is very fit and keeps the household running smoothly. She completes the family chores while the rest of the family are at work or attending school.

**Mago Taito** is 21 years old and is the eldest child of Taito and Sina. Mago works at Aggie Greys Hotel as a receptionist. She has worked at Aggies for about four years. Her hourly rate of pay is \$4, and she usually works about 50 hours a week. Sometimes Mago works overtime and her hourly rate increases to \$5 for any time she works over 50 hours in the week. Mago’s tax rate is 10% and once this has been deducted 5% of her gross pay is taken off for SNPF.

**Talalelei** is Mago’s brother, and he is 15 years old. He is in Year 11 at Avele College. Talalelei would like to be a lawyer. He plays rugby and volleyball. Tala helps his father tend to their crops when he gets home from school. He also enjoys fishing with him on Saturday mornings.

**Lotofale** is 11 years old and attends Vaivase Primary School with his younger sister **Koma**. Lotofale is in Year 8, and Koma is in Year 1.

**Activity 1 Accounting In Everyday Life**

Answer the following questions. Write them out in your exercise book, and complete them using the information given above.

1. Discuss what type of contribution Taito makes to the family. How is this different to the contribution made by Sina?
2. Estimate how much Sina would spend on buying food for the family for one week. Compare this estimate with another student in your class and come to an agreement on the most realistic cost.
3. How much more would the weekly food bill be if Taito did not provide the taro or banana for the main meals?
4. List the other living costs which the Taito family would need to pay for other than food. These would include things such as: the telephone bill, bus fares to school, petrol and oil for the truck, licence for the truck, donation to the women’s committee, etc.
5. Group the living costs you have identified in the previous question into the following categories (some have been done for you):

| Daily expenses | Weekly expenses | Fortnightly expenses        | Monthly expenses | Annual expenses |
|----------------|-----------------|-----------------------------|------------------|-----------------|
| Bus fare.      | Petrol and oil. | Women’s committee donation. | Telephone bill.  | Truck license.  |

6. What does the abbreviation SNPF stand for? What is the purpose of this deduction? What other deduction is made from Mago's earnings?
7. Calculate Mago's net pay (the pay that she receives after deductions of income tax and SNPF are made) for the week if she worked 50 hours. Calculate how much net pay she would get if she worked 60 hours. Use the table below to assist you in your calculations. Copy and complete the table.

### Calculations For Mago's Net Pay

| Hours worked in the week | Ordinary hours (\$4 an hour) | Overtime (\$5 an hour) | Total gross earnings | Deductions |           | Net pay for the week |
|--------------------------|------------------------------|------------------------|----------------------|------------|-----------|----------------------|
|                          |                              |                        |                      | Tax (10%)  | SNPF (5%) |                      |
| 50 hours                 | $50 \times \$4 = \$200$      | Nil                    |                      |            | \$10      |                      |
| 60 hours                 |                              | $10 \times \$5 = ?$    |                      |            |           |                      |
| 65 hours                 |                              |                        |                      |            |           |                      |

8. Calculate how much income would come into the Taito household every fortnight, if Mago did not work any overtime and contributed all her earnings to the family. Copy this format into your book and use it to help you with the calculations:

| Name         | Weekly net pay | Fortnightly net pay |
|--------------|----------------|---------------------|
| Sina         |                |                     |
| Mago         |                |                     |
| <b>Total</b> |                |                     |



**Activity 2****Homework Exercise**

Copy down the following tasks to work on at home. You will need the answers to the tasks below for future classroom work.

1. Find out how much your family spends on food in one week.
2. Find out how much your family spends on clothes in one month (remember to include costs for school uniforms or office uniforms).
3. What expenses does your family pay on a monthly basis? List these with an approximate amount that your family pays each month.
4. What is your family's monthly income? Use a table similar to the one that you used in your classroom exercise to help in your calculations.

**Managing Finances**

Sina is very keen to buy a computer for her family to use. She could use a computer to help her with her school administration tasks and a computer would be useful for Talalelei and Lotofale. A computer costs about \$5000. Sina and Taito only have about \$1000 in a savings account at the bank. They do not want to borrow money to buy a computer but are unsure as to how they can save the required amount and how long it will take them to do this. Talalelei suggests to his parents that they set up a budget to help them to manage or control their spending so that they can save enough to buy a computer. Talalelei did very well at Business Studies in Year 10, and he tells his parents that he can help them to design a family budget. Sina and Taito are not really convinced, but they do not want Talalelei to lose his enthusiasm.

Taito thinks that all this planning and doing a budget is a waste of time.

---

'Just go to the bank and get a loan. Or buy more Lotto tickets so that we can win the money to buy the computer. This budget thing is only for Palagis!'

---

Talalelei explains to his father why it would be useful to complete a budget:

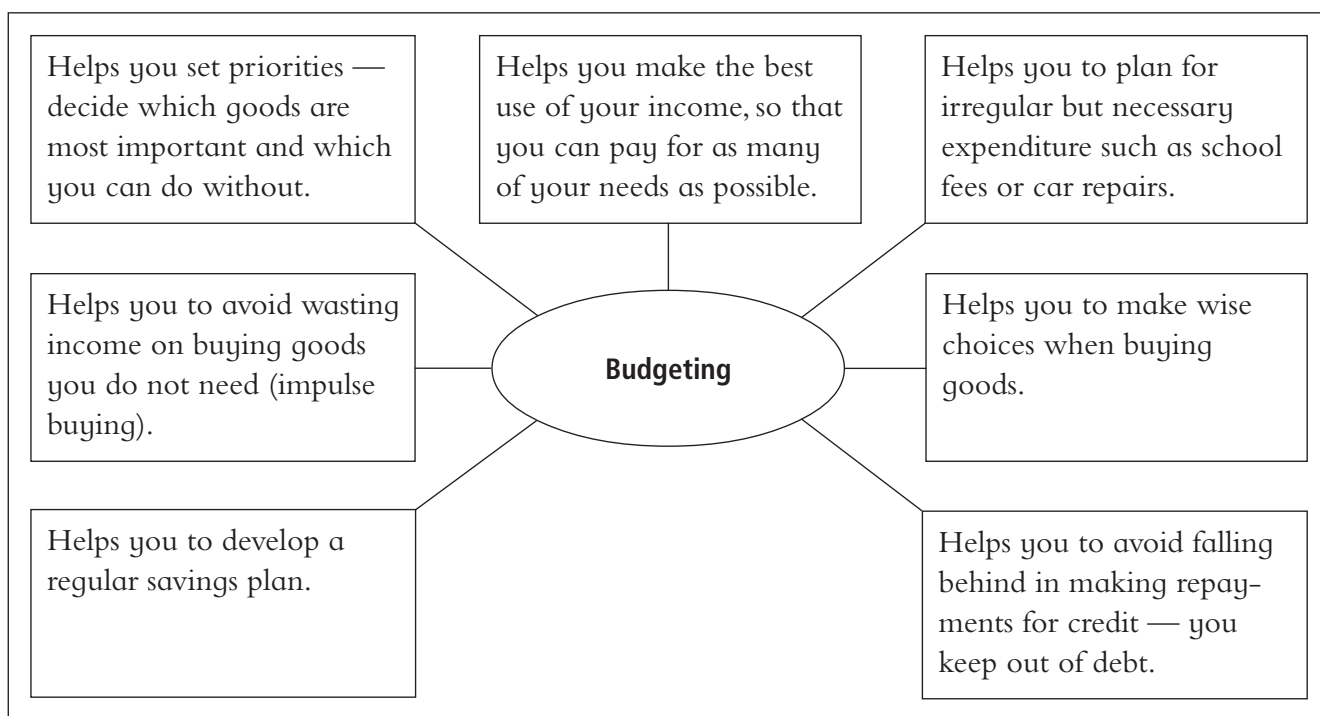
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'A budget is a plan of how to spend income earned. The purpose of preparing a budget is to control spending and increase saving. A budget can be a useful tool. It is used by individuals, clubs, schools, small businesses, large corporations and even governments.'

---

**A budget must balance. You should not spend more than you earn.**

Budgets can be worked out for a whole year, for a month, fortnightly or for a week. Whatever time period is used, a budget is only helpful if it includes all your income and expenditure, and if it is followed.



## How To Prepare A Budget

There are four main points to note when drawing up a budget.

1. Income.
2. Expenditure.
3. Planned savings.
4. Difference between income and expenditure (surplus or deficit).

### Income

List all your sources of income. Only include regular income that you receive — do not include overtime or irregular income. Be conservative — do not over-estimate your income.

### Expenditure

List all your current expenditure. Write down all your essential items — things that you need: *e.g. Food, clothing, board (your needs)*. Next write down your non-essential items — things that you choose to spend your money on: *e.g. Snacks, clothing, make-up (your wants)*.

### Savings

You should always include savings in your budget, even if you can only save a few dollars a week. Savings are needed for special occasions and emergencies.

### Surplus or deficit?

When you deduct your expenditure from your income, you will find out whether you have a **surplus** (money left over) or a **deficit** (you have spent too much). If you have a surplus, you can add this to your savings or you

can increase your spending. If you have a deficit, you will need to go back to Step 2 (expenditure) and decide what expenditure to reduce. Another way to get rid of a deficit is to increase your income. The other option to reduce your deficit (this is **not** desirable) is to borrow money to make up the difference between income and expenditure.

Talalelei talked with his parents about how much they spend on different expenditure and put together the following budget as an example to help them to see how they are spending their present income. This should then assist Sina and Taito to decide on the best options available so that they can purchase a computer without borrowing any money.

**Taito Family Fortnightly Budget**

| <b>Essential expenditure</b>       | <b>\$</b>       | <b>Income</b>   | <b>\$</b>       |
|------------------------------------|-----------------|-----------------|-----------------|
| Food                               | 160.00          | Sina's earnings | 523.00          |
| Power                              | 40.00           | Mago's earnings | 340.00          |
| Church donations                   | 60.00           |                 |                 |
| Bus fare for Mago                  | 20.00           |                 |                 |
| Bus fare for Talalelei             | 16.00           |                 |                 |
| Petrol and oil                     | 30.00           |                 |                 |
| Mago's allowance*                  | 60.00           |                 |                 |
| Water meter                        | 20.00           |                 |                 |
| <b>Total essential expenditure</b> | <b>\$406.00</b> |                 |                 |
| <b>Non-essential expenditure</b>   |                 |                 |                 |
| Telephone                          | 60.00           |                 |                 |
| Clothes                            | 50.00           |                 |                 |
| Lunches                            | 80.00           |                 |                 |
| Cigarettes                         | 30.00           |                 |                 |
| Entertainment                      | 80.00           |                 |                 |
| Allowance (Tala/Koma)              | 20.00           |                 |                 |
| <b>Total expenditure</b>           | <b>\$726.00</b> |                 |                 |
| Savings                            | 100.00          |                 |                 |
| Surplus                            | 27.00           |                 |                 |
| <b>Total</b>                       | <b>\$863.00</b> | <b>Total</b>    | <b>\$863.00</b> |

\* Mago takes \$30 from her weekly pay for her personal expenses, and she gives the rest of her pay to her parents.

### Activity 3 Usefulness Of A Budget

1. Copy and complete the following table:
2. Use the **Taito Family Fortnightly Budget** given to answer the following questions:

| Term                      | Definition   | Examples  |
|---------------------------|--|---|
| Budget                    |  | Individual budget, company annual budget, Government of Samoa budget. |
|                           | Money earned through employment or payment of services provided. | Wages or salary.  |
| Non-essential expenditure |  |   |
|                           |  | Food, loan repayment, monthly power bill.                             |
| Savings                   |  |   |
|                           | When income exceeds expenditure.                                 | Income from exports exceed cost of imports into Samoa.                |
| Deficit                   |  |   |
|                           | When one buys goods that are not really needed.                  |   |

- a. If the Taito family saved \$100 every fortnight, how much would they have in the bank after six months?
- b. Savings is used for special events and to pay for unplanned or unforeseen expenses that might arise. List at least five expenses that the Taito family may use their savings to pay for. Compare your list with other students in your class.
- c. Suggest three different ways that the Taito family can increase their savings. How much more could the family save from each of these three different ways?

3. Draw up another fortnightly budget for the Taito family making the necessary changes to the non-essential expenses so that the savings can be increased to \$200 per fortnight (you can include the surplus).
4. The Taitos have \$1000 in savings and have decided to put this into a special bank account for the purchase of the new computer. How much would they need to put into this account each fortnight so that they will have \$5000 in one year's time? Show how you did the calculations to get your answer.
5. Talalelei wants to check that the amounts given to him for the income and expenditure items are as accurate as possible. Help Talalelei to identify the documents which he can use to check this information by completing the table below:

| Items in the budget   | Source document                  |
|-----------------------|----------------------------------|
| Sina's income         |                                  |
|                       | Mago's pay advice slip           |
| Food                  | Sales docketts from supermarkets |
| Power expenditure     | EPC monthly invoice              |
|                       | Water Authority invoice          |
| Telephone expenditure |                                  |
| School fees           |                                  |
| Petrol and oil        |                                  |

## Activity 4

## Homework Exercise

Copy down the following tasks to complete at home. Write your answers out in your exercise book.

1. Complete a weekly budget for your family using information you have gathered about income and spending patterns. If you are not too sure, estimate to the best of your knowledge, but be realistic.
2. How would your family budget prepared in question one assist decisions made about spending? Can you suggest any expenditure items that can be reduced?
3. How is your family budget different from that of the Taito family?

**Our story continues . . .**

Taito and Sina are very pleased with the budget that Talalelei has written up and can see that if they rely on their present savings to buy a computer, then it will take a long time to reach their target of \$5000. They decide on the following changes in the hope that it will help them to reach their target earlier:

- Any surplus will be put into savings;
- To put their savings for the computer into a special bank account. They transfer the \$1000 savings they already have into this account;
- To leave \$50 per fortnight in their 'normal' account for special events and emergencies;
- Taito will fish three times a week and reduce the food bill to \$130 per fortnight;
- To reduce clothing allowance to \$30 per fortnight;
- Taito will give up cigarettes and this will halve the amount allowed for this. (Sisilia enjoys her cigarettes too much!);
- A toll bar will be put onto the phone to limit calls to local ones. Sina will limit her calls to her family in NZ to one call per month and use the a calling card. The phone bill should decrease to only \$30 each fortnight;
- The amount allowed for buying lunches will be reduced to \$40 for the fortnight. Sina, Talalelei, Lotofale and Koma will have to take food from home on some days for their lunches;
- Sina and Taito will reduce their entertainment costs to \$40 per fortnight;
- Mago said that she will only take out \$25 each week from her net pay for personal expenses.

**Activity 5****Preparing A Budget**

Complete the following tasks in your exercise book.

1. Complete a new fortnightly budget for the Taito family making the necessary amendments as decided by Sina and Taito above. Talalelei has started it for you below. Copy and complete it in your exercise book.

**Amended Taito Family Fortnightly Budget**

| <b>Essential expenditure</b>       | <b>\$</b>       | <b>Income</b>   | <b>\$</b>       |
|------------------------------------|-----------------|-----------------|-----------------|
| Food                               |                 | Sina's earnings | 523.00          |
| Power                              | 40.00           | Mago's earnings | 340.00          |
| Church donations                   | 60.00           |                 |                 |
| Bus fare for Mago                  | 20.00           |                 |                 |
| Bus fare for Talalelei             | 16.00           |                 |                 |
| Petrol and oil                     | 30.00           |                 |                 |
| Mago's allowance                   |                 |                 |                 |
| Water meter                        | 20.00           |                 |                 |
| <b>Total essential expenditure</b> |                 |                 |                 |
| <b>Non-essential expenditure</b>   |                 |                 |                 |
| Telephone                          |                 |                 |                 |
| Clothes                            |                 |                 |                 |
| Lunches                            |                 |                 |                 |
| Cigarettes                         |                 |                 |                 |
| Entertainment                      |                 |                 |                 |
| Allowance (Tala/Koma)              | 20.00           |                 |                 |
| <b>Total expenditure</b>           |                 |                 |                 |
| Emergency savings                  |                 |                 |                 |
| Computer savings                   |                 |                 |                 |
| <b>Total</b>                       | <b>\$863.00</b> | <b>Total</b>    | <b>\$863.00</b> |

2. How many fortnights will it take before the Taito family have saved the extra \$4000 required for them to purchase a new computer? Show your calculations.
3. What other expenditure items will they have to include or increase in their budget once they purchase the computer?

Mago is proud of her brother's accounting skills and asks for his help to set up a budget for her so that she can save enough money to travel to New Zealand for a holiday when she takes leave from her work. Mago gives the following details to Talalelei:

- Mago gets \$25 a week allowance from her pay.
- Mago has been informed by her supervisor that she will have to work an extra 10 hours a week for the next six months because one of the other receptionists is on maternity leave for this time.
- Sina and Taito have told Mago that she can keep the extra money she will earn for the overtime worked over the next six months.
- In one week Mago spends \$3 for personal things, \$10 on entertainment and about \$7 for clothing.
- Mago gets \$10 a week from her parents for bus fares, so she doesn't need to budget for this.
- Mago has saved \$600 since she started working at Aggies. This is in an ANZ savings bank account.



**Activity 6**

**Source Documents**

Complete the following to assist Talalelei to complete a budget for Mago:

1. Mago gives Talalelei her pay advice slip for the first week that she works the extra 10 hours of overtime. The slip is not complete as it has been in Mago’s bag where it got torn. Copy this document into your exercise book and complete those parts missing.

| <u>PAY ADVICE SLIP</u>  |                      |                            |
|-------------------------|----------------------|----------------------------|
| <b>Name</b>             | Mago Taito           | <b>Week</b> 14–20 Jan 2006 |
| <b>Time worked</b>      | <b>Rate per hour</b> | <b>Total</b>               |
| Ordinary hours 50       | \$4.00               | \$ _____                   |
| Overtime hours 10       | \$ _____             | \$ _____                   |
| <b>Gross pay</b>        |                      | <b>\$250.00</b>            |
| Paye Tax                |                      | \$ _____                   |
| SNPF                    |                      | \$ _____                   |
| <b>Total deductions</b> |                      | <b>\$ _____</b>            |
| <b>Gross pay</b>        |                      | <b>\$ _____</b>            |
| <b>Less deductions</b>  |                      | <b>\$ _____</b>            |
| <b>Net pay</b>          |                      | <b>\$212.50</b>            |

2. Mago asks Talalelei to prepare a budget for her for the next 26 weeks so that she can save the necessary \$1500 to travel to New Zealand as well as \$500 for spending money. Prepare a budget for Mago based on the information she has given you. Talalelei has started the budget for you (on the next page). Copy and complete from information given above.
3. How much will Mago expect to have saved after 26 weeks if she maintains the budget based on her spending for expenditure she has listed? Show your calculations. Will she be able to pay for her trip to New Zealand as well as have \$500 spending money?
4. Suggest how Mago can increase her savings so that she is able to afford to pay for her planned holiday. Use this information to complete a new budget based on your suggested changes to her spending, and how she can afford her trip.
5. Mago looks at the budget and sees how she will have to limit her spending and asks if she can include the tips she gets from people who stay at the hotel. Mago says that sometimes she gets \$20 in tips in one week. Explain to Mago why she cannot include tips in her budget. Make a suggestion about what she should do with her tips.

## Mago Taito Weekly Budget (26 Weeks)

| <b>Essential expenditure</b>     | <b>\$</b> | <b>Income</b>     | <b>\$</b> |
|----------------------------------|-----------|-------------------|-----------|
| Family contribution              | 170.00    | Wages             |           |
| Bus fare to work                 | 10.00     | Allowance for bus | 10.00     |
|                                  |           | Living allowance  | 25.00     |
| <b>Total</b>                     |           |                   |           |
| <b>Non-essential expenditure</b> |           |                   |           |
|                                  |           |                   |           |
| <b>Total expenditure</b>         |           |                   |           |
| Savings                          |           |                   |           |
| <b>Total</b>                     |           | <b>Total</b>      |           |

### Activity 7 Homework Exercise

1. Collect as many source documents which can be used as evidence for spending on different items. Make sure that you erase or block out the name of the customer. Glue these documents into your book. Compare with other students in your class.
2. Make a list of the documents you have collected and record next to it the expenditure it is evidence for.
3. All the documents you have collected have some parts which are common to all. List those parts that they have in common, eg name of the business issuing the document.
4. Suggest a way that these documents can be kept in a safe place so that they can be found when required. Why is it important to keep such documents?

Mago is still not convinced that she can keep to her budget because she likes to go nightclubbing with her friends and the budget would limit this to only one night a fortnight. A friend tells her she can borrow the money for her trip from the bank. She rings the bank and is told that she will need to bring the following documents to an interview to see if she is able to borrow the money:

- A recent pay advice slip.
- A recently prepared budget.
- A *Statement of Affairs*.
- Documents as evidence for any assets she owns.

She asks Talalelei about the last two of the documents described above. Talalelei gives the following explanation:

**Statement of affairs**

A *Statement of Affairs* is a personal statement of what an individual is worth. You can calculate this by finding the difference between what you own (assets) and what you owe (liabilities).

$$\text{Net worth} = \text{Assets} - \text{Liabilities}$$

This gives the personal financial position for an individual. A *Statement of Affairs* is required when applying for credit. A lender wants to be sure there is adequate security over the loan. Talalelei drew up his personal *Statement of Affairs* as an example:

| <b>Talalelei Taito</b>                            |               |                        |
|---|---------------|------------------------|
| <b>Statement of Affairs as of 15 January 2006</b> |               |                        |
| <b>Assets</b>                                     |               |                        |
| Cash in Bank                                      | 50.00         |                        |
| Video game console                                | <u>300.00</u> | \$350.00               |
| <b>Liabilities</b>                                |               |                        |
| Loan from parents to buy video game               |               | \$250.00               |
| <b>Net Worth</b>                                  |               | <b><u>\$100.00</u></b> |

**Evidence of asset ownership**

These documents are required to show that you own the goods or assets stated in your *Statement of Affairs*. Examples are certificate of ownership for a car, or property, or receipts for payment of goods such as computer, television and so on.

**Mago's net worth**

Mago is very excited that she will be able to borrow the money from the ANZ bank to fund her trip to New Zealand without having to spend six months saving for it. She asks Talalelei to prepare a *Statement of Affairs* for her so that she can take it with a budget to the bank to get a loan. She tells Talalelei that she has lots of assets — her clothes and all her jewellery that she has bought from the craft market. She also owns a television set which her cousin bought for her in New Zealand and sent her about three months ago. She still has the receipt that her cousin sent over with the television set to show that it was paid for in cash. She knows that similar television sets are selling in Samoa for \$1400.

Talalelei explains to Mago that her clothes cannot be stated as assets and her jewellery is only worth about \$30 when she first purchased it and is not significant enough to be included in her *Statement of Affairs*. He also tells Mago that her television set will need to be valued by at an electronic store to see what it can be sold for as it is not new.

Mago still wants him to complete a *Statement of Affairs* and she will get her television set valued.

**Activity 8****Statement Of Affairs**

Complete the following tasks in your exercise book:

1. Explain why Talalelei is not including Mago's clothes and jewellery in her *Statement of Affairs*.
2. Give a definition of the following terms:
  - a. Assets.
  - b. Liabilities.
  - c. *Statement of Affairs*.
  - d. Net worth.
  - e. Pay advice slip.
3. Explain the difference between a budget and a *Statement of Affairs*.
4. Explain why lending institutions require the different documents and statements from individuals before they will consider their application for a loan.
5. Mago tells Talalelei that her television set has been valued at \$800. She only has one liability item, a loan from her parents which she has only just remembered. She borrowed \$200 from her parents during the Christmas break and she has yet to pay it back. Mago has \$600 in her ANZ Savings Account. Prepare a *Statement of Affairs* for Mago.
6. What other costs should Mago prepare to pay for apart from the \$1400 that she wants to borrow from the bank?

**Activity 9****Revision — Budgets**

Budgets are plans of how to manage income and expenditure. Budgets help you to control your spending.

| <b>Weekly budget for Galo Tanielu</b> |        |        |               |
|---------------------------------------|--------|--------|---------------|
| <b><u>Income (\$)</u></b>             |        |        |               |
| Net earnings                          |        |        | <u>190.00</u> |
| <b><u>Expenditure (\$)</u></b>        |        |        |               |
| <b>Essential expenditure</b>          |        |        |               |
| Board to parents                      | 100.00 |        |               |
| Lunches                               | 20.00  |        |               |
| Bus Fares                             | 15.00  | 135.00 |               |
| <b>Non-essential expenditure</b>      |        |        |               |
| Clothes                               | 20.00  |        |               |
| Entertainment                         | 35.00  | 55.00  | <u>190.00</u> |
| <b>Amount left over</b>               |        |        | <b>Nil</b>    |

1. Look at Galo's budget above and answer the following:
  - a. What has he left out of his budget?
  - b. What suggestions can you make to improve Galo's budget?
2. Prepare a budget for Leilani Thompson. She has started working at the Department of Education in Apia and is living with her auntie. She earns \$145 a week net and pays \$50 board each week to her aunt and sends home to her parents in Savai'i \$100 every four weeks. Her weekly expenses are \$12 for bus fares, \$10 for lunches, \$15 for entertainment and she puts aside \$10 per week for new clothes. Any surplus is used as savings.
3. Explain how budgeting can help you to avoid **impulse buying**.
4. List five other things that budgeting can assist an individual to do.

**Activity 10****Revision — Source Documents**

| <b>SAMOA WATER AUTHORITY</b>                           |                              |              |                             |
|--|------------------------------|--------------|-----------------------------|
| <b>Invoice 3221</b>                                    |                              |              | <b>Date</b> 12 January 2006 |
| Customer No.   | 11-433-66                    |              |                             |
|  | Taito Livi                   |              |                             |
|  | Letogo                       |              |                             |
| Billing dates  | 1–31 December 2005           |              |                             |
| Units used   | 207 @ \$0.30/unit            |              | \$62.10                     |
| Amount due for this month (payment due 12 February)    |                              |              | \$62.10                     |
| <b>Amount overdue from last bill (pay immediately)</b> |                              |              | <b>\$15.00</b>              |
| Total amount due                                       |                              |              | <u>\$77.10</u>              |
| <b>Amount paid \$</b>                                  | <b>(cash/cheque/EFTPOS)</b>  | <b>Date</b>  | <b>Signed</b>               |
|  | Payment Slip — Customer Copy |              |                             |
| <b>SAMOA WATER AUTHORITY</b>                           |                              |              |                             |
| Billing date   | January 2006                 |              |                             |
| <b>Invoice</b>   | <b>3221</b>                  |              |                             |
| Paid by  | <b>Taito Livi</b>            | Customer No. | <b>11-433-66</b>            |
|  | Letogo                       |              |                             |
| <b>Amount overdue (pay immediately)</b>                |                              |              | <b>\$15.00</b>              |
| Amount owing this billing                              |                              |              | \$62.10                     |
| Total due  |                              |              | <u>\$77.10</u>              |
| <b>Amount paid \$</b>                                  | <b>(cash/cheque/EFTPOS)</b>  | <b>Date</b>  | <b>Signed</b>               |
|  | Payment Slip — Office Copy   |              |                             |

Look at Taito's water meter bill above and answer the following questions in your exercise book:

1. What is Taito's customer number with the Water Authority, and why is this number important? What purpose does it serve?
2. How many units were used by Taito and his family during December 2001 and how much did each unit of water cost?
3. Why is the Water Authority requesting Taito to pay \$15 owing immediately?
4. Copy the top copy part of the invoice shown above for Taito into your book and complete the payment section at the bottom to show that Taito paid the total due on 25 January 2006 by EFTPOS.

**Activity 11****Revision — Payment Slip**

| <b>Government of Samoa</b>                       |                         |                   |                 |                 |
|--|-------------------------|-------------------|-----------------|-----------------|
| <b>Department of Education — Pay Advice Slip</b> |                         |                   |                 |                 |
| Leilani Thompson                                 | Employment No. 30-85-74 |                   |                 |                 |
| Week ending:                                     | 27 January 2007         |                   |                 |                 |
| Annual salary:                                   | E1 \$9360.00            |                   |                 |                 |
| <b>Gross Pay</b>                                 | <b>Ordinary time</b>    | <b>1.5 x Time</b> | <b>2 x Time</b> | <b>Total</b>    |
| Hours worked                                     | 40                      | 3                 | nil             | 43              |
| Rate per hour                                    | \$4.50                  | \$6.75            | \$9.00          |                 |
| <b>Gross amount</b>                              | <b>180.00</b>           | <b>20.25</b>      | <b>nil</b>      | <b>\$200.25</b> |
| <b>Less deductions</b>                           |                         |                   |                 |                 |
| PAYE Tax   | 38.04                   |                   |                 |                 |
| SNPF   | 10.01                   |                   |                 | <u>\$48.05</u>  |
| <b>Net Pay</b>                                   |                         |                   |                 | <b>\$152.20</b> |

Look at Leilani's pay advice above and answer the following questions in your exercise book:

1. How else is Leilani identified other than by her name? Why is this type of system used?
2. How much would Leilani earn in one year (without overtime)? In other words, what is her annual salary?
3. How much tax did Leilani pay for the week shown?
4. What are the total deductions for this pay period?
5. How much was Leilani's net pay for this week?
6. How many hours does Leilani work in one 'normal' week?
7. What does PAYE mean?
8. Complete a weekly pay advice slip for Leilani to show her gross pay if she had worked 40 ordinary hours, eight hours at 1.5 x time and two hours at 2 x time. Her deductions are 19% of gross pay for PAYE tax and 5% of gross pay for SNPF. What would Leilani's net pay for this week be?

**Activity 12****Revision — Statement Of Affairs**

Look at Sina and Taito's *Statement of Affairs* shown below and answer the following questions in your exercise book:

1. What is Sina and Taito's net worth?
2. Look back at the budget that was completed for the Taito family. What additional expenditure have the Taito family added to their spending?
3. How do you think the Taito family bought the new computer and printer? What other assets did they borrow money for?
4. Why have Sina and Taito not included a value for the property they live on?

**Statement of Affairs**  
**Taito Livi and Sina Taito as of 1 February 2006**

| <b>Assets</b>            | <b>\$</b>               | <b>Liabilities</b>        | <b>\$</b>             |
|--------------------------|-------------------------|---------------------------|-----------------------|
| Truck                    | 8000.00                 | Loan from ANZ             | 6000.00               |
| Television               | 500.00                  | Hire purchase — CD player | 1300.00               |
| Video                    | 700.00                  | Repairs for the truck     | 700.00                |
| Refrigerator             | 1000.00                 |                           |                       |
| Furniture                | 3000.00                 |                           |                       |
| CD and tape deck         | 1500.00                 |                           |                       |
| Cash in the bank         | 500.00                  |                           |                       |
| Computer and printer     | 6000.00                 |                           |                       |
| Other household fittings | 800.00                  |                           |                       |
| Sina's jewellery         | 1000.00                 |                           |                       |
| Children's bicycles      | 400.00                  |                           |                       |
| <b>Total Assets</b>      | <b><u>23 400.00</u></b> | <b>Total Liabilities</b>  | <b><u>8000.00</u></b> |
| <b>Net Worth</b>         |                         |                           | <b>15 400.00</b>      |



# Unit 2: SPENDING YOUR CASH AND ACCOUNTING FOR IT

## Objectives

By the end of this unit you should be able to:

- Describe the function of cheques.
- Recognise and interpret different entries in a bank statement.
- Prepare a bank reconciliation statement for an individual.
- Compare and contrast different methods of payment.

## Spending your cash wisely

Banknotes and coins are often called cash or money. Samoa has banknote denominations of \$2, \$5, \$10, \$20, \$50 and \$100 and coins \$1, 50c, 20c, 10c and 5c. When you look at any Samoa banknotes you will notice the following words printed on them:

---

Legal Tender in Samoa.

---

This means that these notes must be accepted in payment of a debt, or for goods and services. Only coins and notes are legal tender. Other types of money, such as cheque, credit cards or electronic funds transfers (EFTPOS) can be accepted as payment in Samoa, but they are not legal tender. In other words, these other types of money are only accepted as a form of payment if the shopkeepers agree to do so.

Cash can be easily stolen and spent. It can be very dangerous to carry cash, particularly large amounts of it, and it is not safe to send cash through the post. However, bills need to be paid. Apart from using cash these other methods of payments can usually be used:

- Cheques.
- Credit card.
- EFTPOS.
- Remote banking.

## Cheques

A cheque is defined as a 'bill of exchange drawn on a banker payable on demand'. It is a convenient piece of paper which instructs the bank to withdraw an amount of money from the account of person who wrote the cheque and pay it to another person or bearer of the cheque. Certain conditions must be met before a cheque can be honoured by the bank.

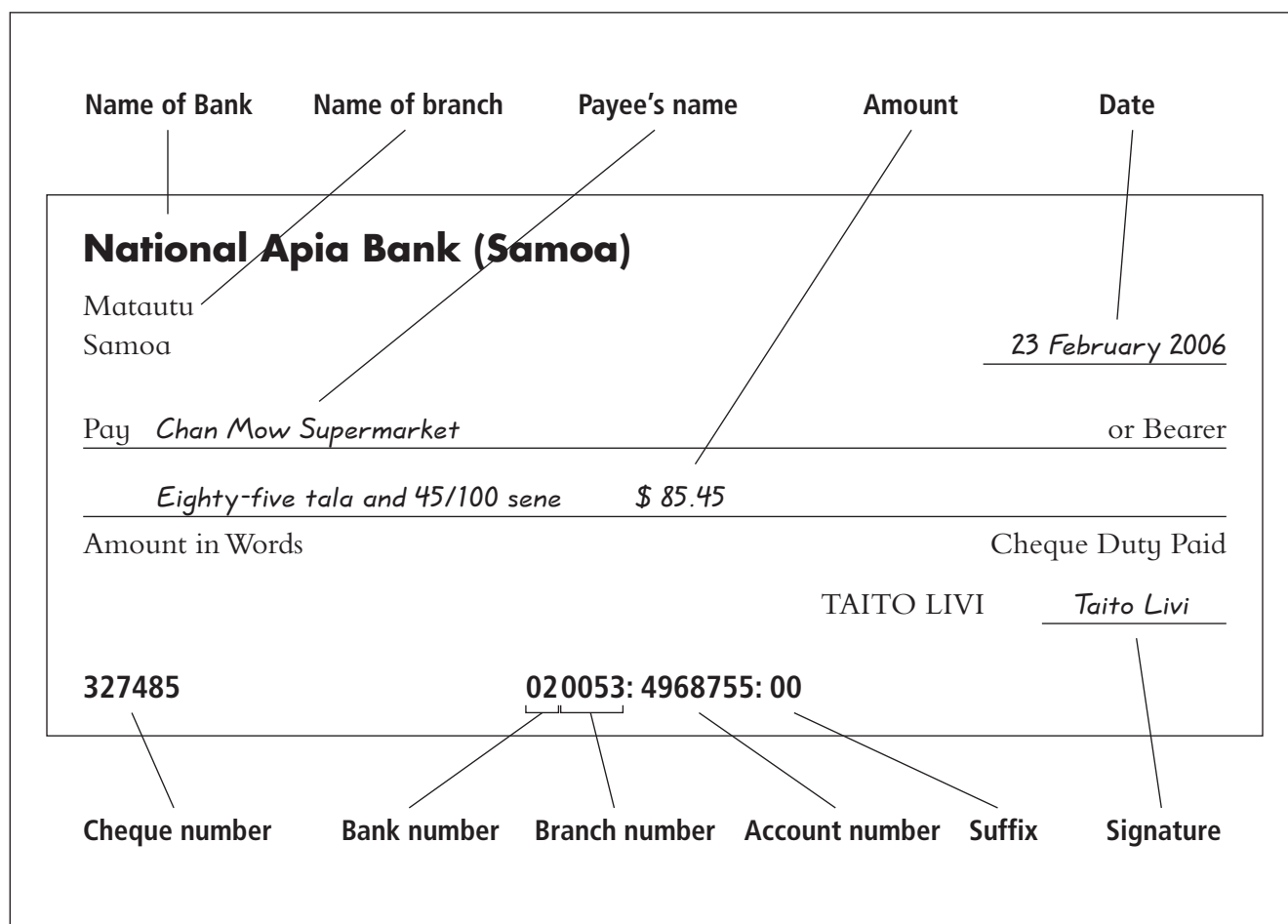
A cheque must:

- Be signed by the customer.
- Be dated.
- Name the payee, or made out for cash, or bearer (the person who holds the cheque).
- Have the amount made out in words and in figures.

If all these conditions are met and there are funds in the account, the bank must pay the cheque. Usually cheques are pre-printed which have both the customer's name and customer's account number already printed on each cheque. Banks use **Magnetic Ink Character Recognition** to speed the processing of cheques.

### Parts of a cheque

The diagram below shows the various parts of a cheque:



- The name of the bank and the branch is shown.
- The payee is Chan Mow Supermarket, the person or organisation who is to be paid with this cheque.
- The cheque duty is a government charge and must be paid. It has already been paid for.
- The date on this cheque is 23 February 2006. All cheques must be dated. Cheques become 'stale' six months after the date recorded on the cheque. This means that they will not be paid and must be referred to the account holder or the drawer.
- The amount for the cheque must be written in words and in figures.
- All cheques must be signed by the drawer. The name of the account holder (or drawer) is pre-printed on the cheque form.
- The number of the cheque is the first number on the row of numbers at the bottom of the cheque.
- The second set of numbers shows the Bank Number and the Branch Number. National Apia Bank is bank number 02 and the Matautu branch is number 0053. Each bank in the system has its own unique number.
- The last set of numbers is the account number and the last two digits shows the type of account it is. The last digits on the cheque is 00 to identify that it is a cheque account.

## Types Of Cheques

### Open cheques

An **open cheque** or **bearer cheque** does not need to be paid into a bank account. These cheques are not 'crossed' which means that the words 'or bearer' are not crossed out and it can be cashed by anyone who presents the cheque to the bank on which it is drawn. Open cheques are no safer than cash.

|                                   |                              |
|-----------------------------------|------------------------------|
| <b>National Apia Bank (Samoa)</b> |                              |
| Matautu                           |                              |
| Samoa                             | <u>5 March 2006</u>          |
| Pay <i>Cash</i>                   | or Bearer                    |
| <u>Sixty tala only</u>            | <u>\$60.00</u>               |
| Amount in Words                   | Cheque Duty Paid             |
|                                   | TAITO LIVI <u>Taito Livi</u> |
| <b>327486</b>                     | <b>020053: 4968755: 00</b>   |

## Bearer cheque

|  |                              |
|--|------------------------------|
| <b>National Apia Bank (Samoa)</b>            |                              |
| Matautu<br>Samoa                             | <u>12 March 2006</u>         |
| Pay <u>Wesley Bookshop</u>                   | or Bearer                    |
| <u>Ninety-five tala and twenty sene only</u> | <u>\$95.20</u>               |
| Amount in Words                              | Cheque Duty Paid             |
|  | TAITO LIVI <u>Taito Livi</u> |
| <b>327487</b>                                | <b>020053: 4968755: 00</b>   |

## Crossed cheques

A **crossed cheque** must be paid into the bank account of the payee. Crossing a cheque makes it safer. The words 'Not Negotiable' written between the two parallel lines on a crossed cheque ensures that the cheque is safer. A cheque that is crossed in this way, means that the cheque must be banked into someone's bank account. The payee can pass such a cheque onto another person to deposit into that person's bank account, if the payee endorses the back of the cheque. If such a cheque has been stolen, it can be traced as it was deposited into a bank account. This cannot be done if the cheque is cashed over the counter by a teller.

|                                   |                              |
|-----------------------------------|------------------------------|
| <b>National Apia Bank (Samoa)</b> |                              |
| Matautu<br>Samoa                  | <u>14 March 2006</u>         |
| Pay <u>Pati Malo</u>              | or Bearer                    |
| <u>Forty-seven tala only</u>      | <u>\$47.00</u>               |
| Amount in Words                   | Cheque Duty Paid             |
|                                   | TAITO LIVI <u>Taito Livi</u> |
| <b>327488</b>                     | <b>020053: 4968755: 00</b>   |

**Non transferable cheque**

Cheques can be made even safer by crossing it and writing ‘Non transferable’ or ‘A/C Payee Only’ between the parallel lines. Cheques crossed in this way must be paid into a bank account of the Payee. The cheque cannot be passed onto a third person.

|   |                                    |                              |
|---|------------------------------------|------------------------------|
| <b>National Apia Bank (Samoa)</b>       |                                    |                              |
| Matautu<br>Samoa                        | Non Transferable<br>A/C Payee Only | <u>5 April 2006</u>          |
| Pay <i>Insel Fehmarn Hotel</i>          |                                    | or Bearer                    |
| <u>One hundred and twelve tala only</u> |                                    | <u>\$112 . 00</u>            |
| Amount in Words                         |                                    | Cheque Duty Paid             |
|   |                                    | TAITO LIVI <u>Taito Livi</u> |
| <b>327489</b>                           |                                    | <b>020053: 4968755: 00</b>   |

**Activity 1**

**Cheques**

Look at the cheque shown above and answer the following questions:

1. What is the bank number and name?
2. At what branch is the account for this cheque held?
3. Who is the drawer or account holder, and what is their account number?
4. List five things that the drawer must write onto the cheque.
5. Describe how a cheque becomes stale.
6. Explain the differences between a crossed cheque and an open cheque.
7. When would it be appropriate to give someone a crossed cheque?
8. Describe a situation when it would be appropriate to write a cash or open cheque.

## Credit Cards

A credit card is a plastic bank card which allows the cardholder to buy goods, pay for services, or withdraw cash on credit and repay the credit card company at a later date. There are two different types of credit cards in use in Samoa:

- Bank credit cards such as Visa and Mastercard.
- Non-bank credit cards such as Diners Club or American Express.

### **Bank credit cards**

Bank credit cards have a credit limit. The bank that issues this card allows the cardholder to spend up to the credit limit granted. The cardholder must not exceed spending beyond this limit.

Bank credit cards allow the cardholders to pay the amount owing in instalments. Interest is added to the balance owing each month. A statement is sent out to the cardholder each month which shows the balance owing from the previous month, purchases made, payments made, interest added, total amount owing and the minimum payment due to be paid by a certain date.

Bank credit cards allow cash advances, either over the counter from a bank teller or through an ATM (automated teller machine). Interest is usually charged on cash advances from the day this is made.

### **Non-bank credit cards**

Non-bank credit cards must be paid in full each month. They can be used to purchase goods and services but a cardholder cannot use it to get a cash advance. The cardholder of this type of credit card pays no interest if the full amount owing is paid each month.

### **Why use a credit card?**

A credit card provides a relatively safe and convenient way to pay for goods and services. They are a useful way to pay for business transactions but care must be taken to keep proper records.

Credit cards are an expensive form of borrowing. The interest rate charged is usually higher than other rates for borrowing charged by a bank. It is very easy to get into financial difficulty with a credit card if you do not keep track of your spending, stay within your credit limit and make the minimum repayments. Remember, the balance owing on a credit card has to be paid eventually.

**Activity 2****Credit Cards**

Answer the following questions in your exercise book:

1. What is the main difference between a bank credit card and a non-bank credit card?
2. List the advantages and disadvantages of credit cards.
3. Contrast and compare between using a credit card and a cheque.

**EFTPOS**

EFTPOS stands for 'Electronic Funds Transfer at Point of Sale'. This system for payment of goods and services has been in use in Samoa since 2001. EFTPOS allows consumers to purchase goods and services using a bank card which has a magnetic strip on the back.

|   |                 |
|---|-----------------|
| <b>L &amp; T NETZLER</b>  |                 |
| 14 Mar 2006 12:54pm<br>Transaction No. 239283<br>GST 35 984 559 |                 |
| Slip No. 034429   |                 |
| Tran Type   | PURCHASE        |
| ACC   | CHQ             |
| Card No.  | 588940002364322 |
| Purchase/Payment  | WST \$38.95     |
| Total   | WST \$38.95     |
| (00) Accepted   |                 |

The card is swiped on a machine especially designed to read coded information from the magnetic strip. When the transaction occurs, the customer's bank account is automatically debited (decreased) by the amount of the purchase, and the retailer's account is credited (increased) with the sale. One advantage of using this system is that it is safe — it is a cashless transaction. The main disadvantage is that it is easy to lose track of transactions and spend more than planned. A separate receipt is issued to the customer when paying for goods or services by EFTPOS. This receipt shows details of the vendor (retailer), the time, date, details of goods purchased and the amount of the purchase.

**EFTPOS Receipt****Remote Banking**

This type of banking was introduced to Samoa in 2002. There are two forms of remote banking: telephone banking and banking through the internet. These types of banking allow bank account holders to make payments for household bills, check bank account balances, transfer funds between accounts and order bank statements or cheque books by telephone or through the internet. Before this can occur, the customer informs the bank of the bills to be paid through the bank account and this information is coded into the system. The customer can access the bank by phone or internet connection and using a pre-selected PIN (Personal Identification Number) and code to carry out the required transactions.

### Activity 3 Electronic Banking

Complete the following tasks in your exercise book.

1. Explain what is meant by the term EFTPOS. Identify the advantages and disadvantages of using this type of system of paying for purchases.
2. Describe the difference between paying for a purchase using a cheque and using EFTPOS. Which system would the retailer (shopkeeper) prefer? Why?
3. What is a PIN, and why do cardholders need a PIN?
4. Describe to Sina how she can use remote banking to pay for her bills at the Water Authority and Samoa Communications.

### Activity 4 Revision

Complete the following activities in your exercise book.

1. Explain the difference between using cash and using a cheque to make payment for a purchase. Include in your explanation the advantages and disadvantages for each.
2. Read this scenario and answer the questions that follow:  

You want to buy some goods at Molesi. You select your goods and take them up to the counter. The shop assistant adds up the items you have selected and tells you the cost is \$75.40. You ask if you can pay by cheque. The shop assistant says that it is all right as long as you have some identification. You do not have any identification on you. The shop assistant apologises to you and explains that it is company policy that all cheques must be verified with some form of identification.

  - a. Describe three forms of identification that could have been used in this situation.
  - b. Explain why identification is required when paying by cheque but it is not required when paying by cash.
  - c. Give two reasons why Molesi would have a company policy for payments by cheque.
3. Explain the term 'legal tender'. Explain why a cheque is not legal tender.
4. Draw up a cheque which Taito Livi writes using the following details:  

|                          |                       |
|--------------------------|-----------------------|
| Payee's name: Carruthers | Amount: \$76.00       |
| Date: 30 April 2002      | Cheque number: 327544 |

Taito has given this cheque to Talalelei to pay for his school uniform. Show what special markings Taito would put onto the cheque to make sure that if Talalelei lost the cheque, nobody else could use it or cash it.



## Operating A Cheque Account

A cheque account is a type of bank account. It is also called a **current account**. The cheque account is different in that the account holder can write cheques to pay for goods and services or withdraw cash from the bank. Withdrawals are made from the account using a cheque.

Money can be deposited into a cheque account in the same way as other bank accounts — by filling in a deposit slip. Cheque accounts usually have pre-printed deposit slips included at the back of cheque books or in a separate deposit book. An example of a deposit slip is shown below.

|   |   |       |      |    |      |  |  |         |       |    |  |       |    |
|---|---|-------|------|----|------|--|--|---------|-------|----|--|-------|----|
| <b>National Apia Bank (Samoa)</b>         | DEPOSIT   |       |      |    |      |  |  |         |       |    |  |       |    |
| Matautu<br>Samoa                          | Date: <u>5 March 2006</u>   |       |      |    |      |  |  |         |       |    |  |       |    |
| To the credit of: <b>TAITO LIVI</b>       | <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;">Notes</td> <td style="width: 15%; text-align: right;">\$50</td> <td style="width: 15%; text-align: right;">00</td> </tr> <tr> <td>Coin</td> <td></td> <td></td> </tr> <tr> <td>Cheques</td> <td style="text-align: right;">\$470</td> <td style="text-align: right;">00</td> </tr> <tr> <td></td> <td style="text-align: right;">\$520</td> <td style="text-align: right;">00</td> </tr> </table> | Notes | \$50 | 00 | Coin |  |  | Cheques | \$470 | 00 |  | \$520 | 00 |
| Notes                                     | \$50  | 00    |      |    |      |  |  |         |       |    |  |       |    |
| Coin                                      |   |       |      |    |      |  |  |         |       |    |  |       |    |
| Cheques                                   | \$470   | 00    |      |    |      |  |  |         |       |    |  |       |    |
|   | \$520   | 00    |      |    |      |  |  |         |       |    |  |       |    |
| Paid in by (signature): <u>Sina Taito</u> |   |       |      |    |      |  |  |         |       |    |  |       |    |
| 02 0053 4968755 00                        |   |       |      |    |      |  |  |         |       |    |  |       |    |

| Particulars of Cheques                                |            |             |                 |
|---|------------|-------------|-----------------|
| Drawer  | Bank       | Branch      | Amount          |
| 1. <i>Department of Education</i>                     | <i>ANZ</i> | <i>Apia</i> | <i>\$470.00</i> |
| 2. _____  |            |             |                 |
| 3. _____  |            |             |                 |
| 4. _____  |            |             |                 |
| 5. _____  |            |             |                 |
| Proceeds of cheques unavailable <b>until cleared.</b> |            |             | <b>\$470.00</b> |

The example given above shows that Sina Taito has deposited \$520.00 into Taito’s cheque account.

## Activity 5 Deposits Into Cheque Accounts

Complete the following tasks in your exercise book. Use the deposit slip shown opposite to answer the following questions:

1. Explain the functions of a deposit slip. How is it different from a cheque?
2. Who is the account holder into which the deposit opposite is being made? Why is a person other than the cheque account holder allowed to make the deposit into this account?
3. What is meant by the statement at the bottom of the deposit slip which reads: 'Proceeds of cheques unavailable until cleared'. How long does it usually take for cheques to clear?
4. What are the numbers at the bottom of the front side of the deposit slip?
5. Why does Taito Livi have his name pre-printed on the deposit slip?

## Activity 6 Homework

Complete these tasks in your exercise book:

1. Collect a deposit slip from a bank. Compare this with the deposit slip above. How are they different? What features do they have in common?
2. Copy the following table and complete:

| Type of payment       | Advantages | Disadvantages |
|-----------------------|------------|---------------|
| Paying by cash        |            |               |
| Paying by cheque      |            |               |
| Paying by EFTPOS      |            |               |
| Paying by credit card |            |               |

### Keeping cheque records

When you operate a cheque account it is very important to keep track of cheques written, deposits made, EFTPOS transactions made from the account and other transactions that may be made by directly from the cheque account. These types of transactions are either direct credits or automatic payments.

Direct credits are when money is directly transferred into an account: *e.g. Wages or salaries*. Automatic payments are debits made from the account (with your permission) to pay for regular bills: *e.g. Telephone bill, electricity bill*.

When cheques are written it is important to record the name of the payee, date of payment and amount paid on the cheque butt or in the personal cash book (pages provided at the front of the cheque book), before the cheque is torn out and given to the payee.

An example of Taito's personal cash record is shown below. Talalelei had to help him to keep his records.

| Record of Cheque Account |        |                     |         |    |          |    |         |    |
|--------------------------|--------|---------------------|---------|----|----------|----|---------|----|
| Date                     | Chq no | Particulars         | Cheques |    | Deposits |    | Balance |    |
| 20 Feb                   |        | Balance forward     |         |    |          |    | Cr 367  | 50 |
| 23 Feb                   | 485    | Chan Mow            | 85      | 45 |          |    | 282     | 05 |
| 5 Mar                    | 486    | Cash                | 60      | 00 |          |    | 222     | 05 |
| 12 Mar                   | 487    | Wesley Bookshop     | 95      | 20 |          |    | 126     | 85 |
| 14 Mar                   | 488    | Pati Malo           | 47      | 00 |          |    | 79      | 85 |
| 14 Mar                   | EFTPOS | Groceries           | 38      | 95 |          |    | 40      | 90 |
| 20 Mar                   |        | Sina's salary       |         |    | 520      | 00 | 560     | 90 |
| 22 Mar                   | EFTPOS | Water bill          | 85      | 40 |          |    | 475     | 50 |
| 29 Mar                   | AP     | Telephone bill      | 75      | 00 |          |    | 400     | 50 |
| 29 Mar                   |        | Cash                |         |    | 105      | 00 | 505     | 50 |
| 5 Apr                    | 489    | Insel Fehmarn Hotel | 112     | 00 |          |    | 393     | 50 |
|                          |        |                     |         |    |          |    |         |    |

Some cheque records are kept on a cheque butt. In this situation, each cheque has a cheque butt attached to it. Details of the balance carried forward, payee for the cheque and amount of the cheque are recorded on the cheque butt. An example of a cheque butt is given on the next page. This is how Taito Livi would record the cheque he wrote for the purchases from Wesley Bookshop if he had a cheque book with cheque butts. When Taito has written out the cheque, he would tear it out of the book, leaving the cheque butt as a record of this payment.

|                           |    |    |
|---------------------------|----|----|
| <u>2 March 2006</u>       |    |    |
| <u>To Wesley Bookshop</u> |    |    |
| <u>For Books</u>          |    |    |
| Bal B/Fwd                 |    |    |
| Deposits                  |    |    |
| This Cheque               | 95 | 20 |
| Bal C/Fwd                 |    |    |
| <b>327487</b>             |    |    |

### Activity 7 Keeping Cheque Records

Complete the following tasks in your exercise book. Use the example of Taito Livi's record of cheque account given on the previous page to answer the following questions:

1. What was Taito's balance at the start of his record of cheque account?
2. What does the abbreviation CR stand for, and what does this mean?
3. Describe in words the transactions recorded on 23 February and 22 March. A description of the transaction of 12 March is given as an example to assist you:

---

*On 12 March 2006, Taito wrote out a cheque to pay for books he bought for \$95.20. This left a balance in his cheque account of \$126.85.*

---

4. The abbreviation of AP stands for 'automatic payment'. What does this mean? Explain the payment for the telephone bill and why a cheque number is not recorded for this payment.
5. List the four different types of transactions shown in Taito's record of cheque account and describe each one. A table on how to set out your answer is given below to assist you:

| Transaction type | Description  | Effect on cheque account balance   |
|------------------|--|--|
| EFTPOS           | EFTPOS stands for 'Electronic Funds Transfer at Point of Sale'. This is a payment made using a bank card. The amount for the payment is automatically debited from the bank cardholder's account and the retailer's account is credited, if there are enough funds in the bank cardholder's account. | This type of transaction decreases a credit cheque account balance: i.e. It decreases the funds available in the cheque account. |
|                  |  |  |
|                  |  |  |

6. What is Taito’s account balance on 5 April 2006, after he wrote out the cheque for the Insel Fehmarn Hotel?
7. Describe how the record of cheque account is different to that of the information recorded on a cheque butt. Which gives more information about the cheque account at a single glance?
8. Describe what is meant the term ‘direct credit’.
9. Talalelei had to convince his father about the importance of keeping accurate records of his cheque account. What explanation would Talalelei give to Taito?

**Bank Statements**

A bank statement is a record of an account produced by a bank, usually at regular intervals, and sent to the customer. It gives a summary of the account transactions that have occurred during the period, for example, cheques drawn and received, cash withdrawn and paid in, automatic payments, electronic payments, direct credit and bank charges. As transactions become more automated, bank statements become more significant as a source document: i.e. Evidence of a transaction.

| <b>National Apia Bank (Samoa)</b> |                        |                                       |                |                |
|-----------------------------------|------------------------|---------------------------------------|----------------|----------------|
| <b>Matautu Branch</b>             |                        |                                       |                |                |
| <b>Taito Livi</b>                 |                        | <b>CHEQUE ACCOUNT</b>                 |                |                |
| <b>PO Box 1424</b>                |                        | <b>Customer No 02 0053 4968755 00</b> |                |                |
| <b>Matautu</b>                    |                        | <b>Opening date 01 February 2006</b>  |                |                |
| <b>Samoa</b>                      |                        |                                       |                |                |
| <b>Statement No 3</b>             |                        |                                       |                | <b>Page 1</b>  |
| <b>Date</b>                       | <b>Transaction</b>     | <b>Debit/withdrawal</b>               | <b>Deposit</b> | <b>Balance</b> |
| 01 Feb                            | Opening Balance        |                                       |                | 651.70         |
| 04 Feb                            | 327481*                | 85.00                                 |                | 566.70         |
| 09 Feb                            | 327483*                | 143.50                                |                | 423.20         |
| 10 Feb                            |                        |                                       | 470.00*        | 893.20         |
| 15 Feb                            | 327484*                | 330.00                                |                | 563.20         |
| 20 Feb                            | Bank fees and charges  | 4.30                                  |                | 558.90         |
| 24 Feb                            | 327485                 | 85.45                                 |                | 473.45         |
| 5 Mar                             | 327486                 | 60.00                                 |                | 413.45         |
| 7 Mar                             | 327482*                | 195.70                                |                | 217.75         |
| 14 Mar                            | EFTPOS T & L Netzler   | 38.95                                 |                | 178.80         |
| 15 Mar                            | 327488                 | 47.00                                 |                | 131.80         |
| 19 Mar                            | 327487                 | 95.20                                 |                | 36.60          |
| 20 Mar                            |                        |                                       | 520.00         | 556.60         |
| 22 Mar                            | EFTPOS Water Authority | 85.40                                 |                | 471.20         |
| 29 Mar                            | AP — SCL               | 75.00                                 |                | 396.20         |
| 29 Mar                            |                        |                                       | 105.00         | 501.20         |
| 30 Mar                            | ATM Faleolo Airport    | 60.00                                 |                | 441.20         |
| 31 Mar                            | Bank fees and charges  | 3.00                                  |                | 438.20         |
| <b>31 Mar</b>                     | <b>Closing balance</b> |                                       |                | <b>438.20</b>  |

A copy of Taito's bank statement for the period of two months (01 February to 31 March 2006) is given on the next page.

The bank statement for Taito Livi was received at the beginning of April. If you examine the bank statement and compare it to Taito's cheque account records you will find that the items which have been highlighted have not been entered into Taito's records:

|        |                       |         |
|--------|-----------------------|---------|
| 20 Feb | Bank fees and charges | \$4.30  |
| 30 Mar | ATM Faleolo Airport   | \$60.00 |
| 31 Mar | Bank fees and charges | \$3.00  |

There are also some items that appear in the bank statement that are not on this page of Taito's cheque account records as they were transactions that occurred before 20 February 2006 (marked with an \*):

|          |        |          |
|----------|--------|----------|
| Cheques: | 327481 | \$ 85.00 |
|          | 327482 | \$195.70 |
|          | 327483 | \$143.50 |
|          | 327484 | \$330.00 |
| Deposit  |        | \$470.00 |

These already appear on the previous page of Taito's cheque account records. There is one transaction that appears in Taito's cheque account records that occurred after 31 March 2006:

|         |        |          |
|---------|--------|----------|
| Cheque: | 327489 | \$112.00 |
|---------|--------|----------|

Because this cheque was written after 31 March, the closing date for this bank statement, it will be presented to the bank at a later date and will appear in a statement at that time.

### **Bank Reconciliation Statement**

A **bank reconciliation statement** is prepared to make sure there is an agreement between the bank statement (the bank's records of the account) and the individual's (or organisation's) records. The differences between the two sets of records for Taito are listed above. A format for doing the reconciliation is usually given at the back of the bank statement. Talalelei uses this to prepare a bank reconciliation statement to check that there is agreement between Taito's records and the bank's record of the account. This appears on the next page:

## UNIT 2

| Record of Cheque Account |                 |                     |           |           |          |    |            |           |
|--------------------------|-----------------|---------------------|-----------|-----------|----------|----|------------|-----------|
| Date                     | Chq no          | Particulars         | Cheques   |           | Deposits |    | Balance    |           |
| 20 Feb                   |                 | Balance forward     |           |           |          |    | Cr 367     | 50        |
| 23 Feb                   | 485             | Chan Mow            | 85        | 45        |          |    | 282        | 05        |
| 5 Mar                    | 486             | Cash                | 60        | 00        |          |    | 222        | 05        |
| 12 Mar                   | 487             | Wesley Bookshop     | 95        | 20        |          |    | 126        | 85        |
| 14 Mar                   | 488             | Pati Malo           | 47        | 00        |          |    | 79         | 85        |
| 14 Mar                   | EFTPOS          | Groceries           | 38        | 95        |          |    | 40         | 90        |
| 20 Mar                   |                 | Sina's salary       |           |           | 520      | 00 | 560        | 90        |
| 22 Mar                   | EFTPOS          | Water bill          | 85        | 40        |          |    | 475        | 50        |
| 29 Mar                   | AP              | Telephone bill      | 75        | 00        |          |    | 400        | 50        |
| 29 Mar                   |                 | Cash                |           |           | 105      | 00 | 505        | 50        |
| 5 Apr                    | 489             | Insel Fehmarn Hotel | 112       | 00        |          |    | 393        | 50        |
| <b>20 Feb</b>            | <b>Bank Stm</b> | <b>Bank fees</b>    | <b>4</b>  | <b>30</b> |          |    | <b>389</b> | <b>20</b> |
| <b>30 Mar</b>            | <b>Bank Stm</b> | <b>Cash ATM</b>     | <b>60</b> | <b>00</b> |          |    | <b>329</b> | <b>20</b> |
| <b>31 Mar</b>            | <b>Bank Stm</b> | <b>Bank fees</b>    | <b>3</b>  | <b>00</b> |          |    | <b>326</b> | <b>20</b> |
|                          |                 |                     |           |           |          |    |            |           |

Bank Reconciliation format (which appears at the back of the bank statement).

### Step 1

Enter in your cheque book any debits or credits shown on this statement but not already recorded by you:

The shaded area shows the additional entries Talalelei made to Taito's cheque records from the information in the bank statement.

### Step 2

Unpaid cheques/withdrawals made after final date of this statement:

Cheque: 489                      \$112.00

### Step 3

Deposits made after final date:      Nil

### Step 4

|   |          |
|---|----------|
| Final Balance of this statement:          | \$438.20 |
| Add total deposits                        | \$0      |
| Total                                     | \$438.20 |
| Subtract total unpaid cheques/withdrawals | \$112.00 |
| This should be your cheque book balance   | \$326.20 |

**Activity 8****Bank Reconciliation Statements**

Complete the following activities in your exercise book. Use the example of Taito Livi's bank statement to answer the following:

1. What is the opening balance of Taito Livi's cheque account on 1 February 2006?
2. How much was cheque 327485 written out for?
3. Explain the abbreviations: AP and ATM.
4. Compare Taito's bank statement and his record of cheque account, and answer the following:
  - a. Explain why Talalelei has included the last three entries in the record of cheque account.
  - b. Taito wrote out cheque 327487 to pay for goods purchased from Wesley Bookstore on 12 March 2006. However, this cheque does not appear in the bank statement until 19 March. Give an explanation for the time difference.
  - c. Explain why there are no cheque number for payments made for groceries on 14 March and the water bill on 22 March.



# Unit 3: ACCOUNTING FOR BUSINESSES

## Objectives

At the end of this you should be able to:

- Define the different elements of the accounting equation.
- Record credit transactions using the accounting equation.
- Classify the changes in the accounting equation.
- Interpret the changes to the accounting equation after each transaction.
- Classify items into categories and show in the Statement of Financial Position.

In Unit 1 you were shown how to calculate the **net worth** of an individual by completing their **statement of affairs**:

$$\text{Net worth} = \text{Assets} - \text{Liabilities}$$

This same principle which is relevant for individuals can be applied to businesses. However, because we are dealing with an **accounting entity** which is separate to the owner, the difference between the value of assets and liabilities is described as **proprietorship** or **owner's equity**. This is the owner's contribution to the business. This is known as the **accounting equation**:

## The Accounting Equation

$$\begin{array}{rcccl} \text{Proprietorship} & = & \text{Assets} & - & \text{Liabilities} \\ \text{P} & = & \text{A} & - & \text{L} \end{array}$$

### Assets

An asset is an economic resource which is owned by the business and which the business expects to gain future benefit from. The business must have control over these resources for them to be called assets of the business. Examples of assets include cash, buildings and shop fittings.

**Liabilities**

A liability is an obligation that the business has to another organisation or individual. Liabilities are amounts owed by a business. Examples of liabilities include accounts payable, mortgages and loans.

**Proprietorship (or owner's equity)**

This is the net worth of a business. Proprietorship is also known as **owner's equity**. The owner of a business is called the proprietor. Proprietorship is also known as the **business capital**. The owner's equity of a business equals the assets of the business less the liabilities of the business.

$$P = A - L \quad \text{or it can be written as:}$$

$$A = L + P$$

The accounting equation forms the basis of the first financial statement for a business that you will meet. This financial statement is called a **Statement of Financial Position**. A balance sheet states the financial position of a business at a particular date. This statement used to be called a **Balance Sheet**.

Remember Taito Livi and his family? Taito has decided that his taro and banana plantation is producing so much that he will set up a small business. This will enable him to sell his produce at the market and to others in his village. Talalelei has told him about accounting for his business separately (accounting entity concept) to that of his personal affairs. Tala and Taito decide to call this business T & T Enterprise. Taito purchases the following assets for his business which he finances using some of his own money and a loan from the bank:

**Assets:**

|                    |             |
|--------------------|-------------|
| Cash in the bank   | \$400.00    |
| Weed-eater         | \$800.00    |
| Planting equipment | \$300.00    |
| Truck              | \$10 000.00 |

**Liabilities:**

|                              |           |
|------------------------------|-----------|
| Loan with National Apia Bank | \$5000.00 |
|------------------------------|-----------|

Talalelei calculates the owner's equity for Taito's business. He uses this format to show Taito how to set up his business's **balance sheet**.

| <b>T &amp; T Enterprise</b>            |                           |                      |                           |
|--|---------------------------|----------------------|---------------------------|
| <b>Balance Sheet as at 1 July 2006</b> |                           |                      |                           |
| <b>Assests</b>                         | <b>\$</b>                 | <b>Liabilities</b>   | <b>\$</b>                 |
| Cash at bank                           | 400.00                    | Loan NAB             | 5 000.00                  |
| Weed-eater                             | 800.00                    |                      |                           |
| Planting equipment                     | 300.00                    | <b>Propietorship</b> |                           |
| Truck                                  | 10 000.00                 | Capital              | 6 500.00                  |
|  | <u><b>\$11 500.00</b></u> |                      | <u><b>\$11 500.00</b></u> |

**Important features to note:**

- The Balance Sheet has a heading that includes the name of the business (not the name of the owner) and the date the balance sheet was prepared.
- The assets, liabilities and proprietorship are set out in the balance sheet in the same way as the accounting equation:  

$$\mathbf{A} = \mathbf{L} + \mathbf{P}$$
- The capital amount given under the heading of **proprietorship** shows the amount contributed by the owner of the business — in this case, Taito.

Taito asked Talalelei why the balance sheet was headed up in the name of **T&T Enterprise** and not under Taito's name. Talalelei explained that if Taito wanted to measure the progress and position of his business, then he must keep the financial affairs of the business quite separate to his personal financial affairs. This helps to keep track of how profitable the business is. Talalelei called this idea the **accounting entity concept**. He told his father that he learned about this in Year 9 Business Studies. The accounting entity concept states that:

---

The economic affairs of the business are separate and distinct from the economic affairs of the owner.

---

**Activity 1****Accounting Equation Exercise**

Complete these tasks in your exercise book:

1. Compare and contrast a statement of affairs and a balance sheet. What do they have in common? How are they different?
2. Define what is meant by the following terms (as they relate to a business):
  - a. Assets.
  - b. Liabilities.
  - c. Proprietorship.
3. Give another name used for a balance sheet.
4. What is the purpose of drawing up a balance sheet?
5. Describe the accounting entity concept and how it affects Taito and his new business.

6. Use the example of the balance sheet given on the previous page to answer the following questions:
- How is the capital amount calculated in the balance sheet? Show your calculations.
  - How much does T&T Enterprise owe to the National Apia Bank? What is the general heading used for amounts owed by the business?
  - What does T&T own? What is the total value for these items?
7. Use the following figures to draw up the balance sheet for two new businesses:
- G. Wong owns a landscaping business that he calls Wong Landscapers. He employs three people, who he sends out to his clients to landscape their properties. He has the following assets and liabilities as at 31 March 2008. Draw up a balance sheet for Mr. Wong's business.

|                       |             |
|-----------------------|-------------|
| Tools and equipment   | \$3000.00   |
| Motor vehicles        | \$50 000.00 |
| Cash in the Bank      | \$31 500.00 |
| Office equipment      | \$3500.00   |
| Bank loan             | \$28 000.00 |
| Loan from G. Wong Sr. | \$12 000.00 |

- Lemalu Sa owns an engineering workshop, known as Falealili Engineers. His business has the following assets and liabilities. Calculate the capital contributed by Lemalu and complete the balance sheet for his business as at 30 June 2008.

|                                  |             |
|----------------------------------|-------------|
| Tools                            | \$5700.00   |
| Accounts receivable (or debtors) | \$7600.00   |
| Equipment                        | \$24 000.00 |
| Engineering workshop             | \$28 000.00 |
| Tow truck                        | \$20 000.00 |
| Stock for spare parts            | \$11 700.00 |
| Bank overdraft                   | \$5900.00   |
| Mortgage                         | \$15 000.00 |
| Loan (SNPF)                      | \$13 200.00 |

**Transactions and the effect on the accounting equation**

As you learned in Year 9 Business Studies, the financial position of a business will change as it carries out its operations. Transactions by the business will affect its financial position. Let us look at how this happens and revise what you learned.

Our story about Taito’s business T&T Enterprise continues. . .

T&T Enterprise had the following transactions during the first week of July, 2006:

- July 2 Taito decides to contribute a weed-sprayer to his business. He purchased this only last week for his own personal use but has since decided that it should be a business asset. The sprayer cost Taito \$500.
- July 4 Taito makes a repayment on the loan of \$300.
- July 5 Taito purchases another weed-eater for \$900 on hire purchase from Bluebird Ltd.
- July 7 Taito adds/transfers \$600 from his personal cheque account to the business current account.

Talalelei shows his father how the transactions during the first days of his business has changed the original financial position of T&T Enterprise.

|               | <b>Assests</b> |             |                |         | =          | <b>Liabilities</b> | +      | <b>Proprietorship</b> |             |   |            |
|---------------|----------------|-------------|----------------|---------|------------|--------------------|--------|-----------------------|-------------|---|------------|
|               | Cash           | + Weedeater | + Plant equip. | + Truck | =          | Loan               | +      | Capital               |             |   |            |
| 1 July        | 400            | +           | 800            | +       | 300        | +                  | 10 000 | =                     | 5000        | + | 6500       |
| <b>2 July</b> |                |             |                |         | <b>500</b> |                    |        |                       |             |   | <b>500</b> |
|               | 400            | +           | 800            | +       | 800        | +                  | 10 000 | =                     | 5000        | + | 7000       |
| <b>4 July</b> | <b>-300</b>    |             |                |         |            |                    |        |                       | <b>-300</b> |   |            |
|               | 100            | +           | 800            | +       | 800        | +                  | 10 000 | =                     | 4700        | + | 7000       |
| <b>5 July</b> |                |             | <b>900</b>     |         |            |                    |        |                       | <b>900</b>  |   |            |
|               | 100            | +           | 1700           | +       | 800        | +                  | 10 000 | =                     | 4700 + 900  | + | 7000       |
| <b>7 July</b> | <b>600</b>     |             |                |         |            |                    |        |                       |             |   | <b>600</b> |
|               | 700            | +           | 1700           | +       | 800        | +                  | 10 000 | =                     | 4700 + 900  | + | 7600       |

The financial position of T&T Enterprise on 7 July is very different from what it was on 1 July. Talalelei draws up the balance sheet to show his father.

| <b>T &amp; T Enterprise</b>                              |                           |                      |         |                           |
|--|---------------------------|----------------------|---------|---------------------------|
| <b>Statement of Financial Position as at 1 July 2006</b> |                           |                      |         |                           |
| <b>Assests</b>   | <b>\$</b>                 | <b>Liabilities</b>   |         | <b>\$</b>                 |
| Cash at bank   | 700.00                    | Loan NAB             | 4700.00 |                           |
| Weed-eater   | 1700.00                   | Bluebird Ltd         | 900.00  | 5600.00                   |
| Planting equipment                                       | 800.00                    | <b>Propietorship</b> |         |                           |
| Truck  | 10 000.00                 | Capital              |         | 7600.00                   |
|  | <u><b>\$13 200.00</b></u> |                      |         | <u><b>\$13 200.00</b></u> |

**Note the following points:**

- The accounting equation must be maintained at all times whereby:  

$$A = L + P$$
- The financial position of the business is changed with every transaction.
- T&T Enterprise owes \$900 to Bluebird Ltd for the new weed-eater that was purchased on hire purchase. This means that Bluebird Ltd is a liability to T&T Enterprise.
- Taito's contribution to the business, known as **capital**, has increased by \$1100 from 1 July to 7 July.

**Activity 2****Transactions And The Accounting Equation**

Complete the following tasks in your exercise book. Show the changes to the accounting equation after each transaction for each of the following businesses. Use the format shown above to record the changes to each asset, liability and capital item after each transaction:

1. Wong Landscapers has the following assets and liabilities as at 1 April 2008. Draw up an accounting equation schedule to show the effect of the transactions from 2–6 April 2008. Draw up a balance sheet for Wong Landscapers as at 6 April 2008. The transactions below occurred during the week:

|                       |             |
|-----------------------|-------------|
| Tools and equipment   | \$3000.00   |
| Motor vehicles        | \$50 000.00 |
| Cash in the Bank      | \$31 500.00 |
| Office equipment      | \$3500.00   |
| Bank loan             | \$28 000.00 |
| Loan from G. Wong Sr. | \$12 000.00 |

- 2 April    Paid G. Wong Sr. \$5000 as part payment of loan.
- 3 April    G. Wong buys a new chainsaw for \$2500 and pays cash.
- 5 April    G. Wong contributes his personal computer which is valued at \$3000 to be used by the business.
- 6 April    \$8000 is paid off the bank loan.

2. Falealili has the assets and liabilities shown in the accounting equation schedule below. Show how the following transactions affect the accounting equation and individual asset and liability items. The first transaction has been completed to get you started. Prepare the balance sheet for Falealili Engineers as at 7 July 2008.

- 1 July Lemalu contributes \$8000 from his personal bank account to reduce the bank overdraft for the business.
- 2 July Spare parts are sold for \$2400 cash, at their cost price to Apia Motors.
- 4 July Received \$1500 from accounts receivable to pay for their accounts.
- 7 July Paid \$1200 to SNPF for loan and \$3000 for the mortgage.

| (A) Accounting equation schedule for Falealili Engineers |        |         |         |          |          |          |          |                |          |          |                |
|--|--------|---------|---------|----------|----------|----------|----------|----------------|----------|----------|----------------|
|  | Assets |         |         |          |          |          | =        | Liabilities +  |          |          | Proprietorship |
| 2008   | Bank + | Acc R + | Tools + | Equip +  | Wkshp +  | Truck +  | Stock =  | Bank +         | Mrtg +   | Loan +   | Capital        |
| Jun 30   |        | 7600 +  | 5700 +  | 24 000 + | 28 000 + | 20 000 + | 11 700 = | 5900 +         | 15 000 + | 13 200 + | 62 900         |
| <b>Jul 1</b>   |        |         |         |          |          |          |          | <b>-8000 +</b> |          |          | <b>8000</b>    |
| <b>Jul 2 . . .</b>                                       | 2100 + | 7600 +  | 5700 +  | 24 000 + | 28 000 + | 20 000 + | 11 700 = |                | 15 000 + | 13 200 + | 70 900         |



3. Look at the following accounting equation schedules that show different transactions and how they affect the different elements of the accounting equation. Describe these transactions. A description for the first two entries in (A) are given as examples to help you. Complete it, and do the same for (B) and (C).

**(A) Accounting equation schedule for Rena Beach Fales**

| 2006  | Assets  |         |            |                |           |        | = | Liabilities + |                  | Proprietorship |
|-------|---------|---------|------------|----------------|-----------|--------|---|---------------|------------------|----------------|
|       | Bank +  | Acc R + | Fittings + | Fales +        | Vehicle + | Land   |   | Acc Pay +     | Loan +           |                |
| Jun 1 | 2300 +  | 600 +   | 3500 +     | 8000 +         | 15 000 +  | 40 000 | = | 2400 +        | 22 000 +         | 45 000         |
| Jun 3 | -400    |         |            |                |           |        | = | -400          |                  |                |
| Jun 4 | 1900 +  | 600 +   | 3500 +     | 8000 +<br>2000 | 15 000 +  | 40 000 | = | 2000 +        | 22 000 +<br>2000 | 45 000         |
| Jun 5 | 1900 +  | 600 +   | 3500 +     | 10 000 +       | 15 000 +  | 40 000 | = | 2000 +        | 24 000 +         | 45 000         |
|       | -1500 + |         | 500        |                |           |        | = |               |                  | -1000          |
|       | 400 +   | 600 +   | 4000 +     | 10 000 +       | 15 000 +  | 40 000 | = | 2000 +        | 24 000 +         | 44 000         |

On 1 June 2006, Rena Beach Fales has assets of: bank \$2300, accounts receivable \$600, fittings \$3500, fales \$8000, vehicle \$15 000 and land \$40 000. The liabilities on this day are accounts payable \$2400 and loan \$22 000. The capital or owner's equity is \$45 000. Start new line for next transaction. On 3 June, \$400 was paid for accounts payable. This reduced bank to \$1900 and reduced accounts payable to \$2000. . .

**(B) Accounting equation schedule for Mika's Store**

| 2006   | Assets |         |            |         |          |        | = | Liabilities + |          | Proprietorship |
|--------|--------|---------|------------|---------|----------|--------|---|---------------|----------|----------------|
|        | Bank + | Acc R + | Fittings + | Stock + | Bldgs +  | Land   |   | Acc Pay +     | Loan +   |                |
| Aug 12 | 7800 + | 2400 +  | 1700 +     | 5000 +  | 10 000 + | 25 000 | = | 1200 +        | 17 000 + | 33 700         |
| Aug 12 | 700    | -700    |            |         |          |        | = |               |          |                |
| Aug 15 | 8500 + | 1700 +  | 1700 +     | 5000 +  | 10 000 + | 25 000 | = | 1200 +        | 17 000 + | 33 700         |
|        |        |         |            | 1000    |          |        | = | 1000          |          |                |
| Aug 16 | 8500 + | 1700 +  | 1700 +     | 6000 +  | 10 000 + | 25 000 | = | 2200 +        | 17 000 + | 33 700         |
|        | -1200  |         |            |         |          |        | = | -1200         |          |                |
| Aug 17 | 7300 + | 1700 +  | 1700 +     | 6000 +  | 10 000 + | 25 000 | = | 1000 +        | 17 000 + | 33 700         |
|        | -6000  |         |            |         |          |        | = |               | -8000 +  | 2000           |
|        | 1300 + | 1700 +  | 1700 +     | 6000 +  | 10 000 + | 25 000 | = | 1000 +        | 9000 +   | 35 700         |

| (C) Accounting equation schedule for Fagali'i Car Rentals |         |          |         |           |        |   |               |          |                |         |
|---|---------|----------|---------|-----------|--------|---|---------------|----------|----------------|---------|
|   | Assets  |          |         |           |        | = | Liabilities + |          | Proprietorship |         |
| 2006  | Bank +  | Off Eq + | Tools + | Vehicle + | Land   | = | ANZ Loan +    | AB Ltd + |                | Capital |
| Jan 2   | 9300 +  | 6700 +   | 5800 +  | 155 000 + | 48 000 | = | 105 000 +     |          |                | 119 800 |
| Jan 3   | -5000   |          |         |           |        | = | -5000         |          |                |         |
| Jan 5   | 4300 +  | 6700 +   | 5800 +  | 155 000 + | 48 000 | = | 100 000 +     |          |                | 119 800 |
|   | -1000 + | 2300     |         |           |        | = |               | 1300     |                |         |
| Jan 6   | 3300 +  | 9000 +   | 5800 +  | 155 000 + | 48 000 | = | 100 000 +     | 1300 +   |                | 119 800 |
|   |         |          |         | 15 000    |        | = |               |          |                | 15 000  |
| Jan 7   | 3300 +  | 9000 +   | 5800 +  | 170 000 + | 48 000 | = | 100 000 +     | 1300 +   |                | 134 800 |
|   |         |          | -1200   |           |        | = |               |          |                | -1200   |
|   | 3300 +  | 9000 +   | 4600 +  | 170 000 + | 48 000 | = | 100 000 +     | 1300 +   |                | 133 600 |

Taito is very pleased with the explanations that Talalelei has given him about the changes in the accounting equation. However, he is confused about what happens once he starts selling his produce at the market. Also, Taito asks how expenses such as petrol for the truck, kerosene for the weed-eater and repairs to some of the equipment affect the accounting equation. Talalelei gives the following explanation.

## Expanding The Accounting Equation

Once a business starts its operations it will begin to use its assets to generate or earn income. The objective for setting up a business is to provide a service or product while making a profit. The profit for a business is measured by finding the difference between its income (or revenue) and its expenses or costs over a period of time.

$$\text{Profit} = \text{Revenue} - \text{Expenses}$$

The profit for the business goes to the proprietor or owner of the business. This will increase the capital or the owner's contribution to the business. If the business makes a loss then this will decrease the capital or the owner's contribution to the business. A loss is made when the expenses exceed revenue earned over a particular period of time.

Therefore, if the profit (or loss) affect the owner's equity, it will affect the accounting equation is this way:

$$\mathbf{A} = \mathbf{L} + \mathbf{[(R - E) + P]}$$

'R' stands for revenue and 'E' stands for expenses. It affects the proprietorship part of the accounting equation because for any business, the profit (or loss) made over a period of time is the return (or loss) on the investment made by the owner.

To measure profit, the life of a business is broken into periods called accounting periods. Accounting periods are usually for a year, though they may be shorter depending on the type of business.

Talalelei explains to his father how revenue and expense items affects the financial position of T&T Enterprise by showing how these transactions will change the accounting equation:

On 7 July 2006, T&T Enterprise had the following assets and liabilities. Following are the transactions that occurred in the next week.

|                              |           |
|------------------------------|-----------|
| Cash in the bank             | \$700.00  |
| Weed-eater                   | \$1700.00 |
| Planting equipment           | \$800.00  |
| Truck                        | \$1000.00 |
| Loan (NAB)                   | \$4700.00 |
| Bluebird Ltd                 | \$900.00  |
| Taito’s capital contribution | \$7600.00 |

- July 8 Taro and banana sales at the Fugalei Market raised \$900.
- July 8 Expenses — paid market fees \$30, petrol for truck \$40.
- July 9 Licence for truck \$60, puncture repaired \$25.
- July 10 Payment to Bluebird Ltd \$300, Taito takes \$200 for personal use.
- July 12 Sale of bananas to Sunrise Restaurant \$300.
- July 13 Earnings from sales at Fugalei Market \$1400.
- July 13 Expenses paid during the week — petrol and oil \$50, repairs to weed-eater \$200, market fees \$60, kerosene \$20.
- July 14 Taito gives \$300 to Sina for household shopping and church donations.

This is how these transactions would affect the accounting equation and T&T’s financial position:

| <b>Accounting equation schedule for T &amp; T Enterprise</b> |                       |               |              |               |  |   |                      |                      |                       |                     |
|--|-----------------------|---------------|--------------|---------------|--|---|----------------------|----------------------|-----------------------|---------------------|
|  | <b>Assets</b>         |               |              |               |  | = | <b>Liabilities +</b> |                      | <b>Proprietorship</b> |                     |
| 2006   | Bank +                | Weeder +      | Equip +      | Truck         |  | = | NAB Loan +           | BBird +              |                       | + Capital           |
| <b>Jul 7</b>   | 700 +                 | 1700 +        | 800 +        | 10 000        |  | = | 4700 +               | 900 +                |                       | 7600                |
| <b>Jul 8</b>   | <b>830</b>            |               |              |               |  |   |                      |                      |                       | <b>830</b>          |
| <b>Jul 9</b>   | 1530 +<br><b>-85</b>  |               |              |               |  | = |                      |                      |                       | 8430<br><b>-85</b>  |
| <b>Jul 10</b>  | 1445 +<br><b>-500</b> |               |              |               |  | = |                      | 900 +<br><b>-300</b> |                       | 8345<br><b>-200</b> |
| <b>Jul 12</b>  | 945 +<br><b>300</b>   |               |              |               |  | = |                      | 600 +                |                       | 8145<br><b>300</b>  |
| <b>Jul 13</b>  | 1245 +<br><b>1070</b> |               |              |               |  | = |                      |                      |                       | 8445<br><b>1070</b> |
| <b>Jul 14</b>  | 2315 +<br><b>-300</b> |               |              |               |  | = |                      |                      |                       | 9515<br><b>-300</b> |
|  | <b>2015 +</b>         | <b>1700 +</b> | <b>800 +</b> | <b>10 000</b> |  | = | <b>4700 +</b>        | <b>600 +</b>         |                       | <b>9215</b>         |

Note the following points:

- Revenue increases proprietorship and expenses decrease proprietorship.
- Proprietorship is decreased when the owner takes cash or goods from the business for his/her own personal use.
- Repairs to assets (*e.g. Repairs to weed-eater*) are an expense and do not affect the value of the asset.

### Activity 3

### The Expanded Accounting Equation

Complete the following tasks in your book.

1. Draw up a balance sheet for T&T Enterprise as at 14 July 2006 from the information given in the accounting equation schedule on the previous page.
2. Use the following information to draw up accounting equation schedules to show how the relevant transactions affect the financial position of each business:
  - a. Rena Beach Fales has the following assets and liabilities as at 5 June 2006:

|                     |             |
|---------------------|-------------|
| Cash in the bank    | \$400.00    |
| Accounts receivable | \$600.00    |
| Furniture           | \$4000.00   |
| Fales               | \$10 000.00 |
| Vehicle             | \$15 000.00 |
| Land                | \$40 000.00 |
| Accounts payable    | \$2000.00   |
| Loan                | \$24 000.00 |
| Capital             | \$44 000.00 |

The following transactions took place during the next week:

- |         |  |
|---------|--|
| June 6  | Banked \$800, from guest accommodation.                                    |
| June 7  | Bought groceries for preparation of food for guests, \$250.                |
| June 7  | Paid \$50 for petrol and oil.  |
| June 9  | Banked \$1200, from guests paying for accommodation.                       |
| June 9  | Paid fisherman \$80 for fish.  |
| June 10 | Paid accounts payable \$1000, and received \$300 from accounts receivable. |
| June 12 | Banked \$900 from guests paying for accommodation.                         |
| June 12 | Rena took \$200 for personal use.  |
| June 13 | Bought groceries for \$150.  |

b. Mika’s Store has the following assets and liabilities as at 17 August 2006.

|                     |             |
|---------------------|-------------|
| Cash in the bank    | \$1300.00   |
| Accounts receivable | \$1700.00   |
| Fittings            | \$1700.00   |
| Stock               | \$6000.00   |
| Buildings           | \$10 000.00 |
| Land                | \$25 000.00 |
| Accounts payable    | \$1000.00   |
| Loan                | \$9000.00   |
| Capital             | \$35 700.00 |

The following transactions took place during the next week:

- August 18 Sales banked \$4325.
- August 19 Received \$500 from accounts receivable and banked it.
- August 20 Paid \$2000 off loan, and banked sales \$3470.
- August 21 Owner took \$600 stock for family funeral.
- August 22 Banked sales \$5690, purchased stock for \$7500, and credited sales to accounts receivable for \$540.

c. Use the following information to answer the question.

| <b>Fagali’i Car Rentals</b>                              |                            |                      |            |                            |
|--|----------------------------|----------------------|------------|----------------------------|
| <b>Statement of Financial Position as at 7 June 2006</b> |                            |                      |            |                            |
| <b>Assests</b>   | <b>\$</b>                  | <b>Liabilities</b>   |            | <b>\$</b>                  |
| Cash in the bank   | 3300.00                    | Loan NAB             | 100 000.00 |                            |
| Office equipment   | 9000.00                    | Bluebird Ltd         | 1300.00    | 101 300.00                 |
| Tools and equipment                                      | 4600.00                    | <b>Propietorship</b> |            |                            |
| Vehicles   | 170 000.00                 | Capital              |            | 133 600.00                 |
| Land and buildings                                       | 48 000.00                  |                      |            |                            |
|  | <b><u>\$234 900.00</u></b> |                      |            | <b><u>\$234 900.00</u></b> |

- June 8 Banked rental income \$7200, paid for petrol and oil \$275, and paid wages \$3640.
- June 9 Owner took \$500 for personal use, paid for car repairs \$870 and paid insurance for vehicles \$1500.
- June 10 Banked rental income \$5800 and paid telephone and fax bill \$350.
- June 12 Banked rental income \$3600 and paid for office equipment maintenance \$200.
- June 13 Repaid \$5000 on mortgage.

Assets and liabilities are usually classified to provide more useful information for people reading the financial information. Assets and liabilities can be classified into two sub-groups — current and non-current.

#### **Current assets**

These are assets which the business expects to turn into cash or be used up within the next accounting period. Examples of current assets include cash at bank, accounts receivable, stock or inventory and petty cash.

#### **Non-current assets**

These are assets which are expected to be kept by the business beyond the end of the next accounting period. Non-current assets are divided into three categories — **investments**, **fixed assets** and **intangible assets**.

**Investments** are assets such as term deposits or shares in companies that are expected to be kept in the business for more than one accounting period.

**Fixed assets** are assets which are expected to be kept in the business so that operations can continue in the future. These assets are kept as they are used to earn revenue for the business. Fixed assets include vehicles, office equipment, tools, buildings, land and fittings.

**Intangible assets** are assets which are ‘untouchable’. This means that you cannot see or touch these assets but they have a monetary value placed on them. Examples of intangible assets include goodwill and copyrights or trademarks. Goodwill is an amount added to the value of a business over and above the value of its net assets. It usually represents the good name of the business or customer loyalty to the business. Copyrights or trademarks represent a ‘right’ to something but have no physical presence.

#### **Current liabilities**

Current liabilities are those business liabilities expected to be paid within the coming accounting period. The business will need to have the cash to pay for these. Examples include bank overdraft and accounts payable.

#### **Non-current liabilities**

Non-current liabilities are those liabilities which will be paid over a period of time beyond the next accounting period. Examples include mortgage and long term loans.

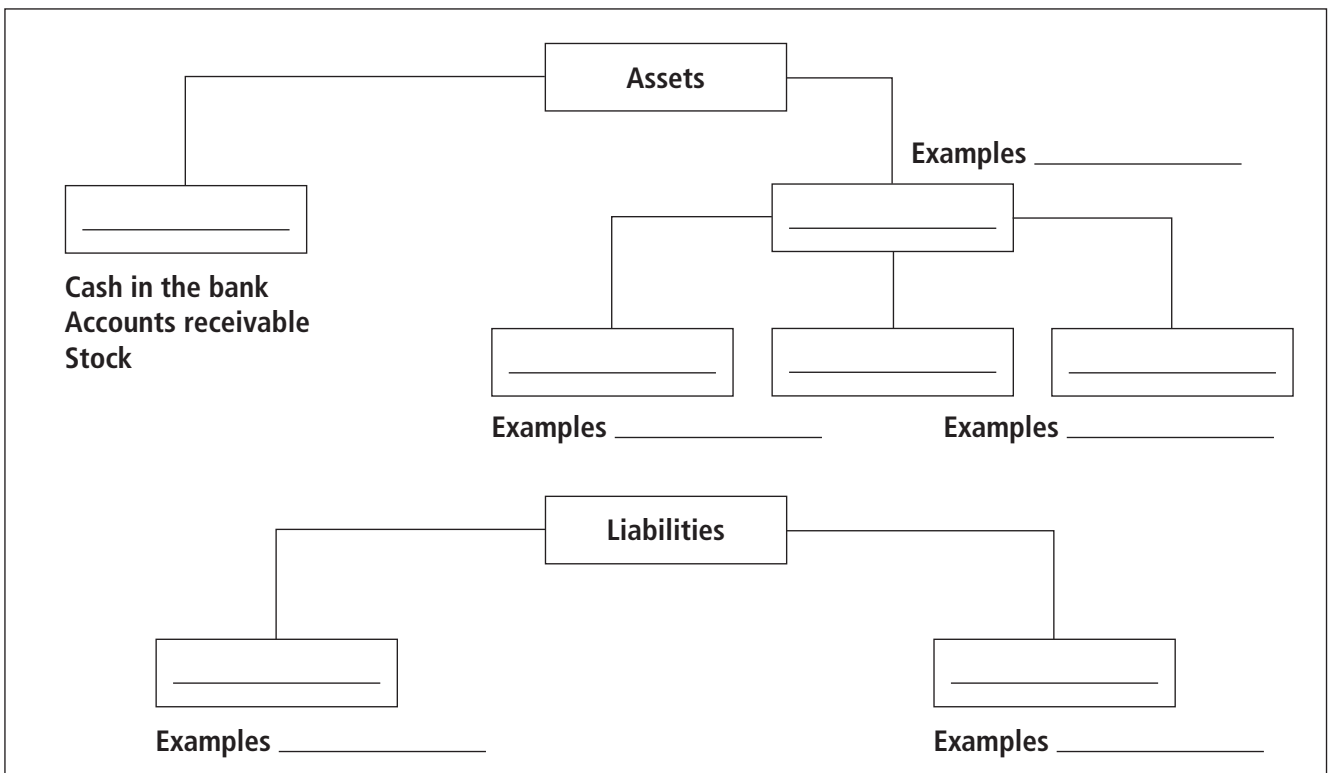
An example of a classified balance sheet for Mika’s Stores is given on the next page:

| <b>Mika's Stores</b>  |               |                        |                                |
|---|---------------|------------------------|--------------------------------|
| <b>Statement of Financial Position as at 17 August 2006</b> |               |                        |                                |
| <b>Current assests</b>                                      |               | <b>\$</b>              | <b>Current liabilities</b>     |
| Cash in the bank  | 3000          |                        | Accounts payable               |
| Accounts receivable   | 1700          |                        |                                |
| Stock   | <u>6000</u>   |                        | <b>Non-current liabilities</b> |
|   |               | 9000                   | Loan                           |
| <b>Fixed Assests</b>  |               |                        |                                |
| Fittings  | 1700          |                        | <b>Propietorship</b>           |
| Buildings   | 10 000        |                        | Capital                        |
| Land  | <u>25 000</u> |                        |                                |
|   |               | <u>36 700</u>          |                                |
|   |               | <u><b>\$45 700</b></u> | <u><b>\$45 700</b></u>         |

**Activity 4**      **Classifying Assets And Liabilities**

Complete the following tasks in your book.

1. Complete a fully classified balance sheet for the following businesses using the figures from the accounting equation schedules you completed for Activity 3.
  - a. Rena Beach Fales as at 13 June 2006.
  - b. Mika's Stores as at 22 August 2006.
  - c. Fagali'i Car Rentals as at 13 June 2006.
2. Copy and complete the following diagram in your exercise book.



# Unit 4: CASH TRANSACTIONS

## Objectives

By the end of this Unit you should be able to complete the following:

- Recall the role and use of cash journals.
- Record complex transactions in the cash journals.
- Record petty cash transactions in the appropriate manner and transfer to the payments journal.

## Introduction

As you may recall from your Year 9 Business Studies class, transactions are an essential ingredient in the accounting process. A transaction is any exchange of goods, services or money between two or more people. A person or a business can use cash or credit to purchase these goods. We will only be concentrating on the use of cash in this section.

There are two types of cash transactions: those for which a business receives cash and those for which a business pays cash. We store these transactions in a journal. Journals are a daily record of all transactions recorded from source documents (*e.g. Receipts, credit notes, invoices, and cheque butts*). The main purpose of journals is to record all transactions and to group similar transactions together in order to begin organising financial statements.

## The cash receipts journal

When a business receives cash from a customer, the transaction is recorded in the cash receipts journal. The document used is a receipt. Examples of this type of transaction are cash sales, receiving rent and receiving interest. These would all go into the cash receipts journal.

There are actually many documents that can be used for recording cash receipts transactions. The most common one is by the use of a cash register, because it produces a cash register docket (which is given to the customer after a sale) and a cash register summary. The cash register summary gives a summary of each sale made on that day and a total of all sales for the day. This summary audit tape is prepared automatically inside the machine, and it is useful for recording purposes.



Another document used to record cash transactions is a receipt. A receipt is a written acknowledgment of cash received in which case a business completes at least two copies. The original is given to the customer who paid for the goods purchased, and the duplicate is kept by the business in order to record the transactions in the cash receipts journal.

**Activity 1 Receipts**

Below is an example of a receipt that a customer received from Apia Traders, Ltd. Study it, and then answer the questions that follow.

|  |                               |
|--|-------------------------------|
| Receipt No. 0139   | Date: <u>22 February 2006</u> |
| <b>Apia Traders</b>  |                               |
| PO Box 282 Apia  |                               |
| Samoa  |                               |
| Phone 78 161   |                               |
| VAGST 8691   |                               |
| Received from: <u>E. Letoa</u>                             |                               |
| The sum of: <u>One hundred and seventy one tala only -</u> |                               |
| For: <u>Electric jug</u>                                   |                               |
| Per: <u>Resa Tuia</u>                                      |                               |
| Cheque \$  | 171.00                        |
| Cash \$  |                               |
| Total \$   | 171.00                        |

Copy out and answer the following questions in your exercise book:

1. Who made the purchase shown in the receipt above?
2. Where was the purchase made from?
3. What did the consumer buy?
4. How much was the product?
5. Who made out this receipt?
6. What is VAGST?
7. Why is the receipt numbered?
8. In which journal will this receipt be recorded and why?

### Discounts received

If a customer pays the account promptly, then some businesses allow a deduction or discount on the price of the product(s) purchased. This discount is encouraged so that businesses can entice customers to pay their bills early and on time. Most customers make their payments within this time limit and earn this income. After the discount date, the debtor will have to pay what he owes in full. The rate of discount allowed and the time limit is often shown at the foot of the statement sent by the firm (creditor) to the customer. This is an expense or loss to the business and is entered in a column for this purpose in the cash receipts journal. Upon receipt of the monthly statement the debtor would normally deduct the discount at the rate stated from what he/she owes and sends a cheque for the reduced amount to settle the account. When the firm records the receipt of this cheque, they must also record the amount of discount allowed so that the cash and the discount allowed together will equal the amount that was owing. The cash receipts journal is ruled up with the following columns:

1. **Date** — This is on the extreme left side of the page. The date is only written once — no matter how many transactions take place on the same day.
2. **Particulars** — In this column, we write the source of cash (*e.g. Sales if it is sales of goods, debtor's name if a debtor has paid the business his money*).
3. **Receipt number** — Where the number of the receipt issued to the customer is recorded. The receipt numbers recorded here should run in numerical order.
4. **Folio** — In this column, the number of the ledger page or card is recorded into which this account or figure is posted.
5. **Discount** — The amount of discount a business has allotted to the customer is recorded in this column.
6. **Details or receipts** — The actual amount of cash received from each cash transaction is recorded here. At the end of each day this is ruled off and totalled.
7. **Bank** — The daily totals from the previous column are extended to this column. It represents how much a business has received and banked into the account daily.
8. **Analysis column** — These are extra columns that may be provided in the cash receipts journal for any type of cash receipt that is going to be repeated often. Examples of these may be cash sales, payments from debtors, commission and interest. A column may be assigned to any such account.
9. **Sundries or other receipts** — this column is used for any other entry in the cash receipts journal that is not recurring (not appearing often).

Example of a discount allowed transaction:

Molesi sells goods to E. Talisau valued at \$200. At the end of the month, a statement of account is sent to Mr. Talisau asking him to pay his bill. At the foot of the statement a note appears that he will receive a 5% discount if it is paid on or before 20 March. On March 17, Mr. Talisau sends Molesi a cheque for \$190. In the cash receipts journal Molesi records \$10 in the discount allowed column and \$190 in the receipts column. The total \$200 is shown in the debtors column meaning that Mr. Talisau has paid his account with Molesi in full. The following is what the cash receipt journal would look like:

| Date   | Particulars | Receipt no. | Folio | Discount | Receipts | Bank   | Debtors |
|--------|-------------|-------------|-------|----------|----------|--------|---------|
| Mar 17 | E. Talisau  | 421         |       | 10.00    | 190.00   | 190.00 | 200.00  |

**Recording transactions into the cash receipts journal**

Remember, the items included in the cash receipts journal are those for which cash has been received. The following is a list of transactions obtained during October from Blue Bird.

- Oct 1 Received a cheque from S. Sua \$95.00  
Received commission \$45.00
- Oct 9 Received cash from V. Leva in part payment of his September account \$175.00  
Cash sales \$312.00
- Oct 15 Cash sales \$256.00
- Oct 20 Cash sales \$387.90  
Received a cheque from L. Sione \$532.00  
Discount allowed \$12
- Oct 25 T. Tai sent us a cheque of \$200 to make full payment of her account \$210
- Oct 30 Cash sales \$350  
Received cash from M. None \$240  
Allowed him discount of \$10  
Sold old office furniture for cash \$350.00

The transactions on the last page are then forwarded into the following cash receipts journal.

| Blue Bird's Cash Receipts Journal |              |         |                  |                  |               |                  |                  |                  |                 |
|-----------------------------------|--------------|---------|------------------|------------------|---------------|------------------|------------------|------------------|-----------------|
| Date                              | Particulars  | Rec no. | Folio            | Discount         | Receipts      | Bank             | Debtors          | Sales            | Other recs      |
| Oct 1                             | S. Sua       | 001     |                  |                  | 95.00         |                  | 95.00            |                  |                 |
|                                   | Commission   | 002     |                  |                  | <u>45.00</u>  | 140.00           |                  |                  | 45.00           |
| 9                                 | V. Leva      | 003     |                  |                  | 175.00        |                  | 175.00           |                  |                 |
|                                   | Sales        | CRR     |                  |                  | <u>312.00</u> | 487.00           |                  | 312.00           |                 |
| 15                                | Sales        | CRR     |                  |                  | <u>256.00</u> | 256.00           |                  | 256.00           |                 |
| 20                                | Sales        | CRR     |                  |                  | 387.00        |                  |                  | 387.00           |                 |
|                                   | L. Sione     | 004     |                  | 12.00            | <u>532.00</u> | 919.00           | 544.00           |                  |                 |
| 25                                | T. Tai       | 005     |                  | 10.00            | <u>200.00</u> | 200.00           | 210.00           |                  |                 |
| 30                                | Sales        | CRR     |                  |                  | 350.00        |                  |                  | 350.00           |                 |
|                                   | M. None      | 006     |                  | 10.00            | 240.00        |                  | 250.00           |                  |                 |
|                                   | Office Furn. | 007     |                  |                  | 350.00        | 940.00           |                  |                  | 350.00          |
|                                   |              |         |                  | <b>\$32.00</b>   |               | <b>\$2942.00</b> | <b>\$1274.00</b> | <b>\$1305.00</b> | <b>\$395.00</b> |
| Posting Summary                   |              |         |                  |                  |               |                  |                  |                  |                 |
| Debit entries                     |              |         | \$               | Credit Entries   |               |                  | \$               |                  |                 |
| Bank                              |              |         | 2942.00          | Debtors          |               |                  | 1274.00          |                  |                 |
| Discount Allowed                  |              |         | 32.00            | Sales            |               |                  | 1305.00          |                  |                 |
|                                   |              |         |                  | Commission       |               |                  | 45.00            |                  |                 |
|                                   |              |         |                  | Office Furniture |               |                  | 350.00           |                  |                 |
|                                   |              |         | <u>\$2974.00</u> |                  |               |                  | <u>\$2974.00</u> |                  |                 |

## Activity 2 Recording In The Cash Receipts Journal

1. The following is a list of cash receipt transactions for the proprietor S. Heslop. Record them into the cash receipts journal. The first one is done for you. Copy and complete the exercise in your exercise book.

| Date   | Transaction   | Receipt no. | Amount |
|--------|---|-------------|--------|
| 1 Jan  | Received from J. Jones \$980 cash.<br>A discount of \$20 was allowed. | 4           | \$980  |
| 12 Jan | Received interest on investments.                                     | B/S         | \$100  |
| 23 Jan | Received from T. Smith.   | 5           | \$500  |
| 23 Jan | Cash sales.   | CRR         | \$1100 |
| 30 Jan | Sold furniture.   | 6           | \$200  |

| S. Heslop's Cash Receipts Journal |             |         |       |          |          |        |         |
|-----------------------------------|-------------|---------|-------|----------|----------|--------|---------|
| Date                              | Particulars | Rec no. | Folio | Discount | Receipts | Bank   | Debtors |
| Jan 1                             | J. Jones    | 4       |       | 20.00    | 980.00   | 980.00 | 1000.00 |
|                                   |             |         |       |          |          |        |         |
|                                   |             |         |       |          |          |        |         |
|                                   |             |         |       |          |          |        |         |
|                                   |             |         |       |          |          |        |         |

Note the following points:

- There is a source document for every entry.
- Source documents are consecutively numbered.
- The 'receipts' column is used to collect individual amounts that will be banked at the end of each day. The total entered in the 'bank' column will agree with the total of the bank deposit slip.

### Cash payments journal

When a business pays cash — maybe for rent, making a cash purchase, or paying a creditor — these transactions go in the cash payments journal. All payments are made primarily by cheque. A cheque is an order made upon a bank (the drawee) to pay a certain amount of money to a person (known as the payee). The person who writes the cheque is called the drawer. The cheque is sent to the payee and the drawer keeps the cheque butt or duplicate that is used as the source document in the Cash Payments Journal.

## Activity 3 Recording In The Cash Payments Journal

Study the following cheque and then answer the questions in your notebook. The following is an example of a cheque and a cheque butt:

|  |                           |
|--|---------------------------|
| <b>National Apia Bank (Samoa)</b>            |                           |
| Apia<br>Samoa                                | <u>12 March 2006</u>      |
| Pay <u>Apia Traders Ltd.</u>                 | <del>or Bearer</del>      |
| <u>One hundred and seventy one tala only</u> | <u>\$171.00</u>           |
| Amount in Words                              | Cheque Duty Paid          |
|  | E. LETOA <u>E Letoa</u>   |
| <b>314165</b>                                | <b>020012: 611817: 00</b> |

|                      |                     |    |
|----------------------|---------------------|----|
| <b>Date</b>          | <u>22 Feb 2006</u>  |    |
|                      | <u>Apia Traders</u> |    |
|                      | <u>Electric Jug</u> |    |
| <b>Balance b/fwd</b> | 612                 | 75 |
| <b>Cheque</b>        | 171                 | 00 |
|                      | 441                 | 75 |
| <b>Deposit</b>       |                     |    |
| <b>Balance c/fwd</b> | 441                 | 75 |

1. Who is the payee of the cheque?
2. Who is the drawee?
3. What is the reason for the cheque butt?
4. Who is the drawer of the cheque?
5. Why are cheques important when learning about the cash payments journal?

| Date   | Transactions  | Cheque no. | Amount |
|--------|---|------------|--------|
| 1 Jul  | Paid N. Nina \$170 in settlement account and received a \$3 discount. | 762        | \$170  |
| 1 Jul  | Cash purchases, Traders Ltd   | 763        | \$1000 |
| 22 Jul | Paid wages \$600 and drawings of \$100 on the one cheque              | 764        | \$700  |
| 23 Jul | Purchased vehicle   | 765        | \$6000 |

| J. Lili Cash Payments Journal |             |         |       |                  |         |      |           |           |       |          |
|-------------------------------|-------------|---------|-------|------------------|---------|------|-----------|-----------|-------|----------|
| Date                          | Particulars | Chq no. | Folio | Discount Allowed | Details | Bank | Purchases | Creditors | Wages | Sundries |
| Jul 1                         | N. Nina     | 762     |       | 3                |         | 170  |           | 173       |       |          |
|                               | Purchases   | 763     |       |                  |         | 1000 | 1000      |           |       |          |
| Jul 22                        | Wages       | 764     |       |                  | 600     |      |           |           | 600   |          |
|                               | Drawings    | 700     |       |                  | 100     | 700  |           |           |       | 100      |
| Jul 23                        | Vehicle     | 765     |       |                  |         | 6000 |           |           |       | 6000     |
|                               |             |         |       | 3                |         | 7870 | 1000      | 173       | 600   | 6100     |

Note the following points:

- The ‘details’ column is only used if two or more accounts are paid by the one cheque. Only the total of the cheque is entered into the ‘bank’ column.
- Unlike the cash receipts journal, if two or more amounts are paid on the one day using separate cheques, separate entries are made in the ‘bank’ column because each cheque is presented individually to the bank for payment.
- All payments are entered whether they are for purchases of goods, purchases of other assets or payment of expenses.

**Activity 4**      **Cash Payments Entries**

Enter the following transactions in the cash payments journal of S. Masina. Prepare analysis columns for creditors, purchases, wages and sundries. Total the journal and prepare a summary.

- Sept 4    Forwarded cheque 007 for \$294.50 to P. Fetu in payment of last month's account.  
Discount of \$11.75 allowed by P. Fetu.
- Sep 8    Drew cheque 008 to pay \$540 wages.
- Sep 12    Purchased goods and paid \$214.80 for them on cheque 009.
- Sep 16    Drew cheque 010 to pay \$140 rent and \$92 interest.
- Sep 23    Took advantage of discount terms offered by P. Meredith Ltd., by forwarding cheque 011. They allowed 5% discount off a \$600 debt.
- Sep 25    Drew cheque 012 to pay \$108.45 for goods.
- Sep 26    Drew cheque 013 to pay \$540 wages.
- Sep 28    Paid N. Malo for goods purchased, \$78.50 on cheque 014.
- Sep 29    Drew cheque 015 to pay \$140 for electricity.  
Purchases, \$165.90 cash.  
Paid \$48.30 for office stationery on cheque 016.
- Sep 30    Paid account of \$438 with S.V. Mackenzie Ltd., by sending them \$428 on cheque 017.



**Activity 6****Cash Receipts And Cash Payments**

Write up the cash receipts journal and the cash payments journal from the following (use your own cheque numbers and receipt numbers).

- 4 June Cash sales \$350.
- 5 June Paid wages \$310.
- 8 June Paid insurance \$70.
- 10 June Cash sales \$400.
- 12 June Received \$90 payment from Seta, \$10 discount allowed.  
Paid wages \$310.
- 13 June Paid rates \$250.
- 14 June Received \$320 from cash sales.
- 15 June Paid water bill \$142.  
Paid electricity bill \$85.  
Paid telephone bill \$200.
- 16 June Cash sales \$375.
- 17 June Received \$120 from L. Ah Sum for accounts receivable.
- 18 June Paid creditors \$480.  
Cash sales \$1860.
- 19 June Paid wages \$310.
- 22 June Cash sales \$410.
- 26 June Paid wages \$310.
- 28 June Purchases \$2360.

**Petty cash**

**Petty cash** is an amount of money set aside in an office to pay for small items as they are required: *e.g. Stamps, biscuits, taxi fares, stationery items*. Petty cash is used to pay for those items which are too small in total to purchase using a cheque. Petty cash is regularly reimbursed as required. It is usually controlled by one person in the office.

When the petty cash is used, receipts are required to account for the amount used. A person is required to fill out a voucher which shows the amount used and what it was used for, and the receipt is attached to verify payment.

|  |                             |         |
|--|-----------------------------|---------|
| <b>Petty Cash Voucher — Apia Traders</b> |                             | No. 212 |
| Date:                                    | <u>14 March 2006</u>        |         |
| Amount:                                  | <u>Three tala – 60 sene</u> |         |
| Required for:                            | <u>Stamps and envelopes</u> |         |
| Signed:                                  | <u>R Tuia</u>               |         |

When the **petty cash imprest** is reimbursed, the vouchers are totalled. The total from the vouchers should equal the amount to be reimbursed. The person responsible for looking after the petty cash must be careful to collect all the receipts to validate the use of the petty cash and that vouchers are filled in. An example of a petty cash book is shown below.

| <b>Petty Cash Book</b> |                     |                   |       |       |         |            |         |             |        |
|------------------------|---------------------|-------------------|-------|-------|---------|------------|---------|-------------|--------|
| Date                   | Particulars         | Voucher No. Folio | Rec.d | Pay   | Balance | Taxi Fares | Postage | Tea/ Coffee | Sundry |
| Mar 9                  | Balance c/d         |                   |       |       | 5.60    |            |         |             |        |
|                        | Cash Payments       | Chq 452           | 44.40 |       | 50.00   |            |         |             |        |
| 10                     | T. Lania            | 210               |       | 3.00  | 47.00   | 3.00       |         |             |        |
| 12                     | R Tuia              | 211               |       | 12.40 | 34.60   |            | 4.00    | 8.40        |        |
| 14                     | R. Tuia             | 212               |       | 3.60  | 31.00   |            | 3.60    |             |        |
| 15                     | P. Reebeck          | 213               |       | 5.00  | 26.00   | 5.00       |         |             |        |
| 16                     | R. Tuia - groceries | 214               |       | 7.50  | 18.50   |            |         |             | 7.50   |
| 17                     | R. Tuia             | 215               |       | 8.00  | 10.50   |            | 8.00    |             |        |
| 18                     | P. Reebeck          | 216               |       | 5.00  | 5.50    | 5.00       |         |             |        |
| 19                     | Cash Payment        | Chq 464           | 44.50 |       | 50.00   |            |         |             |        |

Complete the following exercises in your books:

1. Molesi has a petty cash imprest fund of \$100. On 6 June 2002, the balance of this fund was \$14.80. Use columns for postage, taxi fares, tea/coffee, other.

Transactions:

- Jun 6 Cheque is drawn to reimburse petty cash up to the required \$100 (cheque 248)
  - Jun 8 Rosa uses \$12 for taxi to Vaigaga and back to drop off an order — voucher 64
  - Jun 9 Tina buys tea and coffee \$9.60 — voucher 65
  - Jun 9 Rosa uses \$3.00 for stamps — voucher 66
  - Jun 10 Tina uses \$34.10 to buy morning tea for guests — voucher 67
  - Jun 12 Iese uses \$6.00 for taxi fare — voucher 68
  - Jun 13 Rosa catches taxi to drop off order — voucher 69
  - Jun 14 Reimburse the petty cash fund (cheque 270)
2. Fagali'i Rentals has a petty cash of \$50 which it uses for payment of postage, tea/coffee, office expenses, sundry. Draw up a Petty Cash Book to record the following expenses:
    - Aug 8 Draw a cheque \$48.20 to reimburse Petty Cash Imprest which shows a balance of \$1.80
    - Aug 9 Voucher 25, morning tea — Aleni \$9.50
    - Aug 10 Voucher 26, staples, pens — Rosela \$5.60
    - Aug 11 Voucher 27, postage, stamps — Rosela \$3.20
    - Aug 11 Voucher 28, taxi fare to post office — Aleni \$5.00
    - Aug 12 Voucher 29, tea/coffee — Aleni \$4.00
    - Aug 14 Voucher 30, postage — envelopes — Rosela \$7.80
    - Aug 14 Voucher 31, taxi fare to post office — Aleni \$5.00
    - Aug 15 Voucher 31, morning tea — Aleni \$7.50
    - Aug 15 Draw a cheque to reimburse petty cash imprest.

# Unit 5: CREDIT TRANSACTIONS

## Objectives

By the end of this Unit you should be able to:

- Describe the function of the goods journals.
- Identify and describe the source documents for the purchase of goods on credit.
- Record information in the goods journals from relevant source documents.
- Interpret transactions recorded in the different goods journals.
- Prepare cash and goods journals for posting to relevant general ledger accounts.

## Introduction

As you may recall from your previous studies, there are two types of transactions: cash and credit. In this section, only credit transactions will be analysed. Remember, when goods or services are provided and payment is delayed until a later date, a credit transaction has occurred. Hence a credit transaction is where you buy goods or services and use them before you pay for them. The time interval between the receiving of goods or services and payment for them is called the period of credit. The duration of the period of credit depends on the agreement between the supplier of goods or services and the consumer. It may range from one week to one year or longer. A credit transaction is not complete until the money owing is paid in full. In business all transactions are treated as credit transactions except where it mentions cash, cheque, paid or received.

There are four journals where these credit transactions are recorded. They are the following: the sales journal, the purchases journal, the sales returns journal, and the purchase returns journal. They deal with the movement of goods in and out of the business, and therefore are known as the goods journals.

The term journal means a book in which daily transactions are entered to facilitate later posting into the ledger. In the commercial world, all its businesses are done through business documents. These documents are collected into similar groups (*e.g. Invoices issued, invoices received, etc.*) at the end of each day. These documents are now ready to be recorded or entered into books for the first time. That is why the journals are sometimes known as the books of first entry. These books provide a system to make sure that every transaction is recorded with reference to the document which supplied the information. Such a document is known as the source document.

**Sales journal** — A sales journal records the credit sale of goods. The following is an example of a sales journal:

- Dec 16     A business sold goods to Mrs. Lene for \$100 (invoice 101).
- Dec 17     We issued invoice 102 to Lotu for \$90.
- Dec 18     Mr. Lemusu bought \$80 worth of goods (invoice 103).

Any time a business sells goods for credit, no matter how it is phrased, a business enters the transaction in the sales journal. The documents involved are invoices issued for the goods that are sold on credit. The ones shown above are just the most common way to write out a credit sale. The following columns are used for a sales journal:

**Date** — Month and day.

**Particulars** — Name of the debtor or accounts receivable (person buying the goods on credit).

**Invoice** — The invoice number.

**Folio** — A reference to the ledger account where the amount is posted.

**Debit** — Records amount debited to Debtors/Accounts Receivable.

**Credit** — Amount credited to sales account in the ledger.

Below is a sales journal for the above transactions.

| <b>Sales Journal</b> |             |             |       |       |        |
|----------------------|-------------|-------------|-------|-------|--------|
| Date                 | Particulars | Invoice no. | Folio | Debit | Credit |
| Dec 16               | Mrs. Lene   | 101         |       | 100   |        |
| Dec 17               | Mr. Lotu    | 102         |       | 90    |        |
| Dec 18               | Mr. Lemusu  | 103         |       | 80    |        |
|                      | Sales       |             |       |       | 270    |

Note the following points:

- Invoices are in numerical order.
- The amount of each individual sale goes in the debit column, and the total for the month goes on the credit column.
- A business debits each person because debtors (an asset) are increasing. Sales is a revenue account and is credited.

## Activity 1 Sales Journal

Enter all of the details in the correct column and total the Journal at the end of the month.

- Mar 2 Sold goods to S. Misiluti \$28 — invoice 351.
- Mar 5 Sold goods to P. Pata for \$35 — invoice 352.
- Mar 7 P. Mamoe bought goods on credit for \$62 — invoice 353.
- Mar 17 Sold goods to F. Fuia \$43 — invoice 354.
- Mar 19 Sold goods to S. Misiluti \$59 — invoice 355.
- Mar 28 F. Pata bought goods \$66 — invoice 356.
- Mar 30 A. Sega bought goods \$33 — invoice 357.
- Mar 31 Sold goods to F. Fuia for \$78 — invoice 358.

### The purchases journal

This journal records all the goods bought on credit by the business. The source documents for writing up this journal are invoices received from the supplier or seller. It may be a manufacturer or wholesaler. These invoices are from different firms, therefore their numbers are not in numerical order. Study the format of the example given on the next page.

The purchase journal records the amount due to the suppliers or accounts payable in the credit column. The total at the end of each period is the amount entered in the debit column and debited to the Purchases Ledger account.

Example:

- Dec 16 A business, called Seta’s, bought \$105 worth of goods from Molesi’s (invoice 186).
- Dec 17 Seta’s received invoice 230 from Chan Mow for \$90.
- Dec 18 Seta’s purchased goods \$80 on credit from Lucky’s (invoice 350).

Anytime a business buys goods on credit, the transaction is entered into the purchases journal. The above examples show the most common ways that these transactions can be described.

| <b>Purchases Journal</b> |             |             |       |       |        |
|--------------------------|-------------|-------------|-------|-------|--------|
| Date                     | Particulars | Invoice no. | Folio | Debit | Credit |
| Dec 16                   | Molesi’s    | 186         |       |       | 105    |
| Dec 17                   | Chan Mow    | 230         |       |       | 90     |
| Dec 18                   | Lucky’s     | 350         |       |       | 80     |
|                          | Purchases   |             |       | 275   |        |

Note the following points:

- Invoices numbers are not in numerical order: 186, 230, 350.
- The amount of each individual purchase goes in the credit column, the total for the period goes in the debit column.
- Each creditor will increase by the amount of each purchase (liabilities increase).

## Activity 2 Purchases Journal

The following invoices were received from suppliers for the month of May 2008. Enter them in the Purchases Journal, and total them at the end of the month.

- May 2 Bought \$163 of goods from Burns Philip Ltd. — invoice 414.
- May 5 Received Invoice 95 from Apia Bottling Co., for goods bought for \$138.
- May 11 I. H. Curruthers Ltd., sold us goods for \$236 — invoice 667.
- May 17 S.V. Mackenzie & Co. Ltd., sold us goods for \$148.00 — invoice 840.
- May 23 Bought goods from Chan Mow & Co. Ltd., for \$79.50 — invoice 35.
- May 29 Bought goods from Burns Philp Ltd., for \$28.75 — invoice 836.
- May 30 Bought goods from I. H. Carrs Ltd., for \$445 — invoice 926.

### The purchase returns journal

This journal is also known as the returns outwards journal or the purchase returns and allowances journal. Credit notes received are the source documents used to record entries in this journal.

The following is an example of the transactions that are placed into the purchase returns journal.

- Dec 16     Tai's Tyres received a \$12 credit note (26) from Chan Mow.  
 Dec 17     Tai's returned goods to Molesi on credit note 81 – \$10.  
 Dec 18     Lucky's allowed Tai's \$8 for damaged goods (credit note 159).

The following columns are used in the returns outwards journal:

**Date** — Month and day.

**Particulars** — Name of the creditor (where the business is returning goods to).

**Credit note (CN)** — The credit note number.

**Folio** — A reference to the ledger.

**Debit** — Records amount to appear in the debit column of Accounts Payable ledger account

**Credit** — Amount credited to the Purchase Returns Account in the ledger.

| Purchase Returns Journal |                   |           |       |       |        |
|--------------------------|-------------------|-----------|-------|-------|--------|
| Date                     | Particulars       | CN number | Folio | Debit | Credit |
| Dec 16                   | Chan Mow          | 26        |       | 12    |        |
| Dec 17                   | Molesi            | 81        |       | 10    |        |
| Dec 18                   | Lucky's           | 159       |       | 8     |        |
|                          | Rtrn Out Acc. Cr. |           |       |       | 30     |

Note the following points:

- Credit notes are not in numerical order – as they are received from other businesses.
- This has the opposite effect to purchases: we credit each creditor and debit the Purchase Returns ledger account.
- We debit the creditors because the amount we owe them is decreasing (liabilities decreases). We credit purchase returns because it decreases the amount for purchases (expenses decreases).



**Activity 3 Purchase Returns Journal**

Enter the following items in R. Peka’s purchase returns journal. Total the journal at the end of the month.

- May 3 Returned goods to Chan Mow & Co. Ltd., for \$16.70 — credit note 62.
- May 15 Received credit note (24) from Carrs Ltd., for \$18.30 of goods returned to them.
- 17 Returned to Morris Hedstroms Ltd., goods valued at \$28.50 — credit note 18.
- 28 Burns Philip & Co. Ltd., sent us credit note 42 for \$438.60 returned goods.

**The sales returns journal**

This journal is also known as the returns inwards journal, because the goods returned to the business are goods that the business originally sold. When the business receives the returned goods, they must notify their customers that they have received the goods they returned by sending them a credit note. From the copies of these credit notes, the sales returns journal can be written up. The entries in this journal are very similar to the purchase returns journal except that:

- The names entered in the particulars column are of customers. They are debtors.
- The credit notes are entered in numerical order as they are copies retained (kept) by the business and were issued to the customers.

Example:

- Dec 16 Mr. Lotu returned goods valued at \$9 (credit note 16).
- Dec 17 We issued credit note 17 to Mrs. Lene for \$10.
- Dec 18 We allowed Lemusu \$8 for damaged goods (credit note 18).

| Sales Returns Journal |               |           |       |       |        |
|-----------------------|---------------|-----------|-------|-------|--------|
| Date                  | Particulars   | CN number | Folio | Debit | Credit |
| Dec 16                | Lotu          | 16        |       |       | 9      |
| Dec 17                | Mrs. Lene     | 17        |       |       | 10     |
| Dec 18                | Lemusu        | 18        |       |       | 8      |
|                       | Sales Returns |           |       | 27    |        |

Note the following points:

- Credit notes are in numerical order: 16, 17, 18.
- This has the opposite effect to sales: we credit each customer and debit the monthly total of sales returns.
- We credit debtors because the amount they owe has decreased (assets decreases). We debit sales returns because it reduces sales (revenues decrease).

## Activity 4

### Sales Returns Journal

Students are to enter the following credit notes in M. Gasu's sales returns journal. These are copies of credit notes issued by M. Gasu to his customers who returned goods. Total the journal at the end of the month.

May 16 T. Mala returned goods worth \$8.40, on credit note 55.

May 19 Sent T. Utai credit note 56 for \$27.30 of returned goods.

May 25 Sent S. Sau credit note 57 for \$16.95 of returned goods.

May 31 R. Tofilau returned goods worth \$25.35, on credit note 58, sent credit note 59 to S. Ulale for \$9.45 of returned goods.

#### Posting to the general ledger accounts

After preparing the journals, we post them to the ledger. We enter transactions into the journals daily. This is usually totalled each month to post to the ledger. The journals are groupings of similar transactions — we put all credit sales together, all cash receipts together, etc. The ledger accounts store all the financial transactions related to an individual item, e.g. Wages, Purchases, Bank.

There are five types of accounts and each transaction affects at least two accounts (they may be the same type of account: *e.g. Two asset accounts*) — one account is debited and one is credited. Debits always equal credits so we can check our work by adding up the totals of each and seeing if they match. The five types of accounts are:

1. **Assets** — anything a business owns which has value (*e.g. Cash, stock, debtors, equipment, furniture, fixtures, vehicles, buildings, land*).
2. **Liabilities** — what the business owes to someone else (*e.g. Creditors, bank overdraft, expenses, loan*).
3. **Expenses** — money paid out by a business for operational purposes (*e.g. Wages, rent, purchases, light and heat, postage, stationery, bad debts, interest, advertising, discount allowed, general expenses*).
4. **Revenues** — money received by a business from operations (*e.g. Sales, interest received, rent received, discount received*).
5. **Owners' Equity/Proprietorship** — what the owner has contributed to the business (*e.g. Capital, drawings* (which are goods or money taken by the owner that actually reduce capital)).

For every transaction, the total debit amounts must equal the total credit amounts.

Assets, expenses and drawings have debit balances.

Liabilities, proprietorship and revenue have credit balances.

The rules for entering transactions in the General Ledger are:

|   |                                   |                                   |                                   |
|---|-----------------------------------|-----------------------------------|-----------------------------------|
| <b>Asset + Expenses + Drawings = Liabilities + Proprietorship + Revenue</b> |                                   |                                   |                                   |
| <b>Increase in value → debit</b>  | <b>Increase in Value → credit</b> | <b>Increase in Value → credit</b> | <b>Increase in value → debit</b>  |
| <b>Decrease in value → credit</b>   | <b>Decrease in Value → debit</b>  | <b>Decrease in Value → debit</b>  | <b>Decrease in value → credit</b> |

**Activity 5****Revision Test**

Enter the following transactions into the Journals you think appropriate and total them at the end of the month.

- June 1 Received invoice 25 from Samoa Traders Ltd., for \$93.90.  
Received invoice 95 from S.V. Mackenzie Co. Ltd., for \$125.30.
- June 5 Issued invoice 006 to S. Ropati for \$42.00.  
Issued invoice 007 to E Solo for \$69.70.
- June 13 Sent invoice 008 to S. Malo for \$74.75.  
Sent credit note 12 to S. Ropati for \$12.60.  
Burns Philip Ltd., sent us invoice 401 for \$135.15.
- June 18 Received invoice 86 from E. A. Coxon Ltd., for \$76.20.  
Received credit note 0311 from S.V. Mackenzie Co. Ltd., for \$24.35.  
Sent invoice 009 to L. Moana for \$57.28.  
Sent credit note 13 to F. Lolo for \$9.70.
- June 21 Samoa Traders Ltd., sent us invoice 89 for \$150.00.  
J. M. Ah Chong Co. Ltd., sent us invoice 511 for \$206.35.  
We sent credit note 14 to S. Malo for \$4.75.
- June 25 Received credit note 82 from Burns Philip Ltd., for \$15.15.  
Issued credit note 15 to L. Moana for \$7.28.
- June 30 J. M. Ah Chong Co. sent us credit note 75 for \$6.35, and sent L. Moana invoice 011 for \$123.45.

**Conclusion**

Below is a quick revision of the four Goods Journals that you have learned about in this unit.

1. **Sales journal** — Records all goods sold on credit and the source document is the invoice issued by the business to its customers.
2. **Purchases journal** — Records all goods bought on credit and the source document for writing up this journal is the invoice received from the supplier or seller.
3. **Sales returns journal** — Records all the goods which are returned to the business after they have been sold and delivered to the buyer. The source documents used to record these transactions into the journal are the credit notes issued.
4. **Purchase returns journal** — Records all the goods that have been returned by the business. Entries in this journal are made from credit notes received by the business.

The four journals above are sometimes called the goods journals, because the entries in them involve only the goods bought for re-sale (purchases and sales journals) and the return of unsuitable or damaged goods (sales returns and purchase returns journals). Remember that only credit transactions are recorded in these journals.

