Book 2

Year 11

Business Studies

Business Studies

Year 11 Book Two

GOVERNMENT OF SĀMOA
MINISTRY OF EDUCATION, SPORTS AND CULTURE

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INTRODUCTION

Business Studies aims to enable students to participate effectively in economic activities and cope with the complexities of modern financial resource management. The Year 11 Book Two for Business Studies will cover the aims and objectives specific to the three curriculum strands of:

- Accounting and its application to everyday life.
- Financial accounting and reporting of business activity.
- Accounting process.

The main emphasis of this book will be on accounting and its application to economic activities of consumers and producers. Some of the concepts and accounting principles covered in previous years will be reviewed. It is assumed that students will be familiar with these and knowledge and skills gained during the course of this study will build onto student prior knowledge.

What is accounting?

Accounting is a system that provides information on the economic activities of a business. Accounting is also a system of keeping accurate records so that individuals and businesses know how much they have earned, how much has been spent and how much is left over. Accounting is used to communicate financial information. Accounting information is used by businesses and individuals to make financial decisions based on what has happened in the past.

The first two units in this book look at how accounting can be used to help individuals make decisions about personal finances.

Units 3 and 4 will focus on how accounting can be used to report financial information for small businesses and clubs and community organisations. The final units will describe the accounting process from the first books of entry to the presentation of financial statements in detail.

Unit 1: ECONOMIC MANAGEMENT

Unit objectives

In this unit of work you will learn to:

- Classify the different expenditure that individuals living in Sāmoa are likely to experience.
- Recognise and discuss the conflict between the principles of good management and values which influence decisions individuals make.
- Evaluate the benefits and costs of a non-financial nature that influence decision making.

Introduction

In Business Studies Year 10 Book Two you were introduced to the Taito family. The first two units of this book looked at how the Taito family made decisions about the management of their economical or financial resources. The main aim of these units of work was to show how Accounting helps individuals to make good decisions about how to use economic resources to meet their needs and wants. Unit 1 will build on your knowledge and understanding established in Year 10.

Income

Most individuals need to work so that they are able to earn their own income. This type of income is called earned income as it is earned through the use of skills, knowledge and labour. Earned income comes in the following forms:

- Wages are paid to an individual for their labour. The payment for wages is based on an hourly rate: *e.g. $2.50 per hour.* An example of someone who earns a wage could be a shop assistant or a mechanic.
- Salaries are paid to an individual for their labour. The payment for salaries is based on an annual amount: *e.g. $20,000 p.a.* An example of someone who earns a salary is a teacher or a general manager.
- Profit is paid to an individual who owns a business and is a reward for the effort, skills and time put into making their business a success.
- Commission is paid to an individual who charges for his/her services based on a percentage of the sale price of the goods sold on behalf of the client. An example of this would be an insurance broker who sells insurance for a particular company. If the total insurance package has a value of, say, $100,000 the commission earned by the broker may be 2%, which is $2000.
- Fees are paid to an individual for services provided. Fees are usually charged by professional people such as lawyers, doctors or dentists.

Individuals can also gain an income from other means that do not require any effort on their part. This is usually called unearned income. Examples of this include:

- Winning Lotto.
- Interest from savings they have in different bank accounts.
- Rental from houses or other properties that they rent to tenants.
- Dividends from investments in shares or a business.
- Gifts or inheritances from relatives — where the wealth of people who die is passed onto others.
- Benefits such as superannuation from the government, or other types of benefits for those individuals who are unemployed, sick, disabled, single with young children (benefits are paid by governments of more developed countries, such as New Zealand and Australia).
- Remittances from friends or family members living overseas.

Activity 1 Types Of Income

1. Copy and complete the following table in your book by identifying the sources of income from the notes above. An example is given to help you get started.

Type of income	**Explanation or definition**	**Example**
Wages		
Salary		
Profit		
Commission		
Fees		
Dividends		
Gambling		
Interest	An unearned income that is paid to people who have money saved or invested.	An individual who has large savings or investments in the bank.
Remittances from overseas		
Gifts or inheritances		
Rent		

2. List three different types of gambling in Sāmoa that may add to people's income.
3. List other types of income that are not included in the list given above.
4. 'During tough economic times, the rate of gambling increases.' Discuss this statement with a partner. See if you can work out why someone has said this. Write down the reason. Now, decide with your partner if you think it is true.

Pay Advice Slips (or payslips)

A pay advice slip is a record of the payment made to an individual by the employer. An example of a pay advice slip was given in Business Studies Year 10, Book Two. There is specific information that must be included on a payslip:

- The name of the employee.
- The name of the employer.
- Employee number or some other identification code for the employee other than the name.
- Pay period for this advice slip.
- Hourly rate or annual salary.
- Gross pay.
- Deductions made.
- Net pay.

Pay advice slip — example used in Year 10

Government of Sāmoa
Department of Education — Pay Advice Slip

Leilani Thompson				**Employment No: 30–85–74**
Week Ending:				27 January 2008
Annual Salary:			E1	$9 360.00
Gross Pay	Normal time	1.5 time	2 X time	TOTAL
Hours worked	40	3	nil	43
Rate per hour	$4.50	$6.75	$9.00	
Gross amount	180.00	20.25	nil	$200.25
Less deductions:				
PAYE Tax			$38.04	
SNPF			$10.01	$ 48.05
Net Pay				**$152.20**

From this example, you can see that Leilani earns an annual salary of $9360. Usually, when an individual earns a salary, it means that they are not paid overtime. In this case, though, the salary rate is rather low and therefore it has been converted to an hourly rate of $4.50. This means that if Leilani works 40 hours each week for 52 weeks (one year) at $4.50 per hour, she would earn $9360. This is a salary, as Leilani is paid even during times when she is on holiday leave. However, Leilani is also able to earn overtime rates for the hours she works above the 40 hours per week (8 hours per day). She earns a higher hourly rate for overtime. *e.g. An overtime rate of 1.5 times the base hourly rate of $4.50 means Leilani would be paid $6.75 per extra hour. An overtime rate of two times her base rate (double time) means she would be paid $9.00 for each extra hour she works.*

When an individual earns income from other means such as fees or commission it is usual that the individual is self-employed and he/she produces an invoice to the employer for payment. An example of an invoice for payment of commission is given below.

Invoice No. 0061
VAGST 48–740–000

From: Salu Broome
PO Box 148
APIA

To: General Insurance
PO Box 32
APIA

Date: 29/02/09

Date	**Description**	**Amount $**
21/01/09	Policy for Livi Taito Life Assurance value $75,000	1,500.00
21/02/09	Policy for Sina Taito Life Assurance value $50,000	1,000.00
	TOTAL AMOUNT DUE	**$2,500.00**

Please pay invoice within seven days

Activity 2 Pay Advice Slips

Complete the following activities in your exercise book.

1. Copy and complete the calculations in the table below.

Hourly rate	**Overtime — 1.5 x time**	**Overtime — 2 x time**
$3.50		
$5.25		
$1.80		
Annual salary	**Weekly pay**	**Monthly pay**
$14,000		
$9,464		
$65,000		

2. Copy the following pay advice slip into your exercise book. Complete parts (a) to (e) and label the important parts.

<table>
<tr><td colspan="5">Samoa Arts and Crafts
Pay Advice Slip
Siniva Leilua Employment Code: SL 342</td></tr>
<tr><td colspan="5">Week Ending: 30 April 2008
Position: Sales assistant L2
Annual Salary: $4.05 (40 hours)</td></tr>
<tr><td>Gross Pay</td><td>Normal time</td><td>1.5 time</td><td>2 X time</td><td>TOTAL</td></tr>
<tr><td>Hours worked</td><td>40</td><td>10</td><td>5</td><td>55</td></tr>
<tr><td>Rate per hour</td><td>$4.05</td><td>$6.08</td><td>$8.10</td><td></td></tr>
<tr><td>Gross amount</td><td>(a)</td><td>(b)</td><td>(c)</td><td>(d) $</td></tr>
<tr><td colspan="5">Less deductions:
PAYE Tax $39.50
SNPF $13.17 $ 52.67</td></tr>
<tr><td colspan="3">Net Pay</td><td colspan="2">(e) $</td></tr>
</table>

3. Draw up invoices using the following information:
   - Teuila Fala invoices The Department of Education for services provided to establish teacher training courses for primary school teachers. Date of invoice is 15 February 2005. The total to be invoiced is 5 days at $400 per day.
   - Frank Siliva Barristers and Solicitors invoices Apia Trucking for lawyers fees for representing the company in a case against it for negligence and causing an accident that caused the death of an individual. The date of the invoice is 18 June 2004. The costs charged are:
     (i) preparation for case 10 hours @ $50 per hour
     (ii) photocopying and other office costs $300
     (iii) court appearances 5 hours @ $100 per hour.

Expenditure

Expenditure is another word for costs or expenses. This term is used in accounting and economics. For this unit of work, we will be using this term to describe personal expenditure which means the costs that an individual has in their daily life. Later we will look at the costs or expenses associated with businesses — business expenditure.

Personal expenditure can be categorised into two main groups for the purpose of this unit — **essential expenses** and **non-essential expenses**. These were discussed in detail in the Business Studies Year 10, Book Two, and Unit 1 will be reviewed again here:

Essential expenses	These are necessary expenses like food, rent and electricity.
Non-essential expenses	These are items that an individual can go without, usually described as luxuries or wants, such as Lotto tickets, cigarettes or a trip to the movies.

As you have learned from Business Studies Year 11 Book One, individuals make decisions about how to spend their income based on their values. Therefore, an expense that one person may categorise as non-essential, may be termed as essential by someone else, because their values are different. We can look back at Taito's Family Budget on page 10 in Year 10, Book Two, where church donations were listed under essential expenditure. This type of expenditure will most probably be classified as non-essential by others with different values.

Budgets

This topic was introduced in Year 10 Book Two and its use will be extended in this unit to look at how budgets can be used by an individual to manage the finances for big family events.

A **budget** is a plan of how to spend **income earned**. The purpose of preparing a budget is to control spending and increase savings. A budget can be a useful tool. Individuals, clubs, schools, small businesses, large companies, corporations and even governments use budgets. This was the definition for budgets, given in the earlier book. The focus was on preparing personal budgets. The same principles can be applied when preparing a budget for one-off events that an individual or family is involved in. These principles are:

- List your sources of income.
- List all your current expenditure. Be sure to identify what is essential and those items that you can go without (are non-essential).
- The budget must balance. Try to make a surplus, but at least make sure that the expenditure is not more than the income.

Case Study — Ana's Wedding

Ana and Semi have decided to get married and have informed their parents of their plans. They informed their parents that they would like to hold their wedding reception at one of the hotels in Apia. The charge for this is $34 per head which includes hire of the hall, food and non-alcoholic beverages. Ana and Semi have decided that they would like to have 200 guests at the reception. Both families have been saving for this event and Ana and Semi have informed their parents that they will divide the reception cost equally between them, with each family making a contribution of $3400.

Ana's parents, Apulu and Sara, were very unhappy about the arrangements that had been made and have tried to persuade her to increase the number of invitees to 300. (They are prepared to pay the extra $3400.) Ana's parents also wanted to call together the extended family to inform them of the pending wedding and to discuss how to meet the reception costs as well as traditional Sāmoan requirements. Ana has succumbed to the pressure put on her by her parents and talked to Semi about the additional guests.

Ana's mother's family has taken responsibility for providing $3400 for the reception (for the extra guests) as well as the wedding cake (about $800). At her family meeting for the wedding, Sara prepared a budget to help her family to see how they could manage to meet their financial contribution. She knows from previous events that six groups, based on the children of her maternal great-grandparents, make equal contributions. (There were six children in that generation.) So, Sara has allocated the contributions accordingly. The following is the budget that Sara has drawn up:

Allocation of funds from each family		**Money required to meet contribution to the extended family**	
	$		**$**
Rona	800.00	Contribution to extended family	3400.00
Lama	800.00	Wedding cake	800.00
Metuli	800.00	Emergency fund for sua, tofa etc.	800.00
Iusi	800.00		
Rosaline	800.00		
Patupatu (Sara's grandmother)	1000.00		
TOTAL	**5000.00**	**TOTAL**	**5000.00**

Activity 3 Budget Plan For A Family Wedding

Copy and complete the following activities in your exercise book.

1. Copy the budget plan above and identify the following parts:

   income

   expenditure

   essential expenditure

   non-essential expenditure.

2. Suggest reasons why Sara has allocated more funds to be raised by her part of the family (Patupatu).
3. Sara informs her family that the wedding is scheduled to be held in three months time, one week before Christmas. Describe how this factor might affect the other families who are required to make a contribution?

Decision Making

Decision making is a skill that is also used in accounting. When making a decision about how to best use financial resources, non-financial factors may influence the final choice. **Values** also influence such decisions. This was discussed in detail in Business Studies Year 11, Book One. The process of decision making can be broken into a number of steps. You will recall that these steps were introduced in Business Studies Year 11, Book One, Unit 5. In summary, the steps are:

Step 1 What goal am I trying to achieve?

Step 2 What would stop me from achieving this goal?

Step 3 What are the options available?

Step 4 What are the pros and cons of each option.

Step 5 How do the options compare? (Rank the options starting with most preferred.)

Step 6 Select the best option.

Step 7 What needs to be done after the selection of the best option?

Making a decision always involves making a choice as to the best use of resources and means, and in most cases it affects other people. Our values influence the decision we make.

Case Study — Dresses For Ana's Wedding

Ana has been saving for her wedding dress for the last 6 months. She has managed to save $1000. She will also need to purchase the dresses for her two bridesmaids and her flowergirl. Ana has decided to allow $500 for these dresses and to use $500 to buy her wedding dress. She has visited all the stores and made a list of what she likes, and the prices. Ana's choice from all the dresses and styles that she has seen would cost her $700. This would mean that there is a shortfall of $200 between the amount that she has set aside and the cost of her dress. Ana rings Lesina, her friend to help her decide how she can to make up this shortfall. They come up with the following options:

Option 1 Purchase the other dress as it only costs $500.

Option 2 Ask her parents for the extra $200.

Option 3 Purchase her dress for $700 and ask her bridesmaids to make a contribution towards the cost of their dresses. (Lesina is one of the bridesmaids).

Activity 4 Making Decisions

Copy and complete the following activities in your exercise book.

1. Use the steps for decision making identified above, to assist Ana to make a choice from the three options. Use the table given below to help you recall the steps used:

Step 1		
Step 2		
Step 3	Option 1 Option 2 Option 3	
Step 4	**Pros** Option 1 Option 2 Option 3	**Cons** Option 1 Option 2 Option 3
Step 5		
Step 6		
Step 7		

2. Form groups (up to 4 in each group) and compare your preferred option for Ana. Use the following questions to focus your discussions:
   a. Why did you choose this as your first preference?
   b. Why did you rule out the other options?
   c. Can you identify and describe the factors that affected your choice of preferred option?
3. Ana has chosen the third option. However, when she tells her mother that she will be asking her bridesmaids to help pay for their dresses, Sara becomes very upset.
   a. Explain why you think Sara would be upset.
   b. Describe what you think will happen now.
4. Give your opinion about this statement. Use the example of Ana's wedding plans to support your response.

"When making decisions about how to best use available monetary resources, non-financial considerations sometimes have more weight."

Unit 2: SMALL BUSINESS ENTERPRISES

Unit objectives
This unit of work relates to the 'Accounting and its application to everyday life' strand of the Business Studies Curriculum statement. Through study of this unit you will understand how accounting concepts and principles can be used in making decisions. You will develop your skills and understanding of setting up a small business in Sāmoa when you:

- Investigate the possibility of setting up a small business in a village.
- Identify the information required to develop a business plan.

Introduction
Small businesses are very common in the economy of Sāmoa, New Zealand and other Pacific nations. The majority of small businesses are sole-trader entities — businesses that have one owner who puts in the capital to start the business and gets to keep all the profits (or suffer the losses). Establishing a sole-trader or partnership business is not difficult to do because it does not require any legal work. However, many small businesses (and not-so-small businesses) fail very quickly because people have not done enough investigation or ground work before deciding to establish a business. This unit looks at the types of information that need to be gathered to help prospective business owners make good decisions.

Starting A Business

The decision to start a business requires an individual to consider many factors. To assist in this process, one can usually get help and advice from friends or family who are already in business. In Sāmoa, organisations like **Small Business Enterprise Centre (SBEC)** or **Women in Small Business** also offer advice. Similar organisations exist in other Pacific nations. In more developed countries like New Zealand and Australia, prospective small business owners can seek the advice and guidance of agencies such as **Business and Management Education and Training Services Ltd**. Usually the individual who is looking to establish a small business, either in a village, in the urban parts of Sāmoa, or in the centre of a city or town, will need to develop a business plan.

A **business plan** helps to clarify what type of business the individual is looking at establishing and clarifies issues such as the location of the business, competition, management, personnel and the market. The business plan also establishes what financial data will be required. To help students understand how to develop a simple business plan, a case study looking at the establishment of a village store will be used.

Case Study

Paul and Suliveta decide that they would like to establish a small store in their village of Moata'a. They have $8000 that they brought over from American Sāmoa, where they lived for five years. They believe they have enough capital to build a small store at the front of their house on the main road, and to purchase the stock required to get things started. Paul was talking to his friend Livi who suggested that Paul seek assistance from SBEC as they can help with the development of a business plan as well as applying for a small loan from a bank or financial institution to get them started. Paul took Livi's advice and visited SBEC. After a long discussion with one of the advisers, Paul decided that he would attend the series of workshops provided by SBEC for potential business owners. After attending the workshops, Paul was still very keen to set up his business. He decided to complete a business plan using the outline given to him at the workshops. When Paul asked for help from an adviser at SBEC he was given another outline to help him. This outline is given in the next few pages. It asks Paul to think about many important aspects associated with setting up a business and to give evidence that the business can be sustained for the period of time.

STARTING A BUSINESS

Name of Principal(s)

Address

Phone Number

STATEMENT OF PURPOSE

A brief (less than one page) statement of the business plan objectives.

Questions which may help:

In General:

1. What is the purpose of this plan?

Will it be used as:

- An operating guide?
- A financing proposal?

2. What is the business structure (i.e. sole proprietorship, partnership, private company, public company)?
3. Who is (are) the principal(s)?
4. What is to be done?
5. Why will it be successful?

For a Financing Proposal:

6. Who is asking for money?
7. How much money is being requested?
8. What is the money needed for?
9. How will the funds benefit the business?
10. How will the funds be repaid?

1. THE BUSINESS

A. DESCRIPTION OF THE BUSINESS

Generally explain:

1. What the business is (or will be).
2. What market you intend to service, the size of the market and what you expect will be your share of the market.
3. Why you can service the market better than your competition.
4. Why you have chosen your particular location.
5. What management and other personnel are required and available for the operation.
6. Why your investment or someone else's money will help make your business profitable.

Questions:

1. What type of business is it?
2. What is the nature of the product(s) or service(s)?
3. What is the status of the business — a start up, expansion of a going concern, or take-over of an existing business?
4. Who are the customers or clients?
5. When will (did) your business open?
6. What hours of the day and days of the week will you be in operation?
7. What have you learned about your kind of business from outside sources (trade suppliers, banks, other business people, publications)?

For a new business:

8. Why will you be successful?
9. What is your experience in this business?
10. Have you spoken to other people in this type of business about their experience, challenges and rewards? What were their responses?
11. What will be special about your business?
12. Have you found out about trade suppliers who will be willing to supply the products you require?
13. Have you asked about trade credit?

For a take-over:

14. When and by whom was the business founded?
15. Why is the owner selling it?
16. How did you arrive at the purchase price?
17. What is the trend of sales?
18. If the business is going downhill, why? How can you turn it around?
19. How will your management make the business more profitable?

B. THE MARKET

Generally explain who needs your products or service and why.

Questions:

1. Describe the characteristics of your market.
2. What is the present size of the market?
3. What percent of the market will you have?
4. What is the market's potential growth?
5. As the market grows, will your share increase or decrease?
6. How will you satisfy the market?
7. How will you attract and keep your share of the market?
8. How can you expand your market?
9. How are you going to price your products to make a fair profit and at the same time be profitable?
10. How did you arrive at the price?
11. What special advantage do you offer that may justify a higher price?
12. Will you offer credit to your customers (accounts receivable)? If so, is this really necessary? Can you afford bad debts?

C. COMPETITION

Questions:

1. Who are your five nearest competitors? List them by name.
2. How will your operations be better than theirs?
3. How is their business: Steady? Increasing? Decreasing? Why?
4. How will your operations be similar and different from theirs?
5. What are your strengths?
6. What are your weaknesses?
7. What have you learned from watching their operations?
8. How do you plan to keep an eye on the competition in the future?

D. LOCATION OF THE BUSINESS

1. What kind of building do you need?
2. What are the notable features of your present or desired business location?
3. Why is this area desirable?
4. Does the community around which you intend to locate the business show enthusiasm for you and your business?
5. What are the advantages of the site?
6. What are the disadvantages of the site?
7. How much space do you need?
8. Is the building accessible by public transport?
9. Is the building close to customers or suppliers?

E. MANAGEMENT

Questions:

1. What is your business background?
2. How does your background / business experience help you in this business?
3. What other management experience do you have?
4. How will your management experience help you in this type of business?
5. What weaknesses do you have and how will you overcome or address these?
6. Are you physically suited to the job?
7. Why are you going to be successful at this venture?
8. Do you have direct operational experience in this type of business?
9. Who will be on the management team?
10. What are the duties of each individual in the management team?
11. Are these duties clearly defined? How?
12. Who does what? Who reports to whom? Who makes the final decisions?
13. What and how will management be paid?
14. What additional resources have you arranged to have available to help you and your business (accountant, lawyer, etc)?

F. PERSONNEL

Questions:

1. What are your personnel needs now? In the near future? In five years time?
2. What skills must they have?
3. Are the people you need available?
4. Will your employees be full-time or part-time?
5. Will you pay salaries or hourly wages?
6. Will you have to train people for both operations and management? If so, at what costs to the business?

2. FINANCIAL DATA

A. SOURCES AND APPLICATION OF FUNDING

1. How much funding is required to start the business?
2. How much capital will the owner put in?
3. How much will the owner borrow?

B. CAPITAL EQUIPMENT

1. List all the capital items required to start the business.
2. List the capital items to be purchased at a later date.

C. PROJECTED STATEMENT OF FINANCIAL POSITION

1. Draw up a statement of financial position for the start of the business.
2. Draw up a statement of financial position for 12 months after the start of the business.
3. Draw up a statement of financial position for two years after the start of the business.
4. Draw up a statement of financial position for three years after the start of the business.

D. PROJECTED INCOME STATEMENT

1. Draw up a three year summary.
2. Draw up a detail by month for the first year.
3. Draw up a detail by quarter for the second and third years.

E. CASH FLOW PROJECTIONS

1. Draw up a three year summary.
2. Draw up a detail by month for the first year.
3. Draw up a detail by quarter for the second and third years.

F. FOR AN EXISTING BUSINESS (also include the following documents)

1. Profit and loss statement for the past three years.
2. Balance sheets for past three years.
3. Business income tax returns for the past three years.
4. Personal income tax returns for the past three years.

Paul and the SBEC adviser work through the outline above and find that some parts are not applicable to him and the type of business that he and Suliveta want to establish. Working through the outline gives Paul a real sense of what they will be required to do if they want to borrow money from the bank, and the planning necessary to ensure that the business can be sustained and their investment of capital protected.

Activity 1 Looking At Business Plans

Complete the following tasks in your exercise book.

1. What is the function of a business plan?
2. Give the steps that Paul and Suliveta followed prior to setting up their business.
3. Why would a lending institution require so much detail from prospective business owners wanting to borrow money to finance their business?
4. Consider the case study given on the following page and respond to the questions that follow:

RUNNING A SHOP — Risky Business

Malu Malo tells the story of her business venture that only lasted for six months. She learned all about the pitfalls of small business in the short time that she was in business.

'I was very naïve and did not seek proper advice,' Malu admits. 'I was very excited to have an opportunity to work for myself, where I could be my own boss and make decisions for the business. However, the business was running me, controlling my life, time and financial resources.'

Malu had a very well paid job in a government department and she decided to take her hard-earned savings as well as a loan from the Development Bank to buy a small lunch bar that was for sale on Beach Rd, Apia. The lunch bar sold takeaway food and was also a café where people sat down and had light meals. 'My first mistake was that I did not realise that it was really two businesses — the cafe and the takeaway lunch bar.'

Before buying the business she looked over the accounts. The business had been doing well. One thing Malu does regret is that she did not look over the accounts of the recent months just before she purchased the business. It was only when she began in business that she realised another similar business had been set up not far from hers. Malu decided that she would not sell the food her competitor sold. She could not find the Cash Journals and though the previous owner was helpful at the start, Malu realises that she should have been more assertive and asked to see the final accounts. She now urges anyone she knows wanting to buy a business to make a thorough examination of all the business records before making the decision about whether or not to buy.

Once Malu opened up under her name, she found that she was working very long hours. Sometimes she was working from 5 a.m. until 8 p.m. and then coming home to make cakes and pies to sell the next day. She was not going to bed until midnight. Her husband was very supportive but he had a job that required him to travel a lot. Malu employed some of her relations to help out in the shop during its opening hours but she was still doing most of the cooking, in the shop and after hours. She was exhausted. The shop was only open from Monday to Saturday, but Malu spent most of Sunday either catching up on much needed rest or preparing food for the rest of the week. Her family hardly saw her. One of her children became ill and was in hospital for a week. Malu stayed with her in hospital during the night and left for the shop from there in the morning.

Malu finally decided to sell the shop. She sold it for the same price that she had paid six months earlier. She broke even, but this did not account for all the time she had put into the shop. However, she was pleased to be rid of the responsibility. On reflection, Malu admits that she may have been undercapitalised, though her turnover allowed for her to make the high repayments required for her loan. She also did not allow for things such as having someone else to share the cooking responsibilities or, that when it was a public holiday she would need to make up for lost sales during the rest of that week. Malu did a lot of alterations to the shop. 'I achieved some of my objectives, but only at great personal cost,' said Malu.

a. How could Malu have avoided the poor decisions she made when planning to buy this existing business?

b. Identify three areas in the business plan outline that Malu could have considered and completed before investing her money in this business.

c. List the mistakes that you believe Malu made prior to buying the business and during the time she was the owner of the business. Identify what Malu should have done for each mistake you have identified.

d. What advice would you give to prospective business owners before they invest their money?

Unit 3: FINANCIAL REPORTING FOR SOLE PROPRIETOR BUSINESSES

Unit objectives

This unit of work relates to the 'Financial Accounting and Reporting Business Activity' strand of the Business Studies Curriculum statement. Through study of the unit, you will understand how accounting concepts and principles can be used in reporting financial information. You will investigate and develop your skills and understanding of how financial information is reported by small businesses when you:

- Explain the significance of different revenue and expenditure for different entities: *e.g. Service businesses, clubs, other community groups and farms.*
- Draw up and interpret simple Revenue Statements (now known as Statement of Financial Performance) for Sole-proprietor entities.
- Analyse and interpret simple accounting data from the Statement of Financial Performance for Sole Proprietors.
- Establish a case for setting up a small business in urban Sāmoa.

Introduction

Sole proprietor businesses (also known as sole traders) are the most common type of businesses found in Sāmoa and New Zealand. Sole proprietor businesses are easy to establish. However, many sole proprietor businesses fail within a short time of commencing due to poor planning and financial management by the owner. This unit will cover financial reporting for sole proprietors and show how an analysis of this information can help proprietors to make good decisions.

Sole Proprietors

In Sāmoa, the majority of businesses are owned by one person. These businesses are known as **sole proprietors**. This type of business entity was introduced in Business Studies Year 11, Book One in the first unit. Individuals start up these types of businesses because it gives them an opportunity to be their own boss and to control the hours they need to work. The owner of this type of business also makes all the business decisions to maximise its profits. The owner takes all the profits of the business though he/she also suffers all the losses. Any debts of the business are the responsibility of the owner and, therefore, any personal assets may be sold to pay these debts. This is called **unlimited liability.** Besides money invested by the owner (capital), a sole proprietor's source of finance may include:

- Sales or fees.
- Interest received.
- Rent received.
- Loans.

A sole proprietor's objectives may include:

- To maximise profits.
- To reduce debts.
- To increase sales or fees.

A sole proprietor business exists to make profits from its operations. It is a very different entity to community organisations that are established by people with a common interest to provide goods or services to satisfy non-material needs of others in the community. This type of entity is discussed in greater depth in the next unit. Sole proprietor entities in Sāmoa include retail stores, market stalls, plantation owners (who sell their product at the market, or to retailers and overseas buyers), taxi drivers and hotels.

Activity 1 Identifying Financial Entities

Copy and complete the following tasks in your exercise book.

1. Your friends share an interest in soccer.
   - What type of financial entity would you form to organise your soccer team so that you can play in the local competition?

2. Your older brother would like to set up a mechanical engineering business.
   - What type of financial entity is this?
   - What type of equipment would he have to buy to set up his business?

3. Your sister sets up a hair salon at home, using a room at the front of the house. Your father and brother have put in a sink with hot and cold water taps, and mirrors across one wall with three chairs for her clients.
   - What other equipment or furniture would your sister require for her business?
   - What costs would she have to pay?

Accounting Equation

In Business Studies Year 10 Book Two the accounting equation was discussed in detail. Students should be familiar with it.

A	assets
D	drawings
E	expenses
L	liabilities
OE	owners' equity
R	revenue

assets = liabilities + owners' equity (previously referred to as proprietorship) or

owners' equity = assets – liabilities

OE = A – L

The expanded accounting equation introduced in Year 10 was:

A = L + [(R – E) + OE]

The accounting equation can also be stated in another form to assist us to look at how a business uses its funds and the sources of these funds:

A + E + D = L + OE + R

Uses of funds — How the business spends money so that it can function.	**Sources of funds** — Where the money comes from.
Assets (A) — items owned by the business with future economic value or benefit to it. *e.g. Buildings, equipment, machinery.*	Liabilities (L) — funds from outside the business. *e.g. Loan from the bank, mortgage.*
Expenses (E) — costs paid so that the business can generate revenue through its operations. *e.g. Wages, telephone, rent.*	Owners Equity (OE) — funds invested in the business by the owner.
Drawings (D) — payment to the owner or money the owner takes from the business either in the form of cash or goods.	Revenue (R) — money earned through the operations of the business.

Accounting Concepts

Before we look at some important financial statements and reports that are drawn up for businesses, we need to understand some very important concepts that are used in accounting. Remember that accounting is a system of recording and processing financial information so that it can be used to make good decisions. For any system, there must be rules, principles and concepts so that all people who use the system can do so in a similar and consistent manner. Let us look at six of these concepts.

Accounting Entity Concept

An accounting entity is an economic activity or business that is owned by one or more proprietors. This concept states that the financial affairs of the entity must be kept separate from the financial affairs of the owner/s and other entities. The accounting records of the entity must only include the financial transactions of that entity and not those of the owner. Therefore, when owners take goods or cash for their personal use, this is recorded as drawings in the accounting records of the entity. For example, the owner's house is not included as an asset of the business.

Monetary Measurement Concept

This concept states that all transactions are measured in dollar terms (in Sāmoan tala or US dollars). If a transaction cannot be shown in monetary terms it will not be recorded in the accounting records. For example, the years of experience of the owner will not appear in the financial records of the business.

Historical Cost Concept

This means that transactions are recorded at the amount of cash paid or payable at the time that they took place. For example, assets are recorded at their original cost price even though they may increase or decrease in value during the time that the business owns them. Some assets, such as livestock or animals born on a farm, are not purchased. These assets are given a dollar value and the basis for this valuation must be recorded.

Going Concern Concept

This concept assumes that the business will continue to operate. Therefore all long term assets are recorded at their historical cost not at their current market value. If the business closes down, these assets may have a value different from that recorded in the accounting records of the business.

Accounting Period Concept (or Period Reporting)

The activity of a business is divided into regular time periods to monitor its financial position and to provide timely information for decision making.

Accrual Accounting Concept

Transactions are recorded when they occur and are reported in the accounting period to which they relate. This differs from cash accounting, where only transactions resulting in cash flows are recorded. For example, if a long term asset is purchased but only half its price is paid in cash and the rest is payable at a later date, the full amount of the transaction is recorded — not just the cash portion.

Activity 2 Understanding Financial Statements

Copy and complete the following tasks in your exercise book.

1. The following parts of financial statements demonstrate some of the accounting concepts. For each example:
   - Name the accounting concept involved.
   - Define the concept.
   - Explain how the concept has been applied in the financial statement.

(a) Owner's Equity

Balance as at 1 July 2003	64 000
Net Profit	12 000
	76 000
Less Drawings	8 000
Balance as at 30 June 2004	68 000

(b) Current Assets

Interest due but not received	650

(c) Fixed assets

Machinery (30 June 2001)	25 000

2. Land and buildings were purchased five years ago for $150 000 but have since increased in value to $200 000. Which figure will appear in the financial statements? What concept applies in this situation?

3. Match the definitions in List B with the correct Accounting Concept in List A.

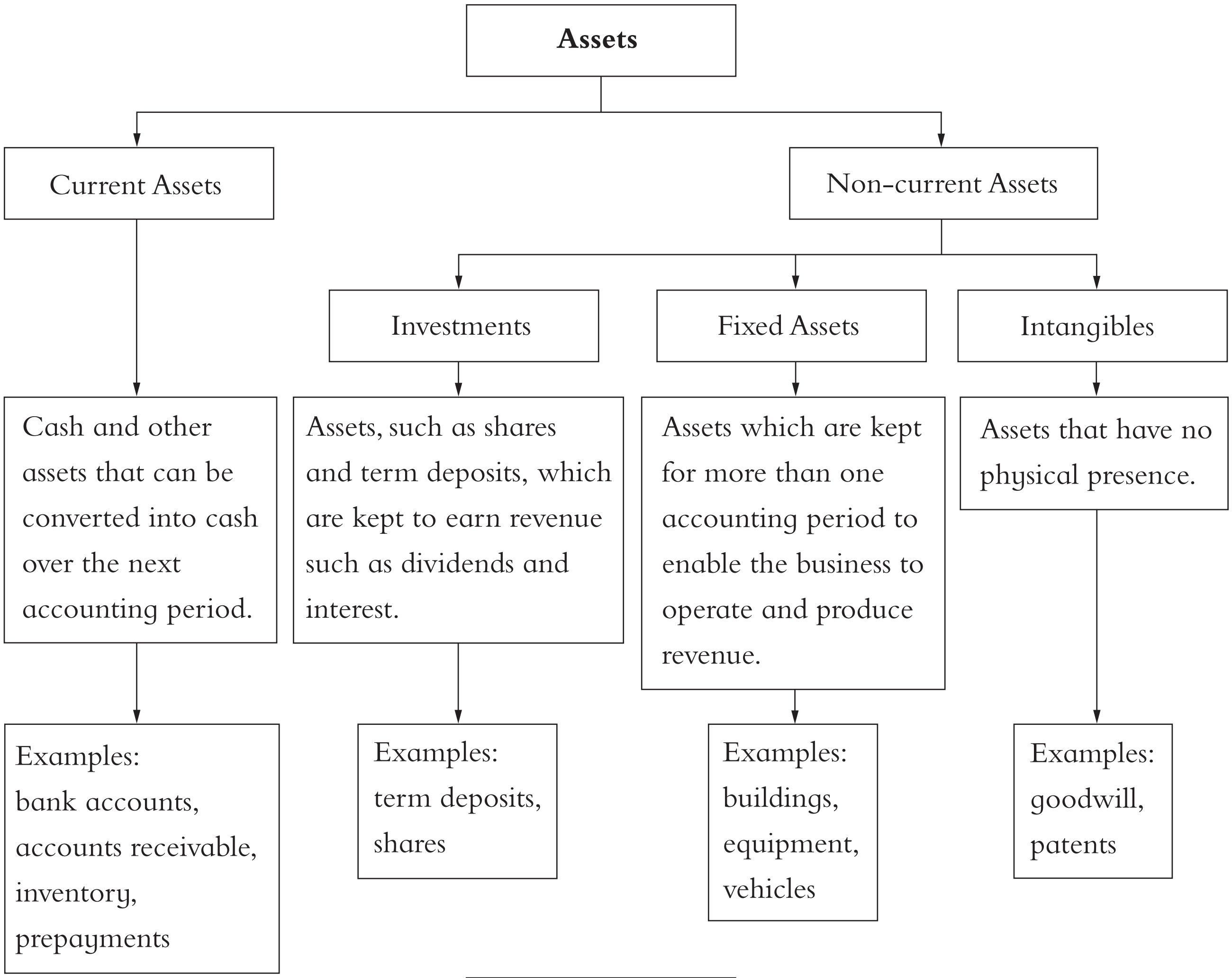
List A	List B
a. The Accounting Period Concept b. The Going Concern Concept c. Accrual Accounting Concept d. Historical Cost Concept e. The Monetary Measurement Concept f. The Accounting Entity Concept	(i) The financial affairs of the owner are recorded separately from the financial affairs of the business. (ii) Transactions are recorded when they occur whether or not cash has been paid or received. (iii) All transactions are recorded in dollar terms. (iv) The life of the business is divided into periods of equal length. (v) An asset is recorded at the price for which it was purchased. (vi) The business will continue into the foreseeable future.

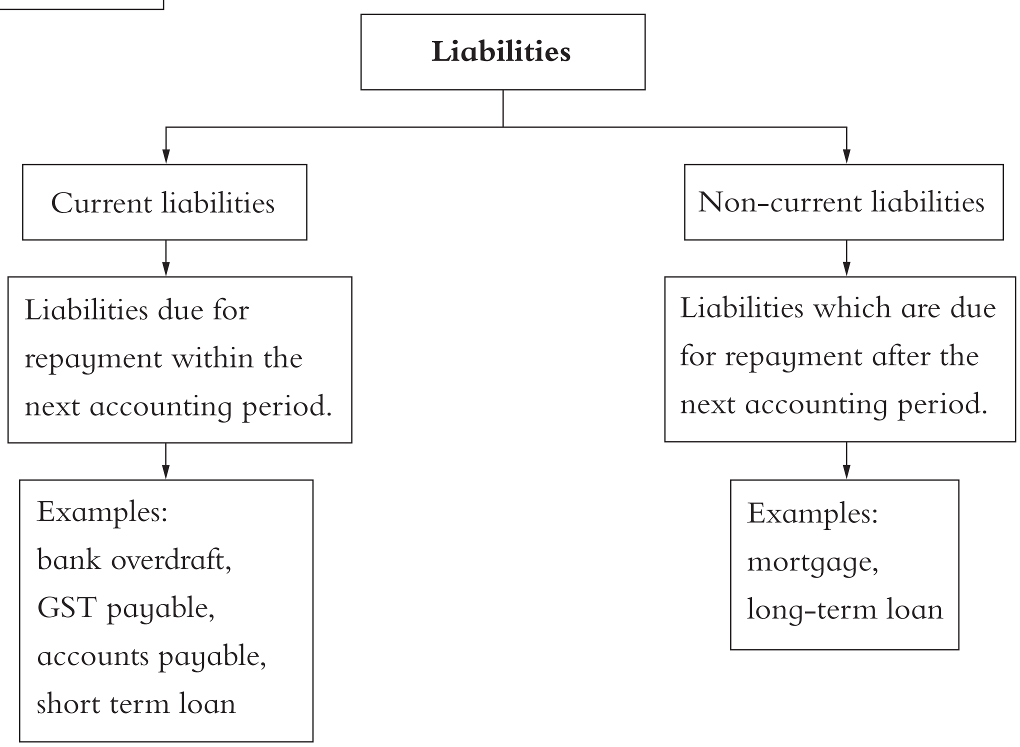
The Statement of Financial Position

The Statement of Financial Position (previously known as the Balance Sheet) is a list of the business' assets and liabilities on a specific date (usually balance date). It gives a snapshot of the financial position of the entity. The purpose of this statement is to show the business' ability to repay its debts and its financial stability.

Assets and Liabilities are usually classified into two major groups, current and non-current, to provide more useful information. It gives a better idea of the liquidity (ability of the business to repay debts) over different time periods. Assets and liabilities classifications were discussed fully in the Business Studies Year 10, Book Two, Unit 3. A summary of this is given on the following page:

Asset and Liability Summary





Owner's Equity

The owner's equity of a business will change over the accounting period. For a sole proprietor, the owner's equity is also called capital. This is the owner's investment in the business. All profits of a sole proprietor entity belong to the owner of the business and will therefore increase the owner's equity or capital. A loss will decrease the owner's equity. Drawings are the cash or stock amounts that the owner takes out of the business for his or her own personal use. Drawings will decrease the owner's equity. To calculate the amount of capital as at the end of the financial period:

Capital (as at the end of the financial period) = Capital (as at the start of the financial period) + Net Profit (for the financial period) – Drawings (during the financial period).

An example of a classified Statement of Financial Position (Balance Sheet) was given in the Business Studies Year 10, Book Two, Unit 3. This was drawn up in account or 'T' form. An example of a Statement of Financial Position for a sole proprietor is shown on the following page. This example is in 'vertical' form and classifies the assets and liabilities.

Sale's Engineering Company

Statement of Financial Position as at 30 June 2005

Owner's Equity	**$**	**$**	**$**
Capital — 1 July 2004			160 000
Plus Net Profit			64 100
			224 100
Less Drawings			25 000
Capital — 30 June 2005			199 100
This is represented by:			
Current Assets			
Petty Cash		100	
Bank		3 200	
Accounts Receivable		5 800	
Prepayments		500	9 600
Less **Current Liabilities**			
GST Payable		800	
Accounts Payable		2 400	
Accrued expenses		300	3 500
WORKING CAPITAL*			6 100
Plus **Non-current Assets**			
Investments			
Government Securities		3 000	
Fixed Assets			
Land and Buildings	180 000		
Equipment	50 000		
Vehicles	75 000	305 000	
Intangibles			
Goodwill		5 000	
		313 000	
Less Non-current Liabilities			
Mortgage		120 000	193 000
			199 100

* Working Capital is the difference between current assets and current liabilities:

Working Capital	=	Current Assets	–	Current Liabilities

A positive working capital means that the business is able to pay its short term debts (current liabilities) over the next accounting period.

Activity 3 Looking At Statements Of Financial Position

Copy and complete the following tasks in your exercise book.

1. What is the function of the Statement of Financial Position for a sole proprietor?
2. Compare the two different styles of presentation for the Statement of Financial Position, 'T' form and vertical form. State your preferred style of presentation giving reasons why.
3. What is goodwill? Why is it an intangible asset?
4. The bookkeeper for the Three Corners Fuel Stop drew up a Statement of Financial Position but was not sure how to classify the items. Redraft the Statement of Financial Position with items correctly classified in vertical form. (Note: some items may not belong in a Statement of Financial Position!)

Three Corners Fuel Stop

Statement of Financial Position as at 31 December 2005

CURRENT ASSETS		**CURRENT LIABILITES**	
Net Profit	38 050	Term Deposit Westpac (due 31.12.06)	2 000
Inventory	20 000	Accounts Payable	4 170
Sales	240 000	Drawings	20 910
Mortgage	71 500	Petty Cash	150
FIXED ASSETS		**NON-CURRENT LIABILITIES**	
Goodwill	1 550	Motor Vehicle	20 000
Fixtures and Fittings	10 200	Accounts Receivable	8 500
Wages	56 000	Capital 1 January 2005	90 750
Land and Buildings	121 000	Equipment	4 460
GST Payable	800	Bank Overdraft	3 500

5. From the following information draw up a Statement of Financial Position as at 31 March 2006 for Travel Right Company, a travel agency owned by Polly Nesia.

Capital 1 April 2005	95 000
Bank	30 000
Accounts Receivable	8 500
Mortgage	60 000
Accounts Payable	3 000
Shares in Air New Zealand	10 000
Premises	80 000
Fittings	12 000
Car	25 000
Goodwill	8 000
Drawings	25 000
GST Payable	900
Net Profit for the year	39 600

Capital and Revenue Expenditure

Capital expenditure is the money spent to purchase and/or create an asset which will stay in the business and be used to generate future revenue. Capital Expenditure will be recorded in the Statement of Financial Position. It does not directly affect the calculation of the net profit for the accounting period. Examples of capital expenditure include:

- Purchase of a fixed asset: *e.g. Equipment, buildings*.
- Costs to install and prepare a fixed asset ready for use in the operations of the business: *e.g. Electricians, plumbers fees*.
- Improvements to fixed assets to extend their useful life.

Revenue expenditure is the money spent on the everyday activities of the business. These are the items that are usually called expenses. Revenue expenditure will directly affect the current year's net profit calculation and so will be recorded in the Statement of Financial Performance (or Revenue Statement).

Statement of Financial Performance

The purpose of the Statement of Financial Performance (or Revenue Statement) is to calculate the net profit for an entity.

Net Profit = Revenue – Expenses

Revenues are income that flow into an entity from the sales of goods or services. Revenue increases the owner's equity though it is separate and different from the contribution made to the entity by the owner. It increases the resources of the entity. Examples include sales from goods or services, interest received, discount received for early payment of accounts payable.

Expenses are outgoings incurred by the entity during the course of earning revenues. This results in a decrease in the owner's equity, though they are separate and different from the owner taking goods and cash from the business for his/her own personal use. Examples include rent, advertising, wages, bad debts and discount allowed for early receipt of money from accounts receivable.

Activity 4 Looking At Statements Of Financial Performance

Copy and complete the following tasks in your exercise book.

1. What is the purpose of a Statement of Financial Performance? What other name can we use for this statement?
2. Give definitions and examples for the following terms:
   a. Assets.
   b. Liabilities.
   c. Owner's equity.
   d. Revenues.
   e. Expenses.
   f. Revenue expenditure.
   g. Capital expenditure.

2. List two expenses for a supermarket that could also be expense items for a doctor.
3. List the main source of revenue and three expense items for each of the following types of entities:
   a. Lawyer.
   b. Supermarket.
   c. Car rental company.
   d. Service station selling petrol.

4. The following costs are associated with the purchase and use of a delivery van for Good Time Deliveries. Classify them into capital expenditure or revenue expenditure.

a. Purchase of a second-hand van	$15 000
b. Work to get van ready for deliveries	$2000
c. Petrol and oil for the delivery van	$80
d. Annual licence and registration	$250
e. Painting and logo	$800

Concepts applied in the Statement of Financial Performance
When preparing a Statement of Financial Performance for an entity, one must be mindful of the following concepts which have already been defined for you:

Going Concern Concept (assumes a business will continue to operate).

Accounting Period Concept (divides business activity into equal periods of time).

Accrual Accounting Concept (transactions are reported in the financial statements of the period to which they relate).

Sole Proprietor Service Businesses

These businesses provide a service available for consumers to purchase. They do not buy and sell goods. Their expenses are usually categorised into Administration expenses and Financial expenses.

Administration expenses are incurred as part of organising the business. Usually, general expenses that do not fit into other categories are included in here: *e.g. Rent, office wages, postage, electricity, telephone rental, insurance and accountancy fees*.

Financial expenses are incurred as a part of the business borrowing or lending money: *e.g. Discount allowed, bad debts, and interest.*

Other groups of expenses may be used depending on the type of business being reported on. For example:

- A bus service may also have 'Motor Vehicle Expenses' that include items such as motor vehicle licence and registration, petrol and oil, and repairs.
- A tour operator may have 'Tour Operations Expenses' that include items such as accommodation, petrol, tour guide wages, and tourist insurance.

Here is an example of a Statement of Financial Performance for a service business:

Laumei Tours

Statement of Financial Performance for the year ended 31 December 2005

Income	$	$	$
Tour sales			83 000
Less **Expenses**			
Tour Operations Expenses			
Tour guide wages	22 000		
Accommodation	3 000		
Vehicle expenses	5 000	30 000	
Administration Expenses			
Telephone	1 200		
Accountancy fees	600		
Office wages	25 000		
Electricity	900	27 700	
Financial Expenses			
Interest on Loan		2 500	
Total Expenses			60 200
NET PROFIT			22 800

Sole Proprietor Trading Businesses

Trading businesses buy and sell goods as a normal part of their operations. Their main source of revenue is sales though they may receive other revenues in the form of rent or interest received.

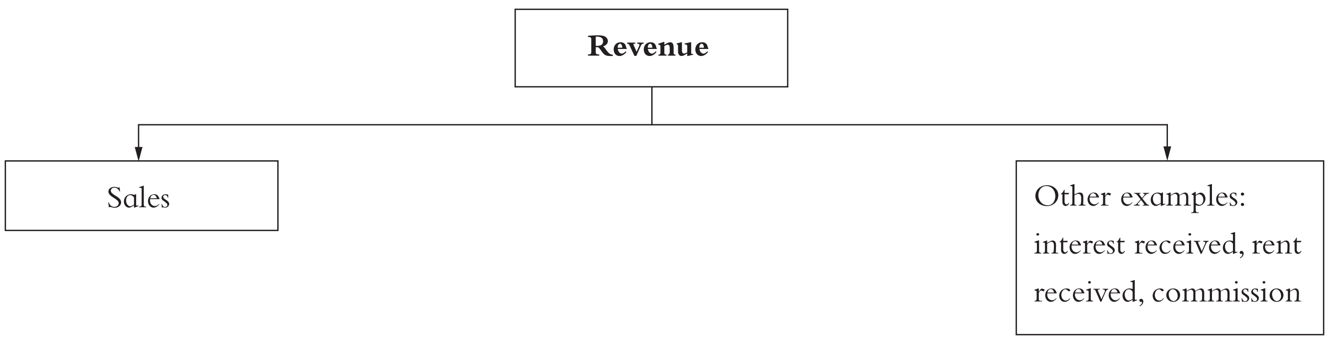
Classification of Revenue and Expenses:

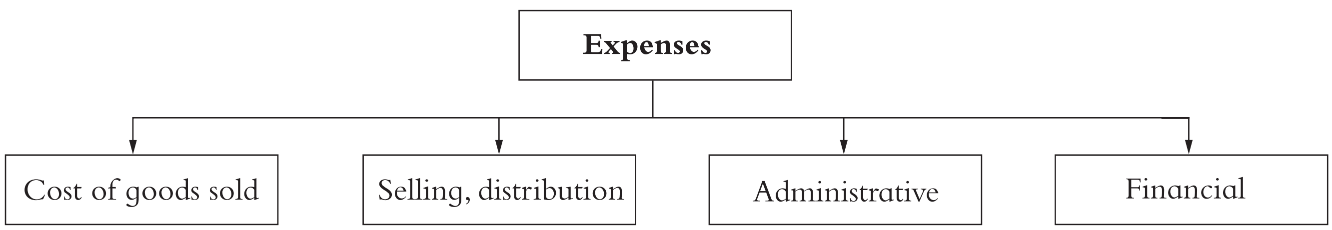
Revenue for trading businesses can be grouped into Sales and other revenue, as discussed above.

Expenses for trading businesses can be classified into four main groups:

- Cost of Goods Sold = Opening inventory (stock) + Purchases – Closing Inventory.
- Selling and Distribution Costs = expenses incurred so as to sell the goods and increase sales or distribution of the goods to customers. Examples of this include advertising, freight outwards, salesperson's commission and shop assistant's wages.
- Administrative Expenses = as discussed for service businesses.
- Financial Expenses = as discussed for service businesses.

The diagrams below will assist you to classify revenue and expenses for trading businesses:





Gross Profit

A business that buys and sells goods has to first calculate its cost of goods sold. The calculation for this was shown above.

Gross Profit is the funds left over to pay for the expenses of the business after Cost of Goods Sold has been deducted.

$$\boxed{\text{Gross Profit} = \text{Sales} - \text{Cost of Goods Sold}}$$

These calculations are found in the trading section of the Statement of Financial Performance.

Other Cost of Goods Sold related expenses

Goods which are sold are sometimes returned by customers because they are faulty. These are called **sales returns** or **returns in**. These are deducted from the sales figure.

Similarly, the business may return faulty goods it has purchased back to the suppliers. These are called **purchase returns** or **returns out**. These are deducted from the purchase figure.

At various times, the business may have to pay for goods to be delivered to its premises. This is called **freight in** or **cartage inwards**. If goods are being imported into the country by the business, it may have to pay customs duties. These costs are added to the purchases as they are expenses required to get the goods into the business before they are sold. These costs are part of the Cost of Goods Sold.

An example of a Statement of Financial Performance for a Trading business follows on the next page:

Fagali'i Traders

Statement of Financial Performance for year ended 30 June 2008

	$	$	$
Sales			140 000
Less Sales Returns			3 200
			136 800
Less **Cost of Goods Sold**			
Inventory at 1 July 2007		12 000	
Plus Purchases	75 000		
Less Purchase Returns	1 600		
Net Purchases		73 400	
Plus Freight Inwards		3 200	
Customs Duty		1 800	
Goods available for sale		90 400	
Less Inventory at 30 June 2008		8 500	
Cost of Goods Sold			81 900
Gross Profit			54 900
Plus **Other Income**			
Interest Received			3 600
			58 500
Less **Expenses**			
Selling and Distribution			
Freight outwards	700		
Advertising	3 200		
Sales assistants' wages	16 000	19 900	
Administrative			
Office expenses	800		
Office wages	8 000		
Accountancy fees	2 000		
Loss on sale of computer	1 500	12 300	
Financial			
Discount allowed		800	
Total Expenses			33 000
NET PROFIT			25 500

Activity 5 Case Study — Alafua Garden Centre

Copy and complete the following tasks in your exercise book.

1. Alafua Garden Centre has just completed its first year of trading and would like you to complete its financial statements (in vertical form) for the year ended 31 December 2004 using the figures from the trial balance given below:

Trial Balance for Alafua Garden Centre as at 31 December 2009

	$		$
Bank	5 000	Sales	100 000
Advertising	2 500	Discount Received	250
Insurance	1 500	Capital	96 600
Sales assistants' wages	30 000	Accounts Payable	2 400
Equipment Maintenance	430	Gain on sale of equipment	290
Telephone	2 090	Purchase Returns	350
Stock of plants and seeds 1/1/09	4 000		
Drawings	25 000		
Water meter	1 270		
Cartage Inwards	760		
Discount allowed	900		
Office Expenses	740		
Interest paid	1500		
Purchases	49 000		
Accounts Receivable	2 500		
Equipment	50 000		
Tractors and trailers	22 000		
Loss from burglary	700		
	$199 890		$199 890
Stock on hand 31/12/09	4 500		

2. Describe how Cost of Goods sold is calculated and the different elements included in its calculation.
2. Describe how Cost of Goods sold is calculated.
3. Compare and contrast capital expenditure and revenue expenditure. Give two examples for each from the trial balance given above.
4. Sharon sought your advice about setting up her own hair salon where she could work for herself, controlling the time that she needed to work as well as owning all the profits made by the business. Explain to Sharon the pros and cons of setting up a sole proprietor entity so that she is able to make a considered decision.

Analysing Financial Statements

Financial statements for entities are prepared to assist users with decision making. Sometimes however, it is not enough just to look at the dollar amounts given and to compare them with previous years or with similar entities in the same type of business. There are other things (measures) we can look at to assess profitability, liquidity and financial stability of the business.

Measures of profitability

The following percentages can be calculated to assess how profitable the business operations have been during the past accounting period. Comparisons can be made to the budgeted percentages, ratios of previous years as well as percentages of similar businesses in the same industry.

Sales Trend Shows the percentage change in sales.	$\frac{\text{Current year's sales – Previous year's sales}}{\text{Previous year's sales}}$ **Source**: Statement of Financial Performance	**Satisfactory**: The percentage change is positive if sales have increased over the last two years. **Reasons for unsatisfactory result**: ◧ Downturn in sales due to poor demand or poor marketing strategy. ◧ Theft of goods. ◧ Sales not recorded.
Mark-up Percentage Shows the gross profit earned as a percentage of cost of goods sold.	$\frac{\text{Gross Profit} \times 100}{\text{Cost of Goods Sold}}$ **Source**: Statement of Financial Performance	**Satisfactory**: The figure is close to the budgeted markup. **Reasons for unsatisfactory result**: ◧ Theft of stock. ◧ Sales at reduced prices. ◧ If the business sells goods with different mark-ups, there may have been a change in the sales mix, with more goods that have a lower mark-up being sold. ◧ Inaccurate stock figures.
Gross Profit Percentage Shows the proportion left out of every dollar of net sales to cover other expenses.	$\frac{\text{Gross Profit} \times 100}{\text{Net sales}}$ **Source**: Statement of Financial Performance	**Satisfactory**: That it is similar to those of previous years. **Reasons for unsatisfactory result**: ◧ Decreased sales. ◧ Cost of goods sold have increased.
Expenses Percentage Shows the proportion of each dollar of net sales that is spent on each particular group of expenses.	$\frac{\text{Expenses} \times 100}{\text{Net Sales}}$ **Source**: Statement of Financial Performance	**Satisfactory**: That it is similar to those of previous years. **Reasons for unsatisfactory result**: ◧ Decreased sales. ◧ Increased expenses. ◧ Some expenses *(e.g. Rent)* may remain fixed even though net sales increases.
Net Profit Percentage Shows the proportion of each dollar of sales which is net profit.	$\frac{\text{Net Profit} \times 100}{\text{Net Sales}}$ **Source**: Statement of Financial Performance	**Satisfactory**: The owner is able to draw a reasonable level of income from the business. As net profit is the amount left over after all expenses have been paid, it should increase if expenses are reduced.
Return on Owner's Equity Percentage Shows the reward to the owner for every dollar invested in the business.	$\frac{\text{Net Profit} \times 100}{\text{Average owner's equity}}$ [Note: if average owner's equity cannot be calculated, the owner's equity at the start of the period should be used.] **Source**: Statement of Financial Position	**Satisfactory**: This figure should be compared with the return on other investments including term deposits with banks. The return should be higher than the current percentage earned in a bank account.

Note: Service organisations do not have a gross profit figure, and net sales figure is replaced by total revenue in the above calculations.

Measures of Liquidity

It is important for a business to assess its ability to meet its short-term debts (liquidity). A business should have enough cash or current assets that can be turned into cash very quickly, to repay its short term debts as required.

Working Capital figure This is expressed in dollar terms and shows the amount of current assets remaining after current liabilities were to be paid.	Working capital = Current Assets – Current Liabilities **Source**: Statement of Financial Position	**Satisfactory**: Businesses should aim for a positive figure in order to be able to pay their liabilities due during the current accounting period. **Note**: the working capital does not take the size of the business into consideration.
Current ratio / Working capital ratio This shows the ability of the business to repay its debts in the short term (3–6 months).	$\frac{\text{Current Assets}}{\text{Current Liabilities}} : 1$	**Satisfactory**: 2:1 For every dollar of current liabilities, the business has two dollars of current assets to cover them.
Liquid ratio / Quick asset ratio Shows the business' ability to repay immediate debts in the short term (1–2 months)	$\frac{\text{Current Assets} - (\text{Inventory} + \text{Prepayments})}{\text{Current Liabilities} - \text{Secured bank overdraft}} : 1$	**Satisfactory**: It should be at least 1:1 Quick assets are cash and assets that can be converted into cash within the next one or two months. Inventory is excluded as it is very unlikely that all stock can be sold within two months. Prepayments are excluded as getting a refund for prepaid expenses can be difficult. Quick liabilities are debts due within the next two months. A secured bank overdraft is unlikely to called in unless the limit has been exceeded.

Measure of financial stability

The financial stability of a business is the percentage of the entity that is funded by the owner. If the return on the owner's investment is below that of the rate of interest that can be earned by investing in term deposits in the bank, then the owner should be seriously considering the future of the business.

Return on Owner's Equity Shows the return on owner's investment in the business	$\frac{\text{Net Profit} \times 100}{\text{Average Owner's Equity}}$	**Satisfactory** above the % rate offered by banks and allows for a return risk and a return on the time invested by the owner.
Equity Ratio Shows the proportion of the business' assets funded by the owner and therefore the control that the business has over its assets.	$\frac{\text{Closing Owner's Equity}}{\text{Total Assets}} : 1$	**Satisfactory** — the ratio shows that internal ownership is greater than external ownership. 0.6 : 1 The benchmark is 0.5 : 1. If it gets below this, there is a real danger that the business cannot pay its debts and the owner may lose control of the business.

Activity 6 Case Study — Timeout Stationers

Copy and complete the following tasks in your exercise book.

The following financial information has been extracted from the financial statements for Timeout Stationers. Use the resource information given below to answer all the questions in this activity.

Resource Information

Table One

Statement of Financial Performance (extract) for year ended 31 December	**2004 $**	**2005 $**	**2006 $**
Sales	100 000	120 000	150 000
Less Cost of Goods Sold	45 000	55 000	75 000
Selling and Distribution Expenses	10 000	10 000	12 000
Administrative Expenses	12 000	14 000	15 000
Financial Expenses	8 000	10 000	14 000
Net Profit	25 000	31 000	34 000

Table Two

	2004 $	**2005 $**	**2006 $**
Current Assets	25 000	20 000	20 000
Current Liabilities	15 000	12 000	14 000
Total Assets	80 000	100 000	120 000
Total Liabilities	50 000	65 000	80 000

Table Three

	2004	**2005**	**2006**
Equity Ratio	0.4:1	0.35:1	0.3:1
Liquid Ratio	0.8:1	0.65:1	0.6:1

Tom Onosa'i owns a stationery bookshop called Timeout Stationers.

1. Refer to Table One and calculate the following percentages for each year:
   a. Gross Profit percentage.
   b. Mark-up percentage.
   c. Expenses percentage — Selling and Distribution, Administrative, Financial.
   d. Net Profit percentage.

2. a. Compare the financial expense percentage for the years 2004–2006.
   b. Identify a pattern or trend. Is it increasing or decreasing from one year to the next?
   c. Suggest ONE possible cause for the trend in the financial expense percentages over the past three years.
   d. Recommend a course of action for Tom to follow to improve the trend in the financial expense percentage.

3. Refer to Table One and Table Two to complete the following table.

	Formulae / Working	**Answer**
Net Profit Percentage 2005		
Gross Profit Percentage 2005		
Current Ratio 2005		
Return on Owner's Equity 2005		
Mark-up Percentage 2005		
Percentage increase in sales 2004–2005		

Unit 4: FINANCIAL REPORTING FOR COMMUNITY ORGANISATIONS

Unit objectives

This unit of work relates to the 'Financial Accounting' strand of the Business Studies Curriculum statement. Through study of the unit, you will understand how accounting concepts and principles can be used in reporting financial information. You will investigate and develop your skills and understanding of how financial information is reported for clubs and community organisations when you:

- Prepare simple financial statements for clubs or other community organisations.
- Analyse and interpret simple accounting data for clubs and community organisations.

Introduction

Community organisations are similar to businesses in the way that they are organised to provide goods or services for consumers that are otherwise not available. The main point of difference is that community organisations are not focused on making a profit. There is a growing number of community organisations in Sāmoa, but also in more developed countries such as New Zealand and Australia. Recent research studies have found that the volunteer section of the community is growing at a steady rate. Community organisations develop as consumers (groups within the community) discover that such entities can help to meet some of their needs and wants. Community organisations use accounting in much the same way as businesses. The financial statements are similar except that the items are different because the sources of finance are different, and the use of finances vary according to the type of organisation.

Community organisations

The owners of a community organisation are called members and they are not entitled to take drawings out of the organisation. Small community organisations are usually not incorporated while larger ones are. When a community organisation is incorporated, it means that it is registered under the Incorporated Societies Act and is called an incorporated society. Members of an incorporated society have limited liability. This means that if the society runs into financial difficulties, the members' personal assets are protected. Incorporated societies can issue debentures, a form of long-term loan.

The financial objectives for community organisations usually include:

- Reducing debts of the organisation.
- Increasing income for a project in the future.
- Saving to purchase fixed assets for the organisation.

Meeting these objectives may require the community organisation to do one or more of the following:

- Increase fundraising for a specific project.
- Apply for grants or funding from appropriate trusts, businesses, government agencies or other groups.
- Increase membership and subscription rates.

Community organisations usually only operate a cash book as they do not have the same level of activity as businesses. However, there are some very large community organisations that keep financial records in much the same way as small or large businesses. The main asset that community organisations need to manage and control is that of cash. The process of recording transactions for community organisations will be dealt with at a later stage. This unit will look at the financial statements for community organisations and how the information can be analysed to assist members to make necessary decisions.

Financial Statements

The financial statements for a community organisations are usually prepared annually. The four financial statements for community organisations that will be discussed in this unit are:

- **Statement of Receipts and Payments**
  This is a record of all money received and paid during the year. The final balance is the Cash at Bank which goes into the Statement of Financial Position.
- **Supplementary Trading and Activities Statement**
  This is formulated to calculate the surplus or deficit from a trading activity or special fundraising project.
- **Statement of Financial Performance (income and expenditure)**
  This is a record of the income and expenses for the year and calculates either the excess or deficit of income over expenditure.
- **Statement of Financial Position**
  This is a list all the assets, liabilities and accumulated funds belonging to the members of the club.

Statement of Receipts and Payments

Community organisations receive their income from subscriptions from members, donations and fundraising projects. This statement is the same as the Statement of Changes in Cash Position.

APIA ATHLETICS CLUB

Statement of Receipts and Payments for year ended 31 December 2007

	$	$
Bank balance as at 1 January 2007		725
Add **Receipts**		
Subscriptions	5 000	
Raffle receipts	9 000	
Food stall sales	2 500	
Donations	300	16 800
		17 525
Less **Payments**		
Raffle prizes	4 000	
Raffle tickets	750	
Grounds maintenance	2 500	
Food stall purchases	1 000	
Food stall expenses	300	
Secretary's honorarium	1 000	
Rent for store room	500	10 050
Bank balance as at 31 December 2007		7 475

Supplementary Trading and Activities Statement
On 31 December 2007, there were no outstanding bills for raffles. The Raffle Activity Statement appears as follows:

APIA ATHLETICS CLUB

Raffle Activity Statement for year ended 31 December 2007.

	$	$
Raffle ticket sales		9 000
Less **Expenses**		
Raffle prizes	4 000	
Raffle tickets	750	4 750
Surplus on Raffle transferred to Income and Expenditure		4 250

APIA ATHLETIC CLUB

Statement of Income and Expenditure for the year ended 31 December 2007

	$	$
Income		
Subscriptions	5 700	
Surplus from Raffle	4 250	
Surplus from Food Stalls	1 200	
Donations	300	11 450
Less **Expenditure**		
Grounds maintenance	2 500	
Secretary's honorarium	1 000	
Rent for store room	600	4 100
Excess of Income over Expenditure		7 350

APIA ATHLETICS CLUB

Statement of Financial Position as at 31 December 2007

	$	$
Accumulated Funds		
Balance 1 January 2007		9 850
Add Excess Income over Expenditure		7 350
Balance as at 31 December 2007		17 200
This is represented by:		
Current Assets		
Bank	7 475	
Subscriptions in Arrears	700	8 175
Less **Current Liabilities**		
Rent due but unpaid		100
Working Capital		8 075
Add **Non-current Assets**		
Equipment	7 700	
Sports uniforms	1 425	9 125
		17 200

Activity 1 Sole Proprietor Entities And Community Organisations

Copy and complete the following tasks in your exercise book.

1. Describe the similarities and differences between community organisations and sole proprietor entities.
2. What does the term 'Accumulated Funds' describe? What is the equivalent term in the financial statements for a Sole Proprietor business?
3. What are the main sources of funds for most community organisations?
4. Describe the difference between a Statement of Receipts and Payments and a Statement of Income and Expenditure.
5. Use the Resource Information for STANZ Golf Club given below to complete the questions that follow:

Cash Receipts Book Summary for year ended 31 December 2007

ITEM	Total received
Subscriptions	8 500
Youth tournament fees	5 900
Interest received	800
Canteen sales	12 650
Social ticket sales	7 450
Total Cash Received	**$35 300**
Balance as at 1 January 2007	$4 230

Cash Payments Book Summary for year ended 31 December 2007

ITEM	Total Paid
Canteen Purchases	7 500
Canteen expenses	800
Youth tournament prizes	3 400
General Club expenses	1 700
Green fees paid	2 500
Social expenses	4 700
Band for social	1 000
Secretary's honorarium	1 500
Total Cash Paid	**$23 100**

Other information as at 31 December 2007:

Subscriptions still owing to the club by members	$900
Youth tournament expenses still owing	$200

a. Complete a Statement of Receipts and Payments for STANZ Golf Club for year ended 31 December 2007.

b. Complete an activity statement for the Youth Tournament, Social and Canteen trading activities for the year ended 31 December 2007.

c. Complete a Statement of Income and Expenditure for the year ended 31 December 2007 for STANZ Golf Club.

Analysing Financial Statements

Maximising profit is not a primary objective for community organisations. Therefore, when looking at the financial statements of such groups to establish trends, the focus will be different. Members will be interested in how membership has grown or whether the club is maintaining accumulated funds at a level so that planned projects can be funded. They will also be interested in knowing that the organisation can meet its debts as they fall due and that the club is in control of the majority of its assets. Therefore the following percentages and ratios would be the most likely to be useful for community organisations:

- Current Ratio = $\dfrac{\text{Current assets}}{\text{Current liabilities}}$:1
- Equity Ratio = $\dfrac{\text{Accumulated Funds}}{\text{Total Assets}}$:1

As well, the secretary should prepare for the Annual General Meeting a report which states the following:

- The number of current memberships and compare this figure with figures for the previous 3–5 years.
- Funds specifically set aside for special projects.

Activity 2 Case Study — Sports Clubs

Copy and complete the following tasks in your exercise book.

1. Refer back to the Statement of Financial Position for Apia Athletics earlier in this unit and calculate the following ratios:
   a. Current ratio.
   b. Equity ratio.
2. Use your calculations from question one to write a brief analysis for the members of the Apia Athletics Club about the stability of the club.
3. What recommendations would you make to Apia Athletics Club from this analysis?
4. The STANZ Golf Club has decided to improve its canteen. A quote has been received for the extension and new fittings. The cost will be $5000 for materials and labour. Your friend Gloria, the club treasurer, has approached you to help her write a report to the management committee that sets out recommendations for fundraising.

Gloria gives you the following information about a dinner function that could be used as a fundraiser for the golf club:

- Dinner costs at $25 per person.
- Hall capacity is 300 people.
- Special entertainer for the night cost $1000
- Printing costs for the dinner (invitations, promotions) $200

a. How much would the club need to make from the evening to break even?

b. How much would the club need to make to achieve its goal of raising $5000?

c. Given the capacity of the hall, how much would the club need to sell the dinner tickets for to raise the required amount?

d. At this price, how many tickets would need to be sold for the club to break even?

Unit 5: JOURNALS

Unit objectives

This unit of work relates to the 'Accounting Process' strand of the Business Studies Curriculum statement. Through study of the unit, you will understand the function of general journals (books of first entry) in the accounting process. You will investigate and develop your skills and understanding of the function of the general journals and record appropriate transactions in a general journal when you:

- Recall the role and use of Cash and Goods Journals.
- Identify and describe transactions which cannot be recorded in cash or goods journals.
- Describe the function of the General Journal.
- Identify and describe the source documents for transactions to be entered in the general journal.
- Record information in the general journal and other journals from the relevant source documents.
- Interpret transactions recorded in the general journal.
- Prepare journals for posting to the relevant ledger accounts.

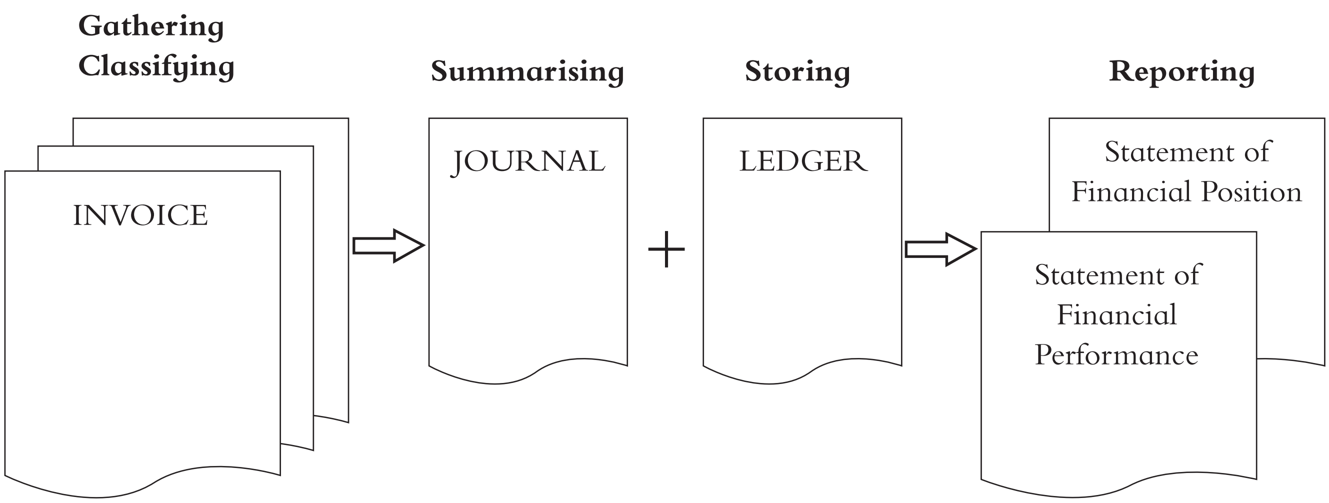
Introduction

Journals are a daily record of all transactions recorded from source documents. The Cash Receipts Journal, the Cash Payments Journal and the four Goods Journals were introduced in Business Studies Year 10 Book Two. There are seven different journals used in recording accounting transactions — the two cash journals, the four goods journal and the General Journal. Sometimes the journals are called the 'books of first entry' as they are the first books used to record transactions in the accounting cycle. This unit will review students' knowledge about the journals introduced in earlier books as well as extend their understanding of the General Journal and its purpose.

THE ACCOUNTING CYCLE — INPUT, PROCESS, OUTPUT

INPUT → **PROCESS** → **OUTPUT**

DATA → **RECORD KEEPING** → **INFORMATION**



INPUT → **PROCESS** → **OUTPUT**

Source Documents	Accounting Records	Final Reports
Invoices Credit notes Cheque butts Receipts Monthly statements Cash register tapes Vouchers Time sheets Bank statements	Journals Sales Purchases Returns General Cash receipts Cash payments Ledgers General ledger Debtors' ledger Creditors' ledger	Statement of Financial Position (Balance Sheet) Statement of Financial Performance (Profit and Loss Statement) Cash Flow Statement Analysis and Interpretation Financial report to owners and other interested parties

General Journal

The General Journal is used to make initial records of business transactions that do not fit into the other six journals. It is also used to record entries for when a business starts, showing how the capital or owner's equity is calculated.

Example
Siaki Valasi, proprietor of Jack Flash Photography would like you to set up proper accounting records for him.

- Show the general journal entry necessary to establish new records as 1 October 2005.

As at 1 October 2005, the assets and liabilities were:

Bank $2000; Inventory $ 7000; Accounts Receivable — A Galu $150; Fittings and equipment $2500; Buildings $95 000; Mortgage $41 000; Accounts Payable $3000.

- Apparently the debtor A. Galu has disappeared without trace to New Zealand. Siaki has asked that A. Galu be shown as a bad debt.
- On 2 October, Siaki purchased a new cash register $1750 from ABC Machines on credit. He asks that this purchase also be recorded.
- On 4 October Siaki took home some films for his own use; the film had cost $50, with a selling price of $80. He asks how this is recorded as it does not fit into the other journals.

Jack Flash Photography
General Journal GJ001

Date 2005	Particulars	Folio	Debit	Credit
Oct 1	Bank		2 000	
	Inventory		7 000	
	Accounts Receivable (A. Galu)		150	
	Fittings and Equipment		2 500	
	Buildings		95 000	
	Mortgage			41 000
	Accounts Payable			3 000
	Capital, Siaki Valasi			62 650
	to establish new records for Jack Flash Photography			
Oct1	Bad Debts		150	
	Accounts Receivable – A. Galu			150
	to write off bad debts of A. Galu who has gone to NZ			
Oct 2	Equipment		1 750	
	ABC Machines			1 750
	Purchased new cash register on credit			
Oct 4	Drawings		50	
	Purchases			50
	Owner takes goods for personal use			

You can see from the example above that the General Journal is used for miscellaneous transactions which do not 'fit' into the other journals. The example above includes:

- Establishing new accounting records for a business.
- Recording bad debts.
- Recording the purchase of fixed assets on credit.
- Recording drawings, when the owner takes stock for private use.

Other entries recorded in the General Journal are:

- Corrections to errors in recording.
- Owner contributions of capital to the business in the form of a fixed asset.

Because each journal entry is different in nature, they must have an explanation (called a narration) so that later, any person looking at the records can understand the transaction that occurred. The folio column is used to record where in the ledger account the entry is posted.

Some small businesses operate with only a general journal or may have a general journal and the two cash journals. The General Journal is the most common journal used by businesses. Sometimes it is the only book of first entry used.

Activity 1 Understanding General Journals

Copy and complete the following tasks in your exercise book.

1. What function does the General Journal have as a book of first entry?
2. Give at least five examples of transactions that are recorded in the General Journal.
3. Describe why it is necessary to have a narration after each general journal entry.
4. Ross Peteru, proprietor of Peteru Builders, has hastily prepared the following general journal entries for July 2005. All the journal entries are correct but the narrations are very sketchy. You are asked to describe for each entry, the transaction it is recording.

Peteru Builders
General Journal GJ001

Date 2005	Particulars	Folio	Debit	Credit
July 05	Drawings		1 300	
	Purchases			1 300
	Timber for my deck			
July 21	Bad Debts		720	
	L. Carpenter			720
	Bad Debtor			
July 25	Bank		8 000	
	Capital			8 000
	Cash banked			
July 29	Equipment		14 000	
	Motor Vehicle			14 000
	wrong account			

Name of Journal	**Function and purpose**	**Source documents which provide information for this journal**
Cash Receipts Journal	Records cash received by the business or organisation. We are able to summarise all of the transactions of a particular type and make a single entry into the ledger account.	◧ Cash register tape or roll. ◧ Receipts issued. ◧ Bank statements.
Cash Payments Journal	Records cash paid by the business or organisation. It analyses payments into different categories, like the cash receipts journal.	◧ Cheque butts. ◧ Bank statements.
Sales Journal	Records credit sale of goods by the business.	◧ Copy of invoices issued to debtors.
Sales Returns Journal	Records the return of goods sold by the business.	◧ Copy of credit note issued by the business to the debtor.
Purchases Journal	Records the purchase of goods on credit from suppliers.	◧ Original of invoice issued by supplier (creditor).
Purchase Returns Journal	Records the return of goods back to the supplier because they were faulty or incorrectly supplied.	◧ Original of credit note issued by the supplier (creditor).
General Journal	Records miscellaneous transactions that are not cash or related to the sale or purchase of goods on credit.	A variety of source documents including: ◧ Memorandum from management or owner. ◧ Invoice for purchase of fixed asset on credit. ◧ Internal memorandum from accounting department. ◧ Other documents.

Activity 2 Case Studies

Copy and complete the following tasks in your exercise book.

1. Use the information on the cheque butts of Tropical Seas Fabrics to write up the cash payments and cash receipts journals.

Number	26 292	26 293	26 294	26 295	26 296	26 297
Date	Feb 15 2004	Feb 17 2004	Feb 17 2004	Feb 18 2004	Feb 21 2004	Feb 21 2004
To	Fabric Wholesalers	Fosgrens Ltd	Samoa Tel	Cash	Cash	Samoa Importers
For	Purchases	Rent on shop	Telephone	Drawings	Wages	Creditor
Balance b/f	\$2 800 –	\$2 712 –	\$2 792	\$2 492	\$2 276	\$2 385
Deposit	\$482 (sales)	\$680 (sales)	–	\$584 (sales)	\$825 (sales)	–
	3 282	3 392	2 792	3 076	3 101	2 385
This cheque \$	570 –	600	300 –	800	716	350
BALANCE \$	2 712 –	2 792	2 492	2 276	2 385	2 035

2. Vai Lima has a small retail store near the market where she sells household goods. Most of her business operates on a cash only basis but she does have some credit transactions. The following is a list of credit documents she has issued or received during January 2008.

January

3	Invoice 2544 from Saeco Industries $560
4	Invoice 451 to L. Fane $280
6	Invoice 452 to D. Sola $88
12	Invoice D3390 from Handi Appliances $1 875
13	Invoice 453 to T. Tomson $156
17	Credit note M24 from Handi Appliances $325
20	Invoice 454 to K. Rasmussen $55
21	Credit note 11 to K Rasmussen $55
25	Invoice 455 to S. Leilua $395
27	Invoice from Handi Appliances $750
30	Credit note to S Leilua $25.

Record these details in the sales, sales returns, purchases or purchase returns journals and total each journal for the end of the month.

3. Record the following information in the General Journal of Vince Mann Tours.
   a. As at 1 July 2005 VM Tours' assets and liabilities are:

      Cash on hand $800; Debtors $2000; Office fittings $1500; Office equipment $6000; Bank overdraft $1500; and Loan $1000.
   b. It is decided that $500 of the equipment should really be classified as fittings. You are required to journalise this adjustment.
   c. A debtor has been declared bankrupt and it is decided to write off the amount he owes: $320.

4. Record the following into the journals of Sāmoa Warehouse (also owned by Vincent Mann).

Opening balances as at 1 January 2006:

Petty Cash $100; Inventory $3000; Shop Fittings $8500; Accounts Receivable — P Lata $344; M Isa $160 and T Ale $230; Accounts Payable — Sam's Discounters $455; Bank overdraft $560.

2006 January		**$**
2	Cash sales (receipt 64) P Lata paid his account in full (receipt 65)	1 450
4	Purchased goods to resell on credit from Sams Discounters (inv 543)	270
7	Vince Mann cashed cheque for own use (chq 433)	300
9	Cash sales (receipt 66)	1 560
11	Sold goods to M Isa (invoice 897) Paid telephone bill (chq 434) Sold goods to P Lata (invoice 898)	325 270 360
14	P Lata returns faulty goods (credit note 13)	45
15	Purchased shop fittings on credit from Apia Hardware (invoice 6128) Paid wages (chq 435)	790 320
16	Cash sales (receipt 67) Paid Sam Discounters (chq 436) Purchased goods for resale Trent Wholesalers (invoice A333)	1 240 455 2 600
18	Paid advertising (chq 437) Cash purchases (chq 438) Vince Mann takes goods for personal use (memo 4) Sold goods to T Ale on credit (invoice 899)	350 740 500 430
20	Cash sales (receipt 68) T Ale paid last months account in full (receipt 69)	2 345
22	Paid wages (chq 439) Sold goods on credit to P Lata (invoice 900)	320 145
24	Cash sales (receipt 70) Paid Apia Hardware $790 (chq 440)	1 560

25	Purchased goods from Sam Discounters (invoice 670) Vince Mann wrote cheque for personal use (chq 441)	2 440 220
26	Returned faulty goods to Sam Discounters (Credit note 24) Cash sales (receipt 71)	495 890
27	Paid monthly rent (chq 442) Sold goods on credit to M Isa (invoice 901) Paid telephone bill (chq 443)	1 200 460 580
29	Cash sales (receipt 72) Paid wages (chq 444) M Isa returned damaged goods (credit note 14)	1 770 320 95
31	Cash sales (receipt 73) Interest on overdraft (bank statement) Insurance paid (automatic payment — bank statement)	1 650 25 250

5. Total the journals and prepare for posting to the General Ledger.

Unit 6: DOUBLE ENTRY LEDGER ACCOUNTS

Unit objectives

This unit of work relates to the 'Accounting Process' strand of the Business Studies Curriculum statement. Through study of the unit, you will understand the function of ledgers and how to draw up final statements as part of the accounting process. You will investigate and develop your skills and understanding of the procedures for posting journal entries to the General Ledger when you:

- Compare and contrast the different methods (T form and columnar) of recording information in the General Ledger. You will use both methods to process accounting information.
- Classify ledger accounts into different Accounting Equation categories (A, L, OE, R, E) in preparation for drawing up Final Statements.
- Develop a Chart of Accounts useful for grouping Ledger Accounts.

Introduction

You saw in the previous unit how transactions are initially recorded in the accounting process, with the information from source documents (INPUT) being used to record the transactions into the journals. Accounting records can be recorded manually or by computer. A computer-based system uses an accounting software package which automatically processes journals and transfers the information to ledger accounts. It then draws up a trial balance. After the transactions have been classified in the journals, the totals or amounts for individual items are posted or recorded into the ledger. The function of the ledger is to summarise transactions related to a specific item to give a balance at any particular time.

Preparation Of Journals For Posting To The General Ledger

At the end of every month (or at the end of every week for big businesses) the journals are totalled and summarised in preparation for posting to the general ledger accounts. An example for preparing a Cash Receipts Journal and Cash Payments Journal is given on the following page:

Example

Cash Receipts

Lana Sands runs a craft shop in Apia. She also takes bookings for the local tour operator and gets paid a weekly commission. The following is a list of the cash received during March 2005

Mar 1	Cash sales $400 EFTPOS sales $550
2	EFTPOS sales $320
4	Received commission from tour bookings $170 (rec 321) Cash sales $556
5	EFTPOS sales $680 Cash sales $165
7	EFTPOS sales $350 Cash sales $325 Lana introduced additional capital $2000 (rec 322)
8	Cash sales $280 EFTPOS sales $784
11	Commission received from tour bookings $250 (rec 323) EFTPOS sales $660 Cash sales $208
14	EFTPOS sales $930
15	Cash sales $375 EFTPOS sales $250
18	Commission received from tour bookings $320 (rec 324)
22	EFTPOS sales $757 Cash sales $555
25	Commission received $175 (rec 325) Cash sales $245 EFTPOS sales $390
28	EFTPOS sales $900 Cash sales $250

Lana's Craft Shop Cash Receipts Journal								
Date 2005	**Particulars**	**Rec No**	**Folio**	**Receipts**	**Bank**	**Sales**	**Commission**	**Sundry**
Mar 01	Sales	CRT		400	400	400		
	EFTPOS				550	550		
02	EFTPOS				320	320		
04	Commission	321		170			170	
	Sales	CRT		556	726	726		
05	EFTPOS				680	680		
	Sales	CRT		165	165	165		
07	EFTPOS				350	350		
	Sales	CRT		325		325		
	Capital	322		2 000	2 325			2 000
08	Sales	CRT		280	280	280		
	EFTPOS				784	784		
11	EFTPOS				660	660		
	Commission	323		250			250	
	Sales	CRT		208	458	208		
14	EFTPOS				930	930		
15	Sales	CRT		375	375	375		
	EFTPOS				250	250		
18	Commission	324		320	320		320	
22	EFTPOS				757	757		
	Sales	CRT		555	555	555		
25	Commission	325		175			175	
	Sales	CRT		245	420	245		
	EFTPOS				390	390		
28	EFTPOS				900	900		
	Sales	CRT		250	250	250		
					12 845	9 930	915	2 000

Notes:

- CRT stands for cash register tape.
- The folio column is for recording the ledger account that the transaction is posted to.
- There are separate analysis columns for transactions that occur frequently: *e.g. Sales and commission*.
- Less frequent transactions are recorded in the Sundry column.
- EFTPOS sales go straight into the bank and are therefore recorded separately in the Bank column. Other amounts received on the same day are totalled and the total is entered in the Bank column. This is because banking is done once a day and the amount in the Bank column is checked against the bank statement when it is received.
- There is no ledger account called Sundry. Amounts in this column are posted to the individual accounts.

The accounts affected are:

Account	Element	Incr / Decr	Dr / Cr
Bank	Asset	Incr	Dr
Sales	Revenue	Incr	Cr
Commission	Revenue	Incr	Cr
Capital	Owner's equity	Incr	Cr

Cash Payments Journal

The following is a list of cash and cheques drawn by Lana during the month of March 2005.

Mar	1	Purchased inventories for cash $350 chq 243
	3	Paid rent for shop $250 chq 244
	6	Paid for advertising chq 245 $345
	9	Drawings $300 chq 246
	14	Cash purchases $460 chq 247
	17	Paid rent for shop $250 chq 248
	19	Paid EPC for electricity $385 chq 249
	22	Cash purchases $450 chq 250
	24	Paid for postage ($12) and telephone bill ($150) with chq 251
	27	Drawings chq 252 $300
	29	Cash purchases $375 chq 253
	31	Paid rent for shop $250 chq 254

The bank statement showed an entry for $15 bank charges on 15 March.

The Cash Payments Journal is shown on the following page:

Lana's Craft Shop Cash Payments Journal									
Date 2005	**Particulars**	**Chq No**	**Folio**	**Details**	**Bank**	**Purchases**	**Rent**	**Drawings**	**Sundry**
Mar 01	Purchases	243			350	350			
03	Rent	244			250		250		
06	Advertising	245			345				345
09	Drawings	246			300			300	
14	Purchases	247			460	460			
17	Rent	248			250		250		
19	Electricity	249			385				385
22	Purchases	250			450	450			
24	Postage	251		12					12
	Telephone	251		150	162				150
27	Drawings	252			300			300	
29	Purchases	253			375	375			
31	Rent	254			250		250		
15	Bank charges	B/S			15				15
					3 892	1 635	750	600	907

Notes:

- The cheque number or bank statement is recorded for each transaction.
- The Folio column is for recording the ledger account that the transaction is posted to.
- The amount of each cheque is recorded in the Bank column. The details column is only used when a cheque is issued for more than one payment: *e.g. March 24*.

The accounts affected are:

Account	**Element**	**Incr / Decr**	**Dr / Cr**
Bank	Asset	Decrease	Cr
Purchases	Expenses	Increase	Dr
Rent	Expenses	Increase	Dr
Drawings	Owner's equity	Decrease	Dr
Advertising	Expenses	Increase	Dr
Electricity	Expenses	Increase	Dr
Postage	Expenses	Increase	Dr
Telephone	Expenses	Increase	Dr
Bank charges	Expenses	Increase	Dr

General Journal

Lana, who does not have formal accounting records for her craft business has asked you to establish new records for her and gives the following details to assist you:

As at 1 March 2005, the assets and liabilities were:

Bank	$9 400
Shop fittings and equipment	$1 950
Inventory	$5 370
Loan from Bank	$5 600
Accounts Payable	$670

Lana also tells you that on 12 March she took some goods which cost $225 from the shop to give as gifts to her family from New Zealand. You can see an example of Lana's general journal on the next page.

	Lana's Craft Shop **General Journal**			
Date 2005	**Particulars**	**FOL**	**Dr**	**Cr**

Mar 1	Bank
	Inventory
	Shop Fittings and Equipment
	    Accounts Payable
	    Loan from Bank
	    Capital
	For assets and liabilities for Lana's Craft Shop as at 1 March 2005
		GL110
		GL130
		GL210
		GL310
		GL320
		GL510
			9 400
			5 370
			1 950
				
				670
				5 600
				10 450

Mar 12	Drawings Purchases *Owner takes goods for personal use*	GL520 GL130	225	 225

Posting to the General Ledger

The Accounting Cycle shown on page 64, shows that accounting information that is first recorded and summarised in the journals, is then posted (written) into ledger accounts. An account is a record of all the changes to a particular item in the accounting equation. A ledger is a collection of accounts. Transactions are recorded in the ledger as debits or credits. The debits and credits system is used in accounting to create a record of transactions based on the accounting equation. In the last unit, the accounting equation was shown as:

assets + expenses + drawings = liabilities + owner's equity + revenue

A + E + D = L + OE + R

Uses of Funds — Source of Funds

It was presented in this way to show how a business uses its funds and the sources of these funds. Drawings were grouped together with assets and expenses, even though they are associated with owner's equity. They represent the amount that the owner has taken from the business for personal use, in the form of cash or other resources. Therefore, if we restate the accounting equation in a form using only the elements of A, E, L, OE, and R we get the following:

assets + expenses = liabilities + owner's equity + revenue

We can apply the following rules for the system of double entry using debits and credits:

A + E	=	L + OE + R
Debit balance		**Credit balance**
Increase in value = debit entry		Increase in value = credit entry
Decrease in value = credit entry		Decrease in value = debit entry

With the system of double entry: Debit entries = Credit entries.

This explanation should help you understand the table showing the accounts affected, that followed the Cash Receipts Journal and Cash Payments Journal examples given above. These summaries will be used to show how to post to General Ledger accounts.

Example

The totals from the examples of the Cash Receipts Journal and the Cash Payments Journal that were summarised in the tables and restated below can be posted as in the example that follows:

From the Cash Receipts Journal the accounts affected are:

Account	Element	Incr / Decr	Dr / Cr
Bank	Asset	Increase	Dr
Sales	Revenue	Increase	Cr
Commission	Revenue	Increase	Cr
Capital	Owner's equity	Increase	Cr

From the Cash Payments Journal the accounts affected are:

Account	Element	Incr / Decr	Dr / Cr
Bank	Asset	Decrease	Cr
Purchases	Expenses	Increase	Dr
Rent	Expenses	Increase	Dr
Drawings	Owner's equity	Decrease	Dr
Advertising	Expenses	Increase	Dr
Electricity	Expenses	Increase	Dr
Postage	Expenses	Increase	Dr
Telephone	Expenses	Increase	Dr
Bank charges	Expenses	Increase	Dr

The Ledger

Ledger accounts can be drawn up in two ways: in account form (sometimes referred to as 'T' form), or in three column form. Here is an example of each.

GENERAL LEDGER — 'T' form

Bank **GL 110**

Date 2005	Particulars	FOL	$	Date	Particulars	FOL	$
Mar 1		GJ 1	9 400	Mar 31	Cash Payments	CPJ 18	3 892
31	Cash Receipts	CRJ 21	12 845		Balance	c/f	18 353
			22 245				22 245
Apr 1	Balance	C/d	18 353				

Inventory **GL 130**

Date 2005	Particulars	FOL	$	Date	Particulars	FOL	$
Mar 1		GJ 1	5 370				

Shop Fittings and Equipment **GL 210**

Date 2005	Particulars	FOL	$	Date	Particulars	FOL	$
Mar 1		GJ 001	1 950				

Accounts Payable **GL 310**

Date 2005	Particulars	FOL	$	Date	Particulars	FOL	$
				Mar 1	Sundry accounts	GJ 001	670

Loan From Bank **GL 320**

Date 2005	Particulars	FOL	$	Date	Particulars	FOL	$
				Mar 1	Sundry accounts	GJ 001	5 600

Capital — GL 510

Date 2005	Particulars	FOL	$	Date	Particulars	FOL	$
				Mar 1	Sundry accounts	GJ 001	10 450
				7	Bank	CRJ 25	2 000
							12 450

Drawings — GL 520

Date 2005	Particulars	FOL	$	Date	Particulars	FOL	$
Mar 31	Bank	CPJ 1	600				
12	Purchases	GJ 001	225				
			825				

Sales — GL 610

Date 2005	Particulars	FOL	$	Date	Particulars	FOL	$
				Mar 31	Bank	CRJ 25	9 930

Commission Received — GL 620

Date 2005	Particulars	FOL	$	Date	Particulars	FOL	$
				Mar 31	Bank	CRJ 25	915

Purchases — GL 710

Date 2005	Particulars	FOL	$	Date	Particulars	FOL	$
Mar 31	Bank	CPJ 18	1 635	Mar 12	Drawings	GJ 001	225

Rent — GL 720

Date 2005	Particulars	FOL	$	Date	Particulars	FOL	$
Mar 31	Bank	CPJ 18	750				

Advertising GL 730

Date 2005	Particulars	FOL	$	Date	Particulars	FOL	$
Mar 6	Bank	CPJ 18	345				

Electricity GL 740

Date 2005	Particulars	FOL	$	Date	Particulars	FOL	$
Mar 19	Bank	CPJ 18	385				

Postage GL 750

Date 2005	Particulars	FOL	$	Date	Particulars	FOL	$
Mar 24	Bank	CPJ 18	12				

Telephone GL 760

Date 2005	Particulars	FOL	$	Date	Particulars	FOL	$
Mar 24	Bank	CPJ 18	150				

Bank Charges GL 770

Date 2005	Particulars	FOL	$	Date	Particulars	FOL	$
Mar 15	Bank	CPJ 18	15				

GENERAL LEDGER — columnar form

Bank — GL 110

Date 2005	Particulars	FOL	Dr	Cr	Balance
Mar 1	Sundry accounts	GJ 001	9 400		9 400 Dr
31	Cash Receipts	CRJ 21	12 845		22 245 Dr
	Cash Payments	CRJ 18		3 892	18 353 Dr

Inventory — GL 120

Date 2005	Particulars	FOL	Dr	Cr	Balance
Mar 1	Sundry accounts	GJ 001	5 370		5 370 Dr

Shop Fitting & Equipment — GL 210

Date 2005	Particulars	FOL	Dr	Cr	Balance
Mar 1	Sundry accounts	GJ 001	1 950		1 950 Dr

Accounts Payable — GL 310

Date 2005	Particulars	FOL	Dr	Cr	Balance
Mar 1	Sundry accounts	GJ 001		670	670 Cr

Loan From Bank — GL 320

Date 2005	Particulars	FOL	Dr	Cr	Balance
Mar 1	Sundry accounts	GJ 001		5 600	5 600 Cr

Capital — GL 510

Date 2005	Particulars	FOL	Dr	Cr	Balance
Mar 1	Sundry accounts	GJ 001		10 450	10 450 Cr
7	Bank	CRJ 21		2 000	12 450 Cr

Drawings GL 520

Date 2005	Particulars	FOL	Dr	Cr	Balance
Mar 31	Bank	CPJ 18	600		600 Dr
12	Purchases	GJ 001	225		825 Dr

Sales GL 610

Date 2005	Particulars	FOL	Dr	Cr	Balance
Mar 31	Bank	CRJ 21		9 930	9 930 Cr

Commission Received GL 620

Date 2005	Particulars	FOL	Dr	Cr	Balance
Mar 31	Bank	CRJ 21		915	915 Cr

Purchases GL 710

Date 2005	Particulars	FOL	Dr	Cr	Balance
Mar 31	Bank	CRJ 21	1 635		1 635 Dr
12	Drawings	GJ 001		225	1 410 Dr

Rent GL 720

Date 2005	Particulars	FOL	Dr	Cr	Balance
Mar 31	Bank	CPJ 18	750		750 Dr

Advertising GL 730

Date 2005	Particulars	FOL	Dr	Cr	Balance
Mar 6	Bank	CPJ 18	345		345 Dr

Electricity **GL 740**

Date 2005	Particulars	FOL	Dr	Cr	Balance
Mar 19	Bank	CPJ 18	385		385 Dr

Postage **GL 750**

Date 2005	Particulars	FOL	Dr	Cr	Balance
Mar 24	Bank	CPJ 18	12		12 Dr

Telephone **GL 760**

Date 2005	Particulars	FOL	Dr	Cr	Balance
Mar 24	Bank	CPJ 18	150		150 Dr

Bank Charges **GL 770**

Date 2005	Particulars	FOL	Dr	Cr	Balance
Mar 15	Bank	CPJ 18	15		15 Dr

Trial Balance

After posting to the General Ledger, a trial balance is prepared to check that the principles of double entry have been followed and that the arithmetic is correct.

Lana's Craft Shop Trial Balance as at 31 March 2005			
	$		**$**
Bank	18 353	Accounts Payable	670
Inventory	5 370	Loan from Bank	5 600
Shop Fittings & Equipment	1 950	Capital	12 450
Purchases	1 410	Sales	9 930
Rent	750	Commission Received	915
Drawings	825		
Advertising	345		
Electricity	385		
Postage	12		
Telephone	150		
Bank Charges	15		
	$29 565		**$29 565**

The Trial Balance is prepared by the accountant as a basis for preparing reports such as the Statements of Financial Performance and Financial Position. The debit column (on the left) should equal the credit column (on the right). If they do not balance, the double entry procedure has not been followed properly. Checks should be made for:

- Arithmetical error when adding totals.
- Entries missed out (single entry made for a transaction).
- Entries made as two debit or two credit entries.
- Incorrect amounts debited or credited.

Chart Of Accounts

The General Ledger has a number of ledger accounts. In order to organise accounts in some way, an index system called a Chart of Accounts can be used. A Chart of Accounts groups Ledger Accounts and gives them a number. Each business will design their own Chart of Accounts to suit their type of business and their needs. A Chart of Accounts for Lana's Craft Shop could look like this:

CURRENT ASSETS		**100**
Bank	110	
Accounts Receivable	120	
Inventory	130	
FIXED ASSETS		**200**
Shop Fittings & Equipment	210	
CURRENT LIABILITIES		**300**
Accounts Payable	310	
Loan from Bank	320	
NON–CURRENT LIABILITIES		**400**
OWNER'S EQUITY		**500**
Capital	510	
Drawings	520	
REVENUES		**600**
Sales	610	
Commission Received	620	
EXPENSES		**700**
Purchases	710	
Rent	720	
Advertising	730	
Electricity	740	
Postage	750	
Telephone	760	
Bank Charges	770	

The chart of accounts is used to code the ledger accounts in the Folio columns of the journals.

Activity 1 Accounts

Copy and complete the following tasks in your exercise book.

A summary of the Cash Receipts Journal and the Cash Payments Journal for Happy Health Foods for the month of July 2004 are given below.

HAPPY HEALTHY FOODS CASH PAYMENTS JOURNAL (July 2004)					
Date 2004	**Particulars**	**Bank**	**Purchases**	**Wages**	**Sundry**
July 3	Purchases	735	735		
4	Wages	450		450	
8	Telephone	320			320
11	Wages	450		450	
13	Drawings	300			300
18	Wages	450		450	
19	Purchases	865	865		
23	Electricity	155			155
25	Wages	450		450	
		4 175	1 600	1 800	

CASH RECEIPTS JOURNAL (summary totals as at 31 July 2004)				
Date	**Particulars**	**Bank**	**Sales**	**Sundry**
		14 575	14 575	

1. Study the information from the cash journals. Draw up appropriate ledger accounts for:
   a. Bank (opening balance $7345 Cr)
   b. Sales
   c. Wages
   d. Purchases

2. Complete the analysis table for the following transactions and use this to complete the three column ledger accounts and prepare a trial balance for Fetu's Cafe.

Date 2005	**Transaction**	**Account Dr**	**Account Cr**	**Amount$**
Aug 15	Fetu starts business with $16 000 cash			
15	Fetu buys Furniture and Fittings for cash $3400			
15	Fetu buys stock for cash $2500			
16	Purchased cafe equipment for cash $1600			

3. The owner of Furniture Traders Ltd, Leo Lafai, presents you with the following summaries of his first month of operation (March 2006).

Receipts

Mar 2	Capital, L Lafai	rec 001	$ 9 000
4	Sales	CRT	$ 2 340
8	Sales	CRT	$ 1 660
15	T. Atai (accounts receivable)	rec 002	$ 2 600
19	Sales	CRT	$ 4 720
25	M. Fale (accounts receivable)	rec 003	$ 1 450
26	Sales	CRT	$ 3 800

Cheque butts

Mar 2	Shop Fittings and Equipment	chq 100	$ 1 900
3	Purchases	chq 101	$ 4 500
6	Apia Traders (accounts payable)	chq 102	$ 1 560
9	Wages	chq 103	$ 380
12	Electricity	chq 104	$ 145
13	Purchases	chq 105	$ 5 400
16	Wages	chq 106	$ 380
19	Woody Ltd (accounts payable)	chq 107	$ 2 600
20	Drawings	chq 108	$ 1 000
23	Wages	chq 109	$ 380
28	Telephone	chq 110	$ 230
29	Purchases	chq 111	$ 1 450
30	Wages	chq 112	$ 380

Suppliers' invoices

Mar	1	Woody Ltd	inv 426	$ 2 000
	9	Woody Ltd	inv 501	$ 600
	13	Apia Traders	inv 9943	$ 1 560
	25	Woody Ltd	inv 542	$ 2 300
	29	Apia Traders	inv 102	$ 1 700

Sales invoices

Mar	3	T Atai	inv 001	$ 1 900
	6	M Fale	inv 002	$ 670
	8	T Atai	inv 003	$ 700
	17	M Fale	inv 004	$ 1 780
	24	S Roe	inv 005	$ 2 500

Additional transactions

Mar	3	Purchased shop equipment on credit from AEB Ltd	$ 3 600
	17	L Lafai took goods at cost for personal use	$ 1 800

You are required to:

a. From the above details prepare the necessary journals for Furniture Traders Ltd.

b. Prepare a Chart of Accounts for Furniture Traders Ltd.

c. Post the information from the journals to the general ledger.

d. Prepare a Trial Balance as at 31 March 2006.

Unit 7: FINANCIAL STATEMENTS FOR SOLE PROPRIETOR BUSINESSES

Unit objectives

This unit of work relates to the 'Accounting Process' strand of the Business Studies Curriculum statement. Through study of the unit, you will understand the function of ledgers and how to draw up final statements as part of the accounting process. You will also investigate and develop your skills and understanding of drawing up final statements when you:

- Describe the different stages of the accounting process to identify the need for financial statements.
- Identify and describe different financial statements.
- Draw up financial statements for sole-proprietor businesses.

Introduction

Financial Statements for sole proprietor businesses will vary in presentation depending on the size of the entity and the type of business. Unit Three described in detail the different requirements for sole-proprietor trading businesses and how they differ from sole-proprietor service businesses. All businesses are required by law to complete financial statements at the end of each financial year. The information in these statements may be used by different people for different purposes:

- By the owner to make business decision.
- By the bank when considering whether to lend money to the business, or to give a bank overdraft.
- By the Inland Revenue Dept for tax assessment purposes.
- By prospective buyers of a business.

Usually businesses are required to complete the following financial statements:

- Statement of Accounting Policies. This describes the rules that were followed to prepare the financial statements.
- Statement of Financial Performance. This sets out the expenses and revenues for the business to show the profit for the accounting period.
- Statement of Financial Position. This gives a snapshot of the financial situation of the business at a particular date.
- Statement of Changes in Cash Position. This reconciles the opening and closing cash position, showing where cash came from and what it was used for.

Statement of Accounting Policies

Accounting concepts that are used to prepare financial records of business organisations were discussed in Unit 3. These included:

- Accounting Entity Concept.
- Monetary Measurement Concept.
- Historical Cost Concept.
- Going Concern Concept.
- Accounting Period Concept.
- Accrual Accounting Concept.

The Statement of Accounting Policies is a document that describes the concepts that a business has used when preparing its financial statements. It does several things:

- It describes the Accounting Entity, including the name and type of business.
- It describes the type of measurement system used, including how assets have been valued and what currency is used. (The historical cost method or concept is the most common type of measurement used by businesses.)
- It makes a statement of the accrual accounting concept, entering transactions into the records when they occur and matching them with the period to which they relate.
- It assumes that the business is a going concern and will continue to operate.
- It states the policy for depreciation of assets. Assets are recorded at historical cost, and the rate of depreciation for each asset is stated. (Depreciation has not been covered in this book, but it is the loss in productive capacity or future service potential of a fixed asset due to wear and tear through use, or due to the asset becoming out of date.

Statement of Changes of Cash Position

This statement is drawn up using information from a summary list of transactions, source documents and bank statements. It sets out the sources of cash and what it was used for. Usual sources of cash include sales, fees, interest, sale of fixed assets, additional capital introduced by the owner, and loans to the business. Use of cash includes expenses, paying suppliers, purchase of fixed assets, drawings by the owner, repaying loans and paying VAGST. An example is given below:

LANA'S CRAFT SHOP
STATEMENT OF CHANGES IN CASH POSITION

for year ended 30 June 2005

Cash received:		
Cash from sales to customers	74 900	
Commission received	6 500	
Interest received	760	82 160
Cash paid:		
Payments to suppliers	32 600	
Expenses	18 390	
Drawings	27 900	
VAGST payments	11 500	90 390
Net decrease in cash		(8 230)
Bank balance as at 1 July 2005		33 450
Bank balance as at 30 June 2006		$25 220

Statement of Financial Performance

Examples of fully classified Statements of Financial Performance were given in Unit 3 of this book (pages 44 and 47). Remember the main function of this statement is to show the expenses and revenues for an entity, classifying them into appropriate groups. They also show how the net profit for a business entity is calculated.

Statement of Financial Position

An example of a fully classified Statement of Financial Position is given in Unit 3. The main function of this statement is to give a picture of the assets and liabilities of an entity at a particular time. The owner's equity is shown in full in this statement.

Accounting Cycle

The preparation of the financial statements at the end of the accounting period and the reports developed from these statements represent the final stage of the accounting cycle:

INPUT → **PROCESS** → **OUTPUT**

Input Transactions are recorded on source documents.

Process The information from the source documents is classified and summarised in the journals and ledgers.

Output Financial statements are prepared.

Review Activities

Copy and complete the following tasks in your exercise book.

1. Copy and complete the following chart which analyses transactions for Vaitele Trucking. The first row has been done for you.

Transactions	Accounts	Element	Increase / Decrease	Debit / Credit
Paid insurance for trucks $950	Insurance Bank	Expense Asset	Increase Decrease	Debit Credit
Received cash for delivery of goods to customer $380				
Paid wages for the week $3 600				
Received cheque from Accounts Receivable $780				
Purchased new office equipment $1 300				
Banked $750 cash received for jobs completed				
Paid for oil and petrol for trucks				
Sent invoice to customer for services provided				

2. Record the following information into the Purchases Journal of Blue Dolphin Tourist Shop:

Sept 6	Bought goods from Lana's Craft Shop, invoice 234	$650
14	Purchased maps from Visitors Bureau, invoice 3109	$124
23	Tana Souvenirs sold goods to Blue Dolphin, invoice 417	$325

3. The trial balance for Happys Ice Cream Parlour as at 31 March 2004 appears below.

Happys Ice Cream Parlour Trial Balance as at 31 March 2004		
Bank	30 000	
Inventory 1 April 2003	5 700	
Equipment and Fittings	18 000	
General Expenses	12 500	
Purchases	12 600	
Shop Rent	10 400	
Wages	36 000	
Interest paid	1 680	
Investments	12 000	
Electricity	5 900	
Advertising	8 500	
Drawings	18 000	
Sales		85 900
Purchase Returns		460
Interest on Investment		2 300
Loan from ANZ		25 000
Capital		51 500
Accounts Payable		6 120
	$171 280	**$171 280**

Additional information:
Inventory 31 March 2004 is valued at $6800.

a. Use the information above to prepare a fully classified Statement of Performance for the year ended 31 March 2004.

b. Prepare a Statement of Financial Position as at 31 March 2004.

c. Calculate the following percentages:

- Mark-up.
- Gross-profit.
- Return on owner's equity.
- Current ratio.
- Liquid ratio.

d. Write a brief report commenting on the performance of the business during this year.

Key vocabulary for Year 11 Book Two Business Studies

Vocabulary	Useful words that go with the key word	Other words
assets	long term assets, fixed assets, cash assets, quick assets, depreciation of assets	
capital	capital equipment, capital items, working capital, capital expenditure	
contributions	equal contributions	
credit	credit entry, credit balance	
debit	debit entry, debit balance	
debts	short term debts, immediate debts, to repay debts, bad debts	a debtor
decisions	business decisions, a considered decision, to avoid poor decisions, to consider decisions	
to earn	to earn a wage, to earn an annual salary of...; an earned income, an unearned income	earned
an entity	an accounting entity, a sole proprietor entity, financial entities	
essential	essential expenses, non-essential expenses	
expenses	administration expenses, financial expenses	
expenditure	personal expenditure, business expenditure, current expenditure	
financial	the financial affairs of the owner, financial decisions, financial information, financial data, financial accounting, financial reporting, financial transactions, financial statements, the financial period, financial stability, non-financial considerations, non-financial factors	
funds	accumulated funds	funding
gross	gross profit percentage	
income	income earned, sources of income	
liabilities	current liabilities, quick liabilities, limited liability, unlimited liability, non-current liabilities	liability
net	net sales, net profit percentage	
an option	the best option, the other options	
preference	your first preference, the preferred option	preferred
a profit	a fair profit, to make profits, to maximise profits, net profit, gross profit, measures of profitability	profit, profitable, profitability
projected	projected balance sheet, projected income statement, cash flow projections	projections
a rate	the salary rate, a higher hourly rate	
resources	financial resources, the best use of resources	
required	as required, the required amount, are required to	requirements
revenue	revenue statement, revenue expenditure, the main source of revenue, total revenue	revenues
source	the source of revenue, the source of finance, the sources of these funds, relevant source documents	
specific	on a specific date, a specific project specific information, funds specifically set aside	specifically
terms	in dollar terms, in monetary terms	
transactions	miscellaneous transactions, accounting transactions, business transactions, frequent transactions, a list of transactions, to record transactions	
value	dollar value, current market value	

Topic specific vocabulary for Year 11 Book Two Business Studies

Related to Economic Management	Related to Small Business Enterprises	Related to Financial Reporting for Sole Proprietor Businesses
pay advice slips	agencies	the Statement of Financial Position
salaries	a sole trader	the Statement of Financial Performance
fees	a sole proprietor	the Revenue Statement
interest	partnership	working capital
dividends	private company	liquidity
investments	public company	capital expenditure
shares	the principal	revenue expenditure
inheritances	a take-over	a sole proprietor service business
superannuation	competitors	a sole proprietor trading business
remittances	the competition	an inventory
commission	management experience	the current ratio
a shortfall of	direct operational experience	the liquid ratio
essential expenses	a lending institution	the quick asset ratio
non-essential expenses	going concern	the equity ratio
profits	trade supplies	

KEY VOCABULARY

Related to Financial Reporting for Community Organisations	Related to Journals and Double Entry Ledger Accounts	Related to Financial Statements for Sole Proprietors
an incorporated society	the accounting cycle	the accounting process
limited liability	ledger accounts	the Statement of Accounting Policies
debentures	the General Journal	the Statement of Changes in Cash Position
subscription rates	a narration	the Statement of Accounting Policies
surplus	the folio column	depreciation
deficit	cash and goods journals	commission received
supplementary trading and activities statement	the Cash Receipts Journal	interest received
the Statement of Receipts and Payments	the Cash Payments Journal	the mark-up percentage
the Statement of Changes in Cash Position	the Sales Returns Journal	the return on owner's equity percentage
the Statement of Income and Expenditure	the Purchases Journal	output
excess of income over expenditure	the Purchase Returns Journal	
	a chart of accounts	
	input	

Useful structures for Year 11 Book Two Business Studies

Ways of describing nouns using –ed words

capital items required to start the business
financial decisions based on what has happened in the past
deductions made
services provided
the costs charged
interest received
rent received
money invested by the owner

Ways of qualifying nouns by using relative clauses

rental from houses or other properties that they rent to tenants

Ways of defining things

Accounting is a system that provides information on the economic activities of a business.
Accounting is also a system of keeping accurate records.

Ways of expressing cause and effect

Many sole proprietor businesses fail within a short time of commencing due to poor planning and financial management.

Passive statements

Profit is paid to an individual who owns a business.
Wages are paid to an individual for their labour.
The payment for wages is based on an hourly rate.

Ways of expressing time

What steps did Paul and Suliveta follow prior to setting up their business?
What decisions did Malu make prior to buying the business and during the time she was the owner of the business?

Ways of comparing and contrasting

Community organisations are similar to businesses in that they are organised to provide goods or services for consumers.
This differs from cash accounting, where only transactions resulting in cash flows are recorded.
The main point of difference is that community organisations are not focused on making a profit.