

ACCOUNTING AND BOOKKEEPING PRINCIPLES AND PRACTICE

Association of
Accounting Technicians
& David Willis

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Preface

Accounting and Bookkeeping Principles and Practice is an introductory text for accounting and bookkeeping students and provides a complete resource for the VET FNS10 Certificate IV in Financial Services (Bookkeeping) qualification. Many students will choose to take this course to comply with the *Tax Agent Services Act 2009* (the Act), which requires that all providers of full BAS services are registered. Students in Certificate IV Financial Services (Accounting), and indeed anyone taking an introductory accounting course of any kind, may also find it of great benefit, as will students of office administration and business courses.

The starting topics are an introduction to accounting followed by a full coverage of GST. Transactions into journals, general ledgers, subsidiary ledgers and a Trial Balance comprise the early part of the text. A comprehensive guide to lodging Business Activity and Instalment Activity Statements precedes other accounting functions for cash controls, bank reconciliations, the manual payroll system and maintaining inventory records. Depreciation, disposal of assets and Asset Registers are next considered, leading to the final two chapters concerned with balance day adjustments and preparing accurate Financial Statements at the end of the fiscal year 30 June.

The text is supported by a workbook in which students can answer the multiple choice questions and exercises that accompany each chapter, as well as the questions in the trial exam papers to be found in Chapters 7 and 16. Answers to all questions, including the trial exams, can be found at the back of the workbook.

About the author

David Willis has taught varied subjects in Accounting, Computing and Australian Political Structure as an Advanced Skills Lecturer during a period of 25 years at TAFE to both classroom and online students.

David has had extensive writing experience in the TAFE accounting area preparing information to be accessed as learning material on line. He was heavily involved in preparing flexible learning packages for the National Learning Project at TAFE in the late 1990s.

David has accounting, teaching and workplace training qualifications and is a Certified Practising Accountant.

This is his third accounting text for McGraw-Hill. The other two books are *Introductory Accounting* and *Applications for Financial Accounting*.

David is currently teaching accounting mainly to overseas students in programs preparing them for university entrance.



Association of Accounting Technicians

About AAT Australia

The Association of Accounting Technicians (AAT) Australia is the country's largest paraprofessional body in the accounting/finance sector and, thanks to the support of CPA Australia, the Institute of Chartered Accountants in Australia and the National Institute of Accountants, the strength of AAT Australia can only grow.

AAT Australia membership provides a commitment to high standards, professionalism, recognition and status for paraprofessional accounting technicians including self-employed bookkeepers, payroll officers, BAS service providers, assistant accountants, accounts payable/receivable officers and other accounting support staff.

AAT Australia is:

- An association for paraprofessional accounting technicians, representing members working in all sectors of commerce in Australia.
- Associated with the worldwide network of AAT organisations, the largest dedicated group representing accounting paraprofessionals with in excess of 100 000 members internationally.
- Dedicated to supporting members and their employers, through continuing professional education programs, technical information, professional standards, ethical guidelines and more.
- Setting new standards for paraprofessional accounting technicians and giving employers and clients new-found confidence and peace of mind.
- A not-for-profit organisation—our entire financial resources are committed to providing practical and supportive services for our members.

Membership

There are many benefits of becoming a member of AAT Australia. Along with status and recognition, your membership can offer you an array of specialist services that can assist you in your profession.

Status

AAT Australia members enjoy the status of being part of a global professional network and are supported by CPA Australia, the Institute of Chartered Accountants in Australia and the National Institute of Accountants. AAT Australia members also receive a membership certificate and can use the 'AAT' post-nominal as confirmation of achievement and professionalism.

Branding

Members can use the AAT Australia logo on company stationery including business cards, letterhead and signage.

Recognition

AAT Australia actively promotes the skills, experience and business values that members bring to the workplace. AAT Australia also advertises on your behalf through means such as the Yellow Pages and industry magazines.

Industry support

AAT Australia is active in representing the views of all accounting technicians through government regulation and industry discussions.

Development and education

AAT Australia offers a range of training and professional development opportunities for accounting technicians to enhance their professional career prospects.

Technical updates and support services

The AAT Australia website provides members with access to relevant information including a technical resource library, discussion forums and other useful downloads. AAT Australia's extensive searchable database of accounting information is a convenient and accessible resource. In addition, our online 'Find a Bookkeeper' searchable database allows members to advertise their services via our website at no cost.

Communication

Members receive regular technical communications from AAT Australia including the quarterly AAT Australia magazine *Accounting Technician* and the monthly email publication, News Update.

Member services

AAT Australia provides an expanding array of services at discounted cost, including publications relevant to bookkeeping, access to education courses, professional indemnity insurance and other useful, cost effective benefits.

Accounting technicians

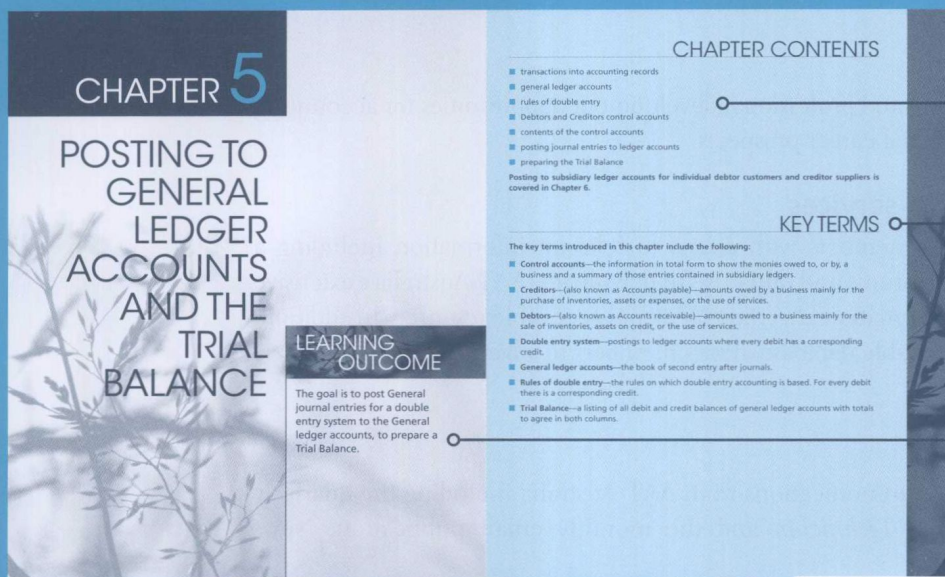
Accounting technicians carry out valuable accounting and related jobs. Traditionally seen as accounting and financial support staff, today's accounting technicians work in all levels of finance and accounting and fulfil roles from accounts staff to finance or office managers. Common job descriptions include:

- accounts payable officer/clerk
- accounts receivable officer/clerk
- payroll officer/clerk
- finance manager
- finance assistant
- assistant accountant
- bookkeeper
- trainee accountant
- reconciliation officer/clerk.

Like many professions, accountancy is changing. Rapid technology development, tax reform and organisational restructures require broader and more flexible skills. Today's accounting technicians play an integral role in the overall business management function and need to be equipped not only with core technical accountancy skills, but also with vital complementary skills in areas such as IT, communication, leadership and time management.

AAT Australia offers a range of training and development opportunities for Accounting Technicians at all stages of their careers.

How to use this book



CHAPTER OPENERS

Chapter contents

A brief summary of the topics to be covered.

Key terms

An explanation of the key terms to be used in the chapter, making it easy at revision time.

Learning outcomes

An outline of the main objectives of the chapter.

ILLUSTRATIONS

Illustrations help to explain concepts covered in the text.

SIMPLE DIAGRAMS

An abundance of flowcharts and diagrams visually explain and reinforce the theory.

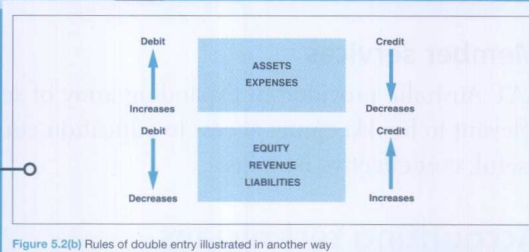


Figure 5.2(b) Rules of double entry illustrated in another way

TUTORIALS

Tutorial boxes placed after major sections of the chapter question learners on their understanding

What will be the effect of posting the total of the Sales journal to the debit side of the Debtors control account, and the individual sales to the credit side of the debtors' subsidiary ledger accounts? Explain your answer.

TUTORIAL

TEST YOUR LEARNING

Insert your answers into the workbook.

Multiple choice questions

- 1 A Trial Balance has a debit balance of \$1000 and a credit balance of \$1100. Which of the following entries will correct this variance?
 - (a) Drawings of \$100 has been entered on the credit side
 - (b) A Sale of \$50 has been entered twice
 - (c) A Purchase of \$50 has been entered twice
 - (d) A Sales return for \$25 has been omitted from the debit side
- 2 Control accounts contain the total of amounts recorded in:
 - (a) The General ledger
 - (b) The subsidiary ledger
 - (c) Separate ledgers
 - (d) All of the above

TEST YOUR LEARNING

Multiple choice questions

A quick check of learning. Answers are provided in the workbook.

Exercises

FOR THESE EXERCISES REFER BACK TO THE CHECKLIST IN ILLUSTRATION 5.3 TO POST TO LEDGER ACCOUNTS.

Exercise 5.1

Post these General journal entries to the general ledger accounts in the workbook for June 2015, where some opening balances are shown. Complete the missing items.

Date:	Details	Debit (\$)	Credit (\$)
June 2015			
1	GST clearing GST input	8 600	8 600

Exercises

Discussion and practical questions relating to main topics covered in the chapter. Answers to all exercises are provided in the workbook.

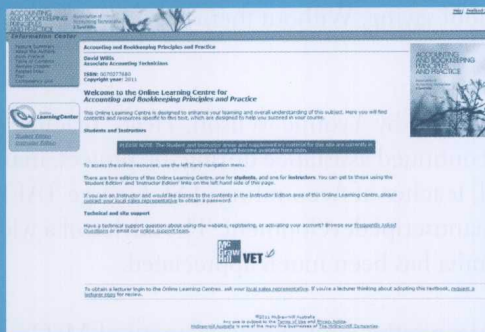
Trial test 1

Date:	Details	Reference	Amount (\$)	Includes GST?	Journal?
May					
1	Bought goods from D. Dennis	Invoice 206	1 595	✓	
2	Paid ETSA for electricity	Cheque 109	484	✓	
3	Received commission	Receipt 210	963	✓	
4	Purchased goods on credit from J. John	Invoice 252	880	✓	
5	Sold goods for cash to B. Bee	Receipt 211	2 024	✓	
9	D. Dennis charged the business interest on an overdue account	—	22		
12	Sold goods on credit to A. Adam	Invoice 291	814	✓	
12	Paid wages	£1.13	1 000		

TRIAL TESTS

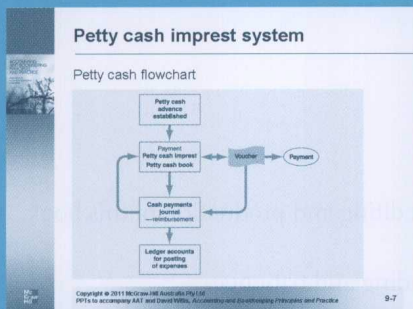
Chapters 7 and 16 provide trial examinations to test understanding of the concepts covered in the preceding chapters.

E-instructor and E-student



OLC

The Online Learning Centre (OLC) that accompanies this text helps you get the most from your course. It provides a powerful learning experience beyond the printed page. Instructors have access to an additional instructor-specific resource area. Instructors can also access additional questions for the FNS10 unit FNSBKP404A Carry out business activity and instalment activity statement tasks, found in the Testbank.



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EZ TEST

EZ Test Online is a powerful and easy to use test generator for creating paper or digital



Ledger Accounts: Columnar

[illegible]

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- Yani Silvana, senior production editor
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- Fiona Howie, editorial coordinator

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Finally, I would like to thank my wife Jan for her understanding and patience.

David Willis

McGraw-Hill would also like to thank the Australian Taxation Office (ATO) for giving permission to use materials in this book, including the tax tables and extracts from the activity statement suite. By the time this book is published, these materials may not be accurate, and readers should always check the ATO website (www.ato.gov.au) for the latest information.

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COMPETENCY GRID

Chapter	Topics	Module unit code
1	Introduction	(FNSACC301A)
2	Source documents and the goods and services tax (GST)	(FNSACC301A) FNSBKG402A FNSBKG404A
3	Cash and credit journals	FNSBKPG402A (FNSACC301A)
4	General journal entries	(FNSACC301A)
5	Postings to ledger accounts and the trial balance	(FNSACC301A)
6	Debtors, creditors and subsidiary ledgers	FNSACC302A FNSBKG403A
7	Trial tests 1 and 2	
8	Prepare business activity statements and instalment activity statements	FNSBKG404A
9	Controls over cash and petty cash payments	FNSBKG402A
10	Bank reconciliations	FNSBKG402A
11	Manual payroll system	FNSBKG405A
12	Maintain inventory records	FNSACC405A
13	Depreciation, disposal of assets and asset registers	BSBFIA401A
14	Accrual accounting and balance day adjustments	BSBFIA401A
15	Profit accounts, worksheets and financial statements	BSBFIA401A
16	Trial tests 3 to 9	

CHAPTER 1

INTRODUCTION

LEARNING OUTCOME

To gain background to accounting and bookkeeping principles and practice.

CHAPTER CONTENTS

- A brief history of bookkeeping
- The nature of accounting
- A definition of accounting
- The accounting entity, legal entity and reporting entity
- The reporting period and the balance date
- Revenue and expenses
- The operating cycle
- The five groups of accounts
- The Chart of Accounts
- The Accounting Equation
- Effect of profit
- The Balance Sheet
- Discounts
- The accrual concept of accounting
- Australian Accounting Standards
- Accounting reports for internal and external use
- Financial Statements
- Design of an accounting system
- Internal controls
- Flowchart of accounting transactions into accounting records

KEY TERMS

The key terms introduced in this chapter include the following:

- **Accounting entity**—a business having a separate identity from its owner.
- **Accounting equation**—Assets less Liabilities equals Equity.
- **Accrual concept of accounting**—transactions are accounted for at the time they are earned or incurred rather than when payment has been made.
- **Assets**—items owned by a business (for example, motor vehicles and trading stock).
- **Australian Accounting Standards**—specific accounting policies concerning a particular topic or industry related to businesses that are 'Reporting entities'.

- **Balance date**—the final date of the accounting period (for example 30 June)
- **Balance Sheet**—a statement of what a business owns: its assets; what the business owes: its liabilities; with the difference between assets and liabilities being the Equity of the owner in the business.
- **Capital**—part of the Equity, which is the owner's investment in the business.
- **Chart of Accounts**—an index to all ledger accounts.
- **Double entry system**—where a transaction provides both a debit and a credit entry.
- **Drawings**—amounts of cash or inventories drawn out of the business by the owner. This is a reduction in Equity.
- **Equity**—the total investment in the business by the owner represented by assets less liabilities.
- **Expenses**—costs incurred in operating a business.
- **Legal entity**—the business is legally able to buy, sell and own property in its own name.
- **Liabilities**—items owed by a business to other parties (for example loans to a bank).
- **Reporting entity**—an organisation required by law to report its financial activities (for example, company reports to shareholders).
- **Reporting period**—the period covering a financial report. A full financial year is the period 1 July to 30 June.
- **Revenue**—the earnings of a business, mainly from sales of trading stock or fees for services.
- **Rules of double entry**—the double effect of each transaction on the five groups of accounts.
- **Sole trader**—a business owned by a single person.

Alternative terms

There are alternate terms in accounting to describe the same item. Some to be familiar with at this stage are:

Name used in this text	Also known as
Inventories	Trading stock or goods
Debtors	Accounts receivable
Creditors	Accounts payable
Revenue	Income