

ACCOUNTING

recording transactions that have taken place from source documentation provided.

Source Documentation: evidence of transactions having taken place.

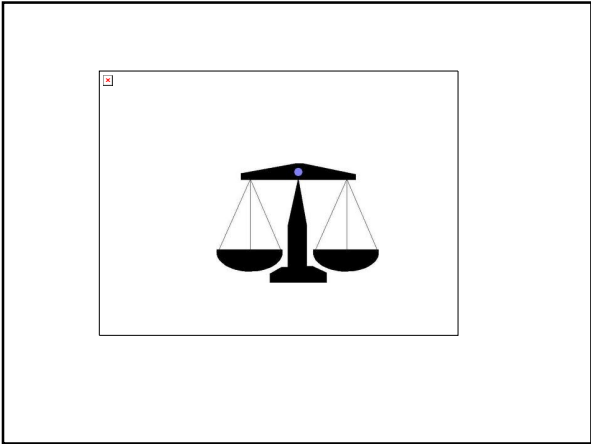
- Cheque stubs
- Lodgment Slips
- Purchase Invoices (Delivery Dockets)
- Sales Invoices
- Bank Statements

- **IMPORTANT: ENTITY CONCEPT:**
- Transactions are recorded from the point of view of **THE BUSINESS**.
- The business is considered to be quite separate and distinct from the owners.
- **CAPITAL:** represents the funds contributed to the business by the owners. What the owners contribute to setting up the business is recorded as being owed back to them by the business.
- The most important fundamental concept of accounting.

- Transactions are always recorded from the point of view of the business entity.
- Every transaction involves an exchange.
- The business receives something, and in exchange for this, gives something of equal value.
- Every transaction involves 2 accounts. One account is to record what the business has received. The other account is to record what the business has given in exchange.

- SOME TRANSACTIONS:
 1. Started business with €10000 in cash.
 2. Bought equipment for €2000 cash.
 3. Lodged €4000 into a bank account.
 4. Borrowed €5000 and lodged to bank.
 5. Bought equipment for €8000 by cheque.
 6. Repaid part of loan by cash €1,000.

- TERMINOLOGY:
 - DEBIT - represents where money has gone
 - CREDIT - represents where money has come from.
 - every debit has a corresponding credit
 - every credit has a corresponding debit.
 - When all transactions have been recorded, accounts with net debit balances must equal the sum of all accounts with net credit balances.
 - That way, your books must always.....



•BALANCE!!!

Consider following:

- Started business with €20,000 in bank account
- Purchased Equipment for €10,000 by cheque
- Sold equipment (cost €4000) for €6000 and lodged
- Bought Machinery for €14000 by cheque.

PROFIT CONCEPT:

- Profit – the amount by which the assets of a business has increased during the period as a result of entering into profit making transactions.
- Profit will increase the owners' interest in those assets where there has been no withdrawals of assets for personal use (i.e. drawings – see later)

CREDIT TRANSACTIONS

- Not all transactions are for cash
- Credit transactions arise where there is an interval arising between taking custody of the goods and paying for them.
- When goods are invoiced by the supplier, title transfers to the purchaser.
- After an agreed interval following date of invoice, the goods are paid for.
- The interval is called the credit period.
- Supplier owed for invoices not paid are known as trade creditors.... Or creditors.

CREDIT TRANSACTIONS:

- Consider the following:
- Started business with €10000 in bank
- Bought equipment for €5000 by cheque
- Bought machinery ON CREDIT from J Limited for €2500.
- Bought additional equipment from K Supplies Limited for €1500 on credit.
- Paid J Limited €1250 by cheque and K Supplies Limited €1000 by cheque

PURCHASES LEDGER

- In an accounting system, there is a subsidiary ledger called the Purchases Ledger.
- At any time, a list of all balances owed to suppliers can be printed.
- This total should agree the amount set out in the balance sheet as being owed to creditors.
- Will see this in more detail later.

CREDIT TRANSACTIONS: SALES

- While goods can be purchased on credit, goods are also normally sold on credit.
- i.e. an interval arises between delivering the goods to a customer, issuing an invoice for the supply and getting paid for the supply.
- The interval is.... the credit period.
- Customers who owe the business for invoices raised are known as trade debtors (or just debtors ***not debtors***)

Consider the following:

- Started business with €20000 in bank
- Bought equipment for €5000 on credit from AB Supplies.
- Sold equipment (cost €1000) to RM Motors on credit for €1500.
- Sold Equipment (cost €500) to ET Ltd for €450 on credit
- Paid AB €1000 by cheque
- Received €500 from RM Motors and lodged to bank.

SALES LEDGER:

- In an accounting system, there is a subsidiary ledger called the Sales Ledger.
- At any time, a list of all balances owed by customers can be printed.
- This total should agree the amount set out in the balance sheet as being owed by Debtors.
- Will see this in more detail later.

ACCOUNTING CONVENTIONS

- So far we have seen:
- Entity Concept
- Monetary Unit concept
- Historical Cost Concept
- Profit Concept
- Matching / Accruals Concept

TRADING TRANSACTIONS:

Consider the following:

- 1. Started business with €10000 cash.
- 2. Bought "goods" for €8000 cash.
- 3. Rented a van for €300 cash
- 4. Sold Goods (cost €7000) for €14000 cash
- 5. Paid wages by cash €1000
- 6. Paid Motor Expenses €200 by cash

ALL INCLUSIVE EXAMPLE

- Started business with €5000 in bank
- Borrowed €15000 & lodged to bank
- Bought goods on credit for €12000 from AB Ltd.
- Paid wages by cheque €2000
- Sold goods on credit to XY Ltd for €15000
- Paid light & heat €500 by cheque
- Received €8000 from XY Ltd & lodged
- Paid AB Ltd €6000 by cheque
- Bought Equipment €1000 by cheque

TO INTRODUCTION TO COMPANIES.

- See separate presentation.

LIMITED COMPANIES

- The accounts of a limited company are not materially different from sole traders
- Instead of capital account, there is “share capital” account.
- Instead of drawings, directors (being employees) are paid salaries.
- Any profit not taken as salary is carried as a balance on the profit and loss account.

SOLE TRADER

- Started business with 10000 cash.
- Profits and drawings first 3 years:

Year	Profits	Drawings
2009	5000	3500
2010	6000	4000
2011	5500	4500

Sole Trader

	2009	2010	2011
Net Assets	11500	13500	14500
Capital	10000	11500	13500
Add profit	5000	6000	5500
Less drawings	<u>-3500</u>	<u>-4000</u>	<u>-4500</u>
	11500	13500	14500

LIMITED COMPANY

- Formed company with 10000 ordinary shares paid for in cash.
- Profit before directors' salaries first 3 years were: 2009 €5000; 2010 €6000; 2011 €5500.
- Directors' salaries first 3 years: 3500, 4000 and 4500.

LIMITED COMPANY

	2009	2010	2011
Profit before salaries	5000	6000	5500
Salaries	<u>-3500</u>	<u>-4000</u>	<u>-4500</u>
Net Profit	1500	2000	1000
Bal. b/fwd	<u>0</u>	<u>1500</u>	<u>3500</u>
Bal. c/fwd	1500	3500	4500

LIMITED COMPANY

	2009	2010	2011
Net Assets:	11500	13500	14500
Share Capital	10000	10000	10000
Balance on P&L a/c	<u>1500</u>	<u>3500</u>	<u>4500</u>
Total	11500	13500	14500

**FINAL ACCOUNTS –
COMPANIES.**

- In essence, no difference.
- One side – assets (where money has gone)
- Other side – liabilities (where money has come from)
- Interest in assets of a sole trade represented by his Capital Account
- Interest in assets of shareholders: Share Capital + Retained Profits.
