

CHAPTER 4

IDENTIFYING THE BOOKKEEPING BASE OF ACCOUNTING

- learn how to perform accounting in a more organized way so that you can prepare financial statements easily and accurately at the end of each accounting cycle.

This organized way of accounting is a series of steps known as the accounting cycle.

Accounting Cycle

the complete sequence of accounting activities repeated in every accounting period.

TOPIC 1
ORIGINATING TRANSACTION DATA

Accountants cannot make a record of any financial event unless there is tangible and objective proof that a business transaction has taken place.

To understand the mean of "objectivity" think of the word "object."
An object is something you can see, when you see something you know it is real.

Accountants, record business transaction given information in objects called source documents, on the basis of the objectivity principle.

Objectivity Principle: accounting data should be verifiable.

All accounting transactions must be supported by business papers called source documents.

Source Documents: business forms (papers) that give evidence of business transactions on a certain date.

Four common source documents are:

- 1.) the opening balance sheet
- 2.) invoice
- 3.) cheque record
- 4.) remittance slip

THE FIRST BALANCE SHEET

- when a business is established the details of assets, liabilities and owner's equity are presented in the first balance sheet.

- this becomes a source document as at the date when the owner begins his or her business

T-accounts would need to be opened to record each asset, liabilities and owner's capital account as at the opening balance sheet date.

THE INVOICE

- when a business buys an asset with cash or on credit, the seller completes a bill of sale often called the sales invoice or just the invoice.

The name of the document may vary
 invoice
 sales slip
 sales ticket
 cash register tape

- the buyer will receive the original, which becomes the source document for the transaction

LOGO

INVOICE

DATE 2010/1/1
 INVOICE # #####
 Customer ID ###

[Company Name]
 [Company Slogan]
 [Web Address]

Primary Business Address
 Address 2
 Phone: 555-555-5555
 Fax: 555-555-5555

To:	Ship To:
Name	Name
Title	Title
Primary Address	Primary Address
Address 2	Address 2
Phone: 555-555-5555	Phone: 555-555-5555
Fax: 555-555-5555	Fax: 555-555-5555
E-mail: someone@example.com	E-mail: someone@example.com

Sales Rep.	P.O. Number	Ship Date	Ship Via	FOB	Terms

ITEM #	Description	QTY	Unit Price	Line Total

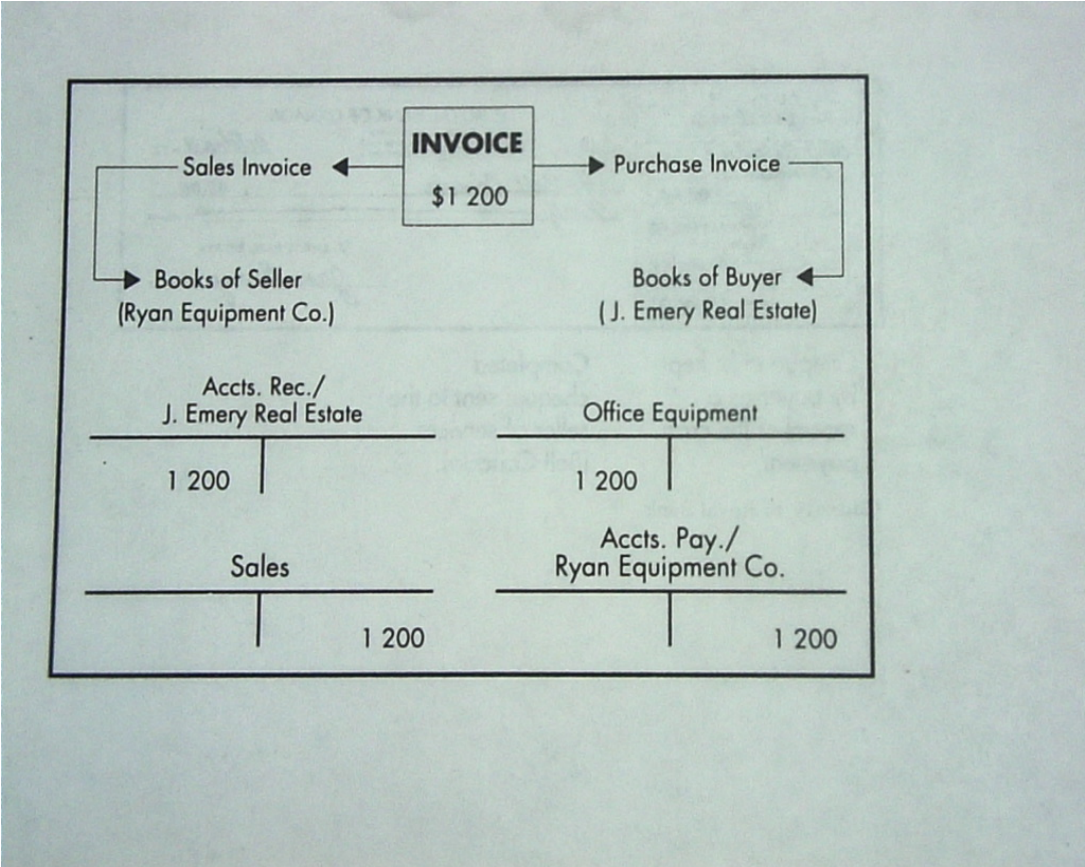
SubTotal:
 Taxes:
 Total:

Make all checks payable to
 [Your Company Name]

THANK YOU FOR YOUR BUSINESS

RYAN EQUIPMENT CO. 379 KING STREET KITCHENER, ONTARIO N2G 1G6		INVOICE No. 04879	
SOLD TO: J. Emery Real Estate Any Street Any Town, Canada		INVOICE DATE: 19-10-03 TERMS: Net, 60 days SHIPPED VIA: Truck	
SHIP TO: Same			
QUANTITY	DESCRIPTION	UNIT PRICE	AMOUNT
2	Electronic Printing Calculators, Model 15X, Serial Numbers 487876 and 787877	\$200.00	\$400.00
1	Electronic Typewriter, Model ACB, Serial Number 878994	800.00	800.00
Total Amount Payable			\$1 200.00

- This is called the **purchase invoice** by the buyer (J. Emery Real Estate), because he/she receives the original for buying the asset.
- The seller retains a copy of the invoice and it becomes the source document for the sales or the **sales invoice** - it is proof that the sale occurred.



Telephone Bill
\$125

Sales Invoice
(Books of Seller - Aliant)

<u>Cash</u>	
Nbr 7	125
<u>Revenue</u>	
	Nov. 7 125

Purchase Invoice
(Books of Buyer - Tree Cutters Ltd.)

<u>Cash</u>	
	Nov. 7. 125
<u>Telephone Expense</u>	
Nov 7.	125

THE CHEQUE RECORD

- used as evidence of each cash payment
- it may take many forms: one is the cheque stub

Date: <u>1 March 2005</u> To: <u>Office Decorators</u> For: <u>Purchase of 1 Desk</u> Balance b/f _____ Deposit _____ Balance _____ This Cheque <u>R 570.00 (incl)</u> Balance c/f _____ <p style="text-align: right;">105</p>	<table border="1"> <tr> <td style="text-align: center;">ABC BANK</td> <td style="text-align: center;"><i>Business Account</i></td> <td style="text-align: right;">600 001</td> </tr> <tr> <td colspan="2" style="text-align: center;">Pay <u>Office Decorators</u></td> <td style="text-align: right;">Date <u>1 March 2005</u></td> </tr> <tr> <td colspan="2"></td> <td style="text-align: right;">or Bearer</td> </tr> <tr> <td colspan="2"></td> <td style="text-align: right; border: 1px solid green;">---570.00</td> </tr> <tr> <td colspan="3">The sum of <u>Five Hundred and Seventy Rands Only</u></td> </tr> <tr> <td colspan="2" style="text-align: right;"><i>[Signature]</i></td> <td></td> </tr> <tr> <td colspan="3" style="text-align: right;">Handyman Hardware Store</td> </tr> <tr> <td>105:</td> <td>600001:1003030031</td> <td>"01</td> </tr> </table>	ABC BANK	<i>Business Account</i>	600 001	Pay <u>Office Decorators</u>		Date <u>1 March 2005</u>			or Bearer			---570.00	The sum of <u>Five Hundred and Seventy Rands Only</u>			<i>[Signature]</i>			Handyman Hardware Store			105:	600001:1003030031	"01
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105:	600001:1003030031	"01																							

↑
Cheque stub: kept by the buyer as a record of payment

↑
Completed cheque: sent to the seller of the services (Office Decorators)

THE ROYAL BANK OF CANADA
 100 KING ST. W. TORONTO, ONT. M5X 1C5
 TEL: (416) 967-8888 FAX: (416) 967-8889
 OCTOBER 11 2016
 Bell Canada
 40.00
 JANE CONRY
 A BENEVOLENT DONOR

Cheque stub: kept by buyer as a record of the cash payment.

Completed cheque: sent to the seller of services (Bell Canada).

Courtesy of Royal Bank

- 2 Documents Proving Cash Payment Occurred
- The main source document is the cheque stub
- The bill marked "paid" becomes a supporting document

Bell

TELEPHONE NUMBER: 705 955 1212 DATE: 08/01/16 AMOUNT DUE: \$0.00 AMOUNT PAID: 40.00

PLEASE DETACH AND RETURN - NO POST STAMPS

2. BENEVOLENT DONOR
1234567 STREET
MONTREAL, QC H3T 1Z4

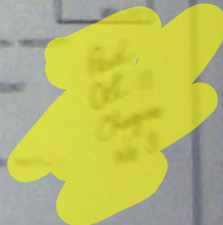
*** ACCOUNT SUMMARY ***

CONTRIBUTION	20.00
DEVELOPMENT MEMBERSHIP	15.00
TAX - FEE	1.75
TAX - FEE	1.25
OTHER CHARGES ON CREDIT	2.00
TAX - FEE	
TAX - FEE	
UNPAID PREVIOUS MONTH	
TAX - FEE	
TAX - FEE	
LATE PAYMENT CHARGE	
STANDARD SERVICE CHARGE	
TOTAL CURRENT CHARGES	40.00
AMOUNT DUE	0.00

PAID - 10/11/16

THE LATE PAYMENT CHARGE RATE IS 18% PER ANNUM (1.5% PER MONTH)

Bell



Courtesy of Bell Canada

Bill: marked "Paid" with cheque number and date.

THE REMITTANCE SLIP

- When a customer pays a debt by cheque, many businesses prepare a business form called the remittance slip. It becomes the source document for the record of the dollar amount received. It may also be called a receipt.

Remittance Slip - a source document proving the receipt of a customer's cheque.

REMITTANCE SLIP

J. EMERY REAL ESTATE Any Street Any Town, Canada	
Name <u>Pat Rogers</u>	Account Copy Payment Receipt No. 001
<u>100 Main Street</u>	Date <u>Nov. 1</u> 19-
<u>Yourtown, Canada</u>	CASH <input type="checkbox"/>
Received Payment on Account.	CHEQUE <input checked="" type="checkbox"/>
Clerk <u>A. B.</u>	MONEY ORDER <input type="checkbox"/>
	Amount Received: <u>\$500.00</u>

This remittance slip would be prepared before the customer's cheque is deposited into to J. Emery Real Estate's bank account.

- this is important because accounting requires evidence that a cheque has been received.
- once prepared the remittance slip becomes the source document for ???

Turn to Page 112 in your text

Summarizes the source documents identified for transactions of J. Emery Real Estate during October.

Topic 1 Problems

P 4-1 - Do together

- a) J. Emery Real Estate (Seller)
- b) Pat Rogers (Buyer)
- c) J. Emery Real Estate
- d) Terms: Net 30 days
- e) Real Estate services
- f) Invoice #'s help identify the source document
- g) 5% of 120000
 $0.05 \times 120000 = \boxed{\$6000}$
- h) Nov 30th
- i) 2% per month will be charged on overdue accounts.
- j) A/R Pat Rogers increases \$6000 (Debit)
 Commissions earned increases \$6000 (Credit)

k)

A/R Pat Rogers	Commissions Earned
Oct 31 6000	Oct 31 6000

- l) Commissions Expense \$6000 (Debit)
 A/P J. Emery Real Estate ↑ \$6000 (Credit)

m)

A/P J. Emery	Commissions Exp.
Oct 31 6000	Oct 31 6000

