

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

5.) deposit 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

INVOICE

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

LOGO

[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

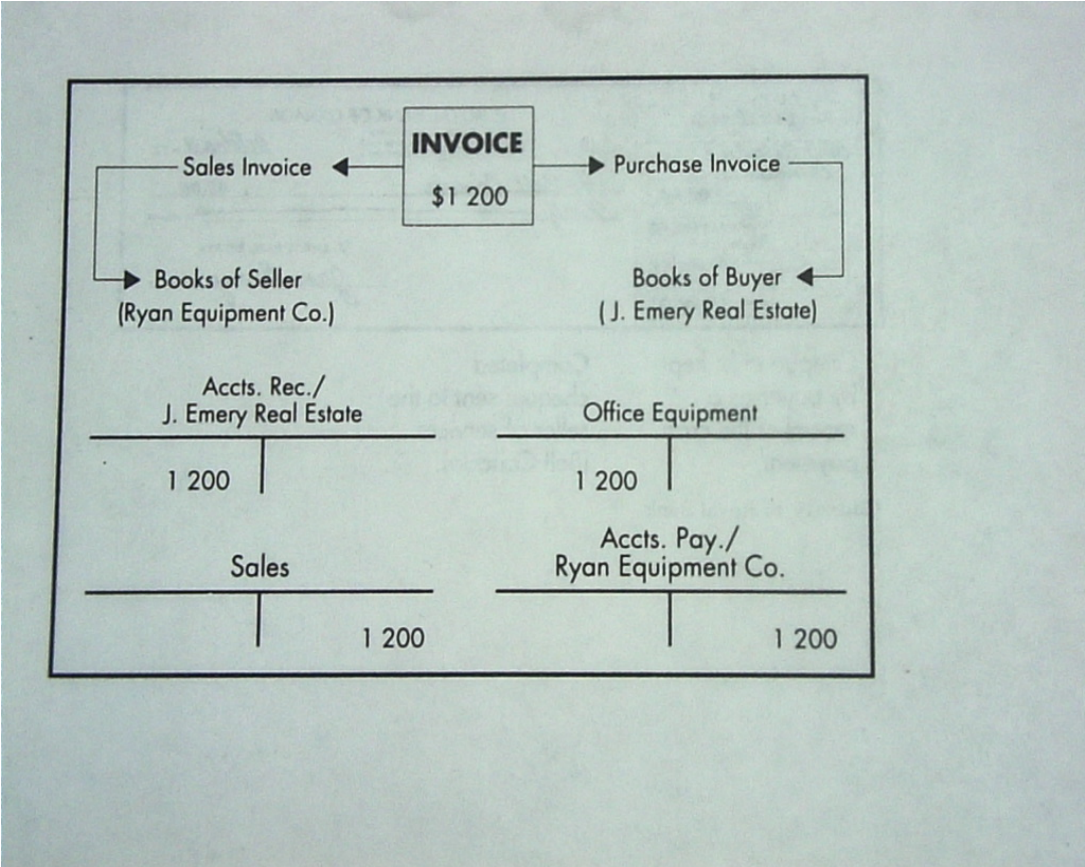
SubTotal:
 Taxes:
 Total:

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>	
Nov 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"></td> <td style="text-align: right;"><i>[Signature]</i></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)

Bell Canada
 THE ROYAL BANK OF CANADA
 October 31, 2017
 Bell Canada
 \$40.00
 Jane Casey

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: 08/01/17 AMOUNT DUE: \$0.00 AMOUNT PAID: 40.00
 J. SHEPHERD ESTATE
 123 MAIN STREET
 WHITBY, ONT. M1A 1A1
 *** ACCOUNT SUMMARY ***
 PREVIOUS BALANCE
 PAYMENTS
 ADJUSTMENTS
 BALANCE FORWARD
 TOTAL CURRENT CHARGES
 AMOUNT DUE

PAID
40.00
10/31/17

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

(4-2)

Date	Transaction	Source Document
May 1	She deposited \$10000 in personal funds into a bank account of the business	Bank Deposit Slip The Opening Balance Sheet
May 2	Bought personal computers from IBM Co. for \$2400	Invoice

DATE	TRANSACTIONS	SOURCE DOCUMENT(S)
May 1	Jennifer Pong deposited \$10 000 of personal funds in a bank account in the name of the new business.	Beginning balance sheet. Copy of bank deposit slip.
May 2	Bought two used IBM XT® personal computers for the office at a total cost of \$2400 from IBM Co. Terms were 30 days' credit.	Purchase invoice from IBM Co.
May 3	Bought one desktop electronic calculator from Monroe Co. for a cost of \$600. Issued a cheque in payment.	Purchase invoice, marked Paid from Monroe Co. Cheque stub.
May 4	She decided that only one of the personal computers was need for the office. Instead of returning one, she agreed to sell it at cost to a friend. The friend, R. Stevens, agreed to pay J. Pong, C.A., \$1200 within 30 days.	A special bill of sale showing the sale of one IBM XT® personal computer, at cost, to R. Stevens with terms of net 30 days.
May 5	Purchased one IBM MODEL 30® personal computer for \$4000. The terms were one-half cash, the balance owing to IBM Co. on 30 days' credit.	Purchase invoice. Cheque stub showing payment of \$2000.

	Co. on 30 days' credit.	
May 8	Bought three more calculators for the office from Monroe Co. at a total cost of \$1800. The terms allowed for 30 days' credit.	Purchase invoice.
May 9	She returned one of the calculators bought on credit on May 8 from Monroe Co. because it was the wrong model. It had cost \$600.	Copy of note (letter) explaining the return of one calculator to Monroe. A note (letter) received from Monroe acknowledging the return.
May 10	She borrowed \$12 000 cash from the bank signing a demand note. This amount was deposited immediately into the business's bank account.	Copy of demand note (or a copy of the loan application showing a demand note). Copy of bank deposit slip.
May 11	She bought a car from Westown Motors for business use. The cost was \$14 000. The terms were 20% in cash and the rest on 30 days' credit.	Purchase invoice. Cheque stub for \$2800.
May 15	She purchased desks, chairs, and tables from Office Specialty Ltd. The total cost was \$6500. Terms given were 30 days' credit.	Purchase invoice.

DATE	TRANSACTIONS	SOURCE DOCUMENT(S)
May 17	One of the desks purchased on May 15 proved to be defective. The owner returned it to Office Specialty Ltd. for a full credit of \$500—the price shown on the bill made out to J. Pong, C.A.	Copy of note (letter) sent with the returned office desk. Note (letter) received from Office Specialty Ltd. acknowledging the return.
May 30	She issued a cheque to IBM Co. for \$2400 in full payment for the PCs bought on May 2.	Cheque stub showing \$2400. Purchase invoice marked "PAID."
May 30	She issued a cheque to Monroe Co. for \$1200 in full settlement of the balance owing to this creditor.	Cheque stub showing \$1200. Purchase invoice marked "PAID."
May 31	R. Stevens paid \$600 cash in part payment of the debt owing to J. Pong, C.A.	Copy of remittance slip. Deposit slip showing \$600 being deposited in the firm's bank account.
May 31	Jennifer purchased accounting and tax books to be used as a professional library in the business. She issued a cheque for \$4000 to C.C.H. Canadian Limited for the total cost of the books.	Cheque stub for \$4000. Purchase invoice marked "PAID."