Books of Original Entry:
1) Sales Day Book - Only Credit Sales
2) Purchases Day Book - Only Credit Purchases
3) Sales Returns Day Book - Only Credit Sales Returns
4) Purchases Returns Day Book - Only Credit Purchases Returns
5) Cash Book:  
   - Cash Sales
   - Cash Purchases
   - Incomes received in cash/cheque
   - Expenses paid in cash/cheque
   - All Receipts & Payments in both Cash/Cheque

6) General Journal:
   - Non-current assets bought & sold on credit
   - Entries for recording Bad Debts, Provision for bad debts, Depreciation, Provision for depreciation,
   - All Rectifying entries & all Opening & Closing entries

⇒ Only names of "Debtors" are written in the Sales Day Book.
⇒ Only names of "Creditors" are written in the Purchases Day Book.

DISCOUNTS

- Trade
  - at the time of transaction
  - Bulk buying
  - not recorded in books

- Cash
  - after a credit transaction
  - to encourage settlement of payment
  - recorded in books
  - Discount Allowed → Discount Received
Liquidity Ratios:

1) **Current Ratio** = \( \frac{Current\ Assets}{Current\ Liabilities} \)  
   [Ideally, 1:1 to 2:1]  
   (Shows whether there are sufficient short-term assets to pay for short-term liabilities)

   → If the ratio is higher than the ideal ratio, then,
     1) ↑ Stock so ↑ Costs and there may be obsolete stock
     2) ↑ Debtors so ↑ Risk of bad debts
     3) ↑ Cash/Bank so the purchasing power is reduced over time due to inflation

2) **Quick Ratio / Acid Test Ratio**:
   \( \frac{Current\ Assets - Inventory}{Current\ Liabilities} \)  
   [Ideally, 0.5:1 to 1:1]

3) **Rate of Stock Turnover**:
   \( \frac{Cost\ of\ goods\ sold}{Average\ stock} \)  
   → Opening Stock + Purchases - Closing Stock
   \( \frac{Opening\ Stock + Closing\ Stock}{2} \)

Efficiency Ratios:

1) **Trade Receivables Collection Period** = \( \frac{Trade\ Receivables}{Credit\ Sales} \) x 365

2) **Trade Payables Collection Period** = \( \frac{Trade\ Payables}{Credit\ Purchases} \) x 365

Profitability Ratios:

1) **Gross Profit Margin** = \( \frac{Gross\ Profit}{Sales} \) x 100

2) **Net Profit Margin** = \( \frac{Net\ Profit}{Sales} \) x 100

3) **Return on Capital Employed** = \( \frac{Net\ Profit}{Capital\ employed} \) x 100

\[ C.E = \frac{Opening\ Capital + Net\ Profit - Drawings + Long-term\ Loans}{Opening\ Capital + Closing\ Capital} \]

\[ C.E = \frac{Opening\ Capital + Closing\ Capital}{2} \]
Cash Book - the book of prime entry for cash & bank transactions & also serves as the ledger account for cash & bank in the general ledger.

Insolvent - A business runs out of cash & is unable to pay its debts.

IMPREST SYSTEM - giving the cashier an agreed & fixed sum of petty cash at the start of each week/month.

Sundry Expenses -
- Small & irregular payments
- Withdrawing cash from Bank for Imprest
- Petty Cash Dr
- Bank Cr

Q. Why have a Petty Cash book?
Used to record small transactions, as they can add up to big amounts.
- Petty Cashier
- Manages Petty Cash
- Authorizes payment of vouchers

Q. Why may a difference b/w the Cash Book & Bank Statement occur?
1) Due to errors & omissions
2) Timing differences that delay recording payments & receipts in the Bank Statement.
Unpresented Cheques - A transaction was recorded in the cash book, but not in the bank statement.

- Paid (amount) cheque to supplier, who still hasn't shown it to its bank.

Uncredited Cheques - recorded on the Debit side of the cash book, but not as credit on the bank statement, because it takes time for payments to be processed.

Bank Reconciliation Statement

<table>
<thead>
<tr>
<th>Balance (from the corrected cash book)</th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Add Unpresented Cheques</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Less Uncredited Cheques</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Balance on the Bank Statement</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

If Dr, then write the amount only.
If Cr, then write it as (xxx), which means it is being subtracted.

Ledger Accounts

- Personal
- Real
- Nominal

1) Personal A/c's = A/c's for credit transactions with Named Customers & Suppliers

- Trade Payables (named suppliers)
- Trade Receivables (named customers)
2) Real A/c’s =
   - Capital A/c’s
     - Capital introduced & withdrawn
     - N.C.A
       - Premises, machinery, cash, bank, vehicles, equipment owned
     - C.A
   - Asset A/c’s
   - Liability A/c’s
     - Current Liabilities
       - (Other payables)

3) Nominal A/c’s =
   - Record expenses & income received
     ↠ They are transferred to the income statement to calculate Profit / Loss at the year end.
   - Ledgers
     - Sales ledger (A/c’s receivable)
     - Purchase ledger (A/c’s payable)
     - General ledger (other payables/receivables, real accounts (Assets, Liabilities & Capital), Nominal A/c’s, Income & Expenditure A/c’s)
**Journal** - (provides a record of transactions in date order)
- N.C.A bought on credit
- N.C.A sold on credit
- Depreciation
- Provision for depreciation
- Bad debts
- Provision for bad debts
- Rectifying entries
- Opening & closing entries
- Transfer to the Income Statement at the year end
- Transfer of goods/assets in settlement of debt

**Benefits**
- Reduces chances of risk & fraud
- Reduces risk of people making fraudulent claims
- Errors discovered later can be easily checked against the source documents
- Work can be divided

**Debit Balance on the Trade Payable A/c may represent:**
- Overpayment
- Prepayment
- Purchases Returns

**Ledger** - a "book" that contains all the different accounts of an organization providing a permanent summary of all the transactions entered in the journals.

**Posting** - the process of transferring journal entries to the ledger.
Purchases - goods bought for cash or on credit from suppliers that the business intends to sell to earn revenue.
- Purchases increase inventory

Sales Returns - increase inventory

Drawings reduce cash available to the business

Q: Why do we prepare Control Accounts?
- to check the arithmetical accuracy
- to calculate Total trade Receivables / Payables
- can be used to locate single-sided errors if the trial balance does not balance
- to identify any fraudulent entries, as balances can reveal errors.

Inter-Ledger Transfers / Offsetting / Contra-entries are recorded in the Purchases & Sales Journal.
- In the Sales/Receivables Ledger Control Account on the Cr side
- In the Purchases / Payable Ledger Control Account on the Dr side

Bank Reconciliation Statement -

Balance as per adjusted cash book
+ Unpresented Cheques
- Uncredited Cheques

* If the balance on the cash book is on the Cr side, then for the value in the BRS, write it as a -ve value (xxx)
* If the cash balance on cash book is on the Dr side, then for the value in the BRS, write it as a +ve xxx
Common Entries:

- **Drawings Dr**
  - **Purchases Cr**

- **Trade Payables Dr**
  - **Discount received Cr**

- **Discount Allowed Dr**
  - **Trade receivables Cr**

- **Bank/Cash Dr**
  - **Capital Cr**

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Provision for Doubtful Debts -

(If they ↑)

- **Income Statement Dr**
  - **Provision for doubtful debts Cr**

(If they ↓)

- **Provision for doubtful debts Dr**
  - **Income Statement Cr**

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Irrecoverable / Bad debts -

Transfer to the Income Statement:

- **Income Statement Dr**
  - **Bad debts Cr**

Writing off a bad debt:

- **Bad debts Dr**
  - **Trade receivables Cr**

Bad debts Recovered -

Transfer to the Income Statement:

- **Bad debts recovered Dr**
  - **Income Statement Cr**

- **Cash/Bank Dr**
  - **Bad debts recovered Cr**
A transaction which increases capital employed without affecting profit:
- Introduction of Capital
- Loan

Loans: security is provided, fixed amount + fixed interest.
Overdrafts: no security is provided, variable amount + variable interest.

Why is the Gross Profit Margin lower than other businesses?
- The sale price is lower than other "B".
- The purchase price is higher.

Trial Balance - it gives a list of all balances of accounts at a specific date.

Income statement is prepared for a period of time.
Statement of Financial Position (Balance Sheet) is prepared at a particular date.

What limits the usefulness of financial statements?
- Historic cost
- Non-monetary factors

Ordinary & Preference shares do not reduce taxable income, and so are recorded in the Profit & Loss Appropriation Account.
Debentures reduce taxable income & so are recorded in the Profit & Loss Account.
In the I/S

- Revenue receipts = rent, received, sales, commission received
- Only the Profit/Loss made on a sale will be shown on the I/S
- Capital receipts for sales of a N.C.A, loan from bank, capital introduced

In the I/S

- Revenue expenditures = money spent on running a B on a day-to-day basis, e.g. selling expenses, salary paid, rent paid, travelling expenses
  - Money spent by a B on buying fixed assets, on improving or extending them
  - Includes all carriage costs, installation costs, legal costs incurred

In B/S as Fixed Assets

- Capital expenditures

Q. Why were Trade receivables not included in the I/S?

→ The MATCHING principle was being applied
→ Receipts might not arise in the same year as the sales were made

If ROCE ↓ it shows that the utilization of resources is not good
- There is poorer control of expenses

How to ↑ ROCE?

↑ Capital employed
↑ Sales
↓ Expenses
↓ Costs of production
Q. Why are 3 divisions of ledgers (Personal, Real & Nominal) maintained?

- Allows work to be divided among the staff
- Accounts of the same type can be kept together, which helps to locate errors

= Bank statement - copy of the customer's account as it appears in the books of the bank.

= Unpresented & Uncredited cheque arises due to timing differences.

Q. What do we use to check for errors in the books of accounts?

- Trial balance
- Bank Reconciliation Statement
- Control Accounts

Q. For limited companies: Why do we transfer to the general reserve?

To indicate that part of the profit is for long-term use & is not available for distribution.