

## **Accounting for the Microbusiness - A Teaching Manual (Peace Corps, 1975, 105 p.)**



**Information**



**Acknowledgement**



**Introduction**



**The system**



***(introduction...)***



**The preliminary interview**



**Lesson # 1**



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**Installation of the system**



**Follow-up visits**



**Month end financial statements**



**Analysis**



**The financial statements**



**Additional controls**



**Odd entries**



**Aids**




























**Accounting interview**











**The object of accounting**



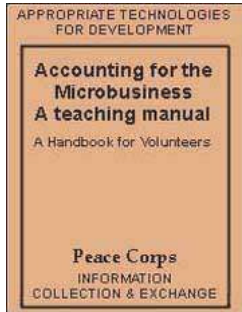
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## Information

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## **ACCOUNTING FOR THE MICRO BUSINESS A TEACHING MANUAL**

**BY**

**Michael W. Ronan**

**Assisted and Edited by**

**Augusto A. Noronha**

**Peace Corps**

**Information Collection and Exchange**

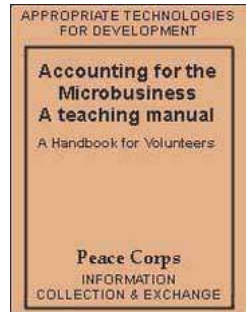
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## **Acknowledgement**

**The following accounting system was developed in the spring and summer of 1975 in the Pereira, Colombia, regional office of the Corporacin Financiera Popular. It is the result of the many Peace Corps Colombia Volunteers who preceeded me, as I have only studied and consolidated the systems and ideas of others who often worked in isolation without the benefit of each others work or host country national support.**

**On this last point, I consider myself very fortunate to have worked with Drs. Alvaro Tribin A. and Guillermo Ramrez Ramrez of the Corporacin Financiera Popular. Their initial faith and continual support have been key in providing the time and flexibility needed to develop, test and promote the system.**

**This particular manual is the second of two efforts. The first, "Contabilidad para la Pequea Empresa: Un Sistema Nuevo " is only available in Spanish and is intended to be a reference and self-learning text for the small businessman. It gives a more detailed approach to understanding and using the accounting system but does not attempt to explain teaching procedure or methodology.**

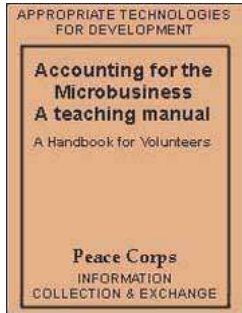
**The idea for this work is that Augusto A. Noronha a Volunteer working for Sena (Servicio Nacional de Aprendizaje) in Manizales, Colombia. I have generally taught small business owners on a one to one basis while Augusto has amplified the approach to successfully meet classroom needs. He noticed the need for a teacher's version and the following text owes much to his personal ideas and organization of the teaching method. I want to specially thank him for his assistance.**

**Other thanks go to Dr. Ramiro Rodas, who assisted Augusto in Manizales; Peter Fraser, the coordinator of the Peace Corps Small Business Program in Colombia; Carmen Luca Montoya and Alba Luca de Ramrez of the Corporacin Financiera Popular, Robert Duncan of Peace Corps/Colombia, and many others.**

**MICHAEL W. RONAN**



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## Introduction

**Here in Colombia as in most parts of the world, we find Northamerica, and Western European textbooks and technologies for all levels of business activity. Because these northern societies have developed comparatively strong economies, it is assumed that**

**lesser developed countries can successfully follow the same path. Unfortunately, experience has shown that aside from large capital intensive industries, the application of western technologies seldom fits very closely. Consequently, it is the thesis of this manual that these technologies should not be merely transplanted but need to be studied, modified and tailored to meet nonclassical circumstances throughout the world.**

**An example of a western technology that has been passed intact, without even considering alteration, is the science of business accounting. One finds all the classical texts (in foreign editions) taught in the commercial high schools, universities, and adult education centers of the third--world. The debit on a particular deferred payment is the same in Pereira, Colombia, as it is in Columbus, Ohio. One must congratulate the accountants of the world for having created one of the few international languages.**

**Unfortunately, this language is difficult to learn well and is seldom applicable in its more complex forms. Does a household industry owner, lets say a carpenter, really have to understand deferred payments to carry an accounting system? What that carpenter needs is a very basic, simple system that he can understand and apply to his own business. Obviously, he has no need for a fine understanding of deferred payments or any other complex transaction that he will never use. The shame is that such a system has never been taught.**

**Sophisticated systems and transactions of the large industries are taught regardless of whether or not they are useful, and students must learn every possible commercial movement known to man. Every accounting course available assumes that its students want to be licenced accountants. There are no courses that address themselves to the limited needs of the household and small industries up to about 10 employees.**

**Accounting is one of many examples of a Western technology thought too sacred to be questioned, altered or modified to meet local needs. Our carpenter friend need spend only**



**a few minutes in an accounting class to realize that what he hears has no relation to his needs. Consequently, the largest industries have accurate accounting while smaller ones have little or none.**

**What has to be developed then is a system of accounting and a method of teaching that are applicable to the situation. We must base accounting upon the particular needs of the small business and the capabilities of its owner. Lets develop something that the owner, his secretary, his wife or one of the children can manage and apply. A basic understanding of our potential students, their needs and capabilities, will guide us to design systems that the student himself can apply without the necessity of taking abstract accounting courses or hiring an expensive accountant. Our goal should be to give the owners and managers of small industries practical systems that they can proudly use to gain an understanding of their own companies and, consequently, manage them better.**

**Who then is this person? Is he always the same? Can we easily characterize him? Of course, every small business owner is distinct but we can make a few generalizations that will help us work more successfully with him. In Colombia the following observations have been made:**

### **Abstract Thinking**

**The great majority of the businessmen who hire between one and ten employees have only a few years of education.... two, three, or maybe four years. Consequently they can read, write, add, subtract, and construct their product.**

**What does this imply? Well, although they have had little education, this does not mean their intelligence is limited. They have not been taught systematic approaches more abstract than those of addition and subtraction and as a consequence have not become very sophisticated thinkers. However, their production processes demonstrate that they can learn logical work systems. What we must attempt to do is develop business systems**

**that are as mechanical as the construction of their product.**

**To do this we must avoid using abstract concepts whenever possible. We must concentrate on teaching a few basic ideas and their practical applications. We must construct mechanical systems that will enable those, who have the desire to learn but not the basic education, to understand ample systems.**

### **Learning Atmosphere**

**Since the majority have no more than three or four years of formal education, we must realize that they are not accustomed to classes or traditional teaching methods. It must be kept in mind that:**

**a) With little experience in group learning, they are sometimes timid, uncomfortable and possibly auspicious. Their attention span may be short and the majority are owner-laborers who cannot spend long periods away from the shop. In this difficult teaching atmosphere it is suggested that classes be kept a minimum in number and short in duration. Two hours should be the maximum. The teaching should also be as personal and creative as possible to hold their attention which will be lost if the lesson plan is not practical and dynamic.**

**b) Due to their short formal education, they tend to read for enjoyment and not to learn. Because of this, written materials should be kept to a minimum and homework exercises avoided unless they pertain directly to their particular businesses. Pictures, drawings and diagrams are preferable to detailed written handouts that they will rarely, if ever, read.**

**c) Without formal education they have had to learn by trial and error and tend to appreciate something only when it is revealed before their eyes. As said earlier, these are "practical" people who want to see how to apply an idea and get immediate results. When an idea is complex and fairly subtle, its chances of successfully being taught are slim**

**because this student demands to immediately know the application of the concept. Because of this, teachers must captivate the student inductively by mixing as much practice with theory as possible and attempt to teach him by the familiar "trial and error" method.**

### **Pride**

**Finally, it must always be kept in mind that the owner of the small business is psychologically very different than an employee. He has faith in himself, wants responsibility, and desires to improve his social-economic status.**

**Unfortunately this difference is seldom taken into account which greatly affects the success of small business assistance projects. We find that a problem lies not in the student but in the heart of the teaching: the attitude of the instructor.**

**The majority of business counselors and instructors that we know always assume the role of a "patron" in front of small business owners. If the Spanish word "patron" is foreign to you, the book I'm Ok, You're Ok demonstrates the point quite well. Instead of having an "adult: adult" relationship where both parties are considered equals, the roles of "adult: child" are assumed. Within the Latin culture this paternalistic attitude is quite natural to both parties, but it defeats the whole point of business assistance.**

**Our goal is to capacitate this person, to give him confidence in himself, and teach him that he can manage his business and use simple business systems without the help a "patron", We want to help liberate him from his feelings of inferiority, not reemphasize them. For this reason, if we give him orders and advice instead of planting ideas and seeds of ideas, we are never going to help him because we have never given him the opportunity to think and gain the confidence that is so necessary in his development.**

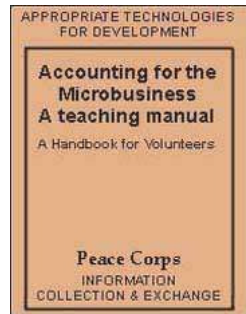
**What have we said then about the small business owner? Well, we have said that he is**

**different We must consider this difference in his level of abstract thinking, learning experience, and particular pride. To be helped, he needs a special treatment which should consist of the following:**

- A. Mechanical Systems that avoid using abstract concepts.**
- B. Instruction by trial and error that is both personal and creative**
- C. Instructors that understand and respect this class of owner.**



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**(introduction...)**



**The preliminary interview**



**Lesson # 1**



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**Installation of the system**



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**Analysis**

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## **The system**

### **MICRON**

**The MICRON accounting system and teaching method have been founded on points "A" and "B" of the introduction. Whenever possible abstract accounting concepts have been simplified and the teaching method streamlined to be as efficient and dynamic as possible. The effectiveness of point "C" (Instructors that understand and respect this class of owner) is, of course, in the hands of you, the instructor. If you are interested and want to teach these people, you will successfully instruct them. If it is a chore you would rather not do, then no system can motivate your students, and it would be best if you worked in something else.**

**MICRON is based upon a few changes in accounting principles that from some professionals often elicit the same response, "That is not right! " These professionals are correct if one considers standard accounting rules a gospel rather than a guide. But, if one looks at the larger aims of accounting - the accurate registration and representation of business transactions - there may be more than one way to gain the same result. MICRON is another "way" and whether or not it meets "standard accounting principles" is besides the point. This system works and it is tailored to meet a specific audience who cannot grasp the complexities of those "standard principles".**

**The primary simplification in this accounting relates to the definition of debits and credits. Here, all debits are "more" of something of value while all credits are "less" of something of value. This is to eliminate the troublesome redefinition of debit and credit on the liabilities side of the balance sheet. The change is made possible by a special organization of the accounts into two distinct groups with two sets of books. This division is between cash and credit transactions.**

**The first group of accounts consists of all cash transactions and is organized into what**

**might be called a large checkbook The second group, consisting of credit transactions, is in a book or books designed much like auxiliary accounts payable and accounts receivable books.**

**The success of MICRON lies in this conceptual and organizational separation of cash and credit transactions. Prototypes to this system attempted to unite the two books into one page and' although it is mechanically possible, the results were not satisfactory It was found that those owners who could not under stand the unified approach could easily use the separated version that distinguishes between cash and credit transactions. Therefore, we urge you not to take a step backwards by using one instead of two books; save yourself the frustration!**

**The teaching method is one based on both individual and class instruction with a very strong emphasis upon a "trial and error" approach to understanding. The procedure is to teach basic ideas and the fundamentals of bookkeeping in a classroom atmosphere and then immediately immerse the owner into the "practice" by opening the company's books. Follow-up visits check the students progress and serve as sessions to further explain theory or particular book entries. As you will see, those owners who have a genuine desire to learn wild quickly assimilate the material.**

**It is felt that this quick assimilation is due to two factors. First, the student is not given time to be bored as he immediately sees and experiences theory changed into action. Secondly, after only 5 lessons the student himself becomes the central participant in a very relevant project his own company This immediate transfer of responsibility from teacher to student creates a sink or swim situation where the owner realizes that his success rests totally upon his own abilities. If the instructor makes periodic visits to help and encourage the student, the student realizes that he has no one to blame but himself for failure. Therefore, the ultimate success of this system rests upon the participation and responsibility of the student. We are only trying to "help him help himself".**

**Our teaching experience has shown that this process can be accomplished in an average of 33 hours instruction time. The following line graph will serve as a guide:**

<b>Hours</b>	<b><u>The Teaching Plan Objectives</u></b>
2	Explanation of the Financial Statements
3	Explanation of: Transactions The System Cash Book
2	Explanation of the Credit Books and the purchase of the Accounting Books
2	Explanation of Auxiliary Sections and Review
3	Opening of the Books, elaboration of the initial Balance Statement, and entering the first transactions.
8	8 follow-up visits
2	Instructions to elaborate Financial Statements
3	Elaboration of the Financial Statements
2	Seminar on Financial Analysis
2	Review and Analysis of Financial Statements
2	Review transactions during month
2	Elaboration and analysis of Financial Statements

**Sessions should never be more than two hours to avoid losing the students attention. If the students cannot grasp a point, divide a lesson into two sessions. Also it is suggested that the classes be held on consecutive days and that the system be immediately installed. This will insure quick movement from the theory to the practice.**

**Before explaining the lesson plan a few other important points must be mentioned ...**

**First, it is imperative that each instructor understand the mechanics of this system perfectly before attempting to teach it.**

**Included in the "Financial Statements" section of this manual are a trial balance, beginning and ending balance sheets, and an income statement for the transactions of "Colombia Industries" during the month of July. During the lesson, if one follows the commercial movements of this company, the evolution of the system from the beginning balance sheet to the elaboration of month end statements will become clear.**

**Other aids to greater proficiency are provided by the sections entitled "Additional Controls" and "Odd Entries". However' it is assumed that the instructor knows or has had experience in accounting. Many small businesses often conduct transactions that are, to say the least, odd and experience in accounting comes in handy when deciding what to debit and credit. Such rare entries become an intellectual challenge but we have yet to find one that can't be handled In short, be imaginative. MICRON is as effective as its application.**

**Second, it is preferred that the instructor initially teach two or three companies on a personal non-classroom basis to gain mastery of the system and teaching method The benefits of the "trial and error" method of learning can be of use to teachers as well as students. It should also be suggested that the number of students per teacher be kept to manageable levels At month end statement time 4 or 5 companies are a lot.**

**Third, the teacher must remember that his audience has a short attention span. Again, we emphasize as many visual and dynamic teaching techniques as possible. Asking spot questions taking examples from the students' industries reviewing important concepts from new points of view, etc. will make a boring session into an exciting one. A good teacher is an actor ... so let yourself get into it!**



**Fourth, the selection of students should be a careful process. Whether the students be business owners, their wives, children or trusted employees, the first consideration must be desire. Only those who want to learn will learn and you will be wasting both your time and theirs if there isn't this important common denominator, For those of you who work with credit related institutions, it might be noted that those students who are awaiting approval of loans often have shown more desire before receiving the money than after. Consequently, we discourage teaching those awaiting loan approval as their motives might be camouflaged.**

**If during the preliminary interview the person shows desire and has a company that might be judged "ongoing" rather than in a "liquidation" state, the final decision rests upon his intellectual capabilities. Years of education are not necessarily indicative of a person's ability to assimilate new ideas, make rational judgments, and show common sense. This is your value judgment. We urge you not to accept obvious failures for instruction as only ill-will will result.**

**Given the classroom situation, it is best to group those of equal intellectual capabilities. Also if they can be drawn from the same industrial sector or have similar types of business transactions, the teaching process will be easier.**

**Finally, if someone other than the owner is to be bookkeeper, it is very important that the owner also attend classes and learn some accounting. Experience has shown that where the owner knows nothing of the accounting, he often ignores it or may even distrust it.**

**Fifth, it is recommended that a pencil, not a pen be used to make all entries. Students are expected to make errors at first (it is part of the teaching method) and they will probably continue doing so even after the system is mastered ... we are all human. Just because something is written in pen does not make it more correct ... only harder to erase.**

**Now that you have an overview of MICRON and its teaching method, we have organized**

**approach, lesson, and follow-up outlines that can either serve as a step by step reference to class instruction or as a guide to one-on-one teaching. The basic structure of these outlines will be a listing of the objectives teaching or instructional aids and the recommended procedural approach to each session.**

**Included in this manual is a detachable "Teaching and Instructural Aids" section that will prove to be quite helpful. It consists of a chronological sequence of questionnaires visual aids, handouts, and examples that are numbered to conform to the session outlines. They will not only help explain the system to you and your students, but should add an important visual dimension to what is generally a very boring subject to teach,**

**Finally, good lucks You are about to make accounting both relevant and dynamic to an economic sector that desperately needs the help. You should also have a very satisfying experience as those you teach will be most appreciative of your assistance.**

### **The preliminary interview**

#### **THE INTRODUCTORY INTERVIEW**

<b>OBJECTIVES:</b>	a. To establish a working relationship with the owner.
	b. To study his learning potential and knowledge of accounting.
	c. To understand every business transaction that the company makes in order efficiently organize the books.
<b>MATERIAL AIDS:</b>	Aid # 1. The Questionnaire.
<b>PROCEDURE:</b>	
1.	This should be a loose interview session using the questionnaire as a guide. First

2.	It should be conducted in the owner's company so that the teacher can get a first hand idea of the company's operations, review the firm's paperwork and look at any rudimental accounting system that might be in use. In this way the instructor should be able to judge the difficulty or ease that teaching this person may present.
3.	The understanding of all commercial transactions is indispensable. After the interview you should be able to state all the business policies of this company. This will include how postdated checks are issued, received and handled; whether the company incurs expenses or receives income from outside the business; who pays for the transportation of merchandise, etc.
4.	After the interview list all the accounts this company needs to carry and in what manner you ought to organize the books to facilitate entries.
5.	It might be pointed out that the teacher should not attempt to change the company's business practices at this point. He should only figure out how to account for them. During the lesson the concept of the separation of the owners' cash from that of the company will be introduced, Most fundamental business policy changes should be suggested only after the first month's financial statements are compiled. In this manner the instructor can demonstrate with facts how changes may improve the company's condition.

## Lesson # 1

<b>OBJECTIVES:</b>	<b>To explain:</b> a) The reasons for accounting b) Balance Sheet. Profit and Loss Statement, and the Trial Balance.
<b>MATERIAL AIDS:</b>	Bulletin Board Aids: 2, 3, 4, 5, 6, 7, 8 Handout Aids: 3, 6, 8 9
<b>METHODOLOGY:</b>	The following is a detailed outline presenting the oral lesson: 1. <b>Aid 2. What is the object of Accounting? Discussion.</b>

	1.1 "The object of accounting is to <u>collect</u> the transactions, to <u>organize</u> and <u>register</u> them and to <u>present</u> them in a way that facilitates <u>analysis</u> "
	1.2 "The presentation that facilitates analysis takes the form of the Balance Sheet and the Profit and Loss Statements.'
2.	<b>Aid 3. What is the Balance Statement? Discussion</b>
	2.1 "The Balance Statement represents the financial condition of a company in \$ on a particular day. "
	2.2 Explain every account especially cash on hand, inventory, investments, fixed assets, current liabilities and capital. For example: "Investments are funds of the company invested outside the business. "
	2.3 Aids 4, 5. Explain: Assets - Liabilities = Capital. Assets = What the company has Liabilities = What the company owes, Capital = What remains after paying deb or your investment in the company.
3.	<b>Aid 6. What is a Profit and Loss Statement? Discussion.</b>
	3.1 It is the application of costs to sales during a given period of time to determine profitability.
	3.2 Aid 7. Explain each account. Concentrate on Cost of Goods Sold.
4.	<b>Aid 8. What is a Trial Balance?</b>
	4.1 "It is an organizational tool comprised of all the company's accounts taken from both the Balance and Income Statements It is proof that all transactions have been properly recorded.
	4.2 Do not explain it further as it will only confuse the student.
5.	<b>Aid 9. Hand out the "Initiation Sheet".</b>
	5.1 It is the information needed to start an accounting svstem.

**Lesson # 2**

<b>OBJECTIVES:</b>	<b>To explain:</b> a) Transactions b) Paper Work c) Overview of System d) Cash Book e) The gathering of information for initial balance sheet.
<b>MATERIAL AIDS:</b>	Bulletin Board Aids: 2, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19 Handout Aids: 16, 18, 19. NOTE: Cover one classroom wall with Aid 17.
<b>METHODOLOGY:</b>	
1.	<b>Aid 2. The object of accounting is to <u>collect</u> transactions, to <u>organize</u> and <u>register</u> them and to <u>present</u> them in a way that facilitates <u>analysis</u>.</b>
2.	<b>What is a transaction? Discussion.</b>
	2.1 "An interchange of two things of value".
	2.2 Aid 10. In every transaction there is <u>more</u> of one thing and <u>less</u> of another.
	2.3 The <u>more</u> is called <u>Debit</u> . The <u>less</u> is called <u>Credit</u> .
	2.4 Aid 11. The evolution of Debit and Credit.
	2. 41 If I give you two oranges, I have two less (make entry). If you give me two apples, I have two more (entry).
	2.42 If I give you three oranges, I have <u>three</u> less or a " <u>credit</u> ". If you give me three apples, I have <u>three</u> more or a " <u>debit</u> ".

	2.43 If I buy \$100 of raw materials, I enter \$100 as a "credit" to cash and \$100 as a "debit" to raw materials.
	2.44 If I sell \$500 in merchandise, I enter \$500 as a "debit" to cash and \$500 as a "credit" to raw materials.
	2.5 Aid 12. How many types of transactions are there? Discussion.
	2.51 <u>Cash</u> ... where the interchange of two things of value takes place on the same day. Examples.
	2.52 <u>Credit</u> ... where the interchange takes place on two different days. Examples.
3.	<b>Why Paper Work? Discussion</b>
	3.1 Evidence to prevent errors, omissions, and tricks;
	3.2 A record for accounting.
	3.3 Demonstrate a cash voucher (Aid 13), a sales voucher (Aid 14), and a receipt (Aid 15).
4.	<b>Aid 16. Diagram of the System. Explain first two steps.</b>
	<b><u>Cash transactions</u> are entered in the <u>Cash Book</u>.</b>
	<b><u>Credit transactions</u> are entered in the <u>Credit Book</u>.</b>
5.	<b>Aid 17. The Cash Book. this model should be on the wall.</b>
	5.1 Explain the book's three sections: Information, Money, Accounts,
	5.2 Explain each one of the accounts.
	5.3 Aid 18. Handout the "Guide to Account Entries " and use it to explain entries
	5.4 Aid 19 Present this list of transactions one by one saying. "Is this a cash or credit transaction?" Cash. Where do we enter cash transactions?" Cash Book.

	"How?" 5.5 Explain how to "square" the Cash Book page.
	5.51 The total of all debits must equal all the credits
	5.52 Add all columns vertically, then add all debit balances and all credit balances.
	5.53 If not equal, a) check all entries for debits and credits; b) check addition
	5.6 Pass squared account balances on to the next page.
6.	<b>Review list of fixed assets and their values.</b>
7.	<b>Referring to the "Initiation Sheet" request list of all suppliers, clients and creditors with account balances for the next session.</b>
8.	<b>Advise students that they will buy their books at the next session and announce their price.</b>

### Lesson # 3

<b>OBJECTIVES:</b>	To explain Credit Books To sell and distribute account books,
<b>MATERIAL AIDS:</b>	Bulletin Board Aids: 16, 20, 21, 22, 23, 24,
<b>METHODOLOGY:</b>	Distribute work sheets for the Credit Books,
1.	<b>Aid 16. Review the Diagram of the System.</b>
2.	<b>The Credit Books are divided into two groups: <u>Credit Sales</u> and <u>Payments</u> are entered in the <u>Credit Sales Book</u>. <u>Credit Purchases</u> and <u>Payments</u> are entered in the <u>Credit Purchases</u></b>

	<b>Book.</b>
	2.1 Both the Organization and Entries are the same in each book.
	2.11 The Books are divided into Amount, Individual Account' and Summary sections. Explain using Aids 20, 21.
	2.12 Credit Transactions are recorded in all these sections.
	2.2 Handout six worksheets to each student, refer them to the "Guide to Account Entries" and (Aid 22) present the list of examples one by one asking "Is this a cash or credit sale?" Credit. "Where do we enter credit sales?" Credit Sales Book "How?" Pick a student.
	2.3 Aid 23. Repeat the procedure of 2.2 for Credit Purchases examples.
	2.4 Emphasize importance of credit balances asking, "How much does client "x" owe us?" "All clients? "; etc.
3.	<b>Credit Payments - review difference between credit and cash payments.</b>
	3.1 If sale occurs at delivery, advances before and payments after delivery are credit payments.
	3.2 Refer to the "Guide to Accounting Entries", read the examples (Aid 24) one by one and have the students make the entries in their handouts as you do on the bulletin board asking, "Is this a cash or credit transaction?" Cash because we receive money. "Where do we enter cash transactions?" Cash Book. "Does this cash transaction affect a credit account also?" Yes. "Will this transaction affect the summary?" Yes.
	3.3 Advances on contracts teach this part of the "Guide to Accounting Entries"



	only to those who receive advances. Make up examples.	
4.	<b>Distribute and sell accounting books: to prevent mistakes, gain a discount, and secure a supply of materials.</b>	
	4.1 The books are:	
	4.11 The <u>Cash Book</u> : Soft cover accounting notebook with between 12 and 16 "T" accounts.	
	4.12 The <u>Credit Books</u> : Adjustable, 2 screw binding, hardcover accounting books with three columns. An alphabetical index (for individual accounts) and 100 pages are needed in each.	
	4.13 The <u>Account Book</u> : 40 pages softcover accounting notebook with three columns.	
	4.14 Folders: 8 simple cardboard folders to file:	
	Banks Clients Suppliers Creditors	Others Correspondence Financial Statements Taxes
5.	<b>Review the fiat of Clients, suppliers and creditors and their account balances.</b>	

#### Lesson # 4

<b>OBJECTIVES:</b>	a) To explain the auxiliary sections. b) To review bookkeeping procedures in sub-groups. c) To organize their books.
<b>MATERIAL AIDS:</b>	Aids 25, 26, 27, 28
<b>METHODOLOGY:</b>	

1.	<b>"Should we control other accounts like accounts receivables and accounts payables". Discussion</b>
	1.1 Loans to Employees... Have students suggest organization,
	1.11 Aid 25. Individual Account and Summary Sections
	1.12 Aid 26 Read list and make entries in worksheets.
	1.2 Creditors... Have students suggest organization.
	1.21 Individual Account and Summary Sections
	1.22 These may be divided into short and long term individual account and summary sections.
2.	<b>Review "Guide to Account Entries" and "Diagram of System".</b>
	2.1 Stress control accounts: banks, cash on hand! accounts receivable, accounts payable; creditors, loans to employees.
	2.2 Discuss value of Control Accounts.
	2.3 Divide class into subgroups, pass out receipts and vouchers of fictitious transactions ; have them make entries,
	2.31 Have at least as many entries as students.
	2.32 Have a representative from each group make entries on bulletin board - every student must make one entry.
	2.33 Add up debits and credits to check work.
3.	<b>Organization of the Books.... help students.</b>
	3.1 Place Account titles in Cash and Credit Books according to company, Auxiliary Sections are in Credit Books.
	3.2 List fixed assets on the last pages of a Credit Book.
	3.3 Aid 27. Place account headins (all possible to account for future growth) in

	Account Book.
	3.4 Aid 28. Explain how to take an inventory of merchandise. Using last page of Cash Book, list raw materials, products in process and finished goods.
4.	<b>Set the date of system initiation with each student.... they must have all information required by the "Initiation Sheet" at that date.</b>

## Installation of the system

<b>OBJECTIVES:</b>	a) Open the Books b) Make the first day's entries
<b>MATERIAL AIDS:</b>	Aid 9
<b>PROCEDURE:</b>	The first section is for teachers who are instructing students individually The second section resumes the group approach.
1.	<b>The one-on-one approach (Aid 9)</b>
	1.1 Give student "Initiation Sheet"
	1.11 All balances must be from the night before initiation.
	1.12 Inventory is only the <b>value of raw materials</b> . Neither sales price nor invested labor is important.
	1.13 Do not start system without 95% of information Bank balances, Inventory and Cash on Hand are imperative.
	1.2 Teacher buys and organizes books.
	1.21 Organization based on original interview and new information.
	1.22 Place account headings in all books.
2.	<b>The Dav of Initiation - in the companv</b>

	2.1 Fill out Account Book with balances from the Initiation Sheet.
	2.2 Pass balances to a Balance Statement and compute Beginning Capital
	2.21 Pass Beginning Capital balance back to Account Book.
	2.22 If the owner forgets something, the affected account must be changed and the Beginning Capital readjusted.
	2.3 Open the Cash Book.
	2.31 Enter Cash or hand and Bank Account Balances.
	2.32 Check last page inventory section. If not complete, require completion by the next visit.
	2.4 Open the Credit Books
	2.41 Place names and account balances in the respective "individual account" sections of Accounts Receivable, Accounts Payable, Loans to Employees and Creditors.
	2.42 Add up individual account balances and enter the sum in the respective "summary" section. These balances must coincide with those in the Account Books.
	2.43 Check fiat of Fixed Assets. If not complete, require completion by the next visit.
	2.5 Place all papers and documents in their respective folders.
3.	<b>Make first day's entries. Entries are to be made daily.</b>
	3.1 Help owner if needed. Explain questions.
	3.2 Have owner list doubts or omissions for the next visit.
	3.3 Congratulate owner and get a well deserved beer or two!

### Follow-up visits

<b>OBJECTIVES:</b>	<ul style="list-style-type: none"> <li>a) Check Entries</li> <li>b) Explain theoretical or practical misunderstandings</li> <li>c) Check paper flow</li> <li>d) Balance first Cash Book page</li> </ul>
<b>PROCEDURE:</b>	Visit the company as needed. Every other day at first.
1.	<b>Check entries... at first read every one</b>
	<ul style="list-style-type: none"> <li>1.1 If error is found, <ul style="list-style-type: none"> <li>a. Ask why entry was made as it was.</li> <li>b. Repeat theoretical argument behind the omission</li> <li>c. Have him correct error and explain what he has done and why.</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>1.2 Common errors include ... <ul style="list-style-type: none"> <li>a. Entering payments from clients in the sales column,</li> <li>b. Entering payments to suppliers in the raw materials column.</li> <li>c. Addition and subtraction in balances and summaries</li> <li>d. Entering transportation, discount or commission expenses among "general expenses".</li> <li>e. Forgetting to make all three entries on a credit transaction</li> <li>f. Not entering a sale at time of delivery,</li> <li>g. Entering either sales or purchases in the payments columns of the credit books.</li> </ul> </li> </ul> <p>NOTE In the Credit Books the second column is always for payments.</p>
2.	<b>Check Paper Flow</b>
3.	<b>Help Balance the first Cash Bock page ... he should do the rest.</b>

### Month end financial statements

<b>OBJECTIVES:</b>	<ul style="list-style-type: none"> <li>a) To close the books</li> <li>b) Elaborate Financial Statements</li> </ul>
<b>MATERIAL</b>	Handout Aid 20

<b>MATERIAL AIDS:</b>	Handout Aid 29.
<b>PROCEDURE:</b>	The following is not a lesson plan but a detailed explanation of statement elaboration. Two or three days before month end give a short class on this subject. Often students will do better if given a step by step approach: squaring the month, completing the Account Book and, then, elaboration of the Statement. The best students will learn in two months; the rest in 4. If they have not learned by this point, have them drop the Cash Book and only carry the Credit Books for control.
<b>1.</b>	<b>Closing the Books</b>
	1.1 Take a month end inventory using the inventory section of the Cash Book. Pass balances to the Account Book.
	1.2 Square Cash Book on the last day of month. a) This effectively squares the <u>month</u> . b) Leave a margin of knee between months for corrections and omissions. c) Start next month with Bank and Cash on Hand balances.
<b>2.</b>	<b>Account Book</b>
	2.1 Pass all balances from the Cash Book to the appropriate account.
	2.2 Pass the "Amounts" of Credit Sale and Purchases when indicated. a) These amount sections are cleared at month's end. b) Do not merely pass control section balances!
	2.3 Figure account balances: Past Month's Balance + Debit Entries - Credit Entries This Month's Balance

	<p>a) If balances on control accounts to not match those in the Account Book, compare all entries and check all mathematics until the discrepancy is found.</p> <p>b) Group all variable expenses in "Cost of Sales"</p> <p>c) Group all fixed expenses in "Other Expenses"</p>
3.	<b>Trial Balance</b> d) Figure accumulated balances for year end purposes.
	3.1 Pass all account balances by filling in the blanks.
	3.2 Use last month's inventory figure.
	3.3 The sum of Column I must equal Column II
	<p>3.4 If the Trial Balance does not square. . .</p> <p>a) Were all numbers correctly passed?</p> <p>b) Are the mathematical operations in the Account Book correct?</p> <p>c) Were the balances from the squared Cash Book and the Amounts of Credit Sales and Purchases correctly passed?</p> <p>d) Are control account balances and the Account Book squared?</p>
4.	<b>Financial Statement</b>
	<p>4.1 The Profit and Loss Statement</p> <p>a) Pass the appropriate accounts.</p> <p>b) Pass amount of profit or lose to the Account Book ant the Balance Statement.</p>
	<p>4.2 The Balance Statement</p> <p>a) Pass appropriate accounts - this month's inventory and profits also.</p> <p>b) Check accuracy by comparing sum of Capital accounts to Assets minus Liabilities.</p>

## Analysis

<b>OBJECTIVES:</b>	<p>How to</p> <p>a) apply and interpret financial statements</p>
--------------------	--

	<p>b) use other parts of the system for analysts</p> <p>c) use the system as a base for budget and cost analysis</p>
<b>MATERIAL AIDS:</b>	Aids 30, 31, 32
<b>PROCEDURE:</b>	A month or two after the students have completed sets of financial statements, give them a class on the use and application of these statements and the rest of the system.
1.	<b>The Profit and Loss Statement - organized to facilitate marginal utility analysis.</b>
	<p>1.1 Demonstrate the effect of variable costs upon sales revenues.</p> <p>a) Show how "costs of sales" and "cost of goods sold" affect marginal utility</p> <p>b) Labor costs generally, may be treated as a fixed cost. Only treat it as a variable cost when it truly (in accordance with the accounting data, not intuition) shows a marked monthly variance reflected in production changes. To match labor and inventory costs is extremely complicated and we suggest the fixed cost method, Any variance is averaged out over time.</p>
	<p>1.2 Demonstrate how marginal utility must cover fixed costs to have profits</p> <p>a) The salary of the owner (or owners) is included among the fixed costs for psychological reasons.</p> <ul style="list-style-type: none"> <li>- We never want him to see profits unless they are over what he personally takes out of the business.</li> <li>- This way he will treat his personal expenses as a cost and perhaps thinks twice before spending money he knows the company needs.</li> <li>- To convince him he should budget his expenses in a fixed weekly salary and live within it.</li> </ul> <p>b) If sales taxes are paid and do not really have a relationship to sales, they should be treated as a fixed cost.</p>
7	<b>The Balance Sheet</b>

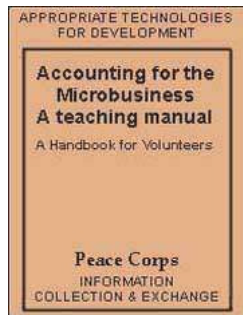


2.	<b>The Balance Sheet</b>
	2.1 Examine the relation between Assets, Liabilities, and Capital and the effect of profit or losses.
	2.2 Explain current assets, current liabilities, and the concept of Working Capital. a) Working Capital is included in our Balance Sheet. b) Show how the purchase of machinery, payment of long term debt, and monthly losses affect Working Capital. Aids 30, 31. c) Explain difference between liquidity and Working Capital.
3.	<b>Other Analytical Aspects of the System.</b>
	3.1 Control of Inventories and Receivables "If the company has Working Capital but no cash on hand, it has probably invested too much in inventories, has a large amount receivables with a slow rotation, or both". a) Explain inventory control and suggest simple ways to construct systems (Aid 32). b) Demonstrate how to speed-up receivables rotation. - the Individual Account Section can serve as a Kardex if payment dates are included in the entries.
	3.2 The Book of Accounts a) The analysis of all monthly accounts and costs shows seasonality as well as changes in costs. b) Facilitates historical analysis.
4.	<b>The Focus of Class Instruction</b>
	4.1 The owner should evaluate his own company as if he were planning to purchase it.
	4.2 Pointing out weak points and strong points the owner should present his analysis to the group for discussion.
	4.3 Create a fictitious company if you the instructor, see that the owners would prefer not to discuss their companies' problems in front of others.

5.	<b>Other Farms of Analysis</b>
	5.1 Cash Flow Systems . . all the information is provided
	5.2 Budgetary Control ... based upon historical cat. and cash flow projections
	5.3 Variable Cost Analysis of Products, a) Isolate monthly Fixed Costs b) Assign monthly variable costs of raw materials and sales costs to each product and compare them to sales figures ... this comparison will show the break-even point for each product. c) The percentage of total sales per product' the sales coat percentage per product and the cost of goods sold percentage per product are all one needs to establish an elementary break-even point and cost analysis Remember that this does not take into account a very important variable.. <u>the time of production!</u> One must take the appropriate time measurements.



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**Information**



**Acknowledgement**



**Introduction**



**The system**



**The financial statements**



**Additional controls**



**Odd entries**



## The financial statements

### To Accompany the System's Entries

1. Beginning Balance Statement
2. Trial Balance
3. Income Statement
4. Ending Balance Statement

### BALANCE STATEMENT

<b>Company: Colombian Industries</b>		<b>Date: June 30</b>	
<u>Assets</u>			
<u>Current</u>			
Cash on hand	250		
Banks	2,500		
Loans to Employees	180		
Receivables	5,600		
Inventory	10, 000		
Short- term investments	- 0 -		
<b>Total Current Assets</b>		<b>18, 530 (a)</b>	
<u>Fixed Assets</u>			
Investments	- 0 -		
<b>Machinery, equipment, tools, etc.</b>	<b>30.000</b>		
			<b>18, 530 (1)</b>

<b>TOTAL ASSETS</b>			<b>48, 550 (1)</b>
<u>Liabilities</u>			
<u>Current</u>			
Accounts Payable	5, 400		
Current Obligations	12,000		
Total Current Liabilities		17,400(b)	
<u>Long Term</u>			
Accumulated Social Benefits	3,100		
Bank Obligations	- 0 -		
Finance Obligations	20,000		
Others	- 0 -		
<b>TOTAL LIABILITIES</b>			<b>40, 500 (2)</b>
<u>Capital</u>			
Beginning Capital	8,030		
Profit/Loss previous years			
Profit/Loss this year (P&L)			
<b>TOTAL CAPITAL</b>			<b>8,030 (3)</b>
Working Capital		1,130 (c)	
	<b>1 - 2 = 3 = CAPITAL</b>		
	<b>a - b = c = WORKING CAPITAL</b>		

**TRIAL BALANCE**

<b>Company: Colombian Industries</b>		<b>Date: Julv 31</b>	
--------------------------------------	--	----------------------	--

	<b>COLUMN I</b>		<b>COLUMN II</b>
Cash on hand	290		
Banks	833		
Loans to Employees	110		
Receivables	19,600		
Inventory (previous month)	10,000		
Investments	- 0 -		
Fixed Assets	30,000		
Depreciation			- 0 -
Accounts payable			15,783
Current Obligations			12,000
Accumulated Social Benefits			3,100
Bank Obligations			- 0 -
Finance Obligations			19,000
Other Obligations			- 0 -
Beginning Capital			8,030
Profit/Loss previous years	(Lose)		(Profit)
Profit/Loss this year	(Lose)		(Profit)
Sales			30,000
Coat of Sales	- 0 -		
Purchases of Raw materials	16,000		
Labor Benefits	3,800		

Social Benefits	447		
Personal Expenses	4,700		
Other Expenses	1,800		
Interest	333		
Other Revenue or Expenses	- 0 -		
TOTALS (Must be equal)	87,913		87,913

## PROFIT AND LOSS STATEMENT

<b>Company: Colombian Industries</b>		<b>Period: 1 - 31 of July</b>	
<u>SALES</u>			30 000
Less Coat of Sales			- - 0 -
<u>NET SALES</u>			30, 000 (1)
<u>Coat of Goods Sold</u>			
Initial Inventory	10, 000		
Plus: Purchases of Raw materials	+ 16,000		
Subtotal	26, 000		
Less: Final Inventory	- 6,000		
Cost of Goods Sold	20,000		- 20,000(2)
+Marginal Utility [(1)-(2)]			10, 000(3)
<u>Other Revenues &amp; Expenses</u>			
Labor	3, 8 00		
Social Benefits	447		
Personal Expenses	4. 700		
Other Expenses	1 800		

Costs Expenses	1,000		
Interest	333		
Other Revenue or expenses	- 0 -		
Total Costs	11,080		- 11,080 (4)
++Profit			== == =
+++Loss			(1,080)
+ Net Sales less Coat of Goods Sold			
(1) - (2) = Marginal Utility (3)			
++ If marginal utility is greater than expenses			
(3) - (4) = Profit			
+++ If marginal utility is less than expenses			
(4) - (3) = Loss			

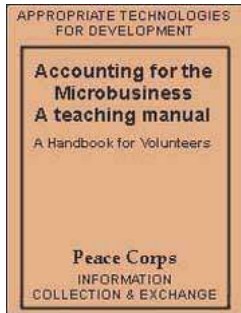
## BALANCE SHEET

<b>Company: Colombian Industries</b>		<b>Date: July 31</b>	
<u>Assets</u>			
<u>Current</u>			
Cash on hand	290		
Banks	833		
Loans to employees	110		
Receivables	19, 600		
Inventory	6,000		
Short-term investments	- 0 -		

Total Current Assets		26,833 (a)	
<u>Fixed Assets</u>			
Investments	- 0 -		
Machinery, equipment, tools, etc.	30,000		
<b>TOTAL ASSETS</b>			56,833(1)
<u>Liabilities</u>			
<u>Current</u>			
Accounts Payable	15,783		
Current Obligations	12,000		
Total Current Liabilities		27,783(b)	
<u>Long Term</u>			
Accumulated Social Benefits	3,100		
Bank Obligations	- 0 -		
Finance Obligations	19,000		
Others	- 0 -		
<b>TOTAL LIABILITIES</b>			49,883 (2)
<u>Capital</u>			
Beginning Capital	8,030		
Profit/Loss previous years			
Profit/Loss this year (P&L).	(1,080)		
<b>TOTAL CAPITAL</b>			6,950(3)
Working Capital		(950) (c)	
	<b>1 - 2 = 3 = CAPITAL</b>		



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**Aids**

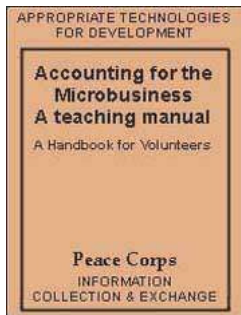
### Additional controls

<b>OBJECTIVES:</b>	By example show how auxiliary systems must meet particular needs.
<b>MATERIAL AIDS:</b>	Aids 32, 33, 34.
<b>PROCEDURE:</b>	The following are three simple control systems. We urge all instructors to create similar ones to meet the auxiliary control problems of the Micro Industry,
1.	<b>Inventory Control - For the owner who wants to:</b> a) Study individual product movement

	b) Have a "Cost of Goods Sold" for each product c) Check against robbery
	d) Control the amount of inventories. 1.1 Aid 32. This simple entry and withdrawal system must be applied to raw materials, work in process, finished goods, or all three.
	1.2 It is as good as the people who make the entries.
2.	<b>Aid 33. Postdated Check Control System</b>
	2.1 This simple system is only applicable if the company has too many checks to remember.
	2.2 It should indirectly create cash flow planning.
3.	<b>Aid 34. Use an Auxiliary Cash on Hand Book for the company with a lot of cash transactions.</b> Make summary entries into the CASH Book at end of day.



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## Aids

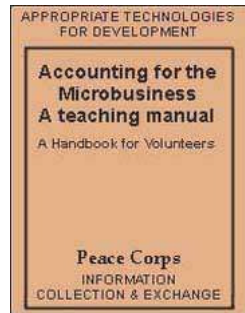
### Odd entries

<b>OBJECTIVES:</b>	To stimulate creativity in the application of entries and accounts when applying odd transactions.
<b>MATERIAL AIDS:</b>	Aids 35, 36.
<b>PROCEDURE:</b>	
1.	<b>Dividing Profits among more than one owner.</b>
	1.1 If owners take cash from the company on a monthly basis, expense the amounts from profits. Instead of "Personal Expenses" an account called "Owners Expenses" would be used.
	1.2 If owners reinvest their profits, a liability account for "owners profit" should be opened. This might include an individual account and summary control section. The entries would be a debit to "Owners Expenses" and a credit to the "Owners Profits" account. No cash is interchanged.
2.	<b>Passing postdated checks from clients to suppliers.</b>
	2.1 Credit "Payments from Clients" Column and debit "Payments to Suppliers" Column. Then make similar entries in the Individual Account and Summary sections of the Credit Books.
	2.2 Again, no cash is passed.
3.	<b>Aid 35. Paying Workers or Creditors with product instead of cash.</b>
4.	<b>Aid 36. Another auxiliary method to organize accounts receivable when clients make payments in advance.</b>
	4.1 To be used only when student cannot master traditional approach.

	4.2 Offers individual client control without a summary.
	4.21 Individual section for those who have advanced money.
	4.22 Individual section for those who owe money.
	4.23 Must add up individuals debts at end of month.
	4.3 Must organize Account Book accordingly.
	4.31 Those who advance become liabilities listed among accounts payable.
	4.32 The list of debtors is the accounts receivable












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**Aids**

-  **Accounting interview**
-  **The object of accounting**
-  **Balance statement**
-  **Assets = Capital**
-  **Assets - Liabilities = Capital**
-  **Profit and loss statement**
-  **Cost of goods sold**
-  **Trial balance**
-  **Initiation sheet**

-  **Definition of debit and credit**
-  **The evolution of debit and credit**
-  **Transactions**
-  **Cash voucher**
-  **Sales voucher**
-  **Receipt**
-  **Diagram of the system**
-  **Cash book**
-  **Guide to accounting entries**
-  **Cash transactions**
-  **Credit sales book**
-  **Credit purchases book**
-  **Credit sales**
-  **Credit purchases**
-  **Payments**
-  **Loans to employees section**
-  **Loans to employees list**
-  **Book of accounts: Title of account pages**
-  **Monthly inventory listing**
-  **Guide to financial statement elaboration**
-  **Uninterrupted working capital flow**
-  **Interrupted working capital flow**
-  **Inventory control - page examples**
-  **Control of postdated checks**
-  **Auxiliary cash on hand sheet**



**Credit payments with merchandise**  
**Alternative Acc/Rec section**

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**Aids**

**Accounting interview**

**Company\_\_\_\_\_**

**Owner\_\_\_\_\_**

**Address\_\_\_\_\_**

**Telephone\_\_\_\_\_**

**1. How did you start your business?**

**a. How many years ago**

**b. What previous experience had you had?**

**c. With how much capital did you begin?**

**d. What factors have had positive and negative effects upon your business?**

**2. Accounting**

**a. Have you paid an accountant in the past? How much?**

**b. What books, files, or account lists do you use?**

**c. What paper work do you use (receipts, vouchers, etc. )?**

**d. Do you save receipts, vouchers, orders, etc.?**

**3. I am interested in knowing the financial state and business policies of your company to have an idea of its condition and manner of doing business.**

**a. Where do you have your bank account? More than one?**

**- How much money is there in the account at this moment?**

**- Have you borrowed money from this bank?**

**b. Is there a petty cash system?**

**- Who controls it? How much cash is kept on hand?**

**- Do you use personal cash for expenses?**

**c. Is there a savings account? Where?**

**- How much do you have saved?**

**Do you take funds out of the account? Why?**

**Amount of annual interest?**

**d. Clients - Receivables**

**- How many firm clients do you have?**

**- Where are they located?**

**- Who pays transportation costs?**

**- Credit terms?**

**- What percentage of sales are credit sales?**

**- Discounts?**

**- Payment period?**

**How does this compare to the industry?**

**- Do you receive postdated checks?**

**- What do you do with these checks?**

**- Wait till due- date?**

**- Pay supplier?**

**- Sell them to broker? Rate of Commission**

**- Do you receive orders?**

- **Is money advanced?**
- **What percentage?**
- **Are orders met on time?**
  
- **Are there sporadic clients?**
  
- **all locals or from farther away also?**
- **Orders?**
- **Postdated checks?**
  
- **Is there production without firm orders?**
  
- **Why?**
- **What percentage?**
  
- **Are the orders in small or large quantities?**
- **Do you have salesmen?**
  
- **Commission policy?**
- **Base wage?**
- **Travel expenses?**
- **Percentage of all sales due to salesmen?**
  
- e. Do you loan money to friends?**
- **How much?**
- **For how long?**
- **At what interest rate?**
  
- f. How many employees are there?**
- **When are they paid?**



- **What social benefits do they receive?**
- **Is there much turnover?**
- **More than one shift?**
- **What are their hours? Overtime?**
- **Paid by the hour or contract?**
- **Do you loan them money?**
  
- **Often?**
- **Are these loans reduced from their salary?**

**g. Do you have investments?**

- **Stocks, bonds, certificates, etc..?**
- **Parts of other business?**

**h. Fixed Assets**

- **What machines are there? Value?**
- **Tools? Value?**
- **Plant**
  
- **Mortgage? Monthly payment?**
- **Rented or loaned? Monthly payment?**
  
- **Do you have a house car, farm, motorbike, etc.?**

**i. Suppliers**

- **Have you firm suppliers? How many?**
- **Where?**
- **Who pays transportation?**
- **Credit terms? Limit?**
- **Do you pay them with postdated checks?**

**- Are there sporadic suppliers?**

**- can you obtain credit?**

**- What percentage of purchases?**

**- What materials do you purchase? % of total?**

**- Which are scarce?**

**- Which have risen dramatically in purchase cost?**

**j. Do you have bank loans? More than one?**

**- Name of Bank**

**- Amount?**

**k. Other financial obligations?**

**- Finance Companies? Amount? Term?**

**- Private loan? Amount? Term?**

**l. Are there reserves to pay social benefits?**

**- How much do you owe your workers?**

**m. Sales**

**- Which months have more sales?**

**- The least sales?**

**- Your monthly average? Can you immediately increase your selling price to meet rises in purchasing costs?**

**- Why not?**

**n. Personal expenses?**

**- Do you have a salary?**

- **How much do you spend per week? Month?**

**o. Are there income or expenses outside of your normal business?**

- **What kind?**

- **How much per month?**

**The object of accounting**

**THE OBJECT OF ACCOUNTING IS:**

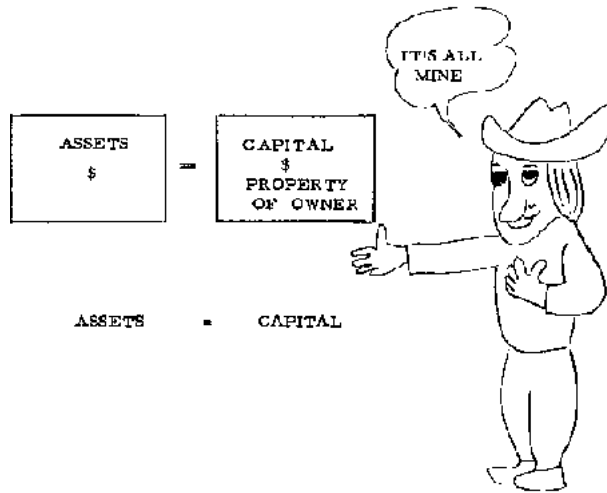
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**Balance statement**

<b>Company:</b>		<b>Date:</b>	
<u>Assets</u>			
<u>Current</u>			
Cash on hand			
Banks			
Loans to employees			
Receivables			
Inventory			
Short-term investments			
Total Current Assets		____ (a)	
<u>Fixed Assets</u>			
Investments			
Machinery, equipment, tools, etc.			

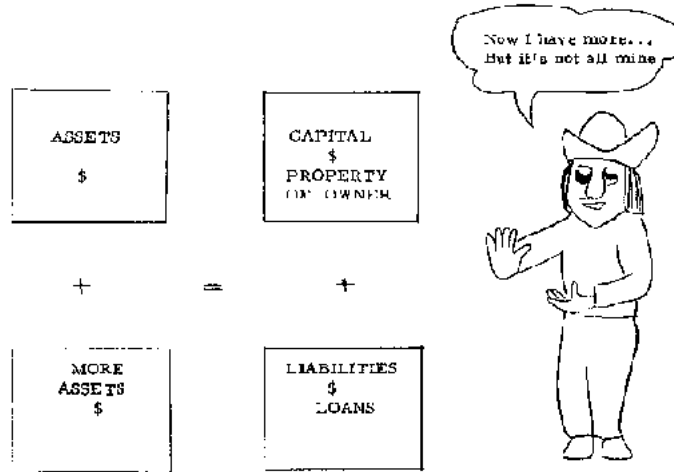
<b>TOTAL ASSETS</b>			____(1)
<u>Liabilities</u>			
<u>Current</u>			
Accounts Payable			
Current Obligations			
Total Current Liabilities		____(b)	
<u>Long Term</u>			
Accumulated Social Benefits			
Bank Obligations			
Finance Obligations			
Others			
<b>TOTAL LIABILITIES</b>			____(2)
<u>Capital</u>			
Beginning Capital			
Profit/Loss from previous years			
Profit/Loss this year (see P&L Statement)			
<b>TOTAL CAPITAL</b>			____(3)
Working Capital		____(c)	
	$1 - 2 = 3 = \text{CAPITAL}$		
	$a - b = c = \text{WORKING CAPITAL}$		

**Assets = Capital**



**THE COMPANY WITHOUT DEBT**

**Assets - Liabilities = Capital**



**THE COMPANY WITH DEBT**

**Profit and loss statement**

<b>Company:</b>		<b>Period:</b>	
<u>SALES</u>			
Less Coat of Sales			
<b>NET SALES</b>			(1)
<u>Cost of Goods Sold</u>			
Beginning Inventory			
Plus: purchases of materials	+		
<b>Subtotal</b>			
Less: Endina inventory	-		

Cost of Goods Sold		____(2)
+ Marginal Utility ( 1 - 2 )		____(3)
Other Revenues & Expenses		
Labor		
Social Benefits		
Personal Expenses		
Other Expenses		
Interest		
Other Revenues or expenses		
Total Costs		____(4)
++Profit		= = = = =
+++Lose		= = = = =
+ Net Sales less Cost-of Goods Sold		
(1) - (2) = Marginal Utility (3)		
++ If marginal utility is greater than expenses		
(3) - (4) = Profit		
+++ If marginal utility is less than expenses		
(4) - ( 3 ) = Loss		

### Cost of goods sold

Inventory - June 1, 1976	= 60 oranges	= \$30
Plus: Purchases during the month	= +100 oranges	= \$ 50

Available during the month	= 160 oranges	= \$80
Inventory - June 30, 1976	= - 30 oranges	= - \$15
Cost of oranges sold in the month	= 130 oranges	= \$65

### Trial balance

<b>Company:</b>		<b>Date</b>	
	<b>COLUMN I</b>		<b>COLUMN II</b>
Cash on Hand			
Banks			
Loans to employees			
Receivables			
Inventory (previous month)			
Investments			
Fixed Assets			
Depreciation			
Accounts payable			
Current Obligations			
Accumulated Social Benefits			
Bank Obligations			
Financial Obligations			
Others			
Beginning Capital			



Profit/Loss from previous years	( Loss)		(Profit)
Profit/Loss this year	(Loss)		(Profit)
Sales			
Cost of Sales			
Raw Materials Purchases			
Labor			
Social Benefits			
Personal expenses			
Other expenses			
Interest			
Other revenue or expenses			
TOTAL (Must be equal)	= = = = =		= = = = =

### Initiation sheet

**To start the accounting system in your company, you have to obtain the following information:**

- 1. All clients and their outstanding debt.**
- 2. All suppliers and the outstanding debt.**
- 3. All creditors and their payment schedules**
  - a. Banks**
  - b. Finance Corporations**
  - c. Individuals**

4. All fixed assets and their value.
5. Employees and any loans outstanding.
6. Starting date of work for each employee.

Also ...

1. The last bank statement and the outstanding balance at system's initiation.
2. All pending receipts, vouchers, orders, etc.
3. An inventory at the value of raw materials (not labor) in:
  - a. Raw materials
  - b. Products in process
  - c. Finished Products

**Definition of debit and credit**

**A Transaction is an interchange of two things of value.**

**There is more of one thing while there is less of another.**

**MORE (+) is a DEBIT**

**LESS (-) is a CREDIT**

**The evolution of debit and credit**

APPLES	
More (+)	Less (-)

APPLES	
Debit (+)	Credit (-)

CASH ON HAND	
Debit	Credit

ORANGES	
More (+)	Less (-)

ORANGES	
Debit (+)	Credit (-)

RAW MATERIAL	SALES
Debit	Credit

## Transactions

### THERE ARE TWO TYPES OF TRANSACTIONS:

---

#### Cash voucher

No. <u>8</u>	Value \$ <u>50.00</u>
	Date: <u>November 6, 1975</u>
To the favor of	<u>Richard Goldstein</u>
For the sum of	<u>Fifty dollars</u>

For the sum of	<u>Fifty dollars</u>
To purchase	<u>Thread</u>
	<u>Mike Mullally</u>

**Sales voucher**

Voucher No. <u>17</u>	Date: <u>June 30, 1975</u>
Mr. <u>David Rosson</u>	
Address	<u>62 Walbridge Road</u>
Payment Terms	<u>50% down/the balance in 60 days</u>

No.	Units	Article	Unit Value	Total
1	6	Boys Shirts Ref. 3212	1. 00	\$ 6. 00
2	12	Boys Shirts Ref. 2406	1.00	12. 00
		Total		\$18. 00

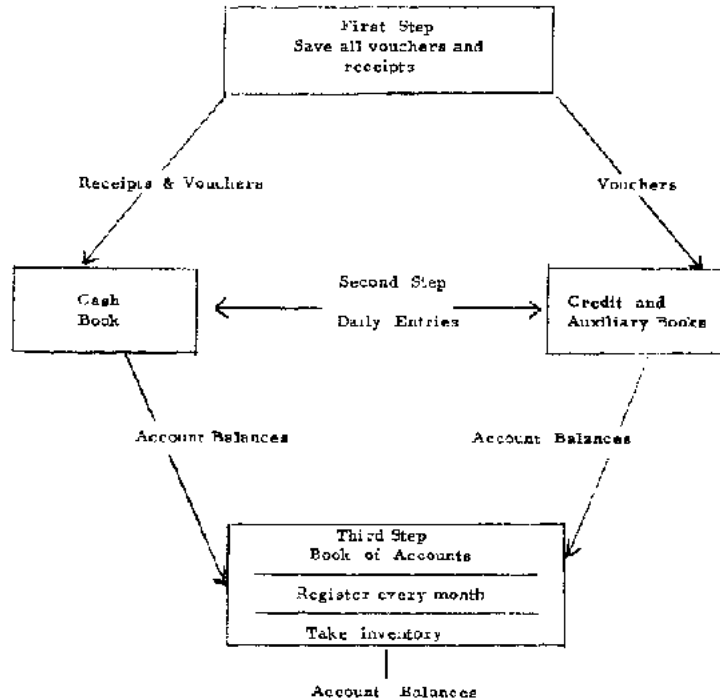
Paid <u>\$9. 00</u>	Balance	<u>\$9. 00</u>
Check x	Cash	
		Salesman <u>Leslie Dow</u>

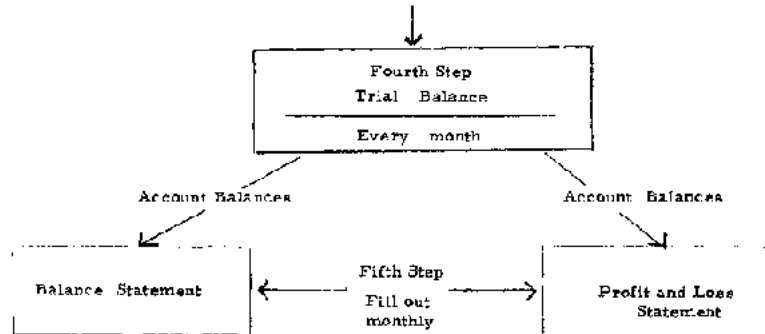
**Receipt**

		No. <u>0015</u>
<b>NATIONAL FURNITURE</b>		
City:	<u>Richmond</u>	
Received from	<u>Robert Moeller</u>	

The sum of	Two hundred dollars	
Purpose	Round livingroom table	
Paid \$200. 00		Balance \$100. 00
Check	Cash X	Sup. Roy Cramer

### Diagram of the system





**Diagram of the system**

### Cash book

					Bank			Cash on Hano		
	Date	Description		# of Check	Debit Deposits	Credit Withdrawls	Balance	Debit Deposits	Credit Withdrawls	Balance
1	June 30	Initial Balancis					2500			350
2	July 1	Payment from Bob's Shop	Paca # 100					1000		1350
3	July 1	Purchase of Glue and Nails	Voulnic # 864	198612		500	2000			
4	July	Rent	Rec #	198613		1800	200			

5	July 1	Payment Cash Sale	374 Voucher # 200					300		1550
6	July 1	Deposit from Cash on Nand	Rec # 18345		1300		1500		1300	250
7	July 2	Loans to Employees	Voucdir # 76						60	190
8	July 2	Payment from fashion first	Rec # 101		2500		4000			
9	July 2	Payment to Stan's Hardware	Rec # 098	198614		2000	2000			
10	July 3	Labor Costs	Vouchee # 77	198615		600	1400			
11	July 3	Social Security Payments		198616		467	933			
12	July 5	Payment from the local Store	Rec # 103		8500		9433			
13	July 5	Payment to Zappa and Sons	Rec # 0278	198617		1117	8316			
14					12300	6484		1300	1360	
15										

16										
17										
18										
19										
20										
21										
22										
23										
24										
25										
26										
27										
28	July 31	Final Balances at months end			17800	19467	833	1900	1860	290
29										
30										
31										
32										
33										
34										



35										
36										
37										
38										
39										
40										
41										
42										
43										

	The Debit Accounts									The C
	Raw Materials	Payments to Suppliers	Loans to Employees	Labor Costs	Social Benefit Costs	General Costs	Personal Expenses	Interest Payments	Liquidation of DEBT	Fixed Asset
1										
2										
3	300									
4						1800				
5										
6										
7			60							
8										
9		2000								

9		2000								
10				750						
11					467					
12										
13		1117								
14	5000	3117	60	750	467	1800				
15	3117									
16	60									
17	750									
18	467									
19	1800									
20	1300	Cash on Hand Deposits								
21	12300	Bank Deposits								
22	20294	Total Debits								
23										
24										
25										
26										
27										
28	2500	3117	60	3800	467	1800	4700	333	1000	
29	3117									
30	60									

31	3800									
32	467									
33	1800									
34	4700									
35	333									
36	1000									
37	1900	Cash on Hand Deposits								
38	17800	Bank Deposits								
39	37477	Total Debits								
40										
41										
42										
43										

### Guide to accounting entries

- 1. Save all receipts, vouchers, orders, etc. together by date with a paper clip.**
- 2. Every transaction must have paper work as evidence.**
- 3. In each transaction debits equal credits.**
- 4. Always write entries from left to right.**

**5. Sales are entered at the date of delivery.**

**6. Cash transactions are entered in the Cash Book.**

**7. Credit transactions are registered in one of the two credit books: Sales or Purchases.**

**a. In the Amount Section**

**b. In the Individual Account Section.**

**c. In the Summary Section.**

**8. Advances (money received before delivery of merchandise) and payments (money received after merchandise delivery) are registered:**

**a. In the Cash Book.**

**b. In one of the credit books: Sales or Purchases.**

**1) In the Individual Account Section**

**2) In the Summary Section.**

**9. After entering the transaction, file the paper work.**

### **Cash transactions**

July 1	Payment from Bob's Shop Receipt # 100 - \$1,000
July 1	Purchase of glue and nails for \$500 Paid with check # 198612 Voucher # 864
July 1	Paid rent with check # 198613 of \$1,800. Receipt # 374

July 1	Cash sale of \$300, 00 Voucher # 200
July 1	Deposited \$1,300 in the bank. Receipt # 18345
July 2	Loans to employees Cash voucher # 76 for \$60
July 2	Received a payment from Fashion First of \$2, 500 that was deposited in the bank. Receipt # 101
July 2	Payment to Stan's Hardware, \$2,000, with check #198614. Receipt #098
July 3	Labor costs of \$750 discounted to \$600 with check #198615 due to loan payments of \$130 and Social Security payments of \$20. Voucher # 77
July 3	Paid Social Security \$467. 00 with check # 198616.
July 5	Payment from The Ideal Store. Receipt # 103. \$8,500 that was deposited in the Bank.
July 5	Paid to Zappa and Sons with check # 198617 for \$ 1,117. Receipt # 0278.

### Credit sales book

**NOTE: Reproduce without numbers for the lesson.**

### Amount Section

Date	Description	Voucher	Sale	Returns	Balance
------	-------------	---------	------	---------	---------

7	2	Ideal Store	011	9, 000		9, 000
7	3	Fashion First	3,000	12,000		
7	4	Bob's Shop	013	14, 000		26, 000

### **Individual Account Section**

#### **THE IDEAL STORE**

Date	Description	Voucher	Sale	Returns	Balance
6 30	Initial Balance				- 0 -
7 2	Sale	011	9, 000		9, 000
7 5	Payment	103		8, 500	500

#### **FASHION FIRST**

Date	Description	Voucher	Sale	Returns	Balance
6 30	Initial Balance				3,500
7 2	Payment	101		2, 500	1, 000
7 3	Sale	012	3, 000		4, 000

#### **BOB'S SHOP**

Date	Description	Voucher	Sale	Returns	Balance
6 30	Initial Balance				2,100
7 1	Payment	100		1, 000	1,100
7 3	Sale	013	14.000		15. 100

**Summary of Accounts Receivable**

Date	Client	Voucher	Sales	Payment	Balance
6 30	Initial Balance				5, 600
7 1	Bob's Shop	100		1,000	4, 600
7 2	Ideal Store	011	9,000		13, 600
7 2	Fashion First	101		2, 500	11, 100
7 3	Fashion First	012	3,000		14, 100
7 3	Bob's Shop	0 1 3	14, 000		28, 100
7 5	Ideal Store	103		8, 500	19, 600

**Credit purchases book**

**NOTE: Reproduce without numbers for the lesson,**

**Amount Section**

Date	Supplier	Voucher	Purchases	Returns	Balance
7 1	Zappa & Sons	0161	5,700		5 700
7 2	Stan's Hardware	038	7,800		13,500

**Individual Account Section****STAN'S HARDWARE**

Date	Supplier	Voucher	Purchases	Payment	Balance
------	----------	---------	-----------	---------	---------

Date	Supplier	Voucher	Purchases	Payment	Balance
6 30	Initial Balance				2,000
7 2	Payment	098		2,000	
7 2	Purchase	038	7,800		7,800

### ZAPPA & SONS

Date	Supplier	Voucher	Purchases	Payment	Balance
6 30	Initial Balance				3,400
7 1	Purchase	0161	5,700		9,100
7 5	Payment	0278		1,117	7,983

### Summary of Accounts Payable

Date	Supplier	Voucher	Purchases	Payment	Balance
6 30	Initial Balance				5,400
7 1	Zappa & Sons	0161	5 700		11,100
7 2	Stan's Hardware	098		2,000	100
7 2	Stan's Hardware	038	7,800		16,900
7 5	Zappa & Sons	0278		1,117	15,783

### Credit sales

July 2	Sold to the Ideal Store \$9,000 credit - Voucher 011
July 3	Credit Sale to Fashion First \$3,000.



July 3	<del>Voucher 012</del> Sold Bob's Shop with Voucher # 013, \$14,000 with a term of 12 months.
--------	--

### Credit purchases

July 1	Bought from Zappa & Sons with Voucher # 0161, \$5, 700 in raw materials,
July 2	Purchase of raw materials from Stan's Hardware - \$7,800 - Voucher # 038 with a term of 3 months.

### Payments

July 1	Payment from Bob's Shop - Receipt # 100 for \$1,000.
July 2	Received payment from Fashion First for \$2, 500 that was deposited in the Bank. Receipt # 101
July 2	Paid Stan's Hardware \$2,000 with check # 198614. Receipt # 098.
Jul. 5	Payment from The Ideal Store - Receipt # 103 for \$8, 500.
July 5	Paid Zappa and Sons \$1, 117 with check # 198617 - Receipt # 0278.

### Loans to employees section

**NOTE: Reproduce without numbers for the lesson.**

### Individual Account Section

### ANTONIO LOFASO

Date	Supplier	Voucher	Loan	Payment	Balance
------	----------	---------	------	---------	---------

6	30	Initial Balance				120
7	2	Loan				150
7	3	Discount			50	100

### CHIP CHANDLER

Date	Supplier	Voucher	Loan	Payment	Balance
6	30	Initial Balance			60
7	2	Loan	76	30	90
7	3	Discount	77	80	10

### Summary - Loans to Employees

Date	Supplier	Voucher	Loan	Payment	Balance
6	30	Initial Balance			180
7	2	A. Lofaso	76	30	210
7	2	C. Chandler		30	240
7	3	A. Lofaso	77	50	190
7	3	C. Chandler		80	110

### Loans to employees list

July 2	Loaned \$60 - Cash Voucher # 76 \$30 to Chip Chandler \$30 to Antonio Lofaso
--------	--

July 3	Labor Costa of \$750 - Discounting Voucher # 77 for \$130. \$80 from Chip Chandler \$50 from Antonio Lofaso
--------	---

### Book of accounts: Title of account pages

#### CASH ON HAND

Date		Deposits	Withdrawals	Balance
6 30	Initial Balance			250
7 31	Squared	1, 900	1, 860	290

#### BANKS

Date		Deposits	Withdrawals	Balance
6 30	Initial Balance			2, 500
7 31	Squared	17, 800	19,467	833

#### LOANS TO EMPLOYEES

Date		Loans	Discounts	Balance
6 30	Initial Balance			180
7 31	Squared	60	130	110

#### ACCOUNTS RECEIVABLE

Date		Credit Sales	Pavments	Balance
------	--	--------------	----------	---------

6	30	Initial Balance			5, 600
7	31	Squared	26, 000	12, 000	19,600

**INVENTORY**

Date	Raw Material	In Process	Finished Goods	Total
6 30	2,000	3, 500	4, 500	10, 000
7 31	1,500	3, 000	1, 500	6, 000

**INVESTMENTS**

Date		Investments	Liquidations	Balance
6 30	Initial Balance			- 0-
7 31	Squared	- 0 -	- 0 -	- 0-

**AID # 27.1****FIXED ASSETS**

Date		Purchases	Sales	Balance
6 30	Initial Balance			30,000
7 31	Squared	- 0 -	- 0 -	30,000

**DEPRECIATION (Each Year)**

Date		Year	Accumulated
------	--	------	-------------

6	30	Initial Balance		- 0 -
---	----	-----------------	--	-------

### ACCOUNTS PAYABLE

Date		Credit Purchases	Payments	Balance
6	30	Initial Balance		5,400
7	31	Squared	13, 500	3, 117
				15, 783

### CURRENT OBLIGATIONS

Date		Loans	Liquidations	Balance
6	30	Initial Balance		12,000
7	31	Squared	- 0 -	- 0 -
				12,000

### ACCUMULATED SOCIAL BENEFITS (6 months)

Date		Increases	Liquidations	Balance
6	30	Initial Balance		3,100
7	31	Squared	- 0 -	- 0 -
				3,100

### BANK OBLIGATIONS

Date		Loans	Liquidations	Balance
6	30	Initial Balance		- 0 -
7	31	Squared	- 0 -	- 0 -
				- 0 -

**FINANCE OBLIGATIONS**

Date			Loans	Liquidations	Balance
6	30	Initial Balance			20,000
7	31	Squared	- 0 -	1, 000	19, 000

**OTHER OBLIGATIONS**

Date			Loans	Liquidations	Balance
6	30	Initial Balance			- 0 -
7	31	Squared	- 0 -	- 0 -	- 0 -

**BEGINNING CAPITAL (at initiation of system)**

Date			Balance
6	30	Permanent Balance	8,030

**PROFITS/LOSS Previous Years**

Date		Year	Accumulated
6	30	- 0 -	- 0 -

**PROFITS/LOSS - This Year**

Date			Profit	Loss	Balance
7	31	- Lose ( from P & L Statement)	- 0 -	1,080	(1,080)

**SALES**

Date	Cash	Credit	Total	Accumulated
7 31	4,000	26,000	30,000	30,000

**COST OF SALES**

Date	Commissions	Discounts	Total	Accumulated
7 31			- 0 -	- 0 -

**PURCHASES OF RAW MATERIALS**

Date	Cash	Credit	Total	Accumulated
7 31	2,500	13,500	16,000	16,000

**LABOR**

Date	Month	Accumulated
7 31	3,800	3,800

**SOCIAL BENEFITS**

Date	Cost of Benefits	Payments from workers	Balance	Accumulated
7 31	467	20	447	447

**SALARY AND PERSONAL EXPENDITURES**

Date		Month	Accumulated
7	31	4,700	4,700

**OTHER EXPENSES**

Date		General Costs	Transport	Total	Accumulated
7	31	1,800	-0-	1,800	1,800

**INTEREST PAYMENTS**

Date		Month	Accumulated
7	31	333	333

**OTHER INCOME OR EXPENSES ( OUTSIDE)**

Date		Income	Expense	Balance	Accumulated
7	31	- 0 -	- 0 -	- 0 -	- 0 -

**COSTS OF GOODS SOLD**

Date		Month	Accumulated
7	31	From P & L Statement	20, 000

**Monthly inventory listing**

		July 31			August 31			September 30			October 31			Nov
	Description	Units	Unit	Total	Units	Unit	Total	Units	Unit	Total	Units	Unit	Total	Units



1	Raw Material			value			value			value			value		
2	A - Dozens		2	10	\$ 20	0	10	\$ - 0							
3	B		4	5	30	3	5	10							
4	C		10	1	10	20	1	20							
5	D		1	15	15	4	20	80							
6	E - Grams		200	5	1000	100	5	500							
7	F - Pounos		5	20	100	10	18	180							
8	G		15	3	45	5	3	15							
9	H - Kilos		9	8	72	9	8	72							
10	I - Gallons		6	10	60	10	10	100							
11		Subtotal			1342										
12	L					30	5	150							
13	M					60	3	130							
14	N					100	10	1000							
15		Subtotal						3347							
16															
17															
18															

19															
20	Products in process														
21	1		20	40	800	10	15	150							
22	2		10	30	200	0	30	- 0 -							
23	3		80	40	1300	41	10	400							
24		Subtotal			2200			550							
25															
26															
27															
28															
29															
30															
31															
32	Finished products														
33	1a		10	60	600	5	50	350							
34	2b		15	40	600	5	30	150							
35	3c		70	30	1600	0	0								
36		Subtotal			2300			400							
37															
38															

39		Total			6342			3197						
40														
41														
42														
43														

## Guide to financial statement elaboration

**On the last day of the month:**

**1. Take an inventory of raw materials, goods in process and finished goods.**

**2. Close the Books**

**a. Square the Cash Book**

**b. Close the Amount Sections of Sales and Purchases**

**c. For the next month, leave a few spaces and begin Cash Book and Amount entries once again.**

**To construct the Statement:**

**1. Pass all the ending debit and credit balances from the Cash Book to the Book of Accounts.**

**2. Pass the balances from the Amount Sections of Sales and Purchases to the Book of Accounts.**

**3. Calculate the balances of the accounts in the Book of Accounts like this:**

**Cash on Hand**

<b>Date</b>		<b>Deposit</b>	<b>Withdrawal</b>	<b>Balance</b>
6	30	Initial Balance		250
7	31	Squared	1, 900	1, 860
				290

Initial Balance	250
+ Deposit	<u>+ 1, 900</u>
	2, 150
- Withdrawal	<u>- 1, 860</u>
Final Balance	290

**4. Compare control account balances (Cash on Hand, Banks, Accounts Receivable and Payable, Loans to Employees) to the balances in the Book of Accounts.**

- a. They should be equal**
- b. If not equal, proof read and correct the entries.**

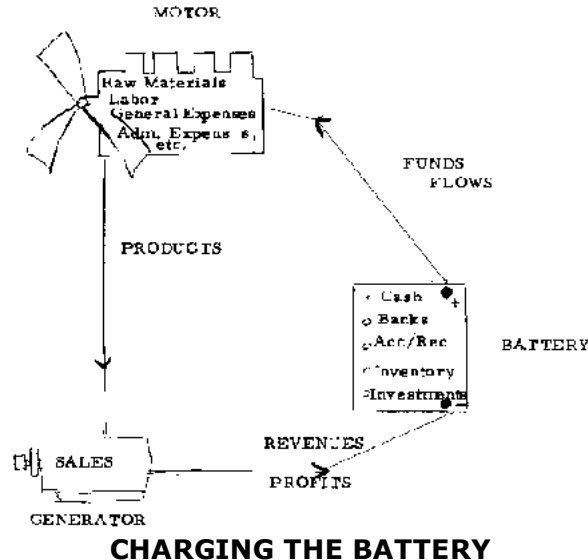
**5. Pass all balances from the Book of Accounts to the Trial Balance.**

- a. Use last month's Inventory**
- b. Columns I and II must be equal.**
- c. If they are not equal:**

- 1) Review the balance entries checking the numbers carefully.**
- 2) Review the mathematics.**
- 3) Make sure you have included every account.**

## 6. Pass the Balances from the Trial Balance to the Profit and Loss Statement and the General Balance Statement.

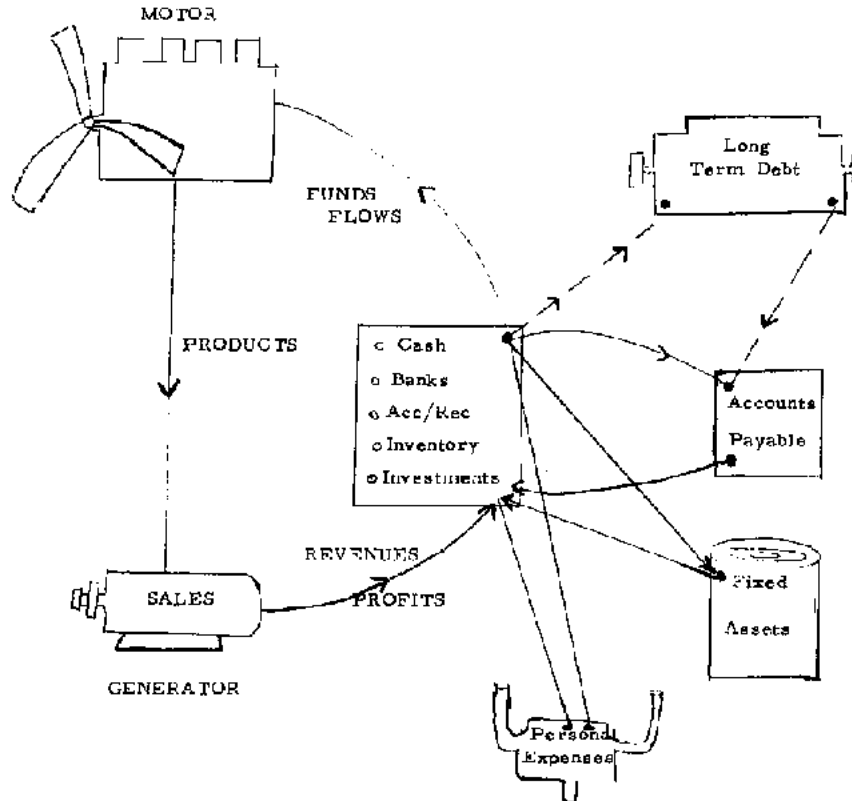
### Uninterrupted working capital flow



The **BATTERY** of Current Assets ignites and charges the motor of production with its funds. Finished products are then produced and, if sales are generated, revenues and their accompanying profits recharge the battery of current assets.

If there are sufficient sales and a profit, there is no drain upon the battery and a healthy working capital is maintained indefinitely.

**Interrupted working capital flow**



**DRAINING THE BATTERY**

**Any accessories drain energy or funds from the Battery of Working Capital**

**Inventory control - page examples****RAW MATERIAL A - UNITS**

<b>Date</b>		<b>Deposits</b>	<b>Withdrawals</b>	<b>Balance</b>
6/1	Initial Balance			80
6/3		40		120
6/4			100	20
6/4		60		80

**RAW MATERIAL B - POUNDS**

<b>Date</b>		<b>Deposits</b>	<b>Withdrawals</b>	<b>Balance</b>
6/1	Initial Balance			30
6/2		90		120
6/2			35	85
6/3			80	5
6/4		50		55

**RAW MATERIAL C - GALLONS**

<b>Date</b>		<b>Deposits</b>	<b>Withdrawals</b>	<b>Balance</b>
6/1	Initial Balance			3
6/2			1	2
6/3			1	1

6/4		2		3
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**PRODUCT A - UNITS**

Date		Deposits	Withdrawals	Balance
6/1	Initial Balance			350
6/3			135	215
6/4			100	115
6/4		50		165

**PRODUCT B - UNITS**

Date		Deposits	Withdrawals	Balance
6/1	Initial Balance			85
6/2		150		235
6/3			50	185

**Control of postdated checks**

			DUE		DATE			
Date	Description	Check Number	July		August		September	
			Date	Amount	Date	Amount	Date	Amount
7/7	Stan'a Hardware	198618			7	1,000		
7/8	Shoemakers Coop.	198620					15	2,800
7/8	Ron's Meat Market	198624	15	600				



7/9	Patrick's Furniture	198625			9	3,000		
7/9	Patrick's Furniture	198626					9	3,000

### Auxiliary cash on hand sheet

Date	Description	Deposit	Withdrawals	Balance
June 9	Initial Balance			100
	Sale	50		150
	Coffee		5	14 5
	Purchase of glue		100	45
	Sale	75		120
	Sale	20		140
	Loan to a worker		40	100
	Payment from the Ideal Store	3,000		3,100
	Groceries		600	2, 500
	Deposited in Bank		2,400	100
	TOTAL	3, 145	3, 145	

### Summary of account entries:

Sales	145	Personal Expenses	605
Payments	3,000	Raw Materials	100
		Loan to employees	40
Credits	3,145	Deposits	2, 400
		Debits	3. 145

**Credit payments with merchandise****Transaction:****Payment to Bob's Store with \$1,000 in merchandise. July 15. Receipt # 150****Entry: 1st.****CASH BOOK**

<b>Date</b>	<b>Description</b>	<b>Receipt No.</b>	<b>Sales (Credit Account)</b>	<b>Payment to Suppliers</b>
July 15	Payment to Bob's Store	150	1,000	1,000

**Entry: 2nd.****CREDIT BOOK: Purchases**

- a) Reduce the Individual Account Section
- b) Reduce the Summary

**Alternative Acc/Rec section****Alternative Accounts Receivable Auxiliary Organization for those with client advances on orders.****CREDIT BOOK****AMOUNT SECTION:****As before, sales listed at time of delivery.**

**INDIVIDUAL SECTION:**

**Now divided into two sections (all advances and payments are first entered into the cash book).**

**ADVANCES**

Date	Clients Order	Delivery	Advances	Balance
Aug. 8	Long John's (\$1,800)		800	800
Aug. 11	Long John's		300	1,100
Aug. 15	Delivery	X	200	- 0 -
Aug. 17	The Intrepid (\$2, 200)		800	800

**DEBTORS**

Date	Clients	Delivery	Pay meets	Outstanding Balance
Aug. 15	Long John's - Delivered	X		500
Aug. 20	Final Payment		500	- 0 -

**SUMMARY SECTION: ELIMINATED****ACCOUNT BOOK****ACCOUNTS RECEIVABLE**

Date		Debtors	Balance
Aug. 1	Initial Balance		- 0 -

Aug. 31	From list	0	- 0 -
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## ACCOUNTS PAYABLE

		+	+	-	
Date		Advances A/R	Credit Purchases	Payments	Balance
Aug. 1	Initial Balance				1,400
Aug. 31		800	9, 200	7, 000	4, 400

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