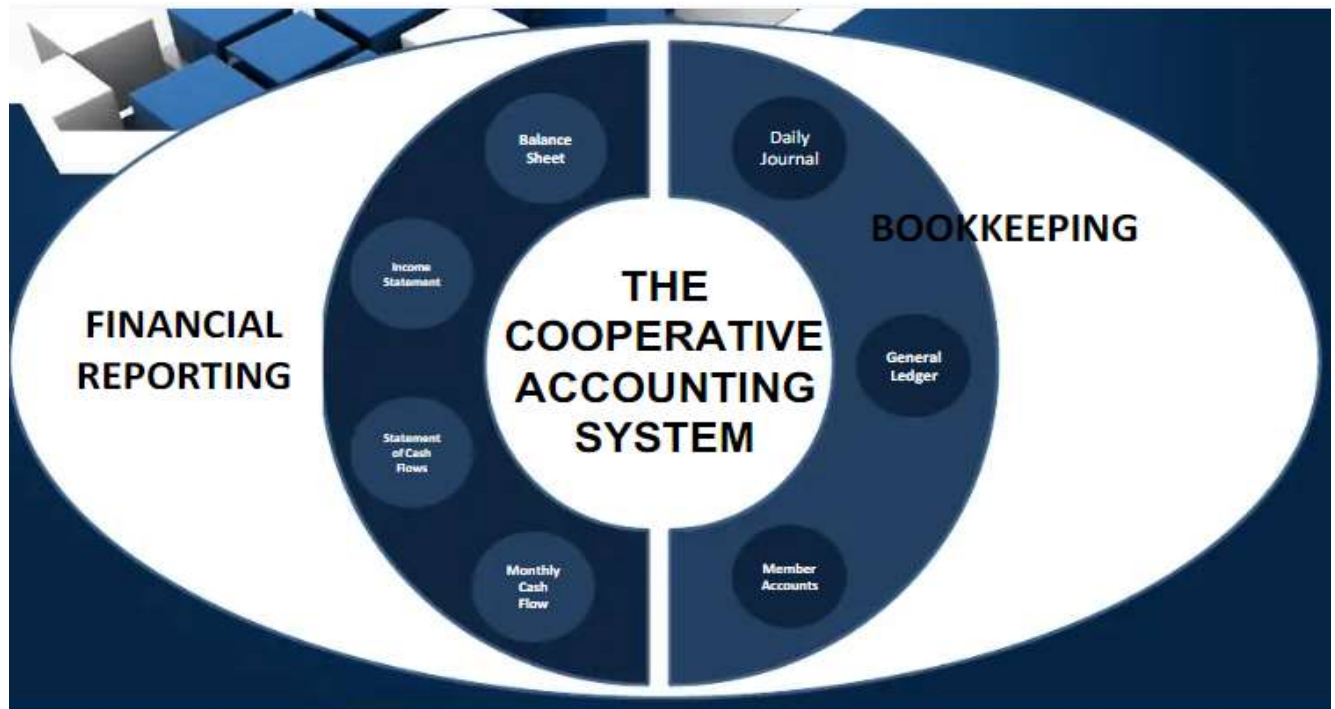


Cooperative Marketing

Level-II

**Based on November 2021, Version Occupational
Standard**



Module Title: Performing Basic Accounting Records

LG Code: AGR CM2 MO6 LO (1-3) LG (17-19)

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Introduction to the Module

Dear learner, the Ethiopian TVET system is now focused on the labor market demands and industry relevance. This translates that the main objectives of the TVET system is to qualify its graduates according to the occupational requirements of the industry. In this learning guide there are three learning outcome which are broke down in to three information sheets. These are listed as follows Obtain Source Documents and Record Business Transaction on Journal, Post to the Ledger and Prepare Unadjusted Trial Balance and File and document financial records. In this learning guide, some learning activities and self-check exercises are included to make your study clear, attractive and precise. These are very important in deepening and enhancing your understanding of the learning out comes in the module. If you skip doing those activities and exercises, your level of understanding will be limited and insufficient. As a result, you are strongly dedicated and encouraged to do it on time accordingly. Upon the completion of the module you will be able to perform the objectives listed on instruction sheet.

Learning Outcomes:

At the end of the module the trainees will be able to

- Obtain Source Documents and Record Business Transaction on Journal
- Post To the Ledger and Prepare Unadjusted Trial Balance
- File and document financial record

This unit covers application of knowledge, skill and attitude to create the awareness about concept of accounting source document, Verifying Source Documents, Basis of Accounting, concept of business transaction and concept of journal and ledger, posting and preparation of trial balance and preparation of different type of financial statement and File and document financial record.

LG #5	LO #1 Obtain source documents and Record business transaction on journal
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Instruction sheet
<p>This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:</p> <ul style="list-style-type: none"> • Verifying Source Documents • Bases of Accounting • understanding Concept of journal • Analyzing business transaction • Recording transaction on Journal <p>This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:</p> <ul style="list-style-type: none"> • obtain and verify Source document • Select appropriate accounting bases • Determine the effect of transaction by using appropriate techniques • Identify and Obtain approved Business transactions. • determine Types of account affected based on the source documents • record business transactions on journal based on rules, regulations, accounting standard and legislative body
Learning Instructions:
<ol style="list-style-type: none"> 1. Read the specific objectives of this Learning Guide. 2. Follow the instructions described below. 3. Read the information written in the information Sheets 4. Accomplish the Self-checks 5. Perform operation sheet 6. Do LAP test

Information Sheet 1

1.1. Verifying source document

1.1.1. Meaning and nature of accounting

- **Definition of accounting**

Accounting is the process of identifying, measuring, recording, classifying, summarizing, reporting/communicating, and interpreting economic and financial events of an entity for use by interested parties for the purpose of informed judgment and decisions.

- Key Words in the definitions.
- **Identifying:** - Tracing and collecting recordable economic activities. Accounting records and reports only those economic activities of the organization which can be expressed in terms of money.
- **Analyzing and Measuring:** - Determining whether the economic activities bring changes in an organization and expressing the changes in monetary terms.
- **Recording:** - Systematically record of the effects of economic activities on assets, liabilities, capital, revenues and expenses.
- **Classifying:** - Grouping recorded effects of economic activities into meaningful classes.
- **Summarizing:** - Gathering and arranging data needed for preparation of reports and statements.
- **Reporting:** - Preparing statements and reports in a manner that suits the need of users so as to communicate information useful for decision making.
- **Interpreting:** - Provide explanation on reported information so that users can understand and use the information as a basis for decision making.

1.1.2. Types of Financial statement

After transactions have been recorded and summarized, reports are prepared for users. The accounting reports that provide this information are called financial statements. The principal financial statements of a proprietorship are the income statement, the statement of owner's equity, the balance sheet, and the statement of cash flows. The order in which the statements are normally prepared and the nature of the data presented in each statement are as follows:

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- I. **An income statement (statement of financial performance)** presents the revenues and expenses and resulting net income or net loss for a specific period of time.
- II. A **retained earnings statement (Statements of Owner's Equity)** summarizes the changes in retained earnings for a specific period of time.
- III. A **statement of financial position** (sometimes referred to as a balance sheet) reports the assets, liabilities, and equity of a company at a specific date.
- IV. A **statement of cash flows** summarizes information about the cash inflows (receipts) and outflows (payments) for a specific period of time.
- V. **Note to Financial statements;** Notes to financial statements (notes) are additional information added to the end of financial statements that help explain specific items in the statements as well as provide a more comprehensive assessment of a company's financial condition. Notes to financial statements can include information on debt, going concern criteria, accounts, contingent liabilities or contextual information explaining the financial numbers (e.g. to indicate a lawsuit).

1.1.3. Rules of debit and credit

An account may increase or decrease on the debit side or on the credit side depending on the nature of the account. The general rule will be expanded as follows:

Table: 1.1: Rule of debit and credit

ACCOUNT	INCREASED BY	DECREASED BY
Assets	Debit	Credit
Expenses	Debit	Credit
Liabilities	Credit	Debit
Equity	Credit	Debit
Revenue	Credit	Debit

Each business transaction affects a minimum of two accounts, regardless of the complexity of a transaction or the number of accounts affected, the sum of the debit is always equal to the sum of the credits.

This equity of debit and credit for each transaction is inherent in the accounting equation;

Assets = Liability + Capital. It is due to this dual effect of each transaction, that the system is known as double- entry accounting.

- **Title** – The name of the account. This is written at the top of the account.
- **Debit** – is the left hand side of an account –Debit is abbreviated as ‘Dr.’
- **Credit** – is the right hand side of an account. Credit is abbreviated as Cr.

1.1.4. Normal Balance of accounts

In most cases, the sum of an account increase side is equal or greater than the sum of decrease side. Thus at the end of a period, the normal balance of accounts are a positive. Thus, the **normal balance of an account** is either a debit or credit depending on whether increases in the account are recorded as debits or credits. For example, since asset accounts are increased with debits, asset accounts normally have debit balances. Likewise, liability accounts normally have credit balances.

Table: 1.2: normal balance of account

Account Classification	Normal Balance
Assets	Debit
Contra asset	Credit
Liability	Credit
Contra liability	Debit
Owner's Equity	Credit
Stockholders' Equity	Credit
Owner's Drawing or Dividends Account	Debit
Revenues (or Income)	Credit
Expenses	Debit
Gains	Credit
Losses	Debit

Revenues and gains are recorded in accounts such as Sales, Service Revenues, Interest Revenues (or Interest Income), and Gain on Sale of Assets. These accounts normally have credit balances that are increased with a credit entry. In a T-account, their balances will be on the right side.

The exceptions to this rule are the accounts Sales Returns, Sales Allowances, and Sales Discounts—these accounts have debit balances because they are reductions to sales. Accounts with balances that are the opposite of the normal balance are called contra accounts; hence contra revenue accounts will have debit balances.

1.1.5. Business Transaction

1.1.6. Definition of business transaction

Business transactions are economic events that should be recorded because they affect the financial position of the business enterprise. These businesses transactions are the raw materials of accounting reports, as cotton is a raw material for a textile factory.

A transaction can be an exchange (such as the purchase or sale of property, payment or collection of a loan etc.) between two or more parties. A transaction can also be an event that has the same effect as an exchange transaction but doesn't involve an exchange transaction. Some examples of “non exchange” transactions are losses from fire, flood; physical wear and tear on equipment; donation of property and so forth.

For a given transaction to qualify to be recorded it has:

- To be related to the business enterprise
- To be measurable in terms of money
- To be completed / happened/ action.

Transactions may be divided in to internal and external.

- I. **External transactions:** Involve exchanges between the business enterprise and another entity. Example: Purchase of goods from a supplier, sales of goods to customers, borrowing money from a bank.
- II. **Internal transactions:** such as the expiration or transfer of cost within the enterprise. Example: Depreciation of plant assets

1.1.7. Basic Accounting Equation

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The financial position of any business, large or small, is based on two key components of the balance sheet: assets and liabilities. Owners' equity, or shareholders' equity, is the third section of the balance sheet. The accounting equation is a representation of how these three important components are associated with each other.

Assets represent the valuable resources controlled by the company, while liabilities represent its obligations. Both liabilities and shareholders' equity represent how the assets of a company are financed. If it's financed through debt, it'll show as a liability, but if it's financed through issuing equity shares to investors, it'll show in shareholders' equity.

The accounting equation helps to assess whether the business transactions carried out by the company are being accurately reflected in its books and accounts. Below are examples of items listed on the balance sheet.

1.1.8. Nature of account

In order to provide the necessary information to users, accountants maintain separate records on each element of the financial statements. For example, to report the balance for cash at the end of a year, a record regarding cash should be kept. The record includes beginning cash balance, cash payments & cash collections during the period.

The form used to record individual transactions is called an account. **An account** is a record in an accounting system that tracks the financial activities of a specific **asset, liability, equity, revenue, or expense**.

An account, in its simplest form, has three parts. First, each account has a title, which is the name of the item recorded in the account. Second, each account has a space for recording increases in the amount of the item. Third, each account has a space for recording decreases in the amount of the item. The account form presented below is called a T account because it resembles the letter T. The left side of the account is called the debit side, and the right side is called the credit side.

Title	
Left side	Right side
Debit	Credit

Amounts entered on the left side of an account, regardless of the account title, are called **debits** to the account. When debits are entered in an account, the account is said to be **debited** (or charged). Amounts entered on the right side of an account are called **credits**, and the account is said to be credited. Debits and credits are sometimes abbreviated as Dr. and Cr.

A group of related accounts that comprise a complete unit is called **ledger**.

1.1.9. Classification of Accounts

Accounts are classified into five: assets, liabilities, capital, revenue and expenses. The first three are called balance sheet accounts and the other two are called income Statement accounts. Balance Sheet accounts are those reported on the balance sheet at the end of the reporting period and Income Statement accounts are reported on the Income Statement. The five groups of account are discussed below

- Balance sheet accounts are classified as **assets**, **liabilities**, and **owner's equity**.
- Income statement accounts are classified as **revenues** and **expenses**.



Figure: 1.1: Classification of account

Assets

Assets could be tangible or intangible. Tangible assets are assets having physical existence, like cash, land, computer, stationery materials. Intangible asset is a contractual agreement and do not have physical existence. Example: Goodwill, Copyright, patent right. On the balance sheet, assets are classified into two current assets and noncurrent assets.

- **Current Assets:** are those assets, which can be used, sold, or converted into cash within one accounting year or operating cycle. Example: cash, supplies, prepayments, receivables etc.
- **Non-current Asset:** All assets other than current assets are called non-current assets. Example: land, patent right, office equipment, vehicles.

Liabilities:

Liabilities are classified into two as current liabilities and non-current liabilities

- **Current liabilities:** The liabilities that are payable within the next (one) accounting year or operating cycle are known as current liability. Example: Accounts Payable, Rent Payable, Salary Payable.
- **Non-Current Liabilities:** Debts that are not required to be paid within the next accounting period or operating cycle. Example long term notes payable.

Capital:

The excess of the assets of a business over its liabilities is referred to as capital. It is the equity of the owner or owners in the business.

Revenue:

Revenue is increases in owner's equity resulting from the main operations of the business. E.g. Sales, interest income, tuition fee, and sales commission.

Expenses:

Expenses are decreases in owner's equity in the process of earning revenue. For example, a hotel has to pay salary (expense) to its workers for the services rendered to clients in order to get the income from customers (revenue).E.g. Salary, insurance, depreciation, supplies, utilities, rent etc.

1.2. source documents

1.2.1. Definition of source documents

The source document is essential to the bookkeeping and accounting process as it provides evidence that a financial transaction has occurred. During an accounting or tax audit, source documents back up the accounting journals and general ledger as an indisputable transaction trail. You would keep source documents for your business just like you keep receipts for tax-deductible items for your taxes. If your taxes are audited, the source documents provide the proof

that you've made those purchases. The same holds for your business, but in business, you keep original documents for every financial transaction, not just charitable donations.

1.2.2. Identifying Source Document

When an accounting clerk makes an entry in a journal, there should be some written evidence to support the entry. This evidence is some business paper, the business paper from which a journal entry is made called source document.

Original records containing the details to substantiate a transaction entered in an accounting system it includes;

- Receipts
- Voucher / CPV and CRV
- Purchase orders,
- Bank statements
- Notes
- Deposit Slips
- **A receipt:** - a written acknowledgment given when something is acquired.
- **Voucher:** - A voucher is written document in support of an entry in the books of accounts. It is a documentary evidence to support the various entries. Certain vouchers may be of a primary nature while others of collateral or a secondary nature.
- **Check:** - an order in writing, signed by the depositor, ordering the bank to pay cash from the depositors account.
- **Check Stub:** for the one who effects payment evidencing payment in checks.
- **Cash Receipt:** for the one who collects cash evidencing receipt of cash.
- **Deposit Slips:** for the one who deposits cash at a bank evidencing deposit made to a bank account etc.
- **Purchase Order:** A purchase order is a document the purchasing department uses to place an order with vendor (seller or supplier). A purchase order authorizes a vendor to ship order merchandise at the stated price and terms.

Source documents are the basis for recording the entries in the books of original entry. The source document, especially obtained from outside the organization provides objective and reliable evidence, about transactions and events and their amounts. The different source documents required for recording different books of original entry are presented in table 1.1

Table 1.2: Source documents required for Cooperative

Name of the book of Entry	Source documents required
1. Cash Book	<ul style="list-style-type: none"> Cash memos, cash and bank receipts issued/received, and other cash vouchers.
2. Purchase Book	<ul style="list-style-type: none"> Inward invoices received from suppliers.
3. Sales Book	<ul style="list-style-type: none"> Outward invoices issued to customers.
4. Sales Return Book	<ul style="list-style-type: none"> Credit notes issued to customers or debit notes received from customers.
5. Purchase Return Book	<ul style="list-style-type: none"> Debit notes issued to suppliers or credit notes received from suppliers.

- ✓ **Cash Book:** - Cash book may be describe as a primary book meant for recording all cash (including bank) transactions date-wise, usually accompanied by brief narration.
- ✓ **Purchases Book:** - Purchases book is used for recording credit purchases of goods meant for resale. Cash purchase will not be entered in purchases book.
- ✓ **Sales Book:** - In this book, all goods sold on credit are recorded. If there are cash sales, they are recorded in cash book.
- ✓ **Purchases Return Book:** - It records all returns of goods bought. Goods may have to be returned to the supplier for various reasons, such as not up to the sample or not the ordered or damaged during the transit, etc.
- **Sales Return Book:** - It records all returns of goods sold. Goods sold may be returned by our customers for various reasons such as goods sent, being of wrong description or inferior quality or damaged.
- **Bank Statement ;** A bank statement contains a number of adjustments to a company's book balance of cash on hand that the company should reference to bring its records into alignment with those of the bank.
- **Cash Payment voucher:** usually on a printed standard form is a record of payment. When payment is made for an expense, generally a bill is prepared to record full

particulars of the claim by the person or organization receiving payment. From the bill, the accounting department prepares a voucher for each payment to be made, no matter whether the amount that is paid for the goods purchased, or to pay employee's salaries, or to pay for services or to pay for any other asset acquisition.

- **Cash Receipt voucher:** is a document which is issued against cash receipts. It may also be a printed standard form. This document shows that a certain sum of money was received from a person or organization and also, contains information of the purpose for which the money is received. It is signed by a responsible employee, authorized by the management to receive the money

1.3. Bases of Accounting

1.3.1. Definition of Basis of Accounting

The basis of accounting refers to the methodology under which revenues and expenses are recognized in the financial statements of a business. When an organization refers to the basis of accounting that it uses, two primary methodologies are most likely to be mentioned. They are noted below.

1.3.2. Cash Basis of Accounting

In this basis of accounting revenues are reported in the period in which cash is received and expenses are reported in the period in which cash is paid. Net income will, therefore, be the difference between the cash receipts (Revenues) and cash payments (expenses). This method will be used by organizations that have very few receivables and payables. For most businesses, however, the cash basis is not an acceptable method.

It fails to record revenue for a company that has provided services but for which it has not received the cash. As a result, it does not match expenses with revenues. Cash basis accounting is not in accordance with International Financial Reporting Standards (IFRS).

1.3.3. Accrual Basis of Accounting

Companies record transactions that change a company's financial statements in the periods in which the events occur. Under this method revenues are reported in the period in which they are earned, and expenses are reported in the period in which they are incurred. For example, revenue will be recognized as services are provided to customers or goods sold and not when cash is

collected. Most organizations use this method of accounting and we will apply this method in this course.

<i>Basis</i>	<i>Accrual Basis of Accounting</i>	<i>Cash Basis of Accounting</i>
1. Recording of transactions	✓ Both cash and credit transactions are recorded	✓ Only cash transactions are recorded.
2. Profit or Loss	✓ Profit or Loss is ascertained correctly due to complete record of transactions.	✓ Correct profit/loss is not ascertained because it records only c a s h transactions
3. Distinction between Capital and Revenue	✓ This method makes a distinction between capital and revenue items.	✓ This method does not make a distinction between capital and revenue nature items.
4. Legal position	✓ This basis is recognized under the companies Act	✓ This basis is not recognized under the companies Act.

Table1.3: Difference between accrual bases of accounting and cash basis of accounting

1.4. Concept of journal

1.4.1. Definition of journal

Journal is a historical record of business transaction or events. The word journal comes from the French word “Jour” meaning “day”. It is a book of original or prime entry. Journal is a primary book for recording the day to day transactions in a chronological order i.e. the order in which they occur. The journal is a form of diary for business transactions. This is called the book of first entry since every transaction is recorded firstly in the journal.

1.4.2. Journal Entry

Journal entry means recording the business transactions in the journal. For each transaction, a separate entry is recorded. Before recording, the transaction is analysed to determine which account is to be debited and which account is to be credited.

The Performa of General journal

Date	Description	R/f (CRV/CP V No	Cash on hand		Cash at bank		Loan receivable		Interest receivable	payroll	Saving	Salary	Pension	Supplies
			Dr	Cr	Dr	Cr	Dr	Cr	Cr	Dr	Cr	Dr	Cr	Dr

1.4.3. Advantages of Using Journal

Journal is used because of the following advantages:

- A journal contains a permanent record of all the business transactions.
- The journal provides a complete chronological (in order of the time of occurrence) history of all business transactions and the task of later tracing of some transactions is facilitated.
- Complete information relating to one single business transaction is available in one place with all its aspects.
- The transaction is provided with an explanation technically called a narration.
- Use of the journal reduces the possibility of an error when transactions are first recorded in this book.
- The journal establishes the quality of debits and credits for a transaction and reconciles any problems.
- The use of journals avoids omission or duplication of transactions or parts of transaction.

Meaning of journalizing

Journalizing is the process of recording a business transaction in the accounting records. This activity only applies to the double entry bookkeeping system.

Steps in Journalizing a Transaction

The following steps should be followed in recording a transaction in the journal.

- I. **Record the date** - Insert the year, the month, and the date as shown above.
- II. **Record the debit**- Insert the account debited in the description column and the amount of debit in the debit column.
- III. **Record the credit**- Insert the account credited below the debited account and indented to the right in the description column and the amount of credit in the credit column.
- IV. **Explanation**- Write a brief explanation or reference to source document in the description column, when necessary.

Each one set of debits and credits for a transaction is called a journal entry. When three or more accounts are required in one journal entry, the entry is referred to as a compound entry. In recording a business transaction answering the following questions based on the transaction to be recorded may help you.

- A. Which accounts are affected?
- B. Is each account increased or decreased?

- C. Which account is debited and which is credited?
- D. Prepare the complete journal entry.

1.4.4. Types of journal

Accounting journals are divided into two types:

I. General Journal

General Journal is used to record all company transactions based on the time sequence. Consists of two lines (debit and credit) and most companies apply this, from a home-based business to complicated manufacture industry. For a small business, the routine transactions are covered by a single accounting journal without any difficulties. The general journal is made based on the transaction note/receipt as received/issued by the company.

II. Special Journal

There are also other types of Journals known as special journals that are used to record specific types of transactions. E.g. Cash receipt Journal, Cash payment Journal, Purchase Journal and Sales Journal

Transaction	Special Journal	Posting Abbreviation
Sales of merchandise on credit	Sales journal	SJ
Purchase of merchandise on credit	Purchases journal	PJ
Receipts of cash	Cash receipts journal	CR
Payments of cash	Cash payments journal	CP

Table 1.4: Types of special journal

Special journals are used to group similar types of transactions. If a transaction cannot be recorded in a special journal, it is recorded in the general journal. Special journals permit greater division of labour and reduce time necessary to complete the posting process. These special journals are

- **Sales Journal:** It is used to record all sales of merchandise on account
- **Cash Receipts Journal:** It is used to record all cash received (including cash sales).
- **Purchases Journal:** It is used to record all purchases of merchandise on account.

- **Cash Payments Journal.** It is used to record all cash paid (including cash purchases)

The types of special journals used depend largely on the types of transactions that occur frequently in a business enterprise.

- **Sales journal**

A sales journal is used to record the merchandise sold on account. Any entry relating to the sale of merchandise for cash is recorded in the cash receipts journal.

- **Purchases Journal**

A **purchases journal** is a special journal used to record any merchandise purchased on account. The entries in this journal are made based on the invoice received from the supplier on the purchase date. Other names used for the purchases journal are the purchases book, purchases daybook, and the credit purchases journal.

- **Cash Receipts Journal**

A cash receipts journal is a special journal used to record cash received by a business from any source. The major sources of cash receipt in a business include:

- ✚ Investment of capital by the proprietor or owner
- ✚ Cash sales
- ✚ Sale of an asset for cash
- ✚ Collection from customers
- ✚ Collection of interest, dividends, or rent
- ✚ Loan from an individual, bank, or any other financial institution

- **Cash payment or disbursement journal**

- ✚ A cash payment journal also known as cash disbursement journal that used to record all cash payments or disbursements made by the business.
- ✚ Is a special journal that allows you to record all cash payments that is all transactions during which you spend funds.

1.5. Analysing business transaction

1.4.1. Definition of Business Transaction

- **Business Transaction:** - is the process of mutual give and take. This “**give and take**,” that is, exchange is termed as transaction. Transaction involves transfer of money or money’s worth. Thus, the exchange of money, goods and services between parties is known as transaction.



- A transaction can be an exchange of values (such as the purchase or sale of property, payment or collection of a loan etc.) between two independent parties.
- It can also be an event that may have the same effect as an exchange transaction but doesn't involve an exchange transaction.

N.B. All business transactions can be stated in terms of changes in the elements of the accounting equation.

- The effect of every transaction is an increase or a decrease in one or more of the accounting equation elements. The two sides of the accounting equation are always equal (i.e. Assets = Liabilities + Owner's Capital).

1.6. Recording transaction on Journal

Before a transaction is recorded in a journal it must be analyzed to determine in what ways the assets, the liabilities, or the capital have been increased or decreased by the transaction.

Business transaction analysis is, therefore, the process of identifying accounts affected, and determining the effect of the transaction on accounts affected.

When we analyze a transaction at least two accounts are affected.

The answers to the following three questions help to determine the effect of a transaction on accounts.

- I. What are the names of the accounts affected?
- II. What is the classification of each account affected? (Asset, liability, capital, revenue and expenses).
- III. How is the balance of each of these accounts changed? Is the balance increased or decreased?
- IV. Determine by rule of debit and credit whether the effect of the transaction should be recorded as a debit or as a credit in an asset, liabilities, owner's equity, revenue, or expense account.
- V. Record the transaction using a journal entry.
- VI. Write the Narration, a brief description of the transaction.

The Journal commonly used to record all types of transactions is the General Journal. This Journal includes the following parts, entered step by steps

In recording a business transaction answer the following questions based on the transaction to be recorded may help you.

- The date of the transaction
- The title of the account debited
- The title of the account credited
- The amount of debit and credit
- Brief explanation of the entry or reference to the source document. Look at the following General Journal and notice where each of the above information is found.

Journal

page _____

Date	Description	P.R	Debit	Credit
Year Month				
	Day Debited account title		XXX XX	
	Credited account title			X XX XX
	Explanation			

Example: - Assume that on September 30, 2021 XYZ cooperative paid Birr 6,000 to its employees as a salary for the first week of the year. This business transaction will be analyzed and recorded as follows.

- Which accounts are affected? Answer: Cash and Salary Expense.
- Is each account increased or decreased? Answer: cash is decreased and salary expense is increased.
- Which account is debited and which is credited? Answer: Salary Expense is debited because increase in expenses is recorded on the debit side. And cash is credited because decrease in assets is recorded on the debit side.
- Prepare the complete Journal entry.

2021		Description		Debit	Credit
Sept.	30	Salary expense		6000 00	
		Cash			6000 00
		Payment of salary			

Note: A journal entry is the complete presentation of the record in the journal. The transactions occurred during the month were summarized as follows:

Self-check 1	Written test
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Name..... ID..... Date.....

Directions: Answer all the questions listed below.

Test I: Choose the best answer (2. point)

- ____ Is the source document required for recording cash memos, cash and bank receipts issued/received?
 - Sales Book
 - Cash Book
 - Purchase Book
 - Sales Return Book
 - Purchase Return Book
- Inward invoices received from suppliers are recorded in _____.
 - Sales Book
 - Cash Book
 - Purchase Book
 - Sales Return Book
 - Purchase Return Book
- Outward invoices issued to customers are recorded in _____.
 - Sales Book
 - Cash Book
 - Purchase Book
 - Sales Return Book
 - Purchase Return Book
- Debit notes issued to suppliers or credit notes received from suppliers are recorded in _____.
 - Sales Book
 - Cash Book
 - Purchase Book
 - Sales Return Book
 - Purchase Return Book
- _____ is a document the purchasing department uses to place an order with vendor (seller or supplier).
 - Invoice
 - Purchase order
 - Receipt for Payment
 - Bank statement
 - None
- Identify and describe transactions and events entering the accounting process is----
 - Source document
 - Cash book
 - Purchase book
 - Sale book

7. A source document that provides objective and reliable evidence about transactions and events and their amounts is obtained from _____.
- A. Inside the organization C. Either A or B
B. Outside the organization D. Neither A nor B
8. Transactions are first recorded in which book/account?
- A. Book of original entry
B. T_ accounts
C. Accounting equation
D. Book of final entry
9. Journal is also called a?
- A. A day book
B. History book
C. Ledger book
D. An entry book

Part II; short answer

1. Write and discussed types of special journal
2. Write steps of journalizing

Note: Satisfactory rating - 10points

Unsatisfactory - below 10points

You can ask you teacher for the copy of the correct answers.

Operation Sheet -1

1. Recording special journal

A. Tools and equipment

- Scientific calculators
- Stationary Computer

B. Procedures in preparing Recording special journal

Project 1: - Transactions relating to the sale of merchandise on account completed by ABC cooperative during the month of March 2022 are shown below:

Mar. 01: Sold merchandise on account to DW cooperative birr 1, 120, invoice No. 110

Mar. 08: Sold merchandise on account to WK cooperative birr 3,140, invoice No. 111

Mar. 20: Sold merchandise on account to XYZ cooperative birr 6,400, invoice No. 112

Mar. 28: Sold merchandise on account to XYZ cooperative birr 2,300, invoice No. 113

Required: Record the above transactions in the sales journal

Sales journal

date march 2022	Account debited	invoice No	P/R	Amount (Br)
March 01	DW cooperative	110		1120
08	WK cooperative	111		3140
20	XYZ cooperative	112		6400
26	Xyz cooperative	113		2300
31	Total transferred to sales account			<u>12,960</u>

- Purchases Journal

Example:-Transactions from ABC cooperative for the month of March 2022 are listed below:

March. 02: Purchased merchandise on account from xyz Co. for Brr 900, invoice No. 105

March. 06: Purchased merchandise on account from ATQ Co. for Brr 3,200, invoice No. 240

March. 08: Purchased merchandise on account from DW co for Brr 360, invoice No. 115

March. 15: Purchased merchandise on account from BBM Co for Brr 800, invoice No. 305

March. 25: Purchased merchandise on account from ABM Co for Brr 700, invoice No. 395

March. 31: Purchased merchandise on account from ABM co for Brr 300, invoice No. 345

Required: Record the above transactions in the purchases journal

Solution

Purchases journal

Date march 2022	Account credited	Invoice No	PR	Amount Brr
02	XYZ co	105		900
06	ATQ co	240		3200
08	DW co	115		360
15	BBM co	305		800
25	ABM co	395		700
31	ABM co	345		300
31	Total			<u>6,260</u>

2. Recording transaction on journal

C. Tools and equipment

- Scientific calculators
- Stationary
- Computer

D. Procedure /methods of journalizing the transaction on journal

- The date of the transaction
- The title of the account debited
- The title of the account credited

- The amount of debit and credit
- Brief explanation of the entry or reference to the source document.

Project:-2 the transactions of a hypothetical business enterprise for a month are used to illustrate the recording process. To reduce repetition, some of the following transactions are stated as summary for example, sales of services for cash are ordinarily recorded on daily basis, but in the illustration, summary totals are given only at the middle and end of the month. Similarly, all sales of services on account during the month are summarized as a single transaction. In practice, each sale would be recorded separately.

- March 01 Addis Ababa City Arada sub-city societies want to establish a cooperative with the name ABC cooperative March 1, 2021. The following assets were invested by Arada Sub City cooperative promotion office for ABC cooperative: Cash Birr 3,500.00; Accounts Receivable Birr 950.00, supplies Birr 1,200.00 and photographic equipment Birr 15,000.00. There were no liabilities transferred to the business.
- March 01 Paid Birr 2,400.00 on a lease rental contract, the payment representing three months' rent of quarters for the studio.
- March 04 Purchased additional photographic equipment on account from Carson equipment co. for Birr 2,500.00.
- March 05 Received birr 850.00 from customers in payment for their account.
- March 06 Paid 125.00 birr for a newspaper advertisement.
- March 10 Paid Birr 500.00 to Carson Equipment Co. to apply on the Birr 2,500.00 debt owed them.
- March 13 Paid receptionists Birr 350.00 for two weeks' salary.
- March 16 Received birr 1,980.00 from sales for the first half of March.
- March 20 Paid 650.00 birr for supplies.
- March 27 Paid receptionists Birr 575.00 for two week's salary
- March 31 Paid Birr 69.00 for telephone bill for the month.
- March 31 Paid Birr 175.00 for electric will for the month
- March 31 Received Birr 1,870.00 from sales for the second half of March

March 31 Sales on account totaled Birr 1,675.00for the month.

March 31 One member of the cooperative withdraw Birr 1,500.00

Task:-1 after analyzing each transaction based on the transaction analysis procedure journalized the transaction on the general journal.

Solution

Date		Item	PR	Debit	credit
2022					
March	01	Cash		3,500	
		Account Receivable		950	
		Supplies		1,200	
		Photographic Equipment		15,000	
		ABC cooperative			20,650
	01	Prepaid Rent		2,400	
		Cash			2,400
	04	Photographic Equipment		2,500	
		Account Payable			2,500
	05	Cash		850	
		Account Receivable			850
	06	Advertising expense		125	
		Cash			125
	10	Accounts Payable		500	
		Cash			500
	13	Salary Expense		575	
		Cash			575
	16	Cash		1,980	
		Sales			1,980
	20	Supplies		650	
		Cash			650
	27	Salary Expense		375	
		Cash			375
	31	Miscellaneous Expense		69	

		Cash			69
	31	Miscellaneous Expense		175	
		Cash			175
	31	Cash		1,870	
		Sales			1,870
	31	Account Receivable		1,675	
		Sales			1,675
	31	Members withdrawal		1,500	
		Cash			1,500

LAP TEST-1	Performance Test
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Name.....ID.....

Date.....

Time started: _____ Time finished: _____

Instructions: Given necessary templates, tools and materials you are required to perform the following tasks within **2** hour. The project is expected from each student to do it.

Project: 1. to illustrate the complete accounting cycle, we will consider the following list of selected transactions. The transactions were completed by Michot Transport Cooperatives in the month of january 2022.

January 1. All Members contributes a total of Birr 450,000 and deposited it in the name of Michot Transport Cooperatives.

January 2. Michot Transport Cooperatives purchased two used trucks for Birr 150,000 each, on cash.

January 4. Michot Transport Cooperatives received a check for Birr 650 for services given to Abenezer Trading.

January 4. Received an invoice for truck expenses birr 90.

January 11. Paid Birr 600 for Awash insurance Company to buy an insurance policy for its trucks.

January 16. The cooperatives issued a check for Birr 9,400 to the workers as a salary for two weeks.

January 20. Michot transport Billed Muradu Supermarket for goods transported from Djibouti to Gondar Birr 2,650

January 21. Members wrote a check for birr 450 to have one of the trucks repainted

January 21. Michot transport purchased stationary materials and other supplies of Birr 740 on account

January 22. Office equipment of Birr 11,600 is bought on account.

January 23. Purchased an additional truck for Birr 250,000 paying birr 100,000 in cash and issuing a note for the difference.

January 23. Recorded services billed to customers on account birr 14,600.

January 25. Received cash from customers on account birr 15,000.

January 27. The society declares and paid Birr 500 in cash as a Dividend.

January 28. Paid 9,400, birr to workers as a salary for the last two weeks of the month.

January 30. Paid telephone expense of birr 95, and electric expenses of birr 125 for the month.

January 30. Paid other miscellaneous expenses birr 50.

January 31. Paid 4,000, birr a rent for a building used for office space.

Task:-1. After analyzing each transaction based on the transaction analysis procedure journalizing the transaction on the general journal?

LG #2	LO #2 Post to the Ledger and Prepare Unadjusted Trial Balance
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Instruction sheet
<p>This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:</p> <ul style="list-style-type: none"> • Concepts of ledger • Types of ledger • Posting Information in appropriate ledger • Preparing unadjusted trial balance • Identifying and Correcting Errors in trial balance <p>This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:</p> <ul style="list-style-type: none"> • enter into ledger the beginning or opening balance of each account • transfer or poste Information contained in journals • extract balance of each account after all information posted • Prepare unadjusted trial balance and correct Error in preparing trial balance
Learning Instructions:
<ol style="list-style-type: none"> 1. Read the specific objectives of this Learning Guide. 2. Follow the instructions described below. 3. Read the information written in the information Sheets 4. Accomplish the Self-checks 5. Perform Operation Sheets 6. Do the “LAP test”

Information Sheet 2

2.1. Concepts of ledger

A ledger is a book or collection of accounts in which account transactions are recorded. Each account has an opening or carry-forward balance, and would record each transaction as either a debit or credit in separate columns, and the ending or closing balance.

A ledger is a book or digital record containing bookkeeping entries. Ledgers may contain detailed transaction information for one account, one type of transaction, or in the case of a general ledger summarized information for all of a company's financial transactions over a period. Ledgers are also known as the **second book of entry**.

2.2. Types of ledger

There are 3 types of Ledgers

- I. Sales Ledger
 - II. Purchase Ledger
 - III. General Ledger
- **Sales Ledger** – Sales Ledger is a ledger in which the company maintains the transaction of selling the products, services or cost of goods sold to customers. This ledger gives the idea of sales revenue and income statement.
 - **Purchase Ledger** – Purchase Ledger is a ledger in which the company organizes the transaction of purchasing the services, products, or goods from other businesses. It gives the visibility of how much amount the company paid to other businesses.
 - **General Ledger** – General Ledger is divided into two types – Nominal Ledger and Private Ledger. Nominal ledger gives information on expenses, income, depreciation, insurance, etc. And Private ledger gives private information like salaries, wages, capitals, etc. Private ledger is not accessible to everyone.

2.3. Posting Information in appropriate ledger

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After the information about a business transaction has been journalized, that information is transferred to the specific accounts affected by each transaction. This process of transferring the information is called **posting**.

An account could be of two types; the two-column account and the four-column account. We will use the four-column account for our illustration. The two forms of accounts are given below.

The two-column account:

Account _____ Account number _____

Date	Item	P.R	Debit	Date	Item	P.R	Credit

The four-column account:

Account _____ Account number _____

Date	Item	P.R	Debit	Credit	Balance			
					Debit		Credit	

- Steps in posting**

step1. Record the date and amount of Dr. and Cr. Entry to the account

step2. Insert the Journal page number in the P.R (Post Reference) column of the account.

step3. Insert the account number in the P.R column of the journal.

Note. The P.R Column is used for reference purposes. The P.R column of the journal shows whether the entry is posted and the account to which it is posted. In the account, the P.R Column shows the Journal page number from which the entry was brought.

The group of accounts used by an organization is called ledger.

2.4. Preparing unadjusted trial balance

2.4.1. Definition of An unadjusted trial balance

- An unadjusted trial balance is a listing of all the accounts found in a general ledger.
- It is prepared at the end of the period (e.g. month, quarter, year) before any adjusting entries are made.
- It is usually used as a starting point for analysing account balances. As its name implies, the account balances must be balanced, meaning that total debit and credit balances are equal.
- As an unadjusted trial balance is prepared before any adjusting entries are made, it's not a suitable reference for preparing financial statements.
- Rather, think of it as an organized listing of the accounts found in the general ledger.
- Accounts are listed in a way that you'd present your balance sheet and income statement: assets first followed by liability and equity, then revenue items followed by expense items.
- An unadjusted trial balance's purpose is to make sure that the balances are arithmetically correct.
- If there are any errors, they should be detected and corrected.
- An error can be as simple as entering a debit balance as a credit balance (and vice versa), or it could be as complicated as failing to post a journal entry.

Typically, these corrections are not yet considered as the adjusting entries that you'll see once the preparation of an adjusted trial balance is started. The proof of the equality of the debits and the credits in the ledger is called a trial balance. The trial balance consists of:

I.A heading

II.A list of ledger account titles

III.The balance of each account in either a debit or a credit amount column

IV.The total of each amount column

The trial balance for our illustration, Michot Transport Cooperatives is presented below. The amounts are taken from the balances of the accounts after all the transactions have been posted. Therefore, after posting the above transactions, you should get the final balances shown on the trial balance at the end.

2.5. Identifying and Correcting Errors in trial balance

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Errors will sometimes occur in journalizing and posting transactions. In some cases, however, an error might not be significant enough to affect the decisions of management or others. In such cases, the **materiality concept** implies that the error may be treated in the easiest possible way. For example, an error of a few dollars in recording an asset as an expense for a business with millions of dollars in assets would be considered immaterial, and a correction would not be necessary. In the remaining paragraphs, we assume that errors discovered are material and should be corrected.

2.5.1. Discovery of Errors

As mentioned previously, preparing the trial balance is one of the primary ways to discover errors in the ledger. However, it indicates only that the debits and credits are equal. If the two totals of the trial balance are not equal, it is probably due to one or more of the errors described below.

- Trial balance preparation error
 - ✚ Column incorrectly added
 - ✚ Amount incorrectly entered on trial balance
 - ✚ Balance entered in wrong column or omitted
- Account balance errors
 - ✚ Balance incorrectly computed
 - ✚ Balance entered in wrong column of account
- Posting errors
 - ✚ Wrong amount posted to an account
 - ✚ Debit posted as credit, or vice versa.
 - ✚ Debit or credit posting omitted

Among the types of errors that will *not* cause the trial balance totals to be unequal are the following:

- Failure to record a transaction or to post a transaction.
- Recording the same erroneous amount for both the debit and the credit parts of a transaction.
- Recording the same transaction more than once.
- Posting a part of a transaction correctly as a debit or credit but to the wrong account.

It is obvious that care should be used in recording transactions in the journal and in posting to the accounts. The need for accuracy in determining account balances and reporting them on the trial balance is also evident. Errors in the accounts may be discovered in various ways:

- I. through audit procedures,
- II. by looking at the trial balance or
- III. By chance.

If the two trial balance totals are not equal, the amount of the difference between the totals should be determined before searching for the error.

The following types of Errors that can be discovered through the medium of the trial balance:

- **Addition:** For example, a difference of Brr10, Brr100, or Brr 1,000 between totals is frequently the result of error in addition.
- **Omission:** A difference between debit and credit totals can happen:-
 - ✚ due to the omission of a debit or a credit posting or,
 - ✚ If the difference is divisible evenly by 2, due to the posting of a debit as a credit, or vice versa.
- **Transpositions:** It is the erroneous rearrangement of **digit**, such as writing Brr 542 as Brr 524 or Brr 452.
- **Slide:** It is the entire number is erroneously moved one or more spaces to the right or the left, such as writing Brr 542.00 as Brr 54.20.

2.5.2. Correction of Errors

The procedures used to correct an error in journalizing or posting vary according to the nature of the error and when the error is discovered. These procedures are summarized below.

Error	Correction procedure
1. Journal entry is incorrect but not posted.	Draw a line through the error and insert correct title or amount.
2. Journal entry is correct but posted incorrectly.	Draw a line through the error and post correctly.
3. Journal entry is incorrect and posted.	Journalize and post a correcting entry.

Table 2.1: Correction of errors

2.5.3. Limitations of the Trial Balance

The trial balance amounts are equal doesn't mean that the accounting work is free from error. That is, there are errors that may take place without affecting the trial balance totals. Some examples are mentioned below:

- Failure to record a transaction or to post a transaction
- Recording the same erroneous amount for both the debit and the credit parts of a transaction.
- Recording the same transaction more than once.
- Posting part of a transaction to the correct side but the wrong account.

Note: All these errors have the same affect (increasing or decreasing) on the debit totals and credit totals

Self-check 2	Written test
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Name..... ID..... Date.....

Directions: Answer all the questions listed below.

Part I: Choose the best answer for each of the following questions given below (2 points each)

- Which transactions entered into the daily journal should include?
 - Date of the transaction
 - Birr amount, entered as a debit or credit.
 - Name of each account
 - All of the above
- The birr amount of each transaction is entered in the last two columns of the daily Journal as either a debit or credit. This is because each transaction:
 - is an equal exchange
 - The amount entered in the debit column must equal the credit column.
 - Both A and B
 - Neither A nor B
- Balances of the Accounts are transferred to:
 - Trial Balance
 - Trading Account
 - Profit & Loss Account
 - Balance Sheet
- _____ is used to combine all the transactions from the daily journal, which are in Chronological order, into each of the cooperative accounts.
 - General Ledgers
 - Subsidiary Ledgers
 - Chart of Accounts
 - General journal
- Which of the following could be considered as the objective of bookkeeping?
 - to have permanent record of each transaction of the business (i.e. the

- entity)
- B. to show the financial effect of each transaction recorded on the entity
 - C. to disclose factors responsible for earning profit or suffering loss in a given period
 - D. protection of errors and frauds
 - E. All of the above
6. The balances all ledger accounts are place on a separate list with debit and credit columns. This list of balances is known as _____.
- A. Balance sheet
 - B. Trial balance
 - C. Income statement
 - D. Statement of cash flow
7. Journal lists transactions in which order?
- A. Decreasing
 - B. Chronological
 - C. Alphabetical
 - D. Increasing
8. ABC cooperative trial balance was showing difference of ~ 5,000 (debit side exceeds). While checking of total sales register, it found that the total is over-cast by ~ 2,000. After correction in sales register what would be the difference in its trial balance.
- A. Debit side exceeds by ~ 7,000
 - B. Debit side exceeds by ~ 5,000
 - C. Debit side exceeds by ~ 3,000
 - D. Credit side exceeds by ~ 3,000

Part:-II Write short answer for the following questions(3 points each)

1. Write and discuss types of ledger.
2. List down Limitations of the Trial Balance.

Note: Satisfactory rating - 10 points

Unsatisfactory - below 10points

You can ask you teacher for the copy of the correct answers.

Operation Sheet 2	Performance test
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1.1. Procedure /methods for posting the transaction from journal to ledger

- Record the date
- Record amount of Dr. and Cr. Entry to the account
- Insert the Journal page number in the P.R (Post Reference) column of the account.
- Insert the account number in the P.R column of the journal.

1.2. Tools and equipment

- Scientific calculators
- Stationary
- Computer

Project: 1 based on the transaction given on **LO1 operation sheet 1** post the transaction from journal to ledger

Solution

Task: 1 posting transactions recorded in the journal to the ledger

Account: *cash*

Account no. **11**

Date		Item	Post ref.	Debit		Credit		Balance			
								Debit		Credit	
2022	1		1						3500		
Mar.				3500	-				00		
	1		1			2400	-		1100	00	
	5		1	850	-				1950	00	
	6		1			125	-		1825	00	
	10		1			500	-		1325	00	
	13		1			575	-		750	00	
	16		1	1980	-				2730	00	
	20		1			650	-		2080	00	
	27		1			575	-		1505	00	
	31		1			69	-		1436	00	
	31		1			175	-		1261	00	
	31		1	1870	-				3131	00	
	31		1			1500	-		1631	00	

Account; *Account receivable*

Account no **12**

Date		Item	Post ref.	Debit		Credit		Balance			
								Debit		Credit	
2022											
Mar.	1		1	950	-			950	-		
	5		1			850	-	100	-		
	31		1	1675	-			1775	-		

Account **supplies**

Account no 13

Date		Item	Pos t ref.	Debit		Credit	Balance			
							Debit		Credit	
2022	1		1	1200	-		1200	-		
Mar										
.										
	20		1	650	-		1850	-		

Account **prepaid rent**

Account no 14

Date		Item	Pos t ref.	Debit		Credit	Balance			
							Debit		Credit	
2022	1		1	2400	-		2400	-		
Mar										
.										

Account **photographic equ.**

Account no 15

Date		Item	Pos t ref.	Debit		Credit	Balance			
							Debit		Credit	
2022	1		1	15000	-		15000	-		
Mar										
.										
	4		1	2500			17500	-		

Account **accounts payable**

Account no **21**

Date		Item	Pos t ref.	Debit		Credit		Balance		
								Debit		Credit
2022	4		1			2500	-			2500
Mar										
.										
	10		1	500	-					2000

Account **sare cole, capital**

Account no **31**

Date		Item	Pos t ref.	Debit		Credit		Balance		
								Debit		Credit
2022	1		1			20650	-			20650
Mar										
.										

Account **sare Cole, drawing**

Account no **32**

Date		Item	Pos t ref.	Debit		Credit		Balance		
								Debit		Credit
2022	31		1	1500	-			1500	-	
Mar										
.										

Account **sales**

Account no **41**

Date		Item	Pos t ref.	Debit		Credit		Balance		
								Debit		Credit
2022	16		1			1980	-			1980
Mar										
.										
	31		1			1870	-			3860
	31		1			1675	-			5525

Account **salary expense**

Account no **51**

Date		Item	Pos t ref.	Debit		Credit		Balance		
								Debit		Credit
2022	13		1	575	-			575	-	
Mar										
.										
	27		1	575	-			1150	-	

Account miscellaneous expense

Account no **52**

Date		Item	Pos t ref.	Debit		Credit		Balance		
								Debit		Credit
2022	6		1	125	-			125	-	
Mar										
.										
	31		1	69	-			194	-	
	31		1	175	-			369	-	

Project: 2 from the above ledger prepare an unadjusted trial balance

Solution

ABC Cooperative
unadjusted Trial Balance
March 31, 2021

	Debit	credit
Cash	1631	
Account receivable	1775	
Supplies	1850	
Prepaid rent	2400	
Photographic equipment	17500	
Account payable		2000
ABC Coop capital		20650
Members withdrawal	1500	
Sales		5125
Salary expense	750	
Advertising expense	125	
Miscellaneous expense	244	
	<u>27775</u>	<u>27775</u>

Lap Test 2	Performance Test
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Name..... ID.....

Date.....

Time started: _____ Time finished: _____

Instructions: Given necessary templates, tools and materials you are required to perform the following tasks within **2** hour. The project is expected from each student to do it.

Task: 1. from the transaction given on **LO1, LAP test**, post the transaction from journal to ledger

Task: 2. Prepare unadjusted trial balance from **task 1**

LG #3	LO #3 File and document financial record
--------------	---

Instruction sheet
<p>This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:</p> <ul style="list-style-type: none"> • Classifying and sorting financial documents • Labeling file boxes • Filling and documenting financial record <p>This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:</p> <ul style="list-style-type: none"> • Classify and sort financial documents. • Prepare Labelle file boxes based on organizational procedures. • file and document Financial record chronologically based on their classification for audit purpose
Learning Instructions:
<ol style="list-style-type: none"> 1. Read the specific objectives of this Learning Guide. 2. Follow the instructions described below. 3. Read the information written in the information Sheets 4. Accomplish the Self-checks

Information Sheet 3

3.1. Classifying and sorting financial documents

3.1.1. Classification of financial documents

Financial documents, also known as **financial statements**, are a set of standardized documents which communicate a business's financial information. The purpose of financial statements is to provide a broad overview, as well as specific insights into a company's overall financial health. In business, financial documents are critical since they are often utilized to make key decisions about how to distribute resources and how to manage risks.

There are three primary types of financial documents: the **balance sheet**, the **income statement**, and the **cash flow statement**. Each type of financial statement provides different information that can be used to assess a company's financial condition. They may be used by management to make business decisions, creditors and banks to investigate a company's credit-related reliability, and by investors to make decisions related to investment activities. There is also another financial document worth noting known as the statement of changes in equity. This statement provides information about a business's shareholders' equity.

3.1.2. Definition of Financial Records

Financial records are any type of records that pertain to a company's financial activities. This can include accounting records, bank statements, tax documents, and more. Financial records provide information about a company's income, expenses, assets, liabilities, and equity. Financial documents, on the other hand, are a specific type of financial record that includes balance sheets, income statements, cash flow statements, and statements of shareholders' equity. The information that creates these statements comes from the financial records. Sometimes these terms are used interchangeably.

3.1.3. The Accounting System and Financial Record

The cooperative's accounting system is a method of recording and reporting the financial results of its business transactions. The bookkeeper records the business transactions of the cooperative in a daily journal. These records are then used to generate various financial reports that provide an historical record of the cooperative's business activity.

Accurate and current records are also important to members of the cooperative. Records should show the net profit, the level of each member's patronage account and the amount of equity members hold in the cooperative. This facilitates distribution of patronage refunds and ensures that the cooperative is operating according to cooperative principles. The accounting system of the cooperative covers the balance sheet, income statement, and statement of cash flows. These financial statements report the results of the cooperative's business transactions. This section also explains the monthly cash flow statement, a planning tool for management.

Three financial reports commonly used in business are the balance sheet, income statement, and the statement of cash flows. They report the financial position of the cooperative, its performance over a given time period, and its ability to meet cash obligations. They are the basis for planning future operations. Each report contains different, but interrelated information that together give a complete picture of the financial operations of the cooperative. Managers, bookkeepers and board members should be able to understand and interpret these reports so they can make informed business decisions about the future of the cooperative.

3.1.4. Financial Reporting

Financial reports are used to evaluate past operations and are the basis for management and operating decisions on future projects. The board of directors uses the reports for feedback on the financial status of the cooperative, to evaluate progress and to make informed decisions about future operations.

3.2. Filling and documenting financial documents

3.2.1. Definition of documentation

In the context of internal controls, paper or electronic communication which supports the completion of the lifecycle of a transaction meets the criteria for documentation. Anything that provides evidence for a transaction, who has performed each action pertaining to a transaction, and the authority to perform such activities are all considered within the realm of documentation for these purposes.

3.2.2. Purpose of documentation

Documents provide a financial record of each event or activity, and therefore ensure the accuracy and completeness of transactions. This includes expenses, revenues, inventories, personnel and other types of transactions. Proper documentation provides evidence of what has transpired as well as provides information for researching discrepancies.

Supporting documentation may come in paper or electronic form. In recent years, more often, official supporting documentation has moved from paper based to electronic forms. Keep in mind that in some instances electronic processing and approvals are the source documents for transactions.

Key Concepts and Best Practices:

Key Concept	Best Practice
Format of source documents: Well-designed documents help ensure the proper recording of transactions. Consistent use of standard forms or templates should be considered whenever possible.	The advance of online applications provides a fast and efficient method for accessing supporting documentation in a standard format. In other areas, wherever possible, the use of templates provides the same benefits. Consider creating templates for activities such as: <ul style="list-style-type: none"> • Email approvals • Departmentally created supporting documentation • Time reporting • Reimbursement logs (such as mileage logs, petty cash, others)

<p>University ownership of documents:</p> <p>Documents used to support University business transactions are University property, not the personal property of employees.</p>	<p>Whenever possible, do not allow employees to take University owned records home. If business needs require University records to be taken home, communicate to employees their responsibility to keep documents secure, particularly those containing personal information. This is particularly important to communicate to employees that have telecommuting agreements.</p>
<p>Documenting changes:</p> <p>Changes made subsequent to approval of documents should be clear and concise.</p>	<p>Use attachments or footnotes to document the reasons for corrections/adjustments to any records. Make the time/date and the approval of such corrections/adjustments clear and evident.</p>
<p>Avoid duplicate processing:</p> <p>Establish a method to avoid duplicate processing, especially in regards to transactions that result in payments to individuals such as payroll, petty cash and travel reimbursements.</p>	<p>Build a check for duplicate payments into the processing and approval of payroll, petty cash and travel reimbursements.</p> <p>Create an environment in which payroll, petty cash reimbursements and travel reimbursements are processed in a timely manner. Long delays in processing create opportunities for duplicate payments that go undiscovered.</p> <p>Look closely at all late entries to watch for double submission of payments. (Example: late timecards, extremely late petty cash requests, travel expenses requested at a later time separate from the rest of the trip).</p>
<p>Retention:</p> <p>Retention policies exist for all types of supporting documentation. Always keep documents for the appropriate retention period and no longer.</p>	<p>Establish a process for purging documents that have reached the end of their retention period. Document who, when and how each record type should be purged.</p> <p>Be aware of record retention responsibilities. See Records Retention</p>

<https://finance.uw.edu/fr/internal-controls/documentation>

3.3. Filing financial document

There are three questions to be answered during filing system

- I. Why should organizations have a good filing system?
- II. Important things to know about filing?
- III. How to set up a filing system?

Why should organizations have a good filing system?

- Filing means keeping documents in a safe place and being able to find them easily and quickly. Documents that are cared for will not easily tear, get lost or dirty.
- A filing system is the central record-keeping system for an organization. It helps you to be organized, systematic, efficient and transparent. It also helps all people who should be able to access information to do so easily.
- It is always a pleasure when someone looks for something and is able to find it without difficulties. In our organizations we work in groups. We receive and send out documents on different subjects. We need to keep these documents for future reference. If these documents are not cared for, we cannot account for all our organizational activities. Everyone who needs to use documents should know where to get them.

Important things to know about filing

- **What do we file?:** We file documents that are sent to us by other people or organizations. We also file records of all our organizational activities. These can be letters, memos, reports, financial records, policy documents, etc.
- **When do we file?:** This depends on how busy your office is. In very busy organizations filing is done at least every day and usually first thing in the morning. In a small or less busy office you could file once or twice a week.
- **Equipment used for filing**
 - ✚ **Filing Cabinet** - It is used to keep flat files and suspension or hanging files
 - ✚ **Steel Cabinet** - It is used to keep big files that need to be locked up
 - ✚ **Date Stamp** - It is used to date stamp documents that are received on daily basis so that they are filed in chronological order and so we have a record of when we received the document

- ✚ **Register** - It is used to record files taken out and files returned
- ✚ **Filing shelves** - It is used to file box files
- ✚ **Box file** - This is a big file that is used to keep big documents that cannot go into a filing cabinet. They are kept in shelves.

- **What files are used and how are they used?**

- ✚ **Clip folders** - they are used for documents that need to be taken out very often; they hold documents tightly so that they do not fall out.
- ✚ **Folders** - paper or cardboard folders are used to keep loose documents together. The folders are placed inside suspension or box files.
- ✚ **Suspension file** -the suspension files are used to keep documents in filing cabinets. The files are put into the drawers upright. The suspension files hangs down from the cradle. These files always remain in the cabinets but folders inside them can be taken out.
- ✚ **Box files** - they are used to keep big documents including magazines and books.
- ✚ **Lever arch files** -documents are kept firm in these files and allow one to look at documents without taking them out of the file.

- **Methods of filing**

There are 5 methods of filing:

- I. Filing by Subject/Category
- II. Filing in Alphabetical order
- III. Filing by Numbers/Numerical order
- IV. Filing by Places/Geographical order
- V. Filing by Dates/Chronological order.

These ways of filing is called classification and means organizing things that are alike, together. You can, however, combine some of these methods. For example, files that are kept together according to what they are about we say are subject filing but, inside each file the documents could be filed according to date order.

- **How to set up a filing system**

- **Filing Categories**

To make a filing system more useful, we can group files into categories. A category is a group/collection of things that belong together.

When we file by categories, we try to file in a logical way; we put files together because they belong together; we don't put them together just because they start with the same letter.

For example, we could put all our files into categories. Correspondence could be one category that takes up a whole drawer of our filing cabinet. Inside that drawer we could have sub-categories. Sub categories could be things like:

- Fundraising correspondence
- Correspondence with other organizations
- Correspondence with members
- Correspondence with members of the public

Some documents may have to file in two places to make it easier to access the information. For example you may have a category for "funders" and for "correspondence". In your funders category you will have a sub-category for each major funder and you will sometimes have to file a letter from a funder in that funder's file as well as in your fundraising correspondence file.

- **How to form categories**

- I. Sort all your documents out into files that you think belong together.
- II. Give each file a category name.
- III. Make a list of categories.
- IV. Look at your list critically: Ask yourself: Can we combine any categories?
Should we break up a category into two categories? What sub-categories do we need? Do we need to have alphabetical files within a category?

Make sure you don't have too many categories. It should not be difficult for anyone to decide in which category they are likely to find the information they need.

- **Filing key**

Once you have decided on your categories, you will have to draw up a filing index so that everyone can understand the system you used and find the information they want. This index is called a filing key.

Write up a filing key by listing all the categories and sub-categories in the order they are filed in. Make sure it is laid out so that everyone can understand it. Put it on the filing cabinet and also put a key for each drawer on the front of the drawers. Give everyone a copy of the whole filing

key.

Make sure that everyone who does filing understands the key and uses it for filing.

- **New files**

Don't create new files unless you are absolutely sure the information does not logically fit into an existing file. Put the new file in the correct category and write it in the filing key immediately. Give everyone a copy of the new categories as soon as possible.

- **Filing Correspondence**

All letters must be filed in 2 places

- **Incoming mail**

- The original letter together with a copy of your answer goes into the subject file.
- A second copy of the letter goes into the correspondence in file.

- **Outgoing mail**

- One copy of the letter goes into the subject file. Any letters in answer to your letter must go into this file; and all future correspondence about the subject.
- One copy goes into the correspondence out file.

- **Filing Rules**

There are two basic rules underlying filing:

I.alphabetical filing - filing according to the letter of the alphabet

II.date filing - most recent files on top

These rules are basic because they apply to all filing systems. When we file by name, subject and area we should always file alphabetically and by date.

3.4. Steps in filling financial documents

step1. Financial documents are classified and sorted

step2. Labeled file boxes are prepared.

step3. Financial documents are file and documented based on their classification.

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Self-check 3	Written test
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Name..... ID..... Date.....

Directions: Answer all the questions listed below.

Part I: Choose the best answer for each of the following questions given below (2 points each)

1. From the following which one is **Not** Equipment used for filing
 - A. Filing Cabinet
 - B. Steel Cabinet
 - C. Date Stamp
 - D. Filing Rules
2. From the following one is **Not** used to keep big files that need to be locked up
 - A. Filing Cabinet
 - B. Steel Cabinet
 - C. Date Stamp
 - D. Filing Rules
3. All are methods of filing document **except**
 - A. Filing by Numbers
 - B. Filing by Places
 - C. Filing by Dates
 - D. Filing Cabinet
4. The three financial reports commonly used in business are _____.
 - A. The balance sheet, The statement of cash flows, Statement of retained earning
 - B. The income statement, Statement of retained earnings statement of cash flow
 - C. The income statement, balance sheet, statement of cash flow
 - D. The income statement, balance sheet, Statement of retained earning

Part II. Short answer (2 points each)

1. Write Methods of filing.
2. write Steps in filling financial documents

Note: Satisfactory rating - 5points Unsatisfactory - below 5points

You can ask your teacher for the copy of the correct answers

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The experts who developed the learning guide

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