Participant Workbook

FNSACC301 Process financial transactions and extract interim reports

1st Edition 2017

Part of a suite of support materials for the
FNS Financial Services Training Package

Innovation & Business Skills Australia

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Introduction

Welcome to the Participant Workbook.

Your training

This workbook has been developed for the unit of competency *FNSACC301 Process financial transactions and extract interim reports*. The workbook contains the following sections:

1. Checking and verifying supporting documentation
2. Preparing and processing banking and petty cash documents
3. Preparing and processing invoices for payment to creditors and for debtors
4. Preparing and posting journals and batching monetary items
5. Posting journals to ledgers
6. Entering data into the system
7. Preparing deposit facility and lodging flows
8. Extracting a Trial Balance and interim reports.

These are the key knowledge and skills areas covered in the unit of competency. Your facilitator will show you the unit of competency, explain what it covers, and let you know how you can locate your own copy.

Your facilitator will also let you know how you will be assessed for this unit of competency.

Extending your skills and knowledge

There is a 'further reading' list at the end of each section of this workbook. This contains texts, websites and other resources that you can use to develop further skills and knowledge. You may also be referred to useful websites in the learning content and learning activities.

Please note that any website addresses included in the further reading, learning content and learning activities of this workbook were checked by IBSA and correct at the time of publication.

Website addresses do change frequently. If a website address is not current, IBSA recommends using the reference information provided to search for the source using your preferred search engine.

Section 1 – Supporting Documentation

This section focuses on the need to check and verify all supporting documentation used in the preparation of accounts. Those who are assigned the task of keeping financial and business records have a responsibility to prepare and present accurate information, which management can use to make informed decisions with confidence.

Business organisations rely on the accuracy of their financial and business records for reporting their financial performance to shareholders, providing accurate information to the Australian Taxation Office (ATO) and ensuring they know what their financial health is at any point in time.

Scenario: ABC Technology
ABC Technology is a mobile IT support business that operates in the suburbs of your state or territory's capital city. It has 18 employees, and you are a new member of staff working in the accounts section. You have a manager who is a qualified accountant. Your role is to look after the Accounts Payable and Receivable. You have only been with the company for a month and you are still learning many of the accounting functions and processes. You are reporting to the office manager, Helen, who is responsible for compliance and the preparation of accounts for the company. She is relying on you to follow her instructions and has provided you with the manual she developed for the accounts assistant position. Other than you and Helen, ABC Technology has a receptionist, an administrative assistant, the managing partners (Emilie and Rob), and a number of full-time and part-time IT technicians who provide on-site and phone support to customers.

What skills will you need?

In order to check and verify supporting documentation, you must be able to:

- ☑ identify, check and record information from documents
- ☑ examine supporting documentation to establish its accuracy and completeness and ensure authorisation by appropriate personnel.

Introduction to accounting

The accounting roadmap

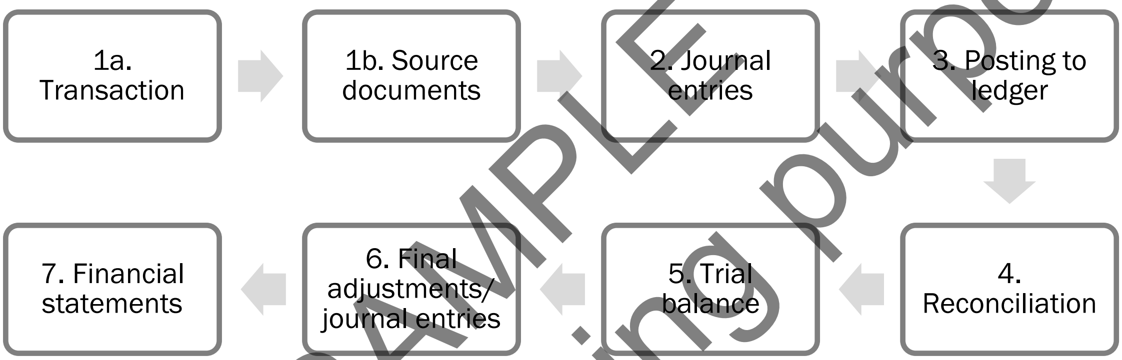
All businesses, regardless of their size and function, need to account for all their business transactions and are accountable for whether or not those transactions balance. The accounting process serves many purposes, many of them depending on the way the organisation is structured.

The process acts as an internal control for the distribution and movement of funds between accounts, the payment of employees and creditors, and the accurate and timely reporting of accounting information to stakeholders.

The process also exists to meet the requirements of external stakeholders, including government agencies (e.g. the Australian Taxation Office [ATO]), regulators (e.g. Australian Securities and Investment Commission [ASIC]), creditors and shareholders. An organisation's financial activity is communicated through routine reporting, both internal and external.

In a computerised accounting system, the minute the transaction is entered in the software, all related accounts are immediately updated. In a manual system, the accounting process involves performing routine actions where the information from one journal or ledger is posted to the next in order to produce financial reports. This routine is illustrated in the accounting roadmap diagram below.

As this process is repeated for each reporting period, it is also often referred to as the accounting cycle.

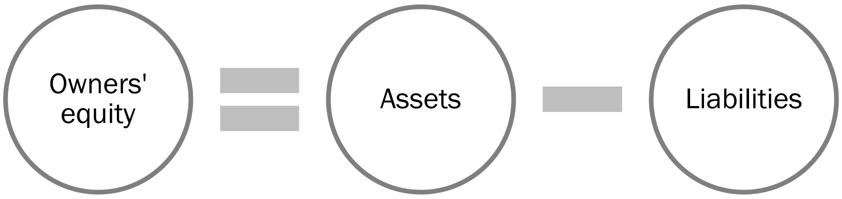


1. If you start at the transaction phase of the accounting roadmap, you can see that completing a transaction results in a source document being generated (such as a receipt or invoice).
2. The information from the source document is then entered into the relevant accounting journal. A journal captures details of financial transactions in date and time order.
3. Ledgers break/distribute all the details in the journal entries into their account types, as determined by the chart of accounts.
4. Reconciling journal entries involves comparing journal balances and individual journal entries with other financial records, most commonly bank statements. This process ensures that the journals are a true and accurate reflection of the monies that were actually received or paid.
5. A Trial Balance is prepared to ensure that the double-entry bookkeeping process has been correctly applied.
6. Final adjustments can be made at this stage to ensure that each transaction has been correctly accounted for in the books.
7. Once you are confident that the books are an accurate representation of the organisation's financial position, you can create various financial statements from the data you have gathered and collated.

This workbook will focus on all seven stages of the accounting roadmap.

The accounting equation

An important element of the accounting system is the relationship between assets, liabilities and owners' equity (capital). This relationship is represented in the accounting equation:



Owners' equity is whatever remains after you subtract what you owe (liabilities) from what you own (assets).

This equation is the basis on which accounting information is gathered and arranged.

Accounting conventions, standards, processes and procedures

As an accounts assistant, you will be expected to know what accounting conventions are, understand accounting processes and follow accounting procedures.

Accounting conventions are the rules of accounting that professionals abide by in the preparation of accounts. They have been developed by the profession over time. Accounting conventions fill in the gap between accounting laws and accounting practice. By having accounting conventions, the profession has a set of rules that guide financial reporting for individuals and businesses.

Examples of accounting conventions include, but are not limited to:

- consistency (means the same practices should be used consistently, year after year)
- full disclosure (means financial statements should fully disclose all relevant information)
- materiality (means that only important and relevant information should be provided for the preparation of financial statements to make them meaningful to the end users)
- conservatism (means that when preparing accounts, every attempt should be made to minimise the amount of profit declared and ensure all losses are declared).

Accounting standards are imposed by law and must be adhered to by members of the profession. In Australia, the Australian Accounting Standards have been set by the Australian Accounting Standards Board [AASB] and are the laws governing the preparation of financial reporting in this country.

Examples of accounting standards include:

- AASB 134 Interim Financial Reporting
- AASB 1039 Concise Financial Reports
- ASSB 1056 Superannuation Entities.

Accounting processes are those steps followed in the accounting cycle (or accounting roadmap). The process involves the following steps.

1. Record transactions.
2. Post them to a relevant journal.
3. Post journals to a relevant ledger.
4. Extract a Trial Balance.
5. Make final adjustments.
6. Prepare financial statements.

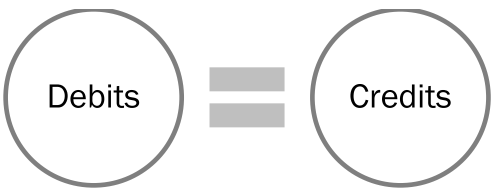
Accounting procedures are the pre-determined steps taken (or rules followed) to complete each of the accounting processes. For example, when you post transactions to relevant journals, you must be consistent in the way you do it. Organisations provide their staff with procedures for all the tasks they are required to perform, so that they can complete those tasks correctly and consistently every time they perform them. The most significant procedures used in accounting are related to:

- posting transactions into journals
- posting journals into ledgers
- extracting Trial Balances
- compiling interim reports
- preparing financial statements.

Double-entry bookkeeping

Double-entry bookkeeping is fundamental to recording and reporting on the financial affairs of an organisation. The basic principle of double-entry bookkeeping is that every transaction that an organisation records affects a minimum of two accounts. The way that each transaction changes the accounts is classified as either a debit or a credit, depending on the nature of the account and whether its value is increased or decreased by the transaction.

Double-entry bookkeeping is a closed accounting system where every debit is balanced against a corresponding credit.



When successfully implemented, double-entry bookkeeping allows organisations to track the movement of financial assets because both sides of the transaction (the debit and the credit) have been recorded. The total amount debited (to one or more accounts) must equal the total amount credited (to one or more accounts). Every debit must have a corresponding credit and vice versa.

There is always a link between money in and money out.

The most straightforward transaction that demonstrates debits and credits within a closed accounting system is the transfer of funds from one bank account to another. The account that contained the funds decreases and the account that the funds are destined for increases. One increases in value by exactly the same amount that the other decreases.

Most transactions are more complicated than the example provided above, and many involve several accounts. Despite the complexity of the transaction, every credit is balanced by an equal debit amount and vice versa.

The number and the type of accounts that an organisation uses will vary greatly from organisation to organisation. However, all accounts fall into five broad account groups. These account groups are detailed in the table below.

Definitions	
Assets	Things of monetary value that a business owns, benefits from, or has use of and which have the potential to earn future income for the business. They may be physical items (like cash, equipment and property), a legal claim against others (like monies owed to the business from debtors) or certain intellectual property rights (like patents and trademarks).
Liabilities	The legal obligations of a business in relation to the money it owes to others. These include monies owed to suppliers, loan funders and bills that have not yet been paid (e.g. income tax payable). As a rule, if an account name includes the descriptor 'payable', then it contains liability.
Equity	Also known as owners' equity or net worth, it is simply the owners' right to the assets of the business. It is what would be left over if a business or organisation sold all the assets and paid off all the liabilities. Owners' equity is made up of the investments made by the owners and is increased by profits from the business and decreased by owners withdrawing their equity via drawings (personal takings) or dividends (payments to shareholders).
Revenue	The payment by others for goods and services that have been provided by the business. Revenue is typically generated by the sale of merchandise or the provision of services.
Expenses	Those assets and supplies that have been consumed in the earning of income or incurred in order to earn income. Examples include the cost of goods sold, supplies used, electricity, wages and rent.

Learning activity: Five account groups

Based on the definitions provided of the five account groups, review the following list and identify which accounting elements belong to which account group.

	Asset	Liability	Equity	Revenue	Expense
Accounts Payable					
Petty cash					
Dividends paid					
Capital investment					
Inventory/stock					
Cost of sales					
Telephone					

The initial challenge with double-entry bookkeeping is to know which account should be debited and which account should be credited.

The nature of each account group can be classified as either debit or credit. The way the account changes (whether it increases or decreases in value) when it is credited or debited will depend on its classification. This can be confusing at first because, depending on their classification, accounts do not behave in the same way.

This confusion is further complicated by the use of the terms 'creditor' and 'debtor'.

Creditors are people or businesses that an organisation owes money to. Typically, creditors are suppliers who provide goods and services to the accounting entity. They are called creditors because we credit their account when we record the money owed to them. Because creditors are people or businesses that an organisation must pay, their records are referred to in the accounting process as the Accounts Payable.

Debtors are people or businesses that owe money to the organisation. Typically, these are the customers who purchase goods and services from the organisation. They are called debtors because we debit their account when we record the money they owe. As debtors are people or businesses that an organisation expects to receive money from, their records are referred to in the accounting process as the Accounts Receivable.

Two tables explaining the behaviour of each account group follow. The tables contain the same information organised in different ways; in order to avoid confusion, you should use whichever makes the most sense to you.