

## ACCOUNTING: HOW TO GUIDE – NOT JUST TEACH!

### Introduction

This is a 'follow-up' of the document *Accounting: Do you guide or do you just teach*.

Your role in the teaching of Accounting should be to **guide the learners to discover**. This is a much better option than to *teach the learners to do*. This is of exceptional importance when the foundation-stone of Accounting, the Accounting equation, is dealt with.

The end result of the accounting process is in the form of reports and financial statements. These show how a business or organisation has performed and provide the information required to plan for the future. The Balance sheet (Statement of financial position) is one of the relevant statements and shows the financial position of a business on a specific date. It shows what the business owns (assets), what they owe (liabilities) and the difference, known as equity or owner's equity. If we write these three items in equation form we get:  $\text{Assets} - \text{Liabilities} = \text{Owner's equity}$ .

However, we usually work with positive amounts in accounting. So the equation known as the **basic Accounting equation** is written as:  $\text{Assets} = \text{Owner's equity} + \text{Liabilities}$

The **basic Accounting equation**,  $\text{Assets} = \text{Owner's equity} + \text{Liabilities}$ , ( $A = O + L$ ), is the foundation stone of the subject and should be the starting point of the elementary teaching of Accounting. 'Formulas', 'Recipes', 'remember boxes' and 'frills' just cause confusion.

Some teachers let learners learn formulas as an aid for them to know that Assets, Expenses and Drawings are debited, whereas Liabilities, Capital and Income are credited. Now it is one thing to know that a certain account should be debited, but the more important issue is to know **why** the relevant account should be debited. Assets, Expenses and Drawings are all debited for **different reasons** – and it is these reasons that help learners to think for themselves, to discover and to understand. Likewise Liabilities, Capital and Income are credited for **different reasons** – and it is these reasons that help learners to think for themselves, to discover and to understand.

Avoid passive rote learning. What is needed is 'basics', 'basics', 'basics'. Understandable basics that can serve as a secure foundation of the subject.

### To Guide

In this document "guide" means to "help learners to think/reason for themselves". This is done by asking leading questions while working from the "known" to the "unknown". If there is no *known*, you will first have to explain – but not too much! Just enough to get the mind going again.

To guide successfully, you must keep the learners active, alert and focussed. By asking leading questions you keep their attention focussed on the relative lesson and you will have no (or very little) disciplinary problems.

If you follow this methodology consistently, you will enable the learners to think and reason for themselves and soon they will be able to 'work on their own'. However, it is important to remember that the learners are teenagers. Never stop guiding, even when they are capable of 'working on their own'.

## Let's get to work

The following three transactions of Rufus Plumbers can serve as Example 1:

1. Rufus started his business, Rufus Plumbers, by depositing a capital contribution of R80 000 in the current bank account of the business; receipt 001 was issued
2. Bought a vehicle from Bingo Motors and paid by cheque 001, R25 000
3. Issued cheque 002 for R15 000 to Coastal Stores for equipment

Before discussing the three transactions of Rufus Plumbers, you will need to explain (brief and to the point) the following terms commonly used in accounting:

Transaction: An action or event that takes place in a business.

Receipt: Amount of money that a business receives and deposits in the current bank account.

Payment: Cheque drawn on the current bank account of a business.

Capital contribution and owner's equity: The capital contribution is money that the owner supplies. It gives the owner an interest in the business called owner's equity or equity.

Asset: Possession of the business.

Guide the learners with the following logical reasoning:

- When you look at the effect of a transaction on assets and/or owner's equity, you must see the transaction from the point of view of the business.
- After reading through a transaction, ask yourself what happened.
- Apply this logic to the first transaction:  
The asset Cash increases by R80 000.  
The owner's contribution gives the owner an interest in the business called owner's equity. So owner's equity increases by R80 000.  
(Do not discuss the relevant documents in detail at this stage. Just refer to the purpose of the documents in general – brief and to the point.)
- Apply this logic to the second transaction.  
The asset Cash decreases by R25 000.  
The asset Vehicles increases by R25 000.  
(Here you would refer to the distinction made between vehicles, equipment and cash.)
- Apply this logic to the third transaction.  
The asset Cash decreases by R15 000.  
The asset Equipment increases by R15 000.

Let the learners complete the effect on the assets and owner's equity (in their workbook or on an answer sheet supplied by you) as you progress with the transactions and help them to prepare a cumulative summary after each transaction. Don't refer to the term *accounting equation* at this stage.

Solution: Example 1

### Effect on assets and owner's equity

No.	Assets		Owner's equity	
	Effect	Reason	Effect	Reason
1.	+80 000	Cash increases	+80 000	Owner's capital contribution
2.	-25 000	Cash decreases		
	+25 000	Vehicles increases		
3.	-15 000	Cash decreases		
	+15 000	Equipment increases		

### Cumulative summary after each transaction

No.	Assets		Owner's equity	
1.	Cash	R80 000	Capital contribution	R80 000
2.	Cash	55 000	Capital contribution	80 000
	Vehicles	25 000		
		R80 000		
3.	Cash	40 000	Capital contribution	80 000
	Vehicles	25 000		
	Equipment	15 000		
		R80 000		

The cumulative summary (simplified Balance sheet) can be used to help the learners discover a few important facts. This can be done by asking the learners the following questions and giving guidance regarding the answers where necessary:

Questions		Learners discover that	
1.	What do you notice regarding the total assets and owner's equity after each transaction?	1.	Assets = Owner's equity (liabilities have not yet been discussed)
2.	Does buying an asset affect the owner's equity?	2.	No.
3.	Does buying an asset by cheque affect the cash position of the business?	3.	Yes. The cash decreases.
4.	Is the total cash always equal to the owner's equity?	4.	No, only if cash is the only asset. (Liabilities have not yet been discussed.)
5.	The money received from the owner (transaction 1) is called a ..... ?	5.	Receipt
6.	The money paid for a vehicle and equipment (transactions 2 and 3) are called ..... ?	6.	Payments

With your guidance learners have acquired the above knowledge – important insight, facts and concepts that apply to all levels of accounting. In addition to this, the cumulative summary (simplified Balance sheet) will help learners to have a better understanding of the Balance sheet when the time comes. No reference is made to the term *Balance sheet* at this stage.

Prepare a few similar activities to establish the knowledge the learners have acquired.

The following three transactions of Rufus Plumbers can serve as Example 2:

This example is a continuation of Example 1 and serves as an introduction to expenses and income.

4. Paid the local newspaper, *Daily News*, for advertising, cheque 003, R400
5. Rented a storeroom from First Street Properties; paid rent by cheque 004, R900
6. Cash received for services rendered, cash register roll, R3 300

Guide the learners with the same logical reasoning as in Example 1:

(This logical reasoning can be used throughout because as soon as a transaction takes place, it has an effect on the accounting equation. Therefore it makes sense to let the learners first consider the effect of all new transactions (in all the grades) on the accounting equation (at this stage on assets and owner's equity).

- After reading through a transaction, ask yourself what happened.
- Apply this logic to transaction 4.

The asset Cash decreases by R400.

No asset was obtained for the payment. So the total assets decreased by R400. Consequently the owner's equity decreases by R400.

(Now is a good time to emphasise that payments that have the effect of decreasing owner's equity are called expenses.) In this case the relevant expense is Advertising.

(Note that in the cumulative summary after each transaction in Example 1, the R80 000 was referred to as owner's contribution – the amount originally contributed by the owner. However, after transaction 4 the amount of R79 600 is referred to as owner's equity – R400 less because of the expense, Advertising.)

- Apply this logic to transaction 5.

The asset Cash decreases by R900.

No asset was obtained for the payment. So the total assets decreased by R900. Consequently the owner's equity decreases by R900 because of the expense, Rent paid.  $R(79\ 600 - 900) = R78\ 700$

- Apply this logic to transaction 6.

The asset Cash increases by R3 300.

No asset decreases, so the total assets increase by R3 300.

(Now is a good time to emphasise that receipts that have the effect of increasing owner's equity are called income.) In this case the relevant income is Income earned.

Let the learners complete the effect on the assets and owner's equity (in their workbook or on an answer sheet supplied by you) as you progress with the transactions and help them to prepare a cumulative summary after each transaction. Don't refer to the term *accounting equation* at this stage.

Solution: Example 2

### Effect on assets and owner's equity

No.	Assets		Owner's equity	
	Effect	Reason	Effect	Reason
4.	-400	Cash decreases	-400	Advertising – expense
5.	-900	Cash decreases	-900	Rent – expense
6.	+3 300	Cash increases	+3 300	Income earned

### Cumulative summary after each transaction

No.	Assets		Owner's equity	
4.	Cash	39 600	Owner's equity	79 600
	Vehicles	25 000		
	Equipment	15 000		
		<u>R79 600</u>		
5.	Cash	38 700	Owner's equity	78 700
	Vehicles	25 000		
	Equipment	15 000		
		<u>R78 700</u>		
6.	Cash	42 000	Owner's equity	82 000
	Vehicles	25 000		
	Equipment	15 000		
		<u>R82 000</u>		

The cumulative summary (simplified Balance sheet) can be used to help the learners discover a few important facts. This can be done by asking the learners the following questions and giving guidance regarding the answers where necessary:

#### Questions

1. What do you notice regarding the total assets and owner's equity after each transaction?
2. Does paying an expense affect the owner's equity?

#### Learners discover that

1. Assets = Owner's equity (liabilities have not yet been discussed)
2. Yes.

- |   |  |
|---|--|
| <p>3. In what way does an expense affect owner's equity?</p> <p>4. Does receiving income earned affect the owner's equity?</p> <p>5. In what way does an income affect owner's equity?</p> <p>6. The owner's contribution was R80 000 (see transaction 1) and the owner's equity after transaction 6 is R82 000. What does this information tell you?</p> <p>7. Is there a different way we could calculate the profit?</p> | <p>3. An expense decreases owner's equity.</p> <p>4. Yes.</p> <p>5. An income increases owner's equity.</p> <p>6. Rufus Plumbers made a profit of R2 000. (Learners may need a little help here.)</p> <p>7. Yes. <math>3\ 300 - 400 - 900 = R2\ 000</math> (A good time to discuss the concept, Profit.) (Profit equals the income earned less the expenses incurred in earning the income.)</p> |
|---|--|

With your guidance learners have acquired the above knowledge – important insight, facts and concepts that apply to all levels of accounting. In addition to this, the cumulative summary (simplified Balance sheet) will help learners to have a better understanding of the Balance sheet when the time comes. No reference is made to the term *Balance sheet* at this stage. This is also a good time to bring to the learners attention that although the owner's equity has increased to R82 000, there is only R42 000 cash. So wealth does not (necessarily) mean lots of cash.

Prepare a few similar activities to establish the knowledge the learners have acquired.

By now the learners have noticed that assets and owner's equity can increase or decrease, depending on the transaction. The main aim of accounting is to provide information in the form of reports or financial statements to allow managers to make decisions. To achieve this a systematic method of recording in accounts is essential. Accounts are kept in a book called the General ledger. They are in the form of a capital T and are called T-accounts. We write the name of the account at the top in the middle. We call the left side of the account the debit side and the right side the credit side. (Now is a good time to explain to the learners that each T-account has a name by which the relevant account is identified.)

There are rules which allow us to apply logical reasoning in deciding which account to debit and which account to credit. These rules are applicable to all transactions and are the only rules that learners need to know. They are:

<p>Asset accounts</p> <ul style="list-style-type: none"> <li>• increase with a debit entry</li> <li>• decrease with a credit entry</li> </ul>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%; text-align: center;">Dr.</td> <td style="width: 40%; text-align: center;">ASSETS</td> <td style="width: 30%; text-align: center;">Cr.</td> </tr> <tr> <td style="text-align: center;">Increase with a debit entry</td> <td style="border-left: 1px solid black; text-align: center;">Decrease with a credit entry</td> <td></td> </tr> </table>	Dr.	ASSETS	Cr.	Increase with a debit entry	Decrease with a credit entry	
Dr.	ASSETS	Cr.					
Increase with a debit entry	Decrease with a credit entry						
<p>Liability accounts [<i>After they have been discussed.</i>]</p> <ul style="list-style-type: none"> <li>• increase with a credit entry</li> <li>• decrease with a debit entry</li> </ul>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%; text-align: center;">Dr.</td> <td style="width: 40%; text-align: center;">LIABILITIES</td> <td style="width: 30%; text-align: center;">Cr.</td> </tr> <tr> <td style="text-align: center;">Decrease with a debit entry</td> <td style="border-left: 1px solid black; text-align: center;">Increase with a credit entry</td> <td></td> </tr> </table>	Dr.	LIABILITIES	Cr.	Decrease with a debit entry	Increase with a credit entry	
Dr.	LIABILITIES	Cr.					
Decrease with a debit entry	Increase with a credit entry						
<p>Owner's equity</p> <ul style="list-style-type: none"> <li>• increases with a credit entry</li> <li>• decreases with a debit entry</li> </ul>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%; text-align: center;">Dr.</td> <td style="width: 40%; text-align: center;">OWNER'S EQUITY</td> <td style="width: 30%; text-align: center;">Cr.</td> </tr> <tr> <td style="text-align: center;">Decreases with a debit entry</td> <td style="border-left: 1px solid black; text-align: center;">Increases with a credit entry</td> <td></td> </tr> </table>	Dr.	OWNER'S EQUITY	Cr.	Decreases with a debit entry	Increases with a credit entry	
Dr.	OWNER'S EQUITY	Cr.					
Decreases with a debit entry	Increases with a credit entry						
<p>The logical conclusion is that:</p> <ul style="list-style-type: none"> <li>• We credit income accounts because income increases owner's equity.</li> </ul>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%; text-align: center;">Dr.</td> <td style="width: 40%; text-align: center;">INCOME</td> <td style="width: 30%; text-align: center;">Cr.</td> </tr> <tr> <td></td> <td style="border-left: 1px solid black; text-align: center;">Is credited</td> <td></td> </tr> </table>	Dr.	INCOME	Cr.		Is credited	
Dr.	INCOME	Cr.					
	Is credited						
<ul style="list-style-type: none"> <li>• We debit expense accounts because expenses decrease owner's equity.</li> </ul>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%; text-align: center;">Dr.</td> <td style="width: 40%; text-align: center;">EXPENSES</td> <td style="width: 30%; text-align: center;">Cr.</td> </tr> <tr> <td style="text-align: center;">Are debited</td> <td style="border-left: 1px solid black;"></td> <td></td> </tr> </table>	Dr.	EXPENSES	Cr.	Are debited		
Dr.	EXPENSES	Cr.					
Are debited							

Now (under your supervision and guidance) let the learners record the transactions of Rufus Plumbers in simplified ledger T-accounts. You can let them draw T-accounts in their workbook or you could prepare a blank answer sheet with the necessary T-ruling. This can serve as Example 3.

The learners have already reasoned the effect of the transactions on assets and owner's equity. So guide them from the *known* effect to the *unknown* entries in the ledger T-accounts by applying logical reasoning and the rules.

• Transaction 1:

The asset Bank increases. So we debit Bank.

The owner's equity increases with the owner's contribution. So we credit Capital.

(When debiting Bank, just write the amount on the debit side and when crediting Capital, just write the amount on the credit side. Then explain that this is a practical demonstration of the double entry principle – we record the monetary value of each transaction as a debit and a credit entry in the ledger accounts.)

Now ask them to complete the contra entries – and explain what you mean:

– When we debit an account, we write the name of the account that we credit next to the amount.

– When we credit an account, we write the name of the account that we debit next to the amount.

• Transaction 2

The asset Bank decreases. So we credit Bank.

The asset Vehicles increases. So we debit Vehicles.

(Emphasise the double entry principle and the completion of the contra entries as suggested above. Repeat this emphasis with each of the other transactions as well. By doing this, you are making sure that these concepts are established.)

• Transaction 3

The asset Bank decreases. So we credit Bank.

The asset Equipment increases. So we debit Equipment.

• Transaction 4

The asset Bank decreases. So we credit Bank.

The owner's equity decreases as a result of an expense (Advertising) incurred.

So we debit Advertising.

• Transaction 5

The asset Bank decreases. So we credit Bank.

The owner's equity decreases as a result of an expense (Rent expense) incurred.

So we debit Rent expense.

• Transaction 6

The asset Bank increases. So we debit Bank.

The owner's equity increases as a result of an income earned (services rendered).

So we credit Current income.

Solution: Example 3

**General ledger of Rufus Plumbers**

Asset accounts				Accounts that affect owner's equity					
Dr.	BANK		Cr.	Dr.	CAPITAL		Cr.		
1.	Capital	80 000	2.	Vehicles	25 000	1.	Bank	80 000	
6.	Current income	3 300	3.	Equipment	15 000	ADVERTISING			
			4.	Advertising	400	4.	Bank	400	
			5.	Rent expense	900	RENT EXPENSE			
						5.	Bank	900	
			VEHICLES				CURRENT INCOME		
2.	Bank	25 000				6.	Bank	3 300	
			EQUIPMENT						
3.	Bank	15 000							

Learners can be guided to

- Answer how many accounts were opened. (7 accounts)
- Name the asset accounts that were opened. (Bank, Vehicles, Equipment)
- Name the expense accounts that were opened. (Advertising, Rent expense)
- Name the income accounts that were opened. (Current income)
- Answer how many entries were made in the Bank account. (6 entries) (2 debit, 4 credit)

It is important for learners to differentiate between the various accounts that appear in the General ledger and to understand the difference between the concepts 'accounts' and 'entries'.

These simplified ledger accounts can be used to introduce the learners to analysis and interpretation.

This can be done by asking the learners the following questions and giving guidance regarding the answers where necessary:

<i>Questions</i>	<i>Learners discover that</i>
1. How much money does the business have in the bank?	1. $83\ 300 - 41\ 300 = R42\ 000$ The balance in the Bank account shows how much money is in the bank.
2. List all the accounts and their balances or totals and add the amounts.	2. If a list of accounts and balances is prepared, the total of the debit balances equals the total of the credit balances. (Rather use <i>List of accounts and balances</i> and not <i>Trial balance</i> at this stage.)
3. Calculate the profit made.	3. $3\ 300 - (400 + 900) = R2\ 000$ To calculate the profit, one has to identify the income and expense accounts. The actual calculation of profit is done in an Income statement.
4. What does the owner's equity amount to?	4. The profit calculated is the net amount by which the owner's equity increased over a given period. The owner's equity consists of the original capital contribution plus the profit.
5. List the assets and add their balances.	5. The total of the balances of the assets equals the owner's equity as calculated in 4. This can be compared to the cumulative summary after transaction 6. Assets = Owner's equity (liabilities have not yet been discussed.)

Analysis and interpretation starts here; in a simplified manner and at a very basic level, but the seed has been sown.

Let the learners record the transactions of the activities that you prepared in the relevant simplified T-accounts. Use these ledger accounts to make sure that the learners can differentiate between the various accounts that appear in the General ledger and understand the difference between the concepts 'accounts' and 'entries'. Then let the learners do the basic level 'analysis and interpretation' as discussed in Example 3.

When introducing a trading business, emphasise that everything discussed regarding the service business also applies to a trading business. The only new transactions are the purchase and sales of trading stock. Purchasing trading stock is none other than purchasing an asset. Selling trading stock needs a bit more guidance.

As one progresses with the various transactions at elementary level, one must bear in mind that the aim of accounting is to supply financial information. Everything in an accounting system is done with this in mind.

If a firm sells stock (original cost price, R200) for R350 cash, the effect on the accounting equation is:

A	E	L
+350 (Cash increases)		
-200 (Stock decreases)	+150 (Profit)	0

Note once again that this effect has taken place before any entry has been made.

It is important for a business to know what the turnover (total sales) is and what the merchandise that was sold cost the business as this is important information. So, they do not make only one entry to record the net increase of owner's equity. They make two entries. One to show the sales amount (R350) and one to show the cost of the goods sold (R200). This is the first transaction where not only the effect of the transaction on the accounting equation, but also generally accepted accounting practice determines the entry.

So Bank is debited (R350) and Sales credited (R350) and Cost of sales is debited (R200) and Trading stock credited (R200).

This does not mean that the effect under Equity is now +350 and -200. The effect under Equity is still +150 (Profit), because it is the result of the increase in cash (+R350) and the decrease in stock (-R200).

The following transaction of Rufus Plumbers can serve as Example 4:

This example is a continuation of Examples 1, 2 and 3 and serves as an introduction to creditors and liabilities. Before referring to credit or creditors or liabilities, ask the learners to show the effect of the transaction on assets and owner's equity.

7. Rufus Plumbers bought a vehicle on credit from Oxford Motors, R100 000

By now the learners will be used to the logical reasoning followed and they will easily identify the effect on assets, i.e. The asset Vehicles increases by R100 000.

However, no other asset decreases and the owner's equity is not affected because the transaction does not represent an income or an expense.

So, you will have to explain that credit means payment takes place at a later date although the item is obtained immediately. Therefore Rufus Plumbers owes the money to the supplier (Oxford Motors). The supplier is called a creditor and because the purchase price is still due to the creditor, a liability is created. Liability is the third element of the accounting equation.

So we have the following effect on the accounting equation:

Transaction 7

The asset Vehicles increases.

The liability Creditors increases.

The cumulative summary will look like this:

#### Cumulative summary after each transaction

No.	Assets		Owner's equity and Liabilities	
7.	Cash	42 000	Owner's equity	82 000
	Vehicles	125 000	Creditors	100 000
	Equipment	15 000		
		<u>R182 000</u>		<u>R182 000</u>

Note

- The item creditors appears in the cumulative summary and represents the amount owed to suppliers.
- From the cumulative summary we see that total assets equal owner's equity plus liabilities. We refer to this equation as the (basic) accounting equation.
- From here on we refer to Owner's equity as Equity in the accounting equation. (A = E + L)



The accounting equation, Assets = Equity + Liabilities, is now complete and the learners have experienced first hand where it originates from.

To enter items bought on credit in ledger accounts, we apply the rule as shown on p. 5 of this document. (Liabilities increase with a credit entry – and decrease with a debit entry.)

The completed ledger accounts look like this:

Dr.	VEHICLES		Cr.
2	Bank	25 000	
7	Creditors	100 000	
<b>CREDITORS</b>			
		7	Vehicles 100 000

The following transaction of Rufus Plumbers can serve as Example 5:

This example is a continuation of Examples 1, 2, 3 and 4 and serves as an example of the next logical transaction – payment or part-payment of the relevant liability (creditor). Ask the learners to show the effect of the transaction on the accounting equation, to update the accumulated summary and to show the entries in the relevant ledger accounts.

8. Rufus Plumbers paid Oxford Motors R20 000 by cheque as part payment of debt

Solution to Example 5

Transaction 8

The asset Cash decreases. So we credit Bank

The liability Creditors decreases. So we debit Creditors

**Cumulative summary after each transaction**

No.	Assets		Owner's equity and Liabilities	
8.	Cash	22 000	Owner's equity	82 000
	Vehicles	125 000	Creditors	80 000
	Equipment	15 000		
		<u>R162 000</u>		<u>R162 000</u>

Dr.	BANK		Cr.
1	Capital	80 000	2 Vehicles 25 000
6	Current income	3 300	3 Equipment 15 000
			4 Advertising 400
			5 Rent expense 900
			8 Creditors 20 000
<b>CREDITORS</b>			
8	Bank	20 000	7 Vehicles 100 000

At this stage learners have an overall view of Accounting and the principles that have been discussed form the foundation for the work yet to be discussed. The effect of transactions on the accounting equation is an important accounting tool for logical reasoning in accounting and teachers will be well-advised to use the accounting equation as starting point for all new transactions.

Now the subsidiary books/journals (books of first entry) can be discussed together with the relevant source documents. Learners must be guided to understand the purpose of these books/journals and where they fit in the “bigger picture” of Accounting. Take note of the recording procedure of Accounting set out schematically as follows:

Transaction	
Basics of Accounting: Effect on A, O and L ("What happened?")	Subsidiary books (Books of first entry) They <u>do not</u> form part of the 'basics of Accounting'.
↓ ↓ ↓ ↓ ↓ ↓ ↓ ↓ ↓ ↓ ↓ ↓	Cash receipts journal (summarises all cash received) Cash payments journal (summarises all cheque payments) Petty cash journal (summarises petty cash payments) Debtors journal (summarises the credit sales of trading goods) Creditors journal (summarises all credit purchases) Debtors allowances journal (summarises returns by debtors) Creditors allowances journal (summarises returns to creditors) (The <u>sole purpose</u> of the above <i>subsidiary journals</i> is to summarise similar transactions. Each one summarising one type of transaction.) In addition to the above <i>specialised subsidiary journals</i> , a General journal is used to record transactions that do not belong in any of the other subsidiary journals.)
Ledger entries: Acc to debit Acc to credit	Subsidiary books are posted to the General ledger at month-end. Learners need to understand <u>what the totals</u> of the various analysis columns in the relevant subsidiary book <u>mean</u> and then apply the rules which allow us to apply logical reasoning in deciding which account to debit and which account to credit, as we have been doing in the examples discussed.

### More about the Accounting equation and a few time-saving hints

It needs to be emphasised that, in addition to sales, there are more transactions where not only the effect of the transaction on the accounting equation, but also generally accepted accounting practice determines the entry. One such a transaction is the depreciation of a fixed asset and another is the purchase of merchandise when the periodic inventory system is in use.

When merchandise is bought, the asset Trading stock increases, no matter what inventory system is used. The fact that the Purchases account is debited when the periodic inventory system is in use, does not change this. So let it be emphasised once more: the entry does not affect the equation – the entry is a result of the effect of a transaction on the equation and, where applicable, generally accepted accounting practice.

Once again it should be emphasised that as soon as a transaction takes place, it has an effect on the accounting equation. Note that the relevant effect takes place before any entry has been made. To record the relevant effect an entry is done. So the entry is a result of the effect on the equation. If an incorrect entry is done, it does not change the original effect on the accounting equation. So if an error has to be corrected, reason as follows and use T-accounts as an aid:

- What entry should have been done. (record the entry – amounts only – in the two T-accounts)
- What entry was actually done (record this incorrect entry – amounts only – in the two T-accounts)
- The entries done in the T-accounts should make it clear what entry needs to be done to correct the incorrect entry. Do the entry that needs to be done.

The alternative would be to do two entries. Do an entry to cancel the incorrect entry by debiting the account that was originally credited and crediting the account that was originally debited. Now do the entry that should have been done in the first place.

When final accounts are discussed, bear in mind that closing transfers do not affect the accounting equation. A closing transfer is no more than a closing transfer – transferring an amount from one account to another. No effect on the accounting equation!

You can save a lot of time if you follow the following guidelines:

- When introducing a trading business, emphasise that everything discussed regarding the service business also applies to a trading business. The only new transactions are the purchase and sales of trading stock. So concentrate on the new transactions.
- When introducing a partnership, emphasise that everything discussed regarding the sole trader also applies to a partnership. The main difference between the two forms of ownership is the equity section and what happens to the net profit. In the case of the partnership, profit is appropriated according to the stipulations in the Partnership agreement. So concentrate on what's new. Please note that the stipulations in the Partnership agreement are not adjustments. They just stipulate how the profit has to be appropriated – that's it!
- When introducing a company, emphasise that the basic principles dealt with until now, apply throughout. So concentrate on what's new and what's different regarding companies.
- Be consistent. Guide the learners from elementary teaching throughout, to think and reason for themselves, to be able to interpret an account (what "story" does the account tell), to be able to read and interpret documents (each document tells its own "story"), to be able to read and interpret a Trial balance, Income statement and Balance sheet (each of which also tells a "story").
- Avoid passive rote learning, formulas, recipes, remember boxes and frills. Stick to the basics throughout – understandable basics that can serve as a secure foundation of the subject.

### **Two lesson examples of how to guide**

Please turn to page12

## CREDIT PURCHASES

Give the learners the following two transactions and an answer sheet. Ask them to complete the answer sheet.

1. Bought merchandise from Ross Traders and paid by cheque, R1 300
2. Bought stationery from Jones Traders and paid by cheque, R160

	Assets		Equity	
	Effect	Reason	Effect	Reason
1.	+1 300	Trading stock increases		
	-1 300	Cash decreases		
2.	-160	Cash decreases	-160	Stationery – expense

	Account to debit	Account to credit	Amount
1.	Trading stock	Bank	1 300
2.	Stationery	Bank	160

Comment: These two transactions serve as revision and as a point of departure for the lesson.

Now give the learners the following two transactions and an answer sheet. Ask them to complete the answer sheet.

3. Bought merchandise on credit from Ross Traders and received their invoice for R1 300
4. Bought stationery on credit from Jones Traders and received their invoice for R160

	Assets		Equity	
	Effect	Reason	Effect	Reason
1.	+1 300	Trading stock increases		
2.			-160	Stationery – expense

	Account to debit	Account to credit	Amount
1.	Trading stock		1 300
2.	Stationery		160

Comment: The learners can complete the answer sheet up to a point because it is work they have already done. However, credit transactions have not been discussed yet. So at this point the necessary discussion can take place and an answer sheet (including provision for liabilities) can be completed.

	Assets		Equity		Liabilities	
	Effect	Reason	Effect	Reason	Effect	Reason
3.	+1 300	Trading stock increases			+1 300	Owe creditor more
4.			-160	Stationery – expense	+160	Owe creditor more

	Account to debit	Account to credit	Amount
3.	Trading stock	Ross Traders	1 300
4.	Stationery	Jones Traders	160

Comment: At this stage it is a better option to use the creditor's name as account to credit. Creditors control can be introduced together with the Creditors ledger.

CREDIT SALES

Give the learners the following transaction and an answer sheet. Ask them to complete the answer sheet.

1. Sold merchandise to L. Price for R420 (cost price, R300) and received his cheque for the amount.

Assets			Equity	
Effect	Reason		Effect	Reason
1.	+420	Cash increases		
	-300	Trading stock decreases	+120	Profit

Account to debit		Account to credit		Amount
1.	Bank	Sales		420
	Cost of sales	Trading stock		300

Comment: This transaction serves as revision and as a point of departure for the lesson.

Now give the learners the following transaction and an answer sheet. Ask them to complete the answer sheet.

2. Sold merchandise to L. Price for R420 (cost price, R300) on credit

Assets			Equity	
Effect	Reason		Effect	Reason
2.				
	-300	Trading stock decreases	+120	Profit

Account to debit		Account to credit		Amount
2.		Sales		420
	Cost of sales	Trading stock		300

Comment: The learners can complete the answer sheet up to a point because it is work they have already done. However, credit sales have not been discussed yet. So at this point the necessary discussion can take place and an answer sheet can be completed.

Assets			Equity	
Effect	Reason		Effect	Reason
2.	+420	Debtors increase		
	-300	Trading stock decreases	+120	Profit

Account to debit		Account to credit		Amount
2.	L. Price	Sales		420
	Cost of sales	Trading stock		300

Comment: At this stage it is a better option to use the debtor's name as account to debit. Debtors control can be introduced together with the Debtors ledger.

--- o o o O o o o ---