Accounting
Building Business Skills

Paul D. Kimmel

Chapter Six:
Accounting Sub-systems

PowerPoint presentation by Christine Langridge
Swinburne University of Technology, Lilydale
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Learning Objectives

- Identify the basic principles of accounting information systems.
- Explain the major phases in the development of an accounting system.
- Describe the nature and purpose of control accounts and subsidiary ledgers.
- Explain how special journals are used in recording transactions.

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Learning Objectives

- Indicate how a multicolumn special journal is posted.
- Understand the basic features of computerised accounting systems.
- Identify the advantages and disadvantages of computerised accounting systems.

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Principles of Accounting Information Systems

- Cost effectiveness

- Useful output

- Flexibility

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Developing an accounting system

- Analysis: planning and identifying information needs and sources
- Design: creating forms, documents, procedures, job descriptions and reports
- Implementation: installing the system, training personnel, and making the system operational
- Follow-up: monitoring effectiveness and correcting any weaknesses
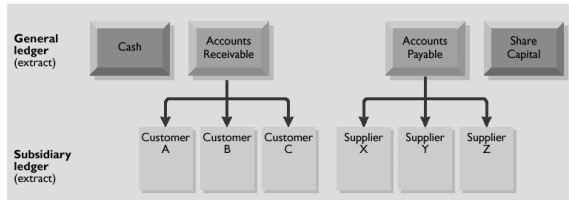
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Control Accounts & Subsidiary ledgers

- Subsidiary ledgers: group of accounts with a common characteristic
- Detail from subsidiary ledger summarised in General Ledger control account

examples:
- Accounts Receivable/Customers: collects transaction data of individual customers
- Accounts Payable/Suppliers: collects transaction data of individual creditors

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Control Accounts & Subsidiary ledgers

General ledger (extract)	Cash	Accounts Receivable		Accounts Payable	Share Capital

Subsidiary ledger (extract)	Customer A	Customer B	Customer C	Supplier X	Supplier Y	Supplier Z

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Control Accounts & Subsidiary ledgers

Advantages:
- Show transactions in a single account providing up to date information
- Free General Ledger of excessive details
- Provide effective control
- Provide for segregation of duties

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Special Journals

- Used to record similar types of transactions
- *Examples:*
  - *Sales Journal*
  - *Cash Receipts Journal*
  - *Purchases Journal*
  - *Cash Payments Journal*
  - *General Journal*

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Sales Journal

- Used to record sales of inventory on account
- Cash sales recorded in Cash Receipts Journal

Example:
Karns Wholesale Supplies uses a perpetual inventory system

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Sales Journal

Karns Wholesale Supply					
SALES JOURNAL					**S1**
Date	Account debited	Invoice no.	Ref.	Accounts Receivable Dr Sales Cr	Cost of Goods Sold Dr Inventory Cr
2005					
May 3	Abbot Sisters Ltd	101		10 600	6 360
7	Babson Ltd	102		11 350	7 370
14	Carson Ltd	103		7 800	5 070
19	Deli Ltd	104		9 300	6 510
21	Abbot Sisters Ltd	105		15 400	10 780
24	Deli Ltd	106		21 210	15 900
27	Babson Ltd	107		14 570	10 200
				90 230	62 190

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Sales Journal

Posting to General Ledger
- Total sales column debited to Accounts Receivable Control account
- Total Cost of Goods Sold credited to Inventory account debited to Cost of Goods Sold account
- Individual amounts from Sales column transferred to individual customer accounts in subsidiary ledger

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Sales Journal

Posting to General Ledger

• Checking the ledgers

Postings to general ledger		Debit postings to the accounts receivable subsidiary ledger	
General Ledger		**Subsidiary Ledger**	
Credits			
Inventory	$ 62 190	Abbot Sisters Ltd	$ 26 000
Sales	90 230	Babson Ltd	25 920
	$152 420	Carson Ltd	7 800
		Deli Ltd	30 510
Debits			$ 90 230
Accounts Receivable	$ 90 230		
Cost of Goods Sold	62 190		
	$152 420		

Cash Receipts Journal

• Used to record <u>all</u> receipts of cash
• Debit columns
  – Cash
  – Discount allowed
• Credit columns
  – Accounts Receivable
  – Sales
  – Other accounts
• Debit and credit column
  – Cost of Goods Sold & Inventory

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Cash Receipts Journal

Karns Wholesale Supply
CASH RECEIPTS JOURNAL CR1

Date	Account credited	Ref.	Cash Dr	Discount Allowed Dr	Accounts Receivable Cr	Sales Cr	Other Accounts Cr	Cost of Goods Sold Dr Inventory Cr
2005								
May 1	D.A. Karns, Capital	301	5 000				5 000	
7			1 900			1 900		1 240
10	Abbot Sisters Ltd	✓	10 388	212	10 600			
12			2 600			2 600		1 690
17	Babson Ltd	✓	11 123	227	11 350			
22	Bank Loan	200	6 000				6 000	
23	Carson Ltd	✓	7 644	156	7 800			
28	Deli Ltd	✓	9 114	186	9 300			2 930
			53 769	781	39 050	4 500	11 000	2 930
			(101)	(504)	(112)	(401)	(x)	(505)/(120)

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Cash Receipts Journal

Posting to General Ledger
- All column totals (excluding other accounts) posted to account specified
- Individual accounts in 'other accounts' posted separately to relevant individual GL accounts
- Individual amounts, posted in total to Accounts Receivable control account, posted to individual subsidiary ledger accounts

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Cash Receipts Journal

Checking the ledgers

Schedule of Accounts Receivable		General Ledger	
		Debits	
Abbot Sisters Ltd	$ 15 400	Cash	$ 53 769
Babson Ltd	14 570	Accounts Receivable	51 180
Deli Ltd	21 210	Discount Allowed	781
	$ 51 180	Cost of Goods Sold	65 120
			$ 170 850
		Credits	
		Bank Loan	$ 6 000
		D. A. Karns, Capital	5 000
		Sales	94 730
		Inventory	65 120
			$ 170 850

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Purchases Journal

- Used to record purchases of inventory on account
- Cash sales recorded in Cash Payments Journal

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Purchases Journal

					Karns Wholesale Supply PURCHASES JOURNAL	P1

Date	Account credited	Terms	Ref.	Inventory Dr Accounts Payable Cr
2005				
May 6	Jasper Manufacturing Ltd	2/10, n/30	✓	11 000
10	Eaton and Howe Ltd	3/10, n/30	✓	7 200
14	Fabor and Son Ltd	1/10, n/30	✓	6 900
19	Jasper Manufacturing Ltd	2/10, n/30	✓	17 500
26	Fabor and Son Ltd	1/10, n/30	✓	8 700
29	Eaton and Howe Ltd	3/10, n/30	✓	12 600
				63 900
				(120)/(201)

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Purchases Journal

Posting to General Ledger
- Total purchases column credited to Accounts Payable Control account
- Total purchases column debited to Inventory account
- Individual amounts from Purchases column credited to individual customer accounts in subsidiary ledger

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Cash Payments Journal

- Used to record all cash payments
- Credit columns
  - Cash paid
  - Discount received
- Debit columns
  - Accounts Payable
  - Cash purchases
  - Other accounts paid

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Cash Payments Journal

Karns Wholesale Supply
CASH PAYMENTS JOURNAL   CP1

Date	Ch. no.	Account debited	Ref.	Other Accounts Dr	Accounts Payable Dr	Discount Received Cr	Cash Cr
2005							
May 1	101	Prepaid Insurance	130	1 200			1 200
3	102	Inventory	120	100			100
8	103	Inventory	120	4 400			4 400
10	104	Jasper Manufacturing Ltd	✓		11 000	220	10 780
19	105	Eaton and Howe Ltd	✓		7 200	216	6 984
23	106	Faber and Son Ltd	✓		6 900	69	6 831
28	107	Jasper Manufacturing Ltd	✓		17 500	350	17 150
30	108	D.A. Karns, Drawings	306	500			500
				6 200	42 600	855	47 945
				(x)	(201)	(405)	(101)

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Cash Payments Journal

Posting to General Ledger
- All column totals (excluding other accounts) posted to account specified
- Individual accounts in 'other accounts' posted separately to relevant individual GL accounts
- Individual amounts, posted in total to Accounts Payable control account, posted to individual subsidiary ledger accounts

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Cash Payments Journal

Checking the ledgers

Schedule of Accounts Payable

Eaton and Howe Ltd	$12 600
Fabor and Son Ltd	8 700
	$21 300

General Ledger

Debits

Cash	$ 5 824
Accounts Receivable	51 180
Inventory	3 280
Prepaid Insurance	1 200
D.A. Karns, Drawings	500
Discount Allowed	781
Cost of Goods Sold	65 120
	$127 885

Credits

Bank Loan	$ 6 000
Accounts Payable	21 300
D.A. Karns, Capital	5 000
Sales	94 730
Discount Received	855
	$127 885

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Effect of Special Journals on General Journal

- Reduces number of transactions requiring recording in the General Journal
- Where control & subsidiary ledgers used:
  - Journalising: both control account & subsidiary ledger must be identified
  - Posting: transaction posted to control account and subsidiary account

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Computerised Accounting Information Systems

Basic features
- Built-in programs performing journalising, posting & preparation of Trial Balance and reports
- Use of modules: general ledger, inventory, accounts receivable, accounts payable
- Data entered in one module automatically updates information in other modules
- General Ledger & accounting reports updated automatically

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Computerised Accounting Information Systems

Advantages
- ability to process large number of transactions quickly
- automatic posting of transactions
- error reduction
- fast response time
- flexible and fast report production

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Computerised Accounting Information Systems

Disadvantages
- use of inappropriate/incompatible software and hardware
- need for reliable back-up procedures
- lack of computer system skills
- computer viruses & hackers
- fraud & embezzlement

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