



# The SAS Introduction to Accounts Programme

## **Part One of Two** Print It Out and Take It Away

Extract Only

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# The SAS Introduction to Accounts Programme

## Part 1

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## The SAS Introduction to Accounts Programme

### Preface - The Purpose of This Introductory Course

Accounts, an exact and some times complex area of knowledge affects all facets of the modern world. Thousands are attracted to Accounts and would like to know more about it. However, for many it can be an expensive subject to study.

Also, what many do not realize is that there are different areas of Accounts requiring different skills and talents e.g. auditing or book keeping. A person could find that he or she has wasted one or two years studying a subject that they are not really suited to.

This introduction to Accounts course will enable a person to consider whether Accounts suits his/her abilities and temperament without first committing precious resources to a long and hard study programme.

# The SAS Introduction to Accounts Programme

## How To Work Your Way Through Part 1

- a/ Read through the course material
- b/ Complete the two assignments given; use the answer sheet provided (Photocopy more if you need to).

# An Introduction to Accounts – Part 1

## INTRODUCTORY COURSE IN ACCOUNTS

To the student of Accounts, know that the subject is about communication, to inform the enquirer as to what has happened in the past and as to the present position.

When we hear about businesses going bust, do not believe that yesterday they were solvent and today they are insolvent. No, there were signs, which were either not recognised or ignored. Accounts tell the story, this is what you are setting out to learn.

Probably the first account with which we are familiar is the bank account, let's start here.

We put money in - deposits (lodgements) - and take money out - withdrawals - and the balance is the total of the difference. This balance is usually to our credit, unless we have overdrawn in which case it would be shown as a debit on the bank statement. The bank statement is a record of the bank's dealing with us. Most bank statements show the information in three columns; Withdrawals (debit), Deposits (credit) and Balance.

It is necessary that we keep our own records which should reflect that which appear on the bank statement, but what happens when there is a difference? When your records show that you are in funds (have a positive balance) and the bank shows that you are overdrawn.

Let's investigate. You report that your records reveal £1,250 in hand and at the same time the bank say that you are overdrawn by £750. That is, that on their statement the balance is shown as £750 DR - Debit balance. We must now do a reconciliation and we find that deposits we made totalling £3,000 have not been credited by the bank and that cheques drawn not yet presented totalling £1000 have still to be debited.

This is how we prepare a bank reconciliation:

Bank Reconciliation

Balance per bank statement 31 March 2001	£ 750	overdrawn Dr
<u>Add</u> total of cheques drawn but not yet presented	<u>£ 1,000</u>	
	£1,750	O/D
(overdrawn)		
<u>Less</u> deposits not recorded in bank	<u>£ 3,000</u>	
Balance per our records	<u>£ 1,250</u>	I/H (In Hand)

Frequent checking of our records with the bank is good financial control and confirms the current position. Recording our dealings with the bank is done through a banking book, frequently known as Cash Book. Not to be confused with a Petty Cash Book, which is used to record small cash transactions such as post, fares, cleaning, refreshment etc. Probably the common cause of difference between the bank and us is unpresented cheques. If we draw a cheque today, send it off tomorrow and by the time it is received and banked by the recipient, who we will call the Payee, a few days have passed and possibly a further few days before it is debited to our account. Another cause of difference is bank charges and "bounced cheques", which we learn about by checking the bank statement.

At this stage let us acquaint ourselves with the terms regarding cheques.

The account holder is termed the DRAWER. The bank to whom the drawer gives instructions is termed DRAWEE. The recipient of the funds is termed PAYEE.

How long does it take for a cheque to be cleared? The answer can vary. If the DRAWER and the PAYEE use the same branch of the same bank - very soon.

If the DRAWER and the PAYEE use different branches of the same bank - it can take a little longer. If the DRAWER and the PAYEE use different banks then it can take longer still.

Also, foreign currency may slow transactions down as well. Note also that our customers may pay us by transferring funds direct to our bank. It is only by thorough checking that we can learn of the current position.

Now stop and read again all that has been written, and then proceed to answer the following questions:-

1. What does DR mean on the balance of a bank statement?
2. What is the purpose of a Cash Book?
3. Draw up a bank reconciliation statement at 28 February 2001 from the following information - balance per bank statement £8000 CR. Balance in hand per cash book £1000. Cheques drawn but not yet presented £9000. Bankings not yet credited by bank £2000.
4. Explain why time varies before cheques are cleared. Name three methods of bank clearing.

Further exercises will follow as you progress. Keep going.

The need for available funds is essential for our daily lives, as it is for business, but it is in itself not wealth. Available funds are an asset, just as an overdraft is a liability. Overdraft - the drawer has drawn more than he has (over his balance)!

In accounting terms wealth is called CAPITAL/OWNER'S EQUITY.

Capital is total assets less total liabilities.  $OE = A - L$  (equity = assets – liabilities)

Assets are items we own. Liabilities are items we owe.

Where we have capital we are solvent.

Where the liabilities exceed the assets we have a deficiency of capital, therefore  
INSOLVENT.

Look at the following items and let's note what are assets and liabilities so we can ascertain the capital -

	£	
Premises	30,000	
Creditors	5,000	
Machinery	8,000	
Debtors	4,000	
Bank	2,000	In Hand
Bills Payable	1,000	
Bills Receivable	2,000	
Stock	4,000	

Premises - Asset

Creditors - Liability

Machinery - Asset

Bills Payable - Liability

Debtors - Asset

Bank - Asset

Bills Receivable - Asset

Stock - Asset

Putting figures to the above items we find thus:

£	£
30,000	5,000
8,000	<u>1,000</u>
4,000	<u>6,000</u>
2,000	
2,000	
<u>4,000</u>	
<u>50,000</u>	
	£
Total Assets	50,000
Total Liabilities	<u>6,000</u>
Capital	<u>44,000</u>

Note - Bank £2,000

Capital £44,000

The next stage is to divide the assets into those of a permanent nature which we call FIXED and those of a changeable nature which are called CURRENT, such as stock which, when sold on credit changes into debtors and then into cash. Bills Receivable, when due, become cash. Current assets are those which change their form. The presentation of Assets and Liabilities is made in the form of a Balance sheet. Note the format as follows, using the previous figures.

A. NAME

BALANCE SHEET

As at 31 October 2001

<u>FIXED ASSETS</u>	£	£	£	£
Premises			30,000	
Machinery			<u>8,000</u>	38,000
<u>CURRENT ASSETS</u>				
Stock	4,000			
Debtors	4,000			
Bills Receivable	2,000			
Bank	<u>2,000</u>			
		12,000		
<u>CURRENT LIABILITIES</u>				
Creditors	5,000			
Bills Payable	<u>1,000</u>			
		<u>6,000</u>		
<u>WORKING CAPITAL</u>				<u>£6,000</u>
<u>TOTAL NET ASSET - CAPITAL</u>				<u>£44,000</u>

The NET CURRENT ASSETS is called NET WORKING CAPITAL and it is a very important figure as we will soon see. Not all liabilities are current, for example, a long term bank loan expiring in five years, this would be termed a long term liability and shown separately. Net Working Capital can be expressed as  $NWC = CA - CL$ .

The Balance Sheet shows the position at one date - A Snapshot.

Let us analyse - We have £2,000 in the bank to pay £5,000 of creditors and meet £1,000 of bills payable. We can't do it unless we play for time - there are debtors of £4,000 which are due to pay us and Bills due to mature of £2,000.

The current assets which total £12,000 represent money and very near money.

The Working Capital of £6,000 is the Current Assets less Current Liabilities.

The ability to pay our debts is therefore 12:6 or 2:1 and is called Current Ratio.

Not only is it necessary to prepare a Balance Sheet but also to read and analyse it.

End of Extract.