

Chapter 15

Cheques and Bank Statements

NCEA Level 1 Accounting material covered in this chapter includes:

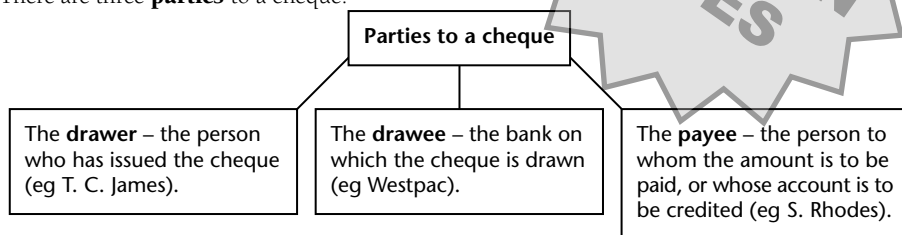
- Cheques.
- Cheque account.
- Bank statements.

Cheques

Many people operate cheque accounts. A **cheque** is a written order to a bank to pay the amount stated to the person named.

Cheques are convenient and they are a safer way of paying bills than using money (notes and coins). If a cheque is written out correctly, there is little chance of the wrong person receiving the money.

There are three **parties** to a cheque:



There are also three records kept of the transaction:

- The cheques themselves, which are retained by the bank.
- The statement the bank sends to the customer.
- The cheque butt, which the customer keeps. Some cheque books do not have cheque butts, so the cheque details are recorded in the customer's **Personal Cashbook** (or Personal Transaction record).

Care must be taken when writing out a cheque to make sure that it will be paid out only to the person intended to receive it.

Open Cheques

An **open cheque** can be paid out in cash to anyone at all. If it is found in the street, the finder could take it to the bank and receive the cash.

Example

An open cheque

Westpac Banking Corporation
AUCKLAND NZ 6-7-2005

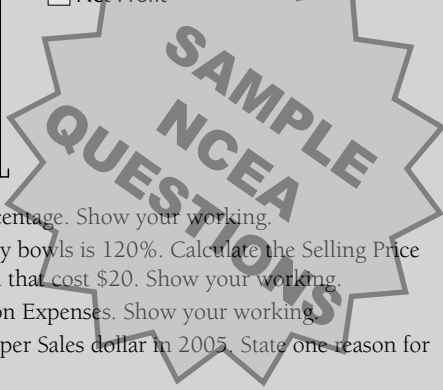
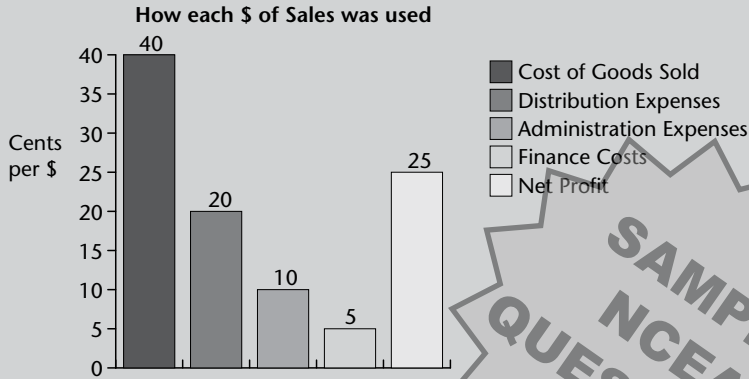
Pay S. Rhodes or bearer

the sum of Ten Dollars only \$ 10.00

CHEQUE DUTY PAID T.C. James

⑈ 395701 050302 0073297 00 ⑈

The numbers at the bottom of the cheque are the **MICR** (Magnetic Ink Character Recognition) numbers signifying the bank, branch, the account number and whether it is a current account or not. The first block of numbers is the number of the cheque.



- a.
 - i. Calculate the overall Mark-up percentage. Show your working.
 - ii. The Mark-up percentage on pottery bowls is 120%. Calculate the Selling Price and Gross Profit for a pottery bowl that cost \$20. Show your working.
 - b. Calculate the dollar value for Distribution Expenses. Show your working.
 - c. Administration Expenses were 12 cents per Sales dollar in 2005. State one reason for the change from 2005 to 2006.
 - d.
 - i. State one way in which the Gross Profit percentage can be increased.
 - ii. Does theft of Inventory increase or decrease the Gross Profit percentage?
10. *Hatty's Hats* is a sole proprietor **retail business** owned by Hatty Simes. The table summarises *Hatty's Hats*' Income Statements for years ended 31 March 2005 and 2006.

	Year ended 31 March 2005	Year ended 31 March 2006
Sales	\$150 000	\$200 000
Gross Profit	60 000	90 000
Distribution Expenses	15 000	40 000
Administration Expenses	18 000	25 000
Interest Expenses	4 500	4 000
Net Profit	22 500	21 000

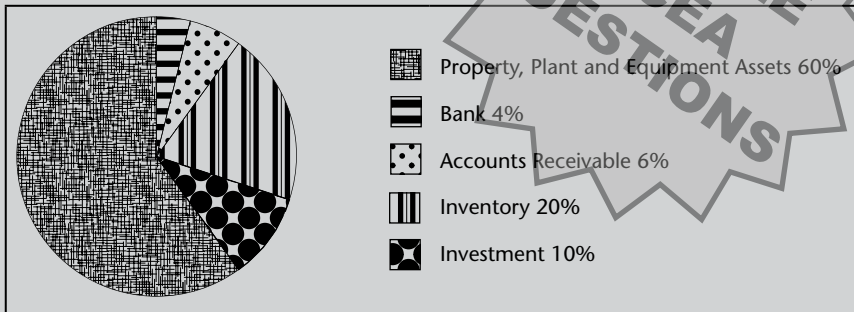
- a. Copy and complete the following Analysis Measures Chart. Enter the missing percentages **i.–v.** Some have been calculated for you.

Analysis Measures Chart for <i>Hatty's Hats</i>		
Analysis Measure	2005	2006
Gross Profit %	40%	i. %
Distribution Expense %	10%	20%
Administration Expense %	12%	ii. %
Interest Expense %	3%	2%
Net Profit %	iii. %	10.5%
Mark-up %	iv. %	81.82%
% Increase in Sales	20%	v. %

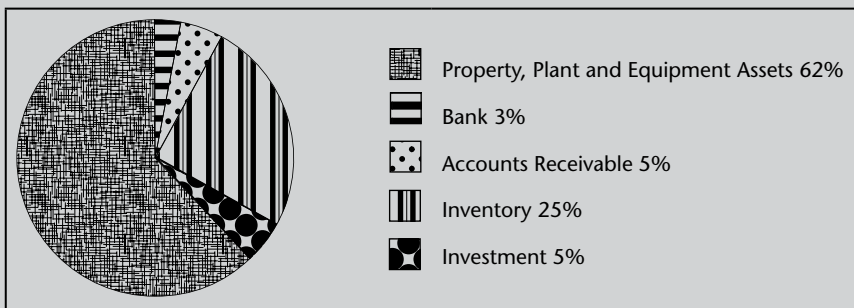
- b.
 - i. The Interest Expense % has fallen from 3% to 2%. Give a likely reason for this trend.
 - ii. Is this trend in the Interest Expense % satisfactory or unsatisfactory?
 - iii. Explain your answer to part **ii.**

- c. i. Hatty is worried because her 2006 Sales increased significantly in dollar terms, but her Net Profit fell from \$22 500 in 2005 to \$21 000 in 2006. Explain one reason why this happened.
- ii. Suggest one thing Hatty could do to increase her business's Net Profit in 2007.
11. The following graphs and other financial information have been prepared for a specialist paint store called *Cover Up*, a sole proprietor business owned by Terry Lene.

Total Assets 2005 \$80 000



Total Assets 2006 \$90 000



Other financial information for *Cover Up*:

	As at 31 March 2005	As at 31 March 2006
Current Liabilities (Accounts Payable)	\$12 500	\$16 500
Non-current Liabilities (Loan due 2008)	\$17 900	\$10 500
Equity	\$49 600	\$63 000

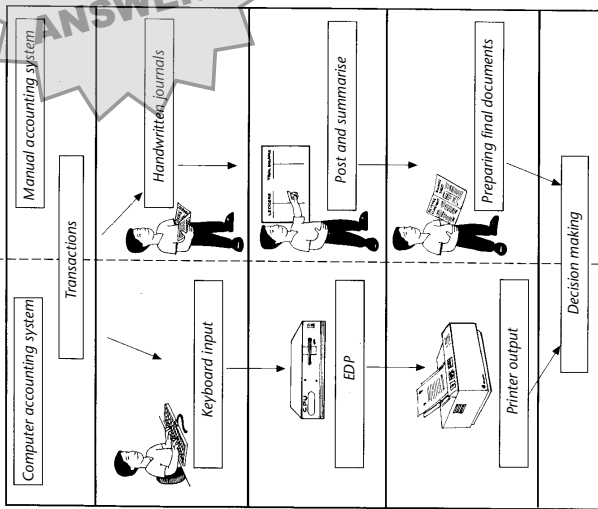
- a. Copy and complete the Analysis Measures Chart below by entering the missing ratios i.–iii.. Figures for 2004 have been given for comparative purposes.

Analysis Measures Chart for <i>Cover Up</i>			
	2004	2005	2006
Equity Ratio	0.60 : 1	i.	0.70 : 1
Current Ratio	2 : 1	1.92 : 1	ii.
Liquid Ratio	0.70 : 1	iii.	0.44 : 1

- b. i. Is an Equity ratio of 0.70 : 1 satisfactory or unsatisfactory?
- ii. Explain your answer to part i.

Activity 18B: Computers in accounting

ACCOUNTING SYSTEMS COMPARISON



2. a.

Source Documents	Input devices	Output devices
Example: Credit note Receipt Invoice	Keyboard Cash register Scanner	Printer Visual Display Unit

Cash registers in many shops are input devices, automatically updating sales and stock figures. A cash register could also be a source document, where the register is not linked to the computer, and register tapes are used as source documents.

- b. Any one of: Compact disk (CD); Floppy disk; Magnetic tape; Hard drive; Cartridge; Optical disk; DVD.

- c. Any one of: Power cuts can result in a lot of lost work; Can be very expensive; Special training needed by operators; If information is entered incorrectly, the final result is flawed (garbage in, garbage out).

- d. Printout of financial statements.

- e. Any one of: Analysis and interpretation, ie to discuss where her business is going, its strengths and weaknesses; Financial advice and decision making; May need process, etc to be checked.

(A $\frac{6}{11}$ correct; M $\frac{7}{11}$ correct; E $\frac{11}{11}$ correct)

3.

Stage in the accounting system	Whatipu Lodge Manual accounting system	Oaklands Lodge Computer accounting system
Transaction	C	F
Input	B	I
Process	E	A
Storage	G	D
Output	J	H

(A $\frac{3}{9}$ correct; M $\frac{6}{9}$ correct; E $\frac{7}{9}$ correct)

4. a.

Input	Storage	Output
Example: Issued Receipt Cheque butt Cash sales docket	Filing cabinet Ledger file	Statement of Cash Flows Income Statement

- b. i. Keying in via a keyboard; Scanning written material/bar codes.
 ii. The Central Processing Unit will perform calculations automatically, and the software accounting program used will update ledger accounts and final statements when each transaction is entered.
 iii. Viewing the information on the screen; Printing paper copies.

- c. If an inputting error was discovered, or an alteration needed to be made to a transaction, then you only need to change a figure once, and it will automatically change the figures in the accounts and final statements.

(A $\frac{6}{10}$ correct; M $\frac{7}{10}$ correct; E $\frac{9}{10}$ correct)

SAMPLE NCEA ANSWERS

Glossary/Index

- accountant** (2): the person who analyses information from a business and prepares reports for management and other interested parties, to assist with financial decision making.
- accounting** (1): the actions used to identify and measure the Profit (or Loss) of a business and the way of communicating that financial information to people who have an interest in it.
- accounting entity** (4): the accounting unit or business for which information is being kept; this unit is separated from the owner's personal finances.
- accounting entity concept** (55): the financial affairs of the owner are separate and distinct from the financial affairs of the entity.
- accounting equation** (11): the relationship between Assets, Liabilities and Equity; $E = A - L$. This equation can be expanded to show the effect of Income and Expenses; $E + (I - Ex) = A - L$.
- accounting period** (4): the period of time covered by the financial statements.
- accounting period concept** (203): the life of the entity is broken up into time periods of equal length.
- accounting process** (114): Input (source documents) → Process (journals, ledgers) → Output (financial statements).
- accounting technician** (2): a person with some accounting qualifications, usually a Diploma.
- accounts clerk** (bookkeeper) (2): the person who records the financial information of a business.
- accounts payable** (6, 12): amounts owed to creditors by the business.
- accounts receivable** (7, 12, 98): amounts owed to the business by debtors.
- accrual basis of accounting** (57, 95, 126): transactions are recognised when they occur and are reported in the financial statements of the period they relate to.
- accrued expenses** (96): expenses owing at balance day, also known as Expenses Due; Accrued Expenses are a Current Liability.
- accrued income** (98): Income earned but not yet received; a Current Asset.
- accumulated depreciation** (119): the amount of Depreciation for the total life to date of the asset.
- Accumulated Funds** (48): the Equity section of a Balance Sheet for a club or society.
- Activity Statement** (194): calculates the Surplus/Deficit of a particular club fundraising activity.
- administration expenses** (28): expenses incurred in the overall operations of the business, eg rent, telephone and postage.
- administration expenses percentage** (148): a calculation used to compare Administration Expenses with Sales; shows the percentage of Sales spent on Administration Expenses:
- $$\frac{\text{Administration Expenses}}{\text{Net Sales}} \times \frac{100}{1}$$
- arrears** (196): amounts which remain unpaid.
- asset** (5): a resource of future economic benefit which the entity controls as a result of a past transaction.
- auditing** (2): the inspecting of business's financial records by an accountant to check that all accounting procedures have been followed and that the financial statements are true and correct.
- automatic payment** (76, 179): money paid electronically from a customer's bank account to another account automatically and on a regular basis by arrangement with the bank.
- balance day** (57, 95): the last day of an accounting period.
- Balance Sheet** (15): a summary of a business's Assets, Liabilities and Equity at a point in time; previously called *Statement of Financial Position*.