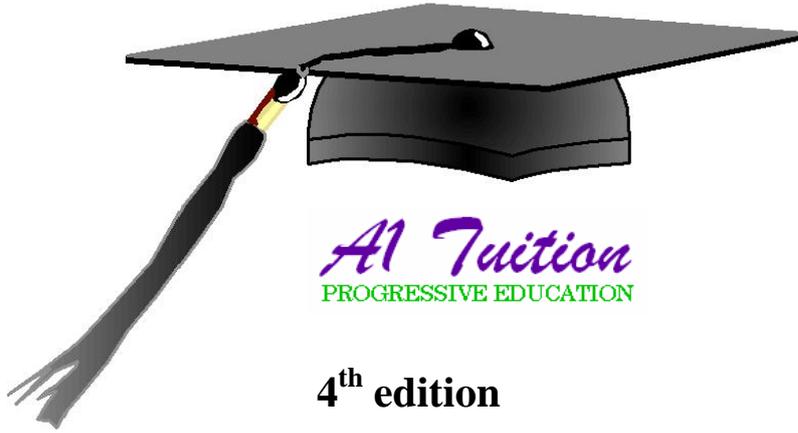


STUDY NOTES



ACCOUNTING UNIT 3

PETER SOLANIKOW

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ACCOUNTING
UNIT 3 STUDY NOTES

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These notes have been designed with the student in mind, taking into account that the student will already be bombarded with course reading material, handouts as well as possibly a number and variety of subject notes and materials. As a result, the writing in these notes is kept to a minimum with the intention of providing information that is relevant and to the point. Examples are used when required to illustrate a point being made. In many cases point form summaries are used, as this provides accurate information in a concise and summarised manner, helping to reduce reading and study time without compromising on study quality.

SUMMARIES AND KEY POINTS ARE PRESENTED IN PURPLE
EXAMPLES ARE PRESENTED IN GREEN
DEFINITIONS ARE PRESENTED IN AQUA

Please read the information in the paragraphs of the study notes very carefully. This information has been presented in a specific way, based on the historical style of exam theory questions. Generally, theory represents 40% of the total exam mark. The information presented in the paragraphs may answer possible exam and SAC theory questions. A typical assessable theory question can be:

Why is a business required to keep source documents? (1 mark)

ANSWER:

“All business transactions have to be proven or “evidenced”. The evidence of a transaction is a **SOURCE DOCUMENT**” (pg 6).

These study notes should be used as part of subject and topic revision, ideally after each topic is covered in class, as well as prior to exam and SAC sitting dates.

I sincerely hope that you find these notes useful and relevant, and that they may enable you to get those extra few marks that you need to get into the course of your choice next year.

Peter Solanikou

INTRODUCTION

ACCOUNTING

INTRODUCTION

THE ACCOUNTING PROCESS

INTRODUCTION

STUDY NOTES

INTRODUCTION

Accounting is the language of business and commerce. The purpose of accounting is to record business transactions in a consistent and legally acceptable manner that can then be used to prepare financial statements. Students new to accounting will initially be faced with concepts, rules and definitions that are generally not used in day-to-day life, unless of course the student is exposed to the running of a business and its bookkeeping. This situation has created problems for accounting students in the past where the student “just didn’t get it”. The truth of the matter is that accounting is really not difficult. In order to attain good marks for the subject it is very important to know what the subject is about and to get a good understanding of the rules of accounting. AGAIN:

In order to attain good marks for the subject it is very important to know what the subject is about and to get a good understanding of the rules of accounting.

The accounting rules are what makes or breaks the normal accounting student. The accounting rules form the basis of the subject. If you know the rules, the subject will fall into place much quicker for you. Think of accounting as driving a car. If you know the road rules i.e. red means stop, green means go, drive on the left hand side of the road etc you should be fine. Obviously you won’t be an expert driver, but at least you won’t crash at the first intersection.

Knowing what the subject is about refers to the processes that are involved in the subject. In other words, what are we trying to achieve? What are we trying to get at? Where is it all going? Knowing the answers to these questions will enable you to get a feel for what’s going on, and therefore you will find it much easier to learn and understand the concepts and topics as you progress through the subject. This is again similar to the “driving a car” example. If you know how to change gears, know what the accelerator and break does, as well as how to use the clutch, you will have total control of the car. So regardless of what the environment throws at you, be it rain, traffic or night, you should be able to drive the car safely. Sure, you might make a mistake here and there, but sooner or later you should get to where you want to go. Accounting is the same. If you know the rules, know what the subject is about, you should have no major problems in understanding the topics as they progress, which will ultimately lead to greater enjoyment of the subject and a higher final mark.

Most of the topics in the subject can be studied individually. In other words, one topic does not necessarily form part of the next topic. The different topics merely cover different aspects of the accounting and bookkeeping process. The implication of this to you, the student, is not to panic if you have difficulties with one particular area of the subject, as this will not necessarily follow through to the other topics of the course. If you do encounter difficulties, rather than panic, you should consult your teacher or private tutor and ask them to explain and revise that particular problem topic for you. This way you can achieve top marks in **ALL** areas of the course, rather than having areas of weakness which are carried through to the mid year and final exam.

On the next page you will find a summary of the core steps and procedures involved in VCE accounting. Of course each step has sub topics that will be covered. This accounting process illustrates the accounting steps that occur in any trading or service business. The accounting process may not mean much to you now, but as you progress through the subject and you learn new concepts, it is advisable to refer to the accounting process flow chart to see where you’re at and where you need to go. This is like your road map of the subject.

Just remember, accounting is not a difficult subject, it’s just a matter of having a positive frame of mind. When dealing with questions or problems on a business and its transactions, try to put yourself in the shoes of a business owner. This way you should come up with better and more relevant responses to the questions asked. **This is particularly important for theory questions.**

HINT: Accounting is real life stuff. Try to put yourself in the shoes of a business owner when dealing with accounting theory questions. If you were asked a business related question, ask yourself “what would I do in such a situation?” The response that you come up with will probably be the response that is required to answer the question.

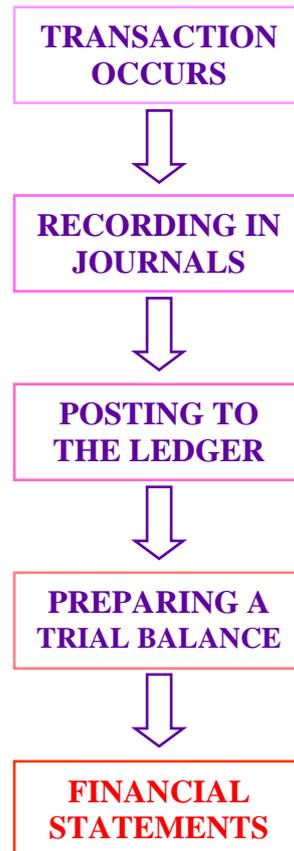
INTRODUCTION

STUDY NOTES

THE ACCOUNTING PROCESS

The following is a summary of the accounting process. As you progress through the subject and find yourself lost, in terms of losing sight of where the subject is going, remember to refer back to the following flowchart.

If you have just begun your accounting studies, don't focus on the flowchart just yet, as it won't mean anything to you. As you progress through the subject, as well as these notes, the flowchart will begin to make more sense. As new topics are covered in these notes, the flowchart will be used to illustrate to you which part of the accounting process is being covered.



TRANSACTION OCCURS – In every business transactions occur. They can be the sale of a good, receipt of cash, payment for rent, wages or insurance etc.

RECORDING IN JOURNALS – Transactions are initially recorded in tables called journals. There are 7 special journals that can be used for all the different possible transactions that may occur.

POSTING TO THE LEDGER – After a certain period, the information contained in the journals needs to be transferred to ledgers. A ledger is like a clothes draw, where you have a separate draw for each type of clothing. These draws in accounting are called accounts. The ledger accounts can be presented in either a “T” format or “three column” format.

PREPARING A TRIAL BALANCE – After everything has been recorded in ledgers, the accounts are totalled and a summary list of the totals is prepared. This summary list is called a **trial balance**. A trial balance enables you to see if your accounts balance. If they do, then chances are that all has been correctly recorded and you can start to prepare your financial statements.

INTRODUCTION

STUDY NOTES

The accounting process outlined has one aim. That aim is to prepare accurate financial statements that reflect a true and fair view of the business's financial health and performance. You may have seen financial statements before. There are three main financial statements – **Profit & Loss Statement**, **Balance Sheet** as well as the **Cash Flow Statement**. All public companies have to prepare financial statements that are made available to the general public. Large and small private businesses have to prepare financial statements too, if only for taxation purposes, as the amount of tax that the business is required to pay is based on business performance. Financial statements of private businesses do not have to be made public.

Legal requirements aside, financial statements are also important for decision-making. To be able to make relevant and useful business decisions it is important for the business owner, or management, to know the financial position and constraints of the business. Therefore, it is in the interest of the business owner or management to ensure that a business prepares accurate financial statements on a timely basis. This can only be done however, if all the previously mentioned procedures have been followed.

FINANCIAL STATEMENTS – This is the grand finale. The financial statements include the **Profit & Loss Statement**, **Balance Sheet** as well as the **Cash Flow Statement**. Each financial statement measures the performance of the business from a different perspective. The financial statements assist in answering the following questions:

- 📌 **Is the business profitable?**
- 📌 **Does it have a good cash flow?**
- 📌 **How is it financially structured?**

TRANSACTIONS

SOURCE DOCUMENTS

PURPOSE

RECEIPT

INVOICE

CHEQUE BUTT

TRANSACTIONS

STUDY NOTES

TRANSACTIONS

TRANSACTION OCCURS

The first step in the accounting process is to recognise a transaction. Every business makes transactions. You also make transactions. A transaction is a “dealing” with another party. Let’s start with you first.

When you buy something from a shop you pay for the good. That’s a transaction. You might receive money from your employer. This is also a transaction. If you return a good to the store because the good is faulty, or not what you wanted, then you are making a transaction. We all make transactions all the time. This is exactly the same for any business.

When you bought the goods from the store, this was a transaction for the store. When your boss paid you, this was a transaction for his business. When you returned the good for a refund or credit, then that store made a transaction in that case too.

PURPOSE OF SOURCE DOCUMENTS

All business transactions have to be proven or “evidenced”. The evidence of a transaction is a **SOURCE DOCUMENT**. There are 4 types of source documents that are used to evidence **ALL** possible transactions. As you can see, accounting is not that scary. Although there are millions of possible transactions, there are only 4 source documents that you need to know about, and only 3 are covered in Unit 3 – receipts, invoices and cheque butts.

The following pages include examples of source documents.

EXAMPLE

Most students know how to deal with this transaction:

Jan 1 2007: Paid rent for the month of January (\$2000).

However, when they see this transaction in the form of a source document, they become confused and don’t know what to do. **REMEMBER** – you need to be able to recognise a transaction written in the form illustrated above, as well as in the form of a source document shown below:

THESE ARE EXACTLY THE SAME TRANSACTION, EXCEPT PRESENTED IN DIFFERENT FORMATS

AUSTRALIA BANK		
1/1/07		
PAYEE: <i>ESTATE CO.</i>		
FOR: <i>RENT (JAN 2007)</i>		
AMOUNT: <i>\$2000</i>		
BALANCE:		
3000	1314	2006
	00 00	61

Jan 1 2007: Paid rent for the month of January (\$2000).

HINT: It is very important for you to be able to recognise the different source documents since you may get an exam question that will describe a transaction using source documents. You will then have to recognise what kind of transaction it is and record it in the appropriate journal.

TRANSACTIONS

STUDY NOTES

RECEIPT

A receipt is evidence of **cash transactions**. Have you noticed that many stores have a policy of providing a refund if you “have a receipt”? That’s because a receipt is evidence, or proof, of a cash sale.

When a business makes a cash sale or provides a service for cash, it will issue a receipt to the client or customer. When a business buys something from a supplier for cash, then it will be issued with a receipt from the supplier.

The following are illustrations of sample receipts. Compare the samples with the key characteristics given below. Next time you buy something for cash, look at your receipt and become familiar with the key characteristics. This may be a worthwhile exercise for you, since in a number of past exams copies of receipts were given in the question and students failed to recognise them. This mistake cost them very easy marks.

EXAMPLES

<i>A1 Discount Tuition</i> ABN 33 673 423 799 Receipt No. 245	
FOR: Accounting Tuition (2 Hours) AMOUNT (inc GST): \$80 FROM: IMA STUDENT	
Date: 9/5/06	SIGNATURE: 

SE STOP	
Business diary	\$2.00
Paid	\$10.00
Change	\$8.00
12/3/06	97125
THANK YOU	

KEY CHARACTERISTICS OF RECEIPTS

- 📄 Will have the name of the business on it.
- 📄 Will have the receipt number on it.
- 📄 May even have the words “receipt number or receipt No.” written on it.
- 📄 May have “for” written on it i.e. the good or service that has been paid for.
- 📄 May have the word “paid” written on it.
- 📄 May have the word “amount” written on it i.e. the amount that was received.
- 📄 Can be any size – thin, long, wide etc.

HINT: Read the exam question carefully and identify the name of the business in question. Since the receipt will have the name of the business printed on it, you will be able to tell whether it was a receipt issued by the business in question, or to the business in question. By comparing the name of the business on the receipt to that of the business in question, you will know whether the source document represents a cash receipt or cash payment.

TRANSACTIONS

STUDY NOTES

INVOICE

An invoice is evidence of **credit transactions**. An invoice is nothing more than a “bill”. When you use the telephone or electricity you don’t pay straight away. Payment is made once you receive “the bill”. The bill, or invoice, is a document that records your usage of a service or purchase of a good that must be paid for in the near future.

When a business makes a credit sale or provides a service on credit it will issue an invoice to the debtor. A debtor is a client or customer who is indebted to the business since they have used a service or bought a good without paying for it at the time. Payment must be made within a certain period of time.

When a business buys something on credit or uses a service that is provided on credit, then it will receive the invoice from the creditor. A creditor is a supplier who has provided a service or sold a good on credit. This credit has to be paid back at a later stage.

The following are illustrations of sample invoices. Compare the samples with the key characteristics given below. Next time you receive a bill at home, become familiar with its key characteristics. Again, this may be a worthwhile exercise for you, since copies of invoices were given in a number of past exam questions. Students, who could not recognise them for what they were, lost very easy marks as a result.

EXAMPLES

<p><i>A1 Tuition</i> ABN 33 673 423 799 Invoice No. 984 Date: 9/5/06</p> <p>TO: U.R ADEBTOR FOR: Accounting Tuition (1½ Hours) AMOUNT (inc GST): \$75 DUE: 25/5/06</p>
--

<p>CHEAP TELEKOM ABN 12 343 454 5XX Invoice No. 22984 Date: 1/1/07</p> <p>CUSTOMER NAME AND ID: PETER SKLIROS (88237)</p> <p>LOCAL CALLS (969).....\$145.25 MOBILE CALLS (15).....\$65.86 NATIONAL CALLS (8).....\$14.00 INTERNATIONAL CALLS (22).....\$85.55</p> <p>TOTAL PAYABLE (GST).....\$310.66 GST INCLUDED.....\$28.24 DUE:.....30/1/07</p>

KEY CHARACTERISTICS OF INVOICES

- 🔓 Will have the name of the business on it.
- 🔓 Will have the invoice number on it.
- 🔓 May even have the words “invoice number or invoice No.” written on it.
- 🔓 Will have the word “to” written on it i.e. the debtor/client who received the credit.
- 🔓 May have “for” written on it i.e. the good or service that has been purchased on credit.
- 🔓 May have the word “amount” written on it i.e. the value of credit provided.
- 🔓 Will have a due date on it i.e. the date when payment has to be received by.
- 🔓 Can be any size – thin, long, wide etc.

HINT: Read the exam question carefully and identify the name of the business in question. Since the invoice will have the name of the business printed on it, you will be able to tell whether it was issued by the business in question, or to the business in question. By comparing the name of the business on the invoice to that of the business in question, you will know whether the source document represents a credit sale or credit purchase.

TRANSACTIONS

STUDY NOTES

CHEQUE BUTT

A cheque butt is evidence of a **cash payment**. People use cheques because in many cases it's easier to pay by cheque rather than walk around with large sums of money. Cheque payments are considered the same as cash payments, since both are transfers of funds.

When a business makes a payment by cheque, a cheque will be written and torn off the chequebook. The remaining part is called the "cheque butt". This is a piece of the cheque that is left for the owner of the chequebook to write details of the issued cheque as a record for future reference.

The following are illustrations of sample cheque butts. Compare the samples with the key characteristics given below. If you have access to a chequebook, look at the butt and compare it to those shown below. By doing so you will be in a better position to recognise cheque butts in the exam.

EXAMPLES

/ /		
TO:		
FOR:		
AMOUNT:		
AMOUNT:		
THIS CHEQUE:		
BALANCE:		
B/S/B	A/C no.	SERIAL NO
037-069	131415	200 660

DATE: 1/1/07
TO: C.A.R INS Pty Ltd
FOR: CAR INSURANCE
AMOUNT: \$1000.00
BALANCE: \$200.00
10032

AUSTRALIA BANK		
31/01/07		
PAYEE: M. PLOYEE		
FOR: WAGES		
AMOUNT: \$750		
BALANCE: \$34 560		
3000	1314	2006
	00 00	61

KEY CHARACTERISTICS OF CHEQUE BUTTS

- 📌 May have the name of the bank on it.
- 📌 Will have at least the cheque number on it.
- 📌 Will have either "to" or "payee" on it i.e. the person or firm who is being paid.
- 📌 Will have "for" written on it i.e. the purpose of the cheque eg. Rent, wages, drawings etc.
- 📌 Will have "this cheque" or "amount" written on it i.e. the amount of the cheque payment.
- 📌 May have the word "balance" written on it i.e. so that you know how much is left in the account.
- 📌 Will usually be long and thin.

HINT: You will only see cheque butts of the business in question. You will never see the cheque butts of another business. Therefore, when you have a question with cheque butts in it, you should know straight away that it refers to cash payments made by the business in question.

PRINCIPLES OF ACCOUNTING

HISTORICAL COST – Transactions are recorded at their original cost or value.

QUALITATIVE CHARACTERISTIC

RELIABILITY – Items should be recorded on the basis of reliable, accurate and verifiable information.

ADVERTISEMENT

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Business Management (coming soon)
Economics
Further Maths
Maths Methods

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RECORDING IN JOURNALS

SPECIAL JOURNALS

INTRODUCTION & OVERVIEW

CASH RECEIPT JOURNAL

CASH PAYMENTS

(CREDIT) SALES JOURNAL

(CREDIT) PURCHASES JOURNAL

RECORDING IN JOURNALS

STUDY NOTES

SPECIAL JOURNALS

Once a transaction occurs, and this is evidenced by a source document, it then needs to be recorded in the accounting records of the business. Transactions can be recorded in the ledger as well as a special journal. Generally however, the first place where transactions will be recorded in accounting books of the business will be in the special journal.

The reason why transactions will initially be recorded in the journals instead of the ledger is because many businesses have hundreds if not thousands of transactions. Posting all these transactions into ledgers will make them very large, hard to manage and full of information, a lot of which can be reduced. Recording initially in journals allows similar transactions to be posted quickly and efficiently without the need to duplicate similar transactions. At the end of a period, such as at the end of the day, week or month, depending on the business, the journals are totalled and **only the totals** are posted to the ledgers. This saves the ledgers from being “clogged up”, yet they have all the required information recorded.

ADVANTAGES OF SPECIAL JOURNALS

- ❖ Groups similar transactions together.
- ❖ Reduces duplication of recordings in ledgers.
- ❖ Takes the bulk of information out of the ledgers.
- ❖ Allows for quicker posting and recording.
- ❖ Increases efficiency in transaction recording.
- ❖ Summarises transactions.
- ❖ Helps in reducing recording errors.

When you think of journals you should think of them as logs or tables with columns and rows where information can be recorded. In accounting there are seven of these journals. They are called “special journals” because each type of journal is used for a specific type of transaction. Together though, all seven journals are able to record every possible type of transaction.

SPECIAL JOURNALS

- ❖ CASH RECEIPTS JOURNAL.
- ❖ CASH PAYMENTS JOURNAL.
- ❖ (CREDIT) SALES JOURNAL.
- ❖ (CREDIT) PURCHASES JOURNAL.

- ❖ SALES RETURNS JOURNAL.
- ❖ PURCHASES RETURNS JOURNAL.

- ❖ GENERAL JOURNAL.

←← UNIT 4

Above you will note that three journals have been separated from the other journals. Sales and purchase returns journals are UNIT 4 topics. As a result these journals are not covered in this part of the course. Nevertheless, they have been included here for your information.

RECORDING IN JOURNALS

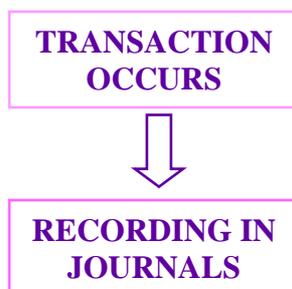
STUDY NOTES

The General Journal is slightly different from the other six special journals. There are two main reasons why. Firstly, it is possible to record every single accounting transaction in the General Journal. The other six are used only for specific transactions. In reality however, other journals will be used to record relevant transactions instead of relying on the General Journal only, as this would defeat the purpose of using journals in order to summarise, total and group similar transactions. There would be no point in recording all transactions in the General Journal as they could instead be recorded directly in the ledgers.

Secondly, the General Journal is a “catch all” journal. This means that any transactions that cannot be recorded in the other special journals will automatically be recorded in the General Journal. By the end of this topic you will see the limitations of the six special journals and have an understanding of the types of transactions that will be recorded in the General Journal. A further topic will focus more closely on some of the types of transactions that will be recording in the General Journal only.

THE ACCOUNTING PROCESS SO FAR

At this stage you should know how to recognise a transaction as evidenced by a source document. Having the source document it is now time to record the transaction in the appropriate journals.



The following pages will explain and revise the four main journals covered in UNIT 3. The General Journal will be covered in another section of the notes.

Many students get confused with recording transactions in journals. The main cause of concern lies in the fact that many students record transactions in the wrong journals. Read the following pages carefully, as they include hints and tips that will overcome the problems that have let many students down in this area in the past.

HINT: All the journals have names that are self-explanatory. Don't try to read anything into the names – cash payments journal – you make a payment for cash (doesn't matter what for) you record it in the cash payments journal. Simple. So long as you remember the names of the journals, you should be able to record the appropriate transactions in the appropriate journals.

NOTE: Don't use dollar signs when recording financial data in the journals. This is not required since according to the Monetary Unit principle it is assumed that financial data is presented in the currency of the country in which the records are prepared - in Australia, this will be the dollar.

PRINCIPLES OF ACCOUNTING

MONETARY UNIT – It is assumed that the values used in the accounting records are in the monetary unit of the country in which the records are created.

RECORDING IN JOURNALS

STUDY NOTES

CASH RECEIPTS JOURNAL

Read the name of this journal – CASH... RECEIPTS... JOURNAL! Every time the business **receives cash** from any source it must be recorded in the Cash Receipts Journal. As simple as this seems, many students still have problems. Students normally realise that cash receipts from debtors or cash sales are recorded in the Cash Receipts Journal. However, in a surprising number of cases when a more abstract transaction occurs such as a cash contribution by the owner, many students record this elsewhere. Don't be one of them! These are very silly mistakes that cost marks in the exam, which can be simply overcome by reading the name of the journal and then recording the appropriate transaction into that journal.

KEY CHARACTERISTICS OF A CASH RECEIPTS JOURNAL

- ❖ Only **CASH RECEIPTS** are recorded.
- ❖ Any **CASH RECEIPTS** from any source are recorded.
- ❖ Different businesses will have different columns according to their sources of cash receipts.
- ❖ Regular receipts will have their own columns.
- ❖ All other receipts are recorded in the “**Sundry Receipts**” or “**Sundries**” column.
- ❖ **MUST HAVE** “**Date**”, “**Details**” (“**Particulars**” or “**Account to be Credited**”), “**Receipt No.**”, “**Bank**” and “**Sundry Receipts**” columns.

EXAMPLE TEMPLATE

DATE	DETAILS	REC NO.	BANK	DISCOUNT EXPENSE	DEBTORS	COST OF SALES	SALES	SUNDRIES

The above template clearly has more columns than what was stated in the last point under the “Key Characteristics of a Cash Receipts Journal”. This is because the last point states what the journal **must have** in relation to its columns. However, each business is different, and the Cash Receipts Journal needs to be adapted to suit the needs of each business. The example template provided above assumes that the business in question is a trading business (as required by the VCE syllabus), hence the “**Cost of Sales**” column. If it were a service business, then this column would not be required. It is also assumed that the business makes at least some sales on credit, hence the “**Debtors**” column. If the business made cash sales only, then clearly a “**Debtors**” column could be eliminated, since receipts from debtors are recorded here.

Some businesses may have additional regular cash flow streams. If this is the case then additional columns need to be created. However, these additional columns cannot be added anywhere, instead they are to be added between the “**Sales**” and “**Sundries**” columns, as illustrated below. In the example below, the business also receives cash from commissions that it earns.

DATE	DETAILS	REC NO.	BANK	DISCOUNT EXPENSE	DEBTORS	COST OF SALES	SALES	COMMISSION REVENUE	SUNDRIES

Additional columns go here

RECORDING IN JOURNALS

STUDY NOTES

EXAMPLE

Below is an example of how a Cash Receipts Journal looks like with transactions recorded:

DATE	DETAILS	REC NO.	BANK	DISCOUNT EXPENSE	DEBTORS	COST OF SALES	CASH SALES	SUNDRIES
1/1/07	CAPITAL – P. SOLANIKOW		5 000					5 000
3/1/07	CASH SALES	1	300			170	300	
4/1/07	CASH SALES	2				325	500	
	DEBTOR – L. COLLIER	3	1 500	20	1 020			
7/1/07	INTEREST		50					50
			6 850	20	1 020	495	800	5 050

These entries have to be posted individually into the ledger.
 These figures are recorded to the relevant ledger accounts.

NOTE: Notice the green shading in the journal. On 4/1/07 there were two separate cash receipts. One receipt was from a \$500 cash sale, while the other was a receipt from debtor of \$1000. On that day a total of \$1500 was banked. Therefore, in the “Bank” column the total of \$1500 must be recorded. This is the proper and correct way of recording multiple receipts. DO NOT record the amounts separately in the “Bank” column as this means that these amounts were separately banked during the day - a most unlikely occurrence in reality since businesses usually bank their takings at the end of the day.

NOTE: One of the entries on the 4/1/07 was a receipt of cash from a debtor, L. Collier. This debtor actually reduced his account by \$1020 since he paid \$1000 and received a \$20 discount. Therefore, his obligation declined by \$1020. For this reason \$1020 is written in the “Debtors” column while \$1000 is written in the “Bank” column (or would be if a multiple receipt did not occur on the same day). The amount written in the “Bank” column must be the amount actually RECEIVED.

HINT: You should always do a double check of your totals. This only takes a minute to do, but doing it may save you a mark or two in the exam. The “Bank” column amounts should equal to your “Bank” total. This should be verified with the totals of each of the receipt columns. If you have a “Cost of Sales” column, then don’t add that total, since you don’t actually receive the cost of sales. Don’t add the “Discount Expense” total either, since you don’t actually receive this amount; instead, subtract it from the “Debtors” total, as this becomes your net receipts from debtors which is included in your “Bank” total.

BANK	DISCOUNT EXPENSE	DEBTORS	COST OF SALES	CASH SALES	SUNDRIES
5 000					5 000
300			100	300	
			200	500	
1 500	20	1 020			
50					50
6 850	20	1 020	300	800	5 050

ADD (vertical arrow pointing down to the left)

SUBTRACT (vertical arrow pointing up to the 20 in Discount Expense)

IGNORE (vertical arrow pointing up to the 300 in Cost of Sales)

ADD (horizontal arrow pointing right from the bottom of the columns)

When you have completed the Cash Receipts Journal and you are doing a quick verification to make sure it is correct, you can interpret the information contained within it to say:

TOTAL AMOUNT BANKED	\$6 850
Consisting of:	
SUNDRY RECEIPTS	\$5 050
CASH SALES	\$ 800
NET RECEIPTS FROM DEBTORS	\$1 000 (\$1020 - \$20)
	\$6 850

You will find prepared templates of the Cash Receipts Journal on the A1 TUITION website. Instead of drawing up the journal yourself, you can save time by downloading a FREE ready-made template, save it on your computer and print it whenever you need.

RECORDING IN JOURNALS

STUDY NOTES

CASH PAYMENTS JOURNAL

Again, read the name of this journal – CASH... PAYMENTS... JOURNAL! Every time the business makes **cash payments** of any kind to any source they must be recorded in the Cash Payments Journal. Cash payments include payments made by cheque. As with the Cash Receipts Journal, students normally recognise regular cash payments and record them appropriately in the Cash Payments Journal, but again in a surprising number of cases when a more abstract transaction occurs, such as a cash refund to a customer, many students record this elsewhere. Remember, the Cash Payments Journal is for **cash payments**. If it's neither cash nor a payment, then don't include it. It can't be simpler than that.

KEY CHARACTERISTICS OF A CASH PAYMENTS JOURNAL

- ❖ Only **CASH PAYMENTS** are recorded.
- ❖ Any **CASH PAYMENT** to any source is recorded.
- ❖ Different businesses will have different columns according to their sources of cash payments.
- ❖ Regular payments will have their own columns.
- ❖ All other payments are recorded in the “**Sundry Payments**” or “**Sundries**” column.
- ❖ **MUST HAVE** “**Date**”, “**Details**” (“**Particulars**” or “**Account to be Debited**”), “**Cheque No.**”, “**Bank**” and “**Sundry Payments**” columns.
- ❖ Trading businesses will also have a “**Stock**” column, and those that have credit suppliers will have “**Creditors**” and “**Discount Revenue**” columns.

EXAMPLES

DATE	DETAILS	CHQ NO.	BANK	DISCOUNT REVENUE	CREDITORS	STOCK	SUNDRY PAYMENTS

Below is an example of how a Cash Payments Journal looks like with transactions recorded:

DATE	DETAILS	CHQ NO.	BANK	DISCOUNT REVENUE	CREDITORS	STOCK	WAGES	POSTAGE	SUNDRY PAYMENTS
1/1/07	RENT	0001	1 000						1 000
3/1/07	ADVERTISING	0002	250						250
5/1/07	POSTAGE	0003						50	
	WAGES	0004	350				300		
6/1/07	DRAWINGS		400						400
			2 000				300	50	1 650

These entries have to be posted individually into the ledger.

These figures are recorded to the relevant ledger accounts.

NOTE: On 5/1/07 there were two separate cash payments made - \$50 for postage and \$300 for wages. In the “Bank” column the **TOTAL** of \$350 must be recorded. This is the proper and correct way of recording multiple payments.

HINT: As with the cash receipts journal you should always do a double check of your totals. Again, this only takes a minute to do, but doing it may save you a mark or two in the exam. The “Bank” column amounts should equal to your “Bank” total. This should be verified with the totals of each of the payments columns.

You will find prepared templates of the Cash Payments Journal on the **A1 TUITION** website. Instead of drawing up the journal yourself, you can save time by downloading a **FREE** ready-made template, save it on your computer and print it whenever you need.

RECORDING IN JOURNALS

STUDY NOTES

(CREDIT) SALES JOURNAL

When dealing with a Sales Journal it's a good idea to visualise the term "credit" before the title. Think of it as a "credit" Sales Journal, particularly at the beginning when you are still learning about journals. This should be done as a precaution since the term "Sales Journal" can be a bit misleading. Some students post cash sales into the journal thinking that it is a journal for all sales transactions. This is not the case. Only **credit sales** are posted into the Sales Journal. In other words, if the business makes a **sale on credit**, with payment being made at a later stage by the debtor, then the transaction needs to be posted to the Sales Journal. Another little clue - look carefully at the columns of the Sales Journal. You will see that there is no "**Bank**" column. Therefore, posting a cash sale in the Sales Journal is not an option since with cash sales the money needs to be banked, and hence, a "**Bank**" column is required.

KEY CHARACTERISTICS OF A SALES JOURNAL

- ✦ Only **CREDIT SALES** are recorded.
- ✦ Sales journals have basically the same columns regardless of the business.
- ✦ Service businesses will not have a "**Cost of Sales**" column.
- ✦ There is no "**Bank**" column since no money actually changes hands with a credit sales transaction.
- ✦ The invoice numbers have to have a sequential order since they are prepared by the business.
- ✦ **MUST HAVE "Date", "Debtor", "Invoice No." and "total" (selling price) columns.**

A trading business that uses the perpetual inventory method for recording stock would need information on the cost price as well as the selling price of the goods sold. If in an exam you see that the cost price of a sold good is given, then you will need to post this information into the journal and use the format given below.

EXAMPLES

DATE	DEBTOR	INVOICE NO.	COST OF SALES	SALES

Below is an example of how a (credit) Sales Journal looks like with transactions recorded:

DATE	DEBTOR	INVOICE NO.	COST OF SALES	SALES
14/2/07	B. BYRNE	235	150	250
18/2/07	A. DANIELS	236	325	575
25/2/07	D. CERANTONIO	237	225	325
28/2/07	B. BYRNE	238	450	750
			1 150	1 900

This figure represents the total cost of goods sold/cost of sales.

These totals are posted to the relevant ledger accounts.

HINT: In an exam you will usually be given the journals. You won't have to design them yourself. However, it is very important to be able to recognise the different journals.

You will find prepared templates of the Sales Journal on the **A1 TUITION** website. Instead of drawing up the journal yourself, you can save time by downloading a **FREE** ready-made template, save it on your computer and print it whenever you need.

RECORDING IN JOURNALS

STUDY NOTES

(CREDIT) PURCHASES JOURNAL

The tricks with the Purchases Journal are in many cases the same as with the Sales Journal. When dealing with the Purchases Journal again think of a hidden “credit” before the title. Think of it as a “credit” Purchases Journal. As with the Sales Journal some students record cash purchases into the journal thinking that it is a journal for all purchase transactions. Again, this is not the case. Only **credit purchases** are recorded in the Purchases Journal. Another little clue - look carefully at the columns of the Purchases Journal. You will see that there is also no “Bank” column. Therefore, posting cash purchases in the Purchases Journal is not an option since with cash purchases a “Bank” column would be required. **Warning! Warning!** Purchases to be included in the Purchases Journal are limited also to **stock purchases**. Although the purchase of a car, even if on credit, would seem as the perfect candidate transaction to be recorded in the Purchases Journal, it in fact is not. This is unless the business is a car dealership and the car is part of the business’s stock. The credit purchases of non-stock items are recorded in the General Journal.

To help you understand and remember what types of purchases are recorded into the Purchases Journal, it is important to outline what the actual purpose of the journal is. The purpose is very simple – to calculate the value of stock purchased for the period. The sum of the “amount” or “total” column represents the value of stock purchased for the period. If other non-stock items were included in the Purchases Journal, the journal’s purpose would be defeated. So non-stock items are excluded.

In summary, if the business makes a **credit purchase of stock** then the transaction needs to be recorded in the Purchases Journal.

KEY CHARACTERISTICS OF A PURCHASES JOURNAL

- ☞ Only **CREDIT PURCHASES** of **STOCK** are recorded.
- ☞ Purchases journals have basically the same columns regardless of the business.
- ☞ There is no “**Bank**” column since no money actually changes hands with a credit purchase transaction.
- ☞ The invoice numbers **WILL NOT** be in sequence since invoices are prepared by outside creditors.
- ☞ **MUST HAVE** “Date”, “Creditor”, “Invoice No.” and “Stock” or “Amount” columns.

EXAMPLES

DATE	CREDITOR	INVOICE NO.	STOCK

DATE	CREDITOR	INVOICE NO.	STOCK
8/2/07	L. OZKUL	A32	125
15/2/07	W. PLAIN	7489	300
25/2/07	S. GOUBRAIN	54	325
	W. PLAIN	12N54	180
			930

This total is posted to the STOCK CONTROL – ASSET account.

HINT: In an exam you will usually be given the journals. You won’t have to design them yourself. However, it is very important to be able to recognise the different journals.

You will find prepared templates of the Purchases Journal on the **A1 TUITION** website. Instead of drawing up the journal yourself, you can save time by downloading a **FREE** ready-made template, save it on your computer and print it whenever you need.

ACCOUNTING FOR GST

GST

INTRODUCTION & BACKGROUND

CALCULATION

SPECIAL JOURNALS

ADDITIONAL GST IMPLICATIONS

ACCOUNTING FOR GST

STUDY NOTES

GOODS & SERVICES TAX

On July 1 2000, the Australian government implemented a new taxation regime, which had the effect of overhauling the existing taxation system. A major strength of the new taxation regime is that it is much more simple and consistent than its predecessor.

One of the major components of the new taxation system is the GST, or goods and services tax. The GST replaced a number of other taxes that existed on a variety of goods in the economy. Previously goods were taxed at varying rates of up to 32%, and a component of the value of luxury motor vehicles was taxed at 45%. The level of tax depended on whether goods were considered to be basic or luxury, such as vehicles, jewellery or electronics for example. On the other end of the spectrum, services were not taxed at all. Now, with the introduction of the GST, almost every good and service in Australia is taxed at the same rate. Since July 1 2000, this rate of tax is 10%.

The GST is meant to be a consumption tax or "consumer tax". This means that the consumer ultimately pays the tax. Although businesses buy goods and use services that include GST in the price, they are able to offset the GST paid with the GST collected. In other words, for every dollar of GST that a business pays, it is able to keep that amount of GST that it collects as part of its sales or fees revenue.

CALCULATION

Prices that are affected by GST have two components – the price of the actual good or service, and the tax component. By law vendors have to include GST in the price. The GST component will usually be listed separately on the supplier's invoice or receipt. However, there may also be times when the GST component is incorporated in final price without it being highlighted, meaning that you will have to calculate the tax component yourself. It may also be the case that you are the vendor. In these cases, you have to add the GST to the selling price.

TO ADD GST TO PRICE

$$\text{PRICE (EXCLUDING GST)} \times (1 + r) = \text{PRICE (GST INCLUSIVE)}$$

Where r = rate of tax.

$$\text{EXAMPLE: } \$25 \times 1.1 = \$27.50$$

Where r = 10%

PRICE (EXCLUDING GST)	GST RATE	GST	PRICE (GST INCLUSIVE)
\$50	10%	\$5	\$55
\$125	10%	\$12.50	\$137.50
\$250	10%	\$25	\$275
\$1500	10%	\$150	\$1650

TO CALCULATE GST IN PRICE

$$\frac{\text{PRICE (GST INCLUSIVE)}}{11}$$

EXAMPLE:

$$\frac{\$330}{11}$$

$$= \$30$$

PRICE (GST INCLUSIVE)	DIVIDE BY	GST	PRICE (EXCLUDING GST)
\$50	11	\$4.55	\$45.45
\$110	11	\$10	\$100
\$275	11	\$25	\$250
\$1500	11	\$136.36	\$1363.64

ACCOUNTING FOR GST

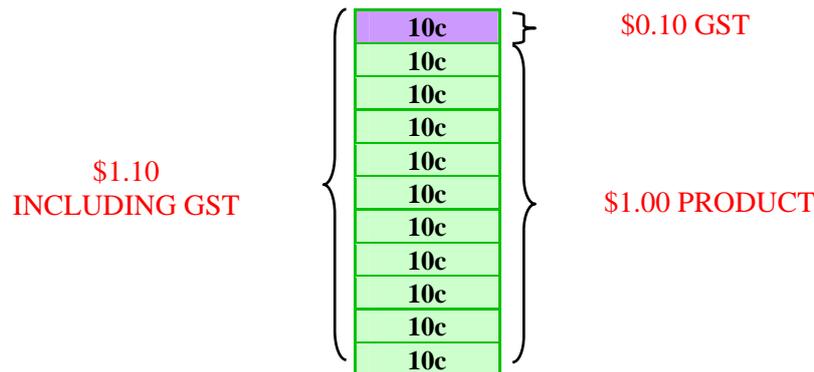
STUDY NOTES

Some students get confused as to why the GST inclusive price has to be divided by eleven in order to work out the GST, even though the actual GST is only 10%. There is a simple explanation for this. Let's use an example:

EXAMPLE

A can of lemonade sells for \$1 (excluding GST). If we want to add GST to this price we need to calculate 10% of \$1 and add this amount to the price. Ten percent of \$1 is 10c, so 10c needs to be added to \$1 (the actual price of the can). The can of lemonade now has a price of \$1.10 (including GST).

PRICING OF A CAN OF LEMONADE



At this stage the price of the lemonade is made up of two components – 1 part price of product and a 0.1 (or 10%) part tax component. If we break up this 1 part price of product into equal units, say 10c units, we end up with 10 10c units and 1 (10% of 10) GST unit. Therefore, there are eleven equal parts to the price, one of which is the GST part. For this reason we need to divide the price by eleven to eliminate the GST component and be left with only the price of the actual product.

NOTE: Don't get too involved with the mathematics of the GST calculation. This will not be the focus of the exam. Through my experience as a tutor I found that some students get confused about why some GST calculations involve a division by 11 while others involve a multiplication by 10. The detailed explanation above is provided to illustrate why you have to divide the price by 11 to calculate the GST component even though the GST rate is 10%. Hopefully this will overcome some of the anxieties that you may have had if you were one of the students that became confused by the whole matter.

ACCOUNTING FOR GST

STUDY NOTES

SPECIAL JOURNALS

With the introduction of the GST, small alterations are required to the special journals to separate, and therefore, to be able to easily identify the GST component in GST related transactions. The alterations to the journals are only minor and include the addition of a new GST column. Below is a sample of four special journals with the addition of the GST column (in red).

Please note that both the Cash Receipts and Cash Payments journals may have additional columns for recording regular transactions. This is particularly true for the Cash Payments Journal which may have additional columns labelled “Wages”, “Drawings” etc.

CASH RECEIPTS JOURNAL

DATE	DETAILS	REC NO.	BANK	DISCOUNT EXPENSE	DEBTORS	COST OF SALES	SALES	GST	SUNDRIES



An additional column, or columns, may be included before the “GST” column, depending on the number of regular sources of receipts of the business, as illustrated below:

SALES	COMMISSION REVENUE	GST	SUNDRIES

CASH PAYMENTS JOURNAL

DATE	DETAILS	CHQ NO.	BANK	DISCOUNT REVENUE	CREDITORS	STOCK	GST	SUNDRY PAYMENTS



An additional column, or columns, may be included before the “GST” column, depending on the number of regular cash payments to various sources made by the business.

(CREDIT) SALES JOURNAL

DATE	DEBTOR	INVOICE NO.	COST OF SALES	SALES	GST	TOTAL DEBTORS

The final column “Total Debtors” or “Total invoice” has been added for the purpose of summing up the total credit sale, which will be the selling price plus GST. Basically, this is a total column for the transaction and represents the all-inclusive total of the sale which the debtor will be required to pay.

(CREDIT) PURCHASES JOURNAL

DATE	CREDITOR	INVOICE NO.	STOCK	GST	TOTAL CREDITORS

The final column “Total Creditors” or “Total invoice” has been added for the purpose of summing up the total credit purchase, being the purchase price plus GST. Basically, this is a total column for the transaction and represents the all-inclusive total of the purchase that must be paid by the business when it becomes due.

ACCOUNTING FOR GST

STUDY NOTES

EXAMPLES

<p><i>Al Book Sellers</i> ABN XX 673 423 XXX Invoice No. 1 Date: 2/1/07</p> <p>TO: A. FANG FOR: Accounting Study Notes (10) AMOUNT (inc GST): \$275 DUE: 16/1/07</p>
--

<p><i>Al Book Sellers</i> ABN XX 673 423 XXX Invoice No. 2 Date: 3/1/07</p> <p>TO: S. BUAYAEMBENJAPORN FOR: Further Maths Study Notes (22) AMOUNT (inc GST): \$605 DUE: 17/1/07</p>

<p><i>Al Book Sellers</i> ABN XX 673 423 XXX Invoice No. 3 Date: 5/1/07</p> <p>TO: R. ROBERTSON FOR: Maths Methods Study Notes (12) AMOUNT (inc GST): \$330 DUE: 19/1/07</p>
--

<p><i>Al Book Sellers</i> ABN XX 673 423 XXX Invoice No. 4 Date: 6/1/07</p> <p>TO: J. GEORGAKOPOULOS FOR: Accounting Study Notes (30) AMOUNT (inc GST): \$825 DUE: 20/1/07</p>
--

(CREDIT) SALES JOURNAL

DATE	DEBTOR	INVOICE NO.	COST OF SALES	SALES	GST	TOTAL DEBTORS
2/1/07	A. FANG	1	150	250	25	275
3/1/07	S. BUAYAEMBENJAPORN	2	325	550	55	605
5/1/07	R. ROBERTSON	3	200	300	30	330
6/1/07	J. GEORGAKOPOULOS	4	450	750	75	825
			1125	1850	185	2035

HINT REMINDER: Remember to do a double check of your totals. This only takes a minute to do, but doing it may save you a mark or two in the exam. Note that the "Total Debtors" column total should equal to your "Sales" + "GST" column totals. This should be obvious, since all of your debtors owe you for the actual sales of the goods as well as the GST component of the sales i.e $\$1850 + \$185 = \$2035$.

HINT: Make sure that the "GST" column total is 10% of the "Sales" column total i.e $\$185$ is 10% of $\$1850$.

- JAN 1. P. SOLANIKOW DEPOSITS \$5000 INTO HIS BUSINESS ACCOUNT (GST NOT APPLICABLE).
- JAN 3. CASH SALE OF \$300 + 10% GST (COST \$170).
- JAN 4. CASH SALE OF \$550 INCLUSIVE OF GST (COST \$325).
- JAN 6. DEBTOR A. FANG REPAYS ACCOUNT OF \$275 AND RECEIVES A \$20 DISCOUNT.
- JAN 7. INTEREST OF \$50 PAID (NO GST).

Below is an example of how to record GST transactions in a Cash Receipts Journal. Note that these are very similar transactions that were recorded in the **Recording in Journals** topic, however, now we have included the GST component.

CASH RECEIPTS JOURNAL

DATE	DETAILS	REC NO.	BANK	DISCOUNT EXPENSE	DEBTORS	COST OF SALES	SALES	GST	SUNDRIES
1/1/07	CAPITAL – P. SOLANIKOW		5 000						5 000
3/1/07	CASH SALES	1	330			170	300	30	
4/1/07	CASH SALES	2	550			325	500	50	
6/1/07	DEBTOR – A. FANG	3	255	20	275				
7/1/07	INTEREST		50						50
			6 185	20	275	495	800	80	5 050

ACCOUNTING FOR GST

STUDY NOTES

The examples on the previous page illustrated how credit sales and cash receipts are recorded when GST is applied. This was done deliberately in order to illustrate to students the relationship between credit sales and receipts from debtors. Read the hint below as well as the example explanation in green.

HINT: Many students make the same mistake when recording GST related transactions into the journals. Don't be one of them. When making a credit sale, record the entry including the GST component, in the Sales Journal. At a later stage when the debtor pays the account DO NOT record the GST component in the Receipts Journal. This will be double counting the GST as it was already recorded at the time of the credit sale. The same approach applies when making a credit purchase. Record the GST separately in the Purchases Journal, and then when payment to the creditor is made, DO NOT record the GST component in the Payments Journal.

If you look back at the 6/1/07 transaction that was recorded in the Cash Receipts Journal, you will notice that GST was not applied, or recorded separately in the journal. This is because it was a receipt from debtor transaction. The GST was already calculated and recorded in the Sales Journal on 2/1/07. In other words, the GST has already been accounted for when making the initial sale. As a result, once we get the cash from the debtor, we do not record the GST again, even though the GST forms part of the money that we are receiving. Doing so will be adding twice the GST to the ledgers, and the "GST Clearing Account". As you progress through these notes and learn about ledger accounts, this will make more sense and become a lot clearer to you. Once you have learnt about the "GST Clearing Account", return to this section and re-read the example on the previous page.

NOTE: An increasing number of VCE Accounting assessments use source documents as a means to provide transaction information. The example on the previous page used a combination of source documents and standard text in order to provide transaction details. Assume that in the exam you will be given transaction details in source document format. Learn to identify each source document and understand what each transaction is.

ADDITIONAL GST IMPLICATIONS

The introduction of the GST has other implications on the recording of GST related transactions. The GST will also affect ledgers, and require a special "GST Clearing Account" to be created for GST components of expenses, revenues, receipts and payments. The GST also affects a business's cash flow, in that the business initially receives more cash than it is entitled to when GST is included in a transaction. Businesses may also initially pay more for goods and services when the price includes GST. However, the biggest effect is when the business has to "clear" its GST accounts and send payment to the Australian Tax Office (ATO).

These GST effects will be described in other topics of these notes. I have purposely split up discussion on GST related transactions in an effort to describe the various effects in topics where they relate, rather than just taking an overall approach and discussing all effects of the GST in the one topic. This way, students should find understanding of the GST implications on the accounting records easier and be in a better position to see how they relate to that various recording and accounting procedures.

STUDY NOTES

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Peter has been current with the VCE system throughout its changes since 1990. He is experienced, up to date with the current curriculum and this experience has enabled him to identify key problem areas that students face when dealing with the subject at the VCE level. Over time Peter has prepared summary and study notes for students to enable them to get a better understanding of the subject, improve their confidence and to cut down on study time whilst not compromising on their final result.

Currently Peter is preparing his VCE Economics CRAM BOX® which will complement his already published VCE Economics and Accounting study notes, as well as the VCE Accounting CRAM BOX®. The CRAM BOX® is available at a number of retail outlets around Melbourne.

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