THE ACCOUNTING SYSTEM

Accounting refers to recording, classifying, and summarizing money, transactions, and other events that are, at least in part, of financial character. Accounting also includes the interpretation of these compiled data.

PHASES OF ACCOUNTING

1. Recording
This is also called bookkeeping. In this phase, financial transactions are recorded systematically and chronologically in appropriate accounting books.

2. Classifying
This is the sorting and grouping of similar items under the same name or account.

3. Summarizing
This is the summarizing of financial data after each accounting period.

4. Interpreting
This is the analytical phase of Accounting. The interpretation of financial data is a critical tool for decision-making. It helps to identify problems in the business operation and can highlight changes that need to be made.

In business accounting, an appropriate system must be established. It should include the following elements:

1. Procedures
2. Internal Control (see below for explanation)
3. Records
4. Forms
5. Facilities
6. Reports

In every accounting system, internal control must be present. Its objectives are as follows:

- To safeguard the organization's assets
- To check accuracy and reliability of accounting data and records
- To ensure operational efficiency and encourage adherence to prescribed managerial policies

An adequate internal control system must have the following basic attributes:

1. There must be a **segregation of duties**. The role of authorization or approval must be separate from the roles of cash custodianship and account recording. The cashiering role must be handled by a person who is not doing the bookkeeping.

2. **Internal checks** on financial transactions should be conducted by the designated staff or officer.

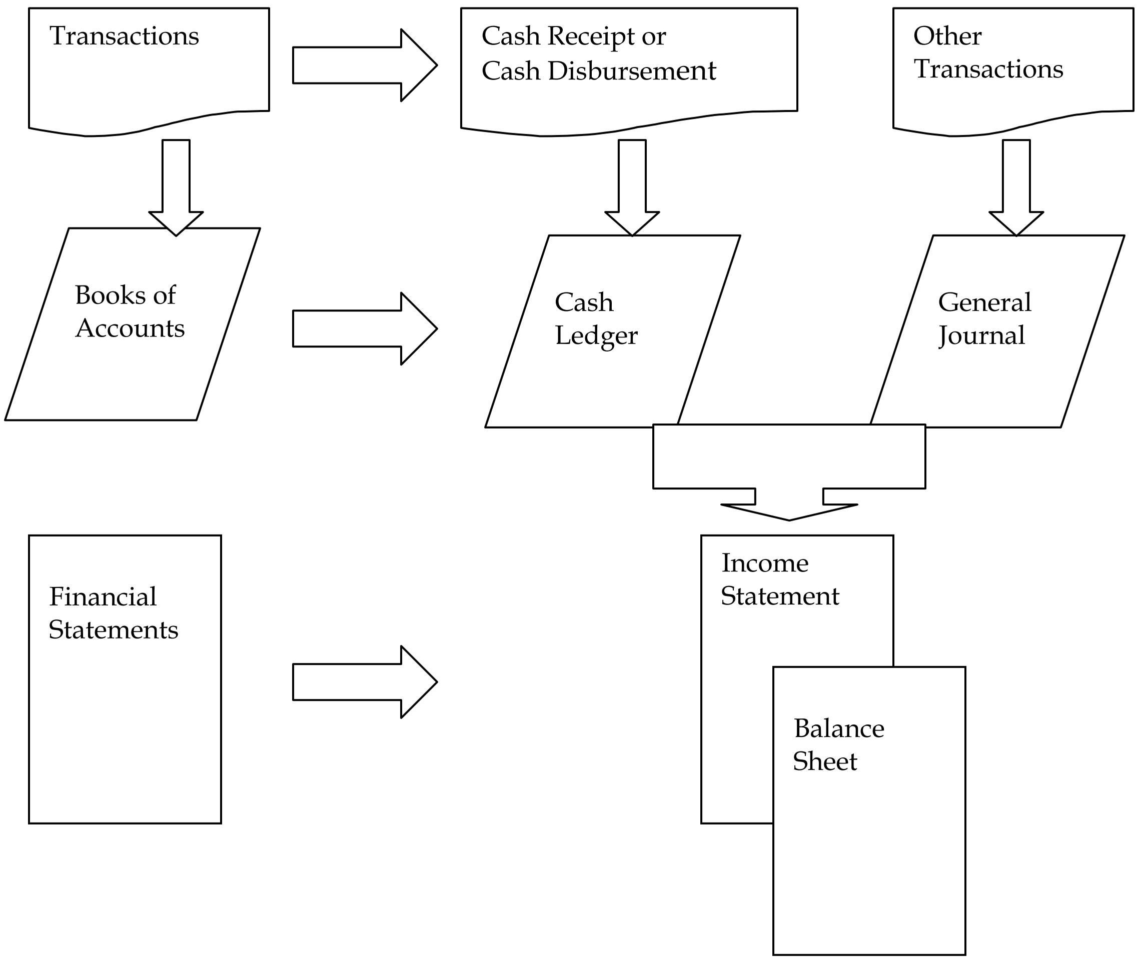
3. Appropriate **approval and authorization** must be given for each transaction.

4. **Management supervision** must be exercised by the officers on the business operations, as well as on the financial aspects. Financial reports must be properly reviewed.

5. There must be an **appropriate organizational structure** wherein duties and responsibilities are delineated clearly among staff.

ACCOUNTING SYSTEM FRAMEWORK APPLICABLE TO COORDINATORS

The figure below represents the process of transactions (cash and other) during the different stages of financial recording:



METHODS OF RECORDING

The **single-entry method** or the **double-entry method** can be used to record financial transactions. The single-entry method is simply listing the transactions affecting the cash account. This means that cash receipts are recorded as Cash In and cash disbursements are recorded as Cash Out.

A simple illustration is presented below:

Date	Transaction	Cash In	Cash Out	Cash Balance
	Balance: Aug. 31			13,500
Sept 28	Fuel for Sept.		2,500	11,000
Sept 29	Wages for Sept.		5,000	6,000
Sept. 29	Packing Materials		800	5,200
Sept. 30	Miscellaneous		500	4,700
Sept. 15	Cash Sales: Sept., Exporter A	6,700		11,400
Sept 20	Collection: Sept., Exporter B	5,500		16,900
Oct 8	Fuel for Oct.		2,500	14,400
Oct 15	Wages for Oct		5,000	9,400
Oct 17	Miscellaneous		500	8,900
	Cash Sales: Oct., Exporter A	4,700		13,600
	Collection: Oct., Exporter B	6,500		20,100
	Collection: Oct., Exporter C	3,000		23,100

In the example above, only the running balance of the cash account is determined. Balances or the total amount of sales, wages, and miscellaneous accounts have to be recomputed time when financial statements are prepared. Due this limitation of the single entry method, the double-entry method is recommended.

The double entry method reflects the effects of financial transactions causing both increases and decreases in accounting values. To record these changes, accounts are used to summarize the increases and decreases in the asset, liability, and capital of the business entity. This method of recording uses the rule of debit and credit. Due to the complexity of the debit and credit rule, the modified double entry method is recommended at the level of the Coordinators. This method is an expanded single-entry method but with extended columns where types of accounts are grouped. An illustration is given in Annex A.

BOOKS OF ACCOUNTS APPLICABLE TO COORDINATORS

The accounting process using the simplified ledger will allow you to record the flow of cash and determine the available cash balance at any one point. The Business Cash Ledger is a record of the flow of cash in the operation and can be used to determine the cash balance at any time of the business operation.

A. BUSINESS CASH LEDGER (BCL)

This is a record of the receipt and disbursement of cash and the remaining balance. Additional columns are provided in which the kinds or names of accounts affected by the cash received or disbursed can be posted. The extended account columns will facilitate the preparation of the income statements, as the nature and cumulative amount of income and expenses are the items that are reflected in the Income Statement. A sample format of a Business Cash Ledger is presented as follows:

Business Cash Ledger Format:

					Account Distribution / Grouping			
		Cash			Cash In		Cash Out	
Date	Explanation	In	Out	Balance	Capital	Sales	Wages	Fuel

Additional columns can be provided under account distribution depending on the number of accounts affected by the cash received and cash disbursed. The Cash Ledger should be maintained in a columnar notebook.

B. GENERAL JOURNAL (GJ)

Non-cash transactions are recorded to the GJ. These include receivables, payables, and depreciation. These data should be maintained in a columnar notebook. While the accounts appearing in the Income Statement are based on the Cash Ledger, any outstanding balance of a receivable and payable should also be taken into consideration when analyzing the net income of the business operation.

Date	Explanation	Receivable			Payables		
		Sales	Collections	Balance	Purchase	Payment	Balance