Accounting Policies and Procedures

Accounting System

Bounce Fitness keeps its books based on an accrual accounting system, recording all debtors and creditors. Inventory is accounted for on a perpetual inventory basis, with stocktakes completed at the end of the year and adjustments made for loss or obsolete stock. Payment is made by electronic funds transfer (EFT) to credit suppliers, credit cards for cash purchases, and petty cash for small items.

General Ledger

A chart of accounts has been drawn up in consultation with the accountant. Ledger accounts shall not be added, changed, or deleted without consultation with your supervisor. All general ledger accounts must be appropriately completed, showing a running balance in each line entry.

Checking Source Documents

Source Documents must be checked to verify the accuracy and authenticity of documents that serve as evidence for financial transactions. When checking source documents:

- Collect all relevant source documents, including invoices, receipts, purchase orders, contracts, bank statements, and any other records related to financial transactions.
- Verify Completeness: Ensure all necessary documents are present and none are missing. Check for sequential numbering or other identifiers to confirm completeness.
- Review each document for accuracy, checking details such as dates, amounts, descriptions, and relevant parties involved. Ensure that information matches corresponding records and agreements.
- Verify signatures and authorisations on documents where applicable. Ensure that authorised personnel have signed off on transactions as required by internal policies.
- Compare information across multiple documents to ensure consistency and accuracy. For example, verify that the amounts on invoices match those recorded on statements.
- Investigate any discrepancies or inconsistencies found during the verification process. Take corrective action as necessary, such as contacting suppliers or customers to resolve issues.

Coding Transactions

To code a transaction, you must follow these steps:

- Understand the nature of the recorded transaction, whether it involves revenue, expenses, assets, liabilities, equity, or a combination.
- Determine which accounts are affected by the transaction. Identify the accounts to be debited and credited based on the double-entry accounting system.
- Adhere to accounting principles such as the revenue recognition principle, matching principle, and accrual basis accounting to ensure accurate representation of financial data.
- Assign appropriate General Ledger codes to each account affected by the transaction.

Recording Journal Entries

At Bounce Fitness, we followed a systematic approach to record journal entries. This involved identifying the transaction, determining the appropriate accounts to debit and credit based on accounting principles, and ensuring the accuracy and completeness of entries.

To record transactions in Xero, follow this step-by-step process:

- Log in to your Xero account and navigate to the dashboard.
- Initiate New Transactions:
  Click on the "+" icon, usually located at the top right corner, to start a new transaction.
- Select Transaction Types:
    - Cash Receipts (Sales): Choose "Receive Money" under the "Accounts" section. Enter details such as date, customer information, amount received, and the relevant income account.
    - Cash Payments (Expenses): Opt for "Spend Money" under the "Accounts" section. Provide details, including the date, payee information, the amount paid, and the appropriate expense account.
    - Purchases: If recording purchases, select "Bills" or "Spend Money," depending on whether it's an invoice or direct payment. Enter supplier details, invoice date, due date, amounts, and relevant expense accounts.
    - Sales: To record sales, choose "Sales Invoice" under the "Accounts" section. Input invoice details such as date, customer information, products/services sold, quantities, prices, and applicable tax information.
- Review and Save:
- Double-check all entered details for accuracy before saving the transaction.
- Send Invoices (Optional):
- If applicable, you can send invoices directly to customers via Xero.
- Reconcile Accounts:
- Regularly reconcile bank and other relevant accounts in Xero to match recorded transactions with actual bank statements.

To ensure accuracy and reliability when recording journal entries in Xero:

- Verify the correctness of transaction details, including dates, amounts, and accounts involved.
- Double-check entries against supporting documentation, such as invoices or receipts.
- Utilise Xero's built-in validation features to identify errors or inconsistencies.
- Regularly reconciled accounts to ensure alignment with bank statements.

Rectifying Journal Entries

Rectifying journal entries involves correcting errors or omissions in previously recorded transactions. The following process must be followed to rectify journal entries:

- Review financial records, such as trial balances, ledgers, and financial statements, to identify discrepancies or inaccuracies that require rectification.

- Determine the nature and cause of each error. Common errors include incorrect amounts, posting to the wrong accounts, duplicate entries, omission of transactions, or transposition errors.
- Choose the appropriate method to rectify each error based on its nature:
    - Reversal - If the original entry was incorrect, but the correction involves simply reversing it, create a reversing entry in the subsequent accounting period.
    - Adjustment - If the error requires a direct adjustment, such as correcting amounts or reallocating entries to the correct accounts, make the necessary adjustments in the current period.
- Based on the analysis, prepare journal entries to rectify each identified error. Ensure that the correcting entries comply with accounting principles and accurately reflect the true financial position of the organisation.
- Clearly document the reason for each correcting entry, including references to the original erroneous entry and any supporting documentation. This documentation is crucial for audit trails and transparency.
- Post the correcting journal entries to the appropriate accounts in the accounting system. Ensure accuracy in posting to prevent further errors.

- After posting the correcting entries, reconcile affected accounts to ensure that they reflect the accurate balances and that the errors have been rectified.

General Journal Entries

General Journal tasks should be appropriately structured in accordance with standard accounting practice and should contain the following:

a) Appropriate supporting documentation should be available for each journal entry

b) The correct date of the entry

c) The correct account number provided

d) The correct name of the general ledger account

e) Amounts allocated to the correct debit or credit column

f) A brief memo that describes the transaction.

A black line must be placed under the journal, extending across the debit and credit columns to indicate the end of the journal entry.

Asset Registers

The company has chosen <u>not to</u> take advantage of the small business income tax concessions, and the depreciation method will be in accordance with the classes of assets shown below.

- Assets costing less than $1,000.00, excluding tax, will be pooled into the low-value pool and depreciated at 18.75% in the first year and 37.5% after that using the diminishing value method of depreciation.

- Assets costing more than $1,000.00, excluding tax, must have an asset register card created for the item, grouped into one of the asset groups, and depreciated according to its effective life on the ATO table for the asset.

Assets will be grouped as follows:

- Office equipment will have an effective life of five (5) years, with a diminishing value depreciation rate of 40%.
- Motor vehicles will have an effective life of eight (8) years and depreciated using the straight-line method.

Reconciliation of Assets

At the end of the financial year, the value of assets in the asset register must be reconciled with the value of assets in the balance sheet for Bounce Fitness. Any discrepancy should be identified, and any adjustments made as necessary.

Provision for Doubtful Debts

At the end of the financial year, at the discretion of the company director, any accounts owing over 90 days may be considered a doubtful debt, and a provision for that debt may be created.

Disposal of Assets

When an asset is traded in or sold, quotes must be obtained from at least two dealers, and Peta Strong must approve a final decision. The entry for the disposal of the asset must show:

- The depreciation is to be calculated on a pro-rata basis up to the date of disposal
- The sale of the asset, including GST
- The value of any loss or gain on the disposal of the asset
- The removal of the asset and its associated accumulated depreciation from the balance sheet.

Generating Financial Reports

Financial reports must be prepared in line with Generally Accepted Accounting Principles (GAAP). This includes:

- Adhering to accounting principles such as accrual accounting, matching principle, and revenue recognition principle while preparing financial statements.
- Ensure that transactions are recorded in the appropriate accounting period and are reported accurately.

The following financial reports can only be produced after all tasks for the year have been entered, end-of-year adjustments made, bank accounts reconciled, asset registers reconciled, and debtors and creditors reconciled:

- An adjusted Trial Balance
- A Profit and Loss Statement
- A Balance Sheet.
- A Cash Flow Statement

Before finalising the end of-financial year reports:

- Verify that all financial data has been accurately transferred from source documents to financial statements without omissions or duplications.
- Review specific accounting treatments applied to transactions to ensure they adhere to the principles outlined in the standards.
- Review the financial statements for errors and compliance with accounting standards and organisational procedures.
- Calculate key financial ratios (e.g., liquidity ratios, profitability ratios) and compare them against industry benchmarks or historical trends. Investigate any significant deviations or trends that may indicate errors or anomalies.

After finalising, the end-of-financial-year reports are sent to the CEO to review, verify and authorise.

To generate reports in Xero:

- Locate and click on the "Reports" tab.
- Select the type of financial report you want to generate:
  - Profit and Loss Statement (Income Statement)
  - Balance Sheet
  - Cash Flow Statement
  - Trial Balance
- Choose the reporting period for the financial report. You can typically select options such as "This Month," "Last Month," "This Quarter," "This Year," or specify custom date ranges.
- Depending on the selected report type, you may have options to customise settings such as:
  - Comparison periods (e.g., comparing the current month to the previous month)
  - Display options (e.g., currency, account groups)
  - Filters (e.g., specific accounts, tracking categories)
  - Additional criteria (e.g., budget vs. actual)
  - After setting up the report parameters, click the "Generate" or "Run Report" button to generate the financial report based on your selected settings.

Occupational Health and Safety

The company recognises its moral and legal responsibility in relation to the WorkHealth and Safety Act 2011 to provide a safe and healthy work environment.