

Course Taster

B190 - Introduction to Bookkeeping and Accounting

Summary

B190 gives a grounding in double-entry bookkeeping and the production of basic financial statements for for-profit and not-for-profit organisations. It develops practical skills in numeracy, spreadsheets and manual and computerised bookkeeping and accounting. It covers the essential principles and concepts that underpin bookkeeping and financial accounting; relevant ethical issues; requirements for professional qualifications and career options in bookkeeping and accounting. The course uses an innovative web site that serves as a virtual learning environment, as well as an interactive, multi-media CD-Rom and a comprehensive Course Guide and Study Book. It also includes interactive, multi-media material that will train students how to use the widely-used Sage Instant Accounts accounting package.

Is this course right for me?

The course is designed as a starting point for anyone of any age or background who wants to learn bookkeeping and accounting. It is especially relevant for those who wish to proceed to professional qualifications as accounting technicians or fully qualified accountants. The course can be counted towards an undergraduate degree and is a recommended preparatory course for the Open University Professional Certificate in Accounting. Regular access to an internet-enabled PC and basic IT skills are assumed, as well as very basic numeracy (i.e. that you can add, subtract, divide and multiply). The Course Guide will help develop your spreadsheet and numerical skills.

A taster of our course materials

This sample Course Planner shows how the workload for the 12-week course is organised, the range of course materials, and the deadline for the only formal assessment, the End of Course Assessment (ECA). (The ECA can, alternatively, be submitted by the end of week 11 in the following presentation of the course.)

Week	Study activities	Suggested time needed in hours	
		Per activity	Per week
1	Read through the Course Guide and complete all activities	5	
	Install B190 Introduction to Bookkeeping and Accounting CD	0.5	
	Gain familiarity with the course website and online student forum	0.5	
	Complete the online Induction Questionnaire	0.5	
	Read through the Introduction of the Study Book	0.5	7
2	Complete Chapter 1 of the Study Book including all the activities	4	
	Work through Modules 1 and 2 of the B190 Interactive Bookkeeping CD	4	
	Complete iCMA 1 on the course website	0.5	
	Complete Spreadsheet Question 1 from the course website	1	9.5

3	Complete Chapter 2 of the Study Book including all the activities	4	
	Work through Module 3 of the of the B190 Interactive CD	3	
	Complete iCMA 2 on the course website	0.5	
	Complete Spreadsheet Question 2 from the course website	1.5	9
4	Complete Chapter 3 of the Study Book including all the activities	4	
	Work through Modules 4 and 5 of the B190 Interactive CD	4	
	Complete iCMA 3 on the course website	0.5	
	Complete Spreadsheet Question 3 from the course website	1.5	10
5	Complete Chapter 4 of the Study Book including all the activities	4	
	Work through Modules 6 and 7 of the B190 Interactive CD	4	
	Complete iCMA 4 on the course website	0.5	
	Complete Spreadsheet Question 4 from the course website	1	9.5
6	Complete Chapter 5 of the Study Book including all the activities	5	
	Work through Modules 8, 10 & 15 (Sections 3 to 8) of the B190 Interactive CD	4	
	Complete iCMA 5 on the course website	0.5	
	Complete Spreadsheet Question 5 from the course website	1	10.5
7	Complete Chapter 6 of the Study Book including all the activities	3.5	
	Work through Modules 12 and 15 (Sections 1,2 & 9 to 14) of the B190 Interactive CD	4	
	Complete iCMA 6 on the course website	0.5	
	Complete Spreadsheet Question 6 from the course website	1	9
8	Complete Chapter 7 of the Study Book including all the activities	4	
	Work through Modules 13 and 14 of the B190 Interactive CD	3	
	Complete iCMA 7 on the course website	0.5	
	Complete Spreadsheet Question 7 from the course website	1	8.5
9	Complete Chapter 8 of the Study Book including all the activities	5	
	Work through Module 16 of the B190 Interactive CD	3	
	Complete iCMA 8 on the course website	0.5	
	Complete Spreadsheet Question 8 from the course website	1	9.5
10	Complete Chapter 9 of the Study Book including all the activities	3	
	Complete iCMA 9 on the course website	0.5	
	Read 'Information for Students submitting Examinable Work Electronically'	1	
	Start preparation of the End of Course Assessment	1	5.5
11	Complete revision assessments 1, 2 and 3 of the B190 Interactive CD	2	
	Complete preparation and submission of the End of Course Assessment	5	7
12	Complete Chapter 10 of the Study Book	3	
	Complete interactive study of Sage Instant Accounts	2	5
	Approximate time to complete B190	100	100

The following activity is from a section of the Course Guide which is designed to develop the numerical skills of bookkeeping and accounting students. Much of the learning in the course is driven by activities done by the students. Answers, as well as other useful feedback, are provided after each activity.

ACTIVITY 5.9

Fill in the correct answers for the gaps in the table below. The first one is done for you. Answers required in decimals should be rounded off to two decimal points. Answers required in fractions should be written in the lowest possible terms.

Percentage	Decimal	Fraction
1%	0.01	$\frac{1}{100}$
2%		
	0.05	
		$\frac{1}{10}$
20%		
	0.25	
$33\frac{1}{3}\%$		
	0.5	
		$\frac{2}{3}$
75%		
	1.0	
		$\frac{2}{1}$

5.12 Answers to numerical activities

ACTIVITY 5.9

Percentage	Decimal	Fraction
1%	0.01	$\frac{1}{100}$
2%	0.02	$\frac{1}{50}$
5%	0.05	$\frac{1}{20}$
10%	0.1	$\frac{1}{10}$
20%	0.2	$\frac{1}{5}$
25%	0.25	$\frac{1}{4}$
$33\frac{1}{3}\%$	0.33	$\frac{1}{3}$
50%	0.5	$\frac{1}{2}$
$66\frac{2}{3}\%$	0.67	$\frac{2}{3}$
75%	0.75	$\frac{3}{4}$
100%	1.0	$\frac{1}{1}$
200%	2.0	$\frac{2}{1}$

The following activity is from a section of the Course Guide which is designed to develop the spreadsheet skills of bookkeeping and accounting students.

ACTIVITY 6.5

Step 1

Open Excel and create the spreadsheet below:

	A	B	C	D	E
1	THE POWER OF SPREADSHEET FORMULAE				
2	Addition	Subtraction	Multiplication	Division	Number squared
3	5	9	6	8	5
4	8	3	4	2	2
5					

Step 2

In the spreadsheet created above, enter the following information highlighted in blue

Cell A5: =A3+A4

Cell B5: =B3-B4

Cell C5: =C3*C4

Cell D5: =D3/D4

Cell E5: =E3^E4

Step 3

Check that you have entered the formulae correctly to get the following answers.

	A	B	C	D	E
1	THE POWER OF SPREADSHEET FORMULAE				
2	Addition	Subtraction	Multiplication	Division	Number squared
3	5	9	6	8	5
4	8	3	4	2	2
5	13	6	24	4	25

If you try different numbers in A3:E4 you should gain a good insight into the power of spreadsheets to automatically update calculations.

The following extract is from a section of the B190 Study Book which introduces students to the concept of 'profit'. It follows the approach used throughout the Study Book of giving students questions to consider, offering answers to such questions and following this up by giving students an activity to complete.

2.1 Profit, income and expenses

What is the main objective of business activity?

Generally speaking, the main reason for the existence of a business is to make a **profit** for the owner/s over a defined period. (There are, of course, other objectives that a business might have, and the business has to work within the laws and customs of society.)

Profit over a period is achieved by trading successfully i.e. a business is able to sell goods or services for more than the expenses incurred in producing them in the same period. A loss over a period, on the other hand, is when a business is only able to sell goods or services for less than the expenses incurred in producing them in the same period. If we say that the start of a period is time 0 and the end-date of a period is time 1 then the profit or loss for this length of time can be expressed by the formula:

Profit or loss $_{1-0} = \text{Income}_{1-0} - \text{Expenses}_{1-0}$.

Important note

Income is a wider concept than sales as it includes all earnings in a period. Income thus includes interest received, rent received etc. as well as cash and credit sales.

What is the difference between making a profit and generating cash in an accounting period?

Profit is when income earned, by cash or credit, is greater than expenses incurred, by cash or credit, in the same accounting period. Generating cash over an accounting period, by contrast, is when cash inflows are greater than cash outflows in the same period. Cash inflows and outflows in a period may be completely unrelated to income and expenses as they may be based, for example, on a financial event that is unrelated to income and expenses, such as the owner introducing capital into the business or drawing capital out of the business.

What is the formula to work out how much cash is generated in a period?

To work out how much cash is generated in a period we need to work out the difference between the cash balance at the end of a period (time 1) and the cash balance at the beginning of a period (time 0). This can be expressed in the formula: Cash generated $_{1-0} = \text{Cash}_1 - \text{Cash}_0$. The next activity should give an insight into the common situation in business where profit made in a period is not the same as the cash generated in the same period.

ACTIVITY 2.1

Andrew B and Barry A have recently started exactly the same business – buying and selling music CDs. They each started their trade on the 1st January 20X1 with £1,000 entirely borrowed from the bank. Both Andrew and Barry bought their CDs for cash but Andrew, however, decided to allow his customers to buy CDs on credit as he believed this would generate more sales.

In the first week of trading Andrew bought CDs for £800 – all cash – and sold them all for £1,600 – all on credit. Barry, on the other hand, bought CDs for £400 – all cash - and he sold them all for £800 – all cash.

Required

- Assuming that Andrew and Barry had no other income and expenses in the week, use the formula $\text{Profit}_{1-0} = \text{Income}_{1-0} - \text{Expenses}_{1-0}$ to calculate each of their profit for the week.
- Assuming that Andrew and Barry had no other transactions in the week, use the formula $\text{Cash generated}_{1-0} = \text{Cash}_1 - \text{Cash}_0$ to calculate each of their cash generated for the week.
- What do your answers to a) and b) above tell you about the affect of credit sales on profit earned and cash generated in a business?

Answer

- Andrew's profit for the week = £1,600 - £800 = £800*
Barry's profit for the week = £800 - £400 = £400
- Andrew's cash generated for the week = (£1,000 - £800) - £1,000 = - £800*
Barry's cash generated for the week = (£1,000 + £800 - £400) - £1,000 = £400
- The answers tell us that credit sales may generate more profit in a period (Andrew's profit compared to Barry's) at the expense of losing cash in the same period. (Andrew's negative generation of cash compared to Barry's).*

The next extract is from a section of the B190 Study Book which introduces students to the difference between manual and computerised ledgers (books containing accounting records). It follows the learning approach adopted throughout the Study Book.

4.2 The use of manual ledgers and computerised ledgers

Traditionally, ledgers were in the form of physical books in which accounting entries were made by hand, i.e. manually. Each account the business kept was given a separate page in this book. These books evolved over the years to become more helpful to the users. One development was to use loose leaf pages in a binder instead of a hard backed book. This allowed new pages – each representing a new account – to be added and old, out of date pages to be removed.

Perhaps the most useful development in the use of manual ledgers was to move from a traditional double-entry format to a three-column one. The next activity should show you the benefits of a three-column format.

ACTIVITY 4.2

Below is the three column format for the debtors account that you completed in the traditional double-entry format in activity 4.1.

Using the information provided, complete the last i.e. 'Balance' column in the debtors account. (The first four entries have already been done for you).

What do you think is the main advantage of keeping accounts in a three-column format?

Debtors				
20X2		Dr	Cr	Balance
Jan 7	Sales	£500		£500 Dr
9	Sales	£250		£750 Dr
11	Sales	£180		£930 Dr
19	Bank		£500	£430 Dr
19	Bank		£250	
22	Sales	£50		
23	Bank		£90	
24	Sales	£75		
26	Sales	£210		

Answer

Debtors				
20X2		Dr	Cr	Balance
Jan 7	Sales	£500		£500 Dr
9	Sales	£250		£750 Dr
11	Sales	£180		£930 Dr
19	Bank		£500	£430 Dr
19	Bank		£250	£180 Dr
22	Sales	£50		£230 Dr
23	Bank		£90	£140 Dr
24	Sales	£75		£215 Dr
26	Sales	£210		£425 Dr

The main advantage of the three-column format is that as each transaction is entered, the balance on the account is updated. This allows the balance on the account to be known at any stage of the year, not just at the year end when the balance sheet is compiled.

Important note

This course will concentrate on the traditional double-entry format as it is the clearest way to learn how to use debits and credits correctly. It is important for students to understand the three-column format as this format is commonly used in practice. Understanding the three-column format also helps to understand computerised ledgers as they are normally displayed in this way.

What are computerised ledgers?

Computerised ledgers are stored as computer files that can be viewed on a screen or by means of a print-out. In the last chapter of this course you will be given more information about computerised double-entry bookkeeping and introduced to Sage, the most popular accounting software programme in the UK. Chapter 10 will help you to understand why most businesses today use computers for some or all of their accounting needs.

The following extract is from a section of the B190 Study Book which introduces students to computerised accounting packages in general and Sage Instant Accounts in particular.

10.2 The growth of computerised accounting packages

What have spreadsheets been replaced with as the basis for computerised accounting systems?

In the UK most small and medium businesses now use general accounting packages as the basis for their computerised accounting systems. For most of the rest of this chapter you will learn about the key aspects of one particular general accounting package, namely Sage Instant Accounts, and understand the benefits of such a system.

Important note

Large companies, especially multi-national organisations, use software adapted specifically for their enterprise for their accounting needs. This is why they are known as **enterprise software systems**. Generally, these systems are much more expensive than off-the-peg accounting packages and require a large investment for the organisation. They are based on complex databases and other programming tools developed by enterprise software developers such as SAP, [Microsoft](#), [Sun Microsystems](#), [Adobe Systems](#), and [Oracle Corporation](#), just to mention a few of the bigger names in a large industry.

Why has this course chosen Sage Instant Accounts as the general accounting package to be studied?

This package is designed for those without any prior accounting package. While it is designed for smaller, less complex businesses, it develops skills that can be used on computer accounting packages for larger and more complex businesses. Sage's products, especially Instant Accounts, have currently the largest share of the UK market, being used by thousands of small and medium sized businesses. The competitors of Sage include QuickBooks, Pegasus, MYOB and TAS Software. All these business produce products that are similar in what they achieve but each has slightly different features. Learning one product, such as Sage Instant Accounts, makes it relatively easy to learn other products. The advantage of understanding how to use this particular accounting package is that it is widely used in the UK and hence opens more employment opportunities than the other packages.

Important note

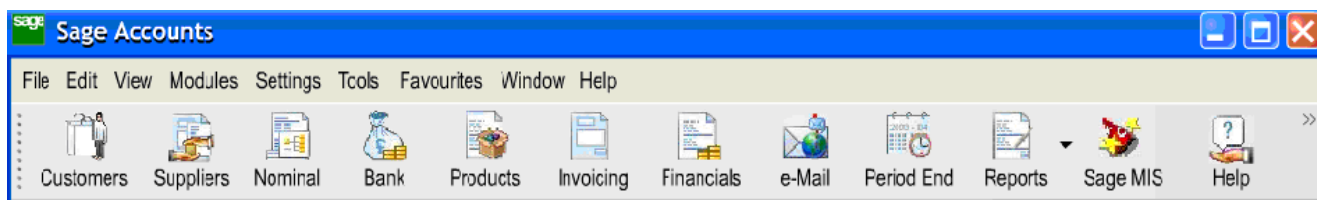
This course does not endorse Sage over other providers. Many of Sage's competitors sell similar products at a similar price – about £140 in 2009. From their websites, like Sage, many of these businesses will allow you to use trial versions for free. The Course Resources link on the B190 website will provide links to such websites.

What are the key features of Sage Instant Accounts and similar accounting packages?

Compared to producing accounts using paper-based records and even spreadsheets, such packages can produce accounts much quicker, easier and more accurately. This is because of the underlying software that makes the package a combination of a word processor, a spreadsheet and a database. This allows Sage Instant Accounts not only to record all financial transactions but to automatically update ledgers as well as to track customer, supplier and product information. In addition, the software allows the user to produce and print a number of statements and financial reports, of which the P&L and the Balance Sheet are just two. The reason that modern accounting packages have so many uses is that the software consists of various modules that are integrated.

What are 'modules' and how are they 'integrated' in an accounting package?

A module is a program which deals with one particular aspect of an accounting package. Accounting packages consist of several modules thus an accounting package is often described as a suite of modules. In the menu bar for Sage Instant Accounts below, it can be seen that 'Modules' is one of the options. Beneath the menu bar, with descriptive icons, is the application toolbar which consists of the main modules of the package.



Suggestions for preparation

Once you have registered on a course you will have access to Learning with the OU at www.open.ac.uk/learning. This link provides information on such topics such as getting started, study strategies, personal and career development, planning studies and moving on.