

Simplified Accounting System (SAS) for a Small Business— A Case Study



Dr. B. N. Swami

M.Com., LL.B., PhD., FCMA, FCA
Professor in Accounting & Finance
University of Botswana

Introduction

It is seen that a lot of expense and time are wasted in the so called double entry book-keeping in order to find out the end result of the business, more so of a small business. Due to IT revolution, all the complicated accounting systems can be dispensed with by introducing a “SAS”.

Scope of SAS

SAS requires a computer, loaded with Excel Program. SAS can be operated with a simplified cash and bank account in the columnar form, one page for receipts and another for payments, allotting a code to each ledger account for receipts as well as for payments. At the end of the day/week/month/annual one can find out the ledger account balances by clicking the code number allotted.

Case Study

Drs. Willy & Zelly, hereafter termed as W&Z, planned to operate the business of medical clinic to provide medical services. They floated a Private Limited Company in the name of Willy & Zelly (Pty) Ltd, registered with the Registrar of Companies. When the promoters approached for the secretarial services, they found the fees to be paid for the accounting services are exorbitant and they approached the author to help them to provide them a simplified accounting system which can be operated by a non-accountant who has no basic knowledge of accounting system. The promoters were asked to specify the nature of work, the source of income and expenditure so that the sources of revenue and expenditure could be classified into Investment, Revenue and Cost Centres.

It is seen that the W&Z Co planned to operate only on cash basis; hence it was suggested not to use the complicated double entry book-keeping system. As the source of revenue and expenses are restricted to a few variables, the following head of accounts were created based on four investment, one revenue and nine cost centres and each head was given a meaningful title and code numbers and further

classified & codified. The same is presented in Table 1 :

Table 1 : Classification of Investment, Revenue and Cost Centres with codes allotted for ledger Accounts

Code No	Name of Ledger Account	Nature of the Centre
V91	<i>Capital contributed</i>	<i>Investment Centres</i>
V91-1	Capital contributed by Dr. Willy	
V91-2	Capital contributed by Dr. Zelly	
V92	<i>Long term creditors</i>	<i>Investment Centres</i>
V92-1	Loan by Stringy (outsider)	
V92-2	Loan by Zelly	
V92-3	Loan by Willy	
V50	<i>Balance Sheet Items: Fixed Assets</i>	<i>Investment Centre</i>
V50-1	Land & building	
V50-2	Medical equipment	
V50-3	Office equipment	
V50-4	Office fittings	
V50-5	Office furniture	
V50-6	Office vehicles	
V50-7	Computers	
V60	<i>Current Assets</i>	<i>Investment Centres</i>
V60-1	Stock of Medicines	
V60-2	Debtors	
V60-3	Cash in hand	
V60-4	Cash at bank	
V60-5	Outstanding cheques to be cleared	
V60-6	Other current assets	
T01	<i>Consultancy & dispensing charges</i>	<i>Revenue Centres</i>
T01-1	Medical Aid Society Andrew Co	
T01-2	Medical Aid Society Bravo Co	
T01-3	Medical Aid Society Charles Co	
T01-4	Medical Aid Society Dante Co	
T01-5	Medical Aid Society Eagle Co.	
T01-6	Cash Patients	
T05	<i>Cost of goods sold</i>	<i>Cost Centre</i>
T05-1	Purchase of medicines	
T05-2	Other trading items	

T07	Transport Costs	Cost Centre
T07-1	Fuel	
T07-2	Vehicle maintenance	
T07-3	Vehicle Insurance & Registration fees	
T08	Office maintenance charges	Cost Centre
T08-1	Rent (Premises)	
T08-2	Rates (Corporate Taxes)	
T08-3	Water & electricity	
T08-4	Office security	
T08-5	Office insurance	
T09	Office & administrative expenses	Cost Centre
T09-1	Printing & stationery	
T09-2	Telephone & postage	
T09-3	Travelling expenses	
T09-4	Commission	
T09-5	Legal fees	
T10	Wages & Salaries	Cost Centre
T10-1	Wages	
T10-2	Office Staff salary	
T10-3	Directors' emoluments	
T10-4	Staff welfare expenses	
T10-5	Bonus payment	
T10-6	Contribution to approved benefit fund (pension)	
T11	Professional fees	Cost Centre
T11-1	Consultancy fees	
T11-2	Audit fees	
T12	Marketing & Distribution	Cost Centre
T12-1	Advertisement	
T12-2	Sales promotion (other than advertisement)	
T13	Finance Expenses	Cost Centre
T13-1	Interest	
T13-2	Bank charges	
T13-3	Donations	
T13-4	Bad debts	
T13-5	Provision for doubtful debts	
T13-5	Foreign exchange loss	
T14	Depreciation (Allowances)	Cost Centre
T14-1	Depreciation on Buildings	
T14-2	Depreciation on Medical equipment	
T14-3	Depreciation on Office equipment	
T14-4	Depreciation on Office Fittings	
T14-5	Depreciation of Office Furniture	
T14-6	Depreciation on Vehicles	

The above format could be used for preparing final accounts such as balance sheet, trading and profit & loss account.

As stated, cash account would have two Excel pages one for receipts and another for payments.

The following format is suggested. As an example, one item for each centre is used in Table 2 for receipts.

Table 2 : Cash Book Receipts for the Accounting year ending 31 March 2011

Date	Received from	Nature receipt	Code (LF)	Ref	Cash \$	Bank \$
2010.04.01	Dr Willy	Capital invested	V91-1	R001	50	
2010.04.02	Stingy	Loan by Stingy	V92-1	R003		97,632
2010.04.25	Andrew Co	Medical Aid dispensing	T01-1	R125		8,157
2011.03.31	Cash patients	Consultancy & dispensing	T01-6	R210	1500	

One Excel sheet is used for the payments. As an illustration one item in each Investment, Revenue and Cost Centre is displayed in Table 3 :

Table 2 : Cash Book Payment for the Accounting year ending 31 March 2011

Date	Payments to	Nature of payments	Code (LF)	Ref	Cash \$	Bank \$
2010.04.01	ANC Medicals	Purchase of ultra sound machine	V50-2	P001		15,000
2010.04.02	Trans Pharmacy	Purchase of medicines	T05-1	P005		12,000
2010.04.03	Express Fuel Co	Fuel	T07-1	P015		500
2010.04.03	Housing Board	Rent (Premises)	T08-1	P024		1,500
2010.04.04	Trend Printers	Printing & stationery	T09-1	P030		250
2010.04.28	Helen	Office Staff salary	T10-2	P042	1000	
2010.04.30	Dr. Eden	Consultancy fees	T11-1	P051		300
2010.04.30	Clear Adv. Co	Advertisement	T12-1	P055		150
2010.04.30	City Bank	Bank charges	T13-2	P065		60

At the end of the accounting period i.e 31 March 2011, Annual Allowance (depreciation) is charged as per the prevailing rates given by the department of Revenue i.e. at 25% on company vehicles, medical equipment and computers; at 15% on office equipment and fittings. Closing stock of medicines was valued at cost price on 31 March 2011.

Training to operate SAS

Two hour session on the computer Excel spread sheet usage was given to Ms Ana, the lady accountant who had no prior accounting and computer experience. She was trained how to open the Excel program, loading the receipts and payments in the formatted spread sheets.

After entering the items in the cash book receipt and payments, she was asked to get the transactions to classify by code wise. This was possible for her by clicking "data" in the Excel "cash book page (s), then clicking "sort", then "A Z", click Column depicting Code. She was asked to get the totals of each code (investment, revenue and cost centre wise by dragging the cursor and press " for the totals for each Centre.

Within 15 minutes she got the results by centre wise which is presented in Table 3 which shows the consolidated total debits and credit transactions as on 31 March 2011. This Table will help the management to have an overview to locate how Investment, Revenue and Cost Centres are influencing the total finance of the organisation during the year.

Table 3: Classification of Ledger Accounts based on Cost, Revenue & Investment Centres showing percentage influence of each centre over the performance for the year ending 31 March 2011.

Code No.	Total Ledger Bal	Centre	Debit	%	Credit	%
			\$		\$	
T01	Consultancy & Dispensing	Rev			168,587	35.14
T05	Cost of goods sold	Cost	50,874	11		
T07	Transport costs	Cost	13,914	3		
T08	Office Maintenance costs	Cost	88,194	18		
T09	Office Administration costs	Cost	18,049	4		
T10	Staff Costs	Cost	64,548	13		
T13	Finance Costs	Cost	570.59	0.1		
V50	Fixed Assets	Invest	166,822	35		
V60	Current Assets	Invest	76,849	16		
V91	Capital	Invest			100	0.02
V92	Creditors	Invest			311,132	64.84
			479819	100	479819	100

Then the lady was asked to prepare the detailed Trial Balance at the end of the year 31 March 2011. Table 4 highlights the Trial Balances with relevant adjustments to make at the end of the year

Table 4 : Trial Balances (detailed)

W&Z (Pty) Ltd Trial Balances at 31 MARCH 2011		
	Debit(\$)	Credit (\$)
Capital Account		100
Consultancy & Medicines		168587.2
Creditors	Willy	210500
	Stringy	97632
	Zilly	3000
Bank Charges Account	570.59	
Debtors Account	10,714	
Car Fuel, Repair & Insurance	13,913.53	
Medical Aid Contribution	4,548.22	
Medical Equipment Account	51,890.22	
Medicines (purchases)	50,873.52	
Office Equipment Account	2,040.7	

Office Fittings Account	39,564.43	
Office Furniture Account	15,681.5	
Office Rent & Utilities Account	82,159.93	
Office Security System Account	6,033.6	
Salaries office Assistant	12,000	
Directors salaries	48,000	
Office Telephones & cell	78,44.53	
Cash in hand	2,133.8	
Cash at Bank	64,001.49	
Office Car	57,644.8	
Office Expenses	10,204.34	
	47,9819.2	47,9819.2

The closing stock value of medicines as on 31 March 2011 was \$8956-38.

It is agreed that office car and medical equipment are provided with annual Allowances (depreciation) at 25% of the book value. Office equipment and office furniture are to be provided annual allowances at 15% of the book value,

Outstanding dues for consultancy and medicines dispensing from the medical aid Societies \$129,79.29 for the year ending 31 March 2011.

Trading & Profit and Loss Account W&Z (Pty) Ltd for the financial year ending 31 March 2011

	Note	\$	\$
Sales (Consultancy & Sale of medicines)	2	168,587.2	
Add outstanding dues from medical societies	21	12,979.29	181566.49
Less cost of goods sold (Medicines)			
Purchase of Medicines	3	50,873.52	
Less Closing Stock	4	8,956.38	41917.14
Gross Profit			139649.35
Less Expenses :			
Bank Charges	5	570.59	
Car Fuel, Repair & Insurance	6	13,913.53	
Medical Aid contribution	7	4,548.22	
Office expenses	8	10,204.34	
Office rent & utilities	9	82,159.93	
Salary Office Asst	10	12,000.00	
Salary Directors	11	48,000.00	
Office Tel & Cell	12	7,844.53	
Office Security	13	6,033.60	
Annual Allowances:	14		
Office car P57644.8 × 25%		14,411.20	
Medical Equipment P51890.22 × 25%		12,972.56	

Office Fittings P 39564.43 × 15%	5,934.66	
Office Furniture P15681.50 × 15%	2,352.23	
Office Equipment P2070.4 × 15%	306.11	
	221,251.50	221,251.50
Net loss		81,602.15
Balance Sheet of W&Z (Pty Ltd) as at 31 March 2011		
Fixed assets		
Medical Equipment	15	51,890.22
Office Equipment	16	2,040.7
Office fittings	17	39,564.43
Office Furniture	18	15,681.5
Office Car	19	57,644.8
		166,821.65
Current Assets		
Stock of medicines	4	8,956.38
Debtors (NAP rent paid two months deposit)	20	10714
Account Receivables (Medical Societies)	21	129,79.29
Cash in hand		2,133.8
Cash at Bank	22	64,001.49
Total value of current assets		98,784.96
Less current liability		0
Excess of current assets over current liability		98,784.96
Net Loss of the current year		81,602.15
Net Asset Value		347,208.76
Contributed by:		
Share Capital	23	100
Long term creditors	24	311,132
Provision for Annual Allowances	14	35,976.76
Capital Employed		347,208.76

Notes to the financial statements for the year ended 31 March 2011

1. Accounting Convention

1.1 The financial statements are prepared on historic cost convention.

1.2 Costs incurred whose effect less than one year written off as expense.

1.3 Fixed assets are shown at book value in the Balance Sheet

1.4 Annual allowances are shown as expense and accumulated provision.

Office car	25%	14,411.20
Medical Equipment	25%	12,972.56
Office Fittings	15%	5,934.66
Office Furniture	15%	2,352.23
Office Equipment	15%	306.11
Total Annual Allowances provided		35,976.76

2. Sales : Consisting of the receipts for services rendered by resident doctors & dispensing directly transferred to Company Bank Account and also cash received from patients for services & dispensing.

3. Purchased medicines by payment both by bank cheques and cash and no credit purchase.

4. Physical Stock of medicines were taken on 31 March 2011 and valued at cost.

5. Charges of Bank for operation of Company Account.

6. Car Fuel, Repair & Insurance related to the car for office work used

7. Medical Aid contribution : relates to net of medical aid contribution for resident doctors employees.

8. Office expenses relate to day to day expenses to run office administration.

9. Office rent & utilities paid to the land lord through bank transfer on 1 day of every month.

10. Salary Office Asst paid on monthly basis at the end of each month.

11. Salary Directors: paid to two directors through Company Bank Account.

12. Office Tel & Cell: for office use and to contact patients, societies, other government officials for running the surgery.

13. Office Security: Paid in advance for one year ending 31 Mar 2011 at discount.

14. Annual Allowances :

25% Office car on the book value.

25% Medical Equipment based on the life of equipment and usage.

15% Office Fittings based on the life and usage.

15% Office Furniture as the furniture worn out by rough use of patients etc.

15% Office Equipment : mostly electronic equipment worn out quickly.

14. Fixed Assets

Nature of the asset	Cost Asset	Allowance	Total Allowance	Net
15. Medical Equipment	\$51,890.22	\$12972.56	\$12972.56	\$38917.66
16. Office Equipment	\$2,040.70	\$306.11	\$306.11	\$1734.59
17. Office fittings	\$39,564.43	\$5934.56	\$5934.66	\$33629.77
18. Office Furniture	\$15,681.50	\$2352.23	\$2352.23	\$13329.27
19. Office Car	\$57,644.80	\$14411.20	\$14411.20	\$42233.60

20. Two months' rent deposit paid in advance & kept as security by land lord office Bld.

(contd. to page 418)