

## Ethical Behaviour

### Code of Ethics:

- Ideals that take form of rules so there is a distinction between right and wrong.
- Set of rules that governs the financial activities of a business (add value and improve operations to achieve financial objectives)

### Purpose:

- Promote ethical culture
- Guide business to have moral practice
- Guide decision making when values are in conflict

### Principles

- **Transparency:** make decisions and take action in open manner
- **Accountability:** Be responsible for decision and actions and explain
- **Fairness:** Be impartial and honest
- **Leadership:** sets the tone (business ethics starts at the top)
- **Discipline:** well run, well managed, effective internal controls.
- **Sustainability:** ongoing process of achieving development in such a way that it doesn't undermine the environment/social system
- **Responsible Management:** owes to all the people that partakes and benefits from the business as a whole
- **Integrity:** Based on trust and honesty of each employee and employer
- **Confidentiality:** no info can be disclosed without authorization

### Examples of unethical behaviour:

- Theft
- Bribery
- Fraud
- Sexual Harassment
- Tax evasion

### Parties in financial environment::

- Customers and clients
- Investors
- Local community
- Government
- Suppliers

## GAAP (Generally Accepted Accounting Practice)

**Purpose** – allow for consistency

### Concept of consistency:

- ✓ Within a given accounting period similar items should receive similar treatment
- ✓ Same accounting treatment should be applied from one period to another

### Concepts

- ✚ **Business Entity:** accounting records must be kept separate between the business and the owner
- ✚ **Historical cost:** assets bought should be recorded at original price
- ✚ **Going concern:** always assume that a business will continue to operate in the near future
- ✚ **Matching concept:** income and expense should be recorded in the year in which they occurred
- ✚ **Prudence concept:** most conservative method of calculating profit must be used
- ✚ **Materiality concept:** info that is important must be shown separately in financial statements

### Qualitative characteristics of accounting information:

- ❖ Understandable
- ❖ Useful
- ❖ Relevant
- ❖ Reliable
- ❖ Neutral
- ❖ timely

## **Internal Control (for good business practice & to reduce risk of errors and irregularities)**

**What is it?** Measures taken by a business for the following purposes:

- Protecting assets & resources of the business against waste, fraud and inefficiency
- Securing compliance with policies of business
- Evaluating the level of performance in each area of the business

### **Internal control of Petty Cash in the business**

- Payments from petty cash need to be authorised
- Petty cash vouchers should be completed and authorised
- The petty cash box should be locked in the office safe
- Proof of payments should be kept along with the original authorised voucher
- Vouchers must be recorded in a Petty Cash Journal daily
- The owner or manager should inspect vouchers and journal on a weekly basis

### **Two main points to solve the stock missing from the business**

- Check books delivered to the shop – check to invoice
- Regular stock counts – check to Trading stock account
- Layout of books carefully designed e.g. magazines near desk, valuable books secured
- Security tags on books
- Store inspectors / security guards at doors – check to sales slip
- Background checks on employees

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### **Internal control measures which he could implement to prevent stock losses.**

- Division of duties
- Storerooms must have proper locking facilities.
- Minimize the risk of burglary.
- Insure all stock should be recorded.
- Complete documents for stock purchases.
- Regular stocktaking must be done.
- Goods to be displayed in a manner to reduce theft by staff and clients
- Employ security guards and install cameras to prevent theft.

### **Internal control measures for fixed/tangible assets?**

- There should be a fixed asset register showing the details of each fixed/tangible asset.
- When a fixed/tangible asset is ordered it should be authorised.
- A physical count of assets should be done periodically.
- Each fixed/tangible asset should be marked with a number.
- When employees leave the businesses premises security personnel could do spot checks to see that employees do not take business assets home.
- Security system should be put into place (cameras/tagging/insurance)

## Source Documents and Journals

No.	Transaction	Name of source document	Journal
1	This document records payments made out of petty cash	Petty Cash voucher	PCJ
2	This document is used to record money received from a customer for a cash sale of stock to him	Cash Register slip	CRJ
3	This document is used to record a credit sale to a customer	Invoice	DJ
4	This document is used to deposit money into the bank account of the business	Bank deposit slip	
5	This document is used to pay a supplier for an amount owed to him, using money in the business' bank account	Cheque	CPJ
6	This document is used to record stock returned by a credit customer	Credit note	DAJ
7	This document is received from a creditor for goods bought on credit by the business	Invoice	CJ
8	This document is used to put through various entries in the General Journal e.g. write off bad debts	Journal voucher	GJ
9	This document is used to return goods to a creditor	Debit note	CAJ
10	This document is used when receiving money for other income.	Duplicate receipt	CRJ
11	This document is used when electronic transfers are done from the business' bank account for payments	EFT	CPJ

### Credit transactions

#### The difference between credit sales and credit card sales.

##### Credit sales

The customer takes the goods and pay later within the credit terms of the business.  
The customer is now the debtor of the business

##### Credit card sales

The customer takes the goods and pays with his credit card. The bank pays the business immediately and the customer pays the bank back.

#### The difference between Credit Terms and Credit Limit.

##### Credit terms

The terms offered by the seller to the buyer for the maximum time allowed for repayment

##### Credit limit

A maximum amount allowed to buy on credit

#### Three main points to solve the debtors not paying their accounts on time

- Proper screening of debtors before opening accounts
- Statements sent out on time
- Letters of demand for those who are late in paying
- Discount for early payment
- No sales to overdue debtors
- Charge interest on overdue accounts

## Analysis and Interpretation

### 1. PROFITABILITY RATIOS

#### 1.1 PERCENTAGE GROSS PROFIT ON SALES (GROSS MARGIN)

$\frac{\text{Gross Profit}}{\text{Sales}} \times \frac{100}{1}$	<ul style="list-style-type: none"><li>• Indicates total selling price greater than cost price</li><li>• Decrease in ratio could be attributed to:<ul style="list-style-type: none"><li>○ Competition</li><li>○ Inflation</li><li>○ Other cost factors e.g. increase in fuel price</li><li>○ Reduction in selling price to sell product</li></ul></li></ul>
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#### 1.2 PERCENTAGE GROSS PROFIT ON COST OF SALES (GROSS MARK-UP)

$\frac{\text{Gross Profit}}{\text{Cost of Sales}} \times \frac{100}{1}$	<ul style="list-style-type: none"><li>• Mark-up on selling price must equal ratio e.g. if mark-up is 25% then ratio must be 25%</li><li>• If this is not the case, then it can be attributed to the following:<ul style="list-style-type: none"><li>○ Shrinkage</li><li>○ Products are not marked up correctly</li><li>○ Theft occurring</li><li>○ Too many discounts are offered</li></ul></li></ul>
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#### 1.3 PERCENTAGE OPERATING EXPENSES ON SALES

$\frac{\text{Operating Expenses}}{\text{Sales}} \times \frac{100}{1}$	<ul style="list-style-type: none"><li>• Indicates how much of sales used to cover the running expenses of the business.</li><li>• Trends will be favourable if expenses are dropping or at least consistent.</li></ul>
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#### 1.4 PERCENTAGE OPERATING PROFIT ON SALES

$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$	<ul style="list-style-type: none"><li>• Indicates how much of sales end up as operating profit.</li><li>• The trends are favourable if operating profit is increasing or at least consistent</li></ul>
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#### 1.5 NET PROFIT ON SALES (NET MARGIN)

$\frac{\text{Net Profit}}{\text{Sales}} \times \frac{100}{1}$	<ul style="list-style-type: none"><li>• Indicates how much of net profit after tax is attributed to sales e.g. if the ratio is 10% it then means that 10 cents of R1 is profit.</li><li>• The quicker turnover is increased, the greater will be the accumulation of the 10 cents and the larger the net profit will be</li></ul>
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### 2. RETURN RATIOS

#### RETURN ON OWNERS' EQUITY

$\frac{\text{Net profit}}{\text{Average Owners' equity}} \times \frac{100}{1}$	<ul style="list-style-type: none"><li>• Return that the owners have achieved on the money invested in the business.</li><li>• Should the owners have rather invested elsewhere.</li><li>• Compare to returns achieved at financial institutions.</li></ul>
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### 3. SOLVENCY RATIO

#### 3.1 NET ASSETS VALUE

Assets – Liabilities = Equity	
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#### 3.2 TOTAL ASSETS TO TOTAL LIABILITIES (SOLVENCY RATIO)

Total Assets : Total Liabilities	<ul style="list-style-type: none"><li>• Indicates whether the business will be able to meet its liabilities.</li><li>• A business is solvent if assets exceeds its liabilities</li></ul>
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### 4. LIQUIDITY RATIOS

#### 4.1 CURRENT RATIO

Current Assets : Current Liabilities	<ul style="list-style-type: none"><li>• Indicates whether the business can meet its short-term obligations (debts)</li><li>• The ratio must not be too low or too high</li><li>• If low will not be able to meet its short-term obligations</li><li>• Too high indicates that funds are being tied up which could be more effectively utilised.</li></ul>
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#### 4.2 ACID TEST RATIO

Current Assets – Inventories : Current Liabilities	<ul style="list-style-type: none"><li>• Indicates the real test of how liquid the business is because it removes inventory which is not easily converted into cash</li><li>• If too low the business will not be able to meet its short-term obligations.</li><li>• Too high indicates that funds are being tied up which could be more effectively utilised.</li><li>• This ratio indicates the final test of liquidity</li></ul>
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