

Books of original entry

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Learn Facta

Books of original entry

- Books of original entry are the books in which we first record transactions. We have a separate book for each kind of a transaction.
- The date on which each transaction took place is mentioned along with the details relating to the transaction which are entered in a “details” column.
- They are either known as “journals” or “day books”

Books of original entry

- Sales day book/ Sales journal for credit sales.
- Purchases day book/ purchases journal for credit purchases.
- Return inwards day book/ return inwards journal for return inwards.
- Return outwards day book/ return outwards journal returns outwards.
- Cash books for receipts and payments of cash and cheque.
- General journal or journal for other items.

Types of Ledgers

The different types of ledgers most businesses use are:

- Sales ledger: This is for customers' personal accounts
- Purchases ledger: This is for suppliers' personal accounts
- General ledger/ Nominal: This contains the remaining double entry accounts , such as those relating to expenses, non-current assets, and capital.

Types of accounts

Some people describe accounts as personal or impersonal accounts

- Personal accounts-these are for debtors and creditors (i.e, customers and suppliers)
- Impersonal accounts- divided between “real accounts” and “nominal accounts”
 - Real accounts: accounts in which possessions are recorded like fixtures machinery or inventory
 - Nominal accounts: accounts in which expenses, income and capital are recorded.

Sources of business documents

Cheque: It is a document that orders bank to pay a specific amount of money from a person's account to a person whose name the cheque has been issued

Receipt: It is a document that gives details and provides proof of a financial transaction. Essentially it is a piece of paper you receive when the seller confirms they received your money for the product/ service.

Sources of business documents

Counterfoil: A stub retained by the issuer of a receipt or other document as a record of a transaction

Paying in slip: It is a blank document that is filled by the customer with all the details of the customer to deposit money in the bank account.

Bank statement: a printed record of the balance in a bank account and the amounts they have paid into it and withdrawn from it, issued periodically to the holder of the account.

Drawing up a Cash Book

Effect	Action
Asset of cash is decreased	Debit the asset account, i.e., the cash account which is represented by the cash column in the cash book
Asset of bank is increased	Debit the asset account, i.e., the bank account which is represented by the cash column in the cash book
Asset of bank is decreased	Credit the asset account, i.e. the bank column in the cash book.
Asset of cash is decreased	Credit the asset account, i.e., the cash account which is represented by the cash column in the cash book

Drawing a cash book

-1st Aug 2008: A cash receipt of \$100 from M Davies on 1 August 2008 which was followed banking on 3 August of \$80 of this amount

-1st Sept 2008: A withdrawal of \$75 cash on 1 June 2008 from the bank . This transaction is also known as **contra entry**.

Cash Book							
		Cash	Bank			Cash	Bank
2008		\$	\$	2008		\$	
Aug 1	M Davies	100		Aug 3	Bank	80	
	3 Cash		80				
Sept 1	Bank	75		Sept 1	Cash		75

A contra, for cash book items, is where both debit and credit entries are shown in the cash book, such as when cash is paid into bank. These are transactions that are recorded between cash and bank accounts.

Cash Discounts

The term **cash discount** refers to the allowance given for quick payment.

1- Discount allowed: cash discount allowed by business to their customers when they pay their accounts quickly

2- Discount received: cash discounts received by a business from its suppliers when it pays what it owes them quickly.

Drawing up a cash book

Example

W Clarke owed us \$100. He paid us in cash within the time limit and availed 5% cash discount. He paid us \$95 in full settlement of his account.

Action

Debit cash account by \$95

Credit W Clarke by \$95

Debit discount allowed by \$5

Credit W Clarke by \$5

Drawing up a cash book

Example

W Clarke owed us \$100. He paid us in cash within the time limit and availed 5% cash discount. He paid us \$95 in full settlement of his account.

The entries made in the business books will be:

Cash Book							
	Discount	Cash	Bank				
2008	\$	\$					
May 11 W Clarke	5	95					

Bank transfer

A bank transfer is when money is transferred from one bank to another. It is fast free and safer.

Electronic means of payment

The most popular methods of electronic payments include credit cards, debit cards, virtual cards (16-digit computer generated number/ card-less credit card payments), direct deposits (transfer of money from one bank account to another), direct debit and electronic cheques.

Dual function of Cash Book

Cash book is a book of prime entry as well as a ledger account for bank and cash.

Imprest system of petty Cash book

Petty Cash book is the book which is used to record expenses of small amounts like conveyance, stationary, taxi fare etc.

An imprest system of petty cash means that **the general ledger account Petty Cash will remain dormant at a constant amount.** If the amount of petty cash is \$100, then the Petty Cash account will always report a debit balance of \$100. This \$100 is the imprest balance.

JOHN & JAMES COMPANY
PETTY CASH BOOK

Dr.

Cr.

Receipt	Date	Details	VN	Total	Office expense	Van expense	Cleaning expense	Sundry expense
	2018			\$	\$	\$	\$	\$
50	Mar.01	Balance b/d						
200	Mar.01	Cash						
	Mar.05	Cleaning material	42	25			25	
	Mar.10	Van wash	43	20		20		
	Mar.13	Stationary	44	15	15			
	Mar.17	Fuel	45	35		35		
	Mar.20	Casual labor	46	55				55
	Mar.22	Donation	47	10				10
	Mar.30	Broom	48	5			5	
				165	15	55	30	65
		Balance c/d		85				
250				250				
85	Apr.01	Balance b/d						
165	Apr.01	Cash						

Invoice

It is a document used by a company to communicate to clients about the sums that are due in exchange for goods and services that have been sold.

An example of an invoice

Exhibit 14.1

Your Purchase Order: 10/A/980

INVOICE No. 16554

J. Blake
7 Over Warehouse
Leicester LE1 2AP
1 September 2013

To: D. Poole & Co
45 Charles Street
Manchester M1 5ZN

21 cases McBrand Pears
5 cartons Kay's Flour
6 cases Joy's Vinegar

Terms 1¹/₄% cash discount
if paid within one month

	Per unit	Total
	£	£
	20	420
	4	20
	20	<u>120</u>
		<u>560</u>

An example of the sales day book

Exhibit 14.2

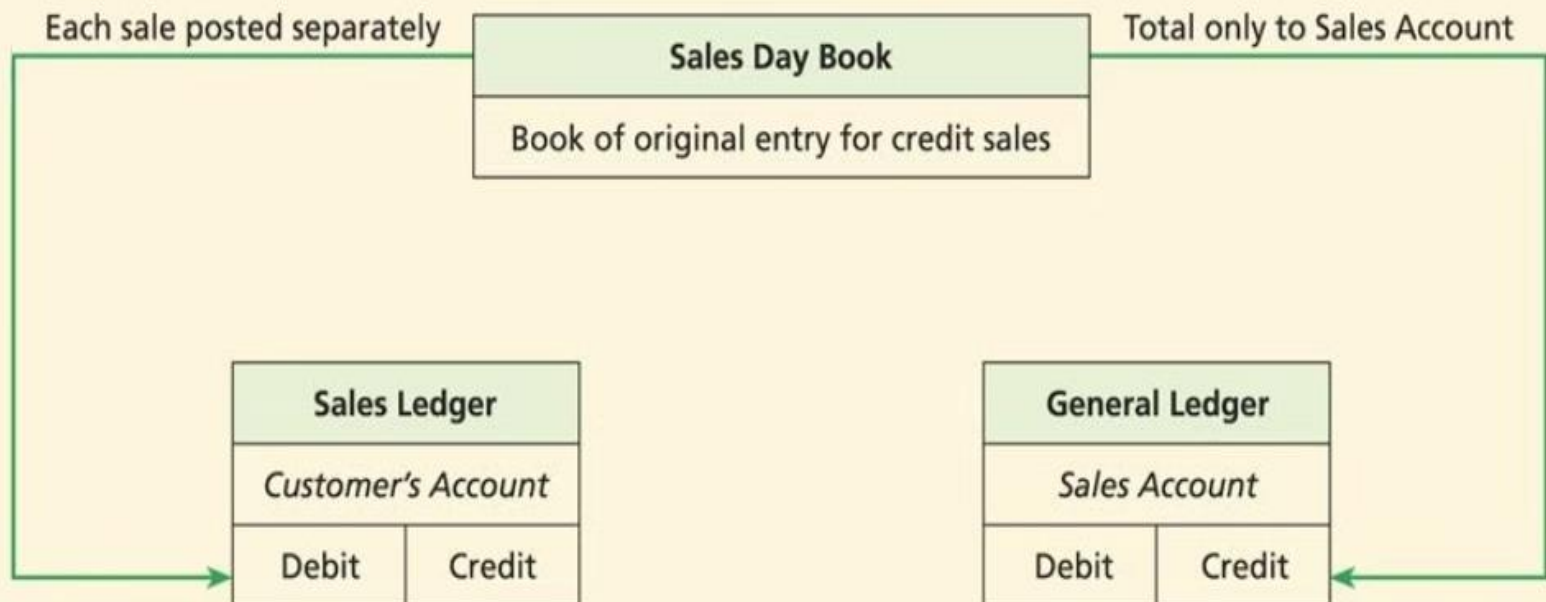
Sales Day Book			(page 26)
	<i>Invoice No.</i>	<i>Folio</i>	<i>Amount</i>
2013			£
Sept 1	D. Poole	16554	560
8	T. Cockburn	16555	1,640
28	C. Carter	16556	220
30	D. Stevens & Co	16557	<u>1,100</u>
			<u>3,520</u>

Posting credit sales to the sales ledger

- The credit sales are now posted, one by one, to the debit side of each customer's account in the sales ledger.
- At the end of each period the total of the credit sales is posted to the credit of the sales account in the general ledger.

Posting credit sales (Continued)

Exhibit 14.3 Posting credit sales



Activity (Continued)

Sales Ledger				
<i>D. Poole</i>				
<i>(page 12)</i>				
2013			<i>Folio</i>	<i>£</i>
Sept	1	Sales	SB 26	560
<i>T. Cockburn</i>				
<i>(page 39)</i>				
2013			<i>Folio</i>	<i>£</i>
Sept	8	Sales	SB 26	1,640

<i>C. Carter</i>				
<i>(page 125)</i>				
2013			<i>Folio</i>	<i>£</i>
Sept	28	Sales	SB 26	220
<i>D. Stevens & Co</i>				
<i>(page 249)</i>				
2013			<i>Folio</i>	<i>£</i>
Sept	30	Sales	SB 26	1,100
General Ledger				
<i>Sales</i>				
<i>(page 44)</i>				
	2013		<i>Folio</i>	<i>£</i>
	Sept	30	SB 26	3,520
				Credit sales for the month

Trade Discount

Trade discount is a reduction in price given to a trade customer when calculating the price to be charged to that customer for some goods. It does not appear anywhere in accounting books and does not appear anywhere in financial statements.

There are many customers who avail trade discounts like traders who buy a lot of goods, or traders who buy only a few items from you. Traders who buy in large quantities tend to avail a higher percentage of discounts than traders who buy in small quantities.

An invoice with trade discount

Exhibit 14.4

Your Purchase Order: 11/A/G80	INVOICE No. 30756		R. Grant Higher Side Preston PR1 2NL 2 September 2013 Tel (01703) 33122 Fax (01703) 22331	
To: D. Poole & Co 45 Charles Street Manchester M1 5ZN			Per unit	Total
21 cases McBrand Pears	£ 25	£ 525		
5 cartons Kay's Flour	5	25		
6 cases Joy's Vinegar	25	<u>150</u>		
		700		
Less 20% trade discount		(140)		
		<u>560</u>		

How the invoice will be recorded

Sales Day Book (page 87)			
	<i>Invoice No.</i>	<i>Folio</i>	<i>Amount</i> £
2013 Sept 2 D. Poole	30756	SL 32	560

Sales Ledger (page 32)			
<i>D. Poole</i>			
	<i>Folio</i>	£	
2013 Sept 2 Sales	SB 87	560	

Credit Control

Businesses should check that debtors are paying on time. If cash is not received on time, it can cause cash shortages for businesses, and this will cause business to bankrupt.

Credit limits should be set for each debtors. If a payment is not received from a debtor, business can refuse to supply more goods. Legal action can also be taken if payment is not made on time.

Purchase Invoices

- Purchase invoices are sent to buyers of any goods that have been bought on credit.
- Any sales invoice issued by a business is a purchase invoice when received by a buying business.
- The buyer enters the purchase invoice into a purchase day book before recording the details using double entry bookkeeping.

Purchase day book

Exhibit 15.1

Purchases Day Book			(page 49)	
		<i>Invoice No.</i>	<i>Folio</i>	<i>Amount</i> £
2013				
Sept	1	J. Blake	9/101	560
	8	B. Hamilton	9/102	1,380
	19	C. Brown	9/103	230
	30	K. Gabriel	9/104	510
				<u>2,680</u>

Posting credit purchases

From the purchase day book:

- The credit purchases are posted individually to credit side of each supplier's account in the purchase ledger.
- The total of the credit purchases is posted to the debit of the purchases account in the general ledger.

Activity

Post the purchases day book to the supplier accounts in the purchases ledger and the purchases account in the general ledger.

Exhibit 15.3

Purchases Day Book				(page 49)	
		<i>Invoice No.</i>	<i>Folio</i>	<i>Amount</i>	
2013				£	
Sept	1	J. Blake	9/101	PL 16	560
	8	B. Hamilton	9/102	PL 29	1,380
	19	C. Brown	9/103	PL 55	230
	30	K. Gabriel	9/104	PL 89	510
Transferred to Purchases Account				GL 63	<u>2,680</u>

Activity (Continued)

Purchases Ledger
J. Blake

(page 16)

	2013 Sept	1	Purchases	<i>Folio</i> PB 49	£ 560
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B. Hamilton

(page 29)

	2013 Sept	8	Purchases	<i>Folio</i> PB 49	£ 1,380
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C. Brown

(page 55)

	2013 Sept	19	Purchases	<i>Folio</i> PB 49	£ 230
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K. Gabriel

(page 89)

	2013 Sept	30	Purchases	<i>Folio</i> PB 49	£ 510
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General Ledger
Purchases

(page 63)

2013 Sept	30	Credit purchases for the month	<i>Folio</i> PB 49	£ 2,680
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Return inwards and credit notes

- When a seller agrees to take back goods and refund all or part of the amount paid, a credit note is sent to the customer.
- The customer's account is credited with the amount on the credit note to show the reduction in the amount owed.
- To identify them from invoices, credit notes are often printed in red.

A credit note

Exhibit 16.1

To: D. Poole & Co
45 Charles Street
Manchester M1 5ZN

R. Grant
Higher Side
Preston PR1 2NL
8 September 2013
Tel (01703) 33122
Fax (01703) 22331

CREDIT NOTE No. 9/37

2 cases McBrand Pears
Less 20% trade discount

Per unit	Total
£ 25	£ 50
	(10)
	<u>40</u>

Posting credit notes

From the return inwards day book:

- The values of credit notes are individually posted to the accounts of the customers in ledgers.
- The total of return inwards day book is posted to the debit of the returns inwards account.

Activity

Post the returns inwards day book to the customer accounts in the sales ledger and the returns inwards account in the general ledger.

Exhibit 16.2

Returns Inwards Day Book			(page 10)	
	Note No.	Folio	Amount £	
2013				
Sept 8	D. Poole	9/37	SL 12	40
17	A. Brewster	9/38	SL 58	120
19	C. Vickers	9/39	SL 99	290
29	M. Nelson	9/40	SL 112	<u>160</u>
Transferred to Returns Inwards Account			GL 114	<u><u>610</u></u>

Activity (Continued)

Sales Ledger

D. Poole

(page 12)

2013			<i>Folio</i>	£
Sept	8	Returns inwards	RI 10	40

A. Brewster

(page 58)

2013			<i>Folio</i>	£
Sept	17	Returns inwards	RI 10	120

C. Vickers

(page 99)

2013			<i>Folio</i>	£
Sept	19	Returns inwards	RI 10	290

M. Nelson

(page 112)

2013			<i>Folio</i>	£
Sept	29	Returns inwards	RI 10	160

General Ledger

Returns Inwards

(page 114)

2013			<i>Folio</i>	£
Sept	30	Returns for the month	RI 10	610

Return outwards and Debit notes

- When goods are returned, the supplier will send a credit note to the customer, but if customer chooses, they can send a debit note to the suppliers.
- A debit note will contain the same details as a credit note, but is always titled as a debit note,
- Debit notes are entered in returns outwards day book.

A debit note

Exhibit 16.3

To: R. Grant
Higher Side
Preston PR1 2NL

D. Poole & Co
45 Charles Street
Manchester M1 5ZN
7 September 2013
Tel (0161) 488 2142
Fax (0161) 488 2143

DEBIT NOTE No. 9.22

2 cases McBrand Pears damaged in transit
Less 20% trade discount

Per unit	Total
£ 25	£ 50
	(10)
	<u>40</u>

Posting debit notes

From the return outwards day book:

- The values of the debit notes are individually posted to the accounts of the suppliers in the ledger
- The total of the returns outwards books posted to the credit of the returns outwards account.

Activity

Post the returns outwards day book to the supplier accounts in the purchase ledger and the returns outwards account in the general ledger.

Exhibit 16.4

Returns Outwards Day Book			(page 7)
	Note No.	Folio	Amount £
2013			
Sept 7 R. Grant	9.22	PL 29	40
16 B. Rose	9.23	PL 46	240
28 C. Blake	9.24	PL 55	30
30 S. Saunders	9.25	PL 87	<u>360</u>
Transferred to Returns Outwards Account		GL 116	<u>670</u>

Activity (Continued)

Purchases Ledger				
<i>R. Grant</i>				
<i>(page 29)</i>				
2013			<i>Folio</i>	£
Sept	7	Returns outwards	RO 7	40
<i>B. Rose</i>				
<i>(page 46)</i>				
2013			<i>Folio</i>	£
Sept	16	Returns outwards	RO 7	240
<i>C. Blake</i>				
<i>(page 55)</i>				
2013			<i>Folio</i>	£
Sept	28	Returns outwards	RO 7	30
<i>S. Saunders</i>				
<i>(page 87)</i>				
2013			<i>Folio</i>	£
Sept	30	Returns outwards	RO 7	360
General Ledger				
<i>Returns Outwards</i>				
<i>(page 116)</i>				
			2013	
	Sept	30	Returns for the	<i>Folio</i>
			month	RO 7
				£
				670

Statements

- At the end of each month, a business will send a statement to each debtor who owes money on the last day of the month.
- A statement is a copy of the debtor's account in the supplier's books,
- A statement should show the amount owing at the start of the month, all sales invoices, all credit notes, any payments from the debtor and the amount due at the end of the month.
- Debtors should always check the statement against their version of account.

A statement

Exhibit 16.6

STATEMENT OF ACCOUNT				
R. GRANT Higher Side Preston PR1 2NL Tel (01703) 33122 Fax (01703) 22331				
Accounts Dept D. Poole & Co 45 Charles Street Manchester M1 5ZN				
<i>Date</i>	<i>Details</i>	<i>Debit</i>	<i>Credit</i>	<i>Balance</i>
2013		£	£	£
Sept 1	Balance b/d			880
2	Invoice 30756	560		1,440
8	Returns 9/37		40	1,400
25	Bank		880	520
Sept 30	Balance owing c/d			520
All accounts due and payable within 1 month				

The Journal

The journal is a form of diary to record unusual transactions before they are posted in double entry records.

Typical used of journals

- The purchase and sale of fixed assets on credit.
- Writing-off bad debts
- The correction of errors in the ledger accounts
- Opening entries to open a new set of books
- Adjustments to any of the entries in the ledgers.

A journal page

The Journal				
<i>Date</i>	<i>Details</i>	<i>Folio</i>	<i>Dr</i>	<i>Cr</i>
	The name of the account to be debited. The name of the account to be credited. The narrative.			

Purchase and sale on credit of non-current assets (Continued)

The Journal (page 1)				
<i>Date</i>	<i>Details</i>	<i>Folio</i>	<i>Dr</i>	<i>Cr</i>
2012 July 1	Machinery Toolmakers Ltd Purchase of milling machine on credit, Purchases invoice No 7/159	GL1 PL55	£ 10,550	£ 10,550

Purchase and sale on credit of non-current assets

A milling machine is bought on credit from Toolmakers Ltd for £10,550 on 1 July 2012.

				Machinery	Folio	GL1
2012				£		
July	1	Toolmakers Ltd	J1	10,550		
				Toolmakers Ltd	Folio	PL55
						£
					2012	
					July	
					1	
					Machinery	
						10,550

Purchase and sale on credit of non-current assets (Continued)

The Journal (page 1)				
<i>Date</i>	<i>Details</i>	<i>Folio</i>	<i>Dr</i>	<i>Cr</i>
2012 July 1	Machinery Toolmakers Ltd Purchase of milling machine on credit, Purchases invoice No 7/159	GL1 PL55	£ 10,550	£ 10,550

Purchase and sale on credit of non-current assets

A milling machine is bought on credit from Toolmakers Ltd for £10,550 on 1 July 2012.

				Machinery	Folio	GL1
2012				£		
July	1	Toolmakers Ltd	J1	10,550		
				Toolmakers Ltd	Folio	PL55
				2012		£
	July	1	Machinery		J1	10,550

Correction of errors

J. Brew, after being in business for some years without keeping proper records, now decides to keep a double entry set of books. On 1 July 2012 he establishes that his assets and liabilities are as follows

Correction of errors (Continued)

Assets

Van – £3,700

Fixtures – £1,800

Inventory – £4,200

Accounts receivable:

 B. Young – £95

 D. Blake – £45

Bank – £860

Cash – £65

Liabilities

Accounts payable:

 M. Quinn – £129

 C. Walters – £410

Correction of errors (Continued)

Exhibit 17.1

The Journal (page 5)				
<i>Date</i>	<i>Details</i>	<i>Folio</i>	<i>Dr</i>	<i>Cr</i>
2012 July 1	Van	GL1	£ 3,700	£
	Fixtures	GL2	1,800	
	Inventory	GL3	4,200	
	Accounts receivable – B. Young	SL1	95	
	D. Blake	SL2	45	
	Bank	CB1	860	
	Cash	CB1	65	
	Accounts payable – M. Quinn	PL1		129
	C. Walters	PL2		410
	Capital	GL4		10,226
	Assets and liabilities at this date entered to open the books.		<u>10,765</u>	<u>10,765</u>

General Ledger
Van

(page 1)

2012				
July	1	Balance	Folio	£
			J 5	3,700

Fixtures

(page 2)

2012				
July	1	Balance	Folio	£
			J 5	1,800

Inventory

(page 3)

2012				
July	1	Balance	Folio	£
			J 5	4,200

Capital

(page 4)

		2012		
		July	1	Balance
				Folio
				J 5
				£
				10,226

Sales Ledger
B. Young

(page 1)

2012				
July	1	Balance	Folio	£
			J 5	95

D. Blake

(page 2)

2012				
July	1	Balance	Folio	£
			J 5	45

Purchases Ledger
M. Quinn

(page 1)

		2012		
		July	1	Balance
				Folio
				J 5
				£
				129

C. Walters

(page 2)

		2012		
		July	1	Balance
				Folio
				J 5
				£
				410

Cash Book

(page 1)

2012				
			Folio	£
		Cash		£
		Bank		£

Adjustments to any of the entries in the ledgers

K. Young, a debtor, owed £2,000 on 1 July 2013. He was unable to pay his account in cash, but offers a 5-year-old car in full settlement of the debit. The offer is accepted on 5 July 2013.

					Car		GL171		
2013				£					
July	5	K. Young	J6	2,000					
					K. Young		SL333		
2013				£	2013		£		
July	1	Balance b/d		2,000	July	5	Motor car	J6	2,000

Adjustments to any of the entries in the ledgers (Continued)

The Journal (page 6)				
<i>Date</i>	<i>Details</i>	<i>Folio</i>	<i>Dr</i>	<i>Cr</i>
2013 July 5	Car K. Young Accepted car in full settlement of debt per letter dated 5/7/2013	GL171 SL333	£ 2,000	£ 2,000