**SOURCE DOCUMENTS AND BOOKS OF ORGINAL ENTRY**

This shows the evidence transactions. They are collected, filed and posted in the books of prime entry. Example, if a firm sells goods on credit, then an invoice is raised. The source documents as shown in the above include:

* Sales invoice
* Purchases invoice
* Credit note
* Debit note
* Receipts, cheques and petty cash vouchers
* Other correspondences.

**(i) Sales Invoice**

The sales invoice is raised by the firm and sent to the debtor/customer when the firm makes a credit sale.

The sales invoice contains the following:

1. Name and address of the firm
2. Name and address of the buying firm
3. Date of making the sale – invoice date.
4. Invoice number
5. Amount due (net of trade discount)
6. Description of goods sold
7. Terms of sale

**(ii) Purchases Invoice**

A purchase invoice is raised by the creditor and sent to the firm when the firm makes a credit purchase. It shows the following:

1. Name and the address of the creditor/seller
2. Name and address of the firm
3. Date of the purchase (invoice date)
4. Invoice number
5. Amount due
6. Description of goods sold
7. Terms of sale

**(iii) Credit note**

A credit note is raised by the firm and issued to the debtor when the debtor returns some goods back to the firm. It’s contents include:

1. Name and address of the firm
2. Name and address of the debtor
3. Amount of credit
4. Credit note number
5. Reason for credit e.g. if goods sent but of the wrong type.

The purpose of the credit note is to inform the debtor or customer that the debtor’s account with the firm has been credited i.e. the amount due to the firm has been reduced or cancelled.

The credit note may also be issued when the firm gives an allowance of the amounts due from the debtors. From the context we can assume that all credit notes are issued when goods are returned.

(iv) Debit note

This is raised by the creditor and issued to the firm when the firm returns some goods to the creditor. It includes the following items:

1. Name and address of the firm
2. Name and address of the creditor
3. Amount of debit
4. Debit Note number
5. Reason for the debit

The purpose of the debit note is to inform the firm that the amount due to the creditor has been reduced or cancelled.

The

Firm

The

Debtor

Credit sales (sales invoice)

Returns inwards (credit note)

Credit purchase (purchase invoice)

The

Creditor

The

Firm

Returns outwards (debit note)

**(vi) Receipts**

A receipt is raised by the firm and issued to customers or debtors when they make payments in the form of cash or cheques. It shows:

1. The name and address of the firm
2. The date of the receipt
3. Amount received (cash or cheque or other means of payment)
4. Receipt number.

**Cheques**

When a firm opens a current account with the bank, a chequebook containing cheques issued. The cheques allow the firm to make payments against the account with the bank. When a firm issues a cheque to its creditors for payments, it authorizes the bank to honour payments against the firm’s account with the bank. The cheque contains the following information:

1. Name and account number of the firm (account holder)
2. The date of the cheque
3. Name of the payee (creditor)
4. Name of the firm’s bank
5. Amount payable in words and figures
6. The cheque number
7. The authorized signature(s)

**Petty cash vouchers**

A petty cash voucher is raised by a cashier to seek authority for payments (payments of small value in the firm which require cash payments e.g. fuel, bus-fare, office snacks), which is approved by a senior manager and filed for record purpose. It shows:

1. Date of payment
2. Amount paid
3. Reason for payment
4. Authorized signature(s):
5. Person approving
6. Person receiving

The person receiving the money must then return a document supporting how the money was utilized e.g. fuel receipt, bus ticket e.t.c.

**(vii) Other correspondence**

These include information received within or outside the firm that has a financial implication in the accounts.

Examples are:

1. Letters from the firm’s lawyers about a debtors balance.
2. Hire-purchase/credit sale or credit purchase agreements that relate to non-current assets.
3. Memorandum from a senior manager requiring changes to be made in the accounts.
4. Bank statement from the bank, e.g. bank charges.

**BOOKS OF PRIME ENTRY**

They record the source documents.

**Sales Journal**

It is also called a Sales Day Book. It records all the sales invoices issued by the firm during a particular financial period. The format is as follows (with simple records of invoice).

SALES JOURNAL Page 5

Date 19x8 Detail Folio Amount £

1st March S. Spikes SL.10 200.00

3rd March T. Binns SL.19 350.00

5th March L.Thompson SL,8 150.00

Total 700.00

The individual entries in the sales journal are posted to the debit side of the debtor’s accounts in the sales ledger and the total is posted on the credit side of the sales account in the general ledger.

This is shown below:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Sales Ledger** | | | | | | | | | | | |  | | **General Ledger** | | | | | | | | |
|  | | |  | |  | |  | |  | |  | |  | |  | |  | |  | |  |  |  |
| S Spikes | | | | | | | | | |  | |  | | | General Account | | | | | | | | |
| 19x8 | |  | | £ | | 19x8 | | £ | |  | | 19x8 | |  | | £ | | 19x8 | |  | | | £ |
| 1/3 | | Sales | | 200 | |  | |  | |  | |  | |  | |  | | 5/3 | | Credit sales for period | | | 700 |
|  | |  | |  | |  | |  | |  | |  | |  | |  | |  | |  |  |  |
| **Sales Ledger** | | | | | | | | | | | |  | | **General Ledger** | | | | | | | | |
|  | |  | |  | |  | |  | |  | |  | |  | |  | |  | |  |  |  |
| T Binus | | | | | | | | | | | |  | |  | |  | |  | |  |  |  |
| 19x8 | |  | | £ | | 19x8 | |  | |  | |  | |  | |  | |  | |  |  |  |
| 3/3 | | Sales | | 350 | |  | |  | |  | |  | |  | |  | |  | |  |  |  |
|  | |  | |  | |  | |  | |  | |  | |  | |  | |  | |  |  |  |
|  | |  | |  | |  | |  | |  | |  | |  | |  | |  | |  |  |  |
| L Thompson | | | | | | | | | | | |  | |  | |  | |  | |  |  |  |
| 19x8 | |  | | £ | | 19x8 | |  | | £ | |  | |  | |  | |  | |  |  |  |
| 3/3 | | Sales | | 150 | |  | |  | |  | |  | |  | |  | |  | |  |  |  |
|  | |  | |  | |  | |  | |  | |  | |  | |  | |  | |  |  |  |

**Example 2.4**

You are to enter up the sales journal from the following details. Post the items to the relevant accounts in the sales ledger and then show the transfer to the sales account in the general ledger.

2003

Mar 1 Credit sales to J Gordon £1,870

“ 3 Credit sales to G Abrahams £1,660

“ 6 Credit sales to V White £120

“ 10 Credit sales to J Gordon £550

“ 17 Credit sales to F Williams £2,890

“ 19 Credit sales to U Richards £660

“ 27 Credit sales to V Wood £280

“ 31 Credit sales to L Simes £780

**Answer**

SALES JOURNAL Page 10

Date (2003) Detail Folio Amount

1/3 J. Gordon 1,870.00

3/3 G. Abrahams 1,660.00

6/3 V. White 120.00

10/3 J. Gordon 550.00

17/3 F. Williams 2,890.00

19/3 U. Richards 660.00

27/3 V. Wood 280.00

31/3 L. Simes 780.00

8,810.00

**Sales Ledger**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **J Gordon** | | | | | |  | U Richards | | | | | |
| **2003** |  | **£** | **2003** |  | **£** |  | **2003** |  | **£** | **2003** |  | **£** |
| 1/3 |  | 1570 |  |  |  |  | 19/3 | Sales | 660 |  |  |  |
| 10/3 |  | 550 |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **G Abrahams** | | | | | |  | **V Wood** | | | | | |
| 2003 |  | £ | 2003 |  | £ |  | 2003 |  | £ | 2003 |  | £ |
| 3/3 | Sales | 1,660 |  |  |  |  | 27/3 | Sales | 280 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **U White** | | | | | |  | L Simes | | | | | |
| 2003 |  | £ | 2003 |  | £ |  | 2003 |  | £ | 2003 |  | £ |
| 6/3 | Sales | 120 |  |  |  |  | 31/3 | Sales | 750 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| F Williams | | | | | |  | Sales a/c | | | | | |
| 2003 |  | £ | 2003 |  | £ |  | 2003 |  | £ | 2003 |  | £ |
| 17/3 | Sales | 2890 |  |  |  |  |  |  |  |  | Credit Sales |  |

**Purchases Journal**

Purchases journal is also called a purchases day-book. It records all the purchase invoices received by the firm during a particular financial period. It has the following format (including records of invoices).

PURCHASES JOURNAL Page 15

Date 19x6 Description/Detail Folio Amount

1/5 C. Kelly PL. 10 400

2/5 L. Smailes PL. 20 350

TOTAL 750

The individual entries in the purchases journal are posted to the credit side of the creditor’s accounts in the purchases ledger and the total is posted to the debit side of purchases account of the general ledger. This is shown below:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| C Kelly | | | | | |  | Purchases a/c | | | | | |
| 19x6 |  | £ | 19x6 |  | £ |  | 19x6 |  | £ | 19x6 |  | £ |
|  |  |  | 1/5 | Purchases | 400 |  | 31/5 | Sundry Creditors | 750 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| L Smailes | | | | | |  |  |  |  |  |  |  |
| 19x6 |  | £ | 19x6 |  | £ |  |  |  |  |  |  |  |
|  |  |  | 2/5 | Purchases | 250 |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

**Returns Inwards Journal**

It is also called the returns inwards day-book. It records all the credit notes raised by the firm and sent to customers during a particular financial period, it has the following format.

RETURNS INWARDS JOURNAL Pg 10

Date Detail Folio Amount

1 March S. Spikes SL. 22 £20

2 March C. Kelly SL. 18 £18

5 March T. Bills SL. 9 £15

TOTAL £53

Individual entries in a return inwards journal are posted to the credit of the debtors accounts in the sales ledger and the total is posted to the debit side of the return-inwards account of the general ledger.

**Sales Ledger General Ledger**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| S. Spikes a/c | | | | | |  | Returns Inwards a/c | | | | | |
|  |  | £ |  |  | £ |  |  |  | £ |  |  | £ |
|  |  |  | 1/3 | Returns In | 20 |  | 31/3 | Sundry Debtors | 53 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| C Kelly a/c | | | | | |  | T. Bills a/c | | | | | |
|  |  | £ |  |  | £ |  |  |  | £ |  |  | £ |
|  |  |  | 2/3 | Returns In | 18 |  |  |  |  | 5/3 | Returns In | 15 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

**Returns Outwards Journal**

It is also called the returns outwards daybook. It records all the debit notes received by the firm from the creditors during a particular financial period. It has the following format.

RETURNS OUTWARDS JOURNAL

DATE DETAILS FOLIO AMOUNT (£)

2 May L. Thompson PL. 15 14

3 May M. Hyatt PL. 10 12

4 May T. Bills PL. 7 19

TOTAL 35

Individual entries are posted on the debit side of the creditors account in the purchases ledger and on the total to credit side of the returns outwards account in the general ledger.

**Purchases Ledger General Ledger**

L. Thompson a/c Returns Outwards a/c

` £ £ £ £

2/5 Returns out 14 31/5 sundry

creditors 35

M. Hyatt a/c

£ £

3/5 Returns out 12

T. Bills a/c

£ £

4/5 Returns Out 19

The following example 2.5 shows how the four journals are used.

**Example 2. (Frankwood adapted)**

You are to enter the following items in the books, post to personal accounts, and show transfers to the general ledger.

19x5

July 1 Credit purchases from: K Hill £3800; M Norman £500; N Senior £106.

“ 3 Credit sales to: E Rigby £510; E Phillips £246; F Thompson £356.

5 Credit purchases from: R Morton £200; J Cook £180; D Edwards £410; C Davies £66.

“ 8 Credit sales to: A Green £307; H George £250; J Ferguson £185.

“ 12 Returns outwards to: M Norman £30; N Senior £16.

“ 14 Returns inwards from: E Phillips £18; F Thompson £22.

“ 20 Credit sales to: E Phillips £188; F Powell £310; E Lee £420.

“ 24 Credit purchases from: Ferguson £550; K Ennevor £900.

“ 31 Returns inwards from: E Phillips £27; E. Rigby £30.

“ 31 Returns outwards to: J Cook £13; C Davies £11.

Study the solution provided:

SALES JOURNAL

DATE DETAIL AMOUNT (£)

3 July E. Rigby 510

3 July E. Phillips 246

3 July F. Thompson 356

8 July A. Green 307

8 July H. George 250

8 July J. Ferguson 185

20 July E. Phillips 188

20 July F. Powell 310

20 July E. Lee 420

TOTAL 2,772

**Sales Ledger**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| E Rigby | | | | | |  | E Phillips | | | | | |
| 19x5 |  | £ | 19x5 |  | £ |  | 19x5 |  | £ | 19x5 |  | £ |
| 3/7 | Sales | 510 | 3/7 | Returns Inwards | 30 |  | 3/7 | Sales | 246 | 14/7 | Returns | 18 |
|  |  |  |  |  |  |  | 20/7 | Sales | 188 | 31/7 | Retuns in | 27 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| F. Thompson | | | | | |  | J. Ferguson | | | | | |
| 19x5 |  | £ | 19x5 |  | £ |  | 19x5 |  | £ | 19x5 |  | £ |
| 3/7 | Sales | 356 | 14/7 | Returns in | 22 |  | 8/7 | Sales | 185 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Green | | | | | |  | F. Powell | | | | | |
| 19x5 |  | £ | 19x5 |  | £ |  | 19x5 |  | £ | 19x5 |  | £ |
| 8/7 | Sales | 307 |  |  |  |  | 20/7 | Sales | 310 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| H George | | | | | |  | E Lee | | | | | |
| 19x5 |  |  | 19x5 |  | £ |  | 19x5 |  | £ | 19x5 |  | £ |
| 8/7 | Sales | 250 |  |  |  |  | 20/7 | Sales | 420 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

PURCHASES JOURNAL

DATE DETAIL AMOUNT (£)

1 July K. Hill 380

1 July M. Norman 500

1 July N. Senior 106

5 July R. Mortan 200

5 July J. Cook 180

5 July D. Edwards 410

5 July C. Davies 66

24 July C. Ferguson 550

24 July K. Ennevor 900

Total 3,292

**Purchases Ledger**

N. Senior

|  |  |
| --- | --- |
| 1995 £ | 1995 £ |
| 12/7 Returns out 16 | 1/7 Purchases 22 |

M. Norman

|  |  |
| --- | --- |
| 1995 £ | 1995 £ |
| 30/7 Returns out 30 | 1/7 Purchases 500 |

J. Cook

|  |  |
| --- | --- |
| 1995 £ | 1995 £ |
| 31/7 Returns out 13 | 5/7 Purchases 180 |

C. Davies

|  |  |
| --- | --- |
| 1995 £ | 1995 £ |
| 31/7 Returns out 11 | 5/7 Purchases 60 |

K. Hill

|  |  |
| --- | --- |
| 1995 £ | 1995 £ |
|  | 1/7 Purchases 380 |

R. Morton

|  |  |
| --- | --- |
| 1995 £ | 1995 £ |
|  | 5/7 Purchases 200 |

D. Edwards

|  |  |
| --- | --- |
| 1995 £ | 1995 £ |
|  | 5/7 Purchases 410 |

C. Ferguson

|  |  |
| --- | --- |
| 1995 £ | 1995 £ |
|  | 27/7 Purchases 550 |

K. Ennevor

|  |  |
| --- | --- |
| 1995 £ | 1995 £ |
|  | 24/7 Purchases 900 |

|  |  |  |
| --- | --- | --- |
| RETURNS INWARDS JOURNAL | | |
|  |  |  |
| DATE | DETAILS | AMOUNT |
| 14 July | E. Phillips | 18 |
| 14 July | F. Thompson | 22 |
| 31 July | E. Phillips | 27 |
| 31 July | E. Rigby | 30 |
|  |  | 97 |
|  |  |  |
|  |  |  |
| RETURNS OUTWARDS JOURNAL | | |
|  |  |  |
| 12 July | M. Norman | 30 |
| 12 July | N. Senior | 16 |
| 31 July | J. Cook | 13 |
| 31 July | C. Davies | 11 |
|  |  | 70 |

**General Ledger**

Sales a/c

|  |  |
| --- | --- |
| 1995 £ | 1995 £ |
|  | 31/7 Sundry debtors 2772 |

Purchases a/c

|  |  |
| --- | --- |
| 1995 £ | 1995 £ |
| 31/7 Sundry creditors 3292 |  |

Returns Inwards a/c

|  |  |
| --- | --- |
| 1995 £ | 1995 £ |
| 31/7 Sundry debtors 97 |  |

Returns Outwards a/c

|  |  |
| --- | --- |
| 1995 £ | 1995 £ |
|  | 31/7 Sundry creditors 70 |