# BOOKS OF ORIGINAL ENTRY AND LEDGERS

## Introduction

In this session, we will learn about the books in which details of accounting transactions are recorded. You will learn that day books and journals are used to record all unpaid transactions made on credit and that the cash Book is used to record all cash and bank transactions. Then, you will learn that these entries are transferred from the books of original entry to a set of books called ledgers and that each ledger for a particular type of item and that, by having a set of ledgers, entries in accounts of items of a similar nature are recorded in the same place.

**The growth of the business**

When a business is very small, all the double entry accounts can be kept in one book, which we would call a 'ledger'. As the business grows it would be impossible just to use one book as the large number of pages needed for a lot of transactions would mean that the book would be too big to handle. Also, suppose we have several bookkeepers. They could not all do their work properly if there were only one ledger.

The answer to this problem was to use more books, with a book for each type of transaction. Sales would be entered in one book, Purchases in another book and so on.

## Books of original entry

When a transaction takes place, we need to record as much as possible of the details of transaction. For example if we sold four computers on credit to a Mr. De Souza for sh. 100,000 per computer, we would want to record that we sold four computers for sh. 100,000 each to Mr. De Souza on credit. We would also want to record the address and contact information of Mr. De Souza and the date of transaction. Some businesses would also record information like the identity of the person who sold them to Mr. De Souza and the time of the sale.

Books of original entry are books in which we first record transactions, such as the sale of the four computers. When we enter transactions in these books, we record:

- the date on which each transaction took place –the transactions should be shown in date order; and
- details relating to the sale (as listed in the computer example above), which are entered in a' details' column. Also, a folio column entry is made cross-referencing back to the original 'source document' e.g. the invoice; and
- the monetary amounts are entered in columns included in the books of original entry for that purpose.

**Types of books of original entry**

Books of original entry are called 'journals' or 'day books.' However, in the case of the last book of the original entry shown below, it is always a 'journal' and the second last is always known as 'cash book'. The term 'day book' is, perhaps, more commonly used, as it more clearly indicates the nature of these books of original entry-entries are made to them every day.

The commonly used books of original entry are:

- Sales day book (*or Sales journal*) –for credit sales.
- Purchases day book (or *Purchases journal*) – for credit purchases
- Return inwards day book ( or *Returns inwards journal*)-for return inwards
- Return outwards day book (or *Returns outwards journal)*
- Cash book – for receipts and payments of cash and cheques
- General journals (or journal if the term 'day book' is used in the other books of original entry)-for other items.

Note

We will use the term 'day book' However, never forget that the term' journal' can be always substituted for the term 'day book'. Be sure to remember this. Examiner may use either terms.

**Using more than one ledger**

Entries are made in the books of original entry. The entries are then summarized and the summary information is entered, using double entry, to accounts kept in various ledgers of the business. One reason why a set of ledgers is used rather than one big ledger is that this makes it easier to divide the work of recording all the entries between different bookkeepers.

**Types of ledgers**

The different types of ledgers most businesses use are:

- **Sales ledger**. This is for customer's personal accounts -the accounts receivable.
- **Purchase ledger**. This is for supplier's personal accounts – the accounts payable.
- **General ledger.** This contain the remaining double entry accounts, such as those relating to expenses, non- current assets and capital.

**Types of accounts**

Some people describe all accounts as personal accounts or impersonal accounts.

- **Personal accounts** –these are 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. Examples are buildings machinery, fixtures and inventory.

-**Nominal accounts**- accounts in which expenses, income and capital are recorded.

**Nominal and private ledger**

The ledger in which the impersonal accounts are kept is known as nominal (or general) **ledger**. In order to ensure privacy for the proprietor(s), the capital, drawings and other similar accounts are sometimes kept in **a private ledger.** This prevents office staff from seeing details of items which the proprietors wants to keep secret.

**CASH BOOKS**

The cash book consists of the cash account and the bank account put together in one book. We used to show these two accounts on different pages of the ledger. Now it is easier to put the two sets of account columns together. This means that we can record all money received and paid out on a particular date on the same page.

In the cash book, the debit column for cash is put next to the debit column for bank. The credit column for cash is put next to the credit column for bank.

Example 1, below shows how cash account and bank account would appear if they had been kept separately. In example 2, they are shown as if the transactions had, instead, been kept in a cash book.

The bank column contains details of the payments made by a cheque and direct transfer from the bank account and of the money received and paid into the bank account. The bank would have a copy of the account in its own books.

Periodically, or on request from the business, the bank sends a copy of the account in its books to the business. This document is known as the bank statement. When the business receives the bank statement, it checks it against the bank columns in its cash book to ensure that there are no errors. Example 1

Cash

| 2016 | | sh | 2016 | | sh |
|---|---|---|---|---|---|
| Aug 2 | T. Moore | 3,300 | Aug 8 | printing | 2,000 |
| 5 | K.Charles | 2,500 | 12 | C.Potts | 1,900 |
| 15 | F.Hughes | 3,700 | 28 | Office stationery | 2,500 |
| 30 | H.Howe | 1,800 | 31 | Balance c/d | 4,900 |
| | | 11,300 | | | 11,300 |
| Sep 1 | balance b/d | 4,900 | | | |

Cash

| 2016 | | sh | 2016 | | sh |
|---|---|---|---|---|---|
| Aug 1 | Capital | 1,000,000 | Aug 7 | Rent | 20,500 |
| 3 | W.P Ltd | 24,400 | 12 | F.Small | 9,500 |
| 16 | K.Noone | 40,800 | 26 | K.French | 26,800 |
| 30 | H. Sanders | 2,000 | 31 | Balance c/d | 1,010,400 |
| | | 1,067,200 | | | 1,067,200 |
| Sep 1 | balance b/d | 1,010,400 | | | |

Example 2

| cashbook | | | | | |
|---|---|---|---|---|---|
| | Cash Sh. | Bank Sh. | | Cash Sh. | Bank Sh. |
| 2016 | | | 2016 | | |
| Aug1 capital | | 1,000,000 | Aug 7 Rent | | 20,500 |
| 2 T. Moore | 3,300 | | 8 Printing | 2,000 | |
| 3 W.P.ltd | | 24,400 | 12 C. potts | 1,900 | |
| | | | 12 F. Small ltd | | 9,500 |
| 5 K. Charles | 2,500 | | 26 K. French | | 26,800 |
| 15 F. Hughes | 3,700 | | 28office stationary | 2,500 | |
| 16 K. Noone | | 40,800 | | | |
| 30 H. Sanders | | 2,000 | | | |
| 30 H. Howe | 1,800 | | Balance c/d | 4,900 | 1,010,400 |
| | 11,300 | 1,067,200 | | 11,300 | 1,067,200 |
| Sep 1 balance b/d | 4,900 | 1,010,400 | | | |

CASH PAID INTO THE BANK

In example 2, the payments into the bank were cheques received by the business. They have been banked immediately upon receipt. We must now consider the cash being paid into bank.

1. Let's look at the position when the customers pay their account in cash and, later, a part of this cash is paid into the bank. The receipt of the cash is debited to the cash column on the date received, the credit entry being in the customer 's personal account. The cash banked has the following effect needing action

| **Effect** | **Action** |
|---|---|
| 1. Asset of cash is decreased | Crediting cash account i.,e. the cash account which is represented by the cash column in the cash book. |
| 2. Asset of bank is increased | Debit the Asset account, I.e. the bank account which is represented by the bank column in the cash book. |

A cash receipt of sh.10,000 from M. Davis on 1 Aug 2016 which was followed by the banking on 3 Aug of sh. 8,000 of this amount would appear in the cash book as follows

| Cash book | | | | | |
|---|---|---|---|---|---|
| | Cash | Bank | | Cash | Bank |
| 2016 | Sh. | Sh. | 2016 | Sh. | Sh. |
| Aug 1 M. Davis | 10,000 | | Aug 3 Bank | 8,000 | |
| 3 Cash | | 8,000 | | | |

The details column shown entry against each item stating the name of the account in which the completion of double entry has taken place. Against the cash payment of sh. 8,000 appear the word 'bank 'meaning that the debit of sh. 8,000 is to be found in the bank column, and the opposite applies.

3. Where the whole of the cash received is banked immediately the receipt can be treated in exactly the same manner as a cheque received i.e. it can be entered directly into bank column.
4. If the business require cash, it may withdraw cash from the bank. Assuming this is done by use of cheque, the business would write out a cheque to pay itself a certain amount of cash. The bank would give cash in exchange for the cheque over the counter. It could also be done using a cash card. The effect on the accounts is the same.

| **Effect** | **Action** |
|---|---|
| 1) Asset of bank is decreased | Credit the asset account i.e. the bank column in the cash book. |
| 2) Asset of Cash is increased | Debit the Asset account, i.e. the Cash account in the cash column in the cash book. |

A withdrawal of sh. 7,500 on 1 June 2016 from the bank would appear in the cash book as:

| **Cash book** | | | | | |
|---|---|---|---|---|---|
| | Cash | Bank | | Cash | Bank |
| 2016 | Sh. | Sh. | 2016 | Sh. | Sh. |
| June 1 Bank | 7,500 | | June 1 cash | | 7,500 |

Both the debit and credit entries for this item are in the same book. When this happens it is known as a contra item.

## The use of folio columns

As you have already seen, the details column in the account contains the name of the account in which the other part of the double entry has been entered. Anyone looking through the books should, therefore, be able to find the other half of the double entry in the ledger.

However, when many books are being used, just to mention the name of the other account may not be enough information to find the other account quickly. More information is needed and this is given using **folio columns.**

In each account and in each book being used, a folio column is added, always shown on the left of the money columns. In this column, the name of the other book and the number of the page in the other book where the other part of the double entry was made is stated against each and very entry.

So as to ensure that the double entry is completed, the folio column should only be filled in when the double entry has been completed.

The act of using one book as a means of entering transactions into accounts, so as to perform or complete the double entry, is known as posting. For example, you post items from the sales day book to the appropriate accounts in the sales ledger and to the sales accounts and you 'post' item from the cash book to the appropriate accounts in the sales ledger.

### Advantages of folio columns

Folio entries speed up the process of finding the other side of the double entry in the ledgers.

**Example of Cash book with folio columns**

The following transactions are written up in the form of a cash book. The folio columns are filled in as though all the double entries had been completed to other accounts.

| | | |
|---|---|---|
| 2016 | | Sh. |
| Sept 1 | Proprietor puts capital into a bank account for the business | **10,940** |
| 2 | Received cheque from M. Boon | 315 |
| 4 | Cash sales | 802 |
| 6 | paid rent by cash | 135 |
| 7 | Banked sh. 50 of the cash held by the business | 50 |
| 15 | Cash sales paid directly to the bank | 490 |
| 23 | Paid cheque to S. wills | 277 |
| 29 | Withdrew Cash from bank for business use | 120 |
| 30 | Paid wages in cash | 518 |

**Cash book** (page1)

| 2016 | Folio | Cash Sh. | Bank Sh. | 2016 | Folio | Cash | Bank Sh. |
|---|---|---|---|---|---|---|---|
| Sep 1 Capital | GL1 | | 10,940 | Sep 6 Rent | GL65 | 135 | |
| 2 M.Boon | SL98 | | 315 | 7 Bank | ¢ | 50 | |
| 4 Sales | GL87 | 802 | | 23 S.Wills | PL23 | | 277 |
| 7 cash | ¢ | | 50 | 29 Cash | ¢ | | 120 |
| 15 Sales | GL87 | | 490 | 30 Wages | GL39 | 518 | |
| 29 Bank | ¢ | 120 | | 30 Balances | c/d | 219 | 11,398 |
| | | 922 | 11,795 | | | 922 | 11,795 |
| Octo 1 balance | b/d | 219 | 11,398 | | | | |

The abbreviations used in the folio column are:

GL =general ledger SL = sales ledger ¢ = contra PL = purchases ledger

**Cash discounts**

Businesses prefer it if their customers pay their accounts quickly.A business may accept a smaller sum in full settlement if payment is made within a certain period of time .The amount of the sum to be paid is known as a cash discount .The term cash discount refer to the allowance given for quick payment. It is still called cash discount, even if the account is paid by direct transfer into the bank account.

The rate of cash discount is usually stated as a percentage. Full details of percentage allowed, and the period within which payment is to be made, are quoted on all sales documents by the seller. A typical period during which discount may be allowed is one month from the date of the original transaction.

NOTE:

Cash discount always appear in the profit and loss section of the statement of profit or loss. They are not part of the cost of goods sold. Nor are they a deduction from selling price.

## Discounts allowed and discounts received

A business may have two types of cash discounts in its books.These are:

1) Discounts allowed: Cash discounts allowed by a business to its customers when they pay their accounts quickly.
2) Discounts received: Cash discount received by a business from its suppliers when it pays what it owes them quickly.

We can now see the effect of discounts by looking at two examples .

Example 1

W. Clark owed us sh. 100. He pays us in cash on 2 September 2016, which is within the time limit applicable for a 5% cent cash discount. He pays sh. 100 – sh. 5 = sh. 95 in full settlement of his account.

| EFFECT | ACTION |
| --- | --- |
| 1. Of cash:<br>Cash is increased by sh. 95.<br>Asset of account receivable is decreased by sh. 95. | Debit cash account, i.e. enter sh. 95 in debit column of cash book.<br>Credit W. Clark sh. 95. |
| 2. Of discounts:<br>Asset of accounts receivable is decreased by sh.5 (After the cash was paid there remained a balance of sh. 5. As the account has been paid, this asset must now be cancelled.) Expense of discounts allowed increased by sh. 5 | Credit W. Clark sh. 5<br><br>Debit discounts allowed account sh.5 |

**Example 2**

The business owed  S. Small  sh. 400. It pays him by 3 cheque 3 September 2016, which is within the time limit laid down by him for a 2½ per cent cash discount.  The business will pay sh.400 – sh.10 = sh. 390 in full settlement of the account.

| EFFECT | ACTION |
| --- | --- |
| 1. Of cheque:<br>Asset of bank is reduced by sh. 390.<br>Liability of account payable is reduced by sh.390 | Credit bank i.e. entry in the credit bank column for sh. 390<br><br>Debit S. Small 's account sh. 390 |
| 1. Of discounts:<br>Liability of accounts payable is reduced by sh. 10. (After the cheque was paid, a balance of sh. 10 remained. As the account has been paid the liability must now be cancelled.)<br>Revenue of discount received increased by sh. 10 | Debit S. Small's account sh10.<br><br>Debit discounts received account sh. 10 |

The entries made in the business's books would be:

| Cash book | | | | | | | (page1) |
|---|---|---|---|---|---|---|---|
| 2016 | Folio | Cash Sh. | Bank Sh. | 2016 | Folio | Cash Sh. | Bank Sh. |
| Sep 2 W.Clark | SL12 | 95 | | Sep 3 Small | PL75 | | 390 |

Discount received

| | 2016 | Folio | Sh. |
|---|---|---|---|
| | Sept 2 S. Small | PL75 | 10 |

Discount Allowed

| 2016 | Folio | Sh. | |
|---|---|---|---|
| Sept 2 W. Clark | SL12 | 95 | |

W.Clarke

| 2016 | Folio | Sh. | 2016 | Folio | Sh. |
|---|---|---|---|---|---|
| Sept 1 balance | b/d | 100 | Sept 2 Cash | CB32 | 95 |
| | | | 2 Discount | GL17 | 5 |
| | | 100 | | | 100 |

S. Small

| 2016 | Folio | Sh. | 2016 | Folio | Sh. |
|---|---|---|---|---|---|
| Sept 3 bank | CB32 | 390 | Sept 1 Balance | b/d | 400 |
| 3 Discount | GL18 | 10 | | | |
| | | 400 | | | 400 |

It is accounting custom to enter the word 'Discount ' in the accounts without stating whether it is the discount received or discount allowed.

## Discounts columns in Cash book

The discounts allowed and discounts received are in the general ledger along with all the other revenue and expenses accounts. It has already been stated that every effort should be made to avoid too many entries in the general ledger. To avoid this, we add two columns for discount in the cash book.

An extra column is added on each side of the cash book in which the amounts of discounts are entered. Discounts received are entered in the discount column on the credit side of the cash book, and discounts allowed in the discount column on the debit side of the cash book.

The cash book entries for two examples so far dealt with would be:

**Cash book**

| 2016 | folio | Discount | Cash | Bank | 2016 | folio | discount | cash | bank |
|---|---|---|---|---|---|---|---|---|---|
| Sep 2 | | Sh. | Sh. | sh | Sept 3 | | sh. | sh. | sh. |
| W .Clarke | SL12 | 5 | 95 | | S.Small | PL75 | 10 | | 390 |

There is no alteration to the method of showing discounts in the personal accounts.

**To make entries in the discounts accounts in the general ledger**

At the end of the period:

Total of the discounts column on} Enter the debit side of discount allowed acc.

receipt sides of the cash book

Total of discount columns

On payments side of cash book} Enter on credit side of discount received acc.

WORKED EXAMPLE

| | | |
|---|---|---|
| 2016 | | sh. |
| May 1 | Balances brought down from April | |
| | Cash balance | 29 |
| | Bank balance | 654 |
| | Accounts receivable accounts: | |
| | B. king | 120 |
| | N .Campbell | 280 |
| | D.Shand | 40 |
| | Accounts payable accounts: | |
| | U.Barrow | 60 |
| | A.Allen | 440 |
| | R.Long | 100 |
| 2 | B. King pays us by cheque, having deducted 2½ per cent cash discount sh.3. | 117 |
| 8 | We pay R. Long his account by cheque, deducting 5%cash discount sh.5. | 95 |
| 11 | We withdraw sh.100 cash from the bank for business use | 100 |
| 16 | N. Campell pays us his account by cheque, deducting 2 ½% discount sh7. | 273 |
| 25 | We paid office expenses in cash | 92 |
| 28 | D. Shand pays us in cash after having deducted 5%cash discount | 38 |
| 29 | We pay U. Barrow by cheque less 5%discount sh3 | 57 |

30 We pay A.Allen by cheque less 2½ %discount sh. 11. 429

| | Cash book | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 2016 | Folio | Discnt Sh. | Cash Sh. | Bank Sh. | 2016 | Folio | Discnt Sh. | Cash Sh. | Bank Sh. |
| May 1 balance | b/d | | 29 | 654 | May 8 R. Long | PL58 | 5 | | 95 |
| 2 B.King | SL13 | 3 | | 117 | 11 Cash | ¢ | | | 100 |
| 11 Bank | ¢ | | 100 | | 25 Office Expenses | GL77 | | 92 | |
| 16N.Campbel | SL84 | 7 | | 273 | | | | | |
| 28 D.Shand | SL91 | 2 | 38 | | 29U.barrow | PL15 | 3 | | 57 |
| | | | | | 30 A.Allen | PL98 | 11 | | 429 |
| | | | | | 31.Balances | c/d | | 75 | 363 |
| | | 12 | 167 | 1,044 | | | 19 | 167 | 1,044 |
| June 1 balance b/d | | | 75 | 363 | | | | | |

**Sales ledger**

B. King

| 2016 | Folio | Sh. | 2016 | Folio | Sh. |
|---|---|---|---|---|---|
| May 1 balance | b/d | 120 | May 2 Bank | CB64 | 117 |
| | | | 2 Discount | CB64 | 3 |
| | | 120 | | | 120 |

N.Campbell

| 2016 | Folio | Sh. | 2016 | Folio | Sh. |
|---|---|---|---|---|---|
| May 1 balance | b/d | 280 | May 16 Bank | CB64 | 273 |
| | | | 16 Discount | CB64 | 7 |
| | | 280 | | | 280 |

D.Shand

| 2016 | Folio | Sh. | 2016 | Folio | Sh. |
|---|---|---|---|---|---|
| may 1 balance | b/d | 40 | Mat 28 Cash | CB64 | 38 |
| | | | 28 Discount | CB64 | 2 |
| | | 40 | | | 40 |

**Purchases ledger**

U.Barrow

| 2016 | Folio | Sh. | 2016 | Folio | Sh. |
|---|---|---|---|---|---|
| May 29 Bank | CB64 | 57 | May 1 balance | b/d | 60 |
| 29 Discount | CB64 | 3 | | | |
| | | 60 | | | 60 |

R. Long

| 2016 | Folio | Sh. | 2016 | Folio | Sh. |
|---|---|---|---|---|---|
| May 8 Bank | CB64 | 95 | May 1 Balance | b/d | 100 |
| 8 Discount | CB64 | 5 | | | |
| | | 100 | | | 100 |

A.Allen

| 2016 | Folio | Sh. | 2016 | Folio | Sh. |
|---|---|---|---|---|---|
| May 30 bank | CB64 | 429 | May 1 balance | b/d | 440 |
| 30 Discount | CB64 | 11 | | | |
| | | 440 | | | 440 |

**General ledger**

Office expenses

| 2016 | Folio | Sh. | |
|---|---|---|---|
| May 25 balance | CB64 | 92 | |

Discount received

| | 2016 | Folio | Sh. |
|---|---|---|---|
| | May 31 Total for the month | CB64 | 19 |

Discount allowed

| 2016 | Folio | Sh. | |
|---|---|---|---|
| May 1 Total for the month. | CB64 | 12 | |

**Bank overdrafts**

A business may borrow money from a bank by means of a bank overdraft. This means that the business is allowed to pay more out of its bank account than the total amount it has deposited in the account.

Up to this point, the bank balances have all been money at the bank so they have all been assets, i.e. debit balances. When the bank account is overdrawn, the business owes money to the bank, so the account is liability and the balance becomes a credit one.

Taking the cash book last shown, suppose that the amount payable to A.Allen was sh.1,429 instead of sh. 429. The amount in the bank account, sh. 1,044, is exceeded by the amount withdrawn.

We will take the discount for Allen as being sh. 11. The cash book would appear as follows:

| | Cash book | | | | | | |
|---|---|---|---|---|---|---|---|
| 2016 | Discount Sh. | Cash Sh. | Bank Sh. | 2016 | Discount Sh. | Cash Sh. | Bank Sh. |
| May 1 balance | | 29 | 654 | May 8 R. Long | 5 | | 95 |
| 2 B.King | 3 | | 117 | 11 Cash | | | 100 |
| 11 Bank | | 100 | | 25 Office Expenses | | 92 | |
| 16N.Campbel | 7 | | 273 | 29U.barrow | 3 | | 57 |
| 28 D.Shand | 2 | 38 | | 30 A.Allen | 11 | | 1,429 |
| 31 Balance c/d | | | 637 | 31.Balance c/d | | 75 | |
| | 12 | 167 | 1681 | | 19 | 167 | 1,681 |
| June 1 balance b/d | | 75 | | | | | 637 |

On the statement of financial position, a bank over draft is included under the heading ‘current liabilities’.

**Bank cash books**

Except for very small organizations, three column cash book are not usually used. All receipts, whether of cash or cheques , will be banked daily. A’ petty cash book’ will be used for payments of cash. As a result there will be no need for cash columns in the cash book itself.

**Multiple column cash book**

You will learn how to prepare an analytical (or multiple columns ) petty cash book. Cash books are often prepared with multiple columns where additional columns are added for each ledger account to which many entries may be made in a period.

## Accounting for sales

Earlier you learnt that, rather than having only one book of original entry and only one ledger, most businesses use a set of day books (or journals) and set of ledgers. In this topic you will learn more about the sales day book (or sales journal) and the sales ledger. You will also learn how cash and credit sales are entered in these books, and about trade discounts and how to record them.

### 1. Cash sales

As you have already learnt, when goods are paid for immediately, they are described as 'cash sales' even when the payment has been made by the debit card, credit card, cheque, or transfer of funds from the customer's bank account. For accounting purposes, in such cases we don't need to know the names, addresses of customers nor what has been sold to them and, as a result, there is no need to enter such sales in the day book. **The sales day book (and all other day books) are only used for transactions that are to be paid for at some future dates, i.e. 'credit' transactions.**

**Credit payments**

When a customer pay immediately by credit card, so far as recording details of the customer is concerned, this is treated as if it were payment made by cash. No record is required for accounting purposes concerning the contact details of the customer. However, it is a credit transaction and so does result in a debtor being created- the credit card company. The double entry would be a debit to the credit card company's account in the sales ledger and credit to the sales account.

## 2. Credit sales

In all but the smallest business, most sales will be made on credit. That is, they are not paid at the time of the sale, but at some future date.

For each credit sale, the selling business will give or send a document to the buyer showing full details of the goods sold and the prices of the goods. This document is an 'invoice'. It is known to the buyer as a 'purchase invoice' and to the seller as a ' **sales invoice**. The seller will keep one or more copies of each sales invoice for his or her own use.

Example of an invoice :

Your Purchase Order:10/A/980

J. Blake
7 Over Warehouse
Leiceter LE1 2AP
1 September 2017.

INVOICE NO. 16554

To: D.Poole &co
45, Charles Street
Manchester M1 5NZ

| | per unit | total |
|---|---|---|
| | Sh. | Sh. |
| 21 cases McBrand pears | 20 | 420 |
| 5 cartons kay's flour | 4 | 20 |
| 6 cases Joy 's vinegar | 20 | 120 |
| | | 560 |
| Terms 1¼% cash discount | | |
| If paid within one month | | |

## Copies of sales invoices

As soon as the sales invoices for the goods being sold have been prepared, they are given or sent to the customer. The copies kept by the seller are created as the same as the original.

### 3. Making entries in the sale day book

From the copy of the sales invoice, the seller enters up the transaction in the sales day book. This book is merely a list of details relating to each credit sale:

- Date
- Name of customer
- Invoice number
- Folio column
- Final amount of invoice

There is no need to show details of the goods sold in the sales day book.

This can be found by looking at copy invoices

We can look at below invoice of sales day book starting with the record of the sales invoice already shown above this would have been on any page, in this example we are assuming have been filled with details of earlier transaction.

| **Sale day book** | | | | | |
|---|---|---|---|---|---|
| 2017 | | | Invoice | folio | Amount sh. |
| Sept | 1 | D.Poole | 16554 | | 560 |
| | 8 | T.Cockburn | 16555 | | 1,640 |
| | 28 | C.Cater | 16556 | | 220 |
| | 30 | D.Stevens &Co | 16557 | | 1,100 |
| | | | | | 3,520 |

## 4. posting credit sales to the sales ledger

In case of having one ledger for all accounts we now have a separate sales ledger for credit transaction.

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

## 5. Example of posting credit sales

| Sale day book | | | |
|---|---|---|---|
| 2017 | Invoice | folio | Amount sh. |
| Sept 1 D.Poole | 16554 | | 560 |
| 8 T.Cockburn | 16555 | | 1,640 |
| 28 C.Catrer | 16556 | | 220 |
| 30 D.Stevens &Co | 16557 | | 1,100 |
| | | | 3,520 |

### Sales ledger

D. Poole

| 2017 | Folio | Sh. | |
|---|---|---|---|
| Sept 1 sales | SB | 560 | |

T. Cock burn

| 2017 | Folio | Sh. | |
|---|---|---|---|
| Sept 8 sales | SB16 | 1,640 | |

C. Carter

| 2017 | Folio | Sh. | |
|---|---|---|---|
| Sept 28 sales | SB26 | 220 | |

D. Steven &co

| 2017 | Folio | Sh. | |
|---|---|---|---|
| Sept 30 sales | SB 26 | 1,100 | |

**General ledger**

sales

| | 2017 | Folio | Sh. |
|---|---|---|---|
| | Sept 30 credit sales for the month | SB29 | 3,520 |

## Accounting for purchases

In this topic you will continue to look at the day books and ledgers by looking in more detail at the purchases day book (or purchases journal) and the purchases ledger. Having already looked at the sales side of transactions, you are now going to look at them from the side of purchases. Much of what you will learn here is virtually identical to what you learnt about sales.

1. **Purchases invoices**

Earlier you learnt that an invoice is called a 'sales invoice' when it is entered in the books of the seller. When an invoice is entered in the books of the buyer, it is called a 'purchases invoice'.

As you know, transactions – sales or purchases – may be for cash or they may be on credit so, we call purchases made on credit 'credit purchases 'or purchases on credit The details of credit purchases are entered in a purchases day book.

2. **Making entries in the purchases day book**

From the purchases invoices for goods bought on credit, the purchaser enters the details in the purchases day book (or purchases journal).

There is no need to show details of the goods bought in the purchases day book (details are already captured in the invoices). They can be found by looking at the invoices themselves.

The following is an example of a purchases day book.

| Purchases day book | | | | |
|---|---|---|---|---|
| 2017 | | Invoice no. | Folio | Amount sh. |
| Sept 1 | J.Blake | 9/101 | PL16 | 560 |
| 8 | B. Hamilton | 9/102 | PL29 | 1,380 |
| 28 | C.Brown | 9/103 | PL55 | 230 |
| 30 | K.Gabriel | 9/104 | PL89 | 510 |
| | | | GL63 | 2,680 |

**Posting credit purchases to the purchases ledger**

1. The credit purchases are deposited one by one to the credit of each supplier's account in the purchases ledger.
2. At the end of each period the total of the credit purchases is posted to the debit of the purchases account in the general ledger.

**Example of posting credit purchases using above table (transferred to purchases account.**

**Purchases ledger**

J. Blake (page16)

| | | | |
|---|---|---|---|
| | 2017 | Folio | Sh. |
| | Sept 1 Purchase | PB49 | 560 |

B.Hamilton (page29)

| | | | |
|---|---|---|---|
| | 2017 | Folio | Sh. |
| | Sept 8 purchases | PB49 | 1,380 |

C.Brown (page55)

| | | | |
|---|---|---|---|
| | 2017 | Folio | Sh. |
| | Sept 19 Purchases | PB49 | 230 |

K.Gabriel (page 89)

| | 2017 | Folio | Sh. |
|---|---|---|---|
| | Sept 30 Purchases | PB 49 | 510 |

**General Ledger**

Purchases (page 63)

| 2017 | Folio | Sh. | |
|---|---|---|---|
| Sept 30 Credit purchase for the month | PB49 | 2,680 | |

## Accounting for returns

You know that businesses allow customers to return goods they have bought. Some retail businesses give every customer the right to do so within a few days of the sale and won't ask why they are being returned. Whatever the rights of return granted by the seller, there are also legal rights of return that permit retail customers to return goods for a refund should goods prove to have been unfit for the purpose that was intended.

Sometimes sellers may agree to keep the goods returned, even when they don't normally do so, but won't provide a full refund. Sometimes buyers may agree to keep goods they had wanted to return if the seller offers to refund some of the price they paid.

When the seller agree to take back goods and refund the amount paid, or agrees to refund part or all amount the buyer paid, a document known as a credit note will be sent to the customer, showing the amount of the allowance given by the seller.

It is also called a credit note because the customer's account will be credited with the amount of the allowance, to show the reduction in the amount owed.

1. **Return inwards daybook**

The credit notes are listed in returns inwards day book (or return inwards journal). This is then used for posting items, as follows:

1) Sales ledger: credit the amount of credit notes, one by one, to the accounts of the customers who returns goods in the sales ledger.
2) General ledger: at the end of the period the total of the return inwards day book is posted to debit of the returns inwards account.

**Example of return inwards day book**

The following list presents an example of returns inwards day book showing the items to be posted to the sales ledger and general ledger followed by the entries in the ledger accounts.

| Return inwards day book | | | |
|---|---|---|---|
| 2017 | Note no. | Folio | Amount sh. |
| 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 | 160 |
| Transferred to returns inwards account | | GL 114 | 610 |

**Sales ledger**

D.Poole (page 12)

| | 2017 | Folio | Sh. |
|---|---|---|---|
| | Sept 8 Return inwards | RI 10 | 40 |

A. Brewster (page 58)

| | 2017 | Folio | Sh. |
|---|---|---|---|
| | Sept 17 Return inwards | RI 10 | 120 |

C.Vickers (page 99)

| | 2017 | Folio | Sh. |
|---|---|---|---|
| | Sept 19 Return inwards | RI 10 | 290 |

M. Nelson (page112)

| | 2017 | Folio | Sh. |
|---|---|---|---|
| | Sept 29 Return inwards | RI 10 | 160 |

**General ledger**

Returns inwards (page114)

| 2017 | Folio | Sh. | |
|---|---|---|---|
| Sept 30 Returns for the month | RI 10 | 610 | |

The return inwards day book is sometimes known as the sales return day book, because it is goods that were sold that are being returned.

2. **Return outwards and debit notes**

If the supplier agrees, goods bought previously may be returned. When this happens a debit note is sent by a customer to the supplier giving details of goods and the reason for the return.

The credit note received from the supplier will simply be evidence of the supplier's agreement, and the amounts involved

Also an allowance might be given by the supplier for any fault in the goods. Here also, a debit note should be sent to the supplier.

3. **Return outwards day book**

The debit note is listed in the return outwards day book (or return outwards journal). this is then used for posting the items, as follows:

1) Purchases ledger: debit the amount of debit notes one by one to the personal accounts of the suppliers in the ledger.
2) General ledger: at the end of the period, the total of the returns outwards day book is posted to the credit of the returns outwards account.

| **Return Outwards day book** | | | |
|---|---|---|---|
| 2017 | Note no. | Folio | Amount sh. |
| 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 | 360 |
| Transferred to return outwards account | | GL 116 | 670 |

**Purchases ledger**

R. Grant

| 2017 | Folio | Sh. | |
|---|---|---|---|
| Set 7 Return outwards | RO 7 | 40 | |

B. Rose

| 2017 | Folio | Sh. | |
|---|---|---|---|
| Sept 16 Returns outwards | RO 7 | 240 | |

C. Blake

| 2017 | Folio | Sh. | |
|---|---|---|---|
| Sept 28 Returns outwards | RO 7 | 30 | |

S. Saunders

| 2017 | Folio | Sh. | |
|---|---|---|---|
| Sept 30 Returns outwards | RO 7 | 360 | |

**General ledger**

Returns outwards

| | 2017 | Folio | Sh. |
|---|---|---|---|
| | Sept 30 Return for the month | RO 7 | 670 |

The returns outwards day book is sometimes known as the Purchases return day book, because it is goods that were purchased are being returned.

## The journal

In this topic you will learn about the book of original entry that sweeps up all transactions that have not been entered fully in the other five books of original entry- the journal. You will learn about the sorts of transactions that are entered in the journal and how to make those entries. Finally, you will learn how to transfer those entries to the account in the ledgers.

1. **Main books of original entry**

We have seen earlier that most transactions are entered in one of the following books of original entry:

- Cash book
- Sales daybook
- Purchases day book
- Returns inwards day book
- Returns outwards day book

These books are each devoted to a particular form of transaction. For example, all credit sales are in the sales day book. To trace any of the transactions entered in these five books would be relatively easy, as we know exactly which book of original entry would contain the information we are looking for.

The journal: the other book of original entry

The other items which do not pass through these five books are much less common ,and sometimes much more complicated .It would be easy for a bookkeeper to forget the details of these transactions if they were made directly into the ledger accounts from the source documents and ,if the bookkeeper left the business ,it could be impossible to understand such bookkeeping entries.

What is needed is a form of diary to record such transactions,before the entries are made in the double entry accounts .This book is called the journal . For each transaction it will contain:

The date

The name of the account(s) to be debited and the amount(s)

The name of the account(s) to be credited and the amount(s)

A description and explanation of the transaction (this is called a narrative)

A folio reference to the source documents giving proof of the transaction.

The use of a journal makes fraud by bookkeepers more difficult. It also reduces the risk of entering the item once only instead of having double entry .Despite these advantages there are many businesses which do not have such a book.

**2. Typical uses of the journal**

Some of the main uses of the journal are listed below. It must not be thought that this is a complete list.

- The purchase and sale of fixed assets on credit.
- Writing-off bad debts.
- The correction of errors in the ledger accounts.
- Opening entries. These are the entries needed to open new set of books
- Adjustments to any of the entries in the ledgers.
- The layout of the journal is:

In practice, the folio reference entered in the T accounts is often that of the other account involved in the transaction, rather than that of a journal entry. However, this is done when no journal entry has been prepared. When a journal entry has been prepared, it is always the journal entry folio reference that appear in the T account

Purchase and sale on credit of non-current assets

1. A milling machine is bought on credit from Toolmakers Ltd for sh. 10,550 on July 2016.

The transaction involved is the acquisition of an asset matched by new a liability. From what you have learned in earlier topics you will know that the acquisition of asset is represented by a debit entry in the asset account. You will also know that a new liability is recorded by crediting a liability account. The double entry would be:

Machinery folio GL 1

| | | | | |
|---|---|---|---|---|
| 2016 | | | Sh. | |
| July 1 Toolmaker ltd | J1 | 10,550 | | |

Toolmaker Ltd folio PL55

| | 2016 | | | sh. |
|---|---|---|---|---|
| | July 1 | Machinery | J1 | 10,550 |

Now what we have to do is to record those entries in the journal. Remember, the journal is simply a kind of diary, not in account form but in ordinary written form. It says which account has to be debited, which account has to be credited, and then gives the narrative which simply describes the nature of the transaction. For the transaction above, the journal entry will appear as follows:

| | The journal | | | |
|---|---|---|---|---|
| Date | Details | Folio | Dr. | Cr. |
| 2016<br>July 1 | Machinery<br>Toolmakers ltd<br>Purchase of milling machine on credit, Purchases invoice no 7/159 | GL1<br>PL55 | Sh.<br>10,550 | Sh.<br><br>10,550 |

2. The sale of van no longer required for sh. 800 on credit to K. Lamb on 2 July 2016.

Entries are as follows:

K.Lamb folio SL79

| 2016 | | Sh. | |
|---|---|---|---|
| July 2 | van | 800 | |

Van folio SL51

| | 2016 | | | sh. |
|---|---|---|---|---|
| | July 2 | K. Lamb | J2 | 800 |

| The journal | | | | |
|---|---|---|---|---|
| Date | Details | Folio | Dr. | Cr. |
| 2016<br>July 1 | K .Lamb<br>Van<br>Sales of van no longer required<br>See letter ref. KL3X8g | SL1<br>GL51 | Sh.<br>800 | Sh.<br><br>800 |

BAD DEBTS

A debt of sh.78 owing to us from H. Mander is written off as a bad debt on 31 August 2016.

As the debt is now of no value, we have to stop showing it as an asset. This means that we will credit H. Mander to cancel it out of his account. A bad debt is an expense and so we will debit it to a bad debts account. The double entry for this is shown as:

Bad debts folio GL 16

| | | | | |
|---|---|---|---|---|
| 2016 | | Sh. | | |
| August 31 H. Mander | J3 | 78 | | |

H. Mander folio PL55

| | | | | |
|---|---|---|---|---|
| | | 2016 | | sh. |
| | | Bad debts | J3 | 78 |

| The journal | | | | |
|---|---|---|---|---|
| Date | Details | Folio | Dr. | Cr. |
| 2016<br>Aug 31 | Bad debts<br><br>H.Mander<br>Debt written –off as bad. see in file HM2X8 | GL1<br><br>SL51 | Sh.<br>78 | Sh.<br><br><br>78 |

CORRECTION OF ERRORS

Accounting errors do occur and once they are traced they need to be corrected immediately. The correction should be done in the journal. This will be dealt with exhaustively in the next topic.

OPENING ENTRIES

J. Brew, after being in a business for some years without keeping proper records, now decides to keep a double entry set of books. On 1 July 2016 he establishes that his assets and liabilities are as follows:

**Assets** Van sh. 3,700; fixtures sh.1, 800; Inventory sh.4, 200

Accounts receivable-B. Young sh. 95, D. Blake sh. 45 ;Bank sh. 860; Cash sh.65

**Liabilities** Account payable – M. Quinn sh. 129, C.Walters sh. 410.

The assets therefore total sh. 3,700+sh.1800+sh. 4200+sh. 95+sh.45 +sh.860+sh.65= sh.10,765 and the liabilities total sh. 129+sh.410=539

The capital consists of assets – liabilities i.e.sh. 10,765- sh. 539=sh. 10,226.

1 July 2016 will be the 1$^{st}$ day of the accounting period, as that is the date on which all asset and liability values were established.

We start the writing up of the books on 1 July 2016. To do this we:

- Open the journal and make the journal entries to record the opening assets , liabilities and capital.
- Open asset accounts one for each asset. Each opening asset is shown as a debit balance.

- Open liability accounts, one for each liability. Each opening liability is shown as a credit balance.
- Open an account for the capital. Show it as a credit balance.

The journal records what you are doing, and why.The following example shows:

The journal

The opening entries in the double entry accounts.

| | The journal | | | |
|---|---|---|---|---|
| Date | Details | Folio | Dr. | Cr. |
| 2016 | | | sh. | Sh. |
| July 1 | Van | GL1 | 3,700 | |
| | Fixtures | GL2 | 1,800 | |
| | Inventory | GL3 | 4,200 | |
| | Account recevable –B.Young | SL1 | 95 | |
| | D.Blake | SL2 | 45 | |
| | Bank | CB1 | 860 | |
| | Cash | CB1 | 65 | |
| | Account payable-M .Quinn | PL1 | | 129 |
| | C .Walters | PL2 | | 410 |
| | Capital | GL4 | | 10,226 |
| | Asset and liabilities at this date to open the books | | 10,765 | 10,765 |

**General ledger**

Van

| 2017 | Folio | Sh. | |
|---|---|---|---|
| July 1 Balance | J 5 | 3,700 | |

Fixtures

| 2017 | Folio | Sh. | |
|---|---|---|---|
| July 1 Balance | J 5 | 1,800 | |

Inventory

| 2017 | Folio | Sh. | |
|---|---|---|---|
| July 1 Balance | J 5 | 4,200 | |

Capital

| | 2017 | Folio | Sh. |
|---|---|---|---|
| | July 1 Balance | J 5 | 10,226 |

**Sales ledger**

B. Young

| 2017 | Folio | Sh. | |
|---|---|---|---|
| July 1 Balance | J 5 | 95 | |

| | | | |
|---|---|---|---|
| | | | |

D.Blake

| 2017 | Folio | Sh. | |
|---|---|---|---|
| July 1 Balance | J 5 | 45 | |

Purchase ledger

M. Quinn

| | 2017 | Folio | Sh. |
|---|---|---|---|
| | July 1 Balance | J 5 | 129 |

C.Walters

| | 2017 | Folio | Sh. |
|---|---|---|---|
| | July 1 Balance | J 5 | 410 |

**Cashbook**

| | | Cash | Bank | |
|---|---|---|---|---|
| 2017 | Folio | Sh. | Sh. | |
| July 1 Balance | J 5 | 65 | 860 | |

Once these opening balances have been recorded in the books, the day to day transactions can be entered in the normal manner.

ADJUSTMENTS TO ANY OF THE ENTRIES IN THE LEDGERS

These can be of many types and it is impossible to write out a complete list .Several examples are now shown:

1. Young, a debtor, owed sh. 2,000 on 1 July 2017. He was unable to pay his account in cash but offers a five year old car in full settlement of the debt. The offer is accepted on 5 July 2017

The personal account has now been settled and needs to be credited with the sh. 2,000,. On the other hand, the business now has an extra asset, a car ,resulting in the car account needing to be debited with the sh. 2,000 value that has been placed upon the new car.

The double entry recorded in the ledger is

Car GL171

| | | | | |
|---|---|---|---|---|
| 2017 | | | Sh. | |
| July 5 | K. Young | J6 | 2,000 | |

K. Young SL333

| | | | | | | |
|---|---|---|---|---|---|---|
| 2017 | | Sh. | 2017July 5 | | | |
| July 5 | Balance b/d | 2,000 | July 5 | Motor car | J6 | 2,000 |

| The journal | | | | |
|---|---|---|---|---|
| Date | Details | Folio | Dr. | Cr. |
| 2017<br>July | Car<br>K.Young<br>Accepted car in full settlement of debt per letter dated 5/7/2017 | GL171<br><br>SL333 | Sh.<br>2,000 | Sh.<br><br>2,000 |

T. Jones is a creditor. On 10 July 2017 his business is taken over by A. Lee to whom the debt of sh. 150 is now to be paid.

Here one creditor is just being exchanged for another one. The action needed is to cancel the amount owing to T. Jones by debiting his account, and to show it owing to lee by by opening an account for Lee and crediting it.

The entries in the ledger accounts are

T.Jones

| 2017 | | Sh. | 2017 | | Sh |
|---|---|---|---|---|---|
| July 10 A.Lee | J7 | 150 | July | 1 balance b/d | 150 |

A. Lee

| | | | 2017 | | sh. |
|---|---|---|---|---|---|
| | | | July 10 T.Jones | J7 | 150 |

| The journal | | | | |
|---|---|---|---|---|
| Date | Details | Folio | Dr. | Cr. |

| | | | | |
|---|---|---|---|---|
| 2017<br>July 10 | T. Jones<br>A. Lee<br>Transfer of indebtedness asper letter reference | <br>SL92<br><br><br>GL244 | Sh.<br>150 | Sh.<br><br><br><br>150 |

We had not yet paid for an office printer we bought on credit for sh. 310 because it was not working properly when installed. On 12 July 2017 we returned it to the supplier an allowance of sh. 310 was offered by the supplier and accepted. As a result, we no longer owe the supplier anything for the printer.

The double entry in the ledger account is:

RS ltd

| | | | |
|---|---|---|---|
| 2017 | Sh. | 2017 | Sh |
| July 12 office machinery J8 | 310 | July 1 balance b/d | 310 |

Office machinery

| | | | |
|---|---|---|---|
| | Sh. | 2017 | sh. |
| July 1 balance b/d | 310 | July 12 RS ltd J8 | 310 |

The journal is:

| The journal | | | | |
|---|---|---|---|---|
| Date | Details | Folio | Dr. | Cr. |
| 2017 | RS ltd | | Sh. | Sh. |
| July 12 | Office machinery | PL24 | 310 | |
| | Faulty printer returned to supplier. Full allowance given. See letter 10/7/2017 | GL288 | | 310 |