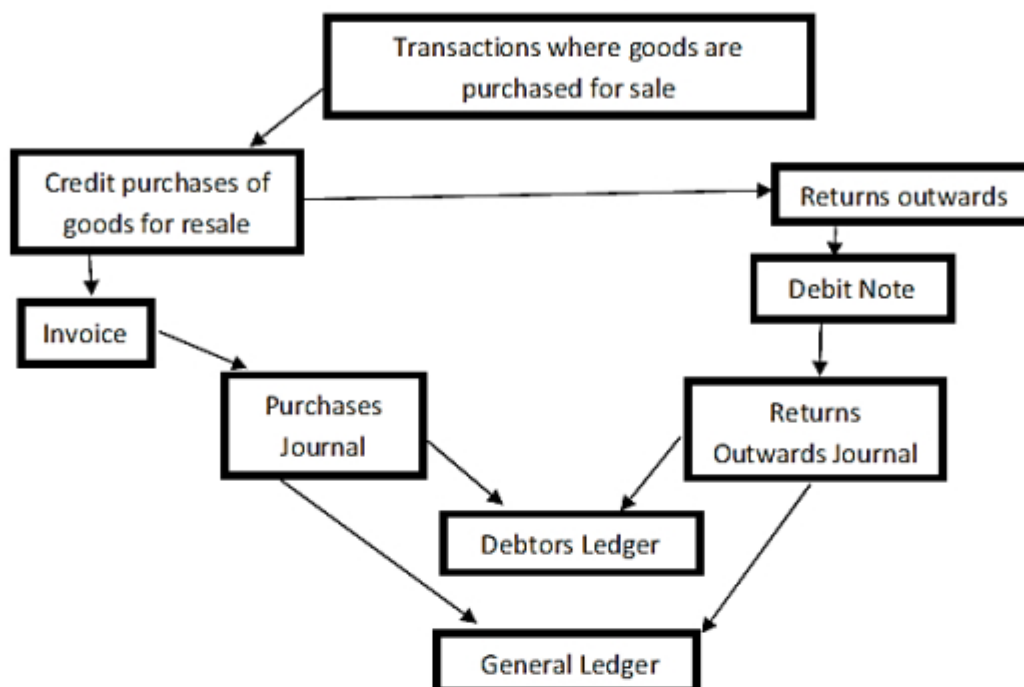


4.5 | Purchases Journal

- Purchases Journal
- Returns Outwards Journal

Summary**Purchases Journal**

- Purchases Journal or Purchases Daybook is the prime entry book that is used to record trading goods purchased on credit.
- When purchasing trading goods on a credit basis from suppliers, they become trade creditors, who are a liability to the business.
- Trade discounts occur when a certain percentage is reduced from the invoice value. This does not need to be shown separately in accounts.

Purchases Journal: source document

- The source document is the purchase invoice. Details that can be found on an invoice:
 - Name and address of supplier
 - Invoice number
 - Transaction details (date, item number, quantity, value, trade discounts)
 - Credit terms or trade conditions (for discounts received)
 - Signature of officer

Purchases Journal: format

Purchases Journal						
Date	Invoice No.	Supplier	Amount Rs.	VAT Rs.	Total Amount Rs.	Ledger folio
01/03/2017	264	Manel and Co.	xx	x	xxx	
25/03/2017	610	Kumara and Co.	xx	x	xxx	
31/03/2017						
31/03/2017		Entered in General Ledger	xx	xx	xxx	

- On the respective dates, the invoice value and VAT amounts should be credited to the relevant creditor accounts in the Creditors Sub Ledger.
- At the end of the period, the totals in the Purchases Journal should be posted to the General Ledger in the following manner:

○ Purchases a/c	Debit	→ (total of the Purchases Journal)
○ VAT a/c	Debit	→ (total in the VAT column)
○ Creditors Control a/c	Credit	→ (total value including VAT)

Value Added Tax (VAT)

- Value Added Tax (VAT) is a tax placed on the domestic consumption of goods and services.
- It is a multi-stage tax levied on the incremental value at every stage of the supply chain and was introduced by the Act No. 14 of 2002. It replaced the Goods and Services Tax (GST) which was a similar tax on the consumption of goods and services.
- The final consumer of the good bears the tax; however, the businesses who exchange products play the role of an agent on behalf of the government to collect and remit taxes to the Inland Revenue Department.
- The difference between VAT and Income Tax is that, VAT is based on the consumption of goods irrespective of income levels.
- Types of VAT:
 - Input VAT**
 - This is VAT charged when the business purchases goods from a supplier
 - The amount paid as VAT can be claimed and hence, is treated as an asset
 - Output VAT**
 - This is VAT charged from the customer when the business sells goods
 - The amount should be remitted to the Inland Revenue Dept and hence, is treated as a liability
- The business has to calculate the net amount to be paid to/collected from the Inland Revenue Department at the end of a particular period.

Returns Outwards Journal

- Returns Outwards Journal or Returns Outwards Daybook is the prime entry book that is used for recording purchases returns of goods (source document: debit note)
- Goods purchased on credit maybe returned to the suppliers for the following reasons:
 - The expiry date has passed
 - The goods received being different to the order
 - Goods supplied being damaged
 - Delay in receiving goods

Returns Outwards Journal: source document

- The source document is the debit note. Details that can be found on a debit note:
 - Date of return
 - Document number
 - Supplier name
 - Transaction details (unit price, total value, trade discounts)
 - Type of goods returned and quantity
 - Reasons for the return
 - Signature of officer

Returns Outwards Journal: format

Purchases Returns Journal						
Date	Debit Note No.	Supplier	Amount Rs.	VAT Rs.	Total Amount Rs.	Ledger folio
05/03/2017	15	Manel and Co.	xx	x	xxx	
29/03/2017	16	Kumara and Co.	xx	x	xxx	
31/03/2017						
		Transferred to General Ledger	xx	xx	xxx	

- On the respective dates, the net value of the debit notes should be debited to the relevant creditor accounts in the Creditors Sub Ledger.
- At the end of the period, the totals in the Returns Outwards Journal should be posted to the General Ledger in the following manner:

○ Creditors Control a/c Debit	→	(Total value including VAT)
○ Returns Outwards a/c Credit	→	(Total in Returns Outwards Journal)
○ VAT a/c Credit	→	(Total in the VAT column)

