Tutorial 3 – <u>The Purchases and Sales Cycle</u>

<u>Section A:</u>

1 (a) What is a purchase journal? Explain briefly its format.
   This is also known as Purchases Day Book. It is a listing of all the credit purchases based on dates of purchases. Usually the purchase invoice numbers are listed. It should be noted that the invoice numbers are not in sequence as each supplier has its own numbering system.

   (b) What is a sales journal? Explain briefly its format.
   This is also known as a Sales Day Book. It is one of the 7 Books of Prime Entry. It is a listing of all credit sales during the period based on the dates of sales and details in Sales Invoices. Please note that the Invoice numbers should be in sequence as these are seller's own invoices

2 What are sales returns and purchases returns? Where are they recorded?
   Sales returns - This happens when goods are returned from trade customers because of defects, spoilage, legal rights
   Purchases returns - This happens when trading goods are returned to trade suppliers due to defects, spoilage, legal rights or etc

Question 3: Purchase Cycle

On 1st January, Mega Enterprise had the following **balances in** its **Purchases Ledge**r: Super RM18,000, Fantastic RM30,000 and Grand RM21,000. And the balance of cash and bank account in Cash Book as at 1st January is RM23,000 and RM46,000 respectively.

During the month the following transactions took place:

Trade discount, cash discount

Jan 3, 10, 15: Purchase Journal
Jan 5, 8 , 22: Return Outwards Journal (remember the trade discount given to the customer will applied in return outwards too)
Jan 5, 12, 28: CashBook

Date	Transactions
Jan 3	Purchased RM5,000 goods on credit from Fantastic, received *discount 10%* from listed price (invoice no 23).
Jan 5	Returned goods RM500 to Super per credit note no. 876 and paid Super a cheque in settlement of invoice RM10,000, receiving a discount of RM1,000
Jan 8	Returned goods RM1,000 (credit note no. 098) to Grand due to wrong specifications
Jan 10	Purchased RM7,000 goods on credit (invoice no. 542) from Super and RM6,000 from Grand (invoice no.421)
Jan 12	Paid cash to settle invoices RM5,000 to Fantastic and receiving a 10% cash discount
Jan 15	Purchase RM8,000 goods on credit (invoice no 455) from Grand
Jan 22	Returned goods RM3,000 to Fantastic due to wrong design (credit not no. 368)
Jan 28	Pay cheque to settle an invoice RM2,400 to Grand and receiving a *10% cash discount*

Required:
(a) Record the above transaction in the books of prime entry;
(b) Post the transactions to Purchases Ledger, taking into consideration of the opening balances; and
(c) Show the transfer to General Ledger

Question 4

The followings are the transactions of Jaya Trading during the month of May:

1   **Credit sales** to Arumugam Trading (invoice no 120) RM 750 less 10% trade discount [RM 675, Trade Discount RM 75] - Dr: TR:Arumugam Trading, Cr: Sales
5   Credit notes no. 220 to Arumugam Trading for **goods returned** amounting to RM120 [RM 120, -RM 12]
8   Sent invoice no 121 to Chop Seng Fatt for goods supplied at the list price amounting to RM900 less trade discount 10% [RM 900, Trade Discount RM90] - Dr: TR:Chop Seng Fatt, Cr: Sales
13   Chop Seng Fatt **returns goods** amounting to RM150 and credit note no. 221 was issued to him [RM 108, -RM 15]
26   Received **cheque** payment from Chop Seng Fatt being partial payment in settlement of RM500 less cash discount 5%. [RM 475, RM 25]
27   Arumugam Trading makes payment by **cash** in settlement of RM400 less cash discount 5% to settle part outstanding sum [Cash discount RM 20]

Required:
(a) Record the above transactions in the books of prime entry;
(b) Post the transactions in Sales Ledger; and
(c) Show the transfers to the General Ledger

May 1, 8 Purchase Journal
May 5, 13 Return Inwards (remember the trade discount given to the customer will applied in return inwards too)
May 26, 27 Cash Book

Question 1 (Frank Wood Q 15.1 p 168 - modified)

Jenny has the following purchases for the month of May

May
1   From **Ace**: 4 DVDs at RM 80 each, 3 mini hi-fi at RM 500 each. Less 20% trade discount (Invoice 1234)
     320 + 1500 = 1,820, Trade Discount - 364, **RM 1456**

2   From **Lee**: 2 washing machines at RM 2,000 each, 5 vacuum cleaners at RM 1,000 each, 2 kettles at RM 20 each. Less 20% trade discount (Invoice 0001)
     4000 + 5000 + 40 = 9040, TD: RM 1808, **RM 7232**

3   From **Bee**: 1 hi-fi unit at RM 600 each, 2 washing machines at RM 500 each. Less 25% trade discount (Invoice 4567)
     600 + 1000 = 1600. TD: 400, R**M 1200**

4   From **Wee**: 6 CD/radios at RM 50 each. Less 20% trade discount (Invoice 7299)
     300, TD: 60, **RM 240**

5   From **Fong**: 4 kettle at RM 50 each without any trade discount (Invoice 3245)
     RM 200

(a) Enter up the purchases day book **(purchase journal)** for the month
(b) Post the transactions to the suppliers' account **(purchase ledger)**
(c) Transfer the total to the purchases account **(General Ledger)**

Question 2

Record the following transactions into appropriate Books of Prime Entry for Jaya Trading for the month of March

March

1. **Purchases** of goods from May Bee Sdn Bhd amounting to RM1,350, less trade discount of 20% [TP: May Bee Sdn Bhd 1350, TD : RM 270, RM 1080]
2. **Purchases** of goods RM105 from Sin Sin Store on credit. [TP: Sin Sin Store RM 105]
3. **Received invoice from Sunny Enterprise** at list price of RM540, less discount 15% [TP: Sunny Enterprise 540, TD: 81, RM 459]
4. **Return** goods at list price RM180 to Sunny Enterprise [Discount : 27, RM 157]
5. **Purchases** of goods RM360 by cash
6. **Received a credit note** from May Bee Sdn Bhd for goods at list price RM135 purchased on 1 May [Discount : 27, RM 108]

Notes: Credit note is to deduct an amount overcharged in the Invoice and returns of goods from customers

Post the data from the Books of Prime Entry to General Ledger and Purchase Ledger.

1. **Books of prime entry (Purchase Journal)**
   - **March 1, 2, 3** Purchase Journal
   - **March 4, 6** Return Outwards Journal
   - **March 5** Cash Book

2. **Purchase ledger**

3. **General ledger**
   - Purchase account
   - return outwards account
   - trade payables control account

Question 3

Fu Mey of 10 Jl Bung Raya, KL, is selling the following items at the recommended retail prices as shown: **white tape RM 10** per roll, **green felt at RM4** per metre, **blue cotton at RM6** per sheet, **black silk at RM20** per dress length. She makes the following sales:

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May 1 Ali, Setapak: 3 rolls white tape, 5 sheets of blue cotton, 1 dress length black silk. Less 5% trade discount, invoice # 10001.
[30 + 30 + 20 = 80, Discount : 4, RM 76]

May 4 Cheng, Wangsa Maju: 6 rolls white tape, 30 metres green felt. Less 20% trade discount, invoice # 10002.
[60 + 120 = 180, Discount: 36, RM 144]

May 5 Ali Setapak: **returned** 2 sheets of blue cotton and order 5 dress length black silk. Less 10% trade discount, invoice #10003. Credit note 0001 issued on the same day.
[Return Inwards : 12, Discount = 0.6, RM 11.4]
[Purchase : RM 100, Discount : 10, RM 90]

May 8 Cheng, Wangsa Maju: 1 dress length black silk including delivery of RM10 , invoice #10004.
[20 + 10 = RM 30]

Required:
(a) Record the above transaction in Sales Journal
(b) Post the data from the Sales Journal to General Ledgers and Sales Ledgers.