Introduction to Bookkeeping

Lesson 1

Cardiff and Vale College
Coleg Caerdydd a'r Fro
Mindful Education

The 4 Main Topics of this Lesson

The Accounting Process	Purchasing Documents
Delivery Documents	Discounts and Invoice Calculations

Financial Transactions

Every organisation must keep full details of its financial transactions so that it knows how much money it has, the sources of its income, and how money is being spent.

Transactions are recorded on a range of documents like price lists, quotations, invoices, credit notes, delivery notes and more.

Source Documents

These business documents are known as source documents because we use them as a source of information for our accounts.

There are quite a few of these documents to look at but don't worry, you'll become familiar with them as we go through the unit, and many of them are quite similar to each other.

Using Information from Financial Transactions

You will also learn how to use information from these documents, by sorting it out and recording it in the correct way. You will discover that, whether recording transactions on paper, on a spreadsheet or in accounting software, the principles of bookkeeping are the same.

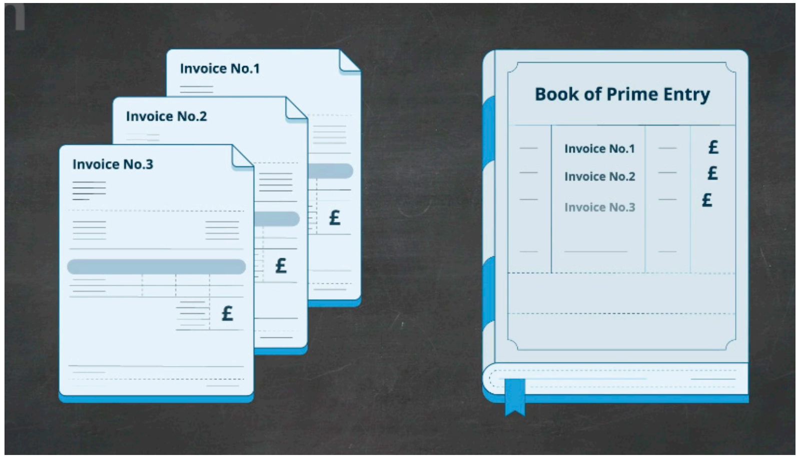
Let's think about how we will use all the information on the documents so that you understand how they fit into the accounting process.

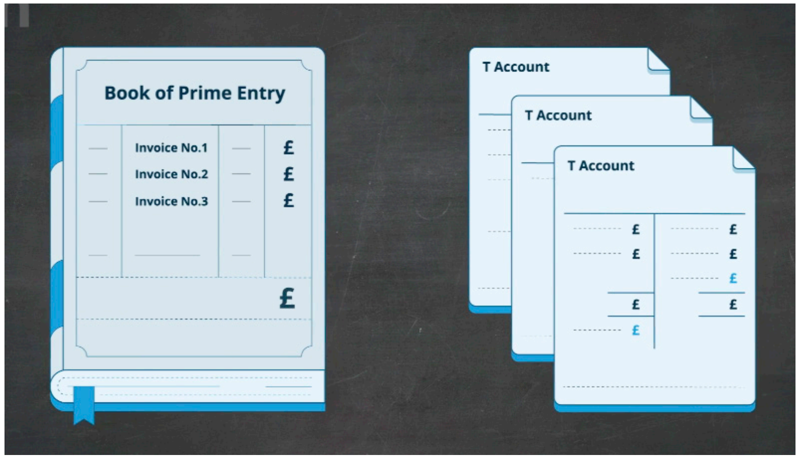
Books of Prime Entry

The organisation makes transactions like buying and selling goods.

Information from the source documents for a transaction, like purchase orders and invoices, are recorded in lists known as Books of Prime Entry.

The lists are totalled and the information can be entered into the accounts. Depending on the size of your organisation this may happen daily or weekly, or sometimes monthly.





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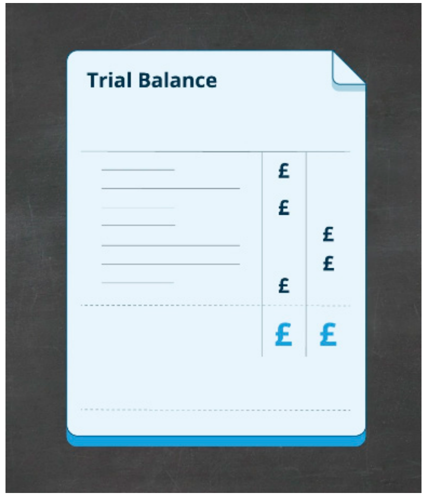
The Trial Balance

And then, (daily to monthly depending on the size of your organisation), the accounts are balanced and the figures entered into a master list, known as the Trial Balance.



Finally, the information is taken from the Trial Balance and used to calculate the profit (or loss) and produce the Financial Statements.

That was a quick overview of the process up to the Trial Balance.

Buying Goods

Let’s focus on the process for buying goods using the source documents at the beginning of the accounting journey.

A source document is any document, electronic or printed, that records information. It might be an email or a price list, or it might be a form used to record a customer purchase or to make a payment.

Agreeing the Purchase and Price

When we buy goods or sell goods it's important to be sure that the customer's management has agreed to the purchase. This applies whether we are the customer or the supplier.

It's also important that prices are agreed and are correct.

Discounts must be authorised and must adhere to the business's policies.

Purchasing Documents

Let’s look at the documents that are used to make sure that everything is done correctly.

Price lists – these are organisation-wide agreed prices for standard goods, and are often published for everyone to see. We all access these regularly in our day-to-day lives and know how much customers rely on this information to make decisions.

Discount policies – this is an internal document which states when the business will give discounts and to whom. Each customer will then have any discount agreements listed with the individual customer’s details.

Purchasing Documents (cont.)

Quotations – these are given to potential customers for 'one off' sales. For example, if you want a new carpet for a room in your house, even though there is a price list for carpets, you will get a quotation. Every house is slightly different with different sized rooms.

Purchase order (often known as a PO) – this confirms the customer's agreement to the purchase – this document (or just a PO number) is provided by the customer.

This is a key document because it means that the supplier knows the purchase has been authorised within the customer's business, it's a kind of guarantee. Without a Purchase Order Number, the supplier may find it difficult to get payment from the customer.

Purchasing Documents (cont.)

Customer order – this is a document which details an order received from a customer.

While this may all seem like a lot of form filling just to order goods, it does ensure that everything is done correctly.

It's important for every organisation to control its money, and these policies and documents help with this.

The Delivery Note

Once goods have been ordered, they'll be despatched to the customer.

With each despatch there'll be a Delivery Note. A delivery note confirms what goods are being delivered, and whether or not it's the whole order or just a part of the order; this is important, as it confirms to the customer what has been sent and whether or not they should expect further deliveries.

The delivery note is sent by the supplier to the customer. The customer should check the delivery note against the goods that have been delivered and notify the supplier immediately of any discrepancies.


mindful t-shirts

Delivery Note

Mindful T-Shirts Ltd
42 Park Lane
Highpoint Enterprise Park,
Newtown, XY10 6RU

To:

DePict Ltd
16 Carrigon Way
Highpoint,Newtown
XY10 4TY

Account No: DEPO1
PO No: P13625
Delivery note No: D56812
Delivery date: 30-Jan
Shipment: **1 of 1**

Product description	Product code	Quantity
Cranberry Polo Shirt (*Size L*)	300LC	70
Purple Polo Shirt (*Size L*)	300LP	30

Authorised by: M. Staff 30-Jan

Checked by: T. Supervisor 30-Jan

Mindful T-Shirts Ltd, 42 Park Lane,
Highpoint Enterprise Park, Newtown, XY10 6RU

Company No: 1935221
VAT Reg: 552 2466 383

Goods Received Note

Some customers will have their own form which records which goods have been received, when the goods arrived, and who checked the delivery.

This document is called a Goods Received note.

This internal document is often used to make sure that staff do actually check deliveries rather than take them in. Making the staff identify on the form who actually took the delivery makes it easier to ask questions if problems are discovered at a later date.

It also makes the staff more careful as they know it will be easy to hold them accountable for any mistakes they make.

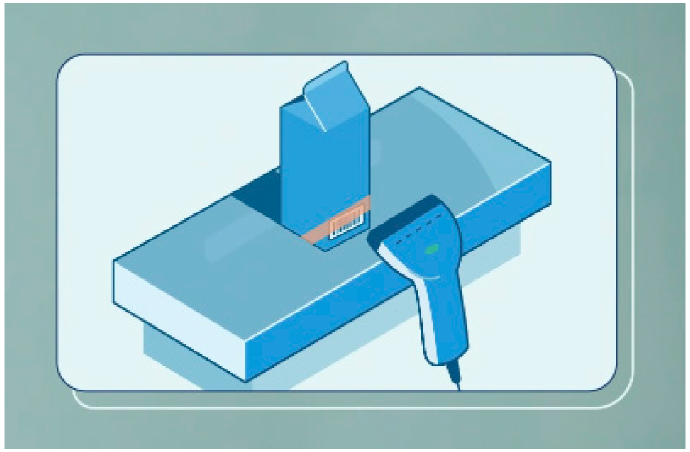
Goods Returned Note

Occasionally, goods will have to be returned to the supplier, and when this occurs the customer will complete a Goods Returned Note.

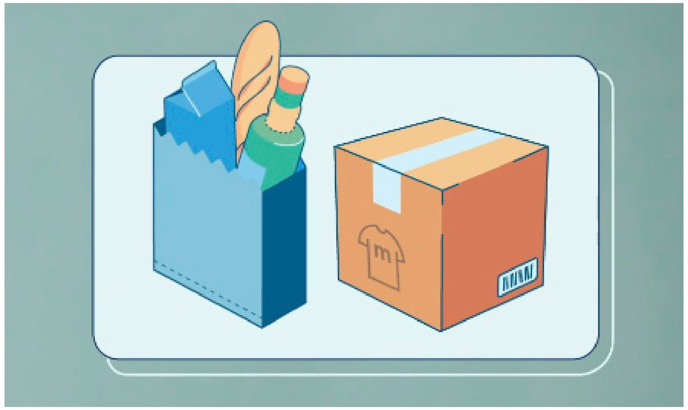
This allows the customer to identify the problems with the goods, as well as clearly stating what is being returned.

Using Delivery Documents

All of these documents may be printed, or may be stored and accessed through a range of electronic devices.

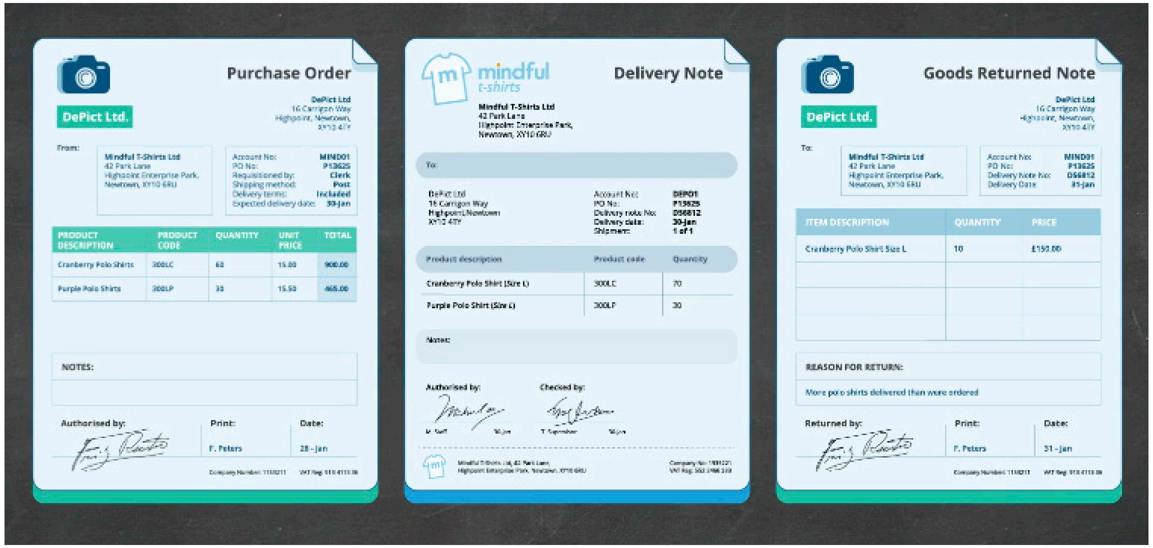


For example, a barcode or QR scanner may be used to ensure that the goods delivered are correct. A bit like scanning shopping in a supermarket, the information contained in the bar or QR code tells the computer system what the item is. But, just like at the supermarket checkout, the member of staff involved in the delivery must make sure that everything is undamaged, correctly scanned and linked to the correct customer or supplier, and to the correct order.



Invoices

Now that we've discussed the documents that are used for delivery, we need to think about payment.



After the goods have been delivered, an invoice will be sent. The invoice tells the customer how much they must pay for their goods or services.

When calculating the invoice, the supplier will check what was ordered and what was sent by looking at the purchase order, the delivery note and any goods returned notes that have been received at the time of invoicing.

Invoices (cont.)

If there is any discrepancy then the person preparing the invoice must check with the warehouse staff before calculating and sending the invoice.

It's important to understand what has happened so that the customer is invoiced for the correct amount.

Document Trail

Throughout the process there is a complete electronic or physical document trail identifying what was ordered, delivered and invoiced. The customer and supplier have exchanged documents so that there is no confusion, and everyone knows what's taking place.

As you learn and practice calculating invoices, you'll become more familiar with these source documents.

You'll use them to check that the goods ordered are the same as what has been delivered and you'll be taking information from the source documents to calculate the invoices to send to the customers.

Raising Invoices

Once the goods have been delivered, we need to raise an invoice to tell the customer how much they should pay.

Firstly we must check the purchase order, delivery note and any goods received note to ensure that they agree.

Checking Delivery Documents

You'll need to check the following:

- All documents have the same business name on them;
- Any reference numbers must match;
- Does the description of goods ordered and delivered match?
- Do the product codes match?
- Do the quantity of goods ordered and delivered match?
- Have any goods been returned?
- Do any prices shown match, and do they also match our price list?

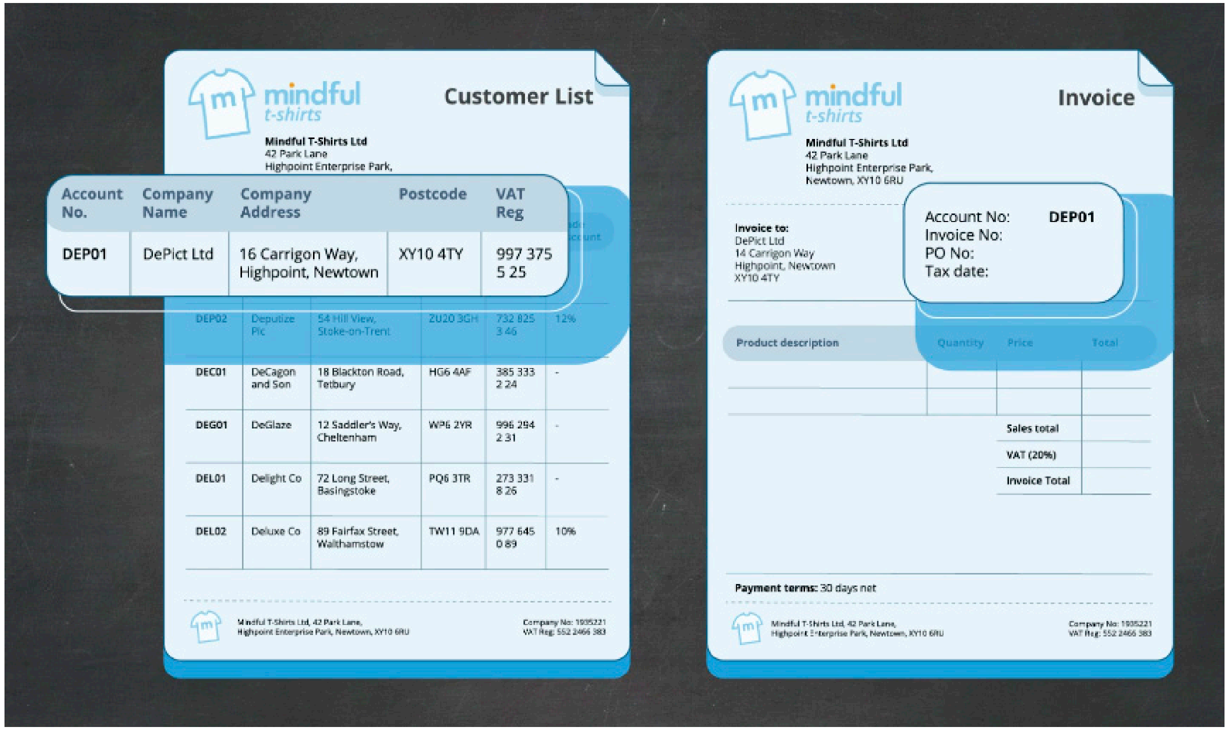
Now that we've checked the documentation, we can start to complete the invoice.

Completing the Invoice

We start by completing the top part of the invoice.

We will be invoicing a company called DePict Ltd.

Have a look at our list of customers.
DePict has an address of 16 Carrigon Way, Highpoint, Newtown XY10 4TY and our account code for it is DEP01.



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Completing the Invoice (cont.)

The purchase order number it has given us is P13625, which we simply take from its purchase order.

And this is invoice number 15001, the next number along from the last invoice we issued which was number 15000.

Today's date is 1st February.

Completing the Invoice (cont.)

As shown by the delivery note and goods returned note, we must invoice for 60 cranberry polo shirts, size large, which are priced at £15 each, and 30 purple polo shirts, size large, priced at £15.50 each.

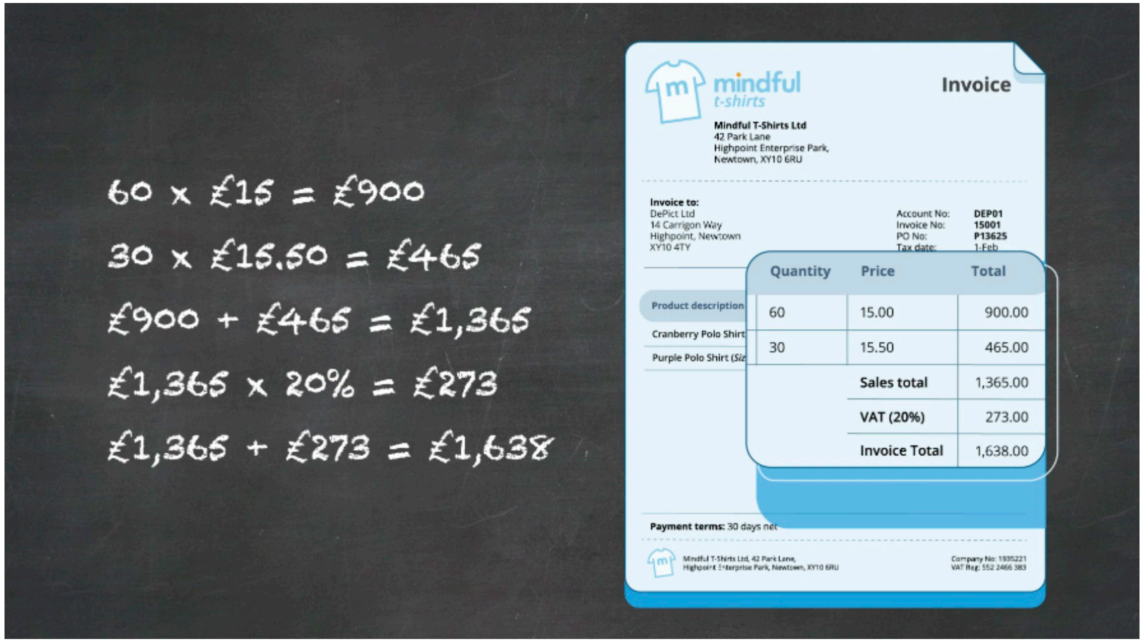
Let's fill in the rows and columns for the amounts to be charged.

We can now calculate the amount for each item.

Completing the Invoice (cont.)

Multiply the number of items by the unit price for each product row, starting with the cranberry polo shirts, then the purple shirts.

Then calculate the total sales figure, calculate the VAT using the current VAT rate and then add the VAT to the sales total to calculate the invoice total.



Returned Goods

Sometimes goods are sent back to us after the invoice has been raised. Perhaps because some of the goods in the original order are damaged. If this happens we would raise a credit note for the damaged goods. Credit notes are another type of source document.

They tell the customer how much their payment has been reduced by and are calculated in exactly the same way as invoices, so if you can complete an invoice, you can also complete a credit note.

Recap

In this lesson, you have learned about:

- The Accounting Process
- Purchasing Documents
- Delivery Documents
- Discounts and Invoice Calculations