

Financial Accounting Basics

[AA11]

Supplementary for Chapter 02

Prime Entry Books

This supplementary to the Study Text will be tested
from January 2019 Examination.
The printed chapter in the book will not be applicable
from January 2019 Examination.

Prime Entry Books

Chapter Introduction

This chapter discusses about the inception of business transactions and how they are recorded or collected in the relevant source documents. Recording or collecting accounting information of transactions, in the source documents, will be considered as the first step of accounting process. Therefore, it is necessary to identify the relevant source documents in order to record the transactions in the relevant primary entry book. The weight of this chapter is five percent (5%) of the entire syllabus and you will be tested on this chapter in respective percentage.



Learning Outcomes

At the end of each topic you should be able to;



Identify a Business Transaction



Identify different types of Source Documents of Business Transactions



Identify other supporting documents



1 Source Documents

There are various transactions take place in a business, the documents issued detailing the relevant transactions are known as “source documents” or “original documents”

- The type of original documents are varied based on the nature of the transaction.
- The content in these documents are important information that is relevant to the particular transaction.
- The original documents are used to record transactions in the Books of Prime Entry.
- These documents are useful in order to be able to discover shortcomings, errors, wrong doings, and inconsistencies with regard to the particular activity and also as proof that a particular transaction took place.
- These original documents are also an aid to confirm the value of the transaction.

1.1 The importance of source documents is given below:

- Using the original document as the basis on which the accounting entry is recorded.
- The ability to obtain all relevant information about the transaction
- It can be used as documentary proof that the transaction took place
- The officer who has certified the original document can be held responsible for it.

Based on the original documents and according to the nature of the transaction, books of prime entry used by the business are as follows;

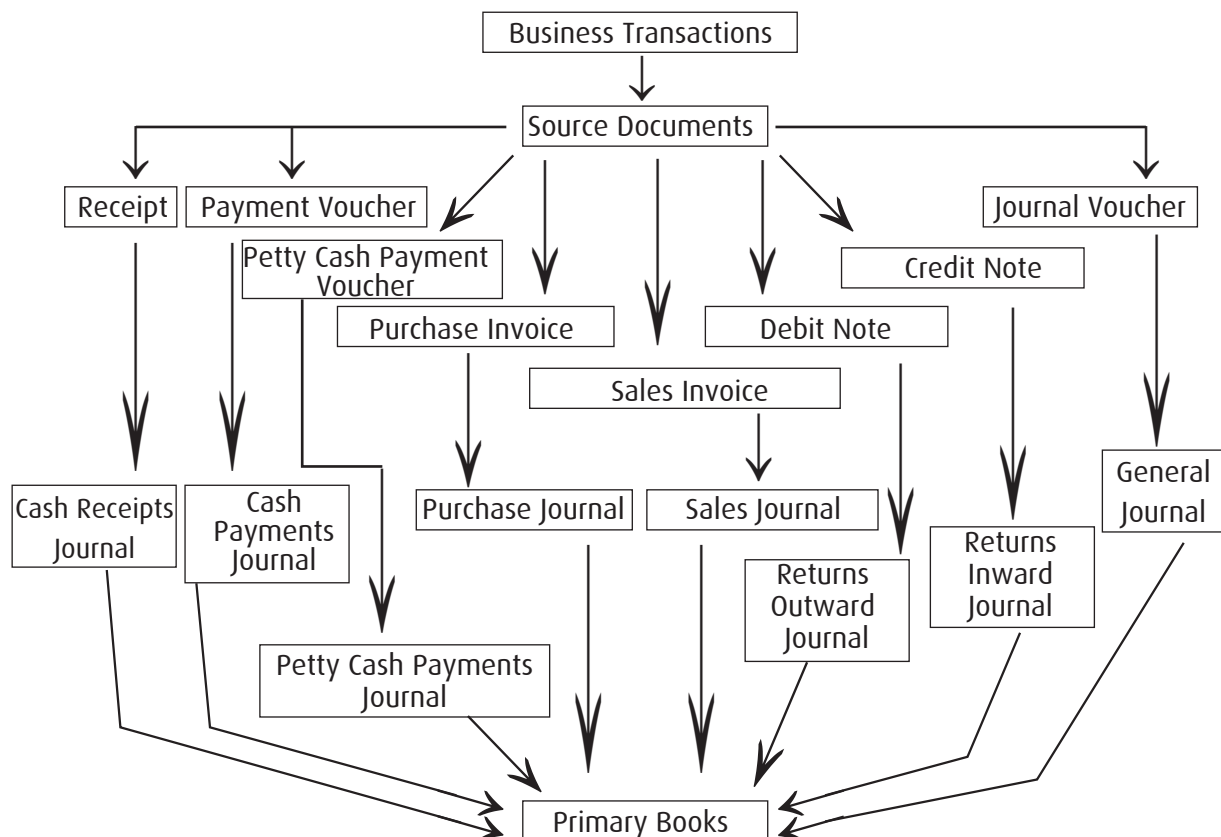
- o Receipts Journal
- o Payments Journal
- o Petty Cash Payments Journal
- o Purchases Journal
- o Returns Outward Journal (Purchase returns Journal)
- o Sales Journal
- o Returns Inward Journal (Sales Returns Journal)
- o General Journal

1.2 The importance of books of prime entry

- Similar transactions are recorded in the same book and easy to account in the ledger.
- To minimize memory lapses and omissions.
- Any errors in posting of entries can be quickly identified and resolved.
- The ability to carry on business transaction with good control.
- As different staff members will enter the books of prime entry accounting activities will become easier.

1.3 The prime entry books and original documents

	Transaction	Original Documents	Books of Prime Entry
1.	Receipts of Cheques and Cash Deposits	Receipt	Cash Receipts Journal
2.	Issue of Cheques	Payment Voucher	Cash Payments Journal
3.	Petty Cash Payment depends on the nature of the business	Petty Cash Voucher	Petty Cash Payment Journal
4.	Purchase goods on credit	Purchase Invoice	Purchase Journal
5.	Return outwards	Debit Note	Returns Outward Journal
6.	Sale of goods on credit	Sales Invoice	Sales Journal
7.	Returns inward	Credit Note	Returns Inward Journal
8.	Transactions not recorded in other books of prime entry	Journal Voucher	General Journal



- **Cash Receipts Journal** is the prime book of entry where receipts of money for whatever reason is recorded for the first time.
- The original document relevant to the receipt of money is the “**Receipt Voucher**”
- When cash is paid out for various reasons, it is first recorded in the prime book of entry called the **Cash Payments Journal**.
- The original document relevant to cash payments is the **Cash Payment Voucher**.
- After the cash transactions of a business are entered in the Receipts and Payments Journals, they must be posted to the General Ledger following double entry principles.

The columnar totals in the cash receipts journal must be posted to the General Ledger in the following manner.

Discount Allowed column total	Discount Allowed a/c - Debit	Debtors Control a/c - Credit
Sum total of each column	Cash Control a/c - Debit	
Total of cash sales column		Sales a/c - credit
Total of debtors receipts column		Debtors Control a/c - credit
Total of income column		Respective Income a/c's - credit
Total of other income column		Respective Receipts a/c's - credit

The columns totals in the Cash Payments Journal must be pasted to the General Ledger in the following manner.

sum of the discounts received column	creditors control a/c - Debit	Discount received a/c - Credit
sum of the cash purchases column	Purchases a/c Debit	
sum of the payments to creditors column	Creditors Control a/c Debit	
Sum of the expenses column	Respective expenses a/c Debit	
sum of the other payments column	Each account Debit	
sum of the total value column		cash a/c Credit

1.4 Cash Receipt Journal and Cash Payment Journal

The transaction relating to the entity recorded in the Cash receipts journal and cash payments journal and the columnar totals are taken at the end of each month.

Cash Receipts Journal / Receipts Journal

Date	Receipt No.	Description	Discount Allowed (Rs.)	Value (Rs.)	Analysis (Rs.)				L.F
					Cash Sales	Debtors	Other Income	Other receipts	
			XX	XXX	XX	XX	XX	XXX	
			(1)	(2)	(3)	(4)	(5)		

Cash Payments Journal / Payment Journal

Date	Voucher No.	Description	Discount Received (Rs.)	Value (Rs.)	Analysis				L.F
					Cash Purchases	Payments to Creditors	Expenses	Other Payments	
			XX	XXX	XX	XX	XX	XXX	
			(6)	(7)	(8)	(9)	(10)		

The transactions recorded in the above Cash Receipts Journal and Cash Payments Journal should be recorded in the General Ledger as shown below.

Cash Account / Cash Control Account

(Rs.)			
Balance B/f	xx	(7) Purchases a/c	xx
(2) Sales a/c	xx	(8) Credit control a/c	xx
(3) Debtors control a/c	xx	(9) Expenses	xx
(4) other income a/c	xx	(10) Other payments	xx
(5) other receipts a/c	xx	Balance C/f	xx
	xxx		xxx
Balance B/f	xx		

OR

Cash Account / Cash Control Account

(Rs.)			
Balance B/f	xx	various a/cs - Payments	xx
various a/cs - Receipts	xx	Balance C/f	xx
	xxx		xxx
Balance B/f			

Discount Allowed A/c (Rs.)		Sales A/c (Rs.)	
(1) Debtors Control a/c	xx	(2) Cash a/c	xx

Debtor's Control a/c (Rs.)		Income a/c (Rs.)	
Balance b/f	xx	(1) Discount Allowed a/c	xx
		(3) Cash a/c	xx
		(4) Cash a/c	xx

Discount Received a/c (Rs.)	
(6) Creditors control a/c	xx

Creditor's Control a/c (Rs.)	
(6) Discount received a/c	xx
(8) Cash a/c	xx
Balance b/f	xx

Drawings a/c (Rs.)	
(7) Cash a/c	xx

Bank Loan (Rs.)	
(10) Cash a/c	xx
(5) Cash a/c	xx

Staff Salaries a/c (Rs.)	
(9) Cash a/c	xx

Q

Question

In Kamal's business transactions of cash receipts and similar transactions during the month of April 2018 are given below.

Date	Description	Reference	Rs.
05.04.2018	Cash sales	R.N.01	50,000
10.04.2018	Building rent received	R.N.02	10,000
15.04.2018	Received /bank loan	R.N.03	100,000
18.04.2018	Receipts from Amal (debtor)	R.N. 04	8,000
	Discount given to Amal		500
20.04.2018	Cash sales	R.N. 05	60,000
22.04.2018	Receipt from Ruwan (Debtor)	R.N. 06	47,500
	Discount given to Ruwan		2,500
25.04.2018	Commission received	R.N.07	2,000
28.04.2018	Investing additional capital	R.N.08	50,000

A**Answer****Cash Receipts Journal / Receipt Journal**

Date	Receipt No.	Discription	Discount allowed (Rs.)	Value (Rs.)	Analysis (Rs.)				L. F.
					Cash sales	Debtors	Income	Other receipts	
5 April	01	Sales		50,000	50,000				
10 April	02	Building rent		10,000			10,000		
15 April	03	Bank loan		100,000				100,000	
18 April	04	Amal	500	8,000		8,000			
20 April	05	Sales		60,000	60,000				
22 April	06	Ruwan	2,500	47,500		47,500			
25 April	07	Commission Received		2,000			2,000		
28 April	08	Capital		50,000				50,000	
			3,000	327,500	110,000	55,500	12,000	150,000	

Q**Question**

In Kamal's business transactions of cash payments and similar transactions during the month of April 2018 are given below. Prepare the Cash Payments Journal based on such transactions.

06.04.2018	Payment of monthly electricity bill	P.V 01	8,000
08.04.2018	Paid Perera - a creditor	P.V 02	12,500
	Discount received		1,500
10.04.2018	Cash purchases	P.V 03	17,000
12.04.2018	Payment of monthly insurance	P.V 04	12,000
14.04.2018	Payment to Sagara - creditor	P.V 05	17,000
	Discount received		2,000
16.04.2018	Purchased office furniture	P.V.06	60,000
18.04.2018	Payment of wages and salaries	P.V 07	20,000
20.04.2018	Payment of bank loan installment (Interest was Rs. 2,000)	P.V 08	12,000
22.04.2018	Cash purchases	P.V 09	20,000
26.04.2018	Cash drawings	P.V 10	4,000

A**Answer****Cash Payments Journal / Payments Journal**

Date	Voucher No.	Discription	Discount Received (Rs.)	Value (Rs.)	Analysis (Rs.)				L. F.
					Cash Purchases	Payments to Creditors	Expenses	Other payments	
6 Apr	1	Electricity	-	8,000	-	-	8,000	-	
8 Apr	2	Perera	1,500	12,500	-	12,500	-	-	
10 Apr	3	Purchases	-	17,000	17,000	-	-	-	
12 Apr	4	Insurance	-	12,000	-	-	12,000	-	
14 Apr	5	Sagara	2,000	17,000	-	17,000	-	-	
16 Apr	6	Office Furniture	-	60,000	-	-	-	60,000	
18 Apr	7	Salaries & Wages	-	20,000	-	-	20,000	-	
20 Apr	8	Bank Loan	-	10,000	-	-	-	10,000	
		Loan Interest	-	2,000	-	-	-	2,000	
22 Apr	9	Purchases	-	20,000	20,000	-	-	-	
26 Apr	10	Drawings	-	4,000	-	-	-	4,000	
			3,500	182,500	37,000	29,500	40,000	76,000	

Q**Question**

Assuming the cash balance in Kamal's business as at 01.04.2018 is Rs.25,000/- , post the transactions recorded in the Cash Receipts Journal and Cash Payments Journal to the General Ledger .

A**Answer****General Ledger****Cash Account / Cash Control Account**

	Rs.		Rs.
01-Apr Balance B/f	25,000	30-Apr Creditors Control A/c	37,000
30-Apr Sales	110,000	30-Apr Purchases	29,500
30-Apr Debtors Control A/c	55,500	30-Apr Expenses	40,000
30-Apr Income	12,000	30-Apr Other Payments	76,000
30-Apr Other Receipts	150,000	30-Apr Balance C/f	170,000
	<u>352,500</u>		<u>352,500</u>
1-May Balance B/f	170,000		

OR

Cash Account / Cash Control Account		(Rs.)	
01-Apr Balance B/f	25,000	30-Apr Cash Payments	182,500
30-Apr Cash Receipts	327,500	30-Apr Balance C/f	170,000
	<u>352,500</u>		<u>352,500</u>

Sales A/c		(Rs.)	
		30 Apr Cash a/c	110,000

Bank Loan		(Rs.)	
20 Apr Cash a/c	10,000	15 Apr Cash a/c	100,000

Capital A/c		(Rs.)	
		1 Apr Balance c/f	xxxx
		28 Apr Cash a/c	50,000

Discount Allowed A/c		(Rs.)
30 Apr Debtors control a/c	3,000	

Discount Received a/c		(Rs.)	
		30 Apr Creditor's control a/c	3,500

Debtor's Control a/c		(Rs.)	
		30 Apr Cash a/c	55,500
		Discounts Allowed a/c	3,000

Creditor's Control a/c		(Rs.)
30 Apr Cash a/c	29,500	
Discount received a/c	3,500	

Building Rent received a/c		(Rs.)	
		10 Apr Cash a/c	10,000

Commission Received a/c		(Rs.)	(Rs.)
		25 Apr Cash a/c	2,000

Purchase a/c		(Rs.)	(Rs.)
		30 Apr Cash a/c	37,000

Electricity Expense a/c		(Rs.)	(Rs.)
		06 Apr Cash a/c	8,000

Insurance Expense a/c		(Rs.)	(Rs.)
		12 Apr Cash a/c	12,000

Loan Interest a/c		(Rs.)	(Rs.)
		20 Apr Cash a/c	2,000

Office Furniture a/c		(Rs.)	(Rs.)
		16 Apr Cash a/c	60,000

Drawings a/c		(Rs.)	(Rs.)
		26 Apr Cash a/c	4,000

Salaries & Wages a/c		(Rs.)	(Rs.)
		18 Apr Cash a/c	20,000

Bank Transactions

- ▶ Most businesses carry out their transactions with cash as well as cheques.
- ▶ Businesses that carry out their transactions with cheques as well. They deposit all cheques and cash received directly to the bank account. These are entered in the Cash Receipts Journal.
- ▶ Payments made by cheques are entered in the Cash Payments Journal.

- ▶ When payments are made by cheque as well as cash, all cash payments must be entered in the Petty Cash Payments Journal.
- ▶ All cash received by the business must be deposited in the bank account on the following day.



Question

01.04.2018 Aruna deposited Rs. 600,000/- in the business bank account to commence his trading business. Given below are the transactions that took place during the month of April.

Transaction Date	Description	Receipt No	Voucher No	Cheque No	Amount Rs.
01 April	Cash purchases		01	900500	150,000
02 April	Purchase of furniture & fittings		02	900501	90,000
02 April	Cash Sales	02		823631	300,000
03 April	Purchases from Mala				100,000
04 April	Sales on credit to Amal				150,000
05 April	Payment to petty cashier		03	900502	20,000
06 April	Paid transport for goods inward		04	900503	15,000
07 April	Credit purchases from Gayan				80,000
08 April	Credit sales to Chatura				90,000
08 April	Loan from Peoples' Bank	03			300,000
09 April	Paid Mala, discount received Rs. 5,000/-		05	900504	95,000
10 April	Received payment from Amal, Discount allowed 10%	04		831814	135,000
12 April	Cash sales	05		cash	350,000
14 April	Paid building rent		06	900505	40,000
15 April	Cash Purchases		07	900506	110,000
18 April	Paid Gayan, discount received 10%		08	900507	72,000
22 April	Receipts from Chathura, discount allowed 10%	06		Cash	81,000
25 April	Paid Wages		09	900508	150,000
26 April	Drawings by Aruna		10	900509	5,000
28 April	Commission received	07		Cash	6,000

Enter the above transactions of Aruna's business in the cash receipts Journal and Cash payments Journal and then post them to the General Ledger.

A Answer

Cash Receipts Journal / Receipt Journal

Date	Receipt No.	Description	Chq. No.	Dis-count allowed	Value (Rs.)	Analysis (Rs.)			
						Cash Sales	Debtors	Income	Other receipts
1 Apr	1	Capital	-	-	600,000		-	-	600,000
2 Apr	2	Sales	823631	-	300,000	300,000	-	-	
8 Apr	3	Bank Loan	-	-	300,000		-	-	300,000
10 Apr	4	Amal	731814	15,000	135,000		135,000	-	
12 Apr	5	Sales	-	-	350,000	350,000	-	-	
22 Apr	6	Chathura	-	9,000	81,000		81,000	-	
28 Apr	7	Com mission received	-	-	6,000		-	6,000	
			-	24,000	1,772,000	650,000	216,000	6,000	900,000

Cash Payments Journal / Payment Journal

Date	Voucher No.	Description	Chq. No.	Dis-count Re-ceived	Value (Rs.)	Analysis			
						Cash Puchas-es	Pay-ments to Credi-tors	Expens-es	Other pay-ments
1 Apr	1	Purchases	900500	-	150,000	150,000	-	-	-
2 Apr	2	Furniture	900501	-	90,000	-	-	-	90,000
5 Apr	3	Petty Cash	900502	-	20,000	-	-	-	20,000
6 Apr	4	Transport charges	900503	-	15,000	-	-	15,000	-
9 Apr	5	Mala	900504	5,000	95,000	-	95,000	-	-
14 Apr	6	Building rent	900505	-	40,000	-	-	40,000	-
15 Apr	7	Purchases	900506	-	110,000	110,000	-	-	-
18 Apr	8	Gayana	900507	8,000	72,000	-	72,000	-	-
25 Apr	9	Staff Salaries	900508	-	15,000	-	-	15,000	-
26 Apr	10	Drawings	900509	-	5,000	-	-	-	5,000
				13,000	612,000	260,000	167,000	70,000	115,000

General Ledger

Discount Allowed A/c		(Rs.)	(Rs.)
30 Apr Debtors control	24,000		

Capital A/c		(Rs.)	(Rs.)
	01 Apr Cash a/c		600,000

Discount received a/c		(Rs.)	(Rs.)
	30 Apr Creditor' s control		13,000

Sales A/c		(Rs.)	(Rs.)
	30 Apr Cash a/c		650,000

Petty cash a/c		(Rs.)	(Rs.)
05 Apr Cash a/c	20,000		

Bank Loan		(Rs.)	(Rs.)
	08 Apr Cash a/c		300,000

Commission Received a/c		(Rs.)	(Rs.)
	28 Apr Cash a/c		6,000

Creditor's control a/c		(Rs.)	(Rs.)
30 Apr Discount received a/c	13,000		
30 Apr Cash a/c	167,000		

Furniture A/c		(Rs.)	(Rs.)
	02 Apr Cash a/c		90,000

Debtor's control a/c

(Rs.)		(Rs.)	
		Discounts Allowed a/c	24,000
		Cash a/c	216,000

Purchase a/c

(Rs.)		(Rs.)	
30 Apr	Cash a/c	260,000	

Transport a/c

(Rs.)		(Rs.)	
04 Apr	Cash a/c	15,000	

Staff Salaries a/c

(Rs.)		(Rs.)	
25 Apr	Cash a/c	15,000	

Building Rent a/c

(Rs.)		(Rs.)	
14 Apr	Cash a/c	40,000	

Drawings a/c

(Rs.)		(Rs.)	
26 Apr	Cash a/c	5,000	

Cash Account / Cash Control Account

(Rs.)		(Rs.)	
Sales	650,000	Purchases	260,000
Debtors Control A/c	216,000	Creditor's Control A/c	167,000
Income	6,000	Expenses	70,000
Other Receipts	900,000	Other Payments	115,000
		Balance C/f	1,160,000
	<u>1,772,000</u>		<u>1,772,000</u>
Balance B/f	1,160,000		



Exercises

Ravindu's business carries out all transactions through a bank account. The balance in the bank account as at 01.04.2018 was Rs. 1,200,000. The transactions during the month of April 2018 are given below:

Transaction Date	Original Document No.	Details	Cheque No.	Amount (Rs.'000)
01 April	R.N. 01	Cash Sales	245512	3,000
02 April	V.N. 01	Cash Purchases	461261	1,000
03 April	R.N. 02	Received from Sudath	Cash	500
04 April	V.N. 02	Paid Surani	461262	900
05 April	V.N. 03	Paid Electricity bill	461263	300
06 April	R.N. 03	Rent Income	Cash	400
08 April	R.N. 04	Received from Namal subject to 10% discount	125214	360
10 April	V.N. 04	Paid Sugath subject to 10% discount	461264	180
12 April	V.N. 05	Paid Staff Salaries	461265	120
14 April	V.N. 06	Purchased motor vehicle	461266	2,750
15 April	V.N. 05	Obtained Bank Loan	Cash	3,500
18 April		Bank informed that Namal's cheque is dishonored	236325	360
20 April	R.N. 06	Cash Sales	Cash	3,300
22 April	V.N. 07	Paid Chatuhura (Discount received 10%)	461267	450
24 April		Electricity payment cheque returned due to error	461263	300
26 April	R.N. 03	Ravindu's drawings	461268	100
28 April	V.N. 08	Cash Purchases	461269	1,200
29 April	R.N. 07	Received from Janitha	138146	350
30 April	V.N. 10	Electricity expenses	461270	300

Required:

1. Prepare the Cash Receipts Journal and Cash Payments Journal for Ravindu's business for the month of April 2018.
2. Use the information from the Cash Receipts Journal and cash Payments Journal to prepare the Cash Control Account.

- ▶ If a cheque received from a debtor is deposited in the bank and returned unpaid the original entries in this connection must be entered in the General Journal.
- ▶ In this case, if the debtor has been allowed a discount this too should be reversed.
- ▶ Accordingly, make the following entry in the General Journal

Debtors Control A/c	Debit	xxxxxx	
Discount Allowed A/c	Credit		xxxxxx
Cash A/c	credit		xxxxxx
<i>(Being reversal of entries as the cheque has been dishonored)</i>			

- ▶ Where the cheques issued by the business is returned for some reason, this too should be entered in the General Journal.
- ▶ If the creditor has given a discount,, the business becomes ineligible to this too. Accordingly, record the following General Journal:

Cash A/c	Debit	xxxxxx	
Discount received A/c	Debit	xxxxxx	
Creditors control A/c	credit		xxxxxx
<i>(Ineligibility to receive discount due to cheque being returned)</i>			

- ▶ When a cheque paid for expenses is dishonored by the bank and a new cheque is issued in lieu, make the following entries in the General Journal.

Cash A/c	Debit	xxxxxx	
Accrued Expenses / Expense A/c	credit		xxxxxx
<i>(Cheque issued for expenses is returned)</i>			

1.5 Petty Cash Payment Journal

Petty Cash Payment Journal is maintained in order to record minor payments in an entity.

Transaction	Rs.
Purchase of stock	12,000
Entertainment expenses	60
Purchase of stamps & envelopes	30
Paid wages	8,000
Purchase of file covers	20
Purchase of pen	12
Purchase of furniture	55,000
Travel expenses	120

- ▶ There are very small value transactions take place in a business.
- ▶ Some examples are ;
 - Entertainment expenses
 - Purchase of stamps and envelops
 - Purchase of file covers
 - Cost of purchasing a pen
 - Cost of travel
- ▶ That such small value payments can be identified as **Petty expenses**.
- ▶ Among the daily transactions that take place in a business, the low value transaction must be identified and recorded in a separate book of prime entry. The book of prime entry is identified as the **Petty Cash Payment Journal**.
- ▶ The original document used to make entries in the Petty Cash Payment Journal is **Petty Cash Payment Voucher**.
- ▶ The likely total cost of such expenses for a given period is decided in advance and the Chief Cashier will give that some to a Petty Cashier.
- ▶ This sum of money is known as the **Petty Cash Imprest** and that the reimbursement of the expenses to the Petty Cashier is known as the **Imprest system**.

Petty Cash Payment Journal

Date	Details	V. No.	Amount (Rs.)	Analysis Columns				Other (Rs.)	Ledger Folio
				Stationery (Rs.)	Labour (Rs.)	Travelling (Rs.)	Miscellaneous (Rs.)		

- ▶ The petty cash payments must be entered in a Petty Cash Payment Journal that has analysis columns.

► The double entry for the transactions entered in the Petty Cash Book are given below:

- Receiving petty cash Imprest

Petty cash A/c	Debit	
Cash A/c		Credit

- Reimbursement of the Imprest

Petty cash A/c	Debit	
Cash A/c		Credit

- Sum totals of the analysis columns

Respective A/c	Debit	
Petty cash A/c		Credit



Question

Noted below few transactions during the first two weeks of March 2018 in Gayani's business. Prepare the Petty Cash Payment Journal and record the transactions in the General Ledger.

Petty Cash Imprest Amount is Rs. 3,000/-

Date	Voucher No.	Gayani's Business	Rs.
2018			
04 March	01	Entertainment	300
05 March	02	Stamps and Envelops	280
06 March	03	Cleaning	400
08 March	04	Postage	400
09 March	05	Vehicle hire charges	350
10 March	06	Paid to Amal	700
11 March	07	Cleaning expenses	250

A**Answer****Petty Cash Payment Journal**

Re-ceipts	Date	Description	V. No.	Amount (Rs.)	Analysis Columns					L.F.
					Enter-tain-ment	Post-age	Travel-ling	Cleaning	Other	
3,000	1 Apr	Cash								
	4 Mar	Entertainment	01	300	300					
	5 Mar	Stamps/Envelope	02	280		280				
	6 Mar	Cleaning	03	400				400		
	8 Mar	Postage	04	400		400				
	9 Mar	Vehicle hire charges	05	350			350			
	10 Mar	Amal (Creditor)	06	700					700	08
	11 Mar	Cleaning expenses	07	250				250		
				2,680	300	680	350	650	700	
					Debited to entertainment expenses (L.F.20)	Debited to Postage (L.F. 21)	Debited to Travelling Expenses (L.F. 23)	Debited to Cleaning Expenses (L.F. 24)		

The posting of the entries in the Petty Cash Payment Journal to the ledger will be done in the following manner.

Petty Cash A/c

		(Rs.)	
01 Mar	Balance C/F	3,000	Various Expenses
			2,680
			Balance B/F
		3,000	320
		<u>3,000</u>	<u>3,000</u>
	Balance B/F	320	
	Cash a/c	2,680	

Cash A.c

		(Rs.)
	Petty Cash	2,680

Entertainment Expenses A/c

		(Rs.)
15 Mar	Petty Cash	300

Clearing Expenses A/c		(Rs.)
15 Mar	Petty Cash	650

Postage Expenses A/c		(Rs.)
15 Mar	Petty Cash	680

Creditors Control A/c		(Rs.)
10 Mar	Petty Cash	700
	Balance c/f	xxx

Travelling Expenses A/c		(Rs.)
15 Mar	Petty Cash	350

1.6 Purchase Journal

- The book of prime entry used to record goods purchased on credit is the **Purchases Journal** or **Purchases Day Book**.
- The source document relevant to the purchases Journal is the **Invoice (Purchase Invoice)**
- While a certain percentage will be reduced from the marked price when goods for trading are purchased, this is known as a **Trade discount**.
- The amount of the trade discount is reduced from the invoice value only. There isn't a separate accounting entry.
- The suppliers who provide goods to the entity are creditors to the business. They are considered as liabilities of the business.
- The transactions relevant to the Purchase Journal in a VAT registered organization will be posted to the General Ledger as follows.

Purchase A/c	Debit	xxxxx
<i>(Total of the Purchase Journal)</i>		
VAT A/c	Debit	xxxxx
Creditors Control A/c	Credit	xxxxx

Purchases Journal

Date 2017	Invoice No.	Supplier	Amount (Rs.)	VAT (Rs.)	Total Amount (Rs.)	L.F.
01 Mar	264	Nelum & Co.	xx	xx	xxx	
25 Mar	610	Daya & Co.	xx	xx	xxx	
31 Mar		Transferred to General Ledger	xx	xx	xxx	

- The respective amounts and the VAT must be entered separately in the individual creditors accounts in the Creditors sub Ledger.
- At the end of the period the columnar totals of the Purchases Journal must be debited to the Purchases A/c and credited to the Creditors Control account. The total in the VAT column must be debited to the VAT A/c and credited to the Creditors Control A/c.

1.7 Returns Outward Journal

- Goods purchased on credit may be 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
- The book of prime entry for recording goods returns is the Returns Outwards Journal or Returns Outwards Day Book.
- The source document used to record goods returns is the Debit Note.
- The format of the Returns Outwards Journal could be as follows.

Returns Outwards Journal / Purchases Returns Journal

Date 2017	Debit Note No.	Supplier	Amount Rs.	VAT Rs.	Total Amount Rs.	L.F.
05 Mar	15	Manel & Co.	xx	xx	xxx	
29 Mar	16	Kumara & Co.	xx	xx	xxx	
31 Mar		Transferred to General Ledger	xx	xx	xxx	

- The net value of the Debit Notes will be transferred to the relevant Creditors' accounts in the creditors sub ledger on the respective dates.
- At the end of the period the total value of the Returns Outwards Journal will be credited to the Returns Outwards A/c and the relevant VAT amount will be credited to the VAT A/c while the total will be debited to the Creditors Control account in the General Ledger.
- The transactions relevant to the Returns Outwards Journal in a VAT registered organization will be posted to the Ledger as follows.

Creditors Control A/c (Total Value including VAT)	Debit	xxx
Returns Outwards A/c (Totals of returns outwards Journal)	Credit	xxx
VAT A/c	Credit	xxx



Exercises

Noted below the Purchases Journal and the Returns Outwards Journal relating to the April 2018 in Siripala's Business.

Purchases Journal

Date 2018	Invoice No.	Supplier	Amount (Rs.)	L.F.
05 Apr	335	Ramani	7,000	
08 Apr	426	Daya	14,000	
12 Apr	339	Daya	10,000	
18 Apr	526	Kasuni	8,000	
25 Apr	931	Amali	12,000	
30 Apr	Transferred to General Ledger		51,000	

Purchases Returns Journal

Date 2018	Debit Note No.	Supplier	Amount (Rs.)	L.F.
10 Apr	01	Daya	4,000	
22 Apr	02	Kasuni	1,800	
30 Apr	Transferred to General Ledger		5,800	

Required:

Record the above information to the ledger as at the relevant dates.

1.8 Sales Journal

- The book of prime entry used to record the sales of goods on credit is the **sales Journal** or **Sales Day Book**.
- The source document relevant to the sales Journal is the **Invoice** (Sales invoice);
- Then sales are made on credit, while a percentage from the marked price may be reduced it is known as a **Trade discount**.
- This trade discount is only a reduction of the price in the invoice. It is not accounted for separately.
- While debtors are created when the business makes sales on credit, they are considered an asset to the business.

- The transactions relevant to the Sales Journal in a VAT registered organization will be posted to the Ledger as follows.

Debtors Control A/c Debit xxx
(Total Amount including VAT)

VAT A/c Credit xxx
(Total in the VAT Column)

Sales A/c Credit xxx
(Total in the amount column in the sales journal)

The format of a Sales Journal in a VAT registered entity could be as follows:

Sales Journal

Date 2018	Invoice No.	Supplier	Amount Rs.	VAT Rs.	Total Amount Rs.	L.F.
01 Apr	631	Sarath Traders	XX	XX	XXX	
20 Apr	632	Vimal & Brothers	XX	XX	XXX	
30 Apr		Transferred to General Ledger	XX	XX	XXX	

- On the respective dates the invoice value and amount of VAT is posted to the relevant accounts in the debtors sub ledger.
- At the end of the period the totals of the 'amount' column must be posted as a debit to the debtors control A/c and as a credit to the Sales account.
- The total of the VAT column must be debited to the Debtors Control A/c and credited to the VAT Payable A/c.

1.9 Returns Inward Journal

- Goods sold on credit may be returned by the customers for the following reasons:
 - As the date of expiry has passed
 - Goods supplied being different to what was ordered
 - Being damaged goods
- The book of prime entry used to record the returns inwards is the **Returns Inwards Journal** or **Returns Inwards Book**.
- The source document used as the basis to record returns is the **Credit Note**.
- The transactions relevant to the Returns Inwards Journal in a VAT registered organization will be posted to the Ledger as follows.

Returns Inwards A/c Debit xxx

(Total in the amount column)

VAT A/c Debit xxx

(Total in the VAT column)

Debtors Control A/c Credit xxx

(Total in the Total Amount column including VAT)

- The Returns Inwards Journal of a business registered for VAT could take the following format:

Returns Inwards Journal

Date 2018	Debit Note No.	Supplier	Amount Rs.	VAT Rs.	Total Amount Rs.	L.F.
06 Apr	15	Sarath Traders	xx	xx	xxx	
25 Apr	16	Vimal & Brothers	xx	xx	xxx	
30 Apr		Transferred to General Ledger	xx	xx	xxx	

- On the respective dates the invoice value and the amount of VAT must be credited to respective debtors accounts in the Debtors sub ledger.
- At the end of the period the total in the 'amount' column must be debited to the Returns Inwards account in the General ledger and credited to the Debtors Control account. The total in the VAT column must be debited to the VAT account must be credited to the Debtors Control account.



Exercises

Date	etailX
04/04/2018	Sales to Saman on Inv. 201 for Rs. 130,000/-
08/04/2018	Sales to Mayuri on Inv.202 for Rs. 145,000/-
10/04/2018	Sales to Mali on Inv. 203 for Rs.128,000/-
15/04/2018	Mali returns all the goods sold on 10.04.2018 as they were differed from the type of goods ordered. (Credit Note 20)
20/04/2018	Sales to Mala on Inv. 204 for Rs. 136,000/-
25/04/2018	Mala returns Rs.8,000 worth of goods on 20.04.2018 as they had passed the expiry date, Credit Note 21)

Required

- Sales Journal and Returns Inwards Journal
- Relevant ledger accounts (General Ledger and Debtors Ledger);

1.10 General Journal

- The Journal where entries that are not entered in the Books of prime entry are made is introduced as the **General Journal** or **Main Journal**.
- The source document used to make entries in the General Journal is the **Journal Voucher**.
- The format of the General Journal could take the following form:

General Journal					
Date	Journal Voucher No.	Details	L.F.	Debit Rs.	Credit Rs.
.....20		Account to be debited		xx	
		Account to be Credited			xx
		(Naration)			

- Entries made in the General Journal will be shown in the double entry format.
- The reason for the Journal entry must be stated and this is known as the “**narration**”.
- The transactions recorded in the General Journal are posted to the ledger in the same manner.
- The following types of transactions are recorded in the General Journal:
 - Opening entries
 - Adjustment entries
 - Correction entries
 - Entries related to the purchase of Property, Plant & Equipment on credit, sale on credit, disposal and exchange
 - Closing entries
 - Notes for posting to ledger
 - Other notes



Exercises

You are given the following information relating to Sandali’s business.

(i) Balances on 1.4.2018

	Rs.
Machinery	300,000
Furniture	50,000
Inventory	25,000
Cash	40,000
Debtors	35,000
Creditors	60,000
Capital	?

- (ii) Purchased a faxed machine on credit for office use valued at Rs.16,000/-
- (iii) Sale of a machine costing Rs.18,000/- to Sahan for Rs.20,000/-
- (iv) A payment of Rs.8,000/- being office maintenance expenses has been recorded in the miscellaneous expenses account.

Required:

Preparation of

1. General Journal
2. Relevant ledger accounts



2 Other Supporting Documents

2.1 Purchase Order

Purchase Order (PO) is a commercial document and first official offer issued by a buyer to a seller, indicating types, quantities, and agreed prices for products or services. Acceptance of a purchase order by a seller forms a contract between the buyer and seller, so no contract exists until the purchase order is accepted. It is used to control the purchasing of products and services from external suppliers.

2.2 Goods Received Note (GRN)

This document is used to record of goods received at the point of receipt. This is used to confirm all goods have been received and often compared to the purchase order before payment is issued.

GRN is raised by stores manager of the customer (buyer) on receiving goods from supplier. This document is for internal usage and it is generated in triplicates, goods received note are also

prepared in three or more copies where one is retained by the store department and another is sent to accounts department. When controlling stock operations in an organization GRN forms the basis of entries to the stores ledger.

2.3 Material Requisition Note (MRN)

MRN is prepared by the stores department of an organization so as to maintain the quantity of a particular item of stores. This note is generally sent to purchase department for purchasing the material. This is an internal document through which stores department informs the purchase department for purchasing the required material to have a smooth production function within the organization.

2.4 Payroll

The payroll records show the number of employees and how much they are being paid. In a company, payroll is the sum of all financial records of salaries for an employee's wages, bonuses and deductions such as employee provident fund employee's contribution and salary advance etc. In accounting perspective, payroll refers to the amount paid to employees for services they provided during a certain period of time. Nowadays, most of the payroll systems have been automated in order to increase the efficiency and effectiveness of the calculations.