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Also for Cambridge O Level

David Horner, Leanna Oliver

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Introduction

Welcome to *Collins Cambridge IGCSE Accounting*, which has been carefully designed and written to help you develop the knowledge and skills you will need to succeed in the Cambridge IGCSE Accounting and Cambridge O Level Accounting courses.

Accounting is the study of financial record keeping. It involves the classification, recording and analysis of financial records for all types of businesses, ranging from small one-person organisations right up to large multinational businesses operating in the global market. Your Cambridge Accounting course will help you to develop the following set of skills used within finance and accounting:

- How to record transactions using double entry book-keeping
- How to update the accounts of a business
- How to check the accuracy of the accounts, and correct them if necessary
- How to calculate the profit or loss for different types of businesses
- How to produce financial statements for different types of businesses
- How to analyse and evaluate the financial performance of a business using financial ratios.

The course covers aspects of financial accounting. Chapters 1 to 4 cover the classification and recording of financial transactions. These chapters are concerned with double entry book-keeping and other methods of recording transactions. Additionally, these chapters examine the methods used for checking the accuracy of accounts and making corrections to any errors found. Chapters 5 to 7 cover the production of the financial statements, specifically the income statement and balance sheet, for different types of business. They also look at the advantages and disadvantages of operating as different types of business and how to assess the performance of a business using information from the financial statements.

By the end of this course, you should have the knowledge and the skills you need to not only succeed in your Cambridge Accounting course but to better understand the world of business. Good luck with your study of accounting!

How to use this book

This Student's Book covers all the content for the Cambridge IGCSE and O Level Accounting syllabuses. It is divided into seven chapters – one for each of the areas of the syllabus. Each chapter is divided into units which cover the essential knowledge and skills you need as specified by each unit of the syllabus. Each of the units is organised in the same way and has the following features:

- **Learning objectives** list the key knowledge and skills you need to acquire.
- **Starting point** questions allow you to check your understanding of previous topics and help you understand the links between topics.
- **Exploring** questions ask you to think about the topic you are about to study in a broader sense. They encourage you to identify issues and come up with solutions that will be developed in the unit.
- The **Developing** section presents the knowledge and skills required by the corresponding unit of the syllabus. This section has some special features to help you achieve the learning objectives for the unit.
 - **Key terms** and **key knowledge** boxes provide definitions of accounting terms and highlight important information for at-a-glance reference and to support your understanding.

- **Worked examples** show how the facts, terms, principles, policies, procedures and techniques you learn are applied to produce accounts and financial statements and in other accounting situations. The accompanying commentary in the margin provides further explanation.
- Throughout the text there are many examples of **accounts** and **financial statements** to show the internationally agreed conventions for the presentation of these documents.
- **Questions** within the text allow you to check your understanding of key concepts or encourage you to come up with an answer before it is explained in the text.
- **Case studies** show real-life examples of some of the ideas which you have encountered in the text.
- The **Applying** section provides an opportunity to bring together your learning through discussion with your peers. This might be through discussion questions or a task.
- **Knowledge check** questions at the end of each unit allow you to check your knowledge and understanding of the material in the unit.
- **Check your progress** helps you to evaluate how you are doing.

The Student's Book also includes two other sections to support your knowledge and understanding of the syllabus content:

- **Chapter reviews** allow you to practise what you have learned in the chapter with exam-style questions designed to help you prepare for the examination.
- A **glossary** provides definitions of all the key terms highlighted in the text. Words in coloured bold throughout the book can be found in the glossary.

There is also an accompanying Workbook available, which offers further exercises for support, practice, stretch and revision.

Business documents

Learning objectives

By the end of this unit, you should be able to:

- recognise and understand the following business documents: invoice, debit note, credit note, statement of account, cheque, receipt
- complete pro-forma business documents
- understand the use of business documents as sources of information: invoice, credit note, cheque counterfoil, paying-in slip, receipt, bank statement.

Starting point

Answer these questions in pairs.

- 1 How does a business keep records of the payments into and out of the business bank account?
- 2 Other than the double entry accounts, how does a business keep records of each financial transaction of the business?

Exploring

Discuss these questions in pairs.

- 1 Why do you think businesses allow credit to their customers?
- 2 What mistakes could occur if a business uses a computer to keep records of accounting transactions?

Developing

Types of business document

Business documents are documents received and issued by businesses. They contain vital information about the transactions made between businesses and are used to make entries in the accounting records of businesses. They are sometimes referred to as **source documents**.

Business documents are used

- as the source of information for making entries in the accounts of the business
- to confirm agreements made between businesses
- as evidence in the event of a dispute.

Key term

Business document:

A document received or issued by a business when a transaction takes place. It contains information relevant to the transaction.

Pro-forma documents refer to the standardised documents used by businesses. Rather than creating a document with all the details required for a business transaction for each transaction, businesses use a pro-forma document which already contains some of the details. Pro-forma documents contain details that relate to all transactions of a certain type. For example, an invoice issued for a credit sale contains the details common to all credit sales – the address of the business making the sale, space for the details for the items being sold, space for the totals, space for any discounts offered, and so on. There are a number of different types of business document.

Invoice

When a credit sale is made, the business making the sale issues a sales **invoice**. The business buying the products receives this document but calls it a purchases invoice. This is a business document which contains:

- name and address of the business making the sale
- name and address of the customer
- date of sale
- details of sale – items, quantities and prices (for individual items and total for the invoice)
- carriage and delivery costs
- payment conditions – such as trade discounts and discounts for prompt payment.

Businesses want to encourage other businesses to buy from them. They may offer **trade discounts** to other businesses to encourage them to buy larger quantities. Often a trade discount is only offered to other businesses in the same industry. The trade discount appears on the invoice and is usually expressed as a percentage. The trade discount does not appear in the double entry accounts. Instead the amount after the trade discount has been deducted appears in the accounts.

Cash discounts are different and are explained in Unit 2.3.

Key terms

Invoice: A document issued by a business when making a credit sale.

Trade discount: A discount given by one business to another business. It is calculated as a percentage reduction in the invoice quantity.

Worked example 1

Look at this invoice. Calculate the missing values.

KS PLUMBING		K Sanderson 87 Main Street NANCHESTER NA2 9PU		INVOICE	
Invoice number: 10334					
Date: 12 May 2018					
To: Stoddard Ltd Unit 17 Lexden Business Park NANCHESTER NA22 8TR					
Quantity	Description	Unit Price (\$)	Total (\$)		
4	Wall radiators (1500 mm x 60 mm)	65	???		
25 metres	Copper piping (8 mm diameter)	4 (per metre)	???		
Less 10% trade discount			???		
TOTAL			???		

The invoice is issued by K Sanderson for a sale made to Stoddard Ltd. For K Sanderson this is a sales invoice. For Stoddard Ltd this is a purchases invoice.

The total after the deduction of the trade discount is the amount that is debited to the account of Stoddard Ltd and credited to K Sanderson's sales account.

The totals are calculated by multiplying the quantities sold by the selling price of each unit.

Total for radiators	$4 \times \$65 = \260
Total for the piping	$25 \times \$4 = \100
Total before discount	\$360
Trade discount = 10% of \$360	= \$36
Total after trade discount	= \$360 - \$36 = \$324

1 How can a sales invoice also be a purchases invoice at the same time?

Debit note

After making a purchase, a business may notice that the goods received are not suitable. The goods received may be unsuitable for these reasons:

- wrong quantities received
- faulty products
- incorrect goods
- wrong specification (e.g. wrong colour, wrong size, etc.).

The business will want to return the unsuitable goods to the original supplier. When dealing with unsuitable goods, the business document issued by the customer to the supplier is a **debit note**.

Key term

Debit note: A document issued by a business to the supplier when the goods received are unsuitable.

The information contained on a debit note varies between businesses. However, most debit notes contain the following information:

- name and address of the business (the customer)
- name and address of the supplier
- date
- details of goods that are not suitable and are being returned
- value of unsuitable goods.

The debit note is a request by a customer for a credit note (see below) to be issued by the supplier of the unsuitable goods received by the customer. It does **not** generate a transaction in the double entry accounts. The supplier has to agree to accept the debit note and allow the goods to be returned before any entries can be made in the double entry accounts.

Worked example 2

Look at this debit note. Calculate the total value.

KS PLUMBING		K Sanderson 87 Main Street NANCHESTER NA2 9PU		DEBIT NOTE	
Debit note number: 34/2018					
Date: 22 May 2018					
To: Nanchester Plumbing Supplies 18 High Street NANCHESTER NA1 4CV					
The following goods are to be returned:					
Quantity	Description	Unit Price (\$)	Total (\$)		
2	Wall radiators (2000 mm × 85 mm) – Damaged on arrival	75	150		
15 m ²	Plasterboard – Wrong specification	7 (per m ²)	105		
				???	

Total of the debit note = \$150 + \$105 = \$255

This debit note was issued by K Sanderson as a result of receiving unsatisfactory goods from Nanchester Plumbing Supplies. The goods that are unsuitable are listed on the debit note along with the reason for their return and the value of the goods.

- 2 Why do you think no accounting entries are made when a debit note is issued?

Credit note

When accepting returned goods because they are unsuitable, the supplier will issue a **credit note** to the customer. A credit note may also be issued if the customer was originally overcharged on an invoice. Information found on a credit note includes:

- name and address of the business (the business issuing the credit note)
- name and address of the customer (where the credit note is being sent)
- date
- details of the goods being returned by the customer to the business
- the value of the credit note.

Credit notes may be printed in red so that they look different from invoices.

Key term

Credit note: Document issued by a business to a customer when goods are returned to the business because they are unsuitable.

Worked example 3

Look at this credit note. How would Nanchester Plumbing Supplies record this transaction in its double entry accounts?

Quantity	Description	Unit Price (\$)	Total (\$)
2	Wall radiators (2000 mm × 85 mm)	75	150
15 m ²	Plasterboard	7 (per m ²)	<u>105</u>
			<u>255</u>

This credit note is based on the debit note in Worked example 2. The customer (K Sanderson) has returned goods to the supplier (Nanchester Plumbing Supplies). The supplier has sent a credit note for the value of the returned goods. The reason why the goods were originally returned does not have to feature here as the original supplier has accepted that they were unsuitable.

In the accounts of Nanchester Plumbing Supplies the credit note is entered on the debit side of the sales returns account.

The credit entry is in the account of K Sanderson.

The credit entry in K Sanderson's account shows that K Sanderson now owes less to Nanchester Plumbing Supplies.

Statement of account

At the end of each month, a business should send a statement of account to each customer who still owes money to the business. The statement of account is a summary of the transactions between the business and the customer over the month. It indicates the amount still owed by the customer at the end of the month.

A statement of account will normally show:

- name and address of the business
- name and address of the customer
- relevant transactions and dates for the month
- balance owing by the customer at the start and end of the month
- payments received from the customer during the month
- details of invoices (from sales) sent to the customer during the month
- details of any credit notes agreed.


Key term

Statement of account:

A document issued to all customers still owing money to the business. It contains details relating to the transactions taking place between the business and the customer.

Worked example 4

This is a statement of account issued by K Sanderson to a credit customer, Levinson Ltd, for May 2018. Calculate how much Levinson Ltd owes the business at the end of the month.

 K Sanderson 87 Main Street NANCHESTER NA2 9PU		STATEMENT OF ACCOUNT		
Account number: 87322				
Levinson Ltd 15 Causeway Nanchester N1 4RT				
Date	Details	Debit (\$)	Credit (\$)	Balance (\$)
1 May	Balance b/d			50
12 May	Invoice Number 10452	450		500
19 May	Credit note Number 39/18		80	420
28 May	Bank		300	???
31 May	Balance owing:			???

The balance owing to the business by Levinson Ltd at 31 May is \$120.

The statement of account is a written representation of the double entry account for the credit customer. The amounts in the debit and credit columns match the amounts in the double entry account. This represents how much the customer owes the business at the end of the month. Statements of account are sent out mainly as reminders to the customers of the business of what they still owe.

Subtract the payment of \$300 received from the previous balance of \$420.

Cheque

Many businesses make payments to other businesses by **credit transfers**, by **standing orders** or by using credit or debit cards. These are automated methods of payment. This means that there is no need for anyone from either business to visit the bank and these can usually be completed online. Another method of making a payment from the business bank account is to use a **cheque**.

A cheque is a document which authorises payment from a bank account. The bank issues the business with a cheque book which contains a number of pre-printed cheques. These are used by the business for making payments.

Pre-printed cheques contain the following information:

- the name and address of the bank used by the business
- the account details of the business – the sort code (which is a number identifying the branch of the bank with which the business has an account) and the account number (which is unique to the business)
- the name of the business.

To make a payment, the business adds the following details to a cheque before it passes it on to the **payee**:

- name of payee
- amount to be paid (written in both numbers and words)
- date of payment
- signature of the **payer** (the business or person making the payment).

The **cheque counterfoil** is the left-hand portion of the cheque. When the payer writes a cheque, they also complete the cheque counterfoil with the name of the payee, the amount to be paid and the date of the payment. They keep this as a record of the payment. Normally, the cheque can be detached, leaving the counterfoil still attached to the cheque book.

Depending on the business, more than one person may be able to sign a cheque on behalf of the business. The people authorised to sign cheques are called signatories. The bank holds a record of the signature of all the signatories and will only make the payment to the payee if the signature on the cheque matches the signature in their records. This provides security for the payer against fraudulent use of their cheques by people outside of the business.

Some businesses require two signatories on their cheques. This provides security for the business against fraudulent use of their cheques by a signatory of the business.

There are various issues associated with making and receiving payments by cheque, resulting from the fact that a cheque

Key term

Cheque: A written document authorising payment from the bank account of a business to another person or business.

Key terms

Cheque counterfoil: Part of the cheque which is kept by the business as a record of the payment made by cheque. It may also be referred to as a 'cheque stub'.

Payer: The person or business making a payment to another. The payer may also be called the drawer.

Payee: The person or business receiving payment from the business. The payee may also be called the drawee.

Worked example 5

Look at the cheque below. What entries would K Sanderson make in his double entry accounts on receiving this cheque?

Date: 28 May 2018	 Nanchester Bank High Street Branch	Date: 28 May 2018
Payee K Sanderson		Pay <u>K Sanderson</u> ←
Amount: \$100	One hundred dollars only	J B Stroish
000140	Cheque number 000140	J B Stroish
	Branch sort code 22-11-98	Account number 01439125

The payee is K Sanderson.

The payer of the cheque is J B Stroish.

K Sanderson would make the following entries in his double entry accounts:

Bank would be debited by \$100

The J B Stroish account would be credited by \$100.


In the accounts of J B Stroish, the entries would be similar but on the opposite sides – J B Stroish would debit K Sanderson and credit the Bank.

merely authorises payment from a bank account and must be presented to the bank before the money is transferred between the payer and the payee. These are dealt with in more detail in Chapter 3.

Paying-in slip

Most businesses deposit money regularly into the bank account. A **paying-in slip** is used when paying cheques, notes and coins into the bank account.

Key term
Paying-in slip: A document used to deposit funds (cheques or notes and coins) into a bank account.

Date:	 Nanchester Bank High Street Branch	<table border="1"> <tr><td>\$100 notes</td><td></td><td></td></tr> <tr><td>\$50 notes</td><td></td><td></td></tr> <tr><td>\$20 notes</td><td></td><td></td></tr> <tr><td>\$10 notes</td><td></td><td></td></tr> <tr><td>\$5 notes</td><td></td><td></td></tr> <tr><td>\$1 notes</td><td></td><td></td></tr> <tr><td>Coins</td><td></td><td></td></tr> <tr><td>Cheques</td><td></td><td></td></tr> <tr><td>TOTAL (\$)</td><td></td><td></td></tr> </table>		\$100 notes			\$50 notes			\$20 notes			\$10 notes			\$5 notes			\$1 notes			Coins			Cheques			TOTAL (\$)		
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\$5 notes																														
\$1 notes																														
Coins																														
Cheques																														
TOTAL (\$)																														
Date: _____	Cashier's stamp	ACCOUNT HOLDER'S NAME	<table border="1"> <tr><td>\$100 notes</td><td></td><td></td></tr> <tr><td>\$50 notes</td><td></td><td></td></tr> <tr><td>\$20 notes</td><td></td><td></td></tr> <tr><td>\$10 notes</td><td></td><td></td></tr> <tr><td>\$5 notes</td><td></td><td></td></tr> <tr><td>\$1 notes</td><td></td><td></td></tr> <tr><td>Coins</td><td></td><td></td></tr> <tr><td>Cheques</td><td></td><td></td></tr> <tr><td>TOTAL (\$)</td><td></td><td></td></tr> </table>	\$100 notes			\$50 notes			\$20 notes			\$10 notes			\$5 notes			\$1 notes			Coins			Cheques			TOTAL (\$)		
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Banks can issue books of paying-in slips to customers. Like cheque books, these are pre-printed with the business's bank account details. The paying-in slip shown above is a non-personalised one and the business fills in their account details, along with the amount of money to be deposited into the bank account.

There are two ways in which the business records that money has been deposited into the bank account. Either the business receives a stamped copy of the paying-in slip from the bank or they complete the counterfoil attached to the paying-in slip book (the bank stamps the counterfoil and it is kept by the business).

Receipt

A receipt is a written document which is issued by a business when it receives payment from a customer. It provides proof of payment by the customer. A receipt may be printed by machine (as part of a cash till or register) or it may be a handwritten note signed by the business receiving the money.

Receipts normally contain the following information:

- amount received
- date of payment
- what the payment was for (i.e. the goods or services supplied).

Receipts are often not needed in the case of payment by cheque or an automated payment into the bank account. This is because the bank statement will have a record of the amount received. A receipt is issued to the customer and a copy kept by the business as proof of the amount received. A receipt is kept as part of the income records of a business. The information on the receipt appears in the double entry account for cash and whatever the cash being paid or received is in respect of.

Key term

Receipt: A written document issued by a business when it receives a payment as proof of receiving money.

Worked example 6

Look at this receipt. What is the correct double entry to record this transaction?

BUSINESS RECEIPT



**NANCHESTER
PLUMBING SUPPLIES**

Amount received in respect of cash sales of plumbing supplies. **Date:** 17 May 2018
Cash received thanks!

M Bloor

Nanchester Plumbing Supplies

Receipt number: 7707 **Amount:** \$118.50

Cash is debited by \$118.50.

The sales account is credited by \$118.50.

Bank statement

Banks issue bank statements on a regular basis. These contain details of all the money paid into and out of the bank account of the business for a period of time. They are presented from the bank's point of view. This means that if the business has money in the bank account, it appears as a credit balance. (In the business's double entry accounts, money in the bank is shown as a debit balance.)

Bank statements may be posted to the business or the business may receive online statements. They allow the business to check that the details of entries on the statement match the details as they appear in the bank account of the double entry accounts. The statement appears similar to a statement of account – where the balance on the bank account is updated after each entry.

Key term

Bank statement: A document issued by the bank of the business showing all bank transactions for a period of time.

Worked example 7

This bank statement is for May 2018. How much money did K Sanderson have in the bank at the start and the end of this month?

EasternBank		Sort Code 22-11-98 Account No. 01439125		
Account name: K Sanderson		Statement No. 45		
31 May 2018				
Date	Details	Payments (\$)	Receipts (\$)	Balance (\$)
2018				
01 May	Opening balance			??? Cr
04 May	Credit transfer: Bellwood Ltd		240	829 Cr
06 May	Cheque 101450	684		145 Cr
12 May	Direct Debit SE Electricity	86		59 Cr
15 May	Cheque deposited		98	157 Cr
30 May	Cheque 101451	215		58 Dr
31 May	Closing balance			??? Dr

The abbreviated term for credit (Cr) means that the bank owes K Sanderson this amount, i.e. that K Sanderson has money in the account.

K Sanderson has taken out more from the bank than he has in the account. The abbreviation for debit balance (Dr) means that K Sanderson now owes the bank money.

Amount in the bank at the start of the month = \$829 – \$240 = \$589.

At the end of the month the balance is overdrawn by \$58.

- 3 Explain why a bank balance may appear as a credit balance despite there being money in the bank account.

Business documents as sources of information

Business documents provide information used when completing double entry accounts.

Business document	Account to be debited	Account to be credited
(Sales) invoice	Credit customer	Sales
(Purchases) invoice	Purchases	Credit supplier
Cheque counterfoil	Account related to payment	Bank
Cheque received	Bank	Credit customer
Credit note	Sales returns	Credit customer
Receipt	Bank or cash	Account related to receipt
Paying-in slip	Bank	Cash or credit customer*
Bank statement	Bank (if money is received)	Bank (if money is paid out)

* Normally money paid into the bank account will be cheques from customers or cash paid into the bank.

Some of the documents can be used by both the business issuing the document and the business receiving it. A credit note issued by a business will be used for information relating to sales returns. The business receiving the credit note would treat the document as evidence to record purchases returns. The same applies to cheques being issued and received.

Debit note does not appear in the table as it is a request for a business to be allowed to return goods to the supplier. It does not necessarily mean that the supplier will allow the goods to be returned.

Applying

Discuss these questions in pairs.

- 1 What documents would no longer be needed for a business that does not make credit sales or credit purchases?
- 2 How do the entries in the double entry account for bank differ from the entries that are on the bank statement?

Knowledge check

- 1 Which of the following business documents does NOT generate an entry in the double entry accounts of a business?
 - A A paying-in slip
 - B A credit note
 - C A debit note
 - D A sales invoice

- 2 A business receives an invoice from a supplier. Into which double entry account does the business enter the details?
- A Sales
B Purchases
C Credit customer account
D Bank
- 3 A business issues a receipt for cash sales. Which account does the business credit?
- A Credit customer account
B Credit supplier account
C Cash
D Sales
- 4 Copy and complete this invoice.

Quantity	Description	Unit Price (\$)	Total (\$)
6	Baths (cast iron)	150	?
5	Toilet units (porcelain)	125	?
6	Sink units (fitted)	80	?
Less 20% trade discount			?
TOTAL			??

DS BATHROOM DESIGN
D Simpson
76 Prettygate Lane
CARCHESTER
CR8 3UY

INVOICE

To:
H Taylor
28 Victor Street
CARCHESTER
CR5 9TR

Invoice number: 4341
Date: 12 May 2018

- 5 It is 19 October 2018. You need to pay Molyneux for goods supplied to the value of \$356. Copy and complete this cheque and the counterfoil to make the payment from your bank account.

Date: / /	 Nanchester Bank High Street Branch	Date: / /
Payee _____	Pay _____	\$ _____
Amount: \$ _____	_____	_____
000001	Cheque number 000001	Branch sort code 01-02-13
		Account number 01234567

- 6 Your business name and address is Partyfood Supplies Ltd, 12 Oakholme Street, Oldtown, OT1 9DR.
- On 12 October 2018 Wedding Planners Ltd of 34 Everard Road, Oldtown, OT8 7RD place the following order:
- 120 cupcakes (\$0.80 each), 5 desserts (\$8 each), 10 flans (\$12 each)

The company receives a trade discount of 5%.

(a) Prepare an invoice for the order.

On 13 October Wedding Planners Ltd return 20 of the cupcakes because they are damaged.

(b) Prepare a credit note.

- 7 Your business name and address is Dex Systems Solutions, Unit 5, Business Park, Newtown, NT55 1LY.

Prepare the statement of account for April 2018 for this information:

Customer account no: 7280

Customer name and address: Gamalat, 78 Hartope Road, Newtown, NT4 5UN

Credit sales: 5 April – Invoice 1045, \$540; 19 April – Invoice 1047, \$310


Credit note 05/18 issued on 23 April for \$105.


Cheque received from Gamalat on 27 April for \$500


Check your progress

Read the unit objectives below and reflect on your progress in each.

- Recognise and understand the following business documents: invoice, debit note, credit note, statement of account, cheque, receipt
- Complete pro-forma business documents
- Understand the use of business documents as sources of information: invoice, credit note, cheque counterfoil, paying-in slip, receipt, bank statement.

 I struggle with this and need more practice.

 I can do this reasonably well.

 I can do this with confidence.

Books of prime entry

Learning objectives

By the end of this unit, you should be able to:

- explain the advantage of using various books of prime entry
- explain the use of, and process, accounting data in the books of prime entry – cash book, petty cash book, sales journal, purchases journal, sales returns journal, purchases returns journal and the general journal
- post the ledger entries from the books of prime entry
- distinguish between and account for trade discount and cash discounts
- explain the dual function of the cash book as a book of prime entry and as a ledger account for bank and cash
- explain the use of and record payments and receipts made by bank transfers and other electronic means
- explain and apply the imprest system of petty cash.

Starting point

Answer these questions in pairs.

- 1 Which double entry accounts are used more frequently than others?
- 2 How can you organise the double entry accounts of the business to make information easier to find?

Exploring

Discuss these questions in pairs.

- 1 What sort of mistakes can be made when transferring information from business documents to the financial records of the business?
- 2 In some businesses, more than one person maintains the accounts of the business. How would you divide up their roles and responsibilities?

Developing

Introduction

For small businesses, the double entry accounts can be kept in one book. Individual accounts are easy to find because there are not many separate accounts. Once a business expands, some method of organising the financial records becomes important. Different ledgers are used to store certain types of accounts (covered in Unit 2.1). In addition, businesses can also use a system of **books of prime entry**.

Financial transactions are classified according to type of transaction and then entered in the appropriate book of prime entry. The books of prime entry provide back-up to the double entry system and ensure the double entry accounts are not cluttered with a large number of entries of small value. The books of prime entry provide the link between the business documents (discussed in Unit 2.2) and the ledger accounts (discussed in Unit 2.1). Business documents generate entries into the books of prime entry. The entries in the books of prime entry are then transferred to the ledger accounts by the process of **posting**.

Key terms

Book of prime entry: A book, or journal, in which transactions are first recorded before being posted to the double entry accounts.

Posting: The process of transferring information from books of prime entry to the correct double entry account.

Key knowledge

Business documents provide information for the books of prime entry. Information from the books of prime entry is then posted as entries in the ledger accounts.

Books of prime entry record details of transactions as they happen. Except for the cash book, they are not accounts. The cash book is both a book of prime entry and an account. There are different books used for different types of transaction, as shown in the table below. Books of prime entry are also known as **journals** or **books of original entry**.

Book of prime entry	Type of transaction recorded in the book
Cash book	All cash and bank transactions
Petty cash book	All small items of cash payment
Sales journal	All credit sales of goods
Purchases journal	All credit purchases of goods bought for resale
Sales returns journal	Sales returns of goods previously sold
Purchases returns journal	Purchases returns of goods previously purchased
General journal	Any transaction not covered by the other journals

Advantages of using books of prime entry

- Totals are posted from the books of prime entry instead of each individual entry. This means the double entry accounts are used less frequently and are easier to read as a result.
- The books of prime entry provide a back-up to information contained in the double entry accounts. This is useful when records are missing.
- Responsibility for maintaining the financial records can be delegated to different workers. Each person maintains a different book of prime entry.

The cash book

The **cash book** is a combination of the cash and bank accounts. It records all cash and bank transactions made by the business. It works in the same way as a double entry account but with two debit columns and two credit columns – one each for cash and for bank.

The cash book is the only book of prime entry which is also a double entry account (two accounts, in reality).

Electronic bank transfers

Cheques can be used to make payments from the bank account of a business to another person or business. However, cheques are used much less than in the past. Electronic transfers of money from one bank account to another are possible. Some of these methods include:

- Direct debits
- Standing orders
- Bank transfers
- Credit transfers

The different methods of electronic transfer are explored in Unit 3.3.

Key term

Cash book: A combined cash and bank account which records all transactions involving payments and receipts of money.

Worked example 1

For April 2018, these cash and bank transactions are made.

- 1 April Balances are as follows: Cash in hand \$102, Cash in bank \$1190
- 8 April Payment of \$200 by cheque to Emma
- 10 April Cash sales of \$89 paid for by cheque
- 12 April Cheque received from Kashi for \$315
- 15 April Cash paid for advertising \$95

The cash book appears as:

Cash book							
		Cash	Bank			Cash	Bank
2018		\$	\$	2018		\$	\$
1 April	Balances b/d	102	1190	8 April	Emma		200
10 April	Sales		89	15 April	Advertising	95	
12 April	Kashi		315				

Update the cash book by entering the following transactions.

- 19 April Cash amount of \$45 withdrawn from bank for business use
- 23 April Payment of \$178 by cheque to Jayden
- 28 April Electronic transfer made from business bank of \$100 to NW Electricity Ltd

Balance the cash book at the end of the month, stating the closing balances.

The cash book entries are completed by posting into the appropriate columns. This depends on whether the transaction involves money being received – which involves a debit entry (in either the cash or bank column), or money being paid out – which involves a credit entry in the cash or bank columns.

Cash book							
		Cash	Bank			Cash	Bank
2018		\$	\$	2018		\$	\$
1 April	Balances b/d	102	1190	8 April	Emma		200
10 April	Sales		89	15 April	Advertising	95	
12 April	Kashi		315	19 April	Cash		45
19 April	Bank	45		23 April	Jayden		178
				28 April	NW Electricity Ltd		100
				30 April	Balances c/d	52	1071
		<u>147</u>	<u>1594</u>			<u>147</u>	<u>1594</u>
1 May	Balances b/d	52	1071				

There might be a debit balance on cash and a credit balance on bank at the same time.

The transaction on 19 April requires a debit entry and a credit entry in the cash book. This is because it is a movement between holding cash in the bank and holding cash in hand.

The cash book balances are both debit balances: \$52 for cash and \$1071 for bank.

1 Why can't the cash account have a credit balance?

Cash discounts

Businesses both buy and sell goods on credit. This means payment is not made until later. To encourage prompt or earlier payment of the debt, a business can offer a **cash discount**. This is where a business deducts a small amount from the total owing if payment is received within a specified time period. Most cash discounts are calculated as a percentage reduction on the outstanding invoice.

Key knowledge

Cash discounts do not require that payment is made in cash. Cash discount is the name used to distinguish it from a trade discount.

There are two types of cash discount that appear in the double entry accounts.

Type of cash discount	Description
Discounts allowed	Offered by the business to its credit customers
Discounts received	Received by the business from its credit suppliers

Key terms

Cash discount: A reduction in the amount owing on a credit transaction to encourage prompt payment.

Discount allowed: A reduction in the invoice total offered by a business to its credit customers to encourage early settlement of invoices.

Discount received: A reduction in the amount a business owes to the credit supplier of the business to encourage early settlement.

Cash discounts differ from **trade discounts**. Trade discounts are reductions in amounts owing offered usually between businesses in the same industry. These do not appear in the double entry accounts. Cash discounts do appear.

Key knowledge

Trade discounts *do not* appear in the double entry accounts.

Cash discounts *do* appear in the double entry accounts.

Worked example 2

A business sells \$480 of goods to Jacob and offers a 2.5% discount if payment is received within two weeks. The business has also purchased goods on credit for \$800 from Gloria and is offered a discount of 1.25% if payment is made within two weeks.

Both transactions are settled within the two-week period. Calculate the amount received from Jacob and the amount paid to Gloria.

The amount received from Jacob is \$480 less 2.5%

$$2.5\% \text{ of } \$480 = \$12$$

$$\text{Amount received from Jacob} = \$480 - \$12 = \$468.$$

The amount paid to Gloria is \$800 less 1.25%

$$1.25\% \text{ of } \$800 = \$10$$

$$\text{Amount paid to Gloria} = \$800 - \$10 = \$790.$$

The business is owed \$480 but receives \$468 in full settlement. The difference represents the *discount allowed* by the business.

The business owes \$800 but pays \$790 in full settlement. The difference represents the *discount received* by the business.

Posting discounts in the double entry accounts

Cash discounts are recorded in either the **discounts allowed** or the **discounts received** double entry accounts. Using the information from Worked example 2, the transactions are recorded in the double entry accounts as follows. (The entries in the cash book are not included here.)

Entries needed to record credit sale to Jacob:

Jacob			
	\$		\$
Sales	480	Bank	468
		Discounts allowed	12

Discounts allowed			
	\$		\$
Jacob	12		

Entries needed to record credit purchase from Gloria

Gloria			
	\$		\$
Bank	790	Purchases	800
Discounts received	10		

Discounts received			
	\$		\$
		Gloria	10

The three-column cash book

A three-column cash book includes an additional column on the debit and credit sides to be used for showing cash discounts. A cash book with no column for discounts is referred to as a **two-column cash book**.

A benefit of using a three-column cash book to record discounts is that the double entry accounts for discounts allowed and received will need fewer entries as a result.

Key knowledge

Most of the time it will not be specified whether a two- or a three-column cash book is being used. However, it is easy to find out. Three-column cash books contain columns for discounts.

Using the information from Worked example 2, the entries into the three-column cash book appear as follows:

Cash book							
	Discounts allowed	Cash	Bank		Discounts received	Cash	Bank
	\$	\$	\$		\$	\$	\$
Jacob	12		468	Gloria	10		790

Worked example 3

For April 2018, the following cash and bank transactions are made.

- 1 April Balances brought forward: Cash \$175, Bank \$290 overdrawn
- 3 April Paid Ling by cheque \$400 in full settlement of \$420 owing
- 8 April Paid \$50 cash into bank account
- 15 April Received cheque from Cheng for \$250 in full settlement of sale for \$275

The cash book appears as follows:

Cash book									
		Discounts	Cash	Bank			Discounts	Cash	Bank
		\$	\$	\$			\$	\$	\$
2018					2018				
1 April	Balance b/d		175		1 April	Balance b/d			290
8 April	Cash			50	3 April	Ling	20		400
15 April	Cheng	25		250	8 April	Bank		50	

Update the cash book by entering the following transactions and balancing the account for the end of the month. Complete the discounts allowed and discounts received accounts.

- 22 April Received cheque of \$90 from Hosna in settlement of sales worth \$95
- 25 April Cash withdrawn from bank for business use \$30
- 29 April Paid Kalim by bank transfer \$210 in full settlement of sales invoice totalling \$225

For the transactions on 22 and 29 April, the discount is entered in the appropriate column.

In this example, the discounts columns are not labelled 'allowed' or 'received'. This is because any payment received from customers is for credit sales and will be linked to discounts allowed to customers. Similarly, the payments made to suppliers for credit purchases will be linked to discounts received from suppliers.

Cash book					Cash book				
		Discounts	Cash	Bank			Discounts	Cash	Bank
2018		\$	\$	\$	2018		\$	\$	\$
1 April	Balance b/d		175		1 April	Balance b/d			290
8 April	Cash			50	3 April	Ling	20		400
15 April	Cheng	25		250	8 April	Bank		50	
22 April	Hosna	5		90	25 April	Cash			30
25 April	Cash		30		29 April	Kalim	15		210
30 April	Balance c/d			540	30 April	Balance c/d		155	
		<u>30</u>	<u>205</u>	<u>930</u>			<u>35</u>	<u>205</u>	<u>930</u>
1 May	Balance b/d		155		1 May	Balance b/d			540

Notice how the discounts columns are totalled and not balanced. The totals for the discounts columns are posted to the accounts for discounts allowed and discounts received.

The balances on the cash book at 30 April are: Cash \$155 debit; Bank \$540 credit.

Discounts allowed				Discounts received			
	\$		\$		\$		\$
Total of April	30			Total of April	35		

- 2 Why would a business use cheques when it is often easier and quicker to transfer money electronically?

The petty cash book

Some businesses keep a separate **petty cash book** in addition to the cash book. The petty cash book is used for small items of cash payment. Using a petty cash book means the 'main' cash book will not be quickly filled with lots of small payments.

The petty cash book categorises small items of cash expense and totals these every month. The monthly totals are then transferred to the double entry accounts.

The opening balance on the petty cash book is known as the **float**. At the end of each month, the opening balance is restored by a payment made from the main cash book equal to the amount spent on petty cash items during that month.

Key terms

Petty cash book: A book of prime entry used for small items of payment by cash.

Imprest system: A system of maintaining a petty cash book by always ensuring the opening balance of the petty cash book is the same amount for each time period.

Float: The amount of petty cash available at the start of each month.

Maintaining the same float on the petty cash book is known as the **imprest system**.

Worked example 4

The following are details of petty cash transactions for April 2018.

- 1 April The chief cashier debits the petty cash book with \$100 to restore the float
- 4 April Petrol \$12
- 5 April Stationery \$6
- 9 April Tea and coffee \$7
- 11 April Train tickets \$12
- 18 April Tea and coffee \$4
- 20 April Train tickets \$15
- 21 April Stationery \$6
- 27 April Folders for office \$5

The categories of expenditure used by the business are: Travel costs, Stationery and Sundries. Voucher numbers are used each time a claim is made for petty cash.

The petty cash book appears as follows:

Petty cash book							
Receipts	Date	Details	Voucher	Total	Travel costs	Stationery	Sundries
\$				\$	\$	\$	\$
100	1 April	Cash					
	4 April	Petrol	12	12	12		
	5 April	Stationery	13	6		6	
	9 April	Tea and coffee	14	7			7
	11 April	Train tickets	15	12	12		
	18 April	Tea and coffee	16	4			4
	20 April	Train tickets	17	15	15		
	21 April	Stationery	18	6		6	
	27 April	Folders for office	19	<u>5</u>		5	
				?	<u>?</u>	<u>?</u>	<u>?</u>
<u>?</u>	30 April	Cash					
	30 April	Balance c/d		<u>100</u>			
<u>167</u>				<u>167</u>			
100	1 May	Balance b/d					

Total the analysis columns for each category of expenditure and post these to the relevant nominal ledger account. Calculate the amount to be debited to the petty cash book to restore the float.

The totals entered in the petty cash book are:

- Total for travel costs: \$39
- Total for stationery: \$17
- Total for sundries: \$11

Travel costs			
2018		\$	
30 April	Petty cash book	39	

Stationery			
2018		\$	
30 April	Petty cash book	17	

Sundries			
2018		\$	
30 April	Petty cash book	11	

Total to be refunded as part of imprest system: \$67.

The total for each category of expenditure is debited to the double entry account for each category of expenditure. The \$67 which is debited to the petty cash book to restore the float comes from the credit side of the main cash book.

An employee might spend their own money for the business and then reclaim it as petty cash. In this case, the employee would fill out a petty cash voucher to reclaim the amount spent.

It may help to think of the petty cash book as another double entry account but an account that has credit columns (for payments) split up into categories of expenditure. The columns used are also known as **analysis columns**.

Advantages of maintaining a petty cash book

- It stops the main cash book being quickly filled up with small items of expenditure
- It allows the business to delegate the responsibility for maintaining the petty cash book to a junior member of staff.

Sales journal

The **sales journal** records all credit sales made by the business. This only includes the sales of goods which were purchased by the business specifically for resale. For example, the sale of a motor vehicle on credit which has been used by the business would not appear in the sales journal.

When the business makes a credit sale of goods, it sends an invoice to the customer (see Unit 2.2). The invoice is used to make a record of the sale in the sales journal.

Instead of entering every credit sale made into the sales account, only the total of sales for the month found in the sales journal is transferred to the sales account. However, entries are made for each credit sale in the personal account of the supplier in the sales ledger.

Key term

Sales journal: The book of prime entry used to record credit sales.

Worked example 5

This is an extract from the sales journal of a business for April 2018.

Sales journal			
Date	Details	Invoice no.	Total
2018			\$
4 April	Khaled	1011	85
12 April	Farida	1012	160
19 April	Harold	1013	210
25 April	Khaled	1015	56
30 April	Transferred to sales account		???

Post the entries from the sales journal to the correct ledger accounts including the end of month total.

Sales Ledger					
Khaled					
2018		\$	2018		\$
4 April	Sales	85			
25 April	Sales	56			

Farida					
2018		\$	2018		\$
12 April	Sales	160			

Harold					
2018		\$	2018		\$
19 April	Sales	210			

Nominal ledger					
Sales					
2018		\$	2018		\$
			30 April	Sales journal	511

Each credit sale will be debited to the personal account of the customer of the business.

- 3** A business sells a vehicle which had been used by the business on credit. In which journal do you think this would be recorded?

Purchases journal

The **purchases journal** consists of all credit purchases of goods for resale. It only includes purchases of items specifically bought for resale. For example, a business purchasing a computer to be used by the business does not include this within purchases, but a business purchasing a computer specifically for resale does include this within purchases.

Key term

Purchases journal: The book of prime entry used to record credit purchases.

Businesses receive purchases invoices from the suppliers when they make credit purchases. The information found on a purchases invoice is entered in the purchases journal.

Individual purchases are not debited to the purchases account. Instead, the monthly total for the purchases journal is transferred to the purchases account. Individual entries are posted to the personal accounts of the suppliers in the purchases ledger for each purchase made.

Worked example 6

This is an extract from the purchases journal of a business for April 2018.

Purchases journal			
Date	Details	Invoice no.	Total
2018			\$
2 April	Samir	564	34
5 April	Omar	565	12
11 April	Omar	566	26
22 April	Nilam	567	55
30 April	Transferred to purchases account		???

Post the entries from the purchases journal to the correct ledger accounts, including the end of month total.

Nominal ledger					
Purchases					
2018		\$	2018		\$
30 April	Purchases journal	127			

Purchases ledger					
Samir					
2018		\$	2018		\$
			2 April	Purchases	34

Omar					
2018		\$	2018		\$
			5 April	Purchases	12
			11 April	Purchases	26

Nilam					
2018		\$	2018		\$
			22 April	Purchases	55

The total of credit purchases for the month is debited to the purchases account in the nominal ledger.

The personal accounts of the suppliers are credited with each credit purchase made. In this case, you credit the account of Omar twice as you made two separate purchases from this supplier.

Sales returns journal

Sales may be returned to the business by credit customers. A business allowing a customer to return goods issues a **credit note**. Credit notes are recorded in the **sales returns journal**. The monthly total of sales returns is posted to the sales returns account. Entries are made in the personal account of the customer each time a sales return is authorised.

Key term

Sales returns journal: The book of prime entry used to record sales returns.

Worked example 7

This is an extract from the sales returns journal of the business in Worked example 5 for April 2018.

Sales returns journal			
	Details	Credit note no.	Total
2018			\$
19 April	Khaled	1/3	34
26 April	Harold	2/3	12
30 April	Transferred to sales returns account		<u>46</u>

Post the entries from the sales returns journal to the correct ledger accounts, including the end of month total.

Sales Ledger						Nominal ledger					
Khaled						Sales returns					
2018		\$	2018		\$	2018		\$	2018		\$
4 April	Sales	85	19 April	Sales returns	34	30 April	Sales returns journal	46			
25 April	Sales	56									

Harold					
2018		\$	2018		\$
19 April	Sales	210	26 April	Sales returns	12

The total of sales returns for the month is debited to the sales returns account in the nominal ledger.

Notice that the original entry for sales appears on the debit side of each account. The sales returns entries are credited to the relevant personal account in the sales ledger. Crediting the account reduces what that customer owes to the business.

Purchases returns journal

Businesses can return goods to the original suppliers. A purchases return will be authorised by the receipt of a credit note from the original supplier. When a credit note is received, an entry is made in the **purchases returns journal**. The monthly total of purchases returns is posted to the purchases returns account. An entry is made in the personal account of the relevant supplier each time a purchases return is authorised.

Key term

Purchases returns journal:

The book of prime entry used to record purchases returns.

Worked example 8

This is an extract from the purchases journal of the business in Worked example 6 for April 2018.

Purchases returns journal			
Date	Details	Credit note no.	Total
2018			\$
13 April	Omar	3/100	23
17 April	Samir	3/101	10
30 April	Transferred to purchases returns account		<u>33</u>

Post the entries from the purchases returns journal to the correct ledger accounts, including the end of month total.

Nominal ledger						Purchases ledger					
Purchases returns						Samir					
			2018		\$	2018		\$	2018		\$
			30 April	Purchases returns journal	33	17 April	Purchases returns	10	2 April	Purchases	34
Omar						Omar					
			2018		\$	2018		\$	2018		\$
			13 April	Purchases returns	23	5 April	Purchases	12			
						11 April	Purchases	26			

The total of purchases returns for the month is credited to the purchases returns account in the nominal ledger.

Notice that the original entries for purchases appear on the credit side of each account. The purchases returns entries are debited to the personal account of the supplier in the purchases ledger. Debiting the account reduces what the business owes to the supplier.

The general journal

Transactions involve a movement of money or a movement of goods into or out of the business. Most of these transactions appear in either the cash book, the sales and purchases journals or one of the returns journals. Any other transaction is entered in the **general journal**.

The general journal is used for transactions that occur less frequently. For example, it is used when recording accounting errors, as you will discover in Chapter 3, and when recording depreciation and irrecoverable debts, as you will discover in Chapter 4. The layout of the general journal is unlike the other journals and appears as follows:

General journal			
	Journal entry	Dr	Cr
Year		\$	\$
Date	Name of account to be debited	Amount	
	Name of account to be credited		Amount
Narrative – a brief explanation of the transaction entered above			

Entries in the general journal must always follow the layout shown. The account to be debited must appear first, followed by the account to be credited. The name of the account to be credited is usually indented slightly.

A **narrative** explains the transaction in words. The narrative provides more details than appear in the main part of the entry. It should provide enough information for the transaction to be understood.

Key terms

General journal: The book of prime entry used to record transactions not found in any other journal, sometimes referred to as the journal.

Narrative: A description of a transaction entered in the general journal.

- 4 What other transactions do you think would be entered in the general journal?

Worked example 9

On 16 April 2018, a business buys a machine for use within the business from Sharp Ltd on credit for \$5000. This is the journal entry recording this:

General journal			
	Journal entry	Dr	Cr
2018		\$	\$
16 April	Machinery	5000	
	Sharp Ltd		5000
Narrative:			

Write the narrative to explain this transaction.

Bought asset on credit.

The narrative does not have to repeat information already found in the journal entry. In this example, there is no need to say the value of the asset, what the asset is or who it was bought from. All this is already contained in the journal entry.

Worked example 10

On 21 April, a business owner introduces into the business a computer he previously used privately. The computer will now only be used in the business and is valued at \$400.

Enter this transaction in the general journal.

General journal			
	Journal entry	Dr	Cr
		\$	\$
21 April	Computer	400	
	Owner's equity		400
Asset introduced into the business by owner.			

This type of transaction does not appear in any of the other books of prime entry.

Worked example 11

On 25 April 2018, Zhi, a customer who owes the business \$800, agrees to return goods with a value of \$350 and gives the business machinery in exchange for cancelling the remainder of the amount owing.

Enter this transaction in the general journal.

General journal			
	Journal entry	Dr	Cr
2018		\$	\$
25 April	Sales returns	350	
	Machinery	450	
	Zhi		800
Asset accepted, along with the return of goods for full settlement of amount owing from customer.			

This journal entry requires you to include two debit entries but only one credit entry. If the total of the debit entries equals the total of the credit entries then this is allowable. The amount owing by Zhi is settled by giving the business machinery of the same value as the remainder of the amount owing.

Applying

Discuss these questions in pairs.

- 1 What books of prime entry would be less useful for a business that sells services?
- 2 What would encourage a business to use a petty cash book as well as a cash book?

3 Complete this task in pairs.

Task

The following are transactions connected with the buying and selling of goods. Enter each transaction into the correct journal and post the relevant amounts to the ledger accounts affected for July 2018.

- 1 July Inventory purchased on credit from Joseph for \$45
- 4 July Inventory purchased on credit from Markus for \$54
- 5 July Credit sales for \$165 to Robert
- 8 July Business returns inventory to Joseph worth \$24
- 11 July Robert returns inventory worth \$31
- 16 July Credit purchases from Olga for \$81
- 18 July Sales made on credit to Noah for \$101
- 21 July Inventory returned to Olga valued at \$11
- 22 July Inventory sold to Noah for \$145
- 25 July Noah returns inventory worth \$32

Knowledge check

- 1 The sales journal contains:
 - A Sales made but not paid for at the time of sale
 - B Sales made for immediate cash settlement
 - C Sales of assets to be used within the business
 - D Returns of goods sold on credit
- 2 Where is the purchases returns account located?
 - A Purchases journal
 - B General ledger
 - C Purchases ledger
 - D Purchases returns journal
- 3 Goods are purchased from Adrianna on 13 April 2018 for \$800. A cash discount of 2.5% is offered if the amount owing is settled within 14 days. Payment is made on 20 April 2018. Which is the correct double entry to record the discount?


Debit	Credit
A Adrianna \$40	Discounts received \$40
B Discounts allowed \$20	Adrianna \$20
C Discounts received \$40	Adrianna \$40
D Adrianna \$20	Discounts received \$20


- 4 For each transaction, state in which book of prime entry the transaction would be recorded.
- Sales made on credit
 - Goods previously sold by the business sent back to the business
 - A computer used in business taken out of the business for personal use
 - Cheque paid to settle an account relating to a previous purchase of goods
 - Machinery sold with payment received by cheque
 - Office furniture bought on credit specifically for resale
- 5 The following is a summary of the petty cash transactions for May 2018.
- | | |
|--------|---|
| 1 May | Received from petty cashier \$100 as petty cash float |
| 2 May | Rail fares \$17 |
| 4 May | Petrol \$8 |
| 8 May | Stationery purchases \$4 |
| 10 May | Cleaning \$11 |
| 18 May | Petrol \$16 |
| 21 May | Cleaning \$15 |
| 22 May | Bus fares \$4 |
| 25 May | Cleaning \$2 |
- Prepare a petty cash book with columns for expenditure on cleaning, travel expenses and stationery.
 - Enter the month's transactions.
 - Enter the receipt of the amount necessary to restore the imprest and carry down the balance for the commencement of the following month.
- 6 Prepare the journal entries necessary to record the following transactions for July 2018. Narratives are not required.
- | | |
|---------|---|
| 1 July | Equipment bought on credit from Tau for \$900 |
| 8 July | The business owes \$280 to Manuel but the debt is transferred to Sahar |
| 13 July | Equipment worth \$490 taken out of the business for personal use |
| 19 July | Car bought on credit from Quality Cars Ltd for \$2900 |
| 25 July | Computer accepted in return for outstanding debt of \$325 owed to the business by Wei |
- 7 From the following data, construct the cash book for the month of July 2018 and balance the cash book for the end of the month.
- | | |
|---------|---|
| 1 July | Balance at bank \$860 (overdrawn) and \$42 cash in the business cash register |
| 4 July | Sale of machinery for \$320 with payment received by cheque |
| 7 July | Cash of \$250 withdrawn from bank and placed into cash register. |
| 11 July | Purchase of goods for resale \$100 payment by cheque |
| 14 July | Payment received by cheque from M Yang – a credit customer for \$84 |
| 18 July | Wages paid by cheque \$530 |
| 22 July | Payment of advertising \$51 paid with cash |
| 26 July | Sale of goods for cash \$230 |
- On 29 July, all cash held in the cash register, except for \$40, was transferred into the bank account.


Check your progress

Read the unit objectives below and reflect on your progress in each

- Explain the advantage of using various books of prime entry
- Explain the use of, and process, accounting data in the books of prime entry – cash book, petty cash book, sales journal, purchases journal, sales returns journal, purchases returns journal and the general journal
- Post the ledger entries from the books of prime entry
- Distinguish between and account for trade discount and cash discounts
- Explain the dual function of the cash book as a book of prime entry and as a ledger account for bank and cash
- Explain the use of and record payments and receipts made by bank transfers and other electronic means
- Explain and apply the imprest system of petty cash.

 I struggle with this and need more practice.

 I can do this reasonably well.

 I can do this with confidence.

Chapter review

- 1 Which is the correct double entry to record the return of goods to a credit supplier?
- | | Debit | Credit |
|---|------------------|-------------------|
| A | Supplier account | Purchases |
| B | Supplier account | Sales returns |
| C | Supplier account | Purchases returns |
| D | Bank | Purchases returns |
- 2 Which is the correct double entry to record receiving a cheque for rent received?
- | | Debit | Credit |
|---|---------------|---------------|
| A | Rent received | Bank |
| B | Rent received | Customer |
| C | Customer | Rent received |
| D | Bank | Rent received |
- 3 The owner introduces her own laptop into the business for business use. Which is the correct double entry to record this?
- | | Debit | Credit |
|---|----------------|----------------|
| A | Owner's equity | Laptop |
| B | Drawings | Laptop |
| C | Laptop | Drawings |
| D | Laptop | Owner's equity |
- 4 Which is the correct double entry to record the sale of goods on credit to A Gregory?
- | | Debit | Credit |
|---|-----------|-----------|
| A | Sales | A Gregory |
| B | Sales | Bank |
| C | A Gregory | Sales |
| D | Bank | Sales |
- 5 A furniture retailer buys tables for cash for use in the business offices. Which is the correct double entry to record this?
- | | Debit | Credit |
|---|-----------|-----------|
| A | Purchases | Cash |
| B | Furniture | Cash |
| C | Cash | Purchases |
| D | Cash | Furniture |
- 6 Which is the correct business document for making entries in the sales returns journal?
- A A credit note
 B A sales invoice
 C A purchase invoice
 D A paying-in slip
- 7 The purchases journal records
- A Purchases made but not paid for at the time of purchase
 B Purchases made for immediate cash settlement
 C Purchases of assets to be used within the business
 D Returns of goods purchased on credit
- 8 Where is the sales account located?
- A The sales ledger
 B The sales journal
 C The nominal ledger
 D The general journal
- 9 Which of the following is entered in the general journal?
- A Purchase of equipment for business use for cash
 B Credit purchase of machinery for business use
 C Withdrawal of money from the business by the owner
 D Sale of goods on credit to new customers
- 10 Goods are sold to Ariel on 7 July 2018 for \$1200. The credit terms are for a 2.5% cash discount if payment is received within 14 days. Payment is received on 18 July. Which is the correct double entry to record the discount?
- | | Debit | Credit |
|---|------------------------|-------------------------|
| A | Ariel \$15 | Discounts received \$15 |
| B | Ariel \$30 | Discounts received \$30 |
| C | Discounts allowed \$30 | Ariel \$30 |
| D | Discounts allowed \$15 | Ariel \$15 |

- 11** Daniel is a trader who keeps full double entry records, including a three-column cash book. On 1 June 2018, his cash book showed the following debit balances:

Cash \$218

Bank \$5642

The business's transactions for the month of June 2018 included the following:

- 2 June Goods sold to Nathan worth \$900
- 5 June Cheques paid totalling \$2300 for new office furniture
- 9 June Goods worth \$300 returned by Nathan
- 15 June Paid Thalia a cheque for \$890 in full settlement of an amount owing totalling \$920
- 17 June Received a cheque from Nathan in settlement of his account of \$600, after deducting a cash discount of 2.5%
- 21 June Cash sales of \$680 paid directly into bank
- 24 June Office expenses of \$150 paid by cash

- (a) Prepare a cash book (with columns for discounts) for the business for June 2018. [12]
 - (b) Prepare the ledger account of Nathan for June 2018. [6]
 - (c) (i) Where would you find the account of Nathan? [1]
 - (ii) In which book of prime entry would the transaction on 2 June be recorded? [1]
- [Total 20]**

- 12** Kate is a sole trader. The following transactions took place in August 2018.

- 5 August The business exchanges its motorcycle worth \$900 for a van of equivalent value with a friend
- 8 August The business is owed \$300 by Alysha. She is declared bankrupt and the business receives \$50 in full settlement
- 13 August Office equipment bought on credit from Sulaiman for \$810
- 25 August Goods taken out of business for personal use valued at \$120
- 30 August Fen owed the firm \$50 but the debt is transferred to Uma

- (a) Enter these transactions into the general journal. Narratives are not required. [12]
- (b) From the following information, prepare the ledger account of Denys in the books of Kate. [6]

- 1 September Denys owes the business \$75
- 4 September Goods sold on credit to Denys worth \$855
- 18 September Goods worth \$114 returned by Denys
- 27 September Cheque for \$340 received from Denys in full settlement of an invoice totalling \$355

- (c) In which book of prime entry would the following transactions be entered?
 - (i) Payment made for purchase of goods [1]
 - (ii) Goods returned by a business to the original supplier. [1]
- [Total 20]**

13 The following is a summary of the petty cash transactions for a small coffee bar for March 2018.

- 1 Mar Received from petty cashier \$200 as petty cash float
- 2 Mar Newspapers \$3
- 4 Mar Petrol \$5
- 8 Mar Magazines \$12
- 10 Mar Cleaning costs \$14
- 20 Mar Petrol \$22
- 21 Mar Cleaning costs \$24
- 22 Mar Petrol \$18
- 25 Mar Newspapers \$7

(a) Prepare a petty cash book with analysis columns for expenditure on cleaning, petrol and general expenses.

Enter the month's transactions.

Enter the receipt of the amount necessary to restore the imprest and carry down the balance for the commencement of the following month.

[12]

(b) Explain what the following terms mean:

(i) Imprest

[2]

(ii) Float.

[2]

(c) Explain two reasons why a business maintains a petty cash book in addition to the main cash book.

[4]

[Total 20]