

Cambridge IGCSE/O-Level

Economics

(Code: 0455/2281)

Section 02



Chapter 6

2.6 Business documents

Introduction

The main business documents and their uses are described in this chapter.

Invoice

Sometimes the supplier allows the customer to **trade a discount**. A **trade discount** is a reduction in the price of goods: the rate often increases according to quantity purchased.

It is important to distinguish between a **cash discount and trade discount**. Cash discount was explained in Chapter 4. A **trade discount** is shown as a deduction on the invoice.

Walkthrough 6.1

Sew and sew is a curtain making business. On 3 April 20–9 goods were purchased on credit from The Weaving Shed and the following invoice was received:

- The customer receives the original invoice and uses it to record the purchase of goods on credit.
- The supplier keeps a copy of the invoice and uses it to record the sale of goods on credit.

Debit note.

The customer should check that goods received are in a satisfactory condition and that they are exactly what was ordered (in respect of price, quantity, and quality).

Walkthrough 2.6

On 6 April 20–9 Sew and Sew returned goods to The Weaving Shed and issued the following debit note.

- Neither the supplier nor the customer makes any entries in their accounting records in respect of a debit note.
- A debit note is merely a request to the supplier to reduce the total of the original invoice.

Credit note.

A **credit note** is a document issued by a seller of goods on credit to notify of a reduction in an invoice previously issued. As with all documents, each business has its own style of credit note, but they all contain the following information:

- the name and address of the supplier
- the name and address of the customer
- the date
- full details, quantities and prices of the goods returned or overcharged.

Quantity		Description	Unit price \$	Amount \$
30 metres		Brocade fabric Design: B320 Colour: Crimson	15	450 00
10 metres		Polycotton fabric Design: P21 Colour: Lemon	6	60 00
				510 00
		Less 20% trade discount		102 00
				408 00

Terms: 2½% cash discount if account paid by 31 May 20–9

Unit price \$		Amount \$
10 metres polycotton fabric Design: P21 Colour: Lemon	6	60 00
Less 20% trade discount		12 00
		48 00

Reason for return: Wrong colour supplied
Please issue a credit note

Walkthrough 2.7

On 6 April 20–9 Sew and Sew returned goods to The Weaving Shed and issued a debit note. The Weaving Shed issued the following credit note to Sew and Sew on 9 April 20–9:

- The customer receives the original credit note and uses it to record the purchases returns.
- The supplier keeps a copy of the credit note and uses it to record the sales returns.

Statement of account

A **statement of account** is a document issued by the seller of goods on credit to summarize the transactions for the month.

The Weaving Shed issued the following statement of account to Sew and Sew on 30 April 20–9.

- Neither the supplier nor the customer makes any entries in their accounting records in respect of a statement of account.
- A statement of account is a reminder to the customer of the amount outstanding. This can be checked against the customer’s own records to ensure that no errors have been made by either the supplier or the customer.

Cheque

A cheque is a written order to a bank to pay a stated sum of money to the person or business named on the order.

Walkthrough 6.5

On 28 May 20–9 Sew and Sew sent a cheque to The Weaving Shed for the amount due on that date less cash discount. The cheque and its counterfoil are shown as follows:

- The supplier receives the cheque. A paying-in slip is completed when the cheque is paid into the bank.
- The customer keeps the cheque counterfoil and uses it to make the entry in the cash book to show the money paid out of the bank and to make a note of the discount in the discount received column.

Receipt

A receipt is a written acknowledgement of money received and acts as proof of payment.

Credit note
C529

The Weaving Shed
14 Industrial Street
Hightown
Telephone 111 01357

Sew and Sew
92 The Avenue
Lowtown

9 April 20–9

Quantity	Description	Unit price \$	Amount \$
10 metres	Polycotton fabric Design: P21 Colour: Lemon	6	60 00
	Less 20% trade discount		12 00
			<u>48 00</u>

Reason for issue of credit note:
Wrong colour supplied

Statement of account

The Weaving Shed
14 Industrial Street
Hightown
Telephone 111 01357

Sew and Sew
92 The Avenue
Lowtown

30 April 20–9

Date	Reference	Debit \$	Credit \$	Balance \$
20–9				
April 3	Invoice number I 3624	408 00		408 00
9	Credit note number C529		48 00	360 00

The last amount shown in the balance column is the amount due.
Terms: 2½% cash discount if account is paid by 31 May 20–9.

Date 28 May 20–9 THE ABC BANK LIMITED Date 28 May 20–9
SOUTH DISTRICT BRANCH, DELHI

Payee The Weaving Shed Pay The Weaving Shed \$ 351-00

Three hundred & fifty one dollars only S. Dhoni
Trading as Sew and Sew

Cheque no 00039 Cheque no 00039 Branch sort code 05 22 30 Account no 3996829

RECEIPT Receipt no 44

The Weaving Shed 14 Industrial Street Hightown

Received from Sew and Sew the sum of \$351 (three hundred and fifty one dollars) by cheque

30 May 20–9 K Singh Chief cashier

Chapter 7

2.7 Books of prime entry

Introduction

A book of prime entry is one in which transactions are recorded before being entered in the ledger.

Books of prime entry are also known as **books of original entry** or **subsidiary books**. The name of these books has arisen because all transactions should be recorded in one of these books **before** they are entered in the ledger.

Sales journal

The sales journal shows a list of the names of businesses to which credit sales have been made, the value of the goods sold and the date on which the sales were made. The sales journal is sometimes referred to as the sales book or the sales daybook. This journal is written using copies of the invoices sent to the customers. The entries are summarized as follows:

- 1) When goods are sold on credit.
- 2) At the end of the month

Sales returns journal

The **sales returns journal** shows a list of the names of businesses which have returned goods previously sold on credit, the value of the goods returned and the date on which the returns were made. The sales returns journal is also known as the **sales returns book** or the **returns inwards book** (or returns inwards journal).

This journal is written using copies of the credit notes sent to the customers. The entries are summarized as follows:

- 1) When goods are returned by a credit customer.
- 2) At the end of the month

Walkthrough 7.1

20-9

On April 3 the Weaving Shed issued an invoice to Sew and Sew for goods, \$510, subject to a trade discount of 20%.

9 The Weaving Shed issued a credit note to Sew and Sew for goods returned, list price \$60.

13 The Weaving Shed sold goods on credit to Fine Furnishings, \$1 000, subject to a trade discount of 25%, and issued an invoice on the same day.

20 The Weaving Shed sent Jaffar & Company an invoice for \$220 for goods supplied on credit.

28 The Weaving Shed issued a credit note to Jaffar & Company for \$10 because of an overcharge.

- Trade discount does not appear in the ledger accounts. Trade discounts may be shown in the books of prime entry for information purposes only.

- The entry in the sales account on 30 April is the double entry for the three individual debits in the customers' accounts in the sales ledger.

- The entry in the sales returns account on 30 April is the double entry for the two individual credits in the customers' accounts in the sales ledger.

The Weaving Shed				
Sales journal				Page
Date	Name	Invoice number	Folio	Amount \$
20-9				
April 3	Sew and Sew	I 3624	sl 22	408
13	Fine Furnishings	I 3625	sl 14	750
20	Jaffar & Company	I 3626	sl 16	220
30	Transfer to sales account		nl 35	<u>1 378</u>

Sales returns journal				
Date	Name	Credit note number	Folio	Amount \$
20-9				
April 9	Sew and Sew	C 529	sl 22	48
28	Jaffar & Company	C 530	sl 16	10
30	Transfer to sales returns account		nl 36	<u>58</u>

Sales ledger							
Sew and Sew account				Page			
Date	Details	Folio	\$	Date	Details	Folio	\$
20-9				20-9			
April 3	Sales	sj 1	408	April 9	Sales returns	srj 1	48

Purchases journal

The purchases journal shows a list of the names of businesses from which credit purchases have been made, the value of the goods purchased and the date on which the purchases were made. The purchases journal is also called the **purchases book** or the **purchases daybook**.

This journal is written using the invoices received from suppliers. The entries are summarized as follows:

- 1 When goods are purchased on credit.
- 2) 2 At the end of the month

Purchases returns journal.

The purchases return journal is also known as the **purchases returns book** or the **returns outward book** (or returns outward journal).

This journal is written up using credit notes received from suppliers. The entries are summarized as follows:

- 1 When goods are returned to a credit supplier.
- 2) At the end of the month.

Walkthrough 7.2

20–9

April 3 Sew and Sew received an invoice for goods purchased from The Weaving Shed for \$510, less a trade discount of 20%.

9 Sew and Sew received a credit note from The Weaving Shed for goods returned, list price \$60.

24 Sew and Sew received an invoice for goods purchased on credit from The Curtain Company for \$280, less 15% trade discount.

29 Sew and Sew discovered that half of the goods purchased on 24 April were faulty and these goods were returned to The Curtain Company who issued a credit note Make the necessary entries in the books of Sew and Sew for April 20–9.

Sew and Sew Purchases journal					Page 1
Date	Name	Invoice number	Folio	Amount	\$
20–9					
April 3	The Weaving Shed	I 3624	pl 8	408	
24	The Curtain Company	I 117	pl 5	238	
30	Transfer to purchases account		nl 4	646	

Purchases returns journal					Page 1
Date	Name	Credit note number	Folio	Amount	\$
20–9					
April 9	The Weaving Shed	C 529	pl 8	48	
29	The Curtain Company	C 43	pl 5	119	
30	Transfer to purchases returns account		nl 5	167	

Purchases ledger The Weaving Shed account								Page 8
Date	Details	Folio	\$	Date	Details	Folio	\$	
20–9				20–9				
April 9	Purchases returns	prj 1	48	April 3	Purchases	pl 1	408	

- Trade discount does not appear in the ledger accounts. Trade discounts may be shown in the books of prime entry for information purposes only.
- The entry in the purchases account on 30 April is the double entry for the two individual credits in the suppliers’ accounts in the purchase’s ledger.
- The entry in the purchases returns account on 30 April is the double entry for the two individual debits in the suppliers’ accounts in the purchase’s ledger.
- The Weaving Shed and Sew and Sew each record the transactions between the two businesses from their own viewpoint – The Weaving Shed is selling the goods and Sew and Sew are purchasing the goods.