

10

Purchases Journal, Sales Journal and General Journal



The following facts are discussed in this chapter.

10.1 Purchases Journal

Source documents required to prepare the Purchases Journal
Posting the items in the Purchases Journal to the ledger accounts

10.2 Sales Journal

Source documents required to prepare the Sales Journal
Posting the items in the Sales Journal to the ledger accounts

10.3 General Journal

10.4 Instant cash transactions conducted via technological means

10.1 Purchases Journal

Businesses purchase goods with the objective of reselling. These goods are purchased either on cash basis or on credit basis. Goods purchased on credit basis are recorded in a separate record named as the Purchases Journal. This is also known as the Purchases Day Book.

The purchases of trade goods on credit basis are initially recorded in the Purchase Journal.

Example :-

If a business buys and resells stationaries ,the purchase of stationaries on the credit basis is recorded in the Purchases Journal.

If a business buys and resells automobiles, the purchase of auto mobiles on credit basis is recorded in the Purchase Journal.

When purchasing goods on credit basis, the parties providing goods are known as suppliers or trade creditors. The debt owed to creditors are liabilities of a business. Suppliers, when providing goods on credit, prepare and send a source document including information regarding that supply. This source document is the 'invoice'. In the perspective of the purchasing business, it is the purchase invoice. The information in the purchase invoice is required to be recorded in the Purchases Journal at first. Thereafter, those transactions are posted into the ledger periodically.

Study the format of an invoice given below.

Invoice No. 120				
DESHAN BOOK SHOP MAIN STREET DEHIWELA T.P - 011- 2895942				
The Manager Rashmi Book Shop Maharagama				
With reference to your order No. A/485 dated 01.02.20xx				
Serial No.	Description	Quantity	Unit Price - Rs.	Value - Rs.
	Drawing books	40	100	4 000
	CR books	200	130	26 000
	Exercise books	120	60	7 200
				37 200
	Less - 10% Trade discount			3 720
				33 480
(All cheques should be written in favour of Deshan book shop and crossed)				
Condition : 5/30 net 60				
..... <i>Nirmal perera</i> Manager				

Figure 10.1

The condition '5/30 net 60' indicates that the purchaser should settle the credit within 60 days and if he/she settles within 30 days, a 5% cash discount will be given.

The trade discount is the reduction in the listed price of a good at the time of purchasing on credit. This trade discount is deducted in the invoice and not recorded in accounts. After deducting the trade discount the net purchase value of an invoice will be recorded in the Purchase Journal.

Study the format of a Purchase Journal given below.

Purchases Journal				
Date	Invoice No.	Supplier	Total value Rs.	Ledger Page

Example :-

The following information is of Lihini's business which buys stationaries for reselling.

- 01.03.20xx The net value of the Invoice No.115, under which goods are bought from Namal is Rs. 22 000.
- 10.03.20xx The net value of the Invoice No.65, under which goods are bought from Sahan is Rs. 28 000.
- 20.03.20xx The net value of the Invoice No.43, under which goods are bought from Purnima is Rs. 26 000.
- 25.03.20xx The net value of the Invoice No.48, under which goods are bought from Purnima is Rs. 12 000.

The Purchases Journal will be prepared as follows.

Purchases Journal

Date	Invoice No.	Supplier	Total Value Rs.	Ledger page
01.03.20xx	115	Namal	22 000	
10.03.20xx	65	Sahan	28 000	
20.03.20xx	43	Purnima	26 000	
25.03.20xx	48	Purnima	12 000	
31.03.20xx		Debited to the Purchases account	<u>88 000</u>	

Posting of transactions recorded in the Purchases Journal into Ledger.

The total in the Purchases Journal will be debited in to Purchases Account. Thereafter, each value will be credited separately into the respective account of the creditor. Generally, the purchases account is considered as an expense account. Hence, the double entry principle to record an expense is followed.

An increase of an expense is recorded in the debit side of that account. Thus, the total in the Purchases Journal will be debited to the purchase account. Creditors accounts are liability accounts. Therefore, an increase in the liability is recorded in the credit side of creditors account.

Accordingly, the values recorded in the Purchase Journal will be posted into the ledger as follows.

Dr. Purchases Account				Cr.			
Date	Description	L.F.	Value Rs.	Date	Description	L.F.	Value Rs.
31.03.20xx	Creditors		88 000				

Dr. Namal's account				Cr.			
Date	Description	L.F.	Value Rs.	Date	Description	L.F.	Value Rs.
				01.03.20xx	Purchases		22 000

Dr. Sahan's account				Cr.			
Date	Description	L.F.	Value Rs.	Date	Description	L.F.	Value Rs.
				10.03.20xx	Purchases		28 000

Dr. Purnima's account				Cr.			
Date	Description	L.F.	Value Rs.	Date	Description	L.F.	Value Rs.
				20.03.20xx	Purchase		26 000
				25.03	Purchase		12 000



Activity 01

Prepare the Purchases Journal with the information given below of Indika's Business and post them into the ledger.

Date	Invoice No.	Supplier	Net value mentioned in the invoice Rs.
06.05.20xx	82	Amaranayaka	15 000
12.05	45	Wijenayaka	18 000
20.05	36	Karunaratna	34 000
26.05	73	Hewavasam	9 000
28.05	94	Abeynayaka	20 000



Activity 02

Prepare the Purchases Journal for the month of may 20xx of Sewwandi Business using the information given below and post them into the ledger.

Date	Invoice No.	Supplier	Other details
06.05.20xx	65	Piyal	20 packets of photocopy papers at Rs. 200 each (10% trade discount)
12.05.20xx	38	Sunil	30 packets of photocopy papers at Rs. 250 each (5% trade discount)
15.05.20xx	43	Ranil	30 calculators at Rs. 400 each
20.05.20xx	168	Piyal	20 packets of half sheet at Rs. 240 each (10% trade discount)
28.05.20xx	140	Sunil	20 calculators at Rs. 400 each

10.2 Sales Journal

When a business sells trading goods on credit, such transactions are first recorded in the Sales Journal.

When selling trading goods on credit, an invoice is issued to debtors. This document is known as the sales invoice. The business retains a copy of the sales invoice. This sales invoice acts as the source document for recording transactions in the Sales Journal.

The price mentioned in the invoice may also be reduced by a certain percentage when selling on a credit basis. This reduction is the trade discount. The net value after deducting this trade discount is recorded in the Sales Journal.

The transactions recorded in the Sales Journal are posted into the ledger periodically.

Example :-

The following invoices with net values are issued by Amarsinghe's Business which buys and sells consumer goods.

Date	Invoice No.	Buyer	Value Rs.
02.05.20xx	35	Rathna	5 000
08.05	36	Kumara	12 000
10.05	37	Rathna	8 000
21.05	38	Mahanama	13 000
23.05	39	Indika	17 000
25.05	40	Mahanama	6 000
28.05	41	Indika	7 000

The sales Journal for the month ended at 31.05.20xx can be prepared and posted into the ledger as follows.

Sales Journal

Date	Invoice No.	Buyer	Total Value Rs.	Ledger page
02.05.20xx	35	Rathna	5 000	
08.05	36	Kumara	12 000	
10.05	37	Rathna	8 000	
21.05	38	Mahanama	13 000	
23.05	39	Indika	17 000	
25.05	40	Mahanama	6 000	
28.05	41	Indika	7 000	
31.05 Credited to the sales account			68 000	

Dr. Sales account				Cr.			
Date	Description	L.F.	Value Rs.	Date	Description	L.F.	Value Rs.
				31.05.20xx	Debtors		68 000

Dr. Rathna's account				Cr.			
Date	Description	L.F.	Value Rs.	Date	Description	L.F.	Value Rs.
02.05.20xx	Sales		5 000				
10.05	Sales		8 000				

Dr. Kumara's account				Cr.			
Date	Description	L.F.	Value Rs.	Date	Description	L.F.	Value Rs.
08.05.20xx	Sales		12 000				

Dr. Mahanama's account				Cr.			
Date	Description	L.F.	Value Rs.	Date	Description	L.F.	Value Rs.
21.05.20xx	Sales		13 000				
25.05	Sales		6 000				

Dr.		Indika's account				Cr.	
Date	Description	L.F.	Value Rs.	Date	Description	L.F.	Value Rs.
23.05.20xx	Sales		17 000				
28.05	Sales		7 000				



Activity 03

The following is the file of source documents of Nirmalee's Business.

Nirmalee Traders Maharagama.				
Gayashan Centre Nugegoda.		No. 1820 Date - 02.03.20xx		
Invoice				
Serial No.	Description of goods	Quantity	Unit Price Rs.	Value Rs.
01	Television sets	10	15 000	150 000
02	Computers	10	30 000	300 000
				450 000
	Less - 10% trade discount			(45 000)
				<u>405 000</u>
If payment is made before the 30.04.20xx a 4% discount would be allowed.				
<i>Sudesh Karunatilaka</i> Sales Manager				

Nirmalee Traders Maharagama.				
Nilooshan Centre, Dehiwela.		No. 1821 Date - 16.03.20xx		
Invoice				
Serial No.	Description of goods	Quantity	Unit Price Rs.	Value Rs.
01	Cassette Recorder	20	3 000	60 000
02	Radio	30	2 000	60 000
				120 000
	Less - 5% Trade discount			(6 000)
				<u>114 000</u>
If the payment is made before the 30.04.20xx a 4% discount would be allowed.				
<i>Sudesh Karunatilaka</i> Sales Manager				

Nirmalee Traders Maharagama.				
Dilshan Centre, Dilkwella.		No. 1822 Date - 18.03.20xx		
Invoice				
Serial No.	Description of goods	Quantity	Unit Price Rs.	Value Rs.
01	Photocopy Machines	08	50 000	400 000
02	Television sets	10	20 000	200 000
				<u>600 000</u>
If the payment is made before the 30.04.20xx a 4% discount would be allowed.				
<i>Sudesh Karunatilaka</i> Sales Manager				

Required :-

01. Prepare the Sales Journal using the following format.

Date	Invoice No.	Customer	Total Value	Ledger page

02. Prepare the respective ledger accounts.

10.3 General Journal

The earlier chapters and above sections discussed how to record day-to-day transactions of a business in the Cash Book, Petty Cash Book, Purchase Journal and Sales Journal. These journals are used to record only one type of transaction. Hence, they are known as specialized journals.

Example :-

Sales Journal is used to record only credit sales of trade goods.

There may be some other transactions other than the transactions recorded in those journals. These transactions cannot be recorded in these journals.

Examples :-

- ✗ Purchase of a machine on credit basis to be used in the business.
- ✗ Purchase of a land on credit basis to expand the business activities.
- ✗ Owner uses goods of the business for his own purpose.

These transactions should be recorded in a separate prime entry book. The prime entry book used to record these transactions is known as the General Journal.

Accordingly, transactions that are not recorded in other prime entry books are recorded at first in the General Journal.

The source document used in recording transactions in the General Journal is the journal voucher. A General Journal can be prepared as follows.

General Journal

Date	Voucher No.	Description	Ledger Page	Dr. Rs.	Cr. Rs.
01	02	03	04	05	06

01. Transaction date
02. Number of the Journal Voucher
03. Accounts to be debited and credited with the narration
04. Respective ledger page numbers of accounts
05. and 06. Value of the transaction

For every transaction recorded in the General Journal, a brief description known as narration is written.

Example :-

Purchase of an equipment on credit for the business use for Rs. 10 000 from Silva and Company Private Limited on 28.02.20xx.

General Journal

Date	Voucher No.	Description	L.P.	Dr. Rs.	Cr. Rs.
28.02.20xx		Equipment account (Dr) Silva Co. Ltd. account (Recording of equipment bought from Silva and Co. Ltd on credit at a cost of Rs. 10 000)		10 000	10 000

There are several transactions that are recorded in a General Journal. Out of these, corrections of accounting errors and adjustment entries are recorded in the General Journal and other types of entries are not discussed at this level.

10.4 Instant cash transactions through the electronic methods of technology.

The methods of conducting business activities have changed with the development of technology. Today there is a trend of conducting business activities via technological methods. Following are some instances where transactions are conducted using technology.

Computerised accounting process instead of manual recording in books.

Use of telephones, text messages and e-mails instead of communicating through letters with customers and suppliers.

Payment of water bills and electricity bills through the Internet.

Use of cheques, debit cards and credit cards instead of currency notes and coins.

Obtain account details and conduct transactions through the Internet without going to the bank.

Conduct sales through electronic equipment such as point of sales machines.

These transactions conducted using these technologies should also be recorded in the prime entry books and posted to ledger accounts.

Transactions conducted through mobile phones

Spread of mobile phone network all over Sri Lanka has revolutionised the day to day life of everyone. Mobile phones with latest technology has vastly changed the business world as well.

The vastly used mobile phones in Sri Lanka are now used to settle payments in businesses. This mobile based settlement system was first introduced to Sri Lanka by a private telecommunication service provider in 2012.



Figure 10.2

Use of mobile phones make it easy to conduct business activities. The following are some advantages.

- j Ability to communicate information quickly with any party related to the business
- j Easy to conduct banking activities via mobile phones
- j Easy to obtain required information to take business decisions by browsing Internet through data connection of mobile phones

At present, most banks have provided mobile banking facilities to their customers. These services are known as tele banking services. The following tasks can be accomplished by using the tele-banking facility.

- j Check the bank account balance
- j Obtain bank statements
- j Payment of electricity bills and water bills
- j Transfer of funds from one account to another account
- j Place orders for cheque books

Advantages of tele-banking facility

- j Ability for businessmen to control their funds without going to the bank at anytime and anywhere.
- j Easy to conduct transactions.
- j Financial transactions can be fulfilled quickly.
- j Save time and effort
- j Problems of safety when transporting coins and notes is absent when using the tele-banking facility

Computer Aided Accounting (CAA)

Currently, most businesses have computerised their accounting activities. Accounting data is input into an accounting software and the required accounting outputs are obtained. The day to day transactions are entered into the computer system. These data is recorded, stored, interpreted and communicated to the stake holders of a business using computers.

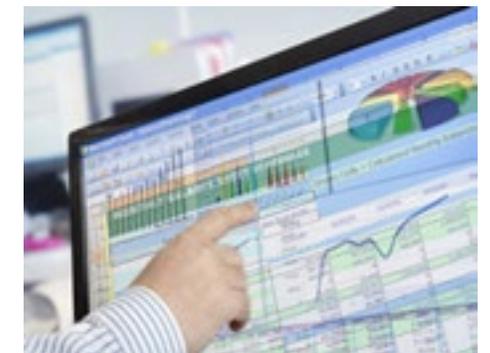


Figure 10.3

At the end of an accounting period, financial statements would be prepared automatically by computers. The following accounting packages are being used at present for this purpose.

- ★ Accpac
- ★ Quickbook
- ★ MyOB
- ★ Sage

Advantages and disadvantages of computerised accounting are as follows.

Advantages

- j Time is saved as transactions are quickly recorded in the accounting system and financial reports are automatically prepared.
- j Money is saved through reduced labour requirement
- j High level of accuracy in accounting reports is possible because those reports are automatically prepared.
- j Ability to obtain the relevant data easily

Disadvantages

- j The risk of deletion of data due to power failures, computer viruses and other technical faults.
- j Risk of unauthorized access and changing of computer data
- j A large sum of money is required to purchase computer software.



Activity 04

01. List down some advantages of tele banking.
02. **It would be beneficial for a business to record transactions using computers rather than recording in books manually.** Debate on this statement with your friends.