

7

Prime Entry Books



The following facts are discussed in this chapter.

- 7.1 Introduction to prime entry books
- 7.2 Necessity of prime entry books
- 7.3 Source documents
- 7.4 Uses of source documents

7.1 Introduction to prime entry books

There may be issues in recording the business transactions in the ledger accounts directly as they take place. Hence, before the transactions are recorded in ledger accounts, they should be recorded in a separate set of books known as "the prime entry books."

The prime entry books are the books in which the transactions of a business are recorded at first, according to the order in which each transaction had occurred by using a generally accepted method before recording them in the ledger accounts.

Prime entry books are also named as journals, day books, and subsidiary books.

It is not suitable to record all the transactions in a single prime entry book. Hence, the transactions have to be classified and recorded based on their nature and other common characteristics. Accordingly, the transactions which are similar in nature and occur recurrently should be recorded in different prime entry books.

The following table shows various types of transactions and the relevant prime entry books in which they should be recorded.

Table 7.1 - Various types of transactions and the relevant prime entry book

Type of transaction	Prime entry book
Transactions related to the receipt and payment of cash	Cash book
Transactions carried out through the bank current account	Bank account
Petty cash transactions	Petty cash book
Purchases of trade goods on credit	Purchases journal
Sales of trade goods on credit	Sales journal
Other transactions	General journal

7.2 Importance of prime entry books

The recording of transactions in prime entry books is necessary due to the following reasons.

- * Similar types of transactions of a period need to be classified and recorded.
- * Posting transactions to the ledger becomes systematical and convenient after recording them in the prime entry book.
- * Responsibility of preparing each prime entry book can be assigned distinctly to various individuals and accordingly, the business could minimize possible errors and frauds.
- * It is easy to maintain the ledger because the totals of prime entry books are posted to the ledger, which minimizes the number of entries posted.
- * Minimizes the occurrence of accounting errors and it is easy to find out such errors.

Information of the transactions is obtained from source documents to record them in the prime entry books. Therefore, it is important to understand the relationship between the prime entry books and the source documents.

7.3 The source documents

As and when transactions take place in a business, the documents prepared by a particular section of business by including all the details of such transactions and authorized by a person-in-charge are known as source documents.

Each source document prepared by a business is assigned a serial number. Source documents are used as a basis for recording the transactions in the prime entry books of a business.

Source documents include the following details.

- * Name and address of the business
- * Serial number
- * The date on which the transaction had taken place
- * The details of the other party that is connected to the transaction
- * Description of the transaction
- * The monetary value of the transaction
- * Signature of the officer who is responsible for the transaction

The table given below shows examples of various source documents used for recording transactions in different types of prime entry books.

Table 7.2 - Examples for various source documents used for recording transactions in different types of prime entry books

Prime entry book	Source document
Cash book	Receipt , payment voucher
Bank account	Deposit slip, payment voucher, bank statement, cheque return notification
Petty cash book	Petty cash payment voucher
Purchase journal	Purchase invoice
Sales journal	Sales invoice
General journal	Journal voucher

7.4 Uses of source documents

Source documents could be used for following purposes

- * Can be used as an initial document for a transaction
- * Can be used as a written evidence of the transactions
- * Additional information on transactions can be obtained
- * Can be used for recording transactions in the prime entry books
- * Responsibility can be assigned to a specific officer as it is authorized by that person.

You can study each of the prime entry books mentioned above in detail in the next chapters.



Activity 01

Read and understand each of the following statement related to prime entry books and state whether they are true or false.

01. Prime entry books are used to record transactions by classifying them according to their nature and common characteristics.
02. Prime entry books are prepared instead of ledger accounts.
03. The sales journal is used to record the trade goods purchased on credit.
04. Prime entry books are also known as journals or day books.
05. All transactions that had taken place in a business should be recorded first in prime entry books.
06. The transactions are recorded in the prime entry books using source documents.
07. After recording transactions of a business in prime entry books they should be posted to ledger accounts.
08. A responsible officer should authorize a source document for it to become an acceptable document.



Activity 02

List 6 items that are generally included in a source document.



Activity 03

Write examples for transactions that are recorded in each of the following prime entry book.

Prime entry book	Examples of transactions
Petty cash book	
General journal	
Sales journal	
Bank account	
Cash book	
Purchases journal	



Activity 04

In the following table, column "A" shows the prime entry books and column "B" shows the source documents. Match each in column A with B.

Prime entry books (A)	Source documents (B)
Cash book	Purchase invoice
Bank account	Journal voucher
Petty cash book	Debit note
Purchases Journal	Sales invoice
Sales Journal	Receipts
General journal	Petty cash payment vouchers
	Credit note
	Deposit slips