

1 Prime Entry Books of a Business



This chapter discusses the following themes.

- 1.1 Preparation of three column cash book.
- 1.2 Preparation of petty cash book.
- 1.3 Maintaining records on credit purchases of trade items.
 - * Purchases journal
 - * Returns outwards journal
- 1.4 Maintaining records on credit sales of trade items.
 - * Sales journal
 - * Returns inwards journal
- 1.5 Maintaining the general journal.

Let us keep records in Prime Entry Books.

Following is a part of a conversation regarding a business, between a son and his father.

Son - Father, you seem to be thinking about something today, aren't you?

Father - No..... son, I was wondering how we can record our business transactions in a systematic way. Now, our volume of transactions is also very high.

Son - Ah....! Is that the problem? Let us write them down in books in a systematic way.

Father - We have received a lot of chits for the items we purchased. Statements are also sent with the goods purchased under credit basis. I record the details of the items which we sell on credit in a separate book. Some of our customers return the goods purchased from us giving various reasons. There may be some defects in the goods which I sell.

Not only that son, if we can settle the outstanding amounts to our suppliers before the due date they will give a discount and if others owe money to me that should be paid, they deduct some amount out of the amount payable by me. I should take steps to collect the amount due to me as soon as possible. I too should think of a way for that.

Son, can't you make arrangement to organise them in a systematic way? I remember you learnt such things at school.

Son - Of course father, I will help you to keep the accounting records in a proper manner.

If you read the above conversation carefully, you will realize that there are various types of transactions in a business. They should be recorded from the beginning to the end systematically, so that they can be understood easily. If you record the transactions of similar nature by summarising them you can minimize the complexity of recording transactions.

The transactions in a business should be initially recorded in prime entry books. In this chapter, we will discuss such prime entry books maintained by a business.

Introduction

There are various types of transactions in a business under both cash basis and credit basis. These transactions are connected with the various operational activities of a business. Due to these transactions, operational results of the business are subjected to change daily and they are recorded in the books using source documents. The books in which the prime entries are recorded can be identified as “Prime Entry Books.”

Accordingly, the business will purchase items for re-sale purpose and they are sold under credit basis. The items purchased on credit may be returned to the suppliers and items sold on credit may be returned to the seller. Furthermore, both buying and selling under cash basis may take place. Prime entry books are used to record these types of transactions in a business.

If there are any transactions in a business which cannot be recorded in special prime entry books, they are recorded in the **General Journal**.



Your attention is drawn on the following basic terms in this chapter.

- * Cash discount
- * Memorandum column
- * Three column cash book
- * Petty cash voucher
- * Petty cash imprest system
- * Reimbursement
- * Analysis column
- * Invoices
- * Trade discount
- * Purchases journal
- * Credit note
- * Returns outwards journal
- * Sales journal
- * Debit note
- * Returns inwards journal
- * Journal voucher
- * General journal
- * Narration

1.1 Preparation of three column cash book

In a business organization, there can be various types of transactions. However, you have already studied that, we record only the transactions which can be measured in cash in Accounting. This was further discussed in Grade 10.

The prime entry book in which the cash receipts and payments are recorded is termed as **Cash Book**. Compared with other prime entry books, cash book has two functions. It functions as a ledger account and as a prime entry book. The business uses cash held in the business as well as the cash in the bank for the transactions of the business. The double column cash book is prepared to record the bank transactions by adding an additional column to the single column cash book and it is identified as the **Two Column Cash Book**.

Now, let us study the way of preparing a cash book, by adding an additional column to the double column cash book. Accordingly, the cash book which has three columns to record the values can be defined as **Three Column Cash Book**.

In addition to the cash and bank column in a two column cash book, a discount column is maintained in a three column cash book to record discounts.

Discount

The amount deducted from the value of a transaction is known as a discount. We can see two types of discount in accounting. They are,

- * Trade discounts
- * Cash discounts

Trade discount

The amount deducted from the list price of an item is the trade discount.

Example: Assume, you saw the following notice in a shop on your way home.

“10% discount for each pair of shoes purchased”

As per the notice, if you purchase a pair of shoes of which the list price is Rs.1,000 from the above shop, the discount to be deducted is,

$$\text{Rs } 1,000 \times \frac{10}{100} = \text{Rs. } 100$$

The value of the transaction is limited to the value at which the trade discount was deducted and the purpose of the trade discount is to increase the sales volume of the business. Trade discount is not recorded in the ledger accounts.

Cash discount

If the debtors pay their outstandings within the discount period granted they are allowed a discount. In the same way, if the business settles their outstandings within the discount period granted the business receives a discount. These discounts are known as **cash discounts**. The purpose of the cash discount is to expedite the collection of cash from the relevant parties who have done credit transactions with the business. Allowing and receiving of discounts are taken place based on pre-agreed conditions. **There are two types of discounts.**

***Discount Allowed** This is the discount granted to debtors by the business in collecting money within the discount period granted to them. Discount allowed is an expense to the business.

Example: Ranga sold Rs.5,000 worth goods on credit to Careem and Ranga informed Careem, if the amount is settled within 20 days a cash discount of 5% would be granted. If Careem paid cash within 20 days the discount allowed was,

$$\text{Rs. } 5,000 \times \frac{5}{100} = \text{Rs. } 250$$

***Discounts Received** This is the discount granted by the supplier when paying money, within the discount period by the business.

Discount received is an income to the business.

Example: Kamal purchased Rs.10,000 worth of goods from Fernando & Company under credit basis. The purchase invoice states that, if the amount is settled within 15 days a cash discount of 10% is granted. If Kamal paid cash within 15 days the discount received by Kamal was,

$$\text{Rs. } 10,000 \times \frac{10}{100} = \text{Rs. } 1,000$$

Accordingly, cash paid by Kamal was (Rs. 10,000 – Rs. 1,000) = Rs.9,000.

Three column cash book is prepared including cash, bank and discount column. Now, we will study how to prepare a three column cash book using the following example.

Example : The cash and bank balance of Upeka's business as at 01.01. 20XX were Rs.12,500 and Rs. 15,000 respectively. Following transactions were taken place during the month of January 20xx.

- 04. 01. 20XX Cash sales Rs. 7,000
- 07. 01. 20XX Telephone bills paid by cheques Rs. 500
- 13. 01. 20XX Rs. 1,800 was received from Ajith after deducting a discount of Rs. 200.
- 14. 01. 20XX Purchase of goods issuing a cheque of Rs. 4,000.
- 17. 01. 20XX Rs. 2,850 was paid to Kamal after deducting a discount of Rs. 150 from Rs. 3,000
- 20. 01. 20XX Payment of electricity bills Rs. 750.
- 23. 01. 20XX A cheque of Rs. 1,450 was received from Sanka whose outstanding amount was Rs. 1,500 and balance was treated as a discount.
- 24. 01. 20XX Payment for buildings repairs Rs. 2,000
- 26. 01. 20XX The cheque received from Sanka was deposited in the bank.
- 27. 01. 20XX Cash withdrawn from the bank Rs. 2,500
- 28. 01. 20XX Payments of salaries Rs. 4,000
- 29. 01. 20XX Rs. 5,000 the balance of Nuwan's account arisen due to credit purchases by the business was settled subjected to a discount of 10%.
- 30. 01. 20XX A cheque amounting to Rs. 500 was encashed by Upeka for her domestic expenses.

Above transactions can be entered in a three column cash book and the cash and bank balances as at 31.01. 20XX can be calculated as follows.

Upeka's Business Cash Book

Date	Description	L F	Dis- count	Cash	Bank	Date	Description	L F	Dis- count	Cash	Bank
20xx						20xx					
01.01	Balance b/f			12,500	15,000	07.01	Telephone				500
04.01	Sales			7,000		14.01	Purchases				4,000
13.01	Ajith		200	1,800		17.01	Kamal		150	2,850	
23.01	Sanka		50	1,450		20.01	Electricity			750	
26.01	Cash	Con			1,450	24.01	Building re- pairs			2,000	
27.01	Bank	Con		2,500		26.01	Bank	Con		1,450	
						27.01	Cash	Con			2,500
						28.01	Salaries			4,000	
						29.01	Nuwan		500	4,500	
						30.01	Drawings				500
						31.01	Balance c/d			9,700	8,950
			250	25,250	16,450				650	25,250	16,450
01.02	Balance b/f			9,700	8,950						

Posting the transactions in three column cash book to the ledger

As the transactions are recorded according to the double entry system in the cash book it is considered as a ledger account as well.

However, the discount columns maintained as memorandum columns and they are not a part of double entries. The discount columns are maintained only to identify the total of the discount in a certain period. The total of the discount allowed column is debited to the discount allowed account and the total of the discount received column is credited to the discount received account at the end of the period.

Now, let us study the double entries for the transactions identified in the above business carried out by Upeka.

04. 01. 20xx	Cash sales Rs.7,000		
	Cash book	Dr	7,000
	Sales account	Cr	7,000
07. 01. 20xx	Telephone bills paid by cheque Rs.500		
	Telephone bills account	Dr	500
	Bank account	Cr	500
13. 01. 20xx	Rs.1,800 was paid by Ajith after deducting a discount of Rs. 200		
	Cash book	Dr	1,800
	Discount allowed	Dr	200
	Ajith's account	Cr	2,000
14. 01. 20xx	Purchase of goods issuing a cheque of Rs. 4,000		
	Purchases account	Dr	4,000
	Bank account	Cr	4,000
17. 01. 20xx	Rs. 2,850 was paid to Kamal after deducting a discount of Rs. 150		
	Kamal's account	Dr	3,000
	Cash book	Cr	2,850
	Discount received account	Cr	150
20. 01. 20xx	Payment of electricity bills Rs. 750		
	Electricity bills	Dr	750
	Cash book	Cr	750
23. 01. 20xx	A cheques of Rs. 1,450 was received from Sanka whose outstanding amount was Rs. 1,500 and balance was treated as a discount.		
	Cash book	Dr	1,450
	Discount allowed	Dr	50
	Sanka's account	Cr	1,500
24. 01. 20xx	Payment of building repairs Rs. 2,000		
	Building repairs account	Dr	2,000
	Cash book	Cr	2,000

26. 01. 20xx The cheque received from Sanka was deposited in the bank.
- | | | |
|--------------|----|-------|
| Bank account | Dr | 1,450 |
| Cash book | Cr | 1,450 |
27. 01. 20xx Cash withdrawn from the bank Rs. 2,500
- | | | |
|--------------|----|-------|
| Cash book | Dr | 2,500 |
| Bank account | Cr | 2,500 |
28. 01. 20xx Payments of salaries Rs. 4,000
- | | | |
|------------------|----|-------|
| Salaries account | Dr | 4,000 |
| Cash book | Cr | 4,000 |
29. 01. 20xx Rs. 5,000 the balance of Nuwan's account arisen due to credit purchases by the business was settled subjected to a discount of 10%
- | | | |
|-------------------|----|-------|
| Nuwan's account | Dr | 5,000 |
| Cash book | Cr | 4,500 |
| Discount received | Cr | 500 |
30. 01. 20xx A cheque amounting to Rs. 500 was encashed by Upeka for her domestic expenses.
- | | | |
|------------------|----|-----|
| Drawings account | Dr | 500 |
| Bank account | Cr | 500 |

Now, we will study how the above transactions are posted to the ledger accounts.

Debit				Sales Account				Credit	
Date	Description	L F	Amount Rs.	Date	Description	L F	Amount Rs.		
				04.01.xx	Cash		7,000		

Telephone Bills Account

Debit				Credit			
Date	Description	L F	Amount Rs.	Date	Description	L F	Amount Rs.
07.01.xx	Bank		500				

Ajith's Account

Debit				Credit			
Date	Description	L F	Amount Rs.	Date	Description	L F	Amount Rs.
01.01.xx	Balance b/f		2,000	13.01.xx	Cash		1,800
					Discount allowed		200

Purchases Account

Debit				Credit			
Date	Description	L F	Amount Rs.	Date	Description	L F	Amount Rs.
14.01.xx	Bank		4,000				

Kamal's Account

Debit				Credit			
Date	Description	L F	Amount Rs.	Date	Description	L F	Amount Rs.
17.01xx	Cash		2,850	.01.xx.01	Balance b/f		3,000
	Discount received		150				

Debit				Electricity Bills Account				Credit	
Date	Description	L F	Amount Rs.	Date	Description	L F	Amount Rs.		
20.XX.01	Cash		750						

Debit				Sanka's Account				Credit	
Date	Description	L F	Amount Rs.	Date	Description	L F	Amount Rs.		
01.01.XX	Balance b/f		1,500	23.01.XX	Cash		1,450		
					Discount allowed		50		

Debit				Building Repairs Account				Credit	
Date	Description	L F	Amount Rs.	Date	Description	L F	Amount Rs.		
24.01XX.	Cash		2,000						

Debit				Staff Salaries Account				Credit	
Date	Description	L F	Amount Rs.	Date	Description	L F	Amount Rs.		
28.01XX	Cash		4,000						

Debit				Nuwan's Account				Credit	
Date	Description	L F	Amount Rs.	Date	Description	L F	Amount Rs.		
29.01.xx	Cash Discount received		4,500 500	01.01.xx	Balance b/f		5,000		

Debit				Drawings Account				Credit	
Date	Description	L F	Amount Rs.	Date	Description	L F	Amount Rs.		
30.01.xx	Bank account		500						

Debit				Discounts Allowed Account				Credit	
Date	Description	L F	Amount Rs.	Date	Description	L F	Amount Rs.		
31.01.xx	Debtors		250						

Debit				Discounts Received Account				Credit	
Date	Description	L F	Amount Rs.	Date	Description	L F	Amount Rs.		
				31.01.xx	Creditors		650		



Activity 01

- (i) Explain why discount allowed is debited to the discount allowed account and credited to the debtors account.
- (ii) Explain why discount received is credited to the discount received account and debited to the creditors account.



Activity 02

Assume, following transactions have taken place in the business carried out by you.

Date	Transactions
20xx 01.03	Commenced the business investing cash Rs.50,000.
03.03	Opened a bank current account depositing Rs. 20,000.
08.03	Cash purchases of goods Rs.10,500.
12.03	Telephone bills paid by cheque Rs.1,050.
15.03	Prasanna, a debtor paid the business by cheque to settle the amount Rs.15,000 subjected to 5% discount.
18.03	Cash sales Rs.4,500.
19.03	Payment of staff salaries Rs.6,000.
20.03	Rs.8,000 payable to Ajith was settled subjected to a 10% discount.
22.03	The cheque received from Prasanna was deposited in the bank.
23.03	Insurance paid by cheque Rs.1,000.

You are required to :

- (i) Record the above transactions in a cash book.
- (ii) Prepare the ledger accounts.
- (iii) Calculate the balance of cash in hand and cash at bank as at 31.03.20XX.



1.2 Preparation of Petty Cash Book

The cash transactions in a business range from small amounts to larger amounts. If the volumes of transactions which have small values are very high, it is practically difficult to record them in the main cash book and to maintain the main cash book of the business in a proper manner. If these transactions are recorded in the main cash book, it will be very complex and difficult to control the cash transactions in a systematic way. Therefore, the business can maintain a **Petty Cash Book** which is one of the prime entry books to record petty cash transactions.

The prime entry book that is maintained by the business to record the transactions with small values can simply be identified as the **Petty Cash Book**.

The voucher is used to record the petty cash payments. The petty cash book in a business is maintained by the petty cashier.

Petty cash imprest system

The petty cash imprest system is generally used to control petty cash transactions in a business. Under this system, a certain amount is given by the main cashier to the petty cashier to make the petty cash payments during the period. At the end of the period, the main cashier will reimburse the amount spent by the petty cashier.

The value of the petty cash imprest (petty cash float) mainly depends on the nature of the business and the volume of transactions done by the business.

Reimbursement of petty cash imprest

The petty cashier is required to provide petty cash vouchers to prove the petty cash payments made by him. He should hand over all the petty cash vouchers to the main cashier during the period to receive the amount which was spent by him from the main cashier. This process is known as petty cash imprest reimbursement.

When reimbursing, the amount of money is debited to the petty cash book and credited to the main cash book.

Example:-	Rs.
Petty cash imprest for the period	= 1,500
Petty cash payments for the period	= <u>1,050</u>
Petty cash balance with the petty cash cashier	= 450
Reimbursed amount by the main cashier	= <u>1,050</u>
Petty cash imprest after reimbursement	= <u>1,500</u>

Preparation of Analysis Column

There can be various types of petty cash payments in a business. These transactions are classified under analysis column entering equal nature payments under each heading.

It is important to pay your attention to the following points in deciding and maintaining the analysis column in a petty cash book.

- * Enter the similar category of transactions to the relevant analysis columns.

Example : Stamp expenses, letter registration charges, telegram charges etc. can be analysed under the analysis column of **Postage**.

- * If the petty cash payments cannot be analysed to a separate heading as they are not similar category payments, such expenses can be recorded under the analysis column of **Sundry Expenses**.
- * The payments made to organizations and persons, carriage inwards, loading charges and acquisition of assets are recorded in the **Ledger Account** column.

Following is a format of a petty cash book.

Petty cash book

Receipts	L.	Date	Description	Vo.	Amount	Analysis column				Ledger	Ledger

Let us study the following example and identify how the petty cash book is maintained by an organization.

Example : Following is a summary of petty cash transactions of Sagari's Business during the month of February 20xx

Date	Vou. No.	Description	Amount Rs.
01.02.20xx		Receipt of imprest	3,000
06.02.20xx	01	Telegram charges	120
08.02.20xx	02	Purchase of ribbon for the type writer	140
12.02.20xx	03	Salary advances to Perera	1,000
14.02.20xx	04	Purchase of stamps	184
18.02.20xx	05	Purchase of stationery	218
19.02.20xx	06	Purchase of sugar and tea	103
20.02.20xx	07	Carriage inwards of goods	250
21.02.20xx	08	Purchase of cool drinks	180
24.02.20xx	09	Purchase of flower vase for the office	210
27.02.20xx	10	Letter registration charges	90
01.03.20xx		Reimbursement of petty cash imprest	

Using above information, the petty cash book of Sagari's Business has been prepared as follows.

Sagari's Business
Petty Cash Book

Receipt	L. F.	Date	Description	V. N.	Amount Rs.	Analysis				Leger Acc.	L. F.
						Statio nery	Postage	Enter.	Sundry		
3,000		20xx									
		01.02	Cash (Imprest)								
		06.02	Telegrams	01	120		120				
		08.02	Ribbon for the type writer	02	140	140					
		12.02	Salary advances (Perera)	03	1,000					1,000	
		14.02	Stamps	04	184		184				
		18.02	Stationery	05	218	218					
		19.02	Sugar and tea leaves	06	103			103			
		20.02	Carring inwards	07	250					250	
		21.02	Cool drinks	08	180			180			
	24.02	Purchase a flower vase	09	210				210			
	27.02	Letter registration	10	90		90					
					2,495	358	394	283	210	1,250	
		28.02	Balance c/d		505	L.F.	L.F.	L.F.	L.F.		
3,000					3,000		
505		28.02	Balance b/d								
2,495		03.01	Cash (reimbursement)								

The transactions recorded in the petty cash book can be posted to the ledger as shown below.

Stationery Account

Debit				Credit			
Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.
28.02.XX	Petty cash		358				

Postage Account

Debit				Credit			
Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.
28.02.XX	Petty cash		394				

Debit				Entertainment Account				Credit	
Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.		
28.02.xx	Petty cash		283						

Debit				Sundry Expenses Account				Credit	
Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.		
28.02.xx	Petty cash		210						

Debit				Salary Advances Account				Credit	
Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.		
12.02.xx	Petty cash		1,000						

Debit				Carriage Inwards Account				Credit	
Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.		
20.02.xx	Petty cash		250						

Based on the information discussed under the petty cash book, you may have already identified the advantages of maintaining a petty cash book.

Some of the advantages are mentioned below.

- ★ Minimizes the practical difficulties in maintaining the main cash book and ledger
- ★ Identifies the details of the petty cash transactions
- ★ Maintains petty cash transactions efficiently
- ★ Controls petty cash transactions in an effective manner
- ★ Reduces the duties of main cashier
- ★ Helps to settle petty cash expenditure when businesses are transacting only from cheques



Activity 03

Assume that you are the petty cashier of Sampath's Business. The petty cash imprest of the business is Rs.2,000 and petty cash payments are reimbursed at the beginning of every month.

Copy down the following table in your exercise book

Date	Transactions	Analysis columns / Ledger Account
20xx		
03.01		Postage
07.01		Travelling
11.01		Sundry expenses
14.01		Ledger Account
16.01		Stationery
17.01		Travelling
19.01		Postage
22.01		Ledger Account
25.01		Stationery
28.01		Sundry expenses

Required :

- (1) Write down the transactions with values that are suitable for each heading of analysis column and ledger accounts.
- (2) Prepare the petty cash book for the month of January 20xx.
- (3) Post the petty cash transactions to the general ledger.



1.3 Maintaining the records on credit purchase of trade items

One of the main functions of a business organization is to purchase goods for various purposes under various situations.

Study the following example.

Example : Few transactions occurred in Sudheera's Business which carries out a textiles business are given below.

1. Cash purchases of 20 meters of fabric each meter at Rs. 150
2. Credit purchases of 15 sarees from Abdul & Company each at Rs.850
3. Purchases of Fibre Cabinet worth of Rs. 5,000
4. Credit purchases of a safe for Rs. 2,000 from Prasanna & Company

If you study the above transactions, you will understand that the transactions 2 and 4 have been made on credit.

If the transaction is made on cash, the payment or receipt of cash is taken place at the same time. However, in a situation when the transaction is made on credit, the payment or receipt of cash is taking place on a future day. Therefore, maintaining detailed records on credit purchases with the names of the persons is important for a business.

Purchases Journal

The prime entry book in which the details of credit purchases of trade items for re-sale purposes are recorded is the Purchases Journal.

According to the above definition, you can understand that all the credit purchases are not recorded in the purchases journal. Out of four transactions mentioned above in Sudheera's Business, only the transaction Number 2 is recorded in the purchases journal. Although, the transaction Number 4 has been made on credit, it has been purchased for the use of the business and it is not recorded in the purchases journal.

A source document is required to record the transactions in a prime entry book. Therefore, we should also have a recognized source document to record the transactions in the purchases journal.

Invoice

Two participants namely buyer and seller involve in a purchase transaction .The invoice shows the details of the transaction taken place between the buyer and the seller.

The document issued by the seller to the buyer including all the details of the transaction can be defined as an Invoice

An invoice can be defined from both buyer's and seller's point of view as those two parties involve in the same transaction.

- ★ From the buyer's (the party who bought the goods) point of view, it is called 'Purchases Invoice'.
- ★ From the seller's (the party who sold the goods) point of view it is called 'Sales Invoice'.

Accordingly, the purchases invoice is used as the source document in recording the transactions in a purchases journal.

In a business organization where a large number of credit purchase transactions occur, the Goods Received Notes (GRNs) prepared by the buyer based on the items received from the supplier. In this situation, purchases journal can be prepared using the GRNs and therefore, a separate column has to be maintained in the purchases journal to record the GRNs numbers.

Using following example, we will study what is included in an invoice.

Example : Following invoice has been prepared by Arunalu (Pvt) Limited, based on the Purchases Order sent by Kandaiah Traders.

Invoice No: 5435 Manager, Kandaiah Traders, Batticaloa.	Arunalu (Pvt) Limited No: 90, Raja Weediya, Katugastota T.P 0812235116	10.12.20xx		
Serial No.	Description	Quantity	Unit Price	Total Value (Rs)
01	Sugar	20 kgs.	Rs. 55.00	1,100.00
02	Dhal	18 kgs.	Rs.160.00	2,880.00
03	Flour	35 kgs.	Rs. 70.00	2,450.00
04	Rice	50 kgs.	Rs. 65.00	3,250.00
				9,680.00
	(10%Discount)			968.00
				8,712.00
All the cheques should be written in favour of Arunalu (Pvt) Limited and crossed. Sales conditions: 5% 40 Net. 90				
<i>Jayanath Weerasuriya</i> Manager				

Sales conditions: 5 % 40 Net. 90

This means the net invoice value should be settled within 90 days and, if the relevant amount is settled within 40 days, 5 % discount is given by the seller .

A simple format of purchases journal maintained by an organization is given below.

Purchases Journal

Date	Invoice No	Supplier	Value Rs.	Ledger Page
(01)	(02)	(03)	(04)	(05)

- (1) The date as per the invoice.
- (2) The number of the invoice or GRN should be recorded in this column
- (3) The name of the person or the organization by which the goods were supplied.
- (4) Net invoice value (after deducting the trade discount)
- (5) The ledger page number on which the supplier's personal account is maintained

Now, let us study how the purchases journal is prepared using the following example.

Example : Following purchases invoices have been provided by the accounts clerk of Ashani Book Shop.

Invoice No : 131		Anandan Company No. 186, Main Street, Matale.		05.01.20xx
Manager, Ashani Book shop, Medagame.				
Serial No.	Description	Quantity	Unit Price	Total Value Rs
01	Ballpoint Pens	30 Dozen	Rs.145.00	4,350.00
02	CR Books	05 Dozen	Rs.1,200.00	6,000.00
	(10% - Discount)			10,350.00 1,035.00
				9,315.00
				<i>Anandan</i> Manager.

Invoice No : 567		Prasanna Company No : 15, Wattegama Road, Akurana.			15.01.20xx
Manager, Ashani Book shop, Medagame.					
Serial No.	Description	Quantity	Unit Price	Total Value (Rs.)	
01	Mathematical Boxes	20	Rs.1,20.00	2,400.00	
02	Ink bottles	10	Rs.45.00	450.00	
				2,850.00	
<i>Prasanna Silva</i> Manager.					

Invoice No : 883		Cader Stores No : 764, Digana Road, Arangala.			25.01.20xx
Manager, Ashani Book shop, Medagame.					
Serial No.	Description	Quantity	Unit Price	Total Value (Rs.)	
01	Drawing Books	10 Dozen	Rs.480.00	4,800.00	
02	Single Rules Books	12 Dozen	Rs.300.00	3,600.00	
				8,400.00	
(10% Discount)				840.00	
				7,560.00	
<i>Cader Gamage</i> Manager.					

Based on the above invoices, the purchases journal can be prepared as follows.

Ashani Book Shop Purchases journal

Date	In.No	Supplier	Total Value Rs.	Ledger Page
05.01.20xx	131	Anandan Company	9,315.00	
15.01.20xx	567	Prasanna Company	2,850.00	
25.01.20xx	883	Cader Stores	7,560.00	
31.01.20xx		Debited to Purchases Account	19,725.00	

Posting the purchases journal to the ledger

The transactions recorded in the purchases journal as a prime entry book can be posted to the ledger under the double entry system.

The net value mentioned in the invoice is credited to the relevant supplier's (creditor's) account on the invoiced date. (As the creditors are liabilities, increase in creditors is recorded in the credit side of the creditor's account).

The total of the purchases journal is debited to the purchases account at the end of the month. (As purchase is an expense to the business, it is debited to the purchases account.)

Study the following ledger accounts and understand how the purchases journal has been posted to the ledger.

Debit				Anandan Company		Credit	
Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.
				05.01.xx	Purchases Account		9,315

Debit				Pra ³ / ₄ anna & Company				Credit	
Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.		
				15.01.XX	Purchases Account		2,850		

Debit				Cader Stores				Credit	
Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.		
				25.01.XX	Purchases Account		7,560		

Debit				Purchases Account				Credit	
Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.		
31.01.XX	Creditors Account		19,725						



Activity 04

Following transactions have taken place in Anurasiri's wholesale business. You are required to identify the transactions which are recorded in a Purchases Journal.

1. Credit purchases 100 kgs of potatoes each kg. at Rs.80 from Prasanna.
2. Acquisition of electronic balance worth of Rs.10,000.
3. Cash purchases of 80 kgs of dhal each kg. at Rs.120
4. Credit purchases of 03 calculators each at Rs. 350 from Dinapala Company.
5. Cash purchases of 10 dozens of salmon tins each dozen at Rs.1,200
6. Credit purchases of 100 packets of salt each at Rs.50 from Prasanna.



Activity 05

One of your friends has provided following information extracted from a purchase invoice. He requires your responses to following questions.

Date	: 01.09.20xx
Value	: Rs. 10,000.00
Sales conditions	: 5% 30 Net. 60

1. What is the last date on which the invoice value should be settled?
2. What is the value of discount received, if the invoice was settled on 20.09.20xx?



Activity 06

Following credit purchases details were provided by Sajani's Business.

05.01.20xx Invoice No. 24 purchases from Priyani's business

200 fruit drink bottles each at Rs.100

250 milk bottles each at Rs. 250

Trade discount 10%

20.01.20xx Invoice No.03 purchases from Mohomed's Business

100 packets of sweets each at Rs.50

70 packets of biscuits each at Rs.60

Trade discount 5%

Using above information, prepare the purchases journal of Sajani's Business for the month of January and post them to the ledger.

Returns Outwards Journal (Purchases Returns Journal)

Items purchased for re-sale purposes may be returned to the suppliers within a reasonable time period due to various reasons. Followings are few reasons for a business to return the items purchased for re-sale purposes on credit basis.

- * Receipt of items which were not ordered by the business
- * Receipts of broken, damaged or expired items
- * Changes of prices

- * Receipt of low quality items
- * Receipts of items after the ordered period

The details of items returned by the business should be recorded in a separate book.

The prime entry book in which the information on returned items that were purchased on credit for re-sale is the returns outwards journal.

Debit Note

The source document used to record the transactions in the returns outwards journal is the debit note.

Creditors in a business increase due to credit purchases and if the items purchased from them are returned, the liability will decrease. To show the decrease of a liability, the liability account is debited and therefore, the source document is known as **Debit Note**.

You can identify the contents of a debit note by studying the following example.

Example: The debit note for the items returned by Nayanajith Company to Ajith Traders is given below.

Debit Note No : 1020 Manager, Ajith Traders, Raja Mawatha, Badulla.	Nayanajith Company No : 20, Medagana Ampara. 20xx.12.25			
Returning the purchased goods on 18.12.20xx under Invoice No.1415.				
Serial No.	Quantity	Description	Unit Price Rs.	Total Value Rs.
01	10	Salmon Tins	130	1,300.00
02	05	Milk Bottles	160	800.00
Amount debited to your account				2,100.00
Products returned as they were expired.			<i>Nayanajith Bandara</i> Manager.	

Following is a format of a returns outwards journal.

Returns Outwards Journal

Date	Debit Note No.	Supplier	Total Value Rs.	Ledger Page
(01)	(02)	(03)	(04)	(05)

- (01) Date which is mentioned in the debit note
- (02) Pre-printed number in the debit note to be sent to the supplier.
- (03) Name of the supplier to whom the goods are returned.
- (04) Net value as it appears in the debit note.
- (05) Page number on which the ledger account of the relevant supplier is maintained.

Now, let us study how the transactions are recorded in the returns outwards journal using following example.

Example: Reconsider the credit purchases details of Ashani Book Shop which we discussed under the purchases journal. Following information on the items returned to suppliers was provided by the accounts clerk of Ashani Book Shop.

Date	Debit Note No.	Supplier	Items returned
08.01.20XX	236	Anandan Company	Ball point pens -30 dozens each at Rs.145 CR Books - 02 dozens each at Rs.1,200 (Less : Trade discount 10%) (Due to a different brand)
18.01.20XX	237	Prasanna Company	Mathematical Instruments Box - 08 Boxes each at Rs. 120 (Due to the change of the pre-agreed price)
28.01.20XX	238	Cader Stores	Drawing Books- 05 dozens each at Rs.480 Single Rule Books - 03 dozens each at Rs.300 (Less: Trade discount 10%) (Due to low quality)

Following returns outwards journal has been prepared using above information provided by Ashani Book Shop.

**Ashani Book Shop
Returns Outwards Journal**

Date	Debit Note No	Supplier	Total Value Rs.	Ledger Page
08.01.20XX	236	Anandan Company	3,465	
18.01.20XX	237	Prasanna Company	960	
28.01.20XX	238	Cader Stores	2,970	
31.01.20XX		Credited to returns outwards account	7,395	

Posting the returns outwards journal to the ledger

The transactions recorded in the returns outwards journal as a prime entry book can be posted to the ledger under the double entry system.

The net value mentioned in the debit note is debited to the relevant supplier's (creditor's) account on the debit note date. (As the creditors are liabilities, decrease in creditors is recorded in the debit side of the creditor's account)

The total of the returns outwards journal is credited to the returns outwards account at the end of the month.

Study the following ledger accounts and understand how the record of purchases returns journal has been posted to the ledger.

Debit				Anandan Company				Credit	
Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.		
08.01.xx	Returns outwards acc.		3,465	05.01.XX	Purchases account		9,315		

Debit		Prasanna & Company				Credit	
Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.
18.01.XX	Returns outwards		960	15.01.XX	Purchases account		2,850

Debit		Carder Stores				Credit	
Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.
28.01.XX	Returns outwards		2,970	25.01.XX	Purchases account		7,560

Debit		Returns Outwards Account				Credit	
Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.
				31.01.XX	Creditors account		7,395



Activity 07

Following information was extracted from a letter sent by one of your friends called Saranapala.

08.03.20xx Returned to Kamal under Debit Note No:680 due to exceed of expiry date.

12 kgs of green gram each at Rs. 160

15 kgs of dhal each at Rs 270

28. 03.20xx Returned to Perera under Debit Note No: 681 due to exceed of expiry date .

10 bottles of jam each at Rs. 210

10 tins of cheese each at Rs. 350

He requires you to record the above information in a returns outwards journal and prepare the ledger accounts.



1.4 Maintaining the records on credit sales of trade items

One of the main functions of a business organization is selling goods. There may be various types of sales in a business.

Following is an example for sales which can be seen in a business entity.

Example : Below mentioned sales details were provided by Nuwan who is carrying out a canteen.

- (1) Cash sales of sweetmeats amounting to Rs. 2,000
- (2) Credit sales of a type writer worth of Rs. 5,000 to Silva & Company
- (3) Credit sales of 20 lunch packets each at Rs. 200 to Janaka
- (4) Cash sales of 25 cool drink bottles each at Rs. 30

If you study the above transactions, you will understand that the transactions, 2 and 3 are credit sales.

Sales Journal

The prime entry book in which the details of credit sales of items which had been purchased for re-sale purposes are recorded in the sales journal.

According to the above definition, you can understand that all the credit sales transactions are not recorded in the sales journal. Out of four transactions mentioned above, only the transaction number 3 is recorded in the sales journal.

Although, the transaction number 2 has been made on credit, it was not an item which had been purchased for re-sale.

The sales invoice is used to record the transactions in the sales journal.

A simple format of a sales journal maintained by an organization is given below.

Sales Journal

Date	Invoice No.	Customer	Total Value Rs.	Ledger Page
(01)	(02)	(03)	(04)	(05)

- (01) The date as per the invoice
- (02) Number mentioned in the invoice issued to the customer
- (03) The name of the person or the organization to whom the goods were sold
- (04) Net value of the invoice
- (05) The ledger page number on which the customer's personal account is maintained.

Now, we will study how the sales journal is prepared using the following example.

Example : Following sales invoices have been provided by the accounts clerk of Chaturanga Sweet House for the month of February 20xx.

Invoice No : 1003 Manager, Kamal Sweet House, Tangalle.		Chaturanga Sweet House No. 120, Cross Street, Gampaha.			09.02.20xx
Serial No.	Description	Quantity	Unit Price	Total Value Rs.	
01	Toffee	Packet 40	Rs.200.00	8,000	
02	Puhul Dosi	Packet 08	Rs.250.00	2,000	
				10,000	
<i>Sugath Silva</i> Manager.					

Invoice No : 1004		Chaturanga Sweet House No. 120, Cross Street, Gampaha.		18.02.20xx
Manager, Anura Perera Company, Maharagama.				
Serial No.	Description	Quantity	Unit Price	Total Value Rs.
01	Thala Guli	Packet 30	Rs. 400	12,000
02	Marshmallows	Packet 20	Rs. 300	6,000
	(10%-Discount)			18,000
				1,800
				16,200
				<i>Sugath Silva</i> Manager.

Invoice No : 1005		Chaturanga Sweet House No. 120, Cross Street, Gampaha.		25.02.20xx
Manager, Kandan Grocery, Batticaloa				
Serial No.	Description	Quantity	Unit Price	Total Value Rs.
01	Jam (Bottles)	25	Rs 100.00	2,500
02	Cheese (Tins)	20	Rs 285.00	5,700
	(5%-Discount)			8,200
				410
				7,790
				<i>Sugath Silva</i> Manager.

Based on the above invoices, the sales journal can be prepared as follows.

**Chathuranga Sweet House
Sales Journal**

Date	Invoice No.	Customer	Total Value (Rs.)	Ledger Page
09.02.20xx	1003	Kamal Sweet House	10,000	
18.02.20xx	1004	Anura Perera Company	16,200	
25.02.20xx	1005	Kandan Grocery	7,790	
28.02.20xx	Credited to sales account		33,990	

Posting the sales journal to the ledger

The transactions recorded in the sales journal as a prime entry book can be posted to the ledger under the double entry system.

- * The net value mentioned in the invoice is debited to the relevant customer's (debtor's) account on the invoice date. (As the debtors are assets, increase in debtors is recorded in the debit side of the debtor's account)
- * At the end of the relevant month, the total amount of the sales journal is credited to the sales account.(increasing income is recorded in the credit side)

Study the following ledger accounts and understand how the sales journal has been posted to the ledger.

Debit				Kamal Sweet House				Credit	
Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.		
09.02.xx	Sales Account		10,000						

Debit				Anura Perera & Company				Credit	
Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.		
18.02.xx	Sales Account		16,200						

Debit Kandan Grocery Credit

Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.
25.02.xx	Sales Account		7,790				

Debit Sales Account Credit

Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.
				28.02.xx	Debtors Account		33,990



Activity 08

Following credit sales details were provided by Minoli's business for the month of March 20xx.

- 07.03.20xx Invoice No. 25 Sales to Sanjula
 100 Skirts each at Rs.500
 50 Trousers each at Rs. 200
 Trade discount 5%
- 14.03.20xx Invoice No.26 Sales to Sachithra
 50 Shirts each at Rs. 800
 30 Bed sheets each at Rs.300
 Trade discount 10%

Using above information, prepare the sales journal of Minoli's Business for the month of March and post them to the ledger.

Returns Inwards Journal (Sales Returns Journal)

Items sold may be returned by the customers within a reasonable time period due to various reasons. These reasons were already discussed under returns outwards journal.

The prime entry book in which the information on returned items that were sold on credit is recorded can be identified as the returns inwards journal.

Credit Note

The source document used to record the transactions in the returns inwards journal is the credit note.

Debtors in a business increase due to credit sales and if the items sold are returned, the debtors will decrease. To show the decrease of an asset, the asset account is credited and therefore, the source document is known as Credit Note.

You can identify the contents of a credit note by studying the following.

Example: The Credit Note for the items returned to Dhawalagiri Business by Janahitha & Company is given below.

Credit Note No :2615	Dhawalagiri Business No : 30, Tangalle Road, Dikwella.	15.12.20xx		
Manager, Janahitha Company, Hakmana Returning of goods purchased on 10.12.20xx under the Invoice No.1236				
Serial No.	Quantity	Description	Unit price Rs.	Total value Rs.
01	10 kgs	Dried Fish Tuna	420	4,200
02	10 kgs	Dried Sprats	120	1,200
				5,400
Deduct- Discount 5%				270
Amount credited to your account.				5,130
Returned due to <u>obsolescence of stocks.</u>			<i>Madava Gamage</i> Manager,	

Following is a format of a returns inwards journal.

Returns Inwards Journal

Date	Credit Note No	Customer	Total Value Rs.	Ledger Page
(01)	(02)	(03)	(04)	(05)

- (01) Date which was mentioned in the credit note
- (02) Pre-printed number of the credit note
- (03) Name of the customer by whom the goods were returned
- (04) Net value as it appears in the credit note
- (05) Page number on which the ledger account of the relevant customer is maintained

Now, let us study how the transactions are recorded in the returns inwards journal using the following example.

Example:- Recollect the credit sales details of Chathuranga Sweet House which was discussed under the sales journal. Following information on the items returned by the customers were provided by the Book-Keeper.

Date	Credit Note No.	Customer	Returned goods
10.02.20XX	176	Kamal Sweet House	10 packets of Toffees at Rs.200 each. 03 packets of puhul Dosi – each packet at Rs. 250 (Due to exceed of expiry date)
22.02.20XX	177	Anura Perera Company	15 packets of Thalaguli – at Rs. 400 each 10 packets of Mashmallows – at Rs.300 each (Less : 10 % Trade Discount) Due To Receipts of excesss items)

27.02.20XX	178	Kandan Grocery	05 Jam bottles each at Rs. 100 20 Cheese tins each at Rs.285 (Less: Trade discount 5%) (Due to low quality)
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Following returns inwards journal has been prepared using the above information.

Chathuranga Sweet House
Returns Inwards Journal

Date	Credit NoteNo	Customers	Total Value Rs.	Ledger Page
10.02.20XX	176	Kamal Sweet House	2,750	
22.02.20XX	177	Anura Perera Company	8,100	
27.02.20XX	178	Kandan Grocery	5,890	
28.02.20XX		Debited to Return Inwards Account	16,740	

Posting the returns inwards journal to the ledger

The transactions recorded in the returns inwards journal can be posted to the ledger under double entry system.

- The net value mentioned in the credit note is credited to the relevant customer's (debtor's) account (To show the decrease of an asset, it is credited.)
- The total of the returns inwards journal is debited to the returns inwards account.

Debit		Kamal Sweet House				Credit	
Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.
09.02.XX	Sales Account		10,000	10.02.XX	Returns Inwards		2,750

Debit

Anura Perera Company

Credit

Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.
18.02.XX	Sales Account		16,200	22.02.XX	Returns Inwards		8,100

Debit

Kandan Grocery

Credit

Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.
25.02.XX	Sales Account		7,790	27.02.XX	Returns Inwards		5,890

Debit

Returns Inwards Account

Credit

Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.
28.02.XX	Debtors Account		16,740				

**Activity 09**

Following returns inwards details were provided by Kithsiri's Business for the month of December 20xx

12. Dec. 20xx Goods returned by Madura & Company under credit note No.80
 50 Tins of Canned fish each at Rs.50
 20 bottles of vinegar, each at Rs.40
 Trade discount deducted when the items were sold 10%
 (Due to receipts of items that were not ordered by the Business)

Using above information, prepare the returns inward journal for the month of December and post them to the ledger.



Activity 10

- Following details of the credit sales were provided by Perera's Business for the month of March 20xx.

Date	Customer	Invoice No	Amount (Rs)
04.03.20xx	Kamal	2016	8,520.00
15.03.20xx	Majeed	2017	12,700.00
26.03.20xx	Kumudan	2018	6,750.00

Using the above information prepare the sales journal.

- Following returns inwards details were applicable for Perera's Business for the month of March 20xx

Date	Customer	Credit Note No.	Amount (Rs)
08.03.20xx	Kamal	123	2,560.00
18.03.20xx	Majeed	124	3,670.00
29.03.20xx	Kumudan	125	1,987.00

Using the above information, prepare the returns inwards journal and ledger accounts.



Activity 11

1. 10 sarees each at Rs. 900 and 20 shirts each at Rs.800 were sold by Apsara Fashion House to Janaka Fashion House on 01. 04.20xx deducting a 10% trade discount.
2. 02 sarees and 05 shirts were returned by Janaka Fashion House in 06.04. 20xx due to quality issues.

You are required to:

- (01) Prime entry books and ledger accounts maintained by Apsara Fashion House to record the above transactions.
- (02) Prime entry books and ledger accounts maintained by Janaka Fashion House to record the above transactions.



1.5 Maintaining the General Journal

You have clearly understood how the transactions are recorded in the special journals and how they are posted to the ledger accounts. Those prime entry books have been mentioned below for your attention.

- Cash book
- Petty cash book
- Purchases journal
- Returns outwards journal
- Sales journal
- Returns inwards journal

There can be some transactions in a business which cannot be recorded in the above special journals. Consider the following examples.

- (01) Purchase of a machine from Amila Limited on credit for the use of the Business
- (02) Credit sale of a typewriter used by the business to Silva Company at a value of Rs. 15,000

The prime entry book used to record all the transactions which are not recorded in any of the other prime entry books can be identified as the general journal.

Following transactions are generally recorded in a general journal.

- Opening entries
- Purchase of non-current assets on credit
- Adjusting entries
- Error correction entries
- Other entries (Closing entries, sale of non-current assets on credit)

Following is a format of a general journal

General Journal

Date	Voucher No.	Description	L. F.	Debit Rs.	Credit Rs.
(01)	(02)	(03)	(04)	(05)	(06)

- (01) Date on which the journal entry is recorded.
- (02) Voucher number applicable to the journal entry.
- (03) Ledger accounts applicable to the journal entry and a brief description about the entry.
- (04) Ledger page numbers in which relevant accounts are maintained.
- (05) Monetary value of the debit entry.
- (06) Monetary value of the credit entry.

Journal Voucher

The source document used to record the transactions in the General journal is the journal voucher.

Narration

Since the different kinds of transactions are recorded in the general journal a brief description on the entry should be given. This is generally known as a “narration” and it should be provided at the end of each entry.

Now, let us study few entries to be recorded in a general journal

Opening entries

The entries on assets, liabilities and capital to be recorded in starting a new business or opening a new set of books are known as opening entries.

Example : A new set of books were opened in Piyumi's Business on 01.01.20xx. Following are the assets, liabilities and capital accounts balances as at 01.01.20xx.

	Rs.
Motor vehicles	100,000
Land and buildings	50,000
Debtors – Amal	10,000
Stocks	58,000
Creditors – Kamal	15,000
Cash	23,000
Capital	226,000

The opening journal entry prepared using the above information is as follows.

**Piyumi's Business
General Journal**

Date	Voucher No:	Description	L. F.	Debit Rs.	Credit Rs.
01.01.20XX		Motor vehicles account	Dr	100,000	
		Land and buildings account	Dr	50,000	
		Debtors – Amal's account	Dr	10,000	
		Stock account	Dr	58,000	
		Cash book	Dr	23,000	
		Creditors – Kamal's account			15,000
		Capital account			226,000
		(Recording of opening assets, liabilities and capital)		241,000	241,000

The transactions recorded in the general journal can be posted to the ledger as follows.

Motor Vehicle Account

Debit				Credit			
Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.
01.01.XX	Balance b/f		100,000				

Land and Building Account

Debit				Credit			
Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.
01.01.XX	Balance b/f		50,000				

Amal's Account

Debit				Credit			
Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.
01.01.XX	Balance b/f		10,000				

Debit				Stocks Account				Credit	
Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.		
01.01.xx	Balance b/f		58,000						

Debit				Cash Account				Credit	
Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.		
01.01.xx	Balance b/f		23,000						

Debit				Kamal's Account				Credit	
Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.		
				01.01.xx	Balance b/f		15,000		

Debit				Capital Account				Credit	
Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.		
				01.01.xx	Balance b/f		226,000		

Purchase of non-current assets on credit

The items purchased on credit for long-term use of the business such as machineries, furniture and land and buildings are recorded in the general journal before they are recorded in the ledger accounts.

Example :- A typewriter was purchased on credit by Karunarathna & Company on 01.02.20xx from Fernando & Company amounting to Rs. 15,500.

The above transaction can be recorded in the general journal as shown below.

Karunarathne & Company General journal

Date	Voucher No:	Description	L. F.	Debit Rs.	Credit Rs.
01.02.XX		Office equipment account Fernando & company (Recording of purchase of a Typewriter from Fernando & Company on credit)	Dr	15,500	15,500

The above journal entry has been posted to the general ledger as follows.

Debit				Fernando & Company Account				Credit	
Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.		
				01.02.XX	Office equipment		15,500		

Debit				Office equipment Account				Credit	
Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.		
01.02.XX	Fernando & Com.		15,500						

Adjusting entries , error correction entries and closing entries will be discussed in the coming chapters of this book.

Advantages of maintaining Prime Entry Books

- Accounting process can be maintained up to date
 - The complexity of the ledger can be minimized
 - The business transaction can be analyzed
 - Accounting errors and omissions can be minimized
- Helps to prepare the financial statements



Activity 12

(a) Record following transactions in a general journal .

- (i) Opening a new set of books for the new accounting period of the business.

	Rs
Machineries	25,000
Furniture	10,600
Debtors - Ajith	20,500
Creditors - Amal	15,000
Cash	26,000

- (ii) Purchase of a motor vehicle on credit from Prasanna Limited at a price of Rs. 150,000

- (iii) Purchase of a Motor vehicle worth of Rs. 450,000 and payment of cash 25,000 and balance was agreed to pay later

(b) Post the journal entries to the ledger accounts.



Activity 13

Prepare a booklet including the formats of prime entry books and related source documents of them.