

3

Accounting for credit sales and sales returns

this chapter covers . . .

The previous chapter looked at the documents and procedures involved in selling on credit. In this chapter we examine the principles of the accounting system which is used to record the details of invoices and credit notes.

We then apply these principles to credit sales (sales invoices) and sales returns (credit notes) and see how they are entered in the books of prime entry (sales day book and sales returns day book).

This information is then transferred from the day books into the ledger accounts of the double-entry system.

PERFORMANCE CRITERIA COVERED

unit 30: INTRODUCTORY ACCOUNTING

element 30.1

process sales and receipts

D enter sales invoices and credit notes into sales day book and sales returns day book

E post sales invoices and credit notes into the subsidiary (sales) ledger and main (general) ledger

THE ACCOUNTING SYSTEM

We have seen earlier in Chapter 1 (page 14) that the accounting system comprises a number of stages of recording and presenting financial transactions:

- prime documents (also known as 'source' documents)
- books of prime entry (eg day books)
- double-entry book-keeping
- trial balance
- financial statements

In this chapter we look at the principles of recording documents relating to credit sales transactions in the books of prime entry and the entries to be made in the double-entry accounts. Later in the book we will see how a list of the balances of the double-entry accounts is used to form the trial balance (Chapter 20). Financial statements – the profit and loss account and balance sheet – are the end result of the accounting system; they will be covered at later levels of your Diploma Pathway studies.

ACCOUNTING FOR CREDIT SALES TRANSACTIONS

This chapter focuses on credit sales transactions; the recording of transactions for cash sales will be covered when we study the receipts side of the cash book – Chapter 7.

In accounting, the term 'sales' has a specific meaning:

the sale of goods in which the business or organisation trades

Thus an office stationery shop will record as sales things such as photocopier paper, ring binders, etc; however, if the shop sells off its old cash till when it is replaced with a new one, this is not recorded as sales but, instead, is accounted for against the original cost of the till.

The accounting system starts its recording process from prime documents. The prime documents used to record different aspects of credit sales are:

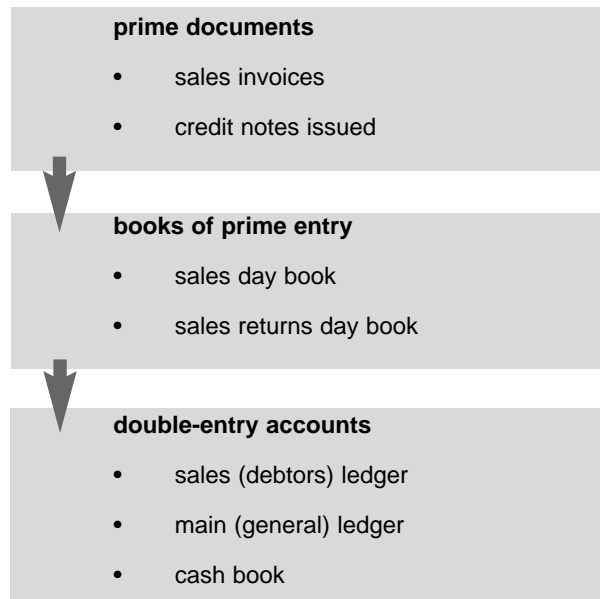
- sales invoices
- credit notes issued

The diagram on the next page shows the order in which the accounting records are prepared for credit sales transactions. You will see that the steps for recording credit sales transactions in the accounting system are:

- start with a *prime document* (the source document for the accounting records)

- enter it in the appropriate *book of prime entry* (the first accounting book in which the prime document is recorded and summarised)
- transfer the information from the book of prime entry into the *double-entry accounts*

accounting for credit sales transactions



We will now look in more detail at the mechanics of the books of prime entry and the double-entry system. We shall then apply the accounting system to the recording of credit sales and sales returns.

BOOKS OF PRIME ENTRY

The books of prime entry include a number of *day books* which list money amounts and other details taken from prime documents.

The day books used for credit sales and sales returns are:

- sales day book
- sales returns day book

These are called books of prime entry because they are the first place in the accounting system where prime documents are recorded.

A sales day book is set out in the following way with sample entries shown (a sales returns day book uses the same layout):

Sales Day Book				SDB 21		
Date	Customer	Invoice No	Folio	Total	VAT*	Net
2007				£	£	£
5 Jan	Doyle & Co Ltd	901	SL 58	141.00	21.00	120.00
8 Jan	Sparkes & Sons Ltd	902	SL 127	188.00	28.00	160.00
13 Jan	T Young	903	SL 179	94.00	14.00	80.00
15 Jan	A-Z Supplies Ltd	904	SL 3	235.00	35.00	200.00
21 Jan	Sparkes & Sons Ltd	905	SL 127	141.00	21.00	120.00
31 Jan	Totals for month			799.00	119.00	680.00

* VAT = 17.5 per cent

Notes:

- The day book is prepared from prime documents – sales day book from sales invoices (or copies of sales invoices), and sales returns day book from credit notes (or copies) issued.
- The reference ‘SDB 21’ is used for cross-referencing to the book-keeping system: here it indicates that this is page 21 of the sales day book.
- The *folio* column is also used for cross-referencing purposes: ‘SL’ refers to Sales Ledger, followed by the account number.
- The *total* column records the amount of each prime document, ie after VAT has been included.
- The day book is totalled at appropriate intervals – daily, weekly, or monthly (as here) – the total of the *net* column tells the business the amount of credit sales (as here), or sales returns for the period.
- The amounts from the day books are recorded in the book-keeping system.
- When control accounts (see Chapter 4) are in use, the total for the month from the ‘total’ column is entered into the sales ledger control account from both the sales day book and the sales returns day book.

day books and Value Added Tax

Many businesses and other organisations are registered for Value Added Tax (VAT). When a business is registered for VAT:

- VAT is charged on invoices issued to customers
- an allowance for VAT is made on credit notes issued
- VAT charged on invoices received from VAT-registered suppliers and allowed on credit notes issued is set off against VAT charged on invoices issued (any surplus which cannot be set off in this way can be reclaimed from HM Customs and Excise, the VAT authority)

When writing up day books from VAT invoices and credit notes:

- enter the total amount of the invoice or credit note into the total column
- enter the VAT amount in the VAT column
- enter the net amount of the invoice or credit note, before VAT is added

When a business is not registered for VAT, it cannot charge VAT on invoices issued and it cannot reclaim VAT charged on invoices received from suppliers. In such circumstances the total amount of the invoice is recorded in both the net and total columns; a dash may be inserted in the VAT column. Likewise, VAT cannot be allowed on credit notes issued (nor recorded for credit notes received).

In this chapter we shall see how the VAT columns from the sales and sales returns day books are entered into the double-entry accounts. Chapter 11 shows how VAT on purchases and purchases returns is recorded in the accounts.

DOUBLE-ENTRY SYSTEM

The accounting system is organised on the basis of a number of *accounts* which record the money amounts of financial transactions: collectively these accounts are known as 'the ledger'.

Accounts are kept in the names of customers and of suppliers of the business, and also for other transactions such as the receipt and payment of money for various purposes. Accounts can be kept in the form of:

- handwritten records
- computer records

In a handwritten system, accounts are maintained either in a bound book or a series of separate sheets of paper or card – each account occupying a separate page. The business can set up its own manual system, or can buy one ready-made from a business supplies shop.

In a computerised system each account is held as data in a computer file. Whether a handwritten or computerised system is being used, the principles remain the same. For the moment we will concentrate on handwritten accounts.

A handwritten system can either use specially ruled accounting paper – known as ledger paper – which can be purchased from a business supplies shop, or a suitable layout can be ruled as follows:

Debit		Name of Account, eg Sales Account		Credit			
Date	Details	£	p	Date	Details	£	p
↑ of trans- action	↑ name of other account	↑	amount of trans- action				

Note the following points about the layout of this account:

- the name of the account is written at the top (often followed by the account number)
- the account is divided into two identical halves, separated by a central double vertical line
- the left-hand side is called the 'debit' side ('debit' is abbreviated to 'Dr' – short for DebtoR)
- the right-hand side is called the 'credit' (or 'Cr') side
- the date, details and amount of the transaction are entered in the account
- in the 'details' column is entered the name of the other account (or book of prime entry) involved – this acts as a cross reference; as a further cross reference, a 'folio' column is often incorporated on each side of an account – to the left of the money amount columns

In practice, each account would occupy a whole page in a handwritten book-keeping system but, to save space when doing exercises, it is usual to put several accounts on a page. In future, in this book, the account layout will be simplified to give more clarity as follows (example transaction shown):

Dr		Sales Account		Cr	
2007	£	2007	£	31 Jan	Sales Day Book SDB 21 680

This layout is often known in accounting jargon as a 'T' account; it is used to illustrate accounts because it separates in a simple way the two sides – debit and credit – of the account. An alternative style of account has three money columns: debit, credit and balance. This type of account is commonly used

for bank statements, building society passbooks and computer accounting statements. Because the balance of the account is calculated after every transaction, it is known as a *running balance account*.

debits and credits

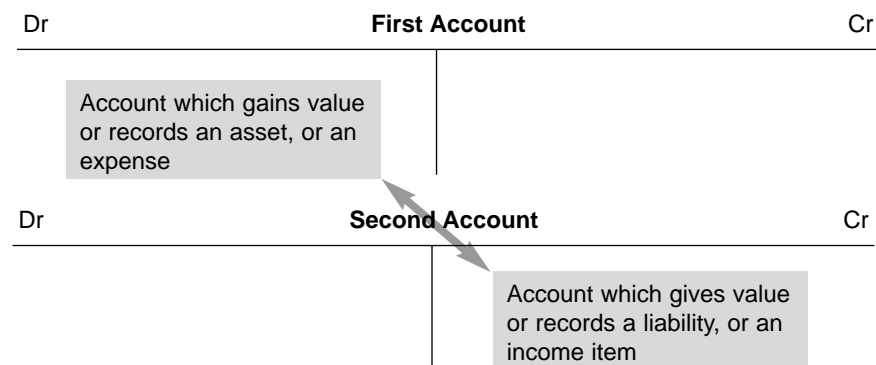
The principle of double-entry book-keeping is that two entries are made, for every financial transaction, usually in different accounts:

- one account is *debited* with the money amount of the transaction, and
- one account is *credited* with the money amount of the transaction

The principle is often known as the *dual aspect* of book-keeping, ie each transaction has a dual effect on the accounts – one account gains, while another account gives value by recording a payment or a liability.

Debit entries are on the left-hand side of the appropriate account, while credit entries are on the right. The rules for debits and credits are:

- *debit entry* – the account which gains value, or records an asset, or an expense
- *credit entry* – the account which gives value, or records a liability, or an income item

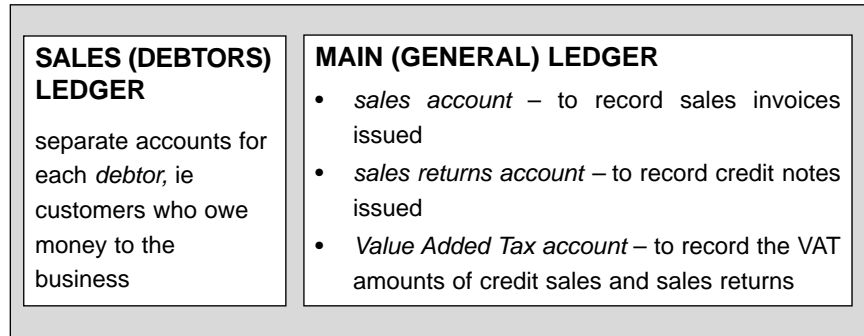


division of the ledger

Accounts, as mentioned above, are normally written on separate pages of a book known as 'the ledger'. In practice, several separate ledgers are kept: for credit sales transactions we shall be making use of the following ledgers:

- sales ledger, also known as the debtors ledger, containing the accounts of the firm's debtors (customers)
- cash book, containing the bank account and cash account records of the business
- main ledger (also often referred to as the general ledger or nominal ledger) containing sales account, sales returns account, Value Added Tax account, together with other accounts kept by the business

The following diagram shows how ledgers and accounts are used in connection with sales:



Note that main ledger contains a number of other accounts in connection with purchases (see Chapter 10), expenses, receipts and payments, and the assets and liabilities of the business.

METHODS OF CODING IN ACCOUNTING SYSTEMS

As a business grows, methods of coding need to be used to trace transactions through the accounting system, ie:

- prime documents
- books of prime entry
- double-entry accounts
- trial balance

Uses of coding in the stages of the accounting system are:

prime documents

- each document, eg invoice, credit note, is numbered
- goods listed on invoices have reference numbers, eg catalogue number, which, if a computer accounting system is used, will enable the business to analyse sales by product

books of prime entry

- each page of the day books is numbered
- the number of the document, eg invoice, credit note is recorded
- the number of the debtors or creditors account is recorded in the folio column, eg 'SL' for sales ledger, followed by the account number (or short name – see below)

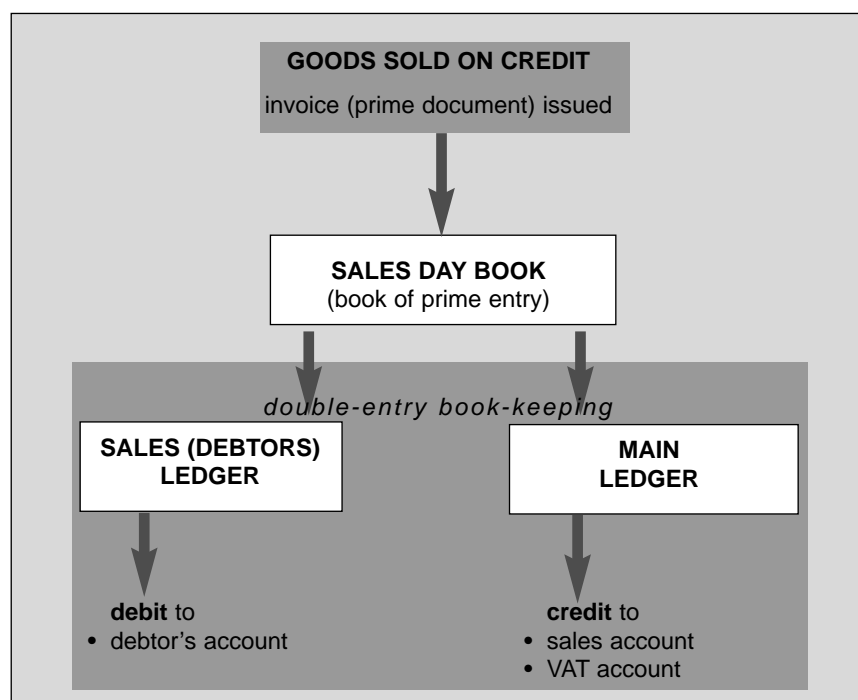
double-entry accounts

- the accounts system is divided into sections, the division of the ledger: sales ledger, purchases ledger (see Chapter 10), cash book (Chapters 7 and 14), and main ledger
- each account is numbered eg 'SL 58' (or some accounting systems use an abbreviated name, or short name, eg the account of Peterhead Trading Company might be coded as 'PETER')
- main ledger accounts are numbered and are often arranged in a particular order, for example

0001 – 1299	Assets
2100 – 2399	Liabilities
3000 – 3099	Capital
4000 – 4999	Sales
5000 – 5299	Purchases
6000 – 8299	Expenses

ACCOUNTING SYSTEM FOR CREDIT SALES

The accounting system for credit sales fits together in the following way:



We shall now look in more detail at the sales day book and the double-entry accounts for credit sales. In the examples which follow we will assume that the business is registered for Value Added Tax and so:

- VAT is charged on invoices issued to customers
- VAT charged on invoices received from suppliers is either set off against VAT charged on invoices issued, or is reclaimed from HM Revenue & Customs

The VAT rate used in the examples is 17.5%.

WRITING UP THE SALES DAY BOOK

The sales day book lists the credit sales made by a business. Following the issue of an invoice for each transaction, the sales day book is prepared from sales invoices (or copies of sales invoices). Please refer back to the example of a sales day book which was shown earlier in this chapter on page 47.

In order to write up the sales day book we take sales invoices or copy invoices – that have been checked and authorised – for the period and enter the details:

- date of invoice
- name of customer
- sales invoice number
- cross reference to the customer's account number in the sales ledger, eg 'SL 58'
- enter the total amount of the invoice into the total column
- enter the VAT amount shown on the invoice – don't be concerned with any adjustments to the VAT for the effect of any settlement (cash) discounts (see page 32), simply record the VAT amount shown
- enter the net amount of the invoice (often described as 'goods or services total'), before VAT is added

DOUBLE-ENTRY BOOK-KEEPING FOR CREDIT SALES

After the sales day book has been written up and totalled, the information from it is transferred into the double-entry system. The accounts in the sales ledger and main ledger to record the transactions from the sales day book, seen earlier on page 47, are as follows:

SALES (DEBTORS) LEDGER

Dr		A-Z Supplies Ltd (account no 3)		Cr
2007		£	2007	£
15 Jan	Sales SDB 21	235		

Dr		Doyle & Co Ltd (account no 58)		Cr
2007		£	2007	£
5 Jan	Sales SDB 21	141		

Dr		Sparkes & Sons Ltd (account no 127)		Cr
2007		£	2007	£
8 Jan	Sales SDB 21	188		
21 Jan	Sales SDB 21	141		

Dr		T Young (account no 179)		Cr
2007		£	2007	£
13 Jan	Sales SDB 21	94		

MAIN LEDGER

Dr		Sales Account (account no 4001)		Cr
2007		£	2007	£
			31 Jan Sales Day Book SDB 21	680

Dr		Value Added Tax Account (account no 2200)		Cr
2007		£	2007	£
			31 Jan Sales Day Book SDB 21	119

Note that from the sales day book:

- the amounts from the total column *for each separate sale* have been debited to the accounts of the customers, ie the business has a debtor for the amounts shown
- the total of the VAT column, £119, has been credited to VAT account (which has given value)
- the total of the net column, £680, has been credited to sales account (which has given value)

- the sales day book incorporates a folio column which cross-references each transaction to the personal account of each debtor in the sales ledger (SL); this enables a particular transaction to be traced from prime document (invoice issued), through the book of prime entry (sales day book), to the debtor's ledger account
- each entry in the sales ledger and main ledger is cross-referenced back to the page number of the sales day book; here the reference is 'SDB 21'.

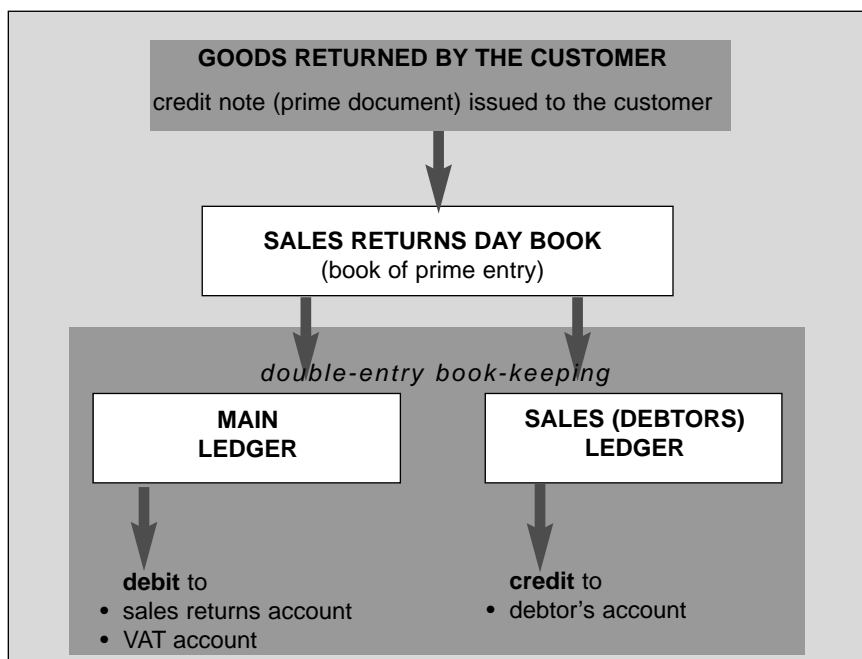
ACCOUNTING SYSTEM FOR SALES RETURNS

A credit note (see page 28) is the document issued by a business when it makes a refund to a customer who has bought goods on credit. A credit note reduces the amount owed by the debtor. *Sales returns* (or returns in) are when goods previously sold on credit are returned to the business by its customers.

The accounting procedures for sales returns involve:

- *prime documents* – credit notes issued to customers
- *book of prime entry* – sales returns day book
- *double-entry accounts* – sales ledger (accounts for each debtor) and main ledger (sales returns account, which records the totals of credit notes issued, and Value Added Tax account, which records the VAT amount of sales returns)

The accounting system for sales returns is summarised as follows:



We shall now look in more detail at the sales returns day book and the double-entry accounts for sales returns. Note that the business is registered for Value Added Tax.

SALES RETURNS DAY BOOK

The sales returns day book uses virtually the same layout as the sales day book seen on page 47 of this chapter. It operates in a similar way, storing up information about sales returns until such time as a transfer is made into the double-entry accounts system. The prime documents for sales returns day book are credit notes (or copies of credit notes) issued to customers.

example transactions

2007

15 Jan T Young returns goods, £40 + VAT, credit note no CN702 issued

27 Jan A-Z Supplies Ltd returns goods, £120 + VAT, credit note no CN703 issued

The sales returns day book is written up as shown below:

Sales Returns Day Book					SRDB 5	
Date	Customer	Credit Note No	Folio	Total	VAT*	Net
2007				£	£	£
15 Jan	T Young	CN702	SL 179	47.00	7.00	40.00
27 Jan	A-Z Supplies Ltd	CN703	SL 3	141.00	21.00	120.00
31 Jan	Totals for month			188.00	28.00	160.00

* VAT = 17.5 per cent

Notes:

- The sales returns day book is prepared from credit notes (or copies of credit notes) issued to customers.
- The day book is totalled at appropriate intervals – weekly or monthly.
- The VAT-inclusive amounts from the total column are credited to the debtors' personal accounts in the sales ledger.

- The total of the VAT column is transferred to the debit of the VAT account in the main ledger.
- The total of the net column tells the business the amount of sales returns for the period. This amount is transferred to the debit of sales returns account in the main ledger.
- The total column records the amount of each credit note issued, ie after VAT has been included. When control accounts (see Chapter 4) are in use, the total for the month of the 'total' column is entered into the sales ledger control account.

DOUBLE-ENTRY BOOK-KEEPING FOR SALES RETURNS

After the sales returns day book has been written up and totalled, the information from it is transferred into the double-entry system. The accounts in the sales ledger and main ledger to record the transactions from the above sales returns day book (including any other transactions already recorded on these accounts) are:

SALES (DEBTORS) LEDGER

Dr		A-Z Supplies Ltd (account no 3)		Cr	
2007		£		2007	£
15 Jan	Sales SDB 21	235		27 Jan	Sales Returns SRDB 5 141

Dr		T Young (account no 179)		Cr	
2007		£		2007	£
12 Jan	Sales SDB 21	94		15 Jan	Sales Returns SRDB 5 47

MAIN LEDGER

Dr		Sales Returns Account (account no 4010)		Cr	
2007		£		2007	£
31 Jan	Sales Returns Day Book SRDB 5	160			

Dr		Value Added Tax Account (account no 2200)		Cr	
2007		£		2007	£
31 Jan	Sales Returns Day Book SRDB 5	28		31 Jan	Sales Day Book SDB 21 119

THE USE OF ANALYSED SALES DAY BOOKS

As well as the layout of the day books we have seen in this chapter, a business can use analysed day books whenever it needs to analyse its sales and sales returns between

- different departments, eg a store with departments for furniture, carpets and curtains, hardware
- different categories of goods sold, eg paint, wallpaper, brushes, or services supplied

For example, a wholesaler of decorators' supplies may decide to write up its sales day book as shown below.

Sales Day Book										SDB 48
Date	Customer	Invoice No	Folio	Total	VAT*	Net	Paint	Wallpaper	Brushes	
2007				£	£	£	£	£	£	
9 Aug	DIY Sales Limited	1478	SL 59	235.00	35.00	200.00	75.00	125.00	–	
12 Aug	T Lane Decorators	1479	SL 108	141.00	21.00	120.00	–	100.00	20.00	
16 Aug	Colour Painters Limited	1480	SL 38	329.00	49.00	280.00	150.00	100.00	30.00	
23 Aug	Southern Decorators	1481	SL 211	188.00	28.00	160.00	100.00	60.00	–	
31 Aug	Totals for month			893.00	133.00	760.00	325.00	385.00	50.00	

* VAT = 17.5 per cent

Notes:

- The references in the folio column are to 'SL' (Sales Ledger), followed by the customer's account number.
- The analysis columns – here paint, wallpaper, brushes – show the amount of sales net of VAT (ie before VAT is added).
- The analysis columns analyse the net amount from sales invoices of products sold or services supplied.

In using analysed sales day books and sales returns day books, a business adapts the accounting records to suit its own particular requirements for information. There is not a standard way in which to present the books of prime entry – the needs of the user of the information are all important. By using analysed day books, the owner of the business can see how much has been sold by departments, or categories of goods and services.

BATCH CONTROL SYSTEMS

A variation on the use of day books is often used – particularly with computer accounting programs. With batched data entry a series of transactions for a day, week or month relating to, say, sales invoices is entered into the accounts in one 'run'. By batching, the computer operator concentrates on entering one type of transaction without the need to keep changing from one area of the computer program to another. Before entering a batch of transactions they are pre-listed on a separate batch control form such as that shown below for a batch of sales invoices:

Batch Control: sales invoices						
Customer		Invoice		Total	VAT*	Net
Account No	Name	Date	No	£	£	£
		2007				
SL 58	Doyle & Co Ltd	5 Jan	901	141.00	21.00	120.00
SL 127	Sparkes & Sons Ltd	8 Jan	902	188.00	28.00	160.00
SL 179	T Young	13 Jan	903	94.00	14.00	80.00
SL 3	A-Z Supplies Ltd	15 Jan	904	235.00	35.00	200.00
SL 127	Sparkes & Sons Ltd	21 Jan	905	141.00	21.00	120.00
<i>Check list totals</i>				799.00	119.00	680.00
Prepared by	<u><i>Gill Pate</i></u>			Date	<u><i>31 Jan 2007</i></u>	
Checked by	<u><i>Karan Hopwood</i></u>			Date	<u><i>31 Jan 2007</i></u>	
Posted by	<u><i>Jan Turner</i></u>			Date	<u><i>31 Jan 2007</i></u>	

* VAT = 17.5 per cent

The sales invoice batch form is completed from invoices (or copy invoices) which have been prepared and checked. The transactions are then entered into the sales ledger section of the computer accounting program. The computer screen shows the total money amount of sales invoices and this is compared with the check list total from the sales invoice batch control form; if there is a discrepancy, the error must be located and corrected.

Note that businesses often use batch control forms in place of day books. Also, when a sales ledger control account (see Chapter 4) is in use, the total from the batch control form is recorded in the control account.

Case Study

WYVERN TRADERS

To bring together the material covered in this chapter, we will look at a comprehensive Case Study which makes use of:

- **books of prime entry**
 - sales day book
 - sales returns day book
- **double-entry accounts**
 - sales (debtors) ledger
 - main ledger

The Case Study also includes a diagram (see page 63) which summarises the procedures for recording credit sales and sales returns transactions in the accounting system.

situation

Wyvern Traders is a wholesaler of stationery and office equipment. The business is registered for VAT. The following are the credit sales and sales returns transactions for April 2007:

2007	
2 Apr	Sold goods to P Woodhouse, £200.00 + VAT, invoice no 2416
9 Apr	P Woodhouse returns goods, £60.00 + VAT, we issue credit note no CN12
14 Apr	Sold goods to Blackheath Limited, £80.00 + VAT, invoice no 2417
21 Apr	Blackheath Limited returns goods, £10.00 + VAT, we issue credit note no CN13
26 Apr	Sold goods to Butterworth Limited, £160.00 + VAT, invoice no 2418

The day books and double-entry accounts are illustrated on the next two pages: arrows indicate the transfers from the day books to the individual accounts. Note that some accounts have been represented on both pages in order to show, on the same page, the accounts relating to a particular day book: in practice a business would keep all the transactions together in one account.

Sales Day Book							SDB 30
Date	Customer	Invoice No	Folio	Total	VAT	Net	
2007				£ p	£ p	£ p	
2 Apr	P Woodhouse	2416	SL 248	235 00	35 00	200 00	
14 Apr	Blackheath Ltd	2417	SL 27	94 00	14 00	80 00	
26 Apr	Butterworth Ltd	2418	SL 35	188 00	28 00	160 00	
30 Apr	Totals for month			517 00	77 00	440 00	

SALES (DEBTORS) LEDGER					
Dr		Blackheath Ltd (account no 27)		Cr	
Date	Details	£ p	Date	Details	£ p
2007 14 Apr	Sales SDB 30	94 00	2007		
Dr		Butterworth Ltd (account no 35)		Cr	
Date	Details	£ p	Date	Details	£ p
2007 26 Apr	Sales SDB 30	188 00	2007		
Dr		P Woodhouse (account no 248)		Cr	
Date	Details	£ p	Date	Details	£ p
2007 2 Apr	Sales SDB 30	235 00	2007		

MAIN LEDGER					
Dr		Value Added Tax Account (account no 2200)		Cr	
Date	Details	£ p	Date	Details	£ p
2007			2007 30 Apr	Sales Day Book SDB 30	77 00
Dr		Sales Account (account no 4001)		Cr	
Date	Details	£ p	Date	Details	£ p
2007			2007 30 Apr	Sales Day Book SDB 30	440 00

Sales Returns Day Book							SRDB 4
Date	Customer	Credit Note No	Folio	Total	VAT	Net	
2007				£ p	£ p	£ p	
9 Apr	P Woodhouse Blackheath Ltd	CN 12	SL 248	70 50	10 50	60 00	
21 Apr		CN 13	SL 27	11 75	1 75	10 00	
30 Apr	Totals for month			82 25	12 25	70 00	

SALES (DEBTORS) LEDGER					
Dr			Cr		
Blackheath Ltd (account no 27)					
Date	Details	£ p	Date	Details	£ p
2007			2007		
14 Apr	Sales SDB 30	94 00*	21 Apr	Sales Returns SRDB 4	11 75

Dr			Cr		
P Woodhouse (account no 248)					
Date	Details	£ p	Date	Details	£ p
2007			2007		
2 Apr	Sales SDB 30	235 00*	9 Apr	Sales Returns SRDB 4	70 50

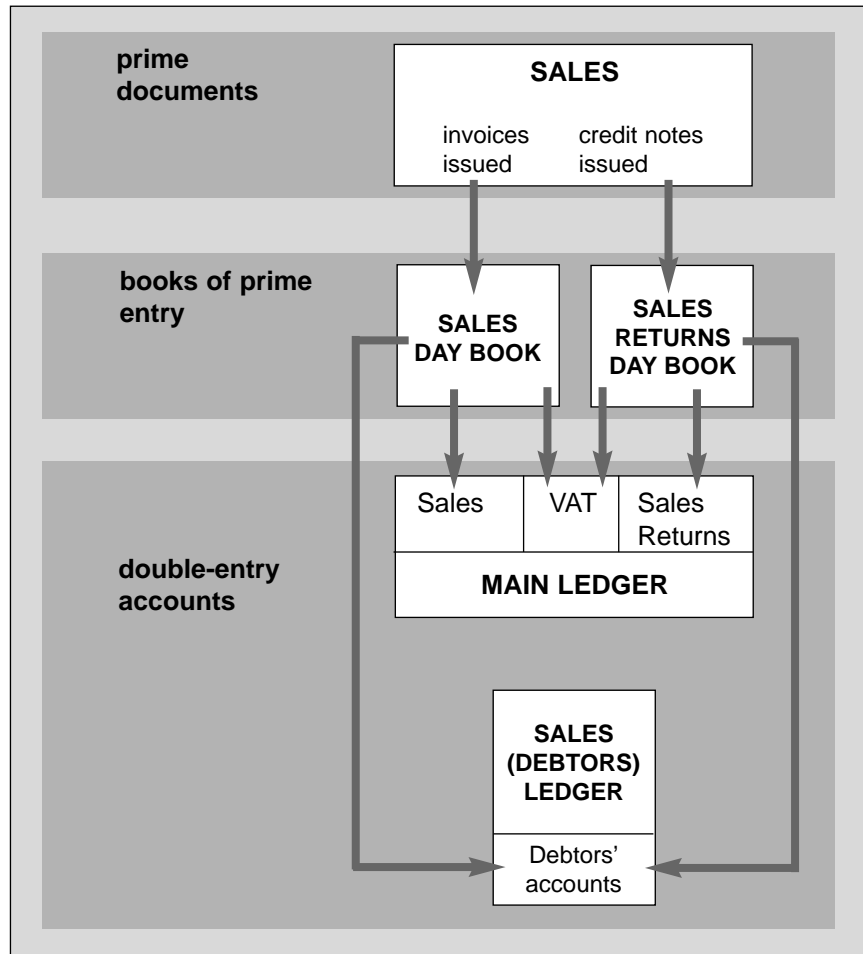
MAIN LEDGER					
Dr			Cr		
Value Added Tax Account (account no 2200)					
Date	Details	£ p	Date	Details	£ p
2007			2007		
30 Apr	Sales Returns Day Book SRDB 4	12 25	30 Apr	Sales Day Book SDB 30	77 00*

Dr			Cr		
Sales Returns Account (account no 4010)					
Date	Details	£ p	Date	Details	£ p
2007			2007		
30 Apr	Sales Returns Day Book SRDB 4	70 00			

* transactions entered previously

The diagram below summarises the material we have studied in this chapter. It shows the procedures for recording transactions in the accounting system for

- credit sales
- sales returns



BALANCING ACCOUNTS

Where there is only one transaction recorded on an account, the amount of the transaction is the balance of the account, ie the total of the account to date. With several transactions recorded on an account it is necessary to work out the balance more formally from time-to-time. Such balancing of accounts is usually carried out at the end of each month, sometimes more often. We will look in more detail at balancing accounts in the next chapter.

**Chapter
Summary**

- The accounting system comprises a number of specific stages of recording and presenting financial transactions:
 - prime documents (also known as source documents)
 - books of prime entry (eg day books)
 - double-entry book-keeping
 - trial balance
 - financial statements

- The prime documents relating to credit sales are:
 - sales invoices
 - credit notes issued

- Sales day book is the book of prime entry for credit sales. It is prepared from sales invoices (or copy invoices) sent to customers.

- Sales returns day book is the book of prime entry for sales returns. It is prepared from credit notes (or copy credit notes) issued to customers.

- Analysed sales day books are used when a business wishes to analyse its sales between different departments or different categories of goods sold or services supplied.

- Recording credit sales in the double-entry system uses:
 - prime documents, sales invoices
 - book of prime entry, sales day book
 - double-entry accounts, sales ledger and main ledger

- Recording sales returns in the double-entry system uses:
 - prime documents, credit notes issued to customers
 - book of prime entry, sales returns day book
 - double-entry accounts, sales ledger and main ledger

**Key
Terms**

prime documents	source documents for the accounting records
books of prime entry	the first accounting books in which transactions are recorded
folio	a form of cross-referencing used in the accounting system
ledger	collection of accounts; a sub-division of the accounting system
debit entry	records a gain in value, an asset, or an expense
credit entry	records the giving of value, a liability, or an income item
sales	the sale of goods in which the business or organisation trades
sales day book	book of prime entry prepared from sales invoices (or copy invoices)
sales returns	goods sold on credit which are returned by customers
credit note	the prime document for returned goods – issued by the business allowing credit to the customer
sales returns day book	book of prime entry prepared from credit notes (or copy credit notes) issued to customers
analysed sales day book	day book which incorporates analysis columns, for example between <ul style="list-style-type: none"> – different departments – different categories of goods sold, or services supplied
sales (debtors) ledger	division of the ledger which contains the accounts of the firm's debtors (customers)
main (general) ledger	division of the ledger which includes <ul style="list-style-type: none"> – sales account – sales returns account – Value Added Tax account



Student Activities

3.1 Which one of the following is a book of prime entry?

- (a) sales day book
- (b) sales account
- (c) account of T Smith, a debtor
- (d) profit and loss account

Answer (a) or (b) or (c) or (d)

3.2 Which one of the following is in the right order?

- (a) sales invoice; sales day book; sales account; debtor's account
- (b) sales day book; debtor's account; sales account; sales invoice
- (c) sales day book; sales invoice; debtor's account; sales account
- (d) sales account; debtor's account; sales invoice; sales day book

Answer (a) or (b) or (c) or (d)

3.3 Explain in note format:

- (a) the principles of recording a credit sales transaction in the accounting system
- (b) the principles of recording a sales returns transaction in the accounting system

In the Activities which follow, the rate of Value Added Tax is to be calculated at the current rate (17.5% at the time of writing). When calculating VAT amounts, you should ignore fractions of a penny, ie round down to a whole penny.

For Activities 3.4 and 3.5 use a cross-referencing system incorporating the following:

- | | |
|---|---|
| • <i>sales day book</i> – <i>SDB 50</i> | • <i>main ledger account numbers</i> |
| <i>sales returns day book</i> – <i>SRDB 8</i> | <i>sales account</i> – <i>account no 4001</i> |
| • <i>sales ledger account numbers</i> | <i>sales returns account</i> – <i>account no 4010</i> |
| <i>A Cox</i> – <i>account no 32</i> | <i>Value Added Tax account</i> – <i>account no 2200</i> |
| <i>Dines Stores</i> – <i>account no 48</i> | |
| <i>E Grainger</i> – <i>account no 55</i> | |
| <i>M Kershaw</i> – <i>account no 90</i> | |
| <i>D Lloyd</i> – <i>account no 95</i> | |
| <i>Malvern Stores</i> – <i>account no 110</i> | |
| <i>Pershore Retailers</i> – <i>account no 145</i> | |
| <i>P Wilson</i> – <i>account no 172</i> | |

- 3.4** Wyvern Wholesalers sells office stationery to other businesses in the area. During April 2007 the following credit transactions took place:

2007

2 Apr	Sold goods to Malvern Stores £55 + VAT, invoice no 4578
5 Apr	Sold goods to Pershore Retailers £65 + VAT, invoice no 4579
7 Apr	Sold goods to E Grainger £28 + VAT, invoice no 4580
9 Apr	Sold goods to P Wilson £58 + VAT, invoice no 4581
12 Apr	Sold goods to M Kershaw £76 + VAT, invoice no 4582
14 Apr	Sold goods to D Lloyd £66 + VAT, invoice no 4583
19 Apr	Sold goods to A Cox £33 + VAT, invoice no 4584
22 Apr	Sold goods to Dines Stores £102 + VAT, invoice no 4585
23 Apr	Sold goods to Malvern Stores £47 + VAT, invoice no 4586
26 Apr	Sold goods to P Wilson £35 + VAT, invoice no 4587
29 Apr	Sold goods to A Cox £82 + VAT, invoice no 4588

You are to:

- (a) enter the above transactions in Wyvern Wholesaler's sales day book for April 2007
 - (b) record the accounting entries in Wyvern Wholesaler's sales ledger and main ledger
- 3.5** The following details are the sales returns of Wyvern Wholesalers for April 2007. They are to be
- (a) entered in the sales returns day book for April 2007
 - (b) recorded in the sales ledger and main ledger (use the ledgers already prepared in the answer to Activity 3.4)

2007

8 Apr	Pershore Retailers returns goods £20 + VAT, we issue credit note no CN572
12 Apr	E Grainger returns goods £28 + VAT, we issue credit note no CN573
16 Apr	D Lloyd returns goods £33 + VAT, we issue credit note no CN574
28 Apr	Malvern Stores returns goods £20 + VAT, we issue credit note no CN575
30 Apr	A Cox returns goods £40 + VAT, we issue credit note no CN576