

## 2

# Financial documents for sales

## this chapter covers...

*This chapter examines the procedures involved when a business sells goods or services on credit – which means that payment is made at a later date, possibly a month later.*

*The important point here is that the business wants to get paid on time and it wants to get the right amount. It can achieve these aims through the efficient use and monitoring of financial documents.*

*This chapter covers the areas of:*

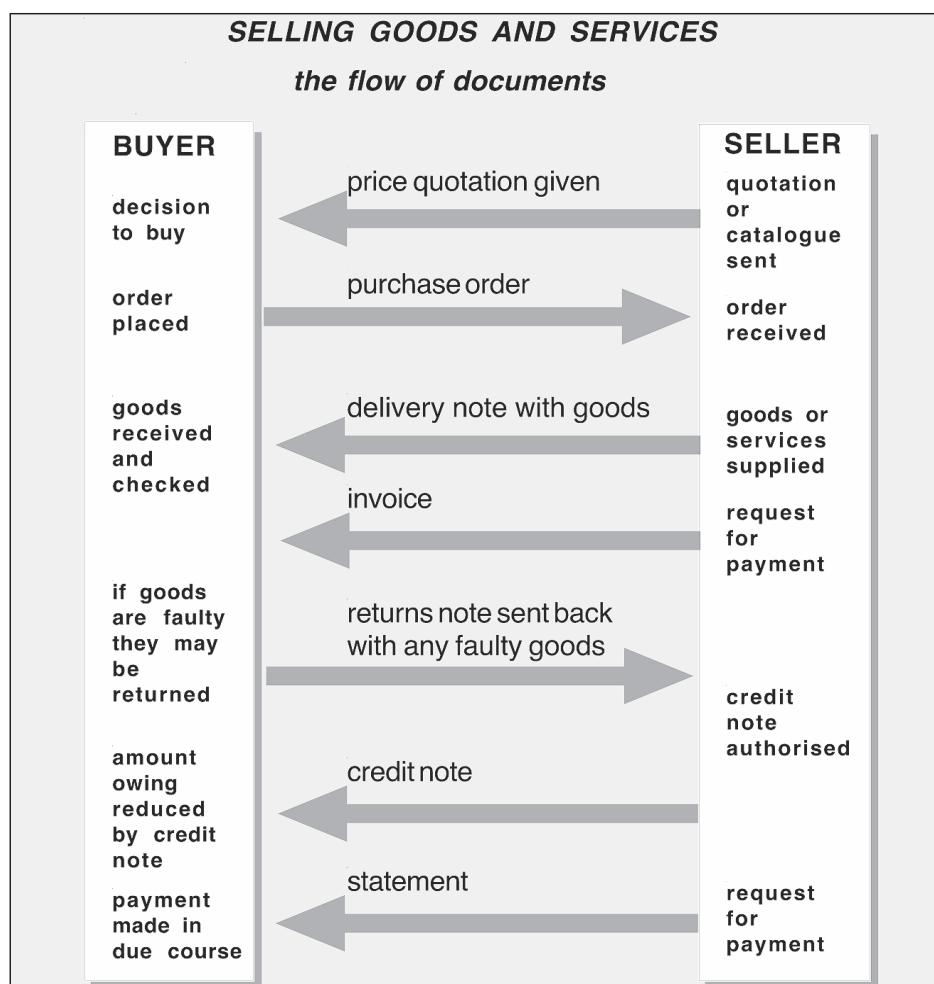
- *the use of business documents – quotation, purchase order, invoice, delivery note, returns note, credit note, statement*
- *the calculation of document totals and discounts*
- *the calculation of Value Added Tax (VAT)*
- *the coding of documents*
- *the checking and authorisation of documents*

*Note that the documents explained in this chapter illustrate the traditional paper-based system. There is nowadays a growing trend for electronic documents, eg online orders, invoices, statements and payments. These follow the same principles as the paper-based documents.*

## FINANCIAL DOCUMENTS

When a business sells goods or services it will use a number of different documents (listed in the diagram below). A single sales transaction of course involves both seller and buyer. In this chapter we look at the situation from the point of view of the **seller** of the goods or services. The transaction from the point of view of the buyer is dealt with in Chapter 6. Documents which are used in the **selling** process include:

- **price quotation** which the seller may be asked to provide
- **purchase order** which the seller receives from the buyer
- **delivery note** which goes with the goods from the seller to the buyer
- **invoice** which lists the goods and tells the buyer what is owed
- **returns note** which is sent with any goods that are being returned
- **credit note** which is sent to the buyer if any refund is due
- **statement** sent by the seller to remind the buyer what is owed



### the flow of documents

Before you read the Case Study, make sure you have studied the diagram on the previous page. You will see in the columns representing the buyer and the seller that there are various activities requiring financial documents.

## Case Study

### COOL SOCKS – A SALES TRANSACTION

#### situation

Cool Socks Limited manufactures fashion socks in a variety of colours. It supplies a number of different customers, including Trends, a fashion store in Broadfield. In this Case Study, Trends places an order for 100 pairs of socks with Cool Socks. The socks are delivered, but some are found to be faulty, so some of the socks have to be returned. The Case Study looks in detail at the documents involved.

#### THE PRICE QUOTATION

Before placing the order, the buyer at Trends will need to find out the price of the socks. This can be done by consulting Cool Socks' printed catalogue or website, or by means of a written or telephoned enquiry.

Cool Socks *may* provide a written quotation for the socks if they are requested to do so, although this procedure is more common with higher value orders. A written quotation might look like this:

QUOTATION		
COOL SOCKS LIMITED		
Unit 45 Elgar Estate, Broadfield, BR7 4ER Tel 01908 765314 Fax 01908 765951 Email toni@cool.u-net.com VAT REG GB 0745 4672 76	date	19 09 20-3
Trends 4 Friar Street Broadfield BR1 3RF		
Thank you for your enquiry of 17 September 20-3. We are pleased to quote as follows:		
100 pairs Toebar socks (blue) @ £2.36 a pair, excluding VAT.		
M Arnold		
Sales Department		

## PURCHASE ORDER – THE SOCKS ARE ORDERED

The buyer at Trends, once she has accepted the quoted price will post, fax or email the authorised purchase order shown below, or she might send an online order. The order will have been processed manually, or produced on a computer accounting program.

Note the following details:

- each purchase order has a specific reference number (here it is 47609) – this is useful for filing and quoting on later documents such as invoices and statements; this reference number is an example of **coding** in accounting (see page 35)
- the catalogue number of the goods required is stated in the product code column – this number is a further example of coding
- the quantity of the goods required is stated in the quantity column – socks are normally supplied in pairs!
- the description of the goods is set out in full
- the price is not essential, although some purchase orders will include a price
- the purchase order is signed and dated by the person in charge of purchasing – without this authorisation the supplier is unlikely to supply the goods (the order will probably be returned)

### Trends

4 Friar Street  
Broadfield  
BR1 3RF

Tel 01908 761234 Fax 01908 761987  
VAT REG GB 0745 8383 56

### PURCHASE ORDER

**Cool Socks Limited,  
Unit 45 Elgar Estate,  
Broadfield,  
BR7 4ER**

purchase order no **47609**  
date **25 09 20-3**

Product code	Quantity	Description
<b>45B</b>	<b>100 pairs</b>	<b>Blue Toobar socks @ £2.36 per pair</b>
<b>AUTHORISED</b> signature.....		<i>D.Signer</i> .....date..... <b>25/09/20-3</b>

## DELIVERY NOTE – THE SOCKS ARE DELIVERED

A delivery note is despatched with the goods when the order is ready. It is either processed manually in the office or printed out by a computer accounting program, often at the same time as the invoice (see next page). In this case, the delivery note travels with the socks, and a copy will be signed by Trends on receipt. Note the following details:

- the delivery note has a numerical reference (here it is 68873), useful for filing and later reference if there is a query – this is another example of coding
- the method of delivery is stated – here the delivery is by parcel carrier
- the delivery note quotes the purchase order number – 47609 – this enables the buyer to link the delivery with the original purchase order – this is another example of the use of coding
- the delivery note quotes
  - Cool Socks' catalogue reference 45B as the product code
  - the quantity supplied
  - the description of the goods, but no price – it is not needed at this stage
 these details will be checked against the goods themselves straightaway so that any discrepancies can be reported without delay
- the delivery note will be signed and dated by the person receiving the goods as proof of delivery; nowadays this process can also be carried out electronically – the person receiving the goods will be asked to sign a portable electronic device

### DELIVERY NOTE COOL SOCKS LIMITED

Unit 45 Elgar Estate, Broadfield, BR7 4ER  
 Tel 01908 765314 Fax 01908 765951 Email toni@cool.u-net.com  
 VAT REG GB 0745 4672 76

**Trends**  
**4 Friar Street**  
**Broadfield**  
**BR1 3RF**

delivery note no	<b>68873</b>
delivery method	<b>Lynx Parcels</b>
your order	<b>47609</b>
date	<b>02 10 20-3</b>

product code	quantity	description
<b>45B</b>	<b>100 pairs</b>	<b>Blue Toebar socks</b>
<b>Received</b>		
signature.....	<i>V Williams</i>	name (capitals) <i>V WILLIAMS</i> date <i>6/10/20-3</i>

## INVOICE – THE SELLER REQUESTS PAYMENT

The invoice is the trading document which is sent by the seller to the buyer stating how much is owed by the buyer of goods or services.

The invoice, like the delivery note, is prepared in the supplier's (seller's) office, and is either processed manually or produced on a computer printer using a computer accounting program.

Invoices produced by different organisations will vary to some extent in terms of detail, but their basic layout will always be the same. The invoice prepared by Cool Socks Limited – illustrated on page 25 – is typical of a modern typed or computer printed document.

An invoice will normally be printed as part of a multiple set of documents which is likely to include a delivery note and a copy invoice for the seller's own records. The copy invoice will normally be filed in numerical order (see 'coding' below). If a computer accounting program is used, the invoice can, of course, be called up on screen, referenced by its invoice number.

Note the following details, and refer to the invoice on page 25.

### addresses

The invoice shows the address:

- of the seller of the goods – Cool Socks Limited
- where the invoice should be sent – to Trends
- where the goods are to be sent – if it is different from the invoice address

### coding and references

There are a number of important coding references on the invoice:

- the numerical reference of the invoice itself – 787923
- the account number allocated to Trends by the seller – 3993 – for use in the seller's computer accounting program; note that account references can include letters as well – for example another supplier might give Trends the code TR126
- the original reference number on the purchase order sent by Trends – 47609 – which will enable the shop to link the invoice with the original order
- the product code from the seller's catalogue or product list – here it is 45B

Note that coding on a financial document can be:

- numeric – ie just numbers
- alpha-numeric – ie a mixture of letters and numbers

### date

The date on the invoice is important because the payment date (here one month) is calculated from it. It is also the transaction date used for VAT (Value Added Tax) purposes (see the next page).

### the goods

The invoice must specify accurately the goods supplied. The details – set out in columns in the body of the invoice – include:

- **product code** – this is the catalogue number which appeared on the original purchase order and on the delivery note
- **description** – the goods must be specified precisely
- **quantity** – this should agree with the quantity ordered
- **price** – this is the price of each unit shown in the next column
- **unit** is the way in which the unit is counted and charged for, eg ‘boxes’ of tights or single items, eg designer dresses, in which case the unit is quoted as ‘each’
- **total** is the unit price multiplied by the number of units
- **discount %** is the percentage allowance (often known as ‘trade’ discount) given to customers who regularly deal with the supplier, ie they receive a certain percentage (eg 10%) deducted from their bill (see page 28 for further explanation of discounts)
- discounts are also given for **bulk purchases** – ‘bulk discount’ will also be shown in the discount column
- **net** is the amount due to the seller after deduction of trade or bulk discount, and before VAT is added on

### totals and VAT

Further calculations are made in the box at the bottom of the invoice:

- **Goods Total** is the amount due to the seller (it is the total of the net column)
- **Value Added Tax (VAT)**, here calculated as 20% of the total after deduction of any cash discount. VAT is added to produce the invoice final total
- **Total** is the VAT plus the Goods Total; it is the amount due to the seller

Note: VAT (Value Added Tax) is a ‘sales tax’ on the supply of goods and services. It is changed from time-to-time by the Government. In this book a standard VAT rate of 20% is used.

### terms

The terms of payment are stated on the invoice. In this case these include:

- **Net monthly** – this means that full payment of the invoice should be made within a month of the invoice date
- **Carriage paid** means that the price of the goods includes delivery
- **E & OE** stands for ‘errors and omissions excepted’ which means that if there is a error or something left off the invoice by mistake, resulting in an incorrect final price, the supplier has the right to rectify the mistake and demand the correct amount

Another term used (not shown here) is **Prompt Payment Discount** (also known as **Settlement Discount** or **Cash Discount**) – a further percentage discount given when payment is made early. See pages 30-31 for further details.

**INVOICE****COOL SOCKS LIMITED**

Unit 45 Elgar Estate, Broadfield, BR7 4ER  
 Tel 01908 765314 Fax 01908 765951 Email toni@cool.u-net.com  
 VAT Reg GB 0745 4672 76

invoice to

**Trends**  
**4 Friar Street**  
**Broadfield**  
**BR1 3RF**

invoice no **787923**account **3993**your reference **47609**

deliver to

date/tax point **02 10 20-3**

**as above**

Product code	Description	Quantity	Price	Unit	Total	Discount %	Net
<b>45B</b>	<b>Blue toebar socks</b>	<b>100</b>	<b>2.36</b>	<b>pair</b>	<b>236.00</b>	<b>0.00</b>	<b>236.00</b>

**terms**

Net monthly

Carriage paid

E &amp; OE

<b>Goods total</b>	<b>236.00</b>
<b>VAT</b>	<b>47.20</b>
<b>TOTAL</b>	<b>283.20</b>

## CREDIT NOTE – A REFUND IS DUE TO THE BUYER

A **credit note** is a ‘refund’ document. It reduces the amount owed by the buyer. The goods, remember, have not yet been paid for. The credit note is prepared by the seller and sent to the buyer. Examples of reasons for a refund by credit note include:

- the goods may have been damaged, lost in transit or they may be faulty
- not all the goods have been sent – this is referred to as ‘shortages’
- the unit price on the invoice may be incorrect and the buyer overcharged

In this Case Study, when the staff of Trends unpack the socks in the store room they find that ten pairs are damaged. They telephone Cool Socks to report the problem and Cool Socks authorise the return of the socks for credit. These socks will then be sent back to Cool Socks with a request for credit – ie a reduction in the bill for the 10 damaged pairs – with a document known as a returns note (see page 139). Cool Socks will then issue the credit note for £28.32 shown below. Note the following details:

- the invoice number of the original consignment is quoted
- the reason for the issue of the credit note is stated at the bottom of the credit note – here ‘damaged’ goods
- the details are otherwise exactly the same as on an invoice

CREDIT NOTE													
COOL SOCKS LIMITED													
Unit 45 Elgar Estate, Broadfield, BR7 4ER Tel 01908 765314 Fax 01908 765951 Email toni@cool.u-net.com VAT REG GB 0745 4672 76													
to			credit note no <b>12157</b> account <b>3993</b> your reference <b>47609</b> our invoice <b>787923</b> date/tax point <b>10 10 20-3</b>										
Product code	Description	Quantity	Price	Unit	Total	Discount %	Net						
<b>45B</b>	<b>Blue Toobar socks</b>	<b>10</b>	<b>2.36</b>	<b>pair</b>	<b>23.60</b>	<b>0.00</b>	<b>23.60</b>						
Reason for credit <b>10 pairs of socks received - damaged</b>					<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">GOODS TOTAL</td> <td style="width: 50;"><b>23.60</b></td> </tr> <tr> <td>VAT</td> <td><b>4.72</b></td> </tr> <tr> <td>TOTAL</td> <td><b>28.32</b></td> </tr> </table>			GOODS TOTAL	<b>23.60</b>	VAT	<b>4.72</b>	TOTAL	<b>28.32</b>
GOODS TOTAL	<b>23.60</b>												
VAT	<b>4.72</b>												
TOTAL	<b>28.32</b>												

## STATEMENT – THE SELLER REQUESTS PAYMENT

A seller will not normally expect a buyer to pay each individual invoice as soon as it is received: this could result in the buyer having to make a number of payments during the month. Instead, a **statement of account** is sent by the supplier to the buyer at the end of the month. This statement shows what is owed by the buyer to the seller. It contains details of:

- any balances (amounts owing) at the beginning of the month – these appear in the debit column with the wording 'balance b/f' in the details column ('b/f' stands for 'brought forward')
- any payments received from the buyer (credit column)
- invoices issued for goods supplied – the full amount due, including VAT (debit column)
- refunds made on credit notes – including VAT (credit column)
- the running balance and, in the box at the bottom, the final net total of all the items
- the bank details required for making payment by BACS or Faster Payments

The statement issued by Cool Socks to Trends for the period covering the sale and refund is shown below. Note that the balance of £150 owing at the beginning of the month has been paid off in full by a BACS payment on 2 October.

### STATEMENT OF ACCOUNT

#### COOL SOCKS LIMITED

Unit 45 Elgar Estate, Broadfield, BR7 4ER  
 Tel 01908 765314 Fax 01908 765951 Email toni@cool.u-net.com  
 VAT REG GB 0745 4672 76

TO

**Trends**  
**4 Friar Street**  
**Broadfield**  
**BR1 3RF**

account **3993**

date **31 10 20-3**

Date	Details	Debit £	Credit £	Balance £
01 10 20-3	<b>Balance b/f</b>	<b>150.00</b>		<b>150.00</b>
02 10 20-3	<b>BACS payment 170961</b>		<b>150.00</b>	<b>00.00</b>
02 10 20-3	<b>Invoice 787923</b>	<b>283.20</b>		<b>283.20</b>
10 10 20-3	<b>Credit note 12157</b>		<b>28.32</b>	<b>254.88</b>
Electronic payments: pay Cool Socks Ltd at Albion Bank, Account 11451226, Sort code 904717			<b>TOTAL</b>	<b>254.88</b>

## DISCOUNTS

The invoice in the Case Study (shown on the next page) has a column (second from the right) for a **discount** percentage. We will now explain how discounts are calculated. The two most common discounts are bulk discount and trade discount which are simply percentage deductions from the price charged for goods and services.

### **bulk discount**

Discount may also be given by sellers to buyers who purchase in large quantities or over certain money amounts (eg over £10,000); this is known as **bulk discount**.

### **trade discount**

It is common practice for suppliers to give businesses that order from them on a regular basis an agreed discount – a percentage reduction in the invoiced amount. This is **trade discount** because it applies to businesses ‘in the trade’ rather than to the general public. In the example on the next page 10% trade discount has been given by Cool Socks Limited to Trends. Note how the discount percentage is shown in the discount column and the net amount is the amount after deduction of the discount.

The calculations on the Cool Socks invoice are as follows:

<b>Step 1</b>	Calculate the total price before discount $100 \times £2.36 = £236.00$
<b>Step 2</b>	Calculate the trade discount $£236.00 \times 10\% (\text{ie } 10/100) = £23.60$
<b>Step 3</b>	Calculate the net price before VAT $£236.00 - £23.60 = £212.40$
<b>Step 4</b>	Calculate the VAT $£212.40 \times 20\% (\text{ie } 20/100) = £42.48$
<b>Step 5</b>	Calculate the total invoice price $£212.40 + £42.48 = £254.88$

**INVOICE****COOL SOCKS LIMITED**

Unit 45 Elgar Estate, Broadfield, BR7 4ER  
 Tel 01908 765314 Fax 01908 765951 Email toni@cool.u-net.com  
 VAT Reg GB 0745 4672 76

invoice to

**Trends**  
**4 Friar Street**  
**Broadfield**  
**BR1 3RF**

invoice no **787923**account **3993**your reference **47609**

deliver to

date/tax point **02 10 20-3**

**as above**

Product code	Description	Quantity	Price	Unit	Total	Discount %	Net
<b>45B</b>	<b>Blue toebar socks</b>	<b>100</b>	<b>2.36</b>	<b>pair</b>	<b>236.00</b>	<b>10.00</b>	<b>212.40</b>

**terms**

Net monthly

Carriage paid

E &amp; OE

<b>Goods total</b>	<b>212.40</b>
<b>VAT</b>	<b>42.48</b>
<b>TOTAL</b>	<b>254.88</b>

*an invoice with 10% trade discount deducted*

### **prompt payment discount (PPD)**

**Prompt payment discount** (also known as **settlement discount** or **cash discount**) is a discount offered by the seller to the buyer to encourage the buyer to settle up straightaway or in a short space of time rather than waiting the thirty or more days specified on the invoice. For example, the seller might offer an extra 5% discount on an invoice if it is paid within 15 days.

### **ways of adjusting for VAT when a PPD is deducted**

It is important to remember that the VAT on an invoice will **always** be calculated on the invoice total **after** the deduction of trade or bulk discount but will **not** be adjusted for any prompt payment discount (PPD) deducted by the buyer. If PPD is taken, the goods amount and VAT actually due on the sale will therefore be **less** than the goods total and VAT shown on the invoice. These figures will need to be adjusted in the accounting records.

There are two ways in which the seller can reduce the VAT amount and goods total when a PPD (prompt payment discount) is offered. **Important note:** the first alternative listed here is the method that the AAT has set out in its Unit specifications and the second is explained here for information only.

#### **■ Alternative 1 – the seller issues a credit note (AAT suggested method)**

If the customer pays early, taking advantage of the lower charge, a lower amount of VAT will be due to HM Revenue & Customs (HMRC). The seller will have to issue to the customer a credit note for the amount of the prompt payment discount given. This will include the goods amount and the VAT.

#### **■ Alternative 2 – the seller includes a PPD declaration on the invoice**

If the seller does not want to issue a credit note, the seller's invoice must include a written declaration giving the terms of the PPD (eg discount of 5% for an invoice settled within 15 days of the invoice date) and a statement that the buyer should account to HMRC for a lower VAT amount (ie not the amount on the invoice). HMRC recommends that if this method is adopted this declaration is included on the invoice:

*'A discount of X% of the full price applies if payment is made within Y days of the invoice date. No credit note will be issued. Following payment you must ensure you have only recovered the VAT actually paid.'*

In the Case Study on the next page a buyer is offered a prompt payment discount of 5% for settlement within 15 days and decides to take the discount **using Alternative 1** (see above) where the seller issues a credit note for the reduction in price and VAT paid.

**Case  
Study**

## SELAR LTD AND BIYAR LTD – DEALING WITH PPD

### situation and how the process works . . .

- Selar Ltd regularly supplies goods to Biyar Ltd and has offered Biyar Ltd a prompt payment discount of 5% for settlement within 15 days
- Selar Ltd sends an invoice for goods costing £1,000 to Biyar Ltd. An extract of this is shown below. The terms printed at the bottom of the invoice include the 5% PPD that will be offered to Biyar Ltd for payment. The invoice is sent with the goods
- Biyar Ltd decides to pay the invoice within the 15 days and calculates the 5% discount as follows:

$$\text{Goods total } £1,000 \times 5\% = £50$$

$$\text{VAT payable} = £200 \times 5\% = £10$$

The total discount plus the VAT is therefore £50 + £10 = £60

- Biyar Ltd then calculates the amount due to Selar Ltd and pays the invoice:

Total payable without discount (as on invoice)	£1,200
Less discount	£60
Amount payable	£1,140

- Selar Ltd sends Biyar Ltd a credit note for the total discount including VAT as shown below. The amounts on the £60 credit note include VAT of £10 and a goods total of £50

### INVOICE (extract) Selar Ltd to Biyar Ltd

**terms**

5% prompt payment discount for settlement within 15 days,  
otherwise net monthly

Carriage paid

E & OE

<b>Goods total</b>	<b>1,000.00</b>
<b>VAT</b>	<b>200.00</b>
<b>TOTAL</b>	<b>1,200.00</b>

### CREDIT NOTE (extract) Selar Ltd to Biyar Ltd

<b>Goods total</b>	<b>50.00</b>
<b>VAT</b>	<b>10.00</b>
<b>TOTAL</b>	<b>60.00</b>

## VALUE ADDED TAX (VAT) – A ‘SALES TAX’

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### what is Value Added Tax (VAT)?

VAT is a UK sales tax on the selling price charged to buyers.

As we have seen on some of the business documents illustrated in this chapter, VAT is added to the price of items sold after discount has been deducted. VAT is a **sales tax** paid by the consumer and administered and collected by **HM Revenue & Customs**, a Government Department.

Businesses must keep accurate records of VAT paid and collected. This means filing financial documents such as invoices and credit notes for a minimum period of six years. HM Revenue & Customs tax inspectors visit businesses from time-to-time to ensure that VAT is being charged correctly and that there are no VAT ‘fiddles’ taking place.

### some useful VAT calculations

In your studies you are likely to be asked to carry out a variety of calculations involving VAT. Here are some of the more common ones.

#### *what is the VAT to be charged?*

If you need to work out the VAT on a given amount you apply the formula:

$$\frac{\text{amount} \times 20}{100} (\text{ie the VAT rate}) = \text{VAT payable}$$

VAT chargeable on £100 is therefore £100  $\times \frac{20}{100} =$  £20.00

Note that when calculating VAT, the VAT total is usually rounded down to the nearest penny; eg VAT of £2.5678 becomes £2.56 and not £2.57.

#### *calculating the VAT when the VAT is included but not shown*

If you are given a total amount, for example a shop till receipt which does not show the VAT amount, you may need to work out both the VAT content and also the amount before VAT is added (the ‘VAT exclusive’ amount). The VAT content is worked out by using the formula:

$$\frac{\text{VAT percentage} \times \text{amount which includes VAT}}{100 + \text{VAT percentage}} = \text{VAT content}$$

The VAT content can also be found by using the **VAT fraction** provided by HM Revenue & Customs. For a VAT rate of 20%, the VAT fraction is  $\frac{1}{6}$ . All you have to do to find out the VAT is to divide the amount including VAT by 6. For example, the VAT included in £12 is  $\text{£12} \div 6 = \text{£2}$ .

## AUTHORISING AND CHECKING INVOICES

### credit limits

The credit limit of a customer is the maximum amount which the seller will allow the customer to owe at any one time.

Part of the accounting control system of a business is to set credit limits for its established customers and to establish limits for new customers. Each time that an invoice is issued, a check should be made against the credit limit of that customer.

### authorisation of invoices

Most invoices issued will be within the credit limit and processed with the authority of the person in charge of invoicing.

But what if the credit limit will be exceeded? No business will refuse to supply a good customer. It may be that payment will soon come in from the buyer, or the amount involved is relatively small. In these cases the invoice will need authorisation from a more senior person in the accounts department.

It is quite possible that a credit limit may have to be raised if a customer is buying more goods or services, and, of course, is paying invoices on time.

### the need to check invoices

Few things are more annoying to a buyer than an incorrect invoice – the wrong goods, the wrong price, the wrong discount, and so on. It wastes the buyer's time and may require an adjusting credit note to be issued. It is essential that a number of important details are checked by the accounts staff of the seller before invoices are authorised and sent out.

What will the person need to check? He or she will need to look at:

- the purchase order relating to the invoice (this is very important)
- the seller's own record of any price quoted (eg a printed or online catalogue or a product database)
- the seller's file record of the buyer (either paper-based or on the computer) which should give the credit limit and the discount allowed

### the checks to be made

- is the **correct customer** being invoiced? There are often customers with similar names; the customer coding must be carefully checked

- are the goods being sent to the **correct place**? Sometimes the delivery address can be different from the address normally held on file
- are the **correct goods** being sent? The product coding on the purchase order must be checked carefully against the description; it is possible that the buyer has quoted an incorrect code
- is the **quantity** correct?
- is the **unit** correct? Is it a box of products or an individual item being requested?
- is the **price** correct?
- is the **correct discount** percentage being allowed to the customer? Do any special terms apply? The list of discounts or customer file will need to be looked at
- are the **calculations** on the invoice correct? This is very important if the invoice has not been produced on a computer. The normal checks for a straightforward invoice with trade discount deducted are:

*quantity x unit price = total before discount*

*total before discount x discount % = discount*

*total before discount - discount = net total*

*net total x VAT % = VAT*

*net total + VAT = invoice total*

If the invoice is for more than one product, all the invoice ‘lines’ must be carefully and individually checked and the addition also checked.

## DEALING WITH DISCREPANCIES

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Discrepancies on financial documents can occur in the following situations:

- **The discrepancy is found in the internal checking process**, before the document is issued. In this case the document will have to be passed back to the person or section which made the mistake and a new corrected document will have to be issued and authorised; normally the original document reference number can be retained.
- **The buyer finds the discrepancy after the document has been issued.** In this case an apology will have to be made by the seller to the buyer and a correcting document issued; under no circumstances should the buyer alter or correct the document.

## CODING SYSTEMS

We have already seen in this chapter that **coding** is widely used in the documentation process. Coding is important for two main reasons:

- it provides an instant and accurate way of referencing customers, suppliers, individual products, purchase orders
- it enables documents to be filed in an efficient way so that they can be easily accessed; it is important in any business that documents can be found and referred to easily, either in paper format, or on a computer system

Filing systems are often organised using either an **alphabetic** or a **numeric** coding system:

- customer files are normally filed alphabetically by name
- invoices are normally filed numerically by invoice number

Sometimes coding may be **alpha-numeric**, using a mixture of letters and numbers. For example customers who have 'JON' as the first three letters of their name – 'Jones' for example – may be coded JON01, JON02, JON03, and so on. If you think about it, alpha-numeric coding is used widely in everyday life: examples include vehicle registration plates, postcodes, tax codes and National Insurance 'numbers'.

Study the invoice extract shown below and see how many accounting-related codes you can identify and what types they are. The answers are shown at the bottom of the page.

<b>invoice (extract)</b>							
Simway Ltd 4 High Street Broadfield BR1 2GF		invoice no	82346	account reference	SIM003	purchase order	47609
Product code	Description	Quantity	Price	Unit	Total	Discount %	Net
STPGR	Stapler (green)	10	10.70	each	107.00	10.00	96.30

Alpha-numeric code: account reference SIM003  
 Numeric codes: invoice number 82346  
 purchase order number 47609  
 Alpha-numeric code: product code STPGR  
 Numeric code: invoice number 82346  
 purchase order number 47609

**Case Study**

## CODING AT WORK

### **supplier account codes**

Legno Ltd, a timber wholesaler, allocates codes to each of its suppliers. Each code is alpha-numeric, made up of the first three letters of the supplier's name followed by a two digit number to distinguish the suppliers when two or more share the same first three letters. The digits reflect the alphabetical order of the names. For example:

<b>Supplier</b>	<b>Supplier account code</b>	<b>Notes</b>
Jonas Supplies	JON01	'as' comes before 'at'
Jonathan UK Ltd	JON02	'at' comes before 'es'
Jones Ltd	JON03	

Last week Legno Ltd opened accounts for two new suppliers: Jonty Supplies and Jonsson Ltd.

You are asked to allocate account codes to these suppliers. Apart from the three accounts listed above there are no other accounts starting with the three letters 'JON'.

What would the codes be? The **answer** is shown below:

<b>Supplier</b>	<b>Supplier account code</b>	<b>Notes</b>
Jonsson Ltd	JON04	'ss' comes after the 'es' of Jones and before the 'ty' of Jonty
Jonty Supplies	JON05	

### **sales product codes**

Legno Ltd also operates a system which allocates General Ledger account codes to different types of timber sales. These are entered on the sales invoices and credit notes so that the amount can be entered in the correct account. The ledger codes are as follows:

<b>Product type</b>	<b>General Ledger Code</b>
Pine sales	GL4000
Oak sales	GL4001
Beech sales	GL4002
Hardwood sales	GL4003
Ash sales	GL4004

A new trainee asks you to check that he has the right code for an invoice for the sale of oak. He asks if it is GL4002 because that is a code used very frequently on invoices. Is the trainee correct?

**Answer:** No. The code is incorrect. The code for the sale of oak is GL4001.

**Chapter Summary**

- When a business sells goods or services on credit it will deal with a number of financial documents. The most important of these are the
  - purchase order
  - delivery note
  - invoice
  - credit note
  - statement
- The seller of the goods or services requests payment by means of an invoice and then reminds the buyer by means of a regular statement of account (normally monthly).
- Discounts – reductions in the selling price – are often given by the seller to the buyer. These include trade discount, bulk discount and prompt payment discount for early payment. Trade and bulk discounts are deducted by the seller from the invoice total. Prompt payment discount is deducted by the buyer when paying the invoice and will be adjusted by means of a credit note issued by the seller.
- Any refund due to the buyer (eg for wrong, damaged or missing goods) will be acknowledged and documented by means of a credit note.
- All documents are normally coded (given an alphabetic, numeric or alphanumeric code) for reference purposes.
- VAT (Value Added Tax), a sales tax payable on most goods and services, is included on the majority of invoices and credit notes.
- All documents should be checked carefully by the seller to make sure that the right goods or services have been supplied, and at the right price. It is essential that items such as discounts, VAT and totals are calculated correctly.
- Financial documents will need to be authorised before they are sent out.
- Any discrepancies found on the documents either by the seller or the buyer should be dealt with promptly.

Key Terms		
	<b>purchase order</b>	a document issued by the buyer of goods and services, sent to the seller, indicating the goods or services required
	<b>delivery note</b>	a document sent by the seller to the buyer with the goods, detailing what has been sent
	<b>invoice</b>	a document issued by the seller of goods or services indicating the amount owing and the required payment date
	<b>credit note</b>	a document issued by the seller of the goods or services reducing the amount owed by the buyer
	<b>statement</b>	a document issued by the seller to the buyer summarising invoices, credit notes issued and payments received and stating the amount owed
	<b>trade discount</b>	a percentage reduction in the selling price given by the seller to the buyer because of the trading relationship
	<b>bulk discount</b>	a discount given by the seller to the buyer for bulk purchases, ie purchases over certain quantities or over certain money amounts
	<b>prompt payment discount</b>	a percentage reduction in the selling price given to the buyer if the buyer pays within a specified short space of time
	<b>Value Added Tax (VAT)</b>	a government tax on sales, normally calculated on invoices and credit notes
	<b>credit limit</b>	the maximum amount the seller will allow the customer to owe at any one time
	<b>coding</b>	document references using numeric, alphabetic or alpha-numeric identification systems

## Activities

- 2.1** Complete the sentences below by selecting the correct words from the following list:

**invoice statement of account purchase order delivery note credit note**

- (a) A  is used to order goods from the seller.
- (b) A  is sent with the goods by the seller to the buyer, giving details of the goods sent.
- (c) The document sent by the seller giving details of the terms of the transaction and stating the amount owed is an .
- (d) A  is sent by the seller to remind the buyer of the amount owed to the seller.
- (e) The document sent to a buyer as a formal notification of a refund made is known as a .

- 2.2** Link the three types of discount given by sellers listed on the right with the descriptions in the boxes on the left.

(a)

a reduction in an amount owed on an invoice where the buyer pays earlier than is normal

**bulk discount**

(b)

a discount given by the seller to the buyer which forms part of the terms for normal regular purchases

**prompt payment discount**

(c)

a discount given by the seller for purchases over certain quantities or over certain money amounts

**trade discount**

- 2.3 Tippett Brothers supplies goods priced at £159.50 to a customer at a trade discount of 30%. What would the total invoice amount be, assuming a VAT rate of 20% and no further discounts?
- 2.4 Zeta Stationery sells gel pens and has a special sales offer. A box of ten gel pens normally sells at £8.00 (excluding VAT). Zeta Stationery is offering to give a 20% bulk discount for orders of ten boxes or more. One morning it receives the following orders:
- (a) 20 boxes ordered by Osborne Electronics Limited
  - (b) 50 boxes ordered by Helfield College
  - (c) 5 boxes ordered by Jim Masters
  - (d) 1,000 boxes ordered by Trigger Trading Limited

You are to calculate in each case:

- the total cost before discount
- the discount
- the cost after discount
- the VAT at the current rate
- the total cost

- 2.5 Venables Supplies sells computer accessories. The terms it offers its regular customers are as follows:
- 20% trade discount on all orders
  - 5% prompt payment discount for settlement of an invoice within 15 days

You are given four invoices to prepare. The goods totals before applying any discounts and applying VAT are as follows:

- 1 £100
- 2 £1,650
- 3 £2,500
- 4 £10,900

You are to:

- (a) Calculate all four invoice totals after applying trade discount and VAT @ 20%.
  - (b) Calculate the total amounts payable after the deduction of prompt payment discount by the buyer.
  - (c) State what document will be used by the seller in each case to deduct the prompt payment discount from the total amount shown on the invoice.
- 2.6 Examine the invoice and credit note prepared by the seller in Question 2.8 and identify five examples of coding. These examples should include:
- (a) Numeric coding (2 examples)
  - (b) Alphabetic coding invoice & credit note (1 example)
  - (c) Alpha-numeric coding (2 examples)

- 2.7**
- Check the invoice extracts shown below.
  - State what is wrong with them.
  - Calculate the correct final totals.

**Note:** VAT is rounded down to the nearest penny.

**Invoice (a)**

Description	Quantity	Price	Total	Discount %	Net
Cotton shirts (red)	10	9.50	95.00	20	85.50
					Goods total 85.50
					VAT @ 20% 17.10
					TOTAL 102.60

**Invoice (b)**

Description	Quantity	Price	Total	Discount %	Net
'Crazy Surfin' T-shirts (yellow)	50	5.00	225.00	10	202.50
					Goods total 202.50
					VAT @ 20% 40.50
					TOTAL 243.00

- 2.8** You work in the Accounts Department of Pool Cleaning Services Limited, a business which maintains swimming pools, spa baths and jacuzzis.

It is 31 July 20-3 and you are looking through the file for the account of Mr Henry Simpson. Your file shows that you issued an invoice on 8 July (shown below) and a credit note on 14 July for a 10% trade discount which should have been deducted from the invoice (see next page).

You also note from last month's statement that Mr Simpson still owed you £58.75 on 1 July for a call out charge he had not yet paid. You received a cheque for this amount on 4 July.

**You are to** prepare a statement for Mr H Simpson as at 31 July 20-3. It should show opening and closing balances and transactions for the month. A blank statement is shown on the next page.

## INVOICE

# **Pool Cleaning Services Limited**

Unit 5 Neptune Estate, Mereford, MR7 4EF  
Tel 01908 352456 Fax 01908 352466 Email [mail@poolcleaning-services.com](mailto:mail@poolcleaning-services.com)  
VAT Reg GB 0745 4872 21

invoice to

H Simpson 45 Bishops Avenue Marston Hackett MR7 9JH	invoice no account your reference date/tax point	10982 HS234 verbal 08 07 20-3
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Description	Total	Discount	Net
Annual swimming pool service, 27 June 20-3 (Product: ASPS)	290.00	0.00	290.00

<b>Net Total</b>	<b>290.00</b>
<b>VAT</b>	<b>58.00</b>
<b>TOTAL</b>	<b>348.00</b>

extract from credit note No. 2378 dated 14 July

Description		Total	Discount	Net
<b>Annual swimming pool service (Product:ASPS)</b>		<b>29.00</b>	<b>0.00</b>	<b>29.00</b>
<b>Reason for credit</b>				
<b>10% discount allowable on invoice</b>		<b>NET TOTAL</b>		<b>29.00</b>
		VAT		<b>5.80</b>
		TOTAL		<b>34.80</b>

## STATEMENT OF ACCOUNT

### Pool Cleaning Services Limited

Unit 5 Neptune Estate, Mereford, MR7 4EF  
 Tel 01908 352456 Fax 01908 352466 Email mail@poolcleaning-services.com  
 VAT Reg GB 0745 4872 21

TO

account

date

Date	Details	Debit £	Credit £	Balance £

Electronic payments: pay Pool Cleaning Services Ltd at  
 Britannia Bank, Account 12397610, Sort code 83 11 20

<b>TOTAL</b>	<b>£</b>
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