Books of Prime Entry

Objectives
- Identify and define the types of books of prime entry
- Explain the purpose of using special journals
- State the type of transactions recorded in each book
- State the source documents associated with each book
Functions of books of prime entry

Transactions

Source Documents

Books of Prime Entry
Books of Prime Entry

General Journal -> Journals

Special Journals -> Journals

Journals -> Books of Prime Entry

Books of Prime Entry -> Ledger

Books of Prime Entry -> Cash Book

Books of Prime Entry -> Petty Cash Book

10/4/2012

Mr. Kong
The Special Journals and the Accounting Cycle

Sales and Purchases of goods on credit & their returns

Source Documents

Special Journals

Ledger

Recorded into

using

Posted to

10/4/2012

Mr Kong
The Special Journals

- **Purchases Journal**: Credit purchases of goods
- **Returns Outwards Journal**: Returns of goods previously bought on credit
- **Returns Inwards Journal**: Returns of goods previously sold on credit
- **Special Journals**: 
- **Sales Journal**: Credit sales of goods
- **Returns Outwards Journal**: Returns of goods previously bought on credit

10/4/2012

Mr Kong
Advantages of Using Special Journals

• Similar transactions in one book and in order of date (easier to trace transaction)

• Unnecessary detail in ledger is cut down

• Important middle step between source documents and ledger accounts
Sales and Purchase Journal

• Purchase of goods with cash is not recorded in the special journal (purchases)
• Purchase of fixed assets are not recorded in the special journal (purchases)
• Source documents involved is the original invoices received from suppliers

• Sales of goods for cash and the disposal of fixed assets are not recorded in the sales journal as well
• Source documents involved is the duplicate copies of invoices and duplicate copies of debit note (ask for more payment)
From Invoice to Ledger

Details from invoice received

Purchases Journal

Invoice

Details from invoice sent

Sales Journal

Ledger

Purchases Account

Creditor’s Account

Sales Account

Debtor’s Account

10/4/2012

Mr Kong
Reasons for Return of Goods

• Defective or of faulty construction
• Of wrong specification, type, quality, size, quantity
• Damaged
• Empty containers
Sales and Purchase return journal

- Return Outwards Journal also known as the purchase returns journal
- Source documents involved is the credit note the business received from it’s supplier

- Return Inwards journal also known as the sales return journal
- Source documents involved is duplicate of the credit note the business sent to it’s customer.
From Credit Note to Ledger

Credit Note

Details from credit note received

Returns Outwards Journal

Dr Creditors’ Account  Cr

Dr Returns Outwards Account Cr

10/4/2012

Ledger

Dr Debtors’ Account  Cr

Dr Returns Inwards Account  Cr

Details of credit note sent

Returns Inwards Journal

Mr Kong
End of Section 1

Next section would be the General Journal,

Any questions before I proceed?
The General Journal

Objectives

1. Explain the purpose of the general journal
2. Opening entries
3. Closing entries
4. Purchase and sale of fixed assets on credit
5. Corrections of errors
Books of Prime Entry

Special Journals

General Journal

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/4/2012</td>
<td>Mr Kong</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Returns Inwards Journal

Returns Outwards Journal

Purchases Journal

Sales Journal

10/4/2012

Mr Kong
<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>Bank</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Jan 1</td>
<td></td>
<td>10,000</td>
<td></td>
</tr>
</tbody>
</table>

**Name of Account debited**

**Name of Account credited**

**Amount debited**

**Amount credited**

**Narration**

Being Cash brought in by the owner to start the business
Uses of General Journal

- Opening entries
- Closing entries
- Purchase and sale of fixed assets on credit
- Correction of Errors
- Adjusting entries
- Transactions
Advantages of Using the General Journal

- Narration – easy to recall and understand business transaction
- Easier to trace transaction, hence detect fraud
- Reduce risk of error of making only one entry
On 1 Jan, Wee deposited cash $10000 in his business bank account to start his new business.

**Wee’s General Journal**

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 1</td>
<td>Bank</td>
<td>$10,000</td>
<td>$</td>
</tr>
<tr>
<td></td>
<td>Capital</td>
<td>10,000</td>
<td></td>
</tr>
</tbody>
</table>

Being cash brought in by the owner to start the business
Opening entries: existing business keeping books for 1\textsuperscript{st} time

### General Journal

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 1</td>
<td>Equipment</td>
<td>$80,000</td>
<td>$</td>
</tr>
<tr>
<td></td>
<td>Stock</td>
<td>30,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bank Loan</td>
<td>40,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Capital</td>
<td>70,000</td>
<td></td>
</tr>
</tbody>
</table>

Being assets, liabilities at this date

### Ledger

**Opening Balances**

- **Equipment Account**
  - Dr 2007 Jan 1 Bal b/d 80,000
- **Stock Account**
  - Dr 2007 Jan 1 Bal b/d 30,000
- **Bank Loan Account**
  - Dr 2007 Jan 1 Bal b/d 40,000
- **Capital Account**
  - Dr 2007 Jan 1 Bal b/d 70,000
A fax machine was bought on credit from Lions Ltd for $400 on 1 July 2012.

**General Journal**

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>Being purchase of fax machine on credit</td>
<td>$400</td>
<td>$400</td>
</tr>
</tbody>
</table>

**Ledger**

- **Dr** Office Equipment Account  
  - 2012 $  
  - July 1 Lions Ltd Co 400

- **Cr** Lions Ltd Co  
  - 2012 $  
  - July 1 Office Equipment 400
The business sold off some furniture it has just bought for use in the office to Lin, an employee on credit. Lin was willing to take them at cost ($600).
On 4 Feb 2007, owner withdraws goods for his personal use.
Questions?