Chapter 1　Books of original entry and ledgers (I)

1.1　Introduction

Transactions are recorded first in **books of original entry** (原始分錄簿) and then in **accounts (帳簿)**.

1.2　Books of original entry (原始分錄簿)

Books of original entry (原始分錄簿) are the books in which transactions are first recorded. Normally, there are **seven books** of original entry and each book records specific type of transaction:

Name	Type of transaction recorded
Purchases journal (購貨簿)	**Goods purchased on credit (賒購貨品)**
Sales journal (銷貨簿)	**Goods sold on credit (賒銷貨品)**
Returns outwards journal (購貨退出簿)	**Goods returned to suppliers (退貨給供應商)**
Returns inwards journal (銷貨退回簿)	**Goods returned from customers (客戶退回貨品)**
Cash book (現金簿)	**Receipts and payments in cash or through banks (現金和支票的收支)**
~~**Petty cash book (零用現金簿)**~~	~~**Cash payments of small amounts (小額現金支出)**~~
General journal (普通日記簿)	**All other transactions (其他交易)**

Note: Another name for '**journal**' **(分錄簿)** is '**day book**' or simply '**book**'.

1.3　Ledgers (分類帳)

The records in the books of original entry will next be entered in the **ledgers (分類帳)**. Ledgers are the books where **double-entry accounts are kept (記錄複式記帳帳戶)**. Normally, there are three ledgers and each ledger records specific type of account:

Name	Type of account kept
Cash book (現金簿)	**Receipts and payments in cash or through banks (現金和支票的收支)**
Accounts payable ledger (purchases ledger) (應付帳款分類帳)	**Trade creditors' accounts (購貨債權人的帳戶)**
Accounts receivable ledger (sales ledger) (應收帳款分類帳)	**Trade debtors' accounts (銷貨債務人的帳戶)**
General ledger (總分類帳)	**All other accounts (其他帳戶)**

There are two types of creditors:

- **trade creditors (購貨債權人)**:
  Trade creditors are creditor arising from **goods purchased** on credit, and the amounts owing to these creditors are known as **trade payables**.

- **non-trade creditors (非購貨債權人)**:
  Creditors arising from purchases of other assets, such as equipment for office use, are called **non-trade creditors** or other creditors, and the amounts owing to these creditors are known as **non-trade payables** or other payables.
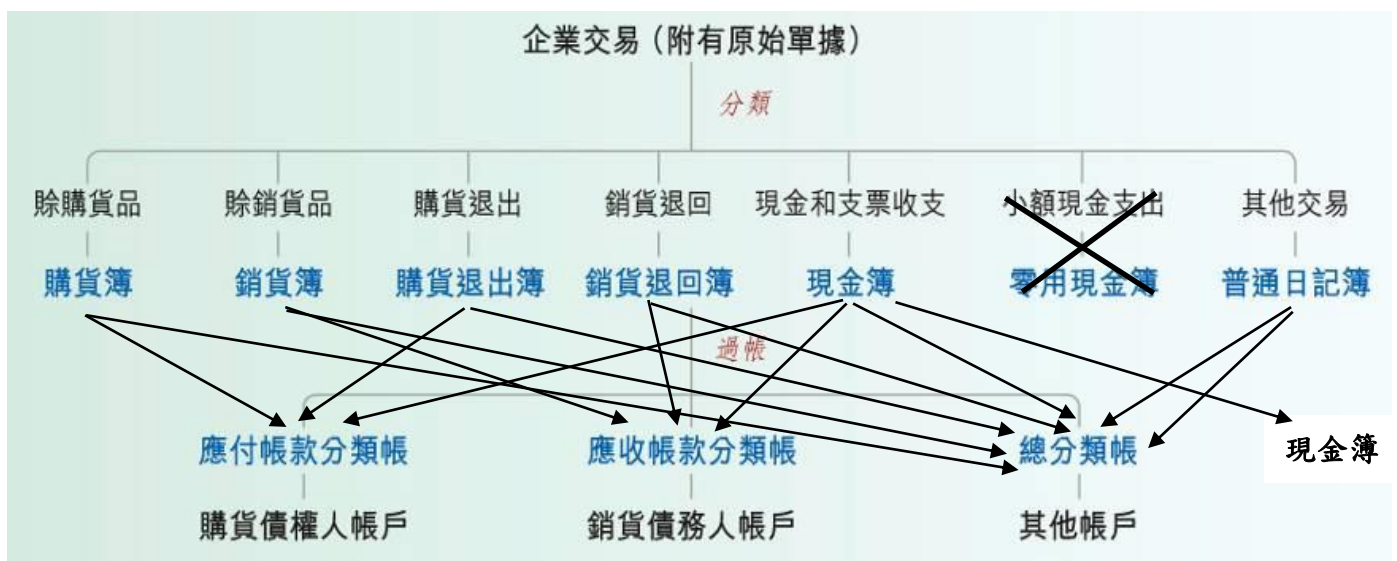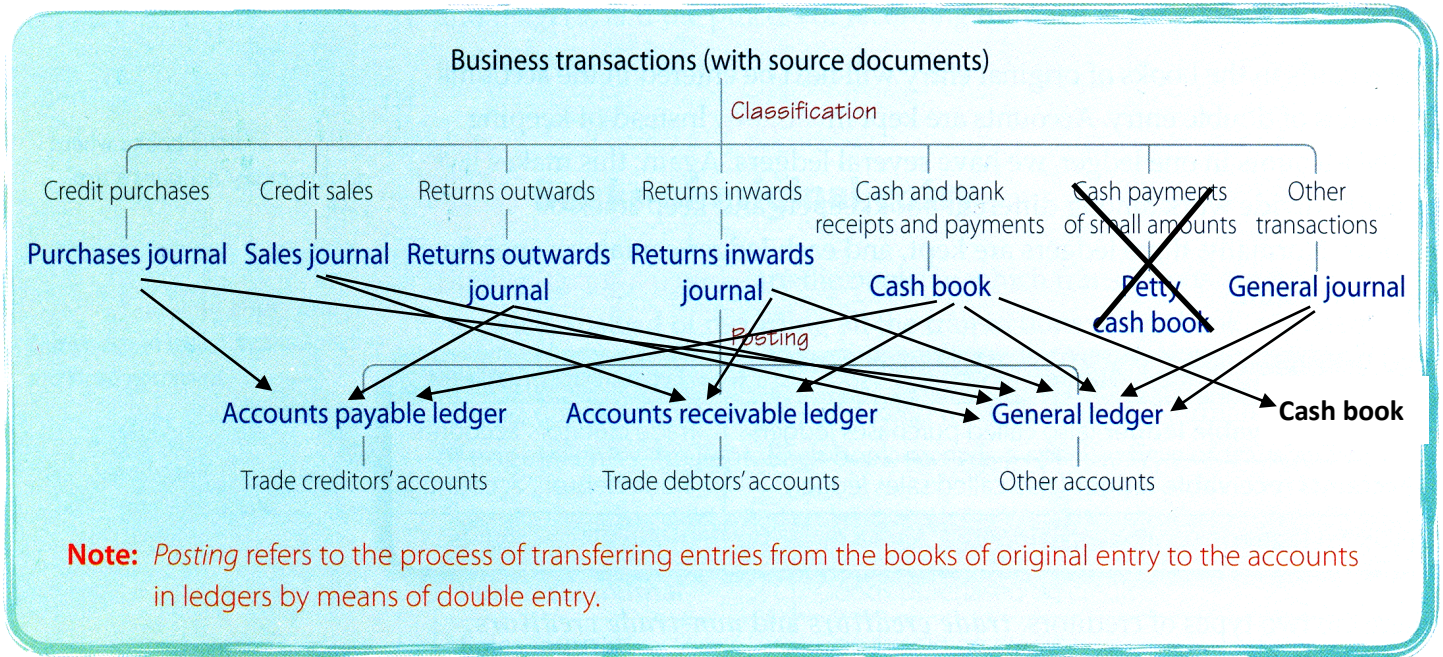
There are two types of debtors:

- **trade debtors (銷貨債務人)**:
  Trade debtors are debtors arising from **goods sold on credit (賒購貨品)**.

- **non-trade debtors (非銷貨債務人)**:
  Debtors arising from sales of **other assets (其他資產)**, such as old furniture in the office, are called **non-trade debtors** or other debtors.

With **separate ledgers (獨立分類帳)** for debtors' and creditors' accounts, the firm can keep a **close check (緊密監控)** to **ensure that (確保)** all accounts of debtors and creditors are **settled on time (準時收集或償還債務)** because **failure (失敗)** to collect money from trade debtors will hurt the firm's **cash position (現金狀況)**.

The following diagram shows the common books of original entry and ledgers:

Note: *Posting* refers to the process of transferring entries from the books of original entry to the accounts in ledgers by means of double entry.

注意: Posting (過帳)是指把原始分錄簿上的記錄，按複式記帳規則轉載到分類帳的帳戶內

The process of recording transactions in the purchases day book and ledgers

Step 1   Record the details of each **credit purchase transaction (賒購交易)**, **including (包括)** the **date (日期)**, **name of the supplier (供應商名稱)**, **invoice number (發票號碼)** and the **amount of transaction (交易金額)**, in the **purchases journal (購貨簿)**.

Step 2   **Post (過帳) each entry (每一賒購項目)** in the **purchases journal (購貨簿)** to the credit side of **each trade creditor's account (每一債權人帳戶)** in the **accounts payable ledger (應付帳款分類帳)**.

Step 3   **Post (過帳)** the **monthly total of credit purchases (該月的賒購總額)** to the debit side of the **purchases account (購貨帳戶)** in the **general ledger (總分類帳)**.

1. The financial year for Mary's business ends on 31 December. The business keeps the following books of original entry: General Journal, Sales Journal, Purchases Journal, Returns Inwards Journal, Returns Outwards Journal and Cash Book.

   During December 2017, the following transactions took place:

   (i) Paid rent of $18,400 by autopay.

   (ii) Bought goods from Amy Company on credit for $4,200.

   (iii) Returned goods of $300 to Amy Company.

   (iv) Goods amounting $560 were taken away by Mary for her personal use.

   (v) Sold goods to Carmen Company on credit for $1,580.

   (vi) Issued and sent a credit note for goods returned of $500.

   (vii) Received an electricity bill of $5,600 for December 2017, which would be settled by cheque in January 2018.

   (viii) Cash sales of $1,500 to Dick Company.

   (ix) Issued and sent a debit note for goods returned of $600.

   (x) Bought a motor van on credit for $17,000.

   REQUIRED:

   (a) Indicate which of Mary's books of original entry should be used to record transactions (i) to (x) above in December 2017.

   (b) With reference to transaction (iii) above, state the accounts and the corresponding ledgers to be posted from the book of original entry.

   (c) Give one function of keeping books of original entry.

1. (a)　(i)　Cash Book

　　　　(ii)　Purchases Journal

　　　　(iii)　Returns Outwards Journal

　　　　(iv)　General Journal

　　　　(v)　Sales Journal

　　　　(vi)　Returns Inwards Journal

　　　　(vii)　General Journal

　　　　(viii)　Cash Book

　　　　(ix)　Returns Outwards Journal

　　　　(x)　General Journal

   (b)　Account: Amy Company　　　Ledger: Account payable ledger

　　　Account: Returns outwards　　Ledger: General ledger

   (c)　— This allows a firm to have more efficient control to keep a close watch on its transactions as well as their outstanding balances.

　　　— This can increase the accuracy of bookkeeping.

　　　— Two sets of books can be cross-checked with two groups of bookkeepers to reduce errors.

ABC Company keeps the following four ledgers only: cash book, general ledger, purchases ledger and sales ledger. Indicate the accounts to be debited and credited, and the ledgers to be recorded for transactions (a) to (e) in the table below. Write your answers for items (1) to (20) in the answer book.

Transaction		Debit entry to be recorded		Credit entry to be recorded	
		Account	**Ledger**	**Account**	**Ledger**
e.g.	*Equipment purchased in cash*	Equipment	General ledger	Cash	Cash book
(a)	**Office rent paid by cheque**	(1)	(2)	(3)	(4)
(b)	**Goods purchased on credit**	(5)	(6)	(7)	(8)
(c)	**Bank loan acquired**	(9)	(10)	(11)	(12)
(d)	**Goods returned by credit customers**	(13)	(14)	(15)	(16)
(e)	**Interest income accrued**	(17)	(18)	(19)	(20)

(a) (1) Rent expenses   (2) General ledger   (3) Bank   (4) Cash book

(b) (5) Purchases   (6) General ledger   (7) Trade payables   (8) Purchases ledger

(c) (9) Bank   (10) Cash book   (11) Bank loan   (12) General ledger

(d) (13) Returns inwards   (14) General ledger   (15) Trade receivables   (16) Sales ledger

(e) (17) Interest receivable   (18) General ledger   (19) Interest income   (20) General ledger

HKDSE   (2014, P1, 3)   **(Books of original entry and ledgers)**

3.   (a)   Tony is the sole owner of a toy trading business. State the book of original entry for the recording of each of the following transactions of Tony's business:
   (i)   Sold toys to customers on credit
   (ii)   Received a credit note for toys returned
   (iii)   Paid salaries to office clerks by autopay
   (iv)   Acquired office premises by a mortgage loan
   (v)   The owner took goods from the business for personal use.
   (vi)   Settled S Long's account in cash, after deducting a 4% cash discount.

   (b)   From the accounts for recording the transactions in (a), identify two examples for each of the following types of ledger accounts.
   (i)   Real account   (ii)   Nominal account   (iii)   Personal accounts

(a)   (i)   Sales journal

      (ii)   Returns outwards journal

      (iii)   Cash book

      (iv)   General Journal

      (v)   General Journal

      (vi)   Cash book

(b)   (i)   Bank / office premises/ Mortgage loan / Trade receivables / Trade payables / S Long / Cash

      (ii)   Sales / Returns outwards / Office salaries / Drawings / Discounts received

      (iii)   Trade receivables / Trade payables / S Long

1.4 The purchases journal (購貨簿) and the corresponding ledgers (對應的分類帳)

Purchases of the **purchaser (買家)** can be made on credit or by cheque/in cash. The **purchases journal (購貨簿)** records goods **purchased on credit (賒購)** only. It is also called the **purchases day book (購貨日記簿)**. Goods and other assets purchased by **cheque or cash** (i.e., cash purchases) will be recorded in the **cash book (現金簿)**.

1.4.1 Making a credit purchases (賒購貨品)

A sales invoice is a **document (文件) issued (發出)** by the supplier to the purchaser, showing the **details of goods sold (銷售貨品的詳情)**, such as **prices (價格)** and **payment terms (付款條款)**. The transaction will be recorded in the books after the goods to arrive and check. The **purchases invoices (購貨發票)** will be kept by purchasers as evidence of credit purchases.

The following shows an **invoice (發票)** for the goods sold by King Ho Ltd (supplier) to H Wong Enterprise (purchaser) with a **trade discount (交易折扣)** of 20%. A trade discount is usually offered by a supplier to **customers (客戶)** who buy in **large quantities (大量)**.

King Ho Ltd
7 Warehouse Street
Kowloon
Tel: 3111 3111

Date: 4 October 2008
Invoice no.: 10510
Customer: H Wong Enterprise
70 Wealth Street, Hong Kong

Invoice

Quantity	Description	Unit Price	Total Amount
		$	$
21 cases	Apples	200.00	4,200.00
5 cartons	Sugar	40.00	200.00
6 cases	Soy sauce	200.00	1,200.00
		Gross amount	5,600.00
		Trade discount 20%	1,120.00
		Net amount	4,480.00

This is the amount to be recorded in the purchases journal of H Wong Enterprise.

Notes: 1 Payment terms: 45 days' credit
2 2.5% interest per month will be charged on overdue accounts.

Only the **net amount (淨額)** (i.e., the amount net of trade discount) is recorded in **the books of original entry (原始分錄簿)** and **ledgers (分類帳)**. **Gross amount (標價)** usually refers to the amount before deducting discounts. From H Wong Enterprise's (the buyer) **perspective (角度)**, the above document is a **purchase invoice**, whereas to King Ho Ltd (the seller) it is a **sales invoice**.

1.4.2 Recording transactions in the purchases journal

Record the details of each credit purchase transaction, including the date, name of the supplier and the amount of transaction in the purchases journal.

Purchases Journal			
Date		Details	Amount
2009			$
Oct	5	King Ho Ltd	4,480

1. B Ma had the following credit purchases for the month of March 2006:

2006		Transactions
Mar	1	From D Sin: 4 MP3 players at $1,000 each, 6 digital cameras at $2,000 each. Less a 25% trade discount.
"	12	From J Kwong: 8 plasma TVs at $10,000 each, 2 washing machines at $2,500 each. Less a 20% trade discount.

(a) Calculate the amount for each of the above purchases.

(b) Write up the purchase journal for the month.

(a) The amount of D Sin's purchases = [4 x $1,000 + 6 x $2,000] x (1 – 25%) = $12,000

The amount of J Kwong's purchases = [8 x $10,000 + 2 x $2,500] x (1 – 20%) = $68,000

(b)

Purchases Journal			
Date		Details	Amount
2006			$
Mar	1	D Sin	12,000
"	12	J Kwong	68,000

1.4.3   Posting entries from the purchases journal to the ledgers

After recording transactions in the **purchases journal**, we should **post (過帳)** the **journal entries (賒購項目)** to the **accounts payable ledger (應付帳款分類帳)** and the **general ledger (總分類帳)** by the following steps:

Purchases Journal			
Date		Details	Amount
2008			$
Oct	5	King Ho Ltd	4,480
"	9	K Ho	13,800
"	31	Total credit purchases for the month	18,280

Step 1   **Credit purchase transactions (賒購項目)** are **posted (過帳)** to the **credit side** of each **trade creditor's account (購貨債權人帳戶)** in the **accounts payable ledger** (應付帳款分類帳) one by one on **the dates they occur (按交易日期)**.

Accounts Payable Ledger

King Ho Ltd			
	2008		$
	Oct	5 Purchases	4,480

K Ho			
	2008		$
	Oct	9 Purchases	13,800

Step 2   The **monthly total of credit purchases (該月的賒購總額)** is posted to the **debit side** of the **purchases account (購貨帳戶)** in the **general ledger (總分類帳)** at the **end of the month (月底)**.

General Ledger

Purchases		
2008		$
Oct	31 Total credit purchases	18,280

The total of the purchases journal is transferred to the purchases account at the end of each month.	**Purchases Journal** A book of original entry kept for credit purchases of goods	Each credit purchase is posted separately to the supplier's account on the date it occurs.

General Ledger
Purchases

xx	

Accounts Payable Ledger
Supplier

	xx

Class work 2

1. Max Ma runs a footwear shop. He made the following credit purchases in July 2009:

2009		Transactions
Jul	2	From Sam Kee: 5 pairs of sports shoes at $500 each, 6 pairs of sandals at $100 each. Less a 15% trade discount.
"	5	From Fong Chan: 10 pairs of boots at $800 each, 13 pairs of casual shoes at $200 each. Less a 20% trade discount.

(a) Write up the purchases journal for the month.

(b) Post the journal entries to the creditors' accounts in the accounts payable ledger.

(c) Transfer the monthly total of credit purchases to the purchases account in the general ledger.

(a)

Purchases Journal			
Date		**Details**	**Amount**
2009			$
Jul	2	Sam Kee	2,635
"	5	Fong Chan	8,480
"	31	Total credit purchases for the month	11,115

(b) **Accounts Payable Ledger**

Sam Kee

				2009			$
				Jul	2	Purchases	2,635

Fong Chan

				2009			$
				Jul	5	Purchases	8,480

(c) **General Ledger**

Purchases

2009			$				
Jul	31	Total credit purchases	11,115				

1.5 The sales journal and the corresponding legers

Goods can be sold **on credit** or by **cheque/in cash**. The **sales journal (銷貨簿)** records goods sold **on credit** (i.e., **credit sales**) **(賒銷)** only. It is also called the **sales day book (銷貨日記簿)**. Goods and other assets sold by **cheque or cash** (i.e., cash sales) will be recorded in the **cash book (現金簿)**. **Sales invoices** (銷貨發票) are the **source documents (文件)** for the sales journal. They will be kept as evidence of credit sales by suppliers. From the **buyer's perspective (買家角度)**, they are **purchase invoices (購貨發票)**. They will be kept as evidence of **credit purchases** made by **purchasers.**

1.5.1 Posting entries from the sales journal to the ledgers

Sales Journal			
Date		Details	Amount
2008			$
Oct	6	Cheung Wing Store	5,600
"	13	T Chan	16,400
"	31	Total credit sales for the month	22,000

Step 1 Credit sale transactions **(賒銷項目)** are posted **(過帳)** to the debt side of each trade debtor's account **(債務人帳戶)** in the accounts receivable ledger **(應收帳)** one by one on the dates they occur **(按交易日期).**

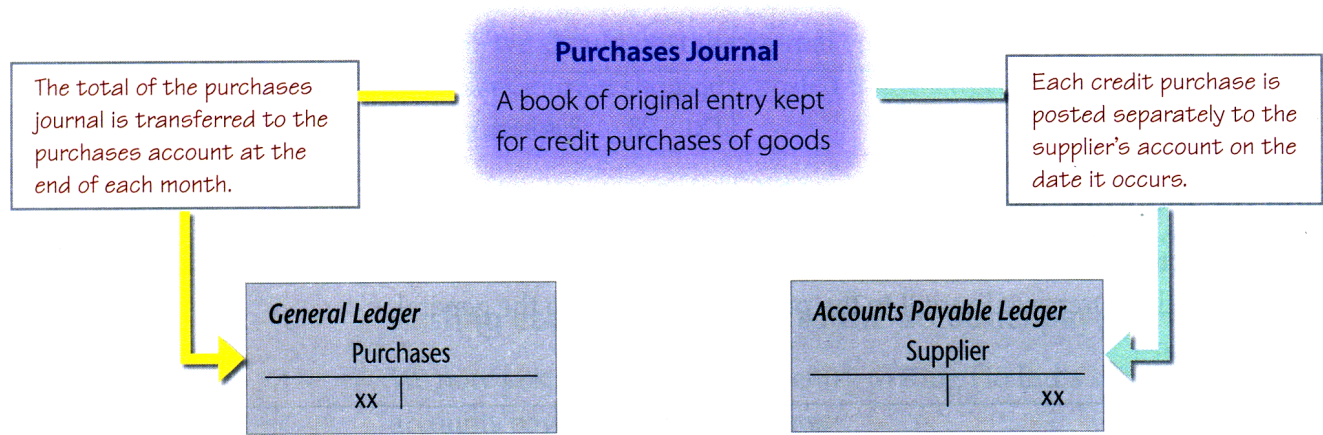**Accounts Receivable Ledger**

Cheung Wing Store

2008			$	
Oct	6	Sales	5,600	

T Chan

2008			$	
Oct	13	Sales	16,400	

Step 2 The monthly total of credit sales is posted to the credit side of the sales account in the general ledger at the end of the month.

General Ledger

Sales

		2008			$
		Oct	31	Total credit sales	22,000

Each credit sale is posted separately to the customer's account on the date it occurs.

Sales Journal
A book of original entry kept for credit sales of goods

The total of the sales journal is transferred to the sales account at the end of each month.

Accounts Receivable Ledger
Customer
xx

General Ledger
Sales
xx
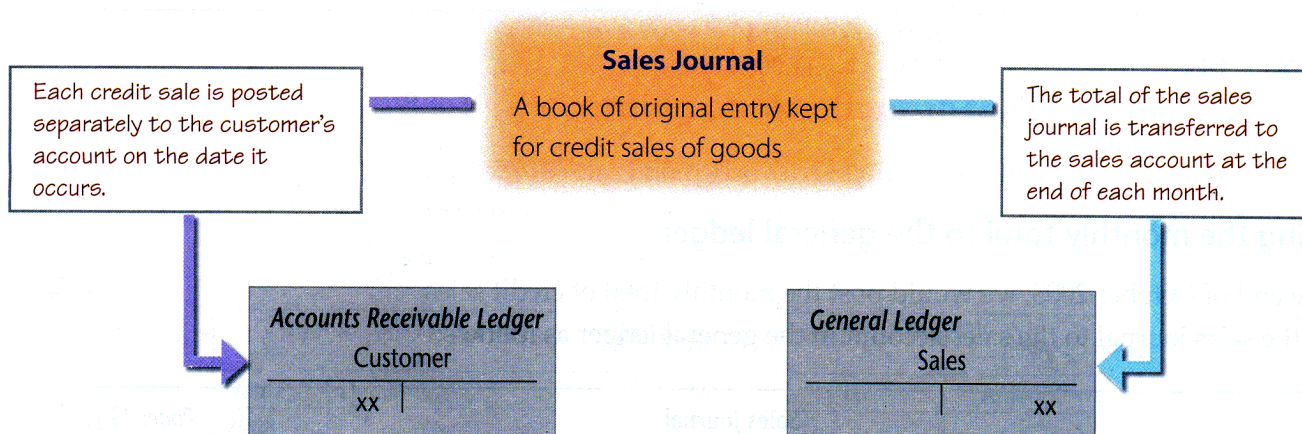
Class work 4

1. Tony made the following credit sales in September 2009:

2009		Transactions
Sept	1	To Tai Hing Co: 5 wedding gowns at $1,000 each, 11 cocktail dresses at $500 each. Less a 20% trade discount.
"	7	To Wing Tai Co: 6 cocktail dresses at $500 each, 20 party dresses at $400 each. Less a 25% trade discount.

(a)   Record the above transactions in the sales journal.

(b)   Post the journal entries to the debtors' accounts in the accounts receivable ledger.

(c)   Transfer the monthly total of credit sales to the sales account in the general ledger.

(a)

Sales Journal			
Date		Details	Amount
2009			$
Sept	1	Tai Hing Co	8,400
"	7	Wing Tai Co	8,250
"	30	Total credit sales for the month	16,650

(b)   Accounts Receivable Ledger

Tai Hing Co

2009			$				
Sept	1	Sales	8,400				

Wing Tai Co

2009			$				
Sept	7	Sales	8,250				

(c)   General Ledger

Sales

				2009			$
				Sept	30	Total credit sales	16,650

1.6 The returns outwards journal and the corresponding ledgers

The **returns outwards journal** (**purchases returns journal**) (購貨退出簿) records goods returned to <u>suppliers</u>. **Returns of assets other than goods to suppliers (退回貨品以外的其他資產)** will not be recorded in the returns outwards journal. If the customer wants a **claim for a reduction (減價要求)** in the amount owed, a **debit note (借項通知單)** will be sent by the customer to the supplier.

The document is known as a 'debit note' because the supplier's account (creditor) will be **debited** for the **reduction (減少)** in the **amount owed (欠款)** as a result of the **return of goods (退貨)**.

收 debit note → returns inwards	**發(issue) debit note → returns outwards**
收 credit note → returns outwards	發(issue) credit note → returns inwards

1.6.1 Recording transactions in the returns outwards journal

Returns Outwards Journal			
Date		Details	Amount
2008			$
Oct	10	King Ho Ltd	960
"	16	K Ho	3,800
"	31	Total returns outwards for the month	4,760

1.6.2 Posting entries from the returns outwards journal to the ledgers

Step 1 Returns outwards transactions are posted to the debt side of each trade creditor's account in the accounts payable ledger one by one on the dates they occur.

Accounts Payable Ledger

King Ho Ltd

2008			$	
Oct	6	Returns outwards	960	

K Ho

2008			$	
Oct	13	Returns outwards	3,800	

Step 2 The monthly total of returns outwards is posted to the credit side of the returns outwards account in the general ledger at the end of the month.

General Ledger

Returns Outwards

			2008			$
			Oct	31	Total for the month	4,760

Returns Outwards Journal
A book of original entry kept for goods returned to suppliers

Each return is posted separately to the supplier's account on the date it occurs.

Accounts Payable Ledger
Supplier

xx	

General Ledger
Returns Outwards

	xx

The total of the returns outwards journal is transferred to the returns outwards account at the end of each month.
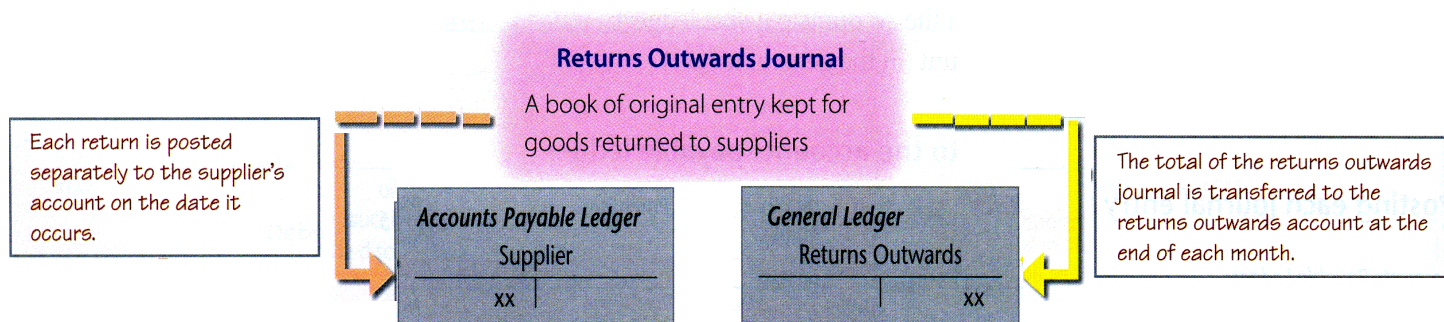
The reason for **crediting the returns outwards account (購貨退回帳戶)** instead of **crediting the purchases account (購貨帳)** with the amount of goods returned is that a separate returns outwards account allows us to know the **exact amount of goods returned (購貨退回確切數額)** to suppliers. This information is very important to a trading firm. If the amount of returned goods relative to purchases is **excessively high (過高)**, there may be a **quality problem (質量問題)** with the goods supplied and the firm will need to take **remedial action (補救行動)** such as **changing its suppliers**. If we simply **deduct returns outwards** from the **purchases account**, we only know the amount of **net purchases (淨購貨)**, but not the exact amount of goods returned to suppliers.

Class work 7

1. Write up the purchases journal and the returns outwards journal to record the following transactions. Then post the journal entries to the relevant creditors' account s in the accounts payable ledger and show the transfers to the general ledger at the end of the month.

2007		Transactions
Mar	1	Purchased goods on credit from H Lee for $1,190.
"	4	Purchased goods on credit from A Shek $1,140.
"	7	Returned goods to: H Lee $160
"	25	Returned goods of $110 to A Shek.

Purchases Journal			
Date		Details	Amount
2007			$
Mar	1	H Lee	1,190
"	4	A Shek	1,140
"	31	Total credit purchases for the month	2,330

Returns Outwards Journal			
Date		Details	Amount
2007			$
Mar	7	H Lee	160
"	25	A Shek	110
"	31	Total return outwards for the month	270

Accounts Payable Ledger

H Lee

2007			$	2007			$
Mar	7	Returns outwards	160	Mar	1	Purchases	1,190

A Shek

2007			$	2007			$
Mar	25	Returns outwards	110	Mar	4	Purchases	1,140

General Ledger

Purchases

2007			$				
Mar	31	Total for the month	2,330				

Returns Outwards

				2007			$
				Mar	31	Total for the month	270

1.7 The returns inwards journal and the corresponding ledgers

The **returns inwards journal** (**sales returns journal**) **(銷貨退回簿)** records goods returned **from** customer. Returns of assets other than goods from customer will not be recorded in the returns inwards journal. After receiving the returned goods and the debit note from the customer, the supplier will send a **credit note (貸項通知單)** to the customer **showing the amount of returned goods or allowance given (列明退貨或折讓的金額)**.

The document is known as a '**credit note**' because the customer's account (debtor) will be credited for the reduction in the amount owed as a result of the return of goods or the allowance received.

Credit notes (貸項通知單) are the source documents for the returns inwards journal. Suppliers will keep the notes as **evidence (證據)** of **goods returned or allowance given (退貨或折讓)**. On the other hand, when the customer receives the credit note from the supplier, he will also keep it as evidence of the supplier's agreement of returns and the amount of allowance given.

收 debit note → returns inwards	**發 debit note → returns outwards**
收 credit note → returns outwards	發 credit note → returns inwards

1.7.1 Recording transactions in the returns inwards journal

Returns Inwards Journal			
Date		Details	Amount
2008			$
Oct	12	Cheung Wing Store	400
"	19	T Chan	1,200
"	31	Total returns inwards for the month	1,600

1.7.2 Posting entries from the returns inwards journal to the ledgers

Step 1 **Returns inwards transactions are posted to the credit side of each trade debtor's account in the accounts receivable ledger one by one on the dates they occur.**
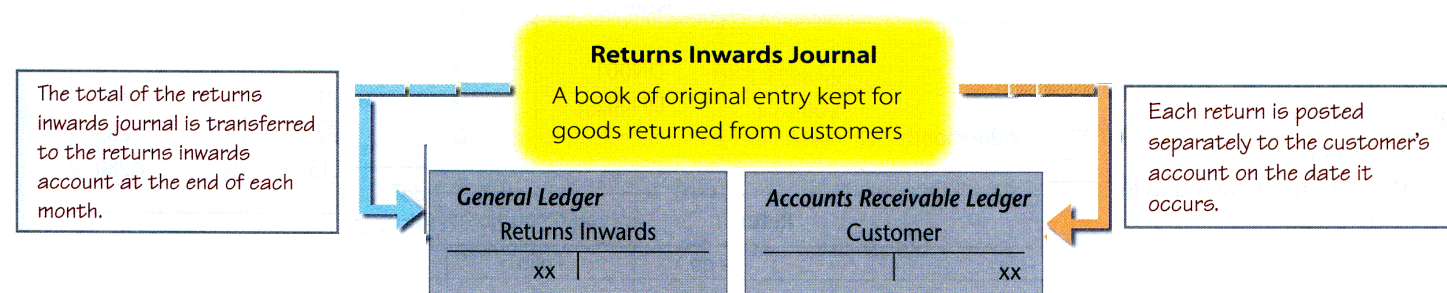
Accounts Receivable Ledger

Cheung Wing Store

	2008		$
	Oct	12 Returns inwards	400

T Chan

	2008		$
	Oct	19 Returns inwards	1,200

Step 2 **The monthly total of returns inwards is posted to the debit side of the returns inwards account in the general ledger at the end of the month.**

General Ledger

Returns Inwards

2008			$
Oct	31	Total for the month	1,600

The reason for debiting the **returns inwards account (銷貨退回帳戶)** instead of debiting the **sales account (銷貨帳)** with the amount of goods returned from customers is that a separate returns inwards account allows us to know the exact amount of goods returned **(銷貨退回確切數額)** from customers. This information is very important to a trading firm. If the amount of returned goods relative to sales is **excessively high (過高)** and is mostly due to **manufacturing defects (生產缺陷)**, there may be a **quality problem (質量問題)** of supplied goods and the firm will need to take **remedial action (補救行動)** such as **changing suppliers (更換供應商)**. If we simply deduct returns inwards from the sales account, we only know the amount of **net sales (淨銷售)**, but not the exact amount of goods returned from customers.

Class work 9

1. Write up the sales journal and the returns inwards journal to record the following transactions. Then post the journal entries to the relevant debtors' account s in the accounts receivable ledger and show the transfers to the general ledger at the end of the month.

2009		Transactions
Jul	1	Sold goods on credit to: A Sin for $1,880
"	6	Sold goods on credit to: S Tin for $1,180
"	10	Goods were returned to us from: A Sin of $120
"	24	Goods of $50 were returned to us from S Tin.

Sales Journal			
Date		*Details*	*Amount*
2009			$
Jul	1	A Sin	1,880
"	6	S Tin	1,180
"	31	Total credit sales for the month	3,060

Returns Inwards Journal			
Date		*Details*	*Amount*
2009			$
Jul	10	A Sin	120
"	24	S Tin	50
"	31	Total return inwards for the month	170

Accounts Receivable Ledger

A Sin

2009			$	2009			$
Jul	1	Sales	1,880	Jul	10	Returns inwards	120

S Tin

2009			$	2009			$
Jul	6	Sales	1,180	Jul	24	Returns inwards	50

General Ledger

Sales

				2009			$
				Jul	31	Total for the month	3,060

Returns Inwards

2009			$				
Jul	31	Total for the month	170				

1.8   Functions of books of original entry and ledgers (原始分錄簿各分類帳的用途)

Reasons for having separate ledgers (獨立分類帳) for trade debtors and trade creditors

This allows a firm to have more efficient control to keep a close watch on its transactions with **trade debtors (購貨債權人)** and **trade creditors (銷貨債務人)** as well as their **outstanding balances (帳戶餘額)**. At the end of an accounting period, the **balances** in the ledger accounts will be shown in the financial statements.

Reasons for having two sets of records

— Classification of the transactions so as to facilitate the postings to the ledger accounts

— This can be checked against each other by two different groups of people to increase the accuracy

— Segregation of duties which could reduce frauds