



Edexcel IGCSE



Your notes

Accounting: Introduction to Bookkeeping & Accounting

Books of Original Entry

Contents

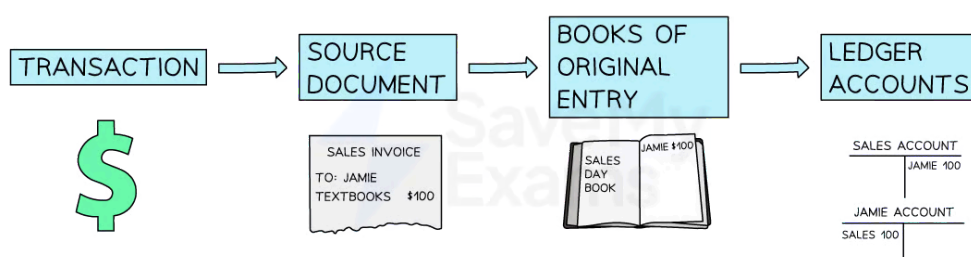
- * The Day Books
- * The Cash Book
- * The Petty Cash Book
- * The Journal



Purpose of books of original entry

What are books of original entry?

- **Books of original entry** are used to **record the details** of a **transaction**
 - Other terminology for these books includes
 - Subsidiary books
 - Books of prime entry
- Information is **taken from the business documents** and entered into the books of original entry
- The details are **then transferred** from the books of original entry **to the ledger accounts**
- The seven books of original entry are:
 - Sales day book
 - Purchases day book
 - Sales returns day book
 - Purchases returns day book
 - Cash book
 - Petty cash book
 - Journal



Copyright © Save My Exams. All Rights Reserved

The accounting process

What are the advantages of using books of original entry?

- **Books of original entry** are another stage which can be used to **check for errors**
 - They can help in the **preparation of control accounts** to check the accuracy of the ledger accounts



Your notes

- Each book of original entry collects the **same type of transaction**
 - The books allow **managers** to see the **totals** for different types of transactions easily
 - Therefore, there are **fewer entries** in some of the ledger accounts
- Bigger businesses may have **multiple bookkeepers**
 - Different bookkeepers can be **responsible for different books** of original entry without any risk of work being duplicated or missed

Sales day book

What is the sales day book?

- The **sales day book** is a record of all **credit sales**
 - **Cash sales** are **not recorded** in the sales day book
 - They are recorded directly into the **cash book**
- It contains:
 - The dates of sales
 - The names of the credit customers
 - The amounts for each of the sales
 - The amounts should be **after trade discounts** have been applied to the list prices
- The bookkeeper uses the **sales invoices** to enter the information into the sales day book
- The **totals** are transferred to the **ledger accounts** at regular intervals
 - **Credit** the **sales account** with the total
 - Call this entry "Sales day book"
 - **Debit** the individual **trade receivables accounts**



Examiner Tips and Tricks

If a sales day book is used, only one entry is made to the sales account at the end of a given period rather than separate entries for each individual sale.

If a question does not mention a sales day book, enter the individual transactions into the sales account and label them with the names of the trade receivables.

Sales returns day book

What is the sales returns day book?



Your notes

- The **sales returns day book** is a record of all the **returns from credit customers**
- It contains:
 - The dates of the returns
 - The names of the credit customers
 - The amounts for each of the returns
- The bookkeeper uses the **credit notes** that were **issued** to enter the information into the sales returns day book
- The **totals** are transferred to the **ledger accounts** at regular intervals
 - **Debit** the **sales returns account** with the total
 - Call this entry "Sales returns day book"
 - **Credit** the individual **trade receivables accounts**



Examiner Tips and Tricks

If a sales returns day book is used, only one entry is made to the sales returns account at the end of a given period rather than separate entries for each individual return.

Purchases day book

What is the purchases day book?

- The **purchases day book** is a record of all **credit purchases**
 - **Cash purchases** are **not recorded** in the purchases day book
 - They are recorded directly into the **cash book**
 - **Purchases of non-current assets** are **not recorded** in the purchases day book
 - They are recorded in the **journal**
- It contains:
 - The dates of the purchases
 - The names of the credit suppliers
 - The amounts for each of the purchases
- The bookkeeper uses the **purchase invoices** to enter the information into the purchases day book
- The **totals** are transferred to the **ledger accounts** at regular intervals
 - **Debit** the **purchases account** with the total

- Call this entry "Purchases day book"
- **Credit** the individual **trade payables accounts**



Examiner Tips and Tricks

If a purchases day book is used, only one entry is made to the purchases account at the end of a given period rather than separate entries for each individual purchase.

If a question does not mention a purchases day book, enter the individual transactions into the purchases account and label them with the names of the trade payables.



Your notes

Purchases returns day book

What is the purchases returns day book?

- The **purchases returns day book** is a record of all the returns to credit suppliers
- It contains:
 - The dates of the returns
 - The names of the credit suppliers
 - The amounts for each of the returns
- The bookkeeper uses the **credit notes** that were **received** to enter the information into the purchases returns day book
- The **totals** are transferred to the **ledger accounts** at regular intervals
 - **Credit** the **purchases returns account** with the total
 - Call this entry "Purchases returns day book"
 - **Debit** the individual **trade payables accounts**



Examiner Tips and Tricks

If a purchases returns day book is used, only one entry is made to the purchases returns account at the end of a given period rather than separate entries for each individual return.



Worked Example

Jeff is a sole trader. In February 2024, the following transactions took place.



Your notes

Feb 1	Bought goods on credit from Samson, \$500
3	Bought goods on credit from Helina with a 10% trade discount, list price \$300
6	Returned goods to Samson, \$50
7	Paid \$250 to Samson by credit transfer
10	Bought goods using cash from Jimmy, \$70
15	Bought goods on credit from Samson, \$400
18	Sold goods on credit to Jasper, \$180
28	Returned goods to Samson, \$100

Prepare the purchases day book and the purchases returns day book for February 2024. Total the day books on 29 February 2024, and indicate the ledger account to which the total would be posted.

Answer

Feb 1	Purchases day book: \$500 Samson
3	Find the discount given by Helina: $10\% \times \$300 = \30 Find the amount Jeff owes Helina: $\$300 - \$30 = \$270$ Purchases day book: \$270 Helina
6	Purchases returns day book: \$50 Samson
7	Neither day book: it is a payment, not a purchase or return <i>This would go in the cash book</i>
10	Neither day book: it is a cash purchase <i>This would go in the cash book</i>
15	Purchases day book: \$400 Samson
18	Neither day book: it is a credit sale <i>This would go in the sales day book</i>
28	Purchases returns day book: \$100 Samson

Purchases Day Book

Date	Details	\$
Feb 1	Samson	500
Feb 3	Helina	270
Feb 15	Samson	<u>400</u>

Feb 29	Transfer to purchases account	<u>1170</u>
--------	-------------------------------	-------------

Purchases Returns Day Book

Date	Details	\$
Feb 6	Samson	50
Feb 28	Samson	<u>100</u>
Feb 29	Transfer to purchases returns account	<u>150</u>



Your notes



Cash or bank

Do I enter a transaction in the cash account or the bank account?

- Enter the transaction in the **cash account** if **physical money** is exchanged
 - Paying a supplier using cash
 - Receiving cash from a customer
 - Taking money from the till for personal use
- Enter the transaction in the **bank account** if there is **no physical money** involved
 - Transactions involving a bank transfer
 - Paying an invoice or bill by cheque
 - Receiving a cheque from a customer
 - Standing orders and direct debits
- Some transactions are entered into **both the cash and bank accounts**
 - Depositing cash from the business into the business bank account
 - Withdrawing cash from the business bank account for business use

The cash book

What is the cash book?

- The cash book has **two functions**
 - It is a **book of original entry**
 - It is a **ledger account** for both the cash and bank accounts
- The cash book **records all cash transactions**
 - Both physical cash and cash in the bank
- The bookkeeper gets the information from:
 - Receipts
 - Cheques & cheque counterfoils
 - Paying-in slips
 - Remittance advice
 - Bank statements



- The cash book is **part of the double entry system**
- There are columns for the dates and details just like other ledger accounts
- There are three columns for the value of the transaction on both sides of the cash book
 - **Discount columns**
 - Discount **allowed** on the **debit** side
 - Discount **received** on the **credit** side
 - **Cash columns**
 - **Bank columns**

CASH BOOK

DATE	DETAILS	DISCOUNT ALLOWED \$	CASH \$	BANK \$	DATE	DETAILS	DISCOUNT RECEIVED \$	CASH \$	BANK \$

Copyright © Save My Exams. All Rights Reserved

The layout of the cash book

Which side should the balances be on?

- The **balance** for the **cash** account is always on the **debit side**
 - Cash is always an asset
 - It can never be a liability
- The **balance** for the **bank** account can be on **either side**
 - It is on the **debit side** if the business has **money in the bank**
 - It is on the **credit side** if the business is **overdrawn**

How do I enter transactions into the cash book?

- **STEP 1**
Identify whether the transaction affects the **cash** or **bank** account
- **STEP 2**
Decide whether the account should be **debited** or **credited**
 - **Debit** the account if the business is **receiving money**
 - **Credit** the account if the business is **losing money**
- **STEP 3**
Include any **discount** that was allowed or received

What are contra entries in the cash book?



Your notes

- A **contra entry** is for a transaction that is entered into **both sides** of the cash book
 - It will be entered in the cash column on one side
 - It will be entered in the bank column on the other side
- The two transactions which result in contra entries are:
 - **Withdrawing** cash from the business bank account for business use
 - Debit the cash account
 - Credit the bank account
 - **Depositing** cash from the business into the business bank account
 - Debit the bank account
 - Credit the cash account



Examiner Tips and Tricks

It is very easy to get confused when making contra entries into the cash book.

If the amount goes in the cash column, the details will say “bank”. If the amount goes in the bank column, the details will say “cash”.

For contra entries, remember that the name used for the details will be different to the name of the column where the entry is made.



Worked Example

Worked Example

Yana is a sole trader. On 1 January 2024, Yana had \$20 cash in hand and \$850 in the bank. During January 2024, the following transactions took place. Prepare Yana's cash book.

Jan 2	Purchased goods on credit, \$350, from Liza
4	Paid electricity, \$250, by telephone transfer
6	Sold goods on credit, \$180, to Tobey
10	Withdrew cash, \$300, from the bank for business use
11	Cash sales, \$50, were paid directly into the bank account



Your notes

18	Paid Liza, \$320, by credit transfer, in full settlement of the invoice from 2 January 2024
21	Tobey paid his account of £180 by cheque after deducting 5% cash discount
28	Paid rent, \$500, by direct debit
31	Paid \$200, cash, for wages

Answer

Jan 1	Debit balance of \$20 for cash and debit balance of \$850 for bank
2	No entry into the cash book as there was no exchange of cash
4	\$250 credit entry to the bank account
6	No entry into the cash book as there was no exchange of cash
10	Contra entry - debit the cash account and credit the bank account
11	\$50 debit entry to the bank account
18	$\$350 - \$320 = \$30$ \$320 credit entry to the bank account with \$30 discount
21	$5\% \times \$180 = \9 and $\$180 - \$9 = \$171$ \$171 debit entry to the bank account with \$9 discount
28	\$500 credit entry to the bank account
31	\$200 credit entry to the cash account

Yana

Cash Book

Date	Details	Discount Allowed \$	Cash \$	Bank \$	Date	Details	Discount Received \$	Cash \$
2024 Jan 1	Balance b/d		20	850	2024 Jan 4	Electricity		
Jan 10	Bank		300		Jan 10	Cash		
Jan 11	Sales			50	Jan 18	Liza	30	

Jan 21	Tobey	9		171	Jan 28	Rent		
					Jan 31	Wages		200



Your notes

Balancing the cash book

How do I balance the cash book?

- **Balance** the **cash columns** just like any other ledger account
 - Ignore the other columns
 - Remember the **balance** is always **brought down** onto the **debit side**
- **Balance** the **bank columns** just like any other ledger account
 - Ignore the other columns
 - The **balance** will be **brought down** onto the:
 - **debit side** if the business has **money in the bank**
 - **credit side** if the business is **overdrawn**
- **Do not balance** the **discount columns**
 - You just need to **total them up**
 - They will likely be different totals

Where do I put the totals for the discount columns?

- The cash book is the **book of original entry** for discount
 - It records the discounts allowed and received
 - It is not part of the double entry system for discount
- **Enter** the discount in the relevant accounts
- The total on the **left-hand side** is the **discount allowed**
 - **Debit** the whole total to the **discount allowed account**
 - Label the entry as "cash book"
 - You do not need to put a separate entry for each transaction
 - **Credit** the relevant **trade receivables accounts** in the receivables ledger
- The total on the **right-hand side** is the **discount received**
 - **Debit** the relevant **trade payables accounts** in the payables ledger
 - **Credit** the whole total to the **discount received account**

- Label the entry as “cash book”
- You do not need to put a separate entry for each transaction



Your notes



Worked Example

Yana’s cash book for January 2024 is shown below. Balance the cash book and bring down the balances at 1 February 2024.

Yana
Cash Book

Date	Details	Discount Allowed \$	Cash \$	Bank \$	Date	Details	Discount Received \$	Cash \$
2024 Jan 1	Balance b/d		20	850	2024 Jan 4	Electricity		
Jan 10	Bank		300		Jan 10	Cash		
Jan 11	Sales			50	Jan 18	Liza	30	
Jan 21	Tobey	9		171	Jan 28	Rent		
					Jan 31	Wages		200

Answer

Balance the cash account:

- Total of the cash debit entries = \$320
- Total of the cash credit entries = \$200
- Difference in the cash totals = \$120
 - This goes on the credit side as that total is the smallest

Balance the bank account:

- Total of the bank debit entries = \$1 071
- Total of the bank credit entries = \$1 370
- Difference in the bank entries = \$299
 - This goes on the debit side as that total is the smallest

Yana
Cash Book



Your notes

Date	Details	Discount Allowed \$	Cash \$	Bank \$	Date	Details	Discount Received \$	Cash \$
2024 Jan 1	Balance b/d		20	850	2024 Jan 4	Electricity		
Jan 10	Bank		300		Jan 10	Cash		
Jan 11	Sales			50	Jan 18	Liza	30	
Jan 21	Tobey	9		171	Jan 28	Rent		
Jan 31	Balance c/d			299	Jan 31	Wages		200
					Jan 31	Balance c/d		<u>120</u>
		<u>2</u>	<u>320</u>	<u>1370</u>			<u>30</u>	<u>320</u>
Feb 1	Balance b/d		120		Feb 1	Balance b/d		



The petty cash book

What is a petty cash book?

- A **petty cash book** is used to record transactions involving **small amounts of cash**
 - The business will decide what they classify as small amounts of cash
 - Exam questions commonly tell you to class transactions for anything up to \$100 or \$75 as petty cash transactions
- A **petty cash voucher** is used to **record the transaction** when money is taken from the petty cash account
 - It should state the amount and details

What is the layout of a petty cash book?

- There is a **date column** and a **details column**
 - These commonly appear once in the **middle**
- The **receipts** column on the **debit side** states the **total amount received** for each transaction
- The **payments** column on the **credit side** states the **total amount paid** for each transaction
- There are **analysis columns** on the **credit side** to separate payments into different categories
 - There are columns for the **expense accounts** and a column for the **payables ledger accounts**

PETTY CASH BOOK

RECEIPTS \$	DATE	DETAILS	PAYMENTS \$	TRAVEL \$	OFFICE EXPENSE \$	LEDGER ACCOUNTS \$

Copyright © Save My Exams. All Rights Reserved

The layout of a petty cash book

How do I enter transactions into the petty cash book?

- The **opening balance** is on the **debit side**



Your notes

- The **debit side** shows the **cash receipts**
 - Small cash receipts from **trade receivables**
 - Money transferred from the cash or bank account to **top up the petty cash account**
- The **credit side** shows the cash payments
 - Small cash payments for **expenses**
 - Small cash payments to **trade payables**
- When you enter a transaction onto the **credit side**
 - You need to enter it in the appropriate **analysis column(s)**
 - Put the total for that transaction in the **total paid column**

How do I balance the petty cash book?

- Find the **total** for each column on the **credit side**
- Underline the **totals** for the **analysis columns**
 - These balances then get **transferred** to the relevant ledger accounts
 - You can transfer the **total for each expense column** rather than transfer each transaction separately
 - The entries for **ledger accounts** will need to be entered into the **individual ledger accounts**
- Find the **difference** between the **total paid** and the **total received**
 - Put this entry as **balance c/d** on the side with the smaller total
 - This will usually be the credit side
- Complete the **balancing process** for these two columns
 - Find the totals for the total received and total paid columns
 - Bring down the balance to the start of the next month
 - The balance brought down will always be on the **debit side**



Worked Example

Nazim is a sole trader. Nazim makes all payments of less than \$75 by petty cash. Nazim ensures that there is exactly \$150 in the petty cash account at the start of each month.

Below are the cash transactions for January 2024.

January 5	Paid taxi fare, \$23
-----------	----------------------



Your notes

8	Paid cash, \$45, to Jamie, a trade payable
13	Paid \$25 for stationery
17	Received cash, \$67, from Hawa, a trade receivable
25	Paid train fare, \$51
30	Paid cash, \$17, to Melody, a trade payable

Enter these transactions into Nazim's petty cash book. Balance the account and bring down the balance on 1 February 2024.

Receipts \$	Date	Details	Payments \$	Travel \$	Office expenses \$	Ledger accounts \$
150	2024 Jan 1	Balance b/d				

Answer

- Total received
 - $\$150 + \$67 = \$217$
- Total paid
 - $\$23 + \$45 + \$25 + \$51 + \$17 = \161
- The difference
 - $\$217 - \$161 = \$56$

Receipts \$	Date	Details	Payments \$	Travel \$	Office expenses \$	Ledger accounts \$
150	2024 Jan 1	Balance b/d				
	Jan 5	Taxi fare	23	23		
	Jan 8	Jamie	45			45
	Jan 13	Stationery	25		25	
67	Jan 17	Hawa				
	Jan 25	Train fare	51	51		
	Jan 30	Melody	<u>17</u>			<u>17</u>

			161	<u>74</u>	<u>25</u>	<u>62</u>
	Jan 31	Balance c/d	<u>56</u>			
<u>217</u>			<u>217</u>			
56	Feb 1	Balance b/d				



Your notes

The imprest system

What is the imprest system?

- The **imprest system** is used by businesses to ensure that the money in the **petty cash account** is equal **to a set amount**
 - This amount is known as the **imprest amount**
 - This is usually done at the start of each week or month
- If the petty cash account is **less than the imprest amount** at the start of a period
 - Then it will be **topped up** using the cash or bank account
- If the petty cash account is **higher than** the imprest amount at the start of a period
 - Then the **excess can be deposited** into the cash or bank account
- The **imprest amount** will **always be equal** to:
 - The **current balance** of the petty cash account
 - **Plus** the **total value of petty cash vouchers** for the current period
 - **Minus** the **total amount** of petty cash **received**

What are the advantages of using an imprest system?

- It sets a **limit** on the amount of cash which can be spent
- It helps **managers monitor** the amount of petty cash that is being spent
- It **limits the amount** of cash that could be **misaid or stolen**



Examiner Tips and Tricks

Read the question carefully to see whether you are asked to restore the imprest or not. Also, check when the imprest is restored.



Worked Example

Mark maintains a petty cash account using the imprest system. The imprest amount, \$200, is restored on the first day of every month.

During January 2024, Mark receives \$50 from trade receivables, and the total of the petty cash vouchers for payments is \$120.

Calculate how much cash is needed to restore the imprest on 1 February 2024.

Answer

- Find the net amount that left the petty cash account

- $\$120 - \$50 = \$70$

\$70 is needed to restore the imprest



Your notes



The journal

What is the journal?

- The **journal** is also referred to as the **general journal**
- The journal is used to record all transactions that do **not go into the other books** of original entry, such as:
 - Opening balances when a business is first created
 - Introducing capital
 - Taking drawings
 - Purchasing a non-current asset
 - Selling a non-current asset
 - Correcting errors
 - Transferring balances to the income statement

JOURNAL

DATE	DETAILS	DEBIT \$	CREDIT \$

Copyright © Save My Exams. All Rights Reserved

The layout of the general journal

How do I make a journal entry for a transaction?

- **STEP 1**
Enter the **date**
- **STEP 2**
Enter the **name of the account(s)** that need to be **debited** in the **details column**
 - It is conventional to enter the debit accounts before the credit accounts
- **STEP 3**
Enter the **corresponding values** in the **debit column**
- **STEP 4**
Enter the **name of the account(s)** that need to be **credited** in the **details column**
 - It is conventional to leave an indent for the credit entries

**STEP 5**

Enter the **corresponding values** in the **credit column**

- Make sure the total debit amount is equal to the total credit amount

STEP 6

Write a **narrative** for the journal entry

- This is a brief explanation of the transaction
- This is especially useful for non-regular transactions and for correction of errors

**Examiner Tips and Tricks**

Read the question carefully to see whether a narrative is required. If in doubt, you should include a narrative.

**Worked Example**

On 1 February 2024, John starts an online tutoring business. He takes out a bank loan for \$5000 and uses it to purchase a computer for \$4000. He puts the remaining money in a business bank account along with \$2000 of his own money.

Prepare the general journal entry to record the opening assets and liabilities at 1 February. A narrative is required.

Answer

- Money in bank from loan
 - $\$5\,000 - \$4\,000 = \$1\,000$
- Total money in the bank
 - $\$1\,000 + \$2\,000 = \$3\,000$
- Equity is the difference between assets and liabilities
 - $\$4\,000 + \$3\,000 - \$5\,000 = \$2\,000$

Journal

Date	Details	Debit \$	Credit \$
2024 Feb 1	Computer	4 000	
	Bank	3 000	
	Bank loan		5 000

	Equity		<u>2 000</u>
		<u>7 000</u>	<u>7 000</u>
	Opening balances for assets, liabilities and equity		



Your notes