

Have you ever kept a journal on you're the items you've spent on? Do you allow loans and keep a list of them to know their status? If your answer to any of these questions is a yes then you already have an idea on what accounting is all about. Accounting is being able to provide financial information on any economic entity. Accounting is recording business transactions, classifying and summarizing information, communicating with users and interpreting any financial deals.

Bookkeeping is different from accounting. Accounting is more on designing and managing the financial systems that are used by bookkeepers. Bookkeepers as picked up from there title record each and every transaction. Bookkeepers should be handled with great amounts of trust for they are the ones that know every single financial detail of your business. Hiring impotent or treacherous bookkeepers can result in bad debts or some times even bankruptcy since the owners of the business don't usually know the exact money flow of the company.

The books of original are basically where bookkeepers record information. The primary purpose of books of original entry is to record all the accounting transactions as they come about. The books of original entry along with some extra records and T accounts make up the whole bookkeeping system<sup>i</sup>. There are six types of books of original entry the cash book, the sales day book, purchases day book, returns inwards day book, returns outwards day book and the journal.

A ledger is a book which contains groups of related accounts. Ledgers record all the necessary values as credits and debits in suitable places in the bookkeeping system. Ledgers are where the summary of the transactions of the books of original entry are kept. The ledgers that are being used by most businesses are the Sales, Purchases and General Ledgers. Nominal or general ledgers keep track of impersonal accounts while the Private ledger is available for those accounts which the owner wishes to be kept classified. Each ledger account<sup>ii</sup> records the date, value and references for a transaction and these accounts are divided into two, there is a debit side and credit side.

## **CASH BOOK**

The Cash Book is basically all the cash accounts and bank accounts put together in one book<sup>iii</sup> for easier retrieval of information. The cash book is a book of original entry and at the same time a ledger for the cash and bank accounts. A cash book is divided into the debit and credit sides, both sides contain a column for cash and bank. They also contain another column for required information like the date and the account to be settled. Extra information is recorded in the folio column. The folio column can be found on the left of the money columns, this column should only be touched once the double entry is complete. The folio column helps trace any entries that were made into accounts in the ledgers and they give assurance that all the double entries were made. The Cash book also has discounts allowed which can be found on the credit side of the cash book and the received discounts by the business can be found on the debit side. These two accounts can be found in the General Ledger. The total of all the discounts on the receipts side of the Cash Book are entered on the debit side of the discounts allowed account in

the General Ledger and the total of the discounts column on the payments side of the Cash Book are entered on the credit side of the discounts received column.

### **SALES DAY BOOK**

What sales have been made?

The Sales day book keeps a list of the sales that have been made within a certain amount of time. Most sales that are made besides from those of small business are made in credit, after purchases buyers are given a purchase invoice<sup>iv</sup> that contains information like the details of the goods bought and the cost of the items. The sales day book<sup>v</sup> should contain the date, name of customer, invoice number, folio column and the final amount of invoice. There is a separate ledger for any credit sale transactions, the Sales Ledger. The credit sales are then copied to the debit portion of each customer's personal account in the Sales ledger. The total of the credit sales that were made within a certain amount of time are recorded on the credit side of the sales account that was made in the General Ledger.

### **PURCHASES DAY BOOK**

What purchases have so far been made this month?

The purchases day book is quite similar to that of the sales day book. When a buyer receives the purchasing invoice the seller gets to keep one as well and on their side it is called the sales invoice. When recording in the books of the buyer information on

their purchases is a purchases invoice. The purchases day book and the sales day book have the same format. The one who purchases items enters details into to Purchases Day Book<sup>vi</sup> from the purchases invoice for the goods that were bought on credit. Details on the goods themselves need not be shown since they already appear in the invoices.

There are two differences between the Sales Day Book and the Purchases Day Book. The first difference is that the description of each entry includes the name of the other party to the transaction; this is the personal account of each of the respective ledgers where information of each transaction is entered. The second difference between the two books is the entry stated in the Invoice Number column.

The recording of information in the Purchases Ledger is almost like the opposite of recording for the Sales Ledger. The purchases on credit are posted to the credit side of each of the supplier's accounts in the Purchases Ledger and at the end of a certain period the total of the credit purchases is posted on the debit side of the purchases account in the General Ledger.

## **RETURNS INWARDS DAY BOOK**

What items have been returned?

Most businesses usually allow their customers to return items that they aren't satisfied with and these records go into the Returns inwards day book. The agreement that the business offers varies, some offer a full refund while some do it in the form of

store credit. When products are returned a credit note is made and sent to the customer. The credit note that the customer receives is proof that the seller agreed on the return. Credit notes are found in the Returns Inwards Day Book. In the Sales ledger the amount of credit notes are credited into the accounts of each customer in that ledger. The total of the Returns Inwards Day Book is recorded on the debit side of the returns inwards account.

### **RETURNS OUTWARDS DAY BOOK**

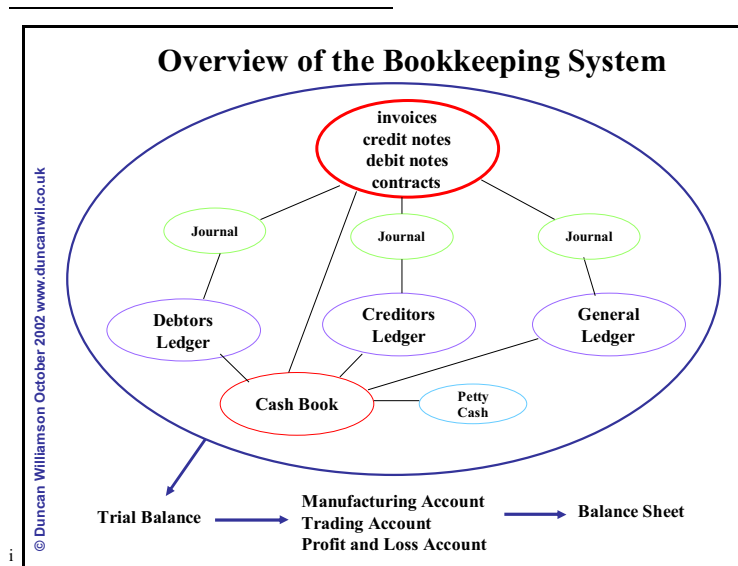
What items have we returned?

Just like a buyer returning goods from a business, that business can also return unwanted goods to their suppliers. A Debit note is sent by the business to their supplier stating details on the goods and an acceptable reason on why they want to return the items. Debit notes are found in the Returns Outwards Day Book<sup>vii</sup> and they are used for updating the Purchases Ledger and the General Ledger.

Each month a statement is sent to each of the debtors who owe money on the last day of the month. The statement should show the amount owed at the start of the month, the amount of each sales invoice sent to the debtor during that month, credit notes sent during that month, cash and cheques received from the debtor during the month and the amount that the debtor owes at the end of that month.

## THE JOURNAL

The journal<sup>viii</sup> is where all the items that did not pass through the previous five books are recorded. These items are usually more unique and complicated. Transactions relating to fixed assets, errors in former books that have been corrected and transfers involving capital are examples of items that are recorded in the Journal. The first line in the journal states the name of the account that is going to be debited. The second line is indented so that it will be obvious that it is the credit part of the double entry. The last line is the reason of the entry.



## Ledger Page

Lx							
Dr				Cr			
Ledger Account							
Date	Details	Fo	Value	Date	Details	Fo	Value

ii  
iii

### CASH BOOK

		Cash	Bank			Cash	Bank
2003							
Jan1	Capital		3000	Jan3	Rent	50	

iv



## INVOICE

*One Portland Way, Tivis Point, WA 08116  
Phone: 1-206-555-1417 Fax: 1-206-555-5938*

Date: 11 Nov 03

**Ship To:** Bon app'  
12, rue des Bouchers  
Marseille 13008  
France

**Bill To:** Bon app'  
12, rue des Bouchers  
Marseille 13008  
France

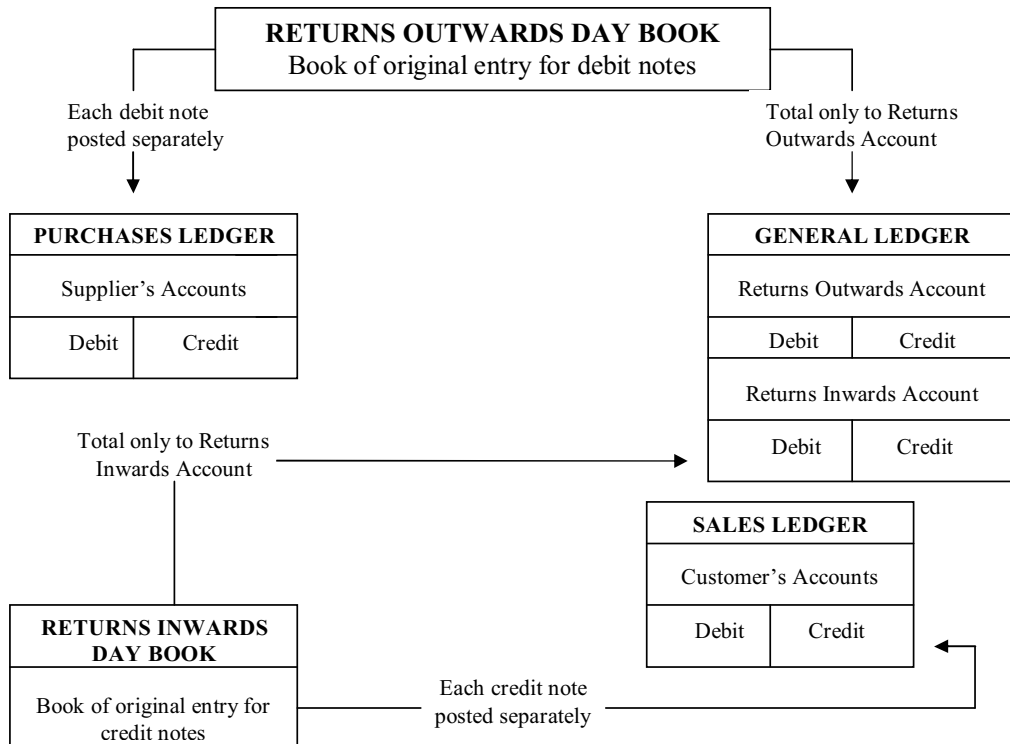
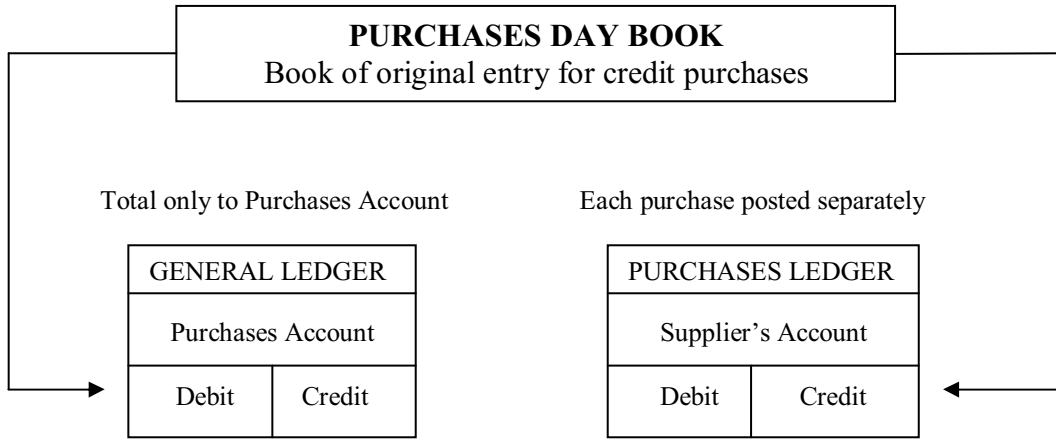
Order ID:	Customer ID:	Salesperson:	Order Date:	Required Date:	Shipped Date:	Ship Via:
11076	BONAP	Margaret Peacock	03 Jun 1996	03 Jul 1996		United Package

Product ID:	Product Name:	Quantity:	Unit Price:	Discount:	Extended Price:
6	Grandma's Boysenberry Spread	20	£25.00	25%	£375.00
14	Tofu	20	£23.25	25%	£348.75
19	Teatime Chocolate Biscuits	10	£32.00	25%	£69.00

**Subtotal:** £792.75  
**Subtotal:** £38.28  
**Subtotal:** £831.03

v

Sales Day Book			(page 21)
	Invoice No	Folio	Amount
2003			Php
14-Jul R Go	10051		15,320
16-Jul F Santos	10052		18,900
18-Jul C Baron	10053		16,250
21-Jul E Lua	10054		19,340
			69,810





---

viii THE JOURNAL

Date	Details	Folio	Dr	Cr
	The name of the account to be debited			
	The name of the account to be credited			
	The narrative			