

FRANK WOOD'S

BOOK-KEEPING AND ACCOUNTS

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NINTH EDITION

BOOK-KEEPING AND ACCOUNTS

Again, you may find it easier to use 'IN' and 'OUT', i.e. goods returned to us are entered on the 'IN' side of the sales returns account since the goods are coming 'IN' to us, and on the 'OUT' side of the individual customers' accounts as they are sending the goods back to the supplier (OUT).

An example of posting sales credit notes

Using the sales returns day book from Exhibit 18.1 and the sales ledger accounts from the example in Chapter 16 we will now post each of the credit notes to the customers' accounts in the Sales Ledger. The folio references have also been completed.

Sales Ledger					
Champion Sports Account				(SL 12)	
2018	Folio	£	2018	Folio	£
May 3 Sales	SB 26	480.00	June 11 Sales returns	SR11	86.40
Zhang Sports Account					
(SL 249)					
2018	Folio	£	2018	Folio	£
May 29 Sales	SB 26	213.60	June 24 Sales returns	SR11	67.20

The totals from the sales returns day book are now posted to the sales returns and VAT accounts in the general ledger.

General Ledger					
Sales Returns Account				(GL 44)	
2018	Folio	£		Folio	£
June 30 Total SRDB	SR11	128.00			
VAT Account					
(GL 50)					
2018	Folio	£	2018	Folio	£
June 30 Total SRDB	SR11	25.60	May 31 Total SDB	SB 26	156.40

18.4 Purchases returns (returns outwards) and purchases credit notes

When a business buys goods for resale but then has to return some of the goods for any of the reasons already discussed they are known as 'purchases returns' or 'returns outwards'. Once the goods have been returned to the supplier it will issue a credit note which is then sent to the customer.

Book-keeping entries for purchases credit notes

The credit notes are listed in a **purchases returns day book** also called the returns outwards day book. In Chapter 17, Exhibit 17.1, various invoices were entered into the purchases day

book. Let us assume that some of the goods received from two of the business's suppliers were not to the specification ordered and had to be returned. The suppliers then issued credit notes to rectify the situation. The credit notes have been entered below into the Purchases Returns Day Book.

Exhibit 18.2

Purchases Returns Day Book					(page 40)
Date	Details	Folio	Goods	VAT	Total
2018			£	£	£
Jan 15	Jarvis & Sons	PL 8	32.00	6.40	38.40
Jan 26	K Howard	PL 17	<u>100.00</u>	<u>20.00</u>	<u>120.00</u>
			<u>132.00</u>	<u>26.40</u>	<u>158.40</u>
			GL 45	GL 67	*

*The 'Total' column in the above purchases returns day book is posted to the 'purchases Control Account' but this will be dealt with in Chapter 25.

Posting credit notes to the purchases and general ledger

After entering the credit notes into the purchases returns day book the next step is to post each credit note into the individual supplier's accounts. Again at the end of the month the total 'net goods returned' and 'VAT' are posted to the purchase returns and VAT accounts in the general ledger. The book-keeping entries are:

- **Debit** each individual supplier's account in the purchases ledger with the **total** of each credit note
- **Credit** the purchase returns account with the total of the 'net goods returned'
- **Credit** the VAT account with the total of the VAT column.

Using 'IN' and 'OUT', the entries would be as follows: the goods returned by us to the supplier go 'IN' to the suppliers' accounts and come 'OUT' of the purchases returns account.

An example of posting purchase credit notes

Using the purchases returns day book from Exhibit 18.2 and the purchases ledger accounts from the example in Chapter 17 we will now post each of the credit notes to the suppliers' accounts in the purchases ledger. Again the folio columns have been completed.

Purchases Ledger						(PL 8)
Jarvis & Sons Account						
2018	Folio	£	2017	Folio	£	
Jan 15 Purchase returns	PR 40	38.40	Dec 9 Purchases	PB 38	172.80	

K Howard Account

(PL 17)

2018	Folio	£	2017	Folio	£
Jan 26 Purchase returns	PR 40	120.00	Dec 17 Purchases	PB 38	624.00

General Ledger

Purchases Returns Account

(GL 45)

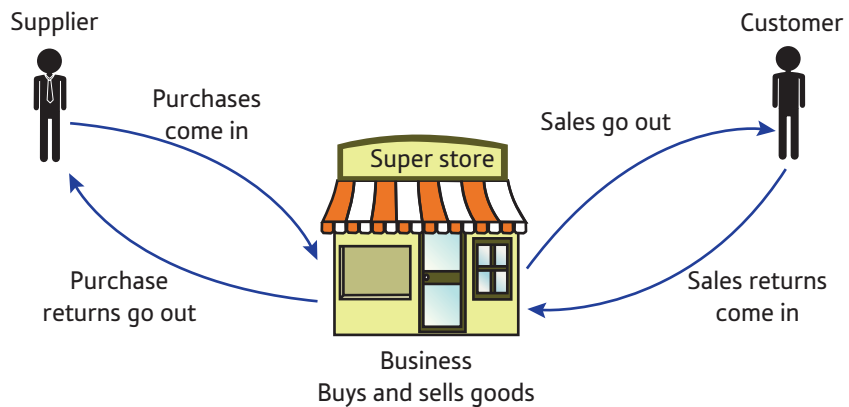
	Folio	£	2018	Folio	£
			Jan 31 Total PRDB	PR 40	132.00

VAT Account

(GL 67)

2017	Folio	£	2018	Folio	£
Dec 31 Total PDB	PB 38	203.20	Jan 31 Total PRDB	PR40	26.40

Exhibit 18.3 Purchasing and selling goods

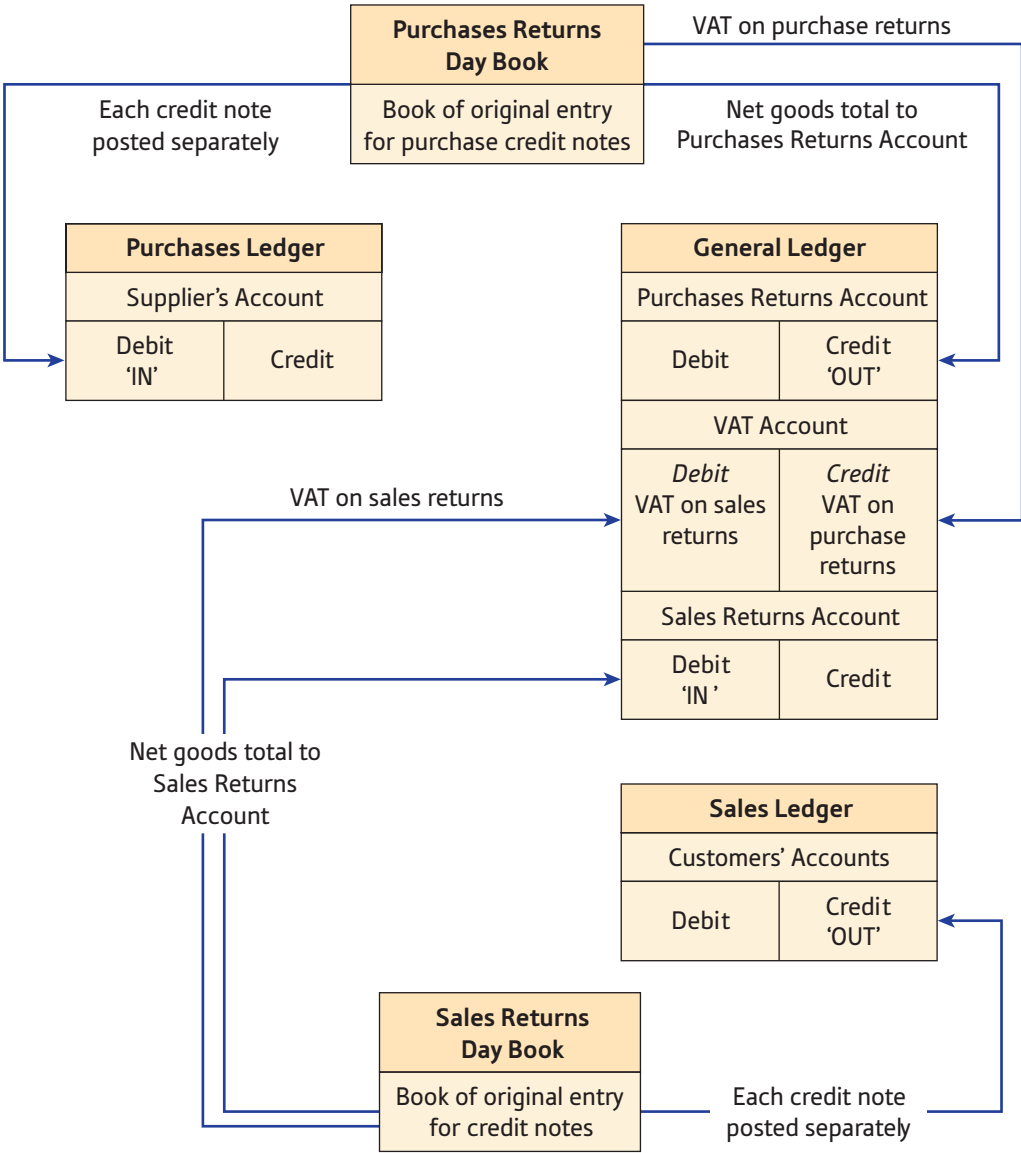


Source: Edexcel International GCSE Accounting 1st edn (Robinson, S. 2010)
Pearson Education Ltd

18.5 Double entry and returns

Exhibit 18.4 shows how double entry is made for both sales returns (returns inwards) and purchases returns (returns outwards).

Figure 18.4 Posting sales returns and purchases returns



Note that full coverage of the treatment of sales returns and purchases returns in the financial statements has already been shown in section 12.1.

18.6 Reasons for keeping separate returns accounts

It is important for businesses to monitor the amount of goods being returned and the reasons why the goods or services were unsuitable. For this reason separate returns accounts are kept, i.e. sales returns account and purchases returns account. Recording the returns in these

accounts would indicate any excessive amounts of sales returns and/or purchases returns, which would enable management to investigate the reason.

18.7 Reconciliation of our ledger accounts with suppliers' statements

At the end of each month a **statement of account** should be sent to each customer (accounts receivable) that owes money on the last day of that month. It is really a copy of the customer's account in the seller's books. It should show:

- The amount owing at start of the month
- The amount of each sales invoice sent to the customer during the month
- Any credit notes sent to the customer during the month
- Cash and cheques received from the customer during the month
- The amount due from the customer at the end of the month.

The customer will use these statements to check that the details shown on the statement agree with their own accounting records. Statements act as a reminder to the customer that money is owed, and will show the date by which payment should be made.

An example of a statement was shown in Chapter 15, Exhibit 15.5.

Reconciliation of suppliers' statements

A supplier's statement of account should be checked against its ledger account in the business's own books and the balance reconciled before making a payment. Sometimes, because of the differences in timing, the balance on a supplier's statement on a certain date can differ from the balance on that supplier's account in the business's purchases ledger. This is similar to a bank statement where the balance may differ from that in the cash book and require the preparation of a **bank reconciliation statement** to reconcile the two balances. This is dealt with in Chapters 21 and 23.

If the balance on the statement of account does differ from the supplier's account in the purchases ledger, then it will be necessary to check the statement against the ledger account and reconcile the difference by preparing a supplier's reconciliation statement.

The reasons for the differences in balances may be:

- Goods returned by the customer but not recorded by the supplier until after the statement of account has been issued
- A supplier sending goods to a customer, together with an invoice, but neither being received by the customer until a later date; the customer is, therefore, unable to enter the invoice in their books of the account until receipt
- Payments in transit
- Other errors which may be made by either the supplier or buyer when entering data, i.e. transposing figures, or an error in the calculation of a balance where manual accounts are maintained.

Exhibit 18.5 shows the account of C Young Ltd in the purchases ledger of A Hall Ltd and the statement of account received from the supplier, C Young Ltd, together with the reconciliation.

Exhibit 18.5

(a) Purchases ledger A Hall Ltd Books

C Young Ltd Account			
2018	£	2018	£
Jan 10 Bank	1,550	Jan 1 Balance b/d	1,550
Jan 29 Returns (i)	116	Jan 7 Purchases	885
Jan 31 Balance c/d	<u>1,679</u>	Jan 18 Purchases	<u>910</u>
	<u>3,345</u>		<u>3,345</u>
		Feb 1 Balance b/d	1,679

(b) Supplier's statement

C Young Ltd Market Place, Leeds			
STATEMENT			
Account Name: A Hall Ltd		Date: 31 January 2018	
Account Number: H93			
	Debit	Credit	Balance
2018	£	£	£
Jan 1 Balance			1,550 Dr
Jan 7 Invoice No 3250	885		2,435 Dr
Jan 13 Payment received		1,550	885 Dr
Jan 18 Invoice No 3731	910		1,795 Dr
Jan 31 Invoice No 3894 (ii)	425		2,220 Dr

Comparing the purchases ledger account with the supplier's statement, two differences can be seen:

1. A Hall Ltd returned goods value £116 to C Young Ltd, but it had not received them and recorded them in its books by the end of January.
2. C Young Ltd sent goods to A Hall Ltd, but the latter had not received them and therefore had not entered the £425 in its books by the end of January.

A reconciliation statement can be drawn up by A Hall Ltd as on 31 January 2018.

Reconciliation of Supplier's Statement C Young Ltd as on 31 January 2018			
		£	£
Balance per our purchases ledger			1,679
Add Purchases not received by us	(ii)	425	
Returns not received by supplier	(i)	<u>116</u>	
			<u>541</u>
Balance per supplier's statement			<u>2,220</u>