Processing bookkeeping transactions

Webinar notes

Principles of double-entry

- For every debit entry there must be an equal credit entry or entries
- Information is summarised in books of prime entry
- Totals from the books of prime entry are posted to the general ledger

Identifying debits and credits

Debit	**C**redit
Expenses	**L**iabilities
Assets	**I**ncome
Drawings	**C**apital

DEBIT	**CREDIT**
Increase an asset	Increase a liability
Decrease a liability	Decrease an asset
Increase a cost	Increase income
Decrease income	Decrease a cost

Ledgers

General ledger: Double-entry ledger that stores all of the ledger accounts that will be used to prepare the financial statements of the business.

Sales ledger: Memo ledger that contains individual customer accounts (summarised in the general ledger as the sales ledger control account).

Purchase ledger: Memo ledger that contains individual supplier accounts (summarised in the general ledger as the purchase ledger control account).

Transferring data from the cash book to ledgers – cash receipts book

- Bank total in the cash receipts book will be debited to the bank account in the general ledger therefore all of the entries that comprise this total must be posted as credit entries.
- VAT is not shown for sales ledger receipts because this is recorded in and posted from the sales day book.
- Discount allowed is recorded in the cash book but does not form part of the cross cast. The total is posted to the discount allowed account (debit) and the sales ledger control account (credit) in the general ledger.
- Individual transactions for sales ledger receipts and discount allowed will be posted to the sales ledger.

Transferring data from the cash book to ledgers – cash payments book

- Bank total in the cash payments book will be credited to the bank account in the general ledger therefore all of the entries that comprise this total must be posted as debit entries.
- VAT is not shown for purchase ledger receipts because this is recorded in and posted from the purchase day book.
- Discount received is recorded in the cash book but does not form part of the cross cast. The total is posted to the discount received account (credit) and the purchase ledger control account (debit) in the general ledger.
- Individual transactions for purchase ledger payments and discount received will be posted to the purchase ledger.

Making payments to suppliers

Making the correct payment to suppliers by the due date is important to:

- adhere to agreed credit terms
- take advantage of settlement discount
- minimise cash flow problems.

Information required before determining payment due:

1. Details of supplier invoices and credit notes outstanding
2. Agreed credit terms
3. Time lag between sending payment and the supplier receiving it

Preparing remittance advice notes

Used to inform the supplier which invoices and credit notes are being settled by the payment. This is good practice even if the payment is being made electronically.

Supplier may include a remittance advice when sending out a statement of account. This can be completed by the payee and returned with payment.

The payee can prepare their own remittance advice.

The remittance advice note should:

- identify the invoices being paid
- identify the credit notes that are being allocated against the invoices due
- identify any settlement discount taken
- show the total amount of the payment.

Activity 1

Motor expenses

Date 2012	Details	£	Date 2013	Details	£
31 October	Bank	1,675	31 October	Refund	115
31 October	Cash	328			

Activity 2

General ledger:

Account name	Debit £	Credit £

Sales ledger:

Account name	Debit £	Credit £

Activity 3

General ledger:

Account name	Debit £	Credit £

Purchase ledger:

Account name	Debit £	Credit £

Activity 4

Account	General ledger	Sales ledger	Purchase ledger
Stationery & postage			
Supplier: J Bridges Ltd			
Sales			
Purchases			
Rent			
Customer: M Smith & Co			

Activity 5

Date 2013	Details	Debit £	Credit £	

Date 2013	Details	Debit £	Credit £	

Activity 6

Amount of payment	
Date cheque to be written and posted	

Activity 7

STATEMENT					REMITTANCE			
Rapide Ltd Unit 16 Industrial Park Birmingham B66 2YF					Rapide Ltd Unit 16 Industrial Park Birmingham B66 2YF			
To: Company A Retford RT1 2CC		A/C: COA01 Date: 30 June			To: Company A Retford RT1 2CC		A/C: COA01 Date: 30 June	

Date 2013	Details	Debit £	Credit £	Balance £	Details	Debit £	Credit £	(✓)
1 May	Balance b/f			162.75	Balance b/f		162.75	
3 May	Invoice 324		1,400.20	1,562.95	Invoice 324		1,400.20	
7 May	Credit note 32	310.50		1,252.45	Credit note 32	310.50		
14 May	Invoice 353		575.00	1,827.45	Invoice 353		575.00	
26 May	Invoice 377		1,022.95	2,850.40	Invoice 377		1,022.95	
28 May	Payment	162.75		2,687.65	Payment	162.75		
31 May	Credit note 41	75.00		2,612.65	Credit note 41	75.00		
3 June	Invoice 401		824.30	3,436.95	Invoice 401		824.30	
16 June	Invoice 439		225.00	3,661.95	Invoice 439		225.00	
22 June	Credit note 55	117.50		3,544.45	Credit note 55	117.50		
23 June	Invoice 456		1,136.20	4,680.65	Invoice 456		1,136.20	
30 June	Invoice 482		747.50	5,428.15	Invoice 482		747.50	
Amount now due				**5,428.15**	Amount paid			