Chapter 5

Solution 5.1

Distinguish between books of original entry and ledger accounts

The books of original entry ('day books' or 'journals') are the books in which transactions are first recorded and are a list or record, in date order, of the transactions that occurred over a period of time. At the end of a period of time the transactions recorded in the books of original entry are recorded in the ledger accounts. There is no double entry system for the books of original entry but the ledger accounts require the double entry principle.

Distinguish between the sales ledger and the purchases ledger

The sales ledger contains the accounts of all customers/debtors while the purchases ledger contains all trade creditors/suppliers accounts.

Distinguish between the general ledger and the general journal

The general ledger contains all revenue and expense accounts, and assets (except trade debtors), liabilities (except trade creditors) and capital accounts and is part of the second stage of the bookkeeping system. The general journal forms part of the first stage of bookkeeping and provides a list or record, in date order, of the transactions that occurred over a period of time.

Distinguish between the cash book and the sales journal

The cash book records all payments and receipts that are transacted by a business whether in cash or by cheque. The sales journal only records credit sales transactions.

Solution 5.2

Purchase stock on credit	Purchase invoice Recorded in the purchases Journal
Purchase stock paying by cheque	Purchase invoice & receipt Recorded in the cash book
Purchase new computer system on credit	Purchase invoice Recorded in the general journal
Paid rent by cheque	Receipt Recorded in the cash book
Sold goods on credit	Sales invoice Recorded in the sales journal
Received cash from a debtor	Receipt Recorded in the cash book
Returned some of the goods bought on credit	Debit note Recorded in the purchases returns journal
Paid rates by cheque	Receipt Recorded in the cash book
A customer returned goods	Credit note Recorded in the sales returns journal

Solution 5.3

Briefly outline the role of control accounts in an accounting system

The main role of control accounts is as a check on the accuracy of the accounting records in relations to the sales and purchases ledgers. For example the accounting system can produce a sales ledger control account or total debtors account where the closing balance on this account should equal the total of the individual debtor accounts balances. Thus the control account acts as a check on the accuracy of the sales ledger accounts. This is also applied to the purchases ledger whereby the accounting system produces a purchases ledger control account or total trade creditors account. The balance on this account should equal the total of the individual balances in the purchases ledger.

Solution 5.4

Mr. Senator would be advised to have

Books of prime entry:

Purchases Journal	Recording all credit purchases of stock for resale
Purchases Returns Journal	Recording all purchases returns
Cash Book	Recording all payments and receipts
General Journal	Recording all other transactions

Ledgers:

Purchases Ledger	Contains all the individual creditor/suppliers accounts
General Ledger	Contains all other accounts

Mr. Senator does not require a sales journal, a sales returns journal or a sales ledger as all sales are for cash.

Solution 5.5

Purchases journal

		€
Jan-01	GGS Ltd	6,000
Jan-03	XYZ Ltd	1,000
Jan-06	XYZ Ltd	2000
		9,000

Purchases returns journal

		€
Jan-06	GGS	500
Jan-07	XYZ	200
		700

DR   **Cash Book**   **CR**

		Cash	Bank			Cash	Bank
Jan-02	Sales		2,000	Jan-03	Rent		3000
Jan-03	Sales		1,000	Jan-04	Cutlery		500
Jan-04	Sales		1,500	Jan-05	Wages		3,000
Jan-05	Sales		2,500	Jan-07	GGS		2,000
Jan-06	Sales		3,000				
Jan-07	Sales		3,250	Jan-07	Balance c/d		4,750
			13,250				13,250

Purchases Ledger

GGS Ltd

DR				CR
Purch returns journal	500	Purchases Journal		6,000
Bank	2,000			
Balance c/d	3,500			
	6,000			6,000

XYZ Ltd

DR				CR
Purch returns Journal	200	Purchases Journal		1,000
Balance c/d	2,800	Purchases Journal		2,000
	3,000			3,000

General Ledger

Purchases Account

DR			CR
Purchases Journal	9,000	Bal c/d	9,000

Purchases Returns Account

DR			CR
Bal c/d	700	Purch returns journal	700

Sales Account

DR			CR
Bal c/d	13,250	Cash Book	13,250

Rent Account

DR			CR
Cash book	3,000	Bal c/d	3,000

Kitchen equipment Account

DR			CR
Cash Book	500	Bal c/d	500

Wages Account

DR			CR
Cash Book	3,000	Bal c/d	3,000

Trial Balance

	DR	CR
Bank account	4,750	
Creditors - GGS		3,500
Creditors - XYZ		2,800
Purchases	9,000	
Purchases returns		700
Sales		13,250
Rent	3,000	
Kitchen equipment	500	
Wages	3,000	
	20,250	**20,250**