ATAR Year 11 Accounting and Finance
Unit 1 – The General Journal
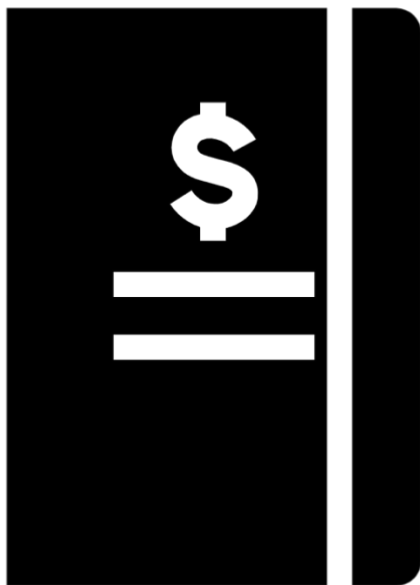
Year 11 ATAR Accounting and Finance

Unit 1

Topic: The General Journal

OVERVIEW

The aim of providing resources for Year 11 Accounting and Finance students is to assist students to revise and prepare for Semester 1 Examinations. Additionally, these resources are designed to supplement (not replace) your classroom teacher's programme.

The following format applies to this booklet:

Section 1: Syllabus requirements
Please familiarise yourself with the syllabus requirements for each topic. Including links to the SCSA website for important curriculum documents.

Section 2: Theory Content
Read through this section, taking notes and highlighting important concepts.

Section 3: Activities
Various questions based on the theory content. Each question is followed by the suggested solution.

Topic: The General Journal

Section 1: Syllabus content covered

Double entry revision

Students revise, practice and apply their knowledge of the double entry system (debits and credits) using practice activities.

Accounting for Inventory

Students examine the principles of the perpetual inventory system and look at the perpetual vs periodic inventory methods.

General Journal and ledger posting

Using short lists of cash and credit transactions, students analyse the transactions, select the relevant financial data and manually prepare the general journal (including GST) to include:

- Entries to commence business
- Cash and credit transactions to include cash receipts, cash payments, sales, purchases, sales returns, purchase returns, discount allowed, discount received
- Perpetual inventory system given the cost of sales (no requirement to teach inventory costing systems)
- Purchase of non-current assets
- Write off bad debts
- Withdrawal of inventory or cash by the proprietor
- Correction of errors
- Closing entries

You can find other important Accounting and Finance Course Information at:
https://senior-secondary.scsa.wa.edu.au/syllabus-and-support-materials/humanities-and-social-sciences/accounting-and-finance

Topic: The General Journal

Section 2: Reading and Note Taking Section

- *Section 2: The following pages will outline the theory components of this topic.*

- *Please take time to read through this information, taking notes and highlighting important concepts.*

- *Then move on to Section 3: Activities Section for activities, questions and solutions.*

Journalising Financial Data

Have you ever wondered how the owner of a business:
- remembers when goods were bought and sold?
- remembers to send a reminder to customers to pay a bill?
- knows how much their customer owes them?
- knows how much they have in the bank without making a visit to the bank?

This topic will assist you to learn to use the first steps in the recording process which makes this information readily available.

Original Entries

Businesses establish recording processes which suit their individual needs; however, the double entry system is the one which most small businesses adopt. The double entry accounting system is the one upon which this unit is based. Business documents provide information about transactions which are then recorded into the General Journal.

Business Documents

The recording of business data starts with business documents. These documents can be classified as either source documents or other documents. Source documents provide evidence of external transactions and are used for entering transaction data in the journal. Other documents are used to record internal transactions and provide information for reports.

Examples of source documents and other documents:

Source Documents	Other Documents
Tax Invoice	Purchase Order
Cash register roll	Delivery docket
Receipt	Statement of Account
Cheque butt	Remittance advice
Internal memorandum	Petty cash voucher
Credit card voucher	Credit card merchant summary

The documents are prepared in order to:

1. Safeguard against miscommunication of the details of sales, purchases, returns, receipt of cash and cash payments and internal transactions.
2. Supply data from which the General Journal is prepared.
3. Provide an audit trail as a means of internal control.
4. Communicate financial data between departments.

The General Journal
The first record of a transaction in the books of account is made from the source document into the General Journal. This journal is also referred to as the 'book of original entry' because it contains the first entry made in the accounting records for all transactions.

Details of each transaction are recorded in chronological order, that is, in order of date.

The details recorded in the journal include the:
*   Date
*   Names of the accounts which are the debit (Dr) and credit (Cr) accounts for the double entry. You should note double entry means that the total *amount* of the transaction is entered twice, and it may be that for either the Dr or Cr entry the amount is split.
    See the example below where the value of money coming into the Bank, $11 000, is split between Advertising Fees and GST Collected. The result is a double entry for $11 000.
*   Value of the transaction
*   Narration - a brief explanation of the transaction

An entry made in the journal for cash received for Fees on which 10% Goods and Services Tax (GST) is payable will appear as follows:

Date	Account Type	Dr	Cr
June 10	Bank	11 000	
	Fees Income		10 000
	GST Collected		1 000
	RECEIVED CASH FEES		

Can you see that the value of the debit column equals the value of the credit column? This is an important rule to remember: **Debits must always equal credits.**

Before entries can be made in the journal there are decisions to be made about which ledger accounts require entries to be made in the debit and credit columns. You must work on this to establish a sound understanding before you start recording financial data.

Preparing General Journal Entries

Opening Entries
Let's look at preparing a General Journal entry, an Opening Entry, for a person starting out in small business.

In this example, Cameron Remer sent his Accountant, some information in preparation to commence his small business, Cameron Remer Enterprises.

Cameron advised his Accountant that in order to start his new business, he deposited $50 000 into the Bank account of the business.

When Cameron contributed the $50 000 asset to the business, he was involved in an internal transaction between himself and the business. He effectively lent $50 000 to the business.

Do you remember the accounting entity assumption? Cameron and the business are two distinctly separate entities in terms of the accounting process. The result of the transaction was:

- The value of the business assets (Bank) increased
- The business owes Cameron $50 000. This debt from the business to the owner is in the form of Capital.

The accounting equation was used to calculate the Equity (capital) figure as follows:

$$\text{A - L = Eq}$$

$$\$50\ 000 - \$0 = \$50\ 000$$

Here is an example of how the previous transaction between Cameron and his business would appear on a transaction analysis chart:

1. Name of account/s affected?	2. What type of accounts are those?	3. What type of balance do these accounts have?	4. Will the account/s be increased or decreased?	5. Amount $	6. Type of entry needed to increase or decrease the account?	
					Dr $	Cr $
Bank	Asset	Debit (Dr)	Increase	50 000	50 000	
Capital	Equity	Credit (Cr)	Increase	50 000		50 000

Bank account will be Debited (Dr) with 50 000

Captial will be Credited (Cr) with 50 000

General Journal
Cameron Remer Enterprises

Date	Account Title	Dr	Cr
2020			
14 March	Bank	50 000	
	Capital		50 000
	ASSETS AND EQUITY AT COMMENCEMENT OF BUSINESS		

A More Complex Opening Entry

Let's look at the following more complex opening entry:

On 29 April 20XX, Jim Smith commenced trading as Jim Smith Enterprises. He contributed the following assets and liabilities to establish the business:

- Vehicles $50 000, Cash $20 000 (cash is recorded as Bank), Land & Buildings $300 000, Mortgage $100 000.

Jim has effectively lent assets to the business and at the same time transferred a liability, the mortgage, to the business. The result of the transaction was:

- The value of the business assets increased (Vehicles, Bank and Equipment)
- The business liabilities have increased: Mortgage transferred into the business name
- The business owes Jim the difference between the assets and liabilities (Capital)

The transaction between Jim and his business would be entered into a transaction analysis chart as follows:

Name of account/s affected	What type of account/s are these?	What type of balance do these account/s have?	Will the account/s be increased or decreased?	Amount	Type of entry needed to increase or decrease the account?	
					Dr $	Cr $
Bank	A	Dr	Increase	20 000	20 000	
Vehicles	A	Dr	Increase	50 000	50 000	
Land and Buildings	A	Dr	Increase	300 000	300 000	
Mortgage	L	Cr	Increase	100 000		100 000
Capital	Eq	Cr	Increase	270 000		270 000

Once the transaction analysis chart has been completed, we can now prepare the General Journal.

The accounting equation is used to calculate the Capital figure so that the accounting equation is balanced:

A = L + Eq

370 000 = 100 000 + 270 000

General Journal

Date	Account Type	Dr	Cr
20XX			
April 29	Bank	20 000	
	Vehicles	50 000	
	Land and Buildings	300 000	
	Mortgage		100 000
	Capital		270 000
	Assets, liabilities and equity at commencement of business.		

Cash Transactions and Drawings

Cash Transactions

A receipt of cash will increase the money that a business has in the Bank. We've learned already that Bank is an Asset and will therefore have a Debit balance. To increase the value of the Bank account, the entry in the General Journal for Bank must be made in the Debit column. The second entry/entries for the value of the cash received must therefore be made in the Credit column. The Credit entry records the name of the account where the money has come from.

Conversely, a payment of cash will decrease the money a business has in the Bank. This will decrease the Asset account and therefore a Credit entry is needed to decrease the Bank account. The second part of the double entry must be an entry/entries equal to the same amount as the Credit entry but made on the Debit side. The Debit entry records how the money was spent.

Drawings

A business owner can withdraw cash from the business for personal use. As long as this is recorded within the books of the business, it does not contravene the Accounting Entity Assumption. This is referred to as Drawings.

Let's look at an example. On 2 Jan 20XX Julie withdrew $200 cash from Julie's Potions for personal use.

The transaction analysis and General Journal would appear as follows:

Name of account/s affected	What type of account/s are these?	What type of balance do these account/s have?	Will the account/s be increased or decreased?	Amount	Type of entry needed to increase or decrease the account?	
					Dr $	Cr $
Drawings	Negative Eq	Dr	Increase	200	200	
Bank	A	Dr	Decrease	200		200

General Journal
Julie's Potions

Date	Account Type	Dr	Cr
20XX			
Jan 2	Drawings	200	
	Bank		200
	Julie withdrew $200 cash for her personal use.		

Drawings are classed as a negative Equity account. They reduce the value of the Capital.

Purchases of Inventory

Purchase of Inventory on Credit

Inventory may be purchased for cash or credit. When a purchase is made on credit, the Inventory account will increase in value and a Liability account, Accounts Payable, will also increase. The business will also need to record the Input Tax Credits associated with the transaction.

Let's look at an example:

On Jan 4, a business purchased $400 worth of Inventory on credit, from a business called Stock Standard. The General Journal entry would look like this:

General Journal

Date	Account Type	Dr	Cr
Jan 4	Inventory	400	
	Input Tax Credit	40	
	Accounts Payable - Stock Standard		440
	PURCHASED GOODS ON CREDIT		

Let's look at this General Journal entry in detail:

The Inventory account is increasing by $400. To increase an asset account, we make a debit entry.

GST on this transaction = 400 x 10% = $40. We record the $40 to the Input Tax Credits account. This is an Asset account that is increasing.

The business now has a new liability account - a debt of $440 to an Accounts Payable. To make it easier when recording Accounts Payable, you can include the name of the business. We need to do this because we owe Stock Standard $440.

Important points to note when completing the General Journal

- The account/s to be debited are always entered first.
- The account/s to be credited are always entered last.
- The credit entry should be indented slightly
- The value of the debit column must equal the value of the credit column
- The entry is completed with a narration - PURCHASED GOODS ON CREDIT - this is a brief explanation of the transaction that has taken place. This is written within the Account Title column - don't write the narration into the debit/credit columns.
- When making debit/credit entries, you must enter the title of an account. Don't be tempted to describe the transaction - that's what the narration is for.

Purchase of Inventory for Cash

When goods are purchased for cash, the Bank account is affected instead of Accounts Payable. Let's look at the same transaction: On Jan 4, a business purchased $400 worth of Inventory for cash. The General Journal would look like this:

General Journal

Date	Account Type	Dr	Cr
Jan 4	Inventory	400	
	Input Tax Credit	40	
	Bank		440
	PURCHASED GOODS FOR CASH		

Cash Payment and Purchases

Cash Payment of Expenses

The following example could relate to the payment of cash for any of the expenses a business might incur, for example, advertising, electricity, insurance, rent or telephone. On 6 Jan 20XX, Julie's Potions paid wages of $10 000. The transaction analysis chart and general journal would appear as follows:

Name of account/s affected	What type of account/s are these?	What type of balance do these account/s have?	Will the account/s be increased or decreased?	Amount	Type of entry needed to increase or decrease the account?	
					Dr $	Cr $
Wages	E	Dr	Increase	10 000	10 000	
Bank	A	Dr	Decrease	10 000		10 000

General Journal - Julie's Potions

Date	Account Type	Dr	Cr
20XX			
Jan 6	Wages	10 000	
	Bank		10 000
	PAID WAGES		

It is important to note, however, that there is no GST applicable to Wages. Payment of Wages expense is always a GST-free transaction. If a different kind of expense was being paid, GST would be involved.

Cash Purchase of Non-Current Assets

A business owner might purchase a non-current asset (such as Furniture or a Motor Vehicle) that will be used by the business but is not for re-sale. That is, it's not part of their trading inventory. Here's an example:

On 10 January 20XX, Julie purchased furniture for $5 500 cash including GST. Before we prepare the General Journal entry, we must calculate the GST component of the transaction.

The invoice price is $5 500. To determine how much of this is GST, we divide by 11.

$5\,500 \div 11 = 500$

Therefore, the cost of the furniture is 5 500 - 500 = $5 000

The General Journal would look like this:

General Journal

Date	Account Type	Dr	Cr
Jan 10	Furniture	5 000	
	Input Tax Credits	500	
	Bank		5 500
	PURCHASED NON-CURRENT ASSET		

Discounts

Sometimes when we owe people money (Accounts Payable) they might offer us a small discount as an incentive to pay the account promptly. If they consider our business to be a good customer, they may do this as a gesture of courteous business and to encourage us to continue doing business with them in the future.

When a business receives such a discount it is referred to as Discount Received. This is regarded as a form of Income to the business.

Typically, a discount will be a small percentage of the amount that is owed, such as 5%. The percentage allowed and the period stipulated in which the account should be paid (discount period) will vary from business to business. Conditions for accessing the discount will be stated on the tax invoice. Typically, the discount period will be 7 days. That is, if payment is made within 7 days of purchase, a discount will apply.

This is a practice that we too can pass on to our customers, that is, people who owe money to us (Accounts Receivable). When we allow such a discount to our customers, we refer to it as Discount Allowed. This is regarded as an Expense to the business.

Cash Paid to Accounts Payable Outside the Discount Period
Debts to Accounts Payable must be paid. Sometimes they will be paid in full, sometimes just a part payment will be made. If payment is made outside the discount period, no discount will be included in the transaction.

Let's have another look at a previous example:
On Jan 4, a business purchased $400 worth of Inventory on credit, from a business called Stock Standard. The original credit transaction recorded the GST component of the purchase.

General Journal

Date	Account Type	Dr	Cr
Jan 4	Inventory	400	
	Input Tax Credits	40	
	Accounts Payable - Stock Standard		440
	PURCHASED GOODS ON CREDIT		

On Jan 15 we make full payment to Stock Standard. This only involves the Bank account and the Accounts Payable account. The General Journal would look like this:

General Journal

Date	Account Type	Dr	Cr
Jan 15	Accounts Payable - Stock Standard	440	
	Bank		440
	PAYMENT OF STOCK STANDARD ACCOUNT		

Cash Paid to Accounts Payable Within the Discount Period
Let's look at an example of cash paid to Accounts Payable which is a little more complicated.

On 18 January 20XX, Julie paid a business called Chee Packs for two gift packs priced at $2 200 including GST. The account was paid within the discount period and saved Julie 2% on the total price (including GST).

The Input Tax Credits that Julie recorded at the time of purchase has been reduced as part of the discount so therefore the Input Tax Credits account must be reduced.

To calculate Discount Received on cash paid to Accounts Payable including the GST adjustment:

Step 1 Apply the discount percentage to the transaction amount
2 200 x 2% = $44 discount

Step 2 Remove the GST component from the discount
$44 \div 11 = \$4$
This tells us that $4 of the discount amount is GST. Therefore, the discount we're receiving is only $40. That is, 44 - 4 = $40

Step 3 Determine the amount of cash actually paid
This is equal to the transaction amount less the discount amount: 2 200 - 44 = $2 156

Before we enter this in the General Journal, let's analyse the transactions to determine how each account is affected:

The amount we owe to **Accounts Payable - Chee Packs** is decreasing. To decrease a Liability account, we **debit**.

We need to record the increase in the Income account of **Discount Received**. To increase an Income account, we **credit**.

We need to decrease the **Input Tax Credits** account by $4. To decrease an asset account, we **credit**.

The **Bank** account will show a decrease of $2 156 because we are paying that much to Accounts Payable - Chee Packs. To decrease an asset account, we **credit**.

The General Journal would look like this:

General Journal

Date	Account Type	Dr	Cr
Jan 18	Accounts Payable - Chee Packs	2 200	
	Discount Received		40
	Input Tax Credits		4
	Bank		2 156
	PAYMENT TO CHEE PACKS LESS 2% DISCOUNT		

It is important to note that when discount is involved in a transaction, the General Journal entry will involve **four** ledger accounts.

Sale of Inventory

Inventory may be sold for cash or on credit. In both instances, an asset account and an income account will be affected. The income account is Sales in both instances but when supplies are sold for credit the asset account is Accounts Receivable.

If the supplies are sold for cash, the asset account is Bank. In each instance the asset account will be debited and the income account credited.

Cash Sale of Inventory

On 5 January 20XX, Julie's Potions received $1 100 for consultation fees. Julie is registered for GST, therefore it is necessary to separate the GST from the fees. The invoice price is divided by 11 to calculate the GST. The General Journal entry for this transaction would look like this:

General Journal

Date	Account Type	Dr	Cr
Jan 5	Bank	1 100	
	Fees Income		1 000
	GST Collected		100
	CASH FEES RECEIVED		

Cash from Accounts Receivable Outside the Discount Period

Since the end of Nov 20XX, B Jones owed Julie's Potions $3 300 for supplies purchased. Remember GST is recorded at the point of sale, that is, when the supplies were invoiced to the customer and therefore requires no further entry at this point. If, however, Jones paid his account to take advantage of a discount offer then there would need to be an adjustment made to the GST.

On January 8 20XX, the business received $3 300 from B Jones in payment of the account he owes Julie. The General Journal entry would look like this:

General Journal

Date	Account Type	Dr	Cr
Jan 8	Bank	3 300	
	Accounts Receivable - B Jones		3 300
	RECEIVED PAYMENT FROM B JONES		

Cash from Accounts Receivable Within the Discount Period

If, on 8 December 20XX, B Jones pays his account to take advantage of a discount offer, he is allowed 2% discount for the prompt payment.

The discount is offered on the full amount owing and therefore an adjustment must be made to the GST component of the account.

To calculate Discount Allowed on cash received from Accounts Receivable including the GST adjustment:

Step 1 Apply the discount percentage to the transaction amount
3 300 x 2% = $66 discount

Step 2 Remove the GST component from the discount
$66 \div 11 = \$6$
This tells us that $6 of the discount amount is GST. Therefore, the discount we're allowing is only $60. That is, 66 - 6 = $60

Step 3 Determine the amount of cash actually paid
This is equal to the transaction amount less the discount amount: 3 300 - 66 = $3 234

Before we enter this in the General Journal, let's analyse the transactions to determine how each account is affected:

1. The **Bank** account will show an increase of $3 234 because we are receiving that much from Accounts Receivable - B Jones. To increase an Asset account, we **debit**.
2. The amount owed to us by **Accounts Receivable - B Jones** is decreasing. To decrease an Asset account, we **credit**.
3. We need to record the increase in the Expense account of **Discount Allowed**. To increase an Expense account, we **debit**.
4. We need to decrease the **GST Collected** account by $6. To decrease a Liability account, we **debit**.

The General Journal would look like this:

General Journal

Date	Account Type	Dr	Cr
Dec 8	Bank	3 234	
	Discount Allowed	6	
	GST Collected	60	
	Accounts Receivable - B Jones		3 300
	PAYMENT RECEIVED FROM B JONES LESS 2% DISCOUNT		

Accounting for Inventory

Inventory or stock is often the most valuable asset a business holds. Businesses often invest large sums of money to have the most appropriate variety and volume of items available for sale. The cost of the inventory is usually the highest of all expenses for any accounting period.

To ensure that the investment in inventory is well managed and controlled, a trading business must have in place an effective system which allows them to plan and control their inventory operations.

There are two systems of inventory control which have developed over time:
    1. perpetual
    2. periodic

Small businesses must make a choice between the two systems.

Service businesses such as doctors, accountants, dentists and financial advisors have no need to hold stock because they sell their expertise. Consequently, an inventory control system is not a concern for them.

However, trading and manufacturing enterprises which buy and sell, or manufacture, goods must make a decision about the most appropriate system to use.

Historically, the perpetual system was seen as a costly one which:

1.   required expensive computer equipment
2.   involved high staff training costs
3.   required expensive maintenance and repair
4.   often failed because of power outages.

On the other hand, it was seen as more efficient in terms of time.

The perpetual system was more suited to high cost low turnover items of stock such as vehicles because each time an item of stock was sold the original cost price had to be located for recording in the inventory account. However, with the refinement of equipment and the development of computerised accounting software, the perpetual system is more widely used.

Many businesses, regardless of the type of stock being traded, now believe that the cost of maintaining the perpetual system is outweighed by the benefits that the efficiency of the system affords them in terms of preparing accounting reports.

The system chosen will affect the recording process and the types of accounts which will be opened for processing inventory data in the books of account. The system which we will use in this module of work is the perpetual system.

Perpetual versus Periodic System of Managing Inventory
The Perpetual System

The perpetual system of managing and recording inventory makes provision for every transaction involving all varieties of inventory to be recorded at the point of sale in an account which relates to a particular product.

Using a computerised accounting system, the perpetual method tracks the purchase and sale of each type of inventory and maintains an Inventory Control account as a summary of the total inventory transactions. This provides the business with a current inventory and cost of sales figure for the preparation of general-purpose financial reports at any point in time.

A physical stocktake remains essential at least once per year to verify the accuracy of the inventory account figures and to check for loss and damage to items of stock. The computerised perpetual system informs the business of what *should* be on the shelf but not what *is* on the shelf.

The perpetual method of inventory control with which you are most likely to be familiar is the one you see at the checkouts of supermarkets. The cash register, which is a data terminal linked to a computer network, uses an optical scanner to read bar-coded information into the inventory and accounting records. The data entry terminals also support the ordering of inventory items as they reach minimum levels, record GST inputs and outputs and facilitate the preparation of the general purpose financial reports.

The Periodic or Physical System

If a computerised system of managing and controlling inventory is not available to businesses which trade in a large variety and a high volume of low-cost goods such as nails, nuts and bolts or fruit and vegetables, the perpetual system may still prove too costly and time consuming to use.

Businesses in this position will generally opt to use a periodic or physical inventory system which relies on a regular physical stocktake to ensure that inventory values are available for recording in the inventory account.

Under this system a stocktake must be carried out to establish the value of stock before the general purpose financial reports can be prepared. Applying this system ensures that the figures in the inventory account match the value of inventory available for sale.

The need to carry out a stocktake to establish closing inventory and the cost of sales before the general purpose financial reports can be prepared can prove costly if there is a need to interrupt trading by closing the firm and/or employing additional staff.

Journalising Credit Transactions

Most firms offer their trading partners a period of time to pay for goods or services after the supplies have changed hands. The period of time allowed for payment of accounts is known as the credit period. The accepted credit period is 30 days but, unless businesses aim to claim the discounts for prompt payment, the credit period may be prolonged.

Offering credit gives rise to the accrual accounting system. This system of recording financial data (which you will be using) stipulates that income and expenses are recognised when the goods or services change hands, not when the transaction is completed by the transfer of cash. It also results in the need to match the income earned for a period, whether the cash has been received or not, with the expenses incurred in earning the income, whether paid or not.

Credit Sales and Returns of Inventory
When a sale of inventory is made, a tax invoice will be forwarded to the customer giving full details of the transaction including the amount of GST charged.

The business will record the transaction in the General Journal from the duplicate tax invoice.

Remember - when writing general journal entries, the debit entries must be written first and the credit entries indented.

The credit sales transaction will affect three ledger accounts:
1. Accounts Receivable
2. Sales
3. GST Collected

The Accounts Receivable account will be debited with the full *price* of the goods on the tax invoice, the Sales account credited with the *value* of the goods and GST Collected credited with the GST which was added to the value of the goods.

Sales of Inventory transactions are special, in that a second entry must be made in the General Journal. If a business has sold items of inventory, the cost of that sale must be removed from the Inventory account (to recognise that those goods have been sold) and to recognise that Cost of Sale is an expense to the business.

The book entry will affect two ledger accounts:
1. Cost of Sales
2. Inventory

The Cost of Sales expense account will be debited with the value of the goods sold and the Inventory account will be credited to remove the value of the goods from the inventory.

Example - Journalising Credit Sales

On 15 February 20XX, Julie's Potions sold inventory/goods on credit to B Brown for $220 including GST. The goods cost Julie $100 to produce.

- The account of Accounts Receivable - B Brown will be increased by the full price of the goods $220
- Sales will be increased by the *value* of the goods $200 without GST
- GST Collected will be increased by 10% of the value of the goods: 220 x 10% = $20

The General Journal would appear as follows:

General Journal

Date	Account Type	Dr	Cr
Feb 15	Accounts Receivable - B Brown	220	
	Sales		200
	GST Collected		20
	SOLD INVENTORY ON CREDIT		
	Cost of Sales	100	
	Inventory		100
	REMOVE COST OF SALES FROM INVENTORY		

Example - Journalising Returns of Inventory

Have you ever returned an item to a store because it was unsuitable? Perhaps it was an item of clothing that didn't fit? This happens in business too. Sometimes the goods may arrive damaged, or they may be faulty. Sometimes, they may simply be unsuitable. If this is the case, the customer usually has the option to return the goods.

When this happens, we effectively have to 'un-do' the original entry that was made. For example, let's presume that on 20 February B Brown returned to Julie's Potions the goods which were sold on 15 February as they were unsatisfactory. We need to record the return of goods in the Sales Returns account. This is a negative Income account as it ultimately decreases the value of Sales.

The General Journal would look like this:

General Journal

Date	Account Type	Dr	Cr
Feb 15	Sales Returns	200	
	GST Collected	20	
	Accounts Receivable - B Brown		220
	RETURN OF INVENTORY ORIGINALLY SOLD ON CREDIT		
	Inventory	100	
	Cost of Sales		100
	GOODS RETURNED TO INVENTORY		

Credit Purchases and Returns of Inventory
When a firm purchases inventory a tax invoice will be received setting out the details of the value of the goods, the GST charged and the total price. The business will record the transaction in the General Journal from the original tax invoice.

Remember when writing General Journal entries, the debit entry must be written first and the credit entry or entries should be indented.

A purchase transaction will affect three ledger accounts:
- Accounts Payable
- Inventory
- Input Tax Credits

The Inventory account will be debited with the cost of the goods, the Input Tax Credits account with the GST charged and the Accounts Payable accounts with the full price of the tax invoice.

Example - Journalising Credit Purchases and Returns
On 1 March 20XX, Julie's Potions purchased *ten* presentation packs priced at $660 each, including GST, from Chee Packs.

To record the transaction:
- The Inventory account will be increased with the *value* of the goods $6 000 (price less GST)
- The Input Tax Credits will be increased with the GST charged on the tax invoice $600 on each chair
  $(6\,600 \div 11 = \$600)$
- Accounts Payable - Chee Packs account will be increased with the full price of the transaction.

The General Journal would look like this:

General Journal

Date	Account Type	Dr	Cr
Mar 1	Inventory	6 000	
	Input Tax Credits	600	
	Accounts Payable - Chee Packs		6 600
	PURCHASE OF INVENTORY ON CREDIT		

On March 10, Julie's Potions returned two presentation packs which had been damaged during delivery. Before we can prepare the General Journal entry, we need to calculate how much the Accounts Payable accounts will be reduced by:

- 2 packs returned @ $660 each = $1 320. This figure includes GST, so we need to remove the GST component:
- $1\,320 \div 11 = \$120$ GST
- Therefore, the cost of the inventory returned = 1 320 - 120 = $1 200

The General Journal would look like this:

General Journal

Date	Account Type	Dr	Cr
Mar 10	Accounts Payable - Chee Packs	1 320	
	Inventory		1 200
	Input Tax Credits		120
	RETURN OF INVENTORY PREVIOUSLY PURCHASED ON CREDIT		

Journalising Other Transactions

The buying and selling of inventory, payment of expenses and the receipt of cash are the operating transactions which occur daily in the life of a business, but there are other transactions which occur less frequently that are just as important and need to be processed in the General Journal.

For instance:
- writing off bad debts
- purchasing non-current assets not for resale, on credit
- withdrawal of inventory by the owner (Drawings)
- correction of errors (corrections will be dealt with later in the unit)
- closing the ledger at the end of the accounting period (to be dealt with when we close the ledger).

Writing Off Bad Debts

Bad debts arise out of a business's decision to offer credit to its customers. Businesses generally have in place, as part of their internal control, policies and procedures for ensuring that their trading partners meet their obligations. However, there will always be those who do not pay their accounts.

Bad Debts are those amounts that a business has decided, after applying its credit collection policies, will not be received from its trading partners and accepts that they should be written off against income.

To write off a Bad Debt, the Accounts Receivable account will be closed and therefore decreased to a balance of zero and the Bad Debts account will be increased.

Example

On 15 March 2020 Julie's Potions decides to write off B Brown's unpaid account for $330 including GST.
- First, let's calculate the GST component of the transaction:
- $330 \div 11 = \$30 \text{ GST}$
- Therefore, the Bad Debt is worth 330 - 30 = $300
- The account of Accounts Receivable - B Brown will be reduced by the full amount of the transaction.
- GST Collected will be reduced by $30.

The General Journal would look like this:

General Journal

Date	Account Type	Dr	Cr
Mar 15	Bad Debts	300	
	GST Collected	30	
	Accounts Receivable - B Brown		330
	BAD DEBT WRITTEN OFF		

Purchase of a Non-Current Asset on Credit

Non-current assets such as machinery, office equipment, furniture and vehicles are purchased by businesses to assist in the earning of income. Items such as those mentioned are purchased to assist in earning income over a number of accounting periods and are not part of the everyday trading inventory. This type of asset is known as a non-current asset.

Assets such as cash and inventory will be turned over within a short period of time. This type of asset is known as a current asset.

The easiest way to remember this is to think of the number 12. Typically, Current Assets are those that a business would keep for less than 12 months. For example, if you owned a grocery store that involved selling fresh fruit and vegetables, you would hope that you would sell your inventory relatively quickly. You certainly do not want rotten apples sitting on your shelves - you want to sell inventory within 12 months.

If, however, you purchased a motor vehicle so you could make deliveries, you probably intend to own that vehicle for more than 12 months. Assets that we own for a period of more than 12 months are referred to as Non-Current Assets.

With the purchase of a non-current asset, the asset account will be increased, a liability account increased and the GST increased.

Example

On 13 March, 20XX Julie purchased a computer from J Ang for $4 400 including GST.

Firstly, let's calculate how much GST is involved in this transaction:

$4\ 400 \div 11 = \$400\ GST$

Therefore, the cost of the computer is 4 400 - 400 = $4 000

The General Journal would look like this:

General Journal

Date	Account Type	Dr	Cr
Mar 13	Office Equipment	4 000	
	Input Tax Credits	400	
	Accounts Payable - J Ang		4 400
	PURCHASED NON-CURRENT ASSET ON CREDIT		

In this instance, the computer has been grouped into an account called Office Equipment. This would probably involve a variety of different items such as a cash register, fax machine, printer and so on. This is done to minimise the number of accounts needed in the general ledger.

Withdrawal of Inventory for Personal Use - Drawings
Owners often withdraw cash or a part of the trading inventory of their business for personal use. The withdrawals are regarded as part of the profits which are predicted for the period. The owner is entitled to withdraw cash or inventory for personal use because the Capital figure represents an amount of money that the business owes to the owner.

The Accounting Entity Assumption states that the financial records of the owner and those of the business should be kept separately, so anything taken from the business by the owner, whether it be cash or inventory, must be legitimately recorded as Drawings in the business records. The owner can't just take cash wherever he/she sees fit, it must be recorded as an official transaction so that the Capital figure is accurate.

Example
On 18 March 20XX, Julie withdrew goods priced at $550 including GST for her personal use.

Note: When a business purchases inventory, an entitlement to a claim for GST will be recorded in the Input Tax Credits account. When the owner withdraws Inventory, the business is no longer entitled to claim the associated tax credits because the purchase is not now business related. The Input Tax Credits account must be decreased with a credit entry.

First, let's do the calculation:
$550 / 11 = $50 GST

Therefore, the value of the Inventory is 550 - 50 = $500

The General Journal would look like this:

General Journal

Date	Account Type	Dr	Cr
Mar 18	Drawings	550	
	Inventory		500
	Input Tax Credits		50
	OWNER WITHDREW INVENTORY FOR PERSONAL USE		

Sale of Inventory for Cash

Goods sold for cash are processed in the same manner as those sold on credit. The difference being that the asset account affected with a credit sale is the person to whom the inventory was sold (Accounts Receivable) but the asset account affected by the cash transaction is Bank.

Both of these accounts would be increased therefore a Dr entry made in the account. In both instances the cost of the sale must be removed from the Inventory account.

Example

On March 25, 20XX Julie sold a product priced at $3 000 for cash. GST has not yet been included. The cost of the product to Julie was $1 500.

As GST has not been included, we must first calculate this and add it to the cost of the product to determine the invoice price.

3 000 x 10% = $300 GST
Therefore, the Invoice Price is 3 000 + 300 = $3 300.

The General Journal would look like this:

General Journal

Date	Account Type	Dr	Cr
Mar 25	Bank	3 300	
	Sales		3 000
	GST Collected		300
	GOODS SOLD FOR CASH		
	Cost of Sales	1 500	
	Inventory		1 500
	REMOVE COST OF SALES FROM INVENTORY		

Correction of Errors

When an error is detected soon after it has been made, that is, before it has affected subsequent entries in the recording process, a line can be drawn through the error and the correction made above it. Erasing or white-out of any kind is not acceptable as this may indicate an attempt to deceive either by the person preparing the records or an unauthorised person.

When errors are detected through the Trial Balance or other means and, after subsequent records have been affected, the errors are corrected through the General Journal.

Each error must be examined individually to establish the effect it has had on the accounts. A General Journal entry will be written to cancel the effect of the error and restore the accounts to their correct balance.

Look at the following examples of errors that were detected in the records of Smithy and what was done to correct them:

Wrong Amount Recorded

On June 28, it was realised that an amount of $690 paid to an Accounts Payable - Ashbrook Enterprises, had been recorded as $590. To correct this error, ask yourself these questions:

1. **What happened?** (in terms of debits and credits).
   Dr Accounts Payable - Ashbrook Enterprises $590
   Cr Bank $590

2. **What should have happened?** (in terms of debits and credits).
   Dr Accounts Payable - Ashbrook Enterprises $690
   Cr Bank $690

Can you see that the correct accounts have been affected, but by $100 too little?

The following General Journal entry would be made to correct the error.

General Journal

Date	Account Type	Dr	Cr
June 28	Accounts Payable - Ashbrook Enterprises	100	
	Bank		100
	CORRECTION OF ERROR		

Sale Recorded in Wrong Account

On April 15, it was discovered that Inventory of $440 sold on credit to Cam Shane had been recorded as being sold to Sam Shane.

1. **What happened?**
   Dr Accounts Receivable - Sam Shane $440
   Cr GST Collected $40
   Cr Sales $400

2. **What should have happened?**
   Dr Accounts Receivable - Cam Shane $440
   Cr GST Collected $40
   Cr Sales $400

Can you see that both the GST Collected account and the Sales account have been dealt with correctly? It's just the Accounts Payable accounts that need to be corrected.

Cam Shane's account needs to be debited by $440.

We need to remove the $440 from Sam Shane's account. This was debited originally, so to fix this we make a credit entry.

The following General Journal entry would be made to correct the error:

General Journal

Date	Account Type	Dr	Cr
April 15	Accounts Receivable - Cam Shane	440	
	Accounts Receivable - Sam Shane		440
	CORRECTION OF ERROR		

Purchase Not Recorded

On Feb 14, it was discovered that a credit purchase of a computer for $1 100 from Sea Boss had not been recorded in the journal.

In this case, if a transaction has been omitted from the General Journal, you simply record the transaction.

Firstly, let's calculate the GST:
$1\ 100 \div 11 = 100$
Therefore, the value of the computer = 1 100 - 100 = $1 000

The following General journal entry would be made to correct the error.

General Journal

Date	Account Type	Dr	Cr
Feb 14	Computer	1 000	
	Input Tax Credits	100	
	Accounts Payable - Sea Boss		1 100
	CORRECTION OF ERROR		

Transposition Error

A transposition error occurs when figures are mixed around in an incorrect order.

For example, instead of writing $840, the figure is written as $480.

Let's look at a specific example of how this can occur in a transaction:

On April 30, it was realised that an amount of $690 that was received from an Accounts Receivable - M Beach had been recorded as $960.

1. **What happened?**
    Dr Bank $960
    Cr Accounts Receivable - M Beach $960

2. **What should have happened?**
    Dr Bank $690
    Cr Accounts Receivable - M Beach $690

Can you see that too much money has been entered in both accounts? 960 - 690 = $270. We need to remove $270 from each of these accounts.

Therefore, we need to make the opposite entry that was originally made. That is:
    Dr Accounts Receivable - M Beach $270
    Cr Bank $270

The following General Journal entry would be made to correct the error.

General Journal

Date	Account Type	Dr	Cr
April 30	Accounts Receivable - M Beach	270	
	Bank		270
	CORRECTION OF ERROR		

Topic: The General Journal

Section 3: Activities Section

- *This section includes activities and exam style questions relevant to this topic.*

- *The solutions are included after each question.*

- *Attempt the question and then use the solution to assess your performance and revise.*

Question 1: Opening Entry

Using the following information, which was extracted from a source document, use the transaction analysis chart to assist in preparing a General Journal entry to enable Bill Byers to commence business. Complete the transaction analysis chart and the General Journal below.

On 20 May 2020 Bill Byers contributed inventory valued at $80 000 to enable his business, Bill Byers Trading, to commence trading.

Transaction Analysis Chart

Name of account/s affected	What type of account/s are these?	What type of balance do these account/s have?	Will the account/s be increased or decreased?	Amount	Type of entry needed to increase or decrease the account?	
					Dr	**Cr**

General Journal
Bill Byers Trading

Date	Account Type	Dr	Cr

Question 1 Solution

Transaction Analysis Chart

Name of account/s affected	What type of account/s are these?	What type of balance do these account/s have?	Will the account/s be increased or decreased?	Amount	Type of entry needed to increase or decrease the account?	
					Dr	**Cr**
Inventory	A	Dr	Increase	80 000	80 000	
Capital	Eq	Cr	Increase	80 000		80 000

General Journal
Bill Byers Trading

Date	Account Type	Dr	Cr
2020			
May 20	Inventory	80 000	
	Capital		80 000
	Assets and equity at commencement of business		

Question 2: A more complex Opening Entry

On 1 January 2020, Julie Ong, decided to commence business trading as Julie's Potions. Julie commenced business with the following assets and liabilities:

Furniture $20 000, Equipment $70 000, Bank $10 000, Loan from WA Bank $30 000

> **Hint** Don't forget to calculate the Capital figure using the accounting equation.

- Prepare a transaction analysis chart for Julie (A transaction analysis chart has been provided).
- Prepare the General Journal entry for Julie.

Transaction Analysis Chart

Name of account/s affected	What type of account/s are these?	What type of balance do these account/s have?	Will the account/s be increased or decreased?	Amount	Type of entry needed to increase or decrease the account?	
					Dr	**Cr**

General Journal
Julie's Potions

Date	Account Type	Dr	Cr

Question 2 Solution

General Journal
Julie's Potions

Date	Account Type	Dr	Cr
2020			
Jan 01	Bank	10 000	
	Equipment	70 000	
	Furniture	20 000	
	Loan		30 000
	Capital		70 000
	Assets, liabilities and equity at commencement of business.		

Question 3: Discounts

Enter a variety of cash transactions into the General Journal of Julie's Potions.

You must complete the GST and discount calculations in writing before you prepare the General Journal entries.

The following is a list of transactions Julie conducted during the month of June 2020.

2020 June 11	Received $2 200 cash (incl GST) for consultation Fees
12	Received $1 000 for interest on investments
15	Received $6 468 in settlement of an account by T. Tims. Tims' account is for $6 600 worth of goods including GST. A discount of 2% was given to Tims for prompt payment of his account. (amounts incl GST)
20	Julie withdrew $500 to purchase a gift for her partner.
25	Paid cash for advertising $660 including GST.
28	Purchased inventory for cash $1 100 including GST
29	Paid S Smith's account and received 2% discount on $7 700 which included GST on the inventory purchased.
30	Purchased a computer and photocopier for the office (Office Equipment) A$9 900 including GST.

WORKINGS:

General Journal
Julie's Potions

Date	Account Type	Dr	Cr

Question 3 Solution

General Journal
Julie's Potions

Date	Account Type	Dr	Cr
2020			
June 11	Bank	2 200	
	Fees		2 000
	GST Collected		200
	Cash received for consultation fees		
12	Bank	1 000	
	Interest on Investment		1 000
	Interest received on investment		
15	Bank	6 468	
	Discount Allowed	120	
	GST Collected	12	
	T Tims		6 600
	T Tims' account settled, discount allowed at 2% for prompt payment, GST collected adjustment		
20	Drawings	500	
	Bank		500
	Julie withdrew $500 for personal use		
25	Advertising	600	
	Input Tax Credits	60	
	Bank		660
	Paid cash for advertising and Input Tax Credits		
28	Inventory	1 000	
	Input Tax Credits	100	
	Bank		1 100
	Purchase of new inventory for cash		

29	Smith	7 700	
	Discount Received		140
	Input Tax Credits		14
	Bank		7 546
	Payment of Smith's account, Discount receieved at 2% for prompt payment and adjustment to Input Tax Credits		
30	Office Equipment	9 000	
	Input Tax Credits	900	
	Bank		9 900
	Purchase of computer and photocopier for cash including GST		

Question 4: Perpetual versus Periodic Systems of Inventory

Complete the table to describe some of the advantages and disadvantages of the two systems of inventory control.

System	Advantages	Disadvantages
Perpetual		
Periodic		

Question 4 Solutions

System	Advantages	Disadvantages
Perpetual	- Inventory records are updated automatically at point of sale - Accounting reports can be automatically generated - A current inventory figure is available at any time - Purchases of inventory can be made more efficiently	- Can be costly to set up - Staff need to be trained to use technology - The system is susceptible to viruses and security issues due to the reliance on technology - Only indicates what should be on the shelf, not what is on the shelf - Physical stocktake still required each year to verify accuracy
Periodic	- No costly set up - Value of inventory available for sale should match the figures in the inventory ledger account	- Physical stocktake must be carried out each year to determine inventory value - Stocktake can be costly and time consuming if the business needs to close or extra staff are needed

Any other reasonable responses are acceptable

Question 5: Returns of Inventory

Complete the General Journal entries necessary to record the following transactions in the records of Seaboard Enterprises:

On 1 March 2020 Seaboard Enterprises sold *five* surfboards on credit priced at $5 500 to The Board Shop. The boards cost Seaboard $600 each to manufacture.

On 5 March, The Board Shop returned *one* surfboard which had been scratched during delivery.

(Remember you will need to use the cost of the individual board to complete the second entry).

Transaction Analysis Chart

Name of account/s affected	What type of account/s are these?	What type of balance do these account/s have?	Will the account/s be increased or decreased?	Amount	Type of entry needed to increase or decrease the account?	
					Dr	Cr
Sale of the boards						
Entry 1						
Entry 2						

Return of the boards

Entry 1					
Entry 2					

General Journal
Seaboard Enterprises

Date	Account Type	Dr	Cr

Question 5 Solution

Name of account/s affected	What type of account/s are these?	What type of balance do these account/s have?	Will the account/s be increased or decreased?	Amount	Type of entry needed to increase or decrease the account?	
					Dr $	Cr $
Sale of the boards						
Entry 1						
Accounts Receivable - The Board Shop	A	Dr	Increased	5 500	5 500	
GST Collected	L	Cr	Increased	500		500
Sales	I	Cr	Increased	5 000		5 000
Entry 2						
Cost of Sales	E	Dr	Increased	3 000	3 000	
Inventory	A	Dr	Decreased	3 000		3 000
Return of the boards						
Entry 1						
Sales Returns	-ve I	Dr	Increased	1 000	1 000	
GST Collected	L	Cr	Decreased	100	100	
Accounts Receivable - The Boards Shop	A	Dr	Decreased	1 100		1 100
Entry 2						
Inventory	A	Dr	Increased	600	600	
Cost of Sales	E	Dr	Decreased	600		600

Question 5 Solution Continued

General Journal
Seaboard Enterprises

Date	Account Type	Dr	Cr
Mar 1	Accounts Receivable - The Board Shop	5 500	
	GST Collected		500
	Sales		5 000
	SOLD GOODS ON CREDIT		
	Cost of Sales	3 000	
	Inventory		3 000
	REMOVE COST OF SALES FROM INVENTORY		
Mar 5	Sales Returns	1 000	
	GST Collected	100	
	Accounts Receivable - The Board Shop		1 100
	GOODS SOLD PREVIOUSLY ON CREDIT WERE RETURNED		
	Inventory	600	
	Cost of Sales		600
	RETURN GOODS TO INVENTORY		

Question 6: Credit Purchase and Returns

Journalising Credit Purchases and Returns
Record the following transactions in the records of Seaboard Enterprises.

On 7 April 2020, Seaboard Enterprises purchased *four* surfboards from Board Manufacturers. The goods were delivered and accompanied by tax invoice number BM 0001 with a total price of $8 800.

On 12 April, Seaboard Enterprises returned *one* surfboard which had been scratched during delivery.
Note:
To make it easier for yourself and if you feel you need to, complete the transaction analysis chart for:
1. adding the cost of inventory to the Inventory account
2. recording the Input Tax Credits
3. recording the purchase in Accounts Payable.

General Journal
Seaboard Enterprises

Date	Account Type	Dr	Cr

Question 6 Solution

General Journal
Seaboard Enterprises

Date	Account Type	Dr	Cr
April 7	Inventory	8 000	
	Input Tax Credits	800	
	Accounts Payable - Board Manufacturers		8 800
	Purchased Inventory on credit		
April 12	Accounts Payable - Board Manufacturers	2 200	
	Inventory		2 000
	Input Tax Credits		200
	Return damaged goods		

Question 7: Withdrawal of Inventory for Personal Use

Record the following transactions in the records of Seaboard Enterprises:

- On 20 May 2020, Seaboard Enterprises purchased machinery for $5 000 plus GST from Board Manufacturers.

- On 21 May, the owner of the enterprise took a surfboard home for his daughter's birthday gift. The board cost the business $2 200 (including GST).

**General Journal
Seaboard Enterprises**

Date	Account Type	Dr	Cr

Question 7 Solution

General Journal
Seaboard Enterprises

Date	Account Type	Dr	Cr
2020			
May 20	Machinery	5 000	
	Input Tax Credits	500	
	Board Manufacturers		5 500
	Purchase of machinery on credit from Board Manufacturers		
21	Drawings	2 200	
	Inventory		2 000
	Input Tax Credits		200
	Withdrawal of inventory for personal use		

Question 8: Sale of Inventory for Cash

Jay Peg opened her computer supplies and service business on 1 April 2020.

You are required to enter the transactions for the month of April into the General Journal of JPeg Enterprises.

Date	Transaction
April 1	Jay Peg prepared to commence business by contributing $40 000 cash and a $30 000 vehicle to the business. During the afternoon of 1 April Jay purchased an office computer for $5 000 plus GST and a computer desk and chair for $2 200 incl. GST. Jay paid for the equipment and furniture using a cheque
2	Purchased inventory $11 000 incl. GST on credit from W Docks and Co. Tax invoice number WD 4532.
3	Sold inventory valued at $3 000 for cash. On checking the inventory records the inventory sold cost JPeg $1 000.
4	Returned damaged inventory priced out at $1 100 to W Docks and Co. Cash received from X Sell for desktop publishing fees $220.
5	Sold three computers to P D Form and Sons tax invoice number JP0001 $9 900. The cost of each computer was $1 000
8	Paid W Docks account $9 900 incl. GST. 2% discount received for early settlement.
9	Withdrew inventory for personal use $110.
13	Received $4 312 from P D Form and Sons in full settlement of their March account $4 400.

WORKINGS:

General Journal
JPeg Enterprises

Date	Account Type	Dr	Cr

Question 8 Solution

Workings:

April 1 $5\,000 \times 0.1 = \$500\ GST$
$2\,200 \div 11 = \$200\ GST$ Total GST = \$700

April 2 $11\,000 \times 0.1 = \$1\,000\ GST$

April 3 $3\,000 \times 0.1 = \$300\ GST$

April 4 $1\,100 \div 11 = \$100\ GST$
$220 \div 11 = \$20\ GST$

April 5 $9\,900 \div 11 = \$900\ GST$

April 8 $9\,900 \times 0.02 = \$198\ Discount$
$198 \div 11 = \$18\ GST$
$Bank = 9\,900 - 198 = \$9\,702$

April 9 $110 \div 11 = \$10\ GST$

April 13 $4\,400 - 4\,312 = \$88\ discount$
$88 \div 11 = \$8\ GST$

Question 8 Solution continued

General Journal
JPeg Enterprises

Date	Account Type	Dr	Cr
April 1	Bank	40 000	
	Vehicle	30 000	
	Capital		70 000
	Assets and Equity at commencement of business		
	Office Equipment	5 000	
	Office Furniture	2 000	
	Input Tax Credits	700	
	Bank		7 700
	Purchased non-current assets for cash		
April 2	Inventory	10 000	
	Input Tax Credits	1 000	
	Accounts Payable - W Docks and Co		11 000
	Purchased inventory on credit		
April 3	Bank	3 300	
	Sales		3 000
	GST Collected		300
	Sold inventory for cash		
	Cost of Sales	1 000	
	Inventory		1 000
	Remove cost of sales from inventory		

Question 8 Solution continued

Date	Account Type	Dr	Cr
April 4	Accounts Payable - W Docks and Co	1 100	
	Inventory		1 000
	Input Tax Credits		100
	Returned Damaged goods		
	Bank	220	
	Fees		200
	GST Collected		20
	Received Cash Fees		
April 5	Accounts Receivable - PD Form and Sons	9 900	
	Sales		9 000
	GST Collected		900
	Sold inventory on credit		
	Cost of sales	3 000	
	Inventory		3 000
	Remove cost of sale from inventory		
April 8	Accounts Payable - W Docks and Co	9 900	
	Discount Received		180
	Input Tax Credits		18
	Bank		9 702
	Payment to Accounts Payable with 2% discount		
April 9	Drawings	110	
	Input Tax Credits		10
	Inventory		100
	Owner withdrew inventory for personal use		
April 13	Bank	4 312	
	Discount Allowed	80	
	GST Collected	8	
	Accounts Receivable - PD Form and Sons		4 400
	Payment received from Accounts Receivable		

Question 9: Correction of Errors

On 30 November 20XX, Smithy Pty Ltd found that he had made the following errors in his accounting records.

- $500 paid for Rent had been incorrectly charged to the Rates account.
- An amount of $750 had been received from Accounts Receivable - B Gets but was recorded as $570.
- An amount of $450 received from Accounts Receivable - D Gilmour had been recorded as $550.
- Inventory sold to Accounts Receivable - Jim Jones for the amount of $2 200 including GST had been recorded in Accounts Receivable - Jill Jones account.

The ledger accounts have been provided for you – these contain some information from previous transactions.

Write the General Journal entries necessary to make the corrections to the accounts.

General Journal
Smithy Pty Ltd

Date	Account Type	Dr	Cr

Question 9 Solution

General Journal
Smithy Pty Ltd

Date	Account Type	Dr	Cr
Nov 30	Rent	500	
	Rates		500
	CORRECTION OF ERROR		
	Bank	180	
	Accounts Receivable - B Gets		180
	CORRECTION OF ERROR		
	Accounts Receivable - D Gilmour	100	
	Bank		100
	CORRECTION OF ERROR		
	Accounts Receivable - Jim Jones	2 200	
	Accounts Receivable - Jill Jones		2 200
	CORRECTION OF ERROR		

Question 10

General Journal – Bad Debts
Complete the following General Journal entries to write off Bad Debts:

Part (a)
On Feb 2 Sheehan Industries wrote off K Schoultz as a bad debt. Schoultz owed $495

Workings:

General Journal

Date	Account Title	Dr	Cr

Part (b)
On March 15 Harper & Associates wrote off a Bad Debt – C Toms was declared bankrupt and unable to pay his $1 694 debt.

Workings:

General Journal

Date	Account Title	Dr	Cr

Part (c)

On March 30 Watsons Repairs wrote off a Bad Debt – Corbett Traders owed them $2 970 but is unable to pay his debt.

Workings:

General Journal

Date	Account Title	Dr	Cr

Question 10 Solution

Part (a)
On Feb 2 Sheehan Industries wrote off K Schoultz as a bad debt. Schoultz owed $495

Workings:
495 / 11 = $45 GST   Bad Debts = 495 – 45 = $450

General Journal

Date	Account Title	Dr	Cr
Feb 2	Bad Debts	450	
	GST Collected	45	
	Acc Rec – K Schoultz		495
	BAD DEBT WRITTEN OFF		

Part (b)
On March 15 Harper & Associates wrote off a Bad Debt – C Toms was declared bankrupt and unable to pay his $1 694 debt.

Workings:
1 694 / 11 = $154 GST   Bad Debts = 1 694 – 154 =$1 540

General Journal

Date	Account Title	Dr	Cr
March 15	Bad Debts	1 540	
	GST Collected	154	
	Acc Rec – C Toms		1 694
	BAD DEBT WRITTEN OFF		

Part (c)

On March 30 Watsons Repairs wrote off a Bad Debt – Corbett Traders owed them $2 970 but is unable to pay his debt.

Workings:

2 970 / 11 = $270 GST   Bad Debts = 2 970 – 270 = $2 700

General Journal

Date	Account Title	Dr	Cr
March 30	Bad Debts	2 700	
	GST Collected	270	
	Acc Rec – Corbett Traders		2 970
	BAD DEBT WRITTEN OFF		

END OF CURRENT TOPIC

Please access the other Resource Packages provided which cover other topics from Unit 1.