Source Documents

It is important for documentation to be properly completed and filled in for 2 main reasons:

1. The documents provide information to enable a business to record its transactions and ultimately prepare its financial statements.
2. The documents provide proof that the transaction did occur. This is important in the event of a disagreement with a customer, supplier or the bank.

We are going to be looking at 4 source documents:

1. The receipt
2. Cash slip
3. Deposit slip
4. Withdrawals

The Receipt

This document is used to record monies that have been received by a business:

The design of the receipt may take many different forms. A receipt is printed in duplicate. The customer usually gets the original. The business keeps the copy.
The Cash Slip

This document is similar to the receipt, except that it is used in a retail business to record the goods sold to a customer for cash.

Cash slips take many forms. Books of cash invoices and sales may be purchased at a stationery shop. Businesses may also have their own cash invoices or they might having a specially programmed cash register to print out the individual receipts which is often the case in today's world.

It is important that the cash slips are numbered so that the owner of the business can account for every sale and ensure that the cash received for the sale of goods is banked. Cash slips are prepared in duplicate. The customer will keep one as proof of the transaction and the business will keep one for internal control purposes and for the purpose of writing up the books.

Deposit Slip

The document that is used when depositing cash or cheque into a bank account is called a deposit slip. These are provided free of charge by th banks. Important points concerning the deposit slip:

- The deposit slip is prepared in duplicate. The banks keep the original. The bank uses this to update customer accounts. The customer keeps a copy that is stamped by the bank to confirm that the money has been deposited. The copy enables the customer to check the banks records when he receives a bank statement at the end of the month.
- There is one line on the deposit slip for cash deposited while details have to be completed for each cheque received from other people.
Withdrawals

The means of withdrawal depends on the type of bank account opened. In case of a normal savings account a withdrawal slip is used.

Withdrawals from a bank account by cheque-

Most businesses make use of the cheque (current account) when making payments. Funds are deposited into this type of bank account in the normal way, but there is difference with regard to the withdrawal of funds. The bank will issue its customer with a cheque book that will contain a number of cheques, numbered in sequence.

Whenever the bank customers wants to withdraw funds from his account, he writes out a cheque and presents it to the bank. Or he writes out a cheque and gives it to a 3rd party who will then cash the cheque at your bank or deposit it into his account. An example of a cheque is as follows:
Important features of the cheque:

- The payer keeps a record of the transactions on the cheque counterfoil or stub which is on the left hand side. He will use this to check the banks records when he receives a bank statement at the end of the month. The payer detaches the cheque from the counterfoil and presents this when he uses his funds.

- When cash is withdrawn the instruction to the bank will be to pay ‘cash’. Banks will only allow cash cheques to be withdrawn at the domicile bank. If you wish to use your own cheque to withdraw cash, you may do so at your own branch but you will be required to produce proof of identification. One should be very cautious about writing cash cheques as anyone who has this in their possession can cash this cheque.

- When funds are paid directly over to another person, that person’s name will appear as the payee (ie the person receiving the payment)

- 0001 = the number of the cheque. This appears on the cheque as well as the cheque counterfoil and they run in sequence.

- 782143 = the branch code

- 1005682166 = the cheque account number for J Jones

- The bank will check that the amount in words will agree with the amount in figures, and that the signature is genuine, and that the date of the cheque was not issued more than 6 months in the past. If the bank is not satisfied that these criteria have been met, they will not pass the cheque.

- It is possible to place a ‘restrictive crossing’ on the cheque to indicate to the bank that the cheque must be deposited only into the bank account of the payee reflected on the cheque. In such cases the words ‘or bearer’ must be crossed out, and the words ‘not transferable’ must be indicated on the cheque. If an error is made on the cheque, the cheque must be cancelled and a new cheque issued.
Withdrawal of funds from a bank by cash card-

Instead of withdrawing cash by cheque or withdrawal slip, it is possible to obtain a cash card from the bank for this purpose. This card has to be kept extremely secure as it enables a person to withdraw cash from their bank account by using an Automated Teller Machine or ATM. The card has a magnetic strip that stores information of a person’s Personal Identification Number (PIN) to act as a security against unauthorised use. If a card is lost it must be reported immediately to prevent any potential fraud occurring. The withdrawer will receive a printed slip when they withdraw cash from an ATM. He/she can use this slip to check the banks records when they receive their bank statement at the end of the month.

Journals

One of the problems with recording entries in the spreadsheet is that it does not always give you the information that you require. A very large number of entries will accumulate over a period of time. A systems of journals have been introduced to solve this problem. Different journals are used to record similar types of entries eg. Cash entries are in a different journal to credit entries. Credit entries can even be split up into credit purchases and credit sales. Totals of these journals are easier to see. Using journals allows people using them to have access to much more information. The journals also form part of the financial records but it is not necessary to keep these for a long period of time.

Cash Journals

For now we are going to look at the two cash journals that are used in a business:

- **Cash receipts journal (CRJ)** in which all cash received is recorded
- **Cash Payment Journal (CPJ)** in which all cash payments are recorded

Cash Receipts Journal

All cash received is recorded here. A trader usually receives cash from the following sources:

- Service fees received from clients for services rendered
- Cash received from customers who pay their accounts
- Other sundry transactions such as rent income if part of the premises are let out (rented)
- Interest on favourable bank balances received from the bank
- Capital contributions made by the owner
- Loans taken
- Commission income for services rendered on behalf of another business
Module 5: Source Documents and Cash Transactions

A CRJ looks like this:

Cash Payments Journal

All payments are recorded here. A trader needs to make several cheque payments such as:

- Cash purchases of fixed/tangible assets eg. Premises, vehicles, equipment
- Cash paid to suppliers (creditors) Cash payments to pay for operating expenses eg rent, electricity, wages, consumables etc
- Other sundry transactions such as repaying a loan, taking out investments (fixed deposit), bank charges, interest on loans etc.
A CPJ looks like this:
**Posting to the General Ledger**

In the hand system of accounting, journals are only totalled at month end, and are then posted to the general ledger. In a computerised system posting automatically takes place when the transaction is recorded in the journal. There is no need for the book keeper to do the general ledger it is done automatically. In the bookkeeping cycle, after summarising the source documents in the journals it is then posted to the general ledger which is a collection of accounts. Each account has a debit (left) and a credit (right) side.

The capital account, income and liabilities account show an increase on the credit and a decrease on the debit.

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>Capital</td>
</tr>
<tr>
<td>Income</td>
<td>Income</td>
</tr>
<tr>
<td>Liability</td>
<td>Liability</td>
</tr>
</tbody>
</table>

Whilst the drawing account, assets and expense accounts all record increases on the debit side and decreases on the credit side.

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drawing</td>
<td>Drawing</td>
</tr>
<tr>
<td>Assets</td>
<td>Assets</td>
</tr>
<tr>
<td>Expense</td>
<td>Expense</td>
</tr>
</tbody>
</table>

The general ledger heading is different to that of a journal in that there is only one general ledger that is continuously updated from month to month. It is ‘the books of the business’ There is no new general ledger for each month.

The general ledger is divided into 2 sections:

1. *The balance sheet section groups the owners equity, assets and liabilities.*
2. *The nominal accounts section groups all income and expenses.*

Notes on the general ledger headings:
Look at the General ledger of Terry’s T-Shirts:

P94  New Era Terry t shirts
Listing of the Ledger Account Balances on a Trial Balance

A trial balance is a list of all the balances from the general ledger. The balance of the account will be on the side on which the account increases. So one would expect all asset accounts, expense accounts as well as drawing accounts to have debit balance on the trial balance and that all liability accounts, income accounts as well as capital accounts to reflect a credit balance. The only possible exception to the rule is the bank account, I will explain this when we come across it.

Look at the trial balance of Terry’s T-Shirts as at 30 April: