

## PRINCIPLE OF BOOKKEEPING NOTES

### 1. EXPLAIN THE CONCEPTS OF PRIMARY BOOKS OF ACCOUNTS.

- a). Define primary books of accounts
- b). Identify the primary books of accounts
- c). Explain the uses of primary books of accounts
- d). Outline the limitation of primary books of accounts

## Books of Original Entry – Types, Advantages

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Books of original entry are simply accounting books or journals in which all transactions are originally entered. All commercial transactions, including their details and descriptions, are originally documented in the original entry book.

These books are generally used for keeping initial records. This book is also known as a preliminary entry or a first entry. The journal is used to record invoices, cash transactions, vouchers, and other bills before they are transferred to ledgers. All business transactions are first recorded in the books of original entry, including their specifications and descriptions.

## What are Books of Original Entry?

Books of Original Entry, also known as “primary books of accounts” or “daybooks,” are essential components of the accounting process. They serve as the first place where financial transactions are recorded in a systematic manner. These books are the starting point for maintaining accurate and organized financial records for businesses and organizations.

In simple terms, think of Books of Original Entry as the notebooks where all financial activities of a company are initially noted down. They are like the foundation upon which the entire accounting structure is built.

# Types of Books of Original Entry

There are several types of Books of Original Entry, each designed to capture specific types of financial transactions. These books serve as the initial recording point for accounting data. Here are the main types:

## **Cash Book:**

The Cash Book records all cash transactions, including cash received and cash paid out by the business. It provides a clear picture of a company's cash flow.

## **General Journal:**

The General Journal is a versatile book used for transactions that do not fit into the specialized journals mentioned above. It includes entries like adjusting entries, corrections, and other non-routine transactions.

## **Sales Journal (Sales Day Book):**

The Sales Journal is where sales transactions are recorded. It includes details of sales made on credit, such as the date of the sale, the customer's name, the goods or services sold, and their respective prices.

## **Purchases Journal (Purchases Day Book):**

The Purchases Journal is used to record all purchases made on credit. It contains information about the date of purchase, the supplier's name, the items purchased, and their costs.

## **Sales Return Book (Returns Outward Book):**

This book is for documenting sales returns or goods returned to the business by customers. It helps track items that have been refunded or exchanged.

## **Purchases Return Book (Returns Inward Book):**

Similar to the Sales Return Book, the Purchases Return Book records the return of goods to suppliers. It assists in monitoring items returned to suppliers due to defects or other reasons.

## **Petty Cash Book:**

This book is used to track small, everyday expenses that are typically paid in cash. It helps in managing and reconciling petty cash funds.

## Advantages of Books of Original Entry

Books of Original Entry offer several advantages in the field of accounting. Here are the key benefits:

**Systematic Record-Keeping:** They provide a structured way to record financial transactions.

**Improved Accuracy:** Helps in minimizing errors and ensuring accurate financial data.

**Quick Reference:** Easy access to transaction details for analysis and auditing.

**Effective Analysis:** Facilitates financial analysis and decision-making.

**Clear Audit Trail:** Establishes a transparent trail of financial activities.

**Categorization:** Transactions are organized by type, simplifying tracking.

**Efficient Reporting:** Aids in preparing financial statements efficiently.

**Enhanced Control:** Better control over cash flow and financial management.

**Legal Compliance:** Helps in complying with tax and regulatory requirements.

**Historical Data:** Stores historical data for future reference and comparisons.

## Disadvantages of Books of Original Entry

Despite their importance, Books of Original Entry also have some drawbacks in the field of accounting. Here are the key disadvantages:

**Manual Labor:** Requires significant time and effort for manual data entry.

**Potential Errors:** Prone to human errors during recording and calculation.

**Limited Detail:** May lack detailed information compared to digital systems.

**Storage Space:** Physical books require storage space and can be lost or damaged.

**Inefficiency:** Slower compared to modern computerized accounting systems.

**Limited Accessibility:** Accessible only to those with physical access to the books.

**Data Security:** Risk of data loss or unauthorized access in physical format.

**Costs:** Incurs expenses for purchasing and maintaining physical books.

**Lack of Real-Time Updates:** Updates are not instantaneous as with digital systems.

**Reduced Mobility:** Impractical for businesses with remote or multiple locations.

## TOPIC 2; USE BOOKKEEPING PRINCIPLE TO PREPARE PURCHASES DAY BOOK AND RETURN OUTWARD ACCOUNT

### 1. Purchase day book

Purchase day book is used to record all **credit purchases** made by the entity from its suppliers. Commonly, purchase day books are also referred to as 'Purchases Journal' or 'Purchase Registers'.

It generally contains the following columns:

Date  
Particulars  
Ledger Folio  
Inward Invoice Number  
Amount

This is a complete record of all credit purchases. A suggested format is as follows:

The purchases day book is totalled periodically and is debited to the purchases account in the ledger. The personal accounts are posted by crediting the individual accounts.



### Example

The following are details of credit purchases for the month of February 20X3:

Date	Invoice	Transaction
3 Feb	10042	Purchased coal from BNG Inc. of Tshs2,000
17 Feb	A2001	Purchased steel from Christopher of Tshs8,000
25 Feb	200609	Purchased copper from Alexander of Tshs3,000

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The above transactions will be recorded in the purchase day book as follows:

## Purchase day book

Date	Purchase reference number	Folio No	Supplier's name	Supplier's invoice number	Total	Coal	Steel	Copper
					Tshs	Tshs	Tshs	Tshs
3 Feb	1	S05	BNG Inc	10042 A2001	2,000	2,000	-	-
17 Feb	2	S13	Christopher	200609	8,000	-	8,000	-
25 Feb	3	S22	Alexander		3,000	-	-	3,000
			<b>Total</b>		<b>13,000</b>	<b>2,000</b>	<b>8,000</b>	<b>3,000</b>

## 2. Purchase returns day book or journal

Purchase return day book is used to record all transactions relating to the goods returned to suppliers. Commonly, purchase return day books are also referred to as 'Purchases Return Journal' or 'Purchase Return Registers'.



### Example

The following are details of purchase return (return outwards) for the month of February 20X3:

Date	Debit Note No	Transaction
20 Feb	1002	Returned steel to Christopher of Tshs1,000 purchased earlier
28 Feb	1003	Returned copper to Jane of Tshs2,000 purchased earlier

The above transactions will be recorded in the purchase return day book as follows:

### Purchase return day book

Date	Debit note No	Folio No	Supplier's name	Total	Coal	Steel	Copper
				Tshs	Tshs	Tshs	Tshs
20 Feb	1002	S13 S22	Christopher	1,000	-	1,000	-
28 Feb	1003		Alexander	2,000	-	-	2,000
			<b>Total</b>	<b>3,000</b>	<b>-</b>	<b>1,000</b>	<b>2,000</b>

The format of purchase return day book is similar to purchase day book, except the debit note number column in which the debit note number is recorded, instead of suppliers invoice number. Some entities add extra columns for management information, for example, quantity. Debit notes have been discussed in detail in Study Guide 5 under source documents.

### Purpose of Purchase Day return book

The purchase return book serves the purpose of issuing debit notes to the suppliers to whom goods have been returned by the entity. Furthermore, as in the above example, it helps to identify the defective range of products returned i.e. steel and copper.

### TOPIC 3.THREE; USE BOOKEEPING PRINCIPLE TO PREPARE SALES DAY BOOK AND RETURN INWARD ACCOUNTS

#### 1. Sales day book or sales journal

Sales day book is used to record all **credit sales** made by the entity to its customers. Commonly, sales day books are also referred to as 'Sales Journal' or 'Sales Registers'.

It generally contains the following columns:

Date  
Particulars  
Ledger Folio  
Customer invoice Number  
Amount



#### Example

The following are details of credit sales for the month of January 20X3:

Date	Invoice	Transaction
10 Jan	INV- 2001	Sold Nails to Mark of Tshs5,000
15 Jan	INV- 2002	Sold Screws to Jane of Tshs6,000
25 Jan	INV- 2003	Sold bolts to Sammy of Tshs3,000

The above transactions will be recorded in the sales day book as follows:

#### Sales day book

Date	Invoice number	Folio No	Customer name	Total	Nails	Screws	Bolts
				Tshs	Tshs	Tshs	Tshs
10 Jan	INV- 2001	TR01	Mark	5,000	5,000	-	-
15 Jan	INV- 2002	TR25	Jane	6,000	-	6,000	-
25 Jan	INV- 2003	TR35	Sammy	8,000	5,000	-	3,000
			<b>Total</b>	<b>19,000</b>	<b>10,000</b>	<b>6,000</b>	<b>3,000</b>

#### 2. Sales return day book or journal

Sales return day book is used to record all transactions relating to goods returned by customers. Commonly, purchase day books are also referred to as 'Sales Return Journal' or 'Sales Return Registers'.



#### Example

The following are details of sales return (return inwards) for the month of January 20X3:

Date	Credit Note No	Transaction
13 Jan	1850	Returned Nails to Mark of Tshs1,000

18 Jan	1851	Returned Screws to Jane of Tshs2,000
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The above transactions will be recorded in the sales return day book as follows:

**Sales return day book**

Date	Credit note No	Folio No	Customers name	Total	Nails	Screws	Bolts
				Tshs	Tshs	Tshs	Tshs
13 Jan	1850	TR01	Mark	1,000	1,000	-	-
18 Jan	1851	TR25	Jane	2,000	-	2,000	-
			<b>Total</b>	<b>3,000</b>	<b>1,000</b>	<b>2,000</b>	<b>-</b>