

# 7

## Accounting for purchases and purchases returns

### this chapter covers...

*This chapter focuses on using the accounting system to record the details of purchases and purchases returns.*

*Having looked in the previous chapter at the documents and procedures involved in buying on credit we will now take the financial documents of purchases invoices and credit notes for purchases and record them in books of prime entry (day books) and in the bookkeeping system of general ledger and purchases ledger.*

*We will be using two books of prime entry:*

- *purchases day book*
- *purchases returns day book*

*Information from these day books will then be transferred into the bookkeeping system using accounts in general ledger and purchases ledger.*

#### **Notes:**

- *In this chapter we focus on accounting for credit purchases and purchases returns transactions. Cash purchases transactions will be seen when we study the cash book in Chapters 9 and 10.*
- *We use the international standards term 'trade payable' to mean a person who is owed money by a business; normally this is a supplier. You may also in your studies come across the traditional term 'creditor' which means exactly the same thing.*



## THE ACCOUNTING SYSTEM

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We have seen in Chapter 1 (page 4) that the accounting system comprises a number of stages of recording and presenting financial transactions:

- financial documents
- books of prime entry (eg day books)
- double-entry bookkeeping
- trial balance

In this chapter we look at how financial documents for credit purchases and purchases returns transactions are recorded in the books of prime entry, together with the entries to be made in the double-entry bookkeeping accounts. Later in the book we will see how a list of the balances of the double-entry accounts is used to form the initial trial balance (Chapter 12).

## ACCOUNTING FOR CREDIT PURCHASES AND RETURNS

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In accounting, the term 'purchases' means **the purchase of goods with the intention that they should be resold at a profit.**

This means that an office stationery shop will record as purchases those items – such as photocopier paper, ring binders – which it buys with the intention of resale at a profit. Such purchases – together with the running costs of the business, eg wages, heating and lighting, telephone – are described as **revenue expenditure**. Other asset items purchased in connection with the running of the business – eg buildings, shop fittings – are recorded not as purchases but, instead, are accounted for as the purchase of an asset, ie buildings, shop fittings – such expenditure is described as **capital expenditure**.

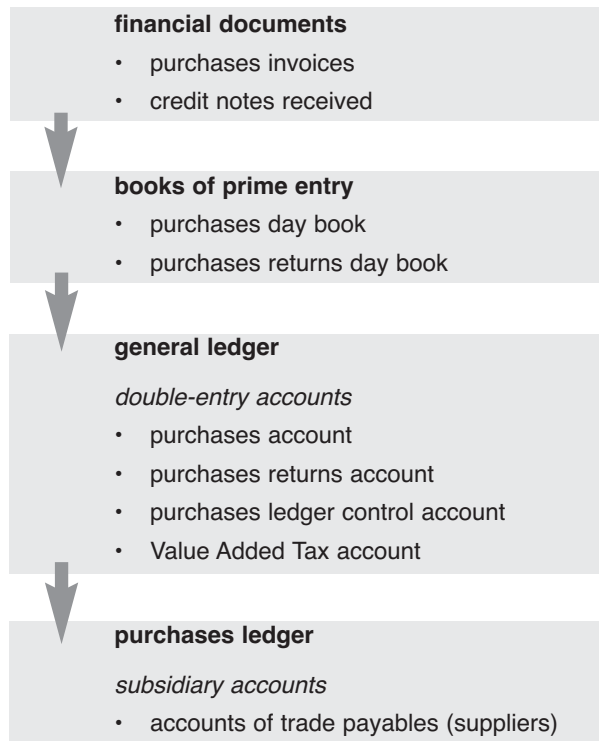
'Purchases returns' are when goods previously bought on credit are returned by the buyer to the supplier.

The diagram on the next page shows the order in which the accounting records are prepared for credit purchases and purchases returns transactions. You will see that the steps are:

- start with a **financial document**, either a purchases invoice or a credit note received
- enter it in the appropriate **book of prime entry** (the first accounting book in which the financial document is recorded and summarised), either purchases day book or purchases returns day book

- transfer the information from the book of prime entry into the double-entry accounts in the **general ledger**
- transfer the information from the book of prime entry into the subsidiary accounts of trade payables in the **purchases ledger**

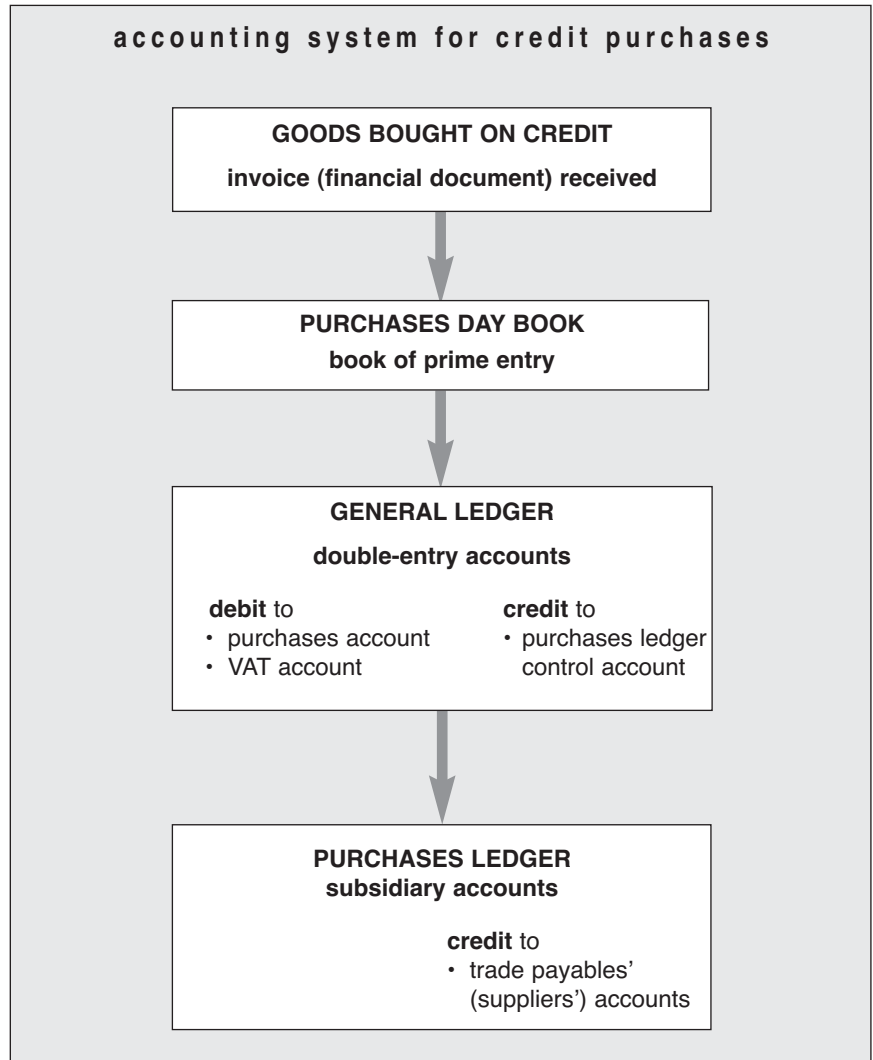
### accounting for credit purchases and purchases returns transactions



We will now look in more detail at the use of the books of prime entry and the double-entry bookkeeping system for credit purchases and purchases returns. These are very similar to the system already used for credit sales and sales returns in Chapter 4 and you may wish to refer to the sections of Chapter 4 which cover books of prime entry (pages 76-78), and methods of coding in accounting systems (page 88).

## ACCOUNTING SYSTEM FOR CREDIT PURCHASES

The accounting system for credit purchases fits together in the following way:



We will now look in more detail at the purchases day book and the accounting system for credit purchases.

In the examples which follow we will assume that the business is registered for Value Added Tax and that VAT is charged on invoices received from suppliers.

The VAT rate used in the examples is 20%.

## PURCHASES DAY BOOK

The purchases day book is a collection point for accounting information on the credit purchases of a business and is set out in the following way (with sample entries shown):

Purchases Day Book						PDB57
Date	Details	Invoice number	Account code	Total	VAT*	Net
20-4				£	£	£
5 Jan	P Bond Ltd	1234	PL125	96	16	80
9 Jan	D Webster	A373	PL730	144	24	120
16 Jan	P Bond Ltd	1247	PL125	48	8	40
20 Jan	Sanders & Sons	5691	PL495	192	32	160
31 Jan	Totals for month			480	80	400
				GL2350	GL2200	GL5100

\* VAT = 20 per cent

### Notes:

- Purchases day book is prepared from financial documents – purchases invoices received from suppliers. The invoice number used is either that of the supplier's invoice (as above) or is a unique number given to each invoice by the buyer's accounts department.
- The code 'PDB57' is used for cross-referencing to the bookkeeping system: here it indicates that this is page 57 of the purchases day book (PDB).
- The **account code** column cross-references here to 'PL' – the Purchases Ledger – followed by the account number of the trade payable (supplier).
- The **total** or **gross** column records the amount of each financial document, ie after VAT has been included.
- The code 'GL' beneath the totals amounts refers to the account numbers in General Ledger.
- Purchases day book is totalled at appropriate intervals – daily, weekly or monthly (as here) – and the total of the **net** column tells the business the amount of credit purchases for the period.

- The amounts from purchases day book are recorded in the ledger accounts.

In order to write up the purchases day book, we take purchases invoices – that have been checked and authorised – for the period and enter the details:

- date of invoice
- name of supplier
- purchase invoice number, using either the supplier's invoice number, or a unique number given to each invoice by the buyer's accounts department
- cross-reference to the supplier's account number in the purchases ledger, eg 'PL125'
- enter the total amount of the invoice into the 'total' column
- enter the VAT amount shown on the invoice – don't be concerned with any adjustments to the VAT for the effect of any settlement (cash) discounts, simply record the VAT amount shown
- enter the net amount of the invoice (often described as 'goods or services total'), before VAT is added

## BOOKKEEPING FOR CREDIT PURCHASES

After the purchases day book has been written up and totalled, the information from it is transferred to the double-entry system in general ledger. The accounts in general ledger to record the transactions from the purchases day book on the previous page are as follows:

### GENERAL LEDGER

Dr	Value Added Tax Account (GL2200)	Cr
20-4	£	20-4 £
31 Jan Purchases Day Book PDB57	80	

Dr	Purchases Ledger Control Account (GL2350)	Cr
20-4	£	20-4 £
		31 Jan Purchases Day Book PDB57 480

Dr	Purchases Account (GL5100)	Cr
20-4	£	20-4 £
31 Jan Purchases Day Book PDB57	400	

Note that from the purchases day book:

- total of the total column, £480, has been credited to purchases ledger control account (which records the liability to trade payables)
- the total of the VAT column, £80, has been debited to VAT account (which has gained value)
- the total of the net column, £400, has been debited to purchases account (which has gained value)
- each entry in general ledger is cross-referenced back to the page number of the purchases day book; here the reference is to 'PDB57'

The last step is to record the amount of purchases made from each individual trade payable. We do this by recording the purchases invoices in the purchases ledger as follows:

<b>PURCHASES LEDGER</b>				
Dr	<b>P Bond Limited (PL125)</b>			Cr
20-4	£	20-4		£
		5 Jan	Purchases PDB57	96
		16 Jan	Purchases PDB57	48
Dr	<b>Sanders &amp; Sons (PL495)</b>			Cr
20-4	£	20-4		£
		20 Jan	Purchases PDB57	192
Dr	<b>D Webster (PL730)</b>			Cr
20-4	£	20-4		£
		9 Jan	Purchases PDB57	144

#### Notes:

- The purchases day book incorporates a reference column, used to cross-reference each transaction to the account of each supplier in the purchases ledger (PL); this enables a particular transaction to be traced from financial document (invoice received), through the book of prime entry (purchases day book), to the supplier's account.

- Each entry in the purchases ledger is cross-referenced back to the page number of the purchases day book; here the reference is 'PDB57'.

### **subsidiary accounts**

The accounts in purchases ledger are prepared following the principles of double-entry bookkeeping. However, they are **subsidiary accounts** which means they are used to provide a note of how much each trade payable is owed by the business.

Subsidiary accounts are not part of double-entry but are represented in the general ledger by purchases ledger control account. This means that, here, the £480 credit entry is split up in the purchases ledger between the three suppliers' subsidiary accounts. Note that subsidiary accounts are often referred to as **memorandum accounts**.

## **ACCOUNTING SYSTEM FOR PURCHASES RETURNS**

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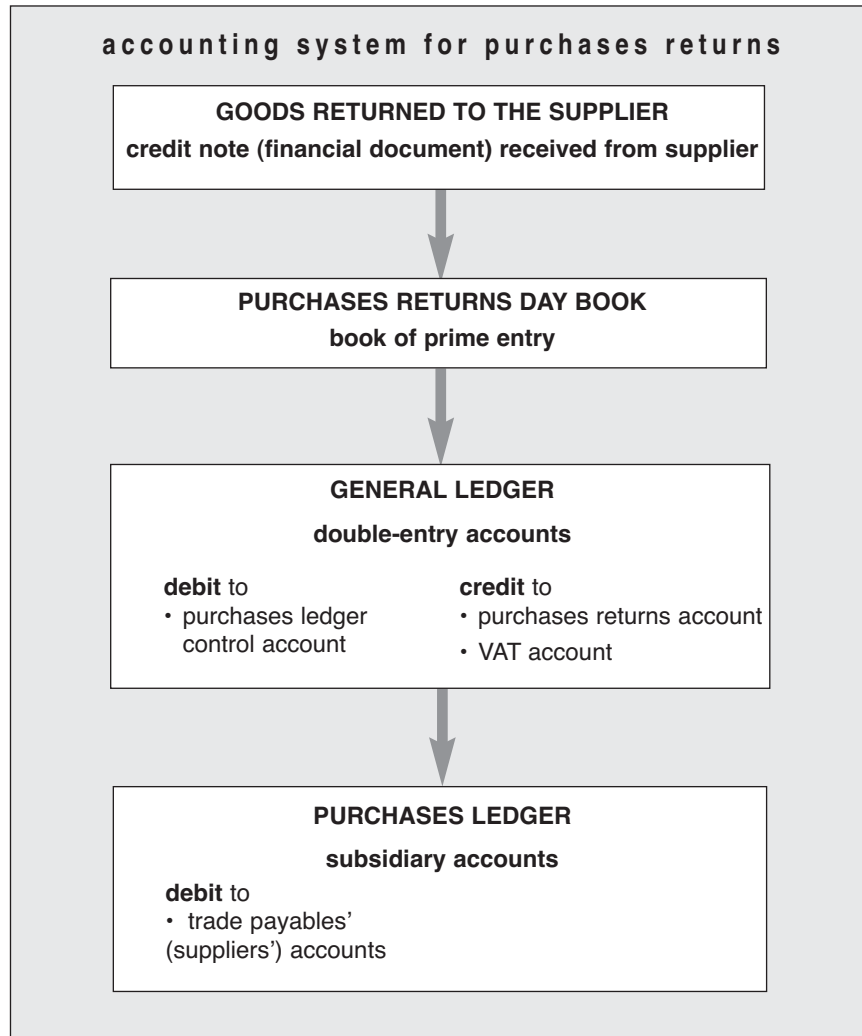
**Purchases returns** (or returns out) are when goods previously bought on credit are returned by the business to its suppliers. A credit note (see page 26) is requested and, when received, it is entered in the accounting system to reduce the amount owing to the trade payable.

The accounting procedures for purchases returns involve:

- **financial documents** – credit notes received from suppliers
- **book of prime entry** – purchases returns day book
- **double-entry accounts** – general ledger (purchases returns account, which records the total net amount of credit notes received, Value Added Tax account, which records the VAT amount of purchases returns, and purchases ledger control account, which records the liability to trade payables)
- **purchases ledger** – the subsidiary accounts for each individual trade payable of the business

The way in which the accounting system for purchases returns fits together is shown in the diagram on the next page.





We will now look in more detail at the purchases returns day book and the double-entry accounts for purchases returns. Note that the business is registered for Value Added Tax.

## PURCHASES RETURNS DAY BOOK

The purchases returns day book uses virtually the same layout as the purchases day book seen earlier in this chapter. It operates in a similar way, storing up information about purchases returns transactions until such time as a transfer is made into the double-entry accounts system. The prime documents for purchases returns day book are credit notes received from suppliers.

The purchases returns day book is written up as follows, with sample entries:

Purchases Returns Day Book					PRDB3	
Date	Details	Credit note no	Account code	Total	VAT*	Net
20-4				£	£	£
20 Jan	D Webster	123	PL730	48	8	40
27 Jan	Sanders & Sons	406	PL495	96	16	80
31 Jan	Totals for month			144	24	120
				GL2350	GL2200	GL5110

\* VAT = 20 per cent

#### Notes:

- The purchases returns day book is prepared from credit notes received from suppliers. The credit note number used is either that of the supplier's credit note (as above) or is a unique number given to each credit note by the buyer's accounts department.
- The day book is totalled at appropriate intervals – weekly or monthly.
- The VAT-inclusive amounts from the total column are debited to the trade payables' individual accounts in the purchases ledger.
- The total of the VAT column is transferred to the credit of the VAT account in the general ledger.
- The total of the net column tells the business the amount of purchases returns for the period. This amount is transferred to the credit of purchases returns account in the general ledger.
- The total or gross column records the amount of each credit note received, ie after VAT has been included. This amount is transferred to the debit of purchases ledger control account in general ledger.

## BOOKKEEPING FOR PURCHASES RETURNS

After the purchases returns day book has been written up and totalled, the information from it is transferred into the double-entry system. The accounts in the general ledger to record the transactions from the above purchases returns day book (including any other transactions already recorded on these accounts) are as follows:

**GENERAL LEDGER**

Dr	<b>Value Added Tax Account (GL2200)</b>		Cr
20-4	£	20-4	£
31 Jan	Purchases Day Book PDB57	80	31 Jan Purchases Returns Day Book PRDB3 24

Dr	<b>Purchases Ledger Control Account (GL2350)</b>		Cr
20-4	£	20-4	£
31 Jan	Purchases Returns Day Book PRDB3	144	31 Jan Purchases Day Book PDB57 480

Dr	<b>Purchases Returns Account (GL5110)</b>		Cr
20-4	£	20-4	£
		31 Jan	Purchases Returns Day Book PRDB3 120

The last step is to record the amount of purchases returns made to each trade payable. We do this by recording the purchases returns in the subsidiary accounts for each trade payable in the purchases ledger as follows:

**PURCHASES LEDGER**

Dr	<b>Sanders &amp; Sons (PL495)</b>		Cr
20-4	£	20-4	£
27 Jan	Purchases Returns PRDB3	96	20 Jan Purchases PDB57 192

Dr	<b>D Webster (PL730)</b>		Cr
20-4	£	20-4	£
20 Jan	Purchases Returns PRDB3	48	9 Jan Purchases PDB57 144

## THE USE OF ANALYSED PURCHASES DAY BOOKS

Businesses use analysed day books whenever they wish to analyse purchases and purchases returns between different categories of purchases:

- goods bought for resale, often split between types of goods purchased, eg in a clothes shop between ladies wear and mens wear
- purchases made by different departments, eg within a department store

For example, a business with two different types of purchases – purchases type 1 and purchases type 2 – will write up its purchases day book as follows:

Purchases Day Book							PDB86	
Date	Details	Invoice number	Account code	Total	VAT*	Net	Purchases type 1	Purchases type 2
20-4				£	£	£	£	£
2 Sep	Fashions Limited	1401	PL087	144	24	120	70	50
4 Sep	Eastern Telephones	1402	PL061	240	40	200	–	200
8 Sep	Mercian Models	1403	PL102	336	56	280	280	–
12 Sep	Media Advertising	1404	PL092	720	120	600	–	600
15 Sep	Style Limited	1405	PL379	480	80	400	100	300
19 Sep	Wyvern Motors	1406	PL423	192	32	160	–	160
30 Sep	Totals for month			2,112	352	1,760	450	1,310
				GL2350	GL2200		GL5160	GL5190

\* VAT = 20 per cent

Analysed purchases day books and purchases returns day books can be adapted to suit the particular needs of a business. Thus there is not a standard way in which to present the books of prime entry – the needs of the user of the information are all important. By using analysed day books, the owner of the business can see how much has been bought by types of purchases, or by departments.

### Notes:

- In this purchases day book each purchases invoice has been given a unique number (starting at 1401) by the buyer's accounts department.
- The account code column is to 'PL' (Purchases Ledger) and the supplier's account number.
- The code 'GL' beneath the totals amounts refers to the account numbers in General Ledger.

- The analysis columns – here purchases type 1 and purchases type 2 – show the amount of purchases net of VAT (ie before VAT is added).
- The analysis columns analyse the net amount – by type of expenditure – from purchases invoices.

## Case Study

### WYVERN TRADERS – PURCHASES AND RETURNS

To bring together the material covered in this chapter, we will look at a comprehensive Case Study which makes use of

- **books of prime entry**
  - purchases day book
  - purchases returns day book
- **general ledger accounts**
  - purchases account
  - purchases ledger control account
  - purchases returns account
  - Value Added Tax account
- **purchases ledger accounts**
  - trade receivables' subsidiary accounts

The Chapter Summary (pages 155 and 156) includes diagrams which summarise the procedures for recording credit purchases and purchases returns transactions in the accounting system.

#### situation

Wyvern Traders is a wholesaler of stationery and office equipment. The business is registered for VAT. The VAT rate is 20%. The following are the credit purchases and purchases returns transactions for April 20-4:

20-4

1 Apr	Purchased goods from Midland Supplies, £120.00 + VAT, their invoice no 12486
9 Apr	Returned goods to Midland Supplies, £40.00 + VAT, credit note no 104 received
14 Apr	Purchased goods from Swan Equipment, £80.00 + VAT, their invoice no P076
28 Apr	Purchased goods from Swan Equipment, £160.00 + VAT, their invoice no P102
30 Apr	Returned goods to Swan Equipment, £80.00 + VAT, credit note no X102 received

The day books, general ledger and purchases ledger accounts are illustrated on the next two pages: arrows indicate the transfers from the day books to the individual accounts. Note that some accounts have been repeated on both pages in order to show, on the same page, the accounts relating to a particular day book: in practice a business would keep all the transactions together in one account.

Purchases Day Book					PDB19	
Date	Details	Invoice number	Account code	Total	VAT	Net
20-4				£	£	£
1 Apr	Midland Supplies	12486	PL045	144	24	120
14 Apr	Swan Equipment	P076	PL112	96	16	80
28 Apr	Swan Equipment	P102	PL112	192	32	160
30 Apr	Totals for month			432	72	360
				GL2350	GL2200	GL5100

## GENERAL LEDGER

Dr Purchases Ledger Control Account (GL2350) Cr

Date	Details	£	Date	Details	£
20-4			20-4		
			30 Apr	Purchases Day Book PDB19	432

Dr Value Added Tax Account (GL2200) Cr

Date	Details	£	Date	Details	£
20-4			20-4		
30 Apr	Purchases Day Book PDB19	72			

Dr Purchases Account (GL5100) Cr

Date	Details	£	Date	Details	£
20-4			20-4		
30 Apr	Purchases Day Book PDB19	360			

## PURCHASES LEDGER

Dr Midland Supplies (PL045) Cr

Date	Details	£	Date	Details	£
20-4			20-4		
			1 Apr	Purchases PDB19	144

Dr Swan Equipment (PL112) Cr

Date	Details	£	Date	Details	£
20-4			20-4		
			14 Apr	Purchases PDB19	96
			28 Apr	Purchases PDB19	192

Purchases Returns Day Book					PRDB7	
Date	Details	Credit note number	Account code	Total	VAT	Net
20-4				£	£	£
9 Apr	Midland Supplies	104	PL045	48	8	40
30 Apr	Swan Equipment	X102	PL112	96	16	80
30 Apr	Totals for month			144	24	120
				GL2350	GL2200	GL5110

## GENERAL LEDGER

Purchases Ledger Control Account (GL2350)					
Dr			Cr		
Date	Details	£	Date	Details	£
20-4			20-4		
30 Apr	Purchases Returns Day Book PRDB7	144	30 Apr	Purchases Day Book PDB19	*432

Value Added Tax Account (GL2200)					
Dr			Cr		
Date	Details	£	Date	Details	£
20-4			20-4		
30 Apr	Purchases Day Book PDB19	*72	30 Apr	Purchases Returns Day Book PRDB7	24

Purchases Returns Account (GL5110)					
Dr			Cr		
Date	Details	£	Date	Details	£
20-4			20-4		
			30 Apr	Purchases Returns Day Book PRDB7	120

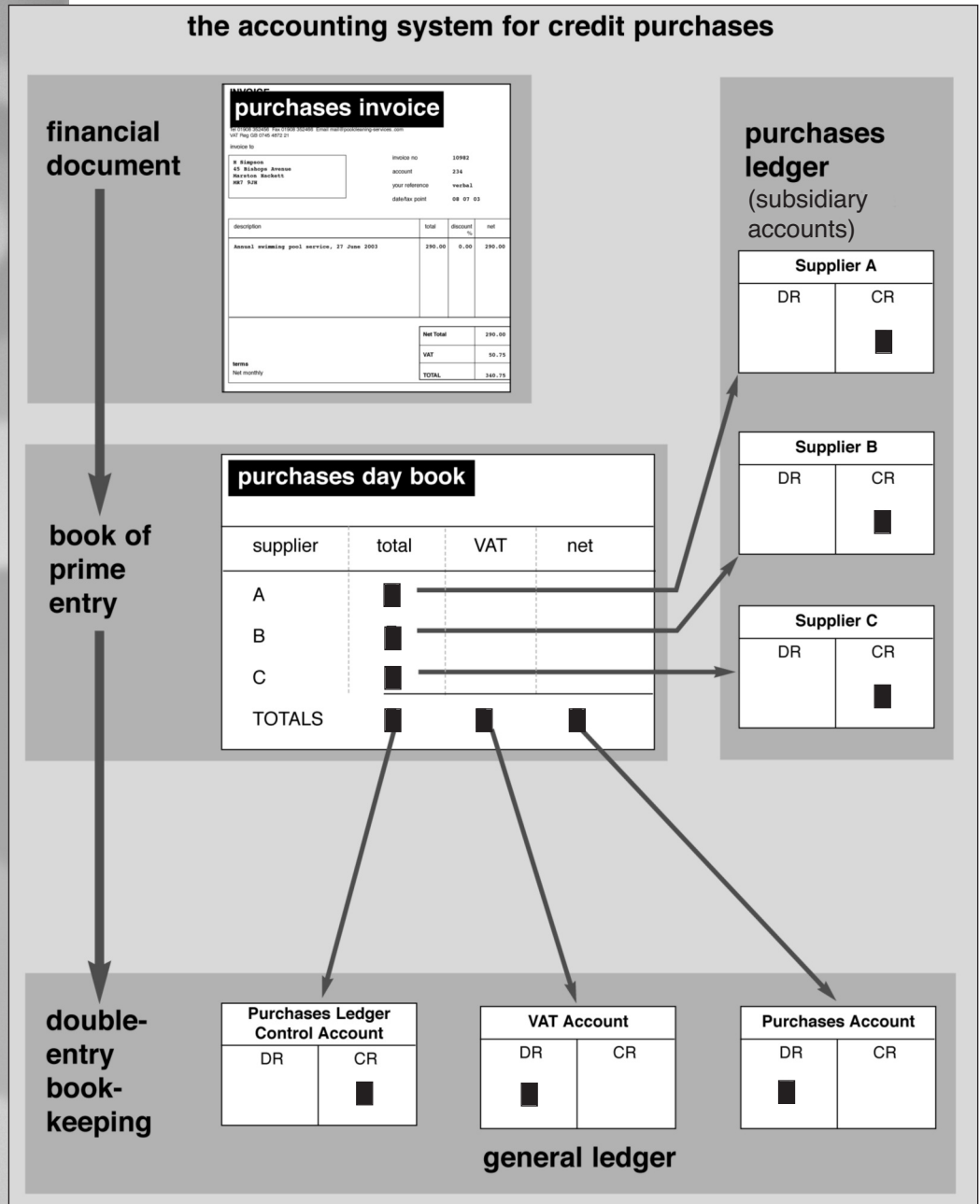
## PURCHASES LEDGER

Midland Supplies (PL045)					
Dr			Cr		
Date	Details	£	Date	Details	£
20-4			20-4		
9 Apr	Purchases Returns PRDB7	48	1 Apr	Purchases PDB19	*144

Swan Equipment (PL112)					
Dr			Cr		
Date	Details	£	Date	Details	£
20-4			20-4		
30 Apr	Purchases Returns PRDB7	96	14 Apr	Purchases PDB19	*96
			28 Apr	Purchases PDB19	*192

\* transactions entered previously

Further chapter summary points follow on page 157.





# the accounting system for purchases returns

The diagram illustrates the accounting system for purchases returns, showing the flow of information from a credit note to a day book and then to various ledger accounts.

**financial document**

**credit note**

To: Chris Davies, The Green, 12345, Email: chris@greening-services.com, Tel: 01234 567 890

Invoice to:

Mr. J. Davies  
45, Bridge Avenue  
Barnham, Basset  
WY 12 34

Invoice No: 10002  
Account: 234  
Your reference: order 1  
Delivery point: 00 07 03

description	total	discount %	net
Annual swimming pool service, 27 June 2003	200.00	0.00	200.00
<b>Net Total</b>	<b>200.00</b>		
<b>VAT</b>			<b>00.75</b>
<b>TOTAL</b>	<b>200.75</b>		

Notes:  
Net monthly

**purchases ledger**  
(subsidiary accounts)

**Supplier A**

DR	CR
■	

**Supplier B**

DR	CR
■	

**book of prime entry**

**purchases returns day book**

supplier	total	VAT	net
A	■		
B	■		
<b>TOTALS</b>	■	■	■

**double-entry book-keeping**

**general ledger**

**Purchases Ledger Control Account**

DR	CR
■	

**VAT Account**

DR	CR
	■

**Purchases Returns Account**


DR	CR
	■


The diagram shows the flow of information from a credit note to a day book and then to various ledger accounts. The credit note provides the details of the purchase return, which are then recorded in the purchases returns day book. The day book then provides the totals for each supplier, which are used to update the purchases ledger (Supplier A and Supplier B). The day book also provides the totals for VAT and net, which are used to update the VAT Account and the Purchases Returns Account. The day book also provides the totals for the Purchases Ledger Control Account.

## double-entry book-keeping

# credit note

purchases returns day book			
supplier	total	VAT	net
A	■		
B	■		
TOTALS	■	■	■

Supplier A	
DR	CR
	

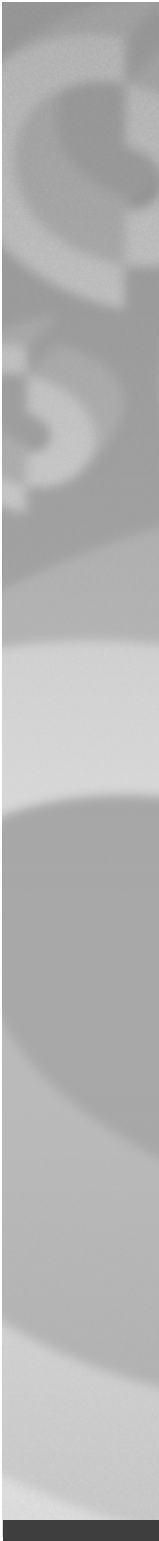
Supplier B	
DR	CR
	

Purchases Ledger Control Account	
DR	CR
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VAT Account	
DR	CR

Purchases Returns Account	
DR	CR
	■

## general ledger

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- The accounting system comprises a number of specific stages of recording and presenting financial transactions:
    - financial documents
    - books of prime entry (eg day books)
    - double-entry bookkeeping
    - trial balance
  - The financial documents relating to credit purchases are:
    - purchases invoices
    - credit notes received
  - Purchases day book is the book of prime entry for credit purchases. It is prepared from purchases invoices received from suppliers.
  - Purchases returns day book is the book of prime entry for purchases returns. It is prepared from credit notes received from suppliers.
  - Analysed purchases and purchases returns day books are used when a business wishes to analyse its purchases between different types of expenditure.
  - Recording credit purchases in the double-entry system uses:
    - financial documents, purchases invoices
    - book of prime entry, purchases day book
    - double-entry accounts in the general ledger
    - subsidiary accounts in the purchases ledger
  - Recording purchases returns in the double-entry system uses:
    - financial documents, credit notes received from suppliers
    - book of prime entry, purchases returns day book
    - double-entry accounts in the general ledger
    - subsidiary accounts in the purchases ledger

**Key  
Terms**

<b>purchases</b>	the purchase of goods with the intention that they should be resold at a profit
<b>revenue expenditure</b>	the cost of purchases and running costs of the business
<b>capital expenditure</b>	the cost of asset items other than for resale, purchased in connection with the running of the business, eg buildings, shop fittings
<b>purchases day book</b>	book of prime entry prepared from purchases invoices
<b>purchases returns</b>	goods purchased on credit which are returned to the supplier
<b>purchases returns day book</b>	book of prime entry prepared from credit notes received from suppliers
<b>analysed day books</b>	day books which incorporate analysis columns, for example between <ul style="list-style-type: none"> <li>– goods bought for resale, often split between different types of goods</li> <li>– purchases made by different departments</li> </ul>
<b>general ledger</b>	ledger section which includes <ul style="list-style-type: none"> <li>– purchases account</li> <li>– purchases returns account</li> <li>– purchases ledger control account</li> <li>– Value Added Tax account</li> </ul>
<b>purchases ledger</b>	subsidiary ledger section which contains the subsidiary accounts of the trade payables (suppliers)
<b>subsidiary account</b>	a subsidiary ledger (eg purchases ledger) account which provides a record of individual amounts (eg owing by the business to trade payables)

## Activities

**7.1** Which one of the following is a book of prime entry?

- (a) purchases account
- (b) Value Added Tax account
- (c) purchases returns day book
- (d) purchases ledger account of M Ostrowski

Answer (a) or (b) or (c) or (d)

**7.2** Which one of the following is in the right order?

- (a) purchases returns day book; purchases ledger control account; credit note issued; purchases returns account; supplier's account
- (b) purchases returns account; supplier's account; purchases ledger control account; purchases returns day book; credit note issued
- (c) purchases returns day book; purchases returns account; purchases ledger control account; supplier's account; credit note issued
- (d) credit note issued; purchases returns day book; purchases returns account; purchases ledger control account; supplier's account

Answer (a) or (b) or (c) or (d)

**7.3** Which one of the following are the correct general ledger entries for a purchases returns transaction?

- (a) debit purchases ledger control; debit VAT; credit purchases returns
- (b) debit purchases ledger control; credit purchases returns; credit VAT
- (c) debit purchases returns; debit VAT; credit purchases ledger control
- (d) debit purchases returns; credit purchases ledger control; credit VAT

Answer (a) or (b) or (c) or (d)

**7.4** Explain in note format:

- (a) the principles of recording a credit purchases transaction in the accounting system
- (b) the principles of recording a purchases returns transaction in the accounting system

**For Activities 7.5 and 7.6:**

- work in pounds and pence, where appropriate
- the rate of Value Added Tax is to be calculated at 20% (when calculating VAT amounts, you should ignore fractions of a penny, ie round down to a whole penny)
- use a coding system incorporating the following:

<i>purchases day book</i>	– PDB36	<i>general ledger account numbers</i>
<i>purchases returns day book</i>	– PRDB11	<i>purchases ledger control account</i> – GL2350
<i>purchases ledger account numbers</i>		<i>purchases account</i> – GL5100
<i>AMC Enterprises</i>	– PL520	<i>purchases returns account</i> – GL5110
<i>S Green</i>	– PL574	<i>Value Added Tax account</i> – GL2200
<i>I Johnstone</i>	– PL604	
<i>Mercia Manufacturing</i>	– PL627	
<i>L Murphy</i>	– PL659	
<i>Severn Supplies</i>	– PL721	

**7.5** During April 20-5, Wyvern Wholesalers had the following credit transactions:

20-5

- 2 Apr Purchased goods from Severn Supplies £250 + VAT, invoice no 6789
- 5 Apr Purchased goods from I Johnstone £210 + VAT, invoice no A241
- 9 Apr Purchased goods from L Murphy £185 + VAT, invoice no 2456
- 15 Apr Purchased goods from Mercia Manufacturing £180 + VAT, invoice no X457
- 19 Apr Purchased goods from AMC Enterprises £345 + VAT, invoice no AMC 456
- 26 Apr Purchased goods from S Green £395 + VAT, invoice no 2846

**You are to:**

- (a) Enter the above transactions in Wyvern Wholesaler's purchases day book for April 20-5, using the format shown on the next page.
- (b) Record the accounting entries in Wyvern Wholesaler's general ledger and purchases ledger. (Note that you will need to retain these ledger accounts for use with Activity 7.6)

Purchases Day Book						PDB36
Date	Details	Invoice number	Account code	Total £	VAT £	Net £

- 7.6** The following are the purchases returns of Wyvern Wholesalers for April 20-5. They are to be:
- (a) entered in the purchases returns day book for April 20-5, using the format shown on the next page
  - (b) recorded in the general ledger and purchases ledger (use the ledgers already prepared in the answer to Activity 7.5)

20-5

- 7 Apr Returned goods to Severn Supplies £50 + VAT, credit note no 225 received
- 14 Apr Returned goods to L Murphy £80 + VAT, credit note no X456 received
- 21 Apr Returned goods to AMC Enterprises £125 + VAT, credit note no 3921 received
- 29 Apr Returned goods to S Green £68 + VAT, credit note no SG247 received

Purchases Returns Day Book						PRDB11
Date	Details	Credit note number	Account code	Total £	VAT £	Net £

- 7.7** You are employed by Hussein Limited as an accounts assistant. The business has a manual accounting system. Double-entry takes place in the general ledger; individual accounts of trade payables are kept as subsidiary accounts in the purchases ledger. The VAT rate is 20%.

Notes:

- show your answer with a tick, words or figures, as appropriate
- coding is not required

- (a) The following credit transactions all took place on 30 April 20-4 and have been entered into the purchases day book as shown below. No entries have yet been made into the ledger system.

**Purchases day book**

<i>Date 20-4</i>	<i>Details</i>	<i>Invoice number</i>	<i>Total £</i>	<i>VAT £</i>	<i>Net £</i>
30 April	Seng Ltd	4517	1,152	192	960
30 April	Peall & Co	2384	2,832	472	2,360
30 April	Knightons	A761	4,176	696	3,480
30 April	Galeazzi plc	7248	1,488	248	1,240
	<b>Totals</b>		9,648	1,608	8,040

What will be the entries in the general ledger?

**General ledger**

<i>Account name</i>	<i>Amount</i> £	<i>Debit</i> ✓	<i>Credit</i> ✓

What will be the entries in the purchases ledger?

**Purchases ledger**

<i>Account name</i>	<i>Amount</i> £	<i>Debit</i> ✓	<i>Credit</i> ✓

- (b) The following credit transactions all took place on 30 April 20-4 and have been entered into the purchases returns day book as shown below. No entries have yet been made into the ledger system.

**Purchases returns day book**

<i>Date</i> 20-4	<i>Details</i>	<i>Credit note</i> <i>number</i>	<i>Total</i> £	<i>VAT</i> £	<i>Net</i> £
30 April	Martin & Co	381	1,056	176	880
30 April	Wentworth Stores	C48	672	112	560
	<b>Totals</b>		1,728	288	1,440

What will be the entries in the general ledger?

**General ledger**

<i>Account name</i>	<i>Amount</i> £	<i>Debit</i> ✓	<i>Credit</i> ✓



What will be the entries in the purchases ledger?

**Purchases ledger**

<i>Account name</i>	<i>Amount £</i>	<i>Debit ✓</i>	<i>Credit ✓</i>

**7.8** The following is taken from the coding lists used at a business called Fashion Trading.

<b>Supplier</b>	<b>Purchases ledger account code</b>
Bingham Fashions	BIN001
Bourne Stores	BOU002
Elite Trading	ELI001
Green Dragon	GRE001
Guest & Co	GUE002
High Society	HIG001
Modes Ltd	MOD001
Myers Trading	MYE002
Treetop Stores	TRE001
Wragby Ltd	WRA001
Zeta & Co	ZET001

You are to set up the purchases ledger account codes for the new suppliers shown below.

<b>Supplier</b>	<b>Purchases ledger account code</b>
Bridon Ltd	
Foster & Co	
Hirst & Co	

**7.9** Purchases invoices have been prepared and partially entered in the purchases day book, as shown below.

- (a) Complete the entries in the purchases day book by inserting the appropriate figures for each invoice
- (b) Total the last five columns of the purchases day book

**Purchases day book**

Date 20XX	Details	Invoice number	Total £	VAT £	Net £	Purchases type 1 £	Purchases type 2 £
30 June	Canoy Ltd	C350	1,608		1,340	1,340	
30 June	McVeigh & Co	5148		390			1,950
30 June	Robinsons	R/862	2,952			2,460	
	<b>Totals</b>						

