

FACULTY: ADMINISTRATIVE SCIENCES

SEMESTER: (2)

COURSE TITLE: FINANCIAL ACCOUNTING-2

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CHAPTER

14

**ACCOUNTING FOR
SALES**

Learning objectives



After you have studied this chapter, you should be able to:

- Distinguish between a cash sale and a sale 'on time' (otherwise known as a 'credit' sale) and between the way they are recorded in the accounting books
- Draw up a sales invoice
- Explain why multiple copies are often made of each sales invoice
- Make the appropriate entries relating to sales 'on time' in a sales day book

Learning objectives



After you have studied this chapter, you should be able to:

- make the correct postings from the sales day book to the sales ledger and general ledger
- explain how trade discounts differ from cash discounts, both in nature and in the way they are treated in the accounting books

CASH SALES



- When goods are paid for by cash, cheque or immediate transfer, they are described as ‘cash sales’.
- For accounting purposes, we do not need to know the name and address of the customer and there is no entry made in the sales day book.

Sales 'on time': credit sales

In all but the smallest business, most sales will be made 'on time'. That is, they are not paid at the time of the sale, but at some future date.

Other names for sales of this type are 'credit sales' and 'sales on credit'

Sales 'on time': credit sales



- For each credit sale, the selling business will give or send a document to the buyer showing full details of the goods sold and the prices of the goods. This document is an **'invoice'**. It is known to the buyer as a **'purchase invoice'** and to the seller as a **sales invoice**.
- The seller will keep one or more copies of each sales invoice for his or her own use.

An example of an invoice

Exhibit 14.1

Your Purchase Order: 10/A/980

INVOICE No. 16554

J. Blake
7 Over Warehouse
Leicester LE1 2AP
1 September 2013

To: D. Poole & Co
45 Charles Street
Manchester M1 5ZN

	Per unit	Total
21 cases McBrand Pears	£ 20	£ 420
5 cartons Kay's Flour	4	20
6 cases Joy's Vinegar	20	<u>120</u>
		<u>560</u>
Terms 1¼% cash discount if paid within one month		

Making entries in the sales day book

- From the copy of the sales invoice, the seller enters up the transaction in the sales day book. This book is merely a list of details relating to each credit sale:
 - date
 - name of customer
 - invoice number
 - folio column
 - final amount of invoice.

An example of the sales day book

Exhibit 14.2

Sales Day Book			(page 26)
	<i>Invoice No.</i>	<i>Folio</i>	<i>Amount</i>
2013			£
Sept 1	D. Poole	16554	560
8	T. Cockburn	16555	1,640
28	C. Carter	16556	220
30	D. Stevens & Co	16557	<u>1,100</u>
			<u><u>3,520</u></u>

Posting credit sales

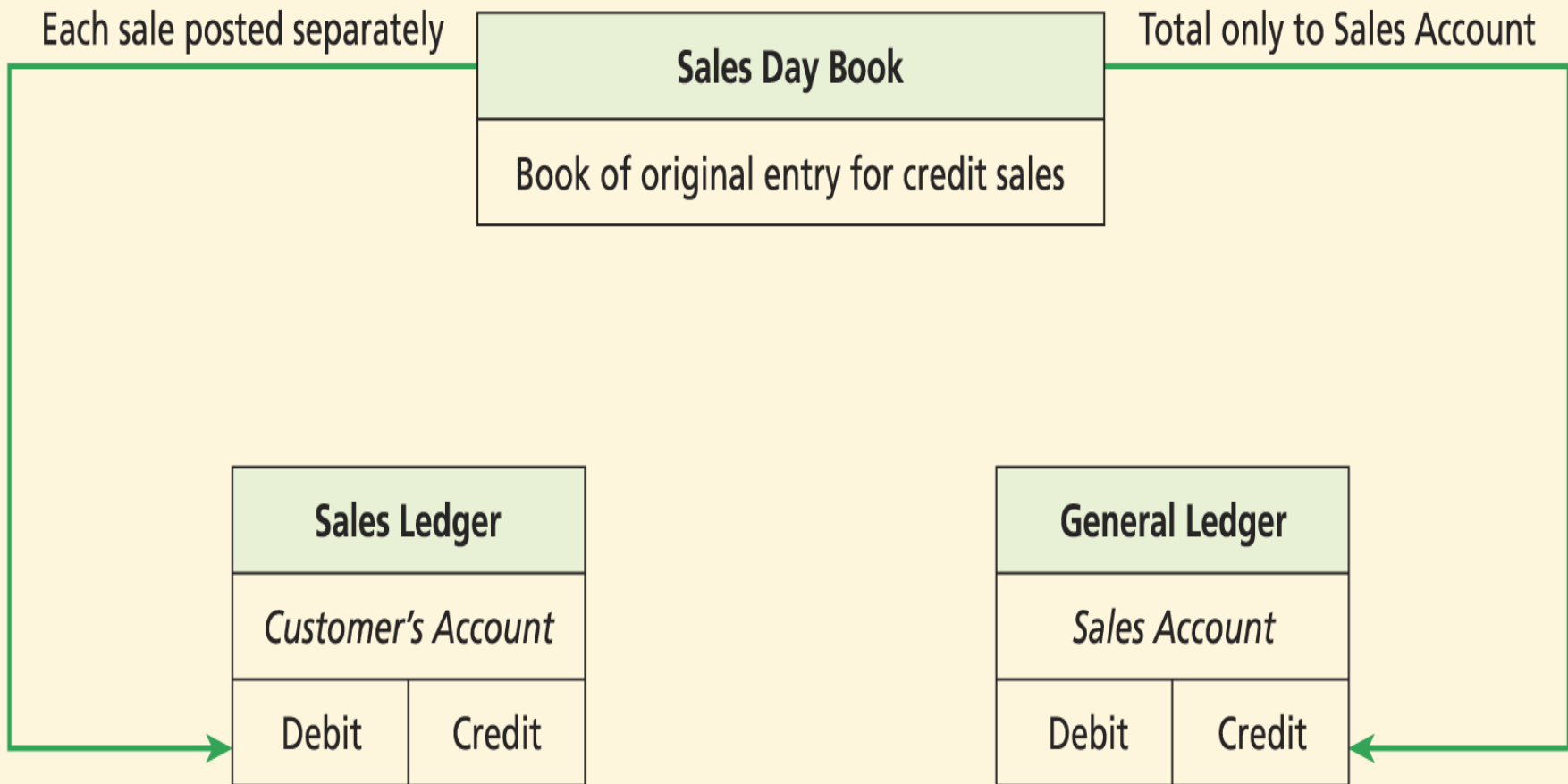


From the sales day book:

- All credit sales are posted individually to the **debit** side of each customer's account in the sales ledger.
- The total of the credit sales is posted to the **credit** of the sales account in the **general** ledger.

Posting credit sales

Exhibit 14.3 Posting credit sales



Posting credit sales



- Post the entries in the sales day book to the customer accounts in the sales ledger and the sales account in the general ledger.

Sales Day Book

(page 26)

		<i>Invoice No.</i>	<i>Folio</i>	<i>Amount</i>
2013				£
Sept	1 D. Poole	16554	SL 12	560
	8 T. Cockburn	16555	SL 39	1,640
	28 C. Carter	16556	SL 125	220
	30 D. Stevens & Co	16557	SL 249	<u>1,100</u>
	Transferred to Sales Account		GL 44	<u><u>3,520</u></u>

Posting credit sales

Sales Ledger

D. Poole

(page 12)

2013			<i>Folio</i>	£
Sept	1	Sales	SB 26	560

T. Cockburn

(page 39)

2013			<i>Folio</i>	£
Sept	8	Sales	SB 26	1,640

C. Carter

(page 125)

2013			<i>Folio</i>	£
Sept	28	Sales	SB 26	220

D. Stevens & Co

(page 249)

2013			<i>Folio</i>	£
Sept	30	Sales	SB 26	1,100

General Ledger

Sales

(page 44)

				2013			<i>Folio</i>	£
				Sept	30	Credit sales for the month	SB 26	3,520

Trade discounts



- Businesses often offer a trade discount to certain customers.
- The trade discount is a percentage figure, and will depend on the amount the customer purchases.
- Trade discount is shown on an invoice but never ever appears in the double-entry bookkeeping (unlike cash discounts).

An invoice with trade discount

Exhibit 14.4

Your Purchase Order: 11/A/G80

INVOICE No. 30756

To: D. Poole & Co
45 Charles Street
Manchester M1 5ZN

R. Grant
Higher Side
Preston PR1 2NL
2 September 2013

Tel (01703) 33122
Fax (01703) 22331

	Per unit	Total
21 cases McBrand Pears	£ 25	£ 525
5 cartons Kay's Flour	5	25
6 cases Joy's Vinegar	25	<u>150</u>
		700
Less 20% trade discount		<u>(140)</u>
		<u><u>560</u></u>

How the invoice will be recorded

Sales Day Book				(page 87)
	<i>Invoice No.</i>	<i>Folio</i>	<i>Amount</i>	
2013			£	
Sept 2 D. Poole	30756	SL 32	560	

Sales Ledger			(page 32)
D. Poole			
2013	<i>Folio</i>	£	
Sept 2 Sales	SB 87	560	