

FACULTY: ADMINISTRATIVE SCIENCES

SEMESTER: (2)

COURSE TITLE: FINANCIAL ACCOUNTING-2

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CHAPTER

16

**ACCOUNTING FOR
RETURNS**

Learning objectives



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

- Make the appropriate entries relating to returns outwards in the returns outwards day book
- Make the appropriate entries relating to returns inwards in the returns inwards day book
- Make the correct postings from the returns day books to the purchases ledger, sales ledger and general ledger
- Explain the differences between a credit note and a debit note

Returns inwards and credit notes



- When a seller agrees to take back goods and refund all or part of the amount paid, a credit note is sent to the customer.
- The customer's account is credited with the amount on the credit note to show the reduction in the amount owed.

A credit note

Exhibit 16.1

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

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

Tel (01703) 33122
Fax (01703) 22331

CREDIT NOTE No. 9/37

	Per unit	Total
2 cases McBrand Pears	£ 25	£ 50
Less 20% trade discount		(10)
		<u>40</u>

Returns inwards day book

- The credit notes are listed in a returns inwards day book. This is then used for posting the items, as follows:
 1. Sales ledger: credit the amount of credit notes, one by one, to the accounts of the customers in the ledger.
 2. General ledger: at the end of the period the total of the returns inwards day book is posted to the debit of the returns inwards account.

An example

Exhibit 16.2

Returns Inwards Day Book				(page 10)	
		<i>Note No.</i>	<i>Folio</i>	<i>Amount</i>	
2013				£	
Sept	8	D. Poole	9/37	SL 12	40
	17	A. Brewster	9/38	SL 58	120
	19	C. Vickers	9/39	SL 99	290
	29	M. Nelson	9/40	SL 112	<u>160</u>
Transferred to Returns Inwards Account				GL 114	<u><u>610</u></u>

Sales Ledger*D. Poole**(page 12)*

	2013			<i>Folio</i>	£
	Sept	8	Returns inwards	RI 10	40

*A. Brewster**(page 58)*

	2013			<i>Folio</i>	£
	Sept	17	Returns inwards	RI 10	120

*C. Vickers**(page 99)*

	2013			<i>Folio</i>	£
	Sept	19	Returns inwards	RI 10	290

*M. Nelson**(page 112)*

	2013			<i>Folio</i>	£
	Sept	29	Returns inwards	RI 10	160

General Ledger*Returns Inwards**(page 114)*

2013				<i>Folio</i>	£
Sept	30	Returns for the month		RI 10	610

Returns outwards and debit notes



- If the supplier agrees, goods bought previously may be returned. When this happens a debit note is sent by the customer to the supplier giving details of the goods and the reason for their return.
- The credit note received from the supplier will simply be evidence of the supplier's agreement, and the amounts involved
- Debit notes are entered in the returns outwards day book.

A debit note

Exhibit 16.3

To: R. Grant
Higher Side
Preston PR1 2NL

D. Poole & Co
45 Charles Street
Manchester M1 5ZN
7 September 2013

Tel (0161) 488 2142
Fax (0161) 488 2143

DEBIT NOTE No. 9.22

	Per unit	Total
2 cases McBrand Pears damaged in transit	£ 25	£ 50
Less 20% trade discount		(10)
		<u>40</u>

Returns outwards day book



- The debit notes are listed in a returns outwards day book. This is then used for posting the items, as follows:
 1. Purchases ledger: debit the amounts of debit notes, one by one, to the personal accounts of the suppliers in the ledger.
 2. General ledger; at the end of the period, the total of the returns outwards day book is posted to the credit of the returns outwards account.

Exhibit 16.4

Returns Outwards Day Book

(page 7)

	<i>Note No.</i>	<i>Folio</i>	<i>Amount</i>
2013			£
Sept 7 R. Grant	9.22	PL 29	40
16 B. Rose	9.23	PL 46	240
28 C. Blake	9.24	PL 55	30
30 S. Saunders	9.25	PL 87	<u>360</u>
Transferred to Returns Outwards Account		GL 116	<u><u>670</u></u>

Statements



- At the end of each month, a business will send a statement to each debtor who owes money on the last day of the month.
- A statement is a copy of the debtor's account in the supplier's books.
- A statement should show the amount owing at the start of the month, all sales invoices, all credit notes, any payments from the debtor and the amount due at the end of the month.
- Debtors should always check the statement against their version of the account.

A statement

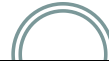


Exhibit 16.6

STATEMENT OF ACCOUNT

R. GRANT
Higher Side
Preston PR1 2NL
Tel (01703) 33122
Fax (01703) 22331

Accounts Dept
D. Poole & Co
45 Charles Street
Manchester M1 5ZN

<i>Date</i>	<i>Details</i>	<i>Debit</i>	<i>Credit</i>	<i>Balance</i>
2013		£	£	£
Sept 1	Balance b/d			880
2	Invoice 30756	560		1,440
8	Returns 9/37		40	1,400
25	Bank		880	520
Sept 30	Balance owing c/d			520
All accounts due and payable within 1 month				