

6.2 ► Source Documents

As we have seen, transactions are first recorded by accounting personnel as journal entries. Where is the information about the transactions obtained? It is obtained from source documents. Source documents were briefly introduced in Chapter 3. In this chapter, they will be studied in detail.

A number of business transactions are started outside the accounting department. These transactions are initiated not by accounting personnel, but by the owner, sales-people, department supervisors, managers, and other authorized people.

The accounting department is informed of transactions by means of business papers that are sent to it. These business papers are called source documents.

* A source document is a business paper that shows the nature of a transaction and provides all of the information needed to account for it properly. The accounting department uses the source documents as the basis for recording the accounting entries. Almost every accounting entry is based on a source document.

A company is required to keep source documents on file. They will be used within the office for reference purposes, for locating errors, and so on. As well, source documents provide the factual evidence to verify transactions of the business. To auditors, for example, source documents provide proof that the accounting records have been prepared accurately and honestly.

Several basic source documents will be explained and illustrated in the next few pages. For each, the journal entries are given and explained. They are considered to be basic source documents because they are used in the most common business transactions. A company called Masthead Marine, owned by David Scott of Vancouver, BC, is used to illustrate these source documents and their journal entries. Masthead Marine is in the business of selling boats, marine equipment, and boat parts and supplies. The revenue account for Masthead Marine is called Sales.

Cash Sales Slip (Revenue)

A **cash sales slip** is a business form showing the details of a transaction in which goods or services are sold to a customer for cash. Usually, there is an original and at least one copy. The features of a cash sales slip and the uses for the copies are shown in Figure 6.4.

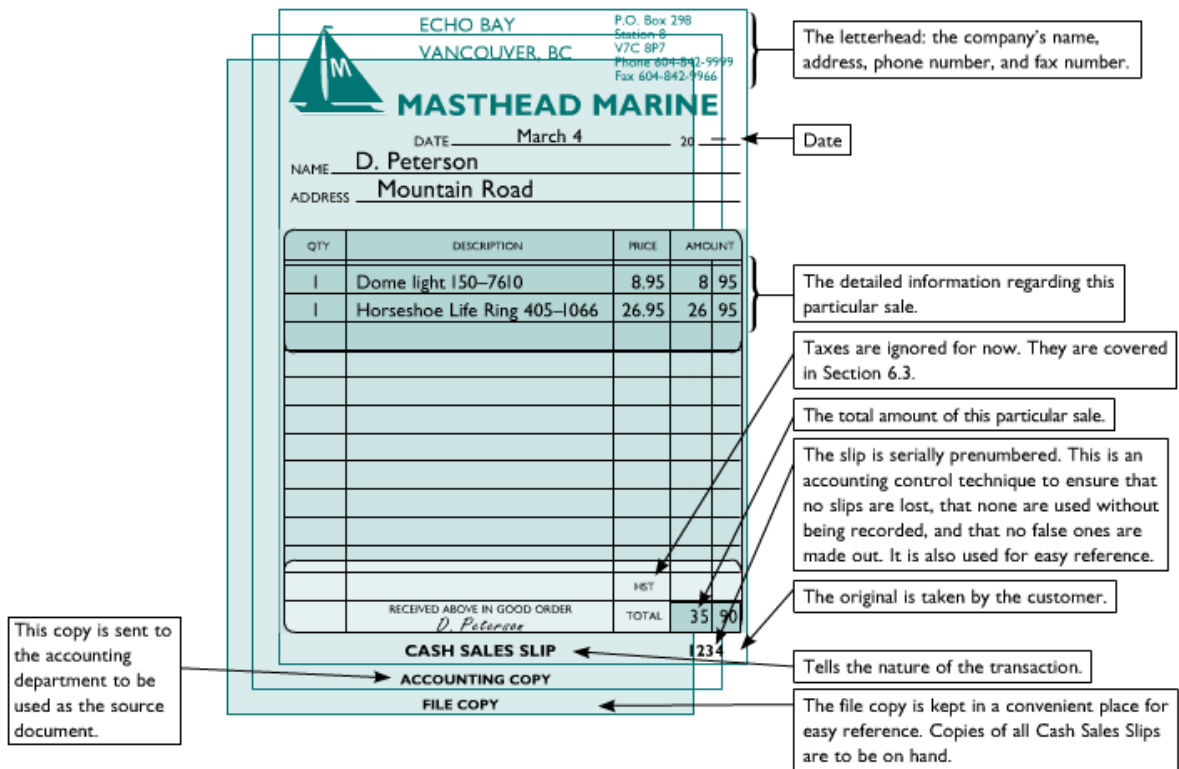


Figure 6.4
Cash sales slip representing a sale of goods or services for cash

Journal Entry for a Cash Sales Slip

The accounting copy goes to the accounting department as the source document for the journal entry. For the above sales slip, the journal entry is

Dr. Bank \$ 35.90
 Cr. Sales/Revenue \$ 35.90

Sales Invoice (Revenue)

Many businesses do not deal with the general public and therefore normally do not have cash sales. Businesses of this type make nearly all their sales on account. For each sale on account, a sales invoice is issued to the customer. A **sales invoice** is a business form showing the details of a transaction in which goods or services are sold on account. Usually, there is an original and several copies. The features of a sales invoice and the uses for the copies are shown on the next page in Figure 6.5.

If one of a business's prenumbered source documents is accidentally spoiled, it should be marked VOID and kept, so that all such documents can be accounted for.

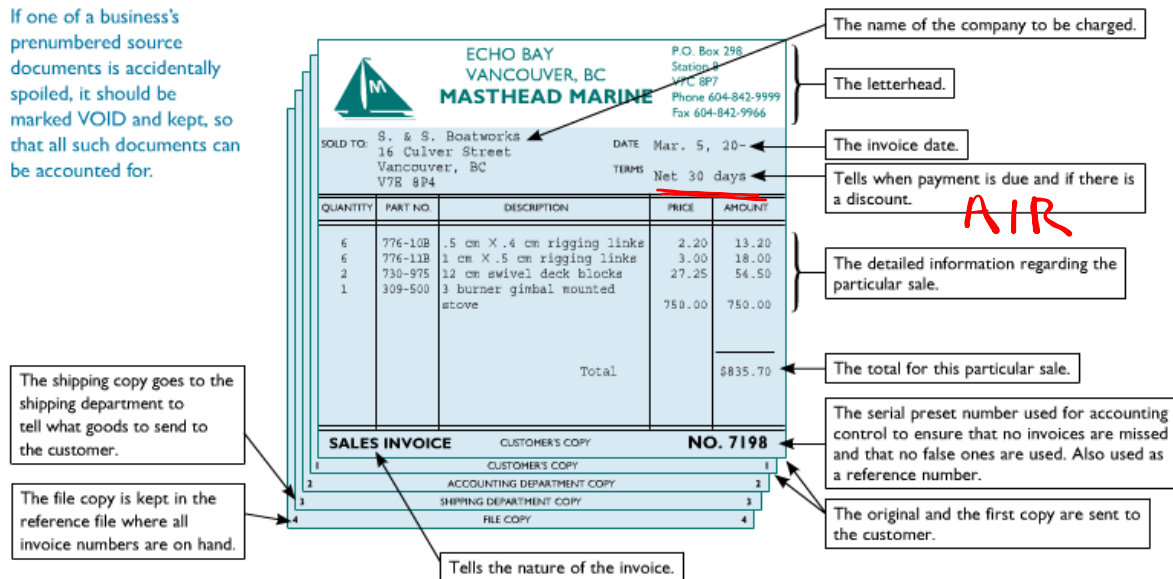


Figure 6.5

A sales invoice representing a sale of goods or services on account

In any sales transaction, the party that sells is known as the *vendor*, and the party that buys is known as the *purchaser*. In this case, Masthead Marine is the vendor and S. & S. Boatworks is the purchaser.

Journal Entry for a Sales Invoice

The accounting copy goes to the accounting department as the source document for the journal entry to record the sale. For this sales invoice, the journal entry is

Dr. AIR S & S Boatworks \$ 835.70
 Cr. Sales/Revenue \$ 835.70

Point of Sale Summaries (Revenue)

Credit cards and debit cards are common forms of payment. A key piece of technology that makes them convenient is the point of sale terminal. A **point of sale (POS) terminal** is a computerized sales register that allows a business and its customers to exchange funds electronically. You will learn more about credit cards, debit cards, and POS terminals in Chapter 9. For now, you will concentrate on the journal entry required when credit and debit cards are used.

At the end of a business day, an accounting clerk can use the POS terminal to print at least two source documents. One is the Host Reconciliation/Card Summary shown in Figure 6.6 on the next page. This **POS summary** provides sales information for a particular day.

Host Reconciliation/ Card Summary October 30, 20--		
Visa	7 Sale	412.50
	1 Return	-27.50
	0 Void	
M/C	2 Sale	32.56
	0 Return	
	0 Void	
Debit	6 Sale	325.62
	0 Return	
	0 Void	
		743.18

Figure 6.6

A point of sale summary called Host Reconciliation/Card Summary

You can see that this POS summary reveals the sales activities of three cards: Visa, MasterCard, and debit cards. It is referred to as a host reconciliation because the business (the host) will compare the total at the bottom (\$743.18) to an amount that will appear on the bank statement. (Bank statements are prepared monthly by the business's financial institution.)

The other common POS summary is a report called a transaction log. A **transaction log** is a document generated by a point of sale terminal that contains detailed information about each transaction. This information includes each customer's name and card number. The transaction log is for reference and is especially useful when a customer disputes a transaction.

Journal Entry for POS Summaries

It is important for you to realize that credit and debit card transactions are ultimately treated as cash receipts from the business's point of view. This means that the total shown near the bottom of Figure 6.6 represents the net cash deposit for the credit and debit card transactions that occurred on October 30th. The journal entry for the source document in Figure 6.6 is

Dr. Bank \$ 743.18
Cr. Sales/Revenue \$ 743.18

Purchase Invoice

Masthead Marine is not always the vendor company. Often, it makes purchases from other companies. Then it is the purchaser company. When Masthead Marine makes a purchase on account from a supplier, the company supplying the goods issues a sales invoice to Masthead Marine. When the vendor's invoice arrives at the office of Masthead Marine, it becomes a purchase invoice. A **purchase invoice** is a business form representing a purchase of goods or services on account. It is the name used in the office of the purchaser to differentiate between its own sales invoices and those of its suppliers.

Two examples of purchase invoices are shown in Figures 6.7 and 6.8.

GENERAL ENGINEERING
400 WEST BLVD
VANCOUVER, BC
V7C 1T3

IN ACCOUNT WITH
Masthead Marine
Box 298, Station 8
Vancouver, BC
V7C 8P7

DATE March 6, 2018 TERMS Net 30 days

INSTRUCTIONS		HOURS	LABOUR
Replace lift chain and repair cogwheel on mobile hoist		5	
Tune up		2	
		7	140 -

QTY.	PART NO.	DESCRIPTION	PRICE	AMOUNT	PARTS
1	3217	chain	57.00	57.00	
1	3641	connecting link	5.00	5.00	
1	4729	cogwheel	27.00	27.00	
1	2728	axle bearing	12.50	12.50	
TOTAL PARTS					101 50
HST					
TOTAL					241 50

NO. 4123

General Engineering's invoice number will be used only for reference by Masthead Marine. This number does not match anything in Masthead Marine's system.

The name of the vendor. The company is to be credited in an account payable.

The invoice date.

Shows how long Masthead Marine has to make the payment.

A/P

Provides complete information regarding the service performed and the parts needed to make the repair.

Taxes are ignored for now. They are explained in Section 6.3.

The total amount of the bill.

Figure 6.7

A purchase invoice for repairs to a lift truck

Dr. Truck/Repairs Expense. \$241.50
Cr. A/P General Engineering \$241.50

Phone 604-842-0107		COLEMAN BOATS		INVOICE NO 236	The name of the vendor. The company to be credited in an account payable.
Sold to: Masthead Marine Box 298, Station 8 Vancouver, BC V7C 8P7		99 Wharf Road Vancouver, BC V7B 1P3		Date March 6, 20-	For reference purposes.
				Terms <u>Net 30</u>	Shows how long Masthead Marine has to make payment.
Quantity	Part No.	Description	Price	Amount	
10	88	Coleman posters	24.00	240.00	A complete description of the goods purchased.
			HST		Taxes are ignored for now. They are explained in Section 6.3.
			Total	240.00	The total amount of the bill.

A/P

Figure 6.8

A purchase invoice for advertising posters

Journal Entries for Purchase Invoices

Masthead Marine buys a variety of goods and services from numerous suppliers. No single journal entry will do for all of the different items purchased. The account debited will depend on what particular goods or services are purchased. The account credited will always be the same—accounts payable.

Dr. Advertising Expense \$240.00
 Cr. A/P Coleman Boats \$240.00

Cheque Copies

Even in this electronic age, most business payments are made by cheque. The cheques themselves are sent out in the mail. A **cheque copy** is a document supporting the accounting entry for a payment by cheque.

Cheques may be issued for any number of reasons: cash purchases, wages, owner's withdrawals, payments on account, and so on. Most cheques are issued to pay for things previously bought on account and supported by purchase invoices on file. The purchase invoices being paid are summarized on the tear-off portion of the cheque. This is shown in Figure 6.9.

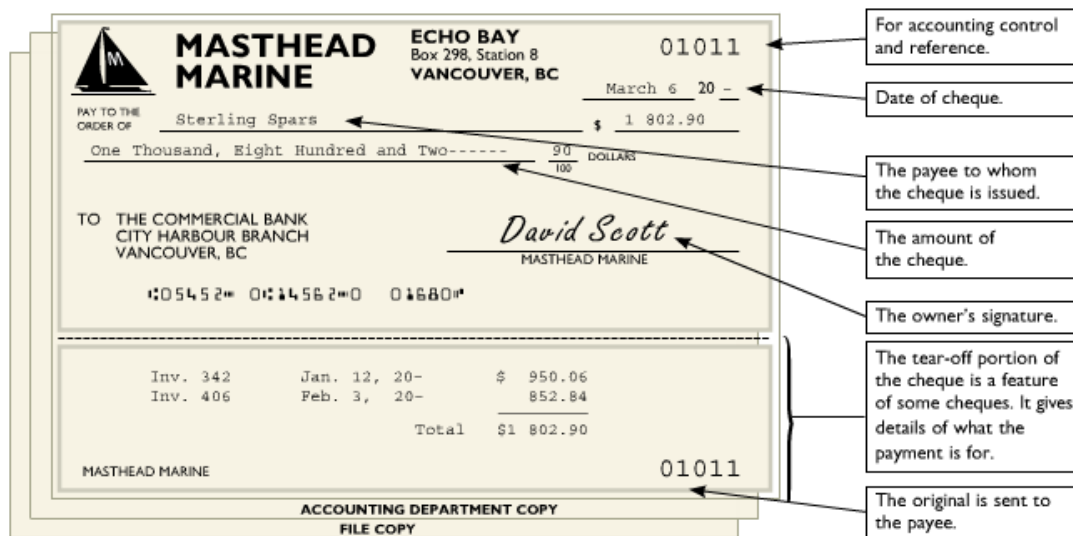


Figure 6.9

A cheque representing a payment made by the company. The accounting department copy of this cheque is the source document for the payment.

A payment might be for a cash purchase, that is, a purchase paid for at the time it was made. In such a case, the cheque copy itself is not sufficient proof that the payment is proper. A bill or receipt is also needed to support the accounting entry for a cash purchase.

Journal Entry for a Cheque Copy

The accounting department copy is sent to the accounting department where it is used as the source document for the transaction. The debit part of the journal entry depends on the nature of the transaction. The credit part of the journal entry is always to Bank. For this particular cheque copy, the journal entry is

Dr. A/P Sterling Spars \$1802.90
 Cr. Bank \$1802.90

Cash Receipts Daily Summary

Each day in business, some cheques are usually received from customers. These are referred to as the cash receipts. The cheques themselves cannot be kept to support the accounting entries. The cheques must be deposited in the bank. Therefore, before making the deposit, a list of the cash receipts should be prepared by the mail clerk or another employee.

The **cash receipts daily summary** is a business paper that lists the money coming in from customers. The cash receipts list is the source document for the accounting entries for cash receipts. This list shows the names of the customers, the dollar amounts sent (remittances), and what the amounts are paying for in each case. To help prepare this form, the clerk uses the information on the tear-off portions of cheques received, or remittance advices sent along with the cheques. A **remittance advice** is a form accompanying the cheque explaining the payment. Sometimes it is no more than a copy of the invoice.

A cash receipts daily summary is shown in Figure 6.10 below.

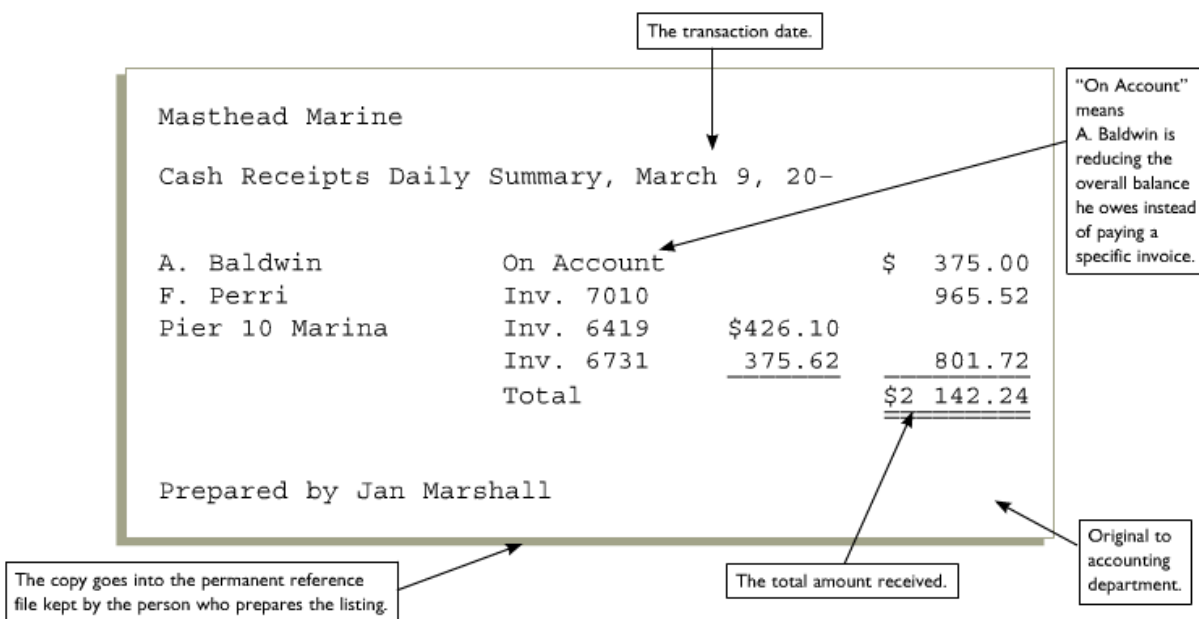


Figure 6.10
A cash receipts daily summary

Journal Entry for a Cash Receipts Daily Summary

The original list goes to the accounting department as the source document for the accounting entry. For the cash receipts list above, the journal entry is

Dr. Bank \$ 2142.24
 Cr. A/R A. Baldwin \$ 375.00
 Cr. A/R F. Perri \$ 965.52
 Cr. A/R Pier 10 Marina \$ 801.72

Bank Advices

There are times when the bank itself initiates a change in the bank account of a business. The bank informs the business of such a transaction by means of a bank advice or bank memo. A **bank debit advice** is a bank document informing the business of a decrease made in the business's bank account. A **bank credit advice** is a bank document informing the business of an increase made in the business's bank account.

A debit decreases the balance of Masthead Marine's account because from the bank's point of view, the account is a liability. If you need to know more about the concept behind this apparent role reversal, review Case 1 in Chapter 4 on page 128.

In Figure 6.11, the Commercial Bank has sent a bank debit advice to Masthead Marine, telling them that their account was charged interest on a bank loan.

THE COMMERCIAL BANK
CITY HARBOUR BRANCH
VANCOUVER, BC

13268

DESIG. NO: 0220 ACCOUNT NUMBER: 02116754 T/C: 74

Mar 9 20

YOUR ACCOUNT HAS TODAY BEEN DEBITED WITH THE FOLLOWING

	AMOUNT
Interest on bank loan	113.50
TOTAL	113.50

TO: Masthead Marine
Box 298, Station 8
Vancouver, BC
V7C 8P7

C.W.
MANAGER

ADVICE TO CUSTOMER

Tells whether the account has been debited or credited. (points to T/C)

Date of the entry. (points to Mar 9 20)

An explanation for the entry. (points to Interest on bank loan)

Amount of the entry. (points to 113.50)

Figure 6.11

A bank debit advice

Journal Entry for a Bank Advice

The bank advice goes to the accounting department as the source document for the journal entry. In this case, the journal entry is

Dr. Interest Expense \$113.50
Cr. Bank \$113.50

Summary of Source Documents and Related Journal Entries

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Source documents provide the foundation on which accounting information is built. If the foundation is to be sound, source documents must be first interpreted by accounting personnel, who then enter proper debit and credit amounts. Pay close attention to the names of the source documents listed on the left side of the table below. If you learn them well, you will quickly come up with the correct journal entries listed on the right side of the table shown.

Source Document	Transaction Description	Journal Entries	
		Account(s) Debited	Account(s) Credited
Cash sales slip; POS summaries	A sale of goods or services for cash	Bank	Sales or Revenue
Sales invoice	A sale of goods or services on account	Accounts Receivable	Sales or Revenue
Purchase invoice	A purchase of goods or services on account	1. An expense account, such as Advertising 2. An asset account, such as Supplies or Equipment	Accounts Payable
Cheque copy	1. Paying an account payable 2. Cash purchase of an asset * 3. Cash payment for an expense * 4. Owner draws out money for personal use	1. A liability account, such as Accounts Payable 2. An asset account, such as Automobiles 3. An expense account, such as Rent Expense 4. The Drawings account	Bank
Cash receipts daily summary	The cheques received from customers on account	Bank	Accounts Receivable
Bank debit advice	Bank account decrease	Interest Expense or other account	Bank
Bank credit advice	Bank account increase	Bank	Interest Earned or other account

* Must be accompanied by a bill or receipt.

Additional Supporting Documents

In addition to the source documents listed above, you may encounter the following:

- receipts, such as those for donations or postage
- bills, such as hydro or telephone charges
- email invoices
- online banking transactions with accompanying confirmation numbers

Homework

Section 6.2 on page 193

SECTION 6.2 REVIEW QUESTIONS (page 193)

1. *Some transactions that require journal entries are initiated by the owner, sales people, department supervisors, managers, and other authorized people.*
2. *The accounting department learns about all the transactions in a business through the source documents that are sent to the accounting office.*
3. *A source document is a business paper that provides all the details about a business transaction.*
4. *Source documents are used by the accounting department as the primary source of information for accounting entries.*
5. *A transaction that would not have a conventional source document would be a withdrawal of money, by the owner, from the business for personal use.*
6. *The employees outside of the accounting department who made the transactions may need to see the source documents on file to check the details. An auditor may also need to see the source documents.*
7. *A cash sales slip is a business form used to record the details of a cash sale.*
8. *A sales invoice represents a sale on account, which has yet to be paid for, while a cash sales slip represents a sale for cash, which has been paid in full.*
9. *The vendor is the business selling the goods or services.*
10. *A point of sale terminal is a computerized sales register that allows a business and its customers to exchange funds electronically.*
11. *False. When a customer uses a credit card to purchase an item, the business debits Bank because credit card purchases are treated like cash receipts.*
12. *A purchase invoice is a document received from a supplier when you purchase goods or services on account. The supplier calls it a sales invoice but you, the buyer, refer to it from your own point of view as a purchase document.*
13. *All journal entries for purchase invoices are not the same because businesses purchase a variety of goods and services from many different suppliers. Some purchases, for example, will be for assets, others will be for services (expenses). While the debits change for purchase invoices, the credit to accounts payable remains constant.*
14. *A cheque itself is not used as a source document because it must be sent out to the payee. A copy of the cheque is kept and used as a source document.*
15. *In business, a payment on account is the most common transaction for which a cheque is issued.*
16. *The supporting documents that are needed for payment by cheque are an invoice or bill that shows the details of the transaction and a copy of the cheque.*
17. *Cash receipts are the cash and cheques that are received by a company in the course of doing business.*

18. *It is necessary to prepare a cash receipts daily summary because the cheques a company receives as payment cannot be kept as source documents. They must be sent to the bank to be cashed. The cash receipts daily summary and copies of the cheques are source documents for the funds received.*
19. *The clerk prepares the cash receipts listing using the tear-off portion of the cheques and the remittance advices that accompany the cheques.*
20. *Banks issue bank advices to inform clients about transactions in their bank accounts that originate from the bank. The bank will also use bank statements to inform clients of such transactions.*
21. *From the bank's point of view, a client's bank account is a liability. To decrease a client's account requires a debit entry because it is a liability account, so a debit memo is sent to inform the client. From the business's point of view, their bank account is an asset. The debit memo is a decrease in their bank account, so it requires a credit entry at the business's end.*

Exercise 1, p. 193

- A. The document is a cash receipts daily summary.
- B. The cash receipts daily summary is a source document for cheques coming in from customers on account.
- C. The cash receipts daily summary is compiled from cheques and remittance advices.
- D. The cash receipts daily summary is prepared because the cheques cannot be used as source documents since they will be deposited in the bank.
- E. On account means that the amount received is to pay some portion of an outstanding account balance. Invoice 4502 means that the cheque is to pay for that specific invoice.
- F.

DATE		PARTICULARS	DEBIT					CREDIT			
<i>Mär.</i>	<i>14</i>	<i>Bank</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>0</i>	<i>03</i>				
		<i>A/R—Degagne Machine Shop</i>						<i>5</i>	<i>0</i>	<i>0</i>	<i>—</i>
		<i>A/R—Kivella Bake Shop</i>						<i>3</i>	<i>1</i>	<i>5</i>	<i>43</i>
		<i>A/R—Molner Paints</i>						<i>2</i>	<i>1</i>	<i>4</i>	<i>60</i>
		<i>A/R—Robitaille Taxi</i>						<i>2</i>	<i>0</i>	<i>0</i>	<i>—</i>

- G. G. Smalley is the clerk who prepared the cash receipts list.

Exercise 2, p. 194

- A. The document is a cash sales slip.
- B. The cash sales slip is a source document that provides evidence and details of a transaction where goods or services are sold for cash.
- C. Davidson Tree Experts issued the document.
- D. The document number is an accounting control method that ensures all cash sales are recorded and no slips are lost or faked. It also provides a reference number in case the transaction needs to be referred to later.
- E.

DATE		PARTICULARS	DEBIT				CREDIT				
Mar. ³⁰⁻	10	Bank		3	3	0	-				
		Fees Earned						3	3	0	-

Exercise 3, p. 195

- A. The document is a sales invoice and a purchase invoice.
- B. Knutsen and Trebley is the sender. Hansen and Company is the recipient.
- C. It is a sales invoice to Knutsen and Trebley. It is a purchase invoice to Hansen and Company.
- D.

DATE		PARTICULARS	DEBIT				CREDIT				
Mar. ³⁰⁻	17	A/R—Hansen and Company		4	9	8	50				
		Fees Earned						4	9	8	50

E.

DATE		PARTICULARS	DEBIT				CREDIT				
Mar. ³⁰⁻	17	Legal Expense		4	9	8	50				
		A/P—Knutsen and Trebley						4	9	8	50

Exercise 4, p. 195

- A. *The document is a cheque.*
- B. *Presto-Can Company is my employer.*
- C. *The document was sent to my company in payment of three sales invoices.*
- D. *The broken line divides the cheque from the tear-off portion of the cheque.*
- E. *The information beneath the broken line shows which invoices this cheque is to pay for, along with a total.*
- F.

DATE	PARTICULARS	DEBIT	CREDIT
<i>Mär. 10</i>	<i>Bank</i>	<i>1 3 6 8 30</i>	
	<i>A/R—Carbide Tools Limited</i>		<i>1 3 6 8 30</i>

- G. *The upper portion of the document, the cheque, is deposited in the bank.*

Exercise 5, p. 196

- A. *The document is a bank credit advice.*
- B. *A journal entry is necessary in the books of Elektroniks Company.*
- C.

DATE	PARTICULARS	DEBIT	CREDIT
<i>Mär. 6</i>	<i>Bank</i>	<i>3 6 2 04</i>	
	<i>Interest Earned</i>		<i>3 6 2 04</i>