Topic 3

Source documents

After studying this chapter, you should be able to:
- understand the purpose of source documents,
- distinguish between the source documents,
- complete a source document,
- determine the subsidiary journals in which the source documents are recorded.

3.1 What is the purpose of a source document

A source document is used for every transaction in a business as proof that the transaction occurred. The source documents are used by the accountant to record the transactions in the subsidiary journals. The source document completed is the first step in the accounting cycle.

3.2 Source documents and subsidiary journals

For each transaction that occurs in the business a source document is received or issued to record entries in the subsidiary journals. When source documents are issued, the original document is given to the client and the duplicate is used to record the transaction in the subsidiary journal.

- When goods are sold for cash a cash invoice or *cash register slip* is issued. The duplicate is used to record the transaction in the *cash receipts journal*. When a *direct deposit or EFT* is used to pay money in a bank account, the bank statement is used as source document. When a client uses a *debit card or credit card* to pay for cash sales, a cash register slip is issued to the client. Therefore, the *cash register role or bank statement* can be used as source document. Cash received is recorded in the cash receipts journal.
- When an *EFT* or debit card is used to pay for inventory or other assets purchased, payment to creditors or loan repaid, other expenses paid, etc, the transaction is recorded in the *cash payments journal*, CPJ).
- When cash is taken from the petty cash to pay expenses, a *petty cash voucher* is completed. The transaction is recorded in the petty *cash journal*.
- When goods are sold on credit a *credit invoice* is issued. The original is given to the client, and the duplicate is used to record the transaction in the *debtors' journal*.
- When goods are returned by a client a *credit note* is issued. The credit note is used to record the transaction in the *debtors' allowances journal*.
- When goods are purchased on credit the original *credit invoice* is received and is used to record the transaction in the *creditors' journal*.
- When goods are returned to a creditor a *debit note* is issued. If the creditor is prepared to give an allowance a *credit note* is received. The transaction is recorded in the *creditors' allowances journal*.

Source documents used:

An *invoice* is *issued* when goods are sold, or services are rendered on credit.

An *invoice* is *received* when goods are bought, or services are received on credit.

An *EFT is used* when money is paid out of the bank account.

A *debit card or credit card* can be used by a client to pay for cash sales.

A *receipt* is *issued* as proof of payment when money is received.

A *credit note* is *issued* when the account of a debtor is reduced.

A *credit note* is *received* when the account of a creditor is reduced.

A *cash register roll* or *cash invoice* is *issued* when goods or services are rendered for cash.

A *petty cash voucher* is being used for payments from petty cash. The entries are recorded in the petty cash journal.

Subsidiary journals used:		
Cash received	Cash receipts journal	CRJ
Cash paid	Cash payments journal	CPJ
Goods sold on credit	Debtors' journal	DJ
Goods returned by debtors	Debtors' allowances journal	DAJ
Goods purchased on credit	Creditors journal	CJ
Goods returned to trade creditors	Creditors allowances journal	CAJ

3.3 Use of source documents

	Transaction	Source document	Purpose of source document	Journal
1	The owner contributes capital to the business.	Duplicate receipt	Proof of money received by the business.	CRJ
2	The owner uses money for his personal use.	Bank statement as proof of internet payments. (EFT)	Proof of money paid by the business.	CPJ
3	Money used to buy fixed assets, for example land and buildings, vehicles, furniture and equipment.	Bank statement as proof of internet payments. (EFT)	Proof of money paid by the business.	CPJ
4	Land and buildings, vehicles, furniture and equipment purchased on credit.	Original credit invoice received.	Proof of credit purchases.	CJ
5	Trading stock purchased for cash.	Bank statement	Proof of money paid by the business.	CPJ
6	Trading stock purchased on credit.	Original credit invoice received.	Proof of credit purchases.	CJ
7	Trading stock sold for cash.	CRR or duplicate cash invoice issued.	Proof of cash sales.	CRJ
8	Trading stock sold on credit.	Duplicate credit invoice issued.	Proof of credit sales.	DJ
9	Expenses paid.	Bank statement	Proof of money paid by the business.	CPJ
10	Income received.	Duplicate receipt	Proof of money received by the business.	CRJ

11	Services rendered for cash.	CRR or duplicate cash invoice issued.	Proof of cash received for services rendered.	CRJ
12	Services rendered on credit.	Duplicate credit invoice issued.	Proof of services rendered on credit.	DJ
13	Payment to creditors.	Bank statement	Proof of money paid by the business.	CPJ
14	Money received from debtors.	Duplicate receipt	Proof of money received by the business.	CRJ
15	Goods returned to creditors.	Original credit note received.	Proof of goods returned that will reduce outstanding debt.	CAJ
16	Goods returned by debtors.	Duplicate credit note issued.	Proof of goods returned that will reduce outstanding debt.	DAJ
17	Money deposited in the bank.	Duplicate bank deposit slip.	Proof of money deposited in the bank.	CRJ
18	EFT/Electronic transfer.	Bank statement.	Proof of money deposited or paid out of the bank account.	CRJ/CPJ
19	Small amounts paid out of petty cash.	Petty cash voucher.	Proof of money paid out of petty cash.	PCJ

Question 1

Indicate the purpose of the source document and the journal used.

1.	**Cash register roll**
	Purpose:
	Journal:
2.	**Bank deposit slip**
	Purpose:
	Journal:
3.	**Bank statement**
	Purpose:
	Journal:
4.	**Receipt**
	Purpose:
	Journal:
5.	**Invoice received**
	Purpose:
	Journal:
6.	**Debit note issued**
	Purpose:
	Journal:
7.	**Credit note received**
	Purpose:
	Journal:
8.	**Invoice issued**
	Purpose:
	Journal:
9.	**Credit note issued**
	Purpose:
	Journal:

3.4 Examples of source documents

Example 1

Like2understand is a business that uses the internet for classes in Accounting. The following invoice was received from accountants2be for printed advertisements.

ACCOUNTANTS 2 BE
ACCELERATE YOUR SKILLS

INVOICE

Date *2 February 2024*

Invoice Nr *18*

From: ***Accountants2Be***
289 Mall Street
Lynnwood 0042
(012) 123 4567

To: Like2Understand
PO Box 905
Pretoria 0001

Description	Quantity	Amount
Advertising	1 000	R529.00
	Total	R529.00

The payment will be made with an EFT (electronic fund transfer) to transfer money from the bank account of the business to the bank account of accountants2be.

At the end of the month the payments can be checked with the bank statement received from the bank. All the cash deposits, direct deposits and EFT payments into the bank account of the business and drawings by way of an EFT, drawings at an OTM, stop order, etc, will appear on the bank statement.

The bank statement is used to ensure that entries, in the cash receipts journal and cash payments journal, are correct and mistakes and omissions are corrected. The reconciliation with the bank statement is also used to prevent fraud.

The following receipt was received.

ACCOUNTANTS 2 BE
ACCELERATE YOUR SKILLS

RECEIPT

Date 2024-02-02

Receipt Nr. 44

Received From Like2understand

The sum of Five hundred and twenty nine rand

Amount **R529.00**

Payment for Advertising

Accountants2Be
289 Mall Street
Lynnwood 0042
(012) 123 4567
info@accountants2be.co.za

Paid by
[ ] Cash
[X] EFT
[ ] Credit Card

C Els

Signature

1	**INVOICE**
1.1	**What is the name of the business responsible for the printing of the advertisements?**
	Accountants2be
1.2	**What was the cost for the advertisements?**
	R529
1.3	**Was this a cash or credit transaction?**
	Cash transaction
ELECTRONIC FUND TRANSFER	
1.4	**To whom was the payment made?**
	Accountants2be
1.5	**Who may withdraw money by way of an EFT from the bank account?**
	Only one authorized person in the business can transfer money. Only the authorized person or approved senior staff member will have a password for the bank account to affect a transfer of money.
1.6	**Name two reasons why only certain staff members are allowed to do an EFT?**
	It prevents fraud because unauthorized can't withdraw money out of the bank account. It improves internal control.
RECEIPT	
1.7	**Who must sign the receipt?**
	The person receiving the money must complete a receipt as proof that any money was received. It will be able to identify the person who received the money should any enquiries arise about the payment of the money.
1.8	**Explain why the amount is written in words and figures on the receipt?**
	The amount in words and figures should appear on the receipt to prevent fraud. The person receiving the money will not be able to make any changes to the figures on the receipt.
1.9	**Why must the reason for the money received be indicated on the receipt?**
	The bookkeeper should be able to identify the reason for the payment of the money, in order to allocate the amount correctly in the financial records of the business.
GENERAL: ELECTRONIC FUND PAYMENT	
1.10	**In which journal will an EFT issued be recorded?**
	In the cash payments journal because the money is paid out of bank of like2understand.
1.11	**Is the payment classified as an income or expense in the books of like2understand?**
	Expense because it reduces the profit.
1.12	**Which source document is used to record the payment in the journal?**
	Bank statement
1.13	**Indicate the account debited.**
	Advertising expense increase on the debit side.
1.14	**Indicate which account is debited.**
	Bank – assets decrease on the credit side.
1.15	**Indicate how the transaction will affect assets.**
	Assets decreases because there is less money in the bank.
1.16	**Indicate how the transaction will affect equity.**
	Equity decreases because the profit of the business decreases when expenses decrease. The owner receives less profit.

Question 2

The following information was obtained from Brown Dealers.

1. Received R800 from Protea Florist for rent of part of the premises.
2. Cash sales, R4 000.
3. Paid R200 to TELKOM for the telephone account.
4. Money taken from petty cash to pay for stationery, R40.
5. Goods sold on credit to P. Nel, R500.
6. Goods purchased on credit from Quality Distributors, R2 000.
7. Goods returned to Quality Distributors, R200.
8. Goods returned by P. Nel, R30.

Identify the source documents that will be used to record the above-mentioned transactions in the subsidiary journals.

No	Source document	Subsidiary journal
1		
2		
3		
4		
5		
6		
7		
8		

Question 3

Match the correct answer in Column 2 with Column 1. Provide the correct letter.

Column 1		Column 2		Answer
1.	Bank statement	A.	Goods purchased on credit.	
2.	Receipt	B.	Goods returned to supplier.	
3.	Cash register roll	C.	Payment of small amounts	
4.	Credit invoice issued	D.	Goods returned by a debtor.	
5.	Credit invoice received	E.	Cash sales.	
6.	Credit note issued	F.	Statement of deposits and drawings.	
7	Credit note received	G.	Credit sales.	
8	Petty cash voucher	H.	Proof of payment of your account.	

Question 4

Match the correct answer in Column 2 with Column 1. Provide the correct letter.

Column 1		Column 2		Answer
1.	Bank statement	A.	Debtors' allowances journal.	
2.	Receipt	B.	Debtors' journal.	
3.	Credit note issued	C.	Creditors allowances journal.	
4.	Credit invoice issued	D.	Petty cash journal.	
5.	Credit invoice received	E.	Cash receipts journal.	
6.	Credit note received	F.	Cash payments journal.	

7	Petty cash voucher	G.	Creditors journal	

Question 5

Use the information in the information pages to match the correct answer in Column 2 with Column 1. You must only provide the correct letter of the alphabet in Column 2.

Column 1		Column 2		Answer
1.	Bank statement	A.	Proof that a debtor's account will be reduced.	
2.	Receipt issued	B.	Proof that goods were purchased on credit.	
3.	Credit note issued	C.	Proof that a creditor's account will be reduced.	
4.	Credit invoice issued	D.	Proof that a creditor was paid.	
5.	Credit invoice received	E.	Proof that a small amount was paid.	
6.	Credit note received	F.	Proof that a debtor paid his account.	
7	Petty cash voucher	G.	Proof that goods were sold on credit.	

Question 6

Column 1		Column 2		Answer
1.	EFT	A.	Proof that a small amount was paid.	
2.	Receipt issued	B.	Proof that goods were purchased on credit.	
3.	Petty cash voucher	C.	Proof that services were rendered for cash.	
4.	Credit invoice issued	D.	Proof that a creditor was paid.	
5.	Credit invoice received	E.	Proof that a debtor paid his account.	
6.	Cash register roll	F.	Proof that goods were sold on credit.	

Questions

1. What is the purpose of source documents?
2. In which subsidiary journal is a credit note issued recorded?
3. In which subsidiary journal is a credit note received recorded?
4. In which subsidiary journal is a credit invoice issued recorded?
5. In which subsidiary journal is a credit invoice received recorded?
6. In which subsidiary journal is a receipt issued recorded?
7. In which subsidiary journal is payments recorded?
8. In which subsidiary journal is a petty cash voucher recorded?
9. In which subsidiary journal is a cash register tape issued recorded?
10. When will a business issue a credit note?
11. When will a business receive a credit note?
12. When is a cash invoice issued?
13. When is a receipt issued?
14. When is a credit invoice issued?
15. When is a credit invoice received?

Solutions

1. A source document is used for every transaction in a business as proof of the transaction.
2. Debtor's allowances journal.
3. Creditors allowances journal.
4. Debtor's journal.
5. Creditors journal.
6. Cash receipts journal.
7. Cash payments journal.
8. Petty cash journal.
9. Cash receipts journal.
10. When a debtor returns goods and the account of the debtor decrease.
11. When the business returns goods to the creditor and the account of the creditor decrease.
12. When goods are sold for cash.
13. When the business receive money from the debtor, the owner increase his capital contribution or rent income.
14. When goods are sold on credit.
15. When goods are purchased on credit.

Terms and concepts:

Bank statement:	Used to control deposits into the bank and payments out of the bank account.
Cash register roll:	Used when goods are sold for cash or services are rendered for cash.
Credit card:	The owner of the card owes the money to the bank. When the card is used the money is paid into the bank account of the recipient. The user of the card will pay the money to the bank.
Credit note issued:	Issued when goods are returned by clients.
Credit note received:	Received when goods were returned to the supplier.
Debit card:	A debit card is linked to the bank account. When the card is used the money is immediately transferred from the account of the holder of the card to the bank account of the recipient.
Debit note:	Used when goods are returned to a supplier.
Direct deposit:	The money is paid directly into the bank account at the bank.
Electronic Fund Transfer:	Proof of payment with an EFT from one bank account to another bank account.
Invoice issued:	Used when goods are sold on credit.
Invoice received:	Used when goods are purchased on credit.
Petty cash voucher:	Small amounts paid out of petty cash.
Receipt:	Proof that money was paid.