**WEEK EIGHT**

**TOPIC: SOURCE DOCUMENTS**

**CONTENT**

* Definition of Source Documents
* Examples of Source Documents
* Features and Uses of Source Documents

**NOTES**

Source documents are the instruments that are generated when businesses enter into business transactions with others.

They are the written evidences of business transactions that describe the essential facts of those transactions. They are used in preparing the books of account.

Every business transaction whether cash transaction or credit transaction must be supported (or evidenced) by a source document. The source documents are the original documents on which information about the transactions are recorded.

It follows therefore that accounting records can only be verified when the appropriate source documents are available to do so.

**Examples of Source Documents**

1. Receipt
2. Invoics
3. Cheque (or Cheque stub)
4. Bank – paying – in – slip
5. Debit note
6. Credit not
7. Statement of Account
8. Vouchers
9. **Receipt:** This is a written document issued by one person to another, to acknowledge that money or valuable property has been received. When goods are sold for cash, the customer is usually provided with a receipt.
10. **Invoice:** An invoice is a business document prepared when goods are sold. It is normally sent by the seller of the goods to the buyer. When a business sells goods on credit, it will issue an invoice to the purchaser. To the seller of the goods, the copy of the invoice is a sales invoice. The same document in the hands of the buyer of the goods is called a purchase invoice.

The invoice contains the following information:

1. The name and address of the supplier.
2. The name, address and the account number of the customer.
3. The supplier’s invoice number.
4. The customer’s order number (for goods supplied in response to an order).
5. The date on which the transaction is effected.
6. A detailed description of the goods clearly showing the quantity bought, unit price, total price, terms of sale, terms of payment, details of trade discounts etc.
7. **Cheque:** A cheque is a written order made by a customer to the bank to pay a stated sum of money to the person or business named on the cheque. When cheques are issued to make payment, the cheque itself or its counter foil (or stub) would serve as the source document for the payment.

**EVALUATION**

1. List five features of a cash receipt.
2. List six feature of a cheque.
3. Explain the following terms as it relates to a cheque:

(a) Drawer (b) Drawee (c) Payee

1. **Bank – Paying – in – Slip:** This is the standard form required to be filled in duplicate or triplicate whenever cash cheques, bank drafts etc. is being paid into an account maintained with the bank.
2. **Debit Note:** This document is issued by the seller of goods to correct an undercharge made in the account of the purchaser of the goods. For example if the amount due from the purchaser of the goods is N18, 500 and the seller has mistakenly charged (or recorded) N15, 800 on the invoice, it follows that the purchaser has been undercharged by N2, 700. The seller will therefore issue a debit note of N2, 700 to the purchaser to correct the undercharge
3. **Credit Note:** This document is issued by the seller of the goods to correct an overcharge made in the account of the purchaser of the goods. A credit note is therefore prepared when for a number of reasons the amount due from the customer (to whom goods have been sold on credit) is to be reduced.

The following are some of the reasons why the seller will issue a credit note to his customers:

1. When a customer has been overcharged e.g. by a mistake on the sales invoice.
2. The customer returns some of the goods he previously bought.
3. Some allowance is to be made to the customer e.g. in respect of damaged goods retained by the customers.
4. **Statement of Account:** This is the summary of the transactions between the seller and his credit customers. It is issued by the seller and sent to the customers at regular intervals (usually at the end of each month).
5. **Vouchers:** These are source documents used for obtaining authorization for all payments whether by cash, cheque or letters of authority.

**Uses of Source Document**

1. They are used in the preparation of books of account.
2. They provide written evidences of the business transactions that has taken place.
3. They can serve as proof of ownership of property e.g. receipt.
4. They are used for audit purposes.
5. They are used for reconciliation of accounts.
6. They are used to obtain authorization for payments made e.g. vouchers.
7. They are used to correct an overcharge or undercharge made in the customer’s account.

**EVALUATION**

1. Give a description of the purpose of each of the following business documents

(a) credit note (b) debit note (c) cheque (d) invoice (e) receipt (f) statement of account

1. Bello Masari is a trader.
2. Arrange the following business documents in the order they would be issued by Bello Masari to a credit customer.

statement of account: credit note: receipt: invoice

1. Explain why a credit customer may send a debit note to Bello Masari.
2. Give four items of information you would expect to find on a statement of account.

**GENERAL EVALUATION QUESTIONS**

1. Differentiate between book-keeping and accounting.
2. State four features of the ledger.
3. List five ledger accounts that have debit balances.
4. State the reason for preparing a Trial balance.
5. List five uses of source documents.

**WEEKEND ASSIGNMENT**

1. Goods returned by the buyer is recorded in the seller’s books as \_\_\_\_\_\_\_\_\_\_ A. carriage inwards B. carriage outwards C. returns inwards D. returns outwards
2. A customer has been charged N152 for a purchase instead of N134. The document issued by the seller to correct the error is A. a credit note B. a debit note C. an invoice D. a statement of account
3. Which of the following is a source document for recording sales? A. debit note B. credit note C. sales journal D. invoice
4. When a buyer is under – charged, the seller forwards A. a debit note B. a credit note C. an invoice D. a payment receipt
5. Which of the following is not a source document? A. credit note B. invoice C. bank note D. debit note

**THOERY**

1. What is a source document
2. Give seven examples of source document