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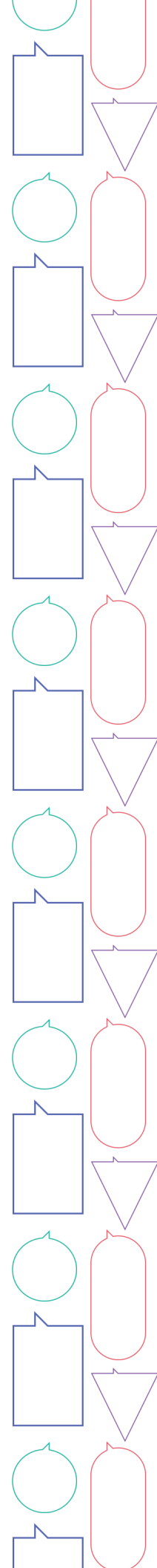
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Introduction

First, a warm welcome to your study of accounting.

This book has been designed specifically for OxfordAQA examinations IGCSE Accounting. It has been carefully planned to ensure full coverage of the specification.

How to use this book

Using this book will ensure you are well prepared for the examinations at IGCSE level. It will also provide a sound foundation for further studies in accounting.

The book has some important features to support the learning process. These include the following:

Objectives

These appear at the start of each chapter. They provide a summary of what you will learn and what you should be able to do once you have covered the contents of the chapter.

Key terms

These provide definitions of commonly used terminology. The first time a key term is used in each chapter, it is shown in bold type.

Did you know?

These are interesting facts about accounting, chosen to stimulate your interest.

Exam tip

These give hints to help you avoid common errors or provide advice on how to tackle questions.

Worked examples

Throughout each chapter, fully worked examples are provided, often with notes to guide you through each stage in a process.

At the end of each topic, you will find a range of questions designed for you to practice the techniques illustrated in the chapter. They will enable you to gain a full understanding of each specification topic.

At the end each chapter, you will also find questions to help you prepare for the examination. There are multiple choice questions

The logo for kerboodle, featuring the word 'kerboodle' in a white, lowercase, sans-serif font inside a dark purple speech bubble shape. To the right of the speech bubble are several small, colorful circles in blue, green, yellow, and red.

An online version of this book is available for student access, with a bank of tools to aid personalisation.

and longer questions. The questions use the command words that you will find in the examination.

At the end of the book, there is an alphabetical glossary of the key terms used throughout the book.

Answers to the practice exam questions are available online.

The importance of accounting

For thousands of years, individuals have wanted to be well informed about what income they have received and what they have spent, so they could have some idea whether they were rich or poor. It is the same now for individuals, businesses, and a wide range of organizations. Accounting is about having careful records of financial activities, which can be used to assess wealth, financial success, and to inform decision-making.

There are many potential users of accounting information, including:

The owner(s) of a business: who have invested personal savings in a business organization and will rely on the success of the business for their livelihoods.

Customers: who will rely on the success of a business to supply their needs whenever they arise.

Suppliers: who supply businesses with goods for sale, and who rely on the businesses to pay for the goods on time and make regular orders.

Banks: who may help finance a business through loans, and will rely on the success of the business to ensure repayments and interest charges are paid when due.

Employees: who rely on the success of a business for the payment of their wages or salaries and for continued employment.

Government: who need accurate information on which to base taxation charges.

Types of business organization

There is a wide range of business organizations, each of which requires carefully prepared accounting records. They can be classified in many different ways, as follows:

By what they provide	
Supplying goods such as: <ul style="list-style-type: none"> • food products • clothing • household goods • motor vehicles • energy 	Supplying services such as: <ul style="list-style-type: none"> • accountants • legal advisers • car repair mechanics • cleaners • gardeners

By what they do			
Providing raw materials	Manufacturing goods	Selling goods	Providing services
<ul style="list-style-type: none"> • mining • farming • fishing 	turning raw materials into finished products	selling goods to the general public (retailers) or to other businesses (wholesalers)	services can be provided for the general public, and for businesses and other organizations

By who owns them		
Sole trader	Partnership	Limited company

Introduction to sources and recording of data

1.1 The purpose of accounting

Those who own businesses will be concerned to know:

- Is the business successful – is it making a profit?
- Does it always have enough money to meet its obligations – can it pay its running costs and those who are owed money on time?
- Are its funds being put to good use – is the owner's investment being used wisely?

Business activity can vary in scale and is often very complex. Even in the case of a really simple business – such as a market stall – there will be a considerable amount of financial activity. The owner of a market stall will have to handle money, buy goods to sell, pay wages, and other expenses. These activities would then increase in terms of value and complexity, depending on the nature and scale of the business.

Objectives

You will be able to:

- describe the differences between accounting and bookkeeping
- state the main concerns of the owners of businesses
- identify ways in which accounting provides information for interested parties

Accounting and bookkeeping

It is important to understand the difference between accounting and bookkeeping. They overlap and complement each other, but each has different objectives.

Accounting	Bookkeeping
The objective is to provide accurate and comprehensive information to those involved in making business decisions.	Bookkeeping is about recording the details of financial transactions.
Accounting techniques are used to help the owners of businesses to make decisions.	Bookkeeping techniques ensure that financial information is recorded systematically and comprehensively.
Accounting information helps owners ensure their businesses survive, are successful and run efficiently.	Bookkeeping records provide the detailed information to which accounting techniques can be applied.
Accounting is concerned with selecting, classifying, and summarising to give decision-makers useful information.	
Accounting is about preparing financial statements, providing analysis, and interpreting financial information.	

Introducing the main financial statements

Owners, managers, and other interested parties will examine the following financial statements to help analyse the success of their business and make informed decisions to improve performance.

Information required	Financial statement
Is the business making a profit or loss?	Income statement: Businesses prepare income statements to show the profit or loss made by a business, whether it is a sole trader, partnership or limited company. In the case of a club or society, those interested will analyse an income and expenditure account to check on whether a surplus or deficit has been made.
Can the business meet its commitments?	Statement of financial position: The statement of financial position shows details of what is owned by a business, including cash and bank resources, on a particular date. It is these money resources that will be needed in the coming days and weeks to cover running costs, etc.
Are resources being used efficiently?	Statement of financial position: The statement of financial position identifies an organization's resources and how they have been financed. This information can be used to assess how efficiently the owners of a business, or the officials running a club, have been using resources.

Accounting concepts

Accounting involves the processing of large amounts of financial information by individuals working for organizations, each with their own objectives and interests. As a result, financial information could be distorted or manipulated to serve the interests of users. To ensure that accounting statements are prepared objectively, a set of rules, referred to as accounting concepts, are applied. These rules ensure that information is compiled in a consistent way and that all accounts are accurate.

Technology

Computerised systems are now used very widely for both bookkeeping and accounting. Computerisation has now almost completely replaced manual processes. However, whatever methods are used, the same objectives and principles apply.

1.2 Business documentation: purchasing goods and services on credit

Business activity involves selling goods or providing services, purchasing goods for resale, paying suppliers and running costs, and receiving payment from customers. Each one of these activities is referred to as a **transaction** and each transaction requires documentation. For those running a business, it is vital that each document is carefully checked and kept safely so that any individual document can be found whenever it is required. The documents are used to maintain accounting records and so are referred to as **source documents**.

As well as providing the sources for all entries in the accounting records, business documents shared between those involved in transactions can help business activity to run smoothly. The documents provide factual evidence if there is any confusion or disagreement about a transaction.

Purchasing goods on credit

Most established businesses purchase goods or services on credit. That means that they have an agreement with a supplier to receive the goods or services first and make a payment for them at a later date. The usual period of credit is 30 days.

When goods or services are purchased on credit, a **purchase invoice** will be received from the supplier.

Invoices contain a considerable amount of additional information of value to the business, though this information will not normally be required for the accounting records. Examples include:

- the address of the supplier and/or customer
- purchase order references
- contact names.

Objectives

You will be able to:

- understand the importance of business documentation
- prepare purchase invoices
- record details from purchase invoices in a purchases journal
- calculate trade discount.

Key terms

Transaction: an activity that results in the exchange of money or the promise of money when purchasing or selling goods or services.

Source document: written document that provides information from which accounting records can be prepared. The proof that a particular transaction took place.

Purchase invoice: the source document that provides information about goods or services purchased on credit, particularly the amount due.

Worked example 1: A purchase invoice

Whenever a business purchases goods for resale on credit, as well as taking delivery of the goods, it will receive a document from the supplier called a purchase invoice. Here is an example of a purchase invoice:

			No. K3756
INVOICE Apex Wholesale			
To: Seaview Stores Date: 13 November 2025			
Quantity	Description	Unit price \$	Total \$
18 boxes	Paper tissues	3.50	63.00
5 tins	Chocolate cookies	12.00	60.00
15 cartons	Pasta sauces	28.00	420.00
TOTAL AMOUNT DUE			543.00
Terms: Payment within 30 days.			

Notes

- The invoice includes some key facts:
 - Seaview Stores has purchased goods from a supplier, Apex Wholesale.
 - The transaction is dated 13 November 2025.
 - The total amount due for the goods received is \$543.
- The purchase invoice also has a number (K3756) that can be useful in identifying this particular document.
- At the end of the invoice, there is a reference to 'terms'. These are the conditions for payment. In other words, the supplier expects Seaview Stores to pay this invoice within 30 days (i.e. before 13 December 2025). The owner of Seaview Stores will need to be aware of this information to ensure that payment is made by this date. Failure to pay the invoice on time could mean the supplier will no longer be prepared to offer credit terms on any future orders.

You can now answer Questions 1 and 2 on page 13.

Recording purchase invoices

As soon as a purchase invoice is received, the following important facts are recorded in what is called a **purchases journal**:

- date
- name of supplier
- invoice number
- amount due.

A purchases journal is one of seven **books of prime entry**. Books of prime entry are where transactions are first recorded in an accounting system.

Key terms

Purchases journal: a book of prime entry in which details of purchases on credit are recorded.

Books of prime entry: where transactions are first recorded in an accounting system.

Worked example 2: Preparing a purchases journal

Jamal owns a sports shop. During December 2025, he received the following invoices from his suppliers

December	5	Invoice 37282	Purchase invoice received from Eleet Sports Equipment for goods \$2,480
	9	Invoice 8831	Purchase invoice received from Pryme Sportswear Ltd for goods \$1,650
	15	Invoice 272910	Purchase invoice received from Gymkit Supplies for goods \$2,290
	24	Invoice 8837	Purchase invoice received from Pryme Sportswear Ltd for goods \$2,020

The purchases journal will appear in Jamal's books of account as follows:

Purchases journal				
Date		Supplier	Invoice number	\$
Dec	5	Eleet Sports Equipment	37282	2,480
	9	Pryme Sportswear Ltd	8831	1,650
	15	Gymkit Supplies	272910	2,290
	24	Pryme Sportswear Ltd	8837	2,020
		Total purchases		8,440

Notes

1. The purchases journal is a list of the key facts shown on purchase invoices.
2. The aim is to record invoice details in strict date order.
3. The purchases journal is totalled at agreed intervals (e.g. monthly).
4. The purchases journal is only used to record credit purchases of goods for resale.
5. Cash purchases are not recorded in the purchases journal.

You can now answer Questions 3 and 4 on page 13.

Find out how the information in a purchases journal is used on pages 19–20.

1.2.1 Trade discount

A **trade discount** is the reduction in the price to be charged for goods. The following important conditions normally apply to this form of discount:

- Trade discount is only offered to other businesses engaged in the same line of activity.
- Trade discount is given for placing large orders, often referred to as 'buying in bulk'.
- Trade discount is usually not available to private individuals, who pay the normal price (sometimes referred to as the **list price**).

Key terms

Trade discount: a reduction in the normal price charged as a reward for buying in large quantities.

List price: the normal selling price of an item as shown in marketing documents, catalogues, etc.

Information about trade discounts will be shown on source documents such as a purchase invoice, but it is important to note that only the net amount charged will be recorded in the accounting records. What matters to a business is the actual charge, not what might have been charged.

Worked example 3: Purchase invoice with trade discount

Kofi owns a retail store, HomeProducts, selling electrical equipment. He buys dishwashers from Lava Manufacturing Ltd.

On 15 January 2025, Kofi ordered 20 dishwashers, model XY372. The cost of one dishwasher is normally \$420. However, for a bulk purchase, Lava Manufacturing Ltd offers a trade discount of 25 per cent.

Kofi received the following invoice:

		No. M20937	
INVOICE			
Lava Manufacturing Ltd			
To: HomeProducts			
Date: 15 January 2025			
Quantity	Description	Unit price \$	Total \$
20	Dishwashers, model XY372	420	8,400
	Less 25% trade discount		2,100
TOTAL AMOUNT DUE			6,300
Terms: Payment within 30 days.			

Notes

1. In effect, Kofi is able to buy this dishwasher for \$315 each rather than the normal price of \$420, because he is buying in bulk.
2. Kofi will record the value of this purchase as \$6,300 in the accounting records. The amount due, \$6,300, is the figure that matters. There will be no mention of the full price of \$8,400 or the trade discount of \$2,100 in the accounts.

Worked example 4: Recording invoices with a trade discount in the purchases journal

Zola owns a furniture shop. In October 2025, she received these invoices from some furniture manufacturers:

October	16	Purchase invoice received from Smart Homes Ltd, number 47382: 18 sofas at \$950 each, less 25% trade discount
	21	Purchase invoice received from 8KK Ltd, number 27561: 12 double beds at \$620 each, less 20% trade discount
	24	Purchase invoice received from Smart Homes Ltd, number 47398: 10 occasional tables at \$160 each, less 15% trade discount

The amount due shown on each invoice is calculated as follows:

16 Oct, Invoice 47382: $18 \times \$950 = \$17,100$ less 25% trade discount \$4,275; net \$12,825

21 Oct, Invoice 27561: $12 \times \$620 = \$7,440$ less 20% trade discount \$1,488; net \$5,952

24 Oct, Invoice 47398: $10 \times \$160 = \$1,600$ less 15% trade discount \$240; net \$1,360

The purchases journal will appear in Zola's books of account as follows:

Purchases journal				
Date		Supplier	Invoice number	\$
Oct	16	Smart Homes Ltd	47382	12,825
	21	8KK Ltd	27561	5,952
	24	Smart Homes Ltd	47398	1,360
		Total purchases		20,137

Notes

The purchases journal records only the net amount payable for each invoice.

Exam tip

Sometimes a business will offer a trade discount of $33\frac{1}{3}$ per cent. This is the equivalent of $\frac{1}{3}$ (one-third), but it is sometimes written as $33\frac{1}{3}\%$.

If you are using your calculator to work out trade discounts, avoid multiplying by 33.33% as you will get a slightly inaccurate result. Instead, divide by 3.

Example: One-third ($33\frac{1}{3}\%$) of 12 is, of course, 4. But, using a calculator, $12 \times 33.33\%$ will give a result of 3.9996!

Practice questions

1 Preparing a purchase invoice

Prepare an invoice to record the following details:

- goods provided by: Topp Computers Ltd
- goods sold to: Keyford Computer Stores
- date: 24 January 2025
- invoice number: R6724
- details:
 - 18 laptop computers @ \$750 each
 - 15 printers @ \$80 each
- terms: payment within 30 days

2 Preparing a purchase invoice

Prepare an invoice to record the following details:

- goods provided by: Citywide Kleening Services
- goods sold to: Bestway Buildings Ltd
- date: 9 December 2025
- invoice number: D2726
- details:
 - 5 hours window cleaning @ \$24 per hour
 - 16 hours office cleaning @ \$22 per hour
- terms: payment within 30 days.

3 Preparing a purchases journal

During October 2025, the following invoices were received by the owner of a trading business:

October	7	Invoice 42341	Purchase invoice received from Prompter Supplies Ltd for goods \$3,640
	13	Invoice 5679	Purchase invoice received from Malik Wholesale for goods \$890
	18	Invoice 42348	Purchase invoice received from Prompter Supplies Ltd for goods \$4,280
	27	Invoice 1934	Purchase invoice received from Albion Products for goods \$2,790

Prepare the purchases journal for October 2025.

4 Preparing a purchases journal

Yara owns a clothing store. During March 2025, she received the following invoices from her suppliers:

March	4	Invoice 2720	Purchase invoice received from Topline Clothing Ltd for goods \$2,740
	14	Invoice 83983	Purchase invoice received from ABC Fashions for goods \$3,720
	28	Invoice 27471	Purchase invoice received from Errin Stores for goods \$5,310

Prepare the purchases journal for March 2025.

5 Preparing a purchase invoice with a trade discount

Top Cuisines Ltd purchased kitchen equipment from KT Wholesalers Ltd on 5 May 2025 as follows:

- 16 microwave ovens, model TC482, list price \$270 each, less a trade discount of 25%
- 25 coffee machines, model XL331, list price \$85 each, less a trade discount of 20%.

Prepare an invoice issued by KT Wholesalers Ltd with number Z2734 to record these details.

6 Preparing a purchase invoice with a trade discount

Parkview Garden Retailers purchased gardening equipment from ZM Wholesalers Ltd on 18 September 2025 as follows:

- 24 motor mowers, model WR214, list price \$225 each, less a trade discount of $33\frac{1}{3}\%$
- 16 hedge cutters, model XL896, list price \$55 each, less a trade discount of 20%.

Prepare an invoice issued by ZM Wholesalers Ltd with number W4885 to record these details.

1.3 Business documentation: selling goods and services on credit

When a business sells goods or services on credit, an invoice will be issued to the customer. The business will keep a copy of this source document – a **sales invoice** – which can then be used to make entries in the accounting records.

Objectives

You will be able to:

- identify the document used to process credit sales
- prepare a sales journal.

Key term

Sales invoice: the source document that provides information about goods or services sold on credit and the amount due from the customer.

Worked example 1: Preparing a sales invoice

Charlie owns a wholesale business supplying electrical appliances. On 8 August 2025, he sold the following goods on credit to Jing's Electrical Store:

- 40 coffee machines at list price \$72 each
- 25 food mixers at list price \$145 each
- 30 toasters at list price \$48 each.

The whole invoice was subject to a trade discount of 20%.

Here is the invoice issued by Charlie:

No. P44186

INVOICE
Charlie's Electrical Wholesale

To: Jing's Electrical Store
Date: 8 August 2025

Quantity	Description	Unit price \$	Total \$
40	Coffee machines	72.00	2,880
25	Food mixers	145.00	3,625
30	Toasters	48.00	1,440
Subtotal			7,945
Less 20% trade discount			1,589
TOTAL AMOUNT DUE			6,356

Terms: Payment within 30 days.

Details from copies of sales invoices are recorded in a **sales journal**. Sometimes a credit sale will be subject to a trade discount. As always, only the net value of a transaction involving a trade discount is recorded in the accounting records.

Key term

Sales journal: the book of prime entry used to record sales of goods and services on credit. The information required to prepare this book of prime entry is taken from sales invoices.

Worked example 2: Preparing a sales journal

Charlie also issued the following invoices to credit customers during August 2025:

August	11	Invoice P44187	KW Ltd goods, list price \$4,800, less 15% trade discount
	16	Invoice P44188	Home Stores Ltd goods, list price \$15,600, less $33\frac{1}{3}\%$ trade discount
	19	Invoice P44189	SKK Supplies Ltd goods, list price \$8,200, less 20% trade discount
	24	Invoice P44190	6Nations Ltd goods, list price \$6,000, less 15% trade discount
	28	Invoice P44191	Jing's Electrical Store goods, list price \$11,400, less 25% trade discount

Here is the sales journal for August 2024 (including the invoice shown in Worked example 1):

Sales journal				
Date		Customer	Invoice number	\$
Aug	8	Jing's Electrical Store	P44187	6,356
	11	KW Ltd	P44187	4,080
	16	Home Stores Ltd	P44188	10,400
	19	SKK Supplies Ltd	P44189	6,560
	24	6Nations Ltd	P44190	5,100
	28	Jing's Electrical Store	P44191	8,550
		Total sales		29,386

You can now answer Questions 1–5 on page 16.

Practice questions

1 Preparing a sales invoice

Liam owns a business called Techno Now, which provides businesses with IT support. Liam employs a large team of specialists and charges \$40 per person per hour for emergency call outs and \$30 per person per hour for non-emergencies. Customers are invoiced monthly.

During October 2025, Liam and his team made several visits to the headquarters of a large financial services company, Heksagon Ltd, as follows:

- October 4: Emergency call out that involved 8 staff who worked for 5 hours each.
- October 11: Non-emergency appointment that involved 12 staff who worked for 6 hours each.
- October 22: Emergency call out that involved 5 staff who worked for 6 hours each.

Prepare the sales invoice with number R49421 to be sent by Liam to Heksagon Ltd at the end of October 2025.

2 Preparing a sales invoice

Prism Supplies Ltd sells office furniture and equipment. On 11 January 2025, the following goods were sent to Jabari London Ltd:

- 20 office desks, model T452, at list price \$105 each.
- 15 filing cabinets, model R292, at list price \$57 each.
- 10 storage cupboards, model W227, at list price \$84 each.

The invoice was subject to a trade discount of $33\frac{1}{3}\%$.
Terms: payment within 30 days.

Prepare the sales invoice with number K4421 to be sent by Prism Supplies Ltd to Jabari London Ltd on 11 January 2025.

3 Preparing a sales journal

Ahmed owns a business selling the latest music technology. During March 2025, he issued the following sales invoices to customers:

March	6	Invoice C4372	Quixota Ltd, goods list price \$4,400, less 25% trade discount
	11	Invoice C4373	Jepsun & Co, goods list price \$3,600, less 20% trade discount
	17	Invoice C4374	Artemis DJs Ltd, goods list price \$860
	22	Invoice C4375	Quixota Ltd, goods list price \$8,700, less $33\frac{1}{3}\%$ trade discount

Prepare the sales journal for March 2025.

4 Preparing a sales journal

Jessica owns a wholesale business selling clothing, called Edgy Clothing Ltd. She issued the following sales invoices to customers in June 2025:

June	7	Invoice J8837	KL Fashion Stores, goods list price \$8,250, less 20% trade discount
	10	Invoice J8838	Ava's Retail Stores, goods list price \$490
	20	Invoice J8839	Harry's Menswear, good list price \$10,600, less 25% trade discount
	26	Invoice J8840	KL Fashion Stores, goods list price \$12,600, less $33\frac{1}{3}\%$

Prepare the sales journal for June 2025.

5 Preparing purchases and sales journals

Gary owns a business selling bicycles. He buys goods from a number of bicycle manufacturers.

During October 2025, the following invoices were received by Gary:

October	14	Invoice B9006	JXJ Ltd, 40 bicycles model F323, list price \$190 each less 20% trade discount
	28	Invoice L2071	Bergu Ltd, 24 mountain bikes model X229, list price \$390 each less $33\frac{1}{3}\%$ trade discount

During October 2025, the following invoices were issued by Gary:

October	9	Invoice Q1283	Kingston Cycle Club, 6 bicycles model R291, list price \$240 less 10% trade discount
	22	Invoice Q1284	Pedalls Ltd, 10 mountain bikes model X229, list price \$480 less 25% trade discount

Prepare the purchases journal and sales journal for October 2025.

1.4 Business documentation: returning goods and sales returns

1.4.1 Returning goods – purchases returns

It is not unusual for a business to return goods to suppliers that have previously been purchased on credit. This can happen when some items in a delivery are:

- damaged or broken
- not as ordered (wrong model, wrong size, wrong colour, etc.)
- received too late ('sell by' date has expired).

Sometimes there will be a problem with an invoice. Maybe the total amount due has been overstated because the wrong trade discount has been deducted, or there has been an error in calculating the total amount to be paid.

Source documents for returns

The document used to trigger entries in an accounting system for goods returned is a **credit note**:

- A purchaser will receive a credit note from the supplier if the overcharged for goods supplied - usually this is because goods have been returned for any of the reasons listed above. A credit note is the source document for purchase returns.
- A seller would issue a credit note to a customer when they have returned goods or been overcharged. The seller will keep a copy to support entries in the seller's accounting records. A copy of a credit note is the source document for sales returns.

Debit notes

Sometimes when a buyer finds problems with goods purchased, a **debit note** will be completed, which is, in effect, a formal request to the seller to issue a credit note.

Objectives

You will be able to:

- identify the documents that are used when goods are returned
- prepare a purchases returns journal and a sales returns journal.

Key terms

Credit note: the source document that details the reduction in the amount payable shown on a previous invoice.

Debit note: a document issued by a purchaser to formally request the seller issues a credit note.

Worked example 1: Issuing a debit note

Graham is the owner of Hightown Stores. He received an invoice from Crystal Supplies Ltd. The invoice was for glassware with a list price of \$850, less a trade discount of 20%. The amount due was, therefore, \$680. Unfortunately, the goods were damaged in transit. Graham sent Crystal Supplies Ltd the following debit note:

Debit note 361	
Date 9/12/24	
DEBIT NOTE	
From: Hightown Stores City Road Mayfield	To: Crystal Supplies Ltd Wexford Trading Estate Wexford
The following goods have been returned: reference invoice T4721	
	Amount \$
Glassware	850
Less 20% trade discount	170
	680
Goods damaged in transit	

It is important to note that a debit note is not a source document. In other words, it is not used to make any entries in an accounting system.

Purchases returns

Worked example 2: Credit note for purchases returns

Based on the information in Worked example 1, Graham of Hightown Stores would expect to receive a credit note for the goods returned. Here is the credit note:

Credit note D272	
CREDIT NOTE	
Crystal Supplies Ltd Wexford Trading Estate, Wexford	
Hightown Stores City Road Mayfield	16 December 2025
For goods damaged in transit:	
	Amount \$
Glassware	850
Less 20% trade discount	170
	680

All returns of goods purchased on credit are recorded in a **purchases returns journal**.

Key term

Purchases returns journal: the book of prime entry used to record the return of goods purchased on credit.

Worked example 3 : The purchases returns journal

During May 2025, the following credit notes were received for the return of goods purchased on credit by Samir Wholesalers.

May	12	Credit note number R891	Goods returned to YR Manufacturing Ltd at list price \$6,600, less 25% trade discount
	26	Credit note number P429	Goods returned to B Taylor at list price \$4,100, less 15% trade discount

Here is the purchases returns journal:

Purchases returns journal				
Date		Supplier	Credit note number	\$
May	12	YR Manufacturing Ltd	R891	4,950
	26	B Taylor	P429	3,485
		Total purchases returns		8,435

You can now answer Questions 1–4 on page 21.

1.4.2 Sales returns

Businesses that receive goods back from credit customers will need to make records of the sales returns. The customer may have sent a debit note to the supplier to formally request a credit note for the goods being returned. When credit notes are issued to customers, copies are retained from which the **sales returns journal** is prepared.

Worked example 4: The sales return journal

Raju sells goods on credit. During September 2025, several customers returned goods that had previously been sold on credit. Raju issued the following credit notes, copies of which included the following details.

September	15	Copy of credit note number D114	Goods returned by Khan's Supplies, list price \$7,220, less 20% trade discount
	23	Copy of credit note number D115	Goods returned by Alpha Stores, list price \$3,510, less 10% trade discount

Here is the sales returns journal:

Sales returns journal				
Date		Customer	Credit note number	\$
Sept	15	Khan's Supplies	D114	5,776
	23	Alpha Stores	D115	3,159
		Total sales returns		8,935

You can now answer Questions 5–11 on pages 21–23.

Key terms

Sales returns journal: the book of prime entry used to record goods returned by customers as detailed on the copies of credit notes.

Did you know?

Sometimes you will see purchases returns referred to as returns outwards or returns out.

Sometimes sales returns will be referred to as returns inwards or returns in.

Exam tip

When entering details about a return of goods, check to see if there was a trade discount deducted in the original invoice. If so, do not forget to deduct the trade discount from the list price of goods returned. Only the net amount should be entered in the accounting system.

Practice questions

1 Preparing a credit note

Julia is the owner of Top Pet Supplies. On 14 October 2025, she sent a debit note to WXL Wholesalers. In September 2025, Julia had received goods from this business with a list price of \$2,660, from which a trade discount of 15% had been deducted. However, the goods were damaged in transit and were returned to the supplier.

Prepare the credit note that Julia received from WXL Wholesalers on 20 October 2025 (credit note number G202).

2 Preparing a credit note

Mike is the owner of Mike's Car Accessories. On 9 April 2025, he purchased goods from Premier Car Supplies Ltd at list price \$8,960, less a trade discount of 20%. However, when the goods arrived it was found that some items were not as ordered, and these were returned to the supplier. The goods returned accounted for one-quarter of the value of the original invoice.

Prepare the credit note that Mike received from Premier Car Supplies Ltd on 16 April 2025 (credit note number Y727).

3 Preparing a purchases returns journal

Marco owns a shop supplying sports equipment. During March 2025, he returned goods that had previously been purchased on credit to suppliers.

Marco received the following credit notes:

March	13	Credit note 412	Goods returned to Kyle with a value of \$483
	19	Credit note 107	Goods returned to Menro Ltd with a value of \$729
	24	Credit note 416	Goods returned to Kyle. These goods had been invoiced at \$1,680, less trade discount of 20%

Prepare the purchases returns journal in Marco's accounting system for March 2025.

4 Preparing a purchases returns journal

Simone owns a shop selling computer software. During February 2025, she returned goods that had previously been purchased on credit to suppliers.

Feb	5	Credit note 313	Goods returned to Epics Ltd with a value of \$703
	18	Credit note 108	Goods returned to QCQ Ltd with a value of \$927
	28	Credit note 318	Goods returned to Epics Ltd. These goods had been invoiced at \$3,676, less trade discount of 25%

Prepare the purchases returns journal in Simone's accounting system for February 2025.

5 Preparing a sales returns journal

Juan is the owner of a business supplying building materials to local trades people. During December 2025, credit customers returned goods that had been sold to them on credit.

Dec	9	Credit note 623	Goods returned by Ecosol Ltd with a list price of \$14,400, less $33\frac{1}{3}\%$ trade discount
	16	Credit note 624	Goods returned by GTMY Ltd with a value of \$319
	31	Credit note 625	Goods returned by Ecosol Ltd with a list price of \$7,850, less 20% trade discount

Prepare the sales returns journal in Juan's accounting system for December 2025.

6 Preparing a sales returns journal

Manon is the owner of a business supplying fabrics to local retailers. During May 2025, credit customers returned goods that had been sold to them on credit.

May	5	Credit note 82	Goods returned by Zenith Homeware with a list price of \$4,200, less 15% trade discount
	19	Credit note 83	Goods returned by LAKT Stores with a list price of \$9,400, less 25% trade discount
	23	Credit note 84	Goods returned by Zenith Homeware with a value of \$540

Prepare the sales returns journal in Manon's accounting system for May 2025.

7 Preparing the four journals

Omar's Kitchen Supplies is a wholesale business. The following source documents were received or issued during one week in April 2025:

April	6	Purchase invoice V272	From PWS Ltd for goods \$738
	7	Sales invoice F239	To Moocha Café for goods list price \$2,040, less 15% trade discount
	7	Purchase invoice D2075	From Gourmet & Co for goods \$8,700, less 33 $\frac{1}{3}$ % trade discount
	9	Sales invoice F240	To Spicer's House Ltd for goods \$483
	9	Credit note issued B38	To Moocha Café for goods sold on 8 April with list price \$180
	10	Purchase invoice R1543	From Artisans Ltd for goods list price \$3,220, less 20% trade discount
	11	Credit note received S409	From Gourmet & Co for good purchased on 8 April with list price \$780

Prepare the following books of prime entry for the week ending 13 April 2025, totalling each book at the end of the week:

- purchases journal
- sales journal
- purchases returns journal
- sales returns journal

8 Preparing the four journals

Sofia owns Dextra Stationery Supplies. The following source documents were received or issued during the week beginning 17 March 2025:

March	17	Purchase invoice K471	Received from WQ Manufacturers for goods list price \$5,260, less 25% trade discount
	17	Sales invoice B727	Sent to Zero Stores for goods list price \$1,800, less 10% trade discount
	18	Sales invoice B728	Sent to Prima Retailers for goods list price \$2,480, less 15% trade discount
	20	Credit note received T41	From WQ Manufacturers for goods purchased on 16 March at list price \$420
	20	Credit note issued M92	To Prima Retailers for goods sold on 17 March for goods list price \$100
	22	Purchase invoice K492	Received from WQ Manufacturers for goods list price \$4,700, less 20% trade discount
	22	Credit note issued M93	To Zero Stores for goods sold on 17 March for goods list price \$140

Prepare the following books of prime entry for the week ending 23 March 2025, totalling each book at the end of the week:

- purchases journal
- sales journal
- purchases returns journal
- sales returns journal.

9 Preparing a purchases journal from invoices with trade discount

Carlos owns Gamma Retail. During April 2025, he received the following invoices from his suppliers:

April	7	Invoice 36251	Purchase invoice received from JPG Manufacturing Ltd for goods, list price \$1,600, less 20% trade discount
	15	Invoice 11362	Purchase invoice received from Zeld Ltd for goods, list price \$4,800, less 33 $\frac{1}{3}$ % trade discount
	21	Invoice 83981	Purchase invoice received from Xtra Supplies Ltd for goods \$470
	24	Invoice 11379	Purchase invoice received from Zeld Ltd for goods, list price \$2,900, less 25% trade discount

Prepare the purchases journal for April 2025.

10 Preparing a purchases journal from invoices with trade discount

Maya owns Maya's Sports Retail. During December 2025, she received the following invoices for goods purchased from her two suppliers.

The two suppliers are:

- RPL Sport Ltd: this company offers a trade discount of 33 $\frac{1}{3}$ % for all orders over \$6,000; a trade discount of 20% for orders between \$4,000 and \$5,999; and a trade discount of 15% for orders between \$3,000 and \$3,999.
- White Tape Ltd: this company offers a trade discount of 25% for all orders over \$3,000; and a trade discount of 20% for all orders valued between \$2,000 and \$2,999.

Dec	3	Invoice 3792	Purchase invoice received from RPL Sport Ltd for goods, list price \$4,600
	11	Invoice 88476	Purchase invoice received from White Tape Ltd for goods, list price \$3,960
	14	Invoice 88571	Purchase invoice received from White Tape Ltd for goods, list price \$1,800
	19	Invoice 3808	Purchase invoice received from RPL Sport Ltd for goods, list price \$7,200
	29	Invoice 3861	Purchase invoice received from RPL Sport Ltd for goods, list price \$3,200

Prepare the purchases journal for December 2025.

11 Preparing purchases and sales journals

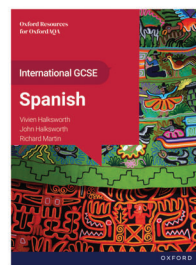
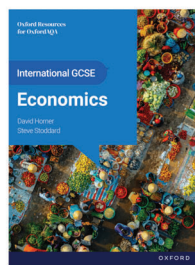
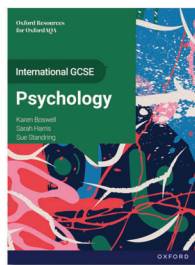
Gracie is a trader. The following source documents are to be recorded in her accounting system in February 2025:

February	4	Invoice M272	For goods sold to CCWB Ltd, list price \$14,300, less 25% trade discount
	12	Invoice V2727	For goods purchased from DV Manufacturers Ltd, list price \$24,600, less 33 $\frac{1}{3}$ % trade discount
	18	Invoice M273	For goods sold to JC Retailers, list price \$8,200, less 20% trade discount
	25	Invoice J3982	For goods purchased from Divand Ltd, list price \$18,300, less 25% trade discount

Prepare the purchases journal and sales journal for February 2025.

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