Books of Prime Entry

A complete last-minute revision map: the six books of prime entry, trade vs cash discount, cash book types, the petty cash imprest system, and contra settlements — exactly as tested in PRC-1.

Six Books of Prime Entry | Trade vs Cash Discount | Cash Book Types | Petty Cash Imprest

1 CORE CONCEPT

> *Books of prime entry (books of original entry) are where transactions are first recorded, sorted by type — instead of recording everything in one place — allowing efficient processing before posting to the ledgers.*

2 KEY DEFINITIONS — THE SIX BOOKS OF PRIME ENTRY

Book	Transaction Type	Source Document
Sales Day Book	Credit sales of inventory to customers	Sales invoices issued to customers
Sales Returns Day Book	Items returned by credit customers	Credit notes issued to customers
Purchases Day Book	Credit purchases of inventory from suppliers	Purchase invoices from suppliers
Purchases Returns Day Book	Items returned to credit suppliers	Credit notes received (or debit notes issued)
Cash Book + Petty Cash Book	All cash transactions, incl. cash sales/purchases and expense payments	Cheques, counterfoils, bank statements, receipt/payment vouchers
General Journal	Transactions not covered by any other book, e.g. non-current asset bought on credit	Invoice, bill, or other authorised document

3 IMPORTANT RULES — TRADE VS CASH DISCOUNT

✓ Trade Discount

Definite price reduction at time of sale
Invoice issued at the already-reduced amount

No double-entry problem
Sales revenue simply recorded NET of the discount

Example
List price Rs. 100, 5% trade discount → invoice and revenue = Rs. 95

✗ Cash / Settlement Discount

Offered to encourage early payment
Also called settlement or prompt payment discount

Applies AFTER the sale is recorded
Recognised only if/when the customer actually pays early

Recorded via discount columns
In the three-column cash book, not the invoice

4 FORMULAS

PETTY CASH IMPREST CHECK

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Petty Cash Balance
+ Value of Invoices/Vouchers Held
= The Imprest Amount
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These two must always sum back to the fixed imprest figure.

5 ACCOUNTING TREATMENT — CONTRA SETTLEMENT

When a business is BOTH a customer and a supplier to the same other business, the two parties may agree to offset what they owe each other.

CONTRA SETTLEMENT BETWEEN TWO BUSINESSES

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Dr  Trade Payables
   Cr  Trade Receivables
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Leaves a net amount payable by whichever business had the higher debt.

6 STEP-BY-STEP ROADMAP — CLASSIFYING A TRANSACTION

1. **Identify the source document**
   Invoice, credit note, cheque, voucher, etc.
2. **Match it to the correct book**
   Use the transaction type to select the right book of prime entry.
3. **Apply any trade discount immediately**
   Record only the net amount — never the gross list price.
4. **Record cash discount separately, if taken**
   Only if/when the customer actually settles early.

8 CASH BOOK TREATMENT — THE FOUR TYPES

Single Column
One amount column each side — receipts on the left, payments on the right. Balanced like any ledger account.

Two Column (Double Column)
Adds a separate cash column and bank column on both sides, for cash and bank movements together.

Three Column
Adds a memorandum discount column to record cash discounts allowed/received, alongside cash and bank.

Petty Cash Book
Records small expense payments, usually maintained under the imprest system.

9 EFFECT — TWO-COLUMN CASH BOOK WORKED EXAMPLE

CASH BOOK (Cash | Bank columns, both sides)

RECEIPTS			PAYMENTS		
Capital	Bank	40,000	Rent	Bank	1,700
Bank (withdrawn)	Cash	1,000	Cash (to office)	Bank	1,000
Sales	Bank	8,120	Advertising	Cash	700

Withdrawing cash from the bank for office use appears in BOTH columns — cash column on the receipt side, bank column on the payment side.

10 COMMON EXAM CASES — DECISION TREE

IF credit sale of goods	→ Sales day book
IF non-current asset on credit	→ General journal, not purchase day book
IF discount agreed at sale	→ Trade discount — deduct before recording
IF discount for early payment	→ Cash discount — record separately in cash book

11 COMMON MISTAKES / EXAM TRAPS

Trap: Recording a credit purchase of a non-current asset in the purchase day book
The purchase day book is only for inventory bought on credit — a non-current asset bought on credit belongs in the general journal.

Trap: Recording trade discount as a separate double entry
Trade discount causes NO double-entry issue — the invoice is simply issued at the net amount from the start.

Trap: Confusing "contra" with a simple cash/bank transfer
In this syllabus, contra settlement specifically means offsetting amounts owed between TWO different businesses (Dr Payables, Cr Receivables) — not a cash-to-bank transfer.

Trap: Misreading the petty cash imprest check
Remaining cash PLUS the value of vouchers/invoices held must always equal the fixed imprest amount — not the amount spent.

★ QUICK EXAMPLE — PETTY CASH IMPREST

SCENARIO

A business uses an imprest system with the imprest set at Rs. 10,000. At the start of the month there is Rs. 10,000 cash in the tin. Rs. 600 is paid to reimburse an employee who paid a business expense from her own pocket.

RESULT

The petty cash tin now holds Rs. 9,400 cash plus an invoice for Rs. 600 — these two amounts add back to the Rs. 10,000 imprest exactly.

SIX BOOKS
Sales, sales returns, purchases, purchases returns day books, cash book (+ petty cash), and general journal.

DISCOUNT RULE
Trade discount = deducted before recording. Cash discount = recorded separately, only if taken.

CASH BOOK TYPES
Single, two-column (cash + bank), three-column (+ discount), and petty cash book.

CONTRA SETTLEMENT
Offsetting what two businesses owe each other — Dr Payables, Cr Receivables.