

# **AAT LEVEL 2** **FULL-TIME GROUP**

**Unit BA1:**

**TOPIC**

**Chapter 4: Accounting for  
Credit Sales**



# AIMS

- ★ **To study the procedure for setting up a credit sale.**
- ★ **To look at different documents required when making a sale.**



# LEARNING OUTCOMES

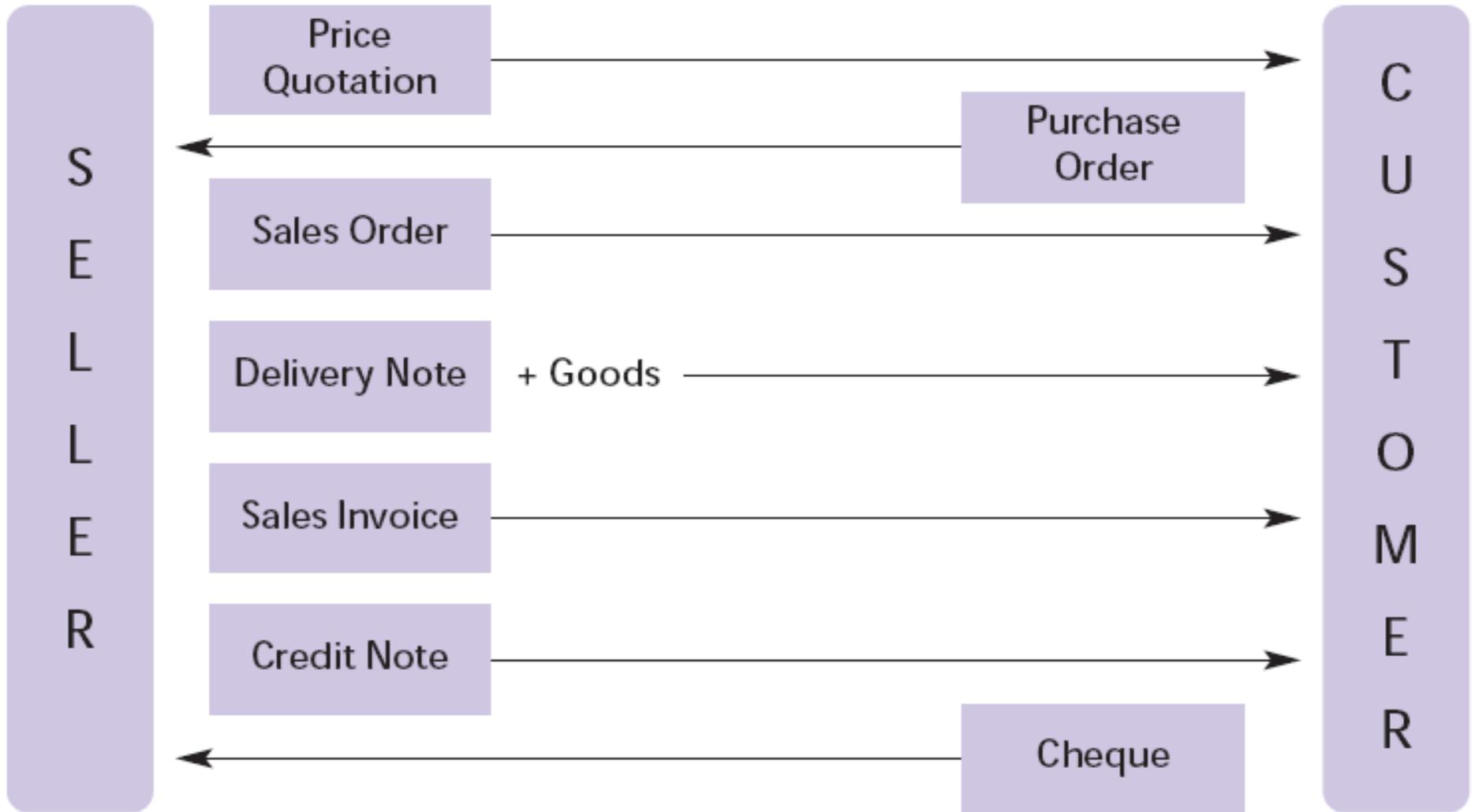
- ★ **Students should be able to:**
- ★ **Calculate the amount of VAT when trade and cash discounts are given.**
- ★ **Demonstrate different sales documents.**
- ★ **Summarise the procedure involved in making the sale.**
- ★ **Study the terms used on the invoices.**
- ★ **Prepare sales invoices**



# BUSINESS TRANSACTIONS: CASH SALES

- **CUSTOMER**  **SALES ASSISTANT**
- **Cash**
- **Cheque**
- **Debit card**
- **Credit card**
- **CUSTOMER**  **SALES ASSISTANT**
  - Till receipt**
  - Copy credit/debit**
  - Card voucher**

# Sales cycle



# SETTING UP A CREDIT SALE

- ★ **PRICE ENQUIRY**
- ★ **PRICE QUOTATION**
- ★ **PURCHASE ORDER**
- ★ **SALES ORDER**



# PRICE ENQUIRY

- ★ Enquiry made by the customer from the seller.
- ★ May be a formal written document or a telephone call.



# PRICE QUOTATION

- ★ **An important document.**
- ★ **A catalogue or price list.**
- ★ **States the price at which the seller is prepared to sell the goods to the customer.**
- ★ **It should be properly authorised.**



# Purchase order

# PURCHASE ORDER (PO)

- ★ Also known as customer order.
- ★ The customer is ready to place the order for the goods, which may be in writing or on telephone.
- ★ The PO has its own unique, sequential number which will be quoted on subsequent documentation such as the delivery note and invoice.
- ★ It contains the address to which the goods are to be delivered.
- ★ It contains the description of the product.
- ★ Price of the product.
- ★ Must be carefully checked for details.



# CREDIT LIMITS

- ★ **There is always a risk involved in selling goods on credit.**
- ★ **Credit limit is the maximum amount which a particular customer should ever be allowed to owe the business at any one time.**



# **SALES ORDER**

★ **Supplier confirms the order of the customer.**

★ **Document containing:**

1. **Type of goods**
2. **Quantity**
3. **Delivery date**
4. **Location of supply**
5. **Price**
6. **Terms of sale**



# SUPPLYING THE GOODS

- ★ DELIVERY NOTES
- ★ SALES INVOICE
- ★ PRICING GOODS & SERVICES
- ★ CUSTOMER DETAILS
- ★ EFFECT OF VAT
- ★ OTHER TERMS FOUND ON INVOICES



# DELIVERY NOTE

- ★ Document accompanying goods despatched to a customer.
- ★ Normally has 2 carbon copies.
- ★ Contains sequential numbers, pre-printed.
- ★ It does not include any price information.



# Delivery note

Blank area for delivery note content.

# SALES INVOICE

- ★ Prepared from the details shown on delivery notes.
- ★ Contains pre-printed sequential numbers.
- ★ It is a request for payment for the goods from the customers and details precisely how much is due and when.



**WHAT INFORMATION**  
**SHOULD BE LISTED ON**  
**AN INVOICE?**



# **WHAT INFORMATION SHOULD BE LISTED ON AN INVOICE?**

- ★ **Date**
- ★ **Invoice number**
- ★ **Customer name and address**
- ★ **Seller's name and address**
- ★ **VAT details**
- ★ **Terms of payment**
- ★ **Purchase order number**
- ★ **Number of items that were sold**
- ★ **Price per item**
- ★ **Description of goods (In words and codes)**
- ★ **Total amount payable**
- ★ **Other terms or conditions**



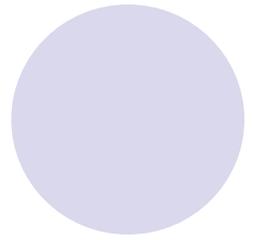
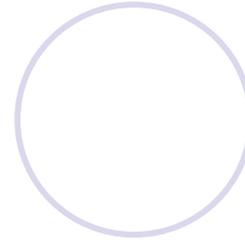
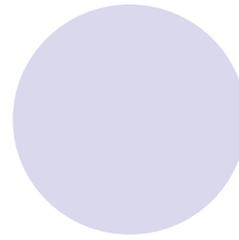
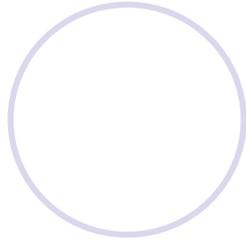
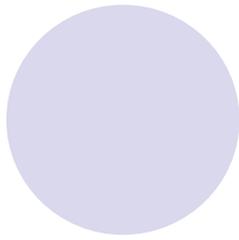
# Sales invoice

City Woods Suppliers



192 Old Kent Road  
London  
SE1 8QT

Invoice no: I005673  
Tax point: 21 September 20Y3



**PREPARE SALES INVOICES**

# ISSUING CREDIT NOTES

- CREDIT NOTE:
- A refund document
- Reduces the amount owed by the buyer.
- REMEMBER:
- The goods have not yet been paid for.
- Prepared by the supplier and sent to the buyer.

# CREDIT NOTE:

## Reverse of sales invoice

- CONTAINS THE FOLLOWING DETAILS:

1. The invoice number.
2. Reason for the issue of the credit note is stated at the bottom of the credit note.
3. The details are the same as on an invoice.

# **REASONS FOR ISSUING CREDIT NOTES**

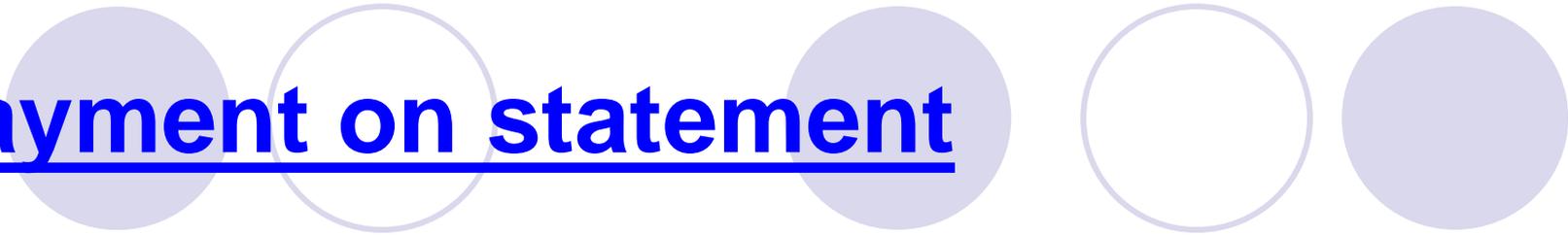
- 1. Short deliveries.**
- 2. High unit price on the invoice.**
- 3. Damaged or faulty goods.**
- 4. To settle a dispute with the customer.**
- 5. Customer returning perfect goods.**

# RETURN OF GOODS

- **Goods returned by the customers**
- **Recorded on a returns inwards note**
- **Must be inspected, counted and recorded on receipt.**

# **CODING SALES INVOICES**

- **If the organisation has profit or investment centres then the income of the organisation must be correctly coded.**
- **Sales invoices:**
- **In case of sales on credit, sales invoices should be coded according to the coding listing.**
- **Cash Sales:**
- **Documents supporting cash takings needs to be coded.**



# Payment on statement

- before any payments are made, check that the supplier's statement is correct
- each invoice and credit note should be checked to
  - the original documentation or
  - the supplier's account in the subsidiary ledger

# Remittance advice

- suppliers attach a remittance advice to the statement
- the customer indicates which invoices are being paid

