

Cash Receipts Journal and Cash Payments Journal (sole trader)

Cash transactions of a trading business

Selling trading stock

- Two amounts involved when trading stock is sold.
- Price at which good was bought and price at which good was sold.

Cost price, selling price and profit mark-up

- Trader will calculate selling price of good by adding profit mark-up to cost price of good.

Cost price + profit mark-up = selling price

- **Using this basic formula, need to know how to calculate three important amounts:**
 - Selling price of trading stock
 - Cost price of trading stock sold
 - Profit mark-up of profit percentage earned on trading stock sold.

Calculating the selling price

- Need to have both cost price and profit percentage or profit earned.

Refer to textbook for example

Calculating the cost price/cost of sales

- Calculating cost price of trading stock, need to have selling price and profit percentage.
- Business doesn't need to show cost price of good on price tag, but need to know value for books.

Refer to textbook for example

Calculating the profit mark-up/profit percentage

- Need to have the selling price and cost price of item.

Refer to textbook for example

Cash journals

- Basic principles for CRJ and CPJ for service businesses apply; same principles apply to trading business.
- Source documents involved also same.

Cash payments Journal

- Trading business still has same responsibilities when it comes to trading licences, telephone accounts, water and electricity accounts, and buying necessary assets.
- Trading business must have trading stock that will be sold in course of business.

- Stock is purchased from suppliers and paid for by cheque.
- Have to provide extra column in CPJ for purchase of trading stock.

Refer to textbook for examples

Cash Receipts Journal

- Main source of income for trading business is money received from selling trading stock.
- Trading business now has an income from sales of trading stock.
- Apart from this source of income, business also receives income from owner’s capital contribution, and from other income sources such as rent, donations received, current income.
- CRJ must provide space for recording sales of trading stock.
- Need to create columns for: Sales and cost of sales.

Refer to textbook for examples

The effect on the accounting equation

- Double-entry principle applies, with any transaction, but with a trading business, trading stock account is affected every time business buys or sells goods.

Purchasing trading stock for cash

- Asset to business because one asset, Bank (cash), exchanged for another asset, Trading stock.
- In General Ledger the double-entry principle always applies.

Refer to textbook for example

New words

Trading business	Business that buys and sells goods to make profit
Profit mark-up	Difference between cost price and selling price
Trading stock	Goods that are bought with purpose of selling them at profit
Cost of sales	Cost price of goods that have been sold
Cost price	The price at which a good is bought
Selling price	The price at which a good is sold