Accounting Units 1 & 2

Chapter 6 Source documents

Aboriginal and Torres Strait Islander content has been excluded as accuracy cannot be guaranteed, and it is better to be respectful than cover the entire curriculum inaccurately.

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Theory

Every figure in a set of accounting reports can be traced back to a piece of paper (or an electronic record) that proves the transaction actually happened. That original record is a **source document** — a document created **at the time of a transaction** that records what happened, when, between whom, and for how much. A source document might be an **EFT receipt** printed when a customer pays electronically, a **cash receipt** written out when notes and coins change hands, or a **tax invoice** issued for a service. No transaction should be entered into the accounting records unless a source document evidences it, and no genuine source document should be left unrecorded. The plain rule of the accounting process is: **no source document, no entry.**

The role of source documents. A source document does three jobs, and together they explain why it is the starting point of all accounting:

- **It provides evidence.** The source document is objective **proof** that a transaction occurred and proof of its details — the date, the two parties, the description and the dollar amount. Without it, a figure in the records is only somebody's claim or memory.
- **It supports verifiability. Verifiability** is a **qualitative characteristic** of useful accounting information: information is verifiable when **different, independent and suitably qualified people could examine the same evidence and agree** that it faithfully represents what occurred. Because a source document is independent, dated evidence, it is what allows an auditor, the owner or the Australian Taxation Office to **check** the records and reach the same conclusion. Verifiability is the characteristic that source documents exist to serve.
- **It begins the accounting process.** The source document is the **first step** in recording. The flow is always: **source document → recorded in a journal (the book of first entry) → summarised → reported.** The document is prepared first; only then is the transaction entered in the Cash Receipts Journal or Cash Payments Journal, and only later is it summarised into the reports. Because it is where recording begins, a **verifiable source document at the start makes the whole chain of information trustworthy.**

Documents that evidence cash transactions. A **cash transaction** is one settled **immediately** — the money moves at the moment of the transaction — so it changes the **Bank** balance now and is recorded in a cash journal. In a service business the common source documents for cash transactions are:

- An **EFT receipt** — evidence that money has been **received electronically** (a customer pays a fee by electronic funds transfer or debit card). Money *in* → recorded in the **Cash Receipts Journal (CRJ)**.
- An **EFT payment advice** (or remittance) — evidence that the business has **paid** money **electronically** (wages, advertising, rent, the internet account). Money *out* → recorded in the **Cash Payments Journal (CPJ)**.
- A **cash receipt** — a numbered receipt issued when **notes and coins** are received; also evidence of money *in* → the CRJ.
- A **sales invoice / receipt** — the document issued to the customer for the service provided. When it shows the GST it is a **tax invoice** (see below). A tax invoice marked *paid* is evidence of a cash receipt.

Whether a document is a receipt of money or a payment of money is what tells you **which journal** records it: money received belongs in the **CRJ**, money paid belongs in the **CPJ**.

The GST on a tax invoice. Most services carry the **Goods and Services Tax (GST)** — a 10% tax the business adds to its fee, collects from the customer and later forwards to the Australian Taxation Office. A **tax invoice** is the source document that shows the GST **separately**, setting out the price, the GST and the GST-inclusive total. When a price is quoted **GST-inclusive**, the GST is exactly **one-eleventh** of it:

$$\text{GST} = \frac{1}{11} \times (\text{GST-inclusive amount})$$

This is exact because a GST-inclusive amount is the base price (**10 parts**) plus GST (**1 part**) = **11 parts**, so the GST is 1 part in 11. A fee of $1 100 GST-inclusive contains GST of $1 100 ÷ 11 = **$100**, leaving fees revenue of **$1 000**.

Some source documents — a simple EFT receipt, for example — show only the GST-inclusive **total**; when they do, you calculate the GST as 1/11 of that total.

Reading a source document to identify the amounts to record. To turn a document into an entry, read it for five things:

1. the **total** cash amount (the GST-inclusive figure) → the **Bank** column;
2. the **GST** → the **GST Clearing** account (a liability when collected on fees; a reduction of that liability when paid on expenses);
3. the **GST-exclusive** amount → the revenue (**Fees**) or the expense (**Advertising**, **Rent**, etc.);
4. the **date** and the **document number** (its reference/folio);
5. the **direction** — money in (CRJ) or money out (CPJ).

Worked model. *Brightwater Bookkeeping* (owner N Poulos) provided bookkeeping services to *Delta Cafe* and was paid immediately by EFT. It issued this tax invoice:

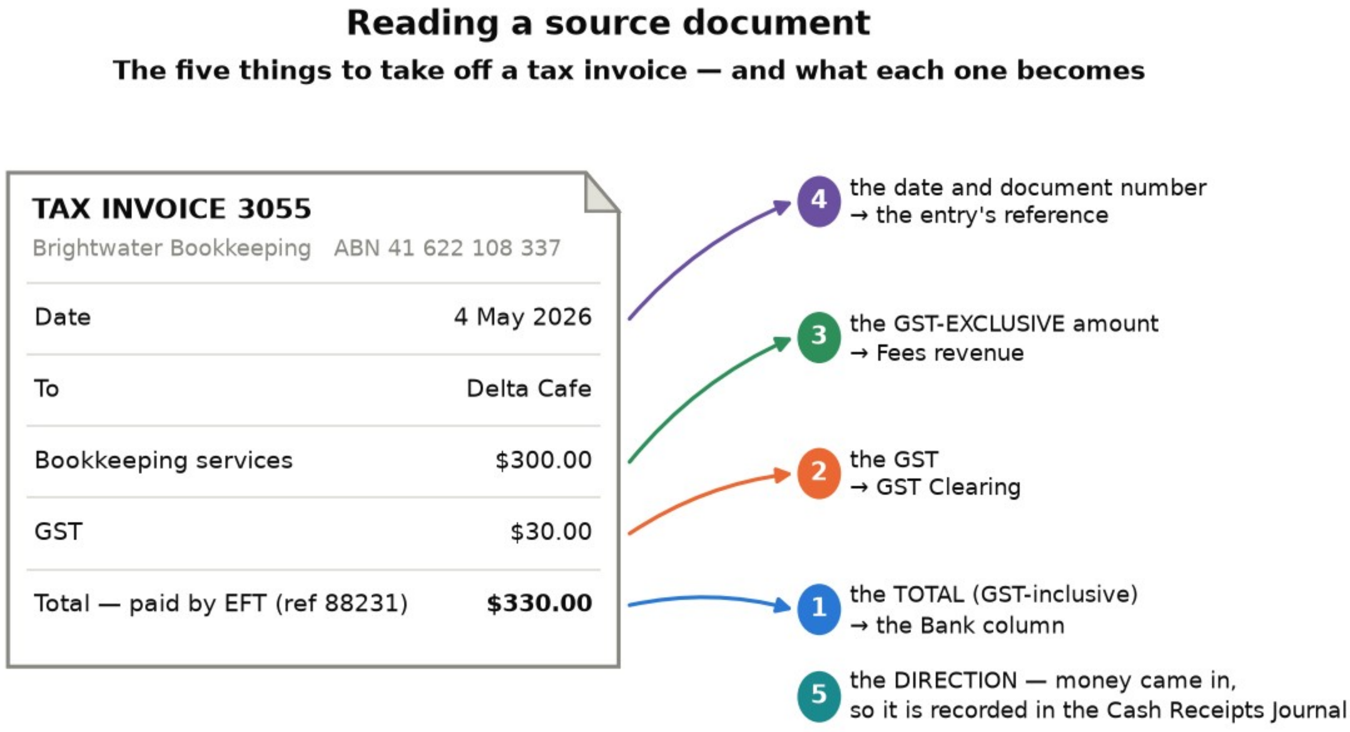
Tax Invoice 3055 — Brightwater Bookkeeping

Tax Invoice 3055 (ABN 41 622 108 337)

Date	4 May 2026
To	Delta Cafe
Bookkeeping services	$300.00
GST	$30.00
Total — paid by EFT (ref 88231)	**$330.00**

Reading it: the **total $330** is the cash received (Bank); the **GST $30** is credited to **GST Clearing**; the **$300** is **Fees** revenue; the reference is **Tax Invoice 3055**, dated 4 May; the money came *in*, so it is recorded in the **Cash Receipts Journal**. Note that $330 ÷ 11 = $30 confirms the GST line, and $330 − $30 = $300 confirms the fee — a document that shows all three lets you cross-check.

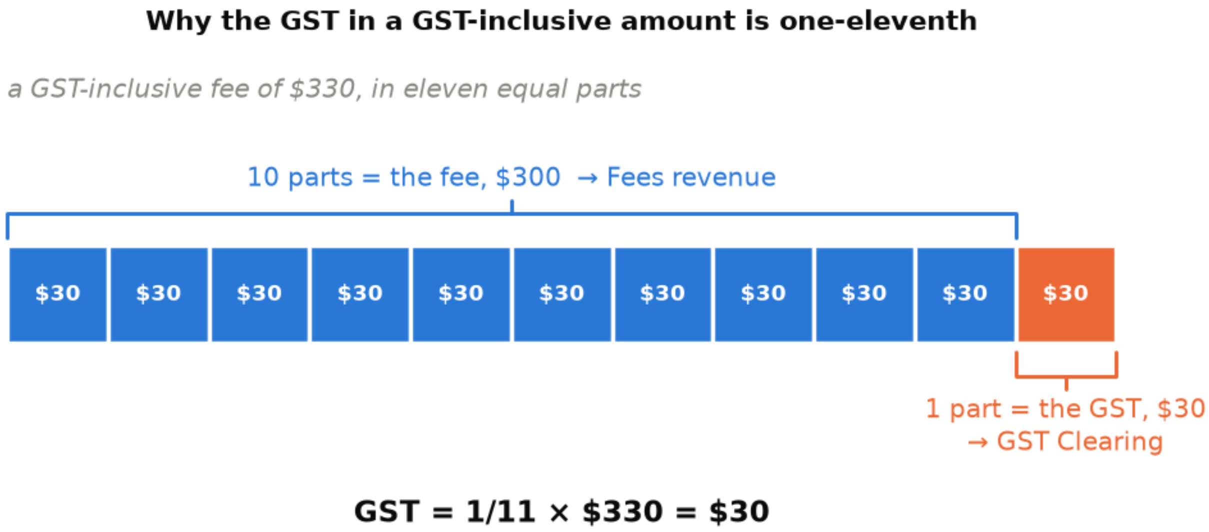
The figure below marks the same five readings on the document itself, with the account or journal each one becomes:



Reading a source document — the five things to take off a tax invoice, and what each one becomes

Working from the bottom of the invoice upwards is usually quickest: the **total** is the figure that hits the Bank, the **GST** line and the **fee** line split that total between GST Clearing and Fees, and the heading supplies the date and the document number the entry is referenced by.

The one-eleventh rule is easier to trust once it is drawn. A GST-inclusive amount is the base price (**10 parts**) plus the GST (**1 part**), so it is **11 parts** in all:



Why the GST in a GST-inclusive amount is one-eleventh

All eleven parts are the same size, and each is $330 ÷ 11 = $30. Ten of them are the $300 fee and one is the $30 GST — so the GST is one part in eleven of the **GST-inclusive** figure, and one *tenth* of the **GST-exclusive** figure. Confusing the two is the commonest error in this topic: 10% of $330 is $33, which is not the GST on this invoice.

Ethical considerations. Source documents are accounting's first line of defence against dishonesty, so handling them ethically is where **faithful representation** and **verifiability** begin. Two rules follow. First, **record only what a genuine source document evidences**: a business must never **fabricate** a document — inventing a tax invoice for a service that was never provided, or inflating an amount — because a false document destroys verifiability (an independent checker would find nothing real behind the figure) and is **fraud**. Second, **record everything a genuine document evidences**: deliberately omitting a cash receipt (for example, keeping a cash fee "off the books") makes the records incomplete and understates revenue, profit and the GST owed to the ATO — this is **tax evasion**, and it is unethical as well as illegal. Keeping source documents complete, genuine and safely retained is what lets any stakeholder trust that the reports faithfully represent the business.

Worked examples (scaffolded)

Example 1 — reading a tax invoice for a fee received

Fernhill Plumbing (owner S Ellis) completed a repair job for a client on 6 June 2026 and was paid immediately by EFT. It issued the following tax invoice. Identify the amounts to be recorded and the journal that records them.

Tax Invoice 214 — Fernhill Plumbing

Tax Invoice 214 (ABN 55 901 233 470)	
Date	6 June 2026
To	R Whitton
Plumbing repairs	$180.00
GST	$18.00
Total — paid by EFT (ref 55120)	**$198.00**

Working	Comment
The **total $198** is the cash received → the **Bank** column.	Bank always takes the full GST-inclusive amount the business actually received.
The **GST $18 → GST Clearing**. Check: $198 ÷ 11 = $18.	GST collected on a fee is a liability owed to the ATO; 1/11 of the inclusive total confirms the invoice line.
The **$180 → Fees** revenue. Check: $198 − $18 = $180.	The GST-exclusive amount is the revenue the business has earned.
The money came **in**, so it is recorded in the **Cash Receipts Journal**.	An EFT receipt / paid tax invoice evidences money received → the CRJ.

∴ record Bank $198, Fees $180 and GST $18 in the **Cash Receipts Journal**, referenced to **Tax Invoice 214**.

Example 2 — reading an EFT payment advice that shows only the total

On 8 June 2026 *Fernhill Plumbing* paid *Coastline Media* for advertising and received this EFT payment advice. Unlike a tax invoice, it shows only the GST-inclusive **total**. Identify the amounts to record and the journal.

EFT 4407 — payment advice

EFT 4407	
Date	8 June 2026
Paid to	Coastline Media
For	Advertising (GST-inclusive)
Amount paid	**$385.00**

Working	Comment
The **total $385** is the cash paid → the **Bank** column.	The document shows only the inclusive total, so start from $385.
GST = $385 ÷ 11 = **$35** → reduces **GST Clearing**.	With no separate GST line, calculate GST as 1/11 of the inclusive total.
Advertising expense = $385 − $35 = **$350**.	The GST-exclusive amount is the expense to record.
The money went **out**, so it is recorded in the **Cash Payments Journal**.	An EFT payment advice evidences money paid → the CPJ.

∴ record Bank $385, Advertising $350 and GST $35 in the **Cash Payments Journal**, referenced to **EFT 4407**. The GST $35 the business paid **reduces** the GST Clearing liability.

Worked examples (unscaffolded)

Example 3 — identifying the correct document for two transactions

Peak Gardens (owner J Marsh), a garden-maintenance service, had two transactions on 10 June 2026: it received $264 (GST-inclusive) in **notes and coins** for a garden clean-up, for which it wrote out **Cash Receipt 041**; and it paid $1 400 in wages by EFT, evidenced by **EFT 7788**. For each transaction, name the source document, state the amounts to record and name the journal.

The $264 cash fee is evidenced by **Cash Receipt 041** (a receipt is issued when notes and coins are received). Its GST = $264 ÷ 11 = **$24**, leaving **Fees** of **$240**; the full **$264** is the Bank amount. Money in → the **Cash Receipts Journal**. The wages of $1 400 are evidenced by **EFT 7788**; wages carry **no GST**, so the whole $1 400 is both the Bank amount and the **Wages** expense. Money out → the **Cash Payments Journal**.

∴ Cash Receipt 041 → CRJ (Bank $264, Fees $240, GST $24); EFT 7788 → CPJ (Bank $1 400, Wages $1 400, no GST).

Example 4 — reading a tax invoice with cents, and verifiability

Harbourline Consulting completed a consulting job on 14 June 2026 and was paid immediately by EFT, issuing **Tax Invoice 5090** below. State the amounts to record, and explain how this source document supports the qualitative characteristic of **verifiability**.

Tax Invoice 5090 — Harbourline Consulting

Tax Invoice 5090 (ABN 12 780 455 909)	
Date	14 June 2026
To	Northlake Pty Ltd
Consulting services	$525.00
GST	$52.50
Total — paid by EFT (ref 61044)	**$577.50**

The **total $577.50** is the cash received (Bank); the **GST $52.50** is credited to **GST Clearing** (check: $577.50 ÷ 11 = $52.50); the **$525.00** is **Fees** revenue ($577.50 − $52.50). Money in → the **Cash Receipts Journal**, referenced to Tax Invoice 5090.

This document supports **verifiability** because it is **independent, dated evidence** of the transaction: any suitably qualified person — the owner, an auditor, the ATO — could examine Tax Invoice 5090, recompute the GST as 1/11 of the total and agree that fees of $525.00 and GST of $52.50 faithfully represent what occurred. The figures do not depend on anyone's memory or opinion; they can be **checked against the document** and confirmed.

∴ record Bank $577.50, Fees $525.00 and GST $52.50 in the CRJ; the tax invoice makes each figure independently verifiable.

Practice questions — scaffolded

Question 1

a. Define a **source document** in one sentence.

b. Name **three** source documents that could evidence a **cash** transaction in a service business.

c. Explain, in one sentence, how a source document supports the qualitative characteristic of **verifiability**.

Question 2

Cedar Garden Design was paid immediately by EFT for a design job and issued the tax invoice below.

Tax Invoice 118 — Cedar Garden Design

Tax Invoice 118 (ABN 33 512 664 900)	
Date	3 July 2026
To	H Okafor
Garden design services	$450.00
GST	$45.00
Total — paid by EFT (ref 20714)	**$495.00**

a. State the amount to be recorded in the **Bank** column.

b. State the amount of **GST**, and name the account it is recorded in.

c. State the amount of **Fees** revenue, and name the journal that records this receipt.

Question 3

Rosewood Tutoring received the following EFT receipt for a tutoring fee. It shows only the GST-inclusive total.

EFT 9210 — receipt

EFT 9210

Date	5 July 2026
Received from	L Barros
For	Tutoring fee (GST-inclusive)
Amount received	**$660.00**

a. Calculate the **GST** included in the $660.

b. Calculate the **Fees** revenue (the GST-exclusive amount).

c. Name the journal that records this receipt.

Question 4

Brightpath Cleaning (a service business) had the transactions below. For **each**, name the source document that would evidence it and the journal (CRJ or CPJ) that records it.

a. Received $550 (GST-inclusive) for a cleaning job, paid by the client by EFT.

b. Paid $1 200 wages to its cleaners by EFT (no GST).

c. Received $88 (GST-inclusive) in **notes and coins** for a small job.

Question 5

A service business received a fee of $1 210 (GST-inclusive), evidenced by a tax invoice.

a. Calculate the **GST** included in the $1 210.

b. Calculate the **GST-exclusive** fee.

c. Explain why the business should rely on the **tax invoice**, rather than the owner's recollection, as the evidence for this receipt.

Question 6

The owner of *Ferncreek Design* wants the bookkeeper to record a $330 cash fee even though **no source document** was ever created for it, and separately suggests preparing a tax invoice for a service that was **never provided** so that the fees revenue reported to the bank looks higher.

a. Explain the **role** of a source document as evidence in the accounting process.

b. Identify the **qualitative characteristic** that recording a transaction with **no source document** would breach.

c. Discuss **one** consequence of preparing a tax invoice for a service that was never provided.

Practice questions — unscaffolded

Question 7

Define a **source document** and explain its **three** roles in the accounting process (evidence, verifiability, and the start of recording).

Question 8

Explain what is meant by **verifiability**, and explain how source documents make a business's accounting information verifiable.

Question 9

Marlin Cleaning was paid immediately by EFT for a commercial clean and issued the tax invoice below. State every amount to be recorded (Bank, GST and the expense/revenue account), and name the journal.

Tax Invoice 620 — Marlin Cleaning

Tax Invoice 620 (ABN 70 335 812 664)	
Date	9 August 2026
To	Seaview Offices
Cleaning services	$700.00
GST	$70.00
Total — paid by EFT (ref 31880)	**$770.00**

Question 10

Vale Photography received the EFT receipt below for a photography fee; it shows only the GST-inclusive total. State the amount to record in the Bank column, calculate the GST and the Fees revenue, and name the journal.

EFT 3360 — receipt

EFT 3360	
Date	12 August 2026
Received from	Cove Events
For	Photography fee (GST-inclusive)
Amount received	**$1 650.00**

Question 11

Vale Photography also paid its phone and internet account by EFT, receiving the payment advice below. State the amount to record in the Bank column, calculate the GST and the expense, and name the journal.

EFT 3361 — payment advice

EFT 3361	
Date	12 August 2026
Paid to	Skyline Telecom
For	Phone & internet (GST-inclusive)
Amount paid	**$209.00**

Question 12

For each of the following **GST-inclusive** amounts shown on a source document, calculate the GST it contains: (a) $143; (b) $946; (c) $2 200; (d) $3 300.

Question 13

Grovewood Consulting (a service business) had the transactions below. For **each**, name the source document that would evidence it and the journal (CRJ or CPJ) that records it.

a. Received $484 (GST-inclusive) in consulting fees, paid by the client by EFT.
b. Paid $900 wages by EFT (no GST).
c. Received $121 (GST-inclusive) in **notes and coins** for a small consulting job.
d. Paid $275 (GST-inclusive) for advertising by EFT.
e. The owner contributed $5 000 cash to the business by EFT (no GST).

Question 14

Ironbark Consulting was paid immediately by EFT and issued the tax invoice below. State the amount to record in the Bank column, the GST, and the Fees revenue.

Tax Invoice 777 — Ironbark Consulting

Tax Invoice 777 (ABN 88 204 551 700)	
Date	15 August 2026
To	Redgum Traders
Advisory services	$315.00
GST	$31.50
Total — paid by EFT (ref 40277)	**$346.50**

Question 15

Willow Web Studio completed two jobs for one client, was paid immediately by EFT, and issued the tax invoice below. State the **subtotal** (GST-exclusive), confirm the **GST** and the **total**, and state the amounts to record in the Bank, Fees and GST columns.

Tax Invoice 902 — Willow Web Studio

Tax Invoice 902 (ABN 61 700 288 143)	
Date	18 August 2026
To	Harbourside Realty
Website design	$1 200.00
Hosting setup	$300.00
GST	$150.00
Total — paid by EFT (ref 55210)	**$1 650.00**

Question 16

A service business received a cash fee of $1 100 (GST-inclusive), evidenced by a tax invoice. State the amount that would be recorded in **each** of the Bank, Fees and GST columns of the Cash Receipts Journal, and confirm that the analysis columns cross-add to the Bank amount.

Question 17

The owner of a small service business asks the bookkeeper to prepare a **tax invoice for a $550 service that was never provided**, so the business can record extra fees and report a higher profit to its bank, and to leave a genuine $88 cash fee **unrecorded** because it was received in notes and coins. **Discuss** these two requests with reference to a relevant qualitative characteristic and to one financial or legal consequence for the business.

Question 18

Distinguish between an **EFT receipt** and an **EFT payment advice**, stating what each evidences and which journal each supports, and explain why a business must not record a cash transaction for which **no source document exists**.

Answers

1. a–c. See solutions
2.
   a. $495 b. GST $45 (GST Clearing) c. Fees $450; Cash Receipts Journal
3.
   a. $60 b. $600 c. Cash Receipts Journal
4.
   a. EFT receipt → CRJ b. EFT payment advice → CPJ c. Cash receipt → CRJ
5.
   a. $110 b. $1 100 c. See solutions
6. a–c. See solutions
7. See solutions
8. See solutions
9. Bank $770; GST $70 (GST Clearing); Fees $700; Cash Receipts Journal
10. Bank $1 650; GST $150; Fees $1 500; Cash Receipts Journal
11. Bank $209; GST $19; Phone & internet expense $190; Cash Payments Journal
12.
    a. $13 b. $86 c. $200 d. $300
13.
    a. EFT receipt → CRJ b. EFT payment advice → CPJ c. Cash receipt → CRJ d. EFT payment advice → CPJ
    b. EFT receipt → CRJ
14. Bank $346.50; GST $31.50; Fees $315
15. Subtotal $1 500; GST $150; total $1 650; Bank $1 650, Fees $1 500, GST $150
16. Bank $1 100; Fees $1 000; GST $100 (1 000 + 100 = 1 100)
17. See solutions
18. See solutions

Fully-worked solutions

Question 1

a. A **source document** is an original record, prepared **at the time of a transaction**, that provides evidence the transaction occurred and records its date, the parties, a description and the dollar amount.

b. Any **three** of: an **EFT receipt**, a **cash receipt**, a **tax invoice / sales invoice (receipt)**, an **EFT payment advice** (remittance).

c. A source document is **independent, dated evidence**, so different qualified people could examine it and **agree** the recorded figures faithfully represent what occurred — which is exactly what verifiability requires.

Question 2

a. **Bank $495** — the full GST-inclusive total the business received.

b. **GST $45**, recorded in the **GST Clearing** account (a liability — GST collected on behalf of the ATO). Check: $495 ÷ 11 = $45.

c. **Fees $450** ($495 − $45), recorded in the **Cash Receipts Journal** (money received).

Question 3

a. GST = $660 ÷ 11 = **$60**.

b. Fees = $660 − $60 = **$600**.

c. The **Cash Receipts Journal** (an EFT receipt evidences money received).

Question 4

a. An **EFT receipt** evidences the $550 received electronically → recorded in the **Cash Receipts Journal**.

b. An **EFT payment advice** (remittance) evidences the $1 200 wages paid → recorded in the **Cash Payments Journal**.

c. A **cash receipt** evidences the $88 received in notes and coins → recorded in the **Cash Receipts Journal**.

Question 5

a. GST = $1 210 ÷ 11 = **$110**.

b. GST-exclusive fee = $1 210 − $110 = **$1 100**.

c. The **tax invoice** is **independent, dated evidence** that can be checked by anyone — the owner, an auditor or the ATO — and re-examined long after the event, so the recorded figures are **verifiable**. The owner's recollection is not independent, cannot be checked by others and may be mistaken or biased, so it would leave the records unverifiable and open to dispute.

Question 6

a. A source document is the **evidence** that a transaction actually occurred; it is the **first step** of the accounting process (source document → journal → reports) and is what makes each recorded figure **verifiable**. Recording begins from the document, so without one there is nothing to prove the transaction happened.

b. **Verifiability** (and, more broadly, **faithful representation**) — with no source document, the recorded figure cannot be independently checked or confirmed, so the information is not verifiable.

c. Preparing a tax invoice for a service that was **never provided** is creating a **false document**: it records fees that were never earned (overstating revenue and profit) and records GST that was never collected, overstating the **GST Clearing** liability the business must forward to the ATO. It is **fraud** — illegal, exposing the owner to penalties — and it destroys the verifiability of the records, because the "evidence" is fabricated and misrepresents the business to every stakeholder who relies on the reports. (Any one consequence, developed.)

Question 7

A **source document** is an original record, prepared at the time of a transaction, that evidences the transaction and its details (date, parties, description, amount). Its **three** roles are: **(1) evidence** — it is objective proof that the transaction occurred and proof of the amounts, rather than a claim or a memory; **(2) verifiability** — because it is independent, dated evidence, different qualified people can examine it and agree the records faithfully represent what happened, satisfying the qualitative characteristic of verifiability; and **(3) the start of the accounting process** — it is the first step in recording (source document → journal → summary → reports), so a genuine document at the start makes the whole chain of information trustworthy. Together these mean the rule **"no source document, no entry"** protects the reliability of every report.

Question 8

Verifiability is a **qualitative characteristic** of useful accounting information: information is verifiable when **different, independent and suitably qualified observers could examine the same evidence and reach agreement** that it faithfully represents what occurred. Source documents make information verifiable because they are **independent, dated records** of each transaction that can be **checked** — an auditor, the owner or the ATO can inspect the EFT receipt, cash receipt or tax invoice, recompute the amounts (for example, confirm the GST is 1/11 of the inclusive total) and agree the recorded figures are correct. Without source documents the figures would rest on memory or assertion, could not be independently confirmed, and so would not be verifiable.

Question 9

The tax invoice shows all three lines, so read them directly. **Bank $770** (the GST-inclusive total received); **GST $70** credited to **GST Clearing** (check: $770 ÷ 11 = $70); **Fees $700** ($770 − $70). The money was **received**, so it is recorded in the **Cash Receipts Journal**, referenced to **Tax Invoice 620**.

Question 10

The EFT receipt shows only the inclusive total, so calculate the GST. **Bank $1 650**; **GST** = $1 650 ÷ 11 = **$150**; **Fees** = $1 650 − $150 = **$1 500**. The money was **received**, so it is recorded in the **Cash Receipts Journal**, referenced to **EFT 3360**.

Question 11

The payment advice shows only the inclusive total. **Bank $209**; **GST** = $209 ÷ 11 = **$19** (this GST **reduces** the GST Clearing liability, being GST the business paid); **Phone & internet expense** = $209 − $19 = **$190**. The money was **paid**, so it is recorded in the **Cash Payments Journal**, referenced to **EFT 3361**.

Question 12

a. $143 ÷ 11 = **$13**.
b. $946 ÷ 11 = **$86**.
c. $2 200 ÷ 11 = **$200**.
d. $3 300 ÷ 11 = **$300**.

Question 13

a. An **EFT receipt** evidences the $484 received electronically → **Cash Receipts Journal** (within it, Fees $440 + GST $44).
b. An **EFT payment advice** evidences the $900 wages paid → **Cash Payments Journal** (no GST).
c. A **cash receipt** evidences the $121 received in notes and coins → **Cash Receipts Journal** (Fees $110 + GST $11).
d. An **EFT payment advice** evidences the $275 advertising paid → **Cash Payments Journal** (Advertising $250 + GST $25).
e. An **EFT receipt** evidences the $5 000 capital contributed by the owner → **Cash Receipts Journal** (recorded in Sundries as Capital; no GST).

Question 14

The tax invoice shows the GST separately, but with cents. **Bank $346.50**; **GST $31.50** (check: $346.50 ÷ 11 = $31.50, credited to GST Clearing); **Fees $315** ($346.50 − $31.50). Recorded in the Cash Receipts Journal.

Question 15

The two service lines are the GST-exclusive amounts, so the **subtotal** = $1 200 + $300 = **$1 500**. The **GST** = 10% of the subtotal = $150 (and $1 650 ÷ 11 = $150 confirms it); the **total** = $1 500 + $150 = **$1 650**. Recording the receipt: **Bank $1 650, Fees $1 500, GST $150** in the Cash Receipts Journal.

Question 16

Bank $1 100 (the full GST-inclusive amount received); **GST** = $1 100 ÷ 11 = **$100** (GST Clearing); **Fees** = $1 100 − $100 = **$1 000**. The analysis columns cross-add to the Bank amount: Fees $1 000 + GST $100 = **$1 100** = Bank — the built-in check that the receipt has been analysed correctly.

Question 17

Both requests breach **faithful representation** (and destroy **verifiability**). Preparing a tax invoice for a $550 service that was **never provided** creates a **false source document**: it records $500 of fees that were never earned and $50 of GST ($550 ÷ 11) that was never collected, so revenue, profit and the **GST Clearing** liability owed to the ATO are all overstated and there is no genuine evidence behind them. Leaving the genuine $88 cash fee **unrecorded** does the opposite — it makes the records **incomplete**, understating fees ($80), the GST collected ($8) and profit. In both cases the records no longer faithfully represent the business and cannot be verified against genuine evidence, so any stakeholder relying on the reports is misled. The legal and financial consequences are serious: fabricating a tax invoice to inflate reported profit is **fraud** — deceiving the bank the reports are given to — while under-declaring the cash fee is **tax evasion**, and both expose the owner to penalties and prosecution and destroy the trust of lenders and any future buyer of the business. The bookkeeper should refuse both requests, record **only** genuine transactions and record **all** of them.

Question 18

An **EFT receipt** evidences money **received** electronically by the business (a fee paid by a customer); it supports an entry in the **Cash Receipts Journal**. An **EFT payment advice** (remittance) evidences money **paid** electronically by the business (wages, advertising, an expense account); it supports an entry in the **Cash Payments Journal**. The distinction is one of **direction** — money in versus money out — which is what determines the journal. A business must not record a cash transaction for which **no source document exists** because there would be **no evidence** that it occurred: the figure could not be independently checked, so the records would not be **verifiable** and would not **faithfully represent** the business. Recording only documented transactions — and recording every documented transaction — is the foundation of trustworthy accounting information ("no source document, no entry").

Chapter 6 Source documents — 6B Bank statements and the changing nature of cash

Theory

A **source document** is the written evidence that a transaction has occurred. For cash transactions the business prepares receipts, EFT records and cheque butts of its own, and receives others from the outside parties it deals with — a supplier's tax invoice, a card-terminal receipt. One of those externally prepared documents stands apart from all the rest: the **Bank Statement**. A Bank Statement is a document issued by the **bank** (usually once a month, and available at any time through online banking) that lists **every transaction that has passed through the business's bank account** over a period, together with a **running balance** after each one. Where an ordinary source document evidences a single transaction, the Bank Statement is a complete record of a whole period's cash dealings; and because it is produced by an **independent third party** — the bank — rather than by the business, it is a highly **verifiable** source of evidence: an outside record that can be checked against the business's own cash records.

The Bank Statement is written from the bank's perspective. This is the single idea that makes bank statements confusing at first, so it is worth stating plainly. When a business deposits money with a bank, the bank **owes that money back** to the business — so, to the bank, the business's account is a **liability** (money the bank must repay). A Bank Statement therefore records each transaction the way the **bank** sees it, which is the **opposite** of the way the business records its own **Bank** asset:

- When the business **receives or deposits** money, the bank's liability to the business **increases**, so the bank enters the amount in the **Credit** column of the statement (and the balance rises).
- When the business **pays or withdraws** money, the bank's liability to the business **decreases**, so the bank enters the amount in the **Debit** column of the statement (and the balance falls).

The business's own **Cash Receipts Journal** and **Cash Payments Journal** have no Debit and Credit columns at all; they record the same events from the other side — a receipt **increases** the **Bank** asset and a payment **decreases** it. So a deposit that the business records as a **receipt** appears on the Bank Statement as a **credit**, and a payment the business records as a payment appears on the statement as a **debit**. The two records are mirror images of the same events, seen from two sides.

Reading a Bank Statement. A typical statement has five columns — **Date**, **Details** (a short description of the transaction), **Debit $** (money out), **Credit $** (money in) and **Balance $** (the account balance after that line). The statement opens with the closing balance carried forward from the previous period, then adjusts it line by line:

$$\text{new balance} = \text{previous balance} + \text{credit} - \text{debit}$$

A balance shown plainly is **in credit** (marked **CR** on a real statement) — the business has funds available. If payments exceed the funds on hand the balance becomes **overdrawn**, shown as **DR** (a debit balance): the business now owes the bank money — an **overdraft**, which is a form of short-term borrowing on which the bank charges interest.

Types of entry. Alongside the deposits and payments the business already knows about, a Bank Statement usually shows entries the business may **not yet have recorded** in its own journals, because only the bank knew about them at the time — **account-keeping fees** and transaction fees, **interest received** on the account, **interest charged** on an overdraft, **direct debits** the business has authorised, and **dishonoured** (bounced) receipts. Identifying these items is the first step towards **bank reconciliation** (Chapter 8); in this chapter the Bank Statement is used simply as a source document to be **read** and understood.

The changing nature of cash transactions. "Cash" once meant **notes and coins**, and later **cheques** as well. Today the vast majority of immediate-settlement ("cash") transactions are **electronic**, and appear on the Bank Statement rather than as a handful of notes in a till:

- **EFT** (electronic funds transfer) and online-banking transfers between accounts;
- **EFTPOS** and **debit-card** payments, which draw directly on the bank account;
- **credit-card** payments; **BPAY** bill payments; **direct debits** and **direct credits**;
- **digital wallets** and tap-to-pay on phones and watches, and real-time services such as **PayID / Osko**, which settle in seconds.

This shift has real **implications for recording and control**:

- **Recording.** There are far fewer physical documents (little cash to bank, few cheque butts), so the **Bank Statement and electronic transaction records become the primary evidence**. Every electronic receipt and payment still needs a source document — an **EFT remittance**, an electronic receipt, a **BPAY** confirmation or a card-terminal record — and its reference (for example **EFT 2201**) must be captured so the entry can be traced.
- **Internal control.** Handling less physical cash **reduces** the risk of notes being stolen, lost or miscounted. But electronic cash introduces **new risks** — cyber-fraud, phishing, card skimming, unauthorised online-banking access and mistaken transfers — so controls shift from safes and cash counts to **passwords, restricted access, dual authorisation of EFT payments** and **frequent reconciliation** of the records to the Bank Statement.
- **Timing.** Many electronic payments settle instantly, but some card settlements and direct debits clear a day or two later, so a transaction's date in the business's records can differ from the date it appears on the statement — which matters for the period a transaction belongs to and for reconciliation.
- **Verifiability.** Electronic records are time-stamped and traceable, which **improves** the verifiability of the evidence; but the business relies on the bank's systems and must still keep and check its own records.

Ethical considerations. Because electronic cash leaves fewer physical documents, honest recording depends more than ever on discipline and on the Bank Statement as an independent check. Under **faithful representation**, every electronic receipt must be recorded **completely** — the ease of directing a digital payment (a PayID or card takings) into a **private** account instead of the business account, and leaving it out of the Cash Receipts Journal, is not a harmless shortcut but concealment of revenue and tax evasion. The **accounting entity** assumption is easily breached when a business **debit or credit card** is tapped for the owner's private spending: such amounts must be recorded as **drawings**, never disguised as a business expense, or the reported profit and position of the business alone are distorted. The business also has a duty of **control** — to safeguard customers' card and account details it handles, to authorise electronic payments properly, and to reconcile to the Bank Statement regularly so that error or misappropriation is detected quickly. The Bank Statement, as impartial third-party evidence, is one of the strongest safeguards a small business has that its cash records are honest.

Worked model. *Brookvale Mobile Detailing* (a service business) received its Bank Statement for the week ended 6 May 2026. Its opening balance was $1 200 CR. During the week it banked $880 of fees (**Rec. 118**), paid $600 wages (**EFT 2201**), had a $150 insurance premium taken by direct debit, received $330 from a client by EFT, and was charged a $12 account-keeping fee.

Brookvale Mobile Detailing — Bank Statement (week ended 6 May 2026)

Date 2026	Details	Debit $	Credit $	Balance $
1 May	Opening balance			1 200
2 May	Deposit — **Rec. 118**		880	2 080
3 May	**EFT 2201** — Wages	600		1 480
4 May	Direct debit — CoverSure insurance	150		1 330
5 May	EFT credit — Delta Motors		330	1 660
6 May	Account-keeping fee	12		1 648

Each balance is the one above it plus the credit, less the debit (1 200 + 880 = 2 080; 2 080 − 600 = 1 480; and so on). The closing balance is **$1 648 CR**. Note the mirror image: the $880 deposit and the $330 EFT — **receipts** in the business's Cash Receipts Journal — appear here as **credits**, while the $600 wages and $150 insurance — **payments** in the Cash Payments Journal — appear as **debits**, because the statement is written from the bank's point of view.

Worked examples (scaffolded)

Example 1 — reading a Bank Statement and completing the running balance

Coastline Web Studio had an opening bank balance of $2 400 CR at 1 June 2026. Its statement for 1–12 June showed: a $1 650 deposit (**Rec. 205**); $1 300 rent paid (**EFT 3110**); $594 of EFTPOS fees banked; a $99 direct debit for internet (SwiftNet); $1 800 wages paid (**EFT 3111**); and $5 interest received. Complete the Bank Statement and state the closing balance.

Working	Comment
Deposits and EFTPOS fees and interest are money **in** → **Credit** column; rent, internet and wages are money **out** → **Debit** column.	On the statement, credit = received, debit = paid — the bank's perspective.
2 400 + 1 650 = **4 050**; 4 050 − 1 300 = **2 750**.	Add each credit, subtract each debit, in date order.
2 750 + 594 = **3 344**; 3 344 − 99 = **3 245**; 3 245 − 1 800 = **1 445**.	The balance falls with each payment and rises with each receipt.
1 445 + 5 = **1 450**.	The $5 interest received appears on the statement even though the business may not have recorded it yet.
Closing balance = **$1 450 CR** (in credit).	A plain balance is a credit (CR) balance — funds are available.

Coastline Web Studio — Bank Statement (1–12 June 2026)

Date 2026	Details	Debit $	Credit $	Balance $
1 Jun	Opening balance			2 400
3 Jun	Deposit — **Rec. 205**		1 650	4 050
5 Jun	**EFT 3110** — Rent	1 300		2 750
7 Jun	EFTPOS — fees		594	3 344
9 Jun	Direct debit — SwiftNet internet	99		3 245
11 Jun	**EFT 3111** — Wages	1 800		1 445
12 Jun	Interest received		5	1 450

Example 2 — the changing nature of cash: identifying electronic entries and their source documents

Peppertree Yoga Studio had an opening balance of $900 CR. Its statement showed: $264 received by PayID from a client (J. Rowe); $715 of EFTPOS takings settled the next day; a $1 100 direct debit for the studio lease; $242 paid by BPAY for electricity (AusPower); an $88 debit-card purchase of supplies; and a $15 dishonour fee. Complete the Bank Statement, and for each entry state whether it is a receipt or a payment and name a likely source document.

Working	Comment
PayID $264 and EFTPOS settlement $715 are **receipts** (credits): 900 + 264 = **1 164**; 1 164 + 715 = **1 879**.	Digital receipts still need evidence — the PayID/bank remittance and the EFTPOS terminal settlement report.
Lease $1 100, BPAY $242 and debit card $88 are **payments** (debits): 1 879 − 1 100 = **779**; 779 − 242 = **537**; 537 − 88 = **449**.	Source documents: the direct-debit authority/schedule, the BPAY payment confirmation, and the card-terminal record.
Dishonour fee $15 is a **payment** (debit): 449 − 15 =	A bank-generated charge — the business learns of it

Working	Comment
434.	only from the statement.
Closing balance = **$434 CR**.	The EFTPOS takings of 2 July settled on 3 July — electronic timing can lag the transaction date.

Peppertree Yoga Studio — Bank Statement (2–11 July 2026)

Date 2026	Details	Debit $	Credit $	Balance $
2 Jul	Opening balance			900
2 Jul	PayID deposit — J. Rowe		264	1 164
3 Jul	EFTPOS settlement (2 Jul takings)		715	1 879
5 Jul	Direct debit — studio lease	1 100		779
8 Jul	BPAY — AusPower electricity	242		537
10 Jul	Debit card — supplies	88		449
11 Jul	Dishonour fee	15		434

Worked examples (unscaffolded)

Example 3 — a Bank Statement that moves into overdraft

Ironbark Plumbing Services had an opening balance of $600 CR at 4 August 2026. During the week it banked $330 (**Rec. 51**), paid $1 210 to a supplier (Reliant Parts, **EFT 4120**), received $880 from a client by EFT (Ace Realty), and was charged $4 overdraft interest. Prepare the Bank Statement and explain the balance after the payment to Reliant Parts.

The $330 deposit lifts the balance to $930. The $1 210 payment then exceeds the funds on hand: 930 − 1 210 = **−280**, so the account is **overdrawn** and the balance is shown as **$280 DR** — the business now owes the bank $280. The $880 EFT received restores the balance to 600 CR, and the $4 overdraft interest (charged because the account was overdrawn) reduces it to 596.

Ironbark Plumbing Services — Bank Statement (4–9 August 2026)

Date 2026	Details	Debit $	Credit $	Balance $
4 Aug	Opening balance			600
4 Aug	Deposit — **Rec. 51**		330	930
6 Aug	**EFT 4120** — Reliant Parts	1 210		280 DR
8 Aug	EFT credit — Ace Realty		880	600
9 Aug	Overdraft interest	4		596

∴ the account fell to $280 DR (overdrawn) after the payment to Reliant Parts and closed at **$596 CR**.

Example 4 — items that appear only on the statement, and a control implication

Northwind Consulting had an opening balance of $3 000 CR. Its statement for 15–20 September 2026 showed a $1 320 deposit (**Rec. 77**), $2 100 wages (**EFT 5140**), a $900 direct debit to LeaseCo, a $10 account-keeping fee and $3 interest received. Prepare the statement, identify the entries the business had probably **not yet recorded** in its own cash journals, and state one control implication of cash being electronic.

Working through the running balance: 3 000 + 1 320 = 4 320; 4 320 − 2 100 = 2 220; 2 220 − 900 = 1 320; 1 320 − 10 = 1 310; 1 310 + 3 = 1 313. The deposit and the wages were initiated by the business, so they were already in its journals. The three items the business most likely had **not** recorded until the statement arrived are the **$900 direct debit**, the **$10 account-keeping fee** and the **$3 interest received** — each was generated or triggered at the bank, and produced no document in the business's hands at the time.

Northwind Consulting — Bank Statement (15–20 September 2026)

Date 2026	Details	Debit $	Credit $	Balance $
15 Sep	Opening balance			3 000
15 Sep	Deposit — **Rec. 77**		1 320	4 320
16 Sep	**EFT 5140** — Wages	2 100		2 220
18 Sep	Direct debit — LeaseCo	900		1 320
20 Sep	Account-keeping fee	10		1 310
20 Sep	Interest received		3	1 313

∴ because electronic entries such as direct debits, fees and interest reach the account **without the business generating a source document at the time**, the business must **reconcile its records to the Bank Statement regularly** so these items are picked up and the recorded cash balance stays complete and accurate.

Practice questions — scaffolded

Question 1

Riverside Tutoring had an opening bank balance of $1 500 CR at 2 October 2026. Its statement showed: a $726 deposit (**Rec. 90**); $1 100 rent paid (**EFT 6100**); $385 of EFTPOS fees banked; a $140 direct debit for insurance; and a $9 bank fee.

a. Complete the Bank Statement, showing the running balance after each entry.

b. State the closing balance and whether the account is in credit or overdrawn.

c. Identify which entries are **receipts** and which are **payments** from the business's point of view.

Question 2

Summit Signwriting had an opening balance of $2 000 CR at 3 November 2026. Its statement showed: a $990 deposit (**Rec. 33**); $1 500 wages paid (**EFT 7001**); an $88 direct debit for internet (SwiftNet); and $550 received from a client by EFT.

a. Complete the Bank Statement, showing the running balance after each entry.

b. Explain why the $990 deposit appears in the **Credit** column and the $1 500 wages payment appears in the **Debit** column of the Bank Statement.

c. State the closing balance.

Question 3

Bluegum Cleaning had an opening balance of $850 CR at 2 December 2026. Its statement showed: $275 received by PayID for fees; $418 of EFTPOS takings settled; $176 paid by BPAY for electricity; and a $66 debit-card fuel purchase.

a. Complete the Bank Statement, showing the running balance after each entry.

b. For each of the four entries, state one likely **source document**.

c. State **one** implication of cash transactions becoming electronic for the business's record-keeping.

Question 4

Peak Physio had an opening balance of $1 200 CR at 4 January 2027. Its statement showed: a $660 deposit (**Rec. 12**); a $55 direct debit for a software subscription; and an $8 account-keeping fee.

a. Complete the Bank Statement, showing the running balance after each entry.

b. Identify the **two** entries the business had probably not yet recorded in its own cash journals before the statement arrived.

c. Explain **one** internal-control benefit and **one** new risk that arise from cash becoming electronic.

Question 5

Delta Landscaping had an opening balance of $300 CR at 2 February 2027. Its statement showed: a $220 deposit (**Rec. 8**); $968 paid to a supplier (**EFT 8010**); and a $715 deposit (**Rec. 9**).

a. Complete the Bank Statement, showing the running balance after each entry.

b. State the balance immediately after the payment on 4 February and explain what it means.

c. State the closing balance.

Question 6

The owner of *Willow Web Design* is reviewing the business's cash controls.

a. Explain why the Bank Statement is regarded as a particularly **reliable (verifiable)** source document.

b. The owner has occasionally used the **business debit card** to buy private groceries. Identify the accounting **assumption** this breaches.

c. **Discuss** one ethical implication of cash becoming electronic, with reference to a relevant qualitative characteristic or assumption.

Practice questions — unscaffolded

Question 7

Aloevale Physio had an opening balance of $2 600 CR at 1 March 2027. Its statement showed: a $1 320 deposit (**Rec. 140**); $1 500 rent paid by EFT; $693 of EFTPOS fees; a $99 direct debit for internet; $1 800 wages paid by EFT; and $4 interest received. Prepare the Bank Statement and state the closing balance.

Question 8

Coastal Surf School had an opening balance of $500 CR at 1 April 2027. Its statement showed: a $264 deposit (**Rec. 20**); $1 320 paid to a supplier by EFT; a $990 deposit (**Rec. 21**); and $6 overdraft interest. Prepare the Bank Statement, and state both the lowest balance the account reached and the closing balance.

Question 9

Meadow Music Tuition had an opening balance of $1 800 CR at 1 May 2027. Its statement showed: a $550 deposit (**Rec. 44**); $900 rent paid by EFT; $407 of EFTPOS fees; a $120 direct debit for insurance; and an $11 bank fee. Prepare the Bank Statement, then state the **total receipts**, the **total payments** and the closing balance.

Question 10

Cityscape Drone Services had an opening balance of $1 000 CR at 1 June 2027. Its statement showed: $462 received by PayID; $836 of card takings settled; $231 paid by BPAY for electricity; a $77 debit-card purchase of supplies; and a $145 direct debit for insurance. Prepare the Bank Statement, and for each entry state whether it is a receipt or a payment and name a likely source document.

Question 11

Verdant Gardening had an opening balance of $1 200 CR and a closing balance of $1 486 CR for the period 1–9 July 2027. Its statement showed a deposit of unknown amount (**Rec.**), $800 wages paid by EFT, $330 of EFTPOS fees, and a $9 bank fee. Using the opening and closing balances, calculate the amount of the missing deposit, and present the completed Bank Statement.

Question 12

Explain why a receipt the business records in its Cash Receipts Journal appears in the **Credit** column of the Bank Statement, while a payment it records in its Cash Payments Journal appears in the **Debit** column. Refer to the way the bank views the business's account.

Question 13

Cash transactions have moved almost entirely from notes and coins to electronic forms (EFT, cards, BPAY, PayID). Discuss the implications of this change for **(i) recording** and **(ii) internal control** in a small business.

Question 14

Larkspur Design had an opening balance of $2 200 CR at 1 August 2027. Its statement showed: an $880 deposit (**Rec. 60**); $1 600 wages paid by EFT; a $750 direct debit to LeaseCo; a $10 account-keeping fee; and $3 interest received. Prepare the Bank Statement, identify the entries the business had probably not yet recorded, and explain why the business checks its records against the Bank Statement.

Question 15

The owner of a service business used the **business debit card** to pay $132 for the family's private groceries and recorded it as an "office expenses" payment in the Cash Payments Journal. **Model** the effect of this treatment on the reported **expenses** and **profit**, and state how the amount should have been recorded.

Question 16

Bayside Marine had an opening balance of $900 CR at 1 September 2027. Its statement showed: a $660 deposit (**Rec. 71**); $484 paid to a supplier by EFT; a $220 **dishonoured** customer EFT reversed by the bank; and a $15 dishonour fee. Prepare the Bank Statement, explain what a "dishonoured" receipt is, and state the closing balance.

Question 17

Because electronic cash leaves fewer physical documents, a dishonest owner may find it easier to divert digital receipts or to spend business funds privately. **Discuss** the ethical responsibilities of a business in recording and controlling electronic cash, referring to **faithful representation**, the **accounting entity** assumption, and the role of the Bank Statement as a control.

Question 18

Grandview Consulting had an opening balance of $1 500 CR at 1 October 2027. Its statement showed: a $990 deposit (**Rec. 200**); $2 800 wages paid (**EFT 9100**); $1 210 received from a client by PayID; a $66 direct debit for software; a $12 account-keeping fee; and $2 interest received. Prepare the Bank Statement, state the lowest balance the account reached and the closing balance, and identify the entries the business had probably not yet recorded in its own cash journals.

Answers

1.
    b. Closing **$1 362 CR** (in credit) c. Receipts: deposit $726, EFTPOS $385; payments: rent $1 100, insurance $140, bank fee $9
2.
    a. Balances $2 990 / $1 490 / $1 402 / $1 952 b. See solutions c. Closing **$1 952 CR**
3.
    a. Balances $1 125 / $1 543 / $1 367 / $1 301 b. See solutions c. See solutions
4.
    a. Balances $1 860 / $1 805 / $1 797 b. Direct debit $55 and account-keeping fee $8 c. See solutions
5.
    a. Balances $520 / $448 DR / $267 b. **$448 DR** — overdrawn (the business owes the bank $448)
    b. Closing **$267 CR**
6. See solutions
7. Closing **$1 218 CR**
8. Lowest **$556 DR** (overdrawn after the supplier payment); closing **$428 CR**
9. Total receipts **$957**; total payments **$1 031**; closing **$1 726 CR**
10. Closing **$1 845 CR**; receipts: PayID $462, card settlement $836; payments: BPAY $231, debit card $77, direct debit $145
11. Missing deposit **$765**; closing **$1 486 CR**
12. See solutions
13. See solutions
14. Closing **$723 CR**; not-yet-recorded: direct debit $750, account-keeping fee $10, interest $3
15. Expenses **overstated $132**; profit **understated $132**; should have been recorded as **Drawings**
16. Closing **$841 CR**
17. See solutions
18. Lowest **$310 DR**; closing **$824 CR**; not-yet-recorded: direct debit $66, fee $12, interest $2

Fully-worked solutions

Question 1

Riverside Tutoring — Bank Statement (2–9 October 2026)

Date 2026	Details	Debit $	Credit $	Balance $
2 Oct	Opening balance			1 500
2 Oct	Deposit — **Rec. 90**		726	2 226
4 Oct	**EFT 6100** — Rent	1 100		1 126
6 Oct	EFTPOS — fees		385	1 511
8 Oct	Direct debit — insurance	140		1 371
9 Oct	Bank fee	9		1 362

b. Closing balance = **$1 362 CR** — the account is **in credit** (funds available), not overdrawn.

c. **Receipts** (credits): the $726 deposit and the $385 EFTPOS fees. **Payments** (debits): the $1 100 rent, the $140 insurance direct debit and the $9 bank fee.

Question 2

Summit Signwriting — Bank Statement (3–8 November 2026)

Date 2026	Details	Debit $	Credit $	Balance $
3 Nov	Opening balance			2 000
3 Nov	Deposit — **Rec. 33**		990	2 990
5 Nov	**EFT 7001** — Wages	1 500		1 490
7 Nov	Direct debit — SwiftNet internet	88		1 402
8 Nov	EFT credit — client		550	1 952

b. The Bank Statement is written from the **bank's** point of view, and to the bank the business's account is a **liability** (the bank owes the business its deposited funds). The $990 deposit **increases** what the bank owes the business, so the bank **credits** the account; the $1 500 wages payment **reduces** what the bank owes, so the bank **debits** the account. This is the reverse of the business's own records, where the deposit is a receipt (increasing the Bank asset) and the wages a payment (reducing it).

c. Closing balance = **$1 952 CR**.

Question 3

Bluegum Cleaning — Bank Statement (2–7 December 2026)

Date 2026	Details	Debit $	Credit $	Balance $
2 Dec	Opening balance			850
2 Dec	PayID deposit — fees		275	1 125
3 Dec	EFTPOS settlement		418	1 543
5 Dec	BPAY — electricity	176		1 367
7 Dec	Debit card — fuel	66		1 301

b. Likely source documents: PayID deposit → the **electronic remittance / bank deposit record**; EFTPOS settlement → the **EFTPOS terminal settlement report**; BPAY payment → the **BPAY payment confirmation**; debit-card fuel → the **card-terminal receipt** (and the tax invoice from the service station).

c. Any one: fewer physical documents mean the **Bank Statement and electronic records become the main evidence**, so the business must capture each transaction's reference and reconcile to the statement; or, electronic entries such as fees and direct debits reach the account without the business creating a document, so records must be checked against the statement to stay complete.

Question 4

Peak Physio — Bank Statement (4–7 January 2027)

Date 2027	Details	Debit $	Credit $	Balance $
4 Jan	Opening balance			1 200
4 Jan	Deposit — **Rec. 12**		660	1 860

Date 2027	Details	Debit $	Credit $	Balance $
6 Jan	Direct debit — software subscription	55		1 805
7 Jan	Account-keeping fee	8		1 797

b. The **$55 software direct debit** and the **$8 account-keeping fee** — both are triggered or charged at the bank, so the business often learns of them only from the statement (the $660 deposit it banked itself and had already recorded).

c. **Control benefit:** handling little physical cash **reduces the risk of notes being stolen, lost or miscounted**, and every transaction leaves a traceable electronic trail. **New risk:** electronic cash is exposed to **cyber-fraud, unauthorised online-banking access, phishing or card skimming**, so the business must protect passwords, restrict access and reconcile frequently.

Question 5

Delta Landscaping — Bank Statement (2–6 February 2027)

Date 2027	Details	Debit $	Credit $	Balance $
2 Feb	Opening balance			300
2 Feb	Deposit — **Rec. 8**		220	520
4 Feb	**EFT 8010** — supplier	968		448 DR
6 Feb	Deposit — **Rec. 9**		715	267

b. After the $968 payment the balance is **$448 DR** — the payment exceeded the funds on hand (520 − 968 = −448), so the account is **overdrawn**: the business now **owes the bank $448** (an overdraft).

c. Closing balance = **$267 CR** (the $715 deposit returned the account to credit).

Question 6

a. The Bank Statement is prepared by the **bank — an independent third party** — not by the business, so it is external evidence that cannot be adjusted by the business to suit itself. This makes it highly **verifiable**: the business's own cash records can be checked against it, and any difference investigated. It is one of the few source documents a business does not generate itself.

b. The **accounting entity** assumption — which treats the business as **separate and distinct from its owner**. Private groceries are the owner's personal expense; paying for them from the business account must be recorded as **drawings**, not as a business expense.

c. Because electronic cash leaves **fewer physical documents**, it is easier to divert a digital receipt to a private account or to tap a business card for private spending. Under **faithful representation**, every electronic receipt must still be recorded **completely and without bias** — omitting digital takings understates revenue and profit (and the GST owed), which is dishonest and illegal. The **accounting entity** assumption requires private spending to be treated as **drawings**, not disguised as an expense. The **Bank Statement** is the key safeguard: as impartial third-party evidence it lets the owner (and any auditor or lender) verify that every electronic receipt and payment has been recorded honestly, so a business that reconciles to it regularly both deters and detects misuse.

Question 7

Aloevale Physio — Bank Statement (1–8 March 2027)

Date 2027	Details	Debit $	Credit $	Balance $
1 Mar	Opening balance			2 600
1 Mar	Deposit — **Rec. 140**		1 320	3 920
3 Mar	EFT — Rent	1 500		2 420
5 Mar	EFTPOS — fees		693	3 113
6 Mar	Direct debit — internet	99		3 014
7 Mar	EFT — Wages	1 800		1 214
8 Mar	Interest received		4	1 218

Closing balance = **$1 218 CR**.

Question 8

Coastal Surf School — Bank Statement (1–6 April 2027)

Date 2027	Details	Debit $	Credit $	Balance $
1 Apr	Opening balance			500
1 Apr	Deposit — **Rec. 20**		264	764
3 Apr	EFT — supplier	1 320		556 DR
5 Apr	Deposit — **Rec. 21**		990	434
6 Apr	Overdraft interest	6		428

The account fell to its lowest point of **$556 DR** (overdrawn) after the supplier payment; the $990 deposit returned it to credit. Closing balance = **$428 CR**.

Question 9

Meadow Music Tuition — Bank Statement (1–9 May 2027)

Date 2027	Details	Debit $	Credit $	Balance $
1 May	Opening balance			1 800
1 May	Deposit — **Rec. 44**		550	2 350
3 May	EFT — Rent	900		1 450
5 May	EFTPOS — fees		407	1 857
7 May	Direct debit — insurance	120		1 737
9 May	Bank fee	11		1 726

Total receipts (credits) = 550 + 407 = **$957**; total payments (debits) = 900 + 120 + 11 = **$1 031**. Check: 1 800 + 957 − 1 031 = **$1 726 CR** = closing balance.

Question 10

Cityscape Drone Services — Bank Statement (1–9 June 2027)

Date 2027	Details	Debit $	Credit $	Balance $
1 Jun	Opening balance			1 000
1 Jun	PayID deposit		462	1 462
3 Jun	Card settlement		836	2 298
5 Jun	BPAY — electricity	231		2 067
7 Jun	Debit card — supplies	77		1 990
9 Jun	Direct debit — insurance	145		1 845

Receipts (credits): PayID $462 → **electronic remittance / deposit record**; card settlement $836 → **EFTPOS terminal settlement report**. Payments (debits): BPAY $231 → **BPAY payment confirmation**; debit card $77 → **card-terminal receipt / tax invoice**; direct debit $145 → **direct-debit authority / schedule**. Closing balance = **$1 845 CR**.

Question 11

Let the deposit be $D. From opening to closing: 1 200 + D − 800 (wages) + 330 (EFTPOS) − 9 (fee) = 1 486, so 1 200 + D − 479 = 1 486, giving D = 1 486 − 721 = **$765**.

Verdant Gardening — Bank Statement (1–9 July 2027)

Date 2027	Details	Debit $	Credit $	Balance $
1 Jul	Opening balance			1 200
2 Jul	Deposit — **Rec.**		765	1 965
4 Jul	EFT — Wages	800		1 165
6 Jul	EFTPOS — fees		330	1 495
9 Jul	Bank fee	9		1 486

The missing deposit is **$765** and the statement closes at **$1 486 CR**, confirming the given closing balance.

Question 12

The Bank Statement is prepared from the **bank's** perspective. To the bank, the money a business holds on deposit is a **liability** — the bank **owes** it to the business. When the business banks a receipt, the amount the bank owes the business **increases**, so the bank **credits** the account, and the receipt appears in the **Credit** column. When the business makes a payment, the amount the bank owes the business **decreases**, so the bank **debits** the account, and the payment appears in the **Debit** column. In the business's own records the same two events are seen from the other side, because there **Bank** is an **asset**: banking a receipt **increases** it and making a payment **decreases** it. The two records are mirror images of the same transactions seen from opposite sides, which is why what the business records as a **receipt** the bank shows as a **credit**, and what the business records as a **payment** the bank shows as a **debit**.

Question 13

(i) Recording. As cash has become electronic there are far **fewer physical documents** — little cash to bank, almost no cheque butts — so the **Bank Statement and electronic transaction records become the primary evidence** of cash transactions. Each EFT, card payment, BPAY or PayID still needs a source document (a remittance, an electronic receipt, a terminal record) and its reference must be captured so the entry can be traced and recorded in the correct journal. Because some electronic items (fees, interest, direct debits) are generated at the bank, the business must **reconcile its records to the Bank Statement** to record them and keep the cash records complete.

(ii) Internal control. Handling less physical cash **reduces** the risk of notes and coins being stolen, lost or miscounted, and every electronic transaction leaves a **time-stamped, traceable** trail. But electronic cash brings **new risks** — cyber-fraud, phishing, card skimming, unauthorised online-banking access and mistaken transfers — so controls shift from safes and till counts to **password security, restricted access, dual authorisation of electronic payments** and **frequent reconciliation** to the Bank Statement. Overall the change improves verifiability but demands stronger digital controls.

Question 14

Larkspur Design — Bank Statement (1–8 August 2027)

Date 2027	Details	Debit $	Credit $	Balance $
1 Aug	Opening balance			2 200
1 Aug	Deposit — **Rec. 60**		880	3 080
3 Aug	EFT — Wages	1 600		1 480
5 Aug	Direct debit — LeaseCo	750		730
7 Aug	Account-keeping fee	10		720
8 Aug	Interest received		3	723

The entries the business had probably **not yet recorded** are the **$750 direct debit to LeaseCo**, the **$10 account-keeping fee** and the **$3 interest received** — each reached the account without the business generating a source document at the time. The business **checks its records against the Bank Statement** (bank reconciliation) so that these bank-generated items are picked up and recorded, so that any error or omission by either the business or the bank is found, and so that the recorded cash balance can be relied on. Closing balance = **$723 CR**.

Question 15

Recording the $132 private purchase as "office expenses" treats a **personal** cost as a **business expense**. The effect is to **overstate expenses by $132**, which in turn **understates profit by $132** in the Income Statement — the payment reduces reported profit even though no business cost was incurred. Under the **accounting entity** assumption, the amount should have been recorded as **drawings** (a reduction of the owner's Capital in the Balance Sheet), not as an expense — the business's cash did fall by $132, but because the owner took the benefit personally, it is a withdrawal of resources by the owner, not a cost of running the business.

Question 16

Bayside Marine — Bank Statement (1–6 September 2027)

Date 2027	Details	Debit $	Credit $	Balance $
1 Sep	Opening balance			900
1 Sep	Deposit — **Rec. 71**		660	1 560
3 Sep	EFT — supplier	484		1 076
5 Sep	Dishonoured	220		856

Date 2027	Details	Debit $	Credit $	Balance $
	customer EFT (reversal)			
6 Sep	Dishonour fee	15		841

A **dishonoured** receipt is a payment from a customer that the bank at first credited to the account but which then **failed** — for example, the customer's account had insufficient funds or the transfer was recalled. The bank **reverses** the $220 it had credited (a debit that reduces the balance), and usually charges a **dishonour fee** (here $15) as well; the business is left $220 short and must chase the customer for payment. Closing balance = **$841 CR**.

Question 17

Electronic cash leaves **fewer physical documents** than notes and coins, so honest recording relies more heavily on the discipline of the business and on independent evidence. Under **faithful representation**, every electronic receipt — a PayID, an EFT, a card settlement — must be recorded **completely and without bias**; diverting a digital receipt to a private account and leaving it out of the Cash Receipts Journal conceals revenue, understates profit and evades tax, and misleads every stakeholder who relies on the reports. Under the **accounting entity** assumption, business funds must not be spent on the owner's private needs and disguised as business expenses; the ease of tapping a business card for personal purchases makes this temptation greater, and any such amount must be recorded as **drawings**. The **Bank Statement** is the central control against both abuses: as **impartial third-party evidence** it records every electronic receipt and payment, so reconciling the business's records to it regularly both **deters** dishonesty (because it will be detected) and **detects** it when it occurs — protecting the interests of lenders, the ATO, prospective buyers and the owner alike. Ethical practice therefore combines faithful, complete recording with strong digital controls (restricted access, authorisation of payments, safeguarding of customers' card details) and regular reconciliation.

Question 18

Grandview Consulting — Bank Statement (1–9 October 2027)

Date 2027	Details	Debit $	Credit $	Balance $
1 Oct	Opening balance			1 500
1 Oct	Deposit — **Rec. 200**		990	2 490
3 Oct	**EFT 9100** — Wages	2 800		310 DR
5 Oct	PayID deposit — client		1 210	900
7 Oct	Direct debit — software	66		834
8 Oct	Account-keeping fee	12		822
9 Oct	Interest received		2	824

The account fell to its lowest point of **$310 DR** (overdrawn) after the $2 800 wages payment; the $1 210 PayID deposit returned it to credit. The entries the business had probably **not yet recorded** are the **$66 software direct debit**, the **$12 account-keeping fee** and the **$2 interest received** — all bank-generated. Closing balance = **$824 CR**.

Chapter 6 Source documents — 6C Credit and other business transactions

Theory

Every transaction a business records must be supported by a **source document** — the piece of paper (or electronic record) that provides both the **financial data** and the **evidence** that the transaction actually occurred. Sections 6A and 6B dealt with the documents that evidence **cash** transactions (receipts, EFT records, cheque butts and the bank statement). This section deals with the documents that evidence **credit** transactions — where the good or service changes hands now but the money is paid or received **later** — together with the **memo**, the document used for internal and non-cash transactions that leave no external paper trail.

A **credit transaction** is settled at an agreed **future date**, so it does not change the **Bank** balance now. Instead it creates a debt: an **account receivable** (a customer who owes the business) or an **account payable** (a supplier the business owes). Because no cash moves, a credit transaction is never recorded in the Cash Receipts or Cash Payments Journal — it is recorded from its own credit source document into a different journal. Knowing **which document** evidences a transaction, and **what entry** that document will trigger, is the first skill of accurate recording.

The sales invoice. A **sales invoice** is the source document a business **issues** when it makes a **credit sale** — it provides a service (or sells a good) to a customer **on account**. The invoice states the customer, the date, a description, the amount, the **GST**, and the total owing with the credit terms (for example, "net 30 days"). The business keeps a duplicate and sends the original to the customer. A sales invoice evidences a **credit sale**: it **increases revenue**, **increases the account receivable** (the customer now owes the business), and **increases the GST Clearing** liability (GST has been collected even though no cash has yet been received). It is recorded in the **Sales Journal** — the special journal for credit sales.

Kestrel IT Support (owner J Halloran) provides network support to a client on account and issues:

Sales Invoice 3011

Field	Detail
Issued by	Kestrel IT Support
To (account customer)	Brightleaf Dental
Date	8 May 2026
For	Network set-up (8 hours)
Amount (excl. GST)	$800
GST (10%)	$80
Total owing (net 30 days)	**$880**

The GST is one-eleventh of the $880 total ($880 ÷ 11 = $80), leaving service revenue of $800. The document triggers a credit sale: Brightleaf Dental becomes an account receivable for $880, revenue rises $800 and GST Clearing rises $80.

The purchase invoice. A **purchase invoice** is the **same document seen from the other side**: it is the invoice a business **receives** from a supplier when it makes a **credit purchase** — buying supplies, equipment or services **on account**. One business's sales invoice is another business's purchase invoice. A purchase invoice evidences a **credit purchase**: it **increases an asset or an expense**, **increases the account payable** (the business now owes the supplier), and (because the business has **paid** GST) **reduces the GST Clearing** liability. It is recorded in the **Purchases Journal** — the special journal for credit purchases. When Kestrel buys toner and cables on account from *Delta Office Supplies*, the invoice Delta issues is Kestrel's purchase invoice:

Purchase Invoice 812 (received from Delta Office Supplies)

Field	Detail
Received by	Kestrel IT Support
From (account supplier)	Delta Office Supplies
Date	6 May 2026

Field	Detail
For	Printer toner and cables
Amount (excl. GST)	$240
GST (10%)	$24
Total owing (net 30 days)	**$264**

The GST paid is $264 ÷ 11 = $24. Delta becomes an account payable for $264, the supplies (an asset or expense) rise $240, and the GST Clearing liability falls $24.

The credit note. A **credit note** is issued when goods are **returned** (or an agreed **allowance** or correction is made), **reducing** the amount owed on an earlier invoice. It always reverses **part of an invoice, including the GST** on that part. A credit note can reach the business from either direction:

- A credit note the business **receives from a supplier** evidences a **purchase return** (or allowance): it **reduces the account payable** the business owes and **reverses the GST** it had claimed. When Kestrel returns faulty toner to Delta, Delta issues **Credit Note 55**:

Credit Note 55 (received from Delta Office Supplies)

Field	Detail
Received by	Kestrel IT Support
From	Delta Office Supplies
Date	12 May 2026
For	Return of faulty toner
Amount (excl. GST)	$60
GST (10%)	$6
Reduction in amount owing	**$66**

- A credit note the business **issues to a customer** evidences a **sales return** or **allowance** (for example, correcting an overcharge on a service invoice): it **reduces the account receivable** and **reverses the GST** the business had collected.

A return is neither a cash transaction nor a fresh credit sale or credit purchase, so a credit note fits **none** of the four special journals. Whichever direction it travels, the entry a credit note triggers is made in the **General Journal** — the journal used for transactions the special journals cannot capture.

The statement of account. A **statement of account** is a periodic (usually **monthly**) summary that a supplier sends to a customer — or that the business sends to each of its own account customers — listing the **opening balance owing**, every **invoice** and **credit note** for the month, every **payment** received, and the **closing balance owing**. Crucially, a statement of account **does not record a new transaction and does not trigger a new entry** — everything on it has already been evidenced by an invoice, credit note or receipt. Its purpose is to be **checked**: the business compares the supplier's statement against its own record of that account and investigates any difference. Delta's month-end statement to Kestrel gathers the transactions above:

Statement of Account — Delta Office Supplies (to Kestrel IT Support, as at 31 May 2026)

Date 2026	Details	Amount $	Balance $
1 May	Balance owing		330
6 May	Invoice 812	264	594
12 May	Credit Note 55	(66)	528
20 May	Payment received — thank you	(330)	198
31 May	**Closing balance owing**		**198**

Reading down the balance column, $330 + $264 − $66 − $330 = **$198** owing at month end. If Kestrel's own records agree, the account is verified; if they do not, the statement has caught an error to investigate — a powerful **internal control**.

The memo. A **memo** (memorandum) is an **internal** source document that the business **prepares itself** to evidence a transaction that has **no external document** — an **internal or non-cash** transaction. Common examples are the owner **contributing** an asset such as equipment or a vehicle to the business, the owner **withdrawing** an asset for private use (**drawings**), the **correction of a recording error**, or the **writing-off of a bad debt**. A memo is the **authority** for the entry the business then makes, and — like a credit note — that entry belongs in the **General Journal**, because no special journal covers it.

Memo transactions generally carry **no GST**, and the reason is **who the other party is**. GST arises only when a **GST-registered business makes a taxable supply** and issues a **tax invoice**. A memo records a transaction with **no such counterparty**: the owner is a **private person**, not a registered supplier selling to the firm, and a correction or a bad-debt write-off has no outside party at all. With no taxable supply there is no tax invoice, nothing to charge and nothing to claim — so when the owner contributes a **non-current asset**, **no GST is recorded**. Note carefully that GST is **not** avoided merely because something is not trading stock: a purchase invoice for equipment, materials or clinical supplies carries GST exactly as an invoice for goods for resale does.

Documents in the credit trail that trigger no entry. A credit transaction usually leaves a longer paper trail than the invoice alone. The buyer sends an **order** (a purchase order) setting out the goods or services wanted and the agreed price; the supplier may return an **order confirmation** accepting it; **shipping documents** and a **delivery docket** then travel with the goods, the docket listing the **quantities delivered** (usually without prices) and being signed by the person who receives them. None of these states the amount now owed, so **none of them is recorded** — the **purchase invoice** remains the source document for the entry. Their accounting value is **internal control**: matching the order, the delivery docket and the purchase invoice before approving payment proves the business **ordered** the goods, **received** them, and is being **billed the agreed price**.

Matching each document to the transaction and the entry it triggers. The table below summarises the five documents dealt with in this section, plus the ordering and delivery documents. Notice that the last two rows trigger **no** entry at all:

Source document	Prepared or received	Evidences	Effect on the accounts	Recorded in
Sales invoice	issued by the business	credit sale	Accounts Receivable ↑, revenue ↑, GST Clearing ↑	Sales Journal
Purchase invoice	received from supplier	credit purchase	Accounts Payable ↑, asset/expense ↑, GST Clearing ↓	Purchases Journal
Credit note (received)	received from supplier	purchase return / allowance	Accounts Payable ↓, GST Clearing ↑	General Journal
Credit note (issued)	issued by the business	sales return / allowance	Accounts Receivable ↓, GST Clearing ↓	General Journal
Memo	prepared by the business	internal / non-cash transaction	as specified (no cash, usually no GST)	General Journal
Statement of account	received (or sent)	a summary of the account	**none** — it is checked, not recorded	not recorded (reconciled)
Order, order confirmation, shipping document, delivery docket	sent or received	the ordering and delivery of the goods	**none** — no amount is yet owed	not recorded (matched to the invoice)

GST on credit documents. GST works **exactly the same** on a credit document as on a cash one: it is **one-eleventh** of a GST-inclusive amount, an exact fraction because a GST-inclusive price is 10 parts base price plus 1 part GST = 11 parts.

$$\text{GST} = \frac{1}{11} \times (\text{GST-inclusive amount})$$

The only difference is **timing**: on a **credit sale** the business collects GST (a rise in the GST Clearing liability) even though the cash arrives later; on a **credit purchase** the business incurs GST it can claim (a fall in the liability) before it pays. A **credit note** reverses the GST on the returned portion — one-eleventh of the credit-note total.

Ethical considerations. Source documents are the **verifiable evidence** on which trustworthy accounting rests, so a business should record **only** transactions supported by a **genuine** document, and should record **every** genuine document. Under **faithful representation** and **verifiability**, it is unethical (and often illegal) to **create a fictitious purchase invoice** to overstate expenses or claim a GST refund the business is not owed, to **issue a false sales invoice** to inflate revenue, or to **fail to issue a credit note** a customer is genuinely owed. Because a **memo** is prepared **inside** the business and has no external counterpart, it is the document most open to abuse — so memos should be **authorised** and supported by clear reasons. Checking every supplier's **statement of account** against the business's own records is itself an internal control: it detects errors, omitted credit notes and even fraudulent charges before the business pays them. Honest documentation protects the business, the supplier, the customer and the ATO alike.

Worked examples (scaffolded)

Example 1 — a credit sale and the credit note that adjusts it

Aster Marketing (a service business) completes a campaign for *Coral Bay Resort* on account and issues **Sales Invoice 208** for \$1 650 (GST-inclusive). A week later Aster agrees the client was overcharged for two hours and issues **Credit Note 17** for \$220 (GST-inclusive). Identify each document, extract the GST, and state the amount Coral Bay owes after the credit note.

Working	Comment
Sales Invoice 208 is issued *by* Aster and evidences a **credit sale** (Coral Bay becomes an account receivable).	The business that provides the service on account issues the sales invoice.
GST on the invoice = \$1 650 ÷ 11 = **\$150**; revenue = 1 650 − 150 = **\$1 500**.	GST is 1/11 of the GST-inclusive total; the rest is revenue.
Credit Note 17 is issued *by* Aster and evidences a **sales return / allowance** — it reduces the account receivable.	A credit note the business *issues* reverses part of its own sales invoice.
GST reversed by the credit note = \$220 ÷ 11 = **\$20**; revenue reversed = **\$200**.	The credit note reverses the GST on the returned portion, one-eleventh of \$220.
Amount Coral Bay still owes = 1 650 − 220 = **\$1 430** (net revenue \$1 300, net GST \$130).	The invoice raised the debt; the credit note reduced it.

∴ Sales Invoice 208 evidences a \$1 650 credit sale (GST \$150); Credit Note 17 reduces it by \$220 (GST \$20); Coral Bay Resort owes **\$1 430**.

Example 2 — checking a statement of account (internal control)

Fernway Print receives the month-end **Statement of Account** below from its supplier *Ridgeline Paper Co*. Verify the closing balance, confirm the GST on the invoice and the credit note, and explain what Fernway should do about a \$605 EFT payment it made on 29 June that is **not** shown on the statement.

Statement of Account — Ridgeline Paper Co (to Fernway Print, as at 30 June 2026)

Date 2026	Details	Amount \$	Balance \$
1 Jun	Balance owing		484
5 Jun	Invoice 902	715	1 199
14 Jun	Credit Note 33	(110)	1 089

Date 2026	Details	Amount $	Balance $
22 Jun	Payment received	(484)	605
30 Jun	**Closing balance owing**		**605**

Working	Comment
Closing balance = 484 + 715 − 110 − 484 = **$605**.	Foot the statement down the balance column to verify it.
GST on Invoice 902 = $715 ÷ 11 = **$65** (cost $650).	Every invoice on the statement carries GST at 1/11.
GST on Credit Note 33 = $110 ÷ 11 = **$10** (return $100).	The credit note reversed $10 of the GST claimed.
Fernway's 29 June EFT of $605 is a **timing difference**, not an error — it was paid after the statement was drawn up.	A statement shows only what the supplier had processed by the statement date.
After the $605 payment clears, the account balance is **nil** (605 − 605 = 0).	Reconciling explains the difference and confirms nothing is owed.

∴ the statement foots to $605; the difference is Fernway's own $605 payment of 29 June not yet processed by Ridgeline, so once it clears the account is settled — no further action beyond noting the timing difference.

Worked examples (unscaffolded)

Example 3 — a memo for an internal, non-cash transaction

On 3 July the owner of *Larch Legal* brings a personal laptop worth $1 800 into the business for business use. No money changes hands and no supplier is involved. Identify the source document, state the GST treatment, and state the transaction it triggers.

Because there is **no external document** — the owner is neither a supplier nor a customer — the business prepares an internal **memo** (**Memo 7**) as the authority for the entry. The owner contributes the laptop as a **private person**, not as a GST-registered business making a taxable supply, so **no tax invoice exists and no GST is recorded**. The memo evidences a **capital contribution**: the business's **Office equipment** asset increases by $1 800 and the owner's **Capital** increases by $1 800. It is not a cash transaction, so it appears in **no** cash journal — the memo authorises a **General Journal** entry instead.

∴ the document is **Memo 7**; no GST applies; it records a $1 800 increase in Office equipment and in Capital.

Example 4 — a purchase invoice followed by a purchase-return credit note

Quill Editing buys editing equipment on account from *Vantage Tech*, receiving **Purchase Invoice V-77** for $1 320 (GST-inclusive). Two days later it returns a faulty monitor and receives **Credit Note V-CN9** for $330 (GST-inclusive). Identify each document and state the amount Quill owes Vantage after the return.

Purchase Invoice V-77 evidences a **credit purchase**: GST paid = $1 320 ÷ 11 = $120, equipment $1 200, and Vantage becomes an account payable for $1 320. Credit Note V-CN9 evidences a **purchase return**: it reverses $330 ÷ 11 = $30 of GST and $300 of the cost, reducing the account payable. The net amount owing is 1 320 − 330 = **$990** (net cost $900, net GST claimed $90).

∴ after the return Quill Editing owes Vantage Tech **$990**, having claimed net GST of $90 on equipment costing $900.

Practice questions — scaffolded

Question 1

Birch Bookkeeping provides bookkeeping services on account to a client and issues **Sales Invoice 140** for $990 (GST-inclusive).

a. Name the source document that evidences this transaction, and state whether Birch **prepares** it or **receives** it.

b. Calculate the GST included in the $990 and the GST-exclusive fee.

c. State the transaction the document triggers, and whether it creates an **account receivable** or an **account payable**.

Question 2

Sandpiper Signs buys sign-making materials on account from *Oakwood Supplies* and receives **Purchase Invoice 66** for $1 540 (GST-inclusive).

a. Name the source document, and state whether Sandpiper **prepares** it or **receives** it.

b. Calculate the GST and the GST-exclusive cost of the materials.

c. Name the **special journal** that records this document, and state the account it creates.

Question 3

Willow Interiors returns faulty fabric it had bought on account and receives **Credit Note 21** from its supplier *Loom Textiles* for $275 (GST-inclusive).

a. Name the source document Willow receives, and state the transaction it evidences.

b. Calculate the GST reversed by the credit note.

c. Explain, in one sentence, the effect of the credit note on the amount Willow owes Loom Textiles.

Question 4

Marlin Marine receives the following **Statement of Account** from its supplier *Harbour Chandlery*.

Statement of Account — Harbour Chandlery (to Marlin Marine, as at 31 August 2026)

Date 2026	Details	Amount $	Balance $
1 Aug	Balance owing		396
7 Aug	Invoice 501	660	?
15 Aug	Credit Note 12	(132)	?
24 Aug	Payment	(396)	?
31 Aug	**Closing balance owing**		**?**

a. Complete the balance column and state the closing balance owing at 31 August.

b. State what Marlin Marine should do with this statement of account when it arrives.

c. Explain, in one sentence, one way the statement of account acts as an **internal control**.

Question 5

On 9 September the owner of *Cedar Coaching* contributes office furniture valued at $700 to the business (**Memo 5**).

a. Name the source document used for this transaction, and state why an external document is not available.

b. State whether GST applies, and explain why.

c. State the **two** effects of the transaction on the accounting equation.

Question 6

Rosella Records is a bookkeeping service.

a. Explain what a **source document** provides that allows a recorded transaction to be **checked** later.

b. The owner records a purchase invoice for supplies that were **never received**. Identify the **qualitative characteristic** this breaches.

c. Discuss **one** internal-control reason for checking every supplier's **statement of account** against the business's own records.

Practice questions — unscaffolded

Question 7

For **each** transaction or business event below, name the document involved — choosing from **sales invoice**, **purchase invoice**, **credit note**, **statement of account**, **memo**, **order** or **delivery docket** — and, for **g** and **h**, also state whether the document triggers an entry:

a. The business provides landscaping services on account and bills the customer.
b. A supplier sends a month-end summary of invoices, credit notes and payments on the account.
c. The owner brings a personal printer into the business for business use.
d. The business returns damaged stationery to a supplier and its account is reduced.
e. The business buys a photocopier on account and receives the bill.
f. The business finds that wages were recorded twice and corrects the error.
g. The business writes to a supplier asking for 20 boxes of paper at the quoted price.
h. The supplier's driver hands over the paper with a note listing the quantities delivered, which the business signs on receipt.

Question 8

For each of the following **GST-inclusive** amounts appearing on a credit document, calculate the GST it contains: (a) $418; (b) $1 265; (c) $3 850; (d) $946.

Question 9

A trading week produces three credit documents: **Sales Invoice 300** for $550 (issued), a **purchase invoice** for $2 200 (received), and a **credit note** for $220 (received from a supplier). For **each** document, state the transaction it evidences, whether the relevant subsidiary account (Accounts Receivable or Accounts Payable) **increases or decreases**, and the journal in which it is recorded.

Question 10

Tamar Tiling receives a **Statement of Account** from *Blackwood Building Supplies* showing: opening balance owing $1 100; 8 October Invoice 1200 $2 200; 16 October Credit Note 45 ($330); 27 October Payment ($1 100); closing balance owing $1 870. Tamar's **own** ledger, however, shows it owes Blackwood $2 200. Verify the statement's closing balance, calculate the discrepancy with Tamar's ledger, state its most likely cause, and state what Tamar must do.

Question 11

A business issues a sales invoice for $2 310 (GST-inclusive) for a service supplied on account, then issues a credit note for $330 (GST-inclusive) for an agreed allowance. Calculate (i) the net amount still receivable, (ii) the net revenue earned, and (iii) the net GST collected.

Question 12

On 1 October the owner of *Fenwick Consulting* contributes a motor vehicle valued at $12 000 to the business (**Memo 9**). Name the source document, state whether GST applies, state the effect on the accounting equation, and explain why the transaction is recorded in **no cash journal**.

Question 13

Explain why a **sales invoice** and a **purchase invoice** are often the **same document** viewed from two sides. In your answer, state who **prepares** it, who **receives** it, and the account each business records as a result.

Question 14

Explain the purpose of a **statement of account**, and describe **one** consequence for a business of **not** checking a supplier's statement against its own records before paying it.

Question 15

A business recorded a credit sale from a **memo** its owner wrote, rather than from a **sales invoice** issued to the customer. Explain why the **sales invoice** is the appropriate source document for a credit sale, with reference to **verifiability**.

Question 16

The owner of a small business asks its bookkeeper to (i) enter several **fictitious purchase invoices** — each for $3 300 (GST-inclusive) — from a friend's business, so the firm can overstate its expenses and claim GST refunds it is not owed, and (ii) **delay issuing credit notes** owed to customers who have returned goods. **Discuss** these two requests with reference to a relevant qualitative characteristic and to internal control, and outline the financial and ethical implications for the business.

Question 17

During May *Peppertree Physio* generates the following documents. For **each**, (i) classify the source document and the transaction it evidences, and (ii) state the account it affects; then (iii) calculate the total GST **collected** and the **net** GST **paid** (that is, after allowing for the credit note) for the month.

- **Sales Invoice 71** to a corporate client — $1 100 (GST-inclusive), on account.
- **Purchase Invoice** from *Medipro* — $770 (GST-inclusive) for clinical supplies, on account.
- **Credit Note 8** received from *Medipro* — $154 (GST-inclusive) for supplies returned.
- **Statement of Account** from *Medipro* — the month-end summary of the account.
- **Memo 3** — the owner contributes a treatment table valued at $900.

Question 18

Explain how **source documents**, together with the **checking of statements of account**, support the qualitative characteristic of **verifiability** and reduce the risk of error and fraud in a business's credit transactions.

Answers

1.
   a. Sales invoice; prepared (issued) by Birch b. GST $90; fee $900 c. A credit sale; an account receivable
2.
   a. Purchase invoice; received b. GST $140; cost $1 400 c. Purchases Journal; an account payable
3.
   a. Credit note; a purchase return b. $25 c. See solutions (reduces the account payable by $275)
4.
   a. $1 056, $924, $528; closing $528 b. See solutions (check/reconcile it) c. See solutions
5.
   a. Memo; see solutions b. No GST; see solutions c. Office furniture +$700; Capital +$700
6. a–c. See solutions
7.
   a. Sales invoice b. Statement of account c. Memo d. Credit note e. Purchase invoice f. Memo
   b. Order (purchase order); no entry h. Delivery docket; no entry
8.
   a. $38 b. $115 c. $350 d. $86
9. See solutions
10. Statement closing $1 870; discrepancy $330; cause = Credit Note 45 not yet recorded; Tamar must record the $330 purchase return
11.
    (i) $1 980 (ii) $1 800 (iii) $180
12. Memo 9; no GST; Motor vehicle +$12 000, Capital +$12 000; see solutions
13. See solutions
14. See solutions
15. See solutions
16. See solutions
17. GST collected $100; net GST paid $56; see solutions
18. See solutions

Fully-worked solutions

Question 1

a. The source document is a **sales invoice** (Sales Invoice 140). Birch **prepares (issues)** it, because Birch is the business providing the service on account.

b. GST = $990 ÷ 11 = **$90**; GST-exclusive fee = 990 − 90 = **$900**.

c. It evidences a **credit sale** (a service supplied on account). It creates an **account receivable** — the client now owes Birch $990 — and is recorded in the Sales Journal.

Question 2

a. The source document is a **purchase invoice** (Purchase Invoice 66). Sandpiper **receives** it from the supplier, Oakwood Supplies.

b. GST = $1 540 ÷ 11 = **$140**; GST-exclusive cost = 1 540 − 140 = **$1 400**.

c. It is recorded in the **Purchases Journal** (the special journal for credit purchases). It creates an **account payable** — Sandpiper now owes Oakwood $1 540.

Question 3

a. The source document is a **credit note** (Credit Note 21), received from the supplier. It evidences a **purchase return** — Willow has returned faulty fabric bought on account.

b. GST reversed = \$275 ÷ 11 = **\$25** (the return excluding GST is \$250).

c. The credit note **reduces the amount Willow owes Loom Textiles (its account payable) by \$275**, and reverses the \$25 of GST originally claimed on the returned fabric.

Question 4

a. Balance column: 396 + 660 = **\$1 056**; 1 056 − 132 = **\$924**; 924 − 396 = **\$528**. The **closing balance owing at 31 August is \$528**.

b. Marlin Marine should **check (reconcile) the statement against its own record** of the account with Harbour Chandlery — confirming every invoice, credit note and payment agrees — before paying the \$528.

c. The statement is an **internal control** because comparing it with the business's own records **detects errors, omitted credit notes or unauthorised charges** before payment, so the business does not pay more than it genuinely owes.

Question 5

a. The source document is a **memo** (Memo 5), prepared internally by the business. No external document is available because the transaction is **internal** — the owner, not a supplier or customer, provides the furniture — so there is no invoice or receipt.

b. **No GST applies.** GST arises only where a **GST-registered business makes a taxable supply** and issues a **tax invoice**. The owner contributes the furniture as a **private person**, not as a registered supplier selling to Cedar Coaching, so there is no tax invoice, nothing charged and nothing to claim. (The reason is *not* that the furniture is not trading stock — office furniture **bought from a supplier** on a purchase invoice **would** carry GST.)

c. **Office furniture** (an asset) increases by \$700 and **Capital** (owner's equity) increases by \$700 — assets up \$700 and owner's equity up \$700, keeping the accounting equation in balance.

Question 6

a. A **source document** provides the **evidence** that a transaction actually occurred, together with its details (date, parties, amount, GST). Because the document can be produced and inspected later, any figure recorded from it can be **verified** — traced back to independent proof rather than relying on memory.

b. Recording a purchase invoice for supplies never received breaches **faithful representation** — the records would no longer be **complete and free from bias**, because they report a transaction (and an expense, and GST) that did not occur.

c. Checking each supplier's **statement of account** against the business's own records **catches discrepancies before payment** — an invoice the business never received, a credit note the supplier has overlooked, a payment not credited, or a fraudulent charge. Detecting these prevents the business from **overpaying** and confirms the account payable is faithfully stated; a business that never checks the statement may pay charges it does not owe and would not notice an error or fraud.

Question 7

a. **Sales invoice** — the business bills a customer for a service supplied on account.
b. **Statement of account** — a month-end summary of the account.
c. **Memo** — an internal transaction (the owner contributes an asset); no external document.
d. **Credit note** — a purchase return that reduces the amount owed to the supplier.
e. **Purchase invoice** — the bill received for a credit purchase.
f. **Memo** — the correction of an internal recording error, with no external document.
g. **Order** (purchase order) — a request for goods at the quoted price. It triggers **no entry**: nothing has yet been supplied and nothing is yet owed.
h. **Delivery docket** — the note listing the quantities handed over, signed on receipt. It also triggers **no entry**: it evidences what was **delivered**, not what is **owed**. Both documents are kept and **matched against the purchase invoice** before payment is approved — an internal control.

Question 8

a. $418 ÷ 11 = **$38**.
b. $1 265 ÷ 11 = **$115**.
c. $3 850 ÷ 11 = **$350**.
d. $946 ÷ 11 = **$86**.

Question 9

Sales Invoice 300 ($550), issued. Evidences a **credit sale**; **Accounts Receivable increases** (the customer owes $550); recorded in the **Sales Journal**. (GST collected $50.)

Purchase invoice ($2 200), received. Evidences a **credit purchase**; **Accounts Payable increases** (the business owes the supplier $2 200); recorded in the **Purchases Journal**. (GST paid $200.)

Credit note ($220), received. Evidences a **purchase return**; **Accounts Payable decreases** by $220; recorded in the **General Journal**, because a return fits none of the special journals. (GST of $20 reversed.)

Question 10

Verifying the statement: 1 100 + 2 200 = 3 300; 3 300 − 330 = 2 970; 2 970 − 1 100 = **$1 870**, which agrees with the statement's closing balance.

Tamar's own ledger shows **$2 200** owing, so the discrepancy is 2 200 − 1 870 = **$330**. The most likely cause is that **Credit Note 45 ($330) has not yet been recorded by Tamar** — the supplier has processed the purchase return but Tamar has not. Tamar must **record the $330 purchase return** (reducing its account payable to Blackwood and reversing $30 of GST); once recorded, its ledger balance falls to $1 870 and agrees with the statement.

Question 11

The sales invoice: GST = $2 310 ÷ 11 = $210, revenue $2 100. The credit note: GST = $330 ÷ 11 = $30, revenue $300.

(i) Net amount still receivable = 2 310 − 330 = **$1 980**.
(ii) Net revenue earned = 2 100 − 300 = **$1 800**.
(iii) Net GST collected = 210 − 30 = **$180**.

Question 12

The source document is a **memo** (Memo 9), prepared internally because the owner — not a supplier — is the source, so no invoice or receipt exists. **No GST applies**: the owner contributes the vehicle as a **private person**, not as a GST-registered supplier making a taxable supply, so no tax invoice is issued and there is no GST to charge or claim. The effect on the accounting equation is **Motor vehicle (asset) +$12 000 and Capital (owner's equity) +$12 000**. It is recorded in **no cash journal** because it is a **non-cash** transaction — the Bank balance does not change; the owner contributes the vehicle itself, not money. The memo instead authorises a **General Journal** entry.

Question 13

A **sales invoice** and a **purchase invoice** are frequently the **one document** seen from opposite sides of the **same credit transaction**. The **seller prepares (issues)** it as its **sales invoice**, recording a **credit sale** and a new **account receivable**. The **buyer receives** the very same document as its **purchase invoice**, recording a **credit purchase** and a new **account payable**. What the seller calls revenue and GST collected, the buyer calls a cost (or asset) and GST paid — so the label depends entirely on **which side of the transaction** the business is on.

Question 14

A **statement of account** is a periodic summary — usually monthly — that sets out the **opening balance**, every **invoice**, **credit note** and **payment** for the period, and the **closing balance owing** on an account. Its purpose is to let each party **check (reconcile)** the account: the business compares the statement with its own records and investigates any difference. If a business does **not** check a supplier's statement before paying it, it may **pay an amount it does not**

owe — for example, an invoice it never received, a credit note the supplier overlooked, or a duplicated or fraudulent charge — and the error or fraud would go undetected, wasting cash and misstating the account payable.

Question 15

A **sales invoice** is the appropriate source document for a credit sale because it is issued **to the customer** and creates an **independent, external record** of the sale that both parties hold. Under **verifiability**, a recorded figure must be capable of being **confirmed by independent observers** — and a sales invoice can be checked against the customer's own copy and against the account receivable it creates. A **memo** written by the owner is prepared **only inside the business** with no external counterpart, so it cannot be independently verified and could be used to record a sale that never occurred. Recording a credit sale from a self-written memo therefore undermines verifiability and the reliability of the reports; the sale should be evidenced by the sales invoice issued to the customer.

Question 16

(i) Fictitious purchase invoices. Entering invoices for purchases that never occurred breaches **faithful representation** (and verifiability): the records would report expenses, an account payable and GST paid that do not exist, so they are neither complete nor free from bias. Each \$3 300 invoice would overstate expenses by \$3 000 and falsely claim \$300 of GST (\$3 300 ÷ 11) the business is not owed — this is **tax fraud**, exposing the owner to serious legal penalties, and it misleads every stakeholder who relies on the reports.

(ii) Delaying credit notes owed to customers. Withholding credit notes the customers have genuinely earned **overstates the accounts receivable** and revenue, again breaching faithful representation, and is unfair to the customers, who are shown as owing more than they do.

Internal control and ethics. Both requests defeat the very purpose of source documents — to provide **genuine, verifiable evidence** — and would be caught by proper controls such as **authorising every memo and invoice** and **checking statements of account**. The bookkeeper has an ethical and legal duty to **refuse**: recording only real, evidenced transactions protects the business from prosecution, preserves the trust of customers, suppliers and the ATO, and keeps the reports a faithful representation of the business's true performance and position.

Question 17

Sales Invoice 71 (\$1 100, issued). A **credit sale** of physiotherapy services on account; **Accounts Receivable** increases by \$1 100 (GST collected = 1 100 ÷ 11 = \$100).

Purchase Invoice from Medipro (\$770, received). A **credit purchase** of clinical supplies; **Accounts Payable** increases by \$770 (GST paid = 770 ÷ 11 = \$70).

Credit Note 8 from Medipro (\$154, received). A **purchase return**; **Accounts Payable** decreases by \$154 (GST of 154 ÷ 11 = \$14 reversed).

Statement of Account from Medipro. A summary of the Medipro account to be **checked** — it triggers **no** entry.

Memo 3 (\$900). The owner's **contribution of a non-current asset** (a treatment table); **Office equipment** (asset) and **Capital** increase by \$900 each; **no GST**, because the owner is not a GST-registered supplier making a taxable supply, so no tax invoice exists.

(iii) **Total GST collected** = \$100 (on Sales Invoice 71). **Net GST paid** = the \$70 GST on the purchase invoice **less** the \$14 reversed by the credit note = 70 − 14 = **\$56**.

Question 18

Source documents give every recorded transaction an **independent, inspectable basis** — the invoice, credit note, receipt or authorised memo that proves the transaction occurred and states its amount and GST. This directly supports **verifiability**, the characteristic that a figure should be capable of being **confirmed by independent observers**: because each entry can be traced back to its document, a second person can check that the records are true. **Checking statements of account** adds a second layer: comparing a supplier's (or customer's) independently prepared summary with the business's own records **detects errors, omitted credit notes, duplicated invoices and fraudulent charges** before cash is paid. Together they mean a business records **only** transactions that genuinely occurred, and records **all**

of them — reducing both **honest error** and **deliberate fraud**, and ensuring the accounts receivable, accounts payable and GST balances faithfully represent what the business is actually owed and owes.