Accounting Units 1 & 2

Chapter 13 Accounts payable for a trading business

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.

Significant effort has been made to ensure this content is legal. Please send any areas of concern to admin@vwx.au with appropriate document/legal references so errors can be verified and changes be made.

Contents

Section	Page
13A Credit purchases of inventory and payments to accounts payable	2
13B Subsidiary records for accounts payable	19
13C Purchase returns and discount revenue	36
13D The Statement of Account; benefits of subsidiary records	52

Chapter 13 Accounts payable for a trading business — 13A Credit purchases of inventory and payments to accounts payable

Theory

A **trading business** buys **inventory** — goods held for **resale** — and sells it at a profit. Like a service business, a trading business rarely settles every dealing in cash at the moment it happens. When it buys inventory **on credit**, it receives the goods **now** and pays the supplier **later**, at an agreed future date. Because no cash moves at the time of the purchase, a credit purchase of inventory **does not change the Bank balance** now — instead it creates a **debt** the business must settle in a future period.

That debt is an **account payable**: a supplier (a **creditor**) the business **owes** for inventory bought on credit. An account payable is a **liability** — a present obligation to transfer economic resources in the future — reported in the **Balance Sheet**. This section covers the two events that make up the life of an account payable in a trading business: **recording a credit purchase of inventory** (which *creates* the account payable, in the **Purchases Journal**) and **recording a payment to an account payable** (which *clears* it, in the **Cash Payments Journal**).

The purchase invoice. A credit purchase of inventory is evidenced by a **purchase invoice** — the document the business **receives** from its supplier when it buys inventory **on account**. The invoice names the supplier, the date, a description of the goods, the amount excluding GST, the **GST**, and the **total owing**, together with the credit terms (for example, “net 30 days”). One business’s **sales** invoice is another business’s **purchase** invoice — the same document seen from the buyer’s side. The purchase invoice is the **authority** to record the credit purchase, and its number is entered so the record can be traced and audited.

What a credit purchase of inventory does. Recording a credit purchase of inventory from a purchase invoice has three effects:

- it **increases the Inventory asset** — the goods (recorded at their **GST-exclusive cost**) the business now holds for resale, reported in the **Balance Sheet**;
- it **increases an account payable** — the creditor the business now owes; and
- it **reduces the GST Clearing** liability — the GST paid on the purchase is an **input tax credit** that reduces the net GST the business owes the Australian Taxation Office.

Because a trading business’s main credit purchases are of **inventory**, each purchase is recorded at cost in the business’s **inventory records** (its inventory cards) *and* summarised in a special journal. The inventory asset the business builds up here becomes **Cost of Sales** — an expense — only later, when the goods are sold; until then it is a **current asset**.

The Purchases Journal. Credit purchases of inventory are recorded in a **special journal** called the **Purchases Journal**, which lists every credit purchase of inventory for the period and classifies the amounts so the period totals can be reported. For a trading business the journal has six columns:

- **Date** — the date on the purchase invoice.
- **Creditor** — the name of the supplier (the account payable) the business now owes.
- **Inv. No.** — the reference number of the purchase invoice.
- **Inventory $** — the **GST-exclusive** cost of the inventory bought. The column total is posted to the **Inventory** asset account.
- **GST $** — the **GST paid**, which is **1/11** of the GST-inclusive invoice total.
- **Accounts Payable $** — the **full amount owed** to the creditor: the GST-inclusive invoice total.

GST on a credit purchase of inventory. GST works exactly as it does on a cash purchase: it is **one-eleventh** of a GST-inclusive amount — an exact fraction, because a GST-inclusive price is 10 parts cost plus 1 part GST = 11 parts.

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

So a purchase invoice for $2 200 including GST is analysed as $200 GST (2 200 ÷ 11) + $2 000 inventory cost, and the business owes the creditor the full $2 200. The only difference from a cash purchase is **timing**: on credit the business gains the inventory and the GST credit, and owes the cost, **before** it pays any cash.

The account payable created. Every credit purchase of inventory **creates or increases an account payable**. When a business buys twice from the same supplier during the period, that creditor's balance is the **sum** of the two invoices. At any time the **total** of all the individual creditor balances equals the balance of the **Accounts Payable** control — a check that the subsidiary records agree with the total owed.

Totalling and the cross-check. At the end of the period every money column is **totalled** and a **bold Totals row** is added. Because the amount owed on each invoice is exactly its cost plus its GST, a correctly recorded Purchases Journal must satisfy the **cross-check**:

> **Total Inventory + Total GST = Total Accounts Payable.**

If the two sides are not equal, a figure has been entered in the wrong column, a GST amount has been miscalculated, or a column has been added incorrectly. The cross-check is a built-in test of **verifiability**.

Paying an account payable — the Cash Payments Journal. Every payment of cash the business makes is recorded in the **Cash Payments Journal (CPJ)**, a **multi-column** journal that lists each outflow from the **Bank** account and *classifies* what the payment was for. Because a trading business **pays its accounts payable frequently**, the CPJ has an **Accounts Payable** column. Its columns are:

- **Bank** — the **actual cash paid** (the fall in the Bank asset), evidenced by a cheque butt or **EFT** (electronic funds transfer) reference number.
- **Discount revenue** — a **settlement discount** received from a supplier for paying a debt promptly.
- **Accounts Payable** — the **full amount by which a creditor's account is cleared**. The Details column names the creditor being paid.
- **GST** — the GST paid on a GST-inclusive payment (for example a cash expense or a cash purchase of a non-current asset); **GST = 1/11** of the GST-inclusive amount.
- **Sundries** — the catch-all for less frequent payments: **Wages**, other expenses (rent, advertising, insurance, electricity), **Drawings**, cash purchases of **non-current assets**, and **loan** repayments. The Details column names the account.

Clearing the creditor. When a business pays an account payable in full with **no discount**, the **Bank** (cash paid) equals the **Accounts Payable** cleared. When the supplier offers a **settlement discount** for prompt payment, the business pays **less cash** than it owes: the smaller cash amount goes in **Bank**, the saving goes in **Discount revenue**, and the **full amount owed** is entered in **Accounts Payable**, because the creditor's account is cleared in full. In every case,

> **Bank + Discount revenue = Accounts Payable cleared** (for that payment).

GST is not adjusted on a settlement discount. The GST on the original credit purchase was recorded in full when that purchase was made, so paying early does not change it. A settlement discount is a reward for prompt payment, not a change to the original price, so the study design **excludes GST from settlement discounts** — the GST column is left blank on a creditor payment.

The CPJ cross-check. At period-end every money column is totalled and a **bold Totals row** is added. Because the cash paid plus any discount received funds everything the payments were analysed into, a correctly recorded journal must satisfy the **cross-check**:

> **Total Bank + Total Discount revenue = Total Accounts Payable + Total GST + Total Sundries.**

The life of an account payable. A credit purchase in the Purchases Journal **creates** the account payable; a payment in the Cash Payments Journal **clears** it (in full, or with a settlement discount). A creditor's **closing balance** is therefore:

> **opening balance + credit purchases − amounts cleared = closing balance owed.**

Ethical considerations. The Purchases Journal is where a trading business claims its **GST input credits** and records the **inventory** it says it owns, so it is open to two related abuses. First, under the **accounting entity** assumption the business is separate from its owner: a purchase invoice for goods bought for the **owner's private use** must **not** be recorded as a business credit purchase, because doing so would overstate the business's Inventory asset and wrongly claim a **GST credit** the business is not entitled to. Second, an owner may be tempted to **delay recording, or leave out, an amount owed to an account payable** so the business appears to owe less than it does — for example before applying for a loan. Both practices breach **faithful representation**: the reports would no longer be complete, free from material error and neutral (without bias), and they would mislead the users who rely on them — a bank, the ATO or a prospective buyer. Ethical recording means entering **only** genuine purchase invoices, for **business** inventory, at their correct amounts, and recording **every** amount owed to accounts payable **in full and promptly**, so that Inventory, Accounts Payable and the GST owed to the ATO are all faithfully represented.

Worked model. *Harlow Homewares* is a trading business. During March 2026 it made three credit purchases of inventory and then paid two of its creditors, along with two other payments.

First, the credit purchases create the accounts payable. On 4 March it received **Purchase Invoice 4120** from *Meridian Wholesale* for inventory, $2 200 (GST-inclusive); on 9 March **Purchase Invoice 88** from *Castleton Imports*, $1 100; and on 18 March **Purchase Invoice 4155** from *Meridian Wholesale*, $660.

Purchases Journal — Harlow Homewares (March 2026)

Date 2026	Creditor	Inv. No.	Inventory $	GST $	Accounts Payable $
Mar 4	Meridian Wholesale	4120	2 000	200	2 200
Mar 9	Castleton Imports	88	1 000	100	1 100
Mar 18	Meridian Wholesale	4155	600	60	660
Mar 31	**Totals**		**3 600**	**360**	**3 960**

Two accounts payable are created — **Meridian Wholesale $2 860** (2 200 + 660) and **Castleton Imports $1 100** — whose total ($3 960) equals the Accounts Payable column. The journal cross-checks: Inventory $3 600 + GST $360 = $3 960 = Accounts Payable.

Later in March the business pays two of those creditors. On 12 March it pays *Castleton Imports* the full $1 100 owed (EFT 3301). On 25 March it pays the $2 200 owed on Meridian's Invoice 4120, taking a $100 settlement discount, so it pays $2 100 cash (EFT 3302). It also pays wages $1 600 (EFT 3303) and March rent $990 including GST (EFT 3304).

Cash Payments Journal — Harlow Homewares (March 2026)

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Accounts Payable $	GST $	Sundries $
Mar 12	Castleton Imports	EFT 3301	1 100		1 100		
Mar 25	Meridian Wholesale	EFT 3302	2 100	100	2 200		
Mar 28	Wages	EFT 3303	1 600				1 600
Mar 30	Rent expense	EFT 3304	990			90	900
Mar 31	**Totals**		**5 790**	**100**	**3 300**	**90**	**2 500**

Castleton is cleared in full ($1 100 cash = $1 100 cleared); Meridian's $2 200 invoice is cleared for $2 100 cash + $100 Discount revenue. Cross-check: Bank $5 790 + Discount $100 = $5 890 = Accounts Payable $3 300 + GST $90 + Sundries $2 500. After March, **Castleton Imports is fully paid ($0)** and **Meridian Wholesale is still owed $660** (the 18 March invoice), because 2 860 − 2 200 = 660.

Worked examples (scaffolded)

Example 1 — recording credit purchases of inventory and identifying the account payable created

Brookvale Cycles is a trading business. During April 2026 it made the following credit purchases of inventory. Record them in the Purchases Journal and total it.

- Apr 3: Bought inventory on credit from *Summit Distributors*, $3 300 including GST (Purchase Invoice 210).
- Apr 11: Bought inventory on credit from *Rialto Supply Co*, $1 320 including GST (Purchase Invoice 55).
- Apr 22: Bought inventory on credit from *Summit Distributors*, $770 including GST (Purchase Invoice 231).

Working	Comment
Apr 3 $3 300 incl GST: GST = 3 300 ÷ 11 = $300; inventory = $3 000 → Inventory column; Accounts Payable $3 300.	Split every invoice 1/11 to GST and 10/11 to the inventory cost; the full $3 300 is owed to the creditor.
Apr 11 $1 320 incl GST: GST = 1 320 ÷ 11 = $120; inventory = $1 200; Accounts Payable $1 320.	A second supplier, *Rialto Supply Co*, becomes an account payable for $1 320.
Apr 22 $770 incl GST: GST = 770 ÷ 11 = $70; inventory = $700; Accounts Payable $770.	The second purchase from *Summit Distributors* adds to that creditor's balance.
Accounts payable created: Summit Distributors = 3 300 + 770 = $4 070; Rialto Supply Co = $1 320.	The two invoices from Summit combine into one creditor balance.
Totals & cross-check: Inventory $4 900 + GST $490 = $5 390 = Accounts Payable.	The two sides match, so the journal is arithmetically sound.

Purchases Journal — Brookvale Cycles (April 2026)

Date 2026	Creditor	Inv. No.	Inventory $	GST $	Accounts Payable $
Apr 3	Summit Distributors	210	3 000	300	3 300
Apr 11	Rialto Supply Co	55	1 200	120	1 320
Apr 22	Summit Distributors	231	700	70	770
Apr 30	**Totals**		**4 900**	**490**	**5 390**

The account payable owed to **Summit Distributors is $4 070** and to **Rialto Supply Co is $1 320**; together they equal the Accounts Payable total of $5 390. The total Inventory of **$4 900** is posted to the Inventory asset, and the total GST of **$490** is an input tax credit that **reduces** the GST Clearing liability owed to the ATO.

Example 2 — payments to accounts payable in the Cash Payments Journal

Penshurst Pet Supplies is a trading business that bought inventory on credit during April. During May 2026 it made the following payments. Record them in the Cash Payments Journal and total it.

- May 4: Paid *Elderslie Wholesale* the full $1 320 owed on Purchase Invoice 720; no discount was available (EFT 2401).
- May 11: Paid *Wintergate Traders* $1 750 to settle the $1 870 owed on Purchase Invoice 64, after a $120 settlement discount (EFT 2402).
- May 18: Paid wages, $2 100 (EFT 2403).
- May 25: Paid *Elderslie Wholesale* $720 to settle the $770 owed on Purchase Invoice 735, after a $50 discount (EFT 2404).
- May 29: Paid insurance, $550 including GST (EFT 2405).

Working	Comment
May 4 Elderslie $1 320 (Inv. 720): Bank $1 320; Accounts Payable $1 320.	With no discount, the cash paid equals the amount owed, so the creditor's account is cleared by $1 320.

Working	Comment
May 11 Wintergate: owed $1 870, discount $120 → cash $1 750. Bank $1 750, Discount revenue $120, Accounts Payable $1 870.	The **full $1 870** owed is removed from the creditor; the $120 saved is **Discount revenue**. No GST is adjusted on a settlement discount.
May 18 wages $2 100: Bank $2 100; Sundries $2 100.	Wages have no column of their own, so they go to **Sundries**; wages carry no GST.
May 25 Elderslie (Inv. 735): owed $770, discount $50 → cash $720. Bank $720, Discount revenue $50, Accounts Payable $770.	Elderslie is paid a second time, clearing a **second, separate invoice** for less cash.
May 29 insurance $550 incl GST: GST = 550 ÷ 11 = $50; insurance $500 → Sundries. Bank $550.	A GST-inclusive cash expense splits 1/11 to **GST** and 10/11 to the expense in **Sundries**.
Totals & cross-check: Bank $6 440 + Disc $170 = $6 610; Accounts Payable $3 960 + GST $50 + Sundries $2 600 = $6 610.	The two sides match, so the journal is arithmetically sound.

Cash Payments Journal — Penshurst Pet Supplies (May 2026)

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Accounts Payable $	GST $	Sundries $
May 4	Elderslie Wholesale	EFT 2401	1 320		1 320		
May 11	Wintergate Traders	EFT 2402	1 750	120	1 870		
May 18	Wages	EFT 2403	2 100				2 100
May 25	Elderslie Wholesale	EFT 2404	720	50	770		
May 29	Insurance	EFT 2405	550			50	500
May 31	**Totals**		**6 440**	**170**	**3 960**	**50**	**2 600**

The accounts payable cleared are **Elderslie Wholesale $2 090** (1 320 + 770, its two invoices) and **Wintergate Traders $1 870**, a total of $3 960. Total Discount revenue of **$170** is a **revenue** earned for prompt payment, and the $50 GST is on the insurance only.

Worked examples (unscaffolded)

Example 3 — a full month of credit purchases of inventory

Ferndale Hardware made the following credit purchases of inventory in June 2026. Prepare the Purchases Journal.

- Jun 1: Inventory from *Northwind Wholesale*, $4 400 including GST (Purchase Invoice 500).
- Jun 8: Inventory from *Belmont Trading*, $1 980 including GST (Purchase Invoice 77).
- Jun 15: Inventory from *Northwind Wholesale*, $1 100 including GST (Purchase Invoice 512).
- Jun 26: Inventory from *Cordell Supply*, $605 including GST (Purchase Invoice 91).

Each invoice splits at 1/11: $4 400 → $400 GST + $4 000; $1 980 → $180 GST + $1 800; $1 100 → $100 GST + $1 000; $605 → $55 GST + $550. *Northwind Wholesale* is bought from twice, so that creditor's balance is 4 400 + 1 100 = $5 500.

Purchases Journal — Ferndale Hardware (June 2026)

Date 2026	Creditor	Inv. No.	Inventory $	GST $	Accounts Payable $
Jun 1	Northwind Wholesale	500	4 000	400	4 400

Date 2026	Creditor	Inv. No.	Inventory $	GST $	Accounts Payable $
Jun 8	Belmont Trading	77	1 800	180	1 980
Jun 15	Northwind Wholesale	512	1 000	100	1 100
Jun 26	Cordell Supply	91	550	55	605
Jun 30	**Totals**		**7 350**	**735**	**8 085**

∴ the accounts payable created are **Northwind Wholesale $5 500, Belmont Trading $1 980 and Cordell Supply $605** (total $8 085), and the journal cross-checks: 7 350 + 735 = 8 085.

Example 4 — paying the accounts payable created (the account payable created then cleared)

Continuing from Example 3, *Ferndale Hardware* made the following payments in July 2026. Prepare the Cash Payments Journal.

- Jul 3: Paid *Belmont Trading* the full $1 980 owed (EFT 6301).
- Jul 10: Paid *Northwind Wholesale* $4 000 to settle the $4 400 owed on Invoice 500, after a $400 discount (EFT 6302).
- Jul 17: Wages, $2 600 (EFT 6303).
- Jul 24: Owner's drawings, $1 000 cash (EFT 6304).
- Jul 30: Electricity, $495 including GST (EFT 6305).

Belmont Trading is cleared in full ($1 980). *Northwind Wholesale*'s $4 400 invoice is cleared for $4 000 cash + $400 Discount revenue. Wages and drawings carry no GST and go to Sundries; the electricity splits into $45 GST (495 ÷ 11) and $450 Sundries.

Cash Payments Journal — Ferndale Hardware (July 2026)

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Accounts Payable $	GST $	Sundries $
Jul 3	Belmont Trading	EFT 6301	1 980		1 980		
Jul 10	Northwind Wholesale	EFT 6302	4 000	400	4 400		
Jul 17	Wages	EFT 6303	2 600				2 600
Jul 24	Drawings	EFT 6304	1 000				1 000
Jul 30	Electricity	EFT 6305	495			45	450
Jul 31	**Totals**		**10 075**	**400**	**6 380**	**45**	**4 050**

∴ total cash paid is $10 075, the accounts payable cleared total $6 380 (Belmont $1 980 + Northwind $4 400), and the journal cross-checks: 10 075 + 400 = 10 475 = 6 380 + 45 + 4 050. After July, **Belmont Trading is fully paid ($0)**, **Northwind Wholesale is still owed $1 100** (the 15 June invoice, since 5 500 − 4 400 = 1 100), and **Cordell Supply is still owed $605** — showing how the account payable created in June is progressively **cleared** in July.

Practice questions — scaffolded

Question 1

Maple Grove Grocers made the following credit purchases of inventory in March 2026.

- Mar 4: Inventory from *Harvest Wholesale*, $2 750 including GST (Purchase Invoice 300).
- Mar 13: Inventory from *Pinnacle Foods*, $1 210 including GST (Purchase Invoice 62).
- Mar 27: Inventory from *Harvest Wholesale*, $550 including GST (Purchase Invoice 318).

a. Prepare the Purchases Journal for March, including totals.

b. State the balance of the account payable created for *Harvest Wholesale*.

c. State the total GST recorded, and explain its effect on the **GST Clearing** account.

Question 2

Bayside Electronics made the following credit purchases of inventory in April 2026.

- Apr 3: Inventory from *Voltaic Wholesale*, $3 960 including GST (Purchase Invoice 400).
- Apr 12: Inventory from *Circuit Supply Co*, $1 540 including GST (Purchase Invoice 61).
- Apr 24: Inventory from *Voltaic Wholesale*, $880 including GST (Purchase Invoice 418).

a. Prepare the Purchases Journal for April, including totals.

b. Show that the journal cross-checks (Inventory + GST = Accounts Payable).

c. Identify the **two** accounts payable created and state each balance.

Question 3

Cedar Ridge Trading made the following payments in May 2026.

- May 2: Paid *Halloway Wholesale* $1 200 to settle $1 320 owing, after a $120 discount (EFT 3401).
- May 10: Wages, $1 800 (EFT 3402).
- May 18: Paid *Fenwick Supply* the full $700 owed, with no discount (EFT 3403).
- May 27: Advertising, $330 including GST (EFT 3404).

a. Prepare the Cash Payments Journal for May, including totals.

b. State the total of the **Accounts Payable** column and the total **Discount revenue**.

c. Explain why the payment to *Fenwick Supply* earned no Discount revenue.

Question 4

Coledale Kitchenware made the following payments in June 2026.

- Jun 2: Wages, $1 900 (EFT 2601).
- Jun 8: Paid *Highgrove Wholesale* $2 250 to settle $2 420 owing, after a $170 discount (EFT 2602).
- Jun 15: Paid *Beaufort Traders* the full $1 210 owed (EFT 2603).
- Jun 22: Rent, $1 320 including GST (EFT 2604).
- Jun 29: Owner's drawings, $1 500 cash (EFT 2605).

a. Prepare the Cash Payments Journal for June, including totals.

b. State the total cash paid (the **Bank** total) for June.

c. Show that the journal cross-checks by demonstrating that Bank + Discount revenue = Accounts Payable + GST + Sundries.

Question 5

Rosewood Furnishings both bought inventory on credit **and** paid creditors during July 2026.

- Jul 2: Bought inventory from *Ashborne Wholesale*, $3 300 including GST (Purchase Invoice 600).
- Jul 9: Bought inventory from *Delmore Imports*, $1 100 including GST (Purchase Invoice 45).
- Jul 15: Paid *Delmore Imports* the full $1 100 owed (EFT 7001).
- Jul 20: Bought inventory from *Ashborne Wholesale*, $770 including GST (Purchase Invoice 622).
- Jul 28: Paid *Ashborne Wholesale* $3 000 to settle the $3 300 owed on Invoice 600, after a $300 discount (EFT 7002).

a. Prepare the Purchases Journal for July, including totals.

b. Prepare the Cash Payments Journal for July, including totals.

c. State the balance still owed to *Ashborne Wholesale* at the end of July.

Question 6

Kingfisher Trading made the following credit purchases of inventory in August 2026.

- Aug 2: Inventory from *Oakmoor Wholesale*, $2 200 including GST (Purchase Invoice 800).
- Aug 9: Inventory from *Sterling Supply Co*, $1 650 including GST (Purchase Invoice 45).
- Aug 20: Inventory from *Oakmoor Wholesale*, $880 including GST (Purchase Invoice 812).

a. Prepare the Purchases Journal for August, including totals.

b. State the account payable created for *Oakmoor Wholesale* and its balance.

c. The owner also hands the bookkeeper a $440 (GST-inclusive) invoice for a household appliance delivered to the owner's **home** and asks for it to be entered as a business credit purchase of inventory. Using the **accounting entity** assumption, explain why this must **not** be recorded in the Purchases Journal.

Practice questions — unscaffolded

Question 7

Glenmore Grocers made the following credit purchases of inventory in September 2026: Sep 1 inventory from *Fairview Wholesale* $3 300 incl GST (Purchase Invoice 150); Sep 10 inventory from *Brookdale Foods* $1 650 incl GST (Purchase Invoice 22); Sep 19 inventory from *Fairview Wholesale* $1 100 incl GST (Purchase Invoice 161); Sep 28 inventory from *Larkspur Supply* $770 incl GST (Purchase Invoice 23). Prepare the Purchases Journal, state the total Inventory, total GST and total Accounts Payable, and state the balance owed to **each** creditor.

Question 8

Torrington Trading made the following payments in October 2026: Oct 2 wages $2 300 (EFT 3801); Oct 9 paid *Merrivale Wholesale* $2 400 to settle $2 640 owing after a $240 discount (EFT 3802); Oct 16 paid *Hawksley Supply* the full $1 100 owed (EFT 3803); Oct 23 advertising $770 including GST (EFT 3804); Oct 30 owner's drawings $900 cash (EFT 3805). Prepare the Cash Payments Journal, and state the total accounts payable cleared, the total Discount revenue and the total cash paid.

Question 9

For each of the following **GST-inclusive** amounts appearing on a purchase invoice for inventory, calculate the GST it contains and the Inventory (ex-GST) cost: (a) $946; (b) $1 573; (c) $4 400; (d) $2 090.

Question 10

Silverpeak Sports made the following credit purchases of inventory in December 2026: Dec 1 from *Everest Wholesale* $3 960 incl GST (Purchase Invoice 300); Dec 6 from *Cascade Imports* $2 200 incl GST (Purchase Invoice 41); Dec 12 from *Everest Wholesale* $1 320 incl GST (Purchase Invoice 311); Dec 18 from *Ridgeline Supply* $990 incl GST (Purchase Invoice 42); Dec 23 from *Everest Wholesale* $550 incl GST (Purchase Invoice 320). Prepare the Purchases Journal, state every column total, demonstrate the cross-check, and state the balance owed to *Everest Wholesale*.

Question 11

Marchmont Trading made the following payments in December 2026: Dec 2 wages $2 700 (EFT 5501); Dec 5 paid *Amberley Wholesale* $1 400 to settle $1 540 owing after a $140 discount (EFT 5502); Dec 10 bought office equipment for $3 300 including GST, paying cash (EFT 5503); Dec 15 paid *Netherby Supply* the full $1 320 owed (EFT 5504); Dec 19 rent $1 210 including GST (EFT 5505); Dec 23 owner's drawings $1 600 cash (EFT 5506); Dec 24 wages $2 700 (EFT 5507). Prepare the Cash Payments Journal, state every column total, and demonstrate the cross-check.

Question 12

Hartfield Homewares owed its supplier *Aldercon Wholesale* an opening balance of $1 650 at the start of the month. During the month it bought inventory from Aldercon on credit twice — $2 200 and $880 (each GST-inclusive) — and paid Aldercon by clearing the **opening $1 650 in full** and clearing the **$2 200 invoice** for $2 000 cash plus a $200 settlement discount. Calculate the **closing balance** owed to *Aldercon Wholesale*, showing opening balance + credit purchases − amounts cleared.

Question 13

The Purchases Journal of *Brampton Wholesale Buyers* for November has been started, but the **Accounts Payable** column and the totals are missing:

Date 2026	Creditor	Inv. No.	Inventory $	GST $	Accounts Payable $
Nov 3	Kelford Wholesale	501	1 900	190	?
Nov 12	Denby Traders	77	800	80	?
Nov 21	Kelford Wholesale	512	450	45	?
Nov 30	**Totals**		**?**	**?**	**?**

Complete the Accounts Payable column and all three totals, state the balance owed to *Kelford Wholesale*, and confirm that the GST is **1/11** of each Accounts Payable amount.

Question 14

Oakhaven Trading buys inventory on credit for $2 750 (GST-inclusive) from *Meridian Wholesale*, receiving **Purchase Invoice 90**, and makes no other credit purchases this month.

a. State the source document and the special journal used to record this transaction.

b. Name and state the balance of the **account payable** created.

c. State the three effects of this credit purchase (on Inventory, GST Clearing and Accounts Payable), giving the amount for each.

d. Explain why this credit purchase does **not** change the **Bank** balance.

Question 15

Riverton Traders owes *Castlereagh Supply* $1 980 for inventory bought earlier on credit. It pays $1 800 to settle the account in full, after being allowed a $180 settlement discount.

a. State the amounts recorded in the **Bank**, **Discount revenue** and **Accounts Payable** columns of the Cash Payments Journal for this payment.

b. Explain why **no GST** is recorded on the settlement discount.

c. Explain what **Discount revenue** represents and its effect on profit.

Question 16

Pinewood Provisions buys inventory on credit for $3 300 (GST-inclusive), receiving a purchase invoice. State the three effects of this purchase (the amount to **Inventory**, to **GST Clearing** and to **Accounts Payable**), state the report in which the Inventory and the Accounts Payable each appear, and explain how this differs from a **service** business buying a **non-current asset** on credit.

Question 17

A student prepares the Purchases Journal of *Rosemont Retailers* for April and totals it as Inventory $5 400, GST $540, Accounts Payable $6 000. Using the cross-check, show that an error has been made, state the size of the discrepancy, and state **two** possible causes.

Question 18

Priya, the owner of *Sunfield Trading* (a trading business), is about to apply for a bank loan. She hands the bookkeeper two purchase invoices — each for $1 320 (GST-inclusive) — for goods that were in fact bought for **Priya's private**

use at home, and asks that they be entered in the Purchases Journal so the business can record the goods as inventory and claim the GST as an input credit. She also instructs the bookkeeper to **leave out** a genuine $2 200 amount the business owes to a supplier, *Halbrook Wholesale*, until after the loan is approved. **Discuss** the ethical and reporting problems with these instructions, with reference to the **accounting entity** assumption and the qualitative characteristic of **faithful representation**, and explain how (if at all) each item should be recorded.

Answers

1.
   b. $3 300 c. GST $410; reduces (is an input credit against) GST Clearing (totals: Inventory $4 100, GST $410, AP $4 510)
2.
   b. cross-check $6 380 = $6 380 c. Voltaic Wholesale $4 840; Circuit Supply Co $1 540 (totals: Inventory $5 800, GST $580, AP $6 380)
3.
   b. Accounts Payable $2 020; Discount revenue $120 c. see solutions (totals: Bank $4 030, Disc $120, AP $2 020, GST $30, Sundries $2 100)
4.
   b. Bank $8 180 c. 8 180 + 170 = 8 350 = 3 630 + 120 + 4 600 (Disc $170, AP $3 630, GST $120, Sundries $4 600)
5.
   a. Inventory $4 700, GST $470, AP $5 170 b. Bank $4 100, Disc $300, AP $4 400 c. $770
6.
   b. Accounts Payable – Oakmoor Wholesale, $3 080 c. see solutions (totals: Inventory $4 300, GST $430, AP $4 730)
7. Inventory $6 200; GST $620; Accounts Payable $6 820; Fairview Wholesale $4 400; Brookdale Foods $1 650; Larkspur Supply $770
8. Accounts payable cleared $3 740; Discount revenue $240; cash paid (Bank) $7 470 (GST $70, Sundries $3 900)
9.
   a. GST $86, Inventory $860 b. GST $143, Inventory $1 430 c. GST $400, Inventory $4 000 d. GST $190, Inventory $1 900
10. Inventory $8 200; GST $820; AP $9 020; cross-check $9 020 = $9 020; Everest Wholesale $5 830
11. Bank $14 230; Disc $140; AP $2 860; GST $410; Sundries $11 100; cross-check $14 370 = $14 370
12. Closing balance owed to Aldercon Wholesale $880 (1 650 + 3 080 − 3 850)
13. AP $2 090 / $880 / $495; totals Inventory $3 150, GST $315, AP $3 465; Kelford Wholesale $2 585
14.
    b. Accounts Payable – Meridian Wholesale, $2 750 c. Inventory $2 500, GST Clearing $250, Accounts Payable $2 750 d. see solutions
15.
    a. Bank $1 800; Discount revenue $180; Accounts Payable $1 980 b, c. see solutions
16. Inventory $3 000; GST Clearing $300; Accounts Payable $3 300; see solutions
17. Discrepancy $60 (5 400 + 540 = 5 940 ≠ 6 000); see solutions
18. See solutions (discussion)

Fully-worked solutions

Question 1

Purchases Journal — Maple Grove Grocers (March 2026)

Date 2026	Creditor	Inv. No.	Inventory $	GST $	Accounts Payable $
Mar 4	Harvest Wholesale	300	2 500	250	2 750
Mar 13	Pinnacle Foods	62	1 100	110	1 210
Mar 27	Harvest Wholesale	318	500	50	550
Mar 31	**Totals**		**4 100**	**410**	**4 510**

b. *Harvest Wholesale* is bought from twice, so its account payable balance = 2 750 + 550 = **$3 300**.

c. Total GST = 250 + 110 + 50 = **$410**. This GST paid is an **input tax credit**: it **reduces the GST Clearing liability** the business owes the ATO (the GST it has paid on its purchases is offset against the GST it collects on its sales).

Question 2

Purchases Journal — Bayside Electronics (April 2026)

Date 2026	Creditor	Inv. No.	Inventory $	GST $	Accounts Payable $
Apr 3	Voltaic Wholesale	400	3 600	360	3 960
Apr 12	Circuit Supply Co	61	1 400	140	1 540
Apr 24	Voltaic Wholesale	418	800	80	880
Apr 30	**Totals**		**5 800**	**580**	**6 380**

b. Cross-check: Inventory + GST = 5 800 + 580 = **$6 380** = Accounts Payable $6 380. The two sides are equal, so the journal cross-checks.

c. The two accounts payable created are **Voltaic Wholesale** = 3 960 + 880 = **$4 840** and **Circuit Supply Co** = **$1 540**; together they equal the Accounts Payable total of $6 380.

Question 3

Cash Payments Journal — Cedar Ridge Trading (May 2026)

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Accounts Payable $	GST $	Sundries $
May 2	Halloway Wholesale	EFT 3401	1 200	120	1 320		
May 10	Wages	EFT 3402	1 800				1 800
May 18	Fenwick Supply	EFT 3403	700		700		
May 27	Advertising	EFT 3404	330			30	300
May 31	**Totals**		**4 030**	**120**	**2 020**	**30**	**2 100**

b. Accounts Payable total = 1 320 + 700 = **$2 020**; Discount revenue = **$120**.

c. The payment to **Fenwick Supply** earned no Discount revenue because **no settlement discount was available** — the business paid the **full $700** owed (Bank $700 = Accounts Payable $700), so the Discount revenue column is left blank for that row. Discount revenue arises only when a supplier rewards prompt payment by accepting less cash than the amount owed.

Question 4

Cash Payments Journal — Coledale Kitchenware (June 2026)

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Accounts Payable $	GST $	Sundries $
Jun 2	Wages	EFT 2601	1 900				1 900
Jun 8	Highgrove Wholesale	EFT 2602	2 250	170	2 420		
Jun 15	Beaufort Traders	EFT 2603	1 210		1 210		

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Accounts Payable $	GST $	Sundries $
Jun 22	Rent expense	EFT 2604	1 320			120	1 200
Jun 29	Drawings	EFT 2605	1 500				1 500
Jun 30	**Totals**		**8 180**	**170**	**3 630**	**120**	**4 600**

b. Total cash paid (Bank) = **$8 180**.

c. Cross-check: Bank + Discount revenue = 8 180 + 170 = **$8 350**; Accounts Payable + GST + Sundries = 3 630 + 120 + 4 600 = **$8 350**. The two sides are equal, so the journal cross-checks.

Question 5

a. **Purchases Journal — Rosewood Furnishings (July 2026)**

Date 2026	Creditor	Inv. No.	Inventory $	GST $	Accounts Payable $
Jul 2	Ashborne Wholesale	600	3 000	300	3 300
Jul 9	Delmore Imports	45	1 000	100	1 100
Jul 20	Ashborne Wholesale	622	700	70	770
Jul 31	**Totals**		**4 700**	**470**	**5 170**

The accounts payable created are *Ashborne Wholesale* $4 070 (3 300 + 770) and *Delmore Imports* $1 100.

b. **Cash Payments Journal — Rosewood Furnishings (July 2026)**

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Accounts Payable $	GST $	Sundries $
Jul 15	Delmore Imports	EFT 7001	1 100		1 100		
Jul 28	Ashborne Wholesale	EFT 7002	3 000	300	3 300		
Jul 31	**Totals**		**4 100**	**300**	**4 400**		

Cross-check: Bank $4 100 + Discount $300 = $4 400 = Accounts Payable $4 400 (there is no GST or Sundries this month).

c. *Ashborne Wholesale* was owed $4 070 (Invoices 600 and 622) and was cleared for the $3 300 on Invoice 600, so the balance still owed at the end of July = 4 070 − 3 300 = **$770** (the 20 July invoice). *Delmore Imports* was cleared in full, so it is owed **$0**.

Question 6

Purchases Journal — Kingfisher Trading (August 2026)

Date 2026	Creditor	Inv. No.	Inventory $	GST $	Accounts Payable $
Aug 2	Oakmoor Wholesale	800	2 000	200	2 200
Aug 9	Sterling Supply Co	45	1 500	150	1 650
Aug 20	Oakmoor Wholesale	812	800	80	880
Aug 31	**Totals**		**4 300**	**430**	**4 730**

b. *Oakmoor Wholesale* is bought from twice, so **Accounts Payable – Oakmoor Wholesale** = 2 200 + 880 = **$3 080**.

c. Under the **accounting entity** assumption, the business is a **separate entity** from its owner. The household appliance was delivered to the owner's **home** for **private use**, so it is **not** business inventory and its purchase is **not** a business transaction. Recording it as a business credit purchase would **overstate the business's Inventory asset** and **wrongly claim a $40 GST input credit** (440 ÷ 11) the business is not entitled to, misrepresenting both the business's position and the GST owed to the ATO. It must be kept out of the Purchases Journal; if the business paid for it, it would instead be treated as the owner's **Drawings**.

Question 7

Purchases Journal — Glenmore Grocers (September 2026)

Date 2026	Creditor	Inv. No.	Inventory $	GST $	Accounts Payable $
Sep 1	Fairview Wholesale	150	3 000	300	3 300
Sep 10	Brookdale Foods	22	1 500	150	1 650
Sep 19	Fairview Wholesale	161	1 000	100	1 100
Sep 28	Larkspur Supply	23	700	70	770
Sep 30	**Totals**		**6 200**	**620**	**6 820**

Totals: Inventory **$6 200**, GST **$620**, Accounts Payable **$6 820**. Creditor balances: **Fairview Wholesale** = 3 300 + 1 100 = **$4 400**; **Brookdale Foods** = **$1 650**; **Larkspur Supply** = **$770**. The three creditor balances add to $6 820, agreeing with the Accounts Payable total. Cross-check: 6 200 + 620 = 6 820.

Question 8

Cash Payments Journal — Torrington Trading (October 2026)

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Accounts Payable $	GST $	Sundries $
Oct 2	Wages	EFT 3801	2 300				2 300
Oct 9	Merrivale Wholesale	EFT 3802	2 400	240	2 640		
Oct 16	Hawksley Supply	EFT 3803	1 100		1 100		
Oct 23	Advertising	EFT 3804	770			70	700
Oct 30	Drawings	EFT 3805	900				900
Oct 31	**Totals**		**7 470**	**240**	**3 740**	**70**	**3 900**

Accounts payable cleared = 2 640 + 1 100 = **$3 740**; Discount revenue = **$240**; cash paid (Bank) = **$7 470**. Cross-check: 7 470 + 240 = 7 710 = 3 740 + 70 + 3 900.

Question 9

Split each GST-inclusive invoice: GST = invoice ÷ 11, Inventory = invoice − GST.

a. $946 ÷ 11 = **$86** GST; Inventory = 946 − 86 = **$860**.
b. $1 573 ÷ 11 = **$143** GST; Inventory = 1 573 − 143 = **$1 430**.
c. $4 400 ÷ 11 = **$400** GST; Inventory = 4 400 − 400 = **$4 000**.
d. $2 090 ÷ 11 = **$190** GST; Inventory = 2 090 − 190 = **$1 900**.

Question 10

Purchases Journal — Silverpeak Sports (December 2026)

Date 2026	Creditor	Inv. No.	Inventory $	GST $	Accounts Payable $
Dec 1	Everest Wholesale	300	3 600	360	3 960
Dec 6	Cascade Imports	41	2 000	200	2 200
Dec 12	Everest Wholesale	311	1 200	120	1 320
Dec 18	Ridgeline Supply	42	900	90	990
Dec 23	Everest Wholesale	320	500	50	550
Dec 31	**Totals**		**8 200**	**820**	**9 020**

Column totals: Inventory **$8 200**, GST **$820**, Accounts Payable **$9 020**. Cross-check: 8 200 + 820 = **$9 020** = Accounts Payable. The balance owed to **Everest Wholesale** = 3 960 + 1 320 + 550 = **$5 830**.

Question 11

Cash Payments Journal — Marchmont Trading (December 2026)

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Accounts Payable $	GST $	Sundries $
Dec 2	Wages	EFT 5501	2 700				2 700
Dec 5	Amberley Wholesale	EFT 5502	1 400	140	1 540		
Dec 10	Office equipment	EFT 5503	3 300			300	3 000
Dec 15	Netherby Supply	EFT 5504	1 320		1 320		
Dec 19	Rent expense	EFT 5505	1 210			110	1 100
Dec 23	Drawings	EFT 5506	1 600				1 600
Dec 24	Wages	EFT 5507	2 700				2 700
Dec 31	**Totals**		**14 230**	**140**	**2 860**	**410**	**11 100**

Column totals: Bank **$14 230**, Discount revenue **$140**, Accounts Payable **$2 860**, GST **$410**, Sundries **$11 100**. Cross-check: 14 230 + 140 = **$14 370** = 2 860 + 410 + 11 100 = **$14 370**. (The GST of $410 is on the office equipment $300 and the rent $110; the office equipment's $3 000 ex-GST cost is a non-current asset in Sundries.)

Question 12

Using **opening balance + credit purchases − amounts cleared = closing balance**:

- Opening balance owed to *Aldercon Wholesale* = $1 650.
- Credit purchases during the month = 2 200 + 880 = $3 080.
- Amounts cleared = the opening $1 650 (paid in full) + the $2 200 invoice (cleared for $2 000 cash + $200 discount = $2 200) = $3 850.

Closing balance = 1 650 + 3 080 − 3 850 = **$880**. (This is the $880 invoice, which remains unpaid at month-end.) Note the settlement discount does **not** reduce the amount cleared: the full $2 200 owed on that invoice is removed from the creditor, funded by $2 000 cash and $200 Discount revenue.

Question 13

Each Accounts Payable amount is Inventory + GST for that row:

Purchases Journal — Brampton Wholesale Buyers (November 2026)

Date 2026	Creditor	Inv. No.	Inventory $	GST $	Accounts Payable $
Nov 3	Kelford Wholesale	501	1 900	190	2 090
Nov 12	Denby Traders	77	800	80	880
Nov 21	Kelford Wholesale	512	450	45	495
Nov 30	**Totals**		**3 150**	**315**	**3 465**

The balance owed to **Kelford Wholesale** = 2 090 + 495 = **$2 585**. The GST is **1/11** of each Accounts Payable amount: 2 090 ÷ 11 = 190, 880 ÷ 11 = 80, 495 ÷ 11 = 45 — and for the totals, 3 465 ÷ 11 = 315.

Question 14

a. The source document is a **purchase invoice** (Purchase Invoice 90), received from *Meridian Wholesale*. It is recorded in the **Purchases Journal**, the special journal for credit purchases of inventory.

b. The account payable created is **Accounts Payable – Meridian Wholesale**, with a balance of **$2 750** (the full GST-inclusive amount owed).

c. The three effects, splitting $2 750 at 1/11 (GST = 2 750 ÷ 11 = $250; inventory = $2 500):

- **Inventory** (asset) increases by **$2 500** (the GST-exclusive cost of the goods for resale);
- **GST Clearing** (liability) decreases by **$250** (an input tax credit against the GST owed to the ATO);
- **Accounts Payable – Meridian Wholesale** (liability) increases by **$2 750** (the full amount owed).

d. The credit purchase does **not** change the **Bank** balance because **no cash is paid** at the time of the purchase — the business owes the amount to the creditor and will pay it later, so only Inventory, GST Clearing and Accounts Payable change now. The Bank will fall only when the account payable is paid, recorded in the Cash Payments Journal.

Question 15

a. The payment is recorded in the Cash Payments Journal as **Bank $1 800**, **Discount revenue $180** and **Accounts Payable $1 980**. The full $1 980 owed is removed from *Castlereagh Supply* (the creditor is cleared in full), funded by $1 800 cash plus $180 Discount revenue.

b. **No GST** is recorded on the settlement discount because the GST on the original credit purchase was recorded **in full when that purchase was made** (1 980 ÷ 11 = $180 GST at the time of purchase). A settlement discount is a **reward for prompt payment**, not a reduction in the original selling price, so the study design **excludes GST from settlement discounts** — the GST column is left blank on the payment.

c. **Discount revenue** is the **saving the business earns for paying a creditor promptly** — the difference between the amount owed and the smaller amount of cash paid. It is a **revenue**, so it **increases profit** in the Income Statement (and increases owner's equity). Here it is $180: the business settles a $1 980 debt with only $1 800 of cash, and the $180 saved is recognised as revenue.

Question 16

Splitting $3 300 at 1/11 (GST = 3 300 ÷ 11 = $300; inventory = $3 000), the three effects are:

- **Inventory** increases by **$3 000** — the GST-exclusive cost of goods for resale;
- **GST Clearing** decreases by **$300** — an input tax credit reducing the GST owed to the ATO;
- **Accounts Payable** increases by **$3 300** — the full amount owed to the creditor.

The **Inventory** appears in the **Balance Sheet** as a **current asset** (it is expected to be sold within the next reporting period, at which point its cost becomes **Cost of Sales**, an expense). The **Accounts Payable** appears in the **Balance**

Sheet as a **current liability**. The difference from a **service** business buying a **non-current asset** on credit is in the **asset created and its report treatment**: a trading business's credit purchase increases the **current asset Inventory**, whereas a service business's credit purchase of, say, equipment increases a **non-current asset** that is **capitalised** and **depreciated** over several periods. In both cases the GST is a $300 input credit and the account payable is the full $3 300 owed — only the nature of the asset acquired differs.

Question 17

The cross-check requires **Inventory + GST = Accounts Payable**. Here 5 400 + 540 = **$5 940**, but the Accounts Payable total is stated as **$6 000**, so the two sides do **not** agree — the journal does not cross-check and an **error** is present. The discrepancy is 6 000 − 5 940 = **$60**. Two possible causes are: (i) an **addition error** in a column (for example, the Accounts Payable column was overstated by $60, or the Inventory column understated by $60); or (ii) a **figure entered in the wrong column** or a **GST amount miscalculated**, so that a row's inventory cost + GST does not equal the amount carried to Accounts Payable. The student should re-add each column and re-check each row's split (GST = 1/11 of the amount owed) until the two sides agree.

Question 18

Under the **accounting entity** assumption, *Sunfield Trading* is a **separate accounting entity** from its owner, Priya. The two invoices are for goods bought for **Priya's private use at home**, so they are **Priya's personal property, not business inventory**, and their purchase is **not a business transaction**. Entering them in the Purchases Journal would record inventory the business does not hold and an account payable (and GST credit) that do not belong to the business. Doing so would **overstate the business's Inventory asset** and **wrongly claim $240 of GST input credits** ($120 on each $1 320 invoice, 1 320 ÷ 11) that the business is not entitled to.

Leaving out the genuine **$2 200 owed to *Halbrook Wholesale*** is the opposite error: that amount is a present **liability**, and omitting it would **understate Accounts Payable and understate the business's liabilities**, making the business appear to owe less than it does.

Both instructions breach **faithful representation**: the reports would no longer be **complete** (a liability is omitted, private assets are included), **free from material error** (inventory and GST credits are overstated, liabilities understated) or **neutral (without bias)** (they are deliberately slanted to obtain the loan). They would **mislead the bank**, which relies on the reports to judge whether Sunfield Trading can repay the loan, and improperly claiming GST credits on private purchases is also a form of **tax fraud**.

The correct treatment is: the two private invoices should **not** be recorded as business credit purchases **at all** — no entry belongs in the Purchases Journal, because there is no business inventory and no business account payable (if the business were to pay for them, that payment would be the owner's **Drawings**, with **no GST** claimed). The **$2 200 owed to *Halbrook Wholesale*** must be recorded as an **account payable in full, when it is incurred**, so that liabilities are complete. Prepared this way, Inventory, Accounts Payable and the GST owed to the ATO are all **faithfully represented**, and the bookkeeper — who has a professional and ethical obligation to **refuse** these instructions — keeps the owner's private dealings strictly separate from the business's records.

Chapter 13 Accounts payable for a trading business — 13B Subsidiary records for accounts payable

Theory

When a trading business buys inventory on credit it creates an **account payable** — an amount owed to a supplier (a **creditor**). A business that buys from many suppliers needs to know **two** different things: the **total** it owes to all creditors put together (for the Balance Sheet and for managing its cash), and **how much it owes each individual supplier** (so it can pay the right creditor the right amount at the right time). Recording both needs is the job of a **control account** working together with a **subsidiary record**.

The Accounts Payable control. In the special-journal system, **Accounts Payable** is a **control account** — a single figure for the **total owed to all creditors**. It is built up and reduced by the journal totals: the **Purchases Journal** *increases* Accounts Payable (every credit purchase of inventory), while the **Cash Payments Journal** and **purchase returns** *decrease* it (every payment to a creditor, settlement discount received and credit note). The control balance is the amount reported as **Accounts Payable** under current liabilities in the Balance Sheet.

The accounts payable subsidiary record. Behind that one control total sits the **accounts payable subsidiary record** — a **separate account for each individual creditor**. Each creditor's account shows everything owed to and paid to that supplier, kept as a **running balance**:

- a **credit purchase** of inventory **increases** the amount owed to that creditor;
- a **payment**, a **purchase return** (credit note) and a **settlement discount** each **decrease** it.

Because a creditor is a **liability**, the account carries a **credit balance**. A credit purchase is entered as a **Credit** (raising the balance owing); a payment, purchase return or discount is entered as a **Debit** (reducing it). Reading down the account:

running balance = previous balance + Credit − Debit

so that **opening balance + credit purchases − payments − purchase returns − discounts = closing balance owing**. Every amount in a creditor's account is **GST-inclusive** — the whole invoice (or credit note) is owed to the supplier, so the GST is *not* split out here; that split is done only in the journals.

Worked model. *Wattlebrook Homewares* buys inventory on credit from two suppliers. At 1 June 2026 it owed **Corella Imports** $1 650 and **Delworth Trading** $990. During June: on 5 June it purchased inventory from Corella for $2 200 (**Invoice C210**); on 12 June it purchased from Delworth for $1 320 (**Invoice D55**); on 18 June it returned $220 of faulty inventory to Delworth (**Credit Note 7**); on 24 June it paid Corella $1 650 (**EFT 811**) to clear the opening balance; and on 27 June it paid Delworth $960 (**EFT 812**) and was allowed a $30 settlement discount, clearing Delworth's $990 opening balance. Each creditor's subsidiary account is:

Accounts payable subsidiary record — Corella Imports (Wattlebrook Homewares)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
1 Jun	Balance			1 650
5 Jun	Credit purchase (Inv. C210)		2 200	3 850
24 Jun	Payment (EFT 811)	1 650		2 200
30 Jun	**Closing balance owing**			**2 200**

Accounts payable subsidiary record — Delworth Trading (Wattlebrook Homewares)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
1 Jun	Balance			990
12 Jun	Credit purchase (Inv. D55)		1 320	2 310
18 Jun	Purchase return (CN 7)	220		2 090
27 Jun	Payment (EFT 812)	960		1 130
27 Jun	Discount revenue	30		1 100
30 Jun	**Closing balance owing**			**1 100**

Corella still owes $2 200 (the $2 200 purchase, with the $1 650 opening balance paid); Delworth still owes $1 100 (the $1 320 purchase less the $220 return, with the $990 opening balance cleared by the $960 payment plus the $30 discount).

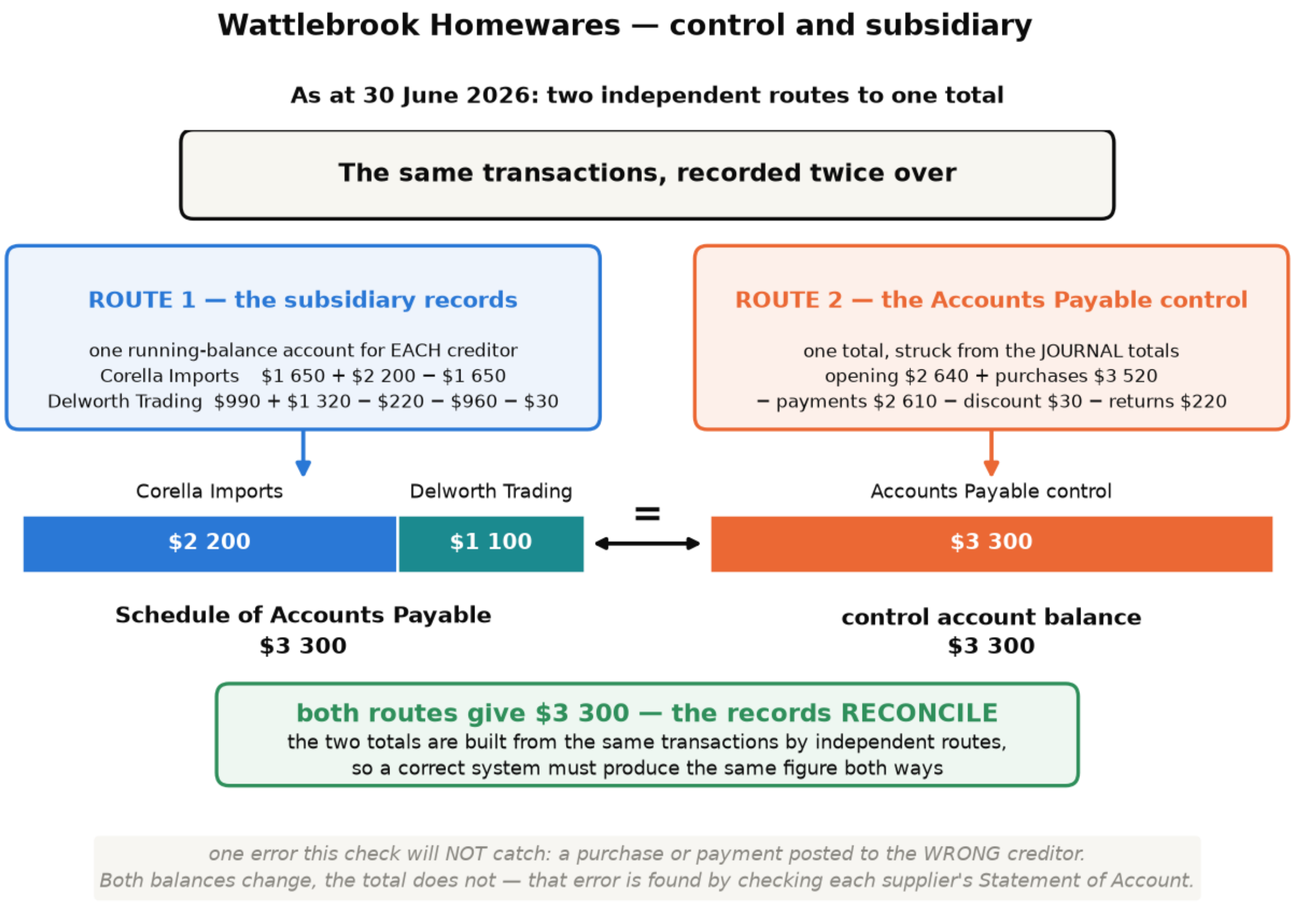
The schedule of accounts payable. A **schedule of accounts payable** is a **list of every creditor's closing balance** at a point in time, with the balances added to a total. A creditor that has been **paid in full** (a nil balance) is left off the schedule. Its purpose is to be checked against the control:

Schedule of Accounts Payable — Wattlebrook Homewares (as at 30 June 2026)

Accounts payable	Balance $
Corella Imports	2 200
Delworth Trading	1 100
Total accounts payable	**3 300**

Reconciling the schedule to the control. The schedule total should **equal the Accounts Payable control balance**. Striking the control independently from the journal totals gives: opening $2 640 + credit purchases $3 520 − payments $2 610 − discount $30 − purchase returns $220 = **$3 300** — the same as the schedule total. Because the subsidiary accounts and the control are built from the **same transactions** by **two independent routes** (creditor-by-creditor versus the journal totals), a **correct** system must produce the **same total both ways**.

The two routes are set out below. Nothing passes between them: the left-hand total is assembled creditor by creditor and the right-hand total is struck from the journal columns, and they are drawn the same length because both come to $3 300.



Wattlebrook Homewares — control and subsidiary at 30 June 2026: two independent routes to one total

Independence is what gives the check its value. If the two routes shared a step, an error in that step would move both totals together and the reconciliation would still appear to succeed. Because they do not, almost any single mistake — a purchase posted to the control but not to a creditor's account, a creditor left off the schedule, a transposed balance — shifts one total and not the other, and the disagreement exposes it. The one exception is a posting to the **wrong creditor**: that moves length *between* the two segments of the left-hand bar without changing its length, so the totals still agree and the error must be found another way.

When the schedule **does not** reconcile, there is an **error** — in a subsidiary account, in the control account, or in the schedule itself — that must be found and corrected. Common causes are a transaction posted to the control but **omitted from** a creditor's subsidiary account (or the reverse), a creditor **left off** the schedule, or a balance **miscopied** or **transposed** onto the schedule. (A digit **transposition**, such as $2 900 for $2 090, always produces a discrepancy divisible by 9.) One error the reconciliation will **not** catch is a purchase or payment posted to the **wrong creditor**: both creditors appear on the schedule, so the **total still agrees** even though two individual balances are wrong — that error is instead caught when the business checks the **Statement of Account** it receives from each supplier against that creditor's subsidiary account.

Purpose and benefits of subsidiary records. Keeping a subsidiary account for each creditor lets a business:

- **know exactly how much it owes each supplier**, so it can **pay each account in full and on time** — preserving supplier relationships, avoiding late-payment problems and capturing **settlement discounts** — which the single control total alone cannot tell it;
- **detect errors and fraud** by reconciling the schedule to the control, a valuable **internal control** (a division of duties between whoever keeps the journals and whoever keeps the subsidiary ledger makes concealment far harder);
- keep the reports a **faithful representation** of what is owed, with every balance **verifiable** against invoices, credit notes and payment records; and
- keep the main records **uncluttered** — one control total stands in the Balance Sheet for the many individual creditor accounts held behind it.

Ethical considerations. Subsidiary records and the schedule of accounts payable both **measure a business's liabilities**, so the owner has an ethical duty to keep them a **faithful representation** — complete, free from material error and neutral (without bias). It is dishonest to **leave a genuine supplier invoice out** of the subsidiary records (or off the schedule) to make liabilities look lower — for example when applying for finance — because that **understates the amounts owed** and misleads the bank, the owner and any other user who relies on the reports. Equally, a business must not **conceal a disputed or overdue account** or delay recording it into a later period to flatter this period's position. Under **verifiability**, every creditor balance should be traceable to genuine source documents, and the schedule should be reconciled to the control **honestly**, with every discrepancy investigated rather than forced to agree. Paying each creditor the true amount owed, on the agreed terms, and recording every purchase and payment in the period it occurs, is both good practice and an ethical obligation to the business's suppliers.

Worked examples (scaffolded)

Example 1 — preparing a creditor's subsidiary account (running balance)

Fitzroy Cycle Depot buys inventory on credit from *Marchetti Supply*. At 1 July 2026 it owed Marchetti $1 320. During July: on 3 July it purchased inventory for $2 750 (**Invoice M88**); on 15 July it returned $330 of that inventory (**Credit Note 12**); on 26 July it paid $1 200 (**EFT 5140**) and was allowed a $120 settlement discount, clearing the $1 320 opening balance. Prepare Marchetti Supply's subsidiary record for July and state the closing balance owing.

Working	Comment
Start from the **opening balance owing $1 320** (a credit balance carried forward from June).	A creditor is a liability, so the account opens with a balance *owed to* the supplier.
3 Jul — credit purchase $2 750 (Credit): 1 320 + 2 750 = **$4 070**.	A credit purchase of inventory **raises** the amount owed, so it is a Credit.
15 Jul — purchase return $330 (Debit): 4 070 − 330 = **$3 740**.	Returning inventory reduces what is owed — a Debit reducing the balance.
26 Jul — payment $1 200 (Debit): 3 740 − 1 200 = **$2 540**.	Paying the supplier reduces the balance owing.
26 Jul — discount revenue $120 (Debit): 2 540 − 120 = **$2 420**.	Payment $1 200 + discount $120 = $1 320 clears the opening balance; the discount carries no GST.

Accounts payable subsidiary record — Marchetti Supply (Fitzroy Cycle Depot)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
1 Jul	Balance			1 320
3 Jul	Credit purchase (Inv. M88)		2 750	4 070
15 Jul	Purchase return (CN 12)	330		3 740
26 Jul	Payment (EFT 5140)	1 200		2 540
26 Jul	Discount revenue	120		2 420
31 Jul	**Closing balance owing**			**2 420**

The **closing balance owing at 31 July is $2 420** — the $2 750 purchase less the $330 return, with the $1 320 opening balance cleared by the $1 200 payment plus the $120 discount.

Example 2 — preparing the schedule and reconciling it to the control

Grampian Outdoor Traders keeps three accounts payable subsidiary records. At 1 August 2026 it owed Ingleside Wholesale $880, Jarrah Traders $1 100 and Kelmscott Supply nil. During August: it purchased on credit from Ingleside $1 650 (**Inv. I50**), from Jarrah $990 (**Inv. J77**) and from Kelmscott $2 200 (**Inv. K12**); it returned $110 to Jarrah (**CN 4**); and it paid Ingleside $880 (**EFT 6001**), Jarrah $1 100 (**EFT 6002**) and Kelmscott $660 (**EFT 6003**). Prepare the schedule of accounts payable at 31 August and reconcile it to the Accounts Payable control.

Working	Comment
Ingleside: 880 + 1 650 − 880 = **$1 650** owing.	Opening balance paid; the $1 650 purchase is still owed.
Jarrah: 1 100 + 990 − 110 − 1 100 = **$880** owing.	Opening balance paid; $990 purchase less $110 return remains.
Kelmscott: 0 + 2 200 − 660 = **$1 540** owing.	New creditor; part of the $2 200 purchase still unpaid.
Schedule total = 1 650 + 880 + 1 540 = **$4 070**.	Add every creditor's closing balance.
Control (struck from the totals): opening 1 980 + purchases 4 840 − payments 2 640 − returns 110 = **$4 070**.	Same figure by an independent route ⇒ the records reconcile.

Schedule of Accounts Payable — Grampian Outdoor Traders (as at 31 August 2026)

Accounts payable	Balance $
Ingleside Wholesale	1 650
Jarrah Traders	880
Kelmscott Supply	1 540
Total accounts payable	**4 070**

The schedule total of **$4 070 equals the Accounts Payable control balance of $4 070**, so the subsidiary ledger reconciles with the control — the records are internally consistent.

Worked examples (unscaffolded)

Example 3 — the schedule does not reconcile: identifying the error

At 30 September 2026 the Accounts Payable control account of *Kirribilli Kitchenware* shows a balance of $5 060. The schedule of accounts payable, drawn up from the subsidiary records, lists Lindfield Wholesale $2 200, Montrose Imports $1 320 and Nettleton Trading $1 980. Show that the schedule does not reconcile, and identify and correct the error, given that a $440 payment to Montrose Imports (**EFT 7720**) was recorded in the Cash Payments Journal but was not posted to Montrose's subsidiary account.

The schedule as drawn totals $2 200 + $1 320 + $1 980 = **$5 500**, which exceeds the control balance of $5 060 by **$440**. Because the $440 payment reduced the control (it was in the Cash Payments Journal) but was **never posted to Montrose's subsidiary account**, Montrose's balance is **overstated by $440** — it should be $1 320 − $440 = **$880**. Correcting Montrose gives a schedule of $2 200 + $880 + $1 980 = **$5 060**.

∴ the $440 discrepancy is the **payment to Montrose omitted from its subsidiary account**; posting it reduces Montrose to $880 and the corrected schedule of **$5 060 reconciles** with the control.

Example 4 — preparing subsidiary accounts, the schedule and the reconciliation

Darebin Timber & Tools owed Oxley Supply Co $1 650 and Pemberton Wholesale $2 200 at 1 October 2026. During October: 4 Oct purchased from Oxley $3 300 (**Inv. O300**); 8 Oct purchased from Pemberton $1 100 (**Inv. P41**); 14 Oct returned $220 to Pemberton (**CN 20**); 22 Oct paid Oxley $1 650 (**EFT 700**); 27 Oct paid Pemberton $2 200 (**EFT 701**). Prepare both subsidiary records and the schedule at 31 October, and reconcile it to the control.

Accounts payable subsidiary record — Oxley Supply Co (Darebin Timber & Tools)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
1 Oct	Balance			1 650
4 Oct	Credit purchase (Inv. O300)		3 300	4 950
22 Oct	Payment (EFT 700)	1 650		3 300
31 Oct	**Closing balance owing**			**3 300**

Accounts payable subsidiary record — Pemberton Wholesale (Darebin Timber & Tools)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
1 Oct	Balance			2 200
8 Oct	Credit purchase (Inv. P41)		1 100	3 300
14 Oct	Purchase return (CN 20)	220		3 080
27 Oct	Payment (EFT 701)	2 200		880
31 Oct	**Closing balance owing**			**880**

Schedule of Accounts Payable — Darebin Timber & Tools (as at 31 October 2026)

Accounts payable	Balance $
Oxley Supply Co	3 300
Pemberton Wholesale	880
Total accounts payable	**4 180**

The control, struck independently, is opening \$3 850 + purchases \$4 400 − payments \$3 850 − returns \$220 = **\$4 180**. ∴ the schedule total of **\$4 180 reconciles** with the Accounts Payable control.

Practice questions — scaffolded

Question 1

Ambrose Sporting Goods buys inventory on credit from *Vantage Wholesale*. At 1 March 2026 it owed Vantage \$990. During March: on 5 March it purchased inventory for \$1 650 (**Invoice V210**); on 19 March it paid \$990 (**EFT 300**) to clear the opening balance, with no discount.

a. Prepare the accounts payable subsidiary record for Vantage Wholesale for March (Date, Cross-reference, Debit \$, Credit \$, Balance \$).

b. State the closing balance owing to Vantage Wholesale at 31 March.

c. State what the closing balance represents.

Question 2

At 1 April 2026 *Thornleigh Hardware* owed *Ellingham Wholesale* \$2 200. During April: on 7 April it purchased inventory for \$1 320 (**Invoice E55**); on 12 April it returned \$220 of faulty inventory and received **Credit Note 8**; on 26 April it paid \$2 090 (**EFT 410**) and was allowed a \$110 settlement discount, settling the \$2 200 opening balance.

a. Prepare Ellingham Wholesale's subsidiary record for April.

b. State the closing balance owing at 30 April.

c. The settlement discount of $110 carries no GST. Explain why, and state the total that cleared the opening balance.

Question 3

The accounts payable subsidiary records of *Yarraville Grocers* showed the following closing balances at 31 May 2026: Quillan Traders $1 980; Ravenswood Supply $770; Selby Imports $1 650. The Accounts Payable control account showed a balance of $4 400 at 31 May.

a. Prepare the schedule of accounts payable as at 31 May 2026.

b. State whether the schedule reconciles with the Accounts Payable control account.

c. Explain what it means when the schedule total equals the control balance.

Question 4

At 30 June 2026 the Accounts Payable control account of *Sandringham Electrical* showed $3 740. A junior clerk's schedule of accounts payable listed Tarrant Wholesale $1 650 and Underwood Trading $2 310, a total of $3 960. On 8 June Sandringham had returned inventory to Underwood and received **Credit Note 15** for $220; the return was recorded in the Accounts Payable control but the clerk did not post it to Underwood's subsidiary account.

a. Prepare the schedule as drawn up, and state the amount by which it fails to reconcile with the control.

b. Identify the error, state the corrected balance for Underwood Trading, and show that the corrected schedule reconciles.

Question 5

Camberwell Furnishings buys on credit from *Verano Supply Co* and *Whitmore Wholesale*. Opening balances at 1 July 2026: Verano $1 100; Whitmore $660. During July: 5 Jul purchased from Verano $2 200 (**Inv. V80**); 9 Jul purchased from Whitmore $990 (**Inv. W15**); 16 Jul returned $110 to Whitmore (**CN 3**); 24 Jul paid Verano $1 100 (**EFT 900**); 27 Jul paid Whitmore $660 (**EFT 901**). The Accounts Payable control showed $3 080 at 31 July.

a. Prepare the accounts payable subsidiary records for Verano Supply Co and Whitmore Wholesale.

b. Prepare the schedule of accounts payable as at 31 July 2026.

c. State whether the schedule reconciles with the control account.

Question 6

At 1 August 2026 *Nunawading Auto Parts* owed *Foxton Distributors* $1 650. During August: 6 Aug purchased inventory for $1 100 (**Inv. F70**); 13 Aug returned $220 (**CN 9**); 22 Aug paid $1 650 (**EFT 800**), clearing the opening balance.

a. Prepare Foxton Distributors' subsidiary record for August.

b. State the closing balance owing at 31 August.

c. Explain one benefit to Nunawading Auto Parts of keeping a subsidiary record for each individual creditor rather than only the Accounts Payable control account.

Practice questions — unscaffolded

Question 7

Rosanna Pet Supplies owed *Galbraith Supply Co* $880 at 1 March 2026. On 4 March it purchased inventory on credit for $1 980 (**Inv. G120**) and on 20 March it paid $880 (**EFT 210**) to clear the opening balance. Prepare the accounts payable subsidiary record for Galbraith Supply Co and state the closing balance owing.

Question 8

At 1 April 2026 *Elsternwick Bookshop* owed *Harrowgate Imports* $1 320. During April: 5 Apr purchased inventory for $2 200 (**Inv. H44**); 11 Apr returned $330 of inventory (**CN 6**); 25 Apr paid $1 200 (**EFT 305**) and was allowed a $120 settlement discount, clearing the opening balance. Prepare the subsidiary record and state the closing balance owing.

Question 9

At 31 May 2026 the accounts payable subsidiary records of *Beaumaris Marine Supplies* showed: Calder Supply Co $1 650; Draymore Imports $990; Fernwood Trading $2 200; Gairloch Wholesale $770; Harrington Supply nil (paid in full on 15 May). The Accounts Payable control account showed $5 610. Prepare the schedule of accounts payable, state whether it reconciles, and explain how you treated Harrington Supply.

Question 10

At 30 June 2026 the Accounts Payable control account of *Coburg Tile Warehouse* showed $4 620. The schedule of accounts payable listed Prentice Wholesale $1 650, Quorn Imports $1 320 and Rathbone Supply $990 — a total of $3 960. Every individual subsidiary balance is known to be correct. Given that a fourth creditor, Sefton Trading, was owed $660 at 30 June, identify the most likely cause of the failure to reconcile and state the correction.

Question 11

At 31 July 2026 the Accounts Payable control account of *Werribee Garden Centre* showed $5 280. The schedule listed Tolliver Wholesale $1 980, Ulverstone Supply $1 210 and Vasey Imports $2 900 — a total of $6 090. Vasey's subsidiary account actually shows a balance of $2 090. Calculate the discrepancy, show that it is consistent with a transposition error, and state the correction needed for the schedule to reconcile.

Question 12

Hawthorn Cellar Door's subsidiary record for *Wexford Wholesale* shows an opening balance owing of $1 100 at 1 August 2026, a credit purchase of $2 200 on 6 August (**Inv. W70**), a purchase return of $220 on 14 August (**CN 4**), and a closing balance owing of $1 870 at 31 August. Only one payment (no discount) was made during August. Using account reconstruction, calculate the amount of that payment. (You are not required to prepare the account.)

Question 13

Preston Party Supplies buys on credit from Anders Wholesale, Bexley Imports and Corliss Trading. Opening balances at 1 September 2026: Anders $990; Bexley $1 320; Corliss nil. During September: 4 Sep purchased from Anders $1 650 (**Inv. A20**); 8 Sep purchased from Bexley $2 200 (**Inv. B33**); 12 Sep returned $330 to Bexley (**CN 11**); 15 Sep purchased from Corliss $880 (**Inv. C18**); 22 Sep paid Anders $990 (**EFT 400**); 26 Sep paid Bexley $1 320 (**EFT 401**). Prepare the three subsidiary records, prepare the schedule of accounts payable at 30 September, and reconcile it to the Accounts Payable control.

Question 14

Explain what an **accounts payable subsidiary record** and the **Accounts Payable control account** are, and explain why the total of the schedule of accounts payable should equal the balance of the control account.

Question 15

Other than enabling the schedule to be reconciled to the control account, explain **two** benefits to a trading business of keeping accounts payable subsidiary records.

Question 16

Explain how reconciling the schedule of accounts payable to the Accounts Payable control account acts as an internal control. Then identify one type of error that this reconciliation will **not** detect, and explain why.

Question 17

At 30 June 2026 the owner of *Ridgeway Trading* asks the bookkeeper to leave a genuine $2 200 supplier invoice — already received, for inventory delivered in June — out of the accounts payable subsidiary records and off the schedule of accounts payable until July, so that reported liabilities look lower when the owner meets the bank to arrange a loan. Discuss the ethical considerations involved, referring to at least one qualitative characteristic and to the effect on the parties who rely on the reports.

Question 18

Blackburn Bathroom Supplies buys on credit from *Delford Wholesale* and *Emsworth Supply*. Opening balances at 1 October 2026: Delford $1 650; Emsworth $990. During October: 5 Oct purchased from Delford $2 200 (**Inv. D90**); 9 Oct purchased from Emsworth $1 320 (**Inv. E30**); 15 Oct returned $220 to Emsworth (**CN 14**); 24 Oct paid Delford $1 650 (**EFT 500**); 27 Oct paid Emsworth $990 (**EFT 501**).

a. Prepare the two subsidiary records and the schedule of accounts payable at 31 October.

b. The Accounts Payable control account shows a balance of $3 520. Identify why the schedule does not reconcile with the control, and state the corrected control balance.

Answers

1.
    b. $1 650 c. The amount still owed to Vantage for the $1 650 credit purchase (Invoice V210)
2.
    b. $1 100 c. Settlement discounts are excluded from GST by the study design; $2 090 + $110 = $2 200 cleared the opening balance
3.
    a. Total $4 400 b. Yes — $4 400 schedule = $4 400 control
4.
    a. $3 960, out by $220 b. CN 15 return not posted to Underwood; correct balance $2 090; corrected schedule $3 740
5.
    b. Total $3 080 c. Yes — $3 080 = $3 080 control
6.
    b. $880
7. $1 980
8. $1 870
9. Total $5 610; reconciles; Harrington (nil) omitted from the schedule
10. Sefton Trading $660 omitted from the schedule; corrected total $4 620 reconciles
11. Discrepancy $810 (divisible by 9 → transposition); Vasey $2 900 should be $2 090; corrected total $5 280
12. $1 210
13. Total $4 400 = $4 400 control
14. See solutions
15. See solutions
16. See solutions
17. See solutions
18. Schedule $3 300; CN 14 return not posted to the control; corrected control $3 300

Fully-worked solutions

Question 1

Accounts payable subsidiary record — Vantage Wholesale (Ambrose Sporting Goods)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
1 Mar	Balance			990
5 Mar	Credit purchase (Inv. V210)		1 650	2 640
19 Mar	Payment (EFT 300)	990		1 650
31 Mar	**Closing balance owing**			**1 650**

b. Closing balance owing at 31 March = **$1 650**.

c. It represents the **amount still owed to Vantage Wholesale** for the $1 650 credit purchase (Invoice V210); the $990 opening balance has been paid.

Question 2

Accounts payable subsidiary record — Ellingham Wholesale (Thornleigh Hardware)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
1 Apr	Balance			2 200
7 Apr	Credit purchase (Inv. E55)		1 320	3 520
12 Apr	Purchase return (CN 8)	220		3 300
26 Apr	Payment (EFT 410)	2 090		1 210
26 Apr	Discount revenue	110		1 100
30 Apr	**Closing balance owing**			**1 100**

b. Closing balance owing at 30 April = **$1 100**.

c. A **settlement (cash) discount** is a reward for early payment, not a sale of goods or services, so the study design **excludes it from GST** — the GST on the original purchase was recorded in full when the inventory was bought and is not adjusted. The payment $2 090 + discount $110 = **$2 200** cleared the opening balance.

Question 3

a. **Schedule of Accounts Payable — Yarraville Grocers** (as at 31 May 2026)

Accounts payable	Balance $
Quillan Traders	1 980
Ravenswood Supply	770
Selby Imports	1 650
Total accounts payable	**4 400**

b. **Yes.** The schedule total of $4 400 equals the Accounts Payable control balance of $4 400, so the records **reconcile**.

c. It means the **detailed subsidiary records agree with the control total**: the same set of transactions has produced the same figure by two independent routes (adding each creditor's balance versus the journal totals behind the control). This confirms the records are internally consistent — no creditor balance has been omitted from the schedule or duplicated, and no transaction has been recorded in one record but not the other. (Agreement of the **total** cannot, however, reveal an amount posted to the **wrong creditor**, because that leaves the total unchanged.)

Question 4

a. **Schedule of Accounts Payable — Sandringham Electrical** (as at 30 June 2026)

Accounts payable	Balance $
Tarrant Wholesale	1 650
Underwood Trading	2 310
Total accounts payable	**3 960**

The schedule totals $3 960 against a control balance of $3 740, so it fails to reconcile by **$220**.

b. The **$220 purchase return (Credit Note 15) was recorded in the Accounts Payable control but not posted to Underwood's subsidiary account**, so Underwood is **overstated by $220**. The corrected balance is $2 310 − $220 = **$2 090**. The corrected schedule is $1 650 + $2 090 = **$3 740**, which now reconciles with the control.

Question 5

a. **Accounts payable subsidiary record — Verano Supply Co** (Camberwell Furnishings)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
1 Jul	Balance			1 100
5 Jul	Credit purchase (Inv. V80)		2 200	3 300
24 Jul	Payment (EFT 900)	1 100		2 200
31 Jul	**Closing balance owing**			**2 200**

Accounts payable subsidiary record — Whitmore Wholesale (Camberwell Furnishings)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
1 Jul	Balance			660
9 Jul	Credit purchase (Inv. W15)		990	1 650
16 Jul	Purchase return (CN 3)	110		1 540
27 Jul	Payment (EFT 901)	660		880
31 Jul	**Closing balance owing**			**880**

b. **Schedule of Accounts Payable — Camberwell Furnishings** (as at 31 July 2026)

Accounts payable	Balance $
Verano Supply Co	2 200
Whitmore Wholesale	880
Total accounts payable	**3 080**

c. **Yes** — the schedule total of $3 080 equals the Accounts Payable control balance of $3 080, so the subsidiary ledger reconciles with the control.

Question 6

a. **Accounts payable subsidiary record — Foxton Distributors** (Nunawading Auto Parts)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
1 Aug	Balance			1 650
6 Aug	Credit purchase (Inv. F70)		1 100	2 750
13 Aug	Purchase return (CN 9)	220		2 530
22 Aug	Payment (EFT 800)	1 650		880
31 Aug	**Closing balance owing**			**880**

b. Closing balance owing at 31 August = **$880**.

c. A subsidiary record tells Nunawading **exactly how much it owes Foxton individually** — the single Accounts Payable control total (all suppliers combined) cannot. Knowing each creditor's balance lets the business **pay Foxton the right amount on the agreed date**, preserving the supplier relationship, avoiding late payment and capturing any settlement discount offered. (Any one valid benefit is acceptable: individual amounts owing; timely and accurate payment; the basis for the reconciliation that detects errors and fraud.)

Question 7

Accounts payable subsidiary record — Galbraith Supply Co (Rosanna Pet Supplies)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
1 Mar	Balance			880
4 Mar	Credit purchase (Inv. G120)		1 980	2 860
20 Mar	Payment (EFT 210)	880		1 980
31 Mar	**Closing balance owing**			**1 980**

Closing balance owing = **$1 980** (the $1 980 credit purchase, with the $880 opening balance paid).

Question 8

Accounts payable subsidiary record — Harrowgate Imports (Elsternwick Bookshop)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
1 Apr	Balance			1 320
5 Apr	Credit purchase (Inv. H44)		2 200	3 520
11 Apr	Purchase return (CN 6)	330		3 190
25 Apr	Payment (EFT 305)	1 200		1 990
25 Apr	Discount revenue	120		1 870
30 Apr	**Closing balance owing**			**1 870**

Closing balance owing = **$1 870** (the $2 200 purchase less the $330 return; the $1 320 opening balance cleared by the $1 200 payment plus the $120 discount).

Question 9

Schedule of Accounts Payable — Beaumaris Marine Supplies (as at 31 May 2026)

Accounts payable	Balance $
Calder Supply Co	1 650
Draymore Imports	990
Fernwood Trading	2 200
Gairloch Wholesale	770
Total accounts payable	**5 610**

Accounts payable	Balance $

The schedule total of **$5 610 equals the Accounts Payable control balance of $5 610**, so the records **reconcile**. **Harrington Supply is omitted** because it was **paid in full** and has a **nil balance** — a fully-settled creditor is no longer owed anything, so it does not appear on the schedule.

Question 10

The schedule totals $1 650 + $1 320 + $990 = **$3 960**, which is **$660 less** than the control balance of $4 620. Because every listed subsidiary balance is correct, the schedule must be **missing a creditor**: **Sefton Trading ($660) was left off the schedule**. Adding it gives $3 960 + $660 = **$4 620**, which reconciles with the control.

Question 11

The schedule totals $1 980 + $1 210 + $2 900 = **$6 090**, which exceeds the control balance of $5 280 by **$810**. A discrepancy caused by swapping two digits (a **transposition**) is always **divisible by 9**, and $810 ÷ 9 = $90, so a transposition is likely. Here **Vasey Imports was written as $2 900 but its subsidiary account shows $2 090** — the "9" and "0" have been transposed (a $810 overstatement). Correcting Vasey to $2 090 gives $1 980 + $1 210 + $2 090 = **$5 280**, which reconciles with the control.

Question 12

Using account reconstruction for a creditor (opening + credit purchases − returns − payment = closing):

payment = opening + purchase − return − closing = $1 100 + $2 200 − $220 − $1 870 = **$1 210**.

∴ the payment made to Wexford Wholesale during August was **$1 210**.

Question 13

Accounts payable subsidiary record — Anders Wholesale (Preston Party Supplies)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
1 Sep	Balance			990
4 Sep	Credit purchase (Inv. A20)		1 650	2 640
22 Sep	Payment (EFT 400)	990		1 650
30 Sep	**Closing balance owing**			**1 650**

Accounts payable subsidiary record — Bexley Imports (Preston Party Supplies)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
1 Sep	Balance			1 320
8 Sep	Credit purchase (Inv. B33)		2 200	3 520
12 Sep	Purchase return (CN 11)	330		3 190
26 Sep	Payment (EFT 401)	1 320		1 870
30 Sep	**Closing**			**1 870**

Date 2026	Cross-reference	Debit $	Credit $	Balance $
	balance owing			

Accounts payable subsidiary record — Corliss Trading (Preston Party Supplies)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
1 Sep	Balance			
15 Sep	Credit purchase (Inv. C18)		880	880
30 Sep	**Closing balance owing**			**880**

Schedule of Accounts Payable — Preston Party Supplies (as at 30 September 2026)

Accounts payable	Balance $
Anders Wholesale	1 650
Bexley Imports	1 870
Corliss Trading	880
Total accounts payable	**4 400**

The control, struck independently, is opening \$2 310 + purchases \$4 730 − payments \$2 310 − returns \$330 = **\$4 400**. ∴ the schedule total of **\$4 400 reconciles** with the Accounts Payable control.

Question 14

An **accounts payable subsidiary record** is a **separate account kept for each individual creditor**, showing — as a running balance — everything owed to and paid to that supplier: the opening balance, each credit purchase, each purchase return, each payment and each settlement discount, ending in the closing balance owing. The **Accounts Payable control account** is the **single total owed to all creditors combined**, built from the special-journal totals (the Purchases Journal increases it; the Cash Payments Journal and purchase returns decrease it) and reported as Accounts Payable in the Balance Sheet.

The schedule total should **equal** the control balance because both are produced from the **same transactions**. Every credit purchase, payment, return and discount is recorded **once in a creditor's subsidiary account** and is **also captured in the journal totals** that make up the control. Adding all the individual balances (the schedule) must therefore give the same figure as the control. If the two do not agree, a transaction has been recorded on one side but not the other, or a balance has been miscounted — an error to be found and corrected.

Question 15

Two benefits (any two, well explained):

1. **Knowing the amount owed to each individual supplier.** The control account gives only the combined total, but a business must pay **each** creditor the **correct amount on the agreed date**. Subsidiary records make this possible, so the business can pay on time (preserving supplier goodwill and its own credit standing), take up **settlement discounts**, and answer any supplier query about its balance.
2. **Better decision-making and internal control through detail.** Subsidiary records let the owner see **who** is owed, **how much** and for **how long**, which supports managing cash outflows and the timing of payments. Separating the person who keeps the journals from the person who keeps the subsidiary ledger also builds a **division of duties**, making errors and fraud harder to commit and easier to detect. (Other acceptable benefits: keeping the main records uncluttered behind one control total; providing a verifiable, faithful record of each liability.)

Question 16

Reconciling the schedule to the control is an **internal control** because it **checks the detailed records against the total by two independent routes**. The subsidiary accounts (added into the schedule) and the control (struck from the journal totals) are built from the **same transactions**, so a correct system must give the **same figure both ways**. When they **disagree**, the difference signals an error — a transaction posted to one but not the other, a creditor omitted, or a balance miscopied — which can then be **found and corrected before payments are made**, protecting the business from paying the wrong amount and helping to reveal manipulation.

One error it will **not** detect is a purchase or payment **posted to the wrong creditor**. If, say, a $500 purchase is entered in the wrong supplier's account, **both** creditors still appear on the schedule, so the **schedule total is unchanged** and still equals the control — the two agree even though two individual balances are wrong. Because the reconciliation only checks the **total**, it cannot see an error that leaves the total unchanged; that error is instead caught when the business checks the **Statement of Account** it receives from each supplier against that creditor's subsidiary account — the two suppliers' statements will disagree with the two wrong balances.

Question 17

Leaving a **genuine $2 200 invoice** out of the subsidiary records and the schedule would make the records a **misleading** picture of the business's position. The inventory was delivered and the invoice received in June, so under the **accrual basis** the liability exists now; deliberately omitting it **understates accounts payable** (and overstates the business's apparent capacity to take on more debt). This breaches **faithful representation** — the reports would not be **complete** (a real liability is missing), not **free from material error** (the reported accounts payable figure is wrong by $2 200) and not **neutral** (the omission is chosen to flatter the position) — and it undermines **verifiability**, since the schedule would no longer agree with the source documents and the control.

The people who **rely on the reports** would be harmed. The **bank** would assess the loan on **overstated** solvency and might lend money the business cannot safely repay; the **owner** would be making decisions on figures they know to be false; and the **supplier** is entitled to have its account recorded and paid honestly. It is also likely to be **unlawful** to present knowingly false figures to obtain finance. The bookkeeper has a professional obligation to keep truthful records and should **decline** the request: the invoice must be recorded in June, in both the subsidiary record and the control, and the schedule prepared honestly. If short-term liabilities look high, the ethical response is to **manage and disclose** them — for example by negotiating payment terms — not to hide them.

Question 18

a. **Accounts payable subsidiary record — Delford Wholesale** (Blackburn Bathroom Supplies)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
1 Oct	Balance			1 650
5 Oct	Credit purchase (Inv. D90)		2 200	3 850
24 Oct	Payment (EFT 500)	1 650		2 200
31 Oct	**Closing balance owing**			**2 200**

Accounts payable subsidiary record — Emsworth Supply (Blackburn Bathroom Supplies)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
1 Oct	Balance			990
9 Oct	Credit purchase (Inv. E30)		1 320	2 310

Date 2026	Cross-reference	Debit $	Credit $	Balance $
15 Oct	Purchase return (CN 14)	220		2 090
27 Oct	Payment (EFT 501)	990		1 100
31 Oct	**Closing balance owing**			**1 100**

Schedule of Accounts Payable — Blackburn Bathroom Supplies (as at 31 October 2026)

Accounts payable	Balance $
Delford Wholesale	2 200
Emsworth Supply	1 100
Total accounts payable	**3 300**

b. The schedule totals **$3 300**, but the Accounts Payable control shows **$3 520** — out by **$220**. The subsidiary accounts are correct: the **$220 purchase return (Credit Note 14) was posted to Emsworth's subsidiary account but was not recorded in the Accounts Payable control**, so the **control is overstated by $220**. Correcting the control gives $3 520 − $220 = **$3 300**, which reconciles with the schedule. (This shows the error can lie in the **control** rather than the subsidiary ledger — the reconciliation flags the discrepancy either way.)

Chapter 13 Accounts payable for a trading business — 13C Purchase returns and discount revenue

Theory

A trading business that buys inventory **on credit** creates an **account payable** — a supplier (a *creditor*) it must pay later. Section 13A recorded those credit purchases in the **Purchases Journal** and the payments that clear them in the **Cash Payments Journal**; section 13B kept an individual **subsidiary account** for each creditor. This section records two events that change what the business owes a supplier *before or when* it pays: a **purchase return** of inventory, and the **discount revenue** earned by paying a creditor early.

Purchase returns. A **purchase return** occurs when a business **returns inventory it bought on credit to the supplier** — because the goods are faulty, damaged, incorrect or surplus. The supplier issues a **credit note** (for example, **Credit Note 26**) confirming the value of the goods taken back and reducing the amount owed. A purchase return **reverses the original credit purchase**, so it has **three effects**:

- **Inventory decreases** by the **GST-exclusive cost** of the returned goods (the cost identified on the supplier's credit note — the same cost recorded in the inventory card as an **OUT** movement in 11B).
- **GST Clearing is reversed** by the **GST on the returned goods**. GST paid on a credit purchase is a claim against the business's GST liability; when the goods go back, that claim is cancelled, so the GST is **reversed**. GST = **1/11** of the GST-inclusive credit-note total. Because the claim is cancelled, a purchase return **increases** the net GST the business must remit to the ATO.
- **Accounts Payable decreases** by the **full GST-inclusive amount** of the credit note — the business now owes the supplier less.

Because a purchase return does not fit any of the four special journals, it is recorded in the **General Journal** — the book of original entry used for transactions the special journals do not cover. The entry **debits Accounts Payable** (reducing the liability) and **credits Inventory and GST Clearing** (reducing the asset and reversing the GST). For a $440 credit note the GST is $440 ÷ 11 = $40, the inventory returned is $400, and Accounts Payable falls by the full $440:

General Journal — Applecross Home Supplies (August 2026)

Date 2026	Details	Debit $	Credit $
Aug 11	Accounts Payable — Ellersby Wholesale	440	
	Inventory		400
	GST Clearing		40
	Purchase return of inventory; Credit Note 26		

The entry **balances** (debit $440 = credits $400 + $40), which confirms that **Inventory + GST reversed = the reduction in Accounts Payable**.

Discount revenue. A supplier may offer a **settlement discount** — a reduction for paying an account **within a stated period** (for example, "2% within 7 days"). When the business pays early and the supplier accepts **less cash than the full amount owed**, the saving is **Discount revenue** — a revenue earned for prompt payment. It is recorded in the **Cash Payments Journal**, in its own **Discount revenue** column, alongside the cash paid. The creditor's account is still cleared **in full**, so for that payment:

Bank (cash paid) + Discount revenue = Accounts Payable cleared.

GST is *excluded* from a settlement discount. This is the key contrast of this section. A **purchase return reverses GST**, because the **goods themselves go back** — the taxable supply is partly cancelled. A **settlement discount does not** change the goods or the price at which they were supplied; it is only a **reward for paying promptly**. The GST on the original purchase was recorded **in full** when the purchase was made and is **not** adjusted, so the study design **excludes GST from settlement discounts** — the GST column is left **blank** on a creditor payment.

Totalling and the cross-check. At period-end every money column of the Cash Payments Journal is **totalled** and a **bold Totals row** added. Because the cash paid plus any discount received funds everything the payments were analysed into, a correctly recorded journal satisfies the **cross-check**:

Total Bank + Total Discount revenue = Total Accounts Payable + Total GST + Total Sundries.

Effect on the creditor. Both events reduce a **subsidiary account** in the **accounts payable ledger**. A creditor's account is a **liability**, so it carries a **credit (amount-owing) balance**: a credit purchase **increases** it (Credit column), while a purchase return, a cash payment and a discount each **decrease** it (Debit column). The running balance is:

balance owing = previous balance + Credit (purchase) − Debit (return, cash, discount).

Money format. GST = **1/11** of a GST-inclusive amount is an **exact fraction**: a $715 credit note contains $715 ÷ 11 = $65 GST (so $650 of inventory returns), and a $1 430 payment made in full carries no discount. A settlement discount is a plain dollar saving with **no GST attached**.

Ethical considerations. Because purchase returns and settlement discounts both reduce a recorded liability and touch the GST owed to the Australian Taxation Office (ATO), they can tempt an owner to misstate the records. An owner might **leave a genuine credit note out of the records** so that the claim on the returned goods is never cancelled, **understating the GST owed** to the ATO while overstating both Inventory and Accounts Payable; or might **claim GST on a settlement discount**, which carries none, to manufacture an input-tax credit the business never paid. An owner might also record a **purchase return that never happened** — no goods went back and no credit note was received — to make **Accounts Payable and Inventory look smaller** than they really are; note that such an entry cannot "recover" GST, because a return **credits** GST Clearing and so **increases** the GST the business must remit. Each practice breaches **faithful representation**, because the reports would no longer be **complete, free from material error and neutral (without bias)** — inventory, liabilities and the GST liability would all be misstated — and each amounts to **making a false claim to the ATO**. Acting with integrity means recording a purchase return **only when inventory has genuinely been returned and a supplier credit note received** — and recording **every** credit note the business receives — and recording a settlement discount as **Discount revenue with no GST**. A business should also weigh whether chasing every settlement discount by paying early is worthwhile — the cash saved must be balanced against the business's own need to hold cash — but that is a management decision, not a reason to distort the record.

Worked model. *Applecross Home Supplies* is a trading business. On **4 August** it bought inventory on credit from **Ellersby Wholesale** for **$3 080** (Invoice E-412), recorded in the Purchases Journal. On **11 August** it returned $440 of faulty inventory (**Credit Note 26**, the General Journal entry above). On **21 August** it paid Ellersby's remaining $2 640 balance early, taking a $240 settlement discount, and also paid another creditor and two other payments:

Cash Payments Journal — Applecross Home Supplies (August 2026)

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Accounts Payable $	GST $	Sundries $
Aug 14	Tarnbrook Imports	EFT 2701	1 320		1 320		
Aug 21	Ellersby Wholesale	EFT 2702	2 400	240	2 640		
Aug 26	Wages	EFT 2703	1 850				1 850
Aug 28	Electricity	EFT 2704	693			63	630
Aug 31	**Totals**		**6 263**	**240**	**3 960**	**63**	**2 480**

Ellersby's $2 640 is cleared for $2 400 cash **plus** $240 Discount revenue, with **no GST** on the discount; Tarnbrook is cleared in full for $1 320 (no discount). Cross-check: Bank $6 263 + Discount $240 = $6 503 = Accounts Payable $3 960 + GST $63 + Sundries $2 480. Ellersby's subsidiary account gathers all three events and closes at nil:

Accounts Payable ledger — Ellersby Wholesale (Applecross Home Supplies)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
Aug 4	Purchases (Inv. E-412)		3 080	3 080
Aug 11	Purchase return (CN 26)	440		2 640
Aug 21	Bank (EFT 2702)	2 400		240
Aug 21	Discount revenue	240		nil

Reading down the balance column, $3 080 − $440 − $2 400 − $240 = **nil**: the return removed $440 (of which $40 was GST reversed), and the $2 400 cash plus the $240 discount cleared the rest.

Worked examples (scaffolded)

Example 1 — recording a purchase return in the General Journal

Torrington Cycle Works bought inventory on credit from **Colverton Distributors** for $4 180 on 6 May (Invoice C-118). On **13 May** it returned faulty inventory worth $770 (GST-inclusive) and received **Credit Note 37**. Record the purchase return in the General Journal, and show its effect on the creditor's account.

Working	Comment
GST reversed = $770 ÷ 11 = **$70**.	GST is 1/11 of the GST-inclusive credit-note total; the goods going back reverse the GST claimed on the purchase.
Inventory returned = $770 − $70 = **$700** (10/11).	Inventory falls by the GST-exclusive cost identified on the credit note.
Accounts Payable falls by the **full $770**.	Debit Accounts Payable — Colverton Distributors $770 (the liability is reduced).
Credit **Inventory $700** and **GST Clearing $70**.	The credits reverse the asset and the GST; debit $770 = credits $700 + $70, so the entry balances.
Colverton's account falls from $4 180 to **$3 410**.	The subsidiary account is debited $770, leaving $3 410 still owing.

General Journal — Torrington Cycle Works (May 2026)

Date 2026	Details	Debit $	Credit $
May 13	Accounts Payable — Colverton Distributors	770	
	Inventory		700
	GST Clearing		70
	Purchase return of inventory; Credit Note 37		

Accounts Payable ledger — Colverton Distributors (Torrington Cycle Works)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
May 6	Purchases (Inv. C-118)		4 180	4 180

Date 2026	Cross-reference	Debit $	Credit $	Balance $
May 13	Purchase return (CN 37)	770		3 410

Example 2 — settlement discounts in the Cash Payments Journal

Barwon Outdoor Traders made the following payments in July 2026. Record them in the Cash Payments Journal and total it.

- Jul 3: Paid Craigmore Wholesale the full $1 210 owed; no discount was available (EFT 4802).
- Jul 10: Paid Palmyra Traders $2 500 to settle the $2 750 owed, after a $250 settlement discount (EFT 4803).
- Jul 17: Paid wages, $2 100 (EFT 4804).
- Jul 24: Paid Craigmore Wholesale $880 to settle a further $968 owed, after an $88 discount (EFT 4805).
- Jul 30: Paid insurance, $836 including GST (EFT 4806).

Working	Comment
Jul 3 Craigmore $1 210: Bank $1 210; Accounts Payable $1 210.	With no discount, the cash paid equals the amount owed; the creditor is cleared by $1 210.
Jul 10 Palmyra: owed $2 750, discount $250 → cash $2 500. Bank $2 500, Discount revenue $250, Accounts Payable $2 750.	The **full $2 750** clears the creditor; the $250 saved is **Discount revenue**. **No GST** is recorded on the discount.
Jul 17 wages $2 100: Bank $2 100; Sundries $2 100.	Wages have no column of their own, so they go to Sundries; wages carry no GST.
Jul 24 Craigmore $968: cash $880, Discount revenue $88, Accounts Payable $968.	A second discount from the same supplier; again no GST on the discount.
Jul 30 insurance $836 incl GST: GST = 836 ÷ 11 = $76; insurance $760 → Sundries.	A GST-inclusive expense splits 1/11 to **GST** and 10/11 to Sundries — unlike the discount, which has no GST.
Totals & cross-check: Bank $7 526 + Disc $338 = $7 864; AP $4 928 + GST $76 + Sundries $2 860 = $7 864.	The two sides match, so the journal is arithmetically sound. Note the GST column ($76) contains only the insurance — **none of the $338 discount**.

Cash Payments Journal — Barwon Outdoor Traders (July 2026)

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Accounts Payable $	GST $	Sundries $
Jul 3	Craigmore Wholesale	EFT 4802	1 210		1 210		
Jul 10	Palmyra Traders	EFT 4803	2 500	250	2 750		
Jul 17	Wages	EFT 4804	2 100				2 100
Jul 24	Craigmore Wholesale	EFT 4805	880	88	968		
Jul 30	Insurance	EFT 4806	836			76	760
Jul 31	**Totals**		**7 526**	**338**	**4 928**	**76**	**2 860**

Worked examples (unscaffolded)

Example 3 — a purchase return, then an early payment

Yarrowlea Hardware bought inventory on credit from **Falkirk Wholesale** for $5 500 on 2 October (Invoice F-820). On **9 October** it returned $1 320 (GST-inclusive) of the inventory (**Credit Note 51**), and on **22 October** it paid the balance early, taking a $380 settlement discount (EFT 3115). Record the purchase return in the General Journal and the payment in the Cash Payments Journal, and prepare Falkirk's subsidiary account.

The credit note reverses $120 of GST ($1 320 ÷ 11) and $1 200 of inventory, and reduces the payable by $1 320, leaving $4 180 owing. Paying early clears that $4 180 for $3 800 cash plus $380 Discount revenue, with no GST on the discount.

General Journal — Yarrowlea Hardware (October 2026)

Date 2026	Details	Debit $	Credit $
Oct 9	Accounts Payable — Falkirk Wholesale	1 320	
	Inventory		1 200
	GST Clearing		120
	Purchase return of inventory; Credit Note 51		

Cash Payments Journal — Yarrowlea Hardware (October 2026)

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Accounts Payable $	GST $	Sundries $
Oct 22	Falkirk Wholesale	EFT 3115	3 800	380	4 180		

Accounts Payable ledger — Falkirk Wholesale (Yarrowlea Hardware)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
Oct 2	Purchases (Inv. F-820)		5 500	5 500
Oct 9	Purchase return (CN 51)	1 320		4 180
Oct 22	Bank (EFT 3115)	3 800		380
Oct 22	Discount revenue	380		nil

∴ Falkirk's account is settled: the return removed $1 320 (including $120 GST reversed), and the $3 800 cash plus $380 discount cleared the remaining $4 180.

Example 4 — why the return reverses GST but the discount does not

Crowmarsh Hardware returned $836 (GST-inclusive) of inventory to **Callaghan Supply Co** on 4 September (**Credit Note 19**), and on 17 September paid the $2 145 it still owed Callaghan, taking a $195 settlement discount (EFT 5306). Record the return in the General Journal, record the payment in the Cash Payments Journal, and explain why the $836 return reverses $76 of GST while the $195 discount carries none.

General Journal — Crowmarsh Hardware (September 2026)

Date 2026	Details	Debit $	Credit $
Sep 4	Accounts Payable — Callaghan Supply Co	836	
	Inventory		760
	GST Clearing		76
	Purchase return of		

Date 2026	Details	Debit $	Credit $
	inventory; Credit Note 19		

Cash Payments Journal — Crowmarsh Hardware (September 2026)

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Accounts Payable $	GST $	Sundries $
Sep 17	Callaghan Supply Co	EFT 5306	1 950	195	2 145		

The purchase return reverses $76 of GST ($836 ÷ 11) because the **inventory itself is sent back** to Callaghan: the taxable supply of those goods is partly cancelled, so the GST originally recorded on them must be reversed in **GST Clearing**. The $195 settlement discount reverses **no GST** because **no goods are returned** — it is a reward for paying promptly, not a change to the price at which the inventory was supplied. The GST on the purchase was recorded in full when the purchase was made and stays unchanged, so the study design excludes GST from the discount.

∴ Callaghan's account, once $836 + $2 145 = $2 981, is fully cleared, with $76 of GST reversed on the return and $195 of Discount revenue earned on the payment.

Practice questions — scaffolded

Question 1

Tamsford Grocers bought inventory on credit from **Orchard Lane Foods** for $3 190 on 6 March (Invoice OL-140). On **16 March** it returned $726 (GST-inclusive) of spoiled inventory and received **Credit Note 29**.

a. Record the purchase return in the General Journal.

b. State the GST reversed on the return and the amount of inventory returned.

c. Explain the effect of the purchase return on the amount Tamsford Grocers owes Orchard Lane Foods.

Question 2

Wrenford Electronics made the following payments in April 2026.

- Apr 3: Paid Volante Supply Co the full $1 265 owed, with no discount (EFT 2210).
- Apr 9: Paid Amperia Wholesale $2 200 to settle $2 420 owing, after a $220 discount (EFT 2211).
- Apr 17: Wages, $1 750 (EFT 2212).
- Apr 27: Advertising, $517 including GST (EFT 2213).

a. Prepare the Cash Payments Journal for April, including totals.

b. State the total Discount revenue earned and the total of the GST column.

c. Explain why the settlement discount from Amperia Wholesale carries **no GST**, even though the advertising payment does.

Question 3

Denniston Trading Co bought inventory on credit from **Hawksburn Wholesale** for $2 970 on 4 June (Invoice H-260). On **9 June** it returned $396 (GST-inclusive) of the inventory (**Credit Note 17**), and on **19 June** it paid the balance early, taking a $234 settlement discount (EFT 6620).

a. Record the purchase return in the General Journal.

b. Record the payment in the Cash Payments Journal.

c. Prepare Hawksburn Wholesale's subsidiary account and state its closing balance.

Question 4

Pendleton Supplies made the following payments in February 2026.

- Feb 2: Wages, $2 350 (EFT 7801).
- Feb 9: Paid Kirkstall Wholesale $2 400 to settle $2 640 owing, after a $240 discount (EFT 7802).
- Feb 16: Paid Fitzgibbon Traders the full $1 155 owed (EFT 7803).
- Feb 20: Rent, $1 815 including GST (EFT 7804).
- Feb 26: Owner's drawings, $1 100 cash (EFT 7805).

a. Prepare the Cash Payments Journal for February, including totals.

b. State the total Accounts Payable cleared and the total Discount revenue.

c. Show that the journal cross-checks (Bank + Discount revenue = Accounts Payable + GST + Sundries).

Question 5

Rothbury Furnishings bought inventory on credit from **Bellhaven Wholesale** for $4 730 on 3 July (Invoice B-215). On **10 July** it returned $605 (GST-inclusive) of damaged inventory (**Credit Note 28**).

a. Record the purchase return in the General Journal.

b. Prepare Bellhaven Wholesale's subsidiary account, showing the purchase and the return.

c. State the closing balance owed to Bellhaven Wholesale.

Question 6

Tenterden Trading returned $693 (GST-inclusive) of inventory to **Trelawney Wholesale** on 5 August (**Credit Note 62**). In the same week it also paid a different supplier early and earned a $115 settlement discount.

a. Record the purchase return in the General Journal.

b. State the GST reversed on the return.

c. Explain why the $693 purchase return reverses GST but the $115 settlement discount does not.

Practice questions — unscaffolded

Question 7

Grantley Grocers returned $1 232 (GST-inclusive) of inventory to **Southbrook Wholesale** on 15 September, receiving **Credit Note 34**. Record the purchase return in the General Journal, and state the GST reversed and the inventory returned.

Question 8

Kilbride Traders made the following payments in November 2026: Nov 2 wages $2 050 (EFT 9301); Nov 9 paid Ardmore Wholesale $2 700 to settle $2 970 owing after a $270 discount (EFT 9302); Nov 16 paid Palmerston Supply the full $1 045 owed (EFT 9303); Nov 23 advertising $726 including GST (EFT 9304); Nov 27 owner's drawings $850 cash (EFT 9305). Prepare the Cash Payments Journal, and state the total Discount revenue, the total Accounts Payable cleared and the total GST.

Question 9

Highgate Sports bought inventory on credit from **Summerhill Wholesale** for $5 170 on 2 December (Invoice S-360). On 8 December it returned $902 (GST-inclusive) of the inventory (**Credit Note 47**), and on 19 December it paid the balance early, taking a $388 settlement discount (EFT 2408). Record the purchase return in the General Journal, record the payment in the Cash Payments Journal, prepare Summerhill Wholesale's subsidiary account and state its closing balance.

Question 10

Cheviot Trading made four purchase returns during May 2026, each stated as a **GST-inclusive** credit-note total: **Credit Note 71** $649; **Credit Note 72** $1 331; **Credit Note 73** $968; **Credit Note 74** $2 750. For each credit note, state the **GST reversed** and the **inventory returned**, and state the total by which Accounts Payable is reduced.

Question 11

Duncroft Trading made the following payments in December 2026: Dec 2 wages $2 750 (EFT 6201); Dec 5 paid Crayford Wholesale $2 300 to settle $2 530 owing after a $230 discount (EFT 6202); Dec 10 bought store fittings for $5 060 including GST, cash (EFT 6203); Dec 15 paid Dunnstone Supply the full $935 owed (EFT 6204); Dec 19 rent $1 232 including GST (EFT 6205); Dec 23 owner's drawings $1 250 cash (EFT 6206); Dec 29 paid Crayford Wholesale $1 100 to settle a further $1 210 owing after a $110 discount (EFT 6207). Prepare the Cash Payments Journal, state every column total and demonstrate the cross-check.

Question 12

Penfield Homewares owed **Thistlewood Wholesale** $1 815 on 1 October 2026. During October: Oct 6 bought inventory on credit, $2 860 (Invoice T-63); Oct 13 returned $286 (GST-inclusive) of that inventory (**Credit Note 25**); Oct 21 paid $1 650 to clear the $1 815 opening balance, after a $165 settlement discount (EFT 4020). Prepare Thistlewood Wholesale's subsidiary account for October and state the closing balance owed.

Question 13

Explain why a **settlement discount** received from a supplier is recorded with **no GST**, referring to how it differs from a purchase return. Include at least one relevant qualitative characteristic in your answer.

Question 14

Explain the effect of a **purchase return** of inventory on (i) the balance owed to the supplier, (ii) the Inventory asset, and (iii) the amount of GST the business can claim, referring to the credit note as the source document.

Question 15

Winslow Trading owed **Langford Distributors** $1 320 on 1 January 2026. During January: Jan 6 bought inventory on credit, $3 850 (Invoice L-208); Jan 13 returned $770 (GST-inclusive) of that inventory (**Credit Note 46**); Jan 27 paid $3 850 to settle everything owing, after a $550 settlement discount (EFT 8140). Record the purchase return in the General Journal, record the payment in the Cash Payments Journal, prepare Langford Distributors' subsidiary account and state the closing balance and the total Discount revenue earned.

Question 16

The Cash Payments Journal of Carlingford Traders for July 2026 has the following column totals: Bank $10 340, Accounts Payable $3 795, GST $275, Sundries $6 600. The Discount revenue total has been smudged and cannot be read. Using the cross-check relationship, calculate the total Discount revenue and state the rule you used.

Question 17

Distinguish between a **purchase return** and a **settlement discount** in terms of their effect on the GST owed to the ATO. In your answer, state the source document for each and explain why only one of them changes the GST recorded.

Question 18

Talia, the owner of **Everleigh Traders**, wants to reduce the GST the business must remit to the ATO before the next Business Activity Statement. She instructs the bookkeeper to (i) **leave the $968 purchase return to Ormiston Wholesale out of the records** — the inventory was genuinely sent back and **Credit Note 88** was received — so that the GST claimed on those goods is never reversed, and (ii) record the $286 **settlement discount** received from another supplier **as though it carried GST**, so as to claim an extra input-tax credit. Discuss the ethical and reporting problems with these instructions, with reference to **faithful representation** and the correct GST treatment of purchase returns and settlement discounts. Explain how each item should be recorded.

Answers

1.
    b. GST reversed $66; inventory returned $660 c. see solutions (Accounts Payable falls $726, from $3 190 to $2 464)
2.
    b. Discount revenue $220; GST $47 c. see solutions (totals: Bank $5 732, Disc $220, AP $3 685, GST $47, Sundries $2 220)
3.
    c. Hawksburn Wholesale closing balance **nil** (return $396; payment clears $2 574 = $2 340 cash + $234 discount)
4.
    b. Accounts Payable $3 795; Discount revenue $240 c. 8 820 + 240 = 9 060 = 3 795 + 165 + 5 100 (Bank $8 820, GST $165, Sundries $5 100)
5.
    c. Bellhaven Wholesale closing balance $4 125 (return: GST reversed $55, inventory $550)
6.
    b. GST reversed $63 c. see solutions
7. GST reversed $112; inventory returned $1 120; Accounts Payable reduced $1 232
8. Discount revenue $270; Accounts Payable cleared $4 015; GST $66 (Bank $7 371, Sundries $3 560)
9. Summerhill Wholesale closing balance **nil** (return $902 → GST $82, inventory $820; payment $3 880 cash + $388 discount clears $4 268)
10. CN 71: GST $59, inventory $590; CN 72: GST $121, inventory $1 210; CN 73: GST $88, inventory $880; CN 74: GST $250, inventory $2 500; Accounts Payable reduced $5 698 in total
11. Bank $14 627; Disc $340; AP $4 675; GST $572; Sundries $9 720; cross-check $14 967 = $14 967
12. Thistlewood Wholesale closing balance $2 574
13. See solutions
14. See solutions
15. Langford Distributors closing balance **nil**; total Discount revenue $550
16. Discount revenue $330
17. See solutions
18. See solutions (discussion)

Fully-worked solutions

Question 1

GST reversed = $726 ÷ 11 = **$66**; inventory returned = $726 − $66 = **$660**.

General Journal — Tamsford Grocers (March 2026)

Date 2026	Details	Debit $	Credit $
Mar 16	Accounts Payable — Orchard Lane Foods	726	
	Inventory		660
	GST Clearing		66
	Purchase return of inventory; Credit Note 29		

c. The purchase return **reduces the amount owed** to Orchard Lane Foods by the full $726 — from $3 190 to **$2 464** — because the goods (and the GST on them) have been returned. Orchard Lane Foods' subsidiary account is debited $726, and the Accounts Payable control falls by the same $726.

Question 2

Cash Payments Journal — Wrenford Electronics (April 2026)

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Accounts Payable $	GST $	Sundries $
Apr 3	Volante Supply Co	EFT 2210	1 265		1 265		
Apr 9	Amperia Wholesale	EFT 2211	2 200	220	2 420		
Apr 17	Wages	EFT 2212	1 750				1 750
Apr 27	Advertising	EFT 2213	517			47	470
Apr 30	**Totals**		**5 732**	**220**	**3 685**	**47**	**2 220**

b. Total Discount revenue = **$220**; total GST = **$47** (on the advertising only).

c. The **$220 settlement discount** carries **no GST** because it is a **reward for paying promptly**, not a change to the price of any goods — no supply is added or reversed, so the GST originally recorded on the Amperia purchase is unchanged; the study design excludes GST from settlement discounts. The **advertising** payment, by contrast, is a GST-inclusive purchase of a service, so it **does** contain GST ($517 ÷ 11 = $47). Cross-check: 5 732 + 220 = 5 952 = 3 685 + 47 + 2 220.

Question 3

General Journal — Denniston Trading Co (June 2026)

Date 2026	Details	Debit $	Credit $
Jun 9	Accounts Payable — Hawksburn Wholesale	396	
	Inventory		360
	GST Clearing		36
	Purchase return of inventory; Credit Note 17		

Cash Payments Journal — Denniston Trading Co (June 2026)

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Accounts Payable $	GST $	Sundries $
Jun 19	Hawksburn Wholesale	EFT 6620	2 340	234	2 574		

Accounts Payable ledger — Hawksburn Wholesale (Denniston Trading Co)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
Jun 4	Purchases (Inv. H-260)		2 970	2 970
Jun 9	Purchase return (CN 17)	396		2 574
Jun 19	Bank (EFT 6620)	2 340		234
Jun 19	Discount revenue	234		nil

The $396 return reduced the balance to $2 574, which was cleared by $2 340 cash + $234 discount, so the closing balance is **nil**.

Question 4

Cash Payments Journal — Pendleton Supplies (February 2026)

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Accounts Payable $	GST $	Sundries $
Feb 2	Wages	EFT 7801	2 350				2 350
Feb 9	Kirkstall Wholesale	EFT 7802	2 400	240	2 640		
Feb 16	Fitzgibbon Traders	EFT 7803	1 155		1 155		
Feb 20	Rent expense	EFT 7804	1 815			165	1 650
Feb 26	Drawings	EFT 7805	1 100				1 100
Feb 28	**Totals**		**8 820**	**240**	**3 795**	**165**	**5 100**

b. Accounts Payable cleared = 2 640 + 1 155 = **$3 795**; Discount revenue = **$240**.

c. Cross-check: Bank + Discount revenue = 8 820 + 240 = **$9 060**; Accounts Payable + GST + Sundries = 3 795 + 165 + 5 100 = **$9 060**. The two sides are equal, so the journal cross-checks.

Question 5

GST reversed = $605 ÷ 11 = $55; inventory returned = $550.

General Journal — Rothbury Furnishings (July 2026)

Date 2026	Details	Debit $	Credit $
Jul 10	Accounts Payable — Bellhaven Wholesale	605	
	Inventory		550
	GST Clearing		55
	Purchase return of inventory; Credit Note 28		

Accounts Payable ledger — Bellhaven Wholesale (Rothbury Furnishings)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
Jul 3	Purchases (Inv. B-215)		4 730	4 730
Jul 10	Purchase return (CN 28)	605		4 125

c. Closing balance owed to Bellhaven Wholesale = **$4 125** (a credit balance).

Question 6

GST reversed = $693 ÷ 11 = **$63**; inventory returned = $630.

General Journal — Tenterden Trading (August 2026)

Date 2026	Details	Debit $	Credit $
Aug 5	Accounts Payable — Trelawney Wholesale	693	
	Inventory		630
	GST Clearing		63
	Purchase return of inventory; Credit Note 62		

c. The **$693 purchase return reverses $63 of GST** because the **inventory itself is returned** to Trelawney Wholesale — the taxable supply of those goods is partly cancelled, so the GST claimed on them must be reversed in GST Clearing. The **$115 settlement discount reverses no GST** because **no goods are returned**: it is a reward for prompt payment, not a change to the price of any inventory, so per the study design GST is excluded from settlement discounts and the GST recorded on the original purchase is unchanged.

Question 7

GST reversed = $1 232 ÷ 11 = **$112**; inventory returned = $1 232 − $112 = **$1 120**; Accounts Payable is reduced by the full **$1 232**.

General Journal — Grantley Grocers (September 2026)

Date 2026	Details	Debit $	Credit $
Sep 15	Accounts Payable — Southbrook Wholesale	1 232	
	Inventory		1 120
	GST Clearing		112
	Purchase return of inventory; Credit Note 34		

Question 8

Cash Payments Journal — Kilbride Traders (November 2026)

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Accounts Payable $	GST $	Sundries $
Nov 2	Wages	EFT 9301	2 050				2 050
Nov 9	Ardmore Wholesale	EFT 9302	2 700	270	2 970		
Nov 16	Palmerston Supply	EFT 9303	1 045		1 045		
Nov 23	Advertising	EFT 9304	726			66	660
Nov 27	Drawings	EFT 9305	850				850
Nov 30	**Totals**		**7 371**	**270**	**4 015**	**66**	**3 560**

Total Discount revenue = **$270** (on the Ardmore payment only); Accounts Payable cleared = 2 970 + 1 045 = **$4 015**; total GST = **$66** (on the advertising). Cross-check: 7 371 + 270 = 7 641 = 4 015 + 66 + 3 560.

Question 9

The return reverses $902 ÷ 11 = $82 GST and $820 inventory, reducing the balance to $4 268.

General Journal — Highgate Sports (December 2026)

Date 2026	Details	Debit $	Credit $
Dec 8	Accounts Payable — Summerhill Wholesale	902	
	Inventory		820
	GST Clearing		82
	Purchase return of inventory; Credit Note 47		

Cash Payments Journal — Highgate Sports (December 2026)

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Accounts Payable $	GST $	Sundries $
Dec 19	Summerhill Wholesale	EFT 2408	3 880	388	4 268		

Accounts Payable ledger — Summerhill Wholesale (Highgate Sports)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
Dec 2	Purchases (Inv. S-360)		5 170	5 170
Dec 8	Purchase return (CN 47)	902		4 268
Dec 19	Bank (EFT 2408)	3 880		388
Dec 19	Discount revenue	388		nil

Closing balance = **nil**.

Question 10

Split each GST-inclusive credit note: GST = credit note ÷ 11, inventory = credit note − GST.

Credit note	Total $	GST reversed $	Inventory returned $
CN 71	649	59	590
CN 72	1 331	121	1 210
CN 73	968	88	880
CN 74	2 750	250	2 500
Totals	**5 698**	**518**	**5 180**

Accounts Payable is reduced by the full GST-inclusive total of each credit note — **$5 698** altogether ($518 GST reversed + $5 180 inventory returned).

Question 11

Cash Payments Journal — Duncroft Trading (December 2026)

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Accounts Payable $	GST $	Sundries $
Dec 2	Wages	EFT 6201	2 750				2 750

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Accounts Payable $	GST $	Sundries $
Dec 5	Crayford Wholesale	EFT 6202	2 300	230	2 530		
Dec 10	Store fittings	EFT 6203	5 060			460	4 600
Dec 15	Dunnstone Supply	EFT 6204	935		935		
Dec 19	Rent expense	EFT 6205	1 232			112	1 120
Dec 23	Drawings	EFT 6206	1 250				1 250
Dec 29	Crayford Wholesale	EFT 6207	1 100	110	1 210		
Dec 31	**Totals**		**14 627**	**340**	**4 675**	**572**	**9 720**

Column totals: Bank **$14 627**, Discount revenue **$340**, Accounts Payable **$4 675**, GST **$572**, Sundries **$9 720**. Cross-check: 14 627 + 340 = **$14 967** = 4 675 + 572 + 9 720 = **$14 967**.

Question 12

Accounts Payable ledger — Thistlewood Wholesale (Penfield Homewares)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
Oct 1	Balance			1 815
Oct 6	Purchases (Inv. T-63)		2 860	4 675
Oct 13	Purchase return (CN 25)	286		4 389
Oct 21	Bank (EFT 4020)	1 650		2 739
Oct 21	Discount revenue	165		2 574

The opening $1 815 balance was cleared by $1 650 cash + $165 discount; the $2 860 purchase (less the $286 return) leaves **$2 574** still owing. Closing balance owed = **$2 574** (a credit balance). Check: 1 815 + 2 860 − 286 − 1 815 = 2 574.

Question 13

A **settlement discount** is recorded with **no GST** because it is a **financial reward for paying an account promptly**, not a change to the price or quantity of the goods supplied. The GST on the original credit purchase was fixed and recorded **in full** at the time of purchase; paying early does not alter the taxable supply, so — following the study design, which excludes GST from settlement discounts — the GST is not adjusted and only **Discount revenue** is recorded. A **purchase return** is different: the **inventory itself is sent back**, so the supply of those goods is partly cancelled and the GST claimed on them **is reversed** (via a supplier credit note). Recording the discount with no GST upholds **faithful representation** — the GST liability owed to the ATO is neither understated nor overstated, so the reports stay **complete, free from material error and neutral (without bias)**; claiming GST that does not exist would misstate both the GST liability and revenue.

Question 14

A **purchase return** is evidenced by a **credit note** issued by the supplier, and has three effects:

- **(i) Balance owed to the supplier** — it **decreases** by the full GST-inclusive amount of the credit note. The individual creditor's subsidiary account is debited, and the Accounts Payable control falls by the same amount, so the business owes the supplier less.
- **(ii) Inventory asset** — it **decreases** by the GST-exclusive cost of the goods returned (the cost identified on the credit note), recorded as an OUT movement on the inventory card. The business no longer holds those goods.
- **(iii) GST the business can claim** — the **GST is reversed**. The GST recorded on the original purchase (a claim that reduced the GST owed to the ATO) is cancelled for the returned goods, so the amount the business can claim falls by the GST on the credit note (1/11 of its total) and the **net GST owed to the ATO rises** by that amount.

Together these keep the records a faithful representation of what the business holds and owes after the goods are returned.

Question 15

The return reverses $770 ÷ 11 = $70 GST and $700 inventory.

General Journal — Winslow Trading (January 2026)

Date 2026	Details	Debit $	Credit $
Jan 13	Accounts Payable — Langford Distributors	770	
	Inventory		700
	GST Clearing		70
	Purchase return of inventory; Credit Note 46		

Cash Payments Journal — Winslow Trading (January 2026)

Date 2026	Details	Chq/EFT	Bank $	Discount revenue $	Accounts Payable $	GST $	Sundries $
Jan 27	Langford Distributors	EFT 8140	3 850	550	4 400		

Accounts Payable ledger — Langford Distributors (Winslow Trading)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
Jan 1	Balance			1 320
Jan 6	Purchases (Inv. L-208)		3 850	5 170
Jan 13	Purchase return (CN 46)	770		4 400
Jan 27	Bank (EFT 8140)	3 850		550
Jan 27	Discount revenue	550		nil

Closing balance owed = **nil**; total Discount revenue earned = **$550**. The $4 400 owing after the return ($1 320 + $3 850 − $770) was cleared by $3 850 cash + $550 discount.

Question 16

The cross-check rule is **Total Bank + Total Discount revenue = Total Accounts Payable + Total GST + Total Sundries**. Rearranging for the missing figure:

Discount revenue = Accounts Payable + GST + Sundries − Bank = 3 795 + 275 + 6 600 − 10 340 = **$330**.

Question 17

Both a **purchase return** and a **settlement discount** reduce the amount a business owes an account payable, but they affect the **GST owed to the ATO differently**.

- A **purchase return** is evidenced by a **supplier credit note**. Because the **inventory is physically returned**, the taxable supply of those goods is partly cancelled, so the **GST is reversed** — the GST Clearing account is credited for 1/11 of the credit-note total, reducing the claim the business had made and therefore **increasing** the net GST owed to the ATO by that amount. It **changes the GST recorded**.
- A **settlement discount** is evidenced by the **payment (EFT/cheque) and the supplier's terms**. It is a reward for prompt payment, **not** a change to the goods or their price, so the study design **excludes GST** from it. Only **Discount revenue** is recorded; the GST on the original purchase is unchanged.

So only the **purchase return** changes the GST owed to the ATO — it **increases** it, because the claim on the returned goods is cancelled; the settlement discount leaves the GST untouched.

Question 18

Both instructions would produce a **false Business Activity Statement** and misstate the reports.

Omitting the genuine $968 purchase return — the goods were sent back and **Credit Note 88** was received — would leave the $968 ÷ 11 = **$88** claimed on those goods **uncancelled**, so the GST remitted to the ATO would be **understated by $88**. It would also **overstate the Inventory asset** by $880 (goods the business no longer holds would stay on the books and on the inventory card) and **overstate Accounts Payable** by $968 (Ormiston Wholesale is owed $968 less than the records show). Recording the **$286 settlement discount as though it carried GST** would claim a further **$286 ÷ 11 = $26** input-tax credit that does not exist, because a settlement discount carries **no GST** at all, and would understate Discount revenue by the same $26. Together these would falsely cut the GST remitted by **$114**.

Both breach **faithful representation**: the reports would no longer be **complete** (a credit note the business holds is simply left out), **free from material error** (GST, Inventory and Accounts Payable are all wrong) or **neutral (without bias)** (they are slanted to cut the GST bill). They would **mislead the ATO**, which relies on the Business Activity Statement, and amount to **making a false and dishonest claim** — the bookkeeper has a professional and ethical obligation to **refuse** to make the entries.

The correct treatment is: record the **purchase return in the period the credit note was received —** debiting Accounts Payable $968 and crediting Inventory $880 and GST Clearing $88. Note that this **increases** the GST payable by $88, because the return **cancels** the claim made on the original purchase: a purchase return can never reduce the GST owed to the ATO, so instruction (i) could not achieve what Talia wants even if it were honest. The settlement discount is recorded as **Discount revenue of $286 with no GST** in the Cash Payments Journal. Recorded this way, the GST liability, the Inventory asset and Accounts Payable are all **faithfully represented**, and the ATO receives a true statement of the GST the business owes.

Chapter 13 Accounts payable for a trading business — 13D The Statement of Account; benefits of subsidiary records

Theory

When a trading business buys inventory **on credit** it does not pay straight away: it receives the goods now and agrees to pay the supplier **later**. The supplier who is owed the money becomes an **account payable** (a **creditor**) — a **liability** of the business, the obligation to pay cash in the future. Earlier sections recorded credit purchases in the **Purchases Journal**, payments to creditors and the discount revenue earned in the **Cash Payments Journal**, and purchase returns in the **General Journal**. This section brings those records together for **one** supplier at a time. It looks at the **creditor's subsidiary account** the business keeps for each supplier, the **Statement of Account** the business **receives from** that supplier, how the two are **reconciled**, and the **benefits** of keeping subsidiary records for accounts payable.

The creditor's subsidiary account. A business that buys from many suppliers keeps a separate **subsidiary account** for **each creditor**, so it always knows exactly **how much it owes to whom**. Each creditor's account is a **liability**, so it carries a **credit balance** — the amount still owing. It is kept as a **running-balance** account with three money columns — **Debit**, **Credit** and **Balance** — and is written up from the journals in which each transaction was first recorded — the **special journals**, and the **General Journal** for a purchase return:

- a **credit purchase of inventory** (an **invoice** from the supplier) is a **credit** — it **increases** the balance owing;
- a **payment** to the supplier (**Bank**), a **settlement discount** received (**Discount revenue**) and a **purchase return** (the supplier's **credit note**) are each a **debit** — they **reduce** the balance owing.

So the running balance is worked out as:

running balance = previous balance + Credit − Debit

The GST rules already met still apply: a credit purchase and a credit note each carry **GST** (GST = **1/11** of the GST-inclusive amount), but a **settlement discount** carries **no GST** — the study design excludes GST from settlement discounts, so the GST recorded when the inventory was purchased is never adjusted.

The control account and the schedule of accounts payable. The individual creditor accounts are **subsidiary** to a single **control account — Accounts Payable**. In this special-journal system the control is built from the **journals**: the **Purchases Journal** total increases it, while payments and settlement discounts (**Cash Payments Journal**) and purchase returns (**General Journal**) decrease it, and its balance is what appears as Accounts Payable in the Balance Sheet. The control account holds the business's **total** liability to all creditors, while the subsidiary accounts hold the **detail** — one balance per supplier. At period end the business lists every creditor's closing balance in a **schedule of accounts payable**; the schedule total must **equal the control-account balance**:

sum of the individual creditor balances = the Accounts Payable control balance.

If the two agree, the detailed records reconcile with the total; if they differ, an error has been made in one of them and must be found. This built-in cross-check is one of the main **benefits** of subsidiary records, examined below.

The Statement of Account received from a supplier. A **Statement of Account** is a periodic (usually **monthly**) summary that a supplier **sends to each of its credit customers**, setting out everything that has happened on that customer's account for the period: the **opening balance owing**, every **invoice** charged, every **credit note** issued, every **payment (receipt)** the supplier has processed, any **settlement discount** allowed, and the **closing balance owing**. To the business receiving it, the statement is the **supplier's** record of the same account the business keeps as a creditor's subsidiary account — the two are **mirror images**.

On the supplier's statement the customer (our business) is an **account receivable** — an **asset** to the supplier — so the running balance is built the **opposite** way to our own creditor account. An **invoice** is a **debit** that **raises** what we owe, while a **credit note**, a **payment** received and a **discount** allowed are **credits** that **reduce** it:

running balance (on the statement) = previous balance + Debit − Credit

A Statement of Account **received from a supplier is not a source document** and **does not itself create an entry** in the business's records. Every line on it **should already have been recorded** by the business from its **own** source documents — the supplier's invoices (in the Purchases Journal), the supplier's credit notes (as purchase returns) and its own payments (in the Cash Payments Journal) — so recording the statement as well would **double-count** those transactions. The statement's purpose is to be **checked**: it lets the business **reconcile** the supplier's record of the account with its own creditor's subsidiary account before it pays. Where that check reveals a transaction the business has **not** yet recorded — most often a credit note the supplier has issued — the entry is made from **that source document**, not from the statement.

Worked model. *Harbourton Cycles* is a trading business. Its creditor *Vellore Wholesale* was owed $1 320 at 1 May 2026. During May, Harbourton bought inventory on credit for $2 200 (**Invoice V210**, $2 000 plus $200 GST), returned faulty stock for $220 (**Credit Note V15**, $200 plus $20 GST), and on 20 May paid $1 287 (**EFT 3300**) to settle the $1 320 opening balance, receiving a $33 discount. Harbourton's subsidiary account for Vellore is:

Accounts payable subsidiary account — Vellore Wholesale (in the books of Harbourton Cycles, May 2026)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
1 May	Balance (Cr)			1 320
5 May	Purchases (Inv. V210)		2 200	3 520
12 May	Purchases returns (CN V15)	220		3 300
20 May	Bank (EFT 3300)	1 287		2 013
20 May	Discount revenue	33		1 980
31 May	**Closing balance owing (Cr)**			**1 980**

Reading down the balance column, $1 320 + $2 200 − $220 − $1 287 − $33 = **$1 980** still owing at month end. The payment ($1 287) plus the discount ($33) cleared the $1 320 opening balance, so Harbourton now owes for Invoice V210 less Credit Note V15. The Statement of Account **Vellore sends Harbourton** for May gathers exactly the same items, built the mirror way:

Statement of Account — Vellore Wholesale (to Harbourton Cycles, as at 31 May 2026)

Date 2026	Details	Debit $	Credit $	Balance $
1 May	Balance owing			1 320
5 May	Invoice V210	2 200		3 520
12 May	Credit Note V15		220	3 300
20 May	Receipt (EFT 3300)		1 287	2 013
20 May	Discount		33	1 980
31 May	**Closing balance owing**			**1 980**

Both records close at **$1 980**. Where the invoice is a **credit** in Harbourton's account (raising a liability), it is a **debit** on Vellore's statement (raising Vellore's asset); yet the **amount owing** each records is identical. Because the two agree, the account is **verified** and Harbourton can pay with confidence.

Reconciling a Statement of Account to the creditor's subsidiary account. When a business receives a Statement of Account it **checks it against its own creditor's subsidiary account** for that supplier. If the two closing balances agree, the account reconciles. A **difference** is investigated — at this level it is almost always one of three things:

- an **unrecorded credit note** — the supplier has issued (and shown on the statement) a **credit note** for a purchase return or allowance that the business has **not yet entered** in its own records, so the business's creditor balance is temporarily **higher** than the statement. The business must **record the credit note** (a debit to the creditor's account), after which the two agree.
- a **payment in transit (a timing difference)** — the business has **paid** near month-end and recorded the payment (reducing its creditor balance), but the supplier had **not yet processed** it when the statement was drawn up, so the **statement** is temporarily **higher** than the business's record. This is **not an error**: once the supplier processes the payment its statement will agree. No adjustment is needed by the business.
- an **error on the statement** — for example an invoice **duplicated** on the statement, or a genuine credit note **omitted** from it, or a charge for goods never supplied. Here the **statement is wrong**; the business's record is correct, and the business asks the supplier to **correct and reissue** the statement.

Reconciling explains **every** difference and confirms the **true amount owing** before any cash is paid. Checking a supplier's statement is a valuable **internal control**: it catches a supplier's errors, credit notes the business has missed and even charges that lack a genuine invoice, protecting the business from **overpaying**.

Benefits of using subsidiary records for accounts payable. Keeping a separate account for each creditor (rather than only a single Accounts Payable total) gives a trading business four main benefits:

- **Control.** The subsidiary accounts are cross-checked against the **Accounts Payable control account**: the sum of the individual creditor balances must equal the control balance. This **reconciliation** proves the total liability reported is supported, in detail, by the amounts owed to real suppliers — increasing the **faithful representation** of the Balance Sheet.
- **Individual tracking.** The business can see **how much it owes each supplier** and **when** each amount falls due, so it can **pay within the discount period** to earn discount revenue, avoid paying late, and manage its **cash outflows**. It can also settle disputes because each supplier's history is in one place.
- **Error detection.** If the schedule of creditor balances does **not** equal the control account, an error has been made — a purchase, payment, discount or credit note posted to the wrong place or the wrong amount — and can be **located and corrected**. Comparing each creditor account with the supplier's **Statement of Account** detects errors on either side before payment.
- **Division of labour.** The detailed subsidiary ledger can be kept by **different staff** from those who keep the control account and handle payments. Because two independent records must agree, no one person controls the whole process, which makes **fraud and error harder to hide** — an internal control in itself.

Ethical considerations. Because subsidiary records for accounts payable govern **how much cash the business pays out**, the business has an ethical duty to keep them a **faithful representation** of what it genuinely owes — complete, free from material error and neutral (without bias). It is dishonest to **record a fictitious credit note** (or an inflated one) in a creditor's account to **understate** the liability and flatter the Balance Sheet, or to **omit a genuine invoice** so that a liability is hidden and the business appears to owe less than it does. Equally, a business should **reconcile every Statement of Account it receives** rather than pay it unchecked: paying a supplier's **duplicated invoice** or a charge with **no matching invoice** wastes the business's money, and quietly diverting an over-payment is theft. Under **verifiability**, every entry in a creditor's account must be traceable to a genuine invoice, credit note or payment, so that the subsidiary account, the control account and the supplier's statement can all be **independently confirmed** against one another. Acting with integrity means recording only real transactions, reconciling honestly, and paying each supplier the true amount owed — no more and no less.

Worked examples (scaffolded)

Example 1 — preparing a creditor's subsidiary account

Marlowe Sports owed its creditor *Ashgrove Distributors* $990 at 1 June 2026. During June: 4 June, bought inventory on credit for $3 300 (**Invoice A340**, $3 000 plus $300 GST); 11 June, returned faulty stock for $330 (**Credit Note A18**, $300 plus $30 GST); 19 June, paid $900 (**EFT 4410**) to settle the $990 opening balance, receiving a $90 discount. Prepare the creditor's subsidiary account and state the closing balance owing.

Working	Comment
Start from the **opening credit balance $990** owing at 1	A creditor is a liability, so the account opens with a

Working	Comment
June.	credit balance owing to the supplier.
4 Jun — Invoice A340 $3 300 (Credit): 990 + 3 300 = **$4 290**.	A credit purchase of inventory **increases** the amount owing — a credit to the creditor's account.
11 Jun — Credit Note A18 $330 (Debit): 4 290 − 330 = **$3 960**.	A purchase return reduces what is owed — a debit to the creditor's account.
19 Jun — Bank (EFT 4410) $900 (Debit): 3 960 − 900 = **$3 060**.	The cash paid reduces the balance owing.
19 Jun — Discount revenue $90 (Debit): 3 060 − 90 = **$2 970**.	Payment $900 + discount $90 = $990 clears the opening balance; the discount carries no GST.

Accounts payable subsidiary account — Ashgrove Distributors (in the books of Marlowe Sports, June 2026)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
1 Jun	Balance (Cr)			990
4 Jun	Purchases (Inv. A340)		3 300	4 290
11 Jun	Purchases returns (CN A18)	330		3 960
19 Jun	Bank (EFT 4410)	900		3 060
19 Jun	Discount revenue	90		2 970
30 Jun	**Closing balance owing (Cr)**			**2 970**

The **closing balance owing at 30 June is $2 970** ($990 + $3 300 − $330 − $900 − $90). Marlowe has cleared the $990 opening balance and now owes for Invoice A340 less Credit Note A18 ($3 300 − $330).

Example 2 — reconciling a Statement of Account (an unrecorded credit note)

Fernbrook Hardware's subsidiary account for its creditor *Tolland Wholesale* is shown below. Fernbrook then receives Tolland's Statement of Account for July 2026. Reconcile the two, identify the discrepancy and state what Fernbrook must do.

Accounts payable subsidiary account — Tolland Wholesale (in the books of Fernbrook Hardware, July 2026)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
1 Jul	Balance (Cr)			1 650
6 Jul	Purchases (Inv. T120)		2 200	3 850
20 Jul	Bank (EFT 5501)	1 617		2 233
20 Jul	Discount revenue	33		2 200
31 Jul	**Closing balance owing (Cr)**			**2 200**

Statement of Account — Tolland Wholesale (to Fernbrook Hardware, as at 31 July 2026)

Date 2026	Details	Debit $	Credit $	Balance $
1 Jul	Balance owing			1 650
6 Jul	Invoice T120	2 200		3 850
15 Jul	Credit Note T9		220	3 630
20 Jul	Receipt		1 617	2 013
20 Jul	Discount		33	1 980
31 Jul	**Closing balance owing**			**1 980**

Working	Comment
Fernbrook's account closes at **$2 200**; Tolland's statement closes at **$1 980**.	The two do not agree, so a discrepancy must be found.
Discrepancy = 2 200 − 1 980 = **$220**.	Fernbrook's record is **higher** than the statement by $220.
The statement shows **Credit Note T9 $220** on 15 July; Fernbrook's account has **no** such entry.	Tolland issued and recorded a credit note (a purchase return/allowance) that Fernbrook has **not yet recorded**.
Fernbrook records **Credit Note T9** (a $220 debit to the creditor's account): 2 200 − 220 = **$1 980**.	Recording the credit note reduces what Fernbrook owes and brings its account into agreement with the statement.

∴ the $220 discrepancy is **Credit Note T9, not yet recorded by Fernbrook**. This is not an error on the statement — it is a genuine credit note Fernbrook has overlooked. Once Fernbrook records it, both records agree at **$1 980**.

Worked examples (unscaffolded)

Example 3 — reconciling a Statement of Account (a payment in transit)

Oakvale Trading's subsidiary account for its creditor *Bramwell Supply* for August 2026 is shown below, alongside Bramwell's Statement of Account. Reconcile them, identify the discrepancy, and state whether it is an error or a timing difference.

Accounts payable subsidiary account — Bramwell Supply (in the books of Oakvale Trading, August 2026)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
1 Aug	Balance (Cr)			2 090
5 Aug	Purchases (Inv. B410)		1 980	4 070
12 Aug	Purchases returns (CN B12)	198		3 872
28 Aug	Bank (EFT 6602)	2 090		1 782
31 Aug	**Closing balance owing (Cr)**			**1 782**

Statement of Account — Bramwell Supply (to Oakvale Trading, as at 31 August 2026)

Date 2026	Details	Debit $	Credit $	Balance $
1 Aug	Balance owing			2 090

Date 2026	Details	Debit $	Credit $	Balance $
5 Aug	Invoice B410	1 980		4 070
12 Aug	Credit Note B12		198	3 872
31 Aug	**Closing balance owing**			**3 872**

Oakvale's account closes at $1 782; Bramwell's statement closes at $3 872 — a discrepancy of 3 872 − 1 782 = **$2 090**. This is exactly the **$2 090 payment (EFT 6602)** Oakvale made on 28 August: Oakvale has recorded the payment (reducing its balance to $1 782), but Bramwell had **not yet processed** it when it drew up the statement, so the statement still shows $3 872. The payment is **in transit**.

∴ the $2 090 discrepancy is a **payment in transit — a timing difference, not an error**. Oakvale's records are correct and need no adjustment; once Bramwell processes EFT 6602 its statement will fall to $1 782 and the two records will agree.

Example 4 — reconciling a Statement of Account (an error on the statement)

Cranfield Homewares keeps the subsidiary account below for its creditor *Delacroix Imports* for September 2026. Delacroix's Statement of Account is also shown. Reconcile them, identify the discrepancy and state which record is wrong and what must be done.

Accounts payable subsidiary account — Delacroix Imports (in the books of Cranfield Homewares, September 2026)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
1 Sep	Balance (Cr)			1 100
7 Sep	Purchases (Inv. D505)		3 300	4 400
21 Sep	Bank (EFT 7701)	1 067		3 333
21 Sep	Discount revenue	33		3 300
30 Sep	**Closing balance owing (Cr)**			**3 300**

Statement of Account — Delacroix Imports (to Cranfield Homewares, as at 30 September 2026)

Date 2026	Details	Debit $	Credit $	Balance $
1 Sep	Balance owing			1 100
7 Sep	Invoice D505	3 300		4 400
9 Sep	Invoice D505	3 300		7 700
21 Sep	Receipt		1 067	6 633
21 Sep	Discount		33	6 600
30 Sep	**Closing balance owing**			**6 600**

Cranfield's account closes at $3 300; Delacroix's statement closes at $6 600 — a discrepancy of 6 600 − 3 300 = **$3 300**. The statement lists **Invoice D505 twice** (on 7 September and again on 9 September) for $3 300 each, but only **one** invoice was ever issued and received. The statement has **duplicated the invoice**, overstating the balance by $3 300.

∴ the $3 300 discrepancy is a **duplicated invoice — an error on the statement**, not in Cranfield's records. Cranfield's balance of **$3 300 is correct**; Delacroix must **remove the duplicate Invoice D505 and reissue the statement** at $3 300. Reconciling the statement has protected Cranfield from paying $3 300 it does not owe.

Practice questions — scaffolded

Question 1

Highfield Grocers owed its creditor *Marrowbone Wholesale* $1 320 at 1 October 2026. During October: 3 October, bought inventory on credit for $2 750 (**Invoice M210**, $2 500 plus $250 GST); 10 October, returned stock for $275 (**Credit Note M9**, $250 plus $25 GST); 24 October, paid $1 287 (**EFT 8801**) to settle the $1 320 opening balance, receiving a $33 discount.

a. Prepare the creditor's subsidiary account for Marrowbone Wholesale (Date, Cross-reference, Debit, Credit, Balance).

b. State the closing balance owing at 31 October.

c. State which entries **increase** and which **decrease** the balance owing, and explain in one sentence why a credit purchase is entered in the Credit column.

Question 2

Sandalwood Traders keeps the subsidiary account below for its creditor *Everley Supply*, then receives Everley's Statement of Account for November 2026.

Accounts payable subsidiary account — Everley Supply (in the books of Sandalwood Traders, November 2026)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
1 Nov	Balance (Cr)			990
5 Nov	Purchases (Inv. E330)		1 980	2 970
22 Nov	Bank (EFT 9901)	972		1 998
22 Nov	Discount revenue	18		1 980
30 Nov	**Closing balance owing (Cr)**			**1 980**

Statement of Account — Everley Supply (to Sandalwood Traders, as at 30 November 2026)

Date 2026	Details	Debit $	Credit $	Balance $
1 Nov	Balance owing			990
5 Nov	Invoice E330	1 980		2 970
14 Nov	Credit Note E7		110	2 860
22 Nov	Receipt		972	1 888
22 Nov	Discount		18	1 870
30 Nov	**Closing balance owing**			**1 870**

a. State the closing balance in each record and calculate the discrepancy.

b. Identify the most likely cause of the discrepancy.

c. State what Sandalwood must do so that its record agrees with the statement, and the balance both records then show.

Question 3

Larkfield Sports keeps the subsidiary account below for its creditor *Thornbury Wholesale*, then receives Thornbury's Statement of Account for December 2026.

Accounts payable subsidiary account — Thornbury Wholesale (in the books of Larkfield Sports, December 2026)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
1 Dec	Balance (Cr)			1 650
6 Dec	Purchases (Inv. T240)		2 200	3 850
27 Dec	Bank (EFT 1102)	1 650		2 200
31 Dec	**Closing balance owing (Cr)**			**2 200**

Statement of Account — Thornbury Wholesale (to Larkfield Sports, as at 31 December 2026)

Date 2026	Details	Debit $	Credit $	Balance $
1 Dec	Balance owing			1 650
6 Dec	Invoice T240	2 200		3 850
31 Dec	**Closing balance owing**			**3 850**

a. Calculate the discrepancy between the two closing balances.

b. Identify what the discrepancy is.

c. State whether it is an **error** or a **timing difference**, and explain your answer in one sentence.

Question 4

Pinehaven Hardware receives the Statement of Account below from its creditor *Calderwood Supply*. Some balances are missing.

Statement of Account — Calderwood Supply (to Pinehaven Hardware, as at 31 January 2027)

Date 2027	Details	Debit $	Credit $	Balance $
1 Jan	Balance owing			605
8 Jan	Invoice C88	2 090		?
15 Jan	Credit Note C5		220	?
23 Jan	Receipt		594	?
23 Jan	Discount		11	?
31 Jan	**Closing balance owing**			**?**

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

b. Calculate the GST included in **Invoice C88** and in **Credit Note C5**.

c. Explain why the Statement of Account itself does not create an entry in Pinehaven's records.

Question 5

Rosslare Trading keeps the subsidiary account below for its creditor *Whitmore Imports*, then receives Whitmore's Statement of Account for February 2027.

Accounts payable subsidiary account — Whitmore Imports (in the books of Rosslare Trading, February 2027)

Date 2027	Cross-reference	Debit $	Credit $	Balance $
1 Feb	Balance (Cr)			880
4 Feb	Purchases (Inv. W410)		2 640	3 520
11 Feb	Purchases returns (CN W6)	440		3 080
25 Feb	Bank (EFT 2203)	858		2 222
25 Feb	Discount revenue	22		2 200
28 Feb	**Closing balance owing (Cr)**			**2 200**

Statement of Account — Whitmore Imports (to Rosslare Trading, as at 28 February 2027)

Date 2027	Details	Debit $	Credit $	Balance $
1 Feb	Balance owing			880
4 Feb	Invoice W410	2 640		3 520
25 Feb	Receipt		858	2 662
25 Feb	Discount		22	2 640
28 Feb	**Closing balance owing**			**2 640**

a. Calculate the discrepancy between Rosslare's account and Whitmore's statement.

b. Identify the discrepancy and state **which record is wrong**.

c. State what Whitmore must do, and the balance both records should then show.

Question 6

Kingsford Trading buys inventory on credit from several suppliers and keeps a subsidiary account for each. At the end of every month each supplier sends Kingsford a **Statement of Account**.

a. Explain what a **Statement of Account received from a supplier** is, and explain why its entries are the **mirror image** of the entries in Kingsford's own subsidiary account for that supplier.

b. Explain why Kingsford could **not** check those statements at all if it kept only a single **Accounts Payable** total, and state the benefit of subsidiary records this demonstrates.

c. Kingsford's owner tells the bookkeeper "there's no need to check the statements the suppliers send — just pay them." Explain the **internal-control** risk in that instruction, using an example of something a Statement of Account reconciliation would catch.

Practice questions — unscaffolded

Question 7

Glenora Homewares owed its creditor *Prescott Wholesale* $1 210 at 1 March 2027. During March: 5 March, bought inventory on credit for $3 960 (**Invoice P510**, $3 600 plus $360 GST); 12 March, returned stock for $396 (**Credit Note P14**, $360 plus $36 GST); 26 March, paid $1 188 (**EFT 3304**) to settle the $1 210 opening balance, receiving a $22 discount. Prepare the creditor's subsidiary account for Prescott Wholesale and state the closing balance owing at 31 March.

Question 8

Ashcombe Traders records its creditor *Dunmore Supply* as follows for April 2027: 1 April opening balance owing $1 100; 7 April credit purchase **Invoice D620** $2 200; 21 April paid $1 078 (**EFT 4405**) to settle the opening balance, receiving a $22 discount. Dunmore's Statement of Account for April shows a **closing balance owing of $1 870**, because it also lists **Credit Note D8** for $330 on 16 April. Prepare Ashcombe's subsidiary account, calculate the discrepancy, identify its cause, and state what Ashcombe must do.

Question 9

Belhaven Sports records its creditor *Rourke Wholesale* as follows for May 2027: 1 May opening balance owing $1 980; 6 May credit purchase **Invoice R710** $1 650; 29 May paid $1 980 (**EFT 5506**) to settle the opening balance in full, with no discount. Rourke's Statement of Account for May shows a **closing balance owing of $3 630**. Prepare Belhaven's subsidiary account, calculate the discrepancy, and explain whether it is an error or a timing difference.

Question 10

Corriedale Hardware records its creditor *Naismith Imports* as follows for June 2027: 1 June opening balance owing $990; 4 June credit purchase **Invoice N330** $2 970; 18 June paid $972 (**EFT 6607**) to settle the opening balance, receiving an $18 discount. Naismith's Statement of Account for June shows a **closing balance owing of $5 940**, because it lists **Invoice N330** on both 4 June and 6 June. Prepare Corriedale's subsidiary account, calculate the discrepancy, state which record is wrong and what Naismith must do.

Question 11

Tavistock Trading keeps a subsidiary account for its creditor *Elmsworth Supply*. During July 2027 the only entries were: a credit purchase **Invoice E810** for $3 300; a purchase return **Credit Note E11** for $330; and a payment of $1 617 (**EFT 7011**) with a $33 discount revenue. The **closing balance owing at 31 July was $2 640**. Using account reconstruction, calculate the **opening balance owing at 1 July**. (You are not required to prepare the account.)

Question 12

Marden Homewares has three creditors at 31 August 2027: *Ashwood Wholesale* $2 200, *Belrose Imports* $1 650 and *Castleton Supply* $990. Its **Accounts Payable control account** shows a balance of $4 840.

a. Prepare the **schedule of accounts payable** (list each creditor and the total).
b. State whether the subsidiary records reconcile with the control account.
c. Explain what it would mean if the schedule instead totalled $4 620.

Question 13

Whitfield Trading records its creditor *Langbourne Wholesale* as follows for September 2027: 1 September opening balance owing $2 200; 6 September credit purchase **Invoice L910** $1 980; 27 September paid $2 200 (**EFT 7708**) to settle the opening balance in full, with no discount. Langbourne's Statement of Account for September shows a **closing balance owing of $3 960**, because it lists **Credit Note L10** for $220 on 15 September (which Whitfield has not recorded) and does **not** yet show the 27 September payment. Prepare Whitfield's subsidiary account, identify **both** discrepancies, state the **true amount owing**, and state what **each** party must do.

Question 14

Explain how keeping subsidiary records for accounts payable supports **division of labour** and helps with **error detection**. In your answer, refer to the relationship between the subsidiary accounts and the Accounts Payable control account.

Question 15

A business finds that its **schedule of accounts payable** totals $18 640 but its **Accounts Payable control account** shows $18 750. Explain what this $110 difference tells the business, give **one** example of an error that could cause it, and explain why the ability to detect it is a benefit of keeping subsidiary records.

Question 16

Discuss how tracking **each creditor individually** helps a trading business manage its **cash** and its **relationships with suppliers**. In your answer, refer to settlement discounts and to paying accounts by their due date.

Question 17

Explain why a Statement of Account **received from a supplier** does **not** itself create an entry in the business's records, and explain how **reconciling** it to the creditor's subsidiary account supports the qualitative characteristic of **verifiability** and acts as an internal control over accounts payable.

Question 18

The owner of *Bracken Ridge Traders*, a trading business, gives the bookkeeper two month-end instructions. First, to **record a $330 purchase-return credit note that no supplier ever issued** in a creditor's subsidiary account, so the recorded amount owing — and the reported Accounts Payable liability — is $330 lower and the Balance Sheet looks stronger to the bank. Second, to **stop reconciling the Statements of Account** that suppliers send, so that a $220 invoice the business was **double-charged** by a supplier is simply paid in full without question. **Discuss** the ethical considerations involved, identify the qualitative characteristics breached, and explain the effect of **each** instruction on the business's records and on the parties affected.

Answers

1.
   b. $2 475. c. Credit purchases increase (Credit column); returns, payments and discounts decrease (Debit column).
2.
   a. Account $1 980; statement $1 870; discrepancy $110. b. Credit Note E7 not yet recorded by Sandalwood. c. Record the $110 credit note; both show $1 870.
3.
   a. $1 650. b. The 27 Dec payment (EFT 1102) not yet processed by Thornbury. c. A **timing difference** (payment in transit), not an error.
4.
   a. $2 695; $2 475; $1 881; $1 870; closing $1 870. b. Invoice C88 GST $190; Credit Note C5 GST $20. c. See solutions.
5.
   a. $440. b. Credit Note W6 omitted from the statement; the **statement** is wrong. c. Whitmore adds CN W6 and reissues at $2 200.
6. a–c. See solutions.
7. Closing balance owing $3 564.
8. Account $2 200; discrepancy $330 = Credit Note D8 unrecorded by Ashcombe; record it → both $1 870.
9. Account $1 650; discrepancy $1 980 = EFT 5506 payment in transit — a **timing difference**, not an error.
10. Account $2 970; discrepancy $2 970 = Invoice N330 duplicated; the **statement** is wrong; Naismith removes the duplicate and reissues at $2 970.
11. Opening balance owing $1 320.
12.
    a. $2 200 + $1 650 + $990 = $4 840. b. Yes — the schedule equals the control account, so they reconcile. c. A $220 shortfall signals an error in one of the records — a creditor's subsidiary account, the schedule or the control account.
13. Account $1 980; true owing $1 760; unrecorded Credit Note L10 $220 (Whitfield records it); payment in transit $2 200 (Langbourne processes it).
14. See solutions.
15. See solutions.
16. See solutions.
17. See solutions.
18. See solutions.

Fully-worked solutions

Question 1

Accounts payable subsidiary account — Marrowbone Wholesale (in the books of Highfield Grocers, October 2026)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
1 Oct	Balance (Cr)			1 320
3 Oct	Purchases (Inv. M210)		2 750	4 070
10 Oct	Purchases returns (CN M9)	275		3 795
24 Oct	Bank (EFT 8801)	1 287		2 508

Date 2026	Cross-reference	Debit $	Credit $	Balance $
24 Oct	Discount revenue	33		2 475
31 Oct	**Closing balance owing (Cr)**			**2 475**

b. Closing balance owing = 1 320 + 2 750 − 275 − 1 287 − 33 = **$2 475**.

c. The **credit purchase** (Invoice M210) **increases** the balance owing; the **purchase return** (Credit Note M9), the **payment** (EFT 8801) and the **discount revenue** each **decrease** it. A credit purchase of inventory is entered in the **Credit** column because a creditor is a **liability**, and increasing a liability is a credit.

Question 2

a. Sandalwood's account closes at **$1 980**; Everley's statement closes at **$1 870**; the discrepancy is 1 980 − 1 870 = **$110** (Sandalwood's balance is higher).

b. The statement lists **Credit Note E7 ($110)** on 14 November, which Sandalwood has **not yet recorded** in its creditor's account. Everley has reduced the account by the credit note; Sandalwood has not, so its balance is $110 higher.

c. Sandalwood must **record the $110 credit note** (a debit to Everley's subsidiary account), reducing its balance from $1 980 to **$1 870**. Both records then agree at **$1 870**.

Question 3

a. Larkfield's account closes at $2 200; Thornbury's statement closes at $3 850; the discrepancy is 3 850 − 2 200 = **$1 650** (the statement is higher).

b. The discrepancy is exactly the **$1 650 payment (EFT 1102)** Larkfield made on 27 December.

c. It is a **timing difference (a payment in transit), not an error.** Larkfield recorded the payment (reducing its balance to $2 200), but Thornbury had **not yet processed** it when it prepared the statement, so the statement still shows $3 850. Once Thornbury processes EFT 1102 the two records will agree at $2 200.

Question 4

a. Balance column: 605 + 2 090 = **$2 695**; 2 695 − 220 = **$2 475**; 2 475 − 594 = **$1 881**; 1 881 − 11 = **$1 870**. The **closing balance owing at 31 January is $1 870**.

Statement of Account — Calderwood Supply (to Pinehaven Hardware, as at 31 January 2027)

Date 2027	Details	Debit $	Credit $	Balance $
1 Jan	Balance owing			605
8 Jan	Invoice C88	2 090		2 695
15 Jan	Credit Note C5		220	2 475
23 Jan	Receipt		594	1 881
23 Jan	Discount		11	1 870
31 Jan	**Closing balance owing**			**1 870**

b. GST on **Invoice C88** = $2 090 ÷ 11 = **$190** (inventory $1 900); GST on **Credit Note C5** = $220 ÷ 11 = **$20** (goods $200).

c. The Statement of Account is **not a source document**: it only **summarises** transactions Pinehaven **should already have recorded** from its own source documents — Calderwood's invoice and credit note (in the Purchases Journal and as a purchase return) and its own payment (in the Cash Payments Journal). Recording the statement as well would **double-count** those transactions, so it creates **no entry**; its role is to be **checked** against Pinehaven's creditor account. If the check reveals an item Pinehaven has missed — a credit note it has not yet entered, say — the entry is made from **that credit note**, not from the statement.

Question 5

a. Rosslare's account closes at $2 200; Whitmore's statement closes at $2 640; the discrepancy is 2 640 − 2 200 = **$440** (the statement is higher).

b. The $440 is **Credit Note W6**, which Rosslare recorded on 11 February (a purchase return) but which Whitmore **omitted** from the statement. Because the return genuinely occurred and Rosslare recorded it correctly, the **statement is wrong** — it overstates the balance owing.

c. Whitmore must **add Credit Note W6 ($440) to the statement and reissue it**, reducing the statement balance from $2 640 to **$2 200**. Both records then agree at **$2 200**. (Rosslare's record needs no change.)

Question 6

a. A **Statement of Account** is the periodic (usually **monthly**) summary a supplier **sends to each of its credit customers**, setting out the **opening balance owing**, every **invoice** charged, every **credit note** issued, every **payment** received, any **settlement discount** allowed, and the **closing balance owing**. It is the **supplier's own record** of the very account Kingsford keeps as a creditor's subsidiary account, which is why the two are **mirror images**: to the supplier, Kingsford is an **account receivable** (an asset), while to Kingsford the supplier is an **account payable** (a liability). Each item therefore sits on the **opposite side** — an **invoice** is a **debit** on the statement but a **credit** in Kingsford's account, and a **credit note**, **payment** or **discount** is a **credit** on the statement but a **debit** in Kingsford's account — yet both records report the **same amount owing**.

b. A statement covers **one supplier**, item by item. A single **Accounts Payable** total is the combined amount owed to **all** creditors, so there would be nothing to compare that supplier's statement against: Kingsford could not tell how much of the total belonged to that supplier, let alone check the individual invoices, credit notes, payments and discounts making it up. Only a **separate subsidiary account for each creditor** holds the matching detail. This demonstrates the benefit of **individual tracking** — knowing **how much is owed to whom** — which is what makes each supplier's statement able to be reconciled, and each account able to be paid correctly, on time and within any discount period.

c. Paying every statement **unchecked** removes an important **internal control**. A Statement of Account reconciliation catches, for example, a **duplicated invoice** on a supplier's statement, a **charge for goods never supplied**, or a **credit note the supplier has omitted** — any of which would cause Kingsford to **overpay**. By reconciling each statement to its own creditor's subsidiary account before paying, Kingsford confirms the **true amount owed** and pays only that; paying blindly risks handing over money the business does not owe.

Question 7

Accounts payable subsidiary account — Prescott Wholesale (in the books of Glenora Homewares, March 2027)

Date 2027	Cross-reference	Debit $	Credit $	Balance $
1 Mar	Balance (Cr)			1 210
5 Mar	Purchases (Inv. P510)		3 960	5 170
12 Mar	Purchases returns (CN P14)	396		4 774
26 Mar	Bank (EFT 3304)	1 188		3 586
26 Mar	Discount revenue	22		3 564
31 Mar	**Closing balance owing**			**3 564**

Date 2027	Cross-reference	Debit $	Credit $	Balance $
	(Cr)			

Closing balance owing = 1 210 + 3 960 − 396 − 1 188 − 22 = **$3 564** (Glenora has cleared the $1 210 opening balance and owes for Invoice P510 less Credit Note P14).

Question 8

Accounts payable subsidiary account — Dunmore Supply (in the books of Ashcombe Traders, April 2027)

Date 2027	Cross-reference	Debit $	Credit $	Balance $
1 Apr	Balance (Cr)			1 100
7 Apr	Purchases (Inv. D620)		2 200	3 300
21 Apr	Bank (EFT 4405)	1 078		2 222
21 Apr	Discount revenue	22		2 200
30 Apr	**Closing balance owing (Cr)**			**2 200**

Ashcombe's account closes at **$2 200**; Dunmore's statement closes at **$1 870**; the discrepancy is 2 200 − 1 870 = **$330**. This is **Credit Note D8 ($330)**, shown on Dunmore's statement on 16 April but **not yet recorded** by Ashcombe. Ashcombe must **record the $330 credit note** (a debit to Dunmore's subsidiary account), reducing its balance from $2 200 to **$1 870**, after which both records agree.

Question 9

Accounts payable subsidiary account — Rourke Wholesale (in the books of Belhaven Sports, May 2027)

Date 2027	Cross-reference	Debit $	Credit $	Balance $
1 May	Balance (Cr)			1 980
6 May	Purchases (Inv. R710)		1 650	3 630
29 May	Bank (EFT 5506)	1 980		1 650
31 May	**Closing balance owing (Cr)**			**1 650**

Belhaven's account closes at $1 650; Rourke's statement closes at $3 630; the discrepancy is 3 630 − 1 650 = **$1 980**. This is exactly the **$1 980 payment (EFT 5506)** Belhaven made on 29 May. Belhaven recorded the payment (reducing its balance to $1 650), but Rourke had **not yet processed** it when it prepared the statement. The discrepancy is therefore a **payment in transit — a timing difference, not an error**; once Rourke processes EFT 5506 its statement will fall to $1 650 and the two records will agree. Belhaven's record needs no adjustment.

Question 10

Accounts payable subsidiary account — Naismith Imports (in the books of Corriedale Hardware, June 2027)

Date 2027	Cross-reference	Debit $	Credit $	Balance $
1 Jun	Balance (Cr)			990
4 Jun	Purchases (Inv. N330)		2 970	3 960
18 Jun	Bank (EFT 6607)	972		2 988
18 Jun	Discount revenue	18		2 970
30 Jun	**Closing balance owing (Cr)**			**2 970**

Corriedale's account closes at $2 970; Naismith's statement closes at $5 940; the discrepancy is 5 940 − 2 970 = **$2 970**. The statement lists **Invoice N330 twice** (4 June and 6 June) for $2 970 each, though only **one** invoice was issued. The statement has **duplicated the invoice**, so the **statement is wrong** and Corriedale's balance of **$2 970 is correct**. Naismith must **remove the duplicate Invoice N330 and reissue the statement** at $2 970. Reconciling has saved Corriedale from paying $2 970 it does not owe.

Question 11

Rearranging the running-balance rule for a creditor (closing = opening + purchases − returns − payments − discounts):

Opening = closing − purchases + returns + payment + discount = 2 640 − 3 300 + 330 + 1 617 + 33 = **$1 320**.

Check: 1 320 + 3 300 − 330 − 1 617 − 33 = **$2 640**, the stated closing balance. The **opening balance owing at 1 July was $1 320**.

Question 12

a. **Schedule of accounts payable — Marden Homewares (as at 31 August 2027)**

Creditor	Balance owing $
Ashwood Wholesale	2 200
Belrose Imports	1 650
Castleton Supply	990
Total accounts payable	**4 840**

b. The schedule totals **$4 840**, which **equals the Accounts Payable control-account balance of $4 840**, so the subsidiary records **reconcile** with the control account.

c. If the schedule instead totalled **$4 620**, it would be 4 840 − 4 620 = **$220 short** of the control account. Because the two must agree, the $220 difference would signal an **error** in one of the records — in a **creditor's subsidiary account**, in the **schedule** itself, or in the **control account**. For example, a creditor's balance may have been **miscopied or left off** the schedule, or a $220 payment or credit note may have been entered in a creditor's subsidiary account but **not** included in the control — which the business would then locate and correct.

Question 13

Accounts payable subsidiary account — Langbourne Wholesale (in the books of Whitfield Trading, September 2027)

Date 2027	Cross-reference	Debit $	Credit $	Balance $
1 Sep	Balance (Cr)			2 200
6 Sep	Purchases (Inv. L910)		1 980	4 180

Date 2027	Cross-reference	Debit $	Credit $	Balance $
27 Sep	Bank (EFT 7708)	2 200		1 980
30 Sep	**Closing balance owing (Cr)**			**1 980**

Whitfield's account closes at **$1 980**; Langbourne's statement closes at **$3 960** — a raw difference of $1 980, which is explained by **two** discrepancies pulling in opposite directions:

- **Payment in transit $2 200.** Whitfield's 27 September payment (EFT 7708) is recorded in its own account but was **not yet processed** by Langbourne, so the **statement is $2 200 too high**. Adjusting: 3 960 − 2 200 = **$1 760**.
- **Unrecorded credit note $220.** Langbourne's **Credit Note L10 ($220)** appears on the statement but Whitfield has **not yet recorded** it, so Whitfield's account is **$220 too high**. Adjusting: 1 980 − 220 = **$1 760**.

Both records reconcile to a **true amount owing of $1 760**. **Whitfield** must **record Credit Note L10** (reducing its balance to $1 760); **Langbourne** must **process the $2 200 payment** (reducing its statement to $1 760). The $220 unrecorded credit note is Whitfield's to fix; the $2 200 payment in transit is a timing difference that corrects itself once Langbourne processes the payment.

Question 14

Subsidiary records support **division of labour** because the detailed creditors ledger can be kept by **different staff** from those who keep the **Accounts Payable control account** and who make the payments. No single person then controls the whole accounts-payable process, and because the two records are prepared independently they must agree — a built-in check that makes error and fraud far **harder to hide**. This is itself an **internal control**.

They also support **error detection**. At period end the business prepares a **schedule of accounts payable** (a list of every creditor's closing balance) and compares its total with the **control-account balance**. Because the sum of the subsidiary accounts must equal the control account, **any difference reveals an error** — a purchase, payment, discount or credit note posted to the wrong account or the wrong amount — so it can be **located and corrected** before the reports are prepared. Keeping only a single total would give no such cross-check, and an error could go unnoticed.

Question 15

The $110 difference tells the business that the **subsidiary records and the control account do not reconcile**, so an **error has been made** in one of them: the sum of the individual creditor balances ($18 640) should equal the Accounts Payable control balance ($18 750), and it does not. One example that could cause it is a **$110 credit purchase posted to the Accounts Payable control (raising it to $18 750) but not posted to the relevant creditor's subsidiary account** (leaving the schedule $110 short) — or, equivalently, a $110 payment or credit note posted to a creditor but not to the control. The ability to detect this is a **benefit of keeping subsidiary records**: the control-account/subsidiary-ledger cross-check signals that something is wrong and points to the size of the error ($110), so it can be traced and corrected. Without subsidiary records there would be no independent total to check the detail against, and the mistake could flow undetected into the Balance Sheet, misstating the reported liability.

Question 16

Tracking **each creditor individually** tells the business **exactly how much it owes each supplier and when each amount is due**, which lets it manage **cash** and **supplier relationships** deliberately rather than blindly.

For **cash management**, knowing each balance and its terms lets the business **time its payments**: it can pay an account **within the settlement-discount period** to earn **discount revenue** (paying less cash than it owes), and it can schedule payments so that cash is available when each account falls due rather than paying everything at once. It can also avoid paying **early** where no discount is offered, keeping cash in the business longer.

For **supplier relationships**, paying each account **by its due date** keeps the business a reliable customer — which helps it keep favourable credit terms, avoid late-payment problems and resolve queries quickly because each supplier’s full history is in one account. A business that could see only a single total could not tell which supplier was owed what, would risk **missing discounts** and **due dates**, and would find disputes far harder to settle.

Question 17

A Statement of Account **received from a supplier** is **not a source document** — it is only a **summary** of transactions the business **should already have recorded** from its **own** source documents — the supplier’s invoices (in the Purchases Journal), the supplier’s credit notes (as purchase returns) and its own payments (in the Cash Payments Journal). Recording the statement as well would **double-count** those transactions, so it **creates no entry** of its own. Where the reconciliation reveals a transaction the business has **not** yet recorded — most often a credit note the supplier has issued — the entry is made from **that source document**, not from the statement.

Its value is in being **checked**. **Reconciling** the statement to the creditor’s subsidiary account supports **verifiability**, because the business keeps its own independent record of the same account built from the same source documents, and a figure can be **confirmed by comparing the two**. Any difference is investigated and explained — an unrecorded credit note, a payment in transit, or an error on the statement — and any entry that cannot be traced to a genuine document is exposed. This makes the reconciliation a powerful **internal control** over accounts payable: it detects a supplier’s errors, credit notes the business has missed and charges with no supporting invoice **before** cash is paid, so the business settles only the amount it genuinely owes.

Question 18

Both instructions are **dishonest**, breach the qualitative characteristics, and would leave the records **not a faithful representation** of the business’s accounts payable. The bookkeeper has an ethical (and legal) duty to **refuse** them.

(i) Recording a fictitious $330 credit note. Entering a purchase-return credit note that **no supplier ever issued** records a transaction that **did not happen**. It **understates the amount owing** to that creditor by $330 and understates the total **Accounts Payable liability** reported in the Balance Sheet, making the business look **less indebted** to the bank than it truly is. This breaches **faithful representation** — the records are no longer complete, free from material error and neutral — and **verifiability**, because there is no genuine credit note the $330 entry can be traced to. It is a deliberate misstatement designed to mislead a user (the bank) and would also mean the creditor’s subsidiary account no longer reconciles with the true obligation.

(ii) Not reconciling the Statements of Account. Refusing to check the statements means the business would **pay a $220 invoice for which it was double-charged**, handing a supplier $220 it does not owe. Reconciling each statement to the creditor’s subsidiary account is precisely the **internal control** that would catch the duplicated invoice before payment. Abandoning it wastes the business’s cash and removes the check that protects it — the opposite of acting with **due care**, and a failure of the stewardship the owner owes the business.

Effect on the records and the parties. The first instruction **understates liabilities** (and overstates the apparent strength of the Balance Sheet), misleading the **bank** and any other user relying on the reports; the second causes an **overpayment of $220** to a supplier, reducing the business’s **cash** for a debt it never owed. Acting with integrity, the bookkeeper must **refuse to record the fictitious credit note**, **reconcile every statement received**, and query the duplicated invoice with the supplier — so that each creditor’s account, the Accounts Payable liability and the cash paid are all reported truthfully and can be independently verified.