Accounting Units 1 & 2

Chapter 14 Accounts receivable for a trading business

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Theory

A **trading business** sells **inventory**. When it sells that inventory **on credit** — delivering the goods now but agreeing to be paid **later** — the customer who owes the money becomes an **account receivable** (a **debtor**), an **asset** of the business: the right to collect cash in the future. This section records the two everyday events that make up the life of a debtor. First, the **credit sale** that **creates** the account receivable, recorded in the **Sales Journal**. Second, the **receipt** of cash when the debtor pays, recorded in the **Cash Receipts Journal**, which **clears** the account receivable.

A credit sale of inventory has TWO effects. Unlike a service business — which simply earns a fee — a trading business that sells inventory gives up **something it owns**. Every credit sale of inventory therefore has to be recorded from **two** points of view on the **one** line of the Sales Journal:

- a **revenue effect** — the business earns **Sales** revenue, must collect 10% **GST** for the Australian Taxation Office, and creates an **Accounts Receivable** for the GST-inclusive total. That is: **Sales + GST = Accounts Receivable**.
- a **cost effect** — the inventory the customer takes away is no longer on hand, so its **cost price** is transferred out of the **Inventory** asset and recognised as **Cost of Sales**. That is: **Cost of Sales is recorded, and Inventory is reduced by the same amount**.

The selling price (Sales) and the cost price (Cost of Sales) are **different numbers**: the difference between them is the business's mark-up. The Sales Journal captures both on one row.

The Sales Journal. Every credit sale of inventory is recorded in the **Sales Journal (SJ)**, evidenced by a sequentially numbered **sales invoice**. Its columns are:

Date	Debtor	Inv. No.	Cost of Sales $	Sales $	GST $	Accounts Receivable $
…	*debtor's name*	…	*cost price of the inventory sold*	*selling price, ex-GST*	*10% GST*	*GST-inclusive total owing*

The **Cost of Sales** column is the **cost effect**; the **Sales**, **GST** and **Accounts Receivable** columns are the **revenue effect**. On every row, **Sales + GST = Accounts Receivable**. At period end each column is totalled and the journal must **cross-add**:

Total Sales + Total GST = Total Accounts Receivable.

The **Cost of Sales** column is totalled and checked on its own: its total is the **amount by which the Inventory asset is reduced** (Cost of Sales is recorded; Inventory falls by the same figure). Because it is paired with Inventory, it does **not** form part of the Sales + GST = Accounts Receivable cross-add.

GST on a credit sale. GST is **10%** of the selling price, so the GST-inclusive amount the debtor owes is exactly **eleven-tenths** of the Sales figure — which means the **GST is one-eleventh (1/11) of the GST-inclusive sale**. A sale of $2 000 of inventory carries $200 GST and creates an account receivable of $2 200, and $2 200 ÷ 11 = $200. The GST collected is a liability the business owes the Australian Taxation Office through the **GST Clearing** account; it is not revenue.

The account receivable created. Recording the credit sale **raises** the individual debtor's balance owing by the **full GST-inclusive amount** — the Accounts Receivable figure, not just the Sales figure, because the debtor must pay the price **and** the GST. A debtor who is sold $2 000 of inventory plus $200 GST owes **$2 200**.

Recording a receipt from an account receivable. Every receipt of cash — whoever it comes from — is recorded first in the **Cash Receipts Journal (CRJ)**, evidenced by a sequentially numbered **receipt**. A receipt from a debtor is analysed **differently** from a cash sale, because **no new revenue is earned and no GST arises**: the Sales revenue, its GST and the cost of the inventory were **all** recorded back in the Sales Journal when the credit sale was made.

Collecting the debt simply **converts one asset into another** — the **Bank** asset rises and the **Accounts Receivable** asset falls by the same amount. So a receipt from an account receivable:

- puts the cash actually banked in the **Bank** column;
- puts the amount the debtor's account is **cleared by** in the **Sundries** column, named **Accounts Receivable** (or the debtor's name);
- records **nothing** in the Cost of Sales, Sales or GST columns.

Settlement discount (discount expense). To encourage debtors to pay promptly, a business may offer a **settlement discount** — a small reduction if the account is paid within a stated period. When a debtor takes the discount they pay **less cash** than they owed, yet their account is still **cleared in full**. The difference is a **discount expense** — the cost of collecting early — recorded in its own **Discount expense** column. For a receipt from an account receivable:

Bank + Discount expense = the amount of Accounts Receivable cleared (Sundries).

A settlement discount is a reward for prompt payment, not a change to the selling price, so the study design **excludes GST from settlement discounts**: the GST recorded when the inventory was sold is **not** adjusted, and nothing is entered in the GST column for the discount. **Discount expense** reduces net profit even though the discount involves no separate payment of cash.

The trading business's Cash Receipts Journal. Because a trading business also makes **cash sales** of inventory (which carry the same two effects as a credit sale), its Cash Receipts Journal has more columns than a service business's:

Date	Details	Rec. No.	Bank $	Discount expense $	Cost of Sales $	Sales $	GST $	Sundries $
…	*cash sales*	…	*Sales + GST*		*cost of the inventory sold*	*ex-GST*	*10%*	
…	*debtor's name*	…	*cash banked*	*discount allowed*				*Accounts Receivable cleared*

At period end every money column is totalled and the journal must **cross-add**:

Bank total + Discount expense total = Sales total + GST total + Sundries total.

The **Cost of Sales** column is the **second effect** of the cash sales (Cost of Sales recorded, Inventory reduced), so — just as in the Sales Journal — it is totalled and checked on its own and does **not** enter the Bank-side cross-add. The **Sundries** items are posted **individually** to Accounts Receivable (and to each debtor's record), never as one figure.

Ethical considerations. Because credit sales create the revenue, the GST and the assets a business reports — and because owners, lenders and the Australian Taxation Office rely on those figures — the business has an ethical duty to record every credit sale and every receipt as a **faithful representation** of what actually happened. It is dishonest (and unlawful) to record a **fictitious credit sale** to a customer who bought nothing so as to inflate Sales and Accounts Receivable before a loan application, to **omit a genuine credit sale** so as to understate revenue and the GST owed to the Australian Taxation Office, or to record a **settlement discount that was never granted** so as to understate the cash collected and pocket the difference. Under **verifiability**, every line in the Sales Journal must be traceable to a genuine sales invoice, and every receipt to a genuine receipt document, so that an independent party can confirm it. Acting with integrity means recording only real sales, banking and recording the full amount collected, and clearing each debtor's account by exactly what was received.

Worked model. *Tarrant Sports Supplies* is a trading business that sells sporting inventory to shops. During June 2026 it made three credit sales — on 4 June it sold *Ashgrove Retail* $2 000 of inventory (cost $1 300) plus $200 GST on **Invoice 301**; on 12 June it sold *Brixton Stores* $1 000 of inventory (cost $640) plus $100 GST on **Invoice 302**; and on 20 June it sold *Ashgrove Retail* a further $500 of inventory (cost $300) plus $50 GST on **Invoice 303**. The Sales Journal records all three:

Sales Journal — Tarrant Sports Supplies (June 2026)

Date	Debtor	Inv. No.	Cost of Sales $	Sales $	GST $	Accounts Receivable $
4 Jun	Ashgrove Retail	301	1 300	2 000	200	2 200
12 Jun	Brixton Stores	302	640	1 000	100	1 100
20 Jun	Ashgrove Retail	303	300	500	50	550
	Totals		**2 240**	**3 500**	**350**	**3 850**

The journal cross-adds: **Sales $3 500 + GST $350 = Accounts Receivable $3 850**. The **Cost of Sales** total of **$2 240** is the amount by which the Inventory asset is reduced. The credit sales created **$3 850** of Accounts Receivable — **$2 750** owed by Ashgrove Retail ($2 200 + $550) and **$1 100** owed by Brixton Stores.

Tarrant also banked cash during June: on 8 June cash sales of $1 500 plus $150 GST (inventory cost $900, **Receipt 51**); on 15 June $2 156 from *Delford Shopfitters*, which owed $2 200 at 1 June, allowing a $44 settlement discount (**Receipt 52**); and on 22 June $1 500 from *Foxton Grocers* in full settlement of its $1 500 account, no discount (**Receipt 53**):

Cash Receipts Journal — Tarrant Sports Supplies (June 2026)

Date	Details	Rec. No.	Bank $	Discount expense $	Cost of Sales $	Sales $	GST $	Sundries $
8 Jun	Cash sales	51	1 650		900	1 500	150	
15 Jun	Delford Shopfitters	52	2 156	44				2 200
22 Jun	Foxton Grocers	53	1 500					1 500
	Totals		**5 306**	**44**	**900**	**1 500**	**150**	**3 700**

The journal cross-adds: **Bank $5 306 + Discount expense $44 = $5 350 = Sales $1 500 + GST $150 + Sundries $3 700**. Delford's receipt clears $2 156 + $44 = **$2 200** of Accounts Receivable (no GST); Foxton pays its $1 500 account with no discount. The two receipts from accounts receivable — $2 200 and $1 500, the $3 700 Sundries total — are posted to **Accounts Receivable**. The cash sales carry their own cost effect: the **$900** Cost of Sales is the fall in Inventory.

Worked examples (scaffolded)

Example 1 — recording credit sales of inventory in the Sales Journal (both effects)

Halden Homeware Co made the following credit sales in April 2026: 3 April, sold *Garvey Stores* $3 000 of inventory (cost $1 850) plus GST (**Invoice 410**); 11 April, sold *Holbeck Retail* $1 200 of inventory (cost $760) plus GST (**Invoice 411**); 22 April, sold *Garvey Stores* $800 of inventory (cost $500) plus GST (**Invoice 412**). Record the sales, total the columns and cross-add.

Working	Comment
3 Apr — Garvey Stores (Inv. 410): GST = 10% × $3 000 = $300; Accounts Receivable = $3 000 + $300 = $3 300; Cost of Sales $1 850.	The revenue effect (Sales + GST + AR) and the cost effect (Cost of Sales) are recorded on the one line.
11 Apr — Holbeck Retail (Inv. 411): GST = $120; AR = $1 320; Cost of Sales $760.	Sales $1 200 + GST $120 = the $1 320 the debtor owes.
22 Apr — Garvey Stores (Inv. 412): GST = $80; AR = $880; Cost of Sales $500.	A second sale to Garvey adds to the same debtor's balance.

Working	Comment
Cross-add: Sales $5 000 + GST $500 = Accounts Receivable $5 500.	The revenue side agrees; the Cost of Sales total ($3 110) is checked separately as the fall in Inventory.

Sales Journal — Halden Homeware Co (April 2026)

Date	Debtor	Inv. No.	Cost of Sales $	Sales $	GST $	Accounts Receivable $
3 Apr	Garvey Stores	410	1 850	3 000	300	3 300
11 Apr	Holbeck Retail	411	760	1 200	120	1 320
22 Apr	Garvey Stores	412	500	800	80	880
	Totals		**3 110**	**5 000**	**500**	**5 500**

The credit sales created **$5 500** of Accounts Receivable — **$4 180** owed by Garvey Stores ($3 300 + $880) and **$1 320** owed by Holbeck Retail — and reduced Inventory by the **$3 110** Cost of Sales.

Example 2 — recording receipts from accounts receivable in the Cash Receipts Journal

Verano Outdoor Trading's debtors owed the following at 1 May 2026: *Ingleby Traders* $1 980, *Jarrah Retail* $900, *Kestwick Stores* $1 100. During May it recorded: 2 May, cash sales $2 000 plus GST, inventory cost $1 250 (**Rec. 5201**); 9 May, $1 940 from Ingleby Traders, allowed a $40 discount (**Rec. 5202**); 16 May, $900 from Jarrah Retail in full settlement, no discount (**Rec. 5203**); 23 May, $1 078 from Kestwick Stores, allowed a $22 discount (**Rec. 5204**). Record the receipts, total the columns and cross-add.

Working	Comment
2 May — Cash sales $2 000 + GST (Rec. 5201): GST $200; Bank $2 200; Sales $2 000; GST $200; Cost of Sales $1 250.	A cash sale carries both effects — the only receipt here with Sales, GST and Cost of Sales.
9 May — Ingleby Traders (Rec. 5202): Bank $1 940; Discount expense $40; Sundries $1 980 (Accounts Receivable).	$1 940 + $40 = $1 980 clears the account. No GST, no new revenue, no cost.
16 May — Jarrah Retail (Rec. 5203): Bank $900; Sundries $900 (Accounts Receivable).	Paid in full with no discount, so Bank alone clears the $900 account.
23 May — Kestwick Stores (Rec. 5204): Bank $1 078; Discount expense $22; Sundries $1 100 (Accounts Receivable).	$1 078 + $22 = $1 100 cleared; again no GST on the settlement discount.
Cross-add: Bank $6 118 + Discount $62 = $6 180 = Sales $2 000 + GST $200 + Sundries $3 980.	The two sides agree, so the analysis is complete.

Cash Receipts Journal — Verano Outdoor Trading (May 2026)

Date	Details	Rec. No.	Bank $	Discount expense $	Cost of Sales $	Sales $	GST $	Sundries $
2 May	Cash sales	5201	2 200		1 250	2 000	200	
9 May	Ingleby Traders	5202	1 940	40				1 980
16 May	Jarrah Retail	5203	900					900
23 May	Kestwick	5204	1 078	22				1 100

Date	Details	Rec. No.	Bank $	Discount expense $	Cost of Sales $	Sales $	GST $	Sundries $
	Stores							
	Totals		**6 118**	**62**	**1 250**	**2 000**	**200**	**3 980**

The three receipts from accounts receivable cleared $1 980, $900 and $1 100 of debtor balances; the Sundries total of **$3 980** is posted to **Accounts Receivable**.

Worked examples (unscaffolded)

Example 3 — a Sales Journal with a repeat debtor

Padgett Electrical Wholesale made these credit sales in June 2026: 1 June, *Lindfield Retail* $4 000 of inventory (cost $2 600) plus GST (**Invoice 500**); 8 June, *Maythorn Boutique* $1 800 (cost $1 150) plus GST (**Invoice 501**); 15 June, *Lindfield Retail* $1 000 (cost $640) plus GST (**Invoice 502**); 26 June, *Norbury Stores* $500 (cost $300) plus GST (**Invoice 503**). Prepare the Sales Journal and state the Accounts Receivable created for each debtor.

Each sale's GST is 10% of the Sales figure and the Accounts Receivable is the GST-inclusive total:

Sales Journal — Padgett Electrical Wholesale (June 2026)

Date	Debtor	Inv. No.	Cost of Sales $	Sales $	GST $	Accounts Receivable $
1 Jun	Lindfield Retail	500	2 600	4 000	400	4 400
8 Jun	Maythorn Boutique	501	1 150	1 800	180	1 980
15 Jun	Lindfield Retail	502	640	1 000	100	1 100
26 Jun	Norbury Stores	503	300	500	50	550
	Totals		**4 690**	**7 300**	**730**	**8 030**

∴ the journal cross-adds ($7 300 + $730 = $8 030); the credit sales created **$5 500** owed by Lindfield Retail ($4 400 + $1 100), **$1 980** by Maythorn Boutique and **$550** by Norbury Stores, and reduced Inventory by the **$4 690** Cost of Sales.

Example 4 — an account receivable created, then cleared

Corriedale Trading Co's debtor *Orwell Retail* owed $1 650 at 1 July 2026. On 3 July Corriedale sold Orwell $2 000 of inventory (cost $1 300) plus $200 GST on **Invoice 610**. On 12 July Orwell paid $1 617 (**Receipt 88**) in settlement of its $1 650 opening balance, allowed a $33 discount. Record the credit sale in the Sales Journal and the receipt in the Cash Receipts Journal, and show Orwell's account.

The credit sale creates a new $2 200 account receivable; the receipt clears the $1 650 opening balance ($1 617 + $33):

Sales Journal (extract) — Corriedale Trading Co (July 2026)

Date	Debtor	Inv. No.	Cost of Sales $	Sales $	GST $	Accounts Receivable $
3 Jul	Orwell Retail	610	1 300	2 000	200	2 200

Cash Receipts Journal (extract) — Corriedale Trading Co (July 2026)

Date	Details	Rec. No.	Bank $	Discount expense $	Cost of Sales $	Sales $	GST $	Sundries $
12 Jul	Orwell	88	1 617	33				1 650

Date	Details	Rec. No.	Bank $	Discount expense $	Cost of Sales $	Sales $	GST $	Sundries $
	Retail							

Orwell Retail — account with Corriedale Trading Co

Date 2026	Details	Debit $	Credit $	Balance $
1 Jul	Balance owing			1 650
3 Jul	Invoice 610	2 200		3 850
12 Jul	Receipt 88		1 617	2 233
12 Jul	Discount allowed		33	2 200
31 Jul	**Closing balance owing**			**2 200**

∴ the credit sale **created** $2 200 of Accounts Receivable (a debit that raised the balance owing), and the receipt **cleared** the $1 650 opening balance (Receipt $1 617 + Discount $33); Orwell now owes **$2 200** — the amount of Invoice 610, still unpaid at month end.

Practice questions — scaffolded

Question 1

Wexford Grocery Supplies made these credit sales in March 2026: 4 March, sold *Pemberton Traders* $2 500 of inventory (cost $1 600) plus GST (**Invoice 300**); 13 March, sold *Quinton Stores* $1 200 (cost $760) plus GST (**Invoice 301**); 27 March, sold *Pemberton Traders* $600 (cost $380) plus GST (**Invoice 302**).

a. Prepare the Sales Journal for March, with a bold Totals row.
b. State the total Cost of Sales for the month and the Accounts Receivable created for each debtor.
c. Show that the journal cross-adds (Sales + GST = Accounts Receivable).

Question 2

Ellory Toy Wholesale's debtors owed the following at 1 April 2026: *Ravenhall Retail* $1 000, *Selby Boutique* $2 200, *Thornleigh Stores* $600. During April it recorded: 4 April, cash sales $1 000 plus GST, inventory cost $620 (**Rec. 1**); 11 April, $980 from Ravenhall Retail, allowed a $20 discount (**Rec. 2**); 19 April, $2 200 from Selby Boutique in full settlement, no discount (**Rec. 3**); 26 April, $588 from Thornleigh Stores, allowed a $12 discount (**Rec. 4**).

a. Prepare the Cash Receipts Journal for April, with a bold Totals row.
b. State the amount by which each debtor's account is cleared.
c. Show that the journal cross-adds (Bank + Discount expense = Sales + GST + Sundries).

Question 3

Braddock Furniture Trading made these credit sales in May 2026: 2 May, *Underwood Retail* $3 000 of inventory (cost $1 950) plus GST (**Invoice 600**); 10 May, *Varley Stores* $2 000 (cost $1 300) plus GST (**Invoice 601**); 20 May, *Underwood Retail* $700 (cost $450) plus GST (**Invoice 602**).

a. Prepare the Sales Journal for May.
b. State the total Accounts Receivable created for *Underwood Retail*.
c. Explain the **two effects** of the 2 May sale on Braddock's accounting records.

Question 4

Trescott Auto Parts recorded in June 2026: 8 June, cash sales $1 500 plus GST, inventory cost $950 (**Rec. 38**); 24 June, $1 470 from the debtor *Westhaven Retail*, which owed $1 500, allowing a $30 settlement discount (**Rec. 40**).

a. Prepare the Cash Receipts Journal for June.

b. State the amount by which Westhaven Retail's account is reduced, and show how it relates to the Bank and Discount expense columns.

c. Explain why the $30 settlement discount carries **no GST**, and state its effect on net profit.

Question 5

Manningham Stationery Co's debtor *York Lane Traders* owed $880 at 1 July 2026. On 6 July Manningham sold York Lane $2 000 of inventory (cost $1 400) plus $200 GST on **Invoice 88**. On 15 July York Lane paid $862 (**Receipt 77**) in settlement of its $880 opening balance, allowed an $18 discount.

a. Prepare York Lane Traders' account (Date, Details, Debit, Credit, Balance) and state the closing balance owing at 31 July.

b. State the Accounts Receivable created by **Invoice 88** and the GST it includes.

c. Explain why **Receipt 77** records nothing in the Sales or GST columns of the Cash Receipts Journal.

Question 6

Alderton Bookselling Co is a trading business that sells books to schools on credit.

a. Explain the **two effects** of a credit sale of inventory, naming the columns of the Sales Journal each effect uses.

b. Explain why a **receipt from an account receivable** carries no GST.

c. Before applying for a bank loan, the owner asks the bookkeeper to record a $1 100 "credit sale" to a school that has **not** ordered anything, so that reported Sales and Accounts Receivable look higher. Explain why this is unethical, name the qualitative characteristic breached, and state what the bookkeeper should do.

Practice questions — unscaffolded

Question 7

Rutherglen Hardware Trading made these credit sales in September 2026: 1 September, *Blakely Stores* $3 000 of inventory (cost $1 950) plus GST (**Invoice 150**); 10 September, *Corfield Retail* $1 500 (cost $960) plus GST (**Invoice 151**); 19 September, *Blakely Stores* $1 000 (cost $650) plus GST (**Invoice 152**); 28 September, *Dawlish Traders* $700 (cost $450) plus GST (**Invoice 153**). Prepare the Sales Journal, and state the total Cost of Sales and the total Accounts Receivable for the month.

Question 8

Calverton Sportswear Co's debtors owed the following at 1 October 2026: *Edenbrook Retail* $2 200, *Fallowfield Stores* $900, *Grantham Boutique* $1 320. During October it recorded: 1 October, cash sales $1 900 plus GST, inventory cost $1 200 (**Rec. 1701**); 8 October, $2 156 from Edenbrook Retail, allowed a $44 discount (**Rec. 1702**); 15 October, $900 from Fallowfield Stores in full settlement, no discount (**Rec. 1703**); 22 October, $1 300 from Grantham Boutique, allowed a $20 discount (**Rec. 1704**). Prepare the Cash Receipts Journal, and state the Bank total and the total discount expense.

Question 9

Dunmore Pet Supplies sells inventory on credit and records only the GST-inclusive invoice totals. For each credit sale below, calculate the **Sales** (ex-GST) and the **GST** included: (i) $946; (ii) $1 573; (iii) $3 300; (iv) $2 090.

Question 10

Harwick Garden Wholesale made these credit sales in December 2026: 1 December, *Hartwell Retail* $3 600 of inventory (cost $2 340) plus GST (**Invoice 300**); 6 December, *Ivybridge Stores* $2 000 (cost $1 300) plus GST (**Invoice 301**); 12 December, *Hartwell Retail* $1 200 (cost $780) plus GST (**Invoice 302**); 18 December, *Jessamine Boutique* $900 (cost $580) plus GST (**Invoice 303**); 23 December, *Hartwell Retail* $500 (cost $320) plus GST (**Invoice 304**). Prepare the Sales Journal, state the total Accounts Receivable, and confirm it equals the sum of the individual debtor balances.

Question 11

Melverton Kitchenware Co recorded these receipts in December 2026 (its debtors owed *Kelmscott Retail* $1 210, *Ludlow Stores* $2 000, *Marden Boutique* $500 at 1 December): 1 December, cash sales $2 500 plus GST, inventory cost $1 600 (**Rec. 4001**); 4 December, $1 188 from Kelmscott Retail, allowed a $22 discount (**Rec. 4002**); 9 December, cash sales $1 000 plus GST, inventory cost $640 (**Rec. 4003**); 14 December, $2 000 from Ludlow Stores in full settlement, no discount (**Rec. 4004**); 18 December, $5 000 of additional capital contributed by the owner (**Rec. 4005**); 22 December, $490 from Marden Boutique, allowed a $10 discount (**Rec. 4006**). Prepare the Cash Receipts Journal and cross-add.

Question 12

For each of the following receipts of *Ostwick Trading* during October 2026, state the analysis column(s) used and the account (if any) recorded in the Sundries column:

i. Cash sales of inventory $770 (GST-inclusive); the inventory sold cost $500.
ii. $490 from the debtor *R. Halloran* in full settlement of her $500 account.
iii. $1 200 from the debtor *Ferndown Stores* in full settlement of its $1 200 account.
iv. $6 000 of additional capital contributed by the owner.
v. $1 470 from the debtor *Grendon Retail* in settlement of its $1 500 account.

Question 13

Pennington Tile Supplies' debtor *Halcombe Retail* owed $990 at 1 November 2026. On 8 November Pennington sold Halcombe $1 500 of inventory (cost $1 050) plus $150 GST on **Invoice 410**. On 20 November Halcombe paid the amount needed to settle its $990 opening balance in full, taking an $18 settlement discount. Calculate the amount of the receipt and the closing balance owing at 30 November.

Question 14

Quarry Lane Trading sells *Ironwood Retail* $2 500 of inventory (cost $1 700) plus GST on credit. Explain, in full, the **two effects** this single credit sale has on Quarry Lane's accounting records, stating every account and amount affected.

Question 15

Rosslyn Lighting Co allows its debtor a $33 settlement discount: the debtor, which owed $1 650 for a credit sale of inventory, pays $1 617 to clear its account. Explain why the GST recorded on the original credit sale is **not** adjusted for the discount, state the amount recorded as discount expense, and show that the debtor's $1 650 account is cleared in full.

Question 16

Explain how recording a receipt from an account receivable in the Cash Receipts Journal affects (i) the **Bank** balance, (ii) the **Accounts Receivable** balance and (iii) **net profit**. Distinguish the case where a settlement discount is allowed from the case where none is, using as your example a $1 000 debtor account paid with a $20 discount.

Question 17

The Sales Journal of *Vashon Homewares* shows these column totals for the month: Sales $5 400, GST $540, Accounts Receivable $6 000. Show that the journal does **not** cross-add, calculate the amount of the discrepancy, and explain how the cross-add check reveals that an error has been made and what the correct Accounts Receivable total should be.

Question 18

The owner of *Whitmore Fashion Wholesale*, a trading business, instructs the bookkeeper to do two things at month end. First, to record **two fictitious credit sales** of $3 300 each ($3 000 of inventory plus $300 GST) to two "customers" who have ordered **nothing**, so that reported Sales and Accounts Receivable look higher before a loan application. Second, when a genuine debtor pays its $1 000 account in cash, to record the receipt in the Cash Receipts

Journal as $980 cash plus a $20 “settlement discount” that was **never actually granted**, so that the owner can keep the $20 difference. **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 GST owed to the Australian Taxation Office.

Answers

1.
   b. Cost of Sales $2 740; Pemberton Traders $3 410, Quinton Stores $1 320. c. Sales $4 300 + GST $430 = Accounts Receivable $4 730.
2.
   b. Ravenhall Retail $1 000; Selby Boutique $2 200; Thornleigh Stores $600. c. Bank $4 868 + Discount $32 = $4 900 = Sales $1 000 + GST $100 + Sundries $3 800.
3.
   b. $4 070 ($3 300 + $770). c. See solutions.
4.
   b. $1 500 = Bank $1 470 + Discount expense $30. c. No GST on a settlement discount; discount expense reduces net profit by $30.
5.
   a. Closing balance owing $2 200. b. Accounts Receivable $2 200 (GST $200). c. See solutions.
6. a–c. See solutions.
7. Cost of Sales $4 010; Accounts Receivable $6 820.
8. Bank total $6 446; total discount expense $64.
9.
   (i) Sales $860, GST $86; (ii) Sales $1 430, GST $143; (iii) Sales $3 000, GST $300; (iv) Sales $1 900, GST $190.
10. Accounts Receivable $9 020 = Hartwell Retail $5 830 + Ivybridge Stores $2 200 + Jessamine Boutique $990.
11. Bank $12 528 (cross-adds to $12 560).
12. i Cost of Sales $500, Sales $700, GST $70; ii Bank $490, Discount $10, Sundries $500 (Accounts Receivable); iii Bank $1 200, Sundries $1 200 (Accounts Receivable); iv Bank $6 000, Sundries $6 000 (Capital); v Bank $1 470, Discount $30, Sundries $1 500 (Accounts Receivable).
13. Receipt $972; closing balance owing $1 650.
14. Revenue: Sales $2 500 + GST $250 = Accounts Receivable $2 750; cost: Cost of Sales $1 700, Inventory reduced $1 700.
15. Discount expense $33; the $1 650 account is cleared by $1 617 + $33. See solutions.
16. See solutions.
17. Out by $60; Sales $5 400 + GST $540 = $5 940, so the correct Accounts Receivable total is $5 940.
18. See solutions.

Fully-worked solutions

Question 1

Sales Journal — Wexford Grocery Supplies (March 2026)

Date	Debtor	Inv. No.	Cost of Sales $	Sales $	GST $	Accounts Receivable $
4 Mar	Pemberton Traders	300	1 600	2 500	250	2 750
13 Mar	Quinton Stores	301	760	1 200	120	1 320
27 Mar	Pemberton Traders	302	380	600	60	660
	Totals		**2 740**	**4 300**	**430**	**4 730**

b. Total Cost of Sales = **$2 740** (the fall in Inventory). Accounts Receivable created: **Pemberton Traders $3 410** ($2 750 + $660), **Quinton Stores $1 320**.

c. Sales $4 300 + GST $430 = **$4 730** = Accounts Receivable $4 730. The journal cross-adds.

Question 2

Cash Receipts Journal — Ellory Toy Wholesale (April 2026)

Date	Details	Rec. No.	Bank $	Discount expense $	Cost of Sales $	Sales $	GST $	Sundries $
4 Apr	Cash sales	1	1 100		620	1 000	100	
11 Apr	Ravenhall Retail	2	980	20				1 000
19 Apr	Selby Boutique	3	2 200					2 200
26 Apr	Thornleigh Stores	4	588	12				600
	Totals		**4 868**	**32**	**620**	**1 000**	**100**	**3 800**

b. Each debtor's account is cleared by Bank + Discount expense: **Ravenhall Retail $1 000** (980 + 20), **Selby Boutique $2 200** (2 200 + 0), **Thornleigh Stores $600** (588 + 12).

c. Bank $4 868 + Discount $32 = $4 900 = Sales $1 000 + GST $100 + Sundries $3 800 = $4 900. The journal cross-adds.

Question 3

Sales Journal — Braddock Furniture Trading (May 2026)

Date	Debtor	Inv. No.	Cost of Sales $	Sales $	GST $	Accounts Receivable $
2 May	Underwood Retail	600	1 950	3 000	300	3 300
10 May	Varley Stores	601	1 300	2 000	200	2 200
20 May	Underwood Retail	602	450	700	70	770
	Totals		**3 700**	**5 700**	**570**	**6 270**

b. Accounts Receivable created for **Underwood Retail** = $3 300 + $770 = **$4 070**.

c. The 2 May sale has **two effects**. The **revenue effect**: Braddock earns **Sales $3 000**, collects **GST $300**, and creates an **Accounts Receivable of $3 300** (Sales + GST) owed by Underwood Retail. The **cost effect**: the inventory sold cost **$1 950**, so **Cost of Sales $1 950** is recorded and the **Inventory** asset is reduced by $1 950. Selling price and cost price are different amounts; both are recorded on the one Sales Journal line.

Question 4

Cash Receipts Journal — Trescott Auto Parts (June 2026)

Date	Details	Rec. No.	Bank $	Discount expense $	Cost of Sales $	Sales $	GST $	Sundries $
8 Jun	Cash sales	38	1 650		950	1 500	150	
24 Jun	Westhaven Retail	40	1 470	30				1 500
	Totals		**3 120**	**30**	**950**	**1 500**	**150**	**1 500**

b. Westhaven Retail's account is reduced by **$1 500** — the full amount it owed. This equals **Bank $1 470 + Discount expense $30**: the cash received plus the discount allowed together clear the account.

c. A **settlement discount** is a reward for paying promptly, not a change to the selling price of the inventory, so the study design **excludes GST from settlement discounts** — the $150 GST recorded when the inventory was sold is not adjusted, and nothing is entered in the GST column. The $30 is a **discount expense**, which **reduces net profit by $30** (the cost of collecting the debt early), even though it involves no separate payment of cash.

Question 5

a. **York Lane Traders — account with Manningham Stationery Co**

Date 2026	Details	Debit $	Credit $	Balance $
1 Jul	Balance owing			880
6 Jul	Invoice 88	2 200		3 080
15 Jul	Receipt 77		862	2 218
15 Jul	Discount allowed		18	2 200
31 Jul	**Closing balance owing**			**2 200**

Closing balance owing = 880 + 2 200 − 862 − 18 = **$2 200** (the amount of Invoice 88, still owing).

b. **Invoice 88** created an Accounts Receivable of **$2 200** — Sales $2 000 + **GST $200** (GST is 10% of $2 000, and $2 200 ÷ 11 = $200).

c. **Receipt 77** is a **receipt from an account receivable**, not a sale. The Sales revenue, its GST and the cost of the inventory were all recorded on 6 July when Invoice 88 was raised. Collecting the debt only **converts Accounts Receivable into Bank**, so the receipt records only Bank $862, Discount expense $18 and Sundries $880 (Accounts Receivable) — nothing in Sales or GST, because recording revenue or GST again would double-count them.

Question 6

a. A credit sale of inventory has **two effects**. The **revenue effect** earns **Sales** revenue, collects 10% **GST**, and creates an **Accounts Receivable** for the GST-inclusive total (Sales + GST = Accounts Receivable) — recorded in the **Sales**, **GST** and **Accounts Receivable** columns of the Sales Journal. The **cost effect** transfers the **cost price** of the inventory out of **Inventory** and recognises it as **Cost of Sales** — recorded in the **Cost of Sales** column.

b. A **receipt from an account receivable** carries no GST because the GST was **already collected** on the original credit sale and recorded then. Collecting the debt does not make a new taxable supply — it merely **converts one asset (Accounts Receivable) into another (Bank)** — so no further GST arises.

c. Recording a **$1 100 "credit sale" to a school that has ordered nothing** is recording a transaction that **did not happen**. It **overstates Sales and Accounts Receivable** (and records $100 of GST as payable that is not genuinely owed), making the business look more profitable and more liquid than it is, in order to mislead the bank. This breaches **faithful representation** — the information reported must be complete, free from material error and neutral (without bias), and a sale that never happened is neither free from material error nor neutral — and it cannot be supported by a genuine sales invoice, so it also breaches **verifiability**. The bookkeeper should **refuse** to record the fictitious sale, record only genuine transactions evidenced by real source documents, and, if pressed, escalate the matter rather than falsify the accounts.

Question 7

Sales Journal — Rutherglen Hardware Trading (September 2026)

Date	Debtor	Inv. No.	Cost of Sales $	Sales $	GST $	Accounts Receivable $
1 Sep	Blakely Stores	150	1 950	3 000	300	3 300
10 Sep	Corfield Retail	151	960	1 500	150	1 650

Date	Debtor	Inv. No.	Cost of Sales $	Sales $	GST $	Accounts Receivable $
19 Sep	Blakely Stores	152	650	1 000	100	1 100
28 Sep	Dawlish Traders	153	450	700	70	770
	Totals		**4 010**	**6 200**	**620**	**6 820**

Total Cost of Sales = **$4 010**; total Accounts Receivable = **$6 820**. Cross-add: Sales $6 200 + GST $620 = $6 820. (Debtor balances: Blakely Stores $4 400, Corfield Retail $1 650, Dawlish Traders $770.)

Question 8

Cash Receipts Journal — Calverton Sportswear Co (October 2026)

Date	Details	Rec. No.	Bank $	Discount expense $	Cost of Sales $	Sales $	GST $	Sundries $
1 Oct	Cash sales	1701	2 090		1 200	1 900	190	
8 Oct	Edenbrook Retail	1702	2 156	44				2 200
15 Oct	Fallowfield Stores	1703	900					900
22 Oct	Grantham Boutique	1704	1 300	20				1 320
	Totals		**6 446**	**64**	**1 200**	**1 900**	**190**	**4 420**

Bank total = **$6 446**; total discount expense = $44 + $20 = **$64**. Cross-add: Bank $6 446 + Discount $64 = $6 510 = Sales $1 900 + GST $190 + Sundries $4 420.

Question 9

GST = one-eleventh of the GST-inclusive total; Sales = the remaining ten-elevenths:

- (i) $946 ÷ 11 = **GST $86**; Sales = 946 − 86 = **$860**.
- (ii) $1 573 ÷ 11 = **GST $143**; Sales = 1 573 − 143 = **$1 430**.
- (iii) $3 300 ÷ 11 = **GST $300**; Sales = 3 300 − 300 = **$3 000**.
- (iv) $2 090 ÷ 11 = **GST $190**; Sales = 2 090 − 190 = **$1 900**.

Question 10

Sales Journal — Harwick Garden Wholesale (December 2026)

Date	Debtor	Inv. No.	Cost of Sales $	Sales $	GST $	Accounts Receivable $
1 Dec	Hartwell Retail	300	2 340	3 600	360	3 960
6 Dec	Ivybridge Stores	301	1 300	2 000	200	2 200
12 Dec	Hartwell	302	780	1 200	120	1 320

Date	Debtor	Inv. No.	Cost of Sales $	Sales $	GST $	Accounts Receivable $
	Retail					
18 Dec	Jessamine Boutique	303	580	900	90	990
23 Dec	Hartwell Retail	304	320	500	50	550
	Totals		**5 320**	**8 200**	**820**	**9 020**

Total Accounts Receivable = **$9 020** (Sales $8 200 + GST $820). The sum of the individual debtor balances — **Hartwell Retail $5 830** ($3 960 + $1 320 + $550) + **Ivybridge Stores $2 200** + **Jessamine Boutique $990** = **$9 020** — equals the Accounts Receivable total, so the subsidiary records reconcile.

Question 11

Cash Receipts Journal — Melverton Kitchenware Co (December 2026)

Date	Details	Rec. No.	Bank $	Discount expense $	Cost of Sales $	Sales $	GST $	Sundries $
1 Dec	Cash sales	4001	2 750		1 600	2 500	250	
4 Dec	Kelmscott Retail	4002	1 188	22				1 210
9 Dec	Cash sales	4003	1 100		640	1 000	100	
14 Dec	Ludlow Stores	4004	2 000					2 000
18 Dec	Capital	4005	5 000					5 000
22 Dec	Marden Boutique	4006	490	10				500
	Totals		**12 528**	**32**	**2 240**	**3 500**	**350**	**8 710**

Cross-add: Bank $12 528 + Discount $32 = $12 560 = Sales $3 500 + GST $350 + Sundries $8 710 = $12 560. The three receipts from accounts receivable cleared $1 210, $2 000 and $500; the owner's $5 000 capital and the debtors' receipts all sit in Sundries and carry no GST. The **Cost of Sales** total of **$2 240** (the two cash sales) is the fall in Inventory.

Question 12

Receipt	Bank $	Analysis columns used
i. Cash sales $770 (GST-inclusive), cost $500	770	Cost of Sales $500; Sales $700; GST $70 ($770 ÷ 11 = $70).
ii. $490 from R. Halloran ($500 account)	490	Discount expense $10; Sundries $500 (**Accounts Receivable**); no GST.
iii. $1 200 from Ferndown Stores ($1 200 account)	1 200	Sundries $1 200 (**Accounts Receivable**); no discount, no GST.
iv. Owner's capital $6 000	6 000	Sundries $6 000 (**Capital**); no GST.
v. $1 470 from Grendon Retail ($1 500 account)	1 470	Discount expense $30; Sundries $1 500 (**Accounts Receivable**); no GST.

Only the cash sale (i) carries Cost of Sales, Sales and GST; the receipts from accounts receivable (ii, iii, v) and the capital contribution (iv) clear/record their amounts through Bank, Discount expense (where a discount is allowed) and Sundries only.

Question 13

The receipt settled the **$990** opening balance in full together with an **$18** discount, so the cash received was 990 − 18 = **$972** (Receipt $972 + Discount $18 = $990 cleared).

Closing balance owing = opening + credit sale − receipt − discount = 990 + 1 650 − 972 − 18 = **$1 650**.

Halcombe Retail — account with Pennington Tile Supplies

Date 2026	Details	Debit $	Credit $	Balance $
1 Nov	Balance owing			990
8 Nov	Invoice 410	1 650		2 640
20 Nov	Receipt		972	1 668
20 Nov	Discount allowed		18	1 650
30 Nov	**Closing balance owing**			**1 650**

The **receipt was $972** and the **closing balance owing is $1 650 —** the amount of Invoice 410, still owing after the opening balance was cleared.

Question 14

The credit sale of $2 500 of inventory (cost $1 700) plus GST has **two effects**:

- **Revenue effect.** Quarry Lane earns **Sales $2 500**, collects **GST $250** (10% of $2 500, owed to the Australian Taxation Office through GST Clearing), and creates an **Accounts Receivable of $2 750** (Sales $2 500 + GST $250) owed by Ironwood Retail. These are the Sales, GST and Accounts Receivable columns of the Sales Journal.
- **Cost effect.** The inventory Ironwood takes away cost **$1 700**, so **Cost of Sales $1 700** is recorded and the **Inventory** asset is **reduced by $1 700**. This is the Cost of Sales column.

∴ one credit sale is recorded on one Sales Journal line, but it changes Accounts Receivable (+$2 750), Sales (+$2 500), GST Clearing (+$250), Cost of Sales (+$1 700) and Inventory (−$1 700).

Question 15

A **settlement discount** rewards the debtor for paying its $1 650 account promptly; it does **not** change the selling price of the inventory that was sold. The study design **excludes GST from settlement discounts**, so the GST already recorded on the original credit sale ($150, being $1 650 ÷ 11) is **not adjusted** — nothing is entered in the GST column for the discount. The $33 is recorded as a **discount expense** (the cost of collecting the debt early). The debtor's account is cleared in full because **Bank $1 617 + Discount expense $33 = $1 650** — the whole amount owed — even though only $1 617 of cash was banked.

Question 16

Recording a receipt from an account receivable **converts one asset into another**; it earns no new revenue and carries no GST.

- **(i) Bank** increases by the **cash actually received**. With a $20 discount on a $1 000 account, Bank rises by **$980**; with no discount, Bank rises by the full **$1 000**.
- **(ii) Accounts Receivable** decreases by the **whole amount the account is cleared by — $1 000** in both cases (Bank + Discount expense = 980 + 20 = 1 000; or 1 000 + 0 = 1 000). The debtor's balance owing falls to nil either way.

- **(iii) Net profit.** With **no discount**, net profit is **unaffected** — the receipt is not revenue, merely the collection of a debt. With a **$20 settlement discount**, a **discount expense of $20** is incurred, which **reduces net profit by $20**.

So allowing the discount banks $20 less cash **and** reduces profit by $20, while clearing the same $1 000 of Accounts Receivable.

Question 17

For a Sales Journal to cross-add, **Sales + GST must equal Accounts Receivable**. Here Sales $5 400 + GST $540 = **$5 940**, but the Accounts Receivable total is shown as **$6 000** — the two sides do **not** agree. The discrepancy is 6 000 − 5 940 = **$60**. The cross-add check therefore reveals that an **error** has been made: because the Sales and GST figures are consistent with each other ($540 is exactly 10% of $5 400, and $5 940 ÷ 11 = $540), the Accounts Receivable total has been **overstated by $60** (or a debtor's Accounts Receivable figure was mis-added). The correct Accounts Receivable total is **$5 940**, and the journal must be checked and corrected before the totals are posted.

Question 18

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

(i) Two fictitious credit sales of $3 300 each. Recording sales to "customers" who ordered nothing records transactions that **did not happen**. It **overstates Sales by $6 000** and **Accounts Receivable by $6 600**, making the business look more profitable and more liquid than it is so as to mislead the lender; it also records **$600 of GST as payable** to the Australian Taxation Office that is not genuinely owed (or, if never remitted, misstates the GST obligation). This breaches **faithful representation** — the information reported must be complete, free from material error and neutral (without bias), and two invented sales are neither free from material error nor neutral — and **verifiability**, because there is no genuine sales invoice or customer order to support either sale. The fictitious debtors will never pay, so the overstated Accounts Receivable is worthless.

(ii) A fictitious $20 "settlement discount". When the debtor pays its $1 000 account in cash in full, the true entry is **Bank $1 000, Sundries $1 000 (Accounts Receivable)** — the account is cleared by $1 000 of cash. Recording it as **Bank $980 plus a $20 discount that was never granted understates the cash collected by $20**, records a **discount expense that did not occur**, and lets the owner **pocket $20** of the business's money with nothing in the records to show it. This again breaches **faithful representation** (a transaction that never happened is recorded, so the records are neither free from material error nor neutral) and **verifiability** (there is $20 of cash received with no receipt to support the missing amount). Under the **accounting entity** assumption the owner is separate from the business, so $20 of business cash taken by the owner is **drawings** and must be recorded as such; disguising it as an expense conceals the withdrawal, overstates expenses and **understates net profit by $20**. The GST is untouched — it was recorded in full when the credit sale was made and a settlement discount carries no GST — so this instruction takes $20 of the business's cash without changing the GST owed to the Australian Taxation Office.

Effect on the records and on GST. The first instruction inflates Sales, Accounts Receivable and the GST liability with entries that have no basis; the second leaves the GST owed unchanged (no GST attaches to a settlement discount) but understates the cash collected and overstates discount expense, reducing reported cash and net profit by $20. Acting with integrity, the bookkeeper must **record only genuine credit sales evidenced by real invoices**, **record the full $1 000 received** (and any cash the owner takes from the business as **drawings**), and refuse to falsify either record — so that Sales, the GST owed to the Australian Taxation Office, Accounts Receivable and the cash collected are all reported truthfully and can be independently verified.

Chapter 14 Accounts receivable for a trading business — 14B Subsidiary records for accounts receivable

Theory

A trading business that sells inventory **on credit** may have many **accounts receivable** (**debtors**) owing it money at any one time. Section 14A recorded credit sales in the **Sales Journal** and receipts from debtors in the **Cash Receipts Journal**, and each of those journals is **totalled** at period end to give a single figure for **Accounts Receivable** — the one amount reported as a current asset in the Balance Sheet. But a single total cannot answer the questions a business must ask every day: *which* customers owe money, *how much* each owes, and *how long* it has been outstanding. To answer them, the business keeps a **subsidiary record** — an **individual account for every debtor**.

The accounts receivable subsidiary record. The **accounts receivable subsidiary ledger** is the set of **individual debtor accounts**, one per credit customer, kept **separately** from (and in addition to) the single Accounts Receivable total. Each account is a **running-balance record** showing everything that has happened on that customer's account and, after every entry, the **balance still owing**. Because a debtor is an **asset** — the right to collect cash in the future — the columns work like this:

- a **credit sale** (a **sales invoice**, recorded GST-inclusive) is a **debit** that **raises** the balance owing;
- a **receipt** of cash, a **settlement discount** (discount expense), a **sales return** (a **credit note**, recorded GST-inclusive) and a **bad debt written off** are **credits** that **reduce** the balance owing.

running balance = previous balance + Debit − Credit

The individual entries in each subsidiary account come from the **same source documents** — invoices, receipts, credit notes and memos — that were used to record the transaction in the **journals**: credit sales in the **Sales Journal**, receipts and settlement discounts in the **Cash Receipts Journal**, and sales returns and bad debts written off in the **General Journal** (they are **neither** cash transactions **nor** credit sales or purchases of inventory, so no special journal captures them — section 14C). Nothing new is invented; the subsidiary record simply keeps each customer's share of Accounts Receivable **on its own account** so it can be tracked and collected.

Worked model. *Bramblewood Traders* keeps a subsidiary account for its debtor *Ridgeway Retailers*, who owed $660 at 1 June 2026. During June: on 5 June a credit sale of $1 200 plus $120 GST ($1 320) on **Invoice 512**; on 14 June a receipt of $650 (**Receipt 210**) with a $10 settlement discount allowed; and on 20 June a sales return of $100 plus $10 GST ($110) on **Credit Note 33**. Ridgeway's subsidiary record is:

Accounts Receivable — Ridgeway Retailers (subsidiary record)

Date 2026	Details	Debit $	Credit $	Balance $
1 Jun	Balance			660
5 Jun	Sales (Inv. 512)	1 320		1 980
14 Jun	Bank (Rec. 210)		650	1 330
14 Jun	Discount expense		10	1 320
20 Jun	Sales Returns (CN 33)		110	1 210

Reading down the balance column, $660 + $1 320 − $650 − $10 − $110 = **$1 210** still owing at 30 June. The receipt ($650) plus the discount ($10) cleared Ridgeway's $660 opening balance; the closing balance is **Invoice 512 less Credit Note 33**, still unpaid.

The schedule of accounts receivable. At the end of each period the business prepares a **schedule of accounts receivable** — a **list of every debtor and the balance each owes**, added to a **total**. If Bramblewood's other debtors are *Oakhill Stores* ($990 owing) and *Pelham Grocers* ($2 310 owing), the schedule is:

Schedule of Accounts Receivable — Bramblewood Traders as at 30 June 2026

Account receivable	Balance $
Ridgeway Retailers	1 210
Oakhill Stores	990
Pelham Grocers	2 310
Accounts Receivable control	**4 510**

Reconciling the schedule to the Accounts Receivable control. The **Accounts Receivable control** is the **single total** the business keeps for **all** debtors combined — the figure reported in the Balance Sheet. It is built from the **journal totals**, and so is an **independent** figure: the opening total, **plus** the Sales Journal total (credit sales, GST-inclusive), **less** the receipts from accounts receivable and the discount expense (Cash Receipts Journal totals), **less** the sales returns and any bad debts written off (General Journal entries). Reconstructed from Bramblewood's journal totals:

Accounts Receivable control — reconstruction (Bramblewood Traders, June 2026)

Item	$
Balance owing at 1 June (opening control)	2 860
add Credit sales (Sales Journal total, incl. GST)	4 620
less Receipts from accounts receivable (Cash Receipts Journal)	(2 850)
less Discount expense	(10)
less Sales returns (General Journal, incl. GST)	(110)
Balance owing at 30 June (closing control)	**4 510**

Because the **control** is built from the journal **totals** while the **schedule** is built by adding up the **individual** debtor accounts, the two are prepared **independently**. When the **schedule total ($4 510) equals the control ($4 510)**, the business has strong evidence that **every** entry has been posted to the right debtor for the right amount — a valuable **cross-check**. If the two do **not** agree, there is an **error** somewhere — a transaction posted to a debtor but not the total (or the reverse), a wrong amount, an omission, or a figure entered twice — and it must be found and corrected. (One error the reconciliation cannot catch is a transaction posted to the **wrong debtor** for the **right amount**: the schedule total is unchanged, so it still agrees with the control even though a customer's account is wrong.)

Purpose and benefits of subsidiary records for accounts receivable. Keeping an individual account for each debtor lets a business:

- **know exactly who owes what** at any moment, rather than only a single lump-sum total — the basis of good **credit control**;
- **follow up overdue debtors** — the running balance and the dates make it clear which customers have not paid and how long a debt has been outstanding, so reminders and **Statements of Account** can be sent to the right customers;
- **decide whether to extend further credit** — a customer already near or over their credit limit, or slow to pay, can be asked to settle before more goods are supplied on credit;
- **detect errors** — reconciling the schedule to the control cross-checks the recording of accounts receivable, and a customer querying a Statement of Account can surface a mistake before cash changes hands;
- **divide the work** — one person can keep the subsidiary ledger and another the control total, so each is a check on the other (an **internal control**).

Ethical considerations. Subsidiary records both **track money owed to the business** and hold **information about customers**, so they must be kept with integrity. Each debtor's account should be a **faithful representation** of what that customer genuinely owes — complete, neutral and free from bias — so a business must **not** overstate a debtor's balance to make accounts receivable look larger, leave a customer's genuine **credit note off** their account so they overpay, or keep a debt that is clearly **uncollectable** (for example, a customer that has ceased trading) in the records at full value to flatter the asset total shown to a lender. When the schedule does not agree with the control, the honest response is to **investigate and correct** the error, never to simply write one figure up or down to force the two to match. Chasing overdue accounts must be done **fairly and truthfully** — reminders and statements should show only amounts actually owed — and the personal and financial information held about each customer should be kept **confidential** and used only for legitimate business purposes. Acting with integrity means the accounts receivable reported to owners, lenders and the customers themselves can all be relied upon.

Worked examples (scaffolded)

Example 1 — preparing a debtor's subsidiary record (running balance)

Coralbrook Supplies keeps a subsidiary account for its debtor *Marlow Hardware*, who owed $990 at 1 July 2026. During July: 8 July, a credit sale of $1 500 plus $150 GST ($1 650) on **Invoice 610**; 17 July, a receipt of $970 (**Receipt 88**) with a $20 settlement discount allowed; 24 July, a sales return of $200 plus $20 GST ($220) on **Credit Note 20**. Prepare Marlow Hardware's subsidiary record and state the closing balance owing.

Working	Comment
Start from the **opening balance owing $990** (the debit balance brought forward from June).	A debtor is an asset, so the account opens with a balance *owing to* the business.
8 Jul — Invoice 610 $1 650 (Debit): 990 + 1 650 = **$2 640**.	A credit sale is a **charge** — a debit that raises the balance owing (GST-inclusive amount).
17 Jul — Receipt 88 $970 (Credit): 2 640 − 970 = **$1 670**.	Cash received reduces the balance owing; no GST on a receipt.
17 Jul — Discount expense $20 (Credit): 1 670 − 20 = **$1 650**.	Receipt $970 + discount $20 = $990 clears the opening balance. No GST on a settlement discount.
24 Jul — Credit Note 20 $220 (Credit): 1 650 − 220 = **$1 430**.	A sales return reduces what the debtor owes (GST-inclusive amount).

Accounts Receivable — Marlow Hardware (subsidiary record)

Date 2026	Details	Debit $	Credit $	Balance $
1 Jul	Balance			990
8 Jul	Sales (Inv. 610)	1 650		2 640
17 Jul	Bank (Rec. 88)		970	1 670
17 Jul	Discount expense		20	1 650
24 Jul	Sales Returns (CN 20)		220	1 430

The **closing balance owing at 31 July is $1 430** ($990 + $1 650 − $970 − $20 − $220). Marlow has cleared its $990 opening balance and now owes for Invoice 610 less Credit Note 20.

Example 2 — the schedule of accounts receivable and reconciling it to the control

At 31 August 2026 the debtors of *Fenwick Trading* owe: *Ashford Cafe* $880, *Brindle Stores* $1 540, *Corliss Motors* $660 and *Delrose Retail* $1 320. Fenwick's journal totals for August were: opening Accounts Receivable control $3 850; credit sales (Sales Journal, incl. GST) $4 950; receipts from accounts receivable $4 200; discount expense $60; sales returns $110; bad debts written off $30. Prepare the schedule of accounts receivable and show that it reconciles to the control.

Working	Comment
Schedule = 880 + 1 540 + 660 + 1 320 = **$4 400**.	Add every debtor's closing balance from the subsidiary ledger.
Control = 3 850 + 4 950 − 4 200 − 60 − 110 − 30.	Opening + credit sales − receipts − discount − returns − bad debts.
= 8 800 − 4 400 = **$4 400**.	The control is built from the journal **totals**, independently of the schedule.

Working	Comment
Schedule $4 400 = control $4 400.	Agreement is strong evidence the subsidiary ledger has been posted correctly.

Schedule of Accounts Receivable — Fenwick Trading as at 31 August 2026

Account receivable	Balance $
Ashford Cafe	880
Brindle Stores	1 540
Corliss Motors	660
Delrose Retail	1 320
Accounts Receivable control	**4 400**

Accounts Receivable control — reconstruction (Fenwick Trading, August 2026)

Item	$
Balance owing at 1 August (opening control)	3 850
add Credit sales (incl. GST)	4 950
less Receipts from accounts receivable	(4 200)
less Discount expense	(60)
less Sales returns (incl. GST)	(110)
less Bad debts written off	(30)
Balance owing at 31 August (closing control)	**4 400**

The schedule total ($4 400) **equals** the reconstructed control ($4 400), so Fenwick's individual debtor accounts together agree with the single Accounts Receivable figure reported in the Balance Sheet.

Worked examples (unscaffolded)

Example 3 — using the reconciliation to detect an error

At 30 September 2026 the schedule of accounts receivable of *Hollybrook Traders* lists *Quillan Stores* $1 540, *Rosslyn Retail* $1 100, *Tavish Motors* $1 320 and *Underwood Cafe* $1 320, a total of $5 280. The Accounts Receivable control, reconstructed from the journal totals, is $5 060. Investigation finds that a $220 receipt from *Quillan Stores*, correctly recorded in the Cash Receipts Journal, was never entered in Quillan's subsidiary account. Identify and explain the discrepancy, and state the correction.

The schedule totals $1 540 + $1 100 + $1 320 + $1 320 = $5 280, which is $5 280 − $5 060 = **$220 more** than the control. The control is built from the journal totals, so the $220 receipt has **already reduced the control** through the Cash Receipts Journal total; because it was **omitted from Quillan's subsidiary account**, the total was reduced by $220 but Quillan's individual balance was not, leaving the schedule $220 too high. Entering the $220 receipt in Quillan's account reduces its balance from $1 540 to $1 320, and the schedule falls to $1 320 + $1 100 + $1 320 + $1 320 = $5 060.

∴ the $220 discrepancy is the **omission of the $220 receipt from Quillan Stores' subsidiary account**; once it is entered, the schedule ($5 060) agrees with the control ($5 060).

Example 4 — subsidiary records, the schedule and the control together

Maplewood Distributors has three debtors. At 1 October 2026 *Thornbury Cafe* owed $550 and *Vine Street Grocers* owed $1 320. During October: Thornbury was charged $900 plus $90 GST ($990) on **Invoice 820** (6 Oct), returned $50 plus $5 GST ($55) on **Credit Note 30** (15 Oct) and paid $539 with an $11 discount (**Receipt 140**, 22 Oct); Vine Street was charged $1 500 plus $150 GST ($1 650) on **Invoice 824** (9 Oct) and paid $1 320 (**Receipt 146**, 27 Oct).

The third debtor, *Westgate Retail*, has already been prepared and owes $715 at 31 October. Prepare the two subsidiary records, then the schedule, and reconcile it to the control (opening control $2 255; credit sales $3 630; receipts $2 519; discount $11; sales returns $55).

Accounts Receivable — Thornbury Cafe (subsidiary record)

Date 2026	Details	Debit $	Credit $	Balance $
1 Oct	Balance			550
6 Oct	Sales (Inv. 820)	990		1 540
15 Oct	Sales Returns (CN 30)		55	1 485
22 Oct	Bank (Rec. 140)		539	946
22 Oct	Discount expense		11	935

Accounts Receivable — Vine Street Grocers (subsidiary record)

Date 2026	Details	Debit $	Credit $	Balance $
1 Oct	Balance			1 320
9 Oct	Sales (Inv. 824)	1 650		2 970
27 Oct	Bank (Rec. 146)		1 320	1 650

Schedule of Accounts Receivable — Maplewood Distributors as at 31 October 2026

Account receivable	Balance $
Thornbury Cafe	935
Vine Street Grocers	1 650
Westgate Retail	715
Accounts Receivable control	**3 300**

Reconstructing the control: $2 255 + $3 630 − $2 519 − $11 − $55 = **$3 300**, which equals the schedule total.

∴ Thornbury owes $935 and Vine Street $1 650; with Westgate's $715 the schedule totals **$3 300**, agreeing with the reconstructed Accounts Receivable control of $3 300.

Practice questions — scaffolded

Question 1

Birchgrove Supplies keeps a subsidiary account for its debtor *Kelvin Motors*, who owed $770 at 1 March 2026. During March: 6 March, a credit sale of $1 200 plus $120 GST ($1 320) on **Invoice 301**; 18 March, a receipt of $756 (**Receipt 55**) with a $14 settlement discount allowed.

a. Prepare Kelvin Motors' subsidiary record (Date, Details, Debit, Credit, Balance).
b. State the closing balance owing at 31 March.
c. State the amount by which the receipt and discount together cleared the opening balance.

Question 2

Cloverdale Trading keeps a subsidiary account for its debtor *Ashby Retail*, who owed $495 at 1 April 2026. During April: 7 April, a credit sale of $900 plus $90 GST ($990) on **Invoice 410**; 14 April, a sales return of $100 plus $10

GST ($110) on **Credit Note 12**; 25 April, a receipt of $495 in full settlement of the opening balance, with no discount (**Receipt 77**).

a. Prepare Ashby Retail's subsidiary record.

b. State the closing balance owing at 30 April.

c. Explain why **Credit Note 12** is recorded in the Credit column of the account.

Question 3

At 31 May 2026 the debtors of *Dunmore Distributors* owe: *Ferris Cafe* $660, *Grafton Stores* $1 210, *Holt Grocers* $990 and *Ivywell Retail* $1 540. The journal totals for May were: opening Accounts Receivable control $3 960; credit sales (incl. GST) $5 500; receipts from accounts receivable $4 800; discount expense $95; sales returns $165.

a. Prepare the schedule of accounts receivable at 31 May.

b. Reconstruct the Accounts Receivable control from the journal totals.

c. State what the agreement of the schedule and the control confirms, and what a **disagreement** would indicate.

Question 4

Everly Traders had an opening Accounts Receivable control of $4 180 on 1 June 2026. During June its journal totals were: credit sales (incl. GST) $6 600; receipts from accounts receivable $5 500; discount expense $120; sales returns $220; bad debts written off $90. At 30 June its debtors owe: *Marden Cafe* $1 100, *Norwood Stores* $990, *Oakleigh Retail* $1 320, *Pym Motors* $770 and *Quarry Grocers* $670.

a. Reconstruct the closing Accounts Receivable control at 30 June.

b. Prepare the schedule of accounts receivable and confirm it equals the control.

c. Explain why keeping the control **and** the subsidiary ledger provides an internal control.

Question 5

At 30 June 2026 the Accounts Receivable control of *Fairholme Trading* is $6 270, but the schedule of accounts receivable totals only $6 050. The debtors listed are *Selby Stores* $880, *Trilby Cafe* $1 540, *Ulverton Motors* $1 320, *Vesper Retail* $990 and *Wexford Grocers* $1 320. Investigation finds that **Invoice 640** for $220, correctly included in the Sales Journal total, was never entered in Selby Stores' subsidiary account.

a. Calculate the discrepancy between the control and the schedule.

b. State the correction required and the corrected balance for Selby Stores, and confirm the schedule then agrees with the control.

Question 6

Glenister Wholesalers sells inventory on credit and keeps a subsidiary ledger of debtors.

a. Explain **two** benefits to Glenister of keeping an individual account for each debtor rather than only a single Accounts Receivable total.

b. Explain how the **schedule of accounts receivable** is used as a check on the Accounts Receivable control.

c. The owner tells the bookkeeper to keep a debtor's long-overdue $1 320 balance in the accounts at full value and to keep sending it statements, even though that customer has **ceased trading and cannot pay**, so that reported accounts receivable look healthier. Explain the ethical problem with this instruction.

Practice questions — unscaffolded

Question 7

Hazeldene Supplies keeps a subsidiary account for its debtor *Renmark Retail*, who owed $1 100 at 1 July 2026. During July: 4 July, a credit sale of $1 500 plus $150 GST ($1 650) on **Invoice 701**; 12 July, a receipt of $1 078 (**Receipt 90**) with a $22 discount allowed; 20 July, a credit sale of $900 plus $90 GST ($990) on **Invoice 708**; 28 July, a sales return of $150 plus $15 GST ($165) on **Credit Note 18**. Prepare Renmark Retail's subsidiary record and state the closing balance owing.

Question 8

Ingleside Trading keeps a subsidiary account for its debtor *Purnell Grocers*, who owed $660 at 1 August 2026. During August: 5 August, a credit sale of $1 200 plus $120 GST ($1 320) on **Invoice 810**; 13 August, a sales return of $120 plus $12 GST ($132) on **Credit Note 22**; 21 August, a receipt of $646 (**Receipt 130**) with a $14 discount allowed. Prepare Purnell Grocers' subsidiary record and state the closing balance owing at 31 August.

Question 9

At 30 September 2026 the debtors of *Jarrahdale Distributors* owe: *Ashcombe Cafe* $1 320, *Brenton Stores* $990, *Calder Motors* $1 540, *Denholm Retail* $660 and *Everton Grocers* $1 100. The journal totals for September were: opening control $4 950; credit sales (incl. GST) $7 150; receipts $6 160; discount expense $165; sales returns $165. Prepare the schedule of accounts receivable and reconcile it to the reconstructed Accounts Receivable control.

Question 10

Kingsford Traders had an opening Accounts Receivable control of $5 280 on 1 October 2026. During October its journal totals were: credit sales (incl. GST) $8 250; receipts $7 040; discount expense $150; sales returns $330; bad debts written off $110. Its debtors at 31 October owe: *Larkin Cafe* $1 320, *Merriw Stores* $990, *Nolan Motors* $1 650, *Orwell Retail* $770 and *Pascoe Grocers* $1 170. Reconstruct the closing control and confirm the schedule of accounts receivable agrees with it.

Question 11

At 31 October 2026 the schedule of accounts receivable of *Lindfield Trading* totals $7 150, but the Accounts Receivable control is $6 930. The debtors listed are *Tarrant Stores* $1 320, *Ustinov Cafe* $1 540, *Vernon Motors* $990, *Wray Retail* $1 650 and *Yardley Grocers* $1 650. A $220 receipt from Tarrant Stores, correctly recorded in the Cash Receipts Journal, was not entered in Tarrant's subsidiary account. Calculate the discrepancy, state the correction, and show that the schedule then agrees with the control.

Question 12

Morningside Traders discovers that a credit sale of $1 320 (**Invoice 505**) was correctly included in the Sales Journal total but was posted to the subsidiary account of the wrong debtor — it was entered in *Ashwin Cafe*'s account instead of *Bellamy Cafe*'s. Explain why the schedule of accounts receivable **still** equals the Accounts Receivable control despite this error, and explain how the mistake would instead come to light.

Question 13

At 30 November 2026 the Accounts Receivable control of *Northcote Distributors* has been reconstructed from the journal totals as: opening control $5 720; credit sales (incl. GST) $7 700; receipts $6 270; discount expense $220; sales returns $330. Its schedule of accounts receivable lists *Ackland Cafe* $1 540, *Braddock Stores* $990, *Carew Retail* (balance not shown), *Dunn Motors* $1 320 and *Ellery Grocers* $1 100. Calculate the closing control, and hence the missing balance for Carew Retail.

Question 14

Oakbank Trading has three debtors. At 1 December 2026 *Sefton Retail* owed $880 and *Tolland Stores* owed $1 100. During December: Sefton was charged $1 500 plus $150 GST ($1 650) on **Invoice 901** (5 Dec), returned $100 plus $10 GST ($110) on **Credit Note 40** (14 Dec) and paid $862 with an $18 discount (**Receipt 210**, 22 Dec); Tolland was charged $900 plus $90 GST ($990) on **Invoice 905** (9 Dec) and paid $1 100 (**Receipt 216**, 27 Dec). The third debtor, *Ulmarra Cafe*, owes $770 at 31 December. Prepare the subsidiary records for Sefton Retail and Tolland Stores, prepare the schedule of accounts receivable, and reconcile it to the control (opening control $2 530; credit sales $3 520; receipts $2 622; discount $18; sales returns $110).

Question 15

Explain how a subsidiary ledger of accounts receivable supports **credit control**: describe how it helps a business (i) follow up overdue debtors, (ii) decide whether to extend further credit to a customer, and (iii) send each customer an accurate Statement of Account.

Question 16

Explain what it means when the **schedule of accounts receivable does not equal** the Accounts Receivable control. In your answer, state **two** kinds of error that would cause the schedule and the control to differ, and **one** kind of error that would leave them agreeing even though a debtor's account is wrong.

Question 17

At 30 April 2026 the accounts receivable of *Pemberton Traders* and the age of each debt are: *Redgrave Cafe* $1 100 (15 days outstanding), *Stanton Stores* $880 (48 days), *Thurloe Motors* $1 650 (75 days) and *Vance Retail* $660 (100 days). State the total accounts receivable, identify which debtor the business should follow up **first** and why, and explain how the subsidiary ledger enables this follow-up.

Question 18

At 30 June 2026 the schedule of accounts receivable of *Quenby Wholesalers* is $440 **higher** than the Accounts Receivable control. The business is applying to its bank for a loan. Rather than investigate the difference, the owner instructs the bookkeeper to do two things: first, to **write the control up by $440** so the schedule and the control agree; and second, to keep debtor *Grindle Stores* — which has gone into liquidation and will clearly never pay its $1 320 balance — in the accounts receivable at **full value** and on the schedule, so that the accounts receivable (and the total assets) shown to the bank look stronger. **Discuss** the ethical considerations involved, identify the qualitative characteristics breached, and explain the effect of each instruction on the reports and on the bank relying on them.

Answers

1.
    b. $1 320. c. $770 (Bank $756 + Discount $14).
2.
    b. $880. c. A sales return reduces what the debtor owes, so it is a credit.
3.
    a. $4 400. b. $4 400. c. Agreement is strong evidence the subsidiary ledger is correctly posted; a disagreement indicates a recording error to be found and corrected.
4.
    a. $4 850. b. $4 850 (1 100 + 990 + 1 320 + 770 + 670). c. The control (journal totals) and the subsidiary ledger (individual accounts) are built independently, so reconciling them makes each a check on the other; with one person keeping each, this is an internal control.
5.
    a. $220. b. Add Invoice 640 $220 to Selby Stores → $1 100; schedule then $6 270 = control.
6. a–c. See solutions.
7. Closing balance owing $2 475.
8. Closing balance owing $1 188.
9. Schedule $5 610 = control $5 610.
10. Closing control $5 900 = schedule $5 900.
11. Discrepancy $220; enter the $220 receipt in Tarrant Stores → $1 100; schedule then $6 930 = control.
12. See solutions (schedule total unchanged; found via a debtor query / Statement of Account).
13. Closing control $6 600; Carew Retail $1 650.
14. Sefton $1 540; Tolland $990; schedule $3 300 = control $3 300.
15. See solutions.
16. See solutions.
17. Total $4 290; follow up Vance Retail (100 days) first.
18. See solutions.

Fully-worked solutions

Question 1

Accounts Receivable — Kelvin Motors (subsidiary record)

Date 2026	Details	Debit $	Credit $	Balance $
1 Mar	Balance			770
6 Mar	Sales (Inv. 301)	1 320		2 090
18 Mar	Bank (Rec. 55)		756	1 334
18 Mar	Discount expense		14	1 320

b. Closing balance owing = 770 + 1 320 − 756 − 14 = **$1 320** (the amount of Invoice 301, still owing).

c. The receipt $756 + the discount $14 = **$770**, which exactly clears the opening balance owing.

Question 2

Accounts Receivable — Ashby Retail (subsidiary record)

Date 2026	Details	Debit $	Credit $	Balance $
1 Apr	Balance			495
7 Apr	Sales (Inv. 410)	990		1 485

Date 2026	Details	Debit $	Credit $	Balance $
14 Apr	Sales Returns (CN 12)		110	1 375
25 Apr	Bank (Rec. 77)		495	880

b. Closing balance owing = 495 + 990 − 110 − 495 = **$880**.

c. A debtor is an **asset**; the running balance is the amount the customer **owes**. **Credit Note 12** is a **sales return** — inventory the customer has sent back — which **reduces** the amount Ashby owes by $110 ($100 plus $10 GST). Because a credit *reduces* the debtor's balance, the credit note is recorded in the **Credit** column, lowering the balance from $1 485 to $1 375.

Question 3

a. **Schedule of Accounts Receivable — Dunmore Distributors as at 31 May 2026**

Account receivable	Balance $
Ferris Cafe	660
Grafton Stores	1 210
Holt Grocers	990
Ivywell Retail	1 540
Accounts Receivable control	**4 400**

b. Control = 3 960 + 5 500 − 4 800 − 95 − 165 = **$4 400**:

Item	$
Balance owing at 1 May (opening control)	3 960
add Credit sales (incl. GST)	5 500
less Receipts from accounts receivable	(4 800)
less Discount expense	(95)
less Sales returns (incl. GST)	(165)
Balance owing at 31 May (closing control)	**4 400**

c. The schedule ($4 400) is built by adding the **individual** debtor accounts; the control ($4 400) is built from the journal **totals**. Because the two are prepared independently, their agreement is **strong evidence** that entries have been posted to the correct debtor for the correct amount, so the subsidiary ledger reconciles with the single Accounts Receivable figure in the Balance Sheet. (It is not proof: a transaction posted to the **wrong debtor** for the right amount leaves the schedule total unchanged, so the two still agree.) A **disagreement** would show that a **recording error** exists — an entry posted to a debtor but not the total (or the reverse), a wrong amount, an omission or a duplication — which must be located and corrected.

Question 4

a. Closing control = 4 180 + 6 600 − 5 500 − 120 − 220 − 90 = **$4 850**:

Item	$
Balance owing at 1 June (opening control)	4 180
add Credit sales (incl. GST)	6 600
less Receipts from accounts receivable	(5 500)
less Discount expense	(120)
less Sales returns (incl. GST)	(220)
less Bad debts written off	(90)
Balance owing at 30 June (closing control)	**4 850**

b. **Schedule of Accounts Receivable — Everly Traders as at 30 June 2026**

Account receivable	Balance $
Marden Cafe	1 100
Norwood Stores	990
Oakleigh Retail	1 320
Pym Motors	770
Quarry Grocers	670
Accounts Receivable control	**4 850**

Schedule = 1 100 + 990 + 1 320 + 770 + 670 = **$4 850**, which equals the reconstructed control.

c. The control total and the subsidiary ledger are prepared **independently** — the control from the journal totals, the subsidiary accounts from the individual source documents. Because each is built a different way, reconciling them (schedule vs control) makes each a **check on the other**: an error in one that is not repeated in the other shows up as a difference. Having one person keep the control and another keep the subsidiary ledger therefore provides an **internal control** over accounts receivable.

Question 5

a. Discrepancy = control $6 270 − schedule $6 050 = **$220**. (Selby 880 + Trilby 1 540 + Ulverton 1 320 + Vesper 990 + Wexford 1 320 = $6 050.)

b. **Invoice 640** for $220 was included in the Sales Journal total (so in the control) but **omitted from Selby Stores' subsidiary account**, leaving the schedule $220 too low. Adding it, Selby's balance becomes 880 + 220 = **$1 100**, and the schedule becomes 1 100 + 1 540 + 1 320 + 990 + 1 320 = **$6 270**, which now agrees with the control.

Question 6

a. Any two benefits, for example: **(i) credit control / knowing who owes what** — an individual account shows exactly how much each customer owes and since when, rather than a single lump sum, so overdue accounts can be identified; **(ii) following up debtors and issuing statements** — the running balance lets the business send each customer an accurate reminder or Statement of Account; **(iii) error detection** — reconciling the schedule to the control cross-checks the recording; **(iv) credit decisions** — the business can see whether a customer is near its credit limit before supplying more goods on credit.

b. The **schedule** lists every debtor's balance from the subsidiary ledger and totals them; the **control** is the single Accounts Receivable figure built from the journal totals. Because the two are prepared independently, the schedule total is compared with the control: if they **agree**, the subsidiary ledger reconciles with the control; if they **differ**, a recording error exists and must be found.

c. Keeping a $1 320 balance that the customer **cannot pay** (it has ceased trading) in the accounts at full value means the accounts receivable — and therefore the assets and profit — are **overstated**. This is **not a faithful representation**: the "asset" no longer has the capacity to bring in cash, so it is not complete, neutral or free from bias. A debt known to be uncollectable should be **written off as a bad debt**, not carried at full value to make the business look healthier, and continuing to send statements demanding payment that cannot be made is neither honest nor useful. The bookkeeper should advise that the balance be written off.

Question 7

Accounts Receivable — Renmark Retail (subsidiary record)

Date 2026	Details	Debit $	Credit $	Balance $
1 Jul	Balance			1 100
4 Jul	Sales (Inv. 701)	1 650		2 750
12 Jul	Bank (Rec. 90)		1 078	1 672
12 Jul	Discount		22	1 650

Date 2026	Details	Debit $	Credit $	Balance $
	expense			
20 Jul	Sales (Inv. 708)	990		2 640
28 Jul	Sales Returns (CN 18)		165	2 475

Closing balance owing = 1 100 + 1 650 − 1 078 − 22 + 990 − 165 = **$2 475**. (Receipt $1 078 + discount $22 = $1 100 cleared the opening balance; Renmark now owes for Invoice 701 and Invoice 708, less Credit Note 18.)

Question 8

Accounts Receivable — Purnell Grocers (subsidiary record)

Date 2026	Details	Debit $	Credit $	Balance $
1 Aug	Balance			660
5 Aug	Sales (Inv. 810)	1 320		1 980
13 Aug	Sales Returns (CN 22)		132	1 848
21 Aug	Bank (Rec. 130)		646	1 202
21 Aug	Discount expense		14	1 188

Closing balance owing = 660 + 1 320 − 132 − 646 − 14 = **$1 188**. (Receipt $646 + discount $14 = $660 cleared the opening balance; Purnell now owes for Invoice 810 less Credit Note 22.)

Question 9

Schedule of Accounts Receivable — Jarrahdale Distributors as at 30 September 2026

Account receivable	Balance $
Ashcombe Cafe	1 320
Brenton Stores	990
Calder Motors	1 540
Denholm Retail	660
Everton Grocers	1 100
Accounts Receivable control	**5 610**

Schedule = 1 320 + 990 + 1 540 + 660 + 1 100 = **$5 610**.

Control = 4 950 + 7 150 − 6 160 − 165 − 165 = **$5 610**:

Item	$
Balance owing at 1 September (opening control)	4 950
add Credit sales (incl. GST)	7 150
less Receipts from accounts receivable	(6 160)
less Discount expense	(165)
less Sales returns (incl. GST)	(165)
Balance owing at 30 September (closing control)	**5 610**

The schedule ($5 610) **equals** the control ($5 610), so the subsidiary ledger reconciles.

Question 10

Closing control = 5 280 + 8 250 − 7 040 − 150 − 330 − 110 = **$5 900**:

Item	$
Balance owing at 1 October (opening control)	5 280
add Credit sales (incl. GST)	8 250
less Receipts from accounts receivable	(7 040)
less Discount expense	(150)
less Sales returns (incl. GST)	(330)
less Bad debts written off	(110)
Balance owing at 31 October (closing control)	**5 900**

Schedule of Accounts Receivable — Kingsford Traders as at 31 October 2026

Account receivable	Balance $
Larkin Cafe	1 320
Merriw Stores	990
Nolan Motors	1 650
Orwell Retail	770
Pascoe Grocers	1 170
Accounts Receivable control	**5 900**

Schedule = 1 320 + 990 + 1 650 + 770 + 1 170 = **$5 900**, which agrees with the reconstructed control.

Question 11

Discrepancy = schedule $7 150 − control $6 930 = **$220** (the schedule is $220 too high). The $220 receipt from **Tarrant Stores** was recorded in the Cash Receipts Journal (reducing the control) but **not entered in Tarrant's subsidiary account**, so Tarrant's balance is $220 too high. Entering the receipt reduces Tarrant's balance from $1 320 to **$1 100**, and the schedule becomes 1 100 + 1 540 + 990 + 1 650 + 1 650 = **$6 930**, which now agrees with the control.

Question 12

Posting **Invoice 505** to *Ashwin Cafe* instead of *Bellamy Cafe* moves $1 320 **from one debtor's account to another** but does **not change the total** of the subsidiary ledger: Ashwin's balance is $1 320 too high and Bellamy's is $1 320 too low, and the two errors **cancel** in the schedule total. The Sales Journal total (and therefore the control) already included the $1 320, so the schedule still equals the control and the reconciliation gives no warning. The error would instead come to light when **Bellamy Cafe queries its Statement of Account** — finding it has been charged too little (or, from Ashwin's side, Ashwin disputes a charge for goods it never bought) — so that checking the individual accounts against the source documents and the customers' own records is needed to catch a wrong-debtor posting.

Question 13

Closing control = 5 720 + 7 700 − 6 270 − 220 − 330 = **$6 600**:

Item	$
Balance owing at 1 November (opening control)	5 720
add Credit sales (incl. GST)	7 700

Item	$
less Receipts from accounts receivable	(6 270)
less Discount expense	(220)
less Sales returns (incl. GST)	(330)
Balance owing at 30 November (closing control)	**6 600**

The four known balances total 1 540 + 990 + 1 320 + 1 100 = $4 950. Because the schedule must equal the control, **Carew Retail** = 6 600 − 4 950 = **$1 650**.

Question 14

Accounts Receivable — Sefton Retail (subsidiary record)

Date 2026	Details	Debit $	Credit $	Balance $
1 Dec	Balance			880
5 Dec	Sales (Inv. 901)	1 650		2 530
14 Dec	Sales Returns (CN 40)		110	2 420
22 Dec	Bank (Rec. 210)		862	1 558
22 Dec	Discount expense		18	1 540

Accounts Receivable — Tolland Stores (subsidiary record)

Date 2026	Details	Debit $	Credit $	Balance $
1 Dec	Balance			1 100
9 Dec	Sales (Inv. 905)	990		2 090
27 Dec	Bank (Rec. 216)		1 100	990

Schedule of Accounts Receivable — Oakbank Trading as at 31 December 2026

Account receivable	Balance $
Sefton Retail	1 540
Tolland Stores	990
Ulmarra Cafe	770
Accounts Receivable control	**3 300**

Sefton owes 880 + 1 650 − 110 − 862 − 18 = **$1 540**; Tolland owes 1 100 + 990 − 1 100 = **$990**. With Ulmarra's $770 the schedule totals **$3 300**. Reconstructing the control: 2 530 + 3 520 − 2 622 − 18 − 110 = **$3 300**, which equals the schedule.

Question 15

A subsidiary ledger keeps a **separate running-balance account for every debtor**, and this is what makes **credit control** possible.

- **(i) Following up overdue debtors.** Each account shows the **balance owing** and the **dates** of the invoices and receipts, so the business can see at a glance **which** customers have not paid and **how long** a debt has been outstanding. It can then send reminders or a Statement of Account, and prioritise the oldest or largest overdue accounts — impossible from a single lump-sum total.

- **(ii) Deciding whether to extend further credit.** Before supplying more goods on credit, the business can check the customer's account: a debtor already near or over its credit limit, or persistently slow to pay, can be required to settle its account first, reducing the risk of a bad debt.
- **(iii) Sending accurate Statements of Account.** Each debtor's account is exactly the information needed to prepare that customer's Statement of Account — the opening balance, every invoice, credit note, receipt and discount, and the closing balance owing — so statements can be issued accurately and the customer can reconcile them.

Question 16

If the **schedule of accounts receivable does not equal the control**, a **recording error** exists: because the schedule (the sum of the individual debtor accounts) and the control (built from the journal totals) are prepared **independently**, an error made in one but not the other makes the two disagree, and the difference must be investigated and corrected.

Two errors that **would cause a difference**, for example: (i) a transaction posted to a debtor's subsidiary account but omitted from (or double-counted in) the journal total that feeds the control — or the reverse, such as a receipt recorded in the control but not entered in the debtor's account; (ii) a **wrong amount** (for instance a transposition, $1 320 entered as $1 230) posted to one record but not the other.

One error that would leave them **still agreeing**: a transaction posted to the **wrong debtor** for the **right amount** — one account is too high and another too low by the same amount, so the schedule total is unchanged and still equals the control, even though two individual accounts are wrong. (This is caught not by the reconciliation but by checking the accounts against the source documents or a customer's query.)

Question 17

Total accounts receivable = 1 100 + 880 + 1 650 + 660 = **$4 290**.

The business should follow up **Vance Retail** first: although its $660 balance is the smallest, it is the **most overdue** at **100 days** outstanding, so it carries the greatest risk of becoming a **bad debt**. *Thurloe Motors* ($1 650, 75 days) is the next priority — it is both large and well overdue — while *Redgrave Cafe* (15 days) is still within normal terms. The **subsidiary ledger** makes this possible: because each debtor has its own running-balance account showing the amount owing and the age of the debt, the business can rank customers by how overdue they are, send targeted reminders or Statements of Account, and, if necessary, withhold further credit until the oldest accounts are paid.

Question 18

Both instructions are **dishonest**, breach the qualitative characteristics, and would make the reports **misleading** to the bank; the bookkeeper has an ethical duty to **refuse** them and to investigate and correct the accounts properly.

(i) Writing the control up by $440 to force agreement. When the schedule and the control disagree there is a **recording error** that must be **found and corrected**. Simply increasing the control by $440 to make the two agree **conceals** the error rather than fixing it and records $440 of accounts receivable that may not genuinely exist. This breaches **faithful representation** — the figure is neither complete, neutral nor free from bias — and **verifiability**, because the $440 cannot be traced to any genuine invoice or source document. The honest response is to reconcile the schedule and the control, locate the $440 error, and correct whichever record is wrong.

(ii) Keeping the $1 320 uncollectable debt at full value. *Grindle Stores* has gone into liquidation and clearly cannot pay, so its $1 320 balance no longer has the capacity to bring in cash — it is not a genuine asset. Carrying it at full value and on the schedule **overstates accounts receivable, total assets and profit**, again breaching **faithful representation** (and **relevance**, since a debt that will not be collected does not help users make decisions). The debt should be **written off as a bad debt**.

Effect on the reports and the bank. Together the two instructions **overstate the accounts receivable reported in the Balance Sheet** (by the fictitious $440 and the uncollectable $1 320) and overstate the business's assets and profit. The **bank** relies on these reports to judge whether the business can repay a loan; presenting inflated accounts receivable **misleads the bank into lending on a false picture** of the business's position, which is not only unethical but exposes the owner to serious legal consequences once discovered. Acting with integrity, the bookkeeper must **investigate and correct the $440 discrepancy**, **write off the Grindle Stores bad debt**, and report accounts receivable at the amount genuinely recoverable, so that the statements given to the bank are a faithful and verifiable representation of the business.

Chapter 14 Accounts receivable for a trading business — 14C Sales returns, discount expense and bad debts

Theory

An **account receivable** (a **debtor**) is a customer who has bought inventory **on credit** and now owes the business cash — an **asset**, the right to collect money in the future. Section 14A recorded the credit **sales** that create those debtors and the **receipts** that clear them; section 14B set up the **subsidiary Accounts Receivable ledger** in which each debtor's account is kept. This section records the three events that reduce a debtor's account **without a full-price cash receipt**: a **sales return** (the customer sends goods back), a **discount expense** (the customer pays early and is rewarded), and a **bad debt** (the customer never pays and the debt is written off). Each is recorded, and each reduces the individual debtor's balance in the subsidiary ledger.

The recording method (Units 1 & 2). A trading business records most transactions in **special journals** — the **Sales Journal**, **Purchases Journal**, **Cash Receipts Journal (CRJ)** and **Cash Payments Journal (CPJ)**. A **settlement discount** allowed to a debtor is part of a cash receipt, so it is recorded in the **Cash Receipts Journal**. A **sales return** and a **bad-debt write-off** are **not** cash transactions and do not fit any special journal, so they are recorded in the **General Journal** — the journal used for entries that the special journals cannot capture. Each General Journal entry names the account(s) **debited** first, then the account(s) **credited** (indented), followed by a short **narration** identifying the source document.

1. Sales returns. When a credit customer **returns inventory** — it was faulty, incorrect or surplus — the business issues a **credit note** and **reverses the original sale**. Because a sale of inventory has **two sides** (a selling-price side and a cost side), a sales return reverses **both**:

- **The selling-price side.** The selling price of the returned goods is recorded as a **Sales Returns** (a reduction of revenue — the opposite of Sales), the **GST** charged on that selling price is **reversed** out of **GST Clearing**, and the debtor's account (**Accounts Receivable**) is reduced by the **full GST-inclusive** amount of the credit note. Because a credit sale is a taxable supply, the GST on the returned goods is an **exact 1/11 of the GST-inclusive credit note** (GST = 10% of the selling price).
- **The cost side.** The **cost price** of the goods coming back is returned to the **Inventory** asset and taken out of **Cost of Sales** — a sales return **reduces cost of sales**, exactly undoing the cost recorded when the goods were sold. The units are also brought back **IN** on the inventory card at that cost (section 11B).

For a credit note with a selling price of **$200** plus **$20** GST (**$220** GST-inclusive) on goods that had cost **$130**, the two General Journal entries are:

General Journal — Harbourline Traders

Date 2025	Details	Debit $	Credit $
8 May	Sales Returns	200	
	GST Clearing	20	
	Accounts Receivable – Bayreef Cafe		220
	Credit Note 15: goods returned by customer		
8 May	Inventory	130	
	Cost of Sales		130
	Cost of the returned goods restored to inventory		

The first entry balances ($200 + $20 = $220) and reduces Bayreef Cafe's account by $220; the second balances ($130 = $130) and lifts the Inventory asset while cutting Cost of Sales. The GST reversed is $220 ÷ 11 = **$20** — never a rounded guess.

2. Discount expense (settlement discount). To encourage debtors to pay promptly, a business may offer a **settlement discount** — a small reduction if the account is paid within a stated period. A debtor who takes the discount pays **less cash** than the balance owing, yet the account is still **cleared in full**. The shortfall is a **discount expense** — the cost of collecting early — recorded in the **Cash Receipts Journal** in its own **Discount expense** column. For a receipt from an account receivable:

Bank + Discount expense = the amount of Accounts Receivable cleared.

A settlement discount is a reward for prompt payment, **not** a change to the selling price of the goods, so the study design **excludes GST from settlement discounts**. The GST recorded when the goods were sold is **not** adjusted, and **nothing** is entered in the GST column for the discount. **Discount expense** reduces net profit even though the discount involves no separate cash payment. The trading-business Cash Receipts Journal carries the columns below; a receipt from a debtor uses only **Bank**, **Discount expense** (if allowed) and **Sundries** (the debtor's account cleared):

Date	Details	Rec. No.	Bank $	Discount expense $	Cost of Sales $	Sales $	GST $	Sundries $
…	*debtor's name*	…	*cash banked*	*discount allowed*				*A/R cleared*

At period end each money column is totalled. The journal **cross-adds**: **Bank + Discount expense = Sales + GST + Sundries** (the **Cost of Sales** column is a separate memorandum total — it is posted **Dr Cost of Sales / Cr Inventory** for the period's cash sales and does not enter the Bank cross-add). A debtor who owes **$440** and pays **$432** within terms is allowed an **$8** discount: Bank $432 + Discount expense $8 = $440 clears the account, with **no GST** on the $8.

3. Bad debts. Sometimes a debtor will **never pay** — the customer has become insolvent, disappeared or disputed the debt beyond recovery. Once a debt is judged **uncollectable**, leaving it in Accounts Receivable would **overstate** the asset and **overstate** profit, so the business **writes it off** as a **bad debt**. Under the **accrual basis**, the loss is recognised as an **expense (Bad Debts)** in the period the debt is judged bad — the period in which the future economic benefit (the right to collect) is lost — not when, or if, cash is eventually recovered. Writing off a bad debt via the **General Journal**:

- records the loss as a **Bad Debts** expense (the **ex-GST** amount of the debt);
- **reverses the GST** originally charged on the credit sale (an exact **1/11** of the debt written off), because the sale that gave rise to the GST liability has failed;
- **removes the debtor** from Accounts Receivable for the **full GST-inclusive** balance owing.

For an uncollectable debtor owing **$330** (a credit sale of $300 plus $30 GST):

General Journal — Harbourline Traders

Date 2025	Details	Debit $	Credit $
30 May	Bad Debts	300	
	GST Clearing	30	
	Accounts Receivable – Delta Kiosk		330
	Memo 9: debt written off as uncollectable		

The entry balances ($300 + $30 = $330); Bad Debts of **$300** is the expense reported in the Income Statement, **$30** of GST ($330 ÷ 11) is recovered, and Delta Kiosk's $330 account falls to **nil**. A bad debt writes off **only the goods sold**

on credit — there is no inventory movement, because the goods were sold and kept by the customer; only the *right to be paid* is lost.

> **Units 3 & 4 preview.** Units 1 & 2 write a bad debt off **directly** to the **Bad Debts** expense, as above. Units 3 & 4 replace this with the **allowance (doubtful debts) method** — the expense is *estimated in advance* and later write-offs are set against an **Allowance for Doubtful Debts** rather than straight to expense (the 1/11 GST reversal is unchanged). The direct write-off shown here is the correct Units 1 & 2 treatment.

The effect on the debtor. Every one of these three events is posted to the **individual debtor's subsidiary account** as a **credit** that **reduces** the balance owing. Because a debtor is an asset, a credit sale is a **debit** that raises the balance owing, while a **sales return**, a **receipt**, a **settlement discount** and a **bad-debt write-off** are all **credits** that reduce it:

> **running balance = previous balance + Debit − Credit.**

The record itself is the running-balance debtor's account set up in **section 14B**, and it is prepared here in exactly the same way: its middle column is headed **Cross-reference** (the name this book gives a ledger account's reference column) where 14B headed it **Details**, but nothing else about the record changes. Each posting keeps **its own line**. In particular, a receipt and the settlement discount allowed with it are posted from **two different columns** of the Cash Receipts Journal, so they appear as **two separate credits** — the cash received first, then the discount — never combined into one line.

Worked model. *Harbourline Traders* keeps a subsidiary account for its debtor *Bayreef Cafe*, which owed **$660** at 1 May 2025. On 8 May Bayreef returned goods (Credit Note 15, $220 GST-inclusive) and on 22 May paid **$432** (Receipt 88) to clear the remaining balance, allowed an **$8** settlement discount:

Accounts Receivable — Bayreef Cafe (subsidiary ledger)

Date 2025	Cross-reference	Debit $	Credit $	Balance $
1 May	Balance			660
8 May	Sales Returns (CN 15)		220	440
22 May	Bank (Rec. 88)		432	8
22 May	Discount expense		8	nil

Reading down the balance column, $660 − $220 − $432 − $8 = **nil**: the sales return cleared $220, and the receipt ($432) plus the discount allowed ($8) cleared the last $440, so Bayreef owes nothing at 22 May.

Ethical considerations. Sales returns, discounts and bad debts all **reduce** a debtor's account, so each is open to **misuse**. It is dishonest to issue a **credit note for a sales return when no goods have come back** — it understates Sales and wrongly reverses GST the business still owes, breaching **faithful representation**. A **settlement discount** must be recorded only when it was genuinely **allowed** and within the stated terms; recording a fictitious "discount" to understate the cash banked (and pocket the difference) both misstates the records and is, in substance, **theft**. A **bad debt** must be written off **as soon as** the debt is genuinely judged uncollectable — neither **delayed** to flatter profit and assets (for example, before a loan application), nor **fabricated** to divert a live debt. Under **faithful representation** and the **accrual basis**, the debtors reported must be those that genuinely still owe, and each expense recognised in the period it is incurred; under **verifiability**, every credit note, discount and write-off must be supported by a genuine source document (a credit note, a receipt, a memo) so that another person could confirm it independently. Acting with integrity means reversing GST only on genuine returns and bad debts, allowing only discounts actually earned, and writing off a debt when — and only when — it is truly uncollectable.

Worked examples (scaffolded)

Example 1 — recording a sales return in the General Journal

Stonegate Supplies sells inventory on credit to *Marlowe Deli*, which owed **$704** at 1 June 2025. On 12 June Marlowe returned goods with a selling price of **$500** plus GST (**Credit Note 22**); those goods had cost Stonegate **$340**. Record the sales return in the General Journal and show the effect on Marlowe Deli's subsidiary account.

Working	Comment
Selling-price side. Sales Returns $500; GST reversed = $500 × 10% = **$50**; credit note total = **$550** (500 + 50).	The GST is 10% of the selling price — an exact 1/11 of the $550 GST-inclusive credit note ($550 ÷ 11 = $50).
Dr **Sales Returns** $500 and Dr **GST Clearing** $50; Cr **Accounts Receivable – Marlowe Deli** $550.	Sales Returns reduces revenue; GST Clearing reverses the GST; the debtor's account falls by the full $550.
Cost side. Dr **Inventory** $340; Cr **Cost of Sales** $340.	The cost of the returned goods is restored to Inventory and taken back out of Cost of Sales.
Debtor account: $704 − $550 = **$154** owing.	The whole $550 credit note reduces Marlowe's balance owing.

General Journal — Stonegate Supplies

Date 2025	Details	Debit $	Credit $
12 Jun	Sales Returns	500	
	GST Clearing	50	
	Accounts Receivable – Marlowe Deli		550
	Credit Note 22: goods returned by customer		
12 Jun	Inventory	340	
	Cost of Sales		340
	Cost of the returned goods restored to inventory		

Accounts Receivable — Marlowe Deli (subsidiary ledger)

Date 2025	Cross-reference	Debit $	Credit $	Balance $
1 Jun	Balance			704
12 Jun	Sales Returns (CN 22)		550	154

The return reverses $500 of Sales, $50 of GST and $340 of Cost of Sales, and leaves Marlowe Deli owing **$154**.

Example 2 — a settlement discount (CRJ) and a bad-debt write-off (General Journal)

Fernbay Trading has two debtors to deal with in June 2025. On 15 June *Willow Cafe*, which owed **$968**, paid **$950** (**Receipt 51**) within the discount period and was allowed an **$18** settlement discount. On 20 June Fernbay judged the **$407** account of *Ashford Store* to be **uncollectable** and wrote it off (**Memo 12**). Record the receipt in the Cash Receipts Journal and the write-off in the General Journal.

Working	Comment
Willow Cafe (Rec. 51): Bank $950; Discount expense $18; Sundries $968 (Accounts Receivable).	Bank $950 + Discount $18 = $968 clears the account. **No GST** on a settlement discount.

Working	Comment
Ashford Store (Memo 12): GST reversed = $407 ÷ 11 = **$37**; Bad Debts = $407 − $37 = **$370**.	The write-off reverses the GST charged on the original sale and expenses the ex-GST balance.
Dr **Bad Debts** $370 and Dr **GST Clearing** $37; Cr **Accounts Receivable – Ashford Store** $407.	The entry balances ($370 + $37 = $407) and removes Ashford's whole $407 balance.

Cash Receipts Journal (extract) — Fernbay Trading (June 2025)

Date	Details	Rec. No.	Bank $	Discount expense $	Cost of Sales $	Sales $	GST $	Sundries $
15 Jun	Willow Cafe	51	950	18				968

General Journal — Fernbay Trading

Date 2025	Details	Debit $	Credit $
20 Jun	Bad Debts	370	
	GST Clearing	37	
	Accounts Receivable – Ashford Store		407
	Memo 12: debt written off as uncollectable		

Willow Cafe's account is cleared by $968 (banking $950 and costing $18 of discount expense); Ashford Store's $407 account is removed, expensing **$370** of Bad Debts and recovering **$37** of GST.

Worked examples (unscaffolded)

Example 3 — writing off a bad debt with GST reversal

Redcliff Wholesalers has decided that the **$891** owed by *Tangelo Grocer* is wholly uncollectable and writes it off on 30 September 2025 (**Memo 7**). Record the write-off in the General Journal and state the Bad Debts expense and the GST reversed.

The debt of $891 is a credit sale of $810 plus $81 GST. Writing it off reverses the GST ($891 ÷ 11 = $81) and expenses the ex-GST balance ($891 − $81 = $810):

General Journal — Redcliff Wholesalers

Date 2025	Details	Debit $	Credit $
30 Sep	Bad Debts	810	
	GST Clearing	81	
	Accounts Receivable – Tangelo Grocer		891
	Memo 7: debt written off as uncollectable		

∴ the write-off records **Bad Debts $810** (the expense in the Income Statement), reverses **$81** of GST, and reduces Tangelo Grocer's account — and Accounts Receivable — by **$891** to nil.

Example 4 — a debtor's subsidiary account with a sale, a return and a receipt

Brightwater Distributors keeps a subsidiary account for *Vellore Kitchen*, which owed **$330** at 1 August 2025. During August: 6 August, a credit sale of $1 200 plus $120 GST (**Invoice S140**), the goods costing $780; 13 August, a sales return of $200 plus $20 GST (**Credit Note 30**), the returned goods costing $130; 24 August, a receipt of **$324** (**Receipt 96**) settling the $330 opening balance, with a **$6** discount. Prepare the subsidiary account and state the closing balance owing.

Invoice S140 adds $1 320 (a debit); Credit Note 30 removes $220 (a credit); Receipt 96 removes $324 and the discount allowed a further $6 (two credits, clearing $330):

Accounts Receivable — Vellore Kitchen (subsidiary ledger)

Date 2025	Cross-reference	Debit $	Credit $	Balance $
1 Aug	Balance			330
6 Aug	Sales (Inv. S140)	1 320		1 650
13 Aug	Sales Returns (CN 30)		220	1 430
24 Aug	Bank (Rec. 96)		324	1 106
24 Aug	Discount expense		6	1 100

∴ $330 + $1 320 − $220 − $324 − $6 = **$1 100** owing at 31 August: Vellore has cleared its opening balance (receipt $324 + discount $6) and now owes for Invoice S140 less Credit Note 30.

Practice questions — scaffolded

Question 1

Kestrel Trading's debtor *Ridgeway Cafe* returned goods on 14 March 2026 with a selling price of **$800** plus GST (**Credit Note 18**); the returned goods had cost Kestrel **$520**.

a. Record the sales return in the General Journal (both entries).
b. State the GST reversed and the amount by which Ridgeway Cafe's account is reduced.
c. State the effect of the return on Inventory and on Cost of Sales.

Question 2

Amberton Traders recorded the following receipts in April 2026: 3 April, cash sales $700 plus GST (**Rec. 40**), the goods costing $450; 11 April, $539 from *Corella Store*, allowed an $11 discount on its $550 account (**Rec. 41**); 19 April, $600 from *Dunmore Cafe* in full settlement of its $600 account, no discount (**Rec. 42**); 27 April, $882 from *Bexley Grocer*, allowed an $18 discount on its $900 account (**Rec. 43**).

a. Prepare the Cash Receipts Journal for April, with a bold Totals row.
b. State the amount by which each debtor's account is cleared.
c. Show that the journal cross-adds (Bank + Discount expense = Sales + GST + Sundries), and state the Cost of Sales total and how it is posted.

Question 3

Thornbury Wholesalers judged the **$572** account of its debtor *Larkfield Cafe* to be uncollectable and wrote it off on 30 May 2026 (**Memo 15**).

a. Record the write-off in the General Journal.
b. State the GST reversed and the Bad Debts expense.
c. Explain the effect of the write-off on Accounts Receivable and on net profit.

Question 4

Marigold Distributors keeps a subsidiary account for *Pinehill Store*, which owed **$407** at 1 May 2026. During May: 7 May, a credit sale of $900 plus $90 GST (**Invoice S88**), the goods costing $560; 16 May, a sales return of $100 plus $10 GST (**Credit Note 24**), the returned goods costing $60; 26 May, a receipt of $399 (**Receipt 60**) settling the $407 opening balance, with an $8 discount.

a. Prepare the subsidiary Accounts Receivable account for Pinehill Store (running balance).
b. State the closing balance owing at 31 May.
c. State the GST recorded on the credit sale and the GST reversed on the sales return.

Question 5

Oakvale Traders' debtor *Sennen Kiosk* owed **$836** at 1 June 2026. On 10 June Sennen returned goods with a selling price of $300 plus GST (**Credit Note 12**), the goods costing $190. On 25 June the remaining balance was judged uncollectable and written off (**Memo 20**).

a. Record the sales return in the General Journal (both entries).
b. Record the bad-debt write-off in the General Journal.
c. State the balance of Sennen Kiosk's account after each entry.

Question 6

Cliffend Trading deals with returns, discounts and bad debts.

a. Explain why a **sales return** reverses GST but a **settlement discount** does not.
b. Explain why writing off a **bad debt** reverses the GST charged on the original credit sale.
c. Using the **accrual basis**, explain why a bad debt is recorded as an expense in the period the debt is judged uncollectable rather than in the period the cash was expected.

Practice questions — unscaffolded

Question 7

Vantage Trading's debtor *Holloway Cafe* returned goods on 8 July 2026 with a selling price of **$1 500** plus GST (**Credit Note 40**); the goods had cost $980. Record the two General Journal entries for the sales return and state the amount by which Holloway Cafe's account is reduced.

Question 8

Cobalt Distributors recorded in August 2026: 2 August, cash sales $900 plus GST (**Rec. 200**), the goods costing $610; 10 August, $784 from *Fairview Store*, allowed a $16 discount on its $800 account (**Rec. 201**); 18 August, $1 100 from *Rosslyn Cafe* in full settlement of its $1 100 account, no discount (**Rec. 202**); 27 August, $955 from *Kimball Grocer*, allowed a $20 discount on its $975 account (**Rec. 203**). Prepare the Cash Receipts Journal, cross-add, and state the total discount expense and the Cost of Sales total.

Question 9

Emberton Wholesalers wrote off the **$693** account of its debtor *Grayton Cafe* as uncollectable on 30 September 2026 (**Memo 9**). Record the write-off in the General Journal and state the Bad Debts expense and the GST reversed.

Question 10

Silverbrook Traders' debtor *Wexford Deli* returned goods on 5 September 2026 with a selling price of **$400** plus GST (**Credit Note 15**), the goods costing $250. Record the General Journal entries and state the effect of the return on (i) Sales Returns, (ii) GST Clearing, (iii) Inventory and (iv) Cost of Sales.

Question 11

Halewood Trading's debtor *Ferncliff Store* owed **$2 200** (GST-inclusive) and paid its account in full within the discount period, allowed a **3%** settlement discount. Calculate the discount and the cash received, record the single Cash Receipts Journal line, and state why no GST is adjusted on the discount.

Question 12

Nutfield Distributors judged the **$451** account of its debtor *Ashcombe Cafe* to be uncollectable and wrote it off on 30 June 2026 (**Memo 18**). Record the write-off in the General Journal, and state the Bad Debts expense and the balance of Ashcombe Cafe's account after the write-off.

Question 13

Bramford Traders keeps a subsidiary account for *Kingsley Store*, which owed **$220** at 1 October 2026. On 9 October Bramford made a credit sale of $2 000 plus $200 GST (**Invoice S70**), the goods costing $1 300; on 17 October Kingsley returned part of that order, a selling price of $500 plus $50 GST (**Credit Note 33**), the returned goods costing $320. Prepare the subsidiary account and state the closing balance owing at 31 October.

Question 14

Larkmead Wholesalers' debtor *Ottery Cafe* owed **$946** at 1 November 2026. On 12 November Ottery paid **$396** off its account (**Receipt 88**, no discount). On 28 November the remaining balance was judged uncollectable and written off (**Memo 22**). Record the receipt as its Cash Receipts Journal line and the write-off in the General Journal, and state the Bad Debts expense and the GST reversed.

Question 15

During December 2026 the subsidiary account of *Marlstone Cafe*, a debtor of *Denholm Traders*, had: a credit sale of $1 650 (GST-inclusive); a sales return of $220 (GST-inclusive); and a receipt of $440 with a $10 settlement discount. The closing balance owing at 31 December was **$1 430**. Calculate the opening balance owing at 1 December.

Question 16

Wrenfield Distributors keeps a subsidiary account for *Colby Store*, which owed **$1 100** at 1 February 2027. During February: 6 February, a credit sale of $1 200 plus $120 GST (**Invoice S120**), the goods costing $800; 14 February, a sales return of $300 plus $30 GST (**Credit Note 8**), the returned goods costing $200; 23 February, a receipt of $1 078 (**Receipt 40**) settling the $1 100 opening balance, with a $22 discount. Prepare the subsidiary account, state the closing balance owing, and state the **net** GST that passed through GST Clearing on this account during February.

Question 17

Explain, with reference to the **accrual basis** and **faithful representation**, why a debt known to be uncollectable must be **written off** as a bad debt rather than left in Accounts Receivable, and explain why the **GST** charged on the original credit sale is reversed when the debt is written off.

Question 18

The owner of *Castlemaine Traders* gives the bookkeeper two instructions at balance day. First, **not** to write off the **$1 210** account of *Bevan Cafe*, which everyone accepts is uncollectable, so that Accounts Receivable, total assets and net profit look healthier for a bank-loan application due next week. Second, to issue a credit note for a **$550** "sales return" to a **related party** (the owner's cousin's business) that **did not return any goods**, so that the related party's account is reduced and $50 of GST is reversed. **Discuss** the ethical considerations involved, identify the qualitative characteristics breached, and explain the effect of each instruction on the business's records.

Answers

1.
    b. GST reversed $80; account reduced $880. c. Inventory +$520; Cost of Sales −$520.
2.
    a. Totals Bank $2 791, Discount $29, Cost of Sales $450, Sales $700, GST $70, Sundries $2 050. b. Corella Store $550; Dunmore Cafe $600; Bexley Grocer $900. c. Bank $2 791 + Discount $29 = $2 820 = Sales $700 + GST $70 + Sundries $2 050; Cost of Sales $450 posted Dr Cost of Sales / Cr Inventory.
3.
    b. GST reversed $52; Bad Debts $520. c. Accounts Receivable −$572; net profit −$520.
4.
    b. $880. c. GST on the sale $90; GST reversed on the return $10.
5.
    c. After the return $506; after the write-off nil.
6. a–c. See solutions.
7. Account reduced $1 650 (Sales Returns $1 500, GST $150; Inventory +$980, Cost of Sales −$980).
8. Totals Bank $3 829, Discount $36, Cost of Sales $610, Sales $900, GST $90, Sundries $2 875; cross-adds to $3 865; total discount expense $36; Cost of Sales $610.
9. Bad Debts $630; GST reversed $63.
10.
    (i) Sales Returns +$400; (ii) GST Clearing +$40 (debit); (iii) Inventory +$250; (iv) Cost of Sales −$250.
11. Discount $66; cash received $2 134; no GST adjusted on a settlement discount.
12. Bad Debts $410; account balance nil.
13. Closing balance owing $1 870.
14. Bad Debts $500; GST reversed $50.
15. Opening balance owing $450.
16. Closing balance owing $990; net GST $90.
17. See solutions.
18. See solutions.

Fully-worked solutions

Question 1

General Journal — Kestrel Trading

Date 2026	Details	Debit $	Credit $
14 Mar	Sales Returns	800	
	GST Clearing	80	
	Accounts Receivable – Ridgeway Cafe		880
	Credit Note 18: goods returned by customer		
14 Mar	Inventory	520	
	Cost of Sales		520
	Cost of the returned goods restored to inventory		

b. GST reversed = $880 ÷ 11 = **$80** (10% of the $800 selling price); Ridgeway Cafe's account is reduced by the full **$880**.

c. Inventory **rises by $520** and Cost of Sales **falls by $520** — the cost of the returned goods is restored to the asset and taken back out of the period's cost of sales.

Question 2

Cash Receipts Journal — Amberton Traders (April 2026)

Date	Details	Rec. No.	Bank $	Discount expense $	Cost of Sales $	Sales $	GST $	Sundries $
3 Apr	Cash sales	40	770		450	700	70	
11 Apr	Corella Store	41	539	11				550
19 Apr	Dunmore Cafe	42	600					600
27 Apr	Bexley Grocer	43	882	18				900
	Totals		**2 791**	**29**	**450**	**700**	**70**	**2 050**

b. Each debtor's account is cleared by Bank + Discount expense: **Corella Store $550** (539 + 11), **Dunmore Cafe $600** (600 + 0), **Bexley Grocer $900** (882 + 18).

c. Bank $2 791 + Discount $29 = **$2 820** = Sales $700 + GST $70 + Sundries $2 050 = **$2 820**, so the journal cross-adds. The **Cost of Sales** column total of **$450** is a separate memorandum figure, posted **Dr Cost of Sales $450 / Cr Inventory $450** for the cash sales; it is **not** part of the Bank cross-add.

Question 3

General Journal — Thornbury Wholesalers

Date 2026	Details	Debit $	Credit $
30 May	Bad Debts	520	
	GST Clearing	52	
	Accounts Receivable – Larkfield Cafe		572
	Memo 15: debt written off as uncollectable		

b. GST reversed = $572 ÷ 11 = **$52**; Bad Debts = $572 − $52 = **$520**.

c. **Accounts Receivable** falls by **$572** (Larkfield's account is removed to nil), and **net profit falls by $520** — the Bad Debts expense reported in the Income Statement. The remaining $52 is not an expense; it is GST recovered, reducing the amount owed to (or increasing the amount owed by) the ATO through **GST Clearing**.

Question 4

Accounts Receivable — Pinehill Store (subsidiary ledger)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
1 May	Balance			407
7 May	Sales (Inv. S88)	990		1 397

Date 2026	Cross-reference	Debit $	Credit $	Balance $
16 May	Sales Returns (CN 24)		110	1 287
26 May	Bank (Rec. 60)		399	888
26 May	Discount expense		8	880

b. Closing balance owing = $407 + $990 − $110 − $399 − $8 = **$880** (the amount of Invoice S88 less Credit Note 24). The receipt $399 + discount $8 = $407 cleared the opening balance.

c. GST recorded on the credit sale = **$90** (10% of $900); GST reversed on the sales return = **$10** (10% of $100).

Question 5

a. Sales return:

General Journal — Oakvale Traders

Date 2026	Details	Debit $	Credit $
10 Jun	Sales Returns	300	
	GST Clearing	30	
	Accounts Receivable – Sennen Kiosk		330
	Credit Note 12: goods returned by customer		
10 Jun	Inventory	190	
	Cost of Sales		190
	Cost of the returned goods restored to inventory		

b. Bad-debt write-off (the remaining balance is $836 − $330 = $506; GST = $506 ÷ 11 = $46; Bad Debts = $460):

General Journal — Oakvale Traders

Date 2026	Details	Debit $	Credit $
25 Jun	Bad Debts	460	
	GST Clearing	46	
	Accounts Receivable – Sennen Kiosk		506
	Memo 20: debt written off as uncollectable		

c. After the sales return, Sennen Kiosk owes $836 − $330 = **$506**; after the write-off, its account is **nil**.

Question 6

a. A **sales return** *undoes an actual sale*: goods that were sold — a taxable supply — have come back, so the GST charged on that sale must be **reversed** out of GST Clearing. A **settlement discount** is a reward for paying promptly, **not** a change to the selling price of the goods, so the study design **excludes GST from**

settlement discounts: the GST recorded when the goods were sold stands, and nothing is entered in the GST column for the discount.

b. A credit sale is a **taxable supply** on which the business became liable to remit **GST** to the ATO. When the debt is written off as uncollectable, the business will **never receive** the cash — including the GST portion it fronted — so the GST originally charged is **reversed** (an exact 1/11 of the debt), leaving only the ex-GST loss as the Bad Debts expense.

c. Under the **accrual basis**, an expense is recognised in the period the **economic benefit is consumed or lost**, not when cash moves. Once a debt is judged uncollectable, the *right to collect* (the asset) has been lost **now**, so the loss (Bad Debts) is recognised **now** — matching it to the period in which the credit sale's benefit failed — giving a faithful measure of that period's profit and of the debtors that genuinely remain.

Question 7

General Journal — Vantage Trading

Date 2026	Details	Debit $	Credit $
8 Jul	Sales Returns	1 500	
	GST Clearing	150	
	Accounts Receivable – Holloway Cafe		1 650
	Credit Note 40: goods returned by customer		
8 Jul	Inventory	980	
	Cost of Sales		980
	Cost of the returned goods restored to inventory		

GST reversed = $1 650 ÷ 11 = **$150**; Holloway Cafe's account is reduced by the full **$1 650** (Sales Returns $1 500 + GST $150). Inventory rises $980 and Cost of Sales falls $980.

Question 8

Cash Receipts Journal — Cobalt Distributors (August 2026)

Date	Details	Rec. No.	Bank $	Discount expense $	Cost of Sales $	Sales $	GST $	Sundries $
2 Aug	Cash sales	200	990		610	900	90	
10 Aug	Fairview Store	201	784	16				800
18 Aug	Rosslyn Cafe	202	1 100					1 100
27 Aug	Kimball Grocer	203	955	20				975
	Totals		**3 829**	**36**	**610**	**900**	**90**	**2 875**

Cross-add: Bank $3 829 + Discount $36 = **$3 865** = Sales $900 + GST $90 + Sundries $2 875 = **$3 865**. Total **discount expense = $36** ($16 + $20). The **Cost of Sales** total of **$610** is posted separately (Dr Cost of Sales / Cr Inventory) and is not part of the cross-add. The three receipts from accounts receivable cleared $800, $1 100 and $975.

Question 9

General Journal — Emberton Wholesalers

Date 2026	Details	Debit $	Credit $
30 Sep	Bad Debts	630	
	GST Clearing	63	
	Accounts Receivable – Grayton Cafe		693
	Memo 9: debt written off as uncollectable		

GST reversed = $693 ÷ 11 = **$63**; Bad Debts expense = $693 − $63 = **$630**. Grayton Cafe's $693 account is removed to nil.

Question 10

General Journal — Silverbrook Traders

Date 2026	Details	Debit $	Credit $
5 Sep	Sales Returns	400	
	GST Clearing	40	
	Accounts Receivable – Wexford Deli		440
	Credit Note 15: goods returned by customer		
5 Sep	Inventory	250	
	Cost of Sales		250
	Cost of the returned goods restored to inventory		

Effect of the return: **(i) Sales Returns** increases by **$400** (revenue reduced by $400); **(ii) GST Clearing** is **debited $40** (the $40 GST charged on the sale is reversed, reducing the GST liability); **(iii) Inventory** rises by **$250**; **(iv) Cost of Sales** falls by **$250**.

Question 11

The settlement discount = 3% × $2 200 = **$66**; the cash received = $2 200 − $66 = **$2 134**.

Cash Receipts Journal (extract) — Halewood Trading

Date	Details	Rec. No.	Bank $	Discount expense $	Cost of Sales $	Sales $	GST $	Sundries $
—	Ferncliff Store	—	2 134	66				2 200

Bank $2 134 + Discount expense $66 = $2 200 clears Ferncliff Store's account. **No GST is adjusted**: a settlement discount is a reward for paying promptly, not a change to the selling price, so the study design excludes GST from settlement discounts and nothing is entered in the GST column.

Question 12

General Journal — Nutfield Distributors

Date 2026	Details	Debit $	Credit $
30 Jun	Bad Debts	410	
	GST Clearing	41	
	Accounts Receivable – Ashcombe Cafe		451
	Memo 18: debt written off as uncollectable		

GST reversed = $451 ÷ 11 = $41; **Bad Debts expense = $410** ($451 − $41). After the write-off, Ashcombe Cafe's account balance is **nil**.

Question 13

Accounts Receivable — Kingsley Store (subsidiary ledger)

Date 2026	Cross-reference	Debit $	Credit $	Balance $
1 Oct	Balance			220
9 Oct	Sales (Inv. S70)	2 200		2 420
17 Oct	Sales Returns (CN 33)		550	1 870

Closing balance owing at 31 October = $220 + $2 200 − $550 = **$1 870**. In the debtor's account the credit sale is a **debit** of the full GST-inclusive $2 200, and the sales return is a **credit** of the full GST-inclusive $550.

Question 14

The receipt clears $396 with no discount, leaving $946 − $396 = $550 owing, which is then written off (GST = $550 ÷ 11 = $50; Bad Debts = $500).

Cash Receipts Journal (extract) — Larkmead Wholesalers

Date	Details	Rec. No.	Bank $	Discount expense $	Cost of Sales $	Sales $	GST $	Sundries $
12 Nov	Ottery Cafe	88	396					396

General Journal — Larkmead Wholesalers

Date 2026	Details	Debit $	Credit $
28 Nov	Bad Debts	500	
	GST Clearing	50	
	Accounts Receivable – Ottery Cafe		550
	Memo 22: debt written off as uncollectable		

Bad Debts expense = $500; **GST reversed = $50**. Ottery Cafe's account: $946 − $396 − $550 = **nil**.

Question 15

Rearranging the running-balance rule (opening + sale − return − receipt − discount = closing):

Opening = closing − sale + return + receipt + discount = $1 430 − $1 650 + $220 + $440 + $10 = **$450**.

Check: $450 + $1 650 − $220 − $440 − $10 = **$1 430**, the stated closing balance. (The receipt $440 + discount $10 = $450 cleared $450 of the account.) The **opening balance owing at 1 December was $450**.

Question 16

Accounts Receivable — Colby Store (subsidiary ledger)

Date 2027	Cross-reference	Debit $	Credit $	Balance $
1 Feb	Balance			1 100
6 Feb	Sales (Inv. S120)	1 320		2 420
14 Feb	Sales Returns (CN 8)		330	2 090
23 Feb	Bank (Rec. 40)		1 078	1 012
23 Feb	Discount expense		22	990

Closing balance owing = $1 100 + $1 320 − $330 − $1 078 − $22 = **$990** (the receipt $1 078 + discount $22 = $1 100 cleared the opening balance). The **net GST** through GST Clearing on this account = $120 (charged on the sale) − $30 (reversed on the return) = **$90** credited to GST Clearing.

Question 17

Under the **accrual basis**, an expense (and a loss of an asset) is recognised in the period the economic benefit is **consumed or lost**, regardless of when cash moves. An account receivable is an asset only because it carries the **future economic benefit** of collecting cash; once the debtor is judged **uncollectable**, that benefit has gone, so the asset must be **removed now** and the loss recognised now as a **Bad Debts** expense. Leaving the dead debt in Accounts Receivable would breach **faithful representation**: the Balance Sheet would **overstate** assets by reporting a debtor that will never pay, and the Income Statement would **overstate** profit by omitting the loss — the reports would be neither complete nor free from bias, and a user relying on them would be misled about the business's real position and performance.

The **GST** charged on the original credit sale is reversed because that sale was a **taxable supply** on which the business became liable to remit GST to the ATO. When the debt is written off, the business will **never receive** the cash — including the GST portion it effectively advanced — so the GST liability created by the failed sale is **reversed** (an exact **1/11** of the amount written off) through GST Clearing. Only the **ex-GST** portion is a genuine expense (Bad Debts); reversing the GST keeps the amount owed to the ATO a faithful representation of the business's real GST obligation.

Question 18

Both instructions are **dishonest** and would make the records **not a faithful representation** of the business's accounts receivable and profit. The bookkeeper has an ethical (and legal) duty to **refuse** them.

(i) Refusing to write off the $1 210 bad debt. Everyone accepts Bevan Cafe's account is **uncollectable**, so under the **accrual basis** it should be written off **now** — expensing $1 100 of Bad Debts and reversing $110 of GST. Keeping it on the books deliberately **overstates Accounts Receivable and total assets by $1 210** in the Balance Sheet and **overstates net profit by $1 100** in the Income Statement, because the loss has not been recognised. This breaches **faithful representation** (the debtor reported does not genuinely exist and the reports are biased) and **relevance** (the inflated figures would mislead the bank's lending decision). Presenting these figures to obtain finance is not “prudence” — it is misrepresenting the business’s position to a lender, exposing the business to serious legal consequences.

(ii) Issuing a $550 credit note for goods never returned. A sales return may be recorded **only** when goods have genuinely come back. Issuing a credit note to a **related party** who returned **nothing** records a **Sales Return that did not happen**, wrongly **reverses $50 of GST** the business still owes the ATO, and **reduces a live debtor’s balance by $550** — favouring the owner’s relative at the business’s expense. This breaches **faithful representation** (a transaction is recorded that did not occur) and **verifiability** (there is no genuine return of goods behind the credit note), and — because it understates GST payable and the amount the related party owes — it is a form of **fraud**.

Effect on the records. The first instruction inflates Accounts Receivable, total assets and net profit by carrying a debt that is already lost; the second understates Sales (via a false Sales Return), understates GST Clearing (a wrongful $50 reversal) and understates a genuine debtor’s balance. Acting with integrity, the bookkeeper must **write off Bevan Cafe’s $1 210 as a bad debt**, **refuse to issue the fictitious credit note**, and present the bank with reports that faithfully show the debtors that genuinely remain — so that assets, profit and GST are all reported truthfully and can be independently verified.