Accounting Units 3 & 4

Chapter 5 Accounts payable

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Chapter 5 Accounts payable — 5A Credit purchases and payments to accounts payable

Theory

A trading business rarely pays cash for every delivery of inventory. Instead it buys most of its inventory **on credit** — the supplier delivers the goods now, and the business agrees to pay for them **later**, usually within 30 days. A purchase of inventory on credit is called a **credit purchase**, and the supplier the business owes is an **account payable**. The source document that evidences a credit purchase is the **purchase invoice** the supplier issues; the document for the later payment is the **EFT payment** that evidences the electronic transfer of cash to the supplier.

Accounts Payable is a current liability. Because the business has received the inventory but not yet paid for it, it has a **present obligation** to transfer cash to the supplier. This obligation:

- arises from a **past event** — the credit purchase that has already occurred;
- will be settled by the **transfer of an economic resource** — a future payment of cash; and
- is normally due within twelve months, so it is classified as a **current liability**.

The obligation is recorded in the **Accounts Payable** account. Under the **accrual basis** assumption, a transaction is recorded when it **occurs**, not when the cash changes hands — so a credit purchase is recorded on the date of the invoice, creating the liability, even though no cash has yet been paid.

Recording a credit purchase of inventory. A business that uses the **perpetual** inventory system records inventory in the accounting records at all times, so a purchase of inventory is debited straight into the **Inventory** asset account at its **cost price** — the GST-exclusive amount. Goods and Services Tax (GST) of 10% is added by the supplier, but GST is **not a cost** to the business: it can be claimed back from the Australian Taxation Office (ATO), so it is recorded separately in the **GST Clearing** account rather than added to the cost of the inventory. A credit purchase therefore has **three** parts:

- **Debit Inventory** with the cost of the goods (an asset increases).
- **Debit GST Clearing** with the GST charged by the supplier (this GST is recoverable from the ATO, so it reduces the net GST the business owes — GST Clearing is debited).
- **Credit Accounts Payable** with the **total** owed to the supplier — the GST-inclusive amount (a liability increases).

Because the total debited (Inventory + GST Clearing) equals the total credited (Accounts Payable), the entry obeys double-entry recording. The **GST is exactly one-eleventh (1/11) of the GST-inclusive total**, which is the same amount as 10% of the GST-exclusive cost.

Recording a payment to an account payable. When the business later pays the supplier, it settles part or all of what it owes. The payment has just **two** parts:

- **Debit Accounts Payable** with the amount paid (the liability decreases).
- **Credit Bank** with the amount paid (the asset decreases).

No GST is recorded on the payment. The GST was recognised in full when the inventory was purchased on credit; recording GST again on the payment would count it twice. A payment simply extinguishes an obligation that already exists.

The Accounts Payable account. In the General Ledger, the **Accounts Payable** account gathers every credit purchase on its **credit** side (increasing the liability) and every payment on its **debit** side (decreasing the liability). Its balance is a **credit balance** equal to the **total the business still owes its suppliers** at that date — the figure reported as a current liability in the Balance Sheet.

Worked model. *Harbourside Living* is a homewares retailer that is registered for GST and uses the perpetual inventory system. At 1 March 2025 it owed $440 to its supplier *Delmar Wholesale*. During March:

- **6 Mar** — bought inventory on credit from Delmar Wholesale: 40 *Aria* lamps at $15 each = $600 cost, plus $60 GST, a total of $660 (**Invoice D145**).

- **22 Mar** — paid Delmar Wholesale $440 by electronic transfer to settle the amount owing from February (**EFT 3011**).

General Journal

Date 2025	Details	Debit $	Credit $
6 Mar	Inventory	600	
	GST Clearing	60	
	Accounts Payable		660
	Credit purchase of inventory (Invoice D145)		
22 Mar	Accounts Payable	440	
	Bank		440
	Payment to account payable (EFT 3011)		

Accounts Payable

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
22 Mar	Bank	440	1 Mar	Balance	440
			6 Mar	Inventory/GST Clearing	660

The credit side totals $1 100 (the $440 brought forward plus the $660 credit purchase) and the debit side totals $440 (the payment), so Accounts Payable has a **balance of $660 Cr** — the amount still owed to Delmar Wholesale at 22 March, reported as a current liability.

Worked examples (scaffolded)

Example 1 — recording a credit purchase of inventory

Fernwood Homewares is registered for GST and uses the perpetual inventory system. On 4 April 2025 it bought 30 *Lumen* desk lamps on credit from *Castorama Traders* at $24 each, plus GST (**Invoice C220**). Record the credit purchase in the General Journal.

Working	Comment
Cost of inventory = 30 × $24 = **$720**. Inventory is debited at its GST-exclusive cost.	Under the perpetual system, inventory is recorded straight into the **Inventory** asset account at cost.
GST = 10% × $720 = **$72** (equal to 1/11 of the $792 total). GST Clearing is debited.	The GST charged by the supplier is recoverable from the ATO, so it is recorded in **GST Clearing**, not added to the cost of inventory.
Total owed = $720 + $72 = **$792**. Accounts Payable is credited with the GST-inclusive total.	The liability is the full amount the supplier will be paid.
Check: debits $720 + $72 = $792 = the credit to Accounts Payable.	Total debits equal total credits, so double-entry holds.

General Journal

Date 2025	Details	Debit $	Credit $
4 Apr	Inventory	720	
	GST Clearing	72	
	Accounts Payable		792

Date 2025	Details	Debit $	Credit $
	Credit purchase of inventory (Invoice C220)		

Example 2 — a payment to an account payable, then posting to the ledger

Coastline Kitchenware is registered for GST and uses the perpetual inventory system. At 1 May 2025 it owed $880 to its supplier *Vale Supplies*. On 9 May it bought inventory on credit from Vale for $900 plus GST (**Invoice V310**), and on 24 May it paid Vale $880 by electronic transfer to clear the amount owing at the start of the month (**EFT 5140**). Record the two transactions, post them to the Accounts Payable account and state its balance.

Working	Comment
9 May credit purchase: Inventory $900 (Dr); GST = 10% × $900 = $90 (Dr GST Clearing); Accounts Payable $990 (Cr).	The credit purchase increases the liability by the GST-inclusive total of $990.
24 May payment: Accounts Payable is a liability that **decreases → debit $880**.	Paying the supplier reduces the amount owed.
Bank is an asset that **decreases → credit $880**. **No GST** is recorded on the payment.	The GST was already recorded on 9 May; recording it again would double-count it.
Posting: the $990 purchase is a **credit** in Accounts Payable; the $880 payment is a **debit**. Opening balance $880 Cr.	Credit purchases increase the liability (credit side); payments reduce it (debit side).
Balance = $880 + $990 − $880 = **$990 Cr**.	The credit balance is the total still owed to Vale Supplies.

General Journal

Date 2025	Details	Debit $	Credit $
9 May	Inventory	900	
	GST Clearing	90	
	Accounts Payable		990
	Credit purchase of inventory (Invoice V310)		
24 May	Accounts Payable	880	
	Bank		880
	Payment to account payable (EFT 5140)		

Accounts Payable

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
24 May	Bank	880	1 May	Balance	880
			9 May	Inventory/GST Clearing	990

Total credits $1 870 less total debits $880 = **balance $990 Cr**, the amount owed to Vale Supplies at 24 May.

Worked examples (unscaffolded)

Example 3 — a credit purchase where only the GST-inclusive total is given

Aster & Co is registered for GST and uses the perpetual inventory system. On 3 June 2025 it bought inventory on credit from *Brindle Wholesale* for a total of $1 540, including GST (**Invoice B417**). Record the credit purchase in the General Journal.

Only the GST-inclusive total is given, so the GST is **1/11 of $1 540 = $140**, and the cost of the inventory is $1 540 − $140 = $1 400. Inventory is debited $1 400, GST Clearing is debited $140, and Accounts Payable is credited the $1 540 total.

General Journal

Date 2025	Details	Debit $	Credit $
3 Jun	Inventory	1 400	
	GST Clearing	140	
	Accounts Payable		1 540
	Credit purchase of inventory (Invoice B417)		

∴ the credit purchase increases Inventory by $1 400 and Accounts Payable by $1 540, with $140 of recoverable GST debited to GST Clearing.

Example 4 — two credit purchases and a payment; finding the ledger balance

Rivermont Trading is registered for GST and uses the perpetual inventory system. At 1 June 2025 it owed $1 100 to its supplier *Sunbelt Distributors*. During June it bought inventory on credit from Sunbelt for $2 000 plus GST on 8 June (**Invoice S52**) and for $1 500 plus GST on 15 June (**Invoice S61**), and on 27 June it paid $1 100 by electronic transfer to clear the opening amount (**EFT 6003**). Prepare the Accounts Payable account and state its balance at 30 June.

The 8 June purchase adds $2 000 + $200 GST = $2 200 to the liability, and the 15 June purchase adds $1 500 + $150 GST = $1 650. The payment reduces the liability by $1 100.

Accounts Payable

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
27 Jun	Bank	1 100	1 Jun	Balance	1 100
			8 Jun	Inventory/GST Clearing	2 200
			15 Jun	Inventory/GST Clearing	1 650

Total credits = $1 100 + $2 200 + $1 650 = $4 950; total debits = $1 100.

∴ Accounts Payable has a **balance of $3 850 Cr** at 30 June — the total owed to Sunbelt Distributors, reported as a current liability.

Practice questions — scaffolded

Question 1

Larch & Stone is registered for GST and uses the perpetual inventory system. On 2 March 2025 it bought 25 *Cove* serving bowls on credit from *Pemberton Wholesale* at $32 each, plus GST (**Invoice P102**).

a. Calculate the cost of the inventory, the GST and the total owed to Pemberton Wholesale.
b. Record the credit purchase in the General Journal.
c. Name the account credited, state its element, and state how it is classified in the Balance Sheet.

Question 2

Brightwater Homewares is registered for GST and uses the perpetual inventory system. On 5 April 2025 it bought inventory on credit from *Coastal Traders* for a total of $2 200, including GST (**Invoice CT55**).

a. Calculate the GST included in the total, using the 1/11 rule.

b. Record the credit purchase in the General Journal.

c. State the amount debited to Inventory, and explain in one sentence why the GST is not added to the cost of the inventory.

Question 3

Harlow Living is registered for GST and uses the perpetual inventory system. It owes $1 320 to its supplier *Delta Imports*. On 15 July 2025 it pays the full amount owing by electronic transfer (**EFT 7220**).

a. Record the payment in the General Journal.

b. Name the two accounts affected, and state whether each is debited or credited.

c. Explain, in one sentence, why no GST is recorded on the payment.

Question 4

Marigold Trading is registered for GST and uses the perpetual inventory system. During August 2025 it bought inventory on credit from *Everton Supplies* for $1 200 plus GST on 5 August (**Invoice E88**) and for $800 plus GST on 12 August (**Invoice E95**), and on 19 August it paid $1 320 by electronic transfer to settle the first invoice (**EFT 8010**). Marigold owed nothing to Everton at 1 August.

a. Record the two credit purchases and the payment in the General Journal.

b. Post the transactions to the Accounts Payable account.

c. State the balance of the Accounts Payable account at 31 August.

Question 5

Oakridge Homewares is registered for GST and uses the perpetual inventory system. At 1 September 2025 it owed $660 to its supplier *Ferndale Wholesale*. On 7 September it bought inventory on credit from Ferndale for $1 500 plus GST (**Invoice F210**), and on 21 September it paid $660 by electronic transfer to clear the opening amount (**EFT 9004**).

a. Prepare the Accounts Payable account for September.

b. State the balance of the account at 30 September.

c. Explain, in one or two sentences, what this balance represents.

Question 6

On 28 September 2025 *Wattle Trading* buys inventory on credit for $990, including GST, but will not pay the supplier until October.

a. State the amount that will be debited to Inventory and the amount debited to GST Clearing.

b. Explain why the purchase is recorded in September, even though no cash is paid until October. Refer to the accrual basis assumption.

c. Explain why the amount owing to the supplier is classified as a current liability.

Practice questions — unscaffolded

Question 7

Cedar Lane Living is registered for GST and uses the perpetual inventory system. On 6 October 2025 it bought 32 *Haven* cushions on credit from *Ashford Wholesale* at $50 each, plus GST (**Invoice A140**). Record the credit purchase in the General Journal.

Question 8

Sable & Finch is registered for GST and uses the perpetual inventory system. On 4 November 2025 it bought inventory on credit from *Torrens Distributors* for a total of $3 300, including GST (**Invoice T77**). Record the credit purchase in the General Journal, showing the amounts debited to Inventory and to GST Clearing.

Question 9

Vireo Homewares is registered for GST and uses the perpetual inventory system. It owes $2 090 to its supplier *Palmerston Supplies*. On 12 November 2025 it pays the full amount by electronic transfer (**EFT 1205**). Record the payment in the General Journal.

Question 10

Juniper Trading is registered for GST and uses the perpetual inventory system. On 4 October 2025 it bought inventory on credit from *Kirribilli Wholesale* for $1 400 plus GST (**Invoice K300**), and on 25 October it paid the full amount owing on that invoice by electronic transfer (**EFT 2380**). Record both transactions in the General Journal.

Question 11

Thornbury Living is registered for GST and uses the perpetual inventory system, and owed nothing to *Maribyrnong Imports* at 1 November 2025. During November it bought inventory on credit from Maribyrnong for $1 000 plus GST on 3 November (**Invoice M12**) and for $1 800 plus GST on 11 November (**Invoice M20**), and on 24 November it paid $1 100 by electronic transfer (**EFT 3300**). Prepare the Accounts Payable account and state its balance at 30 November.

Question 12

Belmore Homewares is registered for GST and uses the perpetual inventory system. At 1 December 2025 it owed $1 430 to *Carlton Wholesale*. On 6 December it bought inventory on credit from Carlton for $2 200 plus GST (**Invoice CW9**), and on 20 December it paid $1 430 by electronic transfer (**EFT 4400**). Prepare the Accounts Payable account and state its balance at 31 December.

Question 13

Kewarra Trading is registered for GST and uses the perpetual inventory system. At 1 January 2025 it owed $990 to *Toorak Distributors*. During January it bought inventory on credit from Toorak for $1 600 plus GST on 5 January (**Invoice TD10**) and for a total of $2 640 including GST on 9 January (**Invoice TD14**); it paid $990 on 18 January (**EFT 5500**) and $1 760 on 27 January (**EFT 5540**), both by electronic transfer. Prepare the Accounts Payable account and state its balance at 31 January.

Question 14

Marlowe Interiors is registered for GST and uses the perpetual inventory system. At the start of the month its Accounts Payable account had a balance of $2 100 Cr. During the month its credit purchases of inventory totalled $8 470 (including GST), and at the end of the month the Accounts Payable account had a balance of $3 300 Cr. Using account reconstruction, calculate the total paid to accounts payable during the month. (You are not required to prepare the account.)

Question 15

Explain why the *Accounts Payable* account is classified as a **current liability**. In your answer, refer to what creates the obligation, how it will be settled, and why it is classified as *current* rather than non-current.

Question 16

On 27 February 2025 *Rosella Trading* buys inventory on credit for $1 210, including GST, and pays the supplier three weeks later in March. Explain, with reference to the **accrual basis** assumption, why the purchase and the GST are recorded in full in February, and why **no GST** is recorded again when the business pays the supplier in March.

Question 17

Willowbank Homewares is registered for GST and uses the perpetual inventory system. At 1 February 2025 it owed $1 650 to *Nedlands Wholesale*. On 4 February it bought inventory on credit from Nedlands for a total of $4 070, including GST (**Invoice NW7**), and on 26 February it paid $1 650 by electronic transfer to clear the opening amount (**EFT 6600**). Record the credit purchase in the General Journal, prepare the Accounts Payable account, and state its balance at 28 February.

Question 18

Gladesville Living is registered for GST and uses the perpetual inventory system. At 1 March 2025 it owed $1 320 to *Rosewood Wholesale*. During March it bought inventory on credit from Rosewood for $2 500 plus GST on 5 March (**Invoice RW1**) and for a total of $1 980 including GST on 13 March (**Invoice RW8**); it paid $1 320 on 19 March (**EFT 7700**) and $2 750 on 28 March (**EFT 7742**), both by electronic transfer. Record the transactions in the General Journal, prepare the Accounts Payable account, and state its balance at 31 March.

Answers

1.
    a. Inventory $800; GST $80; total $880. c. Accounts Payable (a liability) — current liability
2.
    a. GST $200. c. Inventory $2 000 (GST is recoverable, so it is not a cost of the inventory)
3.
    a. Dr Accounts Payable $1 320; Cr Bank $1 320. b. Accounts Payable debited; Bank credited
4.
    c. $880 Cr
5.
    b. $1 650 Cr
6.
    a. Inventory $900; GST Clearing $90
7. Dr Inventory $1 600; Dr GST Clearing $160; Cr Accounts Payable $1 760
8. Dr Inventory $3 000; Dr GST Clearing $300; Cr Accounts Payable $3 300
9. Dr Accounts Payable $2 090; Cr Bank $2 090
10. Purchase: Cr Accounts Payable $1 540; payment: Dr Accounts Payable $1 540; Cr Bank $1 540
11. $1 980 Cr
12. $2 420 Cr
13. $2 640 Cr
14. $7 270
15. See solutions
16. See solutions
17. $4 070 Cr
18. $1 980 Cr

Fully-worked solutions

Question 1

a. Cost = 25 × $32 = **$800**; GST = 10% × $800 = **$80**; total owed = $800 + $80 = **$880**.

General Journal

Date 2025	Details	Debit $	Credit $
2 Mar	Inventory	800	
	GST Clearing	80	
	Accounts Payable		880
	Credit purchase of inventory (Invoice P102)		

c. The account credited is **Accounts Payable**, a **liability**. It is classified as a **current liability** in the Balance Sheet, because it is expected to be settled within twelve months.

Question 2

a. GST = 1/11 × $2 200 = **$200**.

General Journal

Date 2025	Details	Debit $	Credit $
5 Apr	Inventory	2 000	
	GST Clearing	200	

Date 2025	Details	Debit $	Credit $
	Accounts Payable		2 200
	Credit purchase of inventory (Invoice CT55)		

c. Inventory is debited **$2 000** (the $2 200 total less the $200 GST). The GST is **not** added to the cost of the inventory because it is **recoverable from the ATO** — it is not an expense or cost of the business, so it is recorded separately in GST Clearing.

Question 3

General Journal

Date 2025	Details	Debit $	Credit $
15 Jul	Accounts Payable	1 320	
	Bank		1 320
	Payment to account payable (EFT 7220)		

b. **Accounts Payable** is **debited** (the liability decreases) and **Bank** is **credited** (the asset decreases).

c. No GST is recorded because the **GST was already recorded when the inventory was purchased on credit**; the payment only settles an existing liability, so recording GST again would count it twice.

Question 4

General Journal

Date 2025	Details	Debit $	Credit $
5 Aug	Inventory	1 200	
	GST Clearing	120	
	Accounts Payable		1 320
	Credit purchase of inventory (Invoice E88)		
12 Aug	Inventory	800	
	GST Clearing	80	
	Accounts Payable		880
	Credit purchase of inventory (Invoice E95)		
19 Aug	Accounts Payable	1 320	
	Bank		1 320
	Payment to account payable (EFT 8010)		

Accounts Payable

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
19 Aug	Bank	1 320	5 Aug	Inventory/GST Clearing	1 320
			12 Aug	Inventory/GST	880

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
				Clearing	

c. Total credits $2 200 − total debits $1 320 = **balance $880 Cr** at 31 August.

Question 5

Accounts Payable

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
21 Sep	Bank	660	1 Sep	Balance	660
			7 Sep	Inventory/GST Clearing	1 650

b. Total credits $2 310 − total debits $660 = **balance $1 650 Cr** at 30 September.

c. The balance represents the **total amount still owed to Ferndale Wholesale** at 30 September — the $1 650 credit purchase remains unpaid, while the $660 owing at the start of the month has been settled.

Question 6

a. Inventory is debited **$900** and GST Clearing is debited **$90** (GST = 1/11 × $990 = $90).

b. Under the **accrual basis**, a transaction is recorded when it **occurs**, not when cash is paid. The credit purchase occurs on 28 September — the business has received the inventory and taken on an obligation to pay — so the purchase, the GST and the liability are all recorded in September, even though the cash is not paid until October.

c. The amount owing is a **present obligation** to **transfer an economic resource** — cash — arising from a **past event** (the credit purchase). Because it is expected to be **settled within twelve months**, it is classified as a **current liability**.

Question 7

Cost = 32 × $50 = $1 600; GST = 10% × $1 600 = $160; total = $1 760.

General Journal

Date 2025	Details	Debit $	Credit $
6 Oct	Inventory	1 600	
	GST Clearing	160	
	Accounts Payable		1 760
	Credit purchase of inventory (Invoice A140)		

Question 8

GST = 1/11 × $3 300 = $300; Inventory = $3 300 − $300 = $3 000.

General Journal

Date 2025	Details	Debit $	Credit $
4 Nov	Inventory	3 000	
	GST Clearing	300	
	Accounts Payable		3 300
	Credit purchase of inventory (Invoice T77)		

Question 9

General Journal

Date 2025	Details	Debit $	Credit $
12 Nov	Accounts Payable	2 090	
	Bank		2 090
	Payment to account payable (EFT 1205)		

Question 10

General Journal

Date 2025	Details	Debit $	Credit $
4 Oct	Inventory	1 400	
	GST Clearing	140	
	Accounts Payable		1 540
	Credit purchase of inventory (Invoice K300)		
25 Oct	Accounts Payable	1 540	
	Bank		1 540
	Payment to account payable (EFT 2380)		

Question 11

Accounts Payable

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
24 Nov	Bank	1 100	3 Nov	Inventory/GST Clearing	1 100
			11 Nov	Inventory/GST Clearing	1 980

Total credits $3 080 − total debits $1 100 = **balance $1 980 Cr** at 30 November.

Question 12

Accounts Payable

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
20 Dec	Bank	1 430	1 Dec	Balance	1 430
			6 Dec	Inventory/GST Clearing	2 420

Total credits $3 850 − total debits $1 430 = **balance $2 420 Cr** at 31 December.

Question 13

The 5 January purchase adds $1 600 + $160 GST = $1 760; the 9 January purchase adds $2 640 (GST = 1/11 × $2 640 = $240; Inventory $2 400).

Accounts Payable

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
18 Jan	Bank	990	1 Jan	Balance	990
27 Jan	Bank	1 760	5 Jan	Inventory/GST Clearing	1 760
			9 Jan	Inventory/GST Clearing	2 640

Total credits \$5 390 − total debits \$2 750 = **balance \$2 640 Cr** at 31 January.

Question 14

Using the Accounts Payable account: opening balance + credit purchases − payments = closing balance. Rearranging for payments:

payments = opening balance + credit purchases − closing balance = \$2 100 + \$8 470 − \$3 300 = **\$7 270**.

∴ the business paid **\$7 270** to accounts payable during the month.

Question 15

The **Accounts Payable** account records a **present obligation** of the business to its suppliers. The obligation is **created by a past event** — the credit purchase of inventory that has already occurred, for which the business has received the goods but not yet paid. It will be **settled by transferring an economic resource** — a future payment of cash to the supplier. Because suppliers are normally paid within a short credit period (usually 30 days) and in any case within **twelve months**, the obligation is classified as a **current** liability rather than a non-current liability. It is reported among the current liabilities in the Balance Sheet.

Question 16

Under the **accrual basis** assumption, transactions are recorded when they **occur**, not when cash is received or paid. The credit purchase occurs on 27 February — the business receives the inventory and takes on an obligation to pay — so the **Inventory** (\$1 100), the **GST Clearing** (1/11 × \$1 210 = \$110) and the **Accounts Payable** (\$1 210) are all recorded in full in February. The GST is a consequence of the **purchase**, so it is recognised at the time of the purchase. When the business pays the supplier in March, it is only **settling an existing liability** (Dr Accounts Payable, Cr Bank), so **no GST is recorded again** — doing so would count the same GST twice.

Question 17

The credit purchase gives GST = 1/11 × \$4 070 = \$370 and Inventory = \$4 070 − \$370 = \$3 700.

General Journal

Date 2025	Details	Debit $	Credit $
4 Feb	Inventory	3 700	
	GST Clearing	370	
	Accounts Payable		4 070
	Credit purchase of inventory (Invoice NW7)		

Only the credit purchase is required in the General Journal. The 26 February payment (Dr Accounts Payable \$1 650, Cr Bank \$1 650) is posted to the **debit** side of the Accounts Payable account below.

Accounts Payable

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
26 Feb	Bank	1 650	1 Feb	Balance	1 650

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
			4 Feb	Inventory/GST Clearing	4 070

Total credits $5 720 − total debits $1 650 = **balance $4 070 Cr** at 28 February.

Question 18

The 5 March purchase adds $2 500 + $250 GST = $2 750; the 13 March purchase adds $1 980 (GST = 1/11 × $1 980 = $180; Inventory $1 800).

General Journal

Date 2025	Details	Debit $	Credit $
5 Mar	Inventory	2 500	
	GST Clearing	250	
	Accounts Payable		2 750
	Credit purchase of inventory (Invoice RW1)		
13 Mar	Inventory	1 800	
	GST Clearing	180	
	Accounts Payable		1 980
	Credit purchase of inventory (Invoice RW8)		
19 Mar	Accounts Payable	1 320	
	Bank		1 320
	Payment to account payable (EFT 7700)		
28 Mar	Accounts Payable	2 750	
	Bank		2 750
	Payment to account payable (EFT 7742)		

Accounts Payable

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
19 Mar	Bank	1 320	1 Mar	Balance	1 320
28 Mar	Bank	2 750	5 Mar	Inventory/GST Clearing	2 750
			13 Mar	Inventory/GST Clearing	1 980

Total credits $6 050 − total debits $4 070 = **balance $1 980 Cr** at 31 March.

Chapter 5 Accounts payable — 5B Purchase returns and discount revenue

Theory

When a business buys inventory on credit it records the purchase by debiting **Inventory** and **GST Clearing** and crediting **Accounts Payable** (studied in 5A). Two later events can change the amount owed to a supplier before it is finally settled: the business may **return** some of the inventory, or it may **pay early** and receive a **settlement discount**. This section records both, and traces their effect on Accounts Payable and on the reports.

Purchase returns. A **purchase return** occurs when a business sends inventory back to a supplier — usually because it is faulty, damaged, or not what was ordered. The supplier issues a **credit note**, the source document that reduces the amount owing. Because the goods physically leave the business, a purchase return **reverses part of the original credit purchase**:

- **Accounts Payable is debited** with the full GST-inclusive value of the goods returned, reducing the liability owed to the supplier.
- **Inventory is credited** with the cost of the goods returned — valued at the **cost identified on the supplier's credit note**, because the specific units being returned are known.
- **GST Clearing is credited** with the GST on the returned goods. The GST recorded on the original purchase is partly reversed, because less inventory has now been bought. This GST equals **one-eleventh (1/11) of the GST-inclusive value** of the goods returned.

So returning inventory with a GST-inclusive value of $660 is recorded as **Dr Accounts Payable $660; Cr Inventory $600; Cr GST Clearing $60** (GST = 1/11 × $660 = $60). A purchase return has **no effect on the Income Statement** — no revenue or expense arises. It simply reduces an asset (**Inventory**), the **GST Clearing** balance, and a liability (**Accounts Payable**) in the Balance Sheet.

Settlement discounts and Discount Revenue. A supplier may offer a **settlement discount** (an early-payment or "cash" discount) — a reduction in the amount owed if the account is paid within a stated period. When a business takes up the discount it settles the whole debt by paying **less cash** than it owed; Accounts Payable falls by more than Bank does, and that **decrease in a liability** increases owner's equity, so the saving is recorded as **Discount Revenue** — a revenue:

- **Accounts Payable is debited** with the full amount owing, clearing (or reducing) the liability.
- **Bank is credited** with the cash actually paid.
- **Discount Revenue is credited** with the discount received (amount owing − cash paid).

Crucially, **GST is excluded from settlement discounts** under the study design. The GST on the transaction was recorded in full when the inventory was first purchased on credit; taking up a settlement discount does **not** adjust it. The discount is therefore recorded **entirely as Discount Revenue, with no entry to GST Clearing**.

So paying an amount owing of $1 320 within the discount period and receiving a 5% discount is recorded as **Dr Accounts Payable $1 320; Cr Bank $1 254; Cr Discount Revenue $66** (discount = 5% × $1 320 = $66; cash paid = $1 254). **Discount Revenue** is reported as **other revenue** in the Income Statement, increasing net profit and therefore owner's equity.

Effect on Accounts Payable. Both a purchase return and an early payment (together with its discount) are recorded on the **debit** side of the **Accounts Payable** account, reducing what the business owes; a credit purchase is on the **credit** side. Accounts Payable normally has a **credit balance** equal to:

> opening balance + credit purchases − purchase returns − payments − discounts received.

Worked model. *Riverstone Tiles* buys inventory on credit. On 6 May it returned faulty tiles to Delmont Ceramics and received **Credit Note 40** for $660 ($600 inventory + $60 GST). On 12 May it paid the $1 320 it owed Ashfield Supplies within the discount period, receiving a 5% settlement discount (**EFT 771**).

General Journal

Date 2025	Details	Debit $	Credit $
6 May	Accounts Payable	660	
	Inventory		600
	GST Clearing		60
	Return of faulty tiles to Delmont Ceramics (Credit Note 40)		
12 May	Accounts Payable	1 320	
	Bank		1 254
	Discount Revenue		66
	Payment to Ashfield Supplies less 5% settlement discount (EFT 771)		

The return removes $60 of GST (1/11 of $660); the settlement discount carries **no GST** — the whole $66 saving is Discount Revenue.

Worked examples (scaffolded)

Example 1 — recording a purchase return with GST

Camden Cycles buys inventory on credit. On 3 June it returned 4 faulty *Voyager* helmets to its supplier, Overland Distributors. The helmets had been bought at a cost of $120 each, and Overland issued **Credit Note 58** for the GST-inclusive value of the return. Record the purchase return in the General Journal.

Working	Comment
Cost of the goods returned = 4 × $120 = $480. This is credited to **Inventory**.	The units are valued at the **cost identified on the credit note** — the price they were bought at.
GST on the return = 10% × $480 = $48, credited to **GST Clearing**. (Equivalently 1/11 × $528.)	The GST recorded on the original purchase is partly reversed; less has now been bought.
GST-inclusive value = $480 + $48 = $528, debited to **Accounts Payable**.	The full amount owing for these goods no longer needs to be paid, so the liability falls by $528.
The entry balances: Dr $528 = Cr ($480 + $48).	Every General Journal entry must have total debits equal to total credits.

General Journal

Date 2025	Details	Debit $	Credit $
3 Jun	Accounts Payable	528	
	Inventory		480
	GST Clearing		48
	Return of 4 faulty Voyager helmets to Overland Distributors (Credit Note 58)		

The return reduces **Accounts Payable** by $528, **Inventory** by $480 and **GST Clearing** by $48. There is no effect on the Income Statement.

Example 2 — recording an early payment with a settlement discount (no GST)

Fernwood Furnishings owed $1 980 to its supplier, Baymont Timber, for inventory bought on credit. On 15 July it paid the account within the discount period and received a **5% settlement discount**, paying the balance electronically (**EFT 2231**). Record the payment in the General Journal.

Working	Comment
Discount received = 5% × $1 980 = $99, credited to **Discount Revenue**.	Accounts Payable falls $1 980 but Bank only $1 881 — a **decrease in a liability** that increases owner's equity, so it is a **revenue**.
Cash paid = $1 980 − $99 = $1 881, credited to **Bank**.	Only $1 881 leaves the business to settle a $1 980 debt.
Accounts Payable is debited with the full $1 980 owing.	Taking up the discount clears the **whole** liability, not just the cash portion.
No GST is recorded — settlement discounts are excluded from GST.	The GST was already recorded in full on the original credit purchase; the discount does not change it.

General Journal

Date 2025	Details	Debit $	Credit $
15 Jul	Accounts Payable	1 980	
	Bank		1 881
	Discount Revenue		99
	Payment to Baymont Timber less 5% settlement discount (EFT 2231)		

Accounts Payable falls by $1 980 (to nil for this supplier); **Bank** falls by $1 881; and $99 of **Discount Revenue** is reported as other revenue in the Income Statement.

Worked examples (unscaffolded)

Example 3 — a purchase, a return, then early payment of the balance

Stapleton Electrical buys inventory on credit. During August it recorded the following with the supplier Nexus Wholesale: on 2 August it bought inventory on credit for $3 300 ($3 000 + $300 GST) on **Invoice N-114**; on 6 August it returned faulty goods worth $550 ($500 + $50 GST) and received **Credit Note 61**; and on 11 August it paid the balance owing within the discount period, receiving a **4% settlement discount** (**EFT 3120**). Record the three transactions and show the Accounts Payable account.

The balance owing after the return is $3 300 − $550 = $2 750. The 4% discount is 4% × $2 750 = $110, so the cash paid is $2 640 and Discount Revenue is $110 (no GST).

General Journal

Date 2025	Details	Debit $	Credit $
2 Aug	Inventory	3 000	
	GST Clearing	300	
	Accounts Payable		3 300
	Credit purchase of inventory from Nexus Wholesale (Invoice N-114)		
6 Aug	Accounts Payable	550	
	Inventory		500
	GST Clearing		50
	Return of faulty goods to Nexus Wholesale (Credit		

Date 2025	Details	Debit $	Credit $
	Note 61)		
11 Aug	Accounts Payable	2 750	
	Bank		2 640
	Discount Revenue		110
	Payment of balance less 4% settlement discount (EFT 3120)		

Accounts Payable

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
6 Aug	Inventory / GST Clearing	550	2 Aug	Inventory / GST Clearing	3 300
11 Aug	Bank / Discount Revenue	2 750			
		3 300			**3 300**

∴ Accounts Payable to Nexus Wholesale is fully settled — a nil balance — and $110 of Discount Revenue is earned.

Example 4 — a return and an early payment, and their effect on the reports

Meadowbrook Grocers recorded two transactions in September. On 5 September it returned inventory to Coastway Foods and received **Credit Note 73** for $1 430 ($1 300 + $130 GST). On 20 September it paid the $3 300 it owed Highland Provisions within the discount period, receiving a **6% settlement discount** (**EFT 4402**). Record both transactions and state their effect on the reports.

The discount is 6% × $3 300 = $198, so the cash paid is $3 102 and Discount Revenue is $198 (no GST).

General Journal

Date 2025	Details	Debit $	Credit $
5 Sep	Accounts Payable	1 430	
	Inventory		1 300
	GST Clearing		130
	Return of inventory to Coastway Foods (Credit Note 73)		
20 Sep	Accounts Payable	3 300	
	Bank		3 102
	Discount Revenue		198
	Payment to Highland Provisions less 6% settlement discount (EFT 4402)		

The **purchase return** has no Income Statement effect; in the Balance Sheet it reduces **Inventory** by $1 300, **GST Clearing** by $130 and **Accounts Payable** by $1 430. The **early payment** reduces **Bank** by $3 102 and **Accounts Payable** by $3 300, and reports $198 of **Discount Revenue** as other revenue:

Income Statement (extract) for the month ended 30 September 2025

	$
Gross Profit	XXX

	$
add Other revenue	
Discount Revenue	198

∴ the $198 discount increases net profit (and owner's equity) by $198, while the return leaves profit unchanged.

Practice questions — scaffolded

Question 1

Brookdale Hardware returned 6 faulty *SteelGrip* clamps to its supplier, Ironbark Supplies, on 4 March. The clamps had cost $120 each, and Ironbark issued **Credit Note 22** for the GST-inclusive value.

a. Record the purchase return in the General Journal.
b. Calculate the GST credited to GST Clearing, and show that it equals 1/11 of the GST-inclusive value.
c. State the effect of the return on the balance of Accounts Payable.

Question 2

On 12 April *Lakeside Cafe Supplies* paid the $1 650 it owed Verano Coffee within the 7-day discount period, receiving a **4% settlement discount** and paying the balance by electronic transfer (**EFT 1180**).

a. Record the payment in the General Journal.
b. Explain, in one sentence, why no GST is recorded on the settlement discount.
c. State the classification of Discount Revenue and its effect on owner's equity.

Question 3

On 1 May *Pinehill Timber* owed $2 640 to its supplier Grandview Sawmill (a credit balance). On 7 May it returned inventory and received **Credit Note 30** for $440 ($400 + $40 GST).

a. Record the purchase return in the General Journal.
b. Post the opening balance and the return to the **Accounts Payable** account and balance it at 7 May.
c. State the amount Pinehill Timber still owes Grandview Sawmill.

Question 4

On 1 June *Seabreeze Marine* owed $3 300 to Portside Traders. On 9 June it paid the full amount within the discount period, receiving a **5% settlement discount** (**EFT 2210**).

a. Record the payment in the General Journal.
b. Post the opening balance and the payment to the **Accounts Payable** account, and show that the account is cleared.
c. State the amount of Discount Revenue and how it is reported in the Income Statement.

Question 5

Highfield Sports recorded the following with Apex Athletics: on 2 July it bought inventory on credit for $4 400 ($4 000 + $400 GST) on **Invoice A-88**; on 6 July it returned faulty goods worth $880 ($800 + $80 GST) on **Credit Note 51**; and on 10 July it paid the balance within the discount period, receiving a **5% settlement discount** (**EFT 3301**).

a. Record the purchase return in the General Journal.
b. Record the payment (with the discount) in the General Journal.
c. State the balance of Accounts Payable owed to Apex Athletics after the payment.

Question 6

Rosewood Interiors recorded two transactions in August: on 8 August it returned inventory to Lumen Lighting and received **Credit Note 64** for $1 320 ($1 200 + $120 GST); on 16 August it paid $2 200 owed to another supplier within the discount period, receiving a **5% settlement discount** (**EFT 4120**).

a. Record both transactions in the General Journal.
b. Explain, in one sentence, why Discount Revenue is classified as a revenue.
c. Explain why GST is **excluded** from the settlement discount but **included** in the purchase return.

Practice questions — unscaffolded

Question 7

On 5 March *Coralbay Outdoors* returned 5 *TrailLite* tents (bought at $150 each) to its supplier, Summit Gear, receiving **Credit Note 18** for the GST-inclusive value. Record the purchase return in the General Journal and state its effect on Accounts Payable.

Question 8

On 14 April *Westfield Stationers* paid the $2 640 it owed Papertrail Wholesale within the discount period, receiving a **5% settlement discount** (**EFT 1290**). Record the payment in the General Journal and state the amount of Discount Revenue.

Question 9

On 1 May *Glenmore Auto* owed $3 190 to Torque Parts (a credit balance). On 8 May it returned inventory and received **Credit Note 27** for $605 ($550 + $55 GST). Prepare the **Accounts Payable** account for May, showing the opening balance, the return and the closing balance.

Question 10

Bayview Cellars recorded the following with Vineyard Traders: 3 June — bought inventory on credit for $5 500 ($5 000 + $500 GST) on **Invoice V-203**; 5 June — returned $1 100 of goods ($1 000 + $100 GST) on **Credit Note 35**; 9 June — paid the balance within the discount period, receiving a **5% settlement discount** (**EFT 2400**). Prepare all three General Journal entries and state the Discount Revenue and the final balance of Accounts Payable.

Question 11

On 20 July *Marloo Timber* paid the $2 200 it owed Redgum Mills within the discount period, receiving a **2.5% settlement discount** (**EFT 1750**). Record the payment in the General Journal, and explain why the Discount Revenue increases net profit.

Question 12

On 12 August *Eastgate Pharmacy* returned inventory to Medico Wholesale and received **Credit Note 44** for $1 650 ($1 500 + $150 GST). Record the purchase return in the General Journal and state its effect on the Income Statement and on the Balance Sheet.

Question 13

Northwind Cycles made two purchase returns in September: on 4 September it returned goods to Trailco and received **Credit Note 12** for $396 ($360 + $36 GST); on 18 September it returned goods to Speedline and received **Credit Note 19** for $594 ($540 + $54 GST). Record both returns in the General Journal and state the total reduction in Accounts Payable and the total GST reversed.

Question 14

On 1 October *Sandhurst Bakery Supplies* owed $3 850 to Millstone Foods. On 5 October it returned $550 of goods ($500 + $50 GST) on **Credit Note 40**, and on 9 October it paid the balance within the discount period, receiving a **4% settlement discount** (**EFT 2600**). Prepare the **Accounts Payable** account for October (opening balance $3 850 Cr) showing the return and the payment, and state the discount received.

Question 15

Talia, a student, argues that because a purchase return and a settlement discount **both** reduce the amount owed to a supplier, both should also reduce GST Clearing. Explain why she is only half right, referring to the study design's treatment of GST on each.

Question 16

During the year, *Cliffton Electrical* received settlement discounts from its suppliers totalling $1 240 and recorded one purchase return of $770 ($700 + $70 GST). Explain how each item is reported, and state the effect of the Discount Revenue on net profit.

Question 17

Rowanwood Joinery recorded the following with Timbermark during November: 1 November — opening balance owed $4 400 (Cr); 3 November — bought inventory on credit for $2 200 ($2 000 + $200 GST) on **Invoice T-77**; 7 November — returned $660 of goods ($600 + $60 GST) on **Credit Note 58**; 12 November — paid the $4 400 owing at 1 November within the discount period, receiving a **5% settlement discount** (**EFT 5100**). Prepare the **Accounts Payable** account for November and state its closing balance.

Question 18

Ashvale Furniture recorded the following with Oakleigh Timber: 2 December — bought inventory on credit for $6 600 ($6 000 + $600 GST) on **Invoice O-90**; 6 December — returned defective inventory of $1 320 ($1 200 + $120 GST) on **Credit Note 70**; 11 December — paid the balance within the discount period, receiving a **5% settlement discount** (**EFT 6200**). Prepare all General Journal entries, and state (i) the Discount Revenue, (ii) the closing balance of Accounts Payable, and (iii) the net change in the Inventory asset over the three transactions.

Answers

1.
    b. $72 (= 1/11 × $792) c. Decreases Accounts Payable by $792
2.
    a. Dr Accounts Payable $1 650; Cr Bank $1 584, Discount Revenue $66 b. Settlement discounts are excluded from GST c. Revenue; increases owner's equity
3. b/c. Closing balance $2 200 Cr
4.
    a. Dr Accounts Payable $3 300; Cr Bank $3 135, Discount Revenue $165 c. $165; other revenue
5.
    c. Nil (fully settled)
6.
    b. A decrease in a liability that increases owner's equity c. See solutions
7. Dr Accounts Payable $825; Cr Inventory $750, GST Clearing $75; Accounts Payable falls $825
8. Discount Revenue $132 (Bank $2 508)
9. Closing balance $2 585 Cr
10. Discount Revenue $220; Accounts Payable nil
11. Discount Revenue $55 (Bank $2 145)
12. No Income Statement effect; Inventory −$1 500, GST Clearing −$150, Accounts Payable −$1 650
13. Total reduction in Accounts Payable $990; total GST reversed $90
14. Discount $132; Accounts Payable nil
15. See solutions
16. Discount Revenue $1 240 → net profit up $1 240; the $770 return has no Income Statement effect
17. Closing balance $1 540 Cr (discount $220)
18.
    (i) $264 (ii) nil (iii) Inventory up $4 800 (net)

Fully-worked solutions

Question 1

Cost returned = 6 × $120 = $720; GST = 10% × $720 = $72 (= 1/11 × $792); GST-inclusive value = $792.

General Journal

Date 2025	Details	Debit $	Credit $
4 Mar	Accounts Payable	792	
	Inventory		720
	GST Clearing		72
	Return of 6 faulty SteelGrip clamps to Ironbark Supplies (Credit Note 22)		

b. GST = $72; and 1/11 × $792 = $72. c. The return **decreases Accounts Payable by $792**.

Question 2

Discount = 4% × $1 650 = $66; cash paid = $1 650 − $66 = $1 584.

General Journal

Date 2025	Details	Debit $	Credit $
12 Apr	Accounts Payable	1 650	

Date 2025	Details	Debit $	Credit $
	Bank		1 584
	Discount Revenue		66
	Payment to Verano Coffee less 4% settlement discount (EFT 1180)		

b. Settlement discounts are **excluded from GST** under the study design, so no entry is made to GST Clearing — the GST was recorded in full when the inventory was first purchased on credit. c. **Discount Revenue** is a **revenue**; it **increases owner's equity** (through net profit).

Question 3

Return: GST = $40, Inventory = $400, GST-inclusive = $440.

General Journal

Date 2025	Details	Debit $	Credit $
7 May	Accounts Payable	440	
	Inventory		400
	GST Clearing		40
	Return of inventory to Grandview Sawmill (Credit Note 30)		

Accounts Payable

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
7 May	Inventory / GST Clearing	440	1 May	Balance	2 640
7 May	Balance c/d	2 200			
		2 640			**2 640**
			8 May	Balance b/d	2 200

c. Pinehill Timber still owes Grandview Sawmill **$2 200**.

Question 4

Discount = 5% × $3 300 = $165; cash paid = $3 135.

General Journal

Date 2025	Details	Debit $	Credit $
9 Jun	Accounts Payable	3 300	
	Bank		3 135
	Discount Revenue		165
	Payment to Portside Traders less 5% settlement discount (EFT 2210)		

Accounts Payable

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
9 Jun	Bank / Discount Revenue	3 300	1 Jun	Balance	3 300

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
		3 300			**3 300**

c. **Discount Revenue $165** is reported as **other revenue** in the Income Statement, increasing net profit. The account is cleared to a **nil** balance.

Question 5

Balance owing after the return = $4 400 − $880 = $3 520; discount = 5% × $3 520 = $176; cash paid = $3 344.

General Journal

Date 2025	Details	Debit $	Credit $
6 Jul	Accounts Payable	880	
	Inventory		800
	GST Clearing		80
	Return of faulty goods to Apex Athletics (Credit Note 51)		
10 Jul	Accounts Payable	3 520	
	Bank		3 344
	Discount Revenue		176
	Payment of balance less 5% settlement discount (EFT 3301)		

c. After the payment the balance of Accounts Payable owed to Apex Athletics is **nil** ($4 400 − $880 − $3 520 = $0).

Question 6

Return: GST = $120, Inventory = $1 200, GST-inclusive = $1 320. Payment: discount = 5% × $2 200 = $110; cash paid = $2 090.

General Journal

Date 2025	Details	Debit $	Credit $
8 Aug	Accounts Payable	1 320	
	Inventory		1 200
	GST Clearing		120
	Return of inventory to Lumen Lighting (Credit Note 64)		
16 Aug	Accounts Payable	2 200	
	Bank		2 090
	Discount Revenue		110
	Payment less 5% settlement discount (EFT 4120)		

b. Discount Revenue is a **revenue** because settling a $2 200 debt for only $2 090 reduces the liability Accounts Payable by $110 more than it reduces Bank — a **decrease in a liability that increases owner's equity**, and not a contribution by the owner.

c. The **purchase return** physically sends goods back, reversing part of the original purchase — so the GST recorded on those goods ($120) is also reversed through GST Clearing. A **settlement discount** does not return any goods; it is simply a reward for early payment, and the study design **excludes GST from settlement discounts**, so the whole $110 is Discount Revenue with no GST adjustment.

Question 7

Cost returned = 5 × $150 = $750; GST = $75; GST-inclusive = $825.

General Journal

Date 2025	Details	Debit $	Credit $
5 Mar	Accounts Payable	825	
	Inventory		750
	GST Clearing		75
	Return of 5 TrailLite tents to Summit Gear (Credit Note 18)		

The return **decreases Accounts Payable by $825**.

Question 8

Discount = 5% × $2 640 = $132; cash paid = $2 508.

General Journal

Date 2025	Details	Debit $	Credit $
14 Apr	Accounts Payable	2 640	
	Bank		2 508
	Discount Revenue		132
	Payment to Papertrail Wholesale less 5% settlement discount (EFT 1290)		

Discount Revenue = **$132** (no GST).

Question 9

Return: GST = $55, Inventory = $550, GST-inclusive = $605.

Accounts Payable

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
8 May	Inventory / GST Clearing	605	1 May	Balance	3 190
31 May	Balance c/d	2 585			
		3 190			**3 190**
			1 Jun	Balance b/d	2 585

Closing balance = **$2 585 Cr**.

Question 10

Balance after the return = $5 500 − $1 100 = $4 400; discount = 5% × $4 400 = $220; cash paid = $4 180.

General Journal

Date 2025	Details	Debit $	Credit $
3 Jun	Inventory	5 000	
	GST Clearing	500	
	Accounts Payable		5 500
	Credit purchase of inventory from Vineyard Traders (Invoice V-203)		
5 Jun	Accounts Payable	1 100	
	Inventory		1 000
	GST Clearing		100
	Return of goods to Vineyard Traders (Credit Note 35)		
9 Jun	Accounts Payable	4 400	
	Bank		4 180
	Discount Revenue		220
	Payment of balance less 5% settlement discount (EFT 2400)		

Discount Revenue = **$220**; the final balance of Accounts Payable is **nil**.

Question 11

Discount = 2.5% × $2 200 = $55; cash paid = $2 145.

General Journal

Date 2025	Details	Debit $	Credit $
20 Jul	Accounts Payable	2 200	
	Bank		2 145
	Discount Revenue		55
	Payment to Redgum Mills less 2.5% settlement discount (EFT 1750)		

Discount Revenue of $55 is a **revenue**; it is added as other revenue in the Income Statement, so it **increases net profit** by $55 (and hence owner's equity), even though it is not part of the business's trading (sales) activity.

Question 12

General Journal

Date 2025	Details	Debit $	Credit $
12 Aug	Accounts Payable	1 650	
	Inventory		1 500
	GST Clearing		150
	Return of inventory to Medico Wholesale (Credit Note 44)		

The return has **no effect on the Income Statement** (no revenue or expense). In the **Balance Sheet** it reduces the asset **Inventory** by $1 500, reduces **GST Clearing** by $150, and reduces the liability **Accounts Payable** by $1 650.

Question 13

General Journal

Date 2025	Details	Debit $	Credit $
4 Sep	Accounts Payable	396	
	Inventory		360
	GST Clearing		36
	Return of goods to Trailco (Credit Note 12)		
18 Sep	Accounts Payable	594	
	Inventory		540
	GST Clearing		54
	Return of goods to Speedline (Credit Note 19)		

Total reduction in Accounts Payable = $396 + $594 = **$990**; total GST reversed = $36 + $54 = **$90**.

Question 14

Balance after the return = $3 850 − $550 = $3 300; discount = 4% × $3 300 = $132; cash paid = $3 168.

Accounts Payable

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
5 Oct	Inventory / GST Clearing	550	1 Oct	Balance	3 850
9 Oct	Bank / Discount Revenue	3 300			
		3 850			**3 850**

The discount received = **$132**, and the account is cleared to a **nil** balance.

Question 15

Talia is right that both a purchase return and a settlement discount reduce **Accounts Payable** (both are debited to the account). She is wrong to treat GST the same way for each. A **purchase return** physically sends inventory back to the supplier, so it **reverses part of the original credit purchase** — including the GST recorded on those goods; therefore GST Clearing **is** credited (reduced) by 1/11 of the returned value. A **settlement discount**, by contrast, returns no goods; it is a reward for paying early, and the study design **excludes GST from settlement discounts**. The GST on the purchase was fixed when the inventory was first bought and is not adjusted, so the discount is recorded **entirely as Discount Revenue** with **no** entry to GST Clearing.

Question 16

The **settlement discounts** of $1 240 are recorded as **Discount Revenue**, reported as **other revenue** in the Income Statement; they therefore **increase net profit by $1 240** (and owner's equity), carrying no GST. The **purchase return** of $770 has **no effect on the Income Statement**; it reduces the **Inventory** asset by $700, **GST Clearing** by $70 and **Accounts Payable** by $770 in the Balance Sheet. So only the discounts affect profit.

Question 17

3 Nov purchase adds $2 200 (Cr); 7 Nov return removes $660 (Dr); 12 Nov payment of the 1 November balance removes $4 400 (Dr) — being $4 180 Bank + $220 Discount Revenue (discount = 5% × $4 400 = $220).

Accounts Payable

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
7 Nov	Inventory / GST Clearing	660	1 Nov	Balance	4 400
12 Nov	Bank / Discount Revenue	4 400	3 Nov	Inventory / GST Clearing	2 200
30 Nov	Balance c/d	1 540			
		6 600			**6 600**
			1 Dec	Balance b/d	1 540

Closing balance = $4 400 + $2 200 − $660 − $4 400 = **$1 540 Cr**.

Question 18

Balance after the return = $6 600 − $1 320 = $5 280; discount = 5% × $5 280 = $264; cash paid = $5 016.

General Journal

Date 2025	Details	Debit $	Credit $
2 Dec	Inventory	6 000	
	GST Clearing	600	
	Accounts Payable		6 600
	Credit purchase of inventory from Oakleigh Timber (Invoice O-90)		
6 Dec	Accounts Payable	1 320	
	Inventory		1 200
	GST Clearing		120
	Return of defective inventory to Oakleigh Timber (Credit Note 70)		
11 Dec	Accounts Payable	5 280	
	Bank		5 016
	Discount Revenue		264
	Payment of balance less 5% settlement discount (EFT 6200)		

(i) Discount Revenue = **$264**. (ii) Accounts Payable closes at **nil** ($6 600 − $1 320 − $5 280 = $0). (iii) Inventory rose by $6 000 on the purchase and fell by $1 200 on the return, a **net increase of $4 800** (the discount does not affect Inventory).

Chapter 5 Accounts payable — 5C Statement of Account and accounts payable turnover

Theory

A business that buys inventory on credit keeps a separate account for every supplier in its **Accounts Payable subsidiary ledger**. To help its credit customers check those records, a supplier usually sends a **Statement of Account** at the end of each month.

The Statement of Account. A **Statement of Account** is a summary document a supplier sends to a credit customer listing, for the period, the **opening balance owing**, every **invoice** charged, every **payment** received and **credit note** issued, and the **closing balance owing**. Because the supplier keeps the business as a customer in *its own* accounts receivable records, the statement is written from the **supplier's point of view**:

- an **invoice** the supplier charges the business is a **debit** on the statement — it *increases* the balance the business owes;
- a **payment** the business makes, or a **credit note** the supplier issues for a purchase return, is a **credit** — it *decreases* the balance owing.

The amounts on the statement are **GST-inclusive**, because each invoice carries 10% GST. A Statement of Account is **not** a source document — it does not trigger a journal entry. It is a **checking document**: the business compares it against the supplier's account in its own Accounts Payable ledger to confirm the records agree before it pays.

Reconciling the statement. The **closing balance** shown on the Statement of Account should equal the **closing balance** of that supplier's account in the business's Accounts Payable ledger. Where the two differ, the difference is almost always a **timing difference** — a transaction one party has recorded that the other has not *yet* recorded — rather than an error. The common timing differences are:

- a **payment in transit** — an EFT the business has recorded but the supplier has not yet processed. The statement is *higher* than the ledger, because the supplier has not yet reduced the balance for the payment.
- an **invoice (or goods) in transit** — an invoice shown on the statement that the business has not yet recorded. Again the statement is *higher* than the ledger.
- a **credit note in transit** — a return the supplier has credited on the statement but the business has not yet recorded (making the ledger *higher* than the statement), or a return the business has recorded that the supplier has not yet credited (making the ledger *lower*).

To reconcile, the business begins with the **balance per the Statement of Account** and adjusts for each timing item until it reaches the **balance per the Accounts Payable ledger**. Reconciling supports the qualitative characteristic of **verifiability** — an independent record (the supplier's) corroborates the business's own — and helps detect errors or omissions before a payment is made, an important **internal control** over cash.

Worked model (statement). Oakhaven Supplies sends a statement showing an opening balance of $1 100, a single invoice of $2 200 and a payment of $1 100, closing at $2 200 owing. If the business has also recorded an EFT of $1 100 paid on the last day of the month that is not yet on the statement, its ledger shows $2 200 − $1 100 = $1 100 — the $1 100 payment in transit is the only reconciling item.

Accounts Payable Turnover. Once the payables records are reliable, the business assesses **how quickly it pays its suppliers** using the **Accounts Payable Turnover (APTO)** indicator, expressed in **days**:

$$\text{APTO (days)} = \frac{\text{Average Accounts Payable}}{\text{Net Credit Purchases (plus GST)}} \times 365$$

where

- **Average Accounts Payable** = (Opening Accounts Payable + Closing Accounts Payable) ÷ 2;
- **Net Credit Purchases** = credit purchases − purchase returns (the GST-exclusive figures);
- **(plus GST)** means the net credit purchases are grossed up by 10% (× 1.1). This is essential: the Accounts Payable balance is recorded **GST-inclusive** (each credit purchase debits Inventory *and* GST Clearing but

credits Accounts Payable with the full GST-inclusive total), so the denominator must also be GST-inclusive for a valid *like-with-like* comparison.

Interpreting APTO. The result is the **average number of days** the business takes to pay its trade suppliers. It is read against the **credit terms** suppliers offer (for example, 30 days):

- A **lower** APTO means the business pays its suppliers **faster** (fewer days of credit used).
- A **higher** APTO means the business pays **slower** (more days of credit used).
- Paying **within terms** preserves supplier **goodwill** and continued supply while using the full credit period. Paying **beyond terms** risks losing settlement discounts, damaging goodwill and prompting a supplier to withdraw credit. Paying **well before terms** may capture discounts but ties up cash, which weakens **liquidity**.

A **change over time** is read the same way: an **increase** in APTO days means the business now takes **longer** to pay (slower), while a **decrease** means it pays **faster**.

Managing accounts payable. Strategies a business can use include: paying **within — but not before — the credit terms** so cash is held as long as possible without breaching the agreement; taking up a **settlement discount** where the saving outweighs the benefit of holding the cash (the discount is a percentage of the **GST-inclusive** amount owing, and carries **no GST**); **scheduling payments** to match cash inflows so liquidity is not strained; and **negotiating longer credit terms** while maintaining the goodwill that protects supply.

The trade-off. Suppliers are effectively an **interest-free source of finance**, so paying **slower** conserves cash and improves short-term **liquidity**. But stretched payment carries real costs: the loss of early-payment **discount revenue**, damaged supplier **goodwill**, and the risk that suppliers withdraw credit or demand cash on delivery. Paying **faster** can earn discounts and strengthen relationships, but uses cash that could be deployed elsewhere. Sound management balances these effects rather than simply minimising or maximising the number of days.

Worked examples (scaffolded)

Example 1 — reconciling a Statement of Account

On 31 May 2026 Rivergum Trading received the following Statement of Account from its supplier, Kingsley Supplies (all amounts are GST-inclusive):

Date 2026	Details	Debit $	Credit $	Balance $
1 May	Balance			3 300
5 May	Invoice 812	4 620		7 920
16 May	Payment received — thank you		3 300	4 620
22 May	Invoice 845	2 750		7 370
27 May	Credit Note 18		330	7 040
31 May	Closing balance			7 040

Rivergum's own records for Kingsley Supplies also include two items dated after the statement was prepared: an **EFT 2140** of $4 620 paid on 30 May, and **Credit Note 22** of $550 for inventory returned on 29 May. Reconcile the statement to the Accounts Payable ledger.

The supplier's account in Rivergum's Accounts Payable ledger appears as:

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
16 May	Bank	3 300	1 May	Balance b/d	3 300
27 May	Inventory/GST Clearing	330	5 May	Inventory/GST Clearing	4 620
29 May	Inventory/GST	550	22 May	Inventory/GST	2 750

Date	Cross-reference	Amount $	Date	Cross-reference	Amount $
	Clearing			Clearing	
30 May	Bank	4 620			
31 May	Balance c/d	1 870			
		10 670			**10 670**
			1 Jun	Balance b/d	1 870

Working	Comment
The statement closes at **$7 040** owing; the ledger closes at **$1 870** owing.	The two records disagree, so identify the timing differences.
The **EFT 2140** of $4 620 (30 May) is recorded by Rivergum but is **not yet on the statement**.	A *payment in transit* — the supplier has not yet processed it, so the statement is higher.
Credit Note 22 of $550 (29 May) is recorded by Rivergum but is **not yet on the statement**.	A *credit note in transit* for a purchase return the supplier has not yet credited.
Reconcile: $7 040 − $4 620 − $550 = **$1 870**.	Start from the statement balance and deduct each item the supplier has not yet recorded.

Reconciliation of the Statement of Account

Reconciliation	$
Balance per Statement of Account (31 May)	7 040
Less: EFT 2140 (paid 30 May), not yet on statement	(4 620)
Less: Credit Note 22 (return 29 May), not yet on statement	(550)
Balance per Accounts Payable ledger	1 870

The differences are timing differences, not errors: once the supplier processes the EFT and the credit note, its next statement will agree with the ledger.

Example 2 — calculating and interpreting Accounts Payable Turnover

Fernwood Traders reports the following for the year ended 30 June 2026. Accounts Payable was $26 000 at the start of the year and $28 000 at the end. Credit purchases of inventory were $318 000 and purchase returns were $18 000 (both GST-exclusive). Suppliers offer 30-day credit terms. Calculate the Accounts Payable Turnover in days and interpret it.

Working	Comment
Average Accounts Payable = ($26 000 + $28 000) ÷ 2 = **$27 000**.	Average the opening and closing balances — turnover relates a flow to an *average* balance.
Net credit purchases = $318 000 − $18 000 = **$300 000**.	Deduct purchase returns from credit purchases to get the *net* figure.
Net credit purchases (plus GST) = $300 000 × 1.1 = **$330 000**.	Gross up by 10%: Accounts Payable is GST-inclusive, so the denominator must be too.
APTO = $27 000 × 365 ÷ $330 000 = **29.9 days**.	On average the business takes about 30 days to pay its suppliers.

Accounts Payable Turnover

Working	$
Average Accounts Payable	27 000

Working	$
Net credit purchases (plus GST)	330 000
APTO = 27 000 × 365 ÷ 330 000	29.9 days

At **29.9 days**, Fernwood is paying its suppliers almost exactly on the 30-day terms — using the full credit period without breaching it. This preserves supplier goodwill and continued supply while keeping cash in the business as long as the terms allow, a well-balanced result.

Worked examples (unscaffolded)

Example 3 — reconciling a statement with two timing differences

On 30 June 2026 Meadowbank Stores received a Statement of Account from Ambrose Wholesale (GST-inclusive):

Date 2026	Details	Debit $	Credit $	Balance $
1 Jun	Balance			2 640
7 Jun	Invoice 501	5 500		8 140
15 Jun	Payment received		2 640	5 500
20 Jun	Invoice 528	3 300		8 800
28 Jun	Credit Note 30		550	8 250
30 Jun	Closing balance			8 250

Meadowbank has **not yet recorded Invoice 528** ($3 300 — the goods were in transit at 30 June) and has **not yet recorded Credit Note 30** ($550). Reconcile the statement to the Accounts Payable ledger.

Invoice 528 appears on the statement but not in the ledger, so it is deducted from the statement balance; Credit Note 30 also appears on the statement but not in the ledger, so it is added back.

Reconciliation	$
Balance per Statement of Account (30 Jun)	8 250
Less: Invoice 528, not yet recorded in ledger	(3 300)
Add: Credit Note 30, not yet recorded in ledger	550
Balance per Accounts Payable ledger	5 500

∴ the balance per the Accounts Payable ledger is $5 500, and the two records agree once the invoice and credit note in transit are recognised.

Example 4 — comparing Accounts Payable Turnover across two years

Delridge Trading pays all its suppliers on 30-day terms. Its figures are:

Item	2025	2026
Opening Accounts Payable $	20 000	24 000
Closing Accounts Payable $	24 000	30 000
Net credit purchases (GST-exclusive) $	250 000	240 000

Calculate the Accounts Payable Turnover for each year and interpret the change.

For 2025: average AP = ($20 000 + $24 000) ÷ 2 = $22 000; net credit purchases plus GST = $250 000 × 1.1 = $275 000; APTO = $22 000 × 365 ÷ $275 000 = **29.2 days**. For 2026: average AP = ($24 000 + $30 000) ÷ 2 = $27 000; net credit purchases plus GST = $240 000 × 1.1 = $264 000; APTO = $27 000 × 365 ÷ $264 000 = **37.3 days**.

APTO has risen from 29.2 to 37.3 days, so Delridge is paying its suppliers about **8 days slower**. Because it was previously paying within the 30-day terms but is now paying about a week beyond them, the change conserves cash and improves short-term liquidity — but it risks lost settlement discounts and weakened supplier goodwill, and suppliers may eventually tighten terms or withhold supply.

∴ the trend is unfavourable for supplier relationships even though it eases cash flow; management should confirm the slower payment is deliberate rather than a symptom of a cash shortage.

Practice questions — scaffolded

Question 1

On 31 August 2026 Harwood Traders received this Statement of Account from Halloran Trading (GST-inclusive):

Date 2026	Details	Debit $	Credit $	Balance $
1 Aug	Balance			4 400
6 Aug	Invoice 611	6 600		11 000
14 Aug	Payment received		4 400	6 600
21 Aug	Invoice 640	3 300		9 900
28 Aug	Credit Note 25		660	9 240
31 Aug	Closing balance			9 240

Harwood also paid **EFT 3055** of $6 600 on 30 August, which is not yet on the statement.

a. Prepare the reconciliation from the Statement of Account to the Accounts Payable ledger.

b. State the balance of Halloran Trading in Harwood's Accounts Payable ledger.

c. Explain in one sentence why the difference is a timing difference rather than an error.

Question 2

Marlow Stores reports for the year ended 30 June 2026: Accounts Payable $18 000 at the start and $22 000 at the end; credit purchases $212 000 and purchase returns $12 000 (both GST-exclusive).

a. Calculate the average Accounts Payable.

b. Calculate net credit purchases (plus GST).

c. Calculate the Accounts Payable Turnover in days.

Question 3

Pinehill Traders had an average Accounts Payable of $22 000 in 2025 and $30 000 in 2026. Net credit purchases (GST-exclusive) were $250 000 in each year. Suppliers offer 30-day terms.

a. Calculate the Accounts Payable Turnover for each year.

b. State whether the business is paying its suppliers faster or slower, and by how many days.

c. Explain one implication of the change for the business.

Question 4

Rosedale Imports and Oakbank Wholesale operate in the same industry, both on 30-day supplier terms. Each had net credit purchases of $300 000 (GST-exclusive) for the year. Rosedale's average Accounts Payable was $18 000; Oakbank's was $33 000.

a. Calculate the Accounts Payable Turnover for each business.

b. State which business relies more heavily on supplier credit, and justify your answer.

c. Suggest one strategy Oakbank could use to manage its accounts payable, given the industry terms.

Question 5

Cedarvale Trading had an average Accounts Payable of $28 000 and net credit purchases (GST-exclusive) of $300 000 for the year ended 30 June 2026. Suppliers offer 30-day terms.

a. Calculate the Accounts Payable Turnover in days.

b. Discuss one benefit to Cedarvale of paying its suppliers more slowly.

c. Discuss one risk to Cedarvale of paying its suppliers more slowly.

Question 6

On 30 September 2026 Brentwood Supplies sent Tallowood Traders this Statement of Account (GST-inclusive):

Date 2026	Details	Debit $	Credit $	Balance $
1 Sep	Balance			3 300
5 Sep	Invoice 705	7 700		11 000
13 Sep	Payment received		3 300	7 700
19 Sep	Invoice 728	2 200		9 900
30 Sep	Closing balance			9 900

Tallowood's records also include **EFT 4120** of $7 700 paid on 29 September and **Credit Note 31** of $440 for a return on 28 September, neither of which is on the statement.

a. Prepare the reconciliation from the Statement of Account to the Accounts Payable ledger.

b. State the balance of Brentwood Supplies in Tallowood's Accounts Payable ledger.

c. State which party must update its records for the two accounts to agree, and when.

Practice questions — unscaffolded

Question 7

On 31 October 2026 Fernbrook Traders received a Statement of Account from Langford Wholesale (GST-inclusive):

Date 2026	Details	Debit $	Credit $	Balance $
1 Oct	Balance			2 200
4 Oct	Invoice 810	5 500		7 700
12 Oct	Payment received		2 200	5 500
20 Oct	Invoice 833	4 400		9 900
31 Oct	Closing balance			9 900

Fernbrook paid **EFT 5090** of $5 500 on 30 October, not yet on the statement. Reconcile the statement to the Accounts Payable ledger and state the ledger balance.

Question 8

On 30 November 2026 Wattlebank Stores received a Statement of Account from Merrifield Trading (GST-inclusive):

Date 2026	Details	Debit $	Credit $	Balance $
1 Nov	Balance			4 400
6 Nov	Invoice 901	6 600		11 000
14 Nov	Payment received		4 400	6 600
22 Nov	Invoice 930	3 300		9 900
27 Nov	Credit Note 40		550	9 350
30 Nov	Closing balance			9 350

Wattlebank has not yet recorded Invoice 930 ($3 300, goods in transit) or Credit Note 40 ($550). Reconcile the statement to the Accounts Payable ledger and state the ledger balance.

Question 9

Thornbury Stores reports for the year: Accounts Payable $24 000 at the start and $28 000 at the end; credit purchases $330 000 and purchase returns $30 000 (both GST-exclusive). Calculate the Accounts Payable Turnover in days.

Question 10

Glenroy Traders reports for the year: Accounts Payable $30 000 at the start and $34 000 at the end; net credit purchases $400 000 (GST-exclusive). Calculate the Accounts Payable Turnover in days.

Question 11

Ashford Supplies and Belmont Trading each had net credit purchases of $350 000 (GST-exclusive) for the year, both on 30-day supplier terms. Ashford's average Accounts Payable was $21 000; Belmont's was $40 000. Calculate each business's Accounts Payable Turnover, and state which business is using its suppliers' credit more fully and whether it appears to be paying within terms.

Question 12

Kewdale Trading had an average Accounts Payable of $20 000 in 2025 and $28 000 in 2026. Net credit purchases (GST-exclusive) were $300 000 in 2025 and $320 000 in 2026. Calculate the Accounts Payable Turnover for each year and state the change in days.

Question 13

Yarraville Supplies had an average Accounts Payable of $24 000 in 2025 and $20 000 in 2026, with net credit purchases (GST-exclusive) of $280 000 in 2025 and $300 000 in 2026. Calculate the Accounts Payable Turnover for each year, state whether the business is paying faster or slower, and explain one possible reason management might have deliberately made this change.

Question 14

Riverstone Traders had an average Accounts Payable of $40 000 and net credit purchases (GST-exclusive) of $300 000 for the year. Suppliers offer 30-day terms. Calculate the Accounts Payable Turnover in days, and discuss two strategies the business could use to manage its accounts payable more effectively.

Question 15

A supplier offers Southmere Trading a 2% settlement discount for payment within 7 days; the standard terms are 30 days. Southmere currently pays this supplier at about 55 days. Southmere's net credit purchases from the supplier are $250 000 for the year (GST-exclusive). Calculate the settlement discount Southmere forgoes over the year by not paying early, and discuss the trade-off between paying slower and losing the discount and goodwill.

Question 16

A supplier offers Brookfield Stores a 1.5% settlement discount for payment within 10 days, on terms of 45 days. Brookfield's net credit purchases from the supplier are $400 000 for the year (GST-exclusive). Calculate the discount available over the year, and explain the trade-off Brookfield faces in deciding whether to pay faster to earn the discount rather than hold its cash for the full 45 days.

Question 17

At 30 June 2026 the Statement of Account from a supplier shows Marloo Trading owing $30 000, but Marloo has paid an **EFT** of $4 000 on 30 June that is not yet on the statement. Marloo's Accounts Payable was $22 000 at the start of the year, and its net credit purchases were $260 000 (GST-exclusive). Reconcile the closing Accounts Payable, then calculate the Accounts Payable Turnover in days.

Question 18

Wattleford Trading reports for the year ended 30 June 2026: Accounts Payable $25 000 at the start and $31 000 at the end; credit purchases $340 000 and purchase returns $40 000 (both GST-exclusive). Suppliers offer 30-day terms. Calculate the average Accounts Payable, net credit purchases (plus GST) and the Accounts Payable Turnover in days, then state whether the business is paying within terms and recommend one strategy.

Answers

1.
    b. $2 640 Cr c. Timing difference (payment in transit)
2.
    a. $20 000 b. $220 000 c. 33.2 days
3.
    a. 2025 = 29.2 days; 2026 = 39.8 days b. Slower, by 10.6 days
4.
    a. Rosedale 19.9 days; Oakbank 36.5 days b. Oakbank
5.
    a. 31.0 days
6.
    b. $1 760 Cr c. Brentwood (the supplier), when it processes the EFT and credit note
7. Ledger $4 400 Cr (less EFT 5090 $5 500)
8. Ledger $6 600 Cr (less Invoice 930 $3 300; add Credit Note 40 $550)
9. 28.8 days
10. 26.5 days
11. Ashford 19.9 days; Belmont 37.9 days — Belmont uses supplier credit more fully (and pays beyond terms)
12. 2025 = 22.1 days; 2026 = 29.0 days; 6.9 days slower
13. 2025 = 28.4 days; 2026 = 22.1 days; 6.3 days faster
14. 44.2 days
15. $5 500 discount forgone
16. $6 600 discount available
17. Corrected Accounts Payable $26 000; APTO 30.6 days
18. Average AP $28 000; net credit purchases (plus GST) $330 000; APTO 31.0 days

Fully-worked solutions

Question 1

Reconciliation	$
Balance per Statement of Account (31 Aug)	9 240
Less: EFT 3055 (paid 30 Aug), not yet on statement	(6 600)
Balance per Accounts Payable ledger	2 640

b. The Accounts Payable ledger shows Halloran Trading at **$2 640 Cr**.

c. The payment was recorded by Harwood on 30 August but the supplier had not processed it when the statement was prepared, so the same transaction is simply recorded by the two parties at different times — no entry is wrong.

Question 2

a. Average Accounts Payable = ($18 000 + $22 000) ÷ 2 = **$20 000**.

b. Net credit purchases = $212 000 − $12 000 = $200 000; plus GST = $200 000 × 1.1 = **$220 000**.

c. APTO = $20 000 × 365 ÷ $220 000 = **33.2 days**.

Question 3

a. 2025: APTO = $22 000 × 365 ÷ ($250 000 × 1.1) = $8 030 000 ÷ $275 000 = **29.2 days**. 2026: APTO = $30 000 × 365 ÷ $275 000 = $10 950 000 ÷ $275 000 = **39.8 days**.

b. APTO has risen from 29.2 to 39.8 days, so Pinehill is paying its suppliers **slower, by 10.6 days**.

c. Paying about 10 days slower conserves cash and improves short-term liquidity, but because payment now runs well beyond the 30-day terms the business risks losing settlement discounts and damaging supplier goodwill, which could see suppliers tighten terms or withhold supply.

Question 4

a. Rosedale: APTO = $18 000 × 365 ÷ ($300 000 × 1.1) = $6 570 000 ÷ $330 000 = **19.9 days**. Oakbank: APTO = $33 000 × 365 ÷ $330 000 = $12 045 000 ÷ $330 000 = **36.5 days**.

b. **Oakbank** relies more heavily on supplier credit: at 36.5 days it holds each supplier's money far longer than Rosedale's 19.9 days, using accounts payable as a larger interest-free source of finance.

c. Oakbank could **schedule its payments to fall within the 30-day terms** (rather than at 36.5 days) so that it keeps the liquidity benefit of the full credit period while restoring supplier goodwill and protecting its access to future credit and discounts.

Question 5

a. APTO = $28 000 × 365 ÷ ($300 000 × 1.1) = $10 220 000 ÷ $330 000 = **31.0 days**.

b. Paying more slowly lets Cedarvale hold cash in the business for longer. Because suppliers are an interest-free source of finance, a higher APTO improves short-term liquidity and frees cash for other uses, such as paying wages or buying inventory, without the business having to borrow.

c. Paying more slowly risks pushing payment beyond the 30-day terms. This can cost Cedarvale early-payment **discount revenue**, damage supplier **goodwill**, and prompt suppliers to withdraw credit or demand cash on delivery — any of which would raise costs or disrupt the supply of inventory.

Question 6

Reconciliation	$
Balance per Statement of Account (30 Sep)	9 900
Less: EFT 4120 (paid 29 Sep), not yet on statement	(7 700)
Less: Credit Note 31 (return 28 Sep), not yet on statement	(440)
Balance per Accounts Payable ledger	1 760

b. The Accounts Payable ledger shows Brentwood Supplies at **$1 760 Cr**.

c. **Brentwood Supplies (the supplier)** must update its records — when it processes Tallowood's EFT of $7 700 and issues/records the credit note for the $440 return, its next statement will fall to $1 760 and agree with the ledger.

Question 7

Reconciliation	$
Balance per Statement of Account (31 Oct)	9 900
Less: EFT 5090 (paid 30 Oct), not yet on statement	(5 500)
Balance per Accounts Payable ledger	4 400

The Accounts Payable ledger shows Langford Wholesale at **$4 400 Cr**.

Question 8

Reconciliation	$
Balance per Statement of Account (30	9 350

Reconciliation	$
Nov)	
Less: Invoice 930, not yet recorded in ledger	(3 300)
Add: Credit Note 40, not yet recorded in ledger	550
Balance per Accounts Payable ledger	6 600

The Accounts Payable ledger shows Merrifield Trading at **$6 600 Cr**.

Question 9

Average Accounts Payable = ($24 000 + $28 000) ÷ 2 = $26 000. Net credit purchases = $330 000 − $30 000 = $300 000; plus GST = $330 000. APTO = $26 000 × 365 ÷ $330 000 = $9 490 000 ÷ $330 000 = **28.8 days**.

Question 10

Average Accounts Payable = ($30 000 + $34 000) ÷ 2 = $32 000. Net credit purchases plus GST = $400 000 × 1.1 = $440 000. APTO = $32 000 × 365 ÷ $440 000 = $11 680 000 ÷ $440 000 = **26.5 days**.

Question 11

Ashford: APTO = $21 000 × 365 ÷ ($350 000 × 1.1) = $7 665 000 ÷ $385 000 = **19.9 days**. Belmont: APTO = $40 000 × 365 ÷ $385 000 = $14 600 000 ÷ $385 000 = **37.9 days**. **Belmont** is using its suppliers' credit more fully — it takes almost twice as long to pay. Ashford, at 19.9 days, is paying well within the 30-day terms, whereas Belmont, at 37.9 days, is paying about a week **beyond** terms and so risks losing goodwill and discounts.

Question 12

2025: average AP $20 000; net credit purchases plus GST = $300 000 × 1.1 = $330 000; APTO = $20 000 × 365 ÷ $330 000 = **22.1 days**. 2026: average AP $28 000; net credit purchases plus GST = $320 000 × 1.1 = $352 000; APTO = $28 000 × 365 ÷ $352 000 = **29.0 days**. The Accounts Payable Turnover has increased by **6.9 days**, so Kewdale is paying its suppliers slower.

Question 13

2025: APTO = $24 000 × 365 ÷ ($280 000 × 1.1) = $8 760 000 ÷ $308 000 = **28.4 days**. 2026: APTO = $20 000 × 365 ÷ ($300 000 × 1.1) = $7 300 000 ÷ $330 000 = **22.1 days**. APTO has fallen from 28.4 to 22.1 days, so Yarraville is paying its suppliers **faster, by 6.3 days**. Management may have made this change deliberately to **capture early-payment settlement discounts** (which add to discount revenue) and to **strengthen supplier goodwill**, securing reliable supply and possibly better terms — accepting the cost of using more cash in the shorter term.

Question 14

APTO = $40 000 × 365 ÷ ($300 000 × 1.1) = $14 600 000 ÷ $330 000 = **44.2 days**. At 44.2 days the business is paying about two weeks beyond the 30-day terms. Two strategies to manage this: (1) **schedule payments to fall within the 30-day terms**, timing them to match cash inflows so that goodwill and access to credit are protected without straining liquidity; and (2) **take up settlement discounts** where the saving exceeds the benefit of holding the cash, while **negotiating longer credit terms** with suppliers so that a lower number of days can be achieved without paying earlier than necessary.

Question 15

The supplier invoices Southmere the **GST-inclusive** amount, so the amount owing for the year is $250 000 × 1.1 = $275 000, and the discount is a percentage of that amount owing: settlement discount forgone = 2% × $275 000 = **$5 500** for the year. The whole $5 500 would be **Discount Revenue** with **no GST adjustment**, because GST is excluded from settlement discounts. By paying at about 55 days rather than within 7 days, Southmere keeps its cash far longer — improving liquidity and effectively financing itself through its supplier. The trade-off is that it gives up $5 500 of discount revenue and, by paying well beyond the 30-day terms, risks damaging supplier goodwill and losing favourable terms or supply. Southmere should weigh the $5 500 saving (and the value of the relationship) against the benefit of holding the cash; unless the cash is urgently needed elsewhere, paying early to secure the discount is likely worthwhile.

Question 16

The amount Brookfield owes the supplier is GST-inclusive: $400 000 × 1.1 = $440 000. Discount available = 1.5% × $440 000 = **$6 600** for the year (all of it Discount Revenue — settlement discounts carry no GST). To earn it, Brookfield would pay within 10 days instead of holding its cash for the full 45 days — bringing payment forward by about 35 days. The trade-off is between the **$6 600 discount revenue** (a certain saving that also builds supplier goodwill) and the **liquidity benefit** of keeping the cash for the extra 35 days (which could fund other operations or avoid short-term borrowing). If the return or interest cost Brookfield could achieve on that cash over the period is less than $6 600, taking the discount is the better decision; if cash is very tight, holding it may be justified despite the forgone discount.

Question 17

Reconcile the closing Accounts Payable:

Reconciliation	$
Balance per Statement of Account (30 Jun)	30 000
Less: EFT (paid 30 Jun), not yet on statement	(4 000)
Corrected closing Accounts Payable	26 000

Average Accounts Payable = ($22 000 + $26 000) ÷ 2 = $24 000. Net credit purchases plus GST = $260 000 × 1.1 = $286 000. APTO = $24 000 × 365 ÷ $286 000 = $8 760 000 ÷ $286 000 = **30.6 days**.

Question 18

Average Accounts Payable = ($25 000 + $31 000) ÷ 2 = **$28 000**. Net credit purchases = $340 000 − $40 000 = $300 000; plus GST = $300 000 × 1.1 = **$330 000**. APTO = $28 000 × 365 ÷ $330 000 = $10 220 000 ÷ $330 000 = **31.0 days**. At 31.0 days Wattleford is paying its suppliers just **beyond** the 30-day terms — only marginally, but enough to risk losing discounts or goodwill over time. A suitable strategy is to **schedule payments to fall on or just within the 30-day terms**, timed to match cash inflows, so that the business keeps the full credit period without breaching terms.