What are source documents in accounting?
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The identification and use of 'source documents' in accounting - Foundation level

Source documents is an accounting terms to describe the original records that contain the details that substantiate the financial transactions that are entered into the internal accounting system of a business. Typical source documents include sales invoices, cash receipts, cash register slip, credit notes and deposit slip. Source documents provide the documentary evidence of a business deal or accounting event and are a critical part of an audit trail that establishes the authenticity and tracking history of an accounting system's financial records.

'Source documents' in accounting
Background to 'source documents' in accounting.

All manufacturing systems are identified by their three key elements: inputs, processes and outputs. Accounting manufactures outputs in the form of financial statement and financial reports for business decision makers. It engages a process known as the double-entry bookkeeping system to accurately capture and categorize inputs so that they can produce meaningful reports. The accounting process relies on inputs in the form of data taken from source documents that are generated whenever financial transactions occur.
Accounting Information System

So, source documents then are the essential inputs that provide the details required by internal accounting systems. They also assist in the internal control of the resources of the business. Source documents ensure that there is documentary evidence to support the purchase or sale of items of value and the receipt and payment of money. Source documents provide the evidence or proof that a transaction has actually occurred which makes it difficult for people to misappropriate or steal cash or other resource items from the business. These source documents are also required by both company and tax auditors.

The details from the source document should be recorded in the appropriate accounting journal as soon as possible after the transaction has occurred. After recording, all source documents should be filed away in a document system where they can be retrieved at a later date if required. Government tax law requires that these source documents are kept for a number of years (typically from 3-7 years depending on the country). In the event of an audit, these source documents should support the data recorded in the accounting journals and the general ledger by providing an indisputable audit trail from source documents to journals to general ledger to trial balance to financial statement.

In summary then, accounting source documents are required for:

1. Providing details of transactions to input into the internal accounting system on a month-to-month basis
2. Providing evidence of the transactions recorded in the accounting system in the event of an end-of-year financial audit
3. Satisfying the requirements of the tax law in regard to proof of income and expenditure.

Information contained in a source document

A source document should describe all the key aspects of the transaction such as:

- the names and addresses of the entity buying/selling the good/services
- the date when the transaction occurred
- the amount of the transaction

Source URL: http://knol.google.com/k/nowmaster-accounting/what-are-source-documents-in-accounting/y2cary3n6mng/70#
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- the amount of any taxes
- the nature and purpose of the transaction (i.e. descriptions)
- the special terms and conditions of the transaction (i.e. discount, payment and delivery details)
- authorized signature for payment or acceptance of goods/services

Common source documents
Source documents are generally related to the particular activity as shown in the table below:

<table>
<thead>
<tr>
<th>Business Activity</th>
<th>Source documents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash received by the business</td>
<td>Cash receipt (copy), cash register tapes, bank statement, bank deposit slip</td>
</tr>
<tr>
<td>Cash paid by the business</td>
<td>Cheque butt, ATM or EFTPOS receipt, bank statement, payroll records, cancelled cheque</td>
</tr>
<tr>
<td>Petty cash payments</td>
<td>Petty cash Voucher, cash receipts</td>
</tr>
<tr>
<td>Business giving credit to customer</td>
<td>Business invoice (copy), Business credit/debit note</td>
</tr>
<tr>
<td>Business receiving credit from a supplier</td>
<td>Supplier's original invoice, supplier's statement, Supplier's debit/credit note, credit card statement and receipts</td>
</tr>
<tr>
<td>Any activity not generating a document</td>
<td>Memorandum</td>
</tr>
</tbody>
</table>

A description of the source documents is provided below:

- Sales invoice - used to record the goods/services details and the amount owing to the business by a customer. The original goes to the customer with the copy held by the business.
- Purchase invoices - used to record the goods/services details and the amount owing by the business to suppliers. The original is provided by the supplier to the business.
- Credit Note - used by a business.supplier to correct an overcharge in the invoice
- Debit Note - used by a business.supplier to correct an undercharge in the invoice

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• Petty cash voucher - used as evidence of cash payment to another party
• Cheque butt/stubs - used to record the amount paid on a particular numbered cheque to the payee.
• Cash receipts - used to acknowledge money received from customers and cash paid to suppliers.
• Bank statement - used as a summary of cash movements through the business bank account.
• Memorandum - used as a note explaining a transaction if no other documents exist.
• ATM receipts - used as evidence that money was taken from the business bank account via the ATM
• EFTPOS receipts - used as evidence of a purchase from a supplier using the EFTPOS system.

• Supplier's Statements - issued by suppliers in regard to invoices unpaid at a particular date
• Cash Register tapes - automatically generated by the cash register and provides an unbroken sequence of cash transactions and events
• Bank Deposit slips/forms - used to record the bankings deposited to the bank. The original is provided to the bank with the copy retained by the business.
• Credit Card receipts - used to verify transactions on a credit card statements that relate to the business.
• Payroll Records - used to verify payments made to employees in the form of salaries and wages and includes timesheets.
• Canceled check - used as an internal control to ensure that all cheques can be accounted for.