Chapter 24: Recording International and Internet Sales: Chapter Overview

Recording International and Internet Sales: Chapter Objectives

Learning Objectives

After studying Chapter 24, in addition to defining key terms, you will be able to:

- LO1 Explain the purpose of entering the export and import markets.
- LO2 Describe issues that must be considered before making international sales.
- LO3 Explain the documentation that must be produced to process international sales.
- LO4 Account for international sales.
- LO5 Account for time drafts.
- LO6 Account for an Internet sale.

Recording International and Internet Sales: Accounting in the Real World

Under Armour

It started with a problem and a former athlete's determination to find an alternative to his sweat-soaked cotton shirt. Kevin Plank's solution was a shirt that wicked the sweat from the body to increase speed and comfort. Kevin named the company Under Armour.

After only 14 short years, the company surpassed the $1 billion revenue mark! The manufacturing has grown from Plank's grandmother's row house to 26 manufacturing facilities in 22 countries outside of the United States.

In spite of its explosive revenue earnings, Under Armour still considers itself in the “early stages” of growth. Future growth plans include a move to develop an international presence. Currently, international sales account for only 4% of revenues. In an effort to expand globally, Under Armour has enhanced its website and mobile commerce.

Under Armour seeks to drive consumer demand by building brand awareness as a leading athletic performance brand. This strategy is executed partly by outfitting sports teams for such colleges as Auburn University and The University of Maryland, Plank's alma mater. Under Armour also has an emerging presence in the National Football League.

By focusing on athletic teams and having its products worn by leaders in the industry, Under Armour intends to appeal to athletes and consumers with active lifestyles around the globe.

Critical Thinking

Doing business internationally involves risk that may interfere with payment and/or transportation. To reduce this risk and focus on its products, Under Armour has entered into an agreement with a third party called FiftyOne to help sell products and engage with online customers around the world. The services provided by FiftyOne include no-risk payments, tailored websites, and customer returns.

1. Evaluate the risks in doing business internationally.
2. List the factors that must be considered when creating a website that will be used in other countries.
3. Why would companies like Under Armour pay a third-party company to manage their website, payments, and returns? Is there a risk associated with a third party? Explain why or why not.

Recording International and Internet Sales: Accounting in the Real World

Recording International and Internet Sales: ***Key Terms***

- exports
- imports
- contract of sale
- letter of credit
- bill of lading
- commercial invoice
- draft
- sight draft
- time draft
- trade acceptance

Chapter 24: Recording International and Internet Sales: Lesson 24-1: Recording International Sales

- LO1 Explain the purpose of entering the export and import markets.
- LO2 Describe issues that must be considered before making international sales.
- LO3 Explain the documentation that must be produced to process international sales.
- LO4 Account for international sales.
- LO5 Account for time drafts.

International Sales LO1

Sales in the international market have become a major source of revenue for both small and large businesses. The growth of information technology tools and trading relationships in the twenty-first century has made it easier and less expensive to transact business internationally. It is no longer necessary to talk to your vendor or customer via telephone. E-mail, the Internet, and mobile devices have made it possible to do business in an interconnected world without much concern about time zones and business hours around the world.

Goods or services shipped out of a seller's home country to another country are called exports . Goods or services shipped into the buyer's home country from another country are called imports .

A company that conducts business across national borders is an international company. The number of international companies continues to grow as businesses are able to import materials or services that are less expensive or not available within their own country. Many companies have entered the export and import markets not only to expand their sales and profits, but also to maintain global competitiveness and provide products and services to meet customer demand.

Must-Have Gadgets imports merchandise such as digital cameras and cell phones from a variety of countries. Must-Have Gadgets also exports electronic gadgets such as earphones and tablet covers to customers around the world. Merchandise sold to individuals or other businesses within one's own country is referred to as domestic sales.

International Sales Compared with Domestic Sales LO2

Most domestic sales are for cash or on account after the customer's credit has been reviewed and approved. Because all transactions in the United States are covered by the same universal commercial laws and the same accounting standards, many transactions are based on trust. A customer with approved credit orders merchandise, the merchandise is shipped, and an invoice is sent by the vendor. After receiving the merchandise and invoice, the customer pays the vendor.

However, because of the increased complexities of international sales, several issues must be considered. The lack of uniform commercial laws between countries makes settlement of disputes more difficult.

Greater distances and sometimes more complex transportation methods increase the time to complete the transaction. Because it may be difficult to determine a customer's financial condition and to take legal action if a customer does not pay, the risk of uncollected amounts is increased. Unstable political conditions in some countries may affect the ability to receive payments from customers in those countries. Therefore, most businesses dealing in exports and/or imports follow a general process in international trade to ensure that the vendor receives payment for merchandise sold and the customer receives the merchandise ordered.

Processing an International Sale LO3

A document that details all the terms agreed to by seller and buyer for a sales transaction is called a contract of sale . The contract includes a description and quantity of merchandise, price, point of delivery, packing and marking

instructions, shipping information, insurance provisions, and method of payment. A detailed contract of sale makes sales straightforward and eliminates confusion.

Must-Have Gadgets, located in Plano, Texas, contracts to sell merchandise to Serrano Company in Sao Paulo, Brazil. The contract price is $6,000.00 in U.S. dollars, and merchandise is to be delivered to Sao Paulo. Serrano Company is to pay transportation charges.

A letter issued by a bank guaranteeing that a named individual or business will be paid a specified amount provided stated conditions are met is called a letter of credit . The contract of sale between Must-Have Gadgets and Serrano specified a letter of credit as the method of payment. A letter of credit is known worldwide as a risk management tool for international transactions.

Serrano prepared an application with its bank, Banco do Rio, to issue a letter of credit. Banco do Rio approved Serrano's application and issued the letter of credit. Banco do Rio forwarded the letter of credit to Must-Have Gadgets' bank, First Bank in Plano.

First Bank delivered the letter of credit to Must-Have Gadgets. Must-Have Gadgets reviewed the letter of credit to ensure that the provisions in the letter agreed with the contract of sale. Must-Have Gadgets then shipped the merchandise.

The International Chamber of Commerce publishes “Incoterms” to attempt to coordinate international sales. This set of international rules interprets common sales terms used in foreign trade that are adopted by most international trade associations.

Collecting Payment for an International Sale

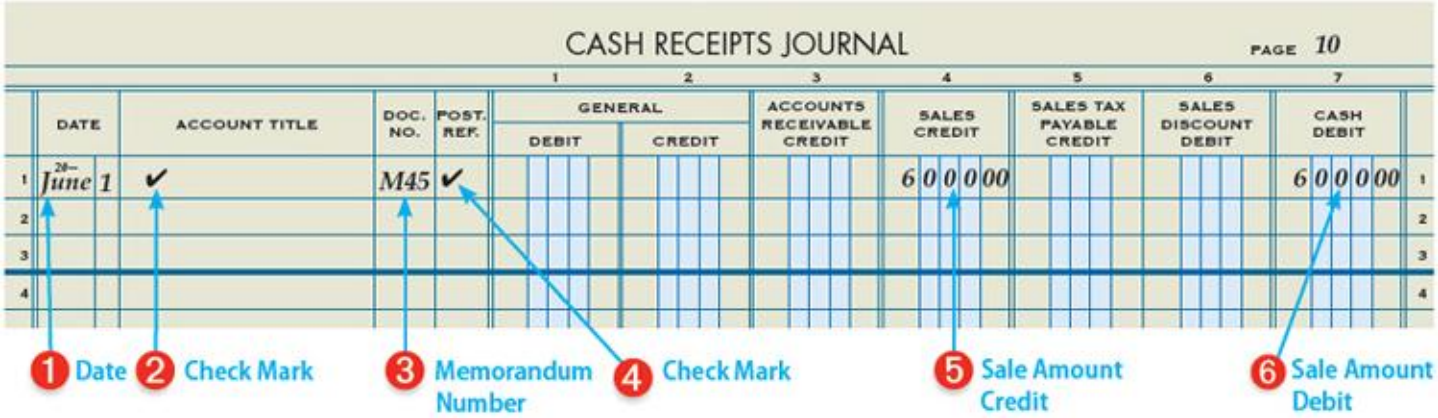
In order for Must-Have Gadgets to collect payment, three documents specified in the letter of credit must be submitted to First Bank: (1) a bill of lading, (2) a commercial invoice, and (3) a draft.

A receipt signed by the authorized agent of a transportation company for merchandise received that also serves as a contract for the delivery of the merchandise is called a bill of lading . The transportation company sends the bill of lading to Must-Have Gadgets when the merchandise is shipped. Must-Have Gadgets then prepares the other two documents. A statement prepared by the seller of merchandise addressed to the buyer showing a detailed listing and description of merchandise sold, including prices and terms, is called a commercial invoice . A written, signed, and dated order from one party ordering another party, usually a bank, to pay money to a third party is called a draft . A draft is sometimes referred to as a bill of exchange. A draft payable on sight when the holder presents it for payment is called a sight draft .

First Bank examines the documents submitted by Must-Have Gadgets to ensure that all terms of sale are in compliance with the letter of credit. First Bank then forwards the documents to Serrano's bank, Banco do Rio. Banco do Rio examines the documents to ensure they are in compliance with the terms and conditions of the letter of credit. When Banco do Rio determines that all documents are in compliance, it deducts the amount of the sight draft from Serrano's account and sends that amount, $6,000.00, to Must-Have-Gadgets' bank, First Bank in Plano.

Banco do Rio then forwards the documents to Serrano Company. By presenting the bill of lading and letter of credit to the transportation company, Serrano can receive the merchandise.

Journalizing an International Sale LO4



After receiving payment from Banco do Rio, First Bank deposits the payment for the sale in Must-Have Gadgets' account and sends Must-Have Gadgets a deposit slip for the amount deposited. After receiving the deposit slip from First Bank, Must-Have Gadgets prepares a memorandum as a source document for the cash received. The sale is then recorded as a cash sale.

Sales taxes are normally paid only on sales to the final consumer also referred to as the end user. Must-Have Gadgets' sale is to Serrano Company, a merchandising company. Therefore, sales tax is not collected.

The sales and collection process assured Must-Have Gadgets of receiving payment for its sale and Serrano Company of receiving the merchandise it ordered.

June 1. Recorded international cash sale, $6,000.00. Memorandum 45.

Visitors to foreign countries with a value added tax (VAT) typically are required to pay the VAT. However, if items purchased exceed a specified amount, a refund of a portion of the VAT can be requested.

Recording an Entry for an International Sale

1 Write the date, 20--, June 1, in the Date column.

2 Place a check mark in the Account Title column to indicate that no account title needs to be entered.

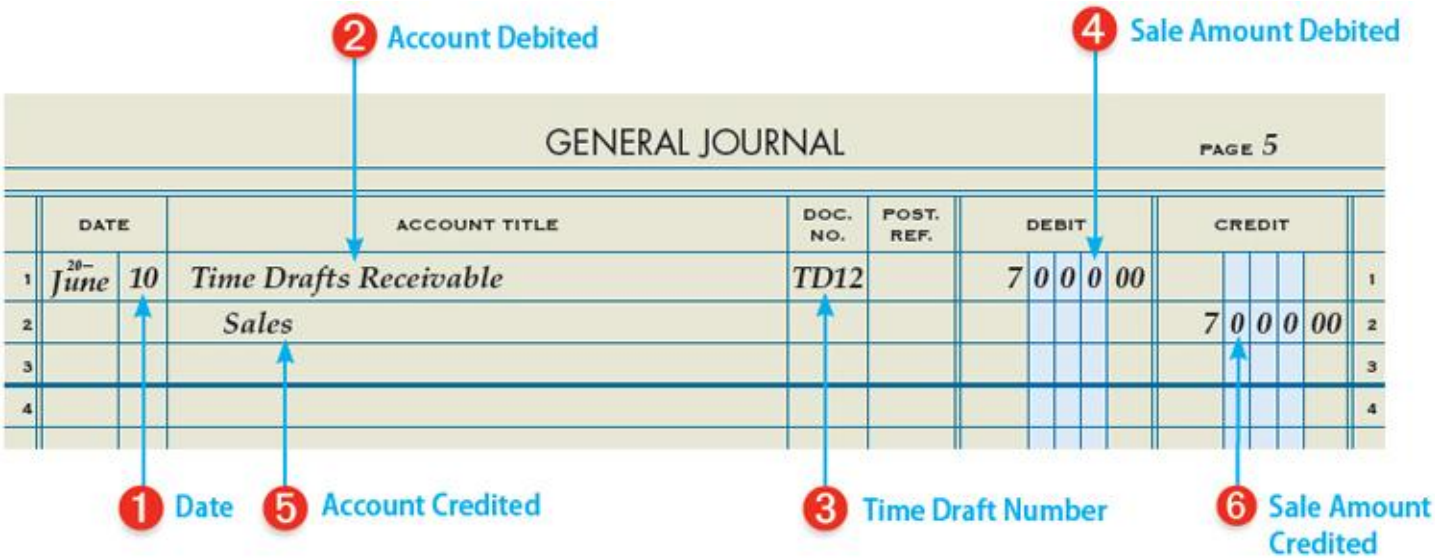
3 Write the source document number, M45, in the Doc. No. column.

4 Place a check mark in the Post. Ref. column to indicate that the amounts on this line are not posted individually.

5 Write the sale amount, $6,000.00, in the Sales Credit column.

6 Write the sale amount, $6,000.00, in the Cash Debit column.

Journalizing Time Drafts LO5



Must-Have Gadgets sold $7,000.00 of merchandise to Ramirez Co., located in Guadalajara, Mexico. The contract of sale with Ramirez was similar to the contract with Serrano Company, with one exception. Must-Have Gadgets agreed to delay receipt of payment 60 days. A draft that is payable at a fixed or determinable future time after it is accepted is called a time draft .

The sales process with Ramirez is the same as with Serrano, except Must-Have Gadgets submits with the documentation a time draft due 60 days from the date the draft is accepted. On June 10, all documentation for the Ramirez sale is verified to be correct by the seller's and buyer's banks, and Must-Have Gadgets' time draft is accepted.

After verifying the documentation, Ramirez's bank, Banco Mexico, returns the accepted time draft to Must-Have Gadgets and forwards the other documents to Ramirez Co. Ramirez can receive the merchandise by presenting the bill of lading and letter of credit to the transportation company.

June 10. Received a 60-day time draft from Ramirez Co. for an international sale, $7,000.00. Time Draft No. 12.

The minimum value added tax in the European Community is 15%; however, there is no additional local sales tax. The Philippines imposes a 12% VAT that applies to the sale, barter, or exchange of goods, properties, or services. Thailand applies a 7% VAT to selected beverages.

Journalizing a Time Draft

1 Write the date, 20--, June 10, in the Date column.

2 Write Time Drafts Receivable in the Account Title column.

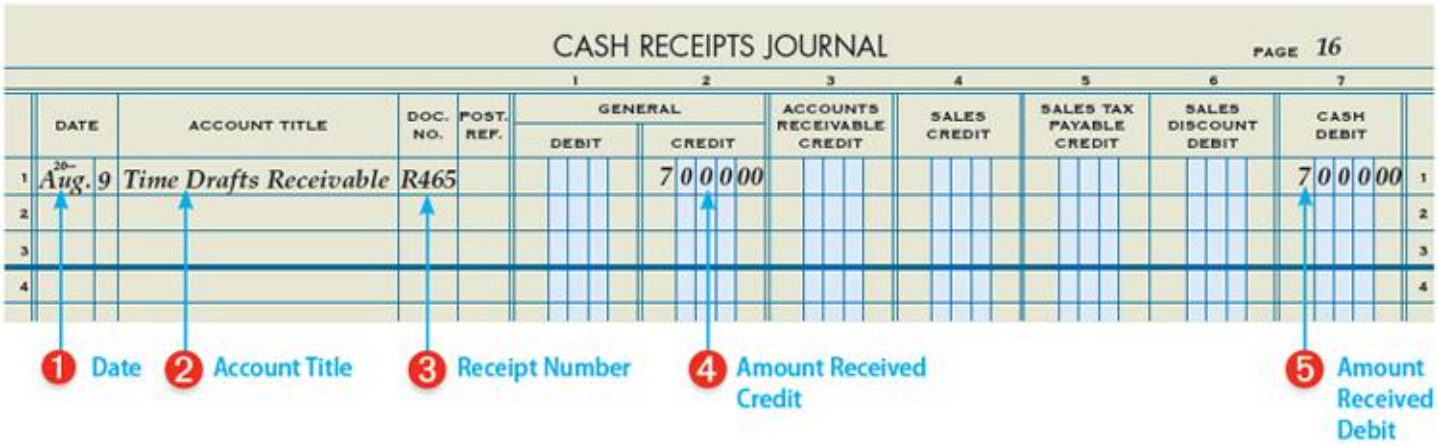
3 Write the time draft number, TD12, in the Doc. No. column.

4 Write the sale amount, $7,000.00, in the Debit column.

5 On the next line, indent and write Sales in the Account Title column.

6 Write the sale amount, $7,000.00, in the Credit column.

Journalizing Cash Receipts from Time Drafts



When Ramirez's time draft is due and presented to its bank, Banco Mexico, the bank pays the draft. The payment process is the same as the payment of Serrano Company's sight draft.

August 9. Received cash for the value of Time Draft No. 12, $7,000.00. Receipt No. 465.

The process used by Must-Have Gadgets for international sales relies upon letters of credit from banks to assure receipt of payment for those sales. Occasionally, Must-Have Gadgets grants an extension of time for payment to long-time international customers by submitting a time draft.

Trade Acceptances

A form signed by a buyer at the time of a sale of merchandise in which the buyer promises to pay the seller a specified sum of money, usually at a stated time in the future, is called a trade acceptance .

A trade acceptance is similar to a draft except a draft is generally paid by a bank and a trade acceptance is paid by the buyer. A seller generally has much more assurance of receiving payment from a bank than from a buyer. Because of the many complexities, few businesses use trade acceptances in international sales. Some businesses, however, use trade acceptances for domestic sales to very reliable customers.

Journalizing Cash Received from a Time Draft

1 Write the date, 20--, Aug. 9, in the Date column.

2 Write Time Drafts Receivable in the Account Title column.

3 Write the source document number, R465, in the Doc. No. column.

4 Write the amount received, $7,000.00, in the General Credit column.

5 Write the same amount, $7,000.00, in the Cash Debit column.

A sight draft and a time draft are similar. Both methods of international sales require the buyer's bank to guarantee the cash payment for the sale. The primary difference between a sight draft and a time draft is the timing of the payment. Cash payment of a time draft is delayed for a period of time after the delivery of the goods to the buyer.

End of Lesson Review

- LO1 Explain the purpose of entering the export and import markets.
- LO2 Describe issues that must be considered before making international sales.
- LO3 Explain the documentation that must be produced to process international sales.
- LO4 Account for international sales.
- LO5 Account for time drafts.

Terms Review

- exports
- imports
- contract of sale
- letter of credit
- bill of lading
- commercial invoice
- draft
- sight draft
- time draft
- trade acceptance

Audit Your Understanding

1. What are four of the issues that must be considered before making international sales?
2. What two purposes does a bill of lading serve?
3. How does a sight draft differ from a time draft?
4. Why do many companies dealing in international sales rely upon letters of credit from banks?
5. How does a trade acceptance differ from a draft?

Work Together 24-1

Journalizing international sales transactions

The cash receipts and general journals for Nicola Maria Exports, Inc., are given in the Working Papers. Your instructor will guide you through the following examples.

1. Using the current year, journalize the following international sales on page 10 of a cash receipts journal and page 5 of a general journal. Sales tax is not charged on these sales. Source documents are abbreviated as follows: memorandum, M; time draft, TD; receipt, R.

Transactions:

July 11. Recorded an international cash sale, $12,000.00. M324.

16. Received a 30-day time draft from Sun Chan for an international sale, $16,000.00. TD31.

23. Received cash for the value of Time Draft No. 10, $22,000.00. R221.

2. Prove and rule the cash receipts journal.

On Your Own 24-1

Journalizing international sales transactions

The cash receipts and general journals for Courtney's Stone Collections are given in the Working Papers. Work this problem independently.

1. Using the current year, journalize the following international sales on page 17 of a cash receipts journal and page 8 of a general journal. Sales tax is not charged on these sales. Source documents are abbreviated as follows: memorandum, M; time draft, TD; receipt, R.

Transactions:

Oct. 8. Recorded an international cash sale, $8,400.00. M256.

17. Received a 45-day time draft from Ashley Patel for an international sale, $6,300.00. TD81.

30. Received cash for the value of Time Draft No. 73, $10,500.00. R205.

2. Prove and rule the cash receipts journal.

Chapter 24: Recording International and Internet Sales: Ethics in Action: He's Guilty!

Ethics in Action: He's Guilty!

Instructions

A company that believes one of its employees is stealing may obtain the services of a Certified Fraud Examiner (CFE). The CFE is trained to examine accounting records and obtain other evidence related to the alleged theft. CFEs often serve as expert witnesses in court. The Code of Professional Standards of the Association of Certified Fraud Examiners provides its members with guidance on how to serve as an expert witness. The Code states that the CFE should obtain evidence that provides a reasonable basis for his or her opinion. However, the CFE should never express an opinion on the guilt or innocence of any person.

Instructions

Access the Code of Professional Standards of the Association of Certified Fraud Examiners. Citing the section, what other advice does the Code provide a CFE when serving as an expert witness?

Chapter 24: Recording International and Internet Sales: Think Like an Accountant: Promoting Internet Sales

Think Like an Accountant: Promoting Internet

ArtCart is an Internet retail business that specializes in closeout art supplies. Similar to other Internet retail sites, selections are stored in an online shopping cart until the customer elects to check out.

To measure its success rate, ArtCart tracks the percentage of customers who complete their purchases. The company had been experiencing a success rate of approximately 82%. To encourage the remaining 18% of customers to complete their purchases, ArtCart introduced a discount program. Random customers are e-mailed a 10% discount offer one week after the items are entered in the shopping cart without being checked out. The 10% discount offer expires seven days later, thus encouraging immediate action by the customer.

Initial information seems to indicate that the discount program is working. Last December, over 70% of customers who received the discount offer checked out during the discount period. However, a new chief executive officer is questioning whether these sales would have been completed without the discount. She wonders whether the discount is simply changing when the customer checks out. If that is the case, the company is “giving away” 10% of its sales value on the discounted transactions.

Open the Spreadsheet TLA_CH24

The spreadsheet contains transaction information for January and February. Use the information to provide answers to the following questions:

1. After seven days, is there a significant difference between the success rates among customers who take the discount when checking out their shopping cart compared to those who aren't offered a discount?
2. What is the difference in the gross margin for discount sales versus nondiscount sales?
3. Apply the nondiscount success rate to the number of discount transactions. How many discount sales can be presumed to have been lost without the discount program?
4. Do you believe ArtCart's discount strategy is effective?

Chapter 24: Recording International and Internet Sales: Global Awareness: World Trade Organization

Global Awareness: World Trade Organization

Critical Thinking

Decades ago, most U.S. businesses conducted their transactions within the boundaries of the United States. The majority of companies did not even consider going global for purchases or sales. U.S. laws governing patents, trade policies, and legal issues were in place to support a fair trade system. A company could expect its suppliers and customers to follow the laws.

Today, thousands of U.S. businesses either purchase or sell goods and services throughout the world. U.S. law does not apply to all international trade. There is a need for a set of international rules and guidelines to assist companies that wish to trade globally. The World Trade Organization (WTO) is attempting to negotiate these rules.

The WTO was formed in 1955 and is headquartered in Geneva, Switzerland. It is the only organization that focuses on rules for international trading. Currently, the WTO has 153 member countries and 30 “observer” governments, most of which are seeking membership. According to its website, the main function of the WTO “is to ensure that trade flows as smoothly, predictably and freely as possible.”

The WTO has negotiated a variety of agreements with its member nations. It has a policy of one country, one vote. However, the consensus method is used and an actual vote has never taken place. Instead, member countries listen to opponents of an agreement and try to find ways to make the agreement acceptable to every member.

In addition to negotiating trade agreements, the WTO also implements and monitors agreements already in place. If a member country believes another country is not following the terms of an agreement, the WTO has a procedure for settling the dispute.

The WTO lists six principles that are fundamental to all WTO agreements: (1) non-discrimination, (2) more open trade, (3) predictable and transparent, (4) more competition, (5) benefits to less developed countries, and (6) protection of the environment.

The WTO publishes a variety of resources, many of which are available online. In addition to the legal texts of WTO agreements, the resources include economic research and analysis findings, the annual WTO report, international trade statistics, and the world trade report.

Critical Thinking

1. Use the Internet to find three countries that fall into the following categories:

a. Members of the WTO

b. “Observers” of the WTO

c. Neither members nor observers of the WTO

2. Find the top decision-making body on the WTO. In a few sentences, report the name of the body, when it meets, who attends, and what it does.

Chapter 24: Recording International and Internet Sales: Forensic Accounting: Benford's Law

Forensic Accounting: Benford's Law

Activity

Instructions

In 1925, Frank Benford, a scientist for General Electric, observed that the front pages of his logarithm book were worn from use more than the back pages. Prior to the age of computers, handheld calculators, and smartphones, scientists used a logarithm book to assist them in multiplying and dividing numbers. Being a good scientist, Benford questioned why he was using the front more than the back part of the book. The front part contained the logarithmic values for numbers beginning with 1 and continued through numbers beginning with 9 at the back of the book.

Benford began to test natural data sets and discovered a consistent number pattern. The frequency of the first digit of a number being a 1 was 30.1%, as shown in the following table. The size of the number is not important. Whether the number is 1.23, 123, or 123,000, each number begins with the number 1.

First Digit	Frequency of First Digit
1	30.1%
2	17.6%
3	12.5%
4	9.7%
5	7.9%
6	6.7%
7	5.8%
8	5.1%
9	4.6%

Named in honor of Frank Benford, Benford's Law only applies to natural data sets that have no artificial biases. For example, the ACT score that is between 1 and 36 is not a natural data set; nor are invoice numbers, weekly hours worked, or codes. Examples of natural data sets would include:

- Sales at a retail store
- Checking account balances at a bank
- Client investment accounts managed by a financial advisor
- Total assets of the S&P 500 companies

Auditors have discovered that they can apply Benford's Law to forensic accounting. Any significant difference between the expected frequency (Benford's Law) and the actual frequency of numbers indicates that some sort of bias exists. Whether the bias is a natural for the business or a result of a fraud requires additional investigation. For example, a grocery store may naturally have a higher proportion of transactions beginning with a 1 or 2; few customers purchase $300.00 or more of groceries at one time. In contrast, a dollar limit that requires management approval of a transaction may result in a fraudster entering a large number of transactions just under that limit.

Activity

Any time that BoardTown Stores is open, one employee is assigned the responsibility of maintaining the appearance of shelves. This employee returns misplaced merchandise to its proper location and neatly arranges items at the front of the shelves. Any damaged merchandise is removed from the shelves. After the items are scanned into a point-of-sale terminal located in a receiving area, they are packaged to be sold to a salvage business. The system removes the items from BoardTown's perpetual inventory.

Kelly Alford, the store manager, recently learned of Benford's Law and has asked you to analyze the transactions to remove damaged merchandise.

Instructions

Open the spreadsheet FA_CH24 and complete the steps on the Instructions tab.

Chapter 24: Recording International and Internet Sales: Lesson 24-2: Recording Internet Sales

Lesson 24-2: Recording Internet Sales

Internet Sales

- Journalizing an Internet Sale LO6

Internet Sales

More companies are turning to the Internet, also referred to as electronic commerce or e-commerce, as an additional way of selling goods and services in order to compete globally. An explosive increase in Internet sales is likely due to a boost in global access to the Internet, buyer comfort and confidence in shopping online, and product availability and variety. Internet shopping provides customers the opportunity to browse the products offered by a company, compare competitors' products, and do so at a time and place convenient to the customer.

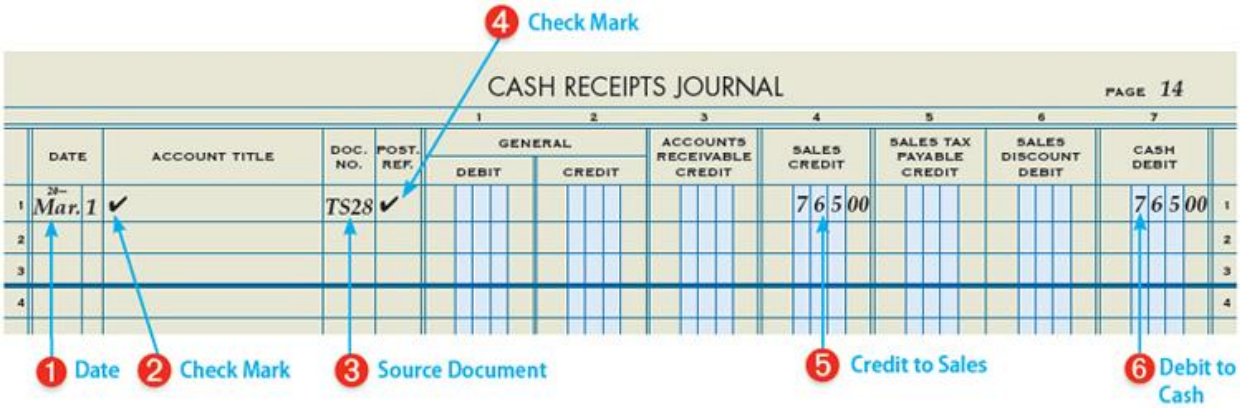
Selling goods over the Internet, however, also presents some challenges to the seller. The website developed must be easy to navigate and safe to use. Customers must feel that the website uses up-to-date security procedures to protect credit card information as it is being transmitted. The selling company must also be able to accept credit card sales, which means it must contract with a bank to offer this service or with a company that will offer this service to businesses for a fee.

Must-Have Gadgets has prepared a website that will accept credit card orders and transmit the sales information for immediate shipping and billing. An order confirmation is also immediately sent to the buyer, containing information about the order and expected shipping date.

Internet sales at Must-Have Gadgets must be completed with a credit card. At the end of each day, Must-Have Gadgets will be able to print out a terminal summary similar to the terminal summary discussed in Chapter 10. The terminal summary is used as the source document for recording online sales.

Journalizing an Internet Sale LO6

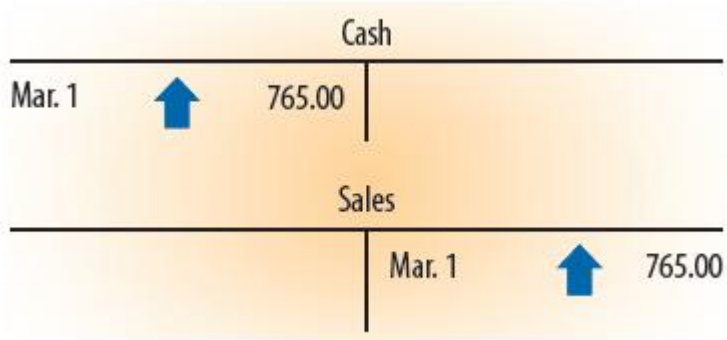
March 1. Recorded Internet credit card sales, $765.00. Terminal



Summary 28.

Must-Have Gadgets processes its credit card sales at the end of each day. At the same time, the information is electronically transmitted to First Bank, with whom Must-Have Gadgets has contracted to process its credit card sales. This information is transferred to the Federal Reserve Bank and processed in a manner similar to checks. Therefore, Must-Have Gadgets considers these sales to be cash sales.

The asset account Cash has a normal debit balance and is debited for the amount of the credit card sales, $765.00. The Sales account has a normal credit balance. Therefore, Sales is credited for the amount of the sales, $765.00.



Recording an Entry for an Internet Sale

1 Write the date, 20--, Mar. 1, in the Date column.

2 Place a check mark in the Account Title column to indicate that no account title needs to be entered.

3 Write the source document number, TS28, in the Doc. No. column.

4 Place a check mark in the Post. Ref. column to indicate that the amounts on this line are not posted individually.

5 Write the sale amount, $765.00, in the Sales Credit column.

6 Write the sale amount, $765.00, in the Cash Debit column.

In order to process bank credit cards such as Visa and MasterCard, a business must set up a merchant account with a bank. The business pays a fee to the bank for processing credit card sales.

End of Lesson Review

- LO6 Account for an Internet sale.

Audit Your Understanding

1. What are two reasons why a customer might prefer online shopping?
2. Why is a bank credit card sale treated the same as a cash sale?

Work Together 24-2

Journalizing Internet sales transactions

The cash receipts journal for Julia's Organic Bakery is given in the Working Papers. Your instructor will guide you through the following examples.

Using the current year, journalize the following Internet sales on page 3 of a cash receipts journal.

Transactions:

Aug. 21. Recorded Internet credit card sales, $1,432.00. Terminal Summary 230.

27. Recorded Internet credit card sales, $2,010.00. Terminal Summary 231.

28. Recorded Internet credit card sales, $1,270.00. Terminal Summary 232.

On Your Own 24-2

Journalizing Internet sales transactions

The cash receipts journal for Rhonda's Gourmet Gifts is given in the Working Papers. Work this problem independently.

Using the current year, journalize the following Internet sales on page 11 of a cash receipts journal.

Transactions:

Feb. 7. Recorded Internet credit card sales, $125.00. Terminal Summary 44.

14. Recorded Internet credit card sales, $289.00. Terminal Summary 45.

28. Recorded Internet credit card sales, $338.00. Terminal Summary 46.

Chapter 24: Recording International and Internet Sales: Why Accounting?: Wildlife Management

Why Accounting?: Wildlife

Critical Thinking

In many cities in the United States, the same thing happens each Friday afternoon. City dwellers pack up and vacate the city, choosing instead a quiet country experience. It might take place on a hiking trail, near a lake, or in the forest. If luck is with them, they may even spot some wildlife such as a deer.

Not everyone is excited about the increasing population of wildlife. Each year, deer alone cause millions of dollars of damage to U.S. agricultural crops. This causes a conflict between hunters, environmentalists, conservationists who want increased wildlife, and agricultural producers whose livelihood is threatened by wild animals.

Most states have a department or agency that is in charge of wildlife management. In order to help reach a balance, many states have a program through which producers receive payment for crop and animal losses due to wild animals. However, sometimes the cost of administrating such programs is higher than the amount actually paid out in losses. Administration costs are highest when losses are actually verified by wildlife officials. Without official verification, there is a risk that producers will claim more loss than actually occurred.

Critical Thinking

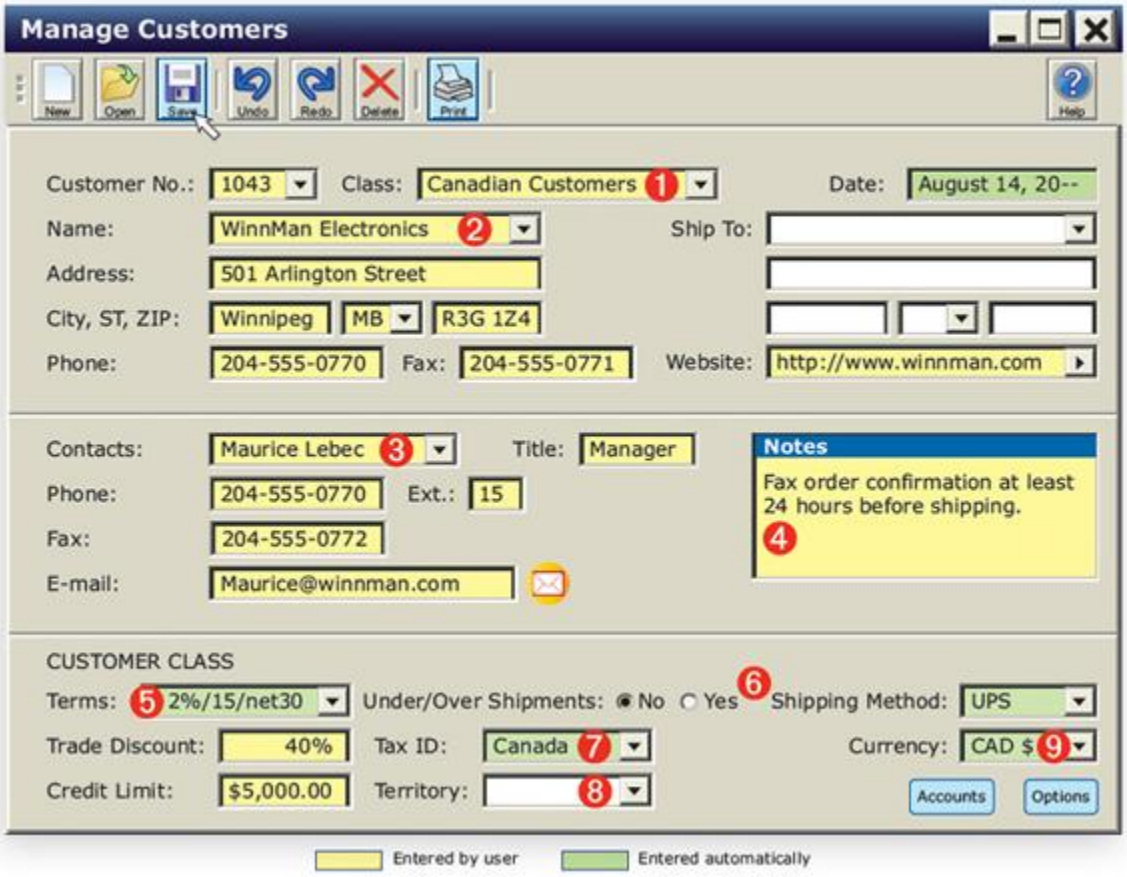
1. Assume you work in wildlife management. Develop a list of three things you could do to keep administration costs down, but at the same time, have some assurance that the loss claims you receive accurately reflect the loss that occurred.
2. Use the Internet to research crop and animal loss due to wild animals throughout the world. List three wild animals that cause this loss.

Chapter 24: Recording International and Internet Sales: End of Chapter Review

Setting Up a New Customer

Merchandising businesses, whether wholesale or retail, have customers. Retail businesses don't typically keep subsidiary ledger accounts for all their customers because there are far too many of them and the sales volume to each customer is small. Merchandise businesses that sell wholesale typically do maintain accounts for each customer because those customers tend to make frequent purchases and their purchases are large enough to track. As with vendors, there are different types, or classes, of customers. Classes of customers might be based on sales contracts, government

regulations, taxes, location, credit terms, product mix, etc. Accounting software systems allow businesses to set up different customer classes to enable recording and reporting accounting information accordingly.



1 To set up a new customer, the user first assigns a customer number. If the business tracks customer sales by class, the user would click on the drop-down list and select the appropriate class for that customer.

2 Next, the user would enter the address, phone number, and web address of the customer. Some customers have multiple addresses—perhaps different branches or stores. The Ship To fields allow the business to track sales to each address while maintaining a total accounting of sales to the central account.

3 In business-to-business dealings, different types of contacts are involved. One person may be responsible for negotiating contracts, while another is responsible for placing orders. Another person may resolve problems with orders. Contact information, then, is very important to users of the accounting system.

4 The Notes field allows the user to record personal or business information about the contact and the business relationship.

5 When the different customer classes were set up, default settings for each class were entered. So, when the Canadian Customers class was selected, those fields with default settings were populated by the system. Alternate settings may be selected by the user as appropriate.

6 Sometimes the inventory of an item may not be sufficient to fill a customer's order. Or, prepackaged bundles of the item may contain quantities that don't match the order. For example, an item might be packaged with 24 items and the customer ordered 20. Many sales agreements allow the business to undership or overship quantities within certain limits. Some customers will not accept quantities other than what they ordered. When that is the case, the system will not allow an order to be filled with a lesser or greater quantity than the order.

7 There are many different tax codes to account for when selling to customers around the United States or around the world. Accounting systems allow businesses to set up different accounts to manage payment of those taxes. Setting a tax profile for each class simplifies this accounting. Canada, for example, has a general services tax which must be paid by the seller.

8 Large companies often manage their sales by geographic territories. Each territory generally has a sales manager and, perhaps, sales representatives. It is necessary in those situations to properly account for sales by territory.

9 For U.S. companies, international business can most often be conducted in U.S. dollars. However, it is sometimes necessary to conduct business in a foreign currency. Selling prices would then be quoted, and invoice payments would be received, in that currency. Currency conversions would generally be handled by the company's bank. However, accountants must enter currency exchange adjustments into the business's accounts.

Recording International and Internet Sales: Chapter Summary

Many companies have entered the export and import market to compete globally and to provide the products and services to meet customer demand.

International sales are more complex than domestic sales. The lack of universal commercial laws in other countries makes it challenging to settle disputes that could arise and affect payment. To process international sales, documentation such as a contract of sale, letter of credit, bill of lading, commercial invoice, and a sight or time draft must be produced for shipment and payment to occur.

Once business relationships have been established and trust is gained, a trade acceptance may be presented instead of a draft. A trade acceptance is an agreement from the buyer to pay directly in the future, unlike a draft for which payment is received from the buyer's bank.

Internet sales (or e-commerce) have exploded due to advances in technology and customers' growing comfort in buying online. Customers are enjoying the luxury of the shopping conveniences afforded by the Internet.

Internet sales are typically completed with a credit card. At the end of each day, the seller prints a terminal summary as a source document for recording online sales.

Recording International and Internet Sales: Explore Accounting

A Sales Tax Dilemma

With Internet sales reaching over $165 billion and growing almost 15% annually, the issues of whether and how states should tax Internet sales are hot legislative topics.

Currently, sales tax is collected by the seller and paid to the state only on goods sold within the seller's state. Sellers do not collect sales tax on goods shipped outside the state, but buyers are technically required to pay a use tax to the state in which the good is used, consumed, or stored. Since the use tax is difficult to enforce, many states now want to make the sellers collect sales tax on goods purchased out of state on the Internet.

Many state lawmakers feel that online retailers who do not collect sales tax as “brick-and-mortar” retailers do are not doing their share. They argue that states are missing out on critical tax dollars.

Retailers are worried about competition from online sellers since Internet retailers can offer lower costs without collecting sales tax. Retailers say that imposing sales tax with e-commerce will remove the unfair advantage of Internet retailers and level the sales tax playing field.

Internet companies argue that they have to pay shipping. Additionally, they claim they do not use governmental services the way in-state retailers do, such as police/fire protection, and should not be required to charge and collect the sales tax.

A 1992 Supreme Court ruling says businesses must have a physical presence inside a state for the business to be required to collect sales tax. Many think since this decision originated with mail order sales that the definition of physical presence should be updated and broadened to include “a presence in the state” in an effort to address sales tax inequities.

State lawmakers are working hard to make an Internet sales tax a reality. Others are hopeful that Congress will finally step in and establish a federal law.

Instructions

1. Accountants must stay current on tax laws. Search the Internet to see what the current state law is pertaining to an Internet sales tax for your state.
2. Some think that having a “presence in the state” rather than a physical presence should be the requirement to collect sales tax. List three ways that one could have a “presence” and not necessarily a physical presence.
3. Compose a letter taking on the view of the consumer, brick-and-mortar retailer, state lawmaker, or Internet retailer stating your opinion about how Internet sales should or should not be taxed. Be sure to include at least three reasons why you support your decision.

Recording International and Internet Sales: Apply Your Understanding: Application Problem

INSTRUCTIONS: Download problem instructions for Excel, Quickbooks, and Peachtree from the textbook companion website at www.C21accounting.com .

24-1 Application Problem: Journalizing International Sales Transactions LO 4, 5

The cash receipts and general journals for Jan Hakeem Exports, Ltd. are given in the Working Papers.

Instructions:

1. Journalize the following international sales completed by Jan Hakeem Exports, Ltd. during June of the current year. Use page 12 of a cash receipts journal and page 5 of a general journal. Sales tax is not charged on these sales. Source documents are abbreviated as follows: memorandum, M; time draft, TD; receipt, R.

Transactions:

June 1. Recorded an international cash sale, $14,000.00. M79.

5. Received a 30-day time draft from Bella Lamas for an international sale, $12,000.00. TD27.

9. Received cash for the value of Time Draft No. 24, $18,000.00. R115.

12. Received a 60-day time draft from Elias Harmon for an international sale, $7,000.00. TD33.

19. Received cash for the value of Time Draft No. 21, $22,000.00. R117.

21. Recorded an international cash sale, $13,500.00. M83.

25. Received a 30-day time draft from Juan Mendez for an international sale, $26,500.00. TD34.

2. Prove and rule the cash receipts journal.

24-2 Application Problem: Journalizing Internet Sales Transactions LO 6

The cash receipts journal for Jeff's Sports Memorabilia is given in the Working Papers.

Instructions:

1. Journalize the following Internet sales completed by Jeff's Sports Memorabilia during August of the current year. Use page 15 of a cash receipts journal. Source documents are abbreviated as follows: terminal summary, TS.

Transactions:

Mar. 5. Recorded Internet credit card sales, $799.00. TS113.

13. Recorded Internet credit card sales, $1,287.00. TS114.

20. Recorded Internet credit card sales, $1,109.00. TS115.

27. Recorded Internet credit card sales, $2,945.00. TS116.

2. Total and rule the cash receipts journal.

Recording International and Internet Sales: Apply Your Understanding: Mastery Problem

24-M Mastery Problem: Recording International and Internet Sales LO 4, 5, 6

Dexter Corporation has both international and Internet sales.

Instructions:

1. Journalize the following transactions affecting sales and cash receipts completed during February of the current year. Use page 3 of both a general journal and a cash receipts journal. Source documents are abbreviated as follows: memorandum, M; receipt, R; time draft, TD; terminal summary, TS.

Transactions:

May 5. Received a 30-day time draft from Cooper Doi for an international sale, $3,000.00. TD10.

8. Recorded Internet credit card sales, $14,500.00. TS23.

12. Recorded an international cash sale, $8,800.00. M8.

14. Received cash for the value of Time Draft No. 4, $22,000.00. R35.

18. Recorded Internet credit card sales, $18,300.00. TS24.

21. Received cash for the value of Time Draft No. 7, $6,000.00. R37.

24. Recorded an international cash sale, $12,400.00. M12.

27. Recorded Internet credit card sales, $7,100.00. TS25.

28. Received a 30-day time draft from Strizi Percheki for international sale of merchandise, $5,000.00. TD11.

2. Prove and rule the cash receipts journal.

1. Journalize and post transactions related to international sales transactions to the journal.
2. Journalize and post transactions related to cash receipts in the Receive Payments window.
3. Print the customer balance detail, journal, and trial balance.

Recording International and Internet Sales: Apply Your Understanding: Challenge Problem

24-C Challenge Problem: Recording International Sales and Converting Foreign Currency LO4

International sales can be stated in terms of U.S. dollars or in the foreign currency. The transaction statements below are stated in terms of the foreign currency of the customer.

Instructions:

1. Journalize the following transactions affecting sales. Use the foreign currency exchange rates given in the table below to translate the amount of the sales into U.S. dollars. Use page 11 of a cash receipts journal. Source documents are abbreviated as follows: memorandum, M. (Hint: Review the Global Awareness feature in Chapter 6.)

Transactions:

June 1. Recorded international cash sale, 6,207 Chinese yuan. M48.

8. Recorded international cash sale, 28,731 Mexican pesos. M53.

14. Recorded international cash sale, 4,631 New Zealand dollars. M59.

19. Recorded international cash sale, 453 European euros. M60.

28. Recorded international cash sale, 2,174,060 Indian rupees. M72.

Currency	1 U.S. Dollar Equals…
Chinese yuan	6.3883 yuan
European euro	0.73126 euro
Mexican peso	13.11144 pesos
New Zealand dollar	1.21711 New Zealand dollars
Indian rupee	47.79671 rupees

2. Prove and rule the cash receipts journal.

Recording International and Internet Sales: 21st Century Skills

Crack Down on Identity Theft

Theme: Financial, Economic, Business, and Entrepreneurial Literacy

Skills: Critical Thinking and Problem Solving, Creativity and Innovation, ICT Literacy

Millions have discovered the convenience of shopping on the Internet. Unfortunately, many have not considered the risk of releasing personal information to different websites. What would happen if someone stole personal or credit card information and charged thousands of dollars in someone else's name? This is a form of identity theft and is considered a crime.

Credit card fraud is the most common type of identity theft and is one of the fastest growing crimes in the United States. As many as 9 million Americans have their identities stolen each year. Unfortunately, the victims may be denied loans or job opportunities due to false information on their credit reports.

One way to protect against identity theft is to create strong passwords. A strong password consists of uncommon names and number combinations. Also, be cautious about e-mail scams and suspicious e-mails. Make sure the online business has a secure website and uses a security measure that scrambles your data as it passes through the Internet. This is called encryption; a closed padlock image will often appear on a website that uses encryption, or a pop-up window will indicate added security features. In addition, confirm the validity of the online business before conducting business and preferably look for a third-party endorsement such as the Better Business Bureau.

Application

List at least three other types of identity theft besides credit card fraud.

Compose a list of five ways in which consumers put themselves at risk for identity theft. For each of these risks, post reminders on a poster, produce a public service announcement, or create a “tweet of the day” on Twitter.

Recording International and Internet Sales: Analyzing Nike's Financial Statements

A majority of Nike's products are sold outside of the United States. As a result, transactions are conducted in multiple currencies. This exposes Nike to the effects of changes in foreign currency exchange rates, which could have a negative impact on its financial condition.

Instructions

Read the section of Note 1 entitled Foreign Currency Translation and Foreign Currency Transactions on page B-11 of Appendix B. In which financial statement do you find adjustments resulting from translating foreign functional currency financial statements into U.S. dollars?