

Chapter 9: Accounting for Purchases and Cash Payments: Chapter Overview

Learning Objectives

After studying Chapter 9, in addition to defining key terms, you will be able to:

- LO1 Distinguish among service, retail merchandising, and wholesale merchandising businesses.
- LO2 Identify differences between a sole proprietorship and a corporation.
- LO3 Explain the relationship between a subsidiary ledger and a controlling account.
- LO4 Describe accounting procedures used in ordering merchandise.
- LO5 Discuss the purpose of a special journal.
- LO6 Journalize purchases of merchandise on account using a purchases journal.
- LO7 Post merchandise purchases to an accounts payable ledger and a general ledger.
- LO8 Record cash payments using a cash payments journal.
- LO9 Record replenishment of a petty cash fund.
- LO10 Post cash payments to an accounts payable ledger and a general ledger.

Accounting for Purchases and Cash Payments: Accounting in the Real World

Yum! Brands, Inc

Ask someone if they have eaten at a Yum! restaurant. Chances are they will look a bit confused. Although Yum! may not be a household word yet, its collection of brands—including Pizza Hut, Taco Bell, and KFC—is very well known.

Yum! Brands, Inc., has more than 35,000 restaurants in over 110 countries. It is committed to providing customers with safe and nutritious meals. To make that happen, Yum! takes responsibility for its supply chain.

Yum! is not satisfied with simply seeking out quality ingredients. The company is actively involved in the production processes of its supplier partners. Yum! monitors suppliers using its Supplier Tracking and Recognition (STAR) system. STAR is an audit system that measures each supplier's food safety and security practices. Pest control and sanitation are two examples. The system ensures that the supply chain provides Yum! with raw materials that meet or exceed government requirements.

Yum! also monitors its suppliers to ensure that humane procedures are used for the care of animals. Its KFC Animal Welfare Advisory Council guides research in the development of improved practices

for raising and processing animals to all of Yum!'s businesses.

Critical Thinking



1. How can Yum!'s involvement in its supplier partners' production processes reduce the cost of raw materials?
2. Can you think of additional businesses, other than restaurants, that could benefit from getting involved with suppliers in their supply chain?

Accounting for Purchases and Cash Payments: Key Terms

- merchandise
- merchandising business
- retail merchandising business
- wholesale merchandising business
- corporation
- capital
- share of stock
- stockholder
- capital stock
- articles of incorporation
- charter
- vendor
- accounts payable
- subsidiary ledger
- accounts payable ledger
- controlling account
- inventory
- merchandise inventory
- perpetual inventory
- periodic inventory
- physical inventory
- cost of merchandise
- requisition
- purchase order
- special journal
- purchase on account
- purchases journal
- special amount
- column
- purchase invoice
- terms of sale
- due date
- cash payments journal
- list price
- trade discount
- net price
- cash discount
- general amount column
- discount period
- purchases discount
- contra account
- credit limit
- schedule of

Lesson 9-1: Subsidiary Ledgers and Controlling Accounts

Merchandising Businesses LO1

Forming a Corporation LO2

Subsidiary Ledgers and Controlling Accounts LO3

Subsidiary Ledger Form

End of Lesson Review

- LO1 Distinguish among service, retail merchandising, and wholesale merchandising businesses.
- LO2 Identify differences between a sole proprietorship and a corporation.
- LO3 Explain the relationship between a subsidiary ledger and a controlling account.

Merchandising Businesses LO1

Delgado Web Services, the business in Part 1, is a service business; it sells services for a fee. Another type of business purchases goods to sell. Goods that a business purchases to sell are called **merchandise**. A business that purchases and resells goods is called a **merchandising business**. A merchandising business that sells to those who use or consume the goods is called a **retail merchandising business**. A **wholesale merchandising business** buys and resells merchandise primarily to other merchandising businesses. Some wholesale businesses also sell to individual consumers.

Service and merchandising businesses use many of the same accounts. However, merchandising businesses have additional accounts on their balance sheets and income statements to account for the purchase and sale of merchandise.

Forming a Corporation LO2

Many businesses need amounts of capital that cannot be easily acquired as a proprietorship. These businesses choose to organize as corporations. A **corporation** is an organization with the legal rights of a person which many persons or other corporations may own. For example, a corporation can own property, incur liabilities, and enter into contracts in its own name.

The assets or other financial resources available to a business are called **capital**. One way that a

corporation obtains capital to operate or grow its business is by selling units of ownership in the company. Each unit of ownership in a corporation is called a [share of stock](#) . The owner of one or more shares of stock is called a [stockholder](#) . The total shares of ownership in a corporation are called [capital stock](#) . Another way corporations raise capital is by borrowing money.

A corporation is formed by applying to a state government. The [articles of incorporation](#) , a legal document that identifies basic characteristics of a corporation, is a part of the application submitted to a state to become a corporation. The articles of incorporation typically include the name and address of the business, its purpose for operating, any limitations on its activities, and rules for dissolving the corporation. The articles of incorporation also describe how the business is to be governed and how capital may be acquired. A state approves the formation of a corporation by issuing a [charter](#) , the legal right for a business to conduct operations as a corporation.

The main difference between the accounting records of proprietorships and corporations is in the capital accounts. Proprietorships have a single capital and drawing account for the owner. A corporation has separate capital accounts for the stock issued and for the earnings kept in the business. This will be explained in more detail in later chapters. As in proprietorships, information in a corporation's accounting system is kept separate from the personal records of its owners.

[CONCEPT: Business Entity] Periodic financial statements must be sent to the stockholders of the corporation to report the financial activities of the business.

The Business—ThreeGreen Products, Inc

Individuals occasionally see a need for a new product or service, or they believe they can improve a process. But it takes more than a great idea to start a successful business—it requires a passion for the idea. Many of today's most well-known businesses were started by individuals who were passionate about their ideas. Thomas Edison's passion to invent a light bulb started General Electric. As a struggling actor, Danny Thomas made a spiritual promise that would be fulfilled in the building of St. Jude Children's Research Hospital.

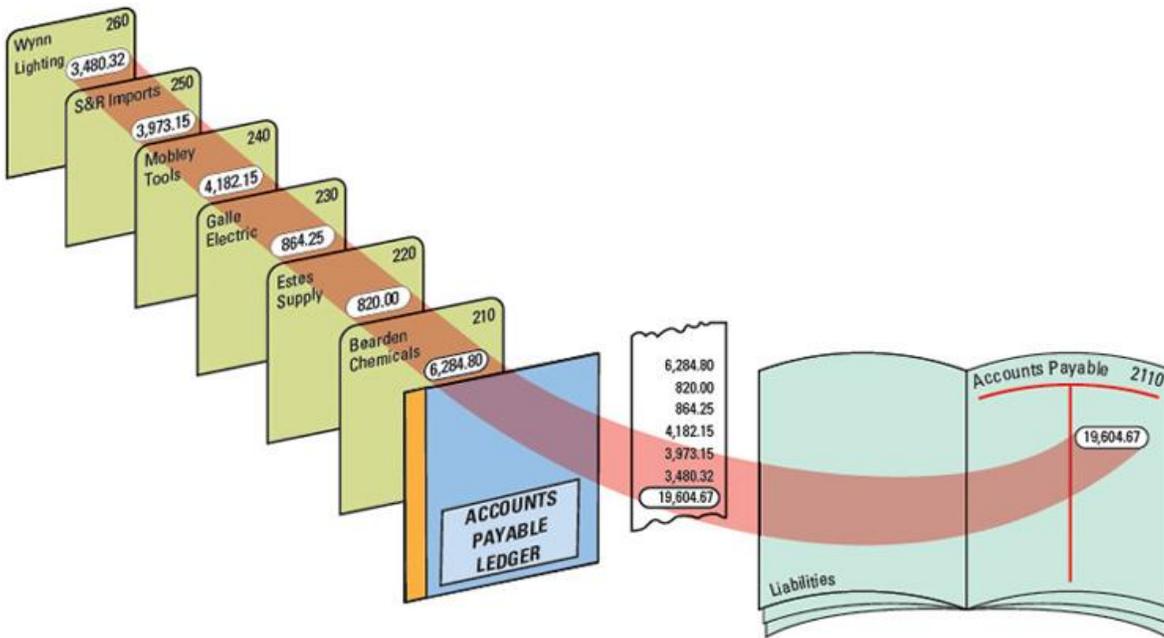
Mary Prisock has always had a passion for saving the environment. She has spent hours surfing the Internet to purchase products for her home that are safe for the environment. She grew frustrated with having to purchase from dozens of online retailers. Eventually, she decided to open ThreeGreen Products, Inc., a store that provides local residents with a wide variety of products that are friendly to the environment. The name “ThreeGreen” was inspired by the three green arrows in the universal

recycling symbol.

Mary developed a business plan to operate the store from a location in a new shopping center. However, she did not have the capital to launch the business. With the help of a small group of investors, though, Mary was able to form a corporation and open her business. Each investor received a number of shares of stock based on the amount invested.

Unlike a proprietorship, a corporation exists independent of its owners. Mary expects ThreeGreen Products, Inc., to continue beyond her lifetime and plans to give her shares of stock to her children. [CONCEPT: Going Concern]

Subsidiary Ledgers and Controlling Accounts LO3



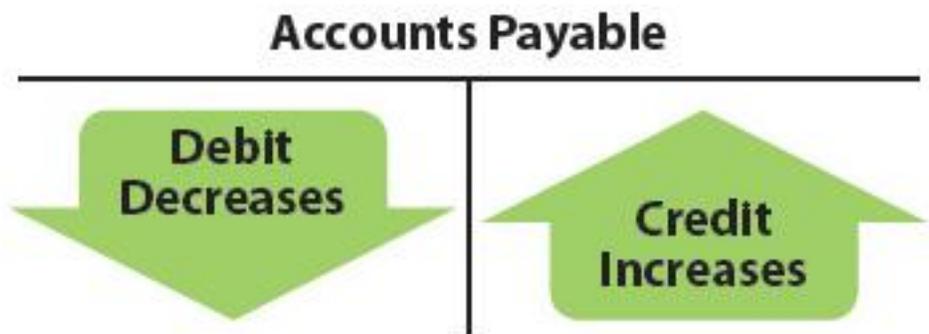
A business can have several types of ledgers. The general ledger is a collection of accounts used to assemble similar transactions, such as those that affect Cash. General ledger accounts are used to prepare financial statements.

A business from which merchandise, supplies, or other assets are purchased is called a **vendor**. Merchandising businesses often purchase merchandise on account from many vendors, so they have many vendor accounts. A business needs to know the amount owed to each vendor to ensure it pays

its bills on time. Delgado Web Services, the business in Part 1, used general ledger accounts to assemble the transactions with, and maintain the amount owed to, each vendor. This method is not practical for a business having a large number of vendors. This is why most businesses maintain a separate ledger with separate accounts for each vendor. A ledger that is summarized in a single general ledger account is called a **subsidiary ledger** . Accountants often refer to a subsidiary ledger as a subledger. The subsidiary ledger containing vendor accounts is called an **accounts payable ledger** .

ThreeGreen has six vendor accounts in its accounts payable ledger. The total amount owed to these vendors equals the balance in a single general ledger account titled Accounts Payable. An account in a general ledger that

summarizes all accounts in a subsidiary ledger is called a **controlling account** . Accounts Payable, a liability account, is increased by a credit and decreased by a debit, as shown in the T account. Therefore, it has a normal credit balance.



Although any numbering scheme can be used, ThreeGreen uses three-digit numbers for its accounts payable ledger. The first digit identifies the division in which the controlling account appears in the general ledger. The next two digits are unique to the vendor. Accounts in the subsidiary ledgers can be located by either number or name. For example, the vendor number for Bearden Chemicals is 210. The first digit, 2, shows that Accounts Payable is a liability. The second and third digits, 10, are the unique number assigned to Bearden Chemicals.

Subsidiary Ledger Form

VENDOR <i>Bearden Chemicals</i>						VENDOR NO. 210	
DATE	ITEM	POST. REF.	DEBIT	CREDIT	CREDIT BALANCE		
Nov. 1 ²⁰⁻⁻	Balance	✓			5	483.00	

ACCOUNT <i>Accounts Payable</i>					ACCOUNT NO. 2110	
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT

Accounts payable ledger forms are similar to general ledger forms. The accounts payable ledger form contains the same columns as the general ledger except that it lacks a Debit Balance column. Accounts Payable has a normal credit balance, so the accounts payable ledger form does not require a Debit Balance column. On November 1, ThreeGreen prepared a new page for Bearden Chemicals in the accounts payable ledger because the existing page was full. On that day, the account balance was \$5,483.00.

Starting a New Page in a Subsidiary Ledger

- 1 Write the account name, Bearden Chemicals.
- 2 Write the account number, 210.
- 3 Write the date, 20--, Nov. 1, in the Date column.
- 4 Write the word Balance in the Item column.
- 5 Place a check mark in the Post. Ref. column to show that the amount has been carried forward from a previous page rather than posted from a journal.
- 6 Write the balance, \$5,483.00, in the Credit Balance column.



A business can include letters in its subsidiary account numbers. Letters can have meaning that is useful to company employees. For example, the IL in account IL5234 would indicate that the customer is from Illinois. The S in account 6345S could indicate the customer's rank as a "silver" member in a

customer rewards program.

End of Lesson Review

- LO1 Distinguish among service, retail merchandising, and wholesale merchandising businesses.
- LO2 Identify differences between a sole proprietorship and a corporation.
- LO3 Explain the relationship between a subsidiary ledger and a controlling account.

Terms Review

- | | | |
|------------------------|------------------|-----------------------|
| • merchandise | • business | • incorporation |
| • merchandising | • corporation | • charter |
| • business | • capital | • vendor |
| • retail merchandising | • share of stock | • subsidiary ledger |
| • business | • stockholder | • accounts payable |
| • wholesale | • capital stock | • ledger |
| • merchandising | • articles of | • controlling account |

Audit Your Understanding

1. What is the primary difference between retail and wholesale merchandising businesses?
2. What allows a corporation to own property, incur liabilities, and enter into contracts in its own name?
3. What is the principal difference between the accounting records of proprietorships and corporations?
4. What is the relationship between a controlling account and a subsidiary ledger?
5. What column on a general ledger form is not on an accounts payable ledger form?

Work Together 9-1

Starting an accounts payable ledger form

Accounts payable ledger forms are given in the Working Papers. Your instructor will guide you through the following examples.

1. Start a new page for an accounts payable ledger account for Warren River Supply. The

account number is 240, and the balance on October 1 of the current year is \$1,489.50.

2. Start a new page for an accounts payable ledger account for Zodiac Industries. The account number is 250, and the balance for October 1 of the current year is \$2,491.80.

On Your Own 9-1

Starting an accounts payable ledger form

Accounts payable ledger forms are given in the Working Papers. Work this problem independently.

1. Start a new page for an accounts payable ledger account for Tilson Corporation. The account number is 240, and the balance on November 1 of the current year is \$948.25.
2. Start a new page for an accounts payable ledger account for Value Distributors. The account number is 250, and the balance on November 1 of the current year is \$3,231.60.

Chapter 9: Accounting for Purchases and Cash Payments: Ethics in Action: At What Price, Safety?

Ethics in Action: At What Price, Safety?

Instructions

Willcutt Industries assembles a safety system for passenger cars. This system substantially reduces severe injuries to drivers involved in accidents. Willcutt recently took steps to increase its profits. The company cut costs and increased production. It began using some less-expensive parts, which reduced production costs by \$50.00 per unit. The new parts increase the system's estimated failure rate from 12 to 15 failures per 10,000 accidents. Still, Willcutt continues to exceed the government's safety standard of 20 failures per 10,000 accidents. The company also reduced the unit price by \$40.00. The lower price has allowed the component to be installed on other car models, resulting in significant unit sales growth.

Instructions

Access the Ford Motor Company Standards of Corporate Conduct. Use this code along with the ethical model to determine whether this action by Willcutt Industries is ethical.

Chapter 9: Accounting for Purchases and Cash Payments: Why Accounting?: Cost of Construction

Why Accounting?: Cost of Construction

Critical Thinking

Constructing a new building involves many companies working together, each with a specific function such as structural steel, concrete, wiring, carpentry, plumbing, drywall, and carpeting. The activity of all of these construction companies and their workers must be coordinated. For example, drywall cannot be installed until the electrical and plumbing work is finished. If drywall installers are hired too early, they will not be able to work efficiently, which will unnecessarily increase the cost of the building.

The person or company that manages a construction project is called a general contractor. The general contractor usually hires the other companies, called subcontractors, and coordinates all activity on the project.



Construction projects generally begin with a bidding phase where subcontractors who want to work on the project submit bids, or estimates, for the work they would do. At most construction companies, assigning costs to tasks and determining the cost of a job is the responsibility of the estimator. It is essential that the estimator's bid accurately covers the costs involved. If the bid is too high, the general contractor may reject it and hire another subcontractor to do the work. If the bid is too low, the subcontractor may lose money on the project.

Critical Thinking



1. The website, www.stateuniversity.com, lists the minimum educational requirements for a professional cost estimator as a “high school education with courses in mathematics and accounting.” Explain how an accounting course would be helpful to the estimator.
2. Name one problem that may result from a delay in the completion of the electrical work on a building project.

Chapter 9: Accounting for Purchases and Cash Payments: Lesson 9-3: Posting from a Purchases Journal

Lesson 9-3: Posting from a Purchases Journal

Posting from a Purchases Journal to an Accounts Payable Ledger LO7

Totaling and Ruling a Purchases Journal

Posting the Total of a Purchases Journal to a General Ledger

End of Lesson Review

LO7 Post merchandise purchases to an accounts payable ledger and a general ledger.

Posting from a Purchases Journal to an Accounts Payable Ledger LO7

PURCHASES JOURNAL										PAGE 11		
DATE	ACCOUNT CREDITED				PURCH. NO.	POST. REF.	PURCHASES DR. ACCTS. PAY. CR					
Nov. 6	Wynn Lighting				525	260	1	0	8	2	50	1
												2
												3

VENDOR Wynn Lighting										VENDOR NO. 260				
DATE	ACCOUNT CREDITED	POST. REF.	DEBIT		CREDIT				CREDIT BALANCE					
Nov. 1	Balance	✓							2	5	4	4	00	
6		P11			1	0	8	2	50	3	6	2	6	50

Date ① Journal Page Number ② Credit ③ ⑤ Vendor Number Account Balance ④

Each entry in the purchases journal affects the account of the vendor named in the Account Credited column. The amount on each line of a purchases journal is posted as a credit to a vendor account in the accounts payable ledger. Posting frequently helps ensure that vendor accounts are paid on time. ThreeGreen must maintain a reputation for paying its accounts on time if it wishes to continue

purchasing goods and services on account.

When several journals are used, an abbreviation is used to show from which journal the posting is made. P is the abbreviation used for the purchases journal. The abbreviation P11 means page 11 of the purchases journal. This additional information is necessary to provide a clear audit trail. Thus, an employee working with Wynn Lighting's account can trace the transaction back to the correct journal and page number.

Posting from a Purchases Journal to an Accounts Payable Ledger

1 Write the date, 20--, Nov. 6, in the Date column of the vendor account.

2 Write the journal page number, P11, in the Post. Ref. column of the account to provide an audit trail back to the journal where the transaction was recorded.

3 Write the credit amount, \$1,082.50, in the Credit column of the vendor account, Wynn Lighting.

4 Add the amount in the Credit column to the previous balance in the Credit Balance column. (Wynn Lighting has a previous balance of \$2,544.00; therefore, $\$2,544.00 + \$1,082.50 = \$3,626.50$.) Write the new account balance, \$3,626.50, in the Credit Balance column.

5 Write the vendor number, 260, in the Post. Ref. column of the journal to provide an audit trail to the account where the transaction was posted.

Totaling and Ruling a Purchases Journal

PURCHASES JOURNAL

PAGE 11

DATE	ACCOUNT CREDITED	PURCH. NO.	POST. REF.	PURCHASES DR.					
				ACCTS.	PAY.	CR			
1 Nov. 6	Wynn Lighting	525		1	0	8	2	50	1
2 8	Galle Electric	526			6	4	0	00	2
3 13	Bearden Chemicals	527		6	2	8	4	80	3
4 15	Mobley Tools	528		4	1	8	2	15	4
5 21	Wynn Lighting	529		3	4	8	0	32	5
6 22	Galle Electric	530		1	0	8	0	00	6
7 27	S&R Imports	531		3	9	7	3	15	7
8 29	Galle Electric	532			8	6	4	25	8
9 30	Total			21	5	8	7	17	9

Date 2

3 "Total"

Single Line 1

Total Column 4

Double Lines 6

5 Total Amount

ThreeGreen rules its purchases journal whenever a journal page is filled, and always at the end of each month. Calculating the total does more than report the total value of inventory purchased on account during a period of time. Using a purchases journal, ThreeGreen can post all the purchases on a journal page to the general ledger using a single journal entry. In this way, special journals significantly reduce the time required to post transactions.

Totaling and Ruling a Purchases Journal

- 1 Rule a single line across the amount column under the last entry.
- 2 Write the date, 30, in the Date column.
- 3 Write the word Total in the Account Credited column.
- 4 Add the amount column. Verify the total by re-adding the column in reverse order.
- 5 Write the total, \$21,587.17, directly below the single line in the amount column.
- 6 Rule double lines across the amount column directly below the total amount to show that the total has been verified as correct.



Employees who specialize in purchasing merchandise might consider earning certification by the Institute for Supply Management. A Certified Professional in Supply Management understands the challenges involved in purchasing merchandise and recognizes opportunities to help the business maximize its profits.

Posting the Total of a Purchases Journal to a General Ledger

The total amount of the purchases journal is posted to two general ledger accounts, Purchases and Accounts Payable.

The debit to Purchases increases the balance of the account. The credit to Accounts Payable increases the balance of the account. The transactions with the posting reference CP21 will be discussed later in the chapter.

PURCHASES JOURNAL							PAGE 11	
DATE	ACCOUNT CREDITED	PURCH. NO.	POST. REF.	PURCHASES DR.	ACCTS. PAY. CR.			
29	Galle Electric	532		864.25				
30	Total			21,587.17				
				(5110)	(2110)			

ACCOUNT Purchases							ACCOUNT NO. 5110	
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE			
					DEBIT	CREDIT		
Nov. 1	Balance	✓			214,867.09			
9		CP21	480.00		215,347.09			
30		P11	21,587.17		236,934.26			

ACCOUNT Accounts Payable							ACCOUNT NO. 2110	
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE			
					DEBIT	CREDIT		
Nov. 1	Balance	✓			16,893.00			
21		CP21	11,824.00		5,069.00			
30		P11		21,587.17	26,656.17			

1 Date
 2 Journal Number
 3 Debit or Credit
 4 Account Balance
 5 Account Number

Posting the Total of a Purchases Journal to the General Ledger Accounts

- 1 Write the date, 30, in the Date columns of the accounts.
- 2 Write the purchases journal page number, P11, in the Post. Ref. columns of the accounts. The abbreviation P11 means page 11 of the purchases journal.
- 3 For each account, write the purchases journal column total, \$21,587.17, in the Debit or Credit column.
- 4 For each account, calculate and write the new account balance in the Balance Debit or Credit column.
- 5 Return to the purchases journal and write the Purchases general ledger account number, (5110), and the Accounts Payable general ledger account number, (2110), in parentheses below the column total.

End of Lesson Review

- LO7 Post merchandise purchases to an accounts payable ledger and a general ledger.

Audit Your Understanding

1. Why should a business frequently post from the purchases journal to the accounts payable ledger?
2. Why is it important to record a posting reference in the accounts payable ledger?
3. Why is the vendor number written in the Post. Ref. column of the purchases journal?

Work Together 9-3

Posting a purchases journal

Selected accounts payable and general ledger accounts for Golden Fabrics are given in the Working Papers. Use the purchases journal from Work Together 9-2. Your instructor will guide you through the following examples. Save your work to complete Work Together 9-5.

1. Post the transactions from the purchases journal to the accounts payable ledger.
2. Total and rule the purchases journal.
3. Post the purchases journal to the general ledger.

On Your Own 9-3

Posting a purchases journal

Selected accounts payable and general ledger accounts for Copperland Company are given in the Working Papers. Use the purchases journal from On Your Own 9-2. Work this problem independently. Save your work to complete On Your Own 9-5.

1. Post the transactions from the purchases journal to the accounts payable ledger.
 2. Total and rule the purchases journal.
- Post the purchases journal to the general ledger.

A manager is a person who controls an area of a business by planning and directing courses of action. Making good business decisions requires accurate and timely information. The area of accounting that focuses on reporting information to internal users is called managerial accounting.

As a management accountant, Courtney Bloom supports the management of her company by gathering, summarizing, and reporting financial data. Those reports are needed for informed decision making. Managers need financial data for planning, controlling, measuring, and providing feedback.

Courtney's role as a management accountant is different from a financial accountant in several ways. The management accountant is usually looking ahead to predict some future costs or outcomes. The financial accountant is usually summarizing and reporting past results. The management accountant is not bound by rules and standards as the financial accountant is by the rules of GAAP. The management accountant creates reports to meet the needs of the company's managers. The financial accountant creates financial statements for external users. Those would include lenders, investors, and business partners.

In her role as management accountant, Courtney produces a wide range of reports to help managers make decisions. One example is a listing of all the costs involved in making a product. This helps managers when setting the price of the product. Another example is a cash budget. A cash budget helps managers to plan ahead for times when it may be necessary to borrow cash or when excess cash can be invested. A third example is reporting all the expenses associated with employees so that management can develop a sound compensation policy.

Salary Range: Varies greatly according to region and job requirements, but averages between \$35,000 and \$45,000.

Qualifications: The management accountant is an integral player on the management team. He or she needs to have a thorough knowledge of management accounting. It is just as important to understand what managers do, what information managers need, and how the company operates. The management accountant must also possess the written and oral communication skills to present complex financial information so that managers not trained in accounting can understand it and use it.

Most management accountants have a four-year degree, with an emphasis in accounting. Those who want higher credentials can obtain the Certified Management Accountant (CMA) designation.

Occupational Outlook: Overall, the accounting field has a better than average outlook for the period

from 2008 to 2018, with a greater than 20% growth in the field. The specific occupation of management accountant is expected to see comparable growth.

Sources: ima.org ; online.onetcenter.org ; mysalary.com .

Go to a job search website such as monster.com and find a job opening for a management accountant. Write a paragraph about the position, including educational requirements and salary range.

Chapter 9: Accounting for Purchases and Cash Payments: Lesson 9-4: Accounting for Cash Payments

Lesson 9-4: Accounting for Cash Payments

- LO8 Record cash payments using a cash payments journal.
- LO9 Record replenishment of a petty cash fund.

Cash Payments Journal LO8

CASH PAYMENTS JOURNAL											PAGE
DATE	ACCOUNT TITLE	CK. NO.	POST. REF.	GENERAL		ACCOUNTS PAYABLE DEBIT	PURCHASES DISCOUNT CREDIT	CASH CREDIT			PAGE
				DEBIT	CREDIT						
1											1
2											2
3											3

A **cash payments journal** is a special journal used to record only cash payment transactions. Only those columns needed to record cash payment transactions are included in ThreeGreen's cash payments journal. A cash payments journal may be set up to accommodate a business's frequent cash payment transactions. Since all cash payment transactions affect Cash, and all cash payments are credits, a special amount column is provided for Cash Credit. In addition, ThreeGreen has many cash payment transactions affecting the Accounts Payable account. Therefore, a special amount column is provided in the cash payments journal for Accounts Payable Debit.

Trade Discount

Most manufacturers and wholesalers print catalogs and maintain Internet sites that describe their

products. Generally, the prices listed are the manufacturers' suggested retail prices. The retail price listed in a catalog or on an Internet site is called a **list price**. When a merchandising business purchases a number of products from a manufacturer, the price frequently is quoted as "list price less trade discount." A **trade discount** is a reduction in the list price granted to a merchandising business. Trade discounts are also used to quote different prices for different quantities purchased without changing catalog or list prices. The price after the trade discount has been deducted from the list price is referred to as the **net price**. For example, an item with a list price of \$500.00 and a 40% trade discount would be purchased for a net price of \$300.00 (\$500.00 less trade discount of \$200.00, 40% of \$500.00 equals \$200.00).

When a trade discount is granted, the seller's invoice shows the net price. Only the invoice amount is used in a journal entry. [CONCEPT: Historical Cost] No journal entry is made to show the amount of a trade discount.

Cash Discount

When a company purchases goods, the purchase invoice shows the amount the company is expected to pay. To encourage early payment, a vendor may allow a deduction from the invoice amount. A **cash discount** is a deduction that a vendor allows on an invoice amount to encourage prompt payment. Cash discounts taken when purchasing goods are recorded to Purchases Discount. Taking cash discounts reduces the company's cost of merchandise. ThreeGreen uses a cash payments journal with a Purchases Discount Credit column because it often takes cash discounts.

A journal amount column that is not headed with an account title is called a **general amount column**. ThreeGreen's cash payments journal has General Debit and General Credit columns for cash payment transactions that do not occur often. Monthly rent is one example.

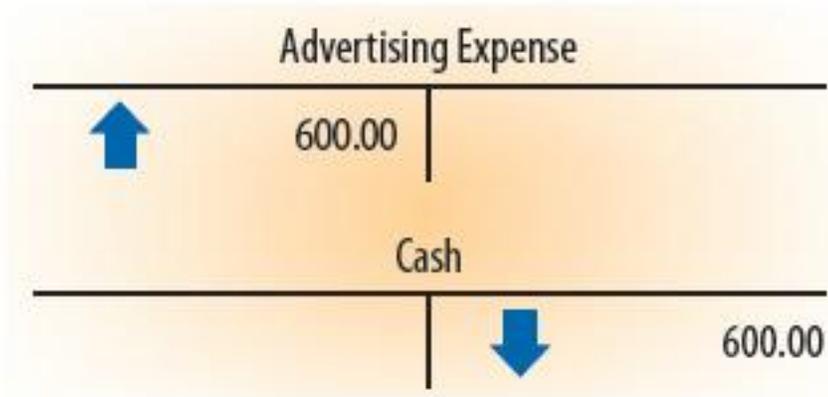
All cash payments made by ThreeGreen are recorded in a cash payments journal. The source document for most cash payments is the check issued. A few payments, such as bank service charges, are made as direct withdrawals from the company's bank account. For payments not using a check, the source document is a memorandum. Most of ThreeGreen's cash payments are paid by check to vendors.

Cash Payment

CASH PAYMENTS JOURNAL										PAGE 21
DATE	ACCOUNT TITLE	CK. NO.	POST. REF.	GENERAL		ACCOUNTS PAYABLE DEBIT	PURCHASES DISCOUNT CREDIT	CASH CREDIT		
				DEBIT	CREDIT					
1 Nov. 3	Advertising Expense	689		600	00			600	00	1
2 Nov. 6	Supplies—Office	690		562	20			562	20	2
3										3
4										4

1 Date
 2 Account Title
 3 Check Number
 4 Debit
 5 Credit

of an Expense



November 3. Wrote a check to Kelser Promotions for advertising, \$600.00. Check No. 689.

ThreeGreen usually pays for an expense at the time the transaction occurs. This cash payment increases the Advertising Expense balance and decreases the balance in Cash.

Advertising Expense has a normal debit balance and is increased by this \$600.00 debit. Cash also has a normal debit balance and is decreased by this \$600.00 credit.

Journalizing a Cash Payment of an Expense

- 1 Write the date, 20--, Nov. 3, in the Date column.
- 2 Write the account title, Advertising Expense, in the Account Title column.
- 3 Write the check number, 689, in the Ck. No. column.
- 4 Write the debit amount to Advertising Expense, \$600.00, in the General Debit column.
- 5 Write the credit amount, \$600.00, in the Cash Credit column.

Buying Supplies for Cash

November 6. Wrote a check to Wells Office Supply for store supplies, \$56.20. Check No. 690.

ThreeGreen buys supplies for use in the business. Supplies are not recorded in the Purchases account because supplies are not intended for resale. Computer paper and printer toner are examples of supplies used in a business.

Buying supplies increases the Supplies—Office account balance and decreases the Cash account balance. Although Supplies—Office is an asset account, the steps for journalizing buying supplies for cash are similar to journalizing the payment of cash for an expense.



Note: This transaction is illustrated at the top of the previous page.

Supplies—Office	
56.20	
Cash	
	56.20

Any check written is journalized in the cash payments journal. The amount of the check is always entered in the Cash Credit column. Unless a special column is provided for the debit portion of the transaction, the account

description is entered in the Account Title column. The related amount is then recorded in the General Debit column.

Cash Payments for Purchases

CASH PAYMENTS JOURNAL										PAGE 21
DATE	ACCOUNT TITLE	CK. NO.	POST. REF.	GENERAL		ACCOUNTS PAYABLE DEBIT	PURCHASES DISCOUNT CREDIT	CASH CREDIT		
				DEBIT	CREDIT					
9	Purchases	697		480	00			480	00	

Businesses usually purchase merchandise on account. However, vendors may choose not to extend credit to all of their customers. Businesses not offered credit must pay the vendor before the merchandise is shipped or delivered.

November 9. Purchased merchandise from Polar Refrigeration for cash, \$480.00. Check No. 697.

ThreeGreen writes a check for ten energy efficient dorm refrigerators with an invoice amount of \$480.00. Because the transaction involves a cash payment, it is recorded in the cash payments journal. Only purchases on account are recorded in the purchases journal.

Purchases	
↑ 480.00	
Cash	
	↓ 480.00

Only cash payment transactions are recorded in the cash payments journal.



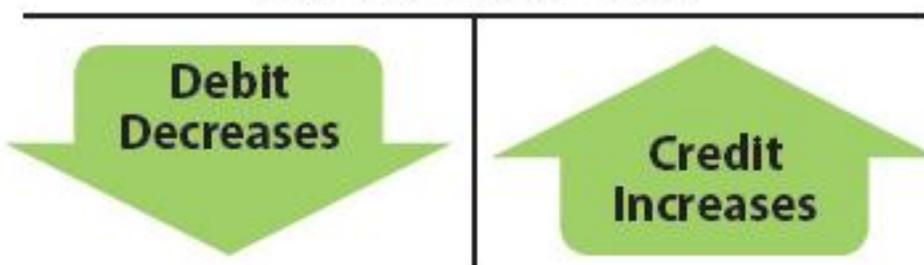
Cash Payments on Account with Purchases Discounts

CASH PAYMENTS JOURNAL										PAGE 21
DATE	ACCOUNT TITLE	CK. NO.	POST. REF.	GENERAL		ACCOUNTS PAYABLE DEBIT	PURCHASES DISCOUNT CREDIT	CASH CREDIT		
				DEBIT	CREDIT					
14	Galle Electric	702				6 4 0 00	1 2 80	6 2 7 20	14	
15									15	
16									16	

Date ① Vendor Name ② Check Number ③ Purchase Invoice Amount ④ Cash Discount ⑤ Purchase Invoice Amount Less the Cash Discount ⑥

A cash discount is stated as a percentage deducted from the invoice amount. For example, 2/10, n/30 is a common term of sale, which is read two ten, net thirty. Two ten means that 2% of the invoice amount may be deducted if the invoice is paid within ten days of the invoice date. The period of time during which a customer may take a cash discount is called the **discount period**. Net thirty means that the total invoice amount must be paid within 30 days.

Purchases Discount



When a company that has purchased merchandise on account takes a cash discount, it is called a **purchases**

discount . Purchases discounts are recorded in a general ledger account titled Purchases Discount. An account that reduces a related account on a financial statement is called a **contra account** . Purchases Discount is a contra account to Purchases and is included in the Cost of Goods Sold section of the general ledger. On an income statement, the balance of Purchases Discount is deducted from the balance of Purchases.

Since contra accounts are deductions from their related accounts, contra account normal balances are opposite the normal balances of their related accounts. The normal balance for Purchases is a debit. Therefore, the normal balance for Purchases Discount, a contra account to Purchases, is a credit. Unlike trade discounts, cash discounts are recorded because they decrease the invoice amount due.

November 14. Paid cash on account to Galle Electric, \$627.20, covering Purchase Invoice No. 489 for \$640.00, less 2% discount, \$12.80. Check No. 702.

STEP 1

Purchase Invoice Amount	×	Discount Rate	=	Cash Discount
\$640.00	×	2%	=	\$12.80

STEP 2



Purchase Invoice Amount	−	Cash Discount	=	Invoice Amount
\$640.00	−	\$12.80	=	\$627.20

Journalizing a Cash Payment on Account with Purchases Discount

- 1 Write the date, 14, in the Date column.
- 2 Write the account title of the vendor, Galle Electric, in the Account Title column.
- 3 Write the check number, 702, in the Ck. No. column.
- 4 Write the debit amount to Accounts Payable, \$640.00, in the Accounts Payable Debit column.
- 5 Write the credit amount, \$12.80, in the Purchases Discount Credit column.
- 6 Write the credit amount, \$627.20, in the Cash Credit column.

Accounts Payable	
↓ 640.00	
Purchases Discount	
	↑ 12.80
Cash	
	↓ 627.20

Cash Payments on Account without Purchases Discounts

CASH PAYMENTS JOURNAL										PAGE 21
DATE	ACCOUNT TITLE	CK. NO.	POST. REF.	GENERAL		ACCOUNTS PAYABLE DEBIT	PURCHASES DISCOUNT CREDIT	CASH CREDIT		
				DEBIT	CREDIT					
26	21	S&R Imports								26
			706			2 5 1 2 00				2 5 1 2 00
27										27

Date 1
Vendor Name 2
Check Number 3
Total Purchase Invoice Amount 4
Total Purchase Invoice Amount 5

Many vendors do not offer cash discounts. Sometimes a business does not have the cash available to take advantage of a cash discount. In both cases, the full purchase invoice amount is paid.

ThreeGreen purchased merchandise on account from S&R Imports on October 24. S&R Imports' credit terms are n/30. Therefore, ThreeGreen will pay the full amount of the purchase invoice, \$2,512.00, within 30 days of the invoice date, October 24.

short and petty cash over are recorded in an account titled Cash Short and Over. The account is a temporary account. At the end of the fiscal year, Cash Short and Over is closed to Income Summary.

The balance of Cash Short and Over can be either a debit or credit. In Chapter 5, the petty cash fund of Delgado Web Services was \$1.00 short. In November, ThreeGreen's petty cash fund is over \$0.31. Note that in Step 5, the amount of petty cash over is recorded in the General Credit column. If petty cash were short, the amount would be recorded in the General Debit column.

November 22. Paid cash to replenish the petty cash fund, \$214.82: advertising, \$124.00; store supplies, \$62.18; miscellaneous, \$28.95; cash over, \$0.31. Check No. 707.

The petty cash fund is replenished for the amount paid out, \$215.13, less cash over, \$0.31. This total amount, \$214.82, restores the fund's cash balance to its original amount, \$250.00 ($\$215.13 - \$0.31 + \35.18 cash on hand).

End of Lesson Review

- LO8 Record cash payments using a cash payments journal.
- LO9 Record replenishment of a petty cash fund.

Terms Review

- cash
- payments journal
- list price
- trade discount
- net price
- cash discount
- general amount column
- discount period
- purchases discount
- contra account

Audit Your Understanding

1. What is the net price of an item with a \$1,200.00 list price having a 60% trade discount?
2. Why would a vendor offer a cash discount to a customer?
3. What is recorded in the general amount columns of the cash payments journal?
4. What is meant by terms of sale 2/10, n/30?
5. When journalizing a cash payment to replenish petty cash, what is entered in the Account Title column of the cash payments journal?

6. How is cash short recorded in the account, Cash Short and Over?

Work Together 9-4

Journalizing cash payments using a cash payments journal

The cash payments journal for Golden Fabrics and the petty cash report are given in the Working Papers. Your instructor will guide you through the following example. Save your work to complete Work Together 9-5.

Using October of the current year, journalize these transactions on page 10 of a cash payments journal. The checks used as source documents are abbreviated as C.

Transactions:

- Oct. 2. Wrote a check to Bilton Communications for telephone bill, \$124.00. C521.
- 3. Wrote a check on account to Grey Manufacturing, Inc., covering Purchase Invoice No. 532 for \$1,640.00, less 2% cash discount. C522.
- 9. Wrote a check to LPF Manufacturing for merchandise with a list price of \$1,575.00. C523.
- 12. Wrote a check to Village Supply for office supplies, \$64.00. C524.
- 16. Wrote a check on account to Westland Supply covering Purchase Invoice No. 516 for \$426.00. No cash discount was offered. C525.
- 31. Record the replenishment of the petty cash fund on October 31. C526.

On Your Own 9-4

Journalizing cash payments using a cash payments journal

The cash payments journal for Copperland Company and the petty cash report are given in the Working Papers. Work this problem independently. Save your work to complete On Your Own 9-5.

Using November of the current year, journalize these transactions on page 11 of the cash payments journal. The checks used as source documents are abbreviated as C.

Transactions:

- Nov. 3. Wrote a check on account to Gillis Glass Co. covering Purchase Invoice No. 765 for \$2,120.00, less 2% cash discount. C832.

7. Wrote a check to Anders Office Supply for office supplies, \$164.00. C833.
8. Wrote a check to Taylor Energy for the electric bill, \$324.00. C834.
14. Wrote a check to Metal Magic for merchandise with a list price of \$1,560.00. C835.
18. Paid cash on account to Sheng Industries covering Purchase Invoice No. 724 for \$1,816.00. No cash discount was offered. C836.
30. Record the replenishment of the petty cash fund on November 30. C837.

Chapter 9: Accounting for Purchases and Cash Payments: Lesson 9-5: Posting from a Cash Payments Journal

Lesson 9-5: Posting from a Cash Payments Journal

- LO10 Post cash payments to an accounts payable ledger and a general ledger.

Posting from a Cash Payments Journal to an Accounts Payable Ledger LO10

CASH PAYMENTS JOURNAL PAGE 21

DATE	ACCOUNT TITLE	CK. NO.	POST. REF.	GENERAL		ACCOUNTS PAYABLE DEBIT	PURCHASES DISCOUNT CREDIT	CASH CREDIT
				DEBIT	CREDIT			
14	Bearden Chemicals	698	210			5 4 8 3 00		5 4 8 3 00

VENDOR: Bearden Chemicals VENDOR NO. 210

DATE	ITEM	POST. REF.	DEBIT	CREDIT	CREDIT BALANCE
Nov. 1	Balance	✓			5 4 8 3 00
13		P11		6 2 8 4 80	11 7 6 7 80
14		CP21	5 4 8 3 00		6 2 8 4 80

Each entry in the Accounts Payable Debit column of a cash payments journal affects a vendor account. Individual amounts in the Accounts Payable Debit column are posted frequently to the proper vendor accounts in the accounts payable ledger. Frequent posting ensures that each vendor's account is up to date.

A business needs to monitor its outstanding accounts payable balances to ensure that it can continue to purchase goods and services on account. Many vendors establish limits on the outstanding

balances of their customers. A **credit limit** is the maximum outstanding balance allowed to a customer by a vendor. Bearden Chemicals has established a \$12,000.00 credit limit for ThreeGreen. To continue purchasing merchandise from Bearden Chemicals, ThreeGreen must ensure that it does not exceed its credit limit. Any disruption in the purchase of merchandise can lead to lost sales and dissatisfied customers. Keeping a fully stocked inventory is critical for the success of a merchandising business.

Posting from a Cash Payments Journal to an Accounts Payable Ledger

- 1 Write the date, 14, in the Date column of the vendor account.
- 2 Write the journal page number, CP21, in the Post. Ref. column of the account. The abbreviation CP21 means page 21 of the cash payments journal.
- 3 Write the debit amount, \$5,483.00, in the Debit column of the vendor account.
- 4 Subtract the amount in the Debit column from the previous balance in the Credit Balance column (\$11,767.80 – \$5,483.00 = \$6,284.80). Write the new balance, \$6,284.80, in the Credit Balance column.
- 5 Write the vendor number, 210, in the Post. Ref. column of the cash payments journal.

Posting from the General Amount Columns of a Cash Payments Journal to a General Ledger

CASH PAYMENTS JOURNAL										PAGE 21
DATE	ACCOUNT TITLE	CK. NO.	POST. REF.	GENERAL		ACCOUNTS PAYABLE DEBIT	PURCHASES DISCOUNT CREDIT	CASH CREDIT		
				DEBIT	CREDIT					
3	Purchases	696	5110	4 8 0 0 0				4 8 0 0 0		

ACCOUNT		Purchases										ACCOUNT NO. 5110
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE							
					DEBIT	CREDIT						
Nov. 1	Balance				214 8 6 7 09							
3		CP21	4 8 0 0 0		215 3 4 7 09							

Entries in a cash payments journal are recorded in either the general amount columns or the special amount columns. Each amount in the General columns of a cash payments journal is posted

individually to the general ledger account written in the Account Title column.



Writing the account number in a special journal provides an audit trail. An employee working with the journal can trace the transaction to the account where it was posted.

Posting from the General Amount Columns of a Cash Payments Journal to a General Ledger

- 1 Write the date, 9, in the Date column of the account.
- 2 Write the journal page number, CP21, in the Post. Ref. column of the account. The abbreviation CP21 means page 21 of the cash payments journal.
- 3 Write the debit amount, \$480.00, in the account's Debit column. (A credit amount would be written in the Credit column.)
- 4 Add the amount in the Debit column to the previous balance in the Balance Debit column (\$480.00 + \$214,867.09 = \$215,347.09). Write the new account balance, \$215,347.09, in the Balance Debit column of the account.
- 5 Write the general ledger account number, 5110, in the Post. Ref. column of the cash payments journal.

Totaling, Proving, and Ruling a Cash Payments Journal

CASH PAYMENTS JOURNAL											PAGE 22
DATE	ACCOUNT TITLE	CK. NO.	POST. REF.	GENERAL		ACCOUNTS PAYABLE DEBIT	PURCHASES DISCOUNT CREDIT	CASH CREDIT			
				DEBIT	CREDIT						
28	Galle Electric	719	230	1 0 8 0 00		1 0 8 0 00	2 1 60	1 0 5 8 40			
30	Wynn Lighting	720	260			1 0 8 2 50		1 0 8 2 50			
30	Rent Expense	721	6145	7 0 0 00				7 0 0 00			
30	Totals			7 1 5 4 58	1 9 1 5 20	7 0 5 1 50	2 1 60	12 2 6 9 28			

② Date
 ③ "Totals"
 ① Single Line
 ④ Column Totals
 ⑤ Double Line



A journal is proved and ruled whenever a journal page is filled and always at the end of a month. The total for each column is written in the next available line. These totals are used to prove that the debits equal the credits.

<u>Column Title</u>	<u>Debit Column Totals</u>	<u>Credit Column Totals</u>
General Debit	\$ 7,154.58	
General Credit		\$ 1,915.20
Accounts Payable Debit	7,051.50	
Purchases Discount Credit		21.60
Cash Credit		12,269.28
Totals	<u>\$14,206.08</u>	<u>\$14,206.08</u>

The two totals, \$14,206.08, are equal. Equality of debits and credits in ThreeGreen's cash payments journal for November is proved. If the total debits do not equal the total credits, the errors must be found and corrected before any more work is completed. Common errors include entering amounts incorrectly and entering a correct amount in the wrong column. Sometimes amounts are entered in the wrong journal.

Ruling a Cash Payments Journal

- 1 Rule a single line across all amount columns directly below the last entry to indicate that all the columns are to be added.
- 2 On the next line, write the date, 30, in the Date column.
- 3 Write the word Totals in the Account Title column.
- 4 Write each column total below the single line.
- 5 Rule double lines across all amount columns to show that the totals have been verified as correct.

Posting from the Special Amount Columns of a Cash Payments Journal to a General Ledger

CASH PAYMENTS JOURNAL											PAGE 22
DATE	ACCOUNT TITLE	CK. NO.	POST. REF.	GENERAL		ACCOUNTS PAYABLE DEBIT	PURCHASES DISCOUNT CREDIT	CASH CREDIT			
				DEBIT	CREDIT						
22	30	Rent Expense	713	6145	7 0 0 00					7 0 0 00	22
23	30	Totals			7 1 5 4 58	1 9 1 5 20	7 0 5 1 50	2 1 60	12 2 6 9 28		23
24					(✓)	(✓)	(2110)	(5120)	(1110)		24

1 Date Journal Page Number 2 Debit or Credit Amount 3 5 Account Number

ACCOUNT <i>Accounts Payable</i>						ACCOUNT NO. 2110					
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE						
					DEBIT	CREDIT					
Nov. 21		CP21	11 8 2 4 00						5 0 6 9 00		
30		P11		21 5 8 7 17					26 6 5 6 17		
30		CP22	7 0 5 1 50						19 6 0 4 67		

Account Balance

ACCOUNT <i>Purchases Discount</i>						ACCOUNT NO. 5120					
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE						
					DEBIT	CREDIT					
Oct. 31		CP20		3 2 80					6 7 8 24		
Nov. 21		CP21		1 2 80					6 9 1 04		
30		CP22		2 1 60					7 1 2 64		

ACCOUNT <i>Cash</i>						ACCOUNT NO. 1110					
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE						
					DEBIT	CREDIT					
Nov. 1	Balance	✓			18 9 4 1 69						
21		CP21		11 2 7 7 10					7 6 6 4 59		
30		CR11	57 0 6 9 84						64 7 3 4 43		
30		CP22		12 2 6 9 28					52 4 6 5 15		

The total of each special amount column is posted to the account named in the column's heading whenever a page is filled and always at the end of the month. The totals of the General amount columns are not posted. Each amount in these columns was posted individually to a general ledger account. To indicate that these totals are not posted, a check mark is placed in parentheses below each column total.

Posting the Total of a Cash Payments Journal to the General Ledger Accounts

1 Write the date, 30, in the Date column of the accounts.

2 Write the cash payments journal page number, CP22, in the Post. Ref. column of the accounts. The abbreviation CP22 means page 22 of the cash payments journal.

3 For each account, write the cash payments journal column total in the Debit or Credit column.

4 For each account, calculate and write the new account balance in the Balance Debit or Balance Credit column.

5 Return to the cash payments journal and write the general ledger account number in parentheses below the column total.

VENDOR <i>Bearden Chemicals</i>			VENDOR NO. 210			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	CREDIT BALANCE	
Nov. 1	Balance	✓			5 4 8 3 00	
13		P11		6 2 8 4 80	11 7 6 7 80	
14		CP21	5 4 8 3 00		6 2 8 4 80	

VENDOR <i>Estes Supply</i>			VENDOR NO. 220			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	CREDIT BALANCE	
Nov. 1	Balance	✓			3 1 6 5 00	
25		CP22	2 3 4 5 00		8 2 0 0 00	

VENDOR <i>Galle Electric</i>			VENDOR NO. 230			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	CREDIT BALANCE	
Nov. 8		P11		6 4 0 0 00	6 4 0 0 00	
14		CP21	6 4 0 0 00			
22		P11		1 0 8 0 00	1 0 8 0 00	
28		CP22	1 0 8 0 00			
29		P11		8 6 4 2 5	8 6 4 2 5	

VENDOR <i>Mobley Tools</i>			VENDOR NO. 240			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	CREDIT BALANCE	
Nov. 1	Balance	✓			3 1 8 9 00	
15		P11		4 1 8 2 15	7 3 7 1 15	
19		CP21	3 1 8 9 00		4 1 8 2 15	

VENDOR <i>S&R Imports</i>			VENDOR NO. 250			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	CREDIT BALANCE	
Nov. 1	Balance	✓			2 5 1 2 00	
21		CP21	2 5 1 2 00			
27		P11		3 9 7 3 15	3 9 7 3 15	

VENDOR <i>Wynn Lighting</i>			VENDOR NO. 260			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	CREDIT BALANCE	
Nov. 1	Balance	✓			2 5 4 4 00	
6		P11		1 0 8 2 50	3 6 2 6 50	
21		P11		3 4 8 0 32	7 1 0 6 82	
23		CP22	2 5 4 4 00		4 5 6 2 82	
30		CP22	1 0 8 2 50		3 4 8 0 32	

Completed Accounts Payable Ledger

ThreeGreen's accounts payable ledger has been posted for the

<i>ThreeGreen Products, Inc.</i>	
<i>Schedule of Accounts Payable</i>	
<i>November 30, 20--</i>	
<i>Bearden Chemicals</i>	6 2 8 4 80
<i>Estes Supply</i>	8 2 0 0 00
<i>Galle Electric</i>	8 6 4 2 5
<i>Mobley Tools</i>	4 1 8 2 15
<i>S&R Imports</i>	3 9 7 3 15
<i>Wynn Lighting</i>	3 4 8 0 32
<i>Total Accounts Payable</i>	19 6 0 4 67

month of November.

Proving the Accounts Payable Ledger

A controlling account balance in a general ledger must equal the sum of all account balances in a subsidiary ledger. Like most businesses, ThreeGreen proves subsidiary ledgers at the end of each month.

A listing of vendor accounts, account balances, and the total amount due to all vendors is called a **schedule of accounts payable**. Some businesses call this listing an accounts payable trial balance. A schedule of accounts payable is prepared after all entries in all journals are posted. The balance of Accounts Payable in the general ledger is \$19,604.67. The total of the schedule of accounts payable is \$19,604.67. Because the two amounts are the same, the accounts payable ledger is proved.

End of Lesson Review

- LO10 Post cash payments to an accounts payable ledger and a general ledger.

Terms Review

- credit limit
- schedule of accounts payable

Audit Your Understanding

1. In which column of the cash payments journal are the amounts that are posted individually to the accounts payable ledger?
2. List the five steps for ruling a cash payments journal at the end of the month.
3. What is the relationship between a controlling account and a subsidiary ledger?

Work Together 9-5

Posting a cash payments journal

A blank schedule of accounts payable is given in the Working Papers. Use Golden Fabrics' cash payments journal from Work Together 9-4 and the accounts payable and general ledgers from Work

Together 9-3. Your instructor will guide you through the following examples.

1. Post the transactions from the cash payments journal to the accounts payable ledger.
2. Total, prove, and rule the cash payments journal.
3. Post the cash payments journal to the general ledger.
4. Prepare a schedule of accounts payable.

On Your Own 9-5

Posting a cash payments journal

A blank schedule of accounts payable is given in the Working Papers. Use Copperland Company's cash payments journal from On Your Own 9-4 and the accounts payable and general ledgers from On Your Own 9-3. Work this problem independently.

1. Post the transactions from the cash payments journal to the accounts payable ledger.
2. Total, prove, and rule the cash payments journal.
3. Post the cash payments journal to the general ledger.
4. Prepare a schedule of accounts payable.

Chapter 9: Accounting for Purchases and Cash Payments: Financial Literacy: Using Credit Cards Wisely

Financial Literacy: Using Credit Cards Wisely

Activities

As students reach the legal age of 18, most will receive credit card offers. Is it good or bad to have credit? It depends on how credit is used. If a credit card is used primarily as a convenience and the account balance is paid off each month, then credit is being used wisely. Unfortunately, many credit card users only make minimum payments, which is deceptive since it often takes many months or years to pay off the balance.

Credit is not free money. It is a loan that allows you to buy now and pay later. If your account balance is not repaid by the due date, interest based on an annual percentage rate (APR) is added to the account balance. Interest rates and credit terms differ among credit card issuers. Some card companies offer a low introductory interest rate as bait. Then, they increase the rate after a short period of time. Be wise and shop around for the best terms.

The following terms should be considered when selecting a credit card: APR (not just the introductory rate), annual fees (yearly fee just to carry the card), and in some cases, the security deposit.

Remember to read the fine print carefully before signing a credit card application, as many people do not realize that a signature on the application makes it a legal contract. The Credit Card Accountability Responsibility and Disclosure Act of 2009, also known as the Credit CARD Act, was passed to protect consumers from extravagant fees and interest rates. This law also requires the “fine print” to have a minimum 12-point font for easier reading.

Using a credit card wisely involves evaluating each purchase according to one's needs and not just the immediate impulse. Excessive use of credit can result in long-term financial problems and a poor credit report. A credit report, much like a high school transcript, follows a person throughout their lifetime. Credit scores enable businesses to evaluate a person's creditworthiness. Most people do not realize that a poor credit score can negatively affect their insurance rates and even their employment prospects.

Activities

1. Using the Internet, research the Credit CARD Act. Write a one-page paper outlining at least five ways the new law benefits consumers.
2. Compare the APR, annual fees, and security deposit (if applicable) for five different credit cards. Select the best option based on your findings. Create a spreadsheet table to report your findings.

Chapter 9: Accounting for Purchases and Cash Payments: End of Chapter Review

End of Chapter Review

Pages 274 to 281

Like special journals in a manual accounting system, the windows of a

Receive Inventory

Purch. Invoice No.: 525
 Vendor No.: 260
 Vendor Name: Wynn Lighting
 Contact: Carollee Cooper
 Address: 1532 Industrial Parkway
 Birmingham, AL 12345
 Country: USA

Date: Nov. 6, 20--
 P.O. No.: 153
 Vendor Invoice: 7238
 Invoice Date: Oct. 28, 20--
 Terms: 2/10, n/30
 Account: 5110
 Account Title: Purchases

Part No.	Description	Quantity	Unit Price	Total
B-50	50 watt compact fluorescent lamp	200	3.05	610.00
B-100	100 watt compact fluorescent lamp	150	3.15	472.50
Invoice Total:				1,082.50

Legend: Entered by user Entered automatically

computerized accounting system are designed to capture similar transactions affecting commonly used accounts. In this chapter, Mary Prisock had to decide which special journal to use for each transaction. In a computerized accounting system, rather than selecting the appropriate special journal, the user must select the appropriate window to enter a transaction.

Vendor invoices entered in the Receive Inventory window capture the same information as a purchases journal. The window also allows for the display or entry of other information related to the vendor and the parts purchased. Cash payments entered in the Write Checks window capture the same information as a cash payments journal plus some additional information.

Entering a Purchase Invoice in the Receive Inventory Window

- 1 The current date is entered by the system.
- 2 The system automatically enters the next available purchase invoice number.
- 3 The source document for an entry in this window is the vendor invoice. The vendor can be selected either by number (as above) or by name. Information about the vendor is displayed automatically.
- 4 The purchase order number, as well as vendor invoice number, date, and terms, are keyed or selected using list boxes or calendars.
- 5 The system displays the default Purchases account number. It can be changed if needed.
- 6 A part number is selected from the list box field. The part description is automatically retrieved from the inventory file. Part descriptions would be protected, preventing the user from making unauthorized changes to the data. New items would have to be added to the inventory file before they could be entered in this window.
- 7 The user enters the quantity. The unit price is entered by the system from the company's inventory file. The price can be overwritten if it has changed.
- 8 The system calculates line and invoice totals.
- 9 Clicking Save posts the transaction to Accounts Payable, Purchases, and the vendor's accounts payable account. Inventory quantities are also updated.

Processing Cash Payments in the Write Checks Window

1 The user would click the Cash Payment tab to write a check for an immediate expense. If the Accounts Payable tab were selected, invoices previously approved for payment in the accounts payable window would appear in the rows at the bottom of this window. The user would deselect any Pay boxes for checks that were not to be written at this time. Payment information for any row selected would appear in the top section of the window.

Pay	Invoice No.	Account	Account Title	Memo	Amount
<input checked="" type="checkbox"/>	1510	6105	Advertising Expense		600.00
<input type="checkbox"/>					
<input type="checkbox"/>					

2 The current date is entered by the system.

3 The system enters the next available check number.

4 The vendor is selected from the Vendor No. list box. Information about the vendor is automatically retrieved.

5 The system displays the default cash account, but if the company maintains different cash accounts, a different account could be selected.

6 The user keys the invoice number and selects the account number. The account title and the check mark in the Pay box are automatically displayed. A description of the payment can be keyed in the memo box. The user keys the check amount.

7 The total of all checks to be written and the remaining balance of the Cash account are displayed.

8 The system displays text and numeric versions of the check amount.

9 Clicking Save posts the transaction and updates Cash, Accounts Payable (if applicable), the selected expense accounts, and the vendor's accounts payable account. The user clicks Print to print the checks. Checks cannot be printed until the window is saved.

Accounting for Purchases and Cash Payments: Chapter Summary

A merchandising business purchases goods to sell to its customers. Many merchandising businesses organize as corporations in order to have access to the capital needed for purchasing goods. A corporation raises capital by selling its capital stock to investors or by borrowing.

A merchandising business may purchase merchandise on account from many vendors. The business must maintain an accounting system that ensures these bills are paid on time. Businesses using the periodic inventory method record merchandise purchases to the Purchases account. Each purchase on account is efficiently recorded in the special amount column of the purchases journal. The transaction is immediately posted in the vendor's accounts payable ledger account to update the amount owed to the vendor. The totals of the special columns of a completed purchases journal are posted to the general ledger.

All cash payments are recorded in the cash payments journal. The journal contains a special amount column to efficiently record the many cash payments made for purchases on account. To encourage early payment, some vendors offer a cash discount that allows the customer to pay less than the full amount of the purchase invoice. Purchases Discount, a contra account to Purchases, is used to account for cash discounts. The cash payments journal includes a special amount column, Purchases Discount Credit, to record cash discounts.

Cash payments for other purchases and expenses are also recorded in the cash payments journal. Small expenses, paid using a petty cash fund, are recorded in the cash payments journal when a check is written to reimburse the fund. The totals of the special columns of a completed cash payments journal are posted to the general ledger. A business can ensure the accuracy of its accounts payable ledger by preparing a schedule of accounts payable. The total of the schedule should equal the updated balance of Accounts Payable, the controlling account for the accounts payable ledger.

Accounting for Purchases and Cash Payments: Explore Accounting

One Size Does Not Fit All

What do cars and computerized accounting systems have in common?

Henry Ford revolutionized automobile production by applying mass production techniques and limiting personal choice. He said buyers of Ford's Model T could select "any colour, so long as it is black."^{**} Imagine for a moment that, as part of a national directive to make cars more affordable, a team of experts is charged with revolutionizing today's automobile industry. Inspired by the success of the Model T, the team sets out to design a single car that everyone would be required to drive. No longer would consumers be allowed to select from a sport coupe, four-door sedan, pickup truck, convertible, minivan, etc. Everyone would drive the same car (and it would be black!). Imagine what that car might

look like! Would many people want to drive it? The answer is likely to be a resounding “NO!”

Similar questions could be asked about the design of a computerized accounting system. Can one system meet the accounting and financial reporting needs of every organization? Can one system be used by ExxonMobil, Walmart, and Apple? Can that same system be used by a local clothing store and your school district? The answer to each of these questions would also be a resounding “NO!”

For this reason, a business can select from a large number of computerized accounting systems. These systems offer a wide variety of features targeted to businesses of every type and size. QuickBooks and Peachtree, for example, are two of many systems developed for small businesses. In contrast, Oracle and SAP are two of several systems capable of handling the demands of today's largest international corporations.

Just as a driver selects a car based on his or her transportation needs, a business selects a system based on its business needs. Common questions might include:

1. How many users can use the system at the same time?
2. What type of computer equipment is required?
3. Does the system contain suggested charts of accounts for various types of businesses?
4. Does the system track amounts owed to vendors?
5. Does the system support Internet access by vendors? Customers?
6. Can the system alert managers to the need to order merchandise?
7. Can master file data be exported to an electronic spreadsheet?
8. Can the system automatically back up data files to a remote location?

Instructions

Use the Internet to research the special features of a computerized accounting system. Identify at least eight special features offered by the system. Suggest at least two local businesses that you believe could, and at least two that could not, use this system. Support your answers.

Accounting for Purchases and Cash Payments: Apply Your Understanding: Application Problem

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

9-1 Application Problem: Starting an Accounts Payable Ledger Form LO3

Accounts payable ledger forms are given in the Working Papers.

Instructions:

1. Start a new page for an accounts payable ledger account for Newton Industries. The account number is 240, and the balance on September 1 of the current year is \$2,489.90.
2. Start a new page for an accounts payable ledger account for Reston Corporation. The account number is 250, and the balance for September 1 of the current year is \$3,047.40.

9-2 Application Problem: Journalizing Purchases Using a Purchases Journal LO6



3. Journalize and post transactions on account to the purchases journal.
4. Print the purchases journal and accounts payable ledger.

1.  Go to www.cengage.com/login

2. Click on AA Online to access.
3. Go to the online assignment and follow the instructions.

The purchases journal for Electronic Source is given in the Working Papers.

Instructions:

Use page 9 of the purchases journal to journalize the following transactions completed during September of the current year. The purchase invoices used as source documents are abbreviated as P. Save the purchases journal to complete Problem 9-3.

Transactions:

- Sept. 2. Purchased merchandise on account from Henson Audio, \$980.00. P354.
- 5. Purchased merchandise on account from Peterson Electronics, \$2,450.00. P355.
- 13. Purchased merchandise on account from Atlanta Systems, \$2,845.00. P356.
- 19. Purchased merchandise on account from Lester Corporation, \$680.00. P357.
- 22. Purchased merchandise on account from Masonville Music, \$4,890.00. P358.

9-3 Application Problem: Posting a Purchases Journal LO7

Select accounts payable and general ledger accounts for Electronic Source are given in the Working

Papers. Use the purchases journal from Problem 9-2. Save your work to complete Problem 9-5.

Instructions:

1. Post the transactions on the purchases journal to the accounts payable ledger.
2. Total and rule the purchases journal.
3. Post the purchases journal to the general ledger.

9-4 Application Problem: Journalizing Cash Payments Using a Cash Payments Journal LO8



1. Journalize and post transactions on account to the cash payments journal.
2. Complete the petty cash report by classifying each expense to compute the actual cash on hand.
3. Print the cash payments journal and petty cash report.

1.  Go to www.cengage.com/login
2. Click on AA Online to access.
3. Go to the online assignment and follow the instructions.

The cash payments journal and a petty cash report for Electronic Source are given in the Working Papers.

Instructions:

Use page 9 of a cash payments journal to journalize the following transactions completed during September of the current year. Source documents are abbreviated as follows: check, C; purchase invoice, P. Save your work to complete Problem 9-5.

Transactions:

- Sept. 2. Paid cash for advertising, \$125.00. C388.
- 5. Paid cash on account to Henson Audio, \$2,489.00, covering P346, less 2% discount. C389.
- 8. Paid cash for heating bill, \$240.00. C390.
- 10. Paid cash on account to Peterson Electronics, \$3,484.00, covering P349, less 2% discount. C391.
- 12. Paid cash for office supplies, \$43.00. C392.
- 15. Paid cash to KLP Mfg. for merchandise with a list price of \$2,136.00. C393.
- 16. Purchased merchandise for cash from O'Brian Industries, \$349.00. C394.
- 18. Paid cash on account to Atlanta Systems, \$1,925.00, covering P348. No cash discount

was offered. C395.

21. Purchased merchandise for cash from Evansville Sound Company, \$300.00. C396.

23. Paid cash on account to Masonville Music, \$659.00. No cash discount was offered. C397.

30. Record the replenishment of the petty cash fund on September 30. C398.

9-5 Application Problem: Posting a Cash Payments Journal LO10

A blank schedule of accounts payable is given in the Working Papers. Use Electronic Source's cash payments journal from Problem 9-4 and the accounts payable and general ledgers from Problem 9-3.

Instructions:

1. Post the transactions from the cash payments journal to the accounts payable ledger.
2. Total, prove, and rule the cash payments journal.
3. Post the cash payments journal to the general ledger.
4. Prepare a schedule of accounts payable.

Accounting for Purchases and Cash Payments: Apply Your Understanding: Mastery Problem

9-M Mastery Problem: Journalizing Purchases, Cash Payments, and Other Transactions LO6, 7, 8,

10

Denmar Automotive sells car parts and accessories.

Instructions:

1. Using the journals given in the Working Papers, journalize the following transactions completed during July of the current year. Use page 7 of a purchases journal and page 7 of a cash payments journal. Post the following transactions when journalized: (1) transactions impacting Accounts Payable to the accounts payable subsidiary ledger, and (2) cash payments, entered in a general amount column of the cash payments journal, to the general ledger. Source documents are abbreviated as follows: check, C; purchase invoice, P.

Transactions:

July 2. Purchased merchandise on account from Rackley Industries, \$2,950.00. P184.

3. Paid cash on account to Helms Supply, \$1,280.00, covering P166, less 2% discount. C318.

6. Purchased merchandise on account from Kelsay Parts, \$3,560.00. P185.

7. Paid cash to WCKF Radio for advertising, \$800.00. C319.
8. Paid cash on account to Kelsay Parts, \$3,940.00, covering P167, less 2% discount. C320.
10. Paid cash to Southern Bell for telephone bill, \$221.00. C321.
12. Paid cash on account to Rackley Industries, \$2,119.00, covering P162. No cash discount was offered. C322.
12. Purchased merchandise on account from Helms Supply, \$1,450.00. P186.
13. Paid cash to Edmondson Supply for store supplies, \$315.00. C323.
14. Paid cash to Deanes Electronics for merchandise, \$1,392.00. C324.
15. Paid cash on account to Kelsay Parts, \$3,560.00, covering P174, less 2% discount. C325.
15. Purchased merchandise on account from Delmar, Inc., \$2,480.00. P187.
18. Purchased merchandise for cash from Columbus Industries, \$615.00. C326.
20. Paid cash on account to Delmar, Inc., \$2,290.00, covering P159. No cash discount was offered. C327.
23. Paid cash to Regional Electric for the electric bill, \$920.00. C328.
28. Paid cash to Williams Stores for store supplies, \$121.00. C329.
29. Purchased merchandise on account from Rackley Industries, \$985.00. P188.
31. Replenished the \$200.00 petty cash fund. Receipts were submitted for the following: office supplies, \$45.60; store supplies, \$67.30; and miscellaneous, \$23.89. A cash count shows \$61.98 in the petty cash box. C330.

2. Total and rule the purchases journal.
3. Post the purchases journal to the general ledger.
4. Total, prove, and rule the cash payments journal.
5. Post the special columns of the cash payments journal to the general ledger.
6. Prepare a schedule of accounts payable as of July 31.



1. Journalize and post to the purchase journal and cash disbursements journal.
2. From the menu bar, select Reports and Forms; Accounts Payable.
3. Make the selections to print the purchase journal and the cash disbursements journal.



1. Journalize and post purchases on account in the Enter Bills window.

2. Journalize and post payments to vendors in the Pay Bills window.
3. From the menu bar, select Reports; Vendors & Payables, Vendor Balance Detail.
4. In the Dates drop-down box, select All and make the selections to print.

Accounting for Purchases and Cash Payments: Apply Your Understanding: Source Documents Problem

9-S Source Documents Problem: Journalizing Purchases, Cash Payments, and Other Transactions from Source Documents LO6, 8

Messler Sailing sells sailboats, parts, and accessories. Source documents related to the purchases and cash payments of Messler Sailing for October are provided in the Working Papers.

Instructions:

1. Using journals given in the Working Papers, journalize the transactions for October of the current year. Use page 10 of a purchases journal and page 15 of a cash payments journal. Source documents are abbreviated as follows: check, C; purchase invoice, P.
2. Total and rule the purchases journal.
3. Total the amount columns of cash payments journal page 15. Prove the equality of debits and credits and rule the cash payments journal.

Accounting for Purchases and Cash Payments: Apply Your Understanding: Challenge Problem

9-C Challenge Problem: Journalizing Purchases and Cash Payments LO6, 8

SoundStage Music is a merchandising company that specializes in instrument and music sales to professional musicians and schools. The company was organized in October and began purchasing inventory in November in anticipation of its grand opening on November 20.

The company was able to negotiate accounts with five vendors. Three of those vendors, Abraham Instruments, Pacific Guitar, and Southern Music Supply, offer 2/10, n/30 credit terms. The remaining vendors have n/30 credit terms.

The accounts payable ledger in the Working Papers shows SoundStage Music's November purchases on account. In an effort to conserve cash, the company did not take advantage of any cash discounts. These unpaid invoices will, therefore, be paid by the 30-day due date.

With the company now open for business, the company has the money available to pay all of its accounts on time. The company allows three days for the mail to deliver a check to a vendor. For example, an invoice dated November 28 due in ten days, December 8, would be written and mailed on December 5.

During December, the company made the following merchandise purchases:

Transactions:

	Vendor	Purchase Invoice	Amount
Dec. 2	Brassworks	9	\$2,950.00
6	Pratt Publishing	10	3,560.00
9	Southern Music Supply	11	1,450.00
12	Abraham Instruments	12	2,480.00
14	Pratt Publishing	13	1,495.00
19	Pacific Guitar	14	4,310.00
22	Abraham Instruments	15	4,805.00
28	Pacific Guitar	16	1,648.00

Instructions:

1. Using the purchases and cash payments journals and accounts payable ledger forms given in the Working Papers, journalize the purchases and cash payments made during December. Post the transactions to the accounts payable ledger when the transactions are recorded in the journals. Record a check in the cash payments journal on the appropriate due date of an unpaid purchase invoice.

Hint: Beginning with December 1, examine the unpaid purchase invoices and the table of purchases for any transactions that should be journalized. For example, the November 24 purchase from Pacific Guitar is due on December 4 (to take advantage of the cash discount). Thus, a payment must be made on December 1. This transaction has been journalized and posted as an example. No purchases were made on December 1. Continue this process for every day in December.

2. Prepare a schedule of accounts payable as of December 31.



1. Journalize and post to the purchase journal and cash disbursements journal.

2. From the menu bar, select Reports & Forms; Accounts Payable.

3. Make the selections to print the purchase journal and the cash disbursements journal.



1. Journalize and post purchases on account in the Enter Bills window.

2. Journalize and post payments to vendors in the Pay Bills window.

3. From the menu bar, select Reports; Vendors & Payables, Vendor Balance Detail.

4. In the Dates drop-down box, select All and make the selections to print.

Accounting for Purchases and Cash Payments: 21st Century Skills

Where in the World?

Theme: World, Global Awareness

Skills: ICT Literacy, Information Literacy

In today's global economy, many foreign vendors and manufacturers supply merchandise sold in the United States. When dealing with foreign suppliers, business owners must be aware of the risks associated with conducting business outside the United States. Legal uncertainties as well as political and economic instability can result in long delays in receiving the merchandise, and quality standards are not always consistent or acceptable to U.S. customers. In many countries, business practices lag behind those in developed nations.

Whenever a foreign supplier is being sought, a business owner must be vigilant in selecting a supplier that is trustworthy. In addition to seeking acceptable warranties, prices, and minimum order quantities, a business owner should visit the supplier to observe firsthand its production, labor, and business practices.

Application

1. Many clothing items are imported from other countries. Make a list of ten articles among your clothing and shoes. Check the label on each item, and create a table indicating the item and the country in which it was made.

2. Your table undoubtedly lists mostly foreign countries. Were any items made in the United States? What cost factors, do you suppose, have driven clothing manufacturing overseas?

Accounting for Purchases and Cash Payments: Analyzing Nike's Financial Statements

The Nike “swoosh” and the “Just Do It” slogan are part of today's culture. Its creative ad campaigns have made Nike one of the world's most recognizable brands. Nike gains public attention by signing famous athletes to endorse its products. The company also promotes its brand by sponsoring athletic and charity events.

Instructions

1. Using page B-10 in Appendix B, refer to the Demand creation expense section of Note 1 to identify the total advertising and promotion expenses for the three years ended May 31, 2011.

When does Nike expense the production costs of its advertisements?